The False Economics of Preconditions
Policymaking in the African Context

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1. TALES OF SUCCESS AND CONFUSION

It is a strange moment in history to be an African economist or policymaker. On the one hand, one is comforted by the enthusiastic narrative of success and hope that is sweeping political circles and chancelleries across the world, corporate board meetings, and fancy conference venues like this one. It is almost fashionable to say nice things about Africa these days. On the other hand, one still reads newspaper headlines and travels the continent to see the huge amount of unjustifiable suffering of large cohorts of people—mainly children and women—whose stories of suffering and despair cannot be told in words.

Yes, many odd things are indeed happening across the continent beyond the headlines-grapping civil wars in South Sudan and the Central African Republic, the disappointment over the democratization process in Libya, Tunisia and Egypt, or the uncertainties over whether life will ever be better for citizens in countries...
Senegal, Ghana or Kenya, that have managed to survive presidential elections. Some countries are defying mainstream economic theory and growing quite rapidly. In fact, 8 of the of the world’s 15 fastest-growing economies in 2013 are in Africa. Few people, even among those who celebrate Africa’s economic turnaround, have noticed that the continent now has a high-income country. Yes, with gross domestic product (GDP) per capita, PPP, of $33,000 in 2013 (constant 2011 international $), Equatorial Guinea has propelled itself in the very select club of high-income countries where major decisions about the world’s future are supposed to be discussed. This is no small achievement: from the end of World War II to the Great Recession of 2008, only 31 economies have been able to reduce the income gap with that of the United States. And even among that group, only about a dozen non-Western countries have managed to successfully reduce that gap. So Equatorial Guinea, of all places, has beaten the odds. Or has it?

Its spectacular economic growth is due to oil. The country’s population is only about 700,000. Yet, there is still something terribly irritating about that tale of economic turnaround: poverty levels are still high (77 percent according to the latest figures available) and the authorities have not yet managed to even vaccinate all the 150,000 children in the country… That triumph is reminiscent of the story of a George Herbert Wells’s novel The War of the Worlds in which the Martian characters are extremely smart and able to do almost anything, except to invent the wheel. Success and confusion are not unique to Equatorial Guinea. I visited Kigali, Rwanda, not too long ago and had the chance to meet with President Paul Kagame. He looked me in the eyes with his deep, haunting gaze, and asked why his country, which is consistently rated among the top-performers on the Doing Business Indicators and other popular international rankings, still has not been able to create employment. After that exchange I better understood why the college-graduate taxi driver who chauffeured me around the spectacular, clean capital city for several days kept telling me how much he wanted to leave his country to proudly take a janitor job in Brussels, despite saying that he was happiest in his beautiful home country.

Tanzania President Jakaya Kikwete has also complained about the annoying mystery of his country’s remarkable growth performance (7 percent on average for the past 15 years), which has sometimes been accompanied by increased levels of poverty. At a recent African Union summit, he shared some of the criticisms that he often hears from his fellow citizens whenever he brings up his country’s stellar macroeconomic performance. He told the old Tanzanian joke about how people who feel good about themselves often convince themselves
that life is good for everyone around them. “When you have had enough food and are full you tend to think that everyone is in the same situation,” the President said with a sarcastic smile… This is obviously not a laughing matter and people in Africa and elsewhere are increasingly impatient about the abstract benefits of macroeconomic performance that is being celebrated in political speeches and the public discourse. They are also skeptical if not impervious to the technical explanations of why high rates of economic growth may not translate into good jobs and improved economic and social well-being (high growth but from a very low-base, high population growth, GDP increases often due to boom in industries such as security of healthcare, benefits of growth being used to finance investment rather than consumption, etc.). And not surprisingly, skepticism in fast-growing countries where the wealth is not shared is matched by anger and deep social tensions in slow-growing countries. As a result, Africa’s economic transition is fraught with economic insecurity and danger, and there is always the risk that the unprecedented opportunities for change be wasted or even squandered.

In this lecture, I shall argue that traditional approaches to the development problem—focusing the diagnostics on the many constraints and obstacles to growth—are misguided, and that the current dominant discourse in economic development, which still sets the linear, teleological path for developing countries, makes policymaking there difficult—if not impossible—and submits the outcomes to randomness and chance. I will suggest that African economies can achieve high and inclusive growth, provided that economists and policymakers reject the determinism of preconditions, and facilitate the development of industries in which each country has latent comparative advantage—and that the government uses its limited resources and implementation capacity strategically to create localized good business environment on industrial parks/zones. Selecting industries with competitive potential and targeting reforms that are least disruptive and yield the highest payoffs are the main ingredients of a winning strategy.

