Chapter V

POLICY CHALLENGES AND INSTITUTIONAL REFORM

A. Introduction

Any long-run improvement in living standards in Africa can be achieved only through a sustained rise in productivity. Increasing investment is a prerequisite, if not a guarantee, of rapid productivity growth, because the latter requires the use of more productive technologies and higher skill levels, which are usually embodied in, or closely related to, new plant and equipment. Furthermore, strong complementarities between public investment and private investment mean that these should rise together if the fast and continuous pace of economic growth which has so far eluded the majority of countries in SSA is to be achieved.

In most countries, higher investment will be closely linked to an export-oriented development strategy and a shift in the structure of output and employment from agriculture to industry. As noted in chapter IV, resource endowments limit this investment-export nexus in the early stages of development. However, these endowments are themselves transformed with a successful take-off into sustained economic growth. Also, faster economic growth makes possible closer integration into the world economy, ensuring that international factors reinforce the domestic determinants of the growth process. The possibility of growth impulses being transmitted to neighbouring countries through trade and investment links can often give a strong regional dimension to that process.

Clearly, Africa needs structural reform and adjustment in order to overcome many of the impediments to capital accumulation and economic growth. In the view of some observers, such impediments result primarily from government interventions in economic activity; new investment opportunities should ensue quickly if such practices are abandoned and the logic of price reform dictated by global markets is accepted. The analysis in the last four chapters has raised serious doubts about such expectations. Liberalization and privatization, even to the extent that they are desirable, can hardly exhaust policy options in Africa. Policies need to be based on greater realism, in recognition of the fact that economic activity is undertaken by fallible economic agents in both the private and the public spheres, that markets and other institutions needed for the efficient functioning of a market economy are missing or highly imperfect, and that initial weaknesses and asymmetries in supply capabilities are as likely to be reinforced as removed by closer integration into world markets.

B. Policy options

1. Elements of a pro-investment climate

Present conditions in SSA do not preclude a take-off into rapid and sustained economic growth (see box 8). At the same time, it is far from certain that the recent recovery constitutes a turning point, given the generally weak investment performance and the failure to increase the level and diversify the structure of exports. Raising investment from its currently depressed levels thus assumes particular importance.

Policy intervention of various kinds can play a key role by setting the general conditions for a fast pace of capital accumulation and correcting specific market failures impeding it. Such intervention should, however, be founded upon the recognition that in market-based systems capital accumulation is closely linked to the consolidation of private property rights and the emergence of a strong domestic entrepreneurial class willing to commit its resources to investment rather than personal consumption.[1] The combination of public and private initiatives needed to stimulate rapid economic growth is perhaps best illustrated by the East Asian NIEs. However, a similar picture can be found in Latin American countries such as Chile, as well as in better-performing African economies such as Mauritius, Morocco and Tunisia.

The tissue of a modern entrepreneurial class is very thin in most African countries. To some extent, this may reflect the suspicion with which governments viewed modern and large-scale enterprises in their countries because they were owned or managed either by persons belonging to ethnic minorities or by nationals of the former colonial power. This reaction, however, was common to many other post-colonial experiences. Rather, stalled growth across much of SSA is linked to the failure of the State to gradually cede its initial economic power to a nascent independent entrepreneurial class which could assume the lead role in a dynamic accumulation process.

A more rapid pace of capital accumulation depends, *inter alia*, on the availability of resources for both the public and the private sector, as well as on incentives for private investment. As discussed in chapter I, rapid and substantial debt relief for a number of countries in SSA could provide a significant boost to public investment while at the same time increasing the availability of foreign exchange needed for imports of capital goods. As for the mobilization of domestic resources, experience suggests that it is much easier to increase savings from a growing level of income than from a stagnant one. Consequently, to the extent that output and income could be increased by greater and better utilization of existing resources, they could provide a basis for higher rates of domestic savings and investment. Such an opportunity appears to exist particularly in countries which have recently achieved significant increases in output and income.

Improvements in economic conditions need to be accompanied by policies designed to encourage savings and investment. While interest rate policies have an uncertain, and even perverse, influence on savings, fiscal, trade and credit policies can play crucial roles in creating conditions that favour saving over consumption. In countries with a developed corporate sector, a range of fiscal instruments can be used to encourage retention and reinvestment of profits, including tax exemptions and special depreciation allowances applied on a general level or targeted at specific industries. Again, measures such as controls on luxury imports, restricted access to consumer credit and public appeals to wealth holders to show self-restraint can provide incentives to increase the savings ratio.[2]

However, the principal policy challenge in many countries is to create a pro-investment climate so as to raise productivity levels and initiate the necessary structural changes. There is a consensus that political stability, a good legal structure and effective contract enforcement are needed in order to ensure rising levels of private investment. A stable macroeconomic climate is also desirable, although actual rates of inflation, and the size of the budget and current account deficits consistent

Box 8

INITIAL CONDITIONS AND ECONOMIC TAKE-OFF

Modern growth theory emphasizes the path dependence of economic development. It has been argued that because of the weakness of its initial economic and social conditions, a sustained acceleration of growth in SSA is precluded. Moreover, the relative success of countries in other developing regions over the past three decades may pose greater obstacles to rapid growth in SSA than were faced by previous generations of latecomers to development.

In point of fact, present economic conditions in SSA are not uniformly less favourable than were conditions in the East Asian countries on the eve of their take-off into sustained growth. As the table shows, the conditions are similar in many respects to those in East Asia in the mid-1960s, and in some respects they are better than those in South-East Asia in the mid-1970s, when the countries in that region launched into two decades of very fast economic growth and structural change.

MAJOR ECONOMIC AND SOCIAL INDICATORS FOR THE REPUBLIC OF KOREA, THE SECOND-TIER NIEs AND SUB-SAHARAN AFRICA

	Republic of Korea	*Second-tier NIEs* [a]	*Sub-Saharan Africa*
	1960	1975	1995
GDP per capita *(at constant 1987 dollars)*	768	692	598
Agricultural value-added *(per cent of GDP)*	36.7	28.3	29.2
Manufacturing value-added *(per cent of GDP)*	13.8	15.1	11.4
Gross domestic savings *(per cent of GDP)*	11.6 [b]	24.6	7.6
Gross domestic investment *(per cent of GDP)*	13.0 [b]	25.2	19.9
Exports of goods and services *(per cent of GDP)*	3.3	28.4	33.4
Urban population *(per cent of total population)*	27.7	24.1	34.3
Primary school enrolment *(per cent gross)*	103.0 [c]	86.7	75.0
Secondary school enrolment *(per cent gross)*	42.0 [c]	29.3	27.0
Telephones in use per 1,000 inhabitants	4.4	7.8 [c]	9.5 [d]
Life expectancy at birth *(years)*	53	55	52

Source: UNCTAD secretariat calculations, based on *World Development Indicators 1998*, The World Bank, Washington, D.C., 1998.
Note: Figures for regions are mean values.
a Indonesia, Malaysia, Thailand.
b 1962.
c 1970.
d 1988.

