

PRELIMINARY DRAFT
(Not for quotation)

This draft for discussion comprises selected extracts of a monograph under preparation. They include drafts of a couple of chapters in their entirety, the concluding sections of several chapters and in some cases, only the chapter headings.

AFRICAN DEVELOPMENT: DEAD ENDS AND NEW BEGINNINGS

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(The author is the Prime Minister of Ethiopia. The views expressed are personal and do not necessarily reflect the official position of the Government.)

Introduction

The political and economic renaissance of Africa is an issue that continues to preoccupy Africans' and non-Africans alike. Various methods of achieving such a renaissance have been proposed. Most of these proposals are variations of the dominant neo-liberal paradigm of development. My argument is that the neo-liberal paradigm is a dead end, is incapable of bringing about the African renaissance, and that a fundamental shift in paradigm is required to bring about the African renaissance.

The monograph is divided into three parts. Part one provides the theoretical basis of the argument and is divided into seven chapters. Chapter one briefly outlines the fundamentals of the neo-liberal political economy, identifies the flaws in the neo-liberal political economy and outlines the social underpinnings of a market economy. It argues that social development is essential for economic development and that social development cannot be brought about by market mechanisms alone.

Chapter two focuses on technological development which is at the heart of economic development. It shows the massive market failures associated with technological development, argues that technological capability accumulation is at the center of the development efforts of developing countries, and concludes that such development cannot be brought about by market mechanisms alone.

Chapter three deals with other market failures, with a special emphasis on capital markets. It argues that market failures are deep and pervasive in developing countries and that market mechanisms alone cannot bring about accelerated development.

Chapter four addresses the role of agriculture in development. The market failures that agricultural development faces are assessed and the relationship between equity and growth is investigated. Chapter five deals with the role of FDI in development.

Chapter 6 is concerned with the role of the state in accelerating growth and in addressing market failures. It argues that the state has historically played a crucial role in accelerating development and analyzes the nature of the state which can be most effective in addressing market failures and accelerating growth.

Chapter 7 deals with democracy and development. While there has been accelerated development without democracy, democratization has been an essential element of the vision of the African renaissance. It is argued that a developmental state can be a democratic state, and indeed that a democratic developmental state is likely to be more successful in its development efforts than others. The requirements for the emergence and evolution of democracy are also examined.

Part two (chapters 8 to 13) provides the practical experience to show the validity of the analysis in part one. The development experience of Taiwan and Korea is analyzed in some detail. The ways and means that the two governments used to address the various market failures are analyzed. The evolution of developmental states in the two countries is assessed. The internal and external circumstances that contributed to the success of their development effort are outlined. Part two provides specific and practical examples showing that government intervention by a "developmentalist", if not a full-fledged developmental state, is key to successful development.

Part three analyzes the current circumstances in Africa, argues that the neo-liberal reforms have failed and explains why the neo-liberal paradigm has failed and does so in 8 chapters (chapters 14-21).

Chapter 14 explains the nature and genesis of the predatory African state and how its internal logic and dynamics led Africa to a dead end and crisis by the mid-eighties. It analyzes the political economy of rent-seeking in Africa. Chapter 15 analyzes the successful development experience of Botswana and the political economy of Botswana. It shows how the different political economy of Botswana has been responsible both for the successes and challenges of Botswana.

Chapter 16 presents the neo-liberal analysis of the political and economic problems of Africa and the political and economic reform agenda proposed by it.

Chapter 17 and 18 present the results of the neo-liberal reforms. It is argued that the reforms have failed, that the reform programs have not taken Africa out of the dead end in which it found itself in the mid-eighties and that on the contrary the neo-liberal reforms have taken Africa to another dead end. It is suggested that is so because of the fundamental flaws of the neo-liberal paradigm.

Chapter 19 deals with the reform experience of some African countries. The last chapter argues for the need of a paradigm shift to bring about the African renaissance and assesses the possibilities of bringing about such a paradigm shift. Some of the essential steps that are needed to bring that about are also briefly outlined.

1. The Neo-Liberal Political Economy and Social Capital

(Extract from the chapter)

1.4 Conclusions

The neo-liberal paradigm which suggests a non-activist and non-interventionist state, a night watchman state as conducive to economic growth bases such conclusions on two pillars. One pillar has to do with the assertion that competitive markets are both pervasive and pareto efficient. The second pillar has to do with the neo-liberal political economy based on the theory of socially wasteful rent-seeking activities and the rational choice theory of solely self-interest maximizing individuals.

Government created rent does not necessarily have to be socially wasteful. It becomes wasteful only if solely self-interest maximizing individuals use it to create wealth at the expense of society and only if the state is incapable of improving on the market- i.e. there are no market failures.

The theory of solely self-interest maximizing individuals does not hold water. History, common everyday observation, and theoretical analysis based on the two suggests that an economy based on complex economic interaction such as a market economy requires a blend of self-interested and non-self interested behavior: a blend of social and individual norms that maximize survival potential within an appropriate social context. In the absence of such norms, the state, if it can exist as a coherent corporate entity for any period of time, becomes predatory. A properly behaved night watchman state populated by solely interest maximizing individuals is thus a practical and theoretical impossibility. Only individuals with a blend of self-interested and non-self interested behavior can create a night watchman state, and such people are equally capable of creating a state which intervenes in the economy in the larger interest of society.

Creating the proper blend of norms, values and rules to reduce uncertainty and transaction costs is a critical factor in accelerated growth and development. The creation of such social values and norms is called social development or social capital accumulation. Social development is thus not only an essential element of development but also a critical instrument of accelerated economic growth.

The accumulation of social capital, which plays such a critical role in accelerating economic growth, is a public good which has increasing returns to scale. It is, hence, undersupplied by the market and is subject to vicious and virtuous cycles. It is created by social activity by civic engagement in the context of horizontal and dense networks and inculcated and sustained through modeling, socialization and sanctions. The state plays a critical role in social capital accumulation through undermining patronage networks and promotion of fairness and equity, through the promotion of participation and democracy, and through appropriate sanctions and efforts at socialization.

2. The Black Box of Development

(Extract from Chapter)

2.5 Conclusions

The neo-liberal paradigm correctly identifies technological change as the heart of the development process and as the only source of continuous increase in per capita income. However, it treats technological change as an exogenous factor, as a sort of Black-box and thus does not even attempt to explain it in economic terms. Endogenous growth theory, which in many respects is a variant of neo-liberal theory does begin to open up the Black-box and begin to see the market failures involved, but fails to provide a comprehensive understanding of the process as it is tied to the most basic neo-liberal assumption of the pervasiveness and efficiency of markets.

Developing countries cannot compete simply on the basis of factor endowment, or by buying up the latest machinery. They need to assimilate technology developed elsewhere, and they need to continuously move up the technology ladder if they are to achieve continued growth and development. In other words technological capability accumulation is as central to developing countries as it is to developed countries. The difference is that in developing countries such accumulation takes place primarily through the assimilation of foreign technology rather the development of new technology.

Firms take a lot of risk and incur heavy expenses to identify and assimilate foreign technology but are unable to fully appropriate the benefits of their efforts. Indeed, national development would be hindered if they were to fully appropriate the benefit of their effort as the newly introduced technology would not be diffused. There is thus a fundamental market failure in technological capability accumulation in developing countries. Moreover, the required external environment is such that it would not be possible to create it through the market mechanism alone. Technological capability accumulation in developing countries is as plagued by pervasive market failure as is the development of new technology.

A deeper analysis of technological change shows that it is plagued by information failures and extreme forms of information asymmetry, of increasing returns, of extensive externalities, and coordination failures. It shows that technology has the essential characteristics of a public good. In other words, a deeper analysis of technological change shows that in both developed and developing countries technological change takes place in an environment of pervasive market failures.

A historical analysis of technological development shows that successful societies have developed national innovation systems that address market failures, and that such systems are based more on the structures and histories of the economies rather than on relative factor prices. It shows that there are differing national systems of innovation reflecting the differing histories and structures of the economies which can do the job, and that it would be impossible to envisage successful technological development outside of such institutional environment in any country, developed or developing.

Clearly then, when it comes to the heart of accelerated economic growth, when it comes to technological development, the neo-liberal assumption of efficient competitive markets has no basis in fact or theory. Its assumption of a night watchman state as an instrument that facilitates technological development by letting the markets do the job while it stands guard protecting property rights and enforcing contracts has no basis in fact, in history or theory. The neo-liberal paradigm cannot explain or guide the heart of development, technological growth.

Stiglitz goes even further and plausibly argues that the neo-liberal theory is fundamentally inconsistent with technological change. Where there are competitive markets and prices are equal to marginal costs, there is no room for technological change, where there is room for technological change there are no competitive markets.

3 Market Failure in Developing Countries

4. Agriculture as the Engine of Growth

(Extract from chapter)

4.6 Conclusions

The theoretical and historical analysis presented has shown that the engine of development in its initial phases is and has to be agriculture, and that this is so not only because growth in the relatively massive agricultural sector will have bigger impacts on total growth of the economy directly but also because agricultural growth accelerates non-agricultural growth and structural transformation even more. The neo-liberal school of thought is thus absolutely correct in taking agriculture as the engine of the early phases of development.

Market failures related to technology, capital markets, weak and absent markets is even more pronounced in agriculture than in the other sectors leading to a number of vicious circles and poverty traps. A night watchman state, a state whose intervention in the economy is very limited would be unable to overcome the vicious circles and poverty traps. The neo-liberal paradigms advocacy of such a state in developing countries is thus likely to keep such countries mired in poverty traps.

The neo-liberal school's focus on resource transfer as the key linkage between agriculture and non-agriculture is misplaced. Moreover, its focus on the price mechanism to carry-out this resource transfer is also misplaced. The neo-liberal assertion that getting prices right is the efficient way of carrying-out the transfer and that getting prices right means liberalizing agricultural products markets is fundamentally wrong. Getting prices right means getting the non-market determinants of agricultural prices right. Once the determinants of agricultural prices are right various price and non-price mechanisms can be used to carry-out the transfer without negatively affecting the incentives to farmers. If the determinants of agricultural prices (non-market determinants) are wrong, liberalization of agricultural prices will not ensure the right prices. The single minded focus on liberalization of agricultural prices at the expense of dealing with the real non-market determinants of these prices will lead to the continuation of the pervasive market failures in agriculture.

Our analysis supported by historical evidence shows that equitable distribution of assets in the rural areas plays a critical role in accelerating agricultural development and overall development and structural transformation. Equity accelerates the adoption and diffusion of agricultural technology. Equity plays a vital role in the establishment and strengthening of market support and other rural organizations and institutions. Equity enhances the linkage between agriculture and non-agriculture and increases the multiplier effect of agricultural growth on the growth of non-

agriculture and structural transformation. Equity facilitates the accumulation of social capital which in turn plays a critical role in accelerating development.

Contrary to popular perception the fundamental theory of the neo-liberal paradigm does not require that there be inequitable distribution of assets to ensure Pareto- efficiency. On the contrary the theory asserts that Pareto-efficiency is neutral vis-a-vis equity. You can have Pareto-efficiency in both equitable and non-equitable asset distribution environments. The neo-liberal assertion that inequality will have to increase during the development process and decrease later is not based on any theory but on an empirical assessment that the rich save more than the poor and that increased saving through inequitable distribution of wealth is crucial for accelerated growth.

