

Discussant comments on “China’s Agricultural Development and Policies: Are There Lessons for Sub-Saharan Africa?”

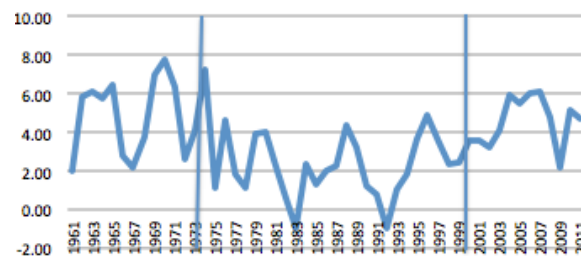
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China is indeed an intriguing potential role model for developing nations in quest of rapid economic growth and successful poverty reduction. It has not only sustained an average annual GDP growth rate of 10 percent between 1980 and 2011, it has also been extraordinarily successful at reducing poverty, taking more than 650 million people out of extreme poverty over the period. These are two extraordinary feats. It is, however, often said that China is a unique case, with few transposable lessons due to its exceptional size and past. With Sub-Saharan Africa (SSA) at a time of economic takeoff and in need of sustained growth and massive poverty reduction, finding out if at least some lessons from the Chinese experience are transposable can be a useful contribution. There are no better researchers to inform us on this than Scott Rozelle and Jikun Huang. So, what they have to say is indeed important. In what follows, let me try to qualify and extend some of the lessons they are proposing.

African growth: Strengths and fragilities

It is important to start with the right facts. Sub-Saharan Africa is no longer a stagnant region, but has achieved significant economic growth since 2000. This can be seen in Figure 1 for the developing countries of SSA. The average annual growth rate that was a respectable 5 percent in the post-colonial 1961-74 period, fell to 2.2 percent during the “dark years” of the debt crisis and associated stabilization and adjustment policies. With a population growth rate of 2.8 in this period, GDP per capita growth was negative, the only continent with sustained income contraction. But the dark years are over. SSA has moved from stagnation to a 4.6 percent average annual growth rate, with a per capita growth reaching 2 percent per year.

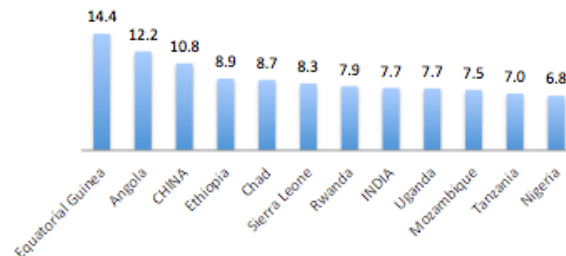
Figure 1: SSA developing countries, annual GDP growth



Average annual growth rate		
1961-74	1975-99	2000-11
5.0	2.2	4.6

As seen in Figure 2, 10 Sub-Saharan countries have achieved growth rates above 6.8 percent/year during the 2000-11 period, making them comparable to China (10.8%) and India (7.7%). While SSA may still be in the “Bottom Billion” in terms of poverty (Collier 2007), it is also now in the “Fastest Billion” (Robertson 2012).

Figure 2: GDP growth rate, 2000-11 in 10 SSA countries, China, and India



This, in a sense, makes the Chinese experience all the more relevant. While China stagnated over the 1950-79 period to subsequently achieve rapid growth over the 1980-present period, SSA stagnated over the 1975-99 period to subsequently achieve rapid growth over the 2000-present period. The issue is thus not the incapacity to growth, but whether growth can be sustained, whether more countries can join the rapid growth club,¹ and whether the quality of growth can be molded to achieve quick poverty reduction. It is from this angle that we look at China for potentially transposable lessons.

What can be said about African growth, and how does it compare to China’s? Consider in Table 1 the sectoral composition of growth and the role of exports in the developing countries of SSA compared to China.

