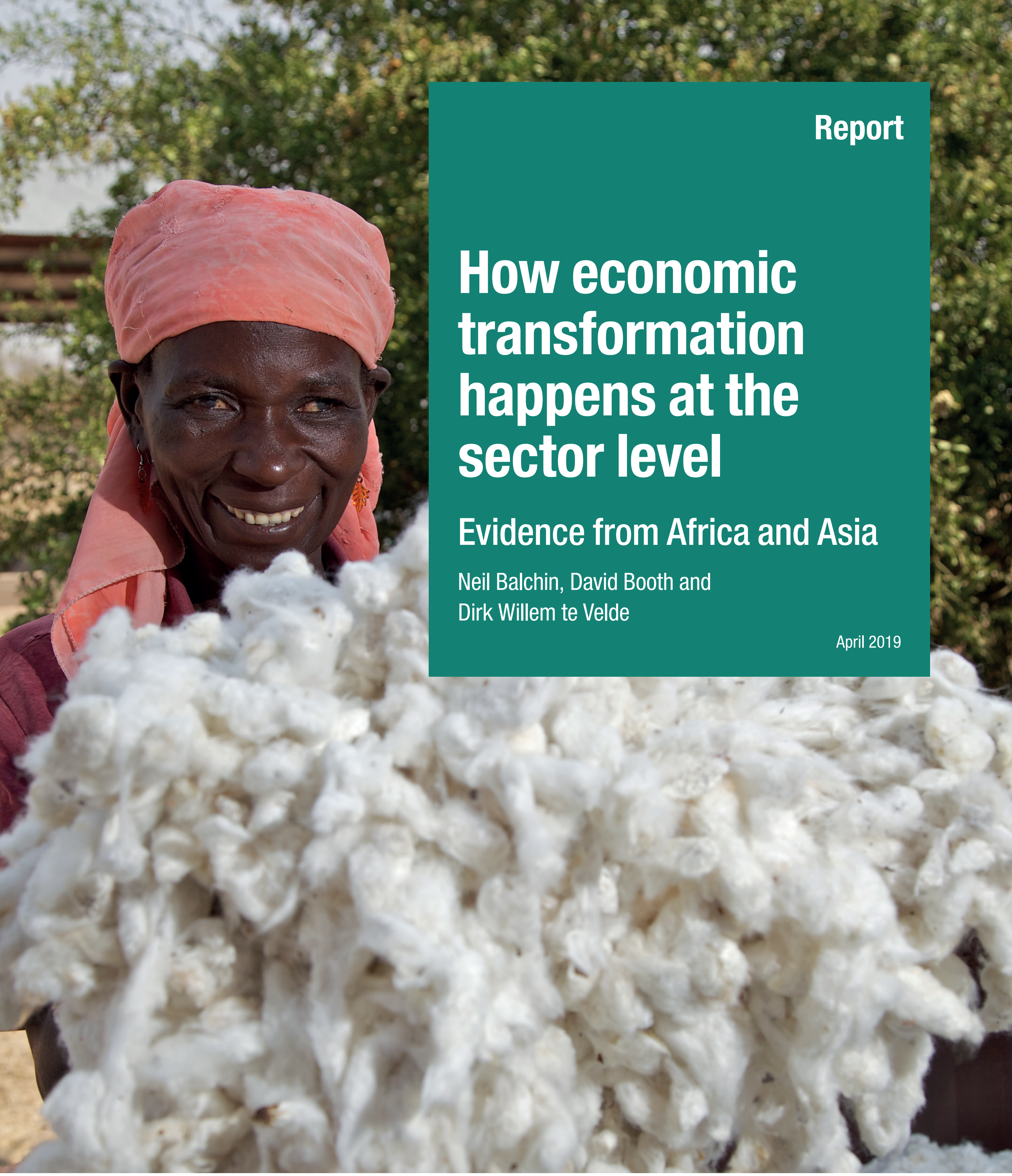

Report

How economic transformation happens at the sector level

Evidence from Africa and Asia

Neil Balchin, David Booth and
Dirk Willem te Velde

April 2019

ODI
GATSBY AFRICA

Cover photo: Neil Thomas.

Acknowledgements

The authors are grateful for insightful input and comments on previous iterations of this paper from members of the Gatsby Africa team, including Justin Highstead, James Foster, Neil Satchwell Smith and Ryan Bourque. We also thank Sheila Page for excellent peer review comments.

Contents

Acknowledgements 3

Acronyms 6

Executive summary 7

1 Introduction 10

2 Success in economic transformation at sector level: A framework 12

2.1 Background 12

2.2 Three types of success factor 12

2.3 A checklist 14

3 Case studies of sectors that have successfully transformed 15

3.1 Ethiopian Airlines: Building capabilities to become Africa's largest and most profitable airline 15

3.2 The automotive industry in South Africa: From a protected market to competitive exporter 18

3.3 Cocobod in Ghana: A pocket of efficiency 22

3.4 Indonesia's staple food revolution: Technocratic leadership with political support 23

3.5 Garments in Bangladesh: An opportunity seized 25

3.6 Sector-based strategies in Mauritius: Turning ethnic diversity from threat to advantage 26

4 Case studies of failed sectoral transformations 29

4.1 Cashew nuts in Mozambique: The limits of liberalisation 29

4.2 Pineapples in Ghana: Missing collective action and public goods 30

4.3 The maize subsidy policy in Malawi, 2005–2008: A political opportunity not sustained 32

4.4 President Kikwete's rice initiative in Tanzania: The politics of policy incoherence 33

4.5 Malaysia's faltering manufacturing sector: Failing to engage the domestic private sector 34

5 Emerging findings and implications **36**

5.1 Economic opportunity accurately identified **36**

5.2 Favourable pattern of political-economic interests **36**

5.3 Credible commitments **38**

5.4 Provision of appropriate public goods **38**

5.5 Solving investment coordination problems **39**

5.6 Special support to investors and firms **39**

5.7 Summing up **40**

References **41**

Annex 1 Summary of Section 3 case studies **46**

Annex 2 Summary of Section 4 case studies **49**

Acronyms

ACET	African Center for Economic Transformation
AIEC	Automotive Industry Export Council
ANC	African National Congress
APDP	Automotive Production Development Programme
ASDP	Agricultural Sector Development Programme
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BN	Barisan National
BULOG	Badan Urusan Logistik (Bureau of Logistics)
DTI	Department of Trade and Industry
EAC	East African Community
EAL	Ethiopian Airlines
EPZ	export processing zone
ERD	European Report on Development
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GDS	Global Development Solutions
GVC	global value chain
HAG	Horticultural Association of Ghana
ICT	information and communications technology
LIC	low-income country
MASIP	Malawi Agricultural Input Subsidy Programme
MFA	Multi-Fiber Arrangement
MIDP	Motor Industry Development Plan
O&M	operations and maintenance
OEM	original equipment manufacturer
R&D	research and development
RMG	ready-made garment
SPEG	Sea-Freighting Pineapple Exporters of Ghana
TWA	Trans and World Airlines
UK	United Kingdom
UNMO	United Malays National Association
US	United States
USAID	US Agency for International Development
USDA	United States Department of Agriculture
WTO	World Trade Organization

Executive summary

Economic transformation is a continuous, long-term process of shifting labour and other resources from lower- to higher-productivity activities both within and between sectors, to facilitate aggregate labour productivity growth over a sustained period and result in more diversified and complex productive activities. Structural transformations are often started in agriculture but then go hand-in-hand with movements from agriculture to industry or higher-productivity services over time.

This paper explores the factors that shape the prospects of success in economic transformation at the sector level. It provides an evidence base on the factors and conditions that drive or hold back economic transformation by focusing on examples where changes at a sector level triggered economic transformation, and the roles different actors played throughout this process.

The following checklist of issues frames the analysis of sector-level experiences of attempted transformation in the paper:

1. Was the economic opportunity accurately identified, in terms of global demand and supply, and available factors of production and firm capabilities?
2. Was the pattern of political-economic interests basically, or contingently, favourable?
3. Were credible commitments against expropriation provided, and how?
4. Were appropriate public goods adequately provided?
5. Were any investment coordination problems solved?
6. Was there special support to first-mover firms?

This checklist is applied to six case studies of successful sector transformation: air transport and logistics services in Ethiopia; the automotive industry in South Africa; the revival of the cocoa sector in Ghana; the staple food revolution in Indonesia; garments in Bangladesh; and sector-based strategies in Mauritius. It is also used to examine five cases where sectors did not transform or where a promising initial transformation was not sustained. These cases of relative failure are cashew nuts in Mozambique; pineapples in Ghana; maize subsidies in Malawi in the years 2005–2008; President Kikwete's rice initiative in Tanzania; and Malaysia's faltering manufacturing sector.

Correct identification of economic opportunities is a common feature in all of the successful transformation examples, although on a variety of different grounds. These range from successful identification of market access advantages for Bangladeshi garments or opportunities to serve Asian markets through Ethiopian air transport services, to supply opportunities in South Africa presented by the global sourcing strategies of original equipment manufacturers (OEMs). In contrast, an important feature among the instances of failure is that, in several cases, opportunities seem to have been correctly identified. On balance, the case studies reveal that economic opportunity factors alone do not make it possible to distinguish successes from failures.

All successful cases had positive political-economic relations, at least at the sector level. But the type of relationship varied across the successful transformation experiences, from centralised economic planning enabling state-led development of an airline in Ethiopia or exceptional democratic unity post-apartheid and an effective alignment of interests facilitated through dedicated sector-specific structures and support organisations around South Africa's automotive industries, to the development of a consensus view across elites and the wider public and private sectors around a strategic direction for the Mauritian economy.

In the failed or disappointing experiences, these relations soured over time, or were weak or entirely absent. Political-economic causes of failure also took a variety of forms, but in almost all cases these were the most decisive factors, either directly or by weakening the public actions required to stimulate or support the investments. In Mozambique, there was a lack of consensus among different actors about necessary reforms in the cashew nut sector. In Ghana, there was little government interest in pineapple production, leaving pioneer investors in the sector to attempt, ultimately in vain, to address the growing infrastructure and learning requirements of remaining internationally competitive. Similarly, the maize sector in Malawi suffered from weakening political support for maize. In Malaysia, dissolving political conditions after the Asian financial crisis and the politics of ethnicity undermined attempts to improve manufacturing performance.

In several of the successful cases, favourable balances of political and economic interests supported transformation because they resulted in credible commitments to investors. In Ghana, this took the form of cross-party political support for the cocoa sector and the key sectoral institution. In Mauritius, high-level political backing for a consensus view on the desired future direction of the economy was important. In Ethiopia, state investments in air transport were backed by a long-term policy vision designed by a regime that is relatively secure. In South Africa, multi-year policy visions provided a credible platform for long-term planning in the automotive sector. Technically proficient planning and macroeconomic management provided a predictable investment environment for staple agriculture in Indonesia. In Bangladesh, credible commitments came externally in the form of clear international commitments providing market access for Bangladeshi garments.

In failures, such commitments were typically uncertain, undermining investor confidence. For example, the government's credibility in the case of cashews in Mozambique was undermined by poor communication, the perception that the policy reforms were World Bank-driven and the knowledge that processing could be profitable only with government protection. In Tanzania, the power of food-importing businesses undermined the credibility of the presidential rice initiative and the East African Community's tariff rules. Political changes in Malaysia removed support for export processing zones and undermined the credibility of investment incentives.

The success cases often included reasonably good provision of public goods. This ranged from coordinated public infrastructure investments in Ethiopia or investments in the construction of automotive industrial parks and targeted transport infrastructure in South Africa to major investments in rural public works in Indonesia and improved telecommunications and power in Bangladesh and Mauritius. In Ghana, the development of quality control systems helped maintain the international price advantage of domestically produced cocoa.

The absence of adequate public goods provision, or related support, was almost always one of the proximate causes in the cases of relative failure. For instance, poor rural roads and weak extension services affected the maize sector in Malawi, while failure on the part of district governments to maintain medium-size irrigation works hampered the presidential rice initiative in Tanzania.

In the successful cases, specific efforts were made to tackle investment coordination problems. In Ethiopia, there was coordination and sequencing of investment in public infrastructure alongside the airline's own capital investment in key areas such as cargo and maintenance facilities. The South African government devised well-coordinated policies – including import duty credits and productive asset allowances – for subsidising investment in exporting cars. The Indonesian government had a well-staffed national planning agency, which handled the coordination issues surrounding the uptake of improved rice and the utilisation of oil revenues in an effective way. There was some coordination among garment firms in Bangladesh, for example to capture spillovers from firm-level learning and establish strong links between education institutes and the private sector.

In failures, unsolved coordination problems had deleterious effects. For instance, little effort was made to coordinate investments to boost raw cashew nut production after export liberalisation in Mozambique. In Ghana, there was a lack of coordinated investment in post-harvest handling and other infrastructure to support pineapple production.

In certain success cases, support was provided to investors, and sometimes directed to specific first-mover firms. For example, tax incentives available to all investors and tariffs helped attract OEMs to South Africa, and similar incentives had the effect of attracting foreign investors to export zones in Malaysia. Support was provided to first-mover firms in Bangladesh's garment sector, while support was provided to whole sectors through targeted support for innovation in Mauritius.

In the failure cases, support was often provided and then withdrawn. In Mozambique, the government removed export restrictions without investing in firm capabilities. In Malawi, subsidies were not sustained long enough, or supported with sufficient complementary measures, to pull off a profitability breakthrough.

The evidence set out in this paper shows that interventions at sector level, coordinated around a targeted set of activities, in a politically smart way, and set in a competitive framework, can be an important driver of economic transformation. Targeting specific sectors that have strong basic conditions for competitiveness and where political economy factors are not going to be strongly detrimental is critical. The development of specific competitive sectors has been key to dynamic growth periods and hence to long-term transformation, even in countries where wider aspects of economic governance have not improved. This implies it is possible to develop dynamic, competitive sectors even when broader conditions in the economy are unfavourable. This insight has implications for actors looking to support economic transformation.

The factors set out above operate primarily as transmission mechanisms, meaning it is the function rather than the form of support at sector level that matters most. They are crucial mechanisms by means of which a favourable or unfavourable political-economic configuration influences the transformation outcome. In other words, once an economic opportunity has been identified, the political economy really matters.

And, finally, what matters about the political economy may be a temporary configuration, a moment of unusual opportunity – and it is also likely to be sector-specific. Transformation breakthroughs can and do occur in systemic contexts that are generally unfavourable. This places a premium on the ability to identify moments and sectors of opportunity in a timely fashion. Given the high level of uncertainty that must accompany such judgements, this also points to the importance of having the flexibility to recognise initial errors and change course when necessary.

1 Introduction

Since the mid-1990s, many developing countries in Africa have recorded faster economic growth relative to their past, but this has often not translated into significant changes in the structure of these economies; nor, in many cases, has it created enough jobs to absorb rapidly expanding workforces or generated sustained increases in income across the income distribution. Instead, economic activities in many developing economies, especially in low-income countries (LICs) in sub-Saharan Africa, remain concentrated in low-productivity, low-value-added agricultural activities, with limited progress in diversifying into higher-productivity manufacturing or services activities.

In this context, much of the growth that has occurred in these countries has been driven by high commodity prices or rapid urbanisation rather than the emergence of modern productive sectors (McMillan et al., 2017). In some cases, growth in African economies has also been driven by the expansion of services sectors, rather than by growth in manufacturing. This shift has seen large numbers of people move out of agricultural activities in rural areas and into urban areas in search of work. But, in the absence of significant increases in productive employment opportunities in urban areas, large numbers of migrants end up engaging in low-productivity services activities or in services jobs offering few prospects of meaningful productivity increases (Balchin et al., 2017).

In other words, while developing economies, especially LICs in Africa, have grown, they have not transformed structurally. This can also be understood as growth without significant diversification of production and exports, improvements in export competitiveness, productivity increases (especially in labour productivity), technological upgrading or improvements in human well-being – in short, it is growth without depth (ACET, 2014). Instead, the patterns of growth have been highly skewed and non-inclusive (McMillan et al., 2017).

Economic transformation refers to processes by means of which countries generate, and sustain, long-term, high-quality economic growth. Growth is of higher quality when it is less skewed and more inclusive, generates sustained increases in productive employment, raises income levels (broadly across the income distribution) and facilitates large and sustainable reductions in poverty. Transformation is defined as a continuous process of shifting labour and other resources from lower- to higher-productivity activities, facilitating aggregate labour productivity growth over a sustained period and resulting in more diversified and complex productive activities. These shifts can occur both between sectors (structural change) through movements from lower- to higher-productivity sectors (e.g. through the movement of labour out of agriculture and into manufacturing) and within sectors (e.g. from low-value, low-productivity subsistence agriculture to high-value crop farming; or from low- to high-productivity firms) (McMillan et al., 2017).