The view that the savings rate of a country is higher when wealth distribution is skewed has been and can be contested empirically. But even if this were to be true there is no theoretical reason why piling up savings where social capital is low and opportunistic behavior, violence and unrest is prevalent, where technological diffusion and adoption is severely retarded, where market supporting institutions are absent or non-existent, and where the multiplier effect of agricultural growth on non-agricultural is severely curtailed will accelerate growth. It is not possible to convincingly argue that increasing savings has such an overwhelming impact on growth as to override all the retarding effects of inequitable distribution of wealth on development.

5. Foreign Investment and Development

6. The Developmental State

(Extract from chapter)

6.3 Conclusions

In previous chapters we have argued that inhibiting rent seeking, behavior does not depend on the size of the state or the degree of its activism in economic matters but on the nature of the state without however defining the nature of the state, which can be an activist state at the same time as inhibiting socially wasteful rent-seeking activity. Similarly we have argued that developing countries face formidable market failures and institutional inadequacies which create vicious circles and poverty traps, which can adequately be addressed only by an activist state. We have shown that the historical practice bears this out. We had not however defined what sort of an activist state is required. The analysis of the developmental state in this chapter is intended to fill this gap.

We can thus conclude that in the end, development is a political process first and economic and social process later. It is the creation of a political set-up that is conducive to accelerated development that sets the ball of development rolling. Only when there is a state that has the characteristics of a developmental state can one meaningfully discuss the elimination of rent-seeking behavior. In its absence rent-seeking will be rampant no matter what the size of the state might be. Only in the context of such a political environment can one debate about development policy in a meaningful manner. In its absence all government policy and action however limited and timid it might be will be riddled with rent-seeking behavior and this particularly so in developing countries as these countries will be coming out of a social and political environment where vertical, patron-client networks are pervasive.

The neo-liberal paradigm states that socially wasteful rent-seeking is the result of government activity and of the size of government activism. It does not distinguish between different types of state activism. This leads it to conclude that most if not all government intervention in the economy is detrimental to growth and hence to suggest that the night watchman state is the best state from the point of view of accelerated growth. Historical practice has shown that state intervention has been critical in the development process. Economic theory has shown that developing countries are riddled with vicious circles and poverty traps that can only be removed by state action. The theory of the developmental state completes the alternative paradigm by showing what type of state can intervene in the economy to accelerate growth while at the same time limiting socially wasteful rent-seeking activities.

7. Democracy, Developmental State and Development

(Extract from chapter)

7.4 Democracy and the Developmental State

As we have shown the requirements for the establishment of a developmental state and the emergence of democracy - initially an agrarian one largely coincide, the only divergence being that of the political rules of the game. We have also shown that building consensus on the rules of the game is not only consistent with the requirements of a developmental state but may also reinforce and consolidate it. But a number of apparent divergences have been pointed out by some analysts. We shall now address the more important ones.

One of the concerns has been with the "hustle of democracy". It is argued that the developmental state should be single-mindedly focused on doing what is needed to accelerate growth. If it also has to deal with democratic legitimization of its rule, not only will it be forced to spend a lot of time in doing so, but it may be forced to engage in patronage and socially wasteful rent-seeking activities. It could obviously be reasonably argued that democracy is so important that if this is the price to be paid for having it - so be it, a limited reduction in growth that may ensue is not too much of a price. However valid such an argument might be it assumes that the structure of all democratic politics is based on patronage and rent-seeking, and a fascinating study carried out in Italy has shown that this is not necessarily so.

Italy is as homogenous a country as it is possible to get when it comes to language ethnicity etc. But in many ways it is also two countries in one. The North and South have had such divergent historical and social evolution prior to unification that even after unification there has been a very clear divide between the two.

In the North there is a very dense network of civic organizations of all types and an individual is usually a member of a number of them at the same time. Such networks are horizontal and based on mutuality. People actively participate in public affairs. There is a large measure of trust. People assume and expect that the law will be obeyed by everyone. People including politicians are relatively honest. Politicians and the people value equity and tend to seek mutually beneficial solutions, they do not take politics as a zero-sum game.

In the South civic organizations are very thin on the ground and those that exist are mainly of the vertical linkage variety. The south is the home base of what has been called "amoral familism" the family is the key "network" and amoral organizations such as the mafia have been based and superimposed on it. People are not involved in public affairs, they leave it to the "bosses". Political parties are important but involvement in them is based on their role as patronage machines. Corruption is the norm and it is taken to be the norm by the people and the politicians. There is very little trust and everyone expects everyone else to violate the law. As a result they seek someone else to enforce the law and impose it.

The North has ample social capital, the South has very little of it. The North has ample civic virtues, the South has very little of it. The North has been the home base of democratic and progressive thinking in Italian politics. The South has been the home base of the Mafia and anti-democratic tendencies in Italian politics. Since the introduction of regional governments in Italian politics, the North has had effective regional governments that people are satisfied with and politics in the regional arena has been relatively free from patronage and rent-seeking. The South has had very weak, ineffective and corrupt regional governments. Regional politics has been riddled, through and through with patronage and rent-seeking. If the South had been a separate country its politics would have been comparable only with Africa and not with Europe.

The path of economic development of the two parts has also been very divergent. About ten years after unification, in 1881 Italy was still a predominantly agricultural country. The South and the North did not differ much in terms of economic development. 60% of the population of the country lived in the rural areas, only 15% was engaged in industry including in cottage industry. The South was slightly more urbanized than the North. But Northern Agriculture was more productive and as a result per capita income was 15% - 20% higher in the North than in the South. By 1911 the North had made enormous strides in industrialization while the South had become less urban. Per capita income differences had increased to 50%. Despite the huge amounts of money thrown at the South to accelerate its development and the many twists and turns of Italian politics in the twentieth century, the South continued to lag and by the mid eighties, the difference in per capita income had reached 80%.

High social capital in the North has been blessed with virtuous circle, low social capital in the South has been cursed with a viscous circle, no policy turn, no amount of money has been able to overcome those differences and reverse the differing economic fortunes. The North has had a flourishing democracy, which is relatively free of rent-seeking and patronage. It is based on mutuality and public spiritedness. One can legitimately doubt as to whether the South would have been democratic if it had been a separate country, but as part of Italy it has had democracy but its politics has been patronage politics par excellence.

The experience in one and the same country tells us patronage and rent-seeking is not a necessary characteristic of democracy. It depends on the structure of politics. Where patronage is low, where social capital is high and public spiritedness adequate, democratic politics can be relatively free from patronage and rent-seeking. Where social capital is low, patronage high, public spiritedness low, all politics cannot but be riddled with patronage and rent-seeking. The political structure, which accelerates development is also the same structure that is relatively free from patronage and rent-seeking, and that which inhibits accelerated growth is the one which is riddled with patronage and rent-seeking and rent seeking.

Even if a developmental state was to be solely concerned about accelerating growth, it would have to build the high social capital that is vital for its endeavors. It would have to stamp out patronage and rent-seeking. These are the very same things that create the basis for democratic politics that is relatively free from patronage. A successful developmental state would thus be very well placed to be both developmental and democratic.

There is a catch, however. When a developmental state is established it is unlikely to find a situation where rent-seeking has been stamped out, social capital accumulated etc. If that were

the case the country would have been engaged in accelerated growth even before the establishment of a developmental state. It is therefore the developmental state that will have to prepare the ground and accelerate development at the same time. Initially therefore the risk of democratic politics becoming riddled with patronage and rent-seeking will be there. A more subtle argument has therefore been how can the developmental state clean-up the mess of patronage and rent-seeking in the initial states of its establishment by anything other than undemocratic means?

A related issue has been the need for continuity of policy. Developmental policy is unlikely to transform a poor country into a developed one within the time frame of the typical election cycle. There has to be continuity of policy if there is to be sustained and accelerated economic growth. In a democratic polity uncertainty about the continuity of policy is unavoidable. More damagingly for development, politicians will be unable to think beyond the next election etc. It is argued therefore that the developmental state will have to be undemocratic in order to stay in power long enough to carry out successful development.

Neither of these two related concerns could be dismissed off-hand. That is perhaps one of the reasons why democratic developmental states have been an even rarer species than developmental states in general. But those states that have played a developmental role and have done so in a democratic fashion, such as the social-democratic coalitions in some Scandinavian countries and the center-right coalition in Post Second World War Japan, the so called dominant party democracies can point to one way out.

Studies have shown that stable long-term coalitions which stay in power for a long period but do so by democratic means can provide the needed continuity and stability of policy. The typical examples in these regard have been coalitions based on the labor movement and the middle classes in some Scandinavian countries, and coalitions between rural population and the right in Japan. The ruling coalitions in these countries have had regular, free, open and fair elections, and the basic political and human rights have been respected. They thus fully qualify as democratic regimes. But they have won elections repeatedly and have been in power for long-stretches. In the case of Japan the ruling coalition has been in power for almost 50 years.

A critical issue is therefore can such a stable, democratic and at the same time developmental coalition be established in a developing country. It is not difficult based on our analysis so far, to identify who the candidates of such a coalition can be. One group that cannot be part of the coalition is the private sector. One of the defining characteristics of a developmental state is that it must be autonomous from the private sector. It must have the ability and will to reward and punish the private sector actors depending on whether their activities are developmental or rent seeking. It cannot do so if the private sector is in the coalition. Obviously it does not mean that the coalition will have to be hostile to the private sector. It cannot be hostile to the private sector and bring about accelerated development in the context of the market economy. In the end, what the developmental state does will strengthen the value creating part of the private sector more than any other alternative. It only has to be independent from the private sector while at the same time doing things that will punish the rent-seeking part and reward the value creating part of it.

Any democratic state, developmental or otherwise, in a developing country will have to be agrarian at least in its initial phases. The other alternative is to wait until a substantial business and middle

class has been created i.e. until much of the work of accelerated growth has been carried out. The problem, however, is that without a developmental state, most if not all of these countries will be stuck in the poverty trap and the substantial business and middle class will not be created. The question therefore is whether a developmental state can be firmly based in the rural areas and whether it can use this to establish a stable coalition that rules democratically.

We have shown that agriculture is and must be the engine of accelerated growth at least in the initial period of the process of development. We have argued that widespread and relatively equitable ownership of assets is a requirement for accelerated development of agriculture. It is clear accelerated agricultural development will have to include commercialization, it cannot be based on sustaining subsistence farming. We have also argued that various local voluntary organizations to support marketing and improvement in productivity have to be established. Finally we have shown that resource transfers from agriculture must be such as to maintain the incentives for farmers to continue to increase production.

All of the above are fully consistent with the interests of the farmers. One can even claim, that it is very difficult to envisage any other package that would be more in tune with the interests of the farmers. The rural population can therefore be the solid base for a stable developmental coalition in a developing country. The steps that have to be taken to accelerate agricultural development are also the steps that are needed to bring about the changes in the social structure of the peasant to transform him/her into a force for democracy. The activities of a developmental state will thus not only be consistent with the interests of the peasants but also with their social transformation into a force of democracy. There will be the normal limitations of a dispersed rural population, but we have seen that under certain circumstances it does not become an insurmountable hurdle for democracy.

