

Learning from the Chinese Miracle

Development Lessons for Sub-Saharan Africa

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Abstract

A notable contrast in modern economic history has been the rapid economic growth of China and the slower and volatile economic growth in Sub-Saharan Africa. As the engagement between the two continues to grow, there will be a greater cross-fertilization of experiences. Total factor productivity comparisons suggest that capital accumulation in China coupled with more efficient factor usage explains the differential with Africa. Although the two have similar populations and patterns of inequality, their growth trajectories have been divergent. What can Africa learn from China?

Although the lessons vary depending on country location and resource endowment, seven basic lessons are visible. First, the political economy of Chinese reforms and the shared gains between political elites and the private sector can be partially transplanted to the African

context. Second, the Chinese used diaspora capital and knowledge in the early reform years. Third, rural reforms in China helped accelerate economic takeoff through a restructuring of property rights and a boost to both savings rates and output. Fourth, Chinese growth has taken place in the context of a competitive exchange rate. Five, port governance in China has been exemplary, and African landlocked economies can benefit significantly from port reform in the coastal countries. Six, China has experimented with a degree of decentralization that could yield benefits for many Sub-Saharan African countries. Seventh, Africa can learn from China's policies toward autonomous areas and ethnic minorities to stave off conflict. Africa can learn from China's experiences and conduct developmental experiments for poverty alleviation goals.

This paper—a product of the Poverty Reduction and Economic Management Sector Unit, Africa Region—is part of a larger effort in the region to share the development experiences across different continents and to encourage South-South learning and collaboration. Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The author may be contacted at azafar@worldbank.org.

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**LEARNING FROM THE CHINESE MIRACLE:
DEVELOPMENT LESSONS FOR SUB-SAHARAN AFRICA**

Ali Zafar

Reforms are China's second revolution.

Deng Xiaoping

And 30 years after reforms began, China now exports in a single *day* more than it exported during the entire *year* of 1978.

Robyn Meredith

What we see is that with very practical approaches — of investing in improved agriculture, of investing in improved infrastructure, of investing in basic health — not only will the quality of life for the poorest of the poor be raised tremendously, not only will millions of people who otherwise will die be able to stay alive, but also, they will begin the process of economic development. It will unlock the poverty trap and allow them to start moving forward.

Jeffrey Sachs

It is important to nurture any new ideas and initiatives which can make a difference for Africa.

Wangari Maathai

I'll love you, dear, I'll love you till China and Africa meet and the river jumps over the mountain and the salmon sing in the street.

W.H. Auden

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Introduction

One of the miracles in modern economic history has been the rapid economic growth in China, and one of the disappointments has been the low and erratic growth record of Sub-Saharan Africa. The success of the East Asian dragon has catapulted it from a peripheral role in the world economy to a more central role, while Sub-Saharan Africa's record has been mixed, with the continent in many ways becoming more and more marginalized from world trade and financial flows. Regardless of the metric employed, the growth trajectories of the two have been remarkably dissimilar, especially since China launched its reforms in 1978. While Africa is not a homogeneous landscape, with considerable diversity of country experience, the basic story has been one of lower growth relative to expectations in marked contrast to the sustained Chinese growth spurt. This is especially noteworthy in spite of some similarities since both are parts of the developing world, with large landmasses, significant domestic population, not very high levels of arable land, with an external colonial history, and large populations which have emigrated overseas. However, China's abundance of labor and relative scarcity of natural resources has also influenced its developmental trajectory in a particular way in comparison to Africa.

China has had a spectacular and sustained growth record in the last two decades, with GDP growth rates averaging more than 9 percent. China's truly meteoric growth has led to speculations that it could become the world's second-largest economy if its growth rate continues unabated over the next decades. In less than 30 years the country has had a rapid economic and structural transformation with the GDP per capita increasing from \$ 150 in 1978 to more than \$ 1500 by 2006. China's share of world economic output has grown from less than 3 percent before the 1978 reforms to almost 15 percent in 2008. The volume of international trade has increased more than eightfold over the last three decades, and during the reform period of 1978 to 1993, trade outgrew GDP. What is especially noteworthy about China is that it has achieved this record without a year of output decline.

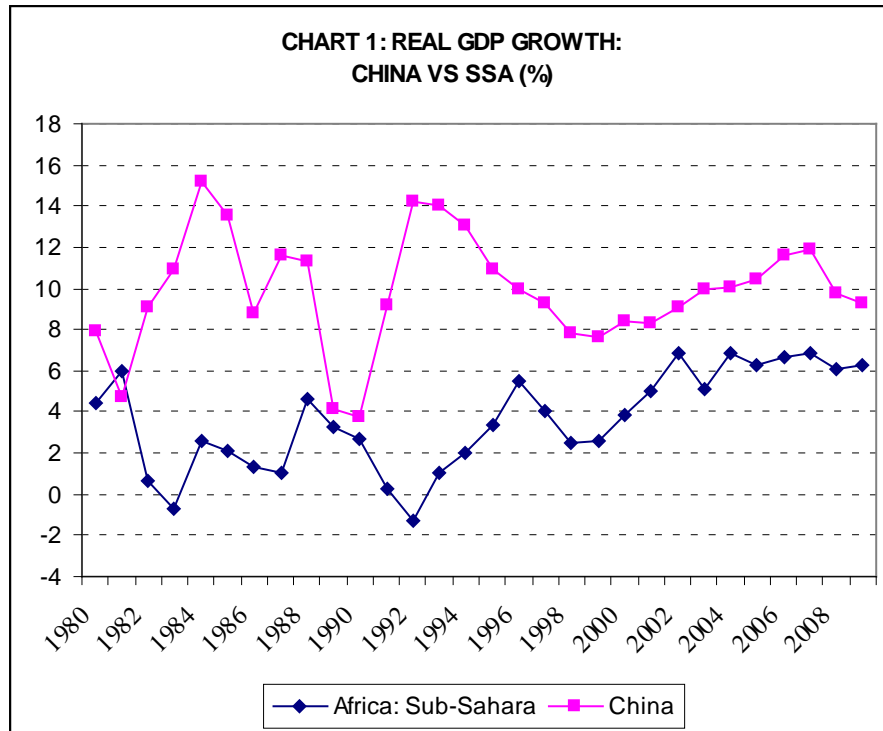
In parallel, there has been a dramatic decrease in the incidence of poverty between 1980 and 2005 and a significant improvement in living standards, although the bulk of the gains have occurred in the earlier part of the reform process. The number of people freed from poverty are estimated at 500 to 600 million depending on the dataset and definition of the poverty level. Other statistics paint an even more compelling picture of the impact of China's reforms. China's average life expectancy rose from 35 years in 1949 to 73 in 2005, and the infant mortality rate fell from 200 per 1,000 births in 1949 to 15.3 per 1,000 in 2007. Similarly, China's illiteracy rate declined from 80 percent in the late 1940s to 15 percent by 2007.

The Chinese experience has been a fascinating one, with a significant structural transformation in less than 30 years as the country transitioned from a centrally planned economy to a market economy and as private investors became a more significant part of production and trade. The reforms began in the agricultural sector in 1978 with the introduction of the household responsibility system (HRS) and the decollectivization of agriculture and then were subsequently expanded to industry. With the development of township and village enterprises in the mid 1980s, rural industry expanded. In parallel, there was a process of economic opening to the global economy with the introduction of the special economic zones. Subsequently, there was the reform and restructuring of the state-owned enterprises with the privatization of many of the smaller ones. Through these years, there was the startup of numerous private enterprises that became the catalyst of economic expansion and that became responsible for a large percentage of GDP and exports. The main thrust of the Chinese reforms was "growing out of plan" and involved the introduction of competitive market pressures, the rise of non-state private firms, and the evolution of property rights. The Chinese development strategy was very much a hybrid approach and never involved a full-scale privatization or liberalization, but rather the careful and selective introduction of reforms.

