Africa's Need for a Developmental State: Opportunities and Challenges

5

CHAPTER

THE RECENT GLOBAL economic crisis (stemming from market failure), the rise of China, East Asia and some Latin American countries as newly industrialized nations, and Africa's solid decade-long economic performance have rekindled discussion on the role and nature of the state in the development process. The state has been pivotal in reviving the economies of many Western countries with bailout packages for banks, the automobile industry and other parts of manufacturing, massive investment in the social sector and expansion of social security for the unemployed.

Responding to the crisis in 2008, the United States Government under former President George Bush announced a $700 billion bailout for the US financial market, and in the following year, the Obama Administration introduced a fiscal stimulus package of $787 billion. In the UK, the state injected £37 billion to bail out its financial institutions. Similarly, governments across the world introduced stimulus packages, all attesting to the increasing role of the state in economic recovery and development.

In another vein, the state was central to the rise of China as a global economic power and aided the rapid transformation and economic development of the East Asian economies of the Republic of Korea, Malaysia, Singapore and Taiwan (China) as well as some Latin American countries such as Brazil and Chile.

With these global developments, the discourse has shifted from whether the state is germane to development or not, to what kind of state should be set up to facilitate economic development especially in poor and underdeveloped countries. The emerging consensus is that a "developmental state" is central to the process of accelerated economic growth and social transformation of any country. A developmental state may be defined as "a state that puts economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal. The instruments should include the forging of new formal institutions, the weaving of formal and informal networks of collaboration amongst citizens and officials and the utilization of new opportunities for trade and profitable production" (Bagchi, 2000:398).

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It is the state that promotes macroeconomic stability and that establishes an institutional framework that provides law and order, effective administration of justice and peaceful resolution of conflicts. The state should also ensure property rights and invest in infrastructure and human development (Mkandawire, 1999 and 2010).

Although the notion of the developmental state is often associated with the first and second generation of the newly industrialized economies (NIEs) of East Asia,[1] the idea of the developmental state in practice was born long before it was so labelled. Over the ages, developmental states have evolved, and they characterized the growth of the Netherlands in the 16th century, England in the 16th to the 19th century, and Germany in the mid-19th to the early 20th century. Some African countries in the immediate post-independence era are also seen as forms of developmental states (Bagchi, 2000; Mkandawire, 2001). As noted by Mkandawire, Africa has had "states that were developmental both in their aspirations and economic performance". Regrettably, the adoption and implementation of the SAPs in the 1980s and 1990s discountenanced the role of the state in economic development in Africa, and negated the prospects for the growth and consolidation of developmental states on the continent.

This chapter supports the argument for a developmental state that can facilitate rapid economic, democratic and social transformation in the post-adjustment era in Africa. It outlines the key features of a developmental state; Africa's early attempt at building developmental states and how it faltered; the comparative experience of other countries, especially the East Asian economies and how developmental states were key to their "economic miracle", and the prospects and challenges of constructing developmental states in Africa.

5.1 Concept and features of a developmental state

IN ITS CONTEMPORARY usage, the concept of the developmental state came from Chalmers Johnson (1982) who used it to describe the phenomenal growth of the Japanese economy and its rapid industrialization after the Second World War. He argues that central to Japan's "economic miracle" was a "planned rational state"—a developmental state that was able to stimulate, as well as proactively support and promote, economic development. This interventionist state, through a planned process, established clear economic and social objectives and influenced the direction and pace of economic development in the country.

It established institutions such as Japan's Ministry of International Trade and Industry (MITI) and reinvigorated its Ministry of Finance in supporting its corporate sector, providing it with fiscal incentives and nurturing it to the maturity of higher productivity and global competitiveness. The Japanese state also invested in technology and innovation as tools of economic progress. Other NIEs were to follow in Japan's footsteps from the 1960s.

A developmental state may be perceived as one that "authoritatively, credibly, legitimately and in a binding manner is able to formulate and implement its policies and programmes. This entails possessing a developmentalist ideology that privileges industrialization, economic growth and expansion of human capabilities. Such a state also has to be able to construct and deploy the institutional architecture within the state and mobilize society towards the realization of its developmentalist project" (Edigheji, 2010:4). A developmental state is therefore defined in political, ideological and institutional terms (Chang *et al*, 1998).

In conceptualizing developmental states, processes and institutions should not be confused with outcomes. Good economic performance and social transformation are outcomes, and developmental states may not generate them in all cases. Developmental states are about institutions, processes and their management. Externalities may confound or distort outcomes, but it is often expected that developmental states, given normal conditions, will generate positive development outcomes. "If a developmental state is not to be deified into some kind of omnipotent and omniscient leviathan that always gets what it wants, then the definition must include situations in which exogenous structural dynamic and unforeseen factors can torpedo genuine developmental commitments and efforts by the state, as happened recently in some of the most successful Asian developmental states" (Mkandawire, 2001:291).

Developmental states have differed in their evolution, context, trajectory and manifestations. There are therefore cultural and conjunctural peculiarities in the emergence and nature of developmental states around the world, and so "one size fits all" cannot apply to the engineering and modelling of developmental states in Africa, as elsewhere in the world. Developmental states have emerged largely through trial and error and learning by doing, which have no formally designed templates that aspiring countries can copy. However, while context may differs, the concept of the developmental state is a useful analytical tool in explaining the nature and character of states and the propensity for good economic performance by countries, deployed across time and space. It lends itself to a degree of comparative analysis because developmental states have discernible, common attributes that can be investigated across countries and over time, even against variations in context.