The only other fly in the ointment has to do with resource flows from agriculture. This could be a source of tension between the developmental state and the peasants. But in any case every developmental state will face the problem and will have to resolve it in a manner that maintains the incentive for the farmer to produce more and improve his/her income in so doing. Potentially, therefore, the peasant is the bedrock of a stable developmental coalition. With the votes of the peasants who constitute the bulk of the coalition, with the democratic potentials of a socially transformed peasant, the developmental coalition will have what it needs to rule democratically to ensure continuity by democratic means and to stamp out patronage and rent-seeking activities. A coalition based on the very sector, which has historically been the victim, rather than the beneficiary of patronage and rent-seeking activities will have all the will to stump it out.

The urban middle classes and labour, however small they might be could also be members of such coalition. It has of course been argued that they do benefit from patronage and rent seeking in the context of what has been called urban bias. The crumbs they may get from such activity is however nothing when compared with what they could get from job creation in the context of accelerated growth that is broadly equitable. They tend to be much easier to organize than the rural population and under the appropriate environment more democratic in their orientation than even the socially transformed peasant.

A coalition that covers much of the rural and urban population but is firmly based on the rural base, that includes all those that have very little to gain from patronage and rent-seeking, a coalition that

includes the vast majority of the population and hence can guarantee continuity through the democratic process would be a solid base for a state that is both democratic and developmental. Such a state would in effect be one form of the so-called dominant party or dominant coalition democracy. Such a state based on a solid and dominant coalition of forces who have no stake in patronage and rent-seeking would be able to avoid and overcome socially wasteful patronage and rent-seeking.

Technically policy stability and continuity could be achieved even when parties regularly replace each other in governing the country. But this can be so only where such a solid consensus among politicians and the population on fundamental policy has been achieved and where politics is confined to dealing with trivialities and personalities. Such a situation is very unlikely to emerge in a developing country. In addition politics based on personalities can easily degenerate to patronage politics. The most likely scenario for a state that is both democratic and developmental to emerge is in the form of a dominant party or dominant coalition democracy.

Most of what a developmental state has to do in order to be a developmental state are also the things that need to be done for a stable democracy to emerge in a poor developing country. The critical additional step required is to establish a solid developmental coalition to govern the country democratically. The basis for doing that are those steps that a developmental state will have to take any way. There is therefore no reason why a developmental state should necessarily become undemocratic. There is every reason to suggest that if a developmental state were to also be democratic the "hegemonic" nature of its development project would be achieved faster and held more deeply because it would emerge from free debate and dialogue. A democratic developmental state is thus likely to be even more effective as a developmental state than an undemocratic one.

In previous parts of this chapter we have shown that a stable democracy can emerge in a poor country and what the requirements are for such a polity to emerge. They largely coincide with the requirements for the emergence of a developmental state. Where the circumstances for the emergence of a developmental state do not exist, the circumstances for the emergence of a stable democracy in a poor country do not exist. One can therefore conclude that the prospects of a stable democracy in a poor country are intimately related to the establishment of a developmental state and achieving accelerated development. In poor developing countries, a developmental state, accelerated development and stable democracies appear to be parts of the same package.

The only exception one can make is that accelerated development and developmental state can occur in a non-democratic polity. But that would not change the basic conclusion. Where the circumstances for a developmental state do not exist the chances for a stable democracy to emerge are indeed very remote. Where they exist while there is no guarantee for democracy, there is a reasonable chance for a developmental and democratic state to emerge. In the end, therefore, the chances of a stable democracy in a poor country are related intimately to the emergence of a developmental state and accelerated development associated with it.

8. Background to The Miracle

(Extract from chapter)

8.5 Conclusions

Japanese colonialism came to an abrupt end at the end of the Second World War in 1945. Taiwan was immediately returned to China, and the Kuomintang which was in power in mainland China ruled Taiwan from China up to 1949. When the Kuomintang was defeated, it fled the mainland and established itself in Taiwan, initially claiming to represent the whole of China. Since 1949 Taiwan has been ruled as a de facto independent country. Korea was divided into two parts; the north under the control of the Russians, the south under the control of the Americans. An American military administration ran South Korea up to 1948, when it was replaced by a South Korean government. Soon after that the Korean war started and devastated the region. After the end of the war, attempts to rehabilitate the economy were made with limited success. The political turmoil, which resulted from such limited success led to a military coup in 1961, and it is under the military regime that the Korean miracle took place.

There was thus a transition period between the end of Japanese colonialism and the beginnings of the economic miracles of the two countries. Japanese colonialism was deeply repressive and a traumatic experience for the peoples concerned. Its objectives had nothing to do with the interests of the peoples of the colonies. It was thus as detestable as any other colonial regime. Japanese colonialism was no better or no worse than European colonialism. Attempts to paint Japanese colonialism as somewhat better, as something guided by "co-prosperity" of the Asian people etc. is just mere colonial propaganda. Nevertheless Japanese colonialism had its own characteristics that had significant impact on the future development of the two colonies.

Japanese colonialism was established by a developmental state, which had not yet completed the process of industrialization in its own country. Naturally the colonial regime reflected the practices and experiences of the home government. The Japanese colonial state was just as interventionist as the developmental state in Japan and its activities in agricultural development were patterned along the lines of Japanese agricultural development. Later on when industrialization began in the colonies it was state led industrialization with the involvement of Japanese companies as subordinate participants in the exercise. All the instruments of the developmental state in Japan were adapted and used in the colonies. The experience of the two colonies with the development of market economies was thus one of development engineered by a developmental state that made effective use of all the instruments of such a state. The two colonies had an early and successful introduction to the nature, instruments and characteristics of a developmental state.

Japanese colonialism focused as it was on extraction of an agricultural surplus and supplying the home market with rice and to some extent sugar could not but aim to transform the rural economies of the colonies as a whole. It could not be based on enclave large-scale farms and on a hands-off approach to much of the rural areas either. It thus deeply penetrated the rural areas and established a very powerful, effective and repressive state apparatus down to every village of

the colonies. It paved the way for the creation of a state that is both effective and towers like a colossus on society.

Japanese colonialism built the infrastructure, and spread the primary education that is essential for agricultural development. Both the education and the rural infrastructure covered all the areas of the country and involved the bulk of the population. The peasants were also introduced to new technologies and commercialized farming. However all of these were done in a harshly exploitative fashion based on the dominance of landlords, who were themselves being commercialized. The impact on sustained and accelerated agricultural growth was thus limited. However both the infrastructural, and technological basis for later growth were very well prepared by Japanese colonialism. However limited industrialization may have been under the Japanese, it was the basis on which further industrialization could be contemplated.

9. Agricultural Development in Taiwan and Korea

(Extract from chapter)

9.6 Conclusions

Land reform and agricultural development in Taiwan was exceptionally successful. The Land reform removed rent-seeking from the rural scene, stabilized the regimes politically, paved the way for equitable development and facilitated resource extraction from the farmers by the state. The development of cooperatives played a crucial role in removing market failures in both the credit market and in marketing of agricultural products. Universal primary education, effective research and extension work and government leadership in developing and implementing a trajectory of land augmenting technological development addressed the key market failure in agricultural technological capability accumulation.

The speed and nature of agricultural development in Taiwan was such that its multiplier effect on non-agriculture was maximized, and established a firm basis for the flourishing of small enterprises which became the basis for export led industrialization. There was no liberalization of agricultural prices but the prices that farmers got in Taiwan did not inhibit the farmers' incentives to produce more. As a result national savings and economic growth were very high.

While land reform and agricultural growth were also successful in Korea, they were not as successful as in Taiwan. The size of farm land and the climate in Korea were less conducive to agricultural growth. More importantly, the government did not devote enough attention to agricultural growth until the 1961 coup and agricultural prices were kept too low until then. As a result agricultural growth started late, and Korea had to launch its industrialization drive without significant national savings and without a significant non-agricultural small enterprise sector. This had a big impact on the structure of the Korean economy.

The experience of the two countries shows what type of deep and massive market failures impede agricultural development and how an effective state intervention can overcome these problems. It also shows that fast and equitable growth in agriculture is the start of a successful and equitable development.

10. Overcoming Market Failures

10.4 Conclusions

The governments of Taiwan and Korea, in effect, largely replaced the financial market and allocated investible resources in accordance with their development plan. Credit allocation by government was the linchpin of a comprehensive package of support to the private sector. The two governments also provided a minutely differentiated trade support and protection to support infant industries. They used various instruments to coordinate private sector investment. In other words the governments of the two star performers intervened massively to address all the key market failures, and used a comprehensive set of instruments -- instruments that were not only consistent with each other but supplemented each other.

The two governments were unique not only in the extent and mode of their intervention in the economy but also in ensuring that the private sector faced not just support and reward but also sanctions and penalties. Only those who delivered in terms of globally competitive goods and services benefited from the comprehensive support that the governments provided. Massive, and comprehensive government intervention to address market failures combined with the appropriate set of incentives and disincentives provided to the private sector to elicit the desired response was how the Taiwanese and Korean miracles were achieved.

11. Accumulating Technological Capability

(Extract from chapter)

11.6 Conclusions

Taiwan and Korea are without doubt the most successful of all developing countries in terms of achieving successful development over the past 50 years. They have had the highest sustained growth rates (with the exception of China over the past few decades). They have had the most equitable growth of all developing countries. They have had the most rapid and sustained accumulation of technological capability and growth in TFP. Taiwan's performance has been superior to that of Korea on all three counts, but Korea's performance has also been spectacular by any standard.

These most successful of development experiences have not been brought about by a night watchman state restricted to protecting individual and property rights and enforcing contracts. It has been brought about by some of the most interventionist governments to emerge in the context of a market economy. As we have seen in previous chapters most if not all of the prescriptions of the neo-liberal paradigm have been massively and systematically violated by the two regimes. The practices of the two most successful development experiences over the past half century are in direct and total opposition to the neo-liberal paradigm.

The activism of the two governments has, however, not been haphazard or wanton. They have intervened in precisely the areas where theory suggests there are pervasive market failures. The instruments used to do so by the two governments have been similar but by no means identical. The two countries have selected instruments that are consistent with their differing economic structure, and while Taiwan has been more successful, the instruments used by Korea have also led to success. Massive and systematic government intervention in the economy has not resulted in massive rent-seeking and economic failure as the neo-liberal paradigm would suggest but in spectacular success. The experience of Taiwan and Korea shows that the neo-liberal paradigm is unable to account for the most successful development experience in the post war period. Only an explanation based on the need for activist governments to address market failures can adequately account for the success of Taiwan and Korea.

12. The Political Economy of Development in Taiwan and Korea

(Extract from chapter)

12.6 Conclusion

The establishment of developmental states in Taiwan and Korea are the results of a complex combination of factors. The right social environment for a strong state firmly established in the rural areas was created by the land reform which was itself the result of complex national and geopolitical factors. The single minded determination to pursue shared growth and accelerated development was the result of the challenge of communism that the two regimes faced and the determination of the leadership to do what ever it takes to overcome the challenge.

Once a political leadership which felt its survival and legitimacy depended on shared growth took power in an environment where land reform had created a conservative mass of small farmers, the rest could be done by the leadership itself. The leadership was able to change the playing field and the rules of the economic game in favor of productive activities and developmentalism. Efforts at consensus building reinforced by the success in achieving shared growth could be made with a high probability of success. The bureaucracy could be remodeled to fit the development agenda.

