>> POLICY BRIEF
ISSN: 1989-2667

FRIDE
FUNDACIÓN PARA LAS RELACIONES INTERNACIONALES Y EL DIÁLOGO EXTERIOR

Nº 2 - DECEMBER 2008

Can fragile states learn from the development tigers?

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According to the latest figures from the World Bank, 1.4 billion people now live in extreme poverty. While close to one billion are reported to live in the booming economies of East and South Asia, the remainder – as well as many of those who earn slightly above 1.25 dollars a day – are clustered in around 50 extremely poor countries, where economic stagnation or decline is often aggravated by the malaise, incapacity or absence of public institutions. Many other countries have escaped these extremes of poverty, only to find themselves marooned in the low to middle income band.The current financial crisis is likely to hit them hard.

The dismal or volatile economies of these nations – in sub-Saharan Africa, Latin America and pockets of Asia – can, in certain cases, be blamed on unfavourable initial conditions, such as those of land-locked nations with poor neighbours, or those of impoverished nations with abundant natural resources. But in many cases, there has been no obvious obstacle to progress. Policies and institutions have been similar to those applied by successful developers. Furthermore, post-conflict poverty in South Korea, land-locked resource dependence in Botswana, and extreme sovereign weakness and social conflict in Taiwan all constituted very tough initial conditions in countries that turned out to be among the world's fastest growing economies.

"High, sustained growth" has been achieved in 13 countries (nine of them in Asia) since 1945, according to the recent report of the World Bank's Growth Commission (see page 6). Numerous studies have explored the historical background and policy and institutional dynamics that explain these successes, concentrating on the conditions that gave rise to capable governments, dynamic private sectors and cohesive societies in unfavourable contexts. These accounts have tended to focus on the initial

HIGHLIGHTS

- The core problem in "exporting" the experience of developmental states like South Korea or Taiwan to the rest of the developing world lies in the issue of transferability.
- Fragile states, however, rely for their survival on carefully crafted deals between their various elites. The deep social and economic transformations of post-war East Asia do not appear suited to the combustible political structures of, say, the Andean region or Africa's Great Lakes.
- At the same time, developmental states have shown that active state intervention, strategic economic policies and a hands-off approach by the international community are all crucial components in kick-starting fast economic growth.
- In economic terms, neither the modern global economy nor the aid community seem ready to embrace a new cohort of poor countries working their way up the developmental ladder. Greater freedom of action is essential.

›››››› legitimacy conditions of these states, changes in the structures of governing elites, land reform, state autonomy and bureaucratic competence, institutional experimentation, the nature of state-business linkages and the circumstances that gave rise to disciplined industrial workforces.

Yet in spite of this accumulated knowledge, the focused state intervention found in the developmental success stories has not functioned in other, apparently favourable contexts, including Argentina, Mexico, Nigeria, or the Philippines. Even when the policies and institutional designs were largely identical to those of the fast growers, the results have disappointed.

THREE VIEWS OF THE DEVELOPMENTAL STATE

The core of the difficulties in generalising the experience of developmental states to the rest of the developing world can be found in the issue of transferability. There is now a general consensus that the simple transplant of public, industry-promoting institutions from a successful context to a low-income economy – particularly when it is ruled by a fragile state - is no guarantee that development can be initiated. One straightforward reason is the absence of bureaucratic expertise in many low-income countries. A further set of factors, cited by Francis Fukuyama among others, focuses on the long cultural learning process that accounts for successful development institutions, particularly when these depend for their effectiveness on being "embedded" in social and business circuits. Lastly, and most significantly, there is grave concern that state agencies with the resources and power to intervene in national economies will, in weak state contexts, repeatedly serve private or sector-based interests above those of national welfare.

In short, it is essential to know what useful policies and approaches – if any – can be salvaged from those countries that have managed to achieve hyper-growth.

One place to start is the role of a capable state in fostering development. The consensus that the state is crucial has now been consolidated into the orthodoxy of the donor community, as well as that of international financial institutions. But support for the state tends to conceal three different positions, which in turn entail distinct views as to what the priorities of the public sector in developing countries should be.

