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DISCUSSION REPORT SECTION II[1]

D. McClatchy (Canada)[2]

In my view, Shaffer and Wen have given us an ideal paper for a conference such as this – international in scope, very thought-provoking, and a collaborative effort of respected experts from two different countries. You should read it in its entirety. It is also a paper spiced with optimism for the future, and is therefore a contribution which will help in dispelling that unfortunate popular perception of economists.

As we all tend to do, Shaffer and Wen are seeking some sort of universal truth, the generally applicable principles of successful rural transformation. They are open and honest about the dangers of generalization – recognizing that the provinces of China and the countries of Africa are heterogeneous in many respects – but they seek it nevertheless. I think it is fair to say that there is an underlying presumption in this paper, as in many others, that there do exist some essential elements of successful rural transformation, wherever it is to be achieved. I am not convinced that this underlying presumption is valid, but it would be nice for us as a profession if it was, and the possibility is certainly worth pursuing.

In making their comparison of China and Africa in a broad-brush way, the authors have, I think, done a fine job of summarizing the key pertinent facts in each case. I do not consider myself an expert on either region of the world, despite some limited work experience in both, and do not intend to quibble about what has been included in, or omitted from, the review sections. Rather, I would like to raise a few questions about the implicit and explicit conclusions the authors draw from what, I am prepared to accept, are the facts in each case. First, I wonder whether the Chinese success is as far ahead of the African experience over the last two decades as in the picture the authors seem to paint. I question this for two reasons:

(1) It depends on the indicators chosen. The per capita statistics for production or income growth, of course, tend to put China well ahead, even given the disparate rates of population growth in the two regions. I include myself among the many economists who see growth per head figures as perhaps the most important indicators of progress in economic development. Yet I cannot help wondering if our African colleagues or

[1]Section II contains five papers. Formal discussion openings for the first two (by Peter Calkins and by Uma Lele, Robert Emerson and Richard Beilock) were not presented because of the unavoidable absence of the scheduled speakers.
[2]Agriculture and Agri-food, Canada.

African politicians would rank per head growth rates ahead of aggregate growth rates in importance. Shaffer and Wen themselves acknowledge that Africa's 2 per cent increase in agricultural output under the adverse conditions of the past 14 years was a notable achievement.

(2) My second reason for doubting whether China's success was as superior as it is portrayed in the paper is that I think we must ask to what extent it is sustainable. The performance figures emphasized in the paper are 1978 to 1993 averages. I believe that comparable figures for recent years fall short of these averages. Also irrigation is important to much of Chinese crop output, as the authors point out, and I know that, in at least some parts of that country, ground water levels are declining at alarming rates.

Second, although there are many important observations in the paper, I feel uncomfortable with some of the explicit conclusions which are drawn. The key observations are that generally great importance attaches to knowledge, and specialization in its production and distribution, to the nature of the system of governance, to ethnic customs and to the rural incentive structure. Then for Africa the authors focus on the unreliability of food markets and the experiences of the recent history of political transition and instability in many countries. They point out the role in China of township and village enterprises (TVA). There are then huge differences between China and Africa in literacy, health, population growth rates and rural to urban migration.

Against that background, or perhaps in spite of it, I can accept, in its generality, Shaffer and Wen's view that it remains possible to develop a strategy to promote transformation, but am not so happy with some of the precision which they then proceed to add to this:

(1) They reject the notion that just eliminating the 'negative' policies would suffice on the grounds of insufficient evidence. But of course, if no country has yet tried it, there would be no evidence. This does not prove that it would not work. My concern here is more with the logic than with the statement itself.

(2) I am concerned about the emphasis which Shaffer and Wen seem to place on specific rural and agricultural development programmes, relative to more general policies (such as foreign exchange liberalization, population policy, rural migration policy, education programmes, health programmes, and so on) in outlining their ideal rural transformation package. While recognizing the difficulties of attributing development performance to individual programmes and policies in a quantitative way, I would have liked to see the authors focus a bit more on the relative importance of these more general policies relative to the importance of rural development policies more narrowly defined (infrastructure, agricultural pricing, credit and subsidy policies, and so on).