As a result of favorable national and geopolitical circumstances and of effective and well considered action on the part of a committed leadership, two states that were predatory were transformed into developmental states. To that extent we can say that developmental states are created not inherited, we can say that they are results of political action not handed down by providence.

13. Dependency and Development in Taiwan And Korea

(Extract from Chapter)

13.4 Conclusions

We have in the previous chapter explained the success of Taiwan and Korea purely in terms of domestic economic and political processes. But obviously that cannot be the whole story. External developments did and could not but play a vital role in the development process of the two countries. In particular, the U.S. provided a comprehensive package of support including security guarantees and non-reciprocal market access to the two countries. Some of these supportive measures such as providing non-reciprocal market access were exceptional indeed because the U.S. government had to withstand pressures from rent-seeking constituencies in the U.S. to provide such support. It was the exigencies of the cold war, which enabled the U.S government to do so. Nevertheless the fact remains that the decisive causes of success in Taiwan and Korea are domestic factors, particularly the political factor of the establishment of developmental states in the two countries.

Various schools of thought have tried to "explain" the success of Taiwan and Korea. The dependency school of thought suggests that the two countries are not really developed but semi-peripheries, and that they were allowed to reach such a stage by way of exception. This school of thought thus suggests that even the "semi-peripheral" states of the two countries is exceptional and one that can not be repeated by other developing countries.

The neo-liberal school of thought suggests that what really precipitated the accelerated development of the two countries was the policy of letting the market do its wonder. Indeed, as it has become very clear that the two governments intervened in the economy massively, some in the neo-liberal school have gone as far as to suggest that much of government intervention nullified each other and simulated a free market.

The dependency school is in conflict with the success of development not only in Taiwan and Korea but also elsewhere in the developing world. It is a theory of underdevelopment unable to explain development in developing countries in the context of a market economy. The neo-liberal school is in conflict with the facts of development in the two countries and with much of historical experience of sustained, accelerated growth.

The school of thought which has at times been called the revisionist school based on the analysis of market failures and developmental states is capable of explaining the successful development of Taiwan and Korea successfully. It is also consistent with the facts of the historical process of development in many of the developed countries

14. The Genesis and Crisis of the Predatory State in Africa

(Extract from chapter)

14.4 Conclusions

A number of fundamental conclusions about the genesis and crisis of the predatory state in Africa can be made on the basis of the assessment made in this chapter

Colonialism in Africa was primarily extractive rather than productive. It created a weak and predatory colonial state. It established a rent-seeking political economy based on enclave production, production of tropical agricultural products for export, and made the state the primary instrument of wealth accumulation. The national exchange systems and systems of authority were very weak and were buttressed primarily by networks of patronage. Africa was not a significant destination for foreign capital during or after colonialism. No institutional and physical infrastructure for the sustained development of Africa was built during colonialism or after it, largely due to the marginal role of Africa in the global system. The marginality of Africa was thus a key source of its problems.

The key problems of Africa emerged not because Africa was an important destination of foreign capital, not because Africa's economy played an important role in the global economic system but because Africa was marginal as a destination of foreign capital and marginal in the global economic system. It is because of such marginality that colonialism in Africa did not even try to build the physical and institutional basis for vigorous capitalist development. It is because of such marginality that the limited capital that was attracted to Africa was largely of the extractive and rent-seeking variety. It is because of such marginality that African diplomacy was not based on trade and investment but on diplomatic clientage. It is such marginality which was the basis of the dominance of rent-seeking activity in every aspect of its external relations. It is such rent-seeking which is at the root of African problems.

The African state which emerged from colonialism had essentially the same characteristics irrespective of the socialist ideological pretensions of a significant number of them. It was a predatory state driven by the logic of maximizing rent for the rulers whatever its implications for the economy. Its capability to collect rent was based on its intermediary status. It was the intermediary between its people and the international system, and collected rents through foreign aid in return for diplomatic clientage, through providing privileged access to domestic resources and market and taxing trade.

The predatory African state was able to sustain the expanded demand for rent-seeking and patronage in the first decade of independence. But the dynamics of the economy were such that the growth potential became exhausted quickly and the sources of rent on which the whole system depended began to dry. External shocks accelerated the process of decay. The response of society to the crisis was not one of fundamentally transforming the rent-seeking political economy but one of exit. The response of the predatory state to the crisis was not to reform the system but to continue the process of rent-seeking at the risk of speeding up the implosion of the whole system. The predatory state and the rent-seeking society were thus heading for a

catastrophic implosion and were in an advanced stage of dissolution when the international system began its program of salvaging the situation by transforming Africa along the lines of the neo-liberal paradigm.

15. Botswana: The Exception That Proves the Rule

16. The Neo-liberal Diagnosis and prescription

17. Outcome of Economic Reform

17.1 Agriculture Under Economic Reform

The centerpiece of agricultural reform in Africa has been, the deregulation and liberalization of markets, getting the price signals right and using price signals to kick-start sustained agricultural and economic growth. Conceptually the reform did not preclude investments in infrastructure, research and education of farmers. Credit markets were to be largely taken care of by the informal sector. The empirical foundations of the significance of getting the price signals right, however, appear to be very shaky indeed.

Econometric studies have estimated that the long-term price elasticity of supply for agricultural crops in Africa to be approximately 0.3 i.e. for 10% rise in price, supply will increase by around 3%. The World Bank's own studies suggest that only 10% of the variations in agricultural growth appear to be related to price variations. Response of trade volumes to transportation cost has however been very high. World Bank studies suggest that a 10% drop in transport costs increases trade volumes more than two times i.e. by 25%. Transportation cost of traders in agricultural products are very high. Studies have shown that such costs in Africa can be as high as 60% of the operating costs of the traders.

Empirical analysis thus shows that the long-term supply response to prices of agriculture is low, that as much as 90% of variations in agricultural production cannot be explained by price variations and thus that price variation while important is not the main explanatory variable of growth in African agriculture. The neo-liberal paradigm's insistence on price signals as the key that unlocks sustained agricultural growth has thus not only no firm theoretical foundation as we have shown in part II but also no firm empirical foundation as the figures above indicate.

And to the extent that prices play a role transportation costs appear to play the key role. Every percentage reduction in transportation cost appears to increase trade volumes and hence the main item in the volume of trade in Africa, trade in agricultural products. As transportation cost can be as high as 60% of traders operating costs reducing the transportation cost by half would nearly double trade.

The Bank reform program linked getting price signals right with liberalizing and deregulating marketing. In almost all reforming countries market entry by private traders has occurred in food and cash crop markets as well as in fertilizer markets. While entry has been extensive at the small-scale level private sector entry into the whole sale trade, motorized transport and external trade have been limited to those groups with "strong social networks and state connections." Thus private sector involvement has been quite extensive at the bottom end but has in effect been cornered at the top end by few traders with "strong social networks and state connections". It has at best become an oligopoly at the top end fed by a wide network of small and petty traders at the bottom.

Traders have had limited access to credit, and face high transaction costs related to, among other things, obtaining market information, searching for buyers or sellers and enforcing contracts, poor communications infrastructure, lack of an effective system of grades and standards etc. As a result grain markets remain risky, personalized with limited long-term investment in transport or storage, and highly volatile cereal grain prices.

Agricultural marketing after liberalization continues to be very inefficient. The state is not providing a system of grades and standards and a means of effective contract enforcement that even a night watchman state is supposed to provide. There is no effective system for the collection and dissemination of market information. The private sector involved in agricultural marketing is weak and dispersed at the bottom end and oligopolistic at the top. There is very limited investment in grain marketing structures, markets are "personalized and volatile". Liberalization has not unleashed the market. Creating an efficient agricultural marketing system is not merely a matter of "removing the dead hand of the state". That is why liberalization in Africa has replaced one inefficient state-led system, with another inefficient system led by well connected oligopolists.

The combination of high transport costs, fragmented, and oligopolistic private sector marketing at two ends of the market, high transaction costs related to institutional inadequacies have meant that FOB prices of African agricultural exports are often two to three times higher than farm gate prices whereas farm gate prices of inputs are two to three times higher than their CIF price. The agricultural marketing system and the very high transaction costs involved in it in post reform Africa is such that despite the liberalization measures African agriculture can at best be described as semi-open. This cannot but have a huge impact on the prospects of agricultural growth in Africa.

The lending and saving cycle of the informal financial sector in Africa and its localized nature limits the role of the sector in term financing for agricultural investment. Much of the limited credit available at high interests is thus mainly for smoothing consumption rather than for investment. The potential use of savings mobilized through the informal sector for economic growth and diversification "remains unrealized". The result of leaving agricultural credit to the informal sector so that it may provide credit "at lower social cost" has not only been the traditionally high interest payments but the lack of availability of adequate credit for agricultural investment. Its result has been to starve small scale agriculture of credit.

The neo-liberal paradigm allows for government expenditure in research, infrastructure and farmer education. But as we have shown in the previous chapter capital spending has been lower than the already low pre-crisis spending and this could not but affect infrastructural investment. Indeed

since the 70s when the crisis began infrastructural investment has been neglected. As a result Africa which has been at the bottom in terms of quantity and quality of infrastructure has fallen behind even further over the past 15 years. Investment in Agricultural research in Africa has actually declined from \$701 million in 1981 in the pre-reform period to \$684 million in 1991 during the reform period.

The reform program allows for investments in agricultural research, education and rural infrastructure, but actual investments in these areas in the reform period have been lower than the already low investments of the pre-reform period. This is so because the other elements of the neo-liberal reforms, particularly reforms in the fiscal and financial area make it impossible to allocate adequate funds for investment in those areas. This is so also because the predatory state in Africa had never had the commitment to invest in the physical and institutional infrastructure required to transform agriculture. Like the colonial state it inherited the African state's interest in the rural areas was limited to maximizing the collection of rent.

The semi-open nature of African agriculture of the reform era, which is caused by the inefficiency of the liberalized agricultural market leads to a vicious circle. The extremely high marketing costs and low productivity means that much of agricultural production is non-tradeable. About three quarters of rural non-farm income and employment is related to services of all kind, handcrafts, fresh meat, milk and other perishable products which are also largely non-tradeable. Thus both agricultural and rural non-farm activities are largely non-tradeable, their production and consumption will depend on local markets and hence local income. In such an environment the initial low income of agricultural production constrains and limits the growth of rural farm and non-farm income. Rural Africa in the reform period is demand constrained. Because it is demand constrained a significant share of rural primary resources can remain underused for long periods of time, even if macroeconomic and trade reform remove price distortions.

Agricultural growth can thus remain within confined limits more or less indefinitely unless the demand constraint is removed. For the demand constraint to be removed agricultural products must be sold outside the locality in greater volume and /or value. This would increase farm income in the locality which would in turn increase the demand for non-farm activities. Increased non-farm income would in turn increase demand for agricultural products within the locality and so on in a sort of a virtuous circle. The key that unlocks this virtuous circle -greater sale outside the locality -materializes only if transaction costs come down dramatically and productivity increases in a similar fashion. A combination of technological and productivity change and dramatic reduction in transaction costs are critical to break the logjam that has narrowly circumscribed African agricultural growth.