The first, that of multilateral institutions, stresses good governance, viewed in terms of the working methods of the state rather than the objectives of public policy. Standards of transparency and accountability, reflected in a non-corrupt delivery of public services, are seen here as the hallmarks of a state that can provide a reliable and secure environment for the private sector. This tends to be the modified, post-Washington Consensus vision of the state, embraced by those theorists who hold that developmental success depends fundamentally on a state's willing embrace of market capitalism.

A second perspective looks towards the autonomous evolution of state capacities as the essential feature of effective authority, insisting on the learning capacity of a public sector that enjoys a certain degree of continuity and stability, and can tailor its institutions to the country's particular growth needs. The case of India's (almost) unbroken period of post-Independence democracy is given as a key example in this regard by the economist Dani Rodrik, among others.

Lastly, and most radically, the successful developmental state can be viewed as an agent of broad socioeconomic transformation, whose actions neither conform to the agenda of good governance nor enjoy a progressive learning curve (South Korea's developmental surge in fact began with a coup). Here the emphasis is placed on political economy, and in particular on the nature of the elite consensus that upholds the state, the modes of corruption that mark the state's relationship with the private sector, and the methods through which social discontent is channelled and contained. Democracy tends not be an initial feature of such states; current evidence even suggests

M.CHARGEL/AFP/Getty Images

The slums and beaches of Rio show the extremes of a fast developer that stalled in the 1980s.

that democracy in East Asia has not always deepened as countries have grown richer.

The policy issue that emerges with some urgency from this last view of the state is the following: how can such transformative approaches be adopted by states that are already suffering entrenched interest group capture or general institutional weakness? In short, can a state simultaneously be built or rebuilt, and made into an agent of transformation?

AN ALTERNATIVE POLICY AGENDA

The definition of what constitutes the structure of a developmental state is key to any interpretation of what could be proposed as a "model" for low-income countries. Even so, it is still possible to pick out certain policy approaches that can, with exceptions, ground developmental success.

Perhaps the most important recurrent theme in developmental state literature is that of the timing and sequencing of policies. Import substitution behind tariff walls is effective in protecting "infant industries" up until the moment that unproductive interest groups are sustained; labour-intensive industry is an effective mode of development, but must at some stage be superseded by higher levels of technology; close links between the state and business can speed development up until they become the means of clan-based corruption. In short, no policy is universally effective, but rather depends on the moment of a country's development, and the contribution of the sector it supports to the cause of national development.

Even so, a number of policies would appear to be essential elements in the state-led development process. As developmental economists Erik Reinert and Ha Joon Chang have recently argued, tariff protection of industry and pricing policies can provide an impetus towards the establishment of a manufacturing base, in accordance with the approach adopted by almost all European countries in their own industrial development. The recent Growth Commission report even makes

›››››› some limited concessions to the case for trade protection. An egalitarian impulse in development policy, apparent in the land reform programmes that preceded the drive to industry in Korea and Taiwan, or the redistributive programme of post-1971 Malaysia, also appears essential to creating the conditions for a skilled and upwardly mobile workforce, as well as a wide consumer base. Recent studies also suggest a link between initial equality and capacity for growth. And lastly, careful, sequenced controls on capital flows until a country's domestic financial system is "mature" now appear crucial in terms not of speeding development, but of consolidating economic achievement. The extreme vulnerability to debt crises of Brazil and Indonesia caused major reversals in those countries' growth paths, while temporary setbacks were suffered across South-East Asia after the crisis of 1997.

CHANGING THE INTERNATIONAL CONTEXT

The new consensus on development policy encapsulates many of the insights into state-led development described above. Much of the new orthodoxy leading to the Paris Declaration on Aid Effectiveness of 2005 has stressed the role of the state, the importance of "ownership" in national development strategies, and recognition of the need for institutional learning at the national level.