Table 1: Average annual growth rates by sector, 2000-2011

Average annual growth rates 2000-2011	Agriculture	Industry	Services	Exports (2000-09)
Sub-Saharan Africa (developing only)	3.3	4.0	4.9	4.0
China	4.4	11.7	11.4	11.8

We see an important contrast. In China, the growth of industry and services dominates, and export growth was fundamental in creating effective demand for these sectors. This is the neo-mercantilist model, where growth of the domestic market based on demand originating in wages matters less for effective demand than export growth. In developing Sub-Saharan Africa, agriculture is still a fundamental growth sector, but export growth is, like in China, at par with the growth of its industry (that includes mining) and services. The temptations of neo-mercantilism thus loom large, potentially emulating the Chinese experience.

¹ Countries such as Zimbabwe, Côte d’Ivoire, Central Africa Republic, and Togo still had GDP per capita growth rates in 2000-11 inferior to population growth.

What else can be said about Sub-Saharan Africa growth since 2000? Here are a few encouraging signs. (1) Growth fundamentals are in place, with a low inflation rate (7.8 percent in 2011), a government deficit of less than 2 percent of GDP, and an accumulated public debt inferior to 33 percent of GDP. (2) Investment is largely market-driven, with 30 percent annual growth in foreign direct investment, declining dependence on foreign aid, and the emergence of financial platforms in South Africa, Nigeria, and Kenya. (3) Trade has been re-oriented away from former colonial powers, with China now the first trading partner. (4) The structural transformation is well under way, with 36 percent of the population urbanized, and a one-time opportunity to achieve a large rate of savings through an upcoming demographic dividend. (5) Social progress is notable, with an extreme poverty (1\$/day) rate that declined from 42 percent in 1996 to 34 percent in 2005, and the emergence of a thriving middle-class. And, importantly, there has been progress in governance, with democratic regimes now established in some 60 percent of the sub-continent's countries.

Growth remains fragile however, bypassing many countries, and not benefiting many rural poor. Most visible are the following symptoms. (1) While aggregate income has risen and poverty fallen, there are huge disparities in per capita income. South Africa, Gabon, and Botswana have per capita incomes above \$8000. By contrast, Niger, Liberia, Malawi, Ethiopia, Burundi, and Congo DR have per capita incomes below \$400. Huge disparities also exist within countries, with for example Ethiopia growing at 8.9 percent annually since 2000 and still one third of the population with per capita income below \$0.6/day. (2) Civil conflicts remain virulent in many countries such as Mali, Somalia, Sudan, and Congo DR, with ethnic and religious violence, and millions of displaced and refugee populations. (3) Governance has improved, but corruption is still endemic. (4) Population growth remains at 2.5 percent/year, with a rapid entry of youth in the labor force that outpaces the growth of formal-sector employment opportunities. (4) Extensive poverty remains unchanged, with a non-decreasing number of poor below \$1/day equal to 260 million and 200 million suffering from hunger. The health situation can be disastrous. One African out of 12 is HIV positive, a prevalence rate that reaches 15 percent in Zimbabwe, 17 percent in South Africa, 23 percent in Botswana and Lesotho, and 26 percent in Swaziland. Life expectancy at birth has been falling in many countries, reaching only 53 years in South Africa and below 50 in Central Africa Republic, Congo DR, and Guinea-Bissau. There has thus been successful growth since 2000, but growth remains elusive for many countries and for a large share of the population, raising the question of the sustainability of growth, of its inclusiveness, and of its effectiveness for poverty reduction. China has important lessons to offer in addressing these issues.

Lessons from China: Rozelle-Huang

Rozelle and Huang extract two broad categories of lessons from the Chinese experience that are relevant for China. These are experiences from early growth in China, in the 1980s and 1990s when China was still an agricultural country, corresponding to today's conditions in SSA. The first lesson is the importance of productivity growth in smallholder agriculture as a source of aggregate growth, driven by market-based incentives and public support. This took the form of a major reform in property rights