In two important respects, however, present conditions in SSA do not match those in East Asia prior to the latter's growth take-off. First, the physical and social infrastructure, particularly the education base, is generally poorer. Secondly, to judge from the levels of savings and investment the accumulation process is much weaker. However, changes in these conditions can be quite rapid. Both the Republic of Korea and Taiwan Province of China, for example, made great strides in the 1950s in raising the level of basic education, often from a lower starting point than some countries in SSA. In the 1960s, and again from quite modest levels, a shift of resources to higher levels of education and training further enhanced the human capital stock in those countries.[1] In communication and transport infrastructure, too, the push in these countries came after 1970. Similarly, during the 1950s gross national savings were less than 4 per cent of GDP in the Republic of Korea and less than 10 per cent in Taiwan Province of China. In both countries they rose rapidly in the 1960s, more than doubling by the end of the decade, and exceeding 30 per cent by the early 1980s.

1 Although the second-tier East Asian NIEs began with comparable, and in some cases considerably better educational and infrastructural starting points than the first-tier NIEs, their subsequent growth was slower. Indeed, one of the slower growing East Asian economies over the past three decades – the Philippines – began with one of the best educational endowments.

with high rates of investment, fall within a fairly wide band.[3] Furthermore, it is generally agreed that abrupt policy shifts should be avoided so as to allow investors to take a long view.

But it is also important to ensure that markets do not generate impulses that undermine incentives and opportunities for investment. In this respect, it is a matter for concern that some recent policy reforms which are aimed at correcting price distortions and improving allocative efficiency in SSA may have damaging consequences for both private and public investment. This is true particularly of financial liberalization, but also of some trade liberalization measures (see subsection 3 below).

(a) Avoiding financial instability

The conditions that gave rise to rapid financial liberalization in many countries in Africa, as in developing countries elsewhere, are quite familiar.[4] Generally, it was introduced as a reaction to excessive and often misguided government intervention in the financial sector, including public ownership of banks and controls over interest rates and credit allocation, which often resulted in negative real deposit and lending rates and preferential treatment for public entities. Initially, reform efforts were directed towards improving government intervention, such as lifting interest rate ceilings above inflation, phasing out directed credit allocation and reducing public sector deficit financing from the banking system, but they were soon abandoned in favour of market-determined interest rates and privatization and deregulation of the banking system. Simultaneously, there has been a shift in public sector deficit financing to private markets through the issue of bills and bonds. This was thought to bring about not only greater price stability but also better fiscal discipline, as well as a shift to indirect control in the conduct of monetary policy, and hence give a greater role to market forces.

It is generally agreed that a number of conditions have to be satisfied for orderly and successful financial liberalization. First, a relatively high degree of price stability is needed in order to avoid sharp increases in interest rates. Second, the government budget should be brought under control in order to prevent a public sector debt spiral of high interest rates, deficits and debt, which could necessitate large cuts in primary spending to avoid debt explosion. Third, there should be relatively well developed, sound financial institutions that would give depth to markets and ensure healthy competition. Fourth, it is important to ensure that the corporate sector is not highly vulnerable to increases in interest rates. Finally, effective prudential regulations and strict bank supervision should be put in place in order to reduce the likelihood of financial instability.

Many of these conditions were not satisfied before the implementation of financial liberalization in SSA. Consequently, the experience with such reforms has been rather disappointing.[5] First of all, because fiscal adjustment was slower than expected, the switch to bond financing has led to very high and variable real interest rates since the market for government debt turned out to be very thin, consisting of only a few banks. This has resulted in a rapid accumulation of domestic debt and fiscal instability. High intermediation costs and large amounts of non-performing loans carried by the recently privatized and/or deregulated banks are another reason for high interest rates. Finally, although a large number of locally incorporated commercial banks have been established, their low level of capitalization, combined with weak prudential regulations and poor lending practices has caused banking crises in several countries. In Kenya, for example, 14 commercial banks and non-bank financial institutions failed in 1993 alone, compared with three in 1984-1988.[6]

The combination of high interest rates and increased financial instability has placed a considerable burden on the private sector even where the rates were technically efficient and competitive. Increased debt charges on profits, together with the higher cost of finance, have discouraged private investment. Public investment has been equally hit by rising interest payments on domestic debt, since it is often easier to shift the burden onto capital than current spending.

While there should be no illusions about the difficulty of reforming the financial sector in SSA, there is little reason in principle to assume that the institutions developed in East Asia to mobilize domestic savings, or the measures of financial restraint employed there, are incompatible with existing conditions in many countries.[7] Given the difficulties associated with ensuring the depth and soundness of financial markets and institutions, it might prove wiser to move towards administered interest rates while making every effort to avoid the kind of problems encountered in the past. This could also help to check the accumulation of domestic debt and fiscal instability. Under a regime of measured financial restraint, policymakers not only have greater leverage on capital accumulation, but also assume the important role of a risk-sharing partner at a critical stage of economic development.[8] Although strict government control of credit allocation is neither a necessary nor a desirable feature of financial restraint, institutional arrangements, including development banks, are still needed to channel credits to agricultural smallholders and small and medium-sized industrial enterprises.[9]

The liberalization of foreign trade and foreign-exchange markets has taken a course similar to that of domestic liberalization. Initially, exchange rates remained regulated and currency devaluation was the most frequently and intensively used tool in adjustment programmes in SSA. But subsequently many countries moved towards market-determined exchange rates and current account convertibility. As a result, the extensive restrictions on access to foreign exchange for current account transactions, which were the norm during the early 1980s in the vast majority of SSA countries, no longer exist: as of September 1997 more than 30 countries had formally subscribed to the Article VIII obligations of the IMF and by 1996 foreign exchange markets had been unified and the previously often substantial black market premium on foreign exchange had been eliminated in all SSA countries except Burundi, Ethiopia, Liberia and Nigeria.[10]