Perhaps a more desegregated approach would allow such questions to be explored. For example, I believe that Malawi's rural–urban migration policy has been more akin to China's, but has this led to any perceptible difference in

Malawi's rural transformation performance relative to other comparable African countries?

Third, and very much related to my previous point, I cannot help wondering how much can be gleaned from a comparison of performance in two such different cases over a given period (such as the last 20 years) if their starting-point is significantly different. It seems to me that China was already well ahead of much of Africa 20 years ago in terms of rural literacy, rural infrastructure (roads, electrification, irrigation), local government capacity and rural business experience. The pre-existence of a centrally planned economy also makes for a very different starting-point. If all that is so different, then the appropriate set of government interventions may also be quite different. This then would seem to invalidate the attribution of differences in measured transformation or development performance to differences in policies and programmes. Perhaps Shaffer and Wen did not intend to go this far, but it seemed to me that they were leaning in this direction.

These few criticisms apart, I would like to conclude by thanking Shaffer and Wen for this most interesting and provocative paper and for convincing me that it is worth searching for the lessons which the Chinese success might have for much of Africa.

Uma Lele (USA)[3]

The papers on the story of transition in Latin America and sub-Saharan Africa by Frédéric Martin and his colleagues, and by Ishrat Husain on adjustment in sub-Saharan Africa are both of great interest. Martin *et al.* base their work on a case study approach, whereas the Husain paper is an analysis of data for 29 countries looking at indices of final performance and at some less aggregate material. The first group of authors appear to be more optimistic than Husain, though the basis of their optimism is difficult to judge since they do not employ quantitative analysis. The devil is in the details and there are not many quantitative details in the paper.

Both papers raise central issues, though readers need to be reminded of the fact that judgements about performance depend on the choice of the base period. I know of work at the World Bank by Surjeet Bhalla on the impact of structural adjustment on living standards in Sri Lanka. By 1981, the country had performed well if the chosen base period was 1977, which marked the bottom of the income levels, but not so impressively if the chosen base period was 1973. By 1981, Sri Lanka had not reached the levels of income it had in 1973. Adjustment in Africa raises similar questions of the choice of the base period.

Many countries have not yet reached the peak production levels they had experienced earlier in the 1970s, although their performance has bottomed out. Saving rates are very low in many countries, including those that have performed well. On the other hand, Kenya seems an outlier. One needs to understand better the reasons for the differences in the savings behaviour among countries.

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The more serious, related problem seems to be with regard to the low rates of investment, including that in the countries performing well, particularly given the important complementarity between the public and the private investment. For instance, another paper on adjustment carried out in the World Bank on Asia and Latin America shows that a 1 per cent increase in real output growth has a 0.15 per cent positive effect on private investment, but a similar percentage increase in public investment has a positive effect of over 0.25 per cent on private investment. That stresses both complementarity and the importance of public investment for private investment. How is the low public investment in Africa affecting the rate of private investment, particularly given the already low levels of physical infrastructure discussed in other sessions in this conference?

Not surprisingly, given that it deals with sub-Saharan Africa, the Husain paper shows an increased reliance on foreign aid, and the adverse effect of increased food aid on the incentives for domestic food production. The share of the World Bank and the IMF in debt service has increased over time, reaching 50 per cent in some cases, but is being brought down through concessional balance of payments assistance in the form of adjustment loans. As to the role of international commodity prices, Husain argues that the volume effect was more important than the income effect. I wonder if the paper draws the correct lessons from Asia on the issues of governance. Governments played an important role in the development of agriculture and in overall economic development in Asia.

There is also an interesting issue of the likely impact of debt overhang on the likely future growth rates in Africa. For instance, increased debt payments lead to an increased possible tax on future earnings, reduce the rates of domestic savings and investment, and have an adverse impact on private foreign investment owing to the concern about the stability of the exchange rate. Those factors appear likely to have an adverse effect on long-term growth and it would be interesting to know more about their importance in Africa. There is some evidence from Chile, Bolivia and other Latin American countries that there is a long lag in investment there, compared with Singapore and South Korea, because of debt overhang.

The important contributions of the Husain paper lie in reminding us that often reforms in Africa are not credible, public expenditure and civil service reforms are not increasing public investment, and Africa may not have sufficient external finance to compensate for these domestic shortages.

