

Economic Development Patterns and Outcomes in Africa and Asia

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Abstract

The present paper draws heavily on the existing empirical literature and compares Asian (mainly the high-performing economies) and African economies to illuminate the patterns of economic development as they developed since the 1960s. The discussion points to strong physical and human capital accumulation as well as pro-export policies, international favorable attitude and social capital as main reasons behind the HPAEs' successful development. Quite the opposite, SSA have found itself trapped into economic stagnation since the mid-1970s and culminated in steadily declining living standards. The extent of the Asian–African divergence can also be found in agriculture productivity, manufacturing growth and exports. The paper concludes with distinctive patterns of the two regions' development, respectively termed as a “self-consistent development model” for the HPAEs, in opposition to the Africa pattern: the “inconsistent development model”. Furthermore, the paper argues that the inference that the Africa could duplicate the East Asian experience is largely not relevant.

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Keywords: Development Economics, Asia, Africa

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I. Introduction

In *The Theory of Economic Development* (1955), W.A. Lewis asserted that because Japan doubled its per capita output in 25 years, the potential was there for the rest of Asia and Africa to emulate Japan and achieve similar records (p.316). However that early optimism on the prospect of economic development in Africa and Asia turned into an extraordinary success story in Asia while becoming a development disappointment in Africa, thus confirming the early prediction by Rene Dumont (1966), the French agronomist, who bluntly told the world the so-called development decade of the 1960s was no more than a “false start in Africa” insofar as the priorities set were wrong.

The economic stagnation in Africa throughout the 1980s and the early 1990s culminated in steadily declining living standards, general political crises, and ethnic conflicts in a number of African countries. Related to the economic decline, population explosion and environmental deterioration reflected additional dimensions of the African development crisis that were in direct contradiction to the East Asia miracle celebrated as the template model from which imitation became the recommended *magic potion*.

Starting from quite similar per capita income in the early 1960s, Sub-Saharan Africa’s 1997 GDP per capita was US\$560 as compared to average per capita income of US\$4,230 for Latin America, \$750 for China, and \$24,710 for the industrialized world. Over the period 1965–89, real GDP per capita annual growth of the Sub-Saharan Africa (hereafter SSA) averaged less than 0.5% compared to over 5% for the high-performing Asian economies (Hong Kong, Indonesia, Malaysia, Republic of Korea, Singapore, Taiwan and Thailand) (World Bank, 1991). The *East Asian Miracle Report* (World Bank, 1993) offered a number of reasons for such growth, in particular high savings and investment rates; a relatively high degree of equality; high growth rates of human and physical capital; high productivity growth (including agriculture), and high growth rates of manufactured exports.

In attempts to reverse the development disaster and re-set the continent on a growth path similar to that of the Asian economies, several reform programs were implemented over SSA since the early 1980s. The crisis in African economies especially over the past two decades and the ascendance of neoclassical economics resulted in a shift in development thinking particularly among powerful multilateral financial institutions (MFIs). Aiming at resuming economic growth and promoting export-oriented development, Structural Adjustment Programs (SAPs) were implemented in almost all African countries at various times since the early 1980s.

However, the outcomes of the SAPs’ decade (1980s) have been disappointing both in terms of economic growth and global market integration. In the meantime, Africa’s share of world exports has declined, its exports merely concentrated in primary commodities, thus further accelerating Africa’s economic marginalization.

The first obvious question is what is it about sub-Saharan Africa (SSA) which explains its performance being so different from Asia? Are there any detectable economic development patterns? If so, is the economic development experience of South East Asia relevant for policy design by African governments? The paper addresses these questions from the standpoint that the origin of developmental differences between the two regions can be attributed to historical and institutional factors as well as to contrasting governmental strategies and the geopolitical environment of the Cold War. It also concludes with the inference that the fact the SSA could duplicate the East Asian experience is largely irrelevant.

For the simple reason that in development debates, East Asia is often seen as an undisputed success story, there has been a tendency to contrast Africa's growth "tragedy" over the last three decades with the economic "miracle" of East Asia. This paper aims at comparing Asian (mainly high-performing economies) and African economies to illuminate the patterns of economic development as they developed since the 1960s. The paper draws heavily on the existing empirical literature with a considerable amount of effort going into interpretation.

The rest of the paper is structured as follows: section two briefly reviews the two regions' economic development background and performance. Section three explains the underlying causes of economic development success or failure of the respective regions. Section four attempts to derive development patterns and eventually discusses their relevance for SSA. Finally, Section five concludes with brief prospects for SSA.

II. Economic Background

The section provides a brief overview of the two regions in terms of economic structure, development and trade performance.

2.1. Overview of development performance in Asia and SSA

At the time of their independence in the 1950s and 1960s, to a large extent, the quality of life in most of Asia was fairly comparable with that of Africa. However, unlike the Asian countries, the African countries had relatively large endowments of natural resources and hence were expected to encounter significantly higher rates of economic growth in the post-independence period.

Yet shortly after independence, the Asian countries embarked on very successful human capital formation programs and, in addition, developed and implemented pro-growth policies that resulted in tremendous improvement in living standards across the region. In contrast, countries in Sub-Saharan Africa ended up being the poorest, most heavily indebted countries in the world. Poverty is still escalating while many African countries continue to spend more on debt repayments than they do on health care for their people. The debt crisis in the late 1970s prompted the private sector to cease lending to SSA countries by the beginning of the 1980s. The decade of the 1980s was a period of a hostile global environment for Africa as the industrialized Western countries began to resort to increasingly protectionist trade policies while the oil shocks induced recessions in their own economies. African nations soon faced rising OECD trade barriers in addition to declining living standards.

A deep contrast exists in the overall performance of SSA and the high-performing Asian economies (hereafter HPAEs.). Average annual GDP growth rates for SSA were 1.7% over 1980–90 and 2.1% over 1990–97, compared to figures of 7.8% and 9.9% for East Asia (World Bank, 1999). While much of the SSA growth was in agriculture, most East Asian growth was in industry. In SSA, real GDP growth has seen a general decline from about 3% in the late 1970s to about 1% in the following decade, recovering only slightly in the 1990s (Lawrence and Thirtle, 2001). GDP per capita has been declining since the early 1980s while the HPAEs have maintained positive per capita growth rates since the 1960s (see Table 1).

Table 1: Growth in GDP Per Capita

| | 1961-72 | 1973-80 | 1981-90 | 1986-96 |
|-----------------|---------|---------|---------|---------|
| Africa | 1.3 | 0.7 | -0.9 | -1.0 |
| East Asia | 7.0 | 7.1 | 9.4 | 7.2 |
| South East Asia | 3.2 | 4.9 | 4.3 | |
| South Asia | 1.3 | 1.6 | 3.3 | 2.9 |

Source: World Bank, Economic and Social Data Base (2000)

Most approaches to development assume that economic development generally consists of nations undergoing a series of structural transformations from less to more desirable, profitable, and value-added activities. In particular, these transformations include the change from less sophisticated to more sophisticated agricultural techniques, from an agricultural to a manufacturing to perhaps service economy, and from light to heavy to high-tech industries in post-agricultural economies (Clark and Roy, 1997).

Table 2 presents structural characteristics of Asian and African economies in terms of the share of GDP contributed by the agricultural, manufacturing, and service sectors in the period 1990-2003. As can be seen, East Asia reduced in half the contribution of agriculture in its GDP from 25% to 14% while increasing its industry share. As a result, the fraction of the labor force devoted to agriculture declined significantly. It can also be observed that the reduction in the share of agriculture was accompanied by an increase in the share of industry, instead of services as in the South Asian case.