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The literature on developmental states has largely identified two major features: a developmentalist ideology; and a structure that pertains to the requisite institutions, norms and standards that can support development processes (UNCTAD, 2007; Castells, 1998). This includes the building of political, administrative and technical capacity to support development projects. Some have characterized these two features as the "software" and "hardware" of developmental states (for example, Weiss, 2010).

The following features often characterize Developmental states.

Vision setting, capable leadership and a developmentalist ideology

Capable (but not necessarily authoritarian) leadership constitutes a primary agency in the construction of a developmental state. It must be a leadership that defines and articulates a clear developmentalist vision and an economic agenda for the country; outlines plans and strategies for achieving the goals; builds an elite coalition for support and ownership; builds the technical capacity to elaborate and sustain the agenda; and mobilizes popular support. Developmentalist leadership is often underpinned by a strong sense of nationalism—an unabashed commitment to transform the condition of the country, change the structure of production, promote capital accumulation and fast-track the process of industrialization. However, the notion of a developmental leadership is not about building personality cults or strongmen but about leadership providing clear direction for social and economic change, creating a powerful pro-development constituency among the ruling and bureaucratic elites, and harnessing the critical economic and social forces in the country.

A coherent developmentalist coalition constitutes the social base and driving force of a developmental state. This coalition may vary from country to country, but it has to be driven by the need to transform the structure

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of the economy and to industrialize, as well as to build human capacity. Such developmental coalitions, according to Johnson (1987:140), are "generated and come to the fore because of the desire to break out of the stagnation of dependency and underdevelopment; the truly successful ones understand that they need the market to maintain efficiency, motivate the people over the long term, and serve as a check on institutionalized corruption while battling against underdevelopment". Such an elite developmental coalition, Johnson further observed, "is not committed first and foremost to the enhancement and perpetuation of its own elite privileges but to the economic progress of the country". Consequently, rent-seeking will be minimized and where it exists, will be more geared towards productive activities rather than wasteful consumption.

Relative state autonomy, especially in formulating and implementing policy

State autonomy is about the capacity of the state to formulate policies independent of contending social forces, to serve the best interests of the country as perceived by the managers of state power. It implies that the state has a high degree of capacity to generate and analyse information, on the basis of which it can independently formulate and implement its policies without being captured by sectional interests. State autonomy is the antithesis of state capture. In reality, however, complete state autonomy is often unrealizable. The state is a product of and is embedded in society, and constitutes a site of interest articulation, aggregation and realization by social forces (Adejumobi, 2011). As such, the state cannot be "suspended" above society, but regulates and promotes group interests consistent with the national development agenda.

The concept of relative autonomy therefore becomes plausible in the context of a developmental state. While the state promotes the capitalist class and is committed to capital accumulation, neither must it become captive to it. The thrust of state policy should have a broad national agenda but should be driven by a clear developmental ideology. The concept of "embedded state autonomy" has been articulated in the literature (Evans, 1995, for example) to describe a situation in which the state has relative independence but responds and coordinates with non-state actors and institutions, especially the private sector and civil society.

As the experience of Japan and Korea showed, rather than the complete state autonomy that existed in the industrialization phase, there was a dense network of ties among the state, the private sector and civil society, in which the state was the "guarantor" of the interests of those groups within the context of broad national objectives of economic development.

State institutional capacity, notably a strong and competent bureaucracy

The capacity of public institutions, especially the bureaucracy, is crucial to economic performance in a developmental state. The bureaucracy constitutes the "soft underbelly of the state", which advises the political executive and formulates and implements public policies. Professionalism, discipline and technical skills are core issues in administrative competence and capability (UNECA, 2005:138). In the East Asian experience, the bureaucracy was responsible for the "actual planning, intervening and guiding of the economy" (Johnson, 1987:152). Although the East Asian economies were able to build strong bureaucracies that were neither gifts from the past nor easy outgrowths of surrounding social organization, but hard-won edifices constantly under construction (Evans, 1997).

The bureaucracy or the bureaucratic elites are not the only players in developmental governance. There are other relevant institutions and actors supportive of a developmental state, including the central bank, other financial regulatory authorities, and the judiciary. Their capacity is directly related to the capacity and performance of the state.

Development planning is an important feature of a developmental state.

Effective national development planning

Development planning is about identifying national priorities, setting targets, developing strategies, facilitating coordination among various sectors and stakeholders, and establishing monitoring and evaluation mechanisms for achieving short- to long-term development goals. Development planning is a key component of a developmental state as borne out by the experience of the East Asian economies. In Korea, for example, the Economic Planning Board—considered the "brain and engine of the Korean economic miracle" (Castells, 2000:201)—promulgated five-year economic plans. In Japan, through a strategic planning process, the state supported the private sector with financing, technology and an import licensing system (Castells, 2000). Taiwan (China) had four-year economic plans, which managed coordination and implementation of economic development policies. The economy embarked on an import-substitution and export-oriented industrialization policy.