Again, the markets for foreign exchange have proved to be very thin, resulting in excessive volatility. Exchange rate instability has been further exacerbated by arrangements that have resulted in de facto liberalization of the capital account. As part of their foreign exchange reform, many countries have introduced "own-funds" import schemes, under which no questions are asked about the source of finance for imports, as well as foreign exchange bureaux. The bureaux system was in principle designed for all current account transactions, while some control over capital movements would be retained; it was assumed that the source of funds for the bureaux system would be unrecorded exports and workers' remittances. However, owing to inadequate monitoring and supervision of bureaux transactions, this system has also been used for a wide range of capital transactions, resulting in a de facto liberalization of the capital account. Currently enforced recording procedures do not allow a clear separation to be made between current and capital transactions which go through the bureaux system, but it has been estimated that the scale of capital flows to SSA countries in relation to the size of the latter's economies is comparable to that in other regions if the unrecorded flows from the bureaux system are taken into account.[11]

Available evidence for a number of countries in SSA suggests that private capital flows have been an important cause of increased exchange rate instability. For instance, during the first half of the 1990s Kenya and Uganda experienced sharp appreciations when private transfers and access to short-term credits increased markedly. Zambia experienced a depreciation of the real effective exchange rate in 1991, followed by an appreciation in 1992 and 1993 and another depreciation in 1994. South Africa has experienced similar fluctuations.[12]

Establishing an investment-export nexus in SSA depends to an important extent on the maintenance of stable and competitive real exchange rates. There was certainly a need to move towards more realistic and flexible exchange rates from the earlier regimes of rigid and overvalued rates. Indeed, evidence cited in chapter III suggests that devaluations assisted some African agricultural exporters in achieving competitiveness. However, again, the pendulum appears to have swung too far, giving rise to instability. An appropriate management of exchange rates requires, *inter alia*, the kind of regulation and control of capital flows discussed in Part One, chapter IV, above.

(b) Curbing capital flight

The available, albeit limited, evidence on capital flight suggests that SSA is one of the regions most affected. For example, it has been estimated that 70 per cent of privately owned wealth (excluding land) was held abroad in 1992, and that Africa's private capital stock would be about three times higher than it currently is if that wealth had simply been retained at home.[13] Assets of such a magnitude could make a crucial contribution to Africa's economic take-off if they could be mobilized for productive investment.

It is often held that overvalued exchange rates, the absence of profitable investment opportunities and economic and political instability were the main reasons for capital flight in SSA. It is not clear, however, whether the expatriation of these assets was motivated by a simple economic calculus of risk and return. More likely, much of it appears to have originated from the illicit diversion of public funds rather than to have been constituted by business incomes seeking economic stability or high yields abroad. To that extent, market confidence and policy credibility considerations probably play a minor role in decisions about where the money is invested. A change in the banking regulations of those developed countries where these funds tend to be invested would probably be a more effective measure towards their repatriation.

Nevertheless, consideration of risk and return are not irrelevant. The appropriate policy response is not to ease restrictions on capital account transactions, which would be inappropriate for most countries in SSA, but to pursue measures which can lock domestic investors into a growth take-off in a relatively secure environment. Greater political stability, effective property rights, investment incentives and stable exchange rates are needed to prevent further capital flight from aborting faster growth in SSA.[14]

However, capital flight is not exclusively a financial problem. The emigration of highly skilled individuals ("brain drain") has contributed to a shortage of skilled personnel and qualified workers in SSA, depriving its economies of a crucial and desperately needed factor for growth and development. It is estimated, for example, that 60,000 doctors, engineers and university staff left Africa during 1985-1990 and that as many as 20,000 a year have left since 1990.[15]

It is difficult to determine cause and effect between the supply of a skilled labour force and private investment. The fact that the level of investment flows from developed to developing countries is less than would be expected from economic theory has been explained by some authors in terms of the absence of an appropriately skilled labour force in developing countries.[16] However, new investment increases the demand for skilled workers and hence provides incentives for individuals to invest more in their education and to stay in their own country. Hence, policies conducive to private investment are also a crucial element of a strategy for skill accumulation, including the return of skilled workers from abroad.

An equally effective measure that could reduce the pull factor and facilitate the return of skilled workers to Africa is their greater use in operations in the region by international financial institutions (IFIs) and aid agencies. This could have other benefits as well. For instance, it has been argued, in relation to development research, that:

> IFI professionals cost much more than professionals living in their native developing countries and having similar qualifications; moreover, these professionals in developing countries also have the comparative advantage of knowledge with respect to domestic institutions and idiosyncracies ... For example if the equivalent of 50 per cent of the resources used in Washington to finance 1,000 World Bank economists were used in 100 developing countries to finance 1,000 graduate domestic economists (on average 10 per country), the policy reform advice and development research would be greatly improved; there would also be spillovers and domestic externalities increasing local research and development. At the same time, there would be an important saving of resources in Washington D.C. World Bank expenditures.[17]

(c) *Using foreign direct investment*

Africa needs to attract private capital with a long-term commitment to the region. Foreign direct investment can make a growing and positive contribution to the extent that it brings productive assets to complement domestic resources and improves linkages with overseas markets. Many SSA governments have, over the past decade, made concerted efforts to attract FDI by liberalizing their investment laws, including easing restrictions on entry and on profit remittances and strengthening protection of intellectual property, as well as by offering generous fiscal incentives.[18] However, the flow of FDI to Africa continues to be minimal, a situation which reflects the weak growth performance of the region. Whether in search of markets or cost advantages, FDI is attracted by success.

Nevertheless, FDI can be attracted in some sectors, the most important of which is probably mining although in many cases it will require improving public infrastructure. More stable legislative and contractual arrangements have helped to reduce the risk in mining projects with long gestation periods and could encourage TNCs to establish more processing facilities in such areas as petroleum.[19]

The availability of unskilled labour and a strong raw material base should also prove attractive to international agribusiness, particularly where technological requirements are not too demanding. Moreover, the strong backward and forward linkages associated with these activities make such investments particularly attractive. As noted in chapter IV, a number of countries in Latin America and South-East Asia have struck a balance between private and public sector investment, and between domestic and foreign producers, that has allowed a rapid expansion of non-traditional agricultural exports. Some countries in SSA have also been successful in this regard. Tourism is another sector which could be quickly and effectively developed in cooperation with TNCs, particularly through the use of management contracts and licensing arrangements.

To the extent that countries are ready to begin exporting manufactures, closer links with international firms will be desirable. However, securing the right kind of FDI and making a judicious choice of instruments for technology transfer and marketing become even more important at this stage in terms of indigenous capacity-building and long-term productivity growth. While there are obvious advantages which a foreign affiliate can bring to a production location, TNCs are generally attracted by a strong growth performance rather than leading the process of growth, and too much should not be expected from export-oriented manufacturing FDI in most countries in SSA.[20] Moreover, the strategy pursued by some African countries – immediately following independence – of reliance on FDI, external advisers, expatriate technical personnel and turnkey operations, with the aim of leapfrogging the initial stages of industrialization, prevented the development of important domestic production linkages.[21] In any case, FDI in manufacturing, where international competition is more intense, is perhaps even more cautious than in other sectors. In this respect, closer regional links could be particularly useful in bringing FDI to some countries neighbouring South Africa.