Table 2. Economic structure in SSA and HPAEs

| | Agriculture | | Industry | | Manufacturing | | Services | |
|---------------------|-------------|------|----------|------|---------------|------|----------|------|
| | % of GDP | | % of GDP | | % of GDP | | % of GDP | |
| | 1990 | 2003 | 1990 | 2003 | 1990 | 2003 | 1990 | 2003 |
| East Asia & Pacific | 25 | 14 | 40 | 49 | 30 | 36 | 35 | 36 |
| South Asia | 31 | 22 | 27 | 26 | 17 | 16 | 43 | 51 |
| Sub-Saharan Africa | 19 | 17 | 34 | 31 | 17 | 14 | 47 | 52 |

Source: World Bank, 2005

Unlike East Asia, SSA's contribution of agriculture to GDP has not changed significantly, while its share of industry (and manufacturing) has even declined compared to its 1990 level. Note that East Asian structural change has followed the following path: starting from an agricultural base, these economies expanded relatively rapidly into such light industries as textiles and clothing, and even more rapidly into heavy industries such as steel, shipbuilding, automobile manufacture, to end up in electronics. Structural transformation was sustained and rapid in Asia, whose manufacturing exports jumped from 22% of merchandise exports in 1963 to 87% in 2000 while SSA experienced only a slight move from 7% to 20% in the same period (Table 3).

**Table 3. South East Asia: Manufactures exports
(average % of merchandise exports)**

| | 1963 | 1970 | 1980 | 1990 | 2000 |
|------|------|------|------|------|------|
| Asia | 22 | 25 | 49 | 69 | 87 |
| SSA | 7 | 6 | 9 | 19 | 20 |

Data source: World bank, WDI, 2004.

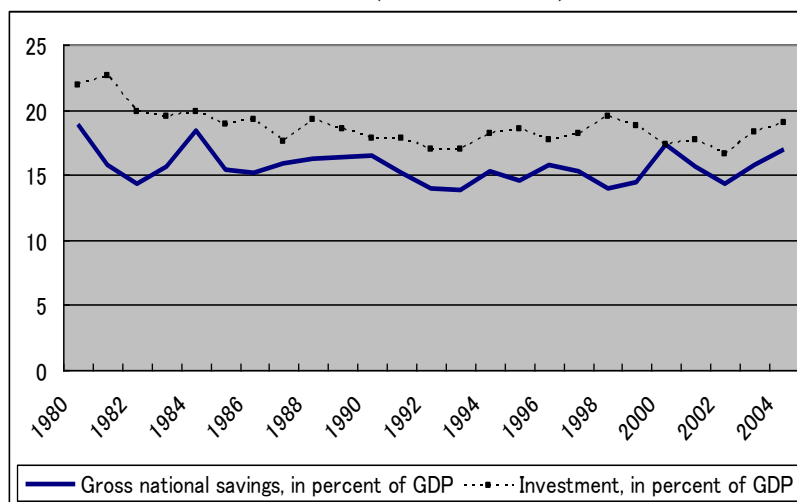
Development economic theorists agree that countries achieve rapid nonagricultural growth only after rapid growth in agriculture is completed. Further agriculture represents a key sector in the process of the African economic transformation, so it is worth noting that agriculture performance in SSA has been disappointing in regard to the potential of the continent. Less than 7% of the cropped area in Africa is irrigated, and the use of purchased inputs and machines is very limited. Cereal yields (a reflection of the productivity of land under cereal production) are less than half those in other developing regions. Indeed, since the 1960s, the level of public resources allocated to agriculture has been consistently low relative to the sector's size and contribution to the economy. In most African countries, the sector receives less than 10% of public (recurrent and investment) spending, but accounts for 30–80% of gross domestic output (World Bank, 2000).

2.2. Savings and Investment

With an extremely low savings and investment rate since the 1960s, in addition to narrow tax bases and weak tax-collecting capacity, African governments have been overly dependent on taxes on international trade transactions for their fiscal revenue. Savings rates nearly doubled in a handful of countries in East Asia, where they averaged almost 30% of disposable income between 1984 and 1993. SSAs' already modest savings rates fell to between 10 and 15% (World Bank. 1999).

An interesting point about the performance of savings in Africa, in contrast with savings performance in the fast growing Asian economies during the reform period, is that changes in savings rates in Africa have been largely driven by the public sector (World Bank 1994), while in Asia, private savings usually drove them. As pictured in Figure 1, gross national savings in Africa dropped from 11.4% of disposable income in the 1970s to 7.5% in the 1980s. By the mid-1990s it was still less than 9%. Public savings performed even worse, staying at under 3% of disposable income by the mid-1990s after falling from 4.5% in the 1980s. In many of the African countries where savings rates declined, they did so because public savings declined faster Mwega (1997).

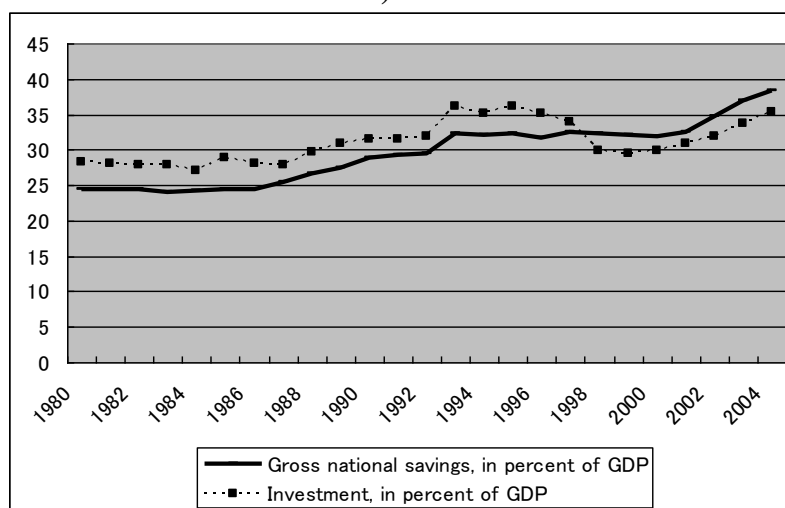
Figure 1: Gross national savings (GN Savings in % of GDP) and Investment (in % of GDP) in SSA



Source: International Monetary Fund, World Economic Outlook Database, September 2005

Savings rates in Africa (16% of GDP in 1980-2004) have followed an erratic trend and remained lower than investment rates (19% of GDP in 1980-2004), which is in contrast with the bright picture from Asia (Figure 2) where savings and investment rates have been growing. On the average, savings and investment rates in Asia averaged 30% in the 1980-2004 period. It is worth noting that Asia's savings rate has surpassed investment rates since the late 1990s.

Figure 2. Gross national savings (GN Savings in % of GDP) and Investment (in % of GDP) in Asia



Source: International Monetary Fund, World Economic Outlook Database, September 2005

Table 4. Indicators of bank financial soundness in developing regions and European emerging markets, 2002-2004

| | Percentage | | | | | | | | |
|--------------------|------------------|------|------|-------------------------------------|------|------|--|------|------|
| | Return on assets | | | Non-performing loans to total loans | | | Regulatory capital to risk-weighted assets | | |
| | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 |
| Asia | 0.8 | 1 | 1.5 | 12.7 | 11.2 | 10.1 | 14.5 | 15.2 | 14.8 |
| Latin America | -2.6 | 1 | 1.4 | 12.5 | 10.1 | 8.6 | 13.2 | 14.3 | 16.2 |
| Western Asia | 1.1 | 1.3 | .. | 15.4 | 15.2 | .. | 15.6 | 15 | .. |
| Sub-Saharan Africa | 2.7 | 3 | .. | 19.9 | 17.3 | .. | 17.7 | 15.7 | .. |
| Emerging Europe | 1.5 | 1.6 | 1.7 | 9.3 | 8 | 7.8 | 17.5 | 17.1 | 16 |

Source: IMF, Global Financial Stability Report: Market Developments and Issues: April 2005

Weaknesses in the banking system contributed to the poor performance of savings mobilization in Africa among others. In many African countries, the development of the financial sector has not advanced far beyond commercial banks. Financial soundness indicators (Table 4) on average point to solid rates of return on assets and sustained improvements in capital and asset quality. In Asia, banks' earnings, asset quality and capital adequacy have steadily improved since 2003. However, the region's ratio of non-performing loans (NPLs) to total assets, while declining, remains high; problem loans are especially prevalent at State-owned banks. Performance in banking systems in Africa has been more mixed.