Economic transformation is an economy-wide process involving some combination of structural and within-sector change. This paper focuses on the latter, exploring the factors that shape the prospects of success in economic transformation at the sector level. Specifically, it aims to provide an evidence base on the factors and conditions that drive or hold back economic transformation by focusing on examples of where changes at a sector level have triggered economic transformation, and the roles different actors have played throughout this process. This is undertaken as part of an on-going learning partnership between Gatsby Africa and ODI, and the evidence set out in this paper is intended to both inform and reinforce Gatsby Africa's work and approach to sector transformation.

We offer a framework that singles out the main factors expected to influence success and failure of transformation initiatives at the sectoral level in agriculture, manufacturing and other sectors (Section 2). We then summarise the principal features of a sample of sector transformation experiences, six of them generally considered successful (Section 3) and five unsuccessful or otherwise disappointing (Section 4).

The selection of cases is not systematic but is shaped by the availability of adequately documented previous analysis and framed by the limited universe of cases from which to select. The selection is based on relative judgements, and we include cases where the policy objectives and/or the nature of the political regimes under which the sector has developed are questionable, as they nevertheless serve as useful sources of learning. The resulting summaries are structured in such a way as to shed light on the validity of our framework. Two appendix tables capture the main points.

In view of the limited universe of relevant cases, our approach in reaching conclusions is necessarily inductive and exploratory. Section 5 summarises the main implications of the case studies for the framework. Although provisional and subject to refinement as the evidence base improves, these emerging findings suggest a set of key factors that Gatsby Africa can use to inform future approaches to sector development.

2 Success in economic transformation at sector level: A framework

2.1 Background

Policy discussion about the conditions for economic transformation has undergone significant changes. The World Bank's *World Development Report 2005* on the investment climate contained a long list of reforms to systems of economic governance that countries would need to undertake in order to achieve significant progress in transformation. Although its theoretical underpinnings were weak, this approach reflected a consensus that, without comprehensive implementation of policies of the Bank-prescribed type, sustained growth and transformation would be unlikely to happen. This consensus ran into problems because some countries that followed these policies (notably several Latin American countries) grew unsatisfactorily, whereas others that did not follow these policies (China, Viet Nam) grew rapidly.

The Commission on Growth and Development's (2008) report marked a change. Its review of successful experiences of growth highlighted the role leadership played in promoting economic growth, along with four key ingredients other than those emphasised in the investment climate literature. Hausmann et al. (2008) took a significant further step, providing a procedure to identify the most binding constraints, and arguing that binding constraints were country-specific. Lin et al. (2011) brought into the centre of the discussion 'the role of the state in the dynamics of structural change' and went on to provide a six-step procedure for growth identification and facilitation.

More recently, Lin and Monga (2017) have argued explicitly that successful transformation is not about the disappearance of a long list of constraining factors. Transformative change in developing countries can be jump-started in the absence of many of the ideal conditions that traditional textbooks of development economics describe. Successful development in history has always involved recognising opportunities, taking targeted actions and making the most of an enabling environment and engaging in second-best policies. Progress can be made in particular sectors and in aspects of economic governance without waiting for substantial overall improvement (McMillan et al., 2017).

In line with the above, Gatsby Africa's approach is predicated on the view that economy-wide transformation tends to be driven by the growth of specific sectors through which a country builds capabilities and enhances productivity before moving further into related and even more productive sectors. While institutional and business environment factors do play a role, countries need dynamic firms in dynamic sectors to deliver rapid and inclusive growth regardless of these factors.

2.2 Three types of success factor

Although conducted largely with reference to economy-wide issues, much of the thinking on transformation can also be applied to sector-level transformation. Based on the above references and the wider literature, we hypothesise that transformation efforts at the sector level tend to fail if they do not include the following three elements:

1. technically sound identification of an economic opportunity, by private investors, governments or both
2. a conducive pattern of political-economic interests at the sector level and
3. the necessary public actions to motivate investors.

While they may not be sufficient, all three elements seem necessary. In brief, jump-starting and sustaining economic transformation in a sector calls for sound economic judgements, based on an up-to-date appreciation of the opportunities available under current world conditions and with the available productive resources. But it is also unlikely to succeed against the resistance of powerful public or private interests, unless equally powerful countervailing forces come into play. And effective public actions are also required to induce the needed investment decisions. Thus, we need technically sound and politically smart solutions.

2.2.1 Economic opportunities

Economists have developed a number of technical tools to assist country governments and potential investors to identify current and emerging opportunities for economic transformation. These are set out in some detail in McMillan et al. (2017) and include revealed comparative advantage, Hausmann product space, productivity analysis, growth diagnostics, jobs and output multiplier analysis, and Lin and Monga's six-step growth facilitation and identification framework. They have in common that they guide the user towards areas for investment that meet current or emerging conditions of demand and supply in the global economy. They provide a sound basis for decisions that make use of the country's available or anticipated factors of production, by examining by one method or another the experience of economies that have faced similar conditions in the recent past and have upgraded their production structures with success. We hypothesise that, in a given case of attempted economic transformation in a sector, whether or not some broadly equivalent form of assessment of economic suitability and viability was applied, or could have been applied, is a key question.

2.2.2 Political-economic interests

Even though the genuine preconditions for success are limited in number and kind, economic transformation remains a huge challenge, even in countries that have a reasonable level of political stability and have achieved sustained economic growth. The reasons have to do with political economy. The way powers are distributed and interests are defined across countries' political and economic systems typically inhibits both the recognition of transformative opportunities and the provision of the necessary minimum of enabling conditions.

For example, existing private investors and their associations are often principally concerned to defend and extend their activities. Their interests vested in the current production structure lead them to oppose any liberalisation or targeted measures to induce investment in new activities. Meanwhile, potential investors in new sectors may not be significant actors in a country's interest group politics. We hypothesise that breakthroughs occur when, for one reason or another, typical inhibitors such as these are weakened, either broadly or in a leading sector, or it is possible to circumvent them.

2.2.3 Public actions

Important elements of public support identified in the literature are:

- *credible commitments* to investors that their assets and profits will be secure against unjustified expropriation
- an appropriate supply of relevant *public goods*, including social and physical infrastructure
- public action to anticipate and correct *investment coordination failures*
- intervention to address *information externalities and socialise the learning costs* incurred by first-mover firms in a new sector.

Each one of these dimensions of the needed public support is of course problematic when, as is typically the case, the political system is both strongly patronage-based (or 'clientelistic') and intensely competitive. Such a system generates short political time horizons; inhibits collective action among incumbents and between incumbents and potential successors; encourages public appointments that reward loyalty over efficient service delivery; and favours policies that permit discretionary allocation of benefits to political cronies. The credibility of long-term commitments tends therefore to be weak, public goods are typically under-provided and there is no public organisation sufficiently free of sectional pressures to perform adequately on coordination and information externalities.

This, however, describes the typical or expected pattern, whereas – we have argued – conditions need only be 'good enough' to kick-start transformation. Particularly when the focus is on a specific economically promising sector in a given country, some or all of the normally prohibitive political economy factors may be weaker than usual, for idiosyncratic historical reasons. In addition, change in economic systems is typically complex, in the sense that it involves large numbers of interacting elements, including human individuals and organisations that sometimes respond to each other in unpredicted and unpredictable ways. Therefore, we hypothesise finally that transformative breakthroughs are sometimes the product of fortuitous decisions or circumstances that interrupt the expected political-economic circuits.

By definition, such accidents cannot be planned for. However, policy actors with their ears close to the ground (which may be more feasible at sector than at macro level) can contribute positively by being both conscious of the basic political economy and well informed about possible contingencies. In such circumstances, well-connected and far-sighted individuals can make a decisive difference.

2.3 A checklist

This framing discussion provides a checklist of issues we should look out for in surveying sector-level experiences of attempted transformation:

- Was the economic opportunity accurately identified, in terms of global demand and supply, and available factors of production and firm capabilities?
- Was the pattern of political-economic interests basically, or contingently, favourable?
- Were credible commitments against expropriation provided, and how?
- Were appropriate public goods adequately provided?
- Were any investment coordination problems solved?
- Was there special support to first-mover firms?

In each case, we need to establish how and why typical political economy constraints were overcome or how and in what ways they caused the hoped-for sector transformation to fail. The possible role of accidental factors or exceptional leadership should be considered in each case.

3 Case studies of sectors that have successfully transformed

We have selected six case studies of successful sector transformation:

1. air transport and logistics services in Ethiopia
2. the automotive industry in South Africa
3. the revival of the cocoa sector in Ghana
4. the staple food revolution in Indonesia
5. garments in Bangladesh
6. sector-based strategies in Mauritius.

Each case study examines (i) what happened in terms of the successful transformation of the sector (in broad terms) or changes in sector activities and (ii) why (distinguishing between economic and political economy factors). More specifically, each case study examines the six issues mentioned at the end of the previous section.

3.1 Ethiopian Airlines: Building capabilities to become Africa's largest and most profitable airline

Air transport services generate a considerable amount of export revenue – $3.095 billion in 2016 (UNCTADstat data) – for Ethiopia. Ethiopia also performs well, at least in relation to other African least developed countries, on both the Air Trade Facilitation and the Air Connectivity Indices. This is due, in no small part, to the success of Ethiopian Airlines (EAL). The national carrier is highly profitable. Ethiopian Airlines generated a net profit of $233 million in the 2017/18 financial year, making it the most profitable airline in Africa and meaning its operating margins are comparable with major European airlines (Aglionby, 2016; Dahir, 2018a; Reuters, 2018). Beyond being financially successful, the considerable expansion of the airline's air cargo and logistics services in recent years has played an important role in enabling better integration of Ethiopian firms into global value chains (GVCs), especially for the textiles and apparel[1] and cut flowers sectors.

Early identification of the economic opportunity in air transport services in Africa was an important factor in the development of the sector in Ethiopia. EAL was founded in 1945 at a time when economic and political instability in many African countries precluded the establishment of national airlines. This enabled the Ethiopian government, by establishing a state-owned national carrier, to gain a first-mover advantage and set up air transport services for key routes, using East Africa as a regional hub. Moving first to capitalise on this opportunity helped EAL build brand recognition, establish customer loyalty and grow market share (Bright and Habte, 2015). This remains important in the face of rivalries with regional competitors (Kenya Airways, South African Airways, Royal Air Maroc) and the highly competitive Gulf carriers.

A range of different actors have been involved at various points in the growth and transformation of the air transport services sector in Ethiopia, particularly since the establishment of EAL. In the early years of developing the national

1 See Shepherd et al. (2016) for a detailed analysis.

carrier, the Ethiopian government sought support from several foreign actors, requesting technical assistance from the US, the UK and France to establish a national airline. The Ethiopian government signed a technical service agreement with Trans World Airlines (TWA), headquartered in the US, to manage EAL. This helped ensure the airline operated in accordance with international standards and facilitated knowledge transfer from TWA professionals – pilots, technicians, administrators and accountants – to local Ethiopian staff (Bright and Habte, 2015). This working relationship with a foreign partner was an important factor in establishing the initial foundation for the airline's success.

The Ethiopian government subsequently decided to operate the airline without foreign involvement, and it has been run entirely by Ethiopian nationals since 1971. Emphasis was placed on developing competitive in-house capabilities across a range of different service areas. Today, EAL's business model involves several different revenue-generating centres covering express and ancillary services, international services, cargo services, maintenance, repair and overhaul services, in-flight catering and ground services, alongside an Aviation Academy (Nkonde, 2018). This has integrated a range of related and supporting services along the aviation supply chain.

While EAL is 100% government-owned, it has a separate management structure. This means that, while government officials are involved, the management team enjoys a high level of autonomy and is responsible and accountable for the airline's day-to-day operations (Bright and Habte, 2015). Autonomy was secured through EAL's corporate governance structure (which included seats for TWA). The government must pay for EAL services even when they are for the prime minister. EAL on its side had to secure financial solvency as the government could not subsidise it (Arkebe and Tesfachew, 2019).

Coordination in the sector has been enhanced even further through a merger between the Ethiopian Airlines Group and the Ethiopian Airlines Enterprise in 2017 to form a new Aviation Holding Group. This merger was intended to raise the competitiveness of EAL through more efficient and effective airport services (Air Cargo News, 2017). It has made it possible to develop an integrated strategy for delivering globally competitive airline and airport services.

The localisation of the sector has been enforced by restrictive regulations governing foreign investment. These stipulate that only the Ethiopian government can provide air transport services on aircrafts with a capacity of more than 50 passengers, while only Ethiopian citizens can provide such services on aircrafts with lower capacity (Bright and Hapte, 2015). These regulations have granted EAL a monopoly over many domestic and international flight services.

Much of the recent growth of EAL has been driven by a targeted strategy to capitalise on economic opportunities in new regional and overseas markets for air transport and logistics services. The identification of these opportunities was informed by an internal exercise to develop a strategic vision for the airline. This exercise shaped EAL's Bet on Africa strategy, originally part of its Vision 2010 and now in an updated Vision 2025, which represented a calculated assessment by the airline's management to capitalise on Africa's burgeoning population and rapid economic growth (Bright and Habte, 2015). Ethiopia's geographical position in East Africa was identified as an ideal gateway location for servicing routes connecting Africa, Asia and South America in order to capitalise on expanding trade between Africa and major emerging markets (including Brazil, China and India). In this sense, the development of Ethiopia's air transport services sector has been driven by an explicit strategy to target markets where growth in trade, investment and tourism is expected, and to establish a commercial presence in these markets.

A hub-based approach, driven by a coordinated investment strategy, has been instrumental in expanding EAL's reach across Africa and beyond. This has been supported by the airline's strategic efforts to advance cross-country coordination with industry players elsewhere in Africa through joint ventures and business partnerships. It also places EAL in a better position to withstand competition from non-African carriers (Olingo, 2018). Investment in Asky Airlines, based in Togo, has provided a West African hub, while a stake in Malawian

Airlines has expanded the airline's reach in Southern Africa. The carrier is looking to establish a similar arrangement in Central Africa, along with potential partnerships in Ghana, Uganda and Zambia (Dahir, 2018b).

Outside Africa, EAL has adopted an aggressive strategy to capitalise on demand conditions by targeting growing Asian air travel markets and taking advantage of burgeoning Africa–Asia passenger and cargo flows. The airline now travels to 14 destinations in Asia, and tripled its annual capacity on routes to China between 2007 and 2015. It has also established partnerships with prominent Asian carriers (Singapore Airlines and All Nippon Airways).

The strong developmental state orientation in Ethiopia, with centralised economic planning, helped generate a favourable alignment of political and economic interests to pursue such a strategy. At the same time, as a wholly government-owned entity, EAL has benefited from consistent backing from the state, clearly evident in credible commitments to provide policy support. The sector is prioritised in the government's Growth and Transformation Plan, which emphasises strengthening competitiveness and expanding passenger and cargo services. At a more granular level, a succession of documents outlining ambitious targets for the airline's expansion have set out a clear vision, backed by government commitments to investment in supporting infrastructure, for the long-term development of air transport services. Vision 2010 contained specific targets to boost passenger traffic, revenue and employment by 2010, all of which were exceeded. Since then, a 15-year master plan, Vision 2025, has guided the airline's recent expansion, with more aggressive goals targeting revenue of $10 billion, expanded operations to 120 international and 26 domestic destinations and a fleet of 140 aircraft carrying 22 million passengers and 820,000 tonnes of cargo by 2025 (This Day, 2017).

Through the airline's own initiative, alongside supportive investments from the government, attention has been paid to strengthening factor conditions in the sector. For example, significant upskilling has occurred, spearheaded by major investments in human capital development through an ambitious training programme initiated by EAL. The Aviation Academy, established to fill a gap in the supply of training for the sector, serves as a focal point for aviation education and training, and offers skills training programmes for a range of different roles in the industry, including pilots, maintenance engineers, cabin crew, ground operators and marketing staff. The access to a qualified workforce these training initiatives afford provides a significant competitive advantage over other African airlines, enabling EAL to capitalise on lower labour costs for domestically trained staff and generating above-average productivity growth (Bright and Habte, 2015; Kebede, 2016). The upskilling efforts have also made the sector more inclusive. They have, for instance, helped improve the gender balance in the industry. In November 2015, EAL operated its first-ever flight with an all-female crew (Kebede, 2016).