But as we have shown liberalization of agricultural markets has not reduced transaction costs. Rural infrastructure is lacking. Marketing infrastructure such as storage facilities and transport are lacking. Rural credit is lacking. At the bottom end there are many small and weak operators unable to provide the economies of scale, at the top end well-connected traders have monopolized trade. Market support institutions such as market information systems and standards and grades systems are absent and contract enforcement is weak. Neither the state nor the private sector has delivered in terms of bringing down transaction costs to reasonable levels.

Productivity increments and technological change are inhibited by continued reduction and

stagnation in the minuscule investments in research and extension of the pre-reform period. Investments in infrastructure such as irrigation which have a big impact on productivity and technological change have been and continue to be insignificant. The institutions and investments that are required to bring about technological change in agriculture have been remarkably absent or weak beginning with the colonial period upto the pre-reform and post reform periods of independence.

While African agriculture has thus been plagued by high transaction costs and near absent productivity growth, South East Asian countries which produce similar agricultural products for export have been increasing their productivity. Their productivity is as much as three times higher than that of Africa. Africa is thus being squeezed by high productivity competitors.

The neo-liberal paradigm may have removed the dead hand of the state, which had stifled agricultural growth but it has replaced it with the deaf ear of a liberalized market with pervasive market failure. The continued decline in prices of Africa's agricultural exports, the low productivity of African agriculture, and competition from more productive competitors is sooner or later going to squeeze Africa's exports out of the world market. In practice the predatory states "statist" rent-seeking policies, and the neo-liberal paradigm's mantra of unleashing the market have miserably failed in unleashing African agricultural growth.

It is not difficult to see that this trend cannot continue without precipitating a catastrophe in Africa. The continued decline in world markets of Africa's agricultural exports, the low productivity of African agriculture and competition from more productive competitors is sooner or later going to price Africa's exports out of the world market. Unless Africa's agricultural technological capability increases, population growth is likely to create a Malthusian reckoning. Africa's Agriculture has reached a dead end.

Investments in infrastructure and market support institutions that lower the unit costs of distribution are needed to break the dead end. The physical and institutional infrastructure of technological capability accumulation must be built to bring about continued improvement in productivity and break the dead end.¹⁷ In other words the dead end can be broken only if government invests in rural physical infrastructure, in market support institutions, in institutions for technological capability accumulation, and if government intervenes to save agriculture from the credit crunch that the informal sector has subjected it to. The neo-liberal dogma is opposed to all of the key steps required to break the dead end. The neo-liberal paradigm is thus fundamentally incapable of leading African agriculture out of the dead end that it has reached. The fundamentals of the neo-liberal paradigm go against the grain of what is needed to bring about rapid and sustained growth in African agriculture.

17.2 Finance and Economic Reform

Banks in the reform period have exhibited a number of common characteristics across Africa. They have, however, been dominated by two characteristics in particular: an extremely high incidence of non-performing loans and excess liquidity. Various explanations have been given for these characteristics. One such explanation is that Banks in Africa lack "information capital".

Indeed in Africa information about potential borrowers and in some instances about the economy in

general is lacking. Tax returns are usually fraudulent and unavailable to third parties. Audited reports are rarely required and when they are available are highly unreliable. The income and property of citizens is not properly registered and tracked. There are very few if any institutions that collect and analyze information about firms and businesses. Thus, when banks allocate credit they are operating almost in the dark. In such circumstances they are likely to give credit to those who are not really credit worthy and hence the high incidence of non-performing loans. The lack of adequate information and the associated high incidence of non-performing loans is also likely to make them excessively risk averse, and hence the excess liquidity. Indeed lack of adequate information is one of the problems that plague the financial markets even in better information endowed countries. In Africa with almost a total lack of adequate information, it would be expected that it would be one of the key bottlenecks for the efficient operation of banks.

It has also been argued that the high incidence of non-performing loans and excess liquidity is due to lack of demand for credit from profitable private sector borrowers. This in turn is blamed on poor supply response to the reforms and the reduction of the role of large firms in the economy and the proliferation of small and informal enterprises.

Indeed the fact remains that growth of African economies has been low and erratic. The supply response to the reform has been low. Such an environment would not create too many opportunities for profitable investment and hence the lack of demand for credit in capital scarce countries of Africa. The lack of demand for credit would explain the excess liquidity and the weak supply response could also be associated with the financial problems of borrowers and their inability to properly service their loans and hence the high incidence of non-performing loans. In the reform period, the role of larger enterprises in the economy has diminished whereas as the role of informal and small enterprises has increased. Banks find it easier to lend to large corporate customers because the risks and more importantly the information failures are lower among the large corporate customers. The small and informal sector is however effectively "unbankable", from the point of view of the banks because of the risks and information failure. The reduction in the bankable sector and the increase of the "unbankable" sector would be one explanation for the excess liquidity.

Other explanations relate the high incidence of non-performing loans and excess liquidity to another characteristic of post reform African banks: high interest rate spreads and very high rates of real interest rate, which have been the results of reforms across the continent.

Very high real rates of interest generated by financial liberalization depress investment. Indeed the World Bank's study of the East-Asian experience has shown that financial repression can be a powerful instrument to promote growth and investment. One of the objectives of the reform program in Africa was to undo financial repression and it has succeeded admirably. The consequence would naturally be to depress investment, reduce demand for credit and generate excess liquidity. High interest rates are also known to increase moral hazard and default risk.

The financial sector was plagued with rent-seeking activities before the reform period. Indeed one of the justifications of the reform was precisely to reduce such activities by privatizing government banks and eliminating the role of government in credit allocation. Banks have been privatized and the role of government in credit allocation has been eliminated. But rent-seeking in the financial sector has not been overcome as the experience of several countries amply demonstrates.

Financial liberalization can open up new rent-seeking opportunities in four different ways: (a) substantial premiums were obtained by getting foreign exchange at auction prices and earning a margin on resale to end users or other market operators, (b) financing of foreign exchange purchases by providing loans at retail or interbank rates, (c) arbitrage in money markets, taking advantage of interest rate differentials, (d) pyramid schemes and capital export i.e. plundering the financial system through blatant fraud.

Such large rent-seeking opportunities attracted capital and manpower to the financial sector. Its contribution to GDP increased almost four fold in the wake of liberalization, and by 1992 its share of GDP approached 9% exceeding that of manufacturing, which had declined since the mid 1980s. This fantastic growth in the financial sector was taking place at a time of declining investment, which had declined from 19.4% of GDP in the pre-reform period of 1986 to 15.6% of GDP in 1992 after the reforms. Savings had also declined from 31% in 1985 to 19% in 1993. At a time when the number of banks was tripling and the share of the financial sector in GDP was quadrupling in the wake of financial sector liberalization, lending to the private sector was actually decreasing in real terms. Lending levels to the private sector in real terms in 1993 were 60% of what they were in 1986-87.

Excess liquidity that has plagued banks during the reform period and high incidence of non-performing loans are thus caused by a number of factors. The massive information failure in Africa, the weak supply response and informalization of the economy, the high interest rate spreads and high real interest rates which have priced out much of the potential investment in the economy and increased default risk, and pervasive rent-seeking are the main causes of the phenomena.

Deposit mobilization by commercial banks has also been affected. Excess liquidity means that banks do not seek additional savings when the deposits they already have are sitting in their vaults. Indeed interest bearing long-term deposits would increase their cost of fund at a time when lending is very low. Banks have therefore not only failed to be active in mobilizing savings but have also been known to at times turn savers away. What has emerged in the wake of financial sector liberalization is therefore not just excess liquidity and low levels of lending but also low levels of savings with one feeding the other.

The liberalization of the financial sector has increased the entry of foreign banks somewhat and increased competition. The foreign banks have had to focus on the most profitable segments of the market and these happen to be the largest urban centers and the bigger corporate customers. They have therefore had a trend of reducing their presence in the smaller towns and rural areas and reducing their service to customers outside the large corporate sector. The new entrants have started with such a narrowly focused approach while the older ones have had to shift towards such a narrow focus. Clearly then the presence of foreign banks has not affected the nature or scope of the problems of the post reform African financial sector. There has been little improvement in quality of service or range of service.

The neo-liberal Paradigm argued that it will revive the financial sector which had been run-down by the predatory African state through financial sector liberalization. It argued that it will resolve the problem by removing the dead-hand of the state from the financial sector. The results speak for

themselves. The continent is trapped in a low lending-low savings trap. Interest rate spreads and real interest rates have become very high effectively pricing productive investment out. There is excess liquidity in countries which have extreme scarcity of capital. Banks have no interest in actively mobilizing savings and are at times turning savers away in countries where savings are very low any way. The financial sector has completely failed in its task of financial intermediation. The neo-liberal paradigm is unable to recognize the fundamental market failures in the sector that can only be overcome through effective government intervention. It is unable to overcome its dogma of leaving the markets alone even when they don't work well. It is unable to lead Africa's financial sector out of the dead end that it has reached during the reform period.

The reforms have not only failed in bringing about efficient financial intermediation and have reached a dead end in this regard but have also failed to overcome rent-seeking in the financial market. The main actor in rent-seeking in the sector is no longer the state as state. The main actor is the private sector, although of course in Africa with so much "straddling" it is not always easy to identify where the one begins and the other ends. By narrowly focusing on rent-seeking by the state it has in effect opened widely the door for private sector rent-seeking. By limiting the effort of reducing rent-seeking activity to reducing the role of government in the economy, it has left the other aspect of rent-seeking, the private sector aspect almost intact.

Of all the variants of the neo-classical school of thought, the Washington consensus was perhaps better placed to understand the pervasive market failures in the financial sector, particularly in developing countries and even more particularly in Africa. Its analysis of East Asian experience could not have been clearer in recognizing these failures. But it came to the conclusion that government failure was worse than market failure, and that markets however imperfect will in the end muddle through. Letting markets be may not produce spectacular results when they are imperfect, but they will at least bring about adequate growth, it was argued. Practice has shown that market failures are as bad as government failures and both have led to a dead end. The predatory state and its "statist" policies, and the Washington consensus have in their own different ways ended up by leading the financial sector in Africa into dead ends. One dead end is as bad as the other. It appears both approaches have to be scrapped if the financial sector in Africa is to get out of these dead-ends.

17.3 Industrial and Economic Growth in the Reform Era

All the infrastructures, institutions and instruments for accelerated manufacturing growth in particular and economic growth in general are either very weak or absent altogether. This must be a critical factor in the dismal performance of the economy in general and manufacturing in particular.

Such an environment affects both the domestic private sector and FDI. But before we assess the impact of the post-reform period on FDI, we shall briefly review the results of the reforms on manufacturing and overall growth of African economies by contrasting the decade and half before reforms to a decade and half of reforms using different indicators.

The pattern is as clear as it is depressing. All the indicators used have been going down since before the reform period reached their crisis point, and have continued to decline despite some improvement since the 80s, which however, have not been enough to reverse the trend or reach

the levels of the early years of independence. There is one exception to this rule and that is manufacturing output. Its growth rate declined for the thirty years from 1965 to 1994, without interruption either in the 15 years before or 15 years after the reforms, and its performance during the reform period has been even worse than that during the early crisis period. Clearly then the figures show that manufacturing which has never done well in Africa, has done even more badly in the reform years. African industrialization has aged pre-maturely and has come to a dead end.