2.3. Capital Flows

SSA has not been a major attraction for FDI (except in oil exporting countries such as Angola and Nigeria) partly in response to the continent's high investment risk and the significant decline in the rate of investment return over the years. According to the World Bank (1988), rates of return in sub-Saharan Africa have dropped from around 30.7% in 1961-1973 to around 2.5% in 1980-1987. On the other hand, during that period the rate of return in South Asia, for instance, grew from 21.3 to 22.4%. Asian countries experienced a significant growth in the inflows of private capital in the last decade with a surge in net FDI inflows representing 36% in 1997 and 42% in 2003 (Table 5). Among Asian economies, Malaysia, Thailand and Korea experienced (as a percentage of PPP GDP) the most significant growth in private capital flows between 1986 and 1996.

Table 5. Evolution of Net FDI Inflows by Region (1997 – 2003, % of total)

| | 97 | 98 | 99 | 00 | 01 | 02 | 03 |
|---------------------------------|------|------|------|------|------|------|------|
| East Asia and Pacific | 36.3 | 33.0 | 27.6 | 27.3 | 27.4 | 37.2 | 41.9 |
| Europe and Central Asia | 13.5 | 14.8 | 15.5 | 18.0 | 18.3 | 22.3 | 19.1 |
| Latin America and the Caribbean | 39.2 | 42.0 | 48.6 | 47.8 | 40.0 | 30.4 | 27.2 |
| Middle East and North Africa | 3.5 | 4.0 | 1.7 | 1.2 | 3.4 | 2.0 | 1.5 |
| South Asia | 2.9 | 2.3 | 1.7 | 1.9 | 2.9 | 2.7 | 3.7 |
| Sub-Saharan Africa | 4.7 | 4.0 | 5.0 | 3.7 | 8.0 | 5.4 | 6.6 |

Source: World Bank, Global Development Finance, 2004.

Having benefited very little from the growth of private capital flows to the developing world in general in the 1990s, Africa has continuously had to use official development assistance to make up for the shortfall in resource flows. On a per capita basis of \$40, currently Africa is the largest recipient of ODA among the developing regions of the world. There is every indication of decline as net ODA, which amounted to 10.7% of GNP in 1990, fell to 5% of GNP in 1997. Incidentally ODA amounted to less than 1% of GNP for East Asia and the Pacific, and only 0.8% for South Asia in 1997. While aid to most of Africa was increasing in the 1980s, it was understandably shrinking in the high-performing SE Asian economies.

2.4. International Trade and Competitiveness

In the 1950s and 1960s, both regions engaged in import-substitution industrialization (ISI), which paved the way for the subsequent economic performance in Asia. In SSA, the economic growth of the 1960s failed to translate into a virtuous growth process through complementary increases in domestic savings and exports (partly as a result of capital flight.) In SSA, ISI resulted in severe currency overvaluation which led to a black/parallel market for foreign exchange in most parts of SSA. Eventually there was not enough foreign exchange to import consumption goods or intermediate inputs, which greatly harmed export industries.

The divergence in export performance between the two regions has become most pronounced for the period 1980-95, during which the role of rapid export growth in the industrialization of SE Asia is widely acknowledged (Harrold et.al. 1996). More specifically, Africa's share in world trade has been falling since 1980 from about 3.7% of world total exports in 1980 to 1.5% in 2002, and from 3.1% of world total imports in 1980 to 1.4% in 2002 (Table 6). It is estimated that for SSA, the erosion of the world trade share between 1970 and 1993 has meant a loss of \$68 billion or 21% of GDP (World Bank, 1998).

Table 6: Share of developing regions in world trade, 1980-2002 (percentages)

| Region | 1980 | 1985 | 1990 | 1995 | 2000 | 2001 | 2002 |
|-----------------|------|------|------|------|------|------|------|
| Exports | | | | | | | |
| SSA | 3.7 | 2.5 | 1.9 | 1.5 | 1.5 | 1.5 | 1.5 |
| Developing Asia | 17.9 | 15.6 | 16.9 | 21.6 | 24.3 | 23.7 | 23.3 |
| Imports | | | | | | | |
| SSA | 3.1 | 2.1 | 1.6 | 1.6 | 1.3 | 1.4 | 1.4 |
| Developing Asia | 13.1 | 15.2 | 15.9 | 21.9 | 21.1 | 21.0 | 20.8 |

Source: UNTCAD (2004)

The developing countries of Asia have jumped from 18% of a world exports share in 1980 to 23% in 2002, with similar performance in their imports share. In Korea, Thailand and Malaysia, the various indicators of trade integration suggest greater integration as these grew much faster than in any SSA country. For instance, trade as a percentage of GDP was as high as 70.2% in Malaysia in 1996 and only 21.5% and 20.7% in Nigeria and South Africa respectively, two of SSA's largest economies.

What is indeed remarkable about the poor external performance of SSA economies is the fact that its competitiveness in world markets has been eroded in the last three decades. The export of traditional export commodities such as cocoa, coffee, rubber, spices, tin and tropical vegetable oils declined throughout the 1970s and 1980s. This happened at the same

time as Malaysia, Indonesia and Thailand raised their shares in the export markets for the same items. While the export of primary commodities has declined in value for many SSA countries, they continue to dominate their external trade, accounting for 83% of all exports in 1970 and 76% in 1992 (See Table 7). Consequently, because the rate of growth in trade for manufacturing goods and services was much faster than that for primary commodities (twice for mining products and four times for agricultural products), Africa's overall share in world exports could not be maintained at its 1970s' level.

Table 7: Structure of Merchandise Exports

| Country | Merchandise Exports % change 1980-1995 | Fuels, Minerals and Metals | | Other primary Commodities | | Machinery transport Equipment | | & Other Manufactures % of Total 1980 1993 | Textile textiles & Clothing % of Total 1980 1993 | | |
|---------------|--|----------------------------|------|---------------------------|------|-------------------------------|------|---|--|------|----|
| | | % of Total | | % of Total | | % of Total | | | % of Total | | |
| | | 1980 | 1993 | 1980 | 1993 | 1980 | 1993 | | 1980 | 1993 | |
| Cote d'Ivoire | 25 | -- | 15 | -- | 68 | -- | 2 | -- | 15 | -- | -- |
| Ghana | -3 | 17 | 25 | 82 | 52 | -- | 0 | 1 | 23 | 0 | -- |
| Indonesia | 107 | 76 | 32 | 22 | 15 | 1 | 5 | 2 | 48 | 1 | 17 |
| Kenya | 50 | 36 | 16 | 52 | 66 | 1 | 2 | 12 | 17 | 3 | 3 |
| Korea | 614 | 1 | 3 | 9 | 4 | 20 | 43 | 70 | 51 | 30 | 19 |
| Malaysia | 469 | 35 | 14 | 46 | 21 | 12 | 41 | 8 | 24 | 3 | 6 |
| Nigeria | -55 | 97 | 94 | 2 | 4 | 0 | 0 | 0 | 2 | -- | -- |
| Senegal | -28 | 39 | 25 | 46 | 54 | 3 | 2 | 12 | 19 | 3 | 4 |
| South Africa | 9 | 33 | 16 | 28 | 11 | 4 | 8 | 36 | 66 | 4 | 3 |
| Thailand | 768 | 14 | 2 | 58 | 26 | 6 | 28 | 22 | 45 | 10 | 15 |
| Uganda | 34 | 1 | -- | 97 | 100 | 3 | 1 | 0 | -- | 2 | -- |
| Zimbabwe | 33 | 23 | 16 | 39 | 48 | 2 | 3 | 36 | 34 | 1 | 11 |

Source: World Bank, 1997: World Development Indicators.

2.5. Human Capital Formation

As to human capital accumulation, progress have been made since 1960, but still the region has moved far from East Asia, which has reduced in half the percentage of unschooled children from 52% in 1960 to 24% in 1990 and less than 15% in 2000. In sub-Saharan Africa, although by 1990 the situation had improved from 1960, the absolute number and the relative share of the unschooled increased in the last decade (see Table 8).

