

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

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Abstract

At the outset of China's reform period, the country had a far higher poverty rate than for Africa as a whole. Within five years that was no longer true. This paper tries to explain how China escaped from a situation in which extreme poverty persisted due to failed and unpopular policies. While acknowledging that Africa faces constraints that China did not, and that context

matters, two lessons stand out. The first is the importance of productivity growth in smallholder agriculture, which will require both market-based incentives and public support. The second is the role played by strong leadership and a capable public administration at all levels of government.

This paper—a product of the Director's Office, Development Research Group—is part of a larger effort in the department to see what policy lessons for other countries can be drawn from the experiences of countries that have made substantial progress against poverty. Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The author may be contacted at mravallion@worldbank.org.

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

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“Africa’s growing relations with China are often explained by the country’s demand for its natural resources. While this is true, a large part of the shift is because China serves as an economic role model for the continent. China is a startling example of how a region can rise from poverty within a generation and become a dominant player on the global scene.”
(Calestous Juma, 2007)

Introduction

In China’s relations with Africa—as in most areas of China’s policy making—ideology has given way to the pragmatic pursuit of economic advancement.¹ Instead of “exporting revolution” to the subcontinent (as in the 1950s and early 1960s), China has been importing oil—and building roads, ports, schools and hospitals.² China’s new role as a major investor and aid donor in Africa has attracted much attention in the region and elsewhere, not least among the European countries that have been prominent in Africa since colonial times. Some observers are keenly watching this new “south-south” relationship for signs of how China’s foreign policy will evolve in the future.³

From an African perspective, it may be the implications for domestic policy in fighting poverty that matter more. Among the ways that China differs from Western Europe, one surely stands out: China is a developing country, which (unlike Africa) has made great progress against absolute poverty in the last 25 years. The best data currently available indicate that in 1981 two out of three mainland Chinese lived below about \$1 a day (at 1993 international prices).⁴ At the same time, that was only true of around 40% of the population of Sub-Saharan Africa (SSA). By 2004, less than one in ten people in China lived in poverty by the same (real) standard; yet the proportion in SSA was still around 40%. Figure 1 gives the poverty rates for China and SSA (and the developing world as a whole outside China). The trend rate of poverty reduction in China

¹ For an overview of the history of China’s relations with Africa since 1949 see Anshan (2007).

² The “China-Africa Development Fund” was endowed in 2007 with \$5 billion for aid to Africa and at a meeting of the African Development Bank in Shanghai 2007, the Chinese government announced its intention to provide \$20 billion in infrastructure and trade financing over the next three years (Gill et al., 2007; Anderlini, 2007).

³ For further discussion see Alden (2005), Gill et al. (2007) and Anshan (2007).

⁴ The poverty counts by the “\$1 a day” standard are those of Chen and Ravallion (2007). The poverty line is \$32.74 per person per month at 1993 international prices, using the World Bank’s purchasing power parity exchange rate for consumption. This is converted to local currency in 1993 and then adjusted to a constant value over time using each country’s Consumer Price Index. The China PPP is based on price data for 1986 (the latest available at the time of writing). Preliminary results using new price data for 2005 suggest a higher poverty rate relative to other countries, although the same decline is observed over time. Note also that the analysis reported later in this paper uses a slightly lower national poverty line for China, as documented in Ravallion and Chen (2007), that are unaffected by the PPP rate. However, the main lessons from this analysis are likely to be robust to this choice.

was about 1.9% points per year over 1981-2004, versus 0.1% in SSA.⁵ Even ignoring the 1981 observation for China, the trend is -1.4% points per year. (For the developing world outside China the trend was -0.4% points per year.) With population growth, the divergence in the numbers of poor is even more dramatic. In 1981, China's poor outnumbered Africa's by almost 4:1. Yet by 1996, SSA had overtaken China in the total count of the poor. 500 million fewer Chinese lived below \$1 a day in 2004 than in 1981, but 130 million more Africans did so.

In the light of such divergent fortunes for their poor since the early 1980s, many people are naturally asking whether China should be Africa's "economic role model," as Juma (2007) suggests. Private investment and aid flows from China may well bring benefits to Africa's poor. But are there also domestic policy lessons with potentially even larger long-term benefits?⁶

The popular public image of strife-torn Africa contrasts so markedly with that of stable China that one might be immediately skeptical of such comparisons. In the 1960s, three-quarters of African leaders left power by violent means, and until the mid-1990s this was still true of the majority of leadership changes.⁷ Certainly China has not experienced anything comparable in the last 30 years to Africa's internal upheavals, which have included state collapses in roughly a quarter of the countries in SSA (van de Walle, 2001). However, the more relevant comparison here is with China in the 1960s and 1970s. Then the difference is not so obvious. The Great Leap Forward and the Cultural Revolution were massive, life-threatening, upheavals, including (in the former case) the world's worst famine of the 20th century, with mortality estimates ranging from 15 to 30 million. Yet major policy change was possible in the wake of such upheavals. In more recent times, Africa too has seen formal institutional rules displacing coups and assassinations as the main means by which executive power changes hands; in 2000-05, power changed hands by regular, non-violent, means in 80% of cases (Posner and Young, 2007).

However, there are reasons for caution in drawing lessons for Africa from China's success against poverty. A respected observer of African development has bemoaned the

⁵ These are regression coefficients on time. The China trend is significantly different from zero (s.e.=0.31; prob.=0.0004), but the coefficient for SSA is not (s.e.=0.11). Note that there was an increase in the SSA poverty rate between 1981 and 1996, after which there was a more encouraging reduction, on a par with other regions (Chen and Ravallion, 2007). Nonetheless, the poverty rate in 2004 was only slightly lower than in 1981.

⁶ Whether China would want to make its aid to Africa conditional on policy reforms is another matter; so far it seems that China would prefer to use knowledge dissemination and training initiatives. For example, a new institution—the International Poverty Reduction Center in China (IPRCC)—was created by the Government of China in 2005 to facilitate the identification of "best practices" in poverty reduction and the transfer of knowledge.

⁷ See Posner and Young (2007) who counted the proportion of African leaders who left power through "coup/violent overthrow or assassination" as compared to "natural death, voluntary resignation or losing election."

“...focus on transplanting institutional practices from the West with little attention to their fit in the African context” (Hyden, 2007, p.16752). There is possibly as great a risk in transplanting ideas from the East. It would be naive to assume that all Africa needs to do is copy China’s specific policies to achieve China’s success. The period since 1980 has seen a sequence of (often radical) economic reforms in China, which moved the economy from being highly controlled to more market-oriented. Those reforms naturally reflected (relatively unusual) circumstances in China, and may make little or no sense as a blueprint for policy making anywhere else.