FDI was expected to change the picture somewhat, and despite the neo-liberal schools eloquent, not to say poetic, description of the informal sector as the saving grace of the otherwise dismal economic landscape of Africa, in practical terms, the effort of the reform program has focused on attracting FDI, and its performance reflects the depth of the problems of industrialization in Africa. Net private capital flows globally increased from \$43.5 billion in 1990 to \$226 billion in 2000. There has thus been a massive increase in private capital flows overall. Similarly FDI in Africa has increased by roughly 4 billion from \$1,683 million in 1991 to \$5,454 million in 2000. If we divide African countries into two: those who export minerals and oil and those who do not, the latter representing 71% of sub-Saharan Africa's population and 82% of GDP, we can see where the focus of FDI in Africa has been. The average for the oil and mineral exporters for 1991-1995 was \$1,063 million, and for 1996-2000 \$3,354 million. Whereas for the rest, the average for 1991-1995 was \$203 million and for 1996-2000, \$2,101 million. Clearly FDI has increased particularly since the mid 1996 in both groups of countries, but by 2000 countries with mineral resources and representing 29% of the population of SSA, were getting over 60% of the total FDI, whereas those who did not produce mineral were getting \$5.20 per capita in FDI.

The \$ 5.20 per capita FDI includes investment in privatized public enterprises and as there was a lot of such privatization in the 90s, new investment must have been significantly lower than that. Perhaps more importantly, much of the remaining investment in the non-mineral producing countries was also devoted to natural resource extraction.

In a study on natural resource development in Africa, David Kaimowitz explains why. In a world of very high capital mobility, capital has the option of comparing returns across the globe and selecting the places that maximize returns. Those that attract capital are those that are superior to almost every other destination in this regard, or to use Kaimowitz words FDI goes not to those who have "comparative advantage" but to those who have "absolute advantage". Unless a country has sufficient infrastructure, an educated and healthy work force, world-class managers and professionals and well functioning support institutions, it is unlikely to attract much FDI. The only thing to attract investment in countries that lack these conditions is not cheap labor per se but the opportunity to rapidly exploit a small set of valuable natural resources, such as minerals, timber, prime agricultural land and exotic wild-life that can not be obtained elsewhere at low prices. Thus the absolute advantage of even those who do not have mineral resources is in the natural resource area, and the FDI they attract is focused on its rapid and profitable exploitation.

The reforms do not address private sector rent-seeking and the development of natural resource through FDI has involved a lot of such rent. Indeed as David Reed says in the same study the reform programs have been designed to attract foreign capital by providing exceptional opportunities to obtain monopoly rents. It is through such rents that the FDI has been attracted to much of Africa. The more things change the more they remain the same. The things that attracted such personalities as Cecil Rhodes appear to be the things that attract FDI in the current very

different environment. Such FDI is of course practically irrelevant as far as sustained and rapid development is concerned. Thus even the truly authentic foreign private sector has continued to shy away from Africa and to engage in collecting rents when it gets engaged with it. Private rent-seeking in investment particularly FDI has not been significantly affected by the reform programs.

To say that private sector rent-seeking has continued unabated during the reforms is however not to absolve state actors from the practice. Indeed where there is rent-seeking, corrupt state officials will not be far off. The same study on natural resource development in Southern Africa states that corruption and collusion have accompanied liberalization of control in natural resources in every country of Southern Africa taking the form of granting mining concessions, construction permits on tourist sites, land grant or concessions on communal land, timber permits and tourist operator agreements etc.

17.4 Conclusions

The results of the neo-liberal economic reforms show that the reform programmes have been a failure. But the nature of the failure can be understood better by taking a look at similar periods of time before and after the reforms and identifying basic trends if there are any. One such basic trend is that all the key economic indicators had been going down a long time before the reform program started. The reform programs did not create that trend. What the reform programs have done is to fail to reverse that trend.

Indeed one can say that in some areas there have been some improvements. Agricultural growth has thus been higher in the reform period than during the crisis period, but lower than the pre-crisis period, and in any case no higher than 2.7% far from adequate to reverse the trend and bring about transformation in agriculture. Thus reforms may have slowed the pace of deterioration of the African economic scene but they most definitely have failed to reverse the trend and bring about economic transformation. The same can be garnered from looking at GDP growth rates. While it is difficult to prove, it may be the case that all the figures would have been worse without the reforms.

Slowing down the rate of economic collapse is not a bad thing. But the fundamental issue is not to slow down the collapse but to bring about rapid growth and economic transformation. That has been the objective of the reform programs and that is how they should be evaluated. When evaluated from the point of view of rapid growth and transformation the reform programs have failed utterly.

African agriculture is demand constrained as a result of high transaction costs and low productivity and is stuck in a low growth trap. It has reached a dead end. Finance has utterly failed to perform its task of mobilizing savings and directing them towards profitable investments. It is caught in a trap of high real interest rates, high interest rate spreads, high incidence of non-performing loans, excess liquidity and low savings and low investments trap. Structural bottlenecks have thus led finance into a dead end. Industry has also reached a dead end because of the problems in agriculture and finance, because of infrastructural and institutional failures, etc. The economy as a whole is in a dead end.

Clearly African economies were in a dead end before the reforms for reasons that have to do with

the logic of the political economy in Africa and that of the predatory state based on it. The neo-liberal reforms were intended to overcome that particular dead end. Instead they have led African economies to a new dead end. They have done so not because of technical problems but because of the fundamental nature of the reforms themselves.

The assumption behind the reforms was that while markets may be imperfect and African markets particularly so, African governments are even worse, that government failures is worse than market failure, and that markets would do better on their own however imperfect they might be, that in the end the markets will come through, work their magic and bring about economic transformation. The World Bank's own analysis of the East Asian experience shows that there is no plausible theoretical basis for such an assumption. The African experience has shown that there cannot be an empirical basis for that assumption.

It is this assumption that precluded government investment in rural institutions, both of market supporting and technological capability accumulating type and trapped agriculture in a demand constrained circle. It is partly the logic of the reform which has crippled public investment in infrastructure in general and rural infrastructure in particular. It is the same logic which has precluded government intervention to address market failures in the capital and technology markets and other market failures and led finance and industry to a dead end. It is the fundamental logic of the reforms that has resulted in a new dead end.

The same logic also assumed that reducing the role of the government would be the primary instrument of reducing rent-seeking and hence overcoming the dysfunctional role of the predatory state in Africa. As we have shown in part one there is no reliable theoretical basis for making such an assumption. The practice in Africa has shown that rent-seeking continues unabated although in a different form. The reform program has also failed in transforming the rent-seeking political economy of Africa because its fundamental logic was flawed. It failed because you can not change a rent-seeking political economy by reducing the size and role of the state.

Thus while the reforms did not create Africa's economic crisis and may have slowed down its inexorable march to a catastrophe, it has led Africa to a new dead end rather than out of it. The economic failure is not simply about slow growth. It is about being in a poverty trap, being in a dead end. The economic failure is not about a specific policy instrument, it is about the fundamental logic of the neo-liberal paradigm and the Washington consensus variant of it. It is not a failure of economic perspective alone. It is a failure to transform a rent-seeking political economy too.

State intervention by a predatory state had miserably failed in Africa before the reforms. Returning to that failed paradigm is not going to take Africa out of the dead end. The Washington consensus has failed equally miserably in Africa in the post reform period. Maintaining that paradigm for another couple of decades is not going to take Africa out of the new dead end. There has to be a third way, a third option. Theoretical analysis by some economists over the past two decades in particular has shown that there is indeed such a way. Experience in Taiwan and Korea has confirmed that such a third way can indeed work. A third way based on a developmentalist state appears to be the only way out.

18. Outcome of Political Reform

19. Some Country Stories

20. The African Renaissance and the Need for a Paradigm Shift

21.1 The Need for a Paradigm Shift

At the beginning of the 21st century there is renewed interest in Africa's economic and political destiny. Theories of the African renaissance have cropped up. Mechanisms for Africa to claim the 21st century have been suggested, including a program that has become the source of hope for many –NEPAD. All of these are indeed welcome developments. Many of these are, however, based on doing the things that Africans have been doing for the past two decades but doing them better. They are based, at best, on improving the neo-liberal paradigm that has governed Africa over the past two decades. The need for a Paradigm shift is not recognized in most of these programs. One is thus entitled to be skeptical about their outcome.

Africa has followed two paradigms since independence. The first one which held sway till the early 80s can be called the paradigm of the predatory state. The second one which has held sway since then is the neo-liberal paradigm. The African renaissance must be based on a thorough assessment of the two paradigms, and on analysis of whether the two paradigms have failed and a new paradigm shift is required.

The paradigm of the predatory state in Africa was based on: (a) a political-economy that is defined by pervasive rent-seeking; (b) a weak but large state, a "swollen state" based on such a political economy; and (c) an economy much of whose wealth outside the subsistence sector is controlled by the state and used for private wealth accumulation. This paradigm did bring about significant economic growth during the first decade of independence. But soon the growth potential of the paradigm was exhausted and Africa entered a dead end. While the external environment speeded up the process, it is the logic of the paradigm of the predatory state which led Africa to a dead end and a deep crisis. The predatory state was unable to reform itself and overcome the crisis. Indeed its very logic led it to feed on its decaying body and hence speed up its own dissolution rather than reform and transform itself. It had not only led Africa into the abyss but also proved that it was incapable of reforming itself and pulling Africa out of the abyss. The paradigm of the predatory state has been proved to be dysfunctional by the experience of the first two decades of independence.

The paradigm had thus to change. There was a clear need for a new paradigm. The shift in paradigm in Africa came as a result of the incapability of African states to reform themselves and the imposition of the then triumphalist neo-liberal paradigm on African governments. The shift in paradigm was also associated with an intellectual environment in the continent that was governed by what has been called the "There –Is- No- Other- Alternative" (TINA) syndrome. The neo-liberal

paradigm thus became practically and intellectually the only paradigm available, "the only game in town."

The results of the shift to the neo-liberal paradigm are clear and quite disappointing. The size of the state in Africa has been reduced while the state continues to be weak. The dissolution of the state has been slowed down and African states are increasingly plagued by what has been called the political economy of disorder. While the rates and scope of recovery have varied from country to country there has been a general economic recovery but there has not been sustained and rapid growth and transformation of the economy. African economies have entered a dead end path. While growth has stalled in many, a few are still growing and have not yet exhausted the limited growth potential within the essentially dead end path.

The reasons for such basic failure and limited results are and have been since the very beginning of the implementation of the neo-liberal paradigm hotly debated. In this regard it is instructive to note what an IMF economist had to say in the early 90s- "when the institutions are weak, the quality of governance poor, and the country's economy is very distorted, the results generated by programs are unlikely to be as desirable as one would like. But then the blame should not be placed on the programs. In such cases, nothing will work unless the type of governance is changed".

The economic crisis of the 80s was indeed the result of failure of governance, the result of a predatory state's logic. It was primarily a political problem. The solution to the economic crisis would, therefore, be primarily a political one, a change in governance. The neo-liberal paradigm rightly acknowledged that this was indeed the case and the reforms were designed to bring such a change in governance, to transform the predatory state, establish a benign night watchman state and thereby put Africa on a trajectory of sustained growth and transformation. While neo-liberal paradigm should not be blamed for creating the governance problem in the first instance it can and should be blamed for failing to bring about the desired change of governance, despite its clearly articulated program of bringing about such a change. On the fundamentals, the neo-liberal paradigm has been an unqualified failure in Africa.

