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“Competition for Resources in a Changing World:
New Drive for Rural Development”

Economic Transformation – Theory, Empirical Evidence and Lessons from Successful Developing Countries

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Abstract

Our research is motivated by encouraging signs of growth acceleration in Africa that may herald a new development era of rapid transformation. This paper provides an extensive literature review on development economics, empirical observations from successfully transforming countries and analytic narratives on Thailand and Mexico. We find that the traditional development theory is consistent with past experiences of countries that moved from low to middle income level. However, this theory needs to be broadened in the light of rising inequalities during transformation.

Successful transformation vitally depends on agricultural development and industrialisation strategies. An early withdrawal of attention away from agriculture slows down transformation and resulting inequalities have become a persistent development challenge. By-passing small farmers in the process of agricultural modernisation has marginalised a large group of the rural population. This has not only led to short term social tensions, but also made long-run poverty reduction and improvements in inequality an extremely difficult task, even after countries have reached middle income status.

Winner-picking industrialisation strategies and related policies have created big industrial sectors, but these sectors have often failed to establish close links with the rest of the economy. Increased inequality and the difficulties to make these “picked” sectors internationally competitive and to generate sustainable long-term economic growth are all painful lessons drawn from this type of transformation strategy. On the other hand, private sector-led manufacturing growth, which is more of a “home-grown” nature and starts from a realistic base, is likely to be more consistent with a country’s initial conditions and comparative advantage.

Unleashing agricultural and industrial growth potentials in Africa requires government action to significantly improve the business environment. Public investments in infrastructure and improvements of the institutional environment for doing business are critical. In agriculture, the most important policy action is the removal of urban-biased and industrial-biased policies in trade, marketing, taxes and many other macroeconomic aspects. The most important public investment is in rural infrastructure and agricultural research and extension. As in other countries, African farmers will use this opportunity to transform traditional agriculture and thereby contribute to the successful transformation of their economies.

Keywords: Africa, economic growth, inequality, transformation