There are other reasons for caution. The lessons for Africa are not all about Chinese successes; some relate to aspects of China’s development path that Africa would prefer to avoid, such as the steep rise in inequality, which I return to. Nor is China the only success story that Africa might want to study. Neighboring Vietnam has done as well in terms of its pace of poverty reduction, and with some interesting policy differences to China.⁸ And it can be argued that Africa should look first within its own region before turning to the Far East. There are many (old and new) success stories within Africa, and there is a body of research and practice related to African poverty, which Africans can already draw on.

It must also be acknowledged that there are constraints on Africa’s progress against poverty that China did not face. In this context, three differences stand out between China at the outset of its reform period and the typical African country today: African countries tend to have higher inequality, higher dependency rates and lower population density. On the first, at the time China had roughly the same “\$1 a day” poverty rate as SSA today—namely a poverty rate of roughly 40% around the mid-1980s—inequality was lower in China (a Gini index well under 30%) than found in all but a couple of countries in SSA today (Ethiopia and Mauritius).⁹ This almost certainly means that African countries will need even higher growth in mean income than China to achieve the same pace of poverty reduction that China has enjoyed, given that the proportionate responses of poverty incidence to the rate of growth tends to be appreciably lower in high inequality countries.¹⁰

Second, Africa’s high dependency rates—due mainly to higher fertility rates, but also high working-age adult mortality due to HIV/AIDS—are likely to constrain growth and poverty reduction. In 2006, 43% of the population of SSA was in the 0-14 age group, more than double

⁸ See, for example, Ravallion and van de Walle (2008).

⁹ See the inequality measures by country in World Bank (2005, Figure 2.9).

China's proportion in 2006 and also appreciably higher than around 1980.¹¹ The current population growth rate of SSA (2.3% per annum in 2000-06) is well above China's rate now (0.6%) or China's rate at the outset of its reform period (1.6% per annum in 1978). China had started to enter the period of "demographic transition" (with both birth rates and death rates falling) well before reforms began around 1980.¹² Thankfully, many African countries have begun the demographic transition (with faltering cases, such as Kenya in which birth rates have started to rise again¹³).

Third, the average African country has a much lower population density than China. A number of arguments have been made about the costs to African development of low population density. Herbst (2000) argues that Africa's relative land abundance entailed less inter-country conflict; such conflict (Herbst argues, based on European history) helps forge stronger states in the longer term.¹⁴ (Nor has Africa's political geography—borders based on rather arbitrary, but now fixed, colonial partitions—helped in fostering cohesive and strong states.) It has been argued that there may well be other costs of low population density; for example, it is believed to dull technological innovation.¹⁵ Low population density also makes it more expensive to supply certain forms of basic infrastructure, such as roads.

At least two of these differences—the high inequality (in various dimensions) and low population density—have probably influenced another evident difference to China: African countries tend to have weaker state institutions, with an adverse feedback effect on (*inter alia*) the quality and quantity of key social services and infrastructure.¹⁶

These are all important differences between China around 1980 and the typical African country today. However, even if there were no such differences, it is also relevant that SSA is 48 countries not one. There is a quite fundamental difference in the degree of internal (economic,

¹⁰ For recent evidence on this point using country-level panel data see Ravallion (2007).

¹¹ Tabulations from the 1982 Census indicate that 36% of the population of China were in the 0-15 age group.

¹² This process of demographic transition probably began around 1970. Note that 1980 was also the year in which the controversial "one-child policy" was introduced, though with the widespread exceptions allowed locally (particularly in rural areas); the target level of fertility is closer to 1.5 children per couple; see Baochang et al. (2007). While fertility rates had started to fall well before the one-child policy, there can be little doubt that this policy helped in bringing the birth rate below replacement levels from the early 1990s.

¹³ See Cleland et al. (2006).

¹⁴ For a critical perspective on Herbst's theory see Robinson (2002). Also see the discussion in Clapham (2001) on the role played by colonialism and post-colonial international relations.

¹⁵ For evidence on this point at a global level see Klasen and Nestmann (2006).

¹⁶ The strength of the Chinese state (at all levels) is evident; on the weaknesses of most African states see Herbst (2000), Clapham (2001) and van de Walle (2001).

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

None of this implies that Africa cannot learn from China. This paper will argue that the most important lessons are found at a level deeper than China's specific policies; rather they are found by understanding how the country's radical reform process came about—borne out of a time of internal upheaval and crisis—and why it succeeded. Some of the lessons are obvious enough, but there are possible surprises too. The paper begins by looking more closely at the causes of China's success against poverty, before turning to the lessons for Africa.

Understanding China's (uneven) progress against poverty

Many visitors to China's booming capital city, including those at the Beijing Olympics of 2008, will no doubt be surprised to hear that even 10% of China's population is roughly as poor as the poorest 40% of Africa's. Those visitors would have to venture out to the inland rural areas to see the extreme poverty that still remains in China. Like most developing countries, living standards tend to be lower in rural areas of both China and Africa, but the disparities between rural and urban areas are particularly large in China. In 2002, 22% of China's rural population lived below \$1 a day, while that was only true of less than 1% of the urban population. By contrast, 51% of SSA's rural population lived under \$1 a day, versus 40% in urban areas.¹⁷

The large difference in living standards between China's urban and rural areas stems in part at least from the longstanding (pre-reform) registration (*hukou*) system—a kind of internal passport system that started around 1950. Under the *hukou* system a rural migrant has little hope of using urban services at the destination without obtaining registration there, which can be difficult and costly—particularly for the poor. These restrictions have been relaxed somewhat over time. Indeed, despite of the restrictions on migration, China's transition entailed substantial urbanization; the urban population share rose from 19% in 1980 to 44% in 2006. This pace of urbanization was part of a process that helped reduce poverty nationally. Analytic

¹⁷ These estimates of the urban and rural poverty measures are from Ravallion et al. (2007).

decompositions (exploiting the population additivity property of the aggregate poverty rate) show that almost one quarter of China's poverty reduction over 1981-2001 can be attributed to population urbanization, even holding poverty measures constant in both urban and rural areas (Ravallion and Chen, 2007). By contrast, the urbanization process has brought very little gain to Africa's poor, because it has not come with overall economic growth (Ravallion, et al., 2007).