The policy challenge for countries with considerable foreign investment in mining and agriculture is how to capture an important part of the rents from the exploitation of natural resources, and also to avoid the "Dutch disease" problem that may be associated with an expansion of exports of the latter, as well as to invest efficiently in non-traditional export sectors the financial resources thus generated (see chapter IV). Establishing linkages with local suppliers and securing technology spillovers become more important objectives for activities in the secondary sector. It is essential to remember that TNCs are driven by their own narrow objectives which are different from, and potentially at odds with, the host countries' objectives of building up local capacities and a strong domestic supply base. Moreover, even a successful policy of attracting FDI must be vigilant as regards TNCs' rapidly exiting from cost-sensitive sectors when domestic wages start rising or lower-cost locations begin to emerge.[22]

2. *Agricultural policies*

A central objective of agricultural development policy is to promote private farm investment and sustainable productivity growth amongst smallholders. This objective is founded on two premises. First, strategies which focus exclusively on promoting capitalist agribusinesses have often not had the desired economic or social results. Second, the key problem facing smallholders is undercapitalization. Without assets they cannot generate a surplus for investment, and are forced to adopt risk-minimizing behaviour which tends to reduce output and productivity; furthermore, agricultural intensification is likely to promote land degradation.

However, throwing more money at the problem is not likely to do much good if priorities are not carefully selected. Past agricultural development projects channelled resources into areas with limited productivity potentials, and often with multiple objectives. Agricultural growth may be better promoted by focusing policies and targeting resources on areas with the highest productive potential and high population density. Also, their effectiveness should not be undermined, as it was in the past, by gender biases in the provision of agricultural services.

The analysis in the previous chapters strongly suggests that an exclusive emphasis on either export crops or food crops needs to be avoided. The desirable mix has been elusive, in part because policies have been overburdened with the goals of poverty reduction and self-reliance. Certainly, in most countries in SSA agricultural exports need to expand, particularly in those without mineral resources and immediate opportunities for manufactured exports. However, it should be borne in mind that higher productivity in food production and lower prices can make a significant contribution to export expansion by reducing wage costs. This can be particularly important where much of domestic food consumption is in commodities which are non-tradable outside the region.

The profitability of agricultural production and investment depends on a host of factors, including input and output prices, productivity and transaction costs. Concentrating on producer prices alone does not always bring about higher production and investment when other factors influencing costs are unfavourable. Leaving these to markets does not always generate the right incentives for farmers. Moreover, even where incentives are generated, supply response does not always follow if there are legal, financial and technical constraints on the capacity to invest and produce.

Experience elsewhere, particularly among the most successful NIEs in East and South-East Asia, suggests that it is possible to achieve high rates of agricultural growth even when farmers are taxed, but only if the overall configuration of factors that determine profitability stimulates investment and production. One important factor is the large amount of public investment needed to raise productivity and reduce transaction costs. Again, the way in which agriculture is taxed impinges directly on incentives. Elsewhere, for example, land taxes had the effect of promoting, rather than discouraging, productivity growth, and the relevance of such schemes to Africa can be explored. But what may be more important immediately is the reform of local government to ensure that local taxes are collected fairly and efficiently and used for local development purposes. Progress in this area can be rapid.[23]

The low productivity of African agriculture, when combined with declining and volatile world prices, creates a vicious circle. When world prices decline, private investment in agriculture is increasingly unattractive; but without investment, productivity will remain low. This situation arises partly because governments in the past may not have made the best use of gaining from commodity booms, devoting revenues to other purposes rather than supporting agricultural productivity growth through investment. But today's problems cannot be solved by simply passing the world prices to producers. It is essential to increase public investment in agriculture and there may also be a case for treating certain crops at certain times as "infant industries" by implementing sector-specific supply-side policies. Such policies would seek to reduce costs through measures designed to improve the technological capacities of farmers, achieve economies of scale and specialization, and encourage market development. In this regard, much experience has been acquired in Africa for certain export crops, such as tea in Kenya and cotton in francophone West Africa, and also for food crops, such as maize in Zimbabwe.

The disappointing past performance of many marketing boards and *caisses de stabilisation* (which often date from colonial times) does not imply that the original reasons for their establishment no longer hold; these reasons included the desire to improve marketing channels, guarantee minimum prices, and (in the case of the latter) stabilize prices and provide other services connected to agricultural development. They have failed for other reasons, notably on account of inefficiencies in their operation and of political interference. The recent wave of privatization and liberalization in Africa has reduced the role of these boards and *caisses*, but has failed to solve the major problems confronting farmers. These entities were established to counter real weaknesses due to the lack of marketing arrangements for both inputs and products, the unavailability of credit and storage, and the absence of competition; and, despite their deficiencies, they did provide a measure of price stability for farmers, ensure quality control, serve as a focal point for forward sales, and negotiate international financing at attractive rates. In consequence the reduced role of these institutions in some African countries has left commodity trade in disarray and farmers much more exposed to volatility in world commodity markets.

These problems can be avoided by actions which include adaptation of official rules and regulations to ensure that modern techniques for commodity trade, financing and risk management are available to the private sector,[24] stimulating local banks to play a more active role in these areas, strengthening farmers' associations, better dissemination of information, promoting organized markets in certain cases, and the provision to both farmers and traders of risk-management services. The private sector and competitive markets can help in meeting many of these needs but the possible scope of their role is limited. Modern techniques to hedge against price instability are beyond the individual means of most African farmers and traders and, owing to their imperfections, domestic capital markets provide little opportunity for consumption smoothing over time. Moreover, competitive markets are lacking in many areas of African commodity trade, and the private sector is likely to be unwilling or unable to provide much of the other infrastructure required for such trade. Thus government action remains indispensable in areas such as market development (which is not an automatic process but requires public-sector support), financing and risk management, and the provision of other services and infrastructure; and under many of these headings an important role can be played by reformed and depoliticized marketing boards and *caisses*. Indeed, in present circumstances there is a strong case for institutional pluralism in which marketing boards and *caisses* are part of a landscape that also includes private organizations, parastatals and cooperatives.