Development planning is not anathema to the African development process. In fact, it was the hallmark of the post-colonial development strategy, which was mistakenly attacked and rebuked under the SAPs. However, with the failure of SAPs acknowledged, and the rethinking about bringing the state "back in", the era of development planning has gradually returned. One encouraging sign is the increasing recognition that developing countries need development frameworks, in contrast to narrow models (chapter 4).

Coordination of economic activities and resources

Some commentators have described this as governing the market or, as UNCTAD puts it, "development governance" (UNCTAD, 2009). Effective coordination of economic activities includes creation of a pro-investment macroeconomic environment, effective supervision and monitoring of financial institutions, fiscal policies that provide incentives to the private sector, domestic resource mobilization and an effective public financial management system. Within a coordinated economic system, the developmental state may set performance targets for capital—foreign, local or both—to reduce inefficiency and waste. It may reward those that meet the targets and punish those who fail to meet them. In effect, a developmental state may use a carrot-and-stick approach to rent distribution, increased productivity and economic growth.

Support for a national entrepreneurial class

A national entrepreneurial or capitalist class, which in the literature is referred to as a national bourgeoisie, is a precondition for domestic capital accumulation and the development of a market economy. A developmental state must make conscious efforts to expand and nurture its bourgeoisie, as it will facilitate industrialization and private sector–led economic growth. The history of all developmental States has been one of growing such a class. Although in many East Asian economies small-scale family businesses, commonly owned by heads of families, were the norm, active state support transformed some of them into global conglomerates and transnational corporations, through the emergence of a strong national bourgeoisie. The development of big corporations of the zaibatsu in Japan and chaebol in Korea are related to this.

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In the African experience, the link between the state and the local business class has been weak, with the state often pandering to the dictates of foreign business interests in the name of attracting FDI (Mkandawire, 2001). This has stultified the development of a capitalist class and consolidated the role and interests of foreign multinational corporations. Attracting foreign investment must not exclude the promotion of local business interests, and national development plans should consciously aid the emergence of a national bourgeoisie, whose business concerns will grow, consolidate and diversify with time, to compete in the global economy.

Commitment to expansion of human capacity

A developmental state often reinforces its human capacity and invests in social policy and programmes (box 5.1). These dimensions include investment in quality education, health-care services, economic and social infrastructure and, in some cases, land reform. In most East Asian economic models, "social policies are always important ingredients in the arsenal of developmental States. These policies revolved around non-state entities such as families and firms, with the state guaranteeing the implementation of social welfare programmes" (UNCTAD, 2007:64). The provision of basic services such as education, health care and housing are all measures to enhance human capabilities.

For example, over 90 per cent of Singaporeans live in owner-occupied public housing built and maintained by a public utility. Taiwan (China) now has subsidized health and education (Castells, 2000). In essence, a developmental state must prioritize human capacity and social welfare as the means of ensuring the required knowledge, skills and congenial social environment for development to take place and be sustained.

Box 5.1: Education as a major foundation of Japan's economic miracle

The leaders of the Meiji restoration realized the supreme importance of education in their pursuit of civilization and enlightenment, and in their campaign of strengthening the state so as to be able to resist the Western intruders. Hence, in 1872, a law was passed that set out a programme of education from primary to university level, making primary education compulsory.

Enforcing the law was not smooth sailing (Taira, 1978:196-199), but eventually, resistance was overcome and money was found for funding the programme.

The results were dramatic: in 1873, only 28 per cent of the school age population attended school; by the end of the century, the figure was 98 per cent, making Japan one of the most literate countries in the world (Morishima, 1982:102). The close integration of government planning and business strategies also dates from the early days of the Meiji restoration.

Source: Bagchi 2000:416.

Peace, political stability, rule of law and predictability in government business

Without peace and political stability, investment risks increase, with serious challenges to doing business. The rule of law ensures that property rights are protected, and economic transactions are underlined by "market trust" and legitimate relations. In many of the East Asian economies in the period of economic take-off and consolidation, capable political leadership and strong bureaucracy imposed predictability in dealings with government. In other words, a developmental state must be able to evoke confidence from different stakeholders and a broad section of society.

5.2 Africa's post-colonial efforts at building developmental States

THE ATTEMPT AT building developmental States is not alien to Africa, but it may not have produced the desired results. For many post-independence African leaders, development was a major preoccupation (Mkandawire, 2001:295) and they espoused various developmental ideologies. From Ghana came Kwame Nkrumah's philosophy of Pan-Africanism, centred on the need for political and economic liberation through the strategy of regional integration, designed to promote economic development on the African continent. For Julius Nyerere of the United Republic of Tanzania, the *ujamaa* philosophy was to be the basis of collectivization in agriculture, aimed at promoting rural transformation. In Zambia, Kenneth Kaunda adopted the development philosophy of humanism, while for Leopold Senghor, former President of Senegal, the anchor was on the philosophy of "negritude" (Adejumobi, 2004:30).

Many African countries sought to build the capacity of the state, through an indigenization policy in the state sector and considerable investment in training and human capacity in the state bureaucracy. Economic development planning was a major thrust of economic governance, of which industrialization constituted a major goal. The post-independence era saw a strategy of import substitution industrialization, as well as massive investment in infrastructure. Given the focus on development, the early post-colonial state in Africa was described by some as a "developmental state" (such as Gibbon, 1997).