2. THE TYRANNY OF LITANIES

The burning questions on Africa’s development agenda are obvious: why the delay? Why have the economies of the continent—where GNI per capita is still only 13 percent than the world’s average—not done better? Is the much celebrated turnaround that justifies positive headlines or is the current optimism simply a politically-correct posture that feels good to everyone? Why aren’t the countries in the region, still far from the technological frontier, not taking
advantage of backwardness to grow even faster and in a way that ensure the broadest possible distribution of wealth? Why has Africa failed to create enough decent jobs for its young, laborious population—even in countries that are recording high growth rates? Is the continent unyielding to macroeconomic theory? And even more important, what is to be done to stimulate growth, generate social cohesion, and minimize the risks of disruptive and even traumatic political and social events such as those underway in the Central African Republic, South Sudan, or Egypt?

When asked these straightforward and rather fair questions, most so-called mainstream economists and development experts tend to offer self-serving answers that generally revolve around one idea: African policymakers haven’t been wise enough to listen carefully to their sound and precious advice. “The man who can’t dance thinks the band is no good,” says a Polish proverb…

The well-known and often heard list of main obstacles and binding constraints to Africa’s economic development seems to be never-ending: it usually starts with poor leadership and the high density of illiterate authoritarian rulers whose objective function is simply to starve and torture their citizens before killing them. They are presented in the literature as sadomasochistic, demoniac perverts, blood-thirsty characters out of horror movies. In fact, listening to many Africanist experts, you would never know that Africa is actually the continent that produced Nelson Mandela, and the likes of Kwame Nkrumah, Habib Bourguiba, or Félix Houphouet-Boigny—just to mention some of the dead.

I would be the first person to acknowledge the large stock of obscurantism and the potential for brutality that is so prevalent among African leaders. I know first-hand the devastation that bad political leadership can cause to any country, having spent time in jail in my own country for my opinions and writings. But I would not confuse their love of power, incompetence, ignorance or stupidity with some sort of genetic predisposition for malfeasance.

A second well-known constraint to economic development is the continent’s deficit of infrastructure—and its corollary the lack of funds. The legitimacy of the argument here is irrefutable: infrastructure can boost growth through direct and indirect channels. It increases total factor productivity (TFP) directly because infrastructure services enter production as an additional input and have a direct impact on the productivity of enterprises. It also raises TFP by reducing transaction and other costs thus allowing a more efficient use of
conventional productive inputs (a point made by Dethier, forthcoming). Anyone who has ever traveled almost anywhere in Africa knows that the continent badly needs infrastructure. Compared with other regions, Africa has a low stock of infrastructure, particularly in energy and transportation, and the potential for information and communication technologies has not been fully harnessed. Inadequate infrastructure raises the transaction costs of business in most African economies. Studies by the African Development Bank show that inadequate infrastructure has been estimated to shave off at least 2 percent of Africa’s annual growth, and that with adequate infrastructure African firms could achieve productivity gains of up to 40 percent.

But let not get the wrong message from this diagnostic: no country in human history started its process of economic development with good infrastructure—certainly not Great-Britain in the late 18th century, certainly not the United States in the early 19th century; and certainly not China in the late 20th century, where there was only a very small network of highways. Infrastructure development and maintenance is a matter of constant concern for policymakers, even in high-income countries. Yes, Africa’s infrastructure gap is a major bottleneck to economic growth and welfare. But it is a mistake to expect that the economic development process could only be launched successfully when that gap is filled—in fact, it may never be filled, even when the continent’s annual GDP per capita reaches $100,000.

While African countries exhibit the lowest levels of productivity of all low-income countries and are among the least competitive economies in the world, a more careful examination of the data tells a completely different story. Empirical studies show that firms in Sub-Saharan Africa are more productive, on average, than firms in East Asia, Eastern Europe and Central Asia, and Latin America, after one controls for the quality of the investment climate (Clarke 2012). Detailed analyses that explicitly controls for differences in infrastructure, regulation, access to credit, and other political and geographical differences, firms in Africa perform better, on average, than firms in other regions (Harrison et al. 2012).