Land reform is also a key policy issue in SSA. Customary land tenure arrangements can hamper the development of rural labour and capital markets and divert entrepreneurial energies towards gaining access to local resources rather than improving productivity. They are characterized by significant gender and generational biases which undermine incentives for key social groups. On the other hand, individual titling will not lead to increased private farm investment unless other constraints are also removed. Critical in this regard are the dissemination of locally adapted technologies for increasing productivity, and the provision of special credit facilities and institutions. Greater availability of, and higher remuneration from rural non-farm employment opportunities also play an important role because income from these activities increases the surplus available for investment in agriculture and can provide a buffer against risk.

3. Trade policies

Unquestionably, in the past many countries in SSA raised their levels of protection to excessive levels. The absence of competitive pressures eventually precluded higher productivity and improvements in managerial and technological capabilities, and prevented the graduation of infant industries to a higher level of maturity because it protected inefficiency and created windfall profits for those with privileged access to import licences.

In most countries quantitative restrictions on imports have been eliminated and replaced by tariffs, and tariff structures have already been drastically compressed and their scale reduced over the past decade or so. However, there have also been cases of policy reversal in this area, partly as a result of the impact of tariff reductions on budget revenues, and partly because economic costs exceeded gains.

However, although import-substitution policies have proved unsuccessful in much of SSA, rapid and comprehensive import liberalization is not the only, or the most desirable, alternative. A gradual approach is warranted, in part because little is known about the link between trade policies and productivity growth.[25] But perhaps more significantly, an extensive examination of trade liberalization experiences suggests that strong prior export expansion is critical for sustaining any moves towards greater openness to imports, and that it is wrong to see export expansion and import substitution as mutually exclusive strategies. The case for infant industry protection and industrial policies to promote learning and develop managerial and other capabilities in domestic firms is no less relevant in SSA today than it has been for all successful late developers over the past century.[26]

A trade regime designed to promote investment and exports should have a number of basic features. First, it should allow exporters to have easy and reliable access to inputs at world prices. Second, it should facilitate investment. Third, it should discourage luxury consumption. Finally, it should protect domestic producers against damaging competition. From this point of view, the trade policy reforms adopted in SSA are not always satisfactory.

While attainment of the above objectives requires selective liberalization and differentiated tariff structures, reform in Africa, as elsewhere in the developing world, has been governed by a desire to attain a relatively uniform tariff structure with low tariff rates in the belief that this minimizes distortions while generating budget revenues. However, this approach has often resulted in the taxation of exporters. Efforts to establish duty drawback schemes have not generally succeeded in according duty-free status to exporters for their imported inputs. An alternative would be to exempt all key inputs from import duties while raising the tariffs on others. This would be a rational option particularly in countries lacking domestic industries that provide inputs to other sectors. Furthermore, value-added taxes could be used, where necessary, to discriminate against uses of such inputs for domestic consumption as well as to make up for revenue losses. Such a scheme could also be effectively applied to capital goods imports, since most countries lack domestic capital goods industries. However, import charges on capital goods continue to be comparatively high in many countries in Africa, and this appears to be a reason for the lower than expected investment response to import liberalization.

Regarding the evidence on tariff structures across countries and product categories in the most recent year available, several features are noteworthy.[27] Imports of machinery and equipment are in general subject to lower charges than other manufactures. However, consumption goods are to be found in both groups. With regard to the structure of charges within the group of machinery and equipment imports, the evidence suggests that the North African countries (with the exception of Tunisia) and South Africa, i.e. the relatively more industrialized African countries, have significantly lower charges on machinery than on transportation equipment. This feature is most striking when compared with the structure of charges in Côte d'Ivoire and, to a lesser extent, Kenya, Madagascar and Malawi (a country where this feature was much more pronounced at the end of the 1980s), which is relatively favourable to imports of transportation equipment compared with imports of machinery. To the extent that this tariff structure is a reflection of a comparatively favourable treatment of imports of luxury consumer goods (such as expensive passenger cars) relative to those of production facilities which are required in industry, it would appear to be particularly inappropriate.[28]

An accurate description of the trade regimes in Africa is complicated by various exemptions such as those for public purchases and in the use of donor aid. In some countries, export retention schemes have allowed exporters to use their proceeds to import not only duty-free intermediate goods but also consumer goods. These, together with large-scale smuggling and reduction in tariffs on consumer goods, have created serious difficulties for local firms in competing with imports. One recent study of Zambia has noted that basic consumer goods industries such as textiles and leather and wood and furniture products have been hit hardest by trade liberalization; under normal circumstances, those industries are likely to form the basis of a more export-oriented industrial base.[29]

Phased and differentiated import liberalization needs to be complemented by an efficient system of export promotion through fiscal, credit and other incentives. State assistance with market information and export penetration strategies, trade banks, insurance mechanisms for exporters, and the rationale for export taxes and direct subsidies all need to be examined carefully in this context. Export-processing zones, widely used in East Asia, might provide a context in which to experiment with many of these policy initiatives.[30] However, in all cases, support must be time-bound and linked to technological and skill development, productivity growth, the emergence of complementary supply industries and scale considerations, as well as to explicit export targets. More sophisticated technology and training policies will be needed, particularly once initial resource advantages have been fully exploited, in order to address the small base of managerial and technological capabilities in SSA, and to facilitate the switch to new and more dynamic areas of competitiveness.

C. Constraints of the new trading regime

It is increasingly argued that the adoption by developing countries of selective strategies may no longer be possible because the intensification of multilateral trade disciplines and the extension of their scope as a result of the Uruguay Round prohibit the use of some key policy tools to promote exports and protect infant industries. It is pointed out in particular that the WTO regime has reduced the scope for using measures such as trade-related subsidies and imposing conditions on FDI, and for practices such as lax enforcement of intellectual property rights; all these were integral parts of the East Asian development strategy.

Certainly, the more generalized protection which provided a backdrop for targeted policies in East Asia is no longer possible. It may also be true that the new trading regime will reduce the scope for policy manoeuvre for those developing countries that wish to pursue a strategy involving vigorous infant industry protection and export subsidies. Tighter constraints may in particular arise from the Agreement on Trade-Related Investment Measures (TRIMs) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). However, although the Uruguay Round has clearly imposed greater discipline, it has also improved security of market access for exports from developing countries. This represents an improvement on the conditions faced by many East Asian NIEs.[31]

With respect to infant industry protection, to the extent that tariff rates remain unbound or bound at ceilings above currently applied rates, they can be increased to protect infant industries. The Agreement on Subsidies and Countervailing Measures perhaps contains the most meaningful provisions on differential and more favourable treatment for poorer countries, some of which are not subject to any precise time limits. For example, the least developed countries and 20 other countries with GDP per capita of less than $1,000 are exempt from the prohibition on export subsidies so long as they remain in these categories and certain thresholds, based on shares of world markets for products benefiting from export subsidies, are not reached. These exemptions cover most countries in SSA.