Table 8: Out-of School Children, Aged 6-11 (percent)

| Region | 1960 | | 1980 | | 1990 | |
|----------------------|------|--------|------|--------|------|--------|
| | All | Female | All | Female | All | Female |
| Developing Countries | 52 | 62 | 31 | 38 | 24 | 29 |
| Sub-Saharan Africa | 75 | 82 | 43 | 49 | 50 | 54 |
| East Asia | 47 | 56 | 25 | 30 | 14 | 16 |
| South Asia | 56 | 71 | 40 | 53 | 27 | 28 |

Source: UNESCO 1993.

Government spending on education and average years of education per adult over 25 has been used as a measure of the stock of human capital (Roemer, 1994). In terms of government expenditure, African spending as a share of GDP has been declining over the years (except for Zimbabwe), whereas the opposite trend has been observed in Asia (Table 9). For instance, starting with 27% of its budget allocated to primary education in 1970,

Benin ended up with 10% in 2000. A downward trend in public spending on education since the 1970s is a common feature among African countries. In contrast, an upward trend seems present in Asia. For instance, Thailand started with 8% in 1970 and reached 17% in 2000.

Despite progress in education and healthcare in Africa over the past half century, both the volume and quality of human capital are widely acknowledged as grossly insufficient to meet the challenges. Initially designed to meet the needs of colonial economies, the educational system throughout SSA did not promote technical and engineering fields as did Asia. In addition, the absence of compulsory education in most African countries is one of the causes of income disparity over the continent. Among the major achievements of South East Asia that Africa completely failed to meet is the relative equity in the distribution of income and wealth. This was a feature of most of the East Asian economies initially in the 1960s, and was maintained in the 1970s and 1980s (World Bank, 1993).

Table 9. Expenditure per student, primary (% of GDP per capita) in selected Asian and African countries (1970-2000)

| | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 |
|-------------|------|------|------|------|------|------|------|
| Benin | 27.6 | 20.4 | .. | .. | .. | 11.6 | 9.8 |
| Botswana | 15.7 | 9.4 | .. | 6.8 | .. | .. | 6.0 |
| Congo, Rep. | 14.2 | 10.0 | .. | .. | .. | 10.7 | .. |
| Gambia, The | 24.8 | 25.7 | 18.4 | 15.0 | 13.1 | 13.5 | .. |
| Kenya | .. | .. | .. | 14.5 | 13.0 | .. | 0.9 |
| Korea, Rep. | .. | .. | .. | 13.6 | 12.0 | 17.4 | 18.4 |
| Lesotho | 11.7 | 13.6 | 12.7 | 14.4 | .. | .. | 21.4 |
| Malawi | 17.5 | 8.2 | 7.0 | 7.6 | 6.5 | 8.2 | .. |
| Malaysia | .. | .. | .. | .. | .. | 8.3 | 12.9 |
| Mali | .. | 30.5 | 29.6 | .. | .. | 13.3 | .. |
| Mauritania | .. | 43.4 | 28.8 | .. | 16.9 | 11.1 | .. |
| Philippines | .. | .. | .. | .. | .. | 9.0 | 12.7 |
| Thailand | 8.0 | 9.9 | 8.8 | .. | 13.3 | 15.5 | 17.2 |
| Togo | 11.4 | .. | 7.7 | .. | 8.3 | 7.1 | 11.0 |
| Zimbabwe | 8.5 | 9.1 | 19.5 | 15.5 | 20.1 | 18.6 | 13.2 |

Source: World Bank, World Development Indicators 2004.

Because HPAEs surprised both scholars and practitioners of development field by miraculously emerging out of their initial under-development stage whereas SSA was collapsing, the obvious question to ask is what explains the divergent development performance of the two regions?

III. Explaining the Asian Success and African Failures

There is no generally accepted single explanation of why East Asian economies were so successful. However, from neo-classical and endogenous growth models as well as empirical investigation, there is general agreement on the list of features of these economies that contributed to their success. Most of the following development features have been often cited as being at the root of the Asia's success while their absence is thought to explain the African economic disaster (Morrissey and Nelson, 1998; World Bank, 1993):

- High rates of savings and investment to allow rapid physical capital accumulation and structural change;
- Investment in education and training to support human capital accumulation and adoption of advanced technology for improving total factor productivity growth and agriculture sector productivity;
- Careful fiscal and monetary policies to ensure macroeconomic stability and build up financial capital;
- State role through appropriate institutions and skilled bureaucracy;
- Relatively open trade policy and high growth rate of manufactured exports and diversification away from excessive reliance on primary commodities in order to build a broad and secure base for economic activity;
- Relatively equitable income distribution so that there is some sharing of the benefits of growth;
- Favorable international context (geopolitical and geographical factors) and external market accessible in terms of proximity and acceptance of massive foreign products.

The following discussion will be focused on some of the above issues as bases for understanding the performance of the Asian economies and the failure of their African counterparts.

3.1. Economic Structural Change

East Asian countries began their growth spurts as labor-abundant, resource- and capital-poor countries and initially exported labor-intensive manufactured products. In all Asian countries, upgrading of technologies and products has moved in step with the accumulation of physical and human capital (Roemer, 1994). A number of the SE Asian economies managed to move from being primary export producers in the 1960s and 1970s to become major exporters of manufactured goods. In South East Asia, primary export earnings helped to finance the investment and imported inputs needed to industrialize. As a result, Indonesia, Malaysia and Thailand raised the share of manufactured exports from less than 6% in 1965 to 41%, 61% and 77% respectively in 1992. For the period of 1980-1995 these three economies sustained an average growth rate of manufacturing exports in an impressive range of 9 - 13 % p.a. (Table 2). In contrast, the share of manufactured exports for SSA countries hardly changed: 7% in 1965 and 8% in 1990 (Aryeetey and Nissanke, 1998).

Countries such as Botswana, Cote d'Ivoire, and Kenya invested productively in agriculture, but other African countries turned away from their primary export base. In contrast to Southeast Asia, foreign exchange shortages hampered industrialization efforts. Because protection and other policies insulated manufacturing from the disciplines of the markets, it was possible to start industries and employ technologies that were not always closely related to the resource and factor endowments in Africa. (Roemer, 1994).

East Asian economies successfully undertook the transition from import-substitution to export-led industrialization between 1960-1975 when SSA was deeply entangled into ISI. What is noteworthy is that East Asia economies undertook the critical transition when the world economy was extremely conducive to trade and exports and, more importantly, when the international division of labor was experiencing a drastic shift. In a sense, East Asian economies were blessed by favorable timing and took full advantage of such opportunity for realizing their take-off. (Hsiao, 1993). For Korea and Taiwan, the turning point was reached when the rapid expansion of labor-intensive light industry had absorbed surplus

domestic workers, so labor shortages occurred (Auty, 1995). This was also marked by the shift from manufactured products to high chemical industries since the early 1970s.

Low investment rates explain Africa's overall poor growth record, but poor investment productivity was also a factor. For HPAEs, foreign savings provided the initial boost to their investment (For Korea and Taiwan, initially bilateral and multilateral loans played a part; for Hong Kong it was transfer of funds by overseas Chinese). While foreign capital can initially boost to savings, it is gross domestic savings that plays a key role in sustaining economic growth; and any prolonged reliance on external savings ultimately leads to either aid fatigue (ODA case) or huge unbearable debt (private loan case) as experienced by SSA..

In SSA, productivity had been a major factor affecting growth in the 1970s, but as the investment rate declined in the 1980s, productivity fell sharply and had a negative impact on growth (Table 10). Contribution of education, although lower than East Asia, has been similar to that of South Asia. However, the contribution of physical capital is very strong in East Asia than in South Asia and even negative in SSA. In respect to exports, Wood and Mayer (2001) and Teal (1999) argue the scarcity of skills relative to natural resources is consistent with the African specialization in primary exports, while the relative abundance of education in Asia is found to have boosted processed exports.