By contrast, Sub-Saharan Africa's record has been low relative to the potential and to the vision envisaged in the early decades after independence. Sub-Saharan Africa enters the 21st

century with many of the world's poorest countries, with average income per capita lower than at the end of the 1960s (World Bank, 2000). While post-1995 growth rates have been higher than in

previous years, Sub-Saharan Africa (SSA) has more people living on less than a dollar a day than in the 1980s. In fact, while the poverty rate in East Asia fell from almost 80 percent to under 20 percent over this period, it stayed at



around 50 percent in Sub-Saharan Africa, though with signs of progress since the mid 1990s (Chen and Ravallion, 2008). If current demographic and mortality trends continue, Africa will be the only region where the number of poor people in 2015 will be higher than in 1990. African populations missed out on the growth that was taking place in the developing world, particularly in Asia, in the second half of the 20th century (O’Connell and Ndulu, 2006).

Moreover, there has been slow and erratic growth of large countries, especially conflict-ridden countries such as Sudan and the Democratic Republic of Congo. Ethnic and national violence have led to pronounced output declines in a number of countries, rendering macroeconomic and monetary management even more difficult. Growth, investment, and fiscal and current account positions are significantly correlated with violence in many of the SSA countries. Also, there has been quite a significant fluctuation in growth rates in SSA due to country vulnerability to exogenous terms of trade shocks. Since most countries in Africa are primary commodity exporters, they are significantly vulnerable to trade shocks.

Finally, not all experiences have been the same. Initial conditions, policies, political economies, resource endowments, and presence of conflict have all influenced growth outcomes. A significant number of countries in SSA have sustained annual growth rates of more than 5 percent for more than a decade. The growth experiences are also quite diverse, with a few countries experiencing consistent long-term growth, a few experiencing long-term stagnation, and the majority experiencing some growth, especially between 1960 and 1973 and between 1995 and 2008 (World Bank, 2007).

Overall, there are significant differences in Chinese and African growth rates (Chart 1). China's growth has relied on agricultural reforms, and subsequently, a growing investment and capital formation coupled with a phenomenal trade surplus (Chart 2). At the same time, there was not a significant increase in external assistance or indebtedness. The state sector has reduced in size and the private sector in China has grown steadily over the years and has become one of the big drivers of productivity growth and employment generation. Currently, it accounts for more than 50 percent of GDP. Moreover, China's rapid rise in savings compared to investment has translated into a strong current account surplus as well as a rise in central bank reserves. Household savings have reached more than 40 percent of national disposable income. At the same time, this has been possible with a containment of inflation (Chart 3). Finally, it is important to note that rural growth has played a big role in poverty reduction in China.¹

By contrast, African growth has been more elusive and less sustained and has been influenced by commodity price booms and busts. While reforms have been significant, they have not generated the same payoff as in China. While macroeconomic stabilization has been reached to a large extent, the effects on growth have not materialized as strongly as anticipated. The Washington consensus has not been able to reverse African growth stagnation. Moreover, there has not been a strong structural shift from the government to the private sector in terms of

¹ Ravallion and Chen (2007) find that rural economic growth had a much higher poverty impact than urban economic growth during the 1981-2004 period.

employment and growth, and capital formation has not accelerated. Trade surpluses have not been typical for most SSA countries, except in the resource-rich oil economies such as Angola and Equatorial Guinea. While there have been differences across countries, in Africa, the low savings rates have led to a greater dependence on overseas capital and aid, and investment rates have averaged below 20 percent of GDP. By many measures, this has resulted in an increasing debt overhang in the African context and the rise of debt service payments (partially corrected with HIPC). This is in marked contrast to China, which began its reforms with low levels of international debt. Finally, conflict and spillover from neighboring conflict have also played a role in diminish SSA aggregate growth rates and leading to greater volatility.

One interesting phenomenon when comparing the two is recognizing that both China and SSA have very high levels of inequality. If Sub-Saharan Africa were a single country, large national inequalities would just become large provincial inequalities. The gap in per capita income between the richest country in Africa – South Africa – and the poorest – Somalia – is about 20 to 1 in 2007. Generally, richer countries like Ghana and Nigeria are coastal, while poorer countries such as Niger and Central African Republic are landlocked, similar to provinces in China. From an analytical perspective, the standard deviation of a country's GDP per capita is much lower in Africa than in Asia or Latin America, but the standard deviation of country's Gini's is much more than in the other two continents (Milanovic, 2003). In other words, compared to China and other Asia countries, there is less variation in Africa in GDP per capita but more variation in inequality between and within countries. Also, resource endowments in Africa have strong influence on economic destiny as arid and difficult climates hinder economic growth in many landlocked countries, particularly in the Sahara and the Sahel.

Similarly, interprovincial disparities and interregional differences in China are significant, especially after the onset of reforms. In this regard, China provides a laboratory for examining the relationships between growth and inequality as well as the dynamics between the center and the provinces. Chinese statistics show that the differential in per capita GDP between