Africa's development strategy spurred a reasonable level of economic growth similar to, if not better than, other parts of the world (Mkandawire and Soludo, 1999; Nabudere, 2006). No fewer than 10 African countries enjoyed a consistent GDP growth rate of about 6 per cent during 1967–1980, some of them ranking at times with the best-performing East Asian economies. The two oil shocks of the 1970s and early 1980s badly affected many African economies and decelerated their economic growth. Table 5.1 shows the average growth rates for the world's 27 best-performing countries during this period, of which 10 were African.

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Table 5.1:
Average growth rates of the best performing developing countries 1967- 1980 (%)

	Economy	Average growth rate
1	Botswana	14
2	Singapore	10
3	Korea, Rep. of	10
4	Brazil	9
5	Ecuador	8
6	Gabon	8
7	Hong Kong SAR	8
8	Dominican Republic	7
9	Paraguay	7
10	Lesotho	7
11	Thailand	7
12	Kenya	7
13	Malaysia	7
14	Côte d'Ivoire	7
15	Indonesia	7
16	Seychelles	7
17	China	7
18	Belize	7
19	Mexico	7
20	Swaziland	6
21	Fiji	6
22	Costa Rica	6
23	Congo Brazzaville	6
24	Rwanda	6
25	Guatemala	6
26	Columbia	6
27	Nigeria	6

Source: *Calculated from World Bank Development Indicators, 1998 CD-ROM, cited in Mkandawire (2001:304).*

Some African countries such as Botswana and Mauritius have continued on this growth path to the 21st century, for which they have been classified as developmental States (Taylor, 2003: 37-50). Most African countries, however, stepped into deep economic crisis in the 1980s and growth fell.

The post-colonial state also gave priority to the social sector, which expanded phenomenally in virtually all countries. In Côte d'Ivoire, for example, education and health were allocated 28.4 per cent of state current expenditure in 1965, then 30.2 per cent in 1970, and further to 33.4 per cent in 1975 (Adejumobi, 2004). Investment in tertiary education was also significant Côte d'Ivoire. Indeed, some have described the post-colonial universities as "development universities" (Nabudere, 2006), which had high expectations to facilitate technological innovation and scientific progress.

The plain fact, however, is that Africa's state-led development model often failed to construct developmental states and achieve sustained positive economic and social outcomes as most of the countries could not engineer economic take-off, ensure industrialization or diversify the economy. Internal factors included the rise of authoritarian military dictatorships and one-party regimes, which could not construct hegemonic development ideology and coalitions. They can be regarded mostly as anti-developmental regimes, lacking strategic partnership with the indigenous private and business sector, with the state assuming the role of economic entrepreneur rather than building a local corporate sector.

In such countries, the state played multiple roles as investor, banker, trader and primary employer, rather than carefully nurturing a local entrepreneurial class (UNECA, 2008). Other factors included low savings and investment rates; flawed industrialization strategies; poor performance of the agricultural sector; and low investment in focused research and technology development. Extreme dependence on external conditions and consequent shocks, including the rise of oil prices, as well as incipient economic crisis in many countries, were other factors (Mkandawire and Soludo, 1999; Nabudere, 2006).

SAPs exacerbated the crisis of the state in Africa (Mkandawire and Olukoshi, 1995; Adejumobi, 1995). The limited state capacity at their birth was weakened as the public sector and public bureaucracy became major targets for state budget cuts, often inspired by SAPs. The paradox of SAPs is that, while the state was expected to lead the process of economic reforms, stabilization and transformation, its capacity was dismembered, and it became unable to pursue the reform measures effectively. SAPs frequently held back economic growth and social progress, negating the construction of developmental States.

The upshot is that Africa is the most underdeveloped region of the world today. The problems of poverty, hunger, basic infrastructure and economic development remain core challenges. In 2009, 22.5 million of all 33.3 worldwide living with HIV/AIDS were in the region. Of the 1.8 million AIDS-related deaths, 1.3 million where in sub-Saharan Africa, with the most affected subregion Southern Africa (UNAIDS, 2010). In 2005, it was estimated that about 73 per cent of the people in sub-Saharan Africa lived on less than two dollars a day, a stark contrast to the Middle East and North Africa region's 17 per cent (Africa Development Indicators online, 2010). UNCTAD has projected that Africa is the only region in the world that is unlikely to meet the MDG on halving poverty by 2015 (UNCTAD, 2007).

African economies remain heavily dependent on foreign investment and development aid. The region has the lowest level of fixed capital formation and has the lowest FDI flows, lowest saving rates and highest levels of public debt. UNCTAD estimated in 2000 that for Africa to achieve sustainable growth of 7 per cent, required for the continent to overcome its developmental deficits (see UNECA and AUC, 2008), it would need an investment rate of 22–25 per cent. Unfortunately, during 2000–2004, "sub-Saharan Africa averaged investment rates of 18.1 per cent, while the figure for all of Africa was 20.7 per cent" (UNCTAD, 2007:3).

In the absence of bold development plans, African economies remain for too long heavily dependent on foreign investment and development aid. The problems of poverty, hunger, basic infrastructure and economic development remain core challenges.

Another tragedy was that the average growth rate during 2000-2007 fell short of the projected 7– 8 per cent required to meet the MDG goal of halving poverty by 2015. Although both savings and investment rates in Africa have increased in recent years, they have remained below the level necessary for the continent to achieve its development goals (UNECA and AUC, 2010). In 2008, sub-Saharan Africa had the highest poverty rate and lowest life expectancy at birth (52 years) in the world due in part to its inability to promote sustained and diversified pro-poor growth and the high prevalence of HIV/AIDS and other epidemics.