Thus, while the WTO multilateral agreements have reduced the scope of some policy options, selective strategies can still be applied. The main constraint would seem to be the necessity for such strategies (particularly those which involve negotiations with developed countries or TNCs) to respect the specific time frame laid down in the different agreements. In this context, both formal and informal government-business links, which played such an important role in East Asia's success, are likely to be of growing importance. As discussed in the next section, measures to strengthen government-industry partnerships deserve closer attention. Also, technical assistance should place more emphasis on informing countries in SSA of the full extent of these possibilities, and incorporating them into larger development strategies.

Furthermore, it should be noted that there are many policy measures that remain outside the scope of WTO obligations. Many of the policies identified earlier with a dynamic investment climate can still be so designed as to be permissible under the new trading rules. These include general fiscal concessions to corporations, the provision of subsidized R&D, measures to promote corporate savings and investment, and differential taxes (VAT and excise tax) on domestic consumption and production. Since these policies can have considerable influence on promoting technological upgrading and international competitiveness, their importance cannot be emphasized too strongly.

Arguably, slow growth in the North and the persistence there of high tariffs and subsidies in some agricultural and food-based products, together with the erosion of preference margins for African countries, are greater obstacles to raising export levels and entering some non-traditional lines of export.[32] Action is needed by OECD countries to improve access for African exporters of both traditional agricultural products and processed raw materials; this would also help to improve market knowledge and marketing skills that will be needed for such products as textiles.

D. The institutional hiatus and reform

Social divisions, particularly those linked to ethnic differences, have often been cited as an important reason for low investment and slow growth in SSA because they have given rise to excessive rent-seeking behaviour, political instability and poor public services. Certainly, a number of countries in SSA suffer from civil strife or external conflicts, and some still lack some of the basic social and political conditions for initiating sustained growth. However, social conflict and division are not an intrinsically African problem, but rather are linked to the debilitating effects of poverty, growing inequality and heightened factional competition in situations of severe economic decline.[33] As discussed at length in last year's *TDR*, political and social instability tend to be greater where social stratification and inequalities are associated with widespread poverty. This can threaten to generate a vicious circle whereby political instability and social unrest give rise to greater uncertainty, lower investment and slower growth, which in turn lead to greater poverty and further instability.[34]

Global comparisons show that, contrary to a widespread perception, even though SSA has the largest number of politicized communal groups, it experiences less economic and political discrimination than most other regions, thanks in large part to efforts by many post-independence States to build multi-ethnic political coalitions.[35] These efforts, however, have not been without large economic costs. Redistributive measures based on the politics of inclusion have in many cases reduced microeconomic efficiency and dissipated investment funds, and at worst have generated a system of spoils for the wealthy and well-connected. But it does not follow that ethnic multiplicity is necessarily an impediment to growth. A number of successful East Asian NIEs, for example, have faced serious ethnic tensions in the course of their development, which were once seen as obstacles to growth. The experience of Malaysia illustrates how it is possible to manage ethnic divisions whilst nevertheless accelerating growth.

There is a widespread belief that countries in SSA still lack much of the basic institutional infrastructure to manage complex economic policies. However, healthy scepticism about excessive claims regarding what policymakers can achieve needs to be distinguished from simple prejudice against public action in general, and myths about African managerial capacities in particular.[36] There is little doubt that the economic stagnation of the 1980s, the accompanying fiscal crisis of the State and the ideological shift away from public activities have all seriously weakened governments in SSA, and in particular have eroded state managerial capacities, thus making it difficult to pursue certain types of policy. But the warning of an ill-fated marriage between complex policies and unsophisticated States in SSA is a false one. On the one hand, it ignores those successful experiences which evolved out of a period of deep economic and political crisis, and often on a weak bureaucratic base.[37] On the other hand, whilst the policy rhetoric of the past decade has denied the existence of the requisite state capacity in SSA to pursue demanding national development strategies, the alternative has called for a daunting combination of closer links with the world economy through trade and financial liberalization, stabilizing the economy, downsizing state agencies and privatizing public assets, financial deepening, fiscal discipline, good governance, democratization and the creation of an "enabling environment" for the private sector. Often, the recommendation has been to pursue all reforms simultaneously and at a fast pace.

A take-off to growth requires that governments pursue general policies aimed at raising the level of investment, together with a more limited number of selective interventions in certain key import-substitution and export-oriented industries which contribute to the accumulation of capabilities and know-how. In SSA, as earlier in the second-tier NIEs, these policies will need to target resource-based activities and some simpler labour-intensive manufactures. There is little reason, *a priori*, to deny that engagement in a limited number of policies during the initial stages of export promotion in SSA will allow governments to learn how to design sectoral policies, to find out what incentives are effective and for what purpose, and to learn about the loopholes that a policy that looks good on paper may have in practice. More sophisticated policies needed for promoting the next generation of industries can build on these experiences.

After a decade or more of reform in SSA premised on the assumption that government failures are far worse than market failures, the need for a different emphasis is now increasingly recognized, stressing the complementarity between the State and the market and promotion of the developmental State. The latter term was coined to describe the set of government institutions which aim to promote entrepreneurship, profits and capital accumulation without compromising a wider set of development objectives beyond those narrowly prescribed by business interests. Certainly, in SSA, this requires capacity building in the public and private sectors; also, it is necessary to avoid the capture of state agencies by special interest groups. However, a developmental State will also seek to fill gaps and repair failures across a range of institutions in SSA.

This is a daunting task, and any comprehensive agenda of institutional reform can emerge only at the country level, where ownership of the reforms can be ensured and the chances of success thereby enhanced.[38] However, in the light of the policy suggestions discussed above, two closely related sets of reforms can now be considered by many countries in SSA: the creation of a competent and independent state bureaucracy, and the building of closer ties between such a bureaucracy and the emerging private sector.

The need to restore an effective policymaking machinery depends in part on recovering the bureaucratic momentum which was present in many countries in SSA in the early post-independence years but was subsequently lost. According to one recent study:

> In many countries in sub-Saharan Africa, the civil service has sharply deteriorated in almost every way since the 1970s ... Beginning in the 1980s, a succession of fiscal stabilization programs has reduced government employment in Africa to the lowest level of any developing region. Thus although additional downsizing may be necessary, most do not need to shrink the workforce but to overhaul the entire civil service system.[39]

This overhaul will have various dimensions. First of all, the core of the bureaucracy needs to be strongly insulated from political pressures. Total insulation is neither possible nor desirable (as it could make the bureaucracy unresponsive to an important source of change), but if the bureaucracy is unduly subject to the pressures of day-to-day politics, it will be less able to devise and modify policies in the light of its own experience, and is more likely to become overburdened with multiple objectives, many of which will be short-term in nature.