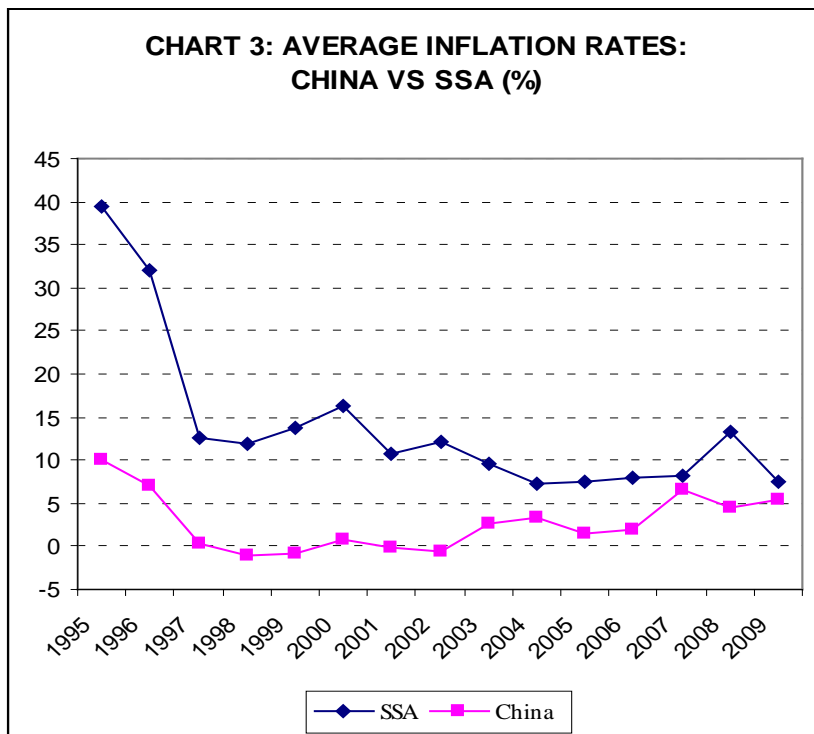
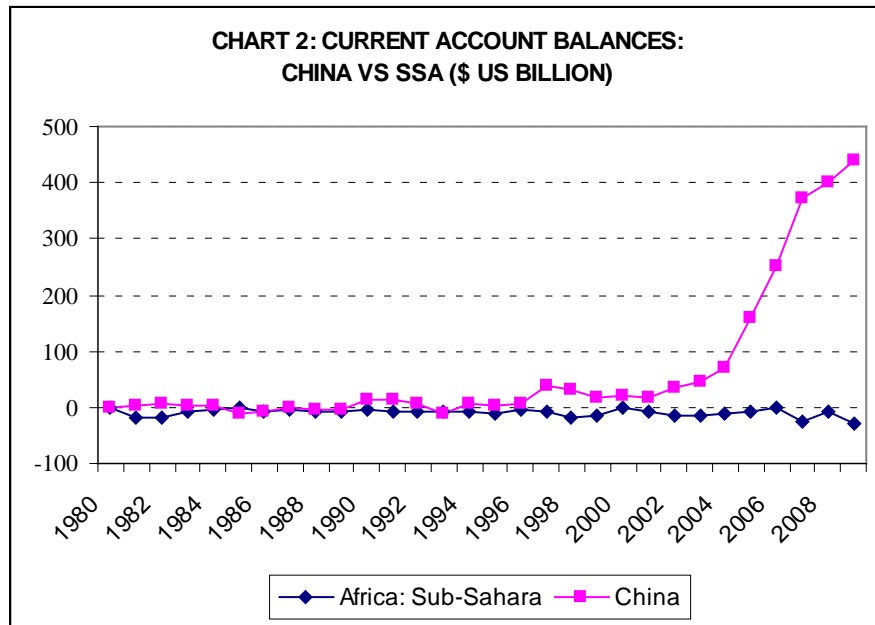
very rich and poor provinces is high, with recent estimates suggesting that between 1990 and 2003, the ratio of the per capita GDP between the richest and poorest province rose from 7 to 13 (Lou and Wang, 2007). Part of this can be explained by trade dynamics and by the fact that China is one of the largest powers in the world with only one coast. Differences in per capita budget revenues are quite large across provinces in China. Furthermore, the per capita spending differentials were high with the rich ones exceeding the poor ones by more than 8 times. Moreover, the Gini coefficient increased from more than 0.25 in the 1980s to more than 0.4 in 2007.² As in Africa, poor provinces in China are generally inland and are sparsely populated, while richer provinces are concentrated in the coastal areas. As China grows, its internal inequality is increasing while it is also affecting global prices.

In an increasingly interlinked world economy, the ascent of China is having ripple effects on the world economy, impacting other countries, including many resource-rich ones in Sub-Saharan Africa. As the country has grown in output, its external economic relations have multiplied. Zafar (2007) traces the growing role of China in Africa in terms of macroeconomics, trade, investment, and aid links and finds that China has exerted a generally positive influence on African terms of trade, growth rates, and exports, although the effect has been felt asymmetrically on the continent depending on country resource endowment.³ The empirical research also shows that much of the trade follows a standard Heckscher-Ohlin framework in terms of the commodity composition of that trade. In many ways, China is acting as Africa's growth engine by influencing global commodity prices and by providing vital capital and investment and a slowdown in China translates into a greater slowdown in SSA. Trade between the two has grown exponentially reaching close to \$ 60 billion by 2008, and Chinese investment and aid are

² The evidence from China based on household survey data suggests that the Gini coefficient has now surpassed the US and is moving towards levels in Latin America. However, it is important to note that the Gini coefficient of land distribution in rural China was 0.49 in 2002 compared to 0.74 in 2003 for India. In Africa, the minimum overall Gini in 1998 was Madagascar with 0.38 and the highest was Lesotho with 0.66. Comparable rural Ginis are difficult to obtain due to methodological reasons.

³ Countries relative factor endowments determine the effect of Chinese shocks on global terms of trade. Oil and metal producers gain the most from China while oil-importing textile producers gain the least.

following a similar path. In the most prominent example to date, China has invested close to \$9 billion in the Democratic Republic of Congo, and it is emerging as one of the largest non-OECD/DAC bilateral aid donors. The increasing in trade and aid based on convergence of interests is matched by an increase in institutional fora and platforms with greater engagement between African and Chinese policymakers across a wide variety of issues. As China's ascent continues, its relationship with Africa can only grow.



The growing linkages suggest that the time is ripe for a sharing of country experience. Growing interdependence means a sharing of perspectives and developmental lessons. As the global economy becomes more multipolar, the rising powers in the East may offer not only capital but also valuable lessons for other developing economies. The emergence of non-Western state players suggests a new and more heterogeneous aid landscape and a non-western approach to development cooperation. South-south cooperation is slowly becoming an emerging tendency. What are the lessons that Africa can learn from China? This is a subject of debate and a growing literature, with important contributions by Dollar (2008) and Ravallion (2008) with each drawing on China's experience to present a set of lessons for African policymakers.

This paper will complement this work by focusing on a related set of issues, focusing on both the macro side and from the operational angle. The study will attempt to disentangle the Chinese growth miracle by examining a set of developmental policy issues relevant to Africa and will also break down the Africa experience into coastal, resource-rich, and landlocked countries and shed light on the diverse set of lessons each group can learn from China. The analytical thrust of the paper will show that while no country can adopt another country's policies lock, stock, and barrel, there is a significant gain in learning from other country experiences and sharing best practices. The theme is to identify those elements from the Chinese experience which are directly relevant to the African context and which are binding constraints to growth in SSA. Thus, the paper tries to identify constraints to growth in Africa and then see where China has been able to make a difference.

There is a large body of literature that assesses the factors behind low growth in SSA. Despite strong resource endowments, overall SSA has not managed to have high rates of investment and capital formation that could be a catalyst for growth. Furthermore, poverty trap indicators identified by Jeffrey Sachs and the Millennium Project as well as other scholars - very high transport costs and small markets, low-productivity agriculture, very high disease burden, and slow diffusion of technology from abroad – further hinder African growth prospects and

increase the indirect costs for exports to two or three times that of other nations. Other scholars have noted issues of macroeconomic stability, institutional weakness, and ethnic fractionalization as strong obstacles to a growth takeoff. The proliferation of small states, the unpredictability of rainfall, vulnerability to trade shocks, and gender inequality are also considered to have been inimical to African development. Overall, constraints to growth can be divided into exogenous and endogenous,, with this study focusing more on endogenous growth since there are myriad factors beyond the control of African policymakers.

The analysis will focus on several of the key areas which could help catalyze African growth: the political economy of reform, the global migrant networks and diasporas and role in development, the role of rural reforms, use of a competitive exchange rate, the importance of efficient ports and proper transit facilitation, the decentralization process, and finally, policies to avoid internal conflict. The work is not meant to be an encyclopedic reform paper, but in the spirit of earlier work by Dollar, Ravallion, and other scholars, to provide basic guidance across a broad range of issues. It will try to address China-Africa issues in parallel across these seven categories.

Beneath the sensational headlines of China's growth miracle, one must disentangle the particular growth dynamics. One useful tool to compare and contrast growth experiences across countries is growth accounting. Essentially, this approach decomposes changes in growth into improvements in factor accumulation (labor and capital) and improvements in total factor productivity (TFP). Using standard neoclassical production functions, one can gauge an empirical relationship between factor usage and economic performance and then determine the Solow residual measuring factor efficiency.⁴ TFP measures the productivity improvements in an economy and can be influenced by a range of policies, such as economic openness, technological spillovers, foreign direct investment, and institutional innovation.

⁴ From an econometric standpoint, TFP is a residual and is estimated indirectly. It is obtained from subtracting the capital and the labor contribution from total growth in growth accounting exercises.