over land, transforming collectives into the household responsibility system with strong incentives to invest provided by secure property rights, the freeing and the integration of domestic markets, and large scale public investment in support of agriculture. This included investment in research and development, rural infrastructure, and institutional support to the adoption of technological innovations. Productivity growth in smallholder farming is also particularly good at reducing poverty when most of the poor are rural and unskilled (World Bank 2007). The second lesson is the role of governance, with strong leadership guided by a long term planning horizon and capable public administration at all levels, from central to local. Rozelle and Huang give importance to the role of incentives to public officials in pursuing economic growth as the main national objective. Ravallion (2008), asking the same question, “Are there lessons for Africa from China’s success against poverty?”, stressed additionally the role of evidence-based policy making. What China did was to test policy reforms on local pilots, and to extract lessons from localized experiences for broad scaling up if successful. This is an important lesson for SSA as it looks for its own brand of policy reforms adapted to different and much more complex ecological and institutional environments than China’s. Among these two lessons, giving priority to agriculture is however easier to achieve than the development of more effective state institutions. As in Gerschenkron’s (1962) theory of relative economic backwardness, substitutes need to be found when conditions for growth are difficult to emulate.

But Africa is not China

There certainly are important similarities between China in the 1980s and today’s SSA that make the Chinese experience relevant. One is the importance of agriculture and the rural population. Today, agriculture accounts for 30 percent of GDP and 70 percent of employment in SSA. A rapidly growing agriculture can thus be highly effective for both aggregate growth and poverty reduction. With relatively weak institutions, agriculture is “easier” to manage efficiently than industry. It is also a key precondition to industrialization in supplying wage goods that can support low nominal wage costs for industry. This is all the more important given that many countries are far removed from the coast, with high transaction costs in importing food. Low wage costs is indeed a fundamental condition for SSA to be eventually successful in attracting the labor-intensive industries that are now facing high wage costs in China. Only productivity gains in agriculture can deliver both cheap labor in term of low nominal wages and industrial competitiveness, and high real wages and poverty reduction.

Another similarity is the potential for a neo-mercantilist (vent-for-surplus) growth model, with exports as the source of effective demand for the growth sectors, especially mining, energy, and land-based agriculture which are all in abundant supply. But the temptations of neo-mercantilism may be more of a threat than a desirable course of action, as discussed further.

There are, however, huge disadvantages to growth in SSA compared to the Chinese conditions, even as they were in the 1980s. The first is the legacy of colonialism, with SSA divided into 48 countries often landlocked and ill designed in terms of borders and

ethnic fragmentation. The second disadvantage is the importance of rainfed agriculture, with less than 4 percent of arable land irrigated, compared to 45 percent in China. Rainfed farming is much more difficult to modernize, with a great diversity of agro-ecological conditions, and as a consequence limited economies of scale in improved production systems. Clearly, a Green Revolution for Africa will have to be vastly different from what it was in China where irrigated agriculture allowed the propagation of technological innovations over huge areas with similar production conditions. The third disadvantage is that SSA is a late latecomer, implying that it has to deal with a well-integrated global economic system and must compete with value chains at a world scale. The natural protection offered to early comers is by now long gone. And fourth is the issue of governance. China has had a powerful bureaucratic system for thousands of years under its pre-revolutionary dynasties. SSA is struggling with new nations, a burdensome colonial heritage, little experience with decentralization of formal governance, and co-existence at the local level between customary authorities and modern political and administrative systems. Clearly, the challenge is huge, presenting a level of difficulty that is a multiple of that which prevailed in China at the time.

Lessons for SSA beyond Rozelle-Huang

In a sense, the two lessons derived by Rozelle and Huang for SSA from the Chinese experience have, formally at least, already been learned. Following the wakeup call of the 2008 food crisis, greater emphasis is now being given to public investment in agriculture. Following the leadership of CAADP (the Comprehensive Africa Agriculture Development Programme), the agricultural development arm of NEPAD (the New Partnership for Africa's Development), countries are expected to spend 10 percent of their total domestic public expenditure on agriculture. With continuing high international market food prices, this is indeed a good time to invest in agriculture. But for this to work, price transmission between international and domestic markets must occur in spite of distance, and domestic markets for non-tradables must be sufficiently deep to avoid a collapse in prices as soon as productivity rises. There are now eight of the 36 countries for which information is available that meet this goal, and progress is being made by most.