A second feature involves the degree of personnel continuity in the civil service. Policymaking cannot be embodied only in organizational structure and rules. Much will depend on the accumulated knowledge of civil servants, and it is necessary to find ways to maximize the application of such knowledge. A career structure is needed that rewards ability in a manner competitive with the private sector. Remuneration may not need to be equivalent to the private sector, but there must be a combination of salaries, job satisfaction, perquisites, security and prestige that ensures that public sector managers match those in the private sector.[40]

Thirdly, it is absolutely indispensable that the core bureaucrats have substantial learning capabilities if policies are to be improved over time.[41]

Reforms of the civil service need not advance on all fronts simultaneously. Indeed, in the light of their recent history an excessively ambitious reform package is unlikely to succeed in SSA. In East Asia elements of the bureaucratic structure retained old-fashioned practices even as key ministries were undergoing significant reform. Thus, whilst confronting vested interests, disrupting established repertoires and changing prevailing norms are always difficult, the emergence of a few centres of excellence can make a considerable difference.

Given a capable, internally coherent state bureaucracy, the next challenge is to connect bureaucrats and entrepreneurs, a challenge that should be pursued on at least two different levels. On the most general level, governments need to diffuse a sense of shared commitment to a collective project of national development. The essential complement to this broad ideological commitment is a more concrete set of ties that enable specific agencies and enterprises to construct joint projects at the sectoral level.[42]

Cooperating with the private sector does not mean taking it for granted that local business groups will behave like Schumpeterian entrepreneurs. Instead, an approach combining engagement and support with scepticism and pressure is needed, in order to transform the character of private corporate elites. Specifically, policies of rent creation and discipline are called for so as to better manage profits and investment. However, the danger must be avoided of rents becoming more permanent, which in the long run would weaken entrepreneurship and hamper productivity growth, a feature which has been all too common in SSA. There are two possible solutions. The first is to establish policy mechanisms and institutions to ensure that creating the initial rents is essentially a "priming" exercise and that the support and protection are eventually withdrawn as the industry matures. The second is to impose performance criteria, in particular by using the discipline of the international market through, for example, export targets – a process sometimes described as establishing “contests”.[43] In this way, infant industries promoted through state-created rents are expected to eventually prove themselves by the standards of the international market, to have their import protection gradually removed and/or to be pushed by the government to start exporting at a relatively earlier stage of development.

Behind any successful management of rents lies a much deeper process of building a robust network of government and business institutions consistent with strategic development goals. This will involve creating a series of formal and informal links with the entrepreneurial classes to assist in the design, implementation and coordination of policy measures. Such links can be established through sector-specific agencies within existing bureaucracies or the creation of specialized institutions. Deliberation councils are perhaps the archetypal forum for private entrepreneurs to filter policy proposals. But other organizational tools can serve a similar purpose, including task forces led and managed by the private sector, and major conferences bringing together business leaders, academics and government technocrats.[44] Such arrangements cannot be artificially imposed on countries in SSA and should, in any case, begin modestly. However, there are already some successful examples, such as in Ghana and Mauritius, which suggest that efforts in this direction can provide a fruitful avenue for building trust between the State and private actors.[45] ■

Notes

1 For further discussion see *TDR 1997*, Part Two, chapter V.

2 For further discussion of such measures see *TDR 1997*, Part Two, chapter VI.

3 For a useful discussion of what is known about those limits, see J. Stiglitz, “More instruments and broader goals: Moving toward the post-Washington Consensus”, The 1998 WIDER Annual Lecture, Helsinki, January 1998.

4 These issues are discussed at greater length in *TDR 1991*, Part Two, chapter III.

5 For a discussion of these issues, see M. Nissanke, “Financing enterprise development and export diversification in sub-Saharan Africa” (Geneva: UNCTAD, 1998), mimeo; and N. Lipumba, “Liberalisation of foreign exchange and financial markets: What have we learned?” (Helsinki: WIDER, 1998), mimeo. For evidence on financial market liberalization in Uganda see L. A. Kasekende and M. Atingi-Ego, “Impact of liberalisation on key markets in sub-Saharan Africa: The case of Uganda” (Kampala: Bank of Uganda, 1998), mimeo.

6 See N. S. Ndung’u and R. W. Ngugi, “Impact of liberalisation on key markets in sub-Saharan Africa: The Kenyan case” (University of Nairobi, 1998), mimeo.

7 See J. Stiglitz and M. Uy, “Financial markets, public policy, and the East Asian miracle”, *World Bank Research Observer*, Vol. 11, August 1996.

8 See T. Hellman et al., “Financial restraint: Toward a new paradigm”, in M. Aoki et al. (eds.), *The Role of Government in East Asian Economic Development* (Oxford: Clarendon Press, 1997); and M. Nissanke and E. Aryeetey, “Comparative institutional analysis: Sub-Saharan Africa and East Asia”, paper prepared for the African Economic Research Consortium (AERC) Conference on Comparative African and East Asian Development Experience, Johannesburg, November 1997 (mimeo).

9 See N. Lipumba, “Structural adjustment policies and economic performance of African countries”, in UNCTAD, *International Monetary and Financial Issues for the 1990s,* Vol. V (United Nations publication, Sales No. E.95.II.D.3), New York and Geneva, 1995.

10 For the evolution of exchange rate arrangements in SSA see IMF, *Exchange Rate Arrangements and Exchange Restrictions* (Washington, D.C.: IMF), various issues. See also Lipumba, *op. cit.*

11 See L. A. Kasekende, D. Kitabire and M. Martin, “Capital inflows and macroeconomic policy in sub-Saharan Africa”, in UNCTAD, *International Monetary and Financial Issues for the 1990s*, Vol. VIII (United Nations publication, Sales No. E.97.II.D.5), New York and Geneva, 1997.

12 *Ibid.*, p. 71. For a discussion of these issues see, for example, P. K. Asea and C. M. Reinhart, “Le prix de l’argent: How (not) to deal with capital inflows”,

Journal of African Economies, AERC Supplement, Vol. 5, 1996, pp. 231-271.

13 P. Collier and J. Gunning, "Explaining African economic performance" (Oxford University: Centre for the Study of African Economies, 1997), mimeo, p. 3.