The empirical work substantiates the hypothesis that Chinese growth, as other East Asian growth, was mostly driven by factor accumulation. However, the econometric evidence shows that while capital and labor accumulation played major roles in China's huge growth surge, TFP improvements also had strong effects. In a fairly representative study using standard Cobb-Douglas production functions and conventional parameters, Wang (1999) finds that from 1979 to 1997 while actual GDP growth was 9.5 percent, growth due to factor accumulation was 6.9 percent, while TFP growth was estimated at 2.46 percent. This suggests the returns to capital and labor are improving in China as a result of reforms. Over the years, capital has become more efficient. However, it should be noted that capital accumulation has been significantly more important than labor accumulation in China's growth since China started reforms with a reasonably educated workforce by developing country standards and because labor has had a recent declining rate of human capital accumulation.⁵

By contrast, the African TFP performance has been the slowest of any region in the developing world. Tahari, Akitoboy, and Aka (2004) find that in Sub-Saharan Africa, average real GDP growth from 1960-2002 was driven primarily by factor accumulation with little or no role for TFP growth. While of course, there is more heterogeneity in countries, with middle-income countries in Africa above the average,⁶ and conflict-ridden countries below the mean, the overall contrast with China is striking. Nehru and Dhareshwar (1993) in an earlier study find that the TFP growth in SSA between 1960 and 1987 was negative for almost all the countries, and that the lack of human capital formation has played an important role in SSA's low performance. In parallel, investment to GDP ratios, a reliable metric for capital accumulation, have not averaged more than 20 percent of GDP in SSA over the last two decades.

⁵ China's labor supply is sufficient at least for the next 20 years, but the cost will rise as the population starts aging, in contrast to India, which has a relatively younger population.

⁶ There is some evidence that TFP growth accounts for 50 percent or more of South Africa's economic recovery since 1994. This result is primarily explained by openness to trade and capital flows, lower uncertainty and lower interest rates (du Plessis and Smit, 2006).

Only four countries in Africa – Botswana, Equatorial Guinea, the Gambia, and Mauritius - registered a growth rate of more than 5 percent during 1960 – 2002. While initial conditions play a role in explaining the TFP differential across countries, the gap between the Chinese and the African experience shows that reforms in the two had very different effects on the efficiency of factor use. In China, reforms succeeded in unblocking some of the binding constraints to growth, while in Africa the effects have been less systemic. Moreover, some of the growth in TFP in a number of African countries in the 1990s has to do with a reversion to levels that were achieved in the 1960s and 1970 but which declined in relation to poor management and external shocks.⁷ Overall, a sustained TFP increase in Africa will require a favorable macro policy and exchange rate environment, some degree of trade liberalization, infrastructural and transit facilitation, institutional strength, and human capital training.

I. Political Economy of Reform

The second interesting characteristic of Chinese economic reforms has been their experimental nature. What is most striking about the Chinese reforms from an outside perspective is the absence of a precise blueprint coupled with the relatively piecemeal nature of the reforms. When Deng unleashed the opening and reform process in 1978, there was never a clear final goal. Instead the dismantling of central controls was a gradual process whose trajectory depended in the success of the reforms which were implemented. China's reforms were never conceived as a grand plan, but rather as a series of small, step-by-step changes (McMillan and Naughton, 1992). The country's success is a proof of the success of evolutionary trial-by-error approaches and a counter-example to the argument that gradual reform must fail. Most of the major institutional

⁷ Africa's investment productivity, as measured by the incremental output-capital ratio, was only half that of Asia from 1970 to 1997, and there has been a big decline in investment productivity since the mid 1970s (World Bank, 2000).

reforms in China were phased in slowly in order to ensure a smooth transition from plan to market.

There were several important ingredients for the success of Chinese reforms. First, there was a simultaneous strong support for the reforms at the Communist party as well as at the grassroots levels among local officials and entrepreneurs (Swinnen and Rozelle, 2004). Thus, decollectivization was not a top-down process but was simultaneously a bottom-up process. Team and brigade leaders championed the reforms as strongly as the upper echelon of the Communist Party. Second, Chinese leaders faced less of an equity tradeoff than others (Sachs and Woo, 1994). The existing poverty and relative pre-reform equality made reformers' task easier as there were less vested interests. Third, the reforms were experimental in nature and were driven not by ideology but by market principles. Aided by China's decentralized political structure, policy experiments, some of them regional and/or local in origin, were tested to assess their reproducibility on the national scale. In other words, there was sort of a demonstration effect as was the case with rural reforms in new forms of agricultural production in Anhui or the initial introduction of the special economic zones. Deng Xiaoping is known for describing reforms in China as "crossing the river by feeling for stones at each step." Reforms were sequenced with easier agricultural and TVE reforms at the beginning and the more complex reforms institutional reforms, such as reform of the financial sector and of state-owned enterprises in latter years. Fourth, at each stage in the reform, sufficient economic growth was generated to give buy-in by domestic actors for the reforms. At each stage of the process, the reformers grew stronger in the wake of stronger economic growth. In this regard, the Chinese leadership has adopted an approach which encouraged the growth of the private sector without influencing the underlying political dynamics.

By contrast, in Africa the reform process has been less successful for a variety of reasons and political elites have not delivered on growth objectives or on distributional goals. Macroeconomic and structural reforms in Africa have been more controversial, and there has

frequently been little links between reform and performance. The relative ownership of countries during the reform process has been a subject of growing debate. Also, the precise filtering of macro policies to the household level has been unclear. Reform programs have frequently been hindered by a difficult political economy of vested interests where reforms are perceived as weakening the status quo. In a ten country study of reform in Africa, it was found that many countries that have faced severe crises in Africa have either collapsed in civil war or had difficulty developing coherent reform programs that can overcome vested interests that benefit from the perpetuation of poor policies (Devarajan, Dollar, and Holmgren, 2001). In a variety of countries, reforms were never sustained because of the absence of a workable coalition that benefited significantly from the reforms to champion them further.

The lesson from China is simple: a visionary leadership, together with a vibrant private sector that responds favorably to a realignment of incentives, can articulate a set of changes in the economy that will benefit all parties. The absence of a zero sum mentality among Chinese policymakers in relationship to reforms can definitely be transplanted to the African context, where the political economies have frequently been inimical to reforms. Thus, the perpetuation of internal inefficiencies in SSA show that the reforms did not make as much impact as envisaged. While there is no cookie-cutter approach to development, there are lessons regarding the structuring of incentives for economic agents that are of cross-country relevance.

II. Diasporas and Development

Second, one of the understated reasons for Chinese economic success has been the success in utilizing the financial and technical capital of the Chinese diaspora, especially those Chinese minorities in neighboring Southeast Asian countries. The Chinese diaspora is large and is located all over the globe. Ethnic networks such as the Chinese play an important role in the international economy and sometimes bypass central governments, while making important

contributions to economic development. According to estimates, the diaspora numbers close to 60 million and have contributed to the strong growth of Chinese FDI, and have been responsible for more than 50 percent of Chinese FDI. The Chinese diaspora in countries such as Indonesia, Thailand, and Malaysia has a combination of economic capital with strong roots to the national economy.