The point here is that although labor productivity in Africa seems lower than in other regions, African firms actually perform quite well in many other ways. Even before controlling for the quality of the institutional environment, Harrison and colleagues (2012) show that the differences in sales growth between Africa and other regions is small and statistically insignificant. Another study by Fafchamps and Quinn (2012) confirms that median growth is similar in Ethiopia-Tanzania-Zambia and Vietnam-China. They also show that large firms tend to
innovate more than small firms, and that after controlling for this, firms in China appear to innovate less, not more, than firms of similar size in the three African countries. Bottom line: the myth of the lazy Ethiopian workers being surpassed by extraordinarily dynamic Vietnamese or Chinese workers is just that: a myth.

A third big obstacle that is recurrent in traditional economic analyses of Africa is the issue of low human capital and its corollary, the weak capacity for designing, implementing, and monitoring public policy. The numbers are indeed not terribly impressive. Even basic education, an area where there has been substantial progress, is still weak on quality and learning outcomes: 20 percent of 7th graders in Tanzania, one of the continent’s top-performing countries, cannot not read a paragraph in Kiswahili (Bold et al. 2011). Such survey results have led to conflicting economic analyses on both the unsatisfactory quality and small size of African labor force. This reminds me of the Woody Allen story of a woman who complains angrily that the food is bad in a restaurant. Her companion agrees wholeheartedly and also adds that the portions are so small!...

Before drawing definitive conclusions about the significance of Africa’s weak human capital, one should keep in mind that the situation varies considerably from a country to another and some countries in other regions of the world with equally low human development indicators have managed to successfully launch their economic development process. In 1980 the mean years of schooling (average number of years of education received by people ages 25 and older) in China was 3.7, comparable to Ghana’s 3.6. Still, the Chinese used their weak human capital to engineer what President Barack Obama called “an achievement unparalleled in human history”: three decades of economic growth at the breathtaking pace of 9.9 percent a year. Even today and despite massive public and private spending in education and remarkable progress, mean years of schooling in China is only 7.5, which is about the same as in Gabon or Libya, and lower than in Algeria. That is a preliminary, rough indication that low or high levels of human capital do not necessarily translate into major divergence in economic performance, at least not at relatively low levels of development.

Moreover, even countries that have devoted large amounts of government resources to high-quality education are not getting the returns from their investment. Well-trained African professionals tend to leave their country as soon as they obtain their degree. Most graduates from the Yaounde Ecole Polytechnique, which is the Cameroon’s National Advanced School of Engineering, are either in Europe or in North America, usually with European, Canadian, or
American passports. Yet these are supposed to be the crown jewel of a poor country that has a very large deficit of engineers. The worse part of the story is that their education has been publicly funded with Cameroon’s meager fiscal resources. Like all Cameroonian taxpayers, my poor 90-year old grandmother Mami Madé who still works in her farm a good 10 hours a day with a medieval-type hoe, is being asked to finance the high education of children of the most privileged social groups in Yaounde and other urban areas, so that they can graduate and migrate to become high-flying engineers in Montreal or professors of economics at Morehouse College or the University of Kansas… That is probably not the fairest possible way of designing economic development.

Yet there is still there is a booming industry around the notion of capacity building, when the main issue may actually be one of capacity retention or capacity attraction. After all, in a world where factors are mobile, Burundi or South Sudan could very well recruit on term contracts almost any type of expertise they need, and build their own domestic human capital in the process. That is what many Gulf countries have done successfully.

Some mainstream economists contend themselves with such issues of brain drain and the migrations of the select few by stressing the fact that many of them will eventually send remittances back home, which will help boost consumption or even some investment. Such expectations are quite valid. But the reasoning underlying them seems to miss the important positive externalities and all the intangibles that well-trained professionals bring to a poor economy just by being physically present. They create jobs, set behavioral standards, serve as role models, and help society grow and prosper in many invisible ways.

A fourth major constraint often highlighted in the economic development literature on Africa is access to finance. True, only 28 per 1,000 people in Sub-Saharan Africa have access to a bank loan, compared to 245 per 1,000 on average in the developing world and over 800 per 1,000 in high-income countries.

But so what?

These numbers do not shed any light on the causality between access to finance and the ignition of a process of high economic growth. None of the countries that moved from low- to middle and high-income status in the past fifty years started with good access to finance.
The last frequently debated issue that often grabs headlines is that of corruption—or poor governance in general, whatever that means. It deleterious effects on growth and development are undisputable but it remains a difficult concept to grasp confidently, assess, measure, and quantify rigorously. Problems of corruption and poor governance appear to correspond to the level of economic development. In other words, low-income countries are by definition places where (perceived) corruption is high, and their governance indicators improve with their economic performance. It is unrealistic to expect the Democratic Republic of Congo, a country of less than $200 income per capita, to build governance institutions that are perceived as effective as those of Norway where per capita income is $80,000.