Syed M. Ahsan (Canada)[4]

The paper by Ishrat Husain, presented here by Kapil Kapoor, recapitulates the major findings of some recently completed research on Africa undertaken by the World Bank, namely the Africa Adjustment Study (AAS) and a companion case study of seven selected countries. The AAS analyses the experience of 29 sub-Saharan countries with the structural adjustment policies (SAP) carried

[4]Concordia University, Montreal.

out over the period 1987–91 in light of the background scenario of economic crisis prevailing in the preceding period of 1981–6. The case study provides a deeper examination of the experience of Burundi, Côte d'Ivoire, Ghana, Kenya, Nigeria, Senegal and Tanzania.

The AAS findings are concerned first with the role of external shocks. They pose the major question of the extent to which one can relate the relative underperformance of the developing countries in Africa (compared with Asia, for example) to external factors. Adverse movement of the terms of trade (TOT) is frequently identified as the major element of external shocks afflicting a developing economy. The AAS concludes that the decline in the TOT accounts for a relatively small part (10 per cent) of Africa's decline in growth rates. The author cites several generally corroborative studies carried out independently. Such a minor role for TOT movements is further explained by noting that countries differ in the foreign trade share of GDP, and also in the commodity composition of tradeables. Since TOT movement is not uniform across commodity groups, the aggregate impact can often be marginal, though individual countries can indeed be badly hurt (or even be winners). In the SSA case, the major exports are oil and gas (40–45 per cent of total exports), followed by metals and minerals (20–25 per cent) and agriculture (20–25 per cent). While the terms of trade rose by over 100 per cent for oil and gas over the period 1970–90, for mineral and agricultural exports there was a decline of 50 and 34 per cent, respectively.

Given this evidence, the study concludes that, except in a few cases, it must be internal shocks such as poor macroeconomic policies that explain the relative economic decline in sub-Saharan Africa. High and pre-existing debt burdens, and severe drought in southern Africa, also deserve mention in the list of domestic factors. Not having had a chance to look at the source material, the World Bank reports which are cited, it is difficult for me to provide a critique of the paper. It is dangerous to find faults with a brief summary of lengthy research reports. Nevertheless, I submit the following observations. Countries for which foreign trade constitutes a significant fraction of output (say above the median for the group as a whole), could have been separated from the rest to explore the possible role of external factors. A second broad point is that it is not too clear what the author's reference scenario is. Even if a country appears to have done well against its own (or the group) performance in an earlier period of bad economic management (1981–6), this may not say much. A research design in which countries were to be grouped according to similarities in trade dependence by commodity, with the comparison then being made with a similar set elsewhere in the world who were also pursuing adjustment programmes but did not have the severe debt overhang of SSA (or the drought problems), comes to mind as a possible way of obtaining additional insights. Such a study could focus on the several sets of countries, separately, with each classified on the basis of (selected) commodity concentration in GDP.

The second major question posed by the AAS concerns the degree to which a set of policy reforms were actually implemented in this sample of 29 countries. The policy packages under investigation covered macroeconomics (inflation, exchange rates and fiscal policy) and management of policies relating to trade, agriculture, public enterprises and the financial and public sectors. The study ascribes limited success in the areas of macro policy, trade policy and agricultural price reforms. In the latter context, reduced taxes on farmers have led to modest gains in producer prices in ten countries, despite a huge decline in real export prices, leading to improved production and exports. From this evidence the author appears to conclude that reduced taxation of agriculture has helped the poor. This may require a leap of faith! The rural poor (say, those well below the calorie-determined poverty line) are the practically landless and marginal farmers, and a rising farm income (from tax rebates) need not lead to increased rural wages unless it is accompanied by an increased demand for labour. Besides, crop income would ordinarily provide a small fraction of their total income.

Little progress is recorded on reforms in the areas of public enterprise, financial sector and public sector management. Overall, the study does conclude that countries which pursued adjustments consistently enjoyed a median increase in per capita GDP by almost 2 percentage points over the period 1981–6 to 1987–91. A bigger decline was in store for countries failing to implement policies. In order to assess both the extent of reform and the consequent results, a sub-sample of the seven countries identified above was taken up as the subject of case studies. Presumably these were the ones that pursued some of the policies more vigorously than the rest. To sharpen the focus of the analysis, the author discusses the study results under five headings. These are reviewed in turn.