Transition from ISI to ELI could be achieved because of the high savings rate in Asia that set into motion the growth dynamics. In turn, high growth led to high capital inflows. For most African countries, various strategies to attract FDIs have not succeeded insofar as in the absence of large domestic markets, investors are attracted mainly by the potential to extract low-processed products and export to industrialized countries in Europe and North America. Various market restrictions by OECD actually work against FDI flows into SSA. Such a constraint has not been met by the HPEA economies.

Table 10.
Contribution of physical capital, human capital and productivity to the growth of output per worker, world and developing regions, 1961-2000

| Region | Growth of output per worker | Contribution of Physical capital | Education | factor productivity |
|-------------------|-----------------------------|----------------------------------|-----------|---------------------|
| East Asia | | | | |
| 1961-1970 | 3.7 | 1.7 | 0.4 | 1.5 |
| 1971-1980 | 4.3 | 2.7 | 0.6 | 0.9 |
| 1981-1990 | 4.4 | 2.4 | 0.6 | 1.3 |
| 1991-2000 | 3.4 | 2.3 | 0.5 | 0.5 |
| 1961-2000 | 3.9 | 2.3 | 0.5 | 1 |
| South Asia | | | | |
| 1961-1970 | 2.2 | 1.2 | 0.3 | 0.7 |
| 1971-1980 | 0.7 | 0.6 | 0.3 | -0.2 |
| 1981-1990 | 3.7 | 1 | 0.4 | 2.2 |
| 1991-2000 | 2.8 | 1.2 | 0.4 | 1.2 |
| 1961-2000 | 2.3 | 1 | 0.3 | 1 |
| Africa | | | | |
| 1961-1970 | 2.8 | 0.7 | 0.2 | 1.9 |
| 1971-1980 | 1 | 1.3 | 0.1 | -0.3 |
| 1981-1990 | -1.1 | -0.1 | 0.4 | -1.4 |
| 1991-2000 | -0.2 | -0.1 | 0.4 | -0.5 |
| 1961-2000 | 0.6 | 0.5 | 0.3 | -0.1 |

Source: Bosworth B. and S.M. Collins (2003) and author's calculations

3.2. Agricultural Export Diversification

Table 11. Agriculture export performance across Africa and Asia

| | Primary Commodities | | | | Processed Commodities | | | |
|--------------|---------------------|------------------|---------------|---------|-----------------------|------------------|---------------|---------|
| | Diversification | | Growth Rate % | Share % | Diversification | | Growth Rate % | Share % |
| | In 2000 | Change 1996-2000 | | | In 2000 | Change 1996-2000 | | |
| Africa | 3.73 | 74 | 8.28 | 41.1 | 4.02 | 89 | 8.0 | 9.38 |
| CFA zone | 2.98 | 84 | 5.08 | 40.2 | 3.69 | 98 | 11.30 | 7.67 |
| Non-CFA zone | 4.19 | 69 | 9.70 | 41.5 | 4.22 | 84 | 6.50 | 10.29 |
| Asia | 4.56 | 78 | 6.91 | 19.4 | 5.03 | 57 | 11.90 | 8.07 |
| HPAEs | 5.36 | 58 | -0.40 | 3.6 | 5.49 | 58 | 2.0 | 4.60 |
| Non-HPAEs | 4.19 | 83 | 8.94 | 23.8 | 4.82 | 57 | 16.90 | 9.80 |

Source: Ngaruko (2003) and other calculations

Notes: - *: The scores are average rankings. The sample includes 168 countries for primary exports, and 141 countries for processed exports.

- "Growth rate" denotes the average annual growth rate of exports expressed in US dollars between 1996 and 2000.

- "Share" denotes the share of export products of the category in total exports.

Table 11 shows that agricultural export commodities, either primary or processed, are less diversified in sub-Saharan Africa compared with Latin America, and even less diversified than in Asia. Primary commodity diversification change is more favorable in Africa compared with Asia.

The figures for processed commodity diversification change are the opposite: the increase is higher in Asia. Finally, table 6 shows that Africa's strategy relies on primary commodities relatively more than Asia, and that this will not change notably in the short run: not only do primary agricultural exports represent a large share of the total exports in Africa, but also their growth rate is low compared with that of Asia. In Africa, CFA countries' agricultural exports, either primary or processed, are less diversified than in non-CFA economies. Furthermore, diversification change is less favorable in CFA countries compared to non-CFA countries. This suggests that vis-à-vis diversification performance, there may be an increasing gap between CFA and non-CFA sub-regions. Ngaruko (2003)

3.3. Fiscal Policies and Macroeconomic Stability

Macroeconomic stability is critical for economic development. Marked by high inflation averaging 17% in 1990 and 60% in 1994, SSA (except the CFA Zone) has shown serious concerns regarding macroeconomic stability and fiscal policies. African inflation has been primarily the result of the excessive liquidity associated with high levels of monetary expansion and to lesser extent, the reflection of cost-push from imported inputs.

The experience of developing countries everywhere suggests that macroeconomic stability is a necessary, but not sufficient, condition for rapid economic growth (Fischer, 1993). CFA countries are a case in point. No other African economies have as stable and transparent a macroeconomic environment as do CFA economies. In particular, the monetary and budgetary arrangements between these countries and France virtually excludes any risk of high inflation while ensuring high credibility for the monetary policy. Yet this has not proven to have been of much benefit in terms of agricultural export performance (Ngaruko, 2003)

In the policy implementation front, contrary to Asia, despite the fact industrial policy was supposed to address various forms of market failure throughout Africa, the policy was implemented without clear identification of the sources and nature of market failure in the local/specific context. According to Aryeetey and Nissanke (1998), rents were distributed without being tied to any objective performance indicator. In reality, almost every form of rent, such as import licenses, allocation of foreign exchange, or subsidized credit, was mistakenly viewed and used as instruments for 'political favoritism.'

SSA did not invest in enhancing export performance in the 1960s and 1970s when many countries followed inward-looking import-substitution policies. By not investing in infrastructure to facilitate exports and or developing appropriate export-enhancing policies, the competitiveness of the marginal SSA exports became completely eroded by the early 1980s when various countries began to undertake economic reform programs (Aryeetey and Nissanke, 1998). Because agriculture development was supposed to trigger the development take-off, it is important to take a look at the agriculture export performance of SSA and Asia.

3.4. Development Strategies and Policies

During the 1980s and 1990s, almost all SSA countries adopted (to a greater or lesser extent) World Bank and IMF-sponsored Structural Adjustment Programs (SAPs). One of the most common policy reforms was trade liberalization (removal of quantitative restrictions, reduction of tariffs, and, less frequently, export promotion.) The other important areas are tax reform (including fiscal policy); reduction of public expenditure and the budget deficit; reform of parastatals (generally moves towards privatization); agricultural price and marketing liberalization (especially dismantling state marketing boards); financial sector liberalization and industrial deregulation (removing price controls); and monetary and exchange rate policy reforms.

As implemented in SSA, some of the SAPs' main recommendations did not fit into the path followed by the successful East and South Asian economies. Both emphasize macroeconomic stability, and to a lesser extent, incentives for agricultural production. However, SAPs emphasized liberalization while South East Asian economies relied more on land reform, technology transfer and input subsidies (see Hayami, 1997). The largest difference is regarding industrial policy: SAPs do not advocate one, whereas South East Asian economies have tended to be interventionist (Lawrence and Thirtle, 2001).

Underlying these appearances of similarity are differences of interpretation. The "SAP view" is that tax rates should be relatively non-distortionary, especially with respect to trade (Lawrence and Thirtle, 2001). Asian economies did impose discriminatory taxes or non-tariff barriers on imports of certain goods, especially for infant industry purpose.