Upskilling has occurred alongside coordinated public infrastructure investments. This has included government investments to expand airport and cargo infrastructure in Ethiopia. A new cargo terminal at Addis Ababa's Bole International Airport was inaugurated in June 2017, spanning 150,000 m^2 and providing a dry cargo terminal warehouse as well as a fully automated perishable cargo terminal facility to support cold chain storage. Looking ahead, EAL has committed to investing a further $98 million to quadruple the size of its cargo terminal in Addis Ababa – which, according to the airline, will eventually boast annual cargo capacity of 600,000 tonnes (EAL, 2018).

EAL's consistent profitability and creditworthiness, underpinned by a strategy for sustainable long-run business growth, has aided its resilience and that of the country's air transport services sector more generally. Retained profits have been a key element in funding growth (Davies, 2017). Reinvestment of profits has, for instance, funded substantial increases in the size of the airline's aircraft fleet, which has more than doubled since 2009. The growth of the fleet has occurred alongside an expansion of destination routes – as of 2018, the airline services 95 destinations, up from 52 in 2007–2009 and 68 in 2011–2012 (EAL, 2018).

The development of cargo infrastructure and supporting services has been especially beneficial for Ethiopia's cut flowers sector. In the past, Ethiopian entrepreneurs looking to export cut flowers were hamstrung by a lack of access to reliable and affordable air cargo services (Gebreeyesus and Iizuka, 2010). This was critical, given the time-sensitive nature of trade in perishable flower products. Recognising this, the government identified air transport coordination as one of three key areas – alongside access to land and long-term credit – requiring intervention to support the cut flowers sector. In the mid-2000s, EAL established partnerships with a range of floricultural companies and growers, providing a platform from which to capture a major share of the market for transporting flowers out of Ethiopia (Melese and Helmsing, 2010). By 2010, around 87% of cut flowers exporters in Ethiopia were using EAL's cargo services (Gebreeyesus and Iizuka, 2010). The airline's growing presence provided alternatives and intensified competition for air transport services, helping reduce the cost of transporting cut flowers to key markets (GDS, 2011). Improving the scope and efficiency of air transport and associated logistics services in Ethiopia has helped unlock the significant potential of the cut flowers sector and provided a major boost to exports.

The improvements in Ethiopia's air transport services generated through significant government investment in a highly profitable and well-managed (government-owned) national carrier provide a pertinent example of how effective state-led investments in transport and logistics services can directly facilitate sector development. It is worth noting, however, that development of the sector was achieved within the context of a communist dictatorship (prior to 1991) followed by autocratic rule through increasingly authoritarian governments.

3.2 The automotive industry in South Africa: From a protected market to competitive exporter

Rapid transformation of South Africa's automotive industry in the 1990s following the end of apartheid facilitated integration into global automotive value chains and enabled firms to develop competitive capabilities in vehicle production and assembly and as suppliers of automotive parts and components to major multinational firms. Alongside South Africa's transition from a racially segregated society to a non-racial democracy, culminating in a political changeover to a multi-ethnic government when the African National Congress (ANC) came to power after democratic elections in 1994, the automotive industry was transformed from an inward-looking, heavily protected sector to one with a high degree of export orientation. The result was rapid international integration and structural change in the industry (Black et al., 2017). Productivity and quality improved rapidly on the back of technological upgrading, a rationalisation of production structures and the modernisation of plants (Barnes and Black, 2013; Black et al., 2018).

The political economy context within which this transformation occurred is central to understanding the dynamics of the industry's evolution. The new ANC-led government – emboldened by the democratic transition, the country's re-emergence on the international stage and the relaxation of economic sanctions on South Africa in the mid-1980s – sought to move away from the highly protectionist stance of the apartheid state. Specific policy choices were also influenced by newly introduced pressure from international competition, as well as the balance of power between state institutions, multinational corporations and domestic firms in South Africa, all of which shaped the way the industry transformed (Black et al., 2018).

The industry benefited from large-scale, proactive government support over a lengthy period both during the apartheid era and after the democratic transition. This evolved over time. It initially concentrated on protection from imports and then a series of local content programmes and regulations from the 1960s to the late 1980s. At that point, it turned to targeted industrial policy interventions that facilitated the opening of the industry to international competition in the mid-1990s (as South Africa was welcomed back into the international fold), while subsidising exports, production and investment (Black et al., 2018).

In the early years of the industry's development, first-mover automotive firms setting up operations in the country – initially Ford and General Motors in the 1920s – were encouraged by the presence of high tariffs on fully assembled vehicles, which discouraged imports and generated a need for local production. In addition to the tariff policy, the South African government provided a range of tax incentives, alongside the availability of import permits. This attracted international original equipment manufacturers (OEMs), which saw an opportunity to assemble vehicles in South Africa to supply their domestic and regional markets. Their investments were motivated primarily by a desire to gain access to the protected domestic market (Barnes et al., 2017).

Other non-policy factors also provided favourable initial conditions to support vehicle assembly in South Africa. OEMs were able to draw on a relatively strong skills base – particularly in engineering disciplines – that had developed through earlier industrial development processes concentrated in mining and heavy industry in the late 1800s and early 1900s (McGrath, 2005). The presence of these industries also meant there was relatively good availability of local technologies and reasonably good quality local suppliers providing a base for related and supporting industries (Alfaro et al., 2012). This became increasingly important with the introduction of local content requirements for the industry in the 1960s.

In addition, access to affordable raw materials, such as platinum group metals (discovered in South Africa in 1924, followed by major growth in platinum mining after World War II), ensured there was relatively good access to inputs within South Africa. This meant a number of capabilities and factors of production were in place to support successful assembly and production of vehicles locally from the 1920s onwards, even though vehicles and vehicle parts and components were not traditional products in South Africa (Kaplan, 2004). The economic opportunity these factors presented encouraged foreign automotive firms to set up assembly plants in South Africa (e.g. Chrysler and Peugeot in Johannesburg in the 1930s, Mercedes Benz in East London in 1949, Datsun in Durban in the late 1950s and BMW, Fiat and Datsun in Rosslyn in the 1960s), in some cases via joint ventures with local firms (Barnes and Black, 2013).

Even so, amid protection through high tariffs on imports and stringent local content requirements, domestic production prior to 1994 was inefficient. Vehicle production was characterised by low export volumes, and a proliferation of different models and varieties manufactured in low volumes (Black, 2007, 2014). While the high level of protection supported diversified development, it also created a heavily inward-oriented industry with a high-cost production structure and low productivity, which was dependant on sustained protection from international competition (Black, 2001, 2009; Barnes et al., 2017; Black et al., 2018). The resulting inefficiencies in production meant firms were producing well below minimum efficient scale and failing to achieve economies of scale.

Following the end of apartheid in 1994 and the relaxation of economic sanctions against South Africa, the new ANC-led government took a strategic policy decision to move away from import substitution in favour of liberalisation and an outward focus on exporting. The main idea was to provide policy support to rationalise production and improve competitiveness (Alfaro et al., 2012; Black et al., 2017).

The government's decision to reorient the industry to focus on exporting was also motivated by an identification of economic opportunities globally, with automotive manufacturers increasingly looking to outsource component manufacturing and assembly operations. The shift to export orientation was key to the integration of the industry into the global economy (Black, 2009). It was also driven, in part, by South Africa's changing standing within the World Trade Organization (WTO), where it began to participate actively and redefine itself as a developing country.

The replacement of the apartheid regime with a democratic government and the ensuing disruption of the political elite (replacing minority with majority rule), along with a resurgent role for trade unions, paved the way for alignment of different political-economic interests. A range of structures were established to facilitate cooperation. For instance, the Motor Industry Development Council, a tripartite forum comprising government, the private sector and trade unions, was established in 1996 to advise on the development of appropriate automotive policies and improve cooperation across different stakeholders (McGrath, 2005). Similarly, the Auto Industry Export Council, established in 1999, brought together representatives from both the government and business associations to promote exports. The Automotive Industry Development Centre, a joint initiative between Gauteng provincial government and the Council for Scientific and Industrial Research, also played an important role in linking the supply of (from public further and higher education and training institutions) and demand for (from automotive firms) skilled workers in the automotive industry. Against a backdrop of considerable political pressure, these structures helped align the different interests of diverse stakeholders for the long-term development of the industry. In some instances, the coordinating power of the National Economic Development and Labour Council has provided a vehicle for these structures to collaborate with the government and other non-state actors to solve problems affecting the industry and input into ongoing policy-making processes.

The private sector has been influential in upgrading skills in the industry. Firms in the industry played a prominent role in encouraging a national response to address major weaknesses in South Africa's education and training systems generated by the stark racial disparities in the provision of education during the apartheid era. In many cases, automotive firms have undertaken their own skills development initiatives, either through workshops or partnerships with public higher education and training providers. Significant emphasis has been placed on aligning workplace training and development activities to national skills needs.

Private firms also played a strategic role in shaping the policy agenda to suit their needs. Leading multinational firms, for instance, exerted significant influence, via extensive lobbying, on the level and type of support the South African government provided over the course of the industry's transformation (Black et al., 2018). These firms exploited the regime change in South Africa to reorient themselves to appear to be supporting the new government and demanded continued support, albeit in a different form. They held a strong bargaining position, given South Africa's geographic remoteness from major markets and the relatively small size of its domestic market. They used this bargaining power to reinforce concessions available to exporting firms. Their primary strategy was to optimise the level of import credits available through exporting to offset their exposure to duties in the domestic market (Barnes and Black, 2013; Black et al., 2018).

The refocusing of the industry away from inward-oriented import substitution and towards export orientation was facilitated through the change in government following the fall of the apartheid regime and an ensuing shift in government policy, which included credible commitments to provide generous support – via export subsidies – to encourage exports of both components and fully built up vehicles. The major policy shift occurred in 1995 as the new ANC government introduced the Motor Industry Development Plan (MIDP), which was designed to support a phased integration of the domestic automotive industry into global markets. The MIDP played an important role in providing policy stability and a clear plan and targets for the industry.

A key goal of the MIDP was to facilitate rapid expansion of exports to boost production volumes and achieve economies of scale through greater specialisation and rationalisation. The latter was to be achieved through consolidation among local vehicle manufactures, integration into the supply chains of global automobile manufacturers and a focus on producing a smaller number of models in larger volumes (Cape Business News, 2017). A range of incentives were provided to automotive manufacturers, including an export–import complementation scheme, which provided subsidised support for exports by allowing firms to offset duties (through a duty-free allowance and rebates on import duties) on imported vehicles and components by exporting. This lowered the effective tariff rates on imports of vehicles and components even as nominal import duties initially remained fairly high (Balchin and Mendez-Parra, 2016). These government incentives provided significant financial support, at a level not granted to other industrial sectors, and helped facilitate the international integration of the industry after 1995 (Barnes and Kaplinsky, 2000; Black, 2009; Black et al., 2018).

For their part, foreign-owned automotive firms played a key role in enabling integration into their global production networks. Their presence afforded a clear route for domestic component producers in South Africa to integrate into their global supply chains and international operations (Black, 2009). This was vital for domestic producers who did not possess the necessary technological capabilities to become independent first-tier suppliers (Black et al., 2018). At the same time, a phased reduction of import tariffs on light commercial vehicles and original equipment components was introduced, alongside the removal of local content requirements (which were replaced by incentives to source locally produced parts and components). This meant domestic firms were increasingly exposed to international competition.

Growth of related and supporting industries was supported by the establishment of automotive industrial parks, complemented by supplier linkage programmes, which aided clustering and helped ensure automotive firms could access efficient services (Alfaro et al., 2012). Rosslyn Automotive Supplier Park was established in 2004; this concentrates production, assembly and warehouse facilities run by suppliers in close proximity to OEM plants. Similar parks have been established in Uitenhage (near Port Elizabeth) and the East London Industrial Development Zone.

The South African government also introduced a Productive Asset Allowance – providing duty credits equivalent to 20% of investments (spread over five years) that were focused on exports (Barnes et al., 2004). This effectively subsidised capital investments in new facilities aiming to produce for the export market (Madani and Mas-Guix, 2011). More generally, the presence of long-term policy commitments and credible incentives, provided via a transparent incentive structure, encouraged firms – especially multinationals – to make long-term investments in South Africa's automotive industry.

A number of government interventions, designed to operate across all manufacturing industries and mostly focused on budgetary support, were designed to leverage complementary private sector investments in manufacturing capabilities (Barnes et al., 2004). These included schemes to promote industrial training through subsidised apprenticeships and learnerships, a Sector Partnership Fund to support firms to improve efficiency collectively and the provision of research and development (R&D) subsidies to encourage firms to improve technical capabilities.

Technological upgrading in the industry was facilitated primarily through technology transfers from foreign firms, some of which have occurred via joint ventures with domestic firms (Black et al., 2018). Spillovers from foreign investment supported skills development and technology transfer, thus aiding the development of local capabilities in the automotive industry (Balchin et al., 2018).

South Africa's motor vehicle exports grew rapidly after the democratic transition and the introduction of the MIDP in 1995. Exports to the rest of the world increased in value by 291% between 1995 and 2015 and exports of vehicle parts and accessories by 56%. Alongside this expansion, total employment in South Africa's automotive industry grew from 293,100 in 1995 to 306,559 in 2012 (Barnes and Black, 2013). The growth in exports enabled firms to produce higher volumes and specialise, particularly in the case of component suppliers, and facilitated greater rationalisation of production structures (Black, 2007; Pitot, 2011). Moreover, productivity levels improved – evident in an increase in the average number of vehicles produced per employee from 10 in 1995 to 18.5 in 2012 (DTI, 2015).

But the import–export rebate mechanisms included in the MIDP also disincentivised automotive firms from reducing imports, which grew rapidly over the period the MIDP was in place (Black et al., 2018). This has contributed to broader concerns that the growth of the industry, and the high level of government assistance, much of which has been directed to global vehicle manufactures, has not been sufficiently inclusive from the perspective of generating higher levels of local content and domestic value addition (Chipfupa, 2016). The local component production sub-sector was insufficiently resilient to cope with the speed of this liberalisation 'shock'. Many vehicles assembled in South Africa, even those produced in high volumes, still utilise mostly imported components. In this sense, the incentives in the MIDP served as subsidies for manufacturers and were less effective as a platform to support the development of dynamic firm-level capabilities within the domestic industry (Barnes et al., 2017). Nevertheless, through the MIDP and its successor, the Automotive Production Development Programme (APDP), the South African government created a credible policy platform for relatively long-term planning to guide the sector's development. This is set to be extended further with a soon-to-be-published South African Automotive Master Plan to guide investment between 2020 and 2035.

Today, South African automotive firms operate at all stages of the value chain, from automobile assembly and production to the supply of parts and components to major multinational players. Several major OEMs have operations in South Africa (including Mercedes Benz, BMW, Volkswagen, Toyota, General Motors and Ford), along with around 120 global first tier suppliers (including Faurecia, Johnson Controls, Behr). As of 2017, there were approximately 500 local automotive component manufacturers linked into automotive supply chains in South Africa (AIEC, 2018).

The transformation of the industry through a focus on exporting has not only aided integration into GVCs but also helped position the industry as a more competitive component of South Africa's manufacturing base. The automotive industry is South Africa's largest manufacturing sub-sector, contributing 6.9% of the country's gross domestic product (GDP) and 30.1% of total manufacturing output in 2017 (AIEC, 2018). South Africa is the largest producer of motor vehicles in Africa, and the source of three-quarters of all vehicles produced on the continent. The automotive industry is a significant generator of jobs: OEMs employed 30,050 people in 2017, and a further 80,000 were employed by a range of different component suppliers in that year (ibid.). Around three-quarters of the jobs generated are for low- and medium-skilled workers (Cokayne, 2017).

3.3 Cocobod in Ghana: A pocket of efficiency

A wide-ranging comparative survey of productive-sector development across sub-Saharan Africa (Buur and Whitfield, 2011; Whitfield and Therkildsen, 2011; Whitfield et al., 2015; see also Kolavalli and Vigneri, 2011) identifies the revival of Ghana's cocoa bean exports since the early 1980s as a relative success story. Despite the consolidation of a 'competitively clientelist' political system that generally works against technically feasible economic transformation at the sector level, the cocoa sector has been since the 1980s a significant 'pocket of efficiency', helping sustain the livelihoods of an estimated 30% of the country's population as well as exports and government revenues.