(1) Has growth been adequate? Except for Côte d'Ivoire, the growth rate (per capita GDP) in the six averaged 4.5 per cent over the adjustment period. This contrasts sharply with a growth rate of 1 per cent in the immediate preadjustment period noted above. While growth at this rate is commendable by any yardstick, reverting to a point made earlier, I would submit that a record of other non-SSA countries pursuing similar policies would have provided a more informed judgement of the present performance.

(2) Has supply response been strong? While per capita food production appears to have risen in almost all countries against the 1979–81 benchmark index, the magnitude is palpably marginal. Even in Ghana, the stellar performer in this category, the per capita food production in 1991 was even less than 10 per cent higher than the average of the 1979–81 period! On the export side, however, the glimmer of hope is a little brighter. The author notes that, in spite of TOT difficulties, export growth has been consistent across this group of countries, surpassing the pre-crisis level. The success with the diversification of the export base, while evident in the case of Ghana in particular, still remains uneven and is indicative of what I see as a particularly hard task ahead.

(3) Do investment to GDP ratios show improvement? Total investment has declined, owing mainly to the adoption of a cautious approach to public-sector undertakings. In an attempt to boost the efficiency of investment capital adjustment policies emphasize maintaining the quality of public investments. Private investment, in turn, has failed to pick up the slack so caused. Here the prospects do not look bright. The very nature of adjustment (tighter monetary policy, higher interest rates, devaluation and trade

liberalization) tends to raise short-term costs of capital. The consequent improvement in output demand and revenue would perhaps register only after a lag, thereby creating a vacuum. The past record of policy management apparently stands in the way of transmitting the appropriate signals. The stability, continuity and credibility of public action is being questioned.

The paper says little of credit constraints facing both farmers (especially smallholders) and small modern-sector entrepreneurs, except that financial market reforms have not gone well. Clearly, if, in the face of rising borrowing costs, credit is still being rationed, such constraints are bound to stifle incentives. That must be regarded as an example of a 'policy failure'.

(4) What role has been played by external financial flows? There are three potential elements to external flows, namely, (a) the terms of trade, (b) the debt burden, and (c) external resource transfers. The hard part is to be able to disentangle the sources of output growth between the two components, external factors and policy reform. Net external flows, allowing for all elements, allowed Tanzania to make progress, but Nigeria was a big loser and there were some losses in Côte d'Ivoire and Senegal. Policy reform presumably worked for Nigeria (recall that its output per capita grew only slightly less than in Ghana), in spite of the country having to forgo 5 per cent of its output in debt service each year. Similar claims can be made for Ghana, and to a lesser extent for Kenya. There is little evidence of any policy impact in Tanzania or Côte d'Ivoire.

(5) Have adjustment policies hurt the poor? The study finds some improvement to have occurred in the welfare of the rural poor, though those in urban areas have actually been damaged. It is argued that, unless growth is accelerated to the 6–7 per cent range poverty alleviation will be an elusive goal. This is well recognized and many countries have been experimenting with alternative transfer programmes (in food or cash) and with credit programmes for the landless. Presumably, it is now time for attempts to be made to concentrate upon the urban poor (for example, by subsidizing urban renewal). If structural adjustment hurts the poor, it is evident that their relief needs to be urgently tackled. This is an issue where I agree with the author, and one which has to be stressed.

Chairpersons: Robert Saint-Louis (2), Josué Dioné.
Rapporteurs: Don McClatchy, Frédéric Martin, Ellen Hanak Freud, P. Calkins.
Floor discussion: P.C. Sarkar (2), W.P. Ntsekhe, J. Made, A. Olomola (2), E. Koffi-Tessio, J-M. Boussard, P.-R. Seka, S. Frauzel, D. Chanyalew, K. Pilgram, E. Asante, Y. Fosu, P. Karungu, A.C. Nwosu, D.G.R. Belhaw, F. Mucavele, Naomi Ngwira, F.G. Mucavele, U. Koester, R. Adam, R. Hamatty.