The neo-liberal paradigm has failed to transform the state from a predatory to a benign one, from undemocratic to a democratic one in nearly two decades of trying to do so.

Transforming the predatory state in Africa would have required transforming the political economy on which it stood --- a political economy defined by pervasive rent-seeking. This would have meant changing the fundamental structure of incentives and disincentives of the economy from one that is inhospitable to productive activities to one that is inhospitable to rent-seeking activities.

In the case of the rural areas which are central to the politics and economics of Africa, it would have meant doing away with property relations that form the basis of vertical ties of patronage where they existed. It would have meant that the government would transform the incentives and disincentives in the rural economy in favor of productive activities and against rent-seeking activities by building the necessary infrastructure including roads and irrigation structures, address market failures in the rural credit, technology and goods markets including by building the necessary institutional infrastructure and promoting independent farmers organizations based on productive activities. It would have meant effective, extensive and well-designed intervention by a

strong state.

Transforming the political economy of rent-seeking would have also meant taking similar measures in the urban areas. These would have entailed restructuring the set of incentives and disincentives in favor of productive and against rent-seeking activities by extensive, effective intervention by a strong state to build the physical and institutional environment and to change the rules of the game.

The neo-liberal paradigm precludes the possibility of taking any of the measures mentioned above. The neo-liberal paradigm assumes that state action is the source of rent-seeking activity. It does not recognize the structural causes that create rent-seeking in developing countries. Extensive state intervention by any type of state would thus be considered a means of exacerbating the problem of rent-seeking rather than a means of overcoming it. An effective state intervention to change both the playing field and the rules of the economic game is thus not possible in an environment where the neo-liberal paradigm reigns.

Transforming the anti-democratic predatory state in Africa into a democratic one would have required the establishment of institutions of democratic pluralism based on production and productive activities. It would have meant promoting civic engagement and civic virtues through a thick network of horizontal associations. It would have meant eliminating or drastically reducing vertical networks of patronage. In view of the predominantly rural nature of Africa it would have meant creating a population of independent commercialized farmers, operating in a dynamically transforming agriculture and linked by a relatively dense network of independent farmers association and horizontal linkages. It would have in other words, required transforming the political economy of rent-seeking and patronage and building institutions of democratic pluralism based on productive activities and economic transformation.

By precluding the possibility of changing the playing field and rules of the economic game in favor of productive activities and economic transformation through effective state action, the neo-liberal paradigm precluded the establishment of dynamic agrarian democracy that could evolve overtime into mature urban based democracy. Instead the neo-liberal reform opted for what has been called trickle up democracy based on pluralism of patronage through the promotion of domestic NGOs and voluntary organizations as instruments of such patronage. Pluralism based on such patronage has continued to be plagued by the zero-sum game nature of politics based on rent-seeking and patronage. The democracy that is based on such a political economy has not only continued to be fragile but also still born in the sense that it has no tendency to evolve overtime into a mature urban based democracy.

The fundamental nature of the neo-liberal paradigm has thus led Africa into another economic dead end and into a fragile unstable democracy that is not only incapable of evolving into a stable and mature democracy but actually hinders the development of an alternative path of democracy that leads overtime to such a mature and stable democracy. The failure of the neo-liberal paradigm in Africa is thus not a failure of implementation of the paradigm or one of lack of refinement of this or that aspect of the paradigm. It is a paradigmatic failure and can only be corrected by a shift in paradigm.

Where the neo-liberal paradigm has failed to transform the political economy of rent-seeking the new alternative paradigm must be such as to successfully bring such a change and put Africa on a

trajectory of rapid and sustained growth and transformation. Where the neo-liberal paradigm has failed to transform the zero-sum game politics of Africa and establish a stable and sustainable democracy, the new alternative paradigm must lead to the establishment of healthy shoots of democratic pluralism of a broadly based agrarian democracy that is capable of evolving into a mature urban-based democracy. Once again the fundamental economic issue in Africa is a political one. It is an issue of transforming the pared down predatory state in Africa into a democratic and developmental one. As two African economists have rightly suggested the establishment of a democratic developmental state is the single most important task on the policy agenda in Africa.

What is required to bring about the African renaissance is thus clearly not the renaissance of the predatory state or modification of the neo-liberal paradigm. What is required is a paradigm shift towards the establishment of a democratic developmental state, a shift towards a paradigm which could be called democratic developmentalism.

21.2 The Possibilities for the Success of the Democratic Developmentalist Paradigm

Paradigm shifts in economic and political developments do not happen every day. They happen only when previous paradigms have failed and failed visibly, creating an environment of active search for alternatives. While the visible failure of an existing paradigm is necessary it is not sufficient. Developmental states like other states need a favorable internal and external environment to emerge and to succeed. And so if developmental states are to emerge in Africa, they will emerge and succeed not only because the neo-liberal paradigm has visibly failed but also because the global environment and the domestic environment are permissive of such a development, if not conducive to it.

The failure of the neo-liberal paradigm in Africa has meant the continued marginalization of Africa in an increasingly globalizing environment. Africa's share in global trade is negligible. Africa's share in global FDI is miniscule. When every part of the globe's wealth and well being is becoming increasingly dependent on everyone else's wealth and well being, a significant part of the globe is going out of circulation.

Companies in developed countries are looking for profitable investment opportunities across the globe. Taking Africa out of circulation means their choices are reduced, their profit making opportunities diminished. Bringing Africa into circulation, through the promotion of functional economies and dynamic market economies would clearly be in the interest of such companies. Companies in developed economies are looking for new and larger markets to sell their products and services. With Africa out of circulation due to its dysfunctional economy and abject poverty the availability of larger and profitable markets to sell products and services in gets reduced. Dynamic African economies with significant buying powers would thus be in the clear interests of such companies.

In the end, therefore, the basic economic interests of the developed countries do not lie in the perpetuation of dysfunctional economies and politics in Africa. Their basic economic interests lie in dynamic, rapidly growing market economies in Africa that can then provide profitable opportunities for large amounts of FDI and sizeable markets for their companies. As democratic developmentalist states would create dynamic, rapidly transforming market economies in Africa,

such development would not only pull the peoples of Africa out of misery and remove the specter of failed states from Africa, but would also be consistent with the fundamental interests of the developed countries. As the permissive attitude of the major powers if not their enthusiastic support is vital for the emergence and success of democratic developmental states in Africa, the fact that such development is consistent with their basic economic interests means that it is likely that the external environment will at least be permissive for the emergence and success of democratic developmentalist states in Africa.

The increasing globalization of the world, a world still based on sovereign states means that what happens in Africa affects everyone including the major powers. African states are no longer important as diplomatic clients, as they were during the Cold War, or at least the significance of such diplomatic clientage has decreased dramatically. But in the era of globalization and the political economy of disorder that is becoming prevalent in Africa, African countries are important as sources of transnational security threats. It is in the security interests of the major powers to prevent the dissolution of African states.

Such interests are becoming clearer by the day. The political economy of disorder which creates a fertile breeding ground for organized crime of all types from drug trafficking to money laundering seriously affects the most developed of countries. Unless the swamp that breeds such risks is dried at source the threat posed by organized crime based in Africa to the developed world will increase. Killer diseases are emerging from time to time and are spreading throughout the globe quickly. A black hole of dysfunctional polities in the geographic middle of the globe would enormously increase the risk posed by such diseases and undermine the attempts to control and manage them.

Failed and failing states in Africa are generating refugees by their hundreds of thousands knocking at the doors of the developed countries. Such emigration could easily multiply by a factor of ten if the major countries in Africa continue to inch towards state failure. Immigrants are already posing a serious economic, social and political challenge to these countries. A scenario in which the phenomenon would increase say ten fold would indeed be a nightmare scenario from the point of view of the developed countries. Putting a lid on such a development would therefore be clearly in their national security interest.

As the events of September 11 have shown terrorism has become one of the key emerging threats of the 21st century. A combination of massive improvement in technology and communication, populations that are excluded and hence aggrieved by their condition, failed or failing states, fanatics committed to wreck havoc and increasing possibilities of massively damaging linkages between terrorism and weapons of mass destruction and information warfare has become a lethal threat to everyone including the developed countries. No part of the globe has the level of dysfunctionality in politics and economics that Africa has --Africa is thus likely to increasingly become the base of such terrorism.

Democratic developmental states would be able to tackle all of these problems effectively because they would create dynamic and functional economies and polities. In so doing they will not only serve the interests of African peoples, but would also give maximum contribution to address the security concerns of everyone else. It would thus be in the security interest of developed countries to create a permissive if not a conducive, environment for developmental states to emerge and to

succeed in Africa.

The global environment is also permissive now because the neo-liberal paradigm is no longer the unchallenged and triumphalist paradigm that it was a decade or even five years ago. It has visibly failed in Africa. Alternatives to it have been suggested from different quarters. The intellectual environment is thus permissive to alternatives to the neo-liberal paradigm such as the democratic developmentalist paradigm.

Very few developmental states have been democratic. In Africa, the external circumstances are such that a developmentalist state will also have to be a democratic one. African countries are being forced to democratize not only because of the appeal of democracy as a form of governance but also because it has become a condition for getting adequate policy rent. Perhaps more importantly, in an age of the ascendancy of democracy ethnically diverse African countries cannot continue to exist unless they have some democratic legitimacy. The Cold War environment which had made undemocratic unity possible is no longer there and as one writer has put it "There is no way in which an artificial African state can hold together unless most of its people want to. The choice, then is between governments that can achieve some popular legitimacy, whether or not these are multi-party democracies in a Western liberal sense of the term, and the collapse of ordered states into anarchy".

A developmentalist state would by definition have to transform the political economy of patronage and rent-seeking and hence the very basis of the zero-sum politics in Africa. That, in itself, would be fundamental to establishing viable democracies in Africa. It would also have to build national consensus around its development project, make its "development project hegemonic." Democracy facilitates that. Thus the circumstances for a developmental state to also be a democratic one are much more conducive in present-day Africa than they have been in the past elsewhere.

The external environment is, however, not rosy from the point of view of democratic developmentalism. The rent-seeking coalition that has kept Africa down is not limited to African rent-seekers. There are bound to be some in the "development business" who have a stake in the current state of affairs. There are developed country companies who live off the opportunities created for them by the development aid relationship. There are developed country companies who thrive on rents from mining the natural resources of Africa. Perhaps more importantly there are sectors of society in such countries who would lose if preferential and non-reciprocal access to their markets for Africa were to become a practical reality. Such access has played a key role in the success of developmental states in Taiwan and Korea and cannot but play the same role in Africa. Overcoming such vested rent-seeking interests is likely to become a very significant hurdle for the emergence and success of developmental states in Africa.

Perhaps a more difficult challenge would be that which is posed by intellectual conservatism. Too many people in the advanced countries, too many institutions have staked their reputation on the neo-liberal paradigm to be able to change easily to a new paradigm. Indeed even those who have no such stake are unlikely to change their views in favor of what is likely to appear a mere hypothetical possibility. Others are likely to interpret the challenge to the neo-liberal reforms in Africa as a challenge to neo-liberalism in general. The fact that neo-liberalism in the advanced countries is based on a different political economy, one that is conducive to value and wealth creation, and thus does not have the same malignant impact as it has had in Africa is unlikely to be

enough of a consolation to them. In this sense the challenge of intellectual conservatism may be an ever higher and tougher hurdle to overcome than that of vested interests.

