Will giving fat cats some of the cream help to cut poverty?

Jonathan Glennie

One lesson for Africa from China’s economic boom is that self-interest could be the perfect tool for getting the political elite focused on development.

Manufacturing’s contribution to African GDP has remained constant at 10% for the past 40 years, and Africa’s contribution to global manufacturing has actually reduced from 3% in 1980 to 2% today.

Despite famously high growth rates in many African countries (notably Ethiopia, Ghana, Mozambique, Tanzania and Zambia), a wholesale shift into manufacturing across the continent...
appears elusive. Why? And does China hold any lessons? Those were the questions for panellists at the International Growth Centre’s annual conference last week.

The meeting was opened by UK development minister Desmond Swayne. At the outset he was on firm footing with his theme that development is all about job creation. But soon he reverted to old-fashioned rhetoric about governments as “barriers” to be removed from the path of free enterprise.

This was certainly not the view of Chang-Tai Hsieh, a professor at Chicago University, who demolished the very basis upon which economic development policy has been based for the past three or four decades.

Hsieh set out to explain why China had done so well since the late 1980s. He started by looking at the World Bank’s doing business rankings, which order countries by how easy it is to start a business. China ranks at 151 alongside the Democratic Republic of the Congo.

But look a little deeper and you realise there are two tiers of business in China: those that follow formal bureaucracy and find all the barriers that the doing business survey counted, and those that avoid such obstacles because they are favoured by local government officials.

The role of officials, it turns out, from party secretaries to vice-mayors, is to choose winners – exactly what governments are not meant to do according to liberal economic theory. Hsieh described this as “crony” capitalism, but not in a disparaging way. It has been, according to Hsieh, one of the main reasons for China’s incredible growth.

And while corruption remains a massive problem for societies across the world, in this reading of China’s story it certainly isn’t a problem when it comes to economic growth. Local government officials being able to extract payoffs from successful businesses encouraged them to support such enterprises, removing bureaucratic obstacles, investing in appropriate infrastructure and thus creating millions of jobs.

In 2013, when the government began to crack down on corruption, this effective system began to break up, according to Hsieh. Why would government officials work overtime to make businesses successful if they were unable to cream off something for themselves?

Neither Hsieh nor the other panellists were able to answer my question about lessons for some African countries from China’s growth – perhaps unsurprising given the incendiary implications of this particular analysis.

But there are at least two. First, there is what Hsieh, in an amusing rhetorical flourish, referred to as the difference between creating institutions for priests and for “selfish bastards” – the Roman Catholic model versus the Goldman Sachs model. While you could hope that everyone acts in the best interests of society, you’re probably better off developing a system with incentives to take advantage of the fact that most people will act in their own self-interest.

This is a theme developed by researchers such as Mushtaq Khan, Tim Kelsall and David Booth, who have argued that there has been excessive focus on reducing rent-seeking and clientelism in Africa, without realising how important it is for elites to benefit from changes under way. Unless elites have a stake in development and poverty reduction, they will be a barrier to them. Or to put it another way, getting the political classes fully focused on developing industry and reducing poverty may mean allowing them some of the cream.
This is heresy in much of the development sector, but quite logical and backed up by some pretty good evidence.

The second lesson from China – one that many African leaders are taking – is that the arrogant platitudes of the western growth economists of the 1980s and 1990s have been roundly undermined. While it may not be easy to translate what worked in China into successful growth strategies in African countries – the context and starting points are so different – it is clear that there are many ways to develop an industrial base, not just the western way.

Most crucially, the too-neat separation of modern economies into public and private sectors is simply inapplicable in China and indeed in many countries - it’s not just that there is so much overlap between the two sectors, it’s that they’re often one and the same person.

So if you’re looking for simple answers, or simple blueprints for growth, you won’t find them here. But that, in itself, is an important lesson.

Topics
- Global development
- China
- Africa
- Governance
- Employment
- The future of development
- Economics
- blogposts