Visitors to the Beijing Olympics might also be tempted to guess that the reasons for China's success against poverty are found in the country's booming, largely urban-based and export-oriented, manufacturing sector. Growth in China's industrial sector has been impressive indeed, averaging about 12% per annum over 1985-2005. This has been fuelled by high levels of investment, notably foreign direct investment (FDI); Dollar (2007) argues that this also helped in diffusing new technologies, management skills and in establishing global production networks. In contrast to many countries in SSA, China's policies have encouraged such foreign investment.

However, the boom in FDI was in the 1990s—after the bulk of the poverty reduction. Two-thirds of the decline in the number of people living under \$1 a day over 1981-2004 occurred in the period 1981-87; an astonishing 40% occurred in just the first three years of that period (Chen and Ravallion, 2007). Yet 80% of the FDI in China during the period 1979-2005 was from 1995 onwards,¹⁸ while only 15% of the decline in the number of poor (over 1981-2004) occurred after 1995. FDI was clearly not the “magic bullet” that reduced poverty in China.

A similar problem confronts another possible explanation: the expansion in China's external trade—particularly in manufactured goods (World Bank, 2002). Trade reform begun in the early 1980s, with Deng Xiaoping's “Open-Door Policy,” in the form exchange rate and tax concessions for exporters and creation of a special-economic zone, Shenzhen, near Hong Kong. Internal trade was also progressively liberalized. However, the bulk of the trade reforms did not happen in the early 1980s, when poverty was falling so rapidly, but were later, notably with the extension of the special-economic zone principle to the whole country (from 1986) and from the mid-1990s, in the lead up to China's accession to the World Trade Organization (WTO).¹⁹

¹⁸ Furthermore, 98% of the FDI occurred after 1990. These calculations are based on the FDI (actual) series in \$US provided in various issues of the China Statistical Yearbook (National Bureau of Statistics, various years).

¹⁹ Ravallion and Chen (2007) present evidence that mean tariff rates fell only slightly in the 1980s and non-tariff barriers actually increased. Furthermore, some of the trade policies of this early period were unlikely to have been good for either equity or efficiency. For example, a two-tier price system allowed exporters to purchase commodities at a low planning price and then export them at a profit; thus oil was a major export item until 1986.

The time series on trade volume (the ratio of exports and imports to GDP) is not consistent with the view that trade expansion was poverty reducing in the short term; Ravallion and Chen (2007) find that the correlation between changes in trade volume and changes in the log headcount index of poverty was 0.00! Nor are changes in trade volume—both current values and lagged up to two-years—significant when one includes controls for inflation, key relative prices and government spending.²⁰

Other evidence, using different data and methods, also suggests that trade reform had had relatively little impact on poverty or inequality. The household level impacts of the tariff changes from 1995 onwards (in the lead up to accession to the WTO) were studied by Chen and Ravallion (2004).²¹ They found a positive impact of these trade reforms on mean household income, but virtually no change in aggregate inequality and only slightly lower aggregate poverty. It may well be that longer-term impacts are more positive (such as through growth-promoting access to new technologies and knowledge).

Lin and Liu (2008) argue that it is not trade expansion *per se* that has driven poverty reduction in China but rather the fact that the overall development policies have fostered labor absorption by non-farm sectors, which is seen to play a role independently of agricultural growth and external trade flows.²² They show that poverty incidence tended to be lower in provinces and dates where the manufacturing sector was relatively labor intensive (relative to the rest of the political economy); this is interpreted as the adverse effect of a “development strategy” that favors comparative advantage in labor-intensive manufacturing. They also find that poverty was lower in provinces and dates at which provincial external trade volume was higher, which was also taken to reflect differences in development strategy.²³

China’s initial conditions at the outset of the reform process were especially conducive to rapid poverty reduction through labor-absorbing manufacturing sector growth. This strategy

²⁰ Trade volume may well be endogenous in this test, although correcting for the bias need not imply that a more important role for trade, since trade volume may well be negatively correlated with the residuals; other (omitted) growth-promoting policies simultaneously increased trade and reduced (absolute) poverty.

²¹ The price and wage changes were those estimated by Ianchovichina and Martin (2004) using a Computable General Equilibrium model.

²² This echoes longstanding arguments on the importance of exploiting the comparative advantage of low-income countries in labor-intensive production; see, for example, World Bank (1990) and Schiff and Valdes (1992).

²³ Though note that much of this is probably inter-provincial trade, not foreign trade. The key identifying assumption made by Lin and Liu is that being a coastal province only affects poverty via its effect on trade volume. It could well be that the trade volume variable in this study (when instrumented by the coastal province dummy) is

requires sufficiently high levels of basic schooling attainments;²⁴ even relatively unskilled manufacturing jobs require basic literacy and innumeracy skills. Here China's initial conditions were good, with a high level of literacy around the time reforms began, including in rural areas where abundant labor at low reservation wages rates could be drawn upon.

However, while growth in the export-led manufacturing sector has clearly played a role in reducing poverty in the 1990s by absorbing surplus labor from rural areas, the "heavy lifting" in reducing the numbers of poor in the early stages of China's reform process was done by the rural economy. Using both analytic and regression-based decomposition methods, Ravallion and Chen (2007) find that rural economic growth had a far higher poverty impact than urban economic growth over the period 1981-2004. Similarly, using regressions of the proportionate rate of poverty reduction over time on the growth rates by sector, weighted by their shares of output, Ravallion and Chen find that growth in the primary sector (mainly agriculture) did more to reduce poverty than growth in either the secondary (mainly manufacturing) or tertiary (mainly services) sectors.²⁵ Indeed, primary-sector growth had about four times the impact on national poverty as growth in either the secondary or tertiary sectors.

Rising inequality in China

Since the mid 1980s, China's success against absolute poverty has come with a steep rise in inequality. Figure 2 gives the Gini index for the country as a whole.²⁶ The trend rate of increase is 7% points per decade, implying that China will be a high inequality country—a Gini index of 50%, say—by about 2015. However, while a trend increase in inequality is evident, the increase is not found in all sub-periods: inequality fell in the early 1980s and the mid-1990s.

The upward pressure on inequality has come from a number of sources, including the freeing up of labor markets and associated rise in the returns to schooling. Arguably, some of this was "good inequality," at least initially, as it came with the creation of new economic

really just picking up the many other advantages of being a coastal province. It should also be noted that the Lin-Liu regressions do not allow for provincial fixed effects.