After the initial rural reforms, the concentration of Chinese diaspora capital was instrumental in the economic takeoff of China, especially in the wake of Tiananmen. When Deng Xiaoping opened the Chinese economy in the late 1970s and spurred the development of the special economic zones (SEZ's), he chose strategic locations which were not the center of economic gravity in China but which were geographically proximate to neighboring Hong Kong and Taiwan and where many Chinese had emigrated and where webs of linguistic and cultural affinity existed. The goal was to capitalize on the Chinese diaspora and allow the use of ethnic networks to facilitate production shifts. The first wave of FDI was thus overseas Chinese, export-oriented, and concentrated in coastal areas in small and medium-sized businesses processing labor-intensive low quality manufacturing goods. Early exports involving diaspora capital included toys, clothes, and shoes. Subsequently, it spread further inland as the Chinese economy expanded. While Western companies were apt to invest in cities, Hong Kong and Taiwanese companies were equally likely to invest in the countryside. Special laws were introduced to give special privileges to overseas Chinese such as reduced land use fees, fewer restrictions on taxes, and other special incentives. A fourth of the overseas Chinese who have left China in the last thirty years have returned home.

The diaspora was particularly important in cementing ties between companies and export markets. In the early years of Chinese trade reforms, a significant share of exports went to neighboring East Asian countries. For example, by 1992 Hong Kong's share in total Chinese exports had reached close to 50 percent. Once the early wave of exports hit international markets and once the FDI inflows accelerated, there was a signal to other investors to begin joint ventures

in China. Lardy (1995) argues that foreign investment flows increased because of the phenomenon of recycled capital of Chinese origin as foreign companies sought to take advantage of tax incentives for foreign enterprises.

In particular, investors have been attracted by growth prospects in China, strong especially in comparison to weaker prospects back home. In a study of the role of Chinese business networks abroad and their significant investment in mainland China contrasts compared to the smaller Indian overseas networks, Bhalla (2002) finds that the overseas Chinese are more in number, tend to be more entrepreneurial, enjoy family connections (*guanxi*) in China and have the interest and financial capability to invest in China, and receive favorable treatment at home. Frequently, they eschew formal channels in favor of more informal systems. In the context of weak legal systems and opaque regulatory structures, Chinese entrepreneurs are using social networks to open up supply and distribution and operating licenses (Yueh, 2007). Furthermore, besides overseas remittances, Chinese send domestic remittances from rural areas back home. In a recent study using micro-level data from Hubei province, Zhu and Luo (2008) find that remittances actually led to an increase in rural income and a decline in rural poverty and inequality.

While the African diaspora is not as large as the Chinese one, there are close to 4 million Africans living overseas, mostly in Europe and North America. Moreover, a very high percentage of Africans have college or postgraduate degrees and have maintained significant cultural and economic ties with their homeland. While in theory, the African diaspora should be making strong contributions to developments back home, the evidence does not at present show a strong impact of capital, creativity, and knowhow from the diaspora. Thus, there exists a large untapped market for the contributions of the African diaspora for African development, especially in relation to using diaspora networks to support public projects such as schools and health facilities, and let professional networks share information with relatives and friends back in the homeland. While diaspora remittances have become a proxy for brain drain and a key foreign exchange

earner for Africa with more than US\$8 billion in 2008, the piecemeal and dispersed nature has led to a limited impact on the continent.⁸ In recent years, the top five recipients of diaspora investment have been Nigeria, Kenya, South Africa, Uganda, and Ghana, and while there has been some effect due to global financial crisis, the long-term trends are still positive. The overall goal of policy will be to ensure that these flows are used not only to facilitate household survival strategies through consumption of education and health but longer term savings and capital formation.

The diaspora could be mobilized in a number of ways to improve their developmental effectiveness, especially in South Africa and Nigeria. First, appropriate institutions and databases of professional networks must be created to be able to more properly channel the capital back home. In this regard, the World Bank and the African Union's recent development initiative with diaspora organization to establish a grant support to diaspora development projects in Africa is a promising initiative. The international agencies can utilize the convening authority and help the diaspora citizens bridge the knowledge gap of opportunities and partners back in the homeland. Second, besides helping poor households buy education and health, remittances can be used as collateral or startup capital to start small businesses. The SME's and informal sectors, in a majority of African countries, have difficulty raising both domestic capital and mobilizing private foreign capital for a plethora of reasons. The diaspora could be a way to begin to bring back capital even when there are administrative barriers and where the regulatory framework has not been fully developed (as was the case in China with the initial wave of investment). Diaspora investment can move from remittance capital to joint venture capital as the scale increases. Third, as the Chinese government did, African governments could implement fiscal incentives and policies to encourage the diaspora to come back home.

⁸ Remittances represent a higher source of finance for several countries than either official development assistance or private capital, and they tend to be stable and counter-cyclical. However, since most remittances are used for consumption, their impact on domestic capital formation is somewhat limited. It is important to note that as a percentage of GDP, remittances in Eritrea and Cape Verde are among the highest.

III. Agricultural and Rural Reforms in China: The First Step

Another very important element that played a part in China's capital accumulation as well as TFP gains were the rural reforms. China's reforms began in the agricultural sector and provided the initial catalyst for economic growth and structural transformation. What began as a series of spontaneous experiments in Anhui and Sichuan in 1978 in which peasants had begun to divide the land for individual household cultivation led to the unraveling of the commune system. The household responsibility system introducing property rights in land resulted in a strong output response. China's agricultural sector had never been able to sustain growth rates of more than 5 percent, but still accounted for more than two thirds of Chinese output before the reforms, but after the reforms, growth simply accelerated. Subsequently, there was a very strong supply response of rural entrepreneurship and industry that provided the capital for China's growth (Huang, 2008).

The reforms had strong ramifications on economic output (Lin, 1992). The fast growth of agricultural output accumulated crucial initial capital for the takeoff of rural enterprises, which were concentrated in labor-intensive industries. There was a dramatic increase in household savings at the onset of the reform period. Total household saving jumped from 7 percent of household income in 1978 to 17 percent in 1982, and the household share of total national savings increased from 11 percent in 1978 to 35 percent in 1981.⁹ In parallel, a new pricing policy was introduced to give stronger incentives to individual farmers. From 1979 to 1981, reformers cumulatively boosted procurement prices of crops by close to 40 percent over 1978 levels. Finally, the government provided farmers subsidies to buy seeds and fertilizer needed to grow high-yielding hybrid rice varieties. Fan and Pardy (1997) decomposed the sources of agricultural growth for different periods and find that 21.7% of the agricultural growth from 1965

⁹ Naughton, Barry, *Growing out of the Plan: Chinese Economic Reform 1978-1993*," p. 142

to 1993 in China is contributed by fertilizer inputs. The payoffs were remarkable as there were dramatic gains in farm output, diversification, and an accompanying rise in peasant incomes. By privatizing agriculture, reform politicians made allies of rural producers and created a base for further growth in the rural nonfarm sector.

However, the reforms could not have been sustained without the concern among top Chinese policymakers on the paramount importance of food security. Heeding Lester Brown's warning of China's possible inability to feed itself, China started stockpiling food and grains and shifted from a net grain importer in the 1970s to a net grain exporter in the 1990s. Technology has been the driving force of Chinese agricultural growth. Through a combination of technological development, institutional change, and agricultural pricing policy, China has succeeded in developing food grain self-sufficiency and increasing both cropping area and cropping intensity. By creating new technologies and crop varieties, China's research system has raised total factor productivity in agriculture and expanded crop production in the face of declining output-input price ratios (World Bank, 1997). Chinese success in the agricultural arena has been helped by government support for agricultural academies and a network of technical specialists around the country since at least the mid 1970s. It conducted major agricultural research, including the largest field experiments of genetically modified plants in China. Hybrid rice, which was pioneered by Chinese scientists in the 1970s, spread to large parts of the rice growing areas in the 1990s. Researchers at IFPRI have found that increased investment in agricultural research accounted for almost 20 percent of overall growth in Chinese agriculture from 1965 to 1993 (Fan and Pardey, 1997).