5.3 Comparative performance of developmental States in Asia and Latin America

MANY OF THE developmental States of Asia[2] have been able to transform their economies from agrarian to industrial and post-industrial economies, have witnessed high rates of industrialization resulting in near unprecedented economic growth, and made qualitative improvements in the living standards of their populations—coupled, remarkably, with egalitarianism, and lower relative and absolute poverty. These countries have transformed their economies from relatively high reliance on the primary sector in the 1960s to the currently dominant share of manufacturing and services in GDP, with manufactures accounting for more than 50 per cent of their exports (UNECA 2008). They have also experienced substantial FDI inflows. While in the 1960s and 1970s average per capita income in sub-Saharan Africa was almost twice that of East Asia and Pacific countries, it was less than 70

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per cent of the later group of countries' per capita income in the 1990s (UNECA, 2008).

To exemplify the contrast between Asian developmental States and African countries, during 1973–1992,[3] the change in per capita GDP was 172 per cent and 107 per cent in Korea and Thailand, respectively, at a time when per capita GDP declined by 21 per cent in Nigeria. Bringing in South America, while 10 Asian economies in a 1995 sample had per capita GDP growth of 89 per cent during 1973–1992 (Madison 1995), 10 African countries saw their per capita GDP fall by 23 per cent, and seven Latin American countries saw theirs decline by 18 per cent (Castells, 1998).

The variations in economic performance are also noticeable in how various countries have transformed their economic base. For example, in 1980 and 1998 in Malaysia, agriculture accounted for 22 per cent and 12 per cent of GDP, respectively, compared with Nigeria's 21 per cent and 32 per cent—divergent trends. Similarly with industry over the same period: in Malaysia its contribution to GDP increased from 38 per cent to 48 per cent, but in Nigeria it fell from 46 per cent to 41 per cent. Even then, most of industry's contribution to GDP in Nigeria was in oil.

The contrast between Malaysia and Nigeria is even more evident from manufacturing and service sector contributions to GDP. Again using 1980 and 1998 as reference years, in Malaysia manufacturing's contribution rose from 21 per cent to 34 per cent with services constant at 40 per cent. In Nigeria manufacturing's share shrank from 8 per cent to 5 per cent, while that of services declined from 34 per cent to 27 per cent (World Bank, 2000). What these comparisons show is how developmental States in East Asia have been able to transform the structures of their economies and have achieved their development objectives. They have moved from labour- to capital-intensive manufacturing—while the majority of Africa ekes out a living in the informal sector.

In explaining the Asian economic "miracle", some analysts stress the role of large investments in physical and human capital (public and private), the creation of a market-friendly environment and appropriate macroeconomic policy frameworks (World Bank, 1993, for example). Others focus on strong institutions as the central factor (e.g. Mkanadwire, 2001). The major agency for all these factors is the developmental state (box 5.2). In East Asia it has played a fundamental role in efficient resource allocation, construction of infrastructure, development of an efficient school system and assurance of profitable investments through appropriate credit and interest rate policy. State policy interventions were in several directions—subsidized credits, public investments in research and technology, and development of export-marketing institutions (Evans, 2010).

It is important to add that a number of the Asian success stories benefited from considerable foreign financial flows, especially from the US due to its strategic interests in the geo-politics of the region. For example, in 1946–1978, economic and military aid to Korea totalled about $13 billion ($600 per capita), while aid to Taiwan (China) amounted to around $5.6 billion ($425 per capita) during the same period (UNTAD, 2007:81). Over the years, the US has provided significant aid to Africa mainly for emergency relief besides military assistance of more than one US dollar 1 billion per year to Egypt. However, as discussed in chapter 3, and in previous editions of the Economic Report on Africa (e.g. UNECA and AUC, 2010), the US has also provided considerable development support to some African countries (such as Lesotho and Swaziland) through the Africa Growth Initiative (AGOA), but none

Box. 5.2: The experience of developmental States in East Asia

The experience of the NIEs points to some common characteristics of developmental States. Active development strategies, in particular industrial policies, are at the heart of the success of these States in creating winners rather than picking winners. Clear policies and goals were set for the economy in terms of export promotion, investment in human capital and credit allocation via development banks. Issues of economic coordination were addressed through innovative measures, while efforts were directed at minimizing bureaucratic failure (Amsden, 1989).

Industrialization was driven by learning processes, borrowing of technology and an array of policies, including targeted taxation, protection, restrictions on foreign shareholding, financial sector policies that revolved around directed lending, a skilled and educated labour force (including training in the civil service and in technology at tertiary levels) and the development of infrastructure.

These factors converge to account for the differences between Asia and Africa in terms of gross domestic expenditure on research and development (R&D) and the intensity of that R&D (the ratio of gross domestic expenditure on R&D to GDP), which persist until today. Further, all of these are underscored by long-term relations between the political authorities and the private sector, and between the banks and public and private firms—in so-called "alliance capitalism". Typically, heterodox economic policies, such as state intervention (targeted on growth) and political rent-seeking were subjected to market discipline.