²⁴ That is an important lessons from studying the differing performances against poverty that were achieved by non-farm economic growth across states of India; see Ravallion and Datt (2002).

²⁵ If the composition of growth did not matter then the regression coefficients on the (share-weighted) growth rates would be equal; instead, one finds large and significant differences. For details see Ravallion and Chen (2007).

²⁶ The Gini index takes the value zero when everyone has the mean income while it is 100% when the richest person has all of the income, although this is not an economically meaningful upper bound since nobody but the richest person could survive.

opportunities.²⁷ But other inequalities have been less benign in that they generated inequality of opportunity. In this respect, the emerging inequalities in health and schooling in China have created concerns for future growth and distributional change. The large geographic disparities in living standards found in China are symptomatic of deeper biases in public resource availability, which also contributes to unequal opportunities, depending on where one lives.

The pattern of growth has also influenced the evolution of inequality in China, reflecting both good inequalities (as resource flows respond to new opportunities) and bad ones (as some poorly endowed areas get caught in geographic poverty traps). Rural and (in particular) agricultural growth tended to bring inequality down in China, and lack of growth in these sectors has done the opposite. Rural economic growth reduced inequality within both urban and rural areas, as well as between them (Ravallion and Chen, 2007).

Two dimensions of the pattern of growth have been of concern from a distributional perspective. The first is the urban-rural dimension. Mean income is not only lower in rural areas, but long-run growth rates have been lower, yielding divergence between the economic fortunes of China's cities and their vast rural hinterland. The divergence has been particularly strong since the mid-1990s (once one allows for the higher rate of inflation in urban areas; see Ravallion and Chen, 2007). Similarly, while there was rapid agricultural growth in some periods, including the early 1980s, the sector's growth has not been particularly impressive since then. The primary sector had an average growth rate of 7.5% over 1980-85, but the average has been under 4% since then, as compared to an average growth rate for the industrial sector of about 12%. So China's growth rate in agriculture has not been exceptional; a 4% growth rate for agriculture is the average growth rate of the "agriculture-based" developing countries over the same period, the bulk of which are in SSA (World Bank, 2007).

The inequality-increasing sectoral imbalance of China's growth process has attenuated the poverty impact of high overall growth rate. To assess the contribution of this imbalance in the growth process, imagine if the same aggregate growth rate had been balanced across sectors. Then it would have taken 10 years to bring the poverty rate down to 10%, rather than 20 years (Ravallion and Chen, 2007). This is not to say that a balanced growth process at the same overall growth rate was feasible for China, which would seem unlikely. This calculation is merely an

²⁷ On the distinction between "good" and "bad" inequalities in China's economic development see Chaudhuri and Ravallion (2007).

indication of how much the sectoral pattern of growth slowed down poverty reduction at a given aggregate growth rate. It may well be the case that a more balanced growth rate would have meant lower overall growth, implying a growth-equity trade off. The discussion will return to this issue shortly.

Secondly, progress against poverty was geographically uneven, with some provinces seeing far more rapid reduction in poverty than others. In particular, the coastal areas fared better than inland areas. China too has its land-locked, resource-poor, areas (with populations as large as some countries in Africa). The trend rate of decline in the poverty rate for China's inland provinces was less than half that found in the coastal provinces (though the "less than half" still entailed a higher rate than for SSA as a whole). However, while provinces with higher rural income growth tended to have higher poverty reduction, income growth rates were not any higher in the provinces where growth would have had more impact on poverty nationally.

Was rising inequality simply the price that China had to pay for growth and (hence) poverty reduction? Whether or not such a trade-off exists depends crucially on the source of inequality; when higher inequality comes in the form of higher inequality of opportunity it can entail a cost to aggregate growth prospects. China's experience actually offers surprisingly little support for the view that there is an aggregate trade off. Indeed, there are a number of empirical findings that lead one to question this view. Firstly, while it is true that inequality tended to rise over time, the periods of more rapid growth did not bring more rapid increases in inequality; indeed, the periods of falling inequality (1981-85 and 1995-98) had the highest growth in average household income (Ravallion and Chen, 2007). Secondly, the sub-periods of highest growth in the primary sector (1983-84, 1987-88 and 1994-96) did not typically come with lower growth in other sectors. Finally, the provinces with more rapid rural income growth did not experience a steeper increase in inequality; if anything it was the opposite.

Looking forward, it will be harder for China to maintain its past progress against poverty without addressing the problem of rising inequality. To the extent that recent history is any guide to the future, we can expect that the historically high levels of inequality found in China today will inhibit future prospects of poverty reduction—just as high inequality in much of Africa is almost certainly inhibiting growth and poverty reduction. High inequality is a double handicap; depending on the sources of inequality—notably how much comes from inequality of opportunity—it means lower growth and that the poor share less in the gains from that growth.

Inequality is continuing to rise in China and poverty is becoming more responsive to rising inequality. At the outset of China's transition period to a market economy, levels of poverty were so high that inequality was not an important concern. That has changed.

Achieving pro-poor reform

Africa's lack of progress against poverty reflects a malaise in which both poverty and failed, unpopular, policies persist. And China was caught in a similar malaise in the 20 years or so prior to 1980. Indeed, the literature's descriptions of the role played by vested interests and dubious ideologies in paralyzing effective public action against poverty in China in the 1960s and 1970s are not unlike those in the literature on Africa in the 1980s and 1990s.²⁸

It is not difficult to understand how bad policies and poverty can persist, even without any intrinsic differences between China in the 1960s and 1970s and Africa in the 1980s and 1990s. To see how this can happen, suppose that the extent of adoption of pro-poor policies depends on the degree of empowerment of poor people, meaning their ability to influence policy makers (in potentially many ways). However, there is a threshold effect in that a minimum level of empowerment must be reached before policy reform begins. Once this point is reached, reform can be rapid even at relatively low levels of empowerment, though diminishing returns eventually set in, as the scope for reform runs out. The pro-poor reforms in turn create empowerment for poor people, by raising their command over economic and political resources, thereby enhancing their influence over policy. Here too there may also be a threshold effect, in that some basic set of policy-induced attainments must be reached (such as sufficiently widespread literacy) before any empowerment is possible (although this second threshold effect is not strictly required for this model).