Although the consensus has emerged that the outcomes of SAPs in SSA was a failure; such an outcome resulted from partial implementation and the intrinsic contradiction of the program itself. Because most policies implemented in Asia originated essentially either nationally or within the region; their implementations within efficient administrations were quite effective. Weak governments of SSA find themselves inundated with "policy advice" from several sources but lacked a mechanism for sifting through the advice in order to make optimal choices. They were therefore likely to make the wrong policy choices because short-term political considerations were the main motivating factors (Aryeetey and Nissanke, 1998).

The absorption-reducing effects of both fiscal and monetary policies in SAPs not only reduce public capital spending, but indirectly and directly reduce private investment through interest rate rises and the complementariness between public and private investment. Current SAPs, by their heavy emphasis on massive devaluations, tend also to induce a deflationary spiral, which bears a negative relationship to private investment. In fact, experience confirms that such devaluations can themselves be the cause of macroeconomic uncertainty. (Elbadawi et al., 1992).

3.5. State Interventions

Despite the evident policy failure in SSA, both African and Asian governments played a central role in the course of national development by designing strategies and supporting priority sectors. For instance, it was selective governmental interventions in support of particular forms of non-traditional exporting activities (including those aimed at encouraging foreign direct investment into specific sectors) that were the key to the success of the HPAEs. In contrast, African governments have typically not developed strong supply-side supports—neither general nor selective—to encourage investment in non-traditional commodities comparable to those used in Asia. Even when this was the case,

for instance with export processing zones, these policies largely failed to boost non-traditional exports in Africa (Helleiner, 2002).

The East-Asian governments undertook deliberate interventions in the area of industrial, trade and investment policies. They used both import-substitution and export-promotion policies to build competitive advantages first in labor intensive, then in more capital intensive sectors, to strengthen local production capabilities and attain international competitiveness (World Bank, 1993). In contrast, African countries with either passive or no industrial policies were reduced to activities based on natural resources and cheap labor that do not provide a basis for growth once these inherited advantages are exhausted (Lall et al., 1999).

According to Roemer (1994), the economic strategies of Indonesia, Malaysia and Thailand (and their East Asian predecessors) contained four common elements: (1) exchange rates were managed to provide constant and rewarding incentives to exporters; (2) budget deficits were kept small in relation to GNP; (3) exporters had access to inputs and could sell outputs at world market prices despite protection for home-oriented industries; and (4) labor and credit markets were flexible enough to allocate resources to rapidly growing industries.

On the nature of instruments used by the Asian economies to achieve success, the World Bank (1993) argues there was no dogmatic insistence on defined and immutable instruments. Rather, they used multiple shifting policy instruments in pursuit of more straightforward economic objectives; Pragmatic flexibility (the capacity and willingness to change policies) in the pursuit of such objectives is as much a hallmark of the HPAEs as any single policy instrument.

North (1990) defines institutions as the humanly devised constraints—both formal and informal—that shape human interaction, while Lewis (1965) argues that economic institutions are central to economic growth, followed by knowledge, capital, natural resources such as land and population, and government, in that precise order of importance.

A regime with a short time horizon, anticipating it will lose power, tends to extract the maximum rents with an adverse effect on economic performance. Many African regimes fall into one of these categories, with Congo and Nigeria as examples. On the other hand, regimes with a long time horizon may perceive the gain of extracting a relatively low rent (as a share of GDP) from a growing economy for a long period. This may reasonably apply to Korea, Malaysia and Taiwan (Lawrence and Thirtle, 2001).

3.6. Capital Flows

Despite considerable reductions in trade barriers over the past decade, most African countries impose fairly high barriers through tariffs and export taxes or through managed exchange rate arrangements (Oyejide et al. 1997). Even though there has been significant rationalization of tariffs and the number of tariff categories, nominal average tariffs have not declined much in SSA, averaging 40% in the 1990s, which is not much different from what they were in the 1980s. In South Asia, these average 30%. Whereas the mean tariff on all products was 24.3% in Zimbabwe for 1990-96, it was only 9.1% in Malaysia, 13.2% in Indonesia, and 11.3% in the Republic of Korea. Cote d'Ivoire has one of the lowest in SSA at 4.8%.

A number of factors account for the flow into SE Asia. On the domestic front, the most important factor was the high economic growth achieved in the SE Asian region. This made investors confident. Further, the attempts to deregulate banking systems in various

countries made it easier for banks to tap into foreign capital markets while attracting non-traditional savers. Additionally, the pegged exchange rates of the various countries ensured that investors could easily predict returns on investments with reduced exchange rate risks.

Africa's inability to attract private capital is derived from the fact that it has not been "structurally able to assimilate these large flows" (Aron, 1996). Nigeria is the largest recipient of FDI, but this is not diversified and mainly restricted to the extractive sector of the economy, as is the case in Ghana. Unlike the situation in SE Asia, the deterioration in the terms of trade coupled with high inflation ensured the real exchange rates appreciated rapidly, forcing significant macroeconomic instability. With the deterioration in national economic management all over SSA, aggravated balance of payments problems and fiscal deficits, the continent saw considerable capital flight instead. Collier and Gunning (1997) calculate that African wealth owners have chosen to locate 37 % of their portfolio outside Africa. This share is compared to 29 % for the Middle East, 17 % for Latin America, 4 % for South Asia, and 3 % for East Asia.

While capital flight represented 5–6% of private wealth per worker in Asia in 1990, it amounted to 40% in Africa (Collier et al., 2001). As Mbaye (2002) shows, in 1991 for instance, capital flight from Africa amounted to US\$135 billion, five times as much as the total investment, 11 times as much as private investment, and 120 times as much as foreign investment.

3.7. Trade Policies and Technology Assimilation

Government industrial policy consisted of providing a package of market information, assistance with technology acquisition, subsidized credit, tax breaks and trade incentives for new firms to set up infant industries (Auty, 1995). But unlike in the African case, the government demands favored firms that rapidly achieved international competitiveness.

The World Bank's *East Asian Miracle* report (1993) stressed that an important factor in East Asia's successful productivity-based catching up was openness to foreign ideas and technology. Governments were supposed to have encouraged improvements in technological performance by keeping a number of channels of international technology transfer open (Kim & Ma, 1997). This selectively permissive attitude toward the acquisition of knowledge of international best practice was a reflection of the view that the world market for goods and services provided an opportunity, not a threat (World Bank 1993).

While multinational companies (MNCs) are believed to have been the most common channel of technological transfer in many SSA countries, multinational corporations were treated with a great deal of suspicion throughout the 1970s and 1980s. They were regarded as being exploitative, seeking cheap labor to produce goods that will only be sold in Europe and America, without any developmental concerns. As a result most African countries did not put in place adequate measures to attract new technologies via MNCs, which ultimately relegated SSA far behind the rest of the world in communications and knowledge management.

Despite the diminishing import capacity of SSA countries, their import dependence on industrial production for spare parts, equipment and raw materials remains high while the level of food self-sufficiency is alarmingly low. Furthermore, most African countries lack the necessary infrastructure required by private enterprise, notably an adequate telecommunications network.

In addition to the internal and some of the external influences above, the broad development thrust of SE Asia was influenced by a number of other quite different factors, the most significant one being its proximity to Japan and Japan's attitude towards the region. In contrast, Africa did not benefit from a favorable attitude as the Cold War came to an end. In the early 1990s, Western European trade and capital that were traditionally directed to Africa have been diverted to Eastern Europe. SSA became then completely isolated from the rest of the world.

3.8. Social capital

Southeast Asia's lead over SSA is not simply a response to good policies undertaken in the past four decades, but also reflects the international division of labor, the experience indigenous and non-indigenous entrepreneurs were allowed to accumulate during the colonial period and after, and the subsequent depth and breadth of the business networks and global linkages that characterize the entrepreneurs of each region (Brautigam, 1998).

Because HPAs are not landlocked like half of their African counterparts, the lower cost and greater ease of maritime trade meant that traders in Southeast Asia could develop business skills, be exposed to outside innovations, and accumulate significant capital much earlier than was possible for many in Africa. As part of this maritime mobility, waves of Chinese immigrants settled in Southeast Asia where they were to become significant elements in the area's economic development.