Cocoa bean production hit a long-term low of 159,000 tonnes in 1982/83. This was largely due to years of political abuse of the state marketing board (Cocobod) along the lines of Bates' (1981) famous critique (using excessive marketing margins to finance political projects). Revival of the sector was a priority for President Jerry Rawlings' military government. A dominant feature of Ghana's economy since the beginning of the 20th century, cocoa exports were seen as critical to macroeconomic stabilisation and renewal of growth in the economy. The fact that the policies of previous governments, civil and military, had brought the country to economic disaster gave Rawlings' reform team a relatively free hand in this, as in other matters. The suspension of normal interest group politics under the dictatorship also created a permissive environment for the introduction of a new policy framework. What is harder to explain, and more relevant for this study, is that the reformed Cocobod was consolidated as a pocket of efficiency during the years of transition to competitive politics, and has survived as such until today, despite the sharpness of the clientelist competition between the main parties, the National Democratic Congress and the New Patriotic Party.

The key explanatory factor seems to be the way competitive politics works in relation to cocoa. Cocoa-growers are small-scale operators. They are not only very numerous but also spread widely across half the regions of the country. Under the competitive electoral system consolidated over the past 25 years, politicians can no longer afford to treat the sector as a cash cow. Instead, governments of both political colours treat cocoa-farmers as a key voting bloc. This reinforces the interest that government has in high levels of cocoa production and export because of the reduced but still significant place of the sector in the national economy. High producer prices and initiatives favouring cocoa-producing areas are treated as a matter of mutual interest. Crucially, this perception of shared interests discourages governments from interfering in the functioning of Cocobod or applying to it the patronage-based appointments that are typical in the rest of the public sector.

The credibility of government commitments to support investors in the cocoa sector and respect Cocobod's reputation as a professional organisation is regularly reinforced by the underlying political logic, which is well understood by the main players in the sector. This has allowed Cocobod to play effectively the textbook roles of agricultural marketing boards. Made up of five public companies with respective responsibilities for marketing, last-resort buying, research and development, quality control and processing, it provides key public goods in exchange for tightly regulated margins on the export price.

Much of the growth in output (bringing the total to 970,000 tonnes in 2015/16) has been the result of expanding the area cultivated. Cocobod had some successes with productivity-enhancing initiatives in the 1990s and 2000s. However, land rights and credit markets represent a barrier to investments in productivity improvement. Given the option, farmers prefer to expand their planted area rather than invest in productivity on existing farms, as new plantings are a means of establishing land ownership. Credit is expensive, and the cash advances some buying companies offer have been undermined by the possibility of 'side-selling'. Nevertheless, crucially, quality standards have been maintained, allowing Ghana to continue to attract premium prices for its beans on international markets. In the context of the weakness of much else in Ghana's agriculture sector, this is a notable achievement.

To the extent that value addition is seen as sound economic objective, it is of interest that the balance of interests favouring cocoa bean exports has not been similarly favourable to the establishment of a domestic processing industry. Significant international and local investment in cocoa-processing took place in Ghana in the early 2000s, emulating earlier moves in Côte d'Ivoire. This was partly a response to political interest in greater value addition and was based on offering processing investors a supply of 'light crop' (small-size) cocoa beans at a discount price. However, the required supply of such beans was not forthcoming, which harmed the processors' profitability. One reason was that Cocobod's marketing subsidiary had always been a reluctant partner in the deal, its main interest being in high and stable export prices for the premium crop. In the end, the politicians sided with Cocobod, showing themselves unwilling to change the distribution of benefits in favour of a small number of processers (albeit well organised) and away from the large number of cocoa-farmers.

This type of unfavourable balance of forces in the promotion of domestic processing is referenced again in our discussion of cashew processing in Mozambique in Section 4.

3.4 Indonesia's staple food revolution: Technocratic leadership with political support

Between 1970 and 1985, some 50 million Indonesians moved out of absolute poverty. The proportion of the population under the national poverty line fell from 60% to 20% over this 15-year period alone. The immediate cause was a productivity revolution in the country's principal food crop, rice, brought about by a state-led initiative to introduce new seed varieties and complementary inputs to millions of smallholder producers. In 1974, Indonesia was the largest rice importer in the world; by 1984, it was self-sufficient.

As well as contributing to a scale of improvement in livelihoods and living standards not seen previously anywhere in the world (Stewart, 1995), this broad-based rural development process created the conditions for further economic transformation, with labour-intensive, export-oriented manufacturing taking over as the most dynamic sector in the 1980s. Few single episodes of sectoral economic transformation qualify so comprehensively as a story of success (Henley, 2015).

The initiative was shaped by a team of 'technocrats' at Indonesia's National Planning Agency, Bappenas. Led between 1967 and 1983 by the Berkeley-trained economist Widjojo Nitisastro, the agency and its 'Berkeley mafia' gave Indonesian development policy in this period two of its most distinctive qualities: a market-oriented approach and a strong rural emphasis. Formally announced in Indonesia's five-year development plan of 1969, the Bappenas strategy recognised accurately the opportunity presented by the new seed varieties developed by international research in the Philippines, particularly double-cropping under irrigation. It also envisaged that the country's relatively equitable land tenure would make it possible to bring the new technology to large numbers of producers, so long as public investments in rural infrastructure were undertaken on a sufficient scale.

The Indonesian rice story involves the timely recognition of a specific sector opportunity. It also illustrates the general principle that successful economic transformations invariably begin by raising the productivity of a country's principal resources, its people and, if they have any, their land. This has been widely recognised in East and Southeast Asia, and much less in Africa (Tsakok, 2011; Studwell, 2013). Equivalent sector opportunities have been missed in countries like Nigeria, which, while comparable to Indonesia in terms of scale and resource endowments, has lacked any deep-seated policy orientation to rural development. This is the central theme of Henley's book (2015).

Essential to the policy, and its underlying philosophy of inclusive economic growth, was a favourable configuration of political-economic interests. Widjojo's team had unreserved backing from a military regime that had secured itself in power against potential opposition following the violent suppression of the communists and their allies in 1965. Suharto and other regime leaders were sympathetic to rural development, partly on account of personal background, including participation in independence struggles against Dutch colonial rule and partly as a strategic response to the memory of 1965. Thanks in part to the 1965 events, the ideology of nation-building they espoused faced almost non-existent opposition, at least in the main islands of the archipelago (Lewis, 2007; Henley, 2015: Chapter 6).

Given this context, it was possible to undertake a range of public actions to put the policy into effect. First, the regime's commitment to its chosen course was signalled credibly not only in high-profile plan documents but also in budget allocations and budget execution. The country's rapidly rising oil revenues and foreign aid inflows were channelled heavily into the rural investment budget and subsidies to new inputs, with decisive and well-publicised efforts to avoid the Dutch Disease effects that had damaged the rural economy of other populous, oil-rich countries, most notably Nigeria, in the same period. Sound management of the macro-economy combined with the land tenure system to provide a high level of confidence among investors, down to the family-farm level (Bevan et al., 1999).

Second, the key public goods were provided. Indonesia's green revolution in rice was market-mediated but state-driven. On the one hand, the trade in agricultural products, including rice, remained largely in private hands, with the marketing parastatal BULOG (Bureau of Logistics) setting only ceiling and floor prices. On the other hand, the state provided directly a range of critical public goods, including heavy investments in repair and extension of irrigation works, and complementary spending on roads, rural electrification, marketplaces, schools and public health.

Third, the active steering of the process by the politically supported but technically capable Bappenas team made it possible to identify and address any problems of coordination between private and public investments in these and other areas. Typical problems arising from control of ministries, departments or agencies by politicians or civil servants with conflicting priorities were generally avoided.

Finally, while Bappenas did not target any special support to 'first-mover' farms or firms, the subsidy policy did fund the learning externalities associated with new technology adoption, and in that sense was an example of 'industrial policy', albeit outside the industrial sector (Henley, 2015). In summary, Indonesia's rice-based transformation ticked all of the boxes in the analytical framework of Section 2 and was successful for that combination of reasons.

3.5 Garments in Bangladesh: An opportunity seized

Bangladesh has experienced a significant transformation based on garments, a sector seen by many as a first step on the transformation ladder. Since Bangladesh began to export garments on a large scale in the mid-1980s, the share of valued added from agriculture, forestry and fishing in GDP has more than halved, from 33% in 1985 to just 13.4% in 2017. The corresponding share of manufacturing value added in GDP increased from 14.5% to 17.3% and services from 44.4% to 53.5% over the same period (World Development Indicators 2018). The ready-made garment (RMG) sector has been the most visible aspect of this transformation. The sector grew at annual rates averaging 11% between 2010 and 2016 (Knack, 2018), and Bangladesh is now the world's second largest exporter of garments behind China. In 2017, the sector's exports accounted for more than 12% of Bangladeshi GDP and 83% of total exports (Ullah, 2018).

Garments have also played a central role in the expansion of labour market opportunities for women. The RMG sector currently employs around 4 million workers, of whom 80% are women, mostly from poor, rural households (World Bank, 2017; BGMEA, 2018). Country-wide labour productivity has expanded progressively. Annualised labour productivity growth was 3.4% between 2002 and 2006, 4.7% from 2007 to 2011 and 5.4% between 2012 and 2016 (Lightner et al., 2018). Despite this, two challenges have emerged. First, growth of new employment opportunities has slowed in the RMG sector since 2011, as manufacturing has become more capital-intensive. This suggests we need to look at the sector's resilience to shocks. Second, few other sectors have emerged that can take over the role of job creator for women, highlighting the sector's importance as a driver of greater levels of inclusivity.

Bangladesh's progress in economic transformation is a leading example of something that never would have happened if certain assumptions about the political economy of development and the importance of indicators of the quality of governance had been true. There was no evidence of an effective state that was pursuing broad reforms needed to accelerate development across the board. Levy (2014) suggests 'Bangladeshi growth is a story of "islands" – of the emergence, and rapid expansion, of enclaves of dynamism within a broader sea of policy and institutional dysfunction.' The garment sector is the most celebrated and important island of success, but there are others, such as basic service provision by organisations such as BRAC and Proshika, shrimp and fish aquaculture, tube-well irrigation in the rice sector and migrant remittances.

The economic enablers of Bangladesh's transformation under this political-economic system have included improved telecommunications, rural roads, power generation, distribution networks and investment in health and education and in technology. A range of targeted policies and specific sector initiatives have been equally important in spurring Bangladesh's transformation. In the garment sector, key roles were played by exploitation of EU trade preferences, conducive trade finance (letters of credit) and private entrepreneurship.

Importantly, the origins of the sector were based on the capabilities of a specific foreign investor. In 1979, the Korean conglomerate Daewoo, aiming to circumvent quotas imposed on its garment exports to Western markets through the Multi-Fiber Arrangement (MFA), identified an economic opportunity in Bangladesh and established a joint venture with a retired civil servant to begin manufacturing in the country. This was a catalytic moment in the development of the RMG sector and ultimately played a key role in paving the way for the emergence of domestic firms. Through a collaboration agreement with a local partner, Desh Garments Ltd, Daewoo helped build domestic capacity and capabilities, transferred skills and knowledge and provided guidance on production processes and ways to build networks of suppliers and customers and navigate highly competitive international markets (Balchin and Calabrese, 2018). Daewoo took 130 workers for intensive training in its factories in Korea over a period of six months. These workers returned with the necessary skills to produce garments for export out of a factory built in accordance with Daewoo's specifications (Yunus and Yamagata, 2012).

Benefiting from the explicit support of the then military ruler, General Zia, the initiative was supported with targeted policy measures based on Korean experience, including export credits and duty-free importation of inputs. This was backed by other government policies to support upgrading in domestic firms, to aid the development of backward linkages and to enhance competitiveness. This included explicit financial support to encourage investment by exporters in technology and machinery, public investment in hard and soft infrastructure to improve trade logistics, improvements to labour legislation and regulations that encouraged new investment and additional support for upgrading in firms located in export processing zones (EPZs) (including tax holidays and duty-free material, equipment and machinery imports) and improved customs processes (Fernandez-Stark et al., 2011; Moazzem and Sehrin, 2016).

Alongside effective lobbying to maintain privileges for least developed countries, these interventions helped Bangladeshi firms become internationally competitive and survive the elimination of quotas under the MFA (Mottaleb and Sonobe, 2011). In due course, almost all the trained workers, having acquired both technical production skills and the necessary knowledge of the export business, left the original firm and set up their own companies. Desh Garment's success had a demonstrational effect in encouraging the emergence of these second-generation Bangladeshi firms. By 2006, there were approximately 4,220 garment factories and over 3,500 garment-exporting firms operating in Bangladesh, employing over 2 million people. The number of garment factories continued to grow, reaching 5,876 in 2013, but has since dropped back to 4,482 as of 2017 (USDA, 2018).

Four lessons from the garment industry's success story deserve to be underlined. One is the efficient manner in which Bangladesh was able to exploit preferential access to key markets for its garment exports. Another is the contribution of a footloose East Asian investor with established technological capabilities and a world market niche. This foreign investment introduced the advanced technology and production processes necessary to support productivity and upgrading. A further lesson is the dynamic of change set in motion by the training of a cohort of local workers in the production disciplines and market realities of a significant international value chain, including the impossibility of restricting the learning so acquired to the initial small circle of companies. Finally comes the importance of seizing the political moment to get in place both the required convergence of foreign and domestic private interests and the necessary minimum of targeted policy support. The Bangladesh garments experience is not a pure private enterprise miracle, and began under military rule. The substantial growth in the size and number of firms became evident enough for its sectoral associations to gain sufficient clout to keep the policy framework in place (Khan, 2013; Levy, 2014).

While there has been economic transformation, much still needs to be done, as many factors hamper further progress. Political uncertainty, prevalence of general strikes, weak institutions, lack of skilled workers, unreliable energy supply, shortage of suitable land and a lack of computerised records of land titles, unclear property rights and a cumbersome and opaque regulatory framework have all held back investment. As a result, acquiring land for investment is a slow and lengthy process. Bangladeshi exports are not sufficiently diversified, and its garments exports are vulnerable, with low-cost countries such as Ethiopia and Myanmar coming on stream.

3.6 Sector-based strategies in Mauritius: Turning ethnic diversity from threat to advantage

Mauritius is an excellent example of how combinations of well-designed sector and general policies together with a remarkable political consensus have enabled a successful transition from plantation agriculture to manufacturing and then to high-value services. As documented by Treebhoohun and Jutliah (2014), although at independence in 1968 Mauritius was a vulnerable small island with a monoculture economy characterised by high unemployment, low education and the absence of natural resources, it has undergone rapid structural change. After lowering its dependence on sugar in the 1970s, it developed an export-oriented textile and garment sector in the 1980s and a tourism industry, followed by a dynamic financial and business services platform after 1990.

Despite deep-rooted challenges, independent Mauritius turned out to be one of the most remarkable transformers in the African region (Bräutigam et al., 2002; Subramanian and Roy, 2003). At independence in 1968, the island was reliant on sugar exports for 88% of its foreign exchange and therefore vulnerable to terms-of-trade shocks (though administered prices and access to quotas alleviated this somewhat). The domestic market limited import substitution. A small but rapidly growing population consisted of a Hindu majority and several minorities, including Franco-Mauritians, Creoles and Muslims. Majority rule under a Westminster-style political constitution was widely expected to result in the hegemony of a majority group without substantial representation in property ownership or business, to the detriment of the conditions for economic development.

Despite its challenging starting point, from the 1970s onward Mauritians built a consensus view across the public and private sectors around a strategic direction for the economy, which was based on structural transformation away from sugar and towards garments, tourism, financial services and finally an integrated services platform. The Joint Economic Council promoted excellent formal and informal relationships between the public and private sector in developing a consensus around a model. This government-supported model led to major gains in productivity and wages for the majority of workers, while also involving adjustment costs for some, which needed to be addressed. Rents from the sugar sector were reinvested to stimulate other sectors. Mauritius followed a policy of export promotion and import substitution (Ansu et al., 2016). While protection at home was reduced gradually, a nation-wide EPZ boosted garment exports. Preferential trade access for sugar and later garments eventually eroded, which required productivity enhancement in surviving firms and retraining and redeployment of labour from existing firms and sectors into other sectors (Rojid et al., 2009; Treebhoohun and Jutliah, 2014; ERD, 2015).