Under these conditions, there will be two possible states—combinations of both policies and empowerment—for which this economy is in equilibrium, as illustrated in Figure 3. The two curves trace out (on the one hand) how the adoption of pro-poor policies depends on the empowerment of poor people and (on the other hand) how their empowerment depends in turn on the adoption of those policies. The equilibrium at H has a high degree of empowerment and the policy environment is markedly pro-poor; the opposite is true at the low-level equilibrium, marked L. Arguably, pre-reform China was in the L equilibrium. (This may be surprising given

²⁸ For example, on China see Du Runsheng (2006); on Africa see van de Walle (2001).

that rural policies under communism claimed to empower the poor, but that can hardly be considered credible given how unpopular those policies appear to have been with the rural poor—and for good reasons.)

When a country is stuck in the L equilibrium, small policy reforms have perverse effects, with even less pro-poor policies and less empowerment, once equilibrium is restored. This is evident if one shifts the “policy curve” upwards in Figure 3, so that policies improve at given levels of empowerment for the poor; the new L equilibrium will have lower empowerment and worse policies. The same perverse outcome can be expected from a small rightward shift in the “empowerment curve.” (The perverse outcomes do not arise at the H equilibrium.)

What is needed is a large policy-empowerment change to get from L to H. Arguably the biggest single reform that got China on the way to H was the introduction of the Household Responsibility System (HRS) around 1980. This was the rural economic reform that started the ball rolling.²⁹ And it was a truly radical reform. In a period of just a few years (the process was complete by about 1983), the collectives were dismantled and virtually all of the farmland of the world’s most populous country was allocated to individual farmers, and the allocation of land within communes appears to have been relatively equitable. Farm-households were then responsible for providing contracted output quotas to the state, but were free to keep (and sell) everything in excess of their quota. This institution had much better incentives for individual production, since farmers could keep the marginal product of their labor. This was also a dramatic change in the empowerment of China’s poor; prior to this reform, the poorest people in China (overwhelmingly found in rural areas) had little control over key decisions about how their labor was deployed. The HRS empowered them to control their own labor and land. With help from supplementary reforms to increase farm output prices and improve input availability, China moved rapidly from L to H. How did this happen?

As is often the case, China’s rural reforms grew out of a crisis; in this case it was a crisis of food insecurity. The failure of collectivized farming was evident in declining food availability, which was also starting to be felt in China’s relatively privileged cities. Something had to be done to raise farm output, and there were many proposals at the time, mostly based on the idea of breaking up the collective farms and returning to peasant farming.

²⁹ On the importance of these reforms in stimulating agricultural growth at the early stages of China’s transition see Fan (1991), Lin (1992) and Fan et al. (2004).

The reforms to address the crisis were not the work of one person, although they would have been delayed even further without Deng Xiaoping's foresight and power.³⁰ As I have noted, among those farming the land, there appears to have been widespread dissatisfaction with collectivized farming. But China's farmers were the poorest stratum of society (as they are now, though absolutely much better off on average than in the 1970s). On their own, they lacked the power to change this system. China was clearly stuck for many years in its L equilibrium. The reforms had to have support from the country's elite. It was important here that many of those in power at the center appear to have had a genuine desire to help the country's rural poor. The unpopularity of the Cultural Revolution (notably, but not only, among the urban elite) and Mao Zedong's death created the political opportunity to do something about the problem.

A number of pre-conditions were clearly important to the success of China's reforms. Thankfully, much of the rural population that had been forced into collective farming under socialist agriculture (with weak incentives for work) still knew how to farm individually. Unlike Russia, most Chinese farmers had been allowed to keep small "private plots" of land, although the vast bulk of the crop land was farmed collectively. Prior investments in rural infrastructure (going back to the 1950s) were also important to assuring that the institutional reforms had a high short-term pay off. Also, the high level of literacy among China's peasants (a positive legacy of communism) undoubtedly helped in containing the possibilities for inequities in the land allocation at the time of breaking up the collectives.

Under these conditions, there were large and rapid gains to be had by undoing the failed policies of collectivized farming—empowering the rural poor by shifting the responsibility for farming to households; essentially the private plots expanded to take over the collective's land. Thus the rapid agricultural growth unleashed by the rural reforms came hand-in-hand with rapid poverty reduction in the early 1980s. China's reform agenda switched to the non-farm sector after 1985, though public spending on the sector continued to play an important role.³¹

Resistance to the early rural reforms came from local cadres, who stood to lose power and privilege, and from some at the top who remained ideologically committed to Mao's

³⁰ For a fascinating discussion of these early reforms see Du Runsheng (2006) who was a senior government official and researcher at the time, and who is widely considered as being the key intellectual force behind the HRS.

³¹ Strikingly, Fan et al. (2004) find that 60% of the agricultural growth over 1978-84 was attributable to "institutional reforms" but that this fell to virtually zero from 1985-2000, when public investment spending took over as the main driver of agricultural growth and (through this) poverty reduction. However, institutional reform is identified solely by economy-wide year dummy variables in their econometric analysis. This is a strong assumption.

policies. The idea of private farming had been forbidden under his leadership, and many of his followers remained committed to collectivized farming for some years after his death. At local level, reform required the cooperation of a vast number of cadres, who implicitly had the power to stall, or even undermine, the rural reforms. Reducing their resistance was crucial. It was important that the commune authorities who stood to lose from the HRS retained a degree of power over a number of key features of the new farming systems, such as the allocation of land and the enforcement of the production quotas; only then was it possible to secure the cooperation of the cadres. In due course, the local cadres who had previously run the collective farms became the new entrepreneurs for rural non-farm enterprises (notably the Township and Village Enterprises).

Making the reforms stick in China was also helped by the fact that the center avoided dictating a single “model” for the alternative farming system, but rather gave the farmers and cadres a choice among a fairly broad set of options (Du Runsheng, 2006). As it turned out, individual peasant farming under contracts with the government was by far their preferred option. But the process itself gave a degree of ownership to the key stakeholders that appears to have been important for the sustainability of the reforms.

The verifiable success of scattered local “experiments” in alternative farming systems greatly influenced the center. Severe food shortages were leading to a breakdown of the collectives in a few places. (Not all cadres were resistant to change when faced with local shortages.) Running against the prevailing ideology, farmers and cadres in the counties of Yongjia (in the Wenzhou region of Zhejiang) and Fengyang (in Anhui) dealt with their food shortages by contracting out the collective land to households. But without support from the center, these scattered experiments could not spread easily. How did that support emerge?

