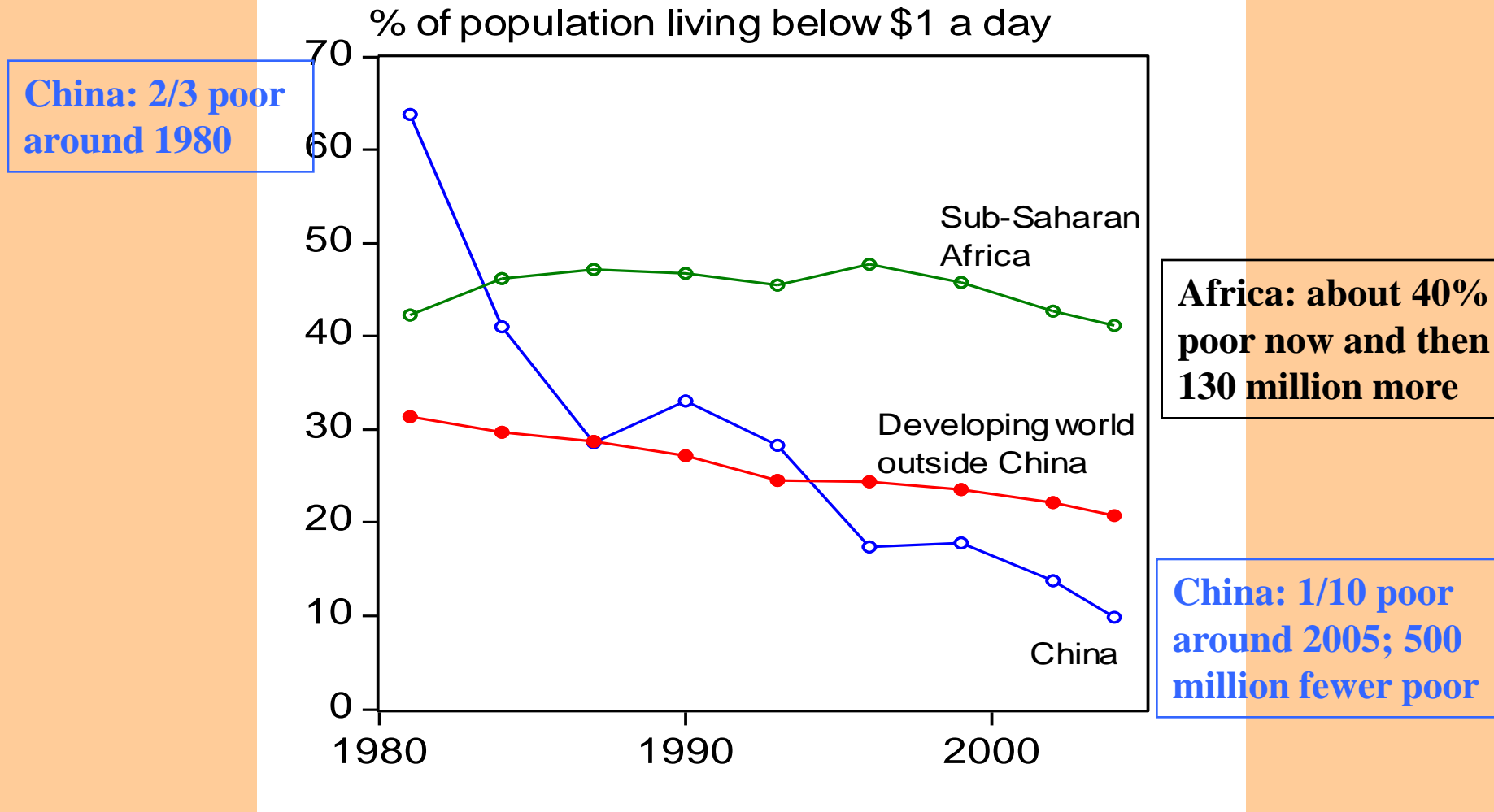


*Are There Lessons for Africa from  
China's Success Against Poverty?*

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# *China, Africa and the Developing world*



*But caution needed in drawing lessons for Africa*

# Caution: *Not all good news!*

The lessons for Africa are not all about Chinese successes; some relate to aspects of China's development path that Africa would prefer to avoid, such as the steep rise in inequality.