Besides, bad governance in the form of public policy mistakes such as the poor selection, design, and management of development programs and projects may be even more costly to poor countries than deliberate corruption (“the forgotten 70 percent,” as I have often referred to it). This observation does not invalidate or underestimate the economic, social and moral costs of corruption. It simply points to the need for researchers to focus, with equal tenacity, on the fight against incompetence in policymaking.

I could go on with the litany of perceived constraints to African development, adding even more exotic topics like ethnic conflicts or violence, which are often exaggerated, even though Africa and the world have never been as peaceful as they are today. You would not know this by reading media reports and technical memoranda from experts but recent work by Pinker (2011) shows convincingly that the world of the past was much worse. Wars no longer take place between developed countries, and even in the developing world, wars kill a much smaller number of the people they did a few decades ago. Pinker also offers convincing evidence that rape, battering, hate crimes, deadly riots, child abuse, cruelty to animals are all substantially down.” While Africa has experienced relatively high levels of violent conflict in the past 50 years with high human and economic costs, the main explanation is that the continent is poorer, and has a high dependence on natural resources and aid.

I am sometimes surprised that the experts have not added to that tyrannical litany of apparently intractable problems the meanness of the African mosquitoes, the dark mystery of the infectious Congolese music that has swept the entire continent, or the inappropriate color of the sky…
My point is the following: each one of these constraint seems quite valid until you look at it carefully and you realize that even in situations where it indeed reflects a serious problem, it should not prevent a low-income economy to engage into the process of dynamic growth. The entire history of economic development is precisely the story of overcoming these constraints and beating the odds. Unfortunately, many economists and policymakers are still offering policy prescriptions that defy economic history and economic analysis and turn out to be reliance on pure chance.

3. THE PAINFUL ECONOMICS OF CHANCE

A few years ago, a tense and interesting exchange took place at a Geneva donors’ conference devoted to Burkina Faso. The country’s Minister for Economic Development Bissiri Sirima was being challenged by a senior official of an international organization who publicly chastised his government for not making enough progress on structural reforms. Burkina Faso was being compared to “an airplane that had been sitting on the tarmac for years while everybody was waiting for a takeoff that never occurred.” The minister did not like being put on the spot. He reacted irritably by telling the donor representatives in the room that they were treating his country childishy. He told the audience that before the meeting, he had counted the total number of recommended reforms imposed upon his government as conditionality. For all sectors of government intervention, they totaled more than 450 for that single year. He had the list of all these policy prescriptions, from the measures needed to ensure macroeconomic stabilization to reforms required to boost competition in telecommunications or protect the environment. He concluded: “In order to satisfy you guys, the government of Burkina Faso must implement 1.5 conditionality per day for an entire year!...” His unexpected statement brought some humility and commonsense to the discussion that followed.

Yes, development economics has not always been a trustworthy source for those policymakers who need a concrete blueprint for action. Decades of paradigm shifts, from grandiose project financing (interventionist policies) in the 1960s and 1970s, to structural adjustment (laissez-faire) in the 1980s and 1990s, have led to a lot of intellectual confusion and randomness in economic policy.

When pressed to be specific about what exactly must be done in Africa today, most so-called mainstream economists and experts recite the usual mantra: improve governance and improve the business environment through macroeconomic stability (understood as restrictive fiscal and monetary policies)
and structural reforms aiming liberalizing all sectors of the economy, encouraging competition, and making the labor market flexible. Typical policy recommendations are indeed laundry lists of often difficult to implement reforms aimed at eliminating distortions, some of which have been accumulated for very long periods of time and can only be dismantled at heavy social and political costs.

Minister Sirima was right: the proposed agenda for economic reforms in Africa is usually too daunting and unrealistic: some binding constraints are costly to remove (infrastructure) as a precondition for growth. And since policy decisions often depend on available funding, the targeting and location of infrastructure is often random or done on a purely political basis—with the most influential political leaders deciding where public investment should go: airports are built in the President’s village, roads are built to please political constituencies, not to open up the areas with large economic potential. Strategic sectoral selectivity, which could help avoid these white elephants, is dismissed as distortive policy (“picking winners”), and policymakers are advised instead to give complete faith to the magic of cost-benefit analyses and internal rates of return.