Crucially, in 1978 the Communist Party’s 11th Congress broke with its ideology-based approach to policy making, in favor of a more pragmatic approach, which Deng Xiaoping famously dubbed the process of “feeling our way across the river.” At its core was the simple idea that public action should be based on evidence; “the intellectual approach of seeking truth from facts” (Du Runsheng, 2006, p.2). In looking for facts, a high weight was put on demonstrable success in actual policy experiments on the ground. The evidence from local experiments in alternative farming systems was eventually instrumental in persuading even the old guard of the Party’s leadership that reform could deliver higher food output.

Ironically, this switch to evidence-based policy making appears to have been in part a reaction to the Cultural Revolution, which was antithetical to such an approach. It has also been argued by some observers that the egalitarian ethics promoted by the Cultural Revolution actually helped provide a foundation for better communication across social divisions, so that the Chinese leadership could find out what worked on the ground (Luo Xiaopeng, 2007, p.10).

Research also played a key role. The first publicly funded (but autonomous) think-tank was set up in 1980, namely the China Rural Development Research Group; it was their careful and trusted field work in Anhui—studying the local experiment with the HRS—that convinced policy makers at the highest levels on the merits of scaling up (Luo Xiaopeng, 2007). (Other influential research centers in the reform process were the Chinese Academy of Social Sciences and the Development Research Center under the State Council.)

Looking back over the period since, the approach advocated by the 1978 meeting of the Central Committee appears to have been the germ of evidence-based policy making in today's China, in which an effort is made to assure that objective “evaluations” of policy pilots inform decision making at the center. Crucially, the leadership was able to assure that such “collective learning” (as Luo Xiaopeng terms it) was de-politicized; having a credible research institute helped here too. The quality of the data and methods used in this learning process was rarely as high as one would have liked and the results had the usual inferential ambiguities. They were clearly not randomized experiments, which would have been impossible (even aside from the external validity concerns about randomized experiments; see Heckman and Smith, 1995). Rigorous impact evaluations (using either experimental or non-experimental methods) are still rather rare in China, with too much reliance on reflexive comparisons in which the place in which the policy experiment happened is observed over time, with no comparison group. (This was less of a concern at the outset of the reform period, when not much was changing elsewhere, but the method has clearly become inferentially problematic since then.) However, by using objective field research methods to see what was happening on the ground, it appears that reasonably reliable lessons could be distilled from the diverse local “experiments in reform.”

Over the following decades, new central policies have often emerged in China as the scaled-up versions of such local experiments deemed to be successes, while the failures dropped by the wayside. Policy experimentation continued in many areas of policy making. Hofman and Wu (2007) argue that well-informed gradualism in the reform process also helped assure the

sustainability of the reform process, since future reform was more likely if current reforms were chosen carefully and recognized as successful. Just as countries in Africa (and elsewhere) hope to learn something from China's success, provinces of China have been learning much from each other's successes and failures. When combined with a commitment to fighting poverty and the (impressive) administrative capabilities of the Chinese state (from central through to local levels), the Government of China's break from ideology in favor of "seeking truth from facts" must surely be seen as a crucial factor in the country's success against poverty.

Policy lessons from China's success

While successful reforms need not conform closely to orthodox "neo-liberal" recommendations, China's success against poverty illustrates well the generic point that freer markets can serve the interests of poor people. China's farmers responded dramatically to market incentives when the institutional reforms gave them the chance to do so. African farmers are not likely to be any different in this respect.³²

But China's success was not just a matter of letting markets do their work. That success would not have been possible without strong state institutions implementing supportive policies and public investments. China has had a tradition of building and maintaining the administrative capacities of government at all levels, including in countless villages that were the front line for implementing the crucial rural reforms that started in the late 1970s. (Indeed, the tradition of a strong public administration goes back so far that China should probably get credit for invented the idea.) The leadership of a township or administrative village in rural China is typically accountable to higher levels of government and its own citizens for economic development within its borders. By contrast, political scientists have pointed to the persistent incapacities of Africa's state institutions (Herbst, 2000; Clapham, 2001; van de Walle, 2001). Granted, some "normal states" (as Clapham, 2001, calls them) have emerged.³³ However, judged by almost any standards, but certainly when assessed against China's tradition of strong state institutions,

³² There is evidence to support that view from the literature; see, for example, Dercon's (2006) work on the poverty impacts of opening up markets in Ethiopia. (Here too relatively low initial inequality in landholdings undoubtedly played a role in assuring pro-poor growth.) Also see Deininger and Okidi (2003) on the poverty impacts of market-oriented reforms in Uganda.

³³ Clapham (2001) points to Ghana, Senegal and Tanzania, in which relatively favorable political geographies have combined with good political leadership and success in incorporating minority groups into the political system.

Africa is clearly lagging in this respect. The capacity to implement policies is necessary for success, but that capacity must be developed.

Of course, state capacity must be used to implement good policies, and to avoid or drop bad ones. An obvious, though nonetheless important, lesson that is well illustrated by China's experience is the need for governments to avoid doing harm to poor people. One way is to reduce the (explicit and implicit) taxes they face. In China's case, the government operated (for many years) an extensive foodgrain-procurement system that effectively taxed farmers by setting quotas and fixing procurement prices below market levels (to assure cheap food for far less poor urban consumers). This gave the government a powerful anti-poverty lever in the short-term, by raising the procurement price as happened in the mid-1990s, helping to bring both poverty and inequality down. Again, this reform is rather specific to China. But it would be a safe bet that every country in SSA can find its own examples of taxes and regulations that are biased against the poor. Research on Africa has pointed to ways in which past policies have placed a heavy burden on the poor, notably through urban biases in exchange rate and spending/taxing policies.³⁴

Another robust lesson concerns macroeconomic stabilization policy. China's experience suggests that avoiding inflationary shocks has been good for poverty reduction. Higher inflation meant higher poverty.³⁵ (The reversals for China's poor during the late 1980s evident in Figure 1 reflect in part the macroeconomic instability of that time. Low rural economic growth was another factor.) The importance of macroeconomic stability to sustained poverty reduction in China echoes findings in other developing countries.³⁶

Greater internal market integration has played a role in China's success, although this is not a policy area in which China made particularly rapid progress. The impediments to migration within China have been noted already. There have also been frictions to internal trade, though declining in importance over time. However, there is nothing comparable in China today, or even 20 years ago I suspect, to the impediments to internal market integration faced in SSA. For example, you still can't drive a vehicle between some important commercial cities of Africa—

³⁴ See, for example, Sahn et al. (1997) and Mwabu and Thorbecke (2004).

³⁵ Ravallion and Chen (2007) show that the adverse effect of inflation on poverty measures for China is robust to adding controls for mean income, relative procurement prices for foodgrains and government spending. The inflation effect appears to be a short-term distributional effect.