A range of general and targeted policies supported this transformation. Macroeconomic fiscal and exchange rate policies, regulatory policy reforms and structural adjustment programmes set the broad conditions for the economy's competitiveness and increases in trade and provided incentives for investment (above 30% of GDP in the 1990s) and savings. Mauritius also employed a range of targeted policies aiming to develop sectors and diversify to achieve structural change. The active reallocation of finance (and quotas often within the same ownership) from agriculture to manufacturing and services by both the public and the private sectors was behind structural change in the 1970s and 1980s. The active pursuit of foreign direct investment (FDI) and trade promotion policies, including the establishment of an EPZ, led to a 50-fold increase in the value of merchandise exports between 1971 and 1990. In response to increased competition for its textile exports as a result of the abolition of the MFA, the government set up the Export Processing Zones Development Authority to provide financial incentives for productive restructuring. The Mauritius Offshore Business Activities Authority, established in 1992, promoted the development of offshore financial services.

Since 2000, Mauritius has opened up its economy to immigration, promoting information and communications technology (ICT) and financial services and pursuing a 'blue and green growth strategy' to take advantage of its 2 million km^2 maritime zone. The ICT Authority was set up in 2001 to develop Mauritius as a 'cyber island'. The contribution of ICT to GDP grew from 4.1% in 2000 to 6.5% in 2010, creating 8,000 new jobs. These selective interventions aim to address global competition in traditional sectors from low-cost economies through further diversification and productivity enhancement using export promotion and investment in technology, including renewable energy.

A strategic consensus underpinned the effectiveness of policy and was rooted in the discovery of political arrangements that turned the country's ethnic make-up from a threat to an advantage. This, in turn, permitted the building of effective institutional arrangements for consultation and joint policy-making between the government and the private sector. At the heart of this relationship was an agreement among the (predominantly Indian) political elite and the (predominantly non-Indian) economic elite to manage the sugar export sector efficiently and as a platform for progressive diversification of the economy. Transfers to majority groups took the form of an expansion of the civil service and systems of social protection, providing the basis for what Subramanian and Roy (2003) refer to as an optimal form of inter-elite rent-sharing (in a second-best environment).

The policy process was led by many different public sector bodies, which cooperated well with the private sector. It was this set of relationships that permitted the success of key initiatives for economic transformation, such as the setting up of an EPZ, the building of the first hotels, renegotiation of the sugar protocol, the creation of a national airline and the establishment of a stock exchange (Rojid et al., 2010; Treebhoohun and Jutliah, 2014). The success of the model was assisted to an important degree by the trade preferences enjoyed at the time – which, among other things, allowed domestic market protection to remain in place without weakening export incentives for longer than would otherwise have been possible (Subramanian and Roy, 2003). However, the way this time-limited advantage was exploited to facilitate restructuring of the economy is an example of the capabilities that can be generated when a viable political-economic pathway (here the issue of sugar rents) is available to a country.

The example of Mauritius illustrates the importance of actors in the transformation process. First, leadership over a number of decades by a selected number of individuals, such as successive ministers of finance, finance permanent secretaries and governors of the central bank, was instrumental in conceptualising and driving the implementation of a vision of transformation. A range of sectoral bodies, such as the National Productivity and Competitiveness Council, tourism boards and sugar exporters, were crucial in taking the vision forward.

Second, thanks to institutional quality and efficient rule by elites in Mauritius, there has been excellent collaboration between state and business. The Joint Economic Council has had considerable influence on the direction of government spending and other public policies. Key individuals within this representative body of the private sector have made significant contributions (see Rojid et al., 2010). There have also been close and effective collaborations around sector issues such as sugar exporters and trade negotiators (at multilateral and regional levels), lobbying first for preferential market access and second for Aid for Trade when preferences ran out. These functional collaborations fitted well within the overall strategies for transformation – for instance using Aid for Trade funds effectively to promote diversification.

4 Case studies of failed sectoral transformations

We have selected for study five cases of sectors that have not transformed or where a promising initial transformation was not sustained:

1. cashew nuts in Mozambique
2. pineapples in Ghana
3. maize subsidies in Malawi in the years 2005–2008
4. President Kikwete's rice initiative in Tanzania
5. Malaysia's faltering manufacturing sector.

Each case study examines where the transformation of the sector failed and why (distinguishing between economic and political economy factors).

4.1 Cashew nuts in Mozambique: The limits of liberalisation

Mozambique was a major producer of cashew nuts in the 1960s, accounting for more than half of world cashew production. This scale of production supported the emergence of a number of large mechanised processing factories, which replaced small-scale manual processing facilities in order to handle greater volumes. However, it was not immediately clear that Mozambique had specific advantages to undertake processing, and capital-intensive processing in particular, more efficiently than competing processors in Brazil or India, which relied on more labour-intensive processes.

Nevertheless, after independence, the government of Mozambique moved to nationalise cashew tree plantations and processing plants and sought to further stimulate domestic processing. The government's introduction of a ban on exports of raw cashew nuts, designed to ensure a sufficient supply to domestic processors, was central to this approach. This move was effective in stimulating domestic processing activity, and Mozambique quickly became the first country in Africa to undertake large-scale processing of cashews (Rodrik, 2002). But a combination of adverse effects from the civil war in the 1980s and the unintended consequences of agricultural policy reforms facilitated the decline of the sector.

A major policy factor was the government of Mozambique's decision in the early 1990s, under pressure from the World Bank, to liberalise the sector and remove the restrictions on raw cashew exports. The ban on these exports was lifted in 1991/92 and replaced with an export quota (which was later removed) and an export tax (which was reduced from 60% in 1991/92 to 14% in 1998/99). This move was intended to improve the efficiency of resource allocation in the sector and generate distributional gains by raising farm gate prices and, in turn, boosting the incomes of cashew nut farmers.

However, the broader benefits from lifting restrictions on raw cashew exports proved limited. While cashew farmers initially gained from an increase in farm gate prices, and there was some distribution of income from processors to farmers, McMillan et al. (2002) estimate that the additional income accruing to cashew farmers after the export restrictions were lifted totalled \$5.3 million, meaning the income of the average household growing cashews increased by just \$5.30 a year. The bulk of the economic benefits from the removal of the export restrictions accrued to traders and intermediaries, rather than farmers (Rodrik, 2002).

Despite the increase in producer prices for raw cashews, the supply response from farmers was weaker than anticipated, and there was little effort to coordinate investments to boost raw cashew nut production. The export liberalisation reforms were not backed by sufficient investment to support smallholders to boost yields and output (Aksoy and Yagci, 2012). Moreover, producer prices remained too low to incentivise investment in planting new trees and improving existing orchards (Desai, 2001; Nathan Associates, 2004). The result was that domestic cashew nut production remained hamstrung by low productivity.

External market factors also played an important role in influencing the outcome of the export liberalisation reforms. The dominance of India in global purchases of raw cashews gave it monopsony power and reduced the price of raw nut exports. This was exacerbated by a sharp decline in international prices for cashew nuts after 2000, which led to a collapse in output (Aksoy and Yagci, 2012). No mechanism was built into the reform programme to deal with this shock and redistribute losses across the value chain or exit from cashew production entirely.

Cashew processors were especially affected. Limitations in the supply of raw cashews exposed inefficiencies in the domestic cashew nut processing industry. Domestic processors relied on highly mechanised processing technologies that were relatively less productive than the more labour-intensive technologies employed in competitors such as Brazil and India (World Bank, 1995). As a result of these inefficiencies, and in the face of the input supply constraints, many processing factories closed, increasing unemployment in urban areas and offsetting much of the gain in farmers' income (McMillan et al., 2002). Some estimates suggest 10,000 jobs in processing factories, many of them held by women, were lost (Loyn, 2003; Hanlon, 2016). Many of these workers also struggled – because of a lack of transferrable skills – to find alternative employment in the wake of the factory closures.

A number of political economy factors also contributed to the general failure of the policy reforms in the sector. The government of Mozambique's credibility was undermined by perceptions that the World Bank was pushing the policy, with some believing the government was simply toeing the line in order to access World Bank and International Monetary Fund loans (Rodrik, 2002). This meant there was a sense that the government did not own the policy reforms and, as a result, its commitments to reform the sector lacked credibility. The core tenets of the reform policy were also poorly communicated, particularly to cashew farmers. The farmers were not involved in designing the reforms and many were unaware of the policy changes when they were initially implemented (McMillan et al., 2002). Moreover, some farmers (and other stakeholders in the value chain) believed the export liberalisation policies would eventually be reversed. The reform was regarded as potentially temporary or likely to be modified, and thus provided no incentives to farmers to adapt. This meant an adequate supply response was not forthcoming – farmers and entrepreneurs were reluctant to undertake costly investments and processing plants remained idle.

Allied to this, there was a clear lack of consensus within the sector on what reforms were most suitable to facilitate an expansion of production or whether continued support for processing was economically viable. As a result, there was little alignment of political and economic interests. Domestic processors were strongly opposed to lifting the restrictions on exports of raw cashews. They felt farmers should first have to sell raw cashews to them before being allowed to export. Processors were also unhappy about the timing of the reforms, with the government of Mozambique initially deciding to privatise cashew processing while the protective regime was still in place and then proceeding to remove the export restrictions (McMillan et al., 2002). Domestic processors wanted more time to restructure before any liberalisation was introduced.

4.2 Pineapples in Ghana: Missing collective action and public goods

For this case study, we again rely on the comparative analysis coordinated by Therkildsen (Whitfield et al., 2015), especially the sector studies for Ghana by Whitfield (Whitfield, 2010, 2011, forthcoming). These cover three sector experiences that proved disappointing and a contrast to the cocoa export story covered in Section 3 above, including palm oil, horticulture in general and fresh pineapple exports in particular. We focus on the pineapple story, which offers a distinct pattern of factors generating encouraging initial results and declining subsequent performance.

Pineapple was Ghana's main horticultural export from the 1980s to the 2000s. A private initiative by a handful of Ghanaian entrepreneurs, it took off from around 1995 and achieved a peak of 70,000 tonnes exported in 2004. Production was split among approximately 12 large farms, 40 medium farms and 10,000 smallholders – an unusual pattern in Ghana. The pioneers were well-educated city residents with international networks. The move from air-freighting to sea-freighting organised by a new association, the Sea-Freighting Pineapple Exporters of Ghana (SPEG), with support from a US Agency for International Development (USAID) project, allowed export volumes to increase. However, this shift was not accompanied by the consistent quality standards, post-harvest handling and marketing achieved by competitors from Central America and Côte d'Ivoire. As a result, Ghana's products faced declining prices and reputation.

The producers as a group failed to invest in these areas. Given the high cost of credit and the absence of long-term lending for agricultural projects, most relied solely on their profits for working capital. Competition among the larger producer exporters worked against formal purchase contracts with the smallholders who produced almost half the supply. Informal agreements that included provision of inputs on credit were undermined by widespread side-selling. This discouraged exporters from supporting improvements in smallholder production. Neither the SPEG nor the Horticultural Association of Ghana (HAG) was sufficiently strong to override the collective action problems inhibiting joint action to provide the missing public goods and investment coordination.

In the 1990s, horticulture was not a priority for National Democratic Congress governments, so the main source of technical support was the horticulture components of broadly defined World Bank and USAID programmes. Some of these produced initiatives to coordinate producer cooperatives and medium-sized firms within larger units. However, these tended to reproduce the weaknesses typical of state initiatives in the agriculture sector in Ghana: underwritten by government financing and run by managers without a personal investment in the firm, they involved ambitious attempts to organise smallholder farmers. They were not aimed at the key weakness of the sector: arrangements to support leading firms to acquire new technological capabilities and the ability to respond in an agile way to frequently changing international market conditions in competition with more established global players.

In the 2000s, international market conditions became markedly more difficult following the introduction of a new pineapple variety known as MD2 by Del Monte, which rapidly won over the European market and enhanced competition from Costa Rica in particular. Through a painful process of trial and error, it was discovered that, under Ghanaian agronomic conditions, growing the new variety profitably would have entailed multi-million dollar investments in different land preparation techniques, more fertiliser, more irrigation and more careful post-harvest handling. This compounded the existing weaknesses in the sector. As a result, of 54 registered pineapple exporters in 2004, only 11 were still exporting in 2008. By 2015, there were only five firms exporting large amounts of pineapple.

As Whitfield concludes, the decline of the Ghanaian pineapple export industry in the face of global competition was not inevitable. The real reasons for it were the lack of learning by firms and failures of coordination and collective action among firms, to enforce quality controls and address marketing and research in ways that would pool tacit knowledge and reduce the costs to individual enterprises. While, in other circumstances, strong business associations representing a core group of established capitalist firms (as in Kenyan horticulture perhaps) might have met these challenges, neither the SPEG nor the HAG had this level of capability. Their members were too diverse and inexperienced. State action to incentivise firms to invest in learning was an additional missing element.

According to the general conclusions of the Therkildsen-led studies, success in productive sector transformation occurs when and only when a mutual interest between indigenous entrepreneurs and politicians supports the formation of a pocket of effectiveness, where businesses get close support from a capable and specialised bureaucracy, enabling a sufficient level of productivity-oriented learning. The pineapple export experience in Ghana seems to support this thesis.

4.3 The maize subsidy policy in Malawi, 2005–2008: A political opportunity not sustained

The experience of the Malawi Agricultural Input Subsidy Programme (MASIP) is treated here as a failed case of sector transformation, as the system introduced during the production seasons 2005/06–2008/09 was not sustained, casting doubt on its resilience – its ability to survive economic or political shocks. However, it is also an illustration of what can happen when a number of the factors in our framework come together and generate synergies, even in a country and region where rural production breakthroughs have been uncommon. Although academic analysts are very cautious about putting numbers to either the direct or economy-wide benefits arising from the programme, most agree that the immediate results obtained in this period were satisfactory and markedly better than those achieved previously or since (Dorward and Chirwa, 2011; Chirwa and Dorward, 2013).

Maize is the main staple food and the main smallholder crop in Malawi, and the main element in the food security of a still mainly rural national population. A policy focus on raising maize productivity is thus easily justified on the same basis as in Indonesia: economic transformation must at an early stage address the low productivity of the largest category of the population – rural family farms. The opportunities for raising yields with Green Revolution technologies are generally held to be less in Africa than in Asia, especially in areas of unreliable rainfall and limited irrigation. However, use of improved seed and fertiliser is very low in Malawi by international standards, and the potential for large increases in output in good rainfall years is reckoned to be substantial (Chirwa and Dorward, 2013).

At the start of the period, some 2.8 million out of 3.4 million farming households were estimated to have access to land but not to be able to afford to purchase modern inputs at market prices. Adoption was also risky, as the profitability of input use is much affected by the final maize price as well as by the input costs. Input subsidies had been a constant feature of policy in Malawi for several decades, but had proven a blunt instrument for poverty reduction, as targeting was absent or ineffective, and a significant proportion of the rural poor were net buyers of maize, negatively affected in years of high maize prices.

In the period we discuss, the policy – as articulated by its technical supporters – aimed to go beyond poorly targeted and probably unsustainable transfers from the government budget (and aid) to the poor and address the 'low maize productivity trap' in a more fundamental way by dealing with profitability constraints arising from inefficient input procurement and delivery. The objective was to stimulate changes leading to raised real incomes and falling real food prices, contributing to wider economic growth and diversification out of maize (Chirwa and Dorward, 2013). The policy thus rested implicitly on a technically sound appraisal of an important opportunity.

Political-economic viability was provided by the arrival in power of a president (Bingu wa Mutharika) who had campaigned in the 2004 election on raising national food production and self-sufficiency. This provided an impetus to implementation that has been lacking when subsidy programmes have been donor-led, with an emphasis on poverty targeting (Chinsinga, 2010). The new president, a former international civil servant, was, to begin with, relatively unencumbered with obligations to use state resources to reward powerful campaign funders, with the effect that a technical team was free to design a programme with fewer than the usual commitments to vested interests in the input supply business. However, the credibility of the government's commitments cannot be considered strong, since annual budget allocations to the subsidy programmes fluctuated considerably.

MASIP provided one critical public good: a system for delivering vouchers for the purchase of technically approved fertiliser packages and later improved seeds to a target group representing some 50% of farmers in the country. The programme was politically popular and widely considered a success on the basis of a large increase in fertiliser consumption (from 50,000 mt to 130,000 mt over the first year). This resulted in its renewal, with a variety of modifications, including efforts to improve targeting, in the three subsequent seasons.