True, these tools could be quite useful in assessing the validity of competing investment alternatives and can help make better public policy decisions. They generate quantitative data to back up qualitative arguments. But they are microeconomic in their very essence, and provide insufficient basis for macroeconomic decisions.

Without the prior identification and selection of potentially successful industries and their likely location and needed infrastructure, policy makers are confronted with too many possible feasible projects that all need careful cost-benefit analysis. Moreover, every public investment project entails many benefits and costs that are intangible and therefore difficult to value. It is also well known that the results of cost-benefit analyses can be very sensitive to the choice of the discount rate, and that the information used to determine future benefits and costs is necessarily limited by current knowledge (Lin 2012).

Without strategic selectivity, there is really no rational sectoral and geographic targeting of public investment. As a result, big decisions are made depending on the political preferences of external donors and administrative capacity to manage projects and programs is strained, as the limited state resources are used to pursue a large number of policy goals. This usually leads to the adoption of a very, ineffective growth model, one that is centered on capital-intensive industries that are either unsustainable or cannot generate enough employment in Africa’s labor-intensive economies. That is, perhaps, the most
prevalent economic policy mistake made in Africa—and in other developing regions of the world. And of course, that mistake is eventually compounded by institutional and political economy constraints.

It is the reason why some 80 percent of Africa’s young labor force is trapped in low-productivity, informal activities that can neither get them out of poverty, nor generate sustainable and inclusive growth. It is the reason why countries like Rwanda implement difficult reforms and even achieve decent growth rates (from a very low base) but end up with insignificant levels of employment creation. It is the reason why in Mozambique a single firm consumes 80 percent of the country’s electricity production. It is the reason why the Tanzanian has recorded 7 percent growth on average in 15 years but has not reduced poverty. It is the reason Egypt, Libya, or Algeria, have not created enough decent employment for their young labor force.

Finally, traditional, laissez-faire approaches to economic policymaking leave the important issue of learning and knowledge-sharing to chance and randomness. In recent papers I wrote with Joseph Stiglitz Justin Lin, and Ebrahim Patel, we reminded our fellow economists that most increases in standard of living are related not to additional physical infrastructure but to the acquisition of knowledge, to “learning” (Stiglitz et al. 2013a, 2013b). This was Solow (1957)’s magical insight. It follows that understanding how economies best learn—how economies can best be organized to increase the production and dissemination of productivity-enhancing knowledge—should be a central part of the study of development and growth. But markets, on their own, fail to “maximize” learning. They ignore important knowledge spillovers. Sectors where knowledge is important tend to be imperfectly competitive, with the result that output is restrained. In fact, the production of knowledge is often a joint product with the production of goods, which means that the production of goods themselves will not in general be (intertemporally) efficient. Yet, surprisingly, development economists had typically not focused on this issue and its implications for the desirability of government intervention.

It is painful to sit in some meetings and observe high-flying economists and foreign experts trying to assess whether a poor country government has provided “enough funding to priority sectors” (defined very broadly as “agriculture,” “education,” “health,” or “infrastructure”) in its budget to justify more external financing. It is equally frustrating to see these well-meaning people count the number of reforms that have been carried out to “improve the business
climate" and derive definitive conclusions as to whether things are "going in the right direction." Watching them search for answers I often think of the confusion of legendary baseball player Yogi Berra. A strange group of eccentric people had just interrupted a game by running naked across the field. After the disruption, legendary player Yogi Berra was asked whether those unusual fans were men or women. He replied: "I don't know. They had bags over their heads!" That story illustrates what is perhaps the biggest issue in development economics today: the inability of many researchers to look in the right place when searching for clues…

The truth is that the vague notions of "reforms" are meaningless in developing countries. What does a budget increase for the agriculture ministry reveal exactly, except perhaps that the minister has purchased a few more expensive cars for his staff or his personal ranch? Why expect any low-income country with limited administrative capacity to simultaneously improve all the many "Doing Business" indicators every year? It is unrealistic to recommend an overwhelming laundry list of reforms that no government has the capacity to achieve. By the way, China, Vietnam, and Brazil, which have been among the top-performing countries in the world for the past 20 years, are consistently ranked quite low when it comes to the ease of doing business: Brazil is 130th; Vietnam is 99th; and China ranks 91st, behind such star economies as Kazakhstan, Azerbaijan, Belarus, and Vanuatu… Are we missing something?