Source: UNCTAD, 2007:61

of these countries has been able to achieve significant economic transformation.

While Malaysia is a classic example of developmental states in Asia (chapter 4), Brazil is a classic example of a developmental state in Latin America. From being a "banana republic" in the late 1970s and 1980s with huge foreign debts and a deep financial crisis, the country towards the end of the 20th century was able to promote macroeconomic stability, export-led industrialization, spiralling economic growth, huge expansion of its infrastructure and greater social welfare for its people. Under two democratic political regimes (from 1995 to 2010) Brazil cultivated a developmental state, which stabilized its economy and ensured steady economic progress and transformation. Brazil is now one of the fastest-growing economies in the world with an average growth rate of about 5 per cent from 2005 to 2009.

Brazil is predicted to have one of the world's five largest economies this century (Goldman Sachs, 2007). Through investment in technology and promotion of intersectoral linkages, the country became a major exporter of agricultural products, and its manufacturing firms became multinationals with global production and marketing networks. Between August 2002 and August 2005, the market price of Brazil's semi-manufactured exports rose by 43 per cent and that of its basic products by 59 per cent (Cardoso and Teles, 2009). Since 2003, some 20 million Brazilians have been pulled out of poverty (*The Economist*, 2010:31).

An interventionist state has been crucial to Brazil's economic success. The national oil company, Petrobas, controls the bulk of the oil industry, with the state granting it extensive oil concessions. In 2010, the state invested over $67 billion in Petrobas to raise its equity shares in the company from 40 per cent to 48 per cent. However, Brazil's former President contended that Brazil's strong interventionist state was a transitory measure to fast-track the country's progress. "I don't want the proprietorial state", he said, "I respect the workings of the market" (*The Economist*, 2010: 32). Table 5.2 shows some progress in Brazil's social sector.

Table 5.2

A better Brazil

	1993–1995 Average	2002	2009
Poverty, percentage of population with income under 144 reais per month ($2.50 a day at PPP)	15.3	31.8	26.7
Income inequality, Gini coefficient	0.6	0.59	0.54
Average real monthly income per person, reais	457.3	507.7	630.3
Average years of schooling	5.4	6.6	7.6
Households' with washing machine, per cent of total	24.3	32.9	44.4
Population with sewage connection, per cent of total	36.5	43.8	51.0

Source: *Centre for Social Policies, Fundação Getulio Vargas cited in The Economist (October, 2010:32).*

It is evident that the difference between the relatively "good" performing economies of Asia and Latin America compared to the "poor" performing ones of Africa is the role and nature of the state and the quality of its institutions. Developmental States have been central to good performance.

5.4 Towards the future: How to construct developmental States in Africa

AFRICAN COUNTRIES CLEARLY need developmental States to promote economic and social transformation. Five major elements are crucial in building them: purposeful leadership and a developmentalist coalition; transformative institutions; focused industrial policy; investment in research; and enhanced social policy.

Purposeful leadership and a developmentalist coalition

Capable and farsighted democratic leadership will be central to constructing developmental states in Africa. Such leadership can foster hegemonic developmentalist ideology and the necessary coalition to underpin it. A powerful technical team will have to be assembled to support the political leadership in crafting and driving the developmental vision of the country. Forging such an alliance will not be easy, especially given competing class interests. The composition of the developmental coalition will have to vary from country to country as often reflected in the process consultative process and deliberations of country reviews under the African Peer review Mechanism (APRM) of the New Partnership for Africa Development (box 5.3).

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The need to overcome underdevelopment on the continent and dependency on external forces could unite these class forces around a common vision for Africa's development. Towards this end, the developmentalist coalition has to be committed to Africa's industrialization and to creation of more opportunities for productive and high-income activities in the formal sector.

Central to this, the state needs to ensure that people have opportunities to acquire assets and sustainable employment. With respect to the former, land reforms for example will be critical, especially in Southern Africa. In other subregions where subsistence agriculture is dominant, the state needs to promote cooperatives and to support small farmers with access to skills training, finance, markets, technology and so on. In effect, agrarian reforms are required for African countries to become developmental States.

The APRM provides a framework for African countries to create effective development coalitions.

Box 5.3: The African Peer Review Mechanism and development coalitions

In recognition of the imperatives of good governance for development, the Sixth Summit of the Heads of State and Government Implementation Committee (HSGIC) of the New Partnership for Africa's Development (NEPAD), held in March 2003 in Abuja, Nigeria, adopted the Memorandum of Understanding (MOU) on the African Peer Review Mechanism (APRM). The Mechanism is an instrument voluntarily acceded to by member states of the African Union (AU) as a self-monitoring initiative for good governance (see APRM Secretariat 2011).

The mandate of the APRM is to ensure that the policies and practices of participating countries conform to the values, principles, codes and standards enshrined in the Declaration on Democracy, Political, Economic and Corporate Governance. This commonly agreed-to instrument for self-monitoring advocates for the dissemination of best practices and the rectification of underlying deficiencies in governance and socio-economic development processes among AU member states. The framework aims at encouraging and building responsible leadership through a self-assessment process, constructive peer dialogue, and sharing of information and common experiences in order to reinforce successful and exemplary practices among African countries.