Entrepreneurship as well as economic development is the result of a complex cultural heritage. Culture relates development policy options and institutional choices to certain cultural antecedents that make the reason for such selections easier to understand. Lewis (1955) put forward the view that cultural influence is related to entrepreneurship and the broader issue of the sociopolitical environment for growth. Economic growth depends on attitudes to work, wealth, thrift, having children, invention, and adventure, with all these attitudes flowing from the deep springs of the human mind. Therefore, raising the total output requires considerable expenditure on education and other public services, a doubling of current capital formation, and many changes in beliefs and institutions.

Due to high levels of illiteracy, African knowledge used to be (and still is to a lesser extent) profoundly dependent on signs, symbols and myths (Dzobo, 2004). This knowledge is extraordinarily rich, but is not very effective for modern development which requires more precise, definite, utilitarian, tradable and codified "hard" scientific and technical knowledge (Arrow, 1971). It is also not very effective to induce competitive manufactured exportable products. The relative lack of written indigenous knowledge has made the need for education in SSA more critical than anywhere else. Because of its inadequate educational system, African culture has not adjusted to different development policies implemented after independence. For instance, SAPs and subsequent trade liberalization required innovation and a technological mindset that was not yet present. Trade liberalization and privatization without the productive capacity enhancement of the private sector have resulted in the rapid marginalization of SSA.

3.9. International environment and inter-dependence

The developmental potential of the East Asian economies was also magnified by the preferential treatment the United States accorded its East Asian allies in the early stages of the Cold War. Similarly, the Cold War and oil crises in the 1970s were respectively the

major geo-political and economic considerations that influenced SSA's performance in global trade.

Table 12 illustrates the mutually counter-cyclical oscillations of economic growth in various regions using percentage changes in GNP per capita as a proportion of world GNP per capita for select sub-periods. In 1975-90, a sharp bifurcation developed between the deteriorating performance of SSA, Latin America, and to a lesser extent the Middle East and North Africa on the one hand, and the improving performance of East and South Asia on the other (see Table 12).

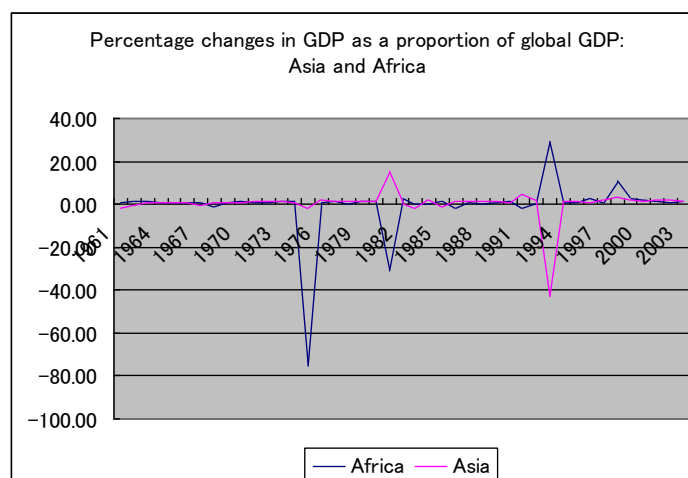
Table 12.
Percentage change in GNP per capita
as a proportion of world GNP per capita

| | 1960-75 | 1975-90 | 1990-99 | 1960-99 |
|------------------|---------|---------|---------|---------|
| SS Africa | -5 | -33 | -17 | -47 |
| Latin America | 3 | -19 | 2 | -15 |
| M.E. & N. Africa | 13 | 3 | -6 | 10 |
| South Asia | -17 | 20 | 17 | 17 |
| East Asia | 29 | 89 | 47 | 257 |
| North America | -26 | 44 | 4 | 10 |
| Western Europe | 27 | -1 | 1 | 27 |
| Australia | 11 | -15 | 13 | 5 |
| Japan | 90 | 34 | -2 | 150 |
| Industrial World | 15 | 16 | 1 | 35 |

Source: Arrighi (2002)

The mid-1970s ended with deterioration in North American economic growth. Among other corrective measures, the US government began resorting to restrictive monetary policies—a drastic contraction in money supply, higher interest rates, lower taxes for the wealthy, and virtually unrestricted freedom of action for MNES. Through this battery of policies, the U.S. government started to compete aggressively for capital worldwide to finance a growing trade and current account deficit in its own balance of payments, thereby provoking a sharp increase in real interest rates worldwide—and a major reversal in the direction of global capital flows.

Figure 3.



Source: IMF, IFS 2004

The redirection of capital flows to the United States reflected both effective demand and investment in North America, while deflating it in the rest of the world. These contrasting effects tended to split world regions into two groups. On the one hand, there were those that for historical and geographical reasons had a strong advantage in competing for a share of the expanding North American demand for cheap industrial products. This was the case of the Asian economies. On the other, there were regions that for historical and geographical reasons were particularly disadvantaged in competing for their share of the North American demand. These areas tended to run into balance-of-payment difficulties that put them into the hopeless position of having to compete directly with the United States in world financial markets. This has been the case of SSA.

IV. Economic development patterns and perspectives

As recently as the 1960s, countries in the two regions adopted similar development strategies. Most obviously, Taiwan, South Korea, Nigeria, and Ghana all focused their efforts on the domestic manufacture of basic labor-intensive commodities. However, by the end of the 1960s, approaches to development began to diverge.

East Asian economies moved to primary Export Led Industrialization, or ELI, immediately after mastering the technologies needed for primary ISI, while African countries kept to ISI fearing that ELI would mean reinforcing the neo-colonial system. This is where significant differences emerged between East Asian and African countries. The African countries incurred massive debt while the East Asian economies benefited from significant trade surpluses.

No single factor can explain the HPAEs' development success or the SSA's development failure. However, it is interesting to observe that Asian development strategies have been consistent with available resources (natural, human and cultural), locally designed and constantly adjusted to international changes. The search for consistency can be seen by the sense of pragmatism of Asian governments even during the Cold War era. On the contrary, SSA has not really tried sound development strategies. Its policies have been unstable, inward-looking and generally counterproductive. The continuous shift in externally designed development strategies has resulted in policies that lack consistency and are marked by too frequent instances of policy reversal. These inconsistent policies in turn have neglected technological innovation in the growth process.

For conceptual purposes, the development patterns of the two regions are termed as a "consistent open development model" to describe Asia's pattern, and "inconsistent open development model" to describe the SSA's pattern.

Table 13. Conceptual Development patterns in Asia and SSA

| Self-consistent model: Asia | | Inconsistent model: SSA |
|--|------------------------------------|--|
| ISI | Economic growth | ISI (structural change) |
| ELI | Trade policies (discretionary tax) | SAP (non-discretionary tax) |
| Internal & external | Savings | External |
| Locally featured | Education | Colonial education |
| Technocratic & pragmatic (rent creating) | Institutions & bureaucracy | Ideological, state intervention (rent seeking) |
| Manageable debt, fiscal discipline | Macroeconomic stability | Inflation, budget deficit, huge debt |
| Favorable | International context | Unfavorable |
| Technology & innovation oriented | Cultural factors | Inappropriate to implemented policies and production structure |

Starting with ISI, HPAEs soon turned to ELI as the then-industrialized economies provided considerable opportunities. They were able to engineer outward-looking industrialization strategies while SSA was stuck to ISI until international institutions imposed the SAPs on them in the 1980s. The superiority of an outward-oriented regime over an inward-looking one has been increasingly accepted as a key component of a growth-enhancing development strategy. Openness to the global economy provides Asian nations with the potential to exploit comparative advantages and economies of scale as well as the opportunity for greater utilization of capacity.

Exports provide a source of foreign exchange with which to improve productivity and sustained growth. This sustained economic growth in turn provided the necessary attraction for FDIs, which became a source of employment and encouraged technological upgrading. External loans were soon replaced by internally mobilized savings, which combined with FDIs stimulated increased efficiency that led to a successful economic structural change. Openness also enabled global technical change to increase domestic productivity via importing. This could be achieved only if given an appropriate education system and supportive institutions. Fiscal discipline ensured macroeconomic stability and lowered country risk perception, which facilitated long-term projections and investor confidence.