A few simple empirics reveal the contrast with African agriculture. While China now produces an average 6.4 tons of rice per hectare, most comparable African countries produce around two tons per hectare. China feeds more than 20 percent of the world's population with less than 10 percent of the world's arable land, while Africa has had to import large amounts of food aid and faces occasional famines. Less than 10 percent of cropped area in Africa is irrigated

compared to more than 60 percent in China. China had grain reserves of 150m-200m tons, equal to 30-40% of annual production in contrast to Sub-Saharan Africa. To achieve and maintain 95% self-sufficiency in grain, it has controlled imports under 5 percent of domestic grain production and resorted to aggressive policy, increasing the real average purchasing price of grain has increased by about 70% since the economic reforms of 1978. The objective has been to stimulate farmers to produce grain and has been remarkably successful, in spite of increasing urbanization, climate change, and pressures on arable land.

The agricultural reforms were only one part of the story. In fact, one should not exaggerate their role as the agricultural sector never outgrew aggregate GDP. However, the reforms in the agricultural sector allowed the reallocation of labor and investment that made it possible to jumpstart rural industry and it is this interaction which is the true Chinese miracle. The introduction of the profit incentive helped improve the performance of rural enterprises. Thus, there was an unprecedented rapid development of township enterprises that increased from 1.5 million in 1978 to 18.7 million in 1989, with their labor force tripling from more than 25 million to more than 90 million in less than a decade (Findlay and Watson, 1992). By Rural industry in China in the 1980s grew at the high annual rate of 28 percent, contributing 34 percent to national industrial output growth (Hehui, J and Zhixiong, 1997). It is interesting to note that by the end of the 1990s, the output value of the rural industry and the employment in this sector accounted for 30 and 57 percent of China's industrial sector, respectively, and its export volume maintained a share of about a quarter of the national total. Many of the funds from rising agricultural incomes, together with funds obtained from informal capital markets, were neither invested in agriculture nor in the enterprises closer to the urban sector. Rather, they were spent on food processing, garments, construction, agro-processing, and low level subcontracting services. In many ways, the TVE sector was the driver of the Chinese economy in the first decade of

reforms.¹⁰ In this context, it is rural reforms, rather than globalization, that were the reason for Chinese success in the 1980s.^{11 12}

The African countries that can most benefit from this set of rural reforms are those with significant agricultural sectors and/or sufficient population intensity and market size to create an adjacent rural nonfarm sector. Since a little less than 50 percent of Sub-Saharan Africa's demand for rice is met by imports, costing about \$2 billion in 2006, there is some scope for increasing rice yields and production particularly in rice-producing countries such as Benin, Guinea, Mali, Nigeria, Uganda, and Senegal which have favorable agro-ecological environments for improved production. There is scope for access by Africa's 30 million small rice farmers to improved rice varieties such as NERICA, along with provision of subsidies on fertilizers and rehabilitation of irrigation schemes. Similarly, with regard to wheat, production in South Africa and Malawi, two major wheat producers, can be boosted through new research and introduction of higher-yielding varieties. For example, since 2007, erratic rainfall has led to increased food shortages of more than 3 million metric tons of maize in southern Africa where droughts damaged maize crops in Lesotho, Mozambique, and South Africa. With better varieties and higher yields, supply could respond more favorably to exogenous shocks and reduce the need in both southern Africa and other parts of the continent on expensive food imports.

¹⁰ Huang and Meng (1997) find that employment in the state sector and TVE sector was comparable in 1984, but by 1992, the rural-based TVE sector employed about 40 percent more workers than the state sector. Also, there is evidence that in 1978 the TVE's employed 10 percent of the rural labor force compared to 28 percent by 1993.

¹¹ The globalization story in China is a 1990s story with the boom in the special economic zones (SEZ's). Tariff barriers and controls remained somewhat high in the 1980s. Lardy (1995) finds that as late as 1985, six years after the passage of China's foreign investment law and five years after the establishment of special economic zones, the exports of foreign invested enterprises were only \$ 320 million, barely over one percent of China's total exports.

¹² In an interesting and provocative new book, Professor Yasheng Huang (2008) finds that China's rural economy took off in the 1980s, led by private township and village enterprises. He argues that in China's vast rural areas, economic and financial liberalization went much further in the 1980s than credited by outside analysts and that the rigorous development of private entrepreneurship and property rights explained much of China's growth takeoff. The most impressive export performance in China has been by foreign-funded enterprises and Chinese firms engaged in export processing, rather than domestic firms, also partly explained by the high cost of internal trade.

Moreover, through these better yields, it may be possible to boost African agricultural TFP rates, which have already been rising. Empirical work at IFPRI on the sources of agricultural productivity growth among Sub-Saharan African countries shows that TFP growth shifted from a negative rate (-2.0 percent) between the 1960s and the 1980s to a positive rate of near magnitude (1.7 percent) from 1985 to 2003 (IFPRI, 2008). Moreover, between 2003 and 2005, 13 countries in Sub-Saharan Africa achieved annual agricultural growth rates greater than 5 percent. While agricultural performance has improved, there remains scope for further improvement. In countries which are better developed, such as South Africa, Nigeria, Benin, and Uganda, higher rural incomes can become a catalyst for TFP growth and non-farm expansion. However, in countries with low population densities like Sudan, Central African Republic, Chad, Niger, and Mali, it will be difficult to generate the scale and multiplier effects from agriculture to the nonfarm that helped lead to China's boom. Hence, China's rural experience is only applicable to a selective range of African economies where there exists potential for agricultural growth and nonfarm expansion. Finally, it is important to note that while niche industries like Kenyan horticulture exports can penetrate global markets, it is vital to develop adequate rural labor-intensive industry to reduce unemployment and accelerate poverty reduction.

IV. Exchange Rate Dynamics

Fourth, one important ingredient of the Chinese economic success has been the maintenance of a competitive exchange rate and the avoidance of inflationary tendencies through prudent macro policies and high savings rates in private households. China is a manifest example of the value of keeping an undervalued exchange rate as a catalyst for exports and growth. According to IMF dataset, the Chinese currency lost about 70 percent of its value against the dollar from 1980 to 1995, as measured by the trade-weighted real effective exchange rate index.

The renmimbi moved from 1.5 to the dollar in 1981 to 8.7 in 1994 to 7.4 in 2008. This reversed a past trend prior to the reforms where the currency had been kept overvalued in order to attract cheaper capital imports. From a macroeconomic perspective, since the real exchange rate is the key relative price that determines the international competitiveness of a country's exports, the devaluation of the renmimbi during the reform era was a critical contributor to export growth, sending the appropriate price signals to exporting firms. Dooley, Folkerts – Landau and Garber (2003) have argued that currency needs to sustain growth-oriented surpluses. Moreover, in a recent paper, Freund (2008) finds strong statistical evidence that an undervalued real exchange rate and the maintenance of a competitive currency helps firm expand the product and market space for exports and thus, contributes to an export surge.