The APRM is open to all AU member states. Accession entails undertaking to submit to periodic peer reviews and to facilitate such reviews. It includes commitment to implementing the National Programme of Action (NPOA) arising from the peer review, and operationalising the agreed parameters for good governance across the four thematic areas: 1) Political Governance and democracy; 2) Economic Governance and Management; 3) Socio-economic Development; and 4) Corporate Governance. So far 29 countries have acceded to APRM and 12 country review reports were completed by end of 2010 (APRM Secretariat 2011).

The APRM offers the opportunity for building development coalitions in Africa. With a well-articulated developmental agenda by the political leadership, the APRM provides a governance deliberative platform between the state and the people to discuss, negotiate and agree on such a development agenda through country self assessment and peer review. Countries that accede to APRM and sign for country reviews prepare self assessment reports on the status of their political, economic and corporate governance institutions and performance. The self assessment preparation involves consultation among all stakeholders including national and subnational governments, parliament, the private sector and business associations, civil society, experts and other stakeholders. The country review report provides a national development framework through the national plan of action to follow up and implement the collectively agreed development priorities, and to monitor progress and ensure transparency and accountability of the state.

Transformative institutions

To become developmental states, African countries will have to build transformative institutions, and primarily a competent and professional bureaucracy. Recruitment and promotion in the bureaucracy have to be based on merit rather than political patronage, ethnic and religious considerations. Also, civil servants need to have predictable career paths. As in developmental States elsewhere, including Japan, changes in political leadership should not affect the positions of these civil servants, and the bureaucracy has to be insulated from the political elite and direct political and sectional group pressure. Moreover, the issue of training and re-training is essential for capacity enhancement, with adequate and competitive remuneration and modern ICT systems for operations and service delivery.

African countries will also have to re-establish ministries of planning or competent planning commissions charged with responsibility for overall development planning, alignment of the policies of line ministries, and ensuring complementarities between economic and social development. In effect, the need to revive the planning capacity of the African state is urgent through the establishment of ministries of planning, or of planning commissions, which will aim to ensure effective coordination and alignment of government policies and programmes. Such planning bodies are more effective when located in the office of the head of government (president or prime minister) as strongly suggested by the experience of Korea with its Economic Planning Board (before it was disbanded in the mid-1990s), the Economic Development Board of Singapore, the Economic Planning Unit (EPU) in Malaysia, and the celebrated MITI of Japan.

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The case of the Economic Planning Board is illustrative. It "…had a broad mandate over planning, budgetary and economic management" (Ohno and Shimamura, 2007). This enabled it to ensure that government policies, programmes and spending were synchronized, thereby avoiding overheating of the economy. Korea's economic teams "were co-coordinated and led by clearly identified economic czars", namely the deputy prime minister and the minister of the Economic Planning Board (Edigheji, 2007:133).

On the leadership role of planning bodies, the EPU in Malaysia is a good case study. According to Ohno and Shimamura, The Economic Planning Unit (EPU) in the Prime Minister's Department, which is charged with preparations for the Government's medium and long-term plans and mid-term plan reviews, has been the key institution for development planning. It is the deciding authority on critical issues surrounding economic activities, including those affecting investment selections and development budgeting. The EPU is regarded as the super-ministry, and has command over alignment of policies and resources with development priorities. The Ministry of Finance works closely with the EPU to realize the vision for long- and medium-term development plans. The EPU plays a central role in deciding the allocation of development expenditure, enforcing the aggregate and sectoral ceilings of development expenditures throughout the plan period, and selecting the priority public investment projects (Ohno and Shimamura, 2007:33,77).

It is not only the capacity of the bureaucracy and the planning ministry or commission that should be invigorated, but also that of all public institutions especially public financial institutions—the central bank, the ministry of finance, the stock exchange commission, the tax collection authorities (tax office, customs, immigration, etc), and the oversight institutions such as the offices of the accountant general, anti-corruption commission, and the ombudsman, among others. Transformation institutions are at the heart of state capacity. They should be inclusive and operate transparently and accountably (box 5.4).

Box 5.4: Relationship between the nature of political regimes and economic development

Evidence from the history of development suggests that the relationship between the nature of political regimes and economic development is mixed. There have been authoritarian States that achieved remarkable development success as well as some that have not. For example, when countries in East Asia began to build developmental States, some were democratic (Japan) and others were autocratic (Korea). To argue that developmental States are synonymous with authoritarianism is to misread the history of East Asia.

There is ample evidence of developmental States that emerged in the context of democratic governance, such as the Nordic countries and Brazil. The two most often cited examples in Africa are Botswana and Mauritius.

Developmental States, then, emerged in different political contexts. However, for development to be inclusive and sustainable, it must be grounded in a democratic context. Indeed, freedom, as Amartya Sen (1999) noted, is a form of development.

Focused industrial policy

To catch up and, more important, to meet its own development objectives, Africa needs to promote rapid industrialization that will promote innovation, technological adoption, entrepreneurship, high value added and employment-generating manufacturing. This will enable the continent to overcome the low contribution of industry and manufacturing to GDP and employment. The formulation and implementation of industrial policy will enable African governments to target particular activities or sectors for support. Each country will have to identify niche industries where it has competitive advantages or the capability to develop dynamic advantages. This in turn will contribute to Africa's industrial development. However, unlike most countries in post-independence Africa, which thwarted the emergence of a capitalist class, the 21st century African developmental state has to vigorously attempt to build an indigenous capitalist class.