³⁶ See Easterly and Fischer (2001) and Dollar and Kraay (2002) (both using cross-country data), Datt and Ravallion (1998) using data for India, and Ferreira et al. (2008) for Brazil.

large cities in relatively close proximity but in different countries (such as Douala, the commercial capital and largest city of Cameroon, and Lagos, the commercial capital of neighboring Nigeria, and most populous city in SSA). Poor internal integration means that the typical African country faces a tiny domestic market compared to the typical Chinese province.

An important lesson from China's experience is that growth-promoting economic reforms are not sufficient for rapid and sustained poverty reduction. Persistent inequalities in key assets and access to essential infrastructure impede the prospects for poor people to share in the economic gains spurred by reforms. On breaking up the collective farms it was possible to assure that land within communes was fairly equally allocated. (Although marked inter-commune inequality remained, given that mobility was restricted.) With a relatively equal allocation of land holdings—land-use rights rather than ownership—the agricultural growth unleashed by the rural economic reforms of the early 1980s could bring the rapid poverty reduction seen in Figure 1. Similarly, a positive legacy of socialism and the Confucian ethic was the relatively low inequality in health and schooling at the outset of the reform period. The low inequality in education attainments is likely to have helped in assuring that farm and non-farm growth was poverty reducing.

The importance of the pattern of growth to China's progress against poverty carries a lesson for Africa. When so much of a country's poverty is found in its rural areas it is not surprising that agricultural growth plays an important role in poverty reduction. Granted, the past efficacy of agricultural growth in reducing poverty in China reflects (at least in part) an unusual historical circumstance, namely the relatively equitable land allocation that could be achieved at the time of breaking up the collectives. However, China's experience is consistent with the view that promoting agricultural and rural development is crucial to pro-poor growth, particularly at the early stages, given the potential for small-holder farming to rapidly absorb unskilled labor.

The need to give higher priority to agricultural growth rather than industrialization at the early stages of economic development echoes longstanding arguments (and debates) in the literature.³⁷ By this view, only when agricultural output has risen sufficiently will it be possible to release labor from agriculture for the infant non-farm sectors. In a relatively closed economy (or one in which the foodstaples are largely non-tradable) higher domestic food output will also

³⁷ For a recent discussion see Tiffin and Irz (2006) who also find evidence that agricultural growth precedes ("Granger causes") aggregate growth in developing countries. Also see the discussion in Schiff and Valdes (1992).

entail lower food prices and hence allow new manufacturing enterprises to pay low wages, further stimulating growth in the non-farm economy. China's success in labor-intensive manufacturing clearly rested in part at least on the availability of cheap wage goods.

There is also evidence for China that the agricultural sector is an important generator of positive externalities favoring non-farm development. Using farm-household level panel data from four provinces of post-reform rural China, Ravallion (2005) finds evidence of strong geographic externalities, stemming from spillover effects of the level and composition of local economic activity and private returns to local human and physical infrastructure endowments. This suggests an explanation for rural underdevelopment arising from under-investment in certain externality-generating activities, of which agricultural development emerges as the most important.

Developing countries keen to industrialize have tried often to accelerate the process. Indeed, even China may well have switched its sectoral attention out of agriculture too quickly. It seems that after attaining a degree of food security, and higher incomes for the peasant class, the political economy demanded higher living standards for the relatively better off middle- and upper-income groups. The associated shift in the sectoral and geographic pattern of China's growth fuelled rising inequality and dulled the impact of subsequent growth on aggregate poverty incidence. (In this respect, Africa might actually learn more from Vietnam, which appears to have maintained its sectoral emphasis on agriculture and rural development for a longer period than China did at a comparable point in time.)

This lesson appears to be highly relevant to SSA today. Christianson and Demery (2007) have argued convincingly that development strategy for Africa that is firmly grounded in agricultural and rural development can bring a larger and more sustained impact on poverty.³⁸ Just as has happened in China, there will be a time when the emphasis in Africa will naturally shift to secondary and tertiary sectors. But with the levels of poverty prevailing in SSA today, and the sub-continent's (still) relatively abundant supply of (not too unequally distributed) land, an agriculture-based strategy must for now be at the center of any effective route out of poverty, just as it was in China during the early 1980s.

³⁸ Also see Dorward et al. (2004), Mwabu and Thorbecke (2004) and World Bank (2007).

Achieving that growth will not be easy.³⁹ It will require investments in agricultural research and development (R & D), tailored to African (often rain-fed) conditions, and efforts to bring research results to African farmers. China would seem to be in a good position to help African countries build up their agricultural research and extension systems. (SSA's total public spending on agricultural R & D increased by barely 20% in real terms over 1981-2000; over the same period it increased three fold in China; See World Bank, 2007, Table 7.1.) Higher agricultural growth will also require investments in rural infrastructure, which is worse now in many African countries than it was around 1980 in China, when the rural reforms began.⁴⁰ Provided that Africa makes the right investments in supporting agricultural growth there should be no difficulty finding the market for its produce, including in China, which is now more open to agricultural imports (after its entry into the WTO).

African observers of China's success might be tempted to conclude that rising inequality is the inevitable price of lower absolute poverty. Looking forward, that would be worrying in Africa, where inequality is already rather high, with many countries having levels of inequality reaching (and in a few cases exceeding) the levels found in Latin American, where inequality measures tend to be the highest of any region of the world.⁴¹

However, it should not be presumed that poor countries necessarily face an aggregate growth-equity trade off. Upward pressures on inequality can certainly be generated by the growth process, such as stemming from skill shortages and higher returns to schooling in the labor market. On the other hand, to the extent that the growth comes from relaxing the constraints facing poor people in access to key markets, it may help put downward pressure on inequality. The net outcome is an empirical issue, and will vary from country to country, as is indeed found to be the case in cross-country comparisons of growth rates and changes in inequality (Ravallion, 2007).

So Africa should be wary of drawing the lesson from China that rising inequality is the inevitable price of higher growth and less poverty. Indeed, as noted above, China's experience actually provides counterexamples (in some time periods and some provinces) to the view that rising inequality is the unavoidable by-product of sustained economic growth in a poor country.

³⁹ See Dorward et al. (2000) on the constraints facing agricultural development in Africa.

⁴⁰ World Bank (2007, Part 2) contains a detailed discussion of the policy instruments available for promoting pro-poor agricultural development.

⁴¹ See the inequality measures by country in World Bank (2005).