In recent years, the appreciation of the Chinese currency has become one of the most hotly debated topics in international macroeconomics, prompted by the rising Chinese trade and current account surpluses. Prominent experts have lined up on diverse sides of the issue, with Nobel Prize winners Robert Mundell and Joseph Stiglitz supporting the Chinese exchange rate regime, and the many economists, including John Williamson and Morris Goldstein, at the Washington-based Institute of International Economics arguing that the renmimbi is seriously undervalued and that a substantial correction is needed. While there is disagreement on the relative magnitude of the undervaluation, there is a consensus that the exchange rate policy has significantly helped Chinese exports and that Chinese growth would not have been possible in the early years if the currency had not been allowed to slide significantly. Dunaway and Li (2005) critically survey the literature and find estimates ranging from little undervaluation to close to 50 percent and note the empirical challenges of modeling the exchange rate and the sensitivity of results to different methodologies. Other studies have reached similar conclusions.¹³

¹³ All scholars of the Chinese exchange rate find evidence of undervaluation. However, there are some methodological issues with the arguments advanced by Goldstein and Lardy (2008) in the recent volume issued by the Washington-based Institute of International Economics. First, the literature is divided as there are inherent econometric issues in tracking an equilibrium exchange rate in an environment where a

By contrast to China, many countries in Sub-Saharan Africa have had significant periods of exchange rate overvaluation that have hindered their export sectors and overall competitiveness. A cursory analysis of the data shows that countries with the most overvalued exchange rate have had some of the lowest growth prospects. The most well-known episode of pronounced overvaluation was in the 1987-1994 period when the CFA franc became significantly overvalued and required a strong devaluation of 50 percent in 1994 to restore equilibrium and spur exports. (Devarajan, 1997) The improved performance of the CFA franc zone during the 1997-2002 period with respect to TFP reflects the effect of devaluation on tradables as well as other structural reforms (Tahari et al, 2004). The devaluation of the franc provided a strong stimulus to investment and to exports in the region. In recent years, there has been an appreciation in the REER in the presence of a strong euro and an adverse impact on cotton producers, such as Burkina and others (Zafar, 2005, 2009).¹⁴ Many countries such as Uganda, Mozambique, and Cameroon have only attained export surges due to a depreciating currency. The empirical evidence from SSA experience shows that it is rare to find a growth surge in the presence of a seriously overvalued exchange rate, with the exception of oil producing economies. In sum, it is fair to say that an overvalued exchange rate in Africa have contributed to a macroeconomic environment to low returns on capital and labor.

In parallel, a related lesson from China in relation to macroeconomic and monetary management is the prevention of higher rates of inflation and exchange rate appreciation due to the large inflows of foreign exchange. How did China do this and how can Africa learn from this?

significant amount of flows are of a speculative nature as has been the case in China. Even the more rigorous use of the macroeconomic balance approach argued by Williamson and Cline relies on subjective measures and judgments on current account surpluses. Secondly, the welfare impacts of a large revaluation have not been taken into account. Thirdly, it is not mentioned that China runs trade deficits with many other Asian countries from whom it imports capital equipment and there is the widely circulated, but erroneous view, that the cause of the US current account deficit is China's undervalued exchange rate, rather than the consumption glut in the US. If China reduces exports to US, that slack will simply be taken up by another low-cost Asian economy. Thus, for these reasons, estimates of a large undervaluation of the Chinese renminbi need to be taken with a degree of caution.

¹⁴ In trade-weighted terms, the REER has appreciated 15 percent since the euro introduction in 1999 and is very sensitive to bilateral swings in the dollar-euro rate. Prudent monetary and fiscal policy by the regional central banks in the franc zones has acted to mitigate the extent of appreciation.

As central bankers do throughout the world, Chinese central bankers sterilize the inflows by exchanging domestic assets for foreign assets with the goal of reducing the impact of capital inflows on the domestic money supply. However, what is even more interesting is the assistance by the citizen in the obtaining of the macroeconomic objectives. Harberger (2008) finds that many Chinese have chosen to hold larger real cash balances of their own currency, in an effect termed “sterilization by the people.,” which acts to counter the increase in the domestic money supply caused by large inflows of foreign exchange, thereby reducing both the inflationary pressure on the non-tradable sector of the economy and the real appreciation of the currency normally associated with Dutch disease. Also, it is important to note that high household savings in China have allowed the banks to have sufficient capital to make it unnecessary for them to have had to monetize the deficits or print money to finance the state-owned enterprises.¹⁵ Thus, policy measures by African economies to manage windfalls from large commodity booms by increasing savings incentives at the household level can work to reduce the Dutch disease impact of large inflows.¹⁶

V. Ports and Transit Corridors

Fifth, an important area where China has much to teach the world is in the area of port infrastructure and governance. China’s ports have become world-class, especially Shanghai and Ningbo, and its transit corridors have become more effective in helping accelerate trade integration between China and the world. Moreover, port efficiency has created a better environment for private investment and led to an increase in the returns to capital. As China has grown, its

¹⁵ Yusuf (1994) mentions that China’s relatively unrestrictive interest rate policy allowed many in China holding half-or-one year deposits to earn positive real interest since the start of the reforms and credits this with encouraging saving and financial deepening.

¹⁶ In this context, it is important to mention that China will need to rebalance its economy and get more domestic consumption to help promote economic growth, transition the economy from an industry-driven growth, and reduce global imbalances. Hofman and Kuijs (2008) provide a more thorough discussion and also disaggregate between Chinese household saving and enterprise saving.

interlinkages with the world economy have increased in parallel. As a result, it has sought to build a transport and port capacity that can support this increase in trade and container traffics. It is now ranked in the top five trading nations in the world. The cargo turnover of one of the best ports - Shanghai - exceeded 500 million tons in 2006, making it the world's busiest port for the second consecutive year and eight ports in mainland China, including Shanghai and Shenzhen are included among the 30 top container harbors in the world.

Several factors account for Chinese success in the port governance. First, the government of China has invested large amounts of capital in port infrastructure, especially since 2003 and 2004, and there has frequently been double-digit growth in freight turnover at major ports. Secondly, there has been some reform of the port governance model in China with greater involvement of private companies.¹⁷ Third, Chinese ports have also engaged in strategic alliances with foreign port management companies, such as the port of Dalian, which entered into a strategic partnership with several foreign partners. Chinese experience shows that the privatization of ports and harbor operations can attract investment, improve operational efficiency, and reduce the endemic corruption of government port management.

By contrast, one of the challenges in Sub-Saharan Africa, especially for the landlocked countries, is congestion, coupled with long delays and clearing times at ports in addition to high freight costs. Capacity constraints and inefficiency due to poor governance and state-run port management multiply the microeconomic costs of doing business. Since most goods enter Africa via ports, this also has adverse impact on macroeconomic growth, especially for the landlocked countries.¹⁸ Cargo turnaround times are quite high in SSA and can last several weeks, and few ports, with the possible exception of Mauritius and Cape Town, can handle the larger-size ships handled by some of the big international ports. This inefficiency has created obstacles for

¹⁷ Cullinane, Kevin and Teng-fei Wang (2006) provide an interesting history of port development in China. Wang, Ng, and Olivier (2004) presents a good summary of the port governance changes.

¹⁸ Collier and Gunning (1999) find that postcolonial African governments developed economic controls – comprehensive in only few cases but all extensive and arbitrary regulation and frequently the prohibition of trade with interventions being both domestically and externally focused.

landlocked countries along some important transit corridors like: 1) CAR and Chad dependent on Douala, Cameroon; 2) Burundi and Rwanda dependent on Mombasa, Kenya; 3) Niger, Mali, and Burkina, dependent on Cotonou, Benin, Abidjan, Cote d'Ivoire, and Lome, Togo; 4) Zimbabwe and Zambia, dependent on Durban; 5) Niger dependent on Lagos, Nigeria; 6) Mali dependent on Dakar, Senegal. Relative to other regions in the world, the transport costs in SSA are much higher than elsewhere, and distance from markets and coasts undermines the trade in landlocked countries.