High inequality country ( $G > 50\%$ ) by 2015)

## Caution: *Context specificity of reform*

- Economic reforms since late 1970s moved China's economy from highly controlled to market-oriented.
- The reforms naturally reflected (relatively unusual) circumstances in China, and may make little or no sense as a blueprint for policy making elsewhere.

Caution: *Constraints to poverty reduction in Africa that China did not face*

## Constraints: *Africa's higher inequality*

- At the time China had roughly the same “\$1 a day” poverty rate as SSA today—a poverty rate of roughly 40% around the mid-1980s—income inequality was lower in China (a Gini index well under 30%) than found in all but a couple of countries in SSA today (Ethiopia and Mauritius).
- Thus African countries will need even higher growth in mean income than China to achieve the same pace of poverty reduction that China has enjoyed
  - given that the proportionate responses of poverty incidence to the rate of growth tends to be appreciably lower in high inequality countries.

# Constraints: *Africa's high dependency rates*

- Africa's high dependency rates—due mainly to higher fertility rates, but also high working-age adult mortality due to HIV/AIDS—constrain growth and poverty reduction.
- China had started to enter the demographic transition (both birth rates and death rates falling) well before reforms began.
- Many African countries have begun demographic transition
- But with faltering cases, such as Kenya in which birth rates have started to rise again.

# Constraints: *Africa's low population density*

- Africa's relative land abundance => less inter-country conflict; such conflict (Herbst argues, based on European history) helps forge stronger states in the longer term.
- Other costs of low population density; for example, it is believed to dull technological innovation.
- Low population density also makes it more expensive to supply certain forms of basic infrastructure, such as roads.

# Constraints: *48 countries not one!*

- There is a fundamental difference in the degree of internal (economic, social and political) cohesion found in China, compared to SSA.
- Being one large and relatively homogeneous country—rather than many smaller, ethnically diverse and geographically dispersed countries—brings economic advantages
  - public administration,
  - the provision of domestic public goods,
  - external trade negotiations,
  - access to external markets,
  - labor migration (which raises aggregate output by reducing geographic disparities in labor productivity) and in reducing and managing conflict.

# Constraints: *Africa's weaker states*

- African countries tend to have weaker state institutions,
- with an adverse feedback effect on (*inter alia*) the quality and quantity of key social services and infrastructure.
  
- Weaker states stem from:
  - political geography; borders based on rather arbitrary, but now fixed, colonial partitions,
  - low population density,
  - high inequality (in various dimensions),
  - intra-country conflict.

*None of this implies that Africa  
cannot learn from China*

Two key findings from our research on the reasons for China's success against poverty:

1. Pattern of growth matters
2. Reform can work

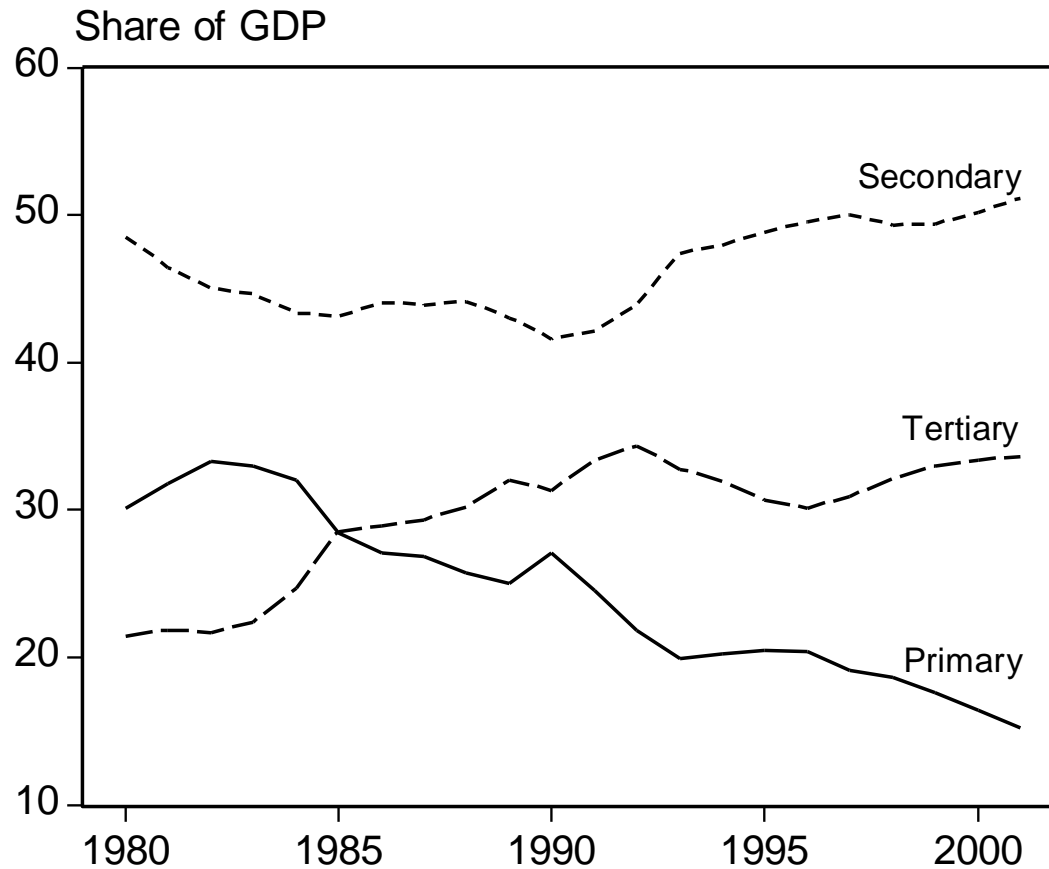
**China Finding 1: *The pattern of growth matters to progress against poverty.***