What is needed is a comprehensive strategy for investment in smallholder farming that goes beyond support to investment in agriculture. This could be approached by analogy with the generally effective Poverty Reduction Strategy Programs (PRSP), consisting in Smallholder Promotion Strategy Programs with broad participation and informed decisions. The issue of improved governance has received a lot of attention from donors such as USAID and the German GTZ (now GIZ), and progress has been made. This includes more democratic regimes, open combats on corruption, and efforts at decentralization. While a lot remains to be done, recognition of the importance of the state in development and progress in implementation have indeed been achieved.

Because conditions in SSA are different from China's, lessons derived from the Chinese experience need to be adapted, seeking Gerschenkron-type substitutes when necessary. Let me offer four that go beyond Rozelle and Huang.

The first is state-substitutes when governance remains weak. This includes public-private partnerships in putting into place integrated value chains (such as agro-dealers under the AGRA strategy in Kenya), and a greater role for civil society organizations, something notably missing in China. While there is often local resistance to the emergence of producer organizations that will foment greater social differentiation (inequality) and may weaken local schemes of authority, these organizations are key in promoting the competitiveness of smallholder agriculture in the face of integrated value chains and emerging supermarkets. Both China and Africa have bad memories of the role of cooperatives as they were used for highly resented political control. These path-dependent memories must be overcome to give way to new forms of organizations that can overcome state failures and complement what individual farmers can do. China has relied on market and state as engines of growth. SSA must rely on market, state, and civil society organizations, and this all the more so that market and state failures remain extensive.

The second is the management of complementarities between small and large farms. In China, farms remain uniformly small and land consolidation to support mechanization and rising labor productivity is hardly beginning. In SSA, there exist vast tracks of under-used lands that, with due caution to user rights, can be cultivated in large farm units. The "land grab" this may unleash needs careful recognition of occupant rights and abidance to the existing international codes of conduct. However, denying a role for large farms would be a lost opportunity. Much is to be learned here from Brazil that has followed a managed joint small-large farm strategy. Small and large farms can simply coexist, but they can also cooperate. Remarkable examples exist with joint membership in cooperatives to secure economies of scale and market power, sub-contracting between large and small farmers, and joint contracting with agro-processors, agro-exporters, and supermarkets. We need to go beyond ideological denial on small-large farm integrated strategies, with much potential benefit in a continent with so much under-used land and water, one of its main sources of comparative advantage.

The third is investment in the human capital of rural populations beyond what it takes to perform in agriculture. Rural populations will increasingly go beyond agriculture to either migrate to urban environments or engage in rural non-farm activities. For this, rural populations need to be explicitly prepared. Investment in rural education and health must not only help perform in agriculture, but also prepare for employability in urban and rural non-farm activities. This requires higher levels of investment in support of the desired structural transformation. This transformation has been slowed in China by the household registration system, and investment in rural health and education has been lagging. In SSA, the structural transformation has too often produced urban slums instead of industrial growth. SSA must learn from what China has not sufficiently done for itself: prepare its rural populations for a smooth and effective structural transformation, where the shift of labor out of agriculture leads to productively employed labor beyond agriculture.

The last is to resist the short-run temptations of neo-mercantilism and autocracy. A lesson from China is the attractiveness of neo-mercantilism as a strategy to accelerate growth while postponing the rise of domestic wages and the creation of a domestic market for industry. Neo-mercantilism requires strong state intervention to prevent appreciation of the real exchange rate, with sterilization of foreign exchange earnings in foreign accounts such as US Treasury Bonds. The temptations of neo-mercantilism and autocratic governance, two potentially appealing Chinese features, should be tempered. Together, they can deliver quick gains in growth and poverty reduction, but are subsequently difficult to reverse. True development consists in rising wages and democratic rights, not just accelerated income growth. Putting this as an immediate goal will avoid painful subsequent reversals of fortune if transitions toward the domestic market and democratic forms of governance are not achieved.

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