Other changes were important as potential solutions to the twin problems of the private profitability of maize production at current input costs and the fiscal sustainability of the subsidies. They included increased reliance on private sector imports, improved tender procedures for supply to the parastatal distributor and more private involvement in fertiliser sales and seed retailing. By addressing these aspects, the policy helped improve private and public sector contributions in the various parts of the input supply system of importance to the impact of subsidy policy in the medium and long term. Other coordination issues were less well handled, and complementary public investments to improve the general conditions for rural development, such as in roads and extension services, were largely neglected (Future Agricultures, 2010).

Unfavourable movements in international fertiliser prices combined with political changes to weaken the programme's impetus at the end of the period considered. Its technical supporters, in government service and the donor community, nonetheless saw considerable scope for building on its achievements in subsequent years, when international prices were more favourable (Dorward and Chirwa, 2011). However, the return of a more typical pattern of presidential conduct during President Mutharika's second term revealed how essential the exceptional political conjuncture of 2005 had been to the initiative's initial promise.

4.4 President Kikwete's rice initiative in Tanzania: The politics of policy incoherence

Rice accounts for around 20% of cereal consumption in Tanzania as a whole, and a much larger proportion in Zanzibar, with consumption tending to grow with urbanisation. Paddy is largely a smallholder crop grown by 15–20% of food crop-producing households, but in the early 2000s as little as 6–8% of this production was irrigated. Expanding the irrigated crop area constitutes a sound opportunity to make better use of Tanzania's relatively abundant land and labour resources and to reduce imports of a good whose price fluctuates greatly on international markets. This is the background to the striking political initiative launched by Jakaya Kikwete ahead of his first presidential election victory in 2006. The results of that initiative have been analysed by Therkildsen (2012) in one of the case studies in the previously cited study of productive sector experiences across Africa (Whitfield et al., 2015).

Kitwete's declared goal of irrigating a million hectares of additional land over five years was formally adopted into Tanzania's Agricultural Sector Development Programme (ASDP), which was strongly influenced by current donor experience and concerns. However, the rice irrigation initiative was distinguished from much of the rest of the ASDP by unusually strong presidential backing and an orientation towards state-led infrastructure investments, more in the Asian than the African manner. In this sense, the initiative was both a response to a real productive opportunity, with a sound technical foundation, and one that benefited from at least one usually missing ingredient in terms of the balance of political and economic interests: presidential sponsorship.

A respectable rate of expansion of land under irrigation was maintained, raising the total area from 254,000 to 332,000 hectares between 2006 and 2010 according to government figures. Some districts reported substantially improved paddy yields. However, the scale fell well beyond the announced objectives, partly because donor funding to this part of the ASDP was not maintained, and improvements failed to become part of a self-sustaining process of increasing investment, growing domestic production and reduced rice imports. Following Therkildsen's account and in the terms of our framework, the necessary public goods in the form of new medium-scale irrigation works were not forthcoming on a sufficient scale. Equally important, the coordination of investment in new and rehabilitation works with operations and maintenance (O&M) support from district government was very weak. The subsidies to innovation by growers that the scheme provided were real, but patchy in their effects and not sustained.

The reasons for these weaknesses were less to do with capacity limitations in implementing organisations, often assumed as a principal factor, than about the configuration of economic and political interests. Rightly or wrongly, part of the incentive package supporting irrigated rice was to have been the protection provided by the East African Community's (EAC) common external tariff of 75% on rice. In the event, official rice imports were reduced after the tariff was raised from the former 25%, and wholesale rice prices in Tanzania also increased. However, tariff exemptions appear to have been allowed on a significant scale, and smuggling of rice into Zanzibar, and from Zanzibar to the mainland, was substantial. Large, politically connected food importers exercise influence on the actual implementation of the tariff policy, while the relationship between mainland and Zanzibar politics works strongly against rigorous implementation on the islands. As a result, the level of protection provided to domestic producers was far below what it would otherwise have been.

In Tanzania, the rice-growers operate on a small scale, and are numerous and weakly organised. This contrasts with the sugar industry, where production is concentrated and the growers are an influential pressure group. Despite its presidential backing, therefore, the rice initiative was hindered by the interest group pattern of strong importers and weak producers.

In addition, the growing autonomy of district governments in relation to the centre in Tanzania provides a political-economy backdrop to the failures of coordination between new works and support for O&M. While district-level politicians had an interest in the kick-backs from contracting new works, O&M was politically uninteresting at this level, and the central government was not in a position to impose its requirements. Thus, a technically promising initiative produced disappointing results because the exceptional level of support at the political centre could not override other political-economic forces working against coherent policy implementation.

4.5 Malaysia's faltering manufacturing sector: Failing to engage the domestic private sector

Between the 1960s and the mid-1990s, Malaysia experienced a rate of economic growth that appeared to herald a transformation comparable with what was achieved earlier in South Korea and Taiwan. Initially, this was based on agricultural productivity improvement. From the 1980s, manufacturing growth was especially rapid. However, the promise was not sustained: growth and the rate of investment decelerated from the mid-1990s. With the notable exception of the state of Penang, the manufacturing sector has faced a string of disappointments, including that of the once famous national automobile, the Proton. The pace of economic transformation has reduced as a consequence. According to recent analysis (Sen and Tyce, 2017), a key factor explaining this pattern, including the Penang exception, is the way political and economic interests have interacted in a country where capitalist enterprise has been concentrated in an ethnic Chinese minority.

Malaysian policy got many things right. The early investment in rural development and smallholders was highly beneficial, albeit achieved by taxing Chinese business and discriminating in favour of ethnic Malay 'sons of the soil' (Henley, 2015). The economic opportunity to move into areas of export manufacturing in which the East Asian pioneers were losing competitiveness on account of rising labour costs was correctly identified in the 1970s, when the first investment incentives and Free Trade Zones were introduced. The open trading regime and liberal economic policies adopted after Mohamed Mahathir became prime minister in 1981 were strikingly successful in attracting foreign investors into sectors such as textiles and basic electronics.

That these policies were implemented by a strong and dominant political party (the United Malays National Association, UNMO) that had held power through a broad front of Malay parties (Barisan National, BN) over a long period helped provide credible commitments to investors. While most of the bureaucracy was a means of political patronage with a strong ethnic tinge, 'pockets of effectiveness' were created in the Ministry of Finance, the Ministry of Trade and Industry and the Malaysian Industrial Development Authority, with the result that the necessary infrastructure support and coordination were provided.

What made this active industrial policy benefiting foreign firms politically acceptable was that it was, during the 1970s and especially under Mahathir, part of a dual approach in which the principal opportunities in the extractive sectors and manufacture of non-tradeables was reserved for Malay businessmen and Malay-led public corporations. In those sectors, policy remained protectionist and bound up with cronyist relations among leading UNMO politicians and their families and friends. The industrial policy that created the new export industries avoided nurturing domestic firms because Chinese capitalists would have benefited. The Penang exception is explained by the observation that the majority of Penang's population is of Chinese extraction, which permitted a different relationship between government and business, including education, training and technology development for electronics. The Proton initiative failed because it was managed according to the rules of the cronyist domestic economy, not those applying to export manufacturing.

The dual approach could work acceptably well so long as the stable political environment persisted, and so long as the foreign-run export enclave could prosper without substantial linkages to internationally competitive suppliers in the domestic economy. Both things had begun to change even before the shock of the Asian financial crisis in 1998, which accelerated the process.

First, the ruling BN progressively lost its assured political dominance. Mahathir and his deputy Anwar fell out in a series of spectacular disputes, signalling the onset of a more competitively clientelist political system – a typically much more challenging environment in which to sustain a coherent industrial policy. In parallel, Malaysia encountered increasing difficulty retaining foreign investors in textile and electronic assembly as China and Viet Nam began to offer more competitive labour costs and similar incentives and infrastructure. The textile industry contracted, registering average annual growth of minus 6.4% from 2000 to 2010, as foreign investors moved elsewhere. In the context of rapid changes in technology, electronics managed to grow at only 0.9%. These trends might have been resisted if strong local ancillary industries had been able to provide compensating advantages, and this is what Malaysia notably lacked, even in comparison with Thailand, which in political terms followed a similar trajectory.

This case underlines, among other things, the importance of the early involvement of domestic firms in any manufacturing export drive that relies heavily on transnational companies in special zones. It also illustrates a particular type of political-economic limitation that is to be expected in countries where a minority group dominates business and industrial policy is geared to weakening its grip. That this is by no means an inevitable problem is illustrated, of course, by the Mauritius case above.

5 Emerging findings and implications

Having set out what appears to be known and well documented for six successful instances of sector-level transformation and five interesting cases of relative failure, we consider here what has been learned with reference to the six success factors hypothesised in Section 2 (the details are summarised in Appendix Tables A and B). The findings in Sections 5.1–5.6 can be used to inform and underpin sectoral approaches (advice and analysis) to transformation, including the approach by Gatsby Africa – articulated in Gatsby Africa (2017). Section 5.7 sums up.

5.1 Economic opportunity accurately identified

Economic opportunities were identified correctly in all the successful transformation examples, although on a range of different grounds. The rationales are as different as:

- identification of opportunities in Asian markets, including cargo, for air transport in Ethiopia
- opportunities presented by global outsourcing in automobile manufacturing that could be seized in South Africa by building on existing OEM capabilities and availability of relevant skills and raw materials
- the pivotal role of cocoa in Ghana's economy
- the agricultural technology that could be applied to abundant factors of land and labour in staple foods in Indonesia, which had a large poverty impact
- using trade preferences in the garment sector as a first step into manufacturing in Bangladesh, creating many female jobs and
- continuous searching and upgrading of the sectoral focus of development in Mauritius.

In many instances, identification of economic opportunities centred on an accurate understanding of demand conditions, either locally or internationally, and, in the case of the latter, corresponding opportunities in terms of market access.

An important feature among the instances of failure is that, in several cases, opportunities seem to have been correctly identified. That is, economic misidentification was not the cause of the failure. For example, raising the productivity of the abundant factors of production, labour and land is the right starting point for transformation in Malawi. Maize is a smallholder crop with immediate poverty linkages, and productivity in its production is well below attainable levels. Similarly, encouraging rice production in Tanzania using more irrigation seems sound, although the reliance of the Kikwete initiative on heavy tariff protection is more questionable. In other cases, there are some question marks. For example, the economic case for large-scale mechanised processing of cashews in Mozambique is not clear, and the requirements of internationally competitive pineapple production in Ghana will be challenging, given the country's very low starting point in terms of the technological and commercial capabilities of the producer exporter firms (and lack of lead firms wanting to take this forward).

These observations confirm that economic opportunity factors alone do not allow us to distinguish successes from failures.

5.2 Favourable pattern of political-economic interests

There were positive political-economic relations, at least at the sector level, in all successful cases.

In the failed or disappointing experiences, these relations soured over time, or were weak or entirely absent.

Again, the form taken by the positive type of relationship varied across the successful transformation experiences. In summary:

- There was centralised economic planning in the hands of an aspiring developmental state, permitting state-led development of the airline in Ethiopia.
- There was an effective alignment of interests, facilitated through dedicated sector-specific structures and support organisations – involving government, the private sector and trade unions – around the South African automobile industry.
- The advent of highly competitive multi-party politics in Ghana was favourable to the cocoa sector because, unlike other producer groups, the cocoa-growers were numerous and widely distributed, becoming a key electoral constituency for both main political parties. This led to unusually consistent political support to the sector and cross-party protection for 'pockets of effectiveness' in the responsible public agencies.
- Indonesia's food staple productivity revolution was accidental in another sense, in that it occurred under a military government that – though far from a developmental regime on the East Asian model – nonetheless had both pro-rural ideas and a political incentive to support inclusive growth.
- Despite its challenging starting point, including ethnic divisions between the business community and the majority population, from the 1970s Mauritius built a consensus view across elites and the wider public and private sectors around a strategic direction for the economy, including collaborative development of a sequence of new export sector activities.
- The context in Bangladesh was generally not favourable, but there were positive relationships and islands of success around garments, which were started in an exceptional political moment (high-level support from military President Ziaur Rahman) and then became an effective pressure group against unwanted political interference.
- In South Africa, exceptional democratic unity following the end of apartheid and the ensuing democratic transition to ANC rule, along with a resurgent role for trade unions and the relaxation of economic sanctions, helped align different political-economic interests in a way that enabled a strategic policy shift away from protectionism and import substitution in favour of liberalisation and an outward focus on exporting.

Political-economic causes of failure also took a variety of forms, but in almost all cases these were the most decisive factors, either directly or by weakening the public actions required to stimulate or support the investments. In the case of cashew nuts in Mozambique, there was a lack of consensus among different actors about what reforms were most suitable to facilitate expansion of production and processing. Crucially, the producers were sufficiently numerous to be a significant political factor, and they were interested in high producer prices, which were achieved when exporting raw nuts to India for processing. There was no domestically influential constituency of investors in processing to make the case for processing locally.

There was little government interest in pineapple production in Ghana. Although there were no domestic forces opposing it, the pioneer investors in the sector had to rely on their own efforts in addressing the growing infrastructure and learning requirements of remaining internationally competitive. These efforts were insufficient. Competition among inexperienced exporting firms prevented the formalisation of contracts with smallholder growers, and the sector associations failed to overcome their collective action problems.

In Malawi, the initially exceptional political support to a new approach to maize subsidies and profitability weakened, as President Mutharika succumbed to the usual temptations of office in that country. This is the main factor explaining the interruption of a promising process of policy learning after the 2008/09 maize season.

In Tanzania, neither the president nor the politically weak rice producers were well equipped to resist well-connected importers of rice, especially using the Zanzibar smuggling route, who informally subverted the protection of domestic rice production under the EAC's Common External Tariff. While the district-level political incentives favoured the completion of some new irrigation works by contractors, maintenance of the irrigation necessary for more productive rice production continued to be weak. Rightly or wrongly, the incumbent president (Kikwete) had lost the ability to direct district authorities to comply with national policy priorities.

In Malaysia, the political conditions that led many observers to see the country as a new 'Asian tiger' dissolved before and especially after the Asian financial crisis of the late 1990s. The experience illustrates the downside of a strategy of relying on FDI to build a globally competitive export sector while not creating a robust domestic capitalist sector, in this case for fear of benefiting the ethnic Chinese business community at the expense of the Malay majority. Despite promising beginnings, the politics of ethnicity in Malaysia has come to be a significant barrier to progress in the manufacturing sector. The exception is Penang state, where the ethnic balance is different.

These observations suggest that a favourable pattern of political-economic interests is an essential condition for success in sector transformation. Importantly, they also support our hypothesis that the favourable configuration does not need to be long established and permanent, and can be sector-specific rather than economy-wide. In fact, few of the positive configurations summarised above applied to the whole of the country's economies or political systems. The political-economic sources of failure were sometimes system-wide and sometimes much more specific.

5.3 Credible commitments

It is clear that one of the reasons a favourable balance of political and economic interests supported transformation is that it resulted in credible commitments to investors. Ethiopia has provided credible state backing to various sectors, underpinned by the long-term policy vision of a regime that is relatively secure. South Africa used multi-year policy visions to create a credible policy platform for long-term planning. The key cocoa sector institution in Ghana has been continuously run on a professional basis, underpinned by cross-party political support that is well understood by investors. In Indonesia, in the period of interest, planning and macroeconomic management were technically proficient and provided a predictable investment environment for staple agriculture. Clear international commitments provided market access for Bangladeshi garments, and the industry began before the political system was overtaken by forms of competitive clientelism that damage the predictability of the business environment. Finally, Mauritius provided a clear statement of direction of the economy, with high-level political backing the private sector could use to guide its investments.

In failures, such commitments have typically been uncertain, undermining investor confidence. The government's credibility in the case of cashews in Mozambique was undermined by poor communication, the perception that the policy reforms were World Bank-driven and the knowledge that processing could be profitable only with government protection. In the pineapple sector in Ghana, the government made few specific commitments, so credibility was hardly an issue. The high political profile of maize subsidies in Malawi raised expectations and generated new interest in both the public and the private parts of the supply system, but this was short-lived. The power of the food-importing business weakened the rice initiative in Tanzania by undermining the credibility of the presidential initiative and EAC tariff rules, in the eyes of customs officers for example. Fundamental political change in Malaysia – from a dominant party to a competitively clientelist system – removed one of the planks supporting the early success of the EPZs, the credibility of the investment incentives and target special zone support.