**A key role was played by agricultural growth esp., at the early stages of post-reform development**

- The gains to China's poor from aggregate economic growth depended on its sectoral composition.
- Migration to urban areas helped, but the bulk of the reduction in poverty came from within rural areas.

## Standard classification of GDP by its origins:

- “primary” (mainly agriculture),
- “secondary” (manufacturing and construction),
- “tertiary” (services and trade).

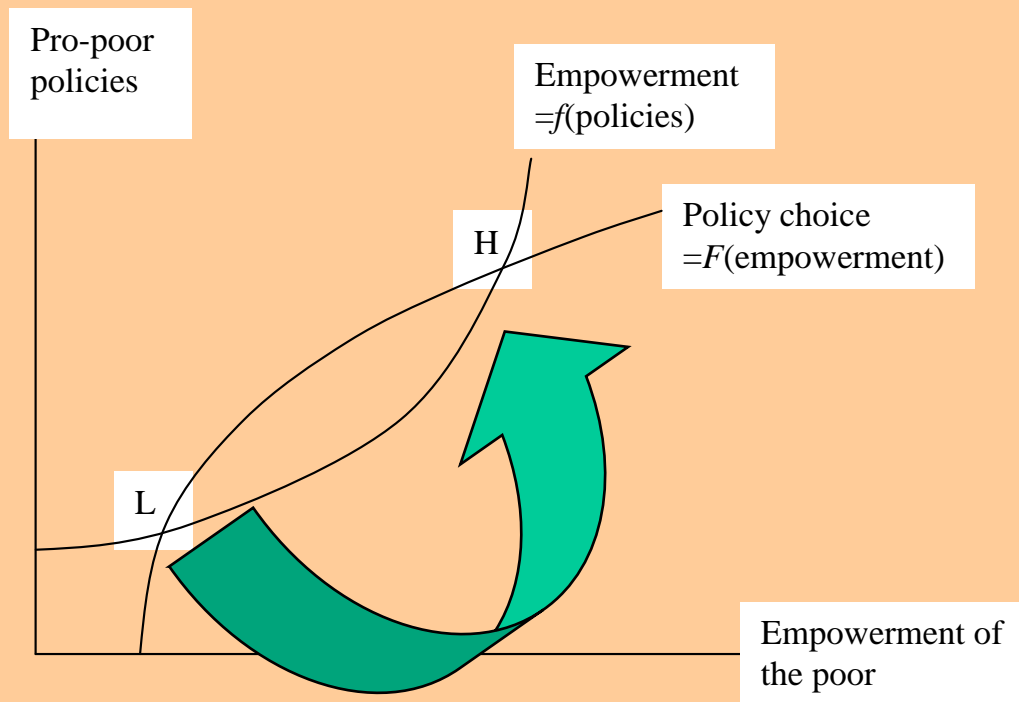


## *Switch out of agriculture, yes; but still strong support for the sector*

- Agricultural research and extension: increased three fold in China over 1981-2000 (but by only 20% in SSA).
- Rural infrastructure; rural roads; market development; schooling and health care.
- Poor-area development programs; main instrument of anti-poverty policy since mid 1980s.