Yes, we are, and the global crisis has made it clear: sustained high and inclusive growth does not occur by chance after the implementation of generic market-oriented reforms, and economic policy should not be left to randomness and chance. The global crisis has revealed weaknesses in economic policies that rely mainly on deregulation and unfettered markets. Capital and financial market liberalization contributed to the rapid spread of the crisis around the world. Theories based on "rational expectations" and "rational behavior" have also been called into question with the multiple examples of irrationality, and the existence of bubbles that lead to booms and busts. Even in high-income countries with conservative governments, the state had to play a crucial role in saving the economy, which highlighted their responsibility to prevent crises from happening. It has become clearer that "unfettered markets are not self-correcting, not necessarily stable, and not efficient." (Stiglitz 2013).

The crisis has also exposed some underlying problems with rigid neoclassical economic theory: the misalignment of incentives—most notably the fact that social returns never equal private rewards; the omnipresence of agency problems and corporate governance, the extensiveness of externalities. These
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lessons underscore the need for a more appropriate balance between the market and the state, and for governments to engage proactively in industrial policies that facilitate the development of competitive industries. Experts and policymakers working on Africa should reflect seriously about their generic prescription that rely mainly on chance, and draw lessons from both economic analysis and economic history.

4. THE ART OF GROWING ROSES IN THE SAND

How should we think then about economic development in the African context? The key message in this lecture has been so far to reject the notions of preconditions, and the tyranny of litanies that underscores them. Prosperity has always been generated from very poor political, economic, and social environments and Africa should not be expected to start from radically different conditions. In fact, compared to other regions of the world, the continent’s current conditions are actually almost ideal for an economic takeoff. Contrary to conventional wisdom, financing is no longer a major constraint: while Official Development Assistance flows only amounted to $126 billion in 2012, net private capital flows surged to emerging countries of $1.25 trillion.

The potential for new money is almost limitless: the global economy had entered a phase of reconfiguration that is profoundly changing the distribution of roles—and affecting the nature of the development industry. In the 1980s, China was the only non-Western country among the top-5 contributors to global growth. In the 2000s, there were 4 out of 5 (China, India, Korea, and Brazil), while the US is the only Western country on the list. In addition, sovereign wealth funds such as Norway’s ($800 billion) are realizing that a large part of their portfolio invested in Western government debt with low return will undoubtedly lose money in the coming years. They are more open to authorizing the fund to invest in the most obvious asset class—infrastructure. So the issue of economic development is really no longer about lack of money. It is about learning the right lessons from economic analysis and history, and designing credible strategies and action plans that could attract new development financiers and yield win-wins.

A good place to start—not in search for a “model” but to verify that it can actually be done even in the most difficult environments—may be China. In 1978 Deng Xiaoping was a 74-year old communist when he took the helm of a large country inhabited by mainly hungry and angry people. According to Vogel, one of his biographers, he “was acutely aware that China was in a disastrous state. At the beginning of the previous decade, during the Great Leap Forward, more than
thirty million people had died. The country was still reeling from the Cultural Revolution in which young people had been mobilized to attack high-level officials and, with Mao [Zedong]’s support, push them aside as the country of almost one billion people was plunged into chaos. The average per capita income of Chinese peasants, who made up 80 percent of the population, was then only $40 per year. The amount of grain produced per person had fallen below what it had been in 1957.” (2011, p. 2). GDP per capita was $179, one-fifth that of Ghana or Cameroon.

Capacity for economic policymaking was weak. The communist and generally incompetent senior party officials who ran the administration had been forced out and replaced with military people and revolutionary rebels but they were “unprepared and unqualified for the positions they had assumed. The military had become bloated and was neglecting the military tasks, while military officers in civilian jobs were enjoying the perquisites of offices without performing the work. The transportation and communication infrastructure was in disarray. The bigger factories were still operating with technology imported from the Soviet Union in the 1950s, and the equipment was in a state of disrepair. Universities had been basically closed down for almost a decade. Educated youth had been forcibly sent to the countryside and it was becoming harder to make them stay. Yet in the cities there were no jobs for them, nor for the tens of millions of peasants wanting to migrate there. Further, the people who were already living in the cities, fearing for their jobs, were not ready to welcome newcomers.” (Vogel 2011, p. 4). Deng, whose only official title during the last years of his life was “Honorary Chairman of the Bridge Club of China,” believed that dwelling on what might have been or who was at fault for past errors was beside the point and a waste of time. An avid bridge player, “he was ready to play the hand he was dealt. He could recognize and accept power realities and operate within the boundaries of what seemed possible.”