Also, unlike the experiences of the 20th century developmental States elsewhere, industrialization in Africa in the 21st century will have to be sensitive to environmental sustainability (chapter 3). The development of renewable energy and a green economy as part of Africa's overall development strategy cannot be over-emphasized. Renewable energy in particular and the green economy in general offer Africa a basis for transforming the structures of its economies and to create sustainable jobs and livelihoods.

The industrial strategy of the developmental States of East Asia suggests that creating industrial winners through fiscal incentives to facilitate enhanced productivity and some form of protectionism were critical for the growth of local manufacturing. While protectionism may be difficult and largely unfashionable in a globalized economy regulated by WTO, nonetheless, as part of their industrial policy, African States should ensure a phasing-out process to protect local industries, which is necessary for their growth and consolidation. This will enable them to compete, over time, in the global economy.

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Investment in research

In a knowledge-driven global economy, investment in research, science and technology for economic development is central to boosting production, enhancing human capacity and reinforcing the capability of the state. To promote sustainable growth and economic transformation, African countries would have to scale up their investment in R&D, which stood at 0.4 per cent of GDP in 2007; Asia had gross domestic expenditure on R&D (GERD) of 1.6 per cent as a share of GDP. Except for South Africa, which invested 0.9 per cent, GERD as a share of GDP of most sub-Saharan African countries was less than 0.3 per cent in 2007. In Asia, Korea, for example, spent 3.2 per cent, China 1.4 per cent and India 0.8 per cent (UNESCO Institute of Statistics dataset, 2010).

Given that Africa's R&D is very low, GERD should be increased to more than 1.6 per cent of GDP—Asia' rate. This should be accompanied by effective measures to improve the quality and relevance of educational outcomes to the needs of the job market. The tertiary education sector, especially the universities, which should constitute the site of advanced knowledge production and scientific research in Africa, is currently witnessing a severe crisis in terms of standards due to poor funding, a brain drain and massive commercialization in the sector (Akin Aina, 2010; Mamdani, 2007)

Major problems are also seen in health. In 25 African countries, more than 40 per cent of their medical doctors lived and practised overseas in 2000 (Clemens and Patterson, 2007). These included Mozambique (75 per cent), Angola (70 per cent), Malawi (59 per cent), Zambia (57 per cent), Ghana (56 per cent) and Kenya (51 per cent). These figures highlight the acute brain drain among African professionals. Reversing the trend and retaining those professionals who have not left would help Africa keep the skills needed for its development.

To boost science and technology, there must be a conscious policy to revive and sustain the quality and standard of university education in Africa. Some of the options may be to designate regional centres of excellence amongst African universities, which regional institutions such as the African Union, the regional economic communities and United Nations agencies such as UNESCO could support in specific areas of advanced knowledge production and scientific innovation. National governments would also have to scale up their budgets for education and scientific research.

Enhanced social policy

To become developmental States, African countries have to revise their social policies. As in Asian and Latin American developmental experiences, these should include measures to increase income support, gradually reduce income inequality and ensure access to the basic social goods of education, health care and decent livelihoods for people. In other words, social policy measures have to meet the basic goals of human existence as contained in the MDGs.

Heavy investment in skills, education, health care and infrastructure (including economic infrastructure) will be important tools for expanding human capabilities in Africa.

Heavy investment in skills, education, health care and infrastructure (including economic infrastructure) will be important tools for expanding human capabilities in Africa. They will also become important means of enhancing the productive base of African economies. Of course, a combination of development strategies that promotes investment in education and infrastructure, such as roads, water and electricity, would improve the environment for doing business in Africa, and attract greater volumes of FDI.

5.5 Conclusions

THE URGENT NEED for economic transformation and take-off by African countries underscores the importance of building developmental States on the continent. Developmental States, barring external shocks and adverse global conditions, can stimulate rapid economic growth and diversification, technological innovation, industrial development and social welfare in Africa.

Development States have no single model, however. They have emerged in history through many trials and much error; hence no easy template or "one-size-fits-all" formula may be used to construct them in Africa.

A developmental state is about state involvement in the economy and society, but not by a state-dominated economic development model. It is about seeking the right mix between the state and the market, governing and controlling the market and market forces to prevent market failure, and supporting private agents and entrepreneurs to realize their full potential and to contribute to economic development. It is definitely not about a return to the state-dominated economic development model of the 1960s and 1970s.

Constructing developmental States in Africa will require a purpose-driven and nationalistic political leadership to chart a developmentalist vision and to build a powerful constituency in the state and society to support it; commit to the development of a strong entrepreneurial class; promote macroeconomic stability; invest in innovation, science and technology; build strong and capable institutions; and reform social policy—all while expanding the social (and economic) infrastructure. While they may not be able to attract adequate external capital inflows to fill their development financing gaps, nonetheless, effective mobilization and use of domestic resources would help Africa's developmental States to realize the major objectives of economic and social transformation of the continent.

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Notes

1 Japan is in the first generation of East Asian economies that can be termed a developmental State, while Korea, Singapore, Hong-Kong (China) and Taiwan (China) are in the second.

2 China, Hong Kong SAR, Japan, Korea, Malaysia, Singapore, and Taiwan (China).

3 The 1970s was when the variations of economic performance in developing countries started. Prior to that, most had similar developmental outcomes.