The internal stability that resulted from the coherent approach taken by HPAEs made it easy for bureaucrats to concentrate on rent creation through a mix of selective protection, controls over interest rates and credit allocation, managed competition (including encouragement of mergers), coordination of capacity expansion, restrictions on entry into specific industries, screening of technology acquisition, and promotion of cartels for specific purposes such as exports. The resulting strong performance seems to have been based on macroeconomic stability and high savings and investment combined with rapid factor accumulation, productivity growth, and equitable income distribution.

In the 1960s and early 1970s, most African states used generous flows of foreign aid and gains from favorable export trade, but failed to promote domestic savings. After the 1973 oil crisis, SSA countries initially responded to the oil price shocks in one of two ways. Treating the situation as a temporary terms-of-trade shock, some borrowed from the international capital markets to support their balance of payments right from the beginning. For a larger group however, the initial response to the shock was to run down their reserves. Balassa (1982) has shown in studies of several developing countries that those countries that borrowed early and adjusted their export volumes and exchange rates appropriately were better able to deal with the shock in terms of its overall impact on balance of payments. For Asian countries, the competitiveness of their exports permitted these countries to comfortably repay their foreign debt after the 1982 debt crisis (Auty, 1995).

Neoclassical theories strongly suggest state intervention in the economy distorts the natural pursuit of comparative advantage and inevitably results in less than optimal outcomes. In this line of argument, SSA has often been known for the disruptive character of its public interventions. However, the Asian development experience has been marked by government interventions systematically applied to address market failures, which has now even been admitted by the World Bank (1993). In the final account, it appears government interventions per se could not lead to development failure, but the quality of the intervention (such as rent seeking or creation) might be the determining factor. Unlike the African case, in Asia rent creation through protection was linked to export performance. Most of the fiscal instruments and rent creations were focused in a deliberate, concerted way on specific industries at particular moments in time—they did not just reallocate given

resources across various sectors, but made a significant addition to the overall rate of accumulation. In SSA, rent seeking has resulted in clientelism and inappropriate spending. For instance, in Nigeria, oil wealth has been attributed as one of the main causes of the pervasiveness of rent-seeking activities and corruption.

Human capital formation was an integral component of the industrial policy designed to enhance the national strategy for technological development. Asian economies realized the prominent role which higher education could play in their catching-up strategy. As Singh (1995) noted, higher education especially in science and engineering was very central to the process whereas SSA has still maintained an educational system designed for colonial purposes—a system that does not care about engineering, sciences and technical training.

Perhaps most important was the fact that unlike the African countries, Asian economies did have institutions that encouraged and nurtured entrepreneurial activities and technology adaptation. A culture based on oral transmission is short-term and spatially limited in nature which is also likely to be associated with a lack of understanding of what is possible in terms of innovation and technological improvement. For instance, rapid changes in technology require constant awareness not only of new developments, but also of what has been done in the past and what is going on in other countries (not to mention science-based progress, entrepreneurship and innovation mindset.)

Is the economic development experience of Southeast Asia relevant for policy design by African governments? Obviously, the inference the SSA could duplicate the East Asian experience is largely not relevant to the extent the international context is now very different from the Cold War era under which HPAEs started their take-offs. Moreover, the developed countries' market is now hermetically closed and international trade rules have changed. Over the years, developing countries used GATT Article XVIII, which allowed promotion of infant industries. Developing countries were then free to implement trade policies of their choice at home while benefiting from the openness of industrial markets. This was the regime during much of the period of Asian ascendancy.

With the shift of GATT's earlier narrow focus on tariffs to a broad agreement on rules, African countries will find it increasingly difficult to enjoy the exemptions. In addition, HPAEs did not industrialize by having the Bretton Woods' institutions literally in control of their economic policy-making process as SSA is today. Furthermore, cultural assets and an educational system designed with engineering and technical emphasis are just some of necessary triggers that helped put in motion the capital accumulation, macroeconomic stability, entrepreneurship spirit, and export dynamism that ultimately led to the East Asian "miracle."

V. Perspectives

The present paper aimed at comparing Asian (mainly the high-performing economies) and African economies to illuminate the patterns of economic development as they developed since the 1960s. The discussion has pointed to strong physical and human capital accumulation as well as pro-export policies, international favorable attitudes, and cultural assets as the main reasons behind the HPAEs' successful development. Quite the opposite, SSA has found itself trapped in economic stagnation since the mid-1970s which has culminated in steadily declining living standards.

Other indicators show the extent of the Asian–African divergence, especially in agriculture productivity, manufacturing growth and exports, as well as in human capital

indicators. Early in the 1960s, African and Asian countries adopted similar development strategies that later diverged.

HPAEs engaged in a pattern we have termed a “self-consistent development model” as opposed to the Africa pattern, the “inconsistent development model.” The “self-consistent development model” supposes a short-lived external dependence on savings, a combination of ISI strategies to protect infant industry, and ELI-orientation for market expansion. It also involves local initiative in the development process.

The “inconsistent development model” involves a long-lived dependence on foreign savings, a lack of economic structural change, and ultimately the presence of numerous contradictions and incompatibilities. The latter often also inhibits the sense of ownership and initiative in designing development policies.

It has been concluded the inference that the SSA could duplicate the East Asian experience is largely not relevant to the extent that the international context is now very different from the Cold War era under which HPAEs started their take-offs, while the current WTO rules will not permit SSA to protect infant industries as the Asian economies did. Furthermore, cultural assets and educational system differences would make it quite difficult for SSA to emulate the Asian experience.

Although the prospects for SSA are beyond the scope of this paper, some remarks are in order. First, it is important for us to acknowledge that several African governments have in fact made significant efforts to improve the quality of life of their citizens in recent years, but such efforts are still insufficient. Even in countries that have undertaken significant policy reforms, these have not led to the expected improvements in economic growth and external performance. There remain a number of constraints in Africa that policy reform alone will not rectify. In the end, SSA's success may depend on more non-economic lessons from Asia: the existence of national identity and political commitment to growth with equity.

Second, a bold vision is now needed for African economic development involving a comprehensive reassessment of international and domestic policy approaches in order to translate the current situation into strong and sustained economic growth. There is also a need for developed countries to remove artificial barriers that limit access to their markets by developing countries.

Since the 1970s, the success stories of the “Asian Tigers” have made export-led growth stand out as a referential developmental strategy. However, despite two decades spent in pursuit of “openness,” much of Africa continues to be bypassed by the global trends in trade and FDI flows. Diversification of exports is essential to avoid the adverse consequences of unfavorable terms of trade and to generate additional resources for development of an adequate infrastructure.

The fact the need to sustain their economies triggered developing countries into the debt crisis in the early 1980s shows that further international collaboration and mutual adjustment is needed to get SSA on the growth path. In international trade, competition has not always been the rule. When the survival of other nations is in stake, sometimes the balance has been corrected through non-market means. We know now the limits of competition. It is not unusual to find an economy which cannot sustain competition to call for a negotiated trade agreement. For instance, the U.S. has been calling for a negotiated agreement with China on its trade deficit issue.

Developed countries can help by guaranteeing open markets and radically transforming aid into the form of more technical assistance while taking longer-term perspectives.

Specific objectives of human resources development should concentrate on producing the entrepreneurial manpower that could determine the pace of industrialization and provide the critical capabilities required for research and development as well as for the managerial, scientific, technological and planning functions on which the industrial sector depends.

Paraphrasing North (1997), now we have a good idea about what leads to successful development, yet we know little about how to get there, or, most importantly, how to put in place an institutional structure and organization resulting in desired economic change. As with Asia and Western nations that went through a successful development path, economic development involves trial and error, not just imitation. Economic development is and remains the reflection of a concerned people's mindset. Until individual initiative is taken, pooled together, and channeled through well-defined collective goals, the gap between SSA and Asia is likely to further widen.

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