Deng did not have a blueprint for generating prosperity, confessed that he “grappled for the stepping stones as he crossed the river.” He decided that the lack of natural resources, weak human capital, absence of infrastructure, or even China’s terrible business environment and poor reputation as a communist stronghold, would not prevent him from performing economic miracles. He simply felt that he owed it to his people. He adopted a few common sense principles, which ultimately proved to be the secret recipe for manufacturing the most shocking success in the annals of global development, and an indictment of the prevailing paradigms, the dominant thinking of the time, and the traditional policy prescriptions from old textbooks.
Deng started with a healthy mix of humility (“we are all to blame,” he said) and self-confidence, in the spirit of Confucius’ well-known basic theorem: “To know what you know and what you do not know, that is true knowledge.” He went out to meet with Lee Kwan Yew in Singapore to ask basic questions about how to circumvent the litany of binding constraints that the Chinese economy faced. He encouraged learning from Singapore and South Korea, but also from Japan, Taiwan-China and Hong Kong-China. He challenged other officials to expand their horizons, to go travel the world and bring back new ideas, new management practices, and promising new technologies, and to carry out experiments. Incidentally, his approach to problem-solving is similar to that of the wise Bateke woodcutters in Congo, who say: “You learn to cut down trees by cutting them down!”

He favored strategic selectivity in the use of the government’s limited financial and human resources, and picked the best geographic locations to build special economic zones and industrial parks, which allowed him to attract foreign capital and to ignite a gradual process of economic liberalization while circumventing the difficult political economy issues that the reform process imposes in countries where economic distortions have been accumulated and compounded for decades.

Deng challenged local government officials even in remote areas of China to rise to the responsibility of leadership and to find creative ways of solving concrete problems, instead of simply jockeying for political positioning. Even within the authoritarian system of the Chinese Communist Party, he instilled some form of merit-based rules by insisting that political promotion through the ranks be based on economic results on the ground, not by perceived allegiance to the chief. Xiaobo Zhang’s work on the development of a potato cluster in China reveals fascinating insights on the many ways industrial policymaking at the local level contributes greatly to economic development. “Many of the industrial policies affecting the cluster—including leveling land, developing better varieties, establishing a potato trade association, lobbying for increasing freight car quotas, and attracting processing firms—were implemented at the local level, highlighting the need for discussion of local industrial policymaking as a major determinant of cluster development.”

Deng’s admonitions and pragmatic policies allowed for the building and development of clusters that changed the course of China’s and the world’s
economic history. To sum up, what Deng did was basically to prove the world that it is possible to generate sustained economic growth in poor business environments, roses can grow in the sand, and spectacular economic development requires no preconditions.

Many mainstream economists who learn about that fascinating story—again, “an achievement unparalleled in human history”—do not pause and reflect. Rather, they dismiss it as a “typically Chinese” affair that cannot be done anywhere else. The problem with their reasoning is that there was actually almost nothing “typically Chinese” about it. In fact, Deng’s apparent unconventional approach to economic development and reforms was NOT so unconventional after all: to the contrary, it was a vindication of economics as imagined by Adam Smith and Alfred Marshall. China’s policymakers drew from economic history, economic analysis, political economy, and other advances in the social sciences, to design a development strategy that was both viable, consistent with incentives and compatibles with the prevailing political constraints and social norms.

The main argument of this lecture is therefore not about China’s development model, but about the common sense principles which seem to be ignored by many development economists and practitioners. Let me quickly underscore a couple of them.