5.4 Provision of appropriate public goods

The success cases often included reasonable to good provision of public goods. Ethiopia ensured coordinated public infrastructure investments; South Africa provided automotive industrial parks and targeted transport infrastructure;

Indonesia realised major investments in rural public works; and Bangladesh and Mauritius also supplied improved telecommunications and power. Quality control systems also helped maintain the international price advantage of cocoa from Ghana.

However, in the cases of relative failure, the absence of adequate public goods provision, or related support, was almost always one of the proximate causes. There was weak support for cashew smallholders even in the face of liberalisation in Mozambique. Weak producer organisations in Ghana were not capable of assuming government's role as the provider of essential public goods. Poor rural roads and weak extension services helped bring the promising maize episode to a close in Malawi. Neglect of maintenance of medium-size irrigation works by district governments was a contributory factor in Tanzania. Malaysia rightly targeted infrastructure for manufacturing to EPZs but delayed too long the inclusion of domestic firms in the scope of this modern industrial policy.

5.5 Solving investment coordination problems

In the successful cases, stakeholders set out to tackle investment coordination problems and did so with variable success. In Ethiopia, there was coordination and sequencing of investment in public infrastructure alongside the airline's own capital investment (e.g. in cargo and maintenance facilities). The South African government devised well-coordinated policies for subsidising investment in exporting cars (e.g. import duty credits, productive asset allowances). In Ghana, Cocobod did not tackle land and credit issues in the cocoa sector in a very coordinated way, because these issues fell outside its scope. The Indonesian government had a well-staffed national planning agency that handled the coordination issues surrounding the uptake of improved rice and the utilisation of oil revenues in an effective way. There was some coordination among garment firms in Bangladesh, for example to capture spillovers from firm-level learning and establishing strong links between education institutes and the private sector.

In failures, unsolved coordination problems were part of the story. There was little effort to coordinate investments to boost raw cashew nut production after export liberalisation in Mozambique. Coordinated investments in post-harvest handling and other infrastructure were lacking in Ghana pineapples. While improvements were made to import, procurement and retail systems for inputs in Malawi, the sustainability of these gains was questionable once the initial presidential impulse around maize had weakened. There has been persistent incoherence between trade and investment policies in Tanzania, with President Kikwete's rice initiative only one of the victims. In the case of Malaysia, the disappointing manufacturing performance of recent years turns on failure to coordinate FDI in the export exclaves with equivalent efforts to bring domestic firms into the internationally competitive sectors.

5.6 Special support to investors and firms

There was support for investors, sometimes directed to specific first-mover firms, in certain cases. Tax incentives available to all investors and tariffs helped attract OEMs to South Africa, and foreign investors to export zones in Malaysia. No such support was needed for cocoa in Ghana, a long-established industry. On the other hand, there was support to first-mover firms in Bangladeshi garments, while whole sectors received targeted support for innovation in Mauritius, as did important crop sectors in Indonesia and Malawi.

The presence of supporting industries and services was also an important factor in some sector successes. In South Africa's automotive industry, the growth of related and supporting industries was supported by the establishment of automotive industrial parks, complemented by supplier linkage programmes, which aided clustering and helped ensure automotive firms could access efficient services. In Ghana, Cocobod provided effective support for quality control.

On the other hand, in failure cases, support was often provided and then withdrawn. The government removed export restrictions in Mozambique without investing in firm capabilities; and the Malawi subsidies were not sustained long enough, or supported with sufficient complementary measures, to pull off a profitability breakthrough.

5.7 Summing up

The analysis presented in this paper shows that interventions at sector level, coordinated around a targeted set of activities, in a politically smart way, and set in a competitive framework, can be an important driver of economic transformation. This, in turn, is crucial for sustained job creation, inclusion and a diversified, resilient economy. The key insight – that sector-level interventions (and not just interventions at the firm or country level) are important – has implications for actors looking to support economic transformation. Gatsby Africa already has a sector approach to transformation that implies a particular way of working.

The observations on credibility, public goods, coordination and special support highlighted above seem consistent with the hypotheses in our framework. They also underline the extent to which these factors operate primarily as transmission mechanisms, meaning it is the function rather than the form of support at sector level that matters most. These are crucial mechanisms by means of which a favourable or unfavourable political-economic configuration influences the transformation outcome. In other words, once an economic opportunity has been identified, the political economy really matters. And, finally, what matters about the political economy may be a temporary configuration, a moment of unusual opportunity, and it is also likely to be sector-specific. Transformation breakthroughs can and do occur in systemic contexts that are generally unfavourable. This places a premium on the ability to identify moments and sectors of opportunity in a timely fashion. Given the high level of uncertainty that must accompany such judgements, it also points to the importance of having the flexibility to recognise initial errors and change course when necessary.

References

ACET (African Center for Economic Transformation) (2014) *African transformation report 2014: growth with depth*. Accra: ACET

AIEC – Automotive Industry Export Council (2018) 'Automotive export manual 2018'. Lynnwood Ridge: AIEC

Air Cargo News (2017), 'Ethiopia's airline and airports merge to form single aviation group'. Air Cargo News, 5 September 2017, https://www.aircargonews.net/airlines/ethiopias-airline-and-airports-merge-to-form-single-aviation-group/

Aglionby, J. (2016) 'Ethiopian Airlines soars with help from the state' *Financial Times*, 9 February. Available at https://www.ft.com/content/7be9f07e-c99d-11e5-be0b-b7ece4e953a0

Aksoy, M.A. and Yagci, F. (2012) *Mozambique cashew reforms revisited*. Policy Research Working Paper 5939. Washington DC: World Bank

Alfaro, A., Bizuneh, G., Moore, R., Ueno, S. and Wang, R. (2012) 'South Africa: automotive cluster'. Available at https://www.isc.hbs.edu/resources/courses/moc-course-at-harvard/Documents/pdf/student-projects/MOC%20South%20Africa%20Automotive%20Final.pdf

Ansu, Y., McMillan, M., Page, J. and te Velde, D.W. (2016), 'Promoting Manufacturing in Africa', Supporting Economic Transformation Programme, London: ODI and ACET, Accra.

Arkebe, O. and Tesfachew, T. (2019) 'The journey of Ethiopian Airlines'. *How They Did It Series* 2(1). Tunis: AfDB

Balchin, N. and Calabrese, L. (2018) *Comparative country study of the development of textile and garment sectors: lessons for Tanzania*. Working Paper. London: ODI

Balchin, N. and Mendez-Parra, M. (2016) 'Argentina's economic transformation: experiences and lessons from South Africa'. Report. London: ODI

Balchin, N., Coughlin, P., Papadavid, P., te Velde, D.W. and Vrolijk, K. (2017) *Economic transformation and job creation in Mozambique: synthesis paper*. London: ODI Supporting Economic Transformation Programme

Balchin, N., Banga, K., Hoque, S. and te Velde, D.W. (2018) 'Manufacturing in Africa: factors for success'. ODI SET Programme paper prepared for the Second African Transformation Forum, Accra, Ghana, 20–21 June

Barnes, J. and Black, A. (2013) 'The Motor Industry Development Programme 1995-2012: what have we learned?' Paper prepared for the International Conference on Manufacturing-led Growth for Employment and Equality, Johannesburg, 20–21 May

Barnes, J. and Kaplinsky, R. (2000) 'Globalization and the death of the local firm? The automobile components sector in South Africa' *Regional Studies* 34(9): 797–812

Barnes, J., Kaplinsky, R. and Morris, M. (2004) 'Industrial policy in developing economies: developing dynamic comparative advantage in the South African automobile sector' *Competition & Change* 8(2): 153–172

Barnes, J., Black, A. and Techakanont, K. (2017) 'Industrial policy, multinational strategy and domestic capability: a comparative analysis of the development of South Africa's and Thailand's automotive industries' *European Journal of Development Research* 29(1): 1–17

Bates, R.H. (1981) *Markets and states in tropical Africa: the political basis of agricultural policies*. Berkeley CA: University of California Press

Bevan, D.L., Collier, P. and Gunning, J.W. (1999) *Nigeria and Indonesia: the political economy of poverty, equity, and growth*. New York: Oxford University Press for World Bank

BGMEA – Bangladesh Garment Manufacturers and Exporters Association (2018) 'Trade information'. Available at http://www.bgmea.com.bd/home/pages/TradeInformation

Black, A. (2001) 'Globalisation and restructuring in the South African automotive industry' *Journal of International Development* 13: 779–796
Black, A. (2007) 'Policy and industry structure in the South African automotive sector: from import substitution to 'extreme' export orientation' *Journal of Development Perspectives* 3(1): 1039
Black, A. (2009) 'Location, automotive policy, and multinational strategy: the position of South Africa in the global industry since 1995' *Growth and Change* 4(3): 483–512
Black, A. (2014) 'Developing the automotive value chain: some lessons from South Africa'. Paper prepared for UNCTAD Expert Meeting on Innovation for Productive Capacity-Building and Sustainable Development, Geneva, 19–21 March
Black, A., Makundi, B. and McLennan, T. (2017) *Africa's automotive industry: potential and challenges*. Working Paper 282. Tunis: AfDB
Black, A., Barnes, J. and Monaco, L. (2018) 'Structural transformation in the auto sector: industrial policy, state-business bargaining and supply chain development'. Industrial Development Think Tank
Bräutigam, D., Rakner, L. and Taylor, S. (2002) 'Business associations and growth coalitions in sub-Saharan Africa' *Journal of Modern African Studies* 40(4): 519–547
Bright, W.A. and M. Habte (2015), 'Services Exports for Growth and Development: Case Studies from Africa', *Air Transport Services: A Case Study of Ethiopia*
Buur, L. and Whitfield, L. (2011) *Engaging in productive sector development: comparisons between Mozambique and Ghana*. Working Paper 2011:22. Copenhagen: DIIS/EPP
Cape Business News (2017) 'From survival to significance: the role of the SA automotive sector' 17 October. Available at: http://www.cbn.co.za/component/k2/from-survival-to-significance-the-role-of-the-sa-automotive-sector
Chinsinga, B. (2010) *Seeds and subsidies: the political economy of input programmes in Malawi*. Working Paper 013. Brighton: Future Agricultures Consortium
Chipfupa, T. (2016) 'Support for SA automotive industry needs fine-tuning' *Business Report*, 5 April. Available at https://www.iol.co.za/business-report/opinion/support-for-sa-automotive-industry-needs-fine-tuning-2005119
Chirwa, E. and Dorward, A. (2013) *Agricultural input subsidies: the recent Malawi experience*. Oxford: Oxford University Press
Cokayne, R. (2017) 'Millions depend on SA's motor industry' *Business Report*, 3 March. Available at https://www.iol.co.za/business-report/economy/millions-depend-on-sas-motor-industry-8020463
Commission on Growth and Development (2008) *The growth report: strategies for sustained growth and inclusive development*. Washington DC: World Bank
Dahir, A.B. (2018a) 'Ethiopian Airlines is unstoppable with its plans to take over Africa's skies' Quartz Africa, 8 May. Available at https://qz.com/africa/1272368/ethiopian-airlines-to-buy-more-aircraft-and-set-up-more-africa-hubs/
Dahir, A.B. (2018b) 'How Africa's largest airline will dominate the continent's skies' Quartz Africa, 20 January. Available at https://qz.com/africa/1184830/ethiopian-airlines-wants-to-take-over-africas-skies-with-zambia-asky-arik-and-more/
Davies, M. (2017), 'Ethiopian vs SAA: Africa's Pride And Shame', Huffington Post, 5 October 2017, https://www.huffingtonpost.co.uk/2017/10/05/ethiopian-vs-saa-africas-pride-and-shame_a_23232289/
Desai, J. (2001) *Cashew production and marketing in the smallholder sector in Mozambique*. Washington DC: World Bank
Dorward, A. and Chirwa, E. (2011) 'The Malawi Agricultural Input Subsidy Programme: 2005/06 to 2008/09' *International Journal of Agricultural Sustainability* 9(1): 232–247
DTI – Department of Trade and Industry (2015) 'Presentation on SA automotive sector'. EDD Parliamentary Portfolio Committee, June
EAL – Ethiopian Airlines (2018) 'Ethiopian factsheet' November. Available at: www.ethiopianairlines.com/Cms_Data/Contents/EthiopianAirlines/Media/Corporate/Company/EthiopianFactsheet/Ethiopian-Factsheet-November-2018.pdf

ERD – European Report on Development (2015) *Combining finance and policies for a transformative post-2015 development agenda*. ODI, ECDPM, DIE, Southern Voice and University of Athens

Fernandez-Stark, K., Frederick, S. and Gereffi, G. (2011) 'The apparel global value chain: economic upgrading and workforce development'. Durham NC: Duke Center on Globalization, Governance and Competitiveness

Future Agricultures (2010) 'The Malawi Agricultural Input Subsidy Programme: lessons from research findings, 2005-2008'. Policy Brief 034. Brighton: Future Agricultures Consortium

Gatsby Africa (2017) 'Gatsby's Work in East Africa'. London: Gatsby Africa

GDS – Global Development Solutions (2011) 'Towards a globally competitive Ethiopian economy: the role of services and urbanization. Case studies – rose and polo shirt value chains'. Report prepared for World Bank

Gebreeyesus, M. and Iizuka, M. (2010) *Discovery of the flower industry in Ethiopia: experimentation and coordination*. Working Paper 2010-025. Maastricht: UNU-MERIT

Hanlon, J. (2016) 'Declaring victory in the 20 year war with the World Bank over cashew' *Club of Mozambique*, 15 December. Available at http://clubofmozambique.com/news/declaring-victory-20-year-war-world-bank-cashew-hanlon/

Hausmann, R., Rodrik, D. and Velasco, A. (2008) 'Growth diagnostics', in N. Serra and J.E. Stiglitz (eds) *The Washington Consensus reconsidered: towards a new global governance*. New York: Oxford University Press

Henley, D. (2015) *Asia-Africa development divergence: a question of intent*. London: Zed Books

Kaplan, D. (2004) 'Manufacturing in South Africa over the last decade: a review of industrial performance and policy' *Development Southern Africa* 21(4): 623–643

Khan, M. (2013) 'Bangladesh: economic growth in a vulnerable LAO' in D.C. North, J.J. Wallis, S.B. Webb and B.R. Weingast (eds) *In the shadow of violence*. Cambridge: Cambridge University Press

Kebede, N. (2016), Ethiopian Airlines: A Testament of Vivacity in the African Aviation Industry, *The African exponent*, https://www.africanexponent.com/post/a-testament-of-vivacity-in-the-african-aviation-industry-2974

Knack, O. (2018) 'Top four Asian countries for garment manufacturing' *Medium*, 18 January. Available at https://medium.com/@techpacker/top-4-asian-countries-for-garment-manufacturing-b716c950cc8

Kolavalli, S. and Vigneri, M. (2011) 'Cocoa in Ghana: shaping the success of an economy' in P. Chuhan-Pole and M. Angwafo (eds) *Yes Africa can: Success stories from a dynamic continent*. Washington DC: World Bank

Levy, B. (2014) *Working with the grain: integrating governance and growth in development strategies*. New York: Oxford University Press

Lewis, P.M. (2007) *Growing apart: oil, politics, and economic change in Indonesia and Nigeria*. Ann Arbor MI: University of Michigan Press

Lightner, A., te Velde, D.W. and Kennan, J. (2018) 'Supporting economic transformation interactive portal: a tool for examining structural transformation in economic development'.

Lin, J. and Monga, C. (2017) *Beating the odds: jump-starting developing countries*. Princeton NJ: Princeton University Press

Lin, J., Monga, C., te Velde, D.W., Tendulkar, S., Amsden, A., Amoako, K., Pack, H. and Lim, W. (2011) 'Growth identification and facilitation: the role of the state in dynamics of structural change' *Development Policy Review*

Loyn, D. (2003) 'Mozambique's lost cashew nut industry' *BBC*, 4 September. Available at http://news.bbc.co.uk/1/hi/world/africa/3082316.stm

Madani, D.H. and Mas-Guix, N. (2011) *The impact of export tax incentives on export performance evidence from the automotive sector in South Africa*. Policy Research Working Paper 5585. Washington DC: World Bank

McGrath, S. (2005) 'Globalisation, education and training: insights from the South African automotive sector'. Opinion Paper. London: ODI.