Taking one particular region as a case study for regional integration, Zafar and Kubota (2003) examine the myriad infrastructural and transit obstacles to intraregional trade and integration in Central Africa and find that trade and growth in the sub-region have been hurt by inefficient transit corridors, dilapidated infrastructure, and poor port management (at the port of Douala). A UN review of the African port sector finds that transport costs comprise about 12 percent of the cost of imported goods in Africa, more than double the global average, while the figure for Africa's many landlocked states stood at about 20 percent. A USAID report finds that the efficiency of most African ports can be improved dramatically with current levels of infrastructure provided that chokepoints in the transport logistics chain, including the regulatory and competitive environment of transport infrastructure, can be assessed (USAID, 2005).

There has been some reform in the African port sector, but the effects are still early to judge and more reform is needed. There have been some attempts to privatize port management although there have not been large increases in competition. With better and more efficient foreign management, Hutchison Port Holdings has achieved significant improvements in turn-around times at Dar es Salaam's container terminal. There is evidence that turnaround times in the port of Mombasa have been reduced to two days. Nigeria and South Africa are hoping to have more efficient port management with the introduction of companies and consortia to bid for contracts to manage each port or port facility for periods ranging from 10 to 25 years. However, the presence of strong trade union movements in both countries renders this difficult as

privatization of port management may entail the reduction in the number of employees at each port. Labor organizations, much concerned with redundancies and retrenchment, thus have been a strong obstacle to port reform in Africa.

VI. Decentralization and Its Effects

Sixth, despite popular misconceptions, China remains a decentralized country with significant administrative and fiscal autonomy for local governments. Due to a historical legacy and a stern geography, China has had difficulty in establishing central control. A series of reforms were enacted in the 1980s to further revamp the relationship between national and subnational governments, and China was one of the first countries in the developing world to experiment with a highly decentralized fiscal system. From the early reform years, local governments have become more powerful in China. However, it is important to note that in China, decentralization is not an official policy but has been tolerated.

While there is a vigorous debate of the impact of decentralization on economic growth, it is clear that decentralization in China has accelerated the push towards a market economy and allowed local infrastructure and social expenditure in China to be sustained at high levels. Since the 1980s, reforms in China have given the local governments more fiscal authority in terms of expenditure allocations and revenue management and allowed sub-national authorities to allocate revenues collected instead of returning them to the central government. In a similar pattern as in other countries in East Asia, education, health, and social welfare expenditure were progressively decentralized to local governments. Of equal importance, credit allocation and investment project approval have also been placed under the jurisdiction of local governments. Local investment in transport and urban infrastructure financed through revenues has strengthened industrial activity in China and created additional demand (Yusuf, 1994). In the early years of reform, 20 percent of revenues were given to state authorities. In recent years, subnational governments have spent over

65 percent of budgetary resources, of which a significant percentage has been financed by central government grants. There is some evidence that fiscal decentralization can indeed lead to more efficient production of local public goods and more control over programs by beneficiaries. Transfers of resources and authority to local governments are viewed as enhancing the development process. Theoretically, Bardhan (2002) has argued that the allocative benefits of transferring resources and authority from higher tier to lower tier levels of government for the provision of local public goods.

More practically, in an important study on the effect of fiscal decentralization on health outcomes in China using a panel data set with nationwide county-level data, Uchimura and Jutting (2007) find that counties in China in more fiscal decentralized provinces have lower infant mortality rates compared to those counties in which the provincial government retains the main spending authority, if certain conditions are met.¹⁹ In the ultimate incentive system, the central government introduced competition between provincial and local governments for resources and also ensured that the heads of provinces with higher growth rates were more likely to get promotions than those with lower growth rates.²⁰

In Africa, particularly in many of the Francophone countries, decentralization has not been as effective or as rapid and occasionally, decentralization has meant the transfer of authority without responsibility. In some countries, it has progressed further than others. Overall, Uganda, South Africa, Ethiopia, Madagascar, and Rwanda are all the most advanced in terms of decentralization. However, by global standards, the proportion of public expenditure controlled by local authorities in SSA countries is quite limited, including those with more advanced forms of decentralization. In terms of actual fiscal control, the local governments in most SSA

¹⁹ Decentralization is of course not a panacea as China's large network of public hospitals, rural clinics, and private facilities are still overburdened with levels of tuberculosis and neonatal health issues that threaten the country's progress.

²⁰ In China, it is important to note that decentralization is more pronounced than would be visible when analyzing fiscal data for the reason that there is a strong reliance on off-budget funds to finance local government.

countries, with the exception of South Africa, control less than 5 percent of national public expenditure. A careful review of decentralization in SSA countries finds that while all countries have structures of subnational governance, the actual power of these structures is ambiguous (Ndegwa, 2002). Moreover, of the three forms of decentralization – political, administrative, and fiscal – it is the latter which is the most lagging in SSA countries. Frequently, transfer of power has been only in name, as sub-national governments struggle for budgetary subventions from central authorities. There are multiple advantages to further decentralization in SSA countries. Most important, local governments can improve responsibility for local government activity and improve spending for health and education according to local needs and priorities. While it is true that some functions are not appropriate for decentralization, there is scope for decentralized service delivery that through a well-governed local system. The importance of getting resources to local authorities to be utilized quickly cannot be overemphasized.

VII. Conflict

A final area where Africa can learn from China is in the management of internal conflict. While conflicts have been quite endemic in SSA, and are frequently a function of socioeconomic grievances or poverty, China has had a coexistence of 55 ethnic minorities with the majority Han Chinese. In Africa, conflicts have been heavily concentrated in low income countries and are usually prominent in countries where there is resource abundance, such as oil or diamonds.

In China, despite having worse land to man ratios than Africa, Chinese policymakers have striven to address the conflict issues directly, although the paucity of natural resources makes conflict more unlikely.²¹ What is important to know is that in the early 1980s, the central government adopted various measures to provide generous transfer payments and financial and economic assistance to the minority areas and in particular provided subsidized material benefits

²¹ One interesting hypothesis is that low population density in Africa translates into higher ethnic diversity, leading to possibly lower growth and higher risk of conflict. There seems more evidence that conflict is linked to poverty than it is to ethnic diversity, but the literature is still nascent (Collier and Hoeffler, 1998).

in order to win loyalty. In 2003, the central government appropriated special funds totaling more than 1 billion yuan for health services in Inner Mongolia, Xinjiang, Guangxi, and Ningxia autonomous regions, which covered such aspects as public health, basic rural health facilities, specialized hospitals, rural cooperative medical services. In parallel, other preferential policies, such as raising the proportion of reserve fund for ethnic minority areas, have been adopted for the ethnic autonomous areas, this reducing the feelings of resentment. In parallel, from the pedagogic standpoint, the government has instructed that school students will receive more than ten hours of instruction on ethnic harmony every year. In contrast in Africa, directed payments to minority groups or poorer provinces have not been the norm. In sum, there is room for African policymakers to learn to buy social peace through economic incentives.

Conclusion

In the spirit of South-South cooperation, Africa can learn multiple development lessons from China in a wide range of areas. While there are some differences in conditions, certain similarities may help improve the applicability of best practices. In the areas of rural reform, port governance, exchange rate management, attraction of diaspora capital, food security policy, and conflict avoidance, there are ample lessons from China that can help SSA countries accelerate economic growth. The overwhelming message from China's experience is that smart policies can do much to foster economic development.

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