Important recent contributions to the debate on donor policy have also stressed the need to return to a "hands-off" style of intervention, characteristic of the post-war Marshall Plan, in which funds are handed to the state in post-conflict or fragile environments as part of a compact aimed at building the essential capacities of the public sector, rather than to a multitude of "parallel service" NGOs and foreign donor agencies. An essential part of this vision is the reorientation of development policy towards the growth needs of the country – which depends on skilled workers and state officials, infrastructure and a manufacturing base - rather that to the poverty relief agenda of the Millennium Development Goals.

THE DILEMMAS OF RESURRECTING THE DEVELOPMENTAL STATE

The major contributions to the debate on state fragility derived from the study of developmental states, however, should not obscure the enormous difficulties in implementing this approach in unfavourable national environments and in current global conditions.

As mentioned briefly above, the traumatic socioeconomic processes of rapid development, long noted as a central characteristic of modernisation, tend not to favour the bases of social and institutional stability.

There are three separate areas of potential destabilisation which are crucial to the integrity of fragile states. The first is that affecting a country's elite, whose different factions (such as landed and urban elites, the military and the civil service) tend to be highly fragmented and adversarial. Developmental states have grounded their economic growth in the weakening of previous elites so as to enable rents and state support to be redirected towards more productive economic sectors: the subordination of the agrarian, landowning class in Taiwan and Korea preceded rapid industrialisation in both cases, whereas the 1980s crisis in Brazil's economy can be linked to the persistence of strong feudal networks of patronage and the inability to establish a broader tax base. But weak, post-conflict states in regions such as the Andes or Africa's Great Lakes depend for their survival on the harmonisation and integration of diverse elite factions; radical changes can be construed as a threat to the state's basic cohesion.

At the political level, meanwhile, the empowerment of state agencies with broad rights to intervention in the economy or security sector, in a context of chronic political and social fragmentation, constitute a grave threat to state leaders, who will opt to weaken and sub-divide security forces and state economic agencies so as to minimise the perceived risks to their authority. This political imperative of state weakening by vanguard developmental leaders has been described by the political scien-

tist Joel Migdal as the "paradox of fearing and undermining the very mechanisms [the leaders] need in order to reach their own goals"; Nasser's Egypt, post-revolutionary Mexico and Zambia are offered as key examples of this survival instinct.

Thirdly, the concentration of state power - of the sort found in the developmental states of East Asia - is an essential feature of all cases of rapid development. However, participative and inclusive democracy underpins the state and social capital in contexts of deep inequality, weak institutional legitimacy and vulnerability to external shocks. It is notable in this respect that the sharp rise in Indian growth, beginning in the 1980s, came over three decades on from the first attempt at state-led growth, at a time when Prime Minister Nehru placed his government's priority on the equal access to power of the country's fissiparous ethnic and regional groupings.

The experience of South Korea cannot simply be transferred or made to order.

ECONOMICS AND CRIME

The incorporation of highly populous countries such as India and China into the global economy has also raised acute concerns as to the possibilities for economic development of peripheral countries. Without needing to subscribe to the Marxist critique of capitalism's chronic dependence on a low-income periphery, or to the theory that globalisation necessarily limits all states' freedom to establish their own policies, it seems that the possibilities of growth through an initiation in low-skilled manufacturing industry are becoming increasingly limited.

This dilemma is particularly acute for land-locked countries in Africa and small nations neighbouring large, advanced economies. In the former, the costs of transport and investment appear to far outweigh the attractiveness to investors of very low wages, while the latter, such as in Central America and certain parts of the Caribbean, find it increasingly hard to upgrade the value-added of their manufacturing base, appearing locked in a productive base of maquila industries and commodity exports.

Poor, under-institutionalised countries that depend on their natural resource endowments, meanwhile, tend to generate over-valued currencies and poor governance, which together undermine the prospects for state-led industrialisation. The current investment climate provides few chances of escape from these economic trajectories: according to the United Nations, 70 percent of foreign direct investment in the 50 least developed countries in 2004 was directed towards resource extraction, while these countries account for only 0.2 percent of total world manufactures.