What are the key messages for Africa?

Africa has seen a significant political change in recent times with the rise in more democratic forms of central government. This has ushered in a period of greater stability and peace, and started to create the sorts of institutional constraints on the abuse of power by leaders that one takes for granted elsewhere. However, it is unlikely that the implied shift in the empowerment of Africa's poor that can be achieved through such political changes will be sufficient to reach the pro-poor "high equilibrium" of the political economy without two additional ingredients: significant changes in economic policies and greater efficacy of state institutions for implementing those policies.

A number of policy messages worth thinking about in an African context emerge from the literature on how China was so successful in the fight against poverty. A partial list would include widespread access to sound basic education and health care, lower dependency rates through lower fertility, greater internal market integration, and greater external openness to foreign investment and trade, consistent with a country's comparative advantage. There are some tentative signs of progress in Africa on most of these areas, though there is still much to be done.

An important, but all too often neglected, issue concerns the sectoral priorities for development when one is starting in a situation in which the vast bulk of the poor remain in rural areas. Faced with this reality, China's growth-promoting reforms starting in the late 1970s sensibly started in the rural economy, where the extent of poverty was as high as one would have found almost anywhere in the world at that time. The initial economic agents of change were countless smallholders increasing their output in response to newly unleashed market incentives. In due course, the policy emphasis naturally switched to the non-farm and urban economy, and the subsequent rural labor absorption was clearly important to continuing progress against poverty. Granted, one can question whether even China got the timing of this switch in sectoral priorities right. However, the key lesson for Sub-Saharan Africa is that to replicate China's success against poverty in the longer term a much higher priority must be given to agriculture and rural development in the near term.

The problem is that many low-income, primarily rural, developing countries (including in Africa) think they can essentially ignore their agricultural sectors and leave the whole task of poverty reduction to labor absorption from non-agricultural sectors. Worse still, they sometimes try to jump-start their economies by rapidly developing a modern, relatively capital-intensive,

manufacturing sector. The problems with this development path are magnified in countries with high initial inequality in human resource development, such that there are relatively few rural workers—and very few amongst the poor—who can get these jobs, or even get the relatively less skilled jobs required by a more labor-intensive manufacturing sector. This sort of approach will do little to reduce rural poverty directly and may even harm the rural poor through the financing methods (notable the heavy taxation of agriculture) and price distortions that are needed. Poor, primarily rural, economies cannot reasonably hope to by-pass the key steps in promoting agricultural and rural development that China took from the early stages of its reform process. That is an important message for much of Africa today.

Of course, Africa does not have the same failed collective-farming systems to dismantle as did China. But the generic point on sectoral priorities is still relevant. African countries will have to find their own, tailor-made, versions of the rural reforms and public investments that will be needed to raise the productivity of smallholders—to find Africa’s home-grown version of China’s rural policies early 1980s. Drawing on the literature on Africa, one can point to the importance of physical and human infrastructure development in rural areas and the pressing need for an effective support system for the rapid adoption of known and improved farming technologies; this will require a combination of research, advisory services and financial support for inputs.

While raising agricultural productivity in Africa is hardly going to be sufficient for eliminating poverty in the longer term, it is arguably the most important problem to address at the outset, and may even prove to be necessary for sustained progress in other areas of economic and social policy. Alas, the problem of low farm productivity remains. And research has been scant on the underlying (social and political, as well as economic) reasons for Africa’s (large and widening) gap in agricultural productivity relative to China and most of Asia.

Another likely pre-condition for long-term progress in Africa is more effective state institutions. As this paper has emphasized, China’s experience points to the importance of combining pragmatic, evidence-based, policy making with capable public institutions and a strong leadership that is committed to poverty reduction. Without these conditions, and the right policies, it is difficult to see how any country can make the significant changes that are needed to get out of an equilibrium in which large numbers of poor and powerless people suffer under policies that perpetuate their poverty. Relative to Africa, history and geography have made for

stronger state institutions in China, and it has no doubt helped that China did not make the mistake of believing that freer markets called for weakening those institutions. Public administrative and decision-making processes were also crucial to assuring that the state was an effective tool for fighting poverty. Evidence-based policy making has played an important role since the late 1970s. China learnt much from the successes and failures of diverse local initiatives; in effect, the center transmitted the policy lessons from one place to another, backed up by credible research on what was happening on the ground.

It is plain that the combination of sound policy making practices with strong state institutions was a key factor in China's success against poverty. And it is also clear that the two ingredients are complements, not substitutes. Less ideology helps little if state institutions are weak. China's lesson for Africa on the importance of "searching for truth from facts" in policy making will bear little fruit if Africa's state institutions remain weak.

But it must not be forgotten that Africa is 48 countries not one. There is no African central government to transmit policy lessons from one place to another. Here the international community, including China, can play an important role.

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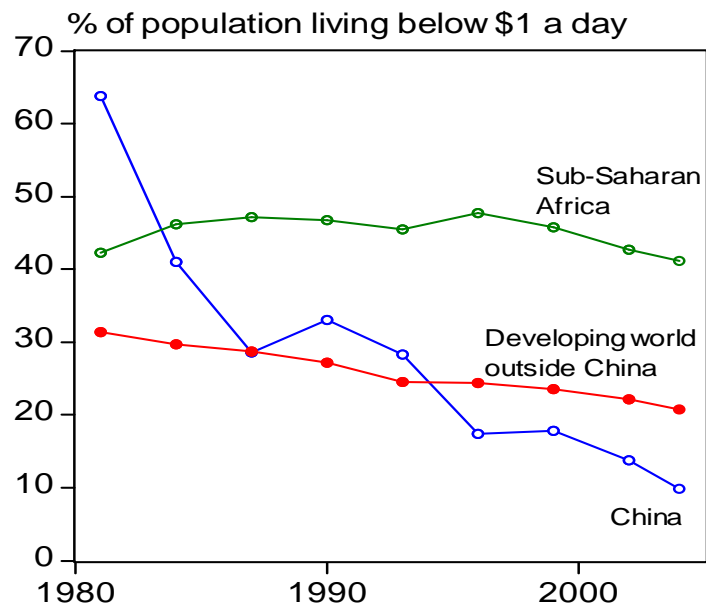
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Figure 1: Poverty rates for China and Africa, 1981-2004



Source: Chen and Ravallion (2007).

Figure 2: Income inequality in China



Source: Ravallion and Chen (2007).

Figure 3: Multiple political-economy equilibria