McMillan, M., Rodrik, D. and Welch, K.H. (2002) *When economic reform goes wrong: cashews in Mozambique*. Working Paper 9117. Cambridge MA: NBER

McMillan, M., Page, J., Booth, D. and te Velde, D.W. (2017) *Supporting economic transformation: an approach paper*. London: ODI Supporting Economic Transformation Programme

Melese, A.T. and Helmsing, A.H.J. (2010) 'Endogenisation or enclave formation? The development of the Ethiopian cut flower industry' *Journal of Modern African Studies* 48(1): 35–66

Moazzem, K.G. and Sehrin, F. (2016) 'Economic upgrading in Bangladesh's apparel value chain during the post-MFA period: an exploratory analysis' *South Asia Economic Journal* 17(1): 73–93

Mottaleb, K.A. and Sonobe, T. (2011) 'An inquiry into the rapid growth of the garment industry in Bangladesh' *Economic Development and Cultural Change* 60 (1): 67–89

Nathan Associates (2004) 'Cashew sector in Mozambique'. Unpublished mimeo

Nkonde (2018), 'How Ethiopian Airlines is greatest beneficiary from Zambia Airways Project', *Lusaka Times*, 4 February 2018 https://www.lusakatimes.com/2018/02/04/ethiopian-airlines-greatest-beneficiary-zambia-airways-project/

Olingo, A. (2018), 'Ethiopian Airlines Poised to Take Over Africa's Skies', East African, 19 August 2018 https://allafrica.com/stories/201808190006.html

Pitot, R. (2011) 'The South African automotive industry, the MIDP and the APDP', NAACAM presentation, October

Reuters (2018) 'Ethiopian Airlines net profit up in FY 2017/18 – CEO', 10 August. Available at https://www.reuters.com/article/ethiopia-airlines/ethiopian-airlines-net-profit-up-in-fy-2017-18-ce0-idUSL5N1V12A2

Rodrik, D. (2002) 'Cashews and nutty policies in Mozambique' *Project Syndicate*, 30 December. Available at https://www.project-syndicate.org/commentary/cashews-and-nutty-policies-in-mozambique?barrier=accessreg

Rojid, S., Seetanah, B., Shalini, R. and te Velde, D.W. (2009) 'State business relations and economic growth in Mauritius' *Journal of International Business and Economics*. Available at http://findarticles.com/p/articles/mi_6775/is_2_9/ai_n39315038/

Rojid, S.B., Seetanah, B. and Shalini, R. (2010) 'Are state business relations important to economic growth? Evidence from Mauritius'. Discussion Paper 36. London: IPPG

Sen, K. and Tyce, M. (2017) 'The politics of structural (de)transformation: the unravelling of Malaysia and Thailand's dualistic deals strategies' in L. Pritchett, K. Sen and E. Werker (eds) *Deals and development: the political dynamics of growth episodes*. Oxford: Oxford University Press

Shepherd, B., Shingal, A. and Raj, A. (2016) 'Value of air cargo: air transport and global value chains'. Final Report to IATA. New York: Developing Trade Consultants

Stewart, F. (1995) *Adjustment and poverty: options and choices.* London: Routledge

Studwell, J. (2013) *How Asia works: success and failure in the world's most dynamic region*. London: Profile Books

Subramanian, A. and Roy, D. (2003) 'Who can explain the Mauritian miracle? Meade, Romer, Sachs, or Rodrik?' in D. Rodrik (ed.) *In search of prosperity: analytic narratives on economic growth*. Princeton NJ: Princeton University Press

Therkildsen, O. (2012) *Policy making and implementation in agriculture: Tanzania's push for irrigated rice*. Working Paper 2011:26. Copenhagen: DIIS/EPP

This Day (2017) 'Why Ethiopia Airlines is successful' 1 September. Available at: www.thisdaylive.com/index.php/2017/09/01/why-ethiopia-airlines-is-successful/

Treebhoohun, N. and Jutliah, R. (2014) 'Mauritius country illustration'. Background Paper to the European Report on Development 2015.

Tsakok, I. (2011) *Success in agricultural transformation: what it means and what makes it happen*. Cambridge: Cambridge University Press

Ullah, S. (2018) 'Textile and apparel SME and global value chain: Bangladesh context'. PowerPoint presentation. Available at: www.ges2018.com/pdf/Textile%20SME%20and%20Global%20Value%20Chain%20%20Bangladesh%20context.pdf
USDA – United States Department of Agriculture (2018) 'Bangladesh cotton and products update, November 2018'. GAIN Report BG7010, January. Washington DC: USDA
Whitfield, L. (2010) *Developing technological capabilities in agro-industry: Ghana's experience with fresh pineapple exports in comparative perspective*. Working Paper 2010:28. Copenhagen: DIIS/EPP
Whitfield, L. (2011) *Political challenges to developing non-traditional exports in Ghana: the case of horticultural exports*. Working Paper 2011:29. Copenhagen: DIIS/EPP
Whitfield, L. (forthcoming) *Ghana: the struggle for economic transformation*. Cambridge: Cambridge University Press
Whitfield, L. and Therkildsen, O. (2011) *What drives states to support the development of productive sectors? Strategies ruling elites pursue for political survival and their policy implications*. Working Paper 2011:15. Copenhagen: DIIS
Whitfield, L., Therkildsen, O., Buur, L. and Kjær, A.M. (2015) *The politics of African industrial policy: a comparative perspective*. Cambridge: Cambridge University Press
World Bank (1995) 'Mozambique: impediments to industrial sector recovery'. Report 13752-MOZ. Washington DC: World Bank
World Bank (2004*) World Development Report 2005: a better investment climate for everyone*. Washington DC: World Bank
World Bank (2017) *In Bangladesh, empowering and employing women in the garments sector*. Dhaka: World Bank
Yunus, M. and Yamagata, T. (2012) 'The garment industry in Bangladesh' in T. Fukunishi and C. Houkokusho (eds) *Dynamics of the garment industry in low-income countries: experience of Asia and Africa* (Interim Report). Tokyo: IDE-JETRO

Annex 1 Summary of Section 3 case studies

Air transport and logistics, Ethiopia	
Opportunity identified accurately	Identification of opportunities in new regional and overseas (e.g. Asia) markets, capitalising on locational advantage, backed by a coordinated, hub-based approach and regional partnerships.
Pattern of interests	Centralised economic planning and commitment to a developmental state enabled state-led development of the airline.
Credible commitment	Consistent state backing and credible long-term policy vision for expansion articulated in successive vision documents.
Public goods provision	Coordinated public infrastructure investments alongside the airline's expansion (e.g. expansion and improvement of airport).
Investment coordination problems solved	Coordination and sequencing of investment in public infrastructure alongside EAL's own capital investment (e.g. in cargo and maintenance). The latter was facilitated by allowing EAL to reinvest all profits to build up capital for expansionary investments.
Support to first movers	

Automotive sector, South Africa	
Opportunity identified accurately	Opportunity identified to capitalise on the global trend of increasing outsourcing of component manufacturing and vehicle assembly, building on the already substantial existing presence of OEMs. Recognition of the presence of a relatively strong skills base from earlier industrial development, and related supporting industries and local technology. Recognition of the benefits to vehicle/component production of affordable access to raw materials (e.g. platinum for catalytic converters).
Pattern of interests	Effective alignment of interests facilitated through dedicated sector-specific structures and support organisations involving government, the private sector and trade unions.
Credible commitment	Long-term policy vision, articulated through the MIDP and, later, the APDP, creating a credible policy platform for long-term planning.
Public goods provision	Automotive industrial parks established as well as targeted improvements to rail and road infrastructure.
Investment coordination problems solved	Coordinated policies subsidising investment in exporting (e.g. import duty credits subsidised investment, productive asset allowance). Horizontal government interventions, focused on budgetary support, to leverage complementary private sector investments (e.g. for industrial training, R&D to improve technical capabilities).
Support to first movers	Initially high levels of protection and tax incentives to attract OEMs to locate operations in South Africa. Export–import complementation scheme (and other incentives) encouraged firms to adjust to export orientation.

Cocoa revival, Ghana	
Opportunity identified accurately	Long-established export industry with multiple important linkages to national economy.
Pattern of interests	Rawlings dictatorship had an unusually free hand, given the depth of the previous crisis. Under competitive politics, the sector has had exceptional protection from damaging interference, partly because growers are very numerous and spread across half of Ghana's regions, thus a key electoral constituency for both parties.
Credible commitment	The key sector institution has been continuously run on a professional basis and with tight rules on e.g. marketing margins, and this is underpinned by the above-mentioned cross-party political logic.
Public goods provision	Key public goods functions such as quality control have been well performed by Cocobod. Needed productivity enhancing measures have had only limited success.
Investment coordination problems solved	Coordination with land and credit issues, both of these more politically challenging, has not been effectively provided, giving rise to some concerns about the long-term prospects of the industry.
Support to first movers	Relevant even though this is a very old and possibly declining industry. Such support is largely lacking for the reasons above.

Indonesia, staple food	
Opportunity identified accurately	Raising the productivity of Indonesia's most abundant factors or production, labour and land was the right starting point for transformation, especially in view of the possibility of paying for it with oil revenues. Very big poverty reduction impacts to be expected, given relatively equitable land tenure.
Pattern of interests	The productivity revolution occurred under a military government with both pro-rural ideas and a political incentive to support inclusive growth, given the recently suppressed communist challenge.
Credible commitment	Budgets and their execution consistently followed the priorities in the five-year plan. The macroeconomy was soundly managed, with Dutch Disease effects kept to a minimum. The state marketing agency BULOG operated on rule government basis despite much patronage and corruption elsewhere.
Public goods provision	Major investments in rural public works and social infrastructure was funded by oil and aid.
Investment coordination problems solved	Well-staffed and politically supported National Planning Agency (Bappenas) was attentive to public/private investment coordination.
Support to first movers	General subsidy to adoption of new rice varieties and inputs funded learning externalities on a broad front.

Bangladeshi garments	
Opportunity identified accurately	Garments are the first rung on the transformation ladder consistent with Bangladesh's position in 1980s and the opportunities were enhanced by trade access.
Pattern of interests	Islands of success in a weakly governed country, explicit support from (interim military) regime.
Credible commitment	Trade access, letters of credit.
Public goods provision	Improved telecommunications, rural roads, power generation, distribution networks and investment in health and education and in technology and skills transfer.
Investment coordination problems solved	Workers in the initial firm left company to set up their own garments firms ensuring that skills and investment opportunity were closely aligned.
Support to first movers	Explicit support from regime at the time for Daewoo/Desh.

Mauritius sectors	
Opportunity identified accurately	Continuous upgrading of country's economic structure, correctly identifying move first into textiles and garments (from sugar) as wages rose and then into different types of services as preferential market access eroded.
Pattern of interests	Despite its challenging starting point, from the 1970s onward Mauritians built a consensus view across the public and private sectors around a strategic direction for the economy, involving effective state–business interactions.
Credible commitment	Very clear statement of direction of economy, with the public sector sometimes leading private sector investment, from sugar rents to garments and then to a services economy.
Public goods provision	Macroeconomic fiscal and exchange rate policies, regulatory policy reforms and structural adjustment programmes set the broad conditions.
Investment coordination problems solved	Encouraging links between education institutes and private sector; skills and productivity enhancement in firms subject to more competition.
Support to first movers	Setting of strategic direction and sectoral initiatives around e.g. the services economy.

Annex 2 Summary of Section 4 case studies

Cashew nuts in Mozambique	
Opportunity identified accurately	Motivation to move up the value chain into processing, but the economic case for large-scale mechanised processing in Mozambique was not clear and proved less efficient compared with labour-intensive processing in key competitors (Brazil and India).
Pattern of interests	Lack of consensus among different actors on what reforms were most suitable to facilitate expansion of production and processing (e.g. opposition to the timing of export liberalisation reforms from domestic processors).
Credible commitment	Government's credibility undermined by perceptions that the policy reforms were World Bank-driven. Reform policies poorly communicated to cashew farmers.
Public goods provision	Export liberalisation reforms were not backed by sufficient investment to support smallholders to boost yields and output.
Investment coordination problems solved	Little effort to coordinate investments to boost raw cashew nut production after export liberalisation.
Support to first movers	The opposite occurred – after privatisation of cashew processing under a protective regime, the government removed export restrictions on raw cashew exports, affecting supply to local processors.

Pineapples, Ghana	
Opportunity identified accurately	The early success of an industry pioneered by a new type of Ghanaian investor, with an urban base and international network, suggested Ghana might take a share of the growing global market already served by Côte d'Ivoire.
Pattern of interests	Little government interest after first Rawlings years, but little resistance either, and some donor assistance.
Credible commitment	The business climate was broadly favourable in this period, and security of land rights did not emerge as a major problem for this sector.
Public goods provision	The producer and exporter associations tried to provide key public goods, including quality control and marketing, but failed to overcome the corresponding collective action problems.
Investment coordination problems solved	Coordinated investments in post-harvest handling and other infrastructure were lacking, making it hard to respond to the demand for new varieties.
Support to first movers	Firms had to fund their own learning from current profits. A mechanism for pooled learning was never created, which proved fatal when Del Monte forced a global shift to a new pineapple variety.

Maize subsidies, Malawi	
Opportunity identified accurately	As in Indonesia, raising the productivity of most abundant factors of production, labour and land is the right starting point for transformation. Smallholder crop with immediate poverty linkages. Yields very sensitive to improved seeds and increased fertiliser use, though doubts about future profitability at current fertiliser price.
Pattern of interests	New president (Mutharika) had initially fewer political debts than most and was free to campaign on raising national food self-sufficiency. This married with technical advice, moving away from poverty reduction transfers to tackling profitability. Unfortunately, these conditions weakened sharply during Mutharika's second term and after.
Credible commitment	High political profile of MASIP and scale of its impact in the first two seasons generated raised expectations.
Public goods provision	One key public good provided, a functioning voucher system supporting use of a technically approved input package. Poor rural roads and weak extension services limited the benefits.
Investment coordination problems solved	Some important improvements were made to import, procurement and retail systems for inputs, including a better mix of public and private, but the sustainability of these gains was questionable once the initial presidential impulse weakened.
Support to first movers	A broad subsidy to adoption of a (relatively) new technology was a feature.

	Rice initiative, Tanzania
Opportunity identified accurately	Even if Tanzania cannot produce rice for the world market competitively, the thinness of the world market and resulting volatility of prices suggests increased rice production was a wise objective. The potential for irrigation to raise yields and labour productivity is very large.
Pattern of interests	A presidential initiative at the beginning of his first term (as Malawi maize). However, two aspects of the interest configuration explain why this was not enough: politically weak rice producers versus well-connected importers of rice, especially through Zanzibar. On this account, the expected level of protection from the EAC Common External Tariff did not materialise. And district governments could not be compelled to deliver O&M.
Credible commitment	The informal politics of food importing weakened the initiative's credibility.
Public goods provision	Public goods provision was biased to new works, on which district politicians gained kick-backs. O&M was not politically interesting and got neglected.
Investment coordination problems solved	Absent coordination of trade and investment policies was the main problem.
Support to first movers	This was provided and initially beneficial but did not lead to a self-sustaining process.

	Manufacturing in Malaysia
Opportunity identified accurately	Building on significant transformation of the rural household sector, emulating the early experience of East Asians in export manufacturing was the right goal; 'flying geese' pattern.
Pattern of interests	A story in two parts. Up to the Asian financial crisis, the political leadership pursued a dual strategy, with FDI-led export enclaves supported by modern industrial policy on the one hand, and a crony economy favouring Malay business on the other. Since the mid-1990s, this has unravelled, as the political conditions have become mostly conflictual and the downside of not creating a robust domestic capitalist sector has become apparent. Exception Penang, where the ethnic balance is different.
Credible commitment	Government commitments to FDI very credible in the first phase because of continuous and stable rule by UNMO and its front; weakened since the mid-1990s.
Public goods provision	High-grade export processing zones and other support in the first phase, especially in Penang.
Investment coordination problems solved	Major failure to coordinate participation of a domestic capitalist class with the FDI in the export exclaves. This was not a careless oversight but rather a product of Malay politicians avoiding initiatives that would be seen as benefiting the ethnic Chinese business community.
Support to first movers	The full range of rule-governed investment incentives was used to attract FDI. Nothing similar was applied in the rest of the economy, where cronyism prevailed.

Evidence.
Ideas.
Change.

ODI is an independent, global think tank, working for a sustainable and peaceful world in which every person thrives. We harness the power of evidence and ideas through research and partnership to confront challenges, develop solutions, and create change.

ODI
203 Blackfriars Road
London SE1 8NJ

+44 (0)20 7922 0300
info@odi.org

odi.org
odi.org/facebook
odi.org/twitter