Alongside the emphasis on manufacturing, an essential part of the script for developmental state success, above all in East Asia, was the gradual, highly controlled opening of the economy, with import substitution followed by export promotion and then by the relaxation of import controls. The objective of this process was both to stimulate the consolidation of industry through favourable pricing, and to control the flows of foreign currency so as to avoid any balance of payments crises.

Many of the world's fragile states, however, are now informally integrated into the world economy through migration, remittances and illicit networks, above all in drug production and trafficking. The possibilities of shaping rapid development are thus undermined in two significant ways. In economic terms, patterns of domestic consumption and informal economic activity make it hard for the state to instigate any system of domestic preference for new industry, encourage savings, or exert control over the financial system; in short, informal circuits jeopardise the possibility of a concerted national development strategy. Politically, the entrenchment of non-state actors such as organised criminal or armed groups into political and economic life make it even more hard for the state to subdue violent opposition to its policies, and increases the likelihood of strategic pay-offs for these actors, or the

withdrawal of the state from territories or policy areas. Furthermore, it tends to encourage the most non-productive forms of rent-seeking, namely bribes to officials for failing to carry out their jobs.

INTERNATIONAL UNEASE

The 2005 Paris Declaration and other landmark documents place the state in developing countries at the heart of all future donor initiatives; in exchange, these states must agree to follow certain basic rules of good governance.

A number of doubts, however, surround the international community's commitments, and the sincerity of its pronouncements. So far, the practice of donor involvement in poor countries has tended towards a highly technocratic application of the terms of the Paris Declaration, with little evidence of a genuine political embrace of local "ownership". In addition, the very nature of developmental states - which have tended towards authoritarianism, even if such regimes are neither necessary nor sufficient conditions for state-led development to arise - contravenes the basic tenets of good governance. Indeed the transformative developmental state, as described by economist Mushtaq Khan, is inclined towards strategic rent-seeking, violation of property rights, and massive resource transfers.

For governments committed to development, such as that of Vietnam, these interventions may be valid policy tools. But the remote possibility that the government of a contemporary fragile state is engaging in these policies for the cause of greater national growth is unlikely to win over sceptics in the donor community. Even if donors genuinely wished to see more countries "owning" their developmental strategies, they simply do not have the power to generate a state's determination to develop.

Lastly, the international community is unwilling to tolerate the sort of trade protections that would nurture manufacturing in poor countries, and give weak states the chance to move up the developmental ladder by copying foreign technological advances and deepening the productive linkages in their own internal or regional markets. Despite concessions to calls for protection, the Growth Commission remains adamant that development be anchored in rule-governed open markets and legal protection of foreign investment: "Structural change under competitive pressure is what propels productivity growth".

These doubts as to the use of East Asia as a roadmap for low-income economies run by weak states are reinforced by the prime importance of national and historical context. The experience of South Korea, in other words, cannot be transferred or made to order. Important lessons, however, can and should be generated regarding the role of the state, the nature of growth policy and the correct stance of the international community. While it is true that many of today's fragile states could not withstand the turbulence of a totally development-oriented approach, the international economic, social and political environment should at least allow them the liberty to take certain steps down that path.

Success Stories of Sustained, High Growth

Economy	Period of high growth**	Per capita income at the beginning and 2005***	
Botswana	1960–2005	210	3,800
Brazil	1950–1980	960	4,000
China	1961–2005	105	1,400
Hong Kong, China*	1960–1997	3,100	29,900
Indonesia	1966–1997	200	900
Japan*	1950–1983	3,500	39,600
Korea, Rep. of*	1960–2001	1,100	13,200
Malaysia	1967–1997	790	4,400
Malta*	1963–1994	1,100	9,600
Oman	1960–1999	950	9,000
Singapore*	1967–2002	2,200	25,400
Taiwan, China*	1965–2002	1,500	16,400
Thailand	1960–1997	330	2,400

Source: World Bank, World Development Indicators.
**Economies that have reached industrialized countries' per capita income levels.*
***Period in which GDP growth was 7 percent per year or more.*
****In constant US$ of 2000.*

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