*First, economists and policymakers may consider shifting their vision and priorities* of what the development process entails, and be more hopeful. In an ever more globalized world, all poor countries and regardless of their constraints (infrastructure gaps, weak human capital, etc.) can find a niche to stimulate trade and generate sustained and inclusive growth, provided that they design and implement pragmatic strategies that focus on the development of competitive industries that are consistent with their comparative advantage. This can be done even more easily today than was possible in the 1980s when China entered the global scene. Things have changed dramatically in the past decade: new empirical research (World Economic Forum 2013) show that tariff reductions and market access have become much less relevant for economic growth than it was the case a generation ago. Trade is no longer about manufacturing a product in one country and selling it elsewhere, but cooperating across boundaries and time zones to minimize production costs and maximize market coverage. Value chains are therefore the dominant framework for trade. Estimates suggest that reducing supply chain barriers *could increase global GDP up to 6 times* more than removing all import tariffs. Simulations indicate that improvements on just two key bottlenecks to supply chains (border administration and
transport/communications infrastructure) to all countries’ performance only halfway to that of Singapore would yield an increase of $2.7 trillion (4.7 percent) in global GDP and $1.6 trillion (14.5 percent) in global exports. These staggering numbers compare with much smaller gains from complete worldwide tariff elimination, which would only lead to $400 billion (0.7 percent) in global GDP and $1.1 trillion (10.1 percent) in global exports. Global trade and value chains operating around the planet open up new opportunities to poor countries, just like the “graduation” of large manufacturing centers like China or Brazil, which relinquishes low-skilled employment for poorer economies.

Second, economic development strategies and instruments should be updated to reflect the reality that even countries with poor business environments can succeed. They should exploit their already lower factor costs in labor-intensive industries where they have comparative advantage, and aim for lower transaction costs through strategically-located clusters and industrial parks. The dynamic development of competitive private firms in well-selected regions and industries provides employment and increases fiscal revenues, which establishes social peace and generates government revenues to improve infrastructure in other regions.

To be successful, this strategy obviously requires strong collaborative work between the state and the private sector in the identification of new sectors or lines of business and prioritization of infrastructure investment. Beyond utilities, transportation, and well-functioning port and airport facilities, different industries require different types of infrastructure, some of which must be provided by the state: mango exporters in Mali need refrigeration facilities; garment and textiles producers need specific storage facilities; etc. and they all need various types of workforce development and skills training programs. Pragmatic government intervention is needed to overcome issues of coordination and externalities, which no individual firm can address alone effectively. Unfortunately, too many infrastructure development strategies in African countries force the state to be stretched too thin across too many industries—and eventually not being able to accommodate any single industry with the type of first-rate infrastructure needed in a competitive global economy. As a result, they do not take advantage of their low wages in the agribusiness, light manufacturing, or services sector, and they do not join the international supply chains.
The implementation of that vision and strategy should accommodate political economy considerations that could derail the development process. By its very nature, a gradual economic development strategy based on strategic selectivity and geographical targeting of the most promising growth potential necessarily creates groups of winners and losers, at least in the short term. It is important to deliver quick wins (time and results), and to establish backward and forward linkages that mitigate the risks of social tensions. The government of the Democratic Republic of Congo failed to organize such linkages between domestic and foreign firms. Not surprisingly, it recently faced revolt from small business owners, who organized an angry demonstration in Kinshasa to oppose the entry of Chinese nationals in the retail trade industry. The demonstration was organized by some powerful organizations with exotic names, such as the Rally for the Flourishing of Congolese Enterprises (Rassemblement national pour l'épanouissement des entreprises congolaises, Raneeco)...

Let me conclude by reiterating my main point: in economic policymaking just like in real life, keeping in mind common sense principles and focusing on the tools available is the key to success, not listing preconditions and lists of ideals. No matter how desperate a situation may appear, pragmatic thinking can always help turn things around. Sometimes, it is the smallest policy measures and decisions that yield the highest payoff.

I have just learned that the commanders of the many ships off the east coast of Africa that are in constant danger from gun-toting pirates boarding and kidnapping crews for multi-million-pound ransoms, have come up with the most unexpected solution to their problems. For a long time, they thought that they had a very long list of preconditions that should be met before their vessels to navigate around the Horn of Africa. The threat there was such that the British Royal Navy had 1,500 sailors on 14 warships operating round-the-clock patrols in the area. That was costly and unsatisfactory.

They recently came up with a more efficient way of fighting attacks on ships by gangs of bandits: British navy officer Rachel Owens, who works on supertankers in that area where she guides huge tankers through the waters, has revealed that one of the most effective weapons to deter kidnap attacks by Somali pirates is the blasting of Britney Spears music in the speakers. "Her songs were chosen by the security team because they thought the pirates would hate them most, she explained. These guys can't stand Western culture or music, making Britney's hits perfect… As soon as the pirates get a blast of Britney, they move on..."
as quickly as they can… It’s so effective the ship’s security rarely needs to resort to firing guns!”

Yes, indeed, there is no point in complaining about the long lists of insufficient resources and missing ingredients. The focus should be on how to make the best of what is available. It is a lesson in humility and creativity that even economists can learn.

REFERENCES