14 See Lipumba, *op. cit*.

15 H. Körner, "The 'brain drain' from developing countries: An enduring problem", *Intereconomics*, Vol. 33, No. 1, 1998, p. 27.

16 R. Lucas, "Why doesn't capital flow from rich to poor countries", *American Economic Review*, Vol. 80, 1990, pp. 92-96.

17 P. Meller, "The role of international financial institutions: A Latin American perspective", in G. Helleiner (ed.), *The International Monetary and Financial System* (London: Macmillan, 1996), p. 268.

18 See UNCTAD, *Foreign Direct Investment in Africa* (United Nations publication, Sales No. E.95.II.A.6), New York and Geneva, 1995.

19 See M. Odle, "Foreign investment opportunities in Africa", paper prepared for the International Conference on Reviving Private Investment in Africa: Partnerships for Growth and Development, Accra, Ghana, June 1996.

20 See R. Rasiah, "The export manufacturing experience of Indonesia, Malaysia and Thailand: Lessons for Africa", Discussion Paper No. 137 (Geneva, 1998).

21 L.K. Mytelka and T. Tesfachew, "The role of policy in promoting enterprise learning during early industrialization: Lessons for African countries", paper presented at the UNCTAD Workshop on Economic Development and Regional Dynamics in Africa: Lessons from the East Asian Experience, Mauritius, 4-5 December 1997.

22 On the role of FDI in East Asia and the policy lessons see *TDR 1996*.

23 For a clear argument in support of local government reform, see M. Mamdani, *Citizen and Subject: Contemporary Africa and the Legacy of Late Colonialism* (Princeton, N.J.: Princeton University Press, 1996).

24 See UNCTAD, "National institution building to facilitate access to risk management markets for small producers and traders" (TD/B/CN.1/GE.1/2), Geneva, 1 August 1994.

25 Stiglitz, *op. cit*., p. 16.

26 See *TDR 1994*, Part Three, chapter I; G. Helleiner, *Trade Policy and Industrialization in Turbulent Times* (London: Routledge, 1994); T. Biggs and P. Srivastava, "Structural aspects of manufacturing in sub-Saharan Africa: Findings from a seven country enterprise survey", World Bank Discussion Paper No. 348 (Washington, D.C.: World Bank, 1996); and S. Lall, "Trade policies for development: A policy prescription for Africa", *Development Policy Review*, Vol. 11, 1993.

27 See UNCTAD, *Directory of Import Regimes* (United Nations publication, Sales No. E.94.II.D.6), New York, 1994; and UNCTAD, TRAINS [Trade Analysis and Information System], CD-Rom (Geneva: UNCTAD, 1998).

28 It is interesting to note in this context that, according to the Uganda Investment Authority, cars currently account for 16 per cent of Uganda's imports compared with only 8 per cent for machinery (*Le Monde*, 3 March 1998).

29 See H. Tokeshi, "Trade reform in Zambia", Informal Discussion Paper 1, World Bank Macroeconomic Unit for Southern Africa (Washington, D.C.: World Bank, 1997).

30 For a useful discussion see P. Harrold et al., "Practical lessons for Africa from East Asia in industrial and trade policies", World Bank Discussion Paper No. 310 (Washington, D.C.: World Bank, 1996).

31 Japan faced discriminatory quantitative restrictions for many years after joining GATT, as many countries invoked the non-application clause against it. Other East Asian countries faced a series of non-tariff barriers, including voluntary export restraints in textiles and clothing and other sectors, as well as the threat of countervailing duties applied without the "injury test" by the United States (until the acceptance of the Tokyo Round Code).

32 According to the UNDP *Human Development Report 1997*, industrial countries spent $182 billion on agricultural subsidies, equivalent to 65 per cent of African GDP. See also UNCTAD, *International Trade Liberalization Measures and Implications for Export Diversification in Africa*, forthcoming, December 1998.

33 See UNCTAD, *The Least Developed Countries, 1997 Report* (United Nations publication, Sales No. E.97.II.D.6), New York and Geneva, 1997, Part III.

34 See *TDR 1997*, Part Two, chapter V.

35 See T. R. Gurr, *Minorities at Risk: A Global View of Ethnopolitical Conflicts* (Washington, D.C.: United States Institute of Peace Press, 1993).

36 On myths about African States, see T. Mkandawire, "Thinking the impossible? Developmental States in Africa" (Geneva: UNCTAD, 1998), mimeo; and for a general review of the social science literature on the African State, see C. Gore, "Social exclusion and Africa south of the Sahara: A review of the literature", International Institute for Labour Studies Discussion Paper 62, Geneva, 1994, chapter 5. A useful antidote to excessive pessimism about African development management is D. K. Leonard, *African Successes: Four Public Managers of Kenyan Rural Development* (Berkeley and London: University of California Press, 1991).

37 East Asian bureaucracies were often accused, by outside observers, of harbouring conservative practices and of being unable to organize their economic development. It is instructive to recall that until the 1960s, for example, the Republic of Korea sent its bureaucrats to Pakistan for training in economic policymaking.

38 See I. Elbadawi and G. Helleiner, "African development in the context of the new world trade and financial regimes: The role of the WTO and its rela-

tionship to the World Bank and the IMF", paper for the AERC project on Africa and the New World Trading System, Nairobi, April 1998.

39 S. Schiaro-Campo, "Reforming the civil service", *Finance and Development*, Vol. 33, No. 3, 1996, p.10.

40 East Asian experience points to a diversity of options aimed at producing parity. See J. Campos and H. Root, *The Key to the Asian Miracle: Making Shared Growth Credible* (Washington, D.C.: Brookings Institution, 1996).

41 The Republic of Korea attempted a much wider reform of the civil service and relied more on dedicated career bureaucrats, whereas Taiwan Province of China was more willing to identify special career tracks and recruit external people in mid-career using the Taiwan National University and successful completion of graduate training abroad as selection tools. Singapore is different again: potential recruits are identified in secondary schools and given government scholarships for higher education in return for a commitment to enter the civil service; see P. Evans, "Transferable lessons? Re-examining the institutional prerequisites of East Asian economic policies", *Journal of Development Studies*, Vol. 34, No. 6, August 1998.

42 It is worth noting that in East Asia these connections did not spring into place fully developed. Indeed, according to one recent assessment, "the evolution of government-business ties in East Asia has been even more convoluted and counter-intuitive than the evolution of the bureaucracy itself"; see Evans, *op. cit.*, p. 74.

43 See World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).

44 See Campos and Root, *op. cit.*

45 Harrold et al., *op. cit*.

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