

Navigating the way to development

editorial opinion **By Ben Turok**

The debate concerning the state's role in guiding the development of the South African economy has become deeper and more urgent. This issue of *New Agenda* covers this discussion from several angles, including:

- an interview with development economist Ha-Joon Chang
- an extract from President Thabo Mbeki's speech to a World Bank conference
- an overview of the policy issues facing a developmental state written by leading South African researchers, and
- an exchange of correspondence between Finance Minister Trevor Manuel and *New Agenda* editor Ben Turok.

During the recent parliamentary debate on the presidency's budget, Turok raised the following challenges:

"What are the lessons for South Africa? We have a democracy, and there is huge mass support for the ANC. This is something upon which we can rely rather than be fearful of. Firstly, we must expand the capabilities of all our people. This is a rich country; we have excellent institutions; we have massive natural resources; and we have a great deal of know-how. We must mobilise all these to a higher level, including the ordinary people of this country who have capabilities that are not always recognised.

"We must also use more state intervention. We must not be timid in this area. We have a strong state and great capabilities – let us move. Let us also plan. And it seems to me that we should not be timid about planning. There is nothing to be ashamed of. We are not talking about a command economy with central planning. But let us plan just like the private sector does – to give direction to business and to co-ordinate business. Why is it that the partnership between the state and business in South Africa isn't as it should be? Let us give more direction.

"Let us also create an effective public service, which is as strong, educated and efficient as those they had in South Korea, Japan and other countries. Let us not hesitate in this area.

"Now, we talk about a democratic developmental state and not an authoritarian one. Let us expand the capabilities of ordinary people in line with democratic practices. We talk about a bottom-up democracy. Let us implement that. Let us ensure that in every project there is public participation. In this way, we will build a healthy democratic developmental state along the lines that our president argued in front of the World Bank." ❏

New Agenda editor Ben Turok was awarded the Frantz Fanon Award for Public Discourse and Intellectual Work by the South African Students Congress (SASCO) at its 15th national congress, held at Walter Sisulu University, Mthatha, 11 July 2008.

South Africa paralysed by caution

An interview with
Ha-Joon Chang

A professor at Cambridge University, **Ha-Joon Chang** is a leading figure in the world of development economics. **Ben Turok** interviewed him at Magaliesberg on 4 June 2008

BEN TUROK: We'd like to discuss how governments can direct or relate to business for development purposes. South Korea is said to have been a model of collaboration between the state and business. What led to that and how was it possible?

HA-JOON CHANG: In the 1950s, we had a president [Syngman Rhee] who was not really interested in development. He once famously said that our country's rice shortage was because people wouldn't eat things like beef. He was Korea's answer to Marie Antoinette! He was from a very rich, aristocratic family and educated in Princeton – when most Koreans didn't even know that there was such a university.

In 1961, we had a military coup, by a group of army officers led by General Park [Chung-Hee]. Most of them, when they were young, were communists actually. They didn't have much time for capitalism, although they had to give constant lip-service to free enterprise and free markets. Because, at that time, Korea was a client state of the US. If you made any noise about communism, you'd be gone!

At the beginning of the military coup, they arrested all the major businessmen and put them in prison on charges of corruption – which held, of course, because they were very corrupt. Then, after about a month, they let them out, by making them sign a public declaration that they were going to run their business for the benefit of the country. So the pattern was set. It was always the state dictating things to these guys – although, in 1990s, things changed. But, at least in the high-growth years of the 1960s, '70s and '80s, it was always government calling the shots. They had quite comprehensive planning; they controlled all the banks.

BT: How strong was the private sector, if they could be tackled so easily?

H-JC: They were not very strong because they were not very large.

BT: It was a poor country.

H-JC: That's right. In 1961, South Korea's per capita income was \$82. In the same year, Ghana's per

capita income was \$179. It was a very poor country and therefore the businesses were very low-tech: refining sugar, making cheap textiles and selling vegetables. There were a few large textile firms, but they were basically very weak, and the coup leaders seized the opportunity and put them in their place.

Later, they grew into world-class companies and, by the '90s, they were constantly banging on the government's door, saying "we want more freedom, we want more freedom", and they finally got it. But in the high-growth period, they were more or less subordinate to the government.

One thing I must mention is that, while the government was calling the shots, it did have good communication with the private sector. It wasn't antagonising them, just trying to help them – as a kind of senior partner, if you like. It was clear who was the boss.

BT: Did they finance the private sector at this stage?

H-JC: Oh, with all sorts of things. There was lots of protection: subsidies, tax write-offs...

BT: So the government was really trying to stimulate industry and so on?

H-JC: Exactly. At this relatively low level of development, the private sector does not have enough capabilities and they are also risk-averse, so the government had to *push* them into industries like shipbuilding and automobiles. They didn't walk into that voluntarily.

The idea behind the plan was infant industry protection

BT: Who decided where they should go?

H-JC: This was partly based on consultation between the government and the private sector. It wasn't as if the government said, "We know everything. You just do what we tell you to do." They listened to the private sector and tried to find out what they needed and where their capabilities lagged, and, in the end, the government made that decision. This was done mainly by the planning ministry, which is called the Economic Planning Board, which – unlike other countries, including Japan – also controlled the budget. The finance ministry collected the taxes, and then they had to give it to the planning ministry, who basically decided.

BT: They planned the whole budget and the allocations and everything?

H-JC: Yes, yes. Of course, they worked with other ministries and listened to other people, but they controlled the budget and, every five years, published the Five-Year Economic Development Plan.

BT: What was the essence of the plan? How did it lead to the huge industrialisation that we saw?

H-JC: The idea behind the plan was infant industry protection – which happens to be the idea behind almost all the successful industrial development experiences in history, starting from 18th-century Britain, 19th-century US and Germany, and 20th-century Japan. The idea was that you will *never* develop simply by following current market signals, because the current market signals keep telling you that Korea should be specialising in cheap textiles, Korea should be specialising in making shoes. The idea was that you need to develop the capability to do difficult things that not many other countries can do. That is the only way to become rich and developed.

BT: How did Korea decide where to go and what capabilities you wanted to develop as a country?

H-JC: One thing was to watch the rich countries to try to see what they do, and another was to try to understand global trends. The reason for the success of the East Asian countries was partly excellence, but mainly by understanding international technological trends, so that they got into electronic industries before most other countries.

BT: By looking at potential world markets?

H-JC: Exactly, yes. Where are productivities growing fastest, which are the industries where the markets are expanding the fastest...

BT: But this is a quite sophisticated analysis.

H-JC: Well, yes, you need clever, sophisticated people. And it depends on how you define that, because most of the people who ran successful economic policies in East Asia were not trained economists, you know. Most of the economic bureaucrats in Japan were lawyers by training. In Korea, you had more economists than in Japan, but the lawyers were very predominant until the 1970s. In Taiwan, as in today's China, most of the leading economic policy makers are not economists; they are engineers.

It is important to get clever people, people who have good judgement, but people are often confused that we need people with PhDs in economics from MIT or Harvard, which is not the case. These are difficult judgements to make, but you don't actually need a PhD in economics to know those things.