Thus while the external environment is at least permissive and possibly conducive to the emergence and success of a democratic developmentalist paradigm in Africa, it is also full of tough and high hurdles that need to be overcome if there is going to be a paradigm shift and a real as opposed to rhetorical African renaissance.

The domestic scene in African countries is also similarly permissive. It is clear that many African countries are failing or potentially failing states. Their economies and politics has entered a dead end. Their political economy of rent-seeking is fast manifesting itself as the political economy of disorder. The paradigms of development that most sub-Saharan African countries have followed have failed and failed disastrously. Such circumstances are precisely the circumstances, which encourage people to look for alternative solutions alternative paradigms as a means of national renaissance and survival. To the extent that the circumstances require a different paradigm to prevent dissolution of African states and politics and the chaos that has gripped the failed and failing African states, the domestic environment in Africa can be considered to be conducive to the emergence and success of the paradigm of democratic developmentalism.

Many African countries have small farmer dominated agricultural sectors and communal land ownership systems. Patronage and rent-seeking in much of rural Africa has thus to do more with rural marketing and state power than landownership system. Removing vertical linkages of patronage from the rural areas as a key initial step in the democratic developmentalist paradigm does not require difficult land reform in much of Africa. Political reforms to remove the predatory state and overcome rural marketing problems would suffice in most African countries. The circumstances in rural Africa are thus conducive to the emergence and success of a democratic developmentalist version of "the rural strategy".

At the same time there is no question that there are very daunting challenges that face the new paradigm. African peoples have lived in dysfunctional political economies of rent-seeking and patronage. The only politics they know is the zero-sum politics of patronage and the use of instruments such as ethnicity for purposes of patronage. The only concept of "development" they know is development that is done to them, the development of patronage and "pulling projects". That is a paradigm which defines development as a process that is done by the people rather than done to them, a process of pulling the resources and creative energies of the people rather than "pulling projects" through patronage from NGOs and donors is likely to at least initially face a skeptical populace. A paradigm designed to promote civic engagement through horizontal networks and associations, to promote civic virtues, and democratic pluralism including ethnic and religious pluralism is likely to face a skeptical audience.

There are vested interests who benefit from the current dysfunctional system that are likely to vigorously oppose the new paradigm. The rent-seeking businesses, the "ethnic entrepreneurs" who have used ethnicity as a means of accessing state power and accumulating personal wealth, many of the domestic "NGO and VO entrepreneurs" who have used domestic NGOs and voluntary organizations as instruments of patronage and personal welfare, if not wealth accumulation, are likely to at least initially vigorously oppose the democratic developmentalist paradigm.

On the other hand, the fact that most African countries are democracies of sorts, however fragile their democracy might be, creates the political space for political activists to embrace the new paradigm and mobilize political support for it. Both the domestic and external environment are thus permissive if not conducive to the emergence and success of the democratic developmentalist paradigm.

An overall assessment of the conditions in Africa suggests that it is possible for democratic developmentalist states to be established in Africa. In this regard what is crucial from a continental point of view is that a significant number of countries establish such a state and succeed. This could then have a flying geese effect on the rest of the continent. One can for example imagine the impact that a successful developmental state in Nigeria might have throughout West Africa and across the continent.

21.3 Steps in the Direction of the African Renaissance.

If the 21st century is to be an African century, a century of African renaissance there has to be a paradigm shift in Africa's economic and political development in the direction of democratic developmentalism. Developmental states come in all shapes and sizes and therefore there cannot be a single blue print for all democratic developmentalist states in Africa. Indeed not all African states can become developmental ones. Hence democratic developmentalism cannot be the single blue print for every country in the continent. It is, however, possible to identify a few general points that can lead to the emergence and success of developmentalist states in Africa, enough such successes to have profound impact on the destiny of the continent as a whole. These are as follows.

a) *Overcome TINA* (there is no alternative). In the end leadership is bound to play a critical role in exploiting the permissive environment to make democratic developmental states happen in Africa. Such leadership must be able to articulate an alternative vision and convince enough people to be able to win elections and transform the predatory African state. The "there is no other alternative" syndrome has to be broken if such a democratic developmental movement is to be created. African intellectuals must break the taboo and challenge all received wisdom; debates on all alternative avenues for national and continental renaissance must be kindled. Such a debate should not be aimed at replacing the TINA syndrome of the neo-liberal paradigm with a syndrome of the democratic developmentalist variety but at providing various alternative paths.

(b) *Create a Global Developmentalist Coalition*. Democratic developmental states in Africa are going to need all the help they can get to emerge and succeed. Such help is needed in the form of development aid. In this regard the key thing is unlikely to be the amount of assistance, because the amount of such aid that Africa gets is bigger than what Taiwan and Korea got to get them started. It is true that in terms of infrastructure the Japanese had done a lot more in these countries than Africa has managed so far and thus Africa including developmental states in Africa may need the higher level of assistance they are getting. The key thing is, however, going to be a drastic change in its quality.

A change in its quality implies that at least in developmental states the focus of such assistance must be on building infrastructures particularly rural infrastructure including rural roads and

irrigation and water harvesting facilities. It should also focus on building the capacity of the state. A change in the quality would also mean that aid should be dispensed on the basis of a clearly set developmental program and as a supplement to the efforts of the people rather than as patronage to be distributed piecemeal through networks of patronage, both state and non-state.

African countries face huge shortfalls in physical and institutional infrastructures, encounter massive market failures and are therefore unable to compete globally on purely free trade terms. They need to export while at the same time using trade policy to support and encourage infant industries. They need to attract productive FDI to accelerate their development and need to provide various incentives to compensate for the various shortfalls mentioned above. In other words they need non-reciprocal access to developed country markets. Guaranteed long-term access to developed country markets on what has sometimes been called, special and differential treatment terms is thus perhaps the key assistance that African states need. That is the type of market access that Taiwan and Korea were given by the United States.

Help is needed most particularly in creating a conducive global trading environment for developmental states in Africa to succeed. African states do not have the institutional and physical infrastructure to compete on a global free-market. A privileged and non-reciprocal access to developed markets is thus critical for their success. They need such access to compensate for their institutional and infrastructural weakness and attract domestic and foreign investment of the productive type, which in turn would generate the resources and experience required to overcome the institutional and infrastructural failures. They need non-reciprocal access to such markets also to be able to use various instruments of industrial policy to overcome the pervasive market failures. They cannot do so if they are asked to reciprocate for the access they get to developed markets. Thus an appropriate and predictable special and differential treatment of Africa for a reasonably long period is bound to be perhaps the most important aid that developmental states in Africa are going to need.

While developed countries have been willing to give Africa unprecedented levels of policy rent, there has been reluctance on the one key form of aid that will be crucial for the success of developmental states in Africa –access to their markets. This has led some writers to state “If industrialized countries are sincere in their support for diversification of African economies and in their demands for a secure environment for foreign investment, they should provide a guarantee of market access for the non-traditional exports of African countries. The ideal would be a commitment that no African exports would be subject to non-tariff or tariff barriers for an extended period say fifteen years.”⁵ It is such aid that developmental states in Africa are going to require.

There has to be more political space for experimentation in development policy than has been the case so far in Africa. A space to make the choiceless democracy that has been the result of trickle up democracy in Africa⁶, one which offers real choices and alternatives must be created. The international community has a role in creating such a space by tolerating development paradigms that are different from the orthodoxy preached by it. Africans have to demand and create such a space.

The global developmentalist coalition that Africa must establish cannot and must not be limited to governments and multilateral institutions. Indeed the most steadfast external constituency for the

democratic developmentalist paradigm in Africa is likely to be non-governmental. Progressive political groups, non-governmental organizations, activists and progressive intellectuals of various types are already engaged in various activities that are supportive of Africa's renaissance. Consolidating and re-energizing such as external constituency is likely to be a key step in establishing a global developmentalist coalition for Africa's renaissance.

(c) *Create a solid domestic developmental coalition.* The success or failure of the democratic developmentalist paradigm will depend on the strength and breadth of developmental coalition created in each country. The critical factors keys to the creation of such coalition are breaking the TINA syndrome and establishing a solid developmental base in the rural areas.

The rural areas are crucial to the success of democratic developmentalism for a number of reasons. Rapid and sustained development in African countries will crucially depend on agriculture. It is the dynamism of agriculture which is going to determine the dynamism of the non-agricultural sector and the economy as a whole and hence determine the success of the project as a whole. Democracy in Africa has to be an agrarian one if it is to be stable and capable of evolving into a mature urban based one. Hence the political and economic aspects of the project crucially depend on solid grass-roots base in the rural areas.

Establishing such a solid democratic developmentalist base in the rural areas is going to require dismantling patronage networks, promoting the establishment of a dense network of independent farmers organizations and associations based on production and making sure that external assistance supplements the developmental effort of such associations rather than overwhelming them in an environment of patronage. It will also involve the single minded focus on transforming rural Africa from subsistence farming to commercialized and technologically dynamic farming, and making the necessary investment in infrastructural and institutional development.

The developmental state in Africa will have to base its developmental coalition firmly on the rural areas but not limit it to it. It will have to keep its independence from the private sector while bringing them around to play the developmental game on the basis of a new playing field and new rules. It will have to convince the urban population at large that democratic developmentalism is indeed the path of national renaissance. In the end its actual successes will be as important if not more so as its articulation of a new vision in cementing the developmental coalition.

(d) *Rebuild the African State.* While the specific policies that need to be designed to address market failures are necessarily going to vary from country to country the need for doing so through effective government intervention will always be there. Government intervention to restructure the set of incentives and disincentives in favor of productive investment and against rent-seeking by, among other things, addressing the pervasive market failures that inhibit productive investment is bound to be a central and distinguishing characteristic of the developmental state.

Such effective government intervention cannot happen with the "swollen, and weak essentially anti-democratic state. A fundamental transformation and building up of the state is thus bound to be a central tenet of the paradigm. The state will have to be strengthened primarily by transforming it from the locus of personal wealth accumulation to an effective instrument of restructuring the playing field and enforcing the new rules of productive investment. That will require a change in outlook and attitude among state personnel, the creation of a new developmental ethics within the

state, and the acquisition of the necessary skills to deliver the required service. It will also require major restructuring to increase its efficiency and effectiveness.

State transformation will also require building solid state structures in the rural areas based on the grass-roots activism of the small farmers and their independent associations. The main locus of action at least initially is going to be in the rural areas and hence a strong presence of the state based on its developmentalist coalition and support is going to be key to rebuilding the state.

State rebuilding is also going to require establishing new institutions, restructuring old ones so that the state will have the necessary means to intervene effectively in addressing market failures.

Rebuilding the state as part of the implementation of the democratic developmentalist paradigm must also include launching the state on a trajectory of vibrant and dynamic democracy. Transforming the rent-seeking political economy will eliminate the zero-sum politics associated with it and hence create the basis for sustainable democratization. Dismantling networks of patronage particularly, in the urban areas, promotion of independent farmers organizations based on production rather than patronage is a key to establish a stable agrarian democracy in Africa. Rebuilding the legislature, judiciary and executive along democratic lines, inculcating democratic values through civic education and civic engagement via associations of horizontal linkage are also essential elements of transforming and rebuilding the African state.

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