# China Finding 2: Reforms can work!

## Multiple political economy equilibria



# *China's agrarian reforms*

- Great Leap Forward and the Cultural Revolution left a legacy of pervasive and severe rural poverty.
- Undoing these failed policies called for de-collectivizing agriculture and shifting the responsibility for farming to households.
- Good preconditions (esp. infrastructure)
- Agrarian reforms brought huge gains to China's (and the world's) poorest. Possibly half of the total decline in poverty in China 1981-2001 was due to this reform.

# *How did agrarian reform happen?*

- Reform grew out of a crisis, in this case of food security; failure of collectivized farming.
- Resistance from local cadres and some at the top (committed to Mao's policies).
- Local stakeholders given power over some key decisions.
- Center avoided dictating a single model. Process gave ownership.
- Verifiable success of local experiments in alternative, contract-based, farming systems
- New research center, Rural Development Research Group, assessed local experiments for the center.

# *Price reforms: Don't tax poor farmers to subsidize urban consumers!*

- Early food market liberalization.
- Quota system remained; higher foodgrain procurement prices have helped reduce poverty.
- This too is an unusual country circumstance
  - a procurement system that taxed farmers by setting quotas and fixing procurement prices below market levels.
- This gave the Chinese government a powerful anti-poverty lever in the short-term (e.g., mid-1990s).

## *Other economy-wide policies helped*

- Macroeconomic stability (esp., avoiding inflationary shocks) has been good for poverty reduction.
- Foreign direct investment: Yes, although the vast bulk of FDI came after the bulk of the poverty reduction.
- Trade reform: less clear that this was key to poverty reduction.
  - Neither the trade reforms nor the trade expansions coincided with the times of falling poverty.
  - Zero correlation between changes in trade volume (TV) and changes in poverty. Nor with lagged TV up to two years.
  - Also holds with controls (inflation, proc. price, mean Y).
  - Benefits in the future.

## *Two main lessons for Africa*

1. High priority to agriculture at early stages
2. Effective state institutions

# Lesson 1: *High priority to agriculture and rural development at early stages*

- To replicate China's success against poverty in the longer term Africa must give a high priority to agriculture and rural development in the near term.
  - The problem is that many African governments think they can ignore their agricultural sectors and leave the task of poverty reduction to labor absorption from non-agricultural sectors.
  - Worse still, they sometimes try to jump-start their economies by rapidly developing a modern, relatively capital-intensive, manufacturing sector.

## (Lesson 1 cont.)

# *Pitfalls of ignoring comparative advantage*

- A capital intensive development path in labor abundant country will do little to reduce rural poverty directly,
- and may even harm the rural poor indirectly through the financing methods (notable the heavy taxation of agriculture) and price distortions that are needed.
- The problems with the capital-intensive development path are magnified in countries with high initial inequality.
  - Esp., in human resource development,
  - relatively few poor workers can get these jobs.

## Lesson 2: *Effective state institutions*

- China's experience points to the importance of combining
  - pragmatic, evidence-based, policy making +
  - capable public institutions +
  - a strong leadership committed to poverty reduction.
- Without these, it is difficult to get out of an equilibrium in which large numbers of poor and powerless people suffer under policies that perpetuate their poverty.

## (Lesson 2 cont.)

# *“Seeking truth from facts”*

- Evidence-based policy making has played an important role since the late 1970s.
  - China learnt much from the successes and failures of diverse local initiatives;
  - in effect, the center transmitted the policy lessons from one place to another, backed up by credible research on what was happening on the ground.
- Sound policy making practices + strong state institutions are complements, not substitutes.
  - Less ideology helps little if state institutions are weak.
  - China did not make the mistake of thinking that stronger markets required weaker states.

(Lesson 2 cont.)

## *48 countries not one*

- There is no African central government to transmit policy lessons from one place to another.
- Here the international community, including China, can play an important role.