

## **BRINGING THE DEVELOPMENTAL STATE BACK IN: CONTRASTING DEVELOPMENT TRAJECTORIES IN SUB-SAHARAN AFRICA AND EAST ASIA**

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### **ABSTRACT**

The concept of the developmental state links economic, political and institutional structures and explains the remarkable performances of the North-East Asian countries. The ingredients of developmental states are often presented in the literature as determining factors in the prospects of catching-up of developing countries and as a paradigm of escaping underdevelopment. The economic stagnation of Sub-Saharan Africa is interpreted as a consequence of common characteristics and the constraints of its states, in terms of history, economy, political economy (e.g. predatory states), and global integration. The paper analyses the different dimensions of the developmental states and shows their systematic contrast with significant features of Sub-Saharan African countries: colonial economic history, international integration, determinants of growth, states' redistributive constraints and institutional capacity. Some features are shared by developmental and African states: limited redistributive capacities, external dependence, overlapping of private and public interests, rents. However, specific modes of interaction between domestic politics, institutions, and economics as well as public intervention in the economy (capacity to implement policies) have enabled certain Asian states to engage in developmental trajectories. After two decades of economic crisis and ineffectiveness of the reforms recommended by international financial institutions, most Sub-Saharan African countries are confronted with the reconstruction of the state and, on occasion, with its very construction.

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**Society for the Advancement of Socio-Economics (SASE) 16<sup>th</sup> Annual Meeting**

**Georges Washington University, Washington D. C.**

**July 9-11, 2004**

## **INTRODUCTION**

The concept of the developmental state continues to be the most fertile conceptual issue in development economics more than a decade after its formulation, for it has explained the exceptional growth performances of East Asian countries as resulting simultaneously from a specific combination of economic, political and institutional structures<sup>1</sup>. It has been, however, most often ignored by orthodox studies in development economics and viewed by quantitative analyses as belonging to political economy rather than pure economics. The Asian financial crisis of 1997-1998 has been interpreted by mainstream analyses as a confirmation of the irrelevance of the concept as well as the fragility and the limited 'developmental' character of its ingredients. This concept remains, however, seminal and especially for understanding the determinants of the economic failures of other developing countries, as well as the possible 'exportability' of its ingredients to other historical and economic contexts, such as Sub-Saharan Africa. The economic stagnation of Sub-Saharan Africa is indeed interpreted as a consequence of common characteristics and constraints of its states, in terms of history, economy, global integration, and political economy (e.g. the predatory character of its states<sup>2</sup>).

This paper explores the different dimensions of developmental states and shows their systematic contrast with a series of features of Sub-Saharan African countries, especially in terms of colonial economic history, international integration, determinants of growth, states' institutional and redistributive capacity and constraints, and credibility. Some features can be found in developmental as well as Sub-Saharan African states: e.g., low tax/GDP ratios (i.e., limited redistributive capacities and the absence of welfare states), strong dependence on external demand, foreign direct investment and investors perception, overlapping of private and public interests, the

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<sup>1</sup> A different and longer version has been presented in Beirut at the Conference 'The Model of the Developmental State and the Lebanese Experience', Lebanese Center for Policy Studies, 15-17 February 2002.

<sup>2</sup> See Robinson (1996), Reno (1998) on 'warlordism'.

reliance on rents and natural resources (in the case of South-East Asia). However, specific modes of interaction between international conditions — geopolitical interests, multinational firms' strategies —, domestic politics, institutions, and economics — as well as public intervention in the economy (e.g., capacity to implement policies) — have enabled certain Asian states to engage in developmental trajectories. Developmental states are, however, permanently exposed to the risks of changes in these contexts and new international and domestic combinations — economic as well as political — can make them deviate from virtuous trajectories. For their part, most Sub-Saharan African countries — after the shocks of the late 1970s-mid-1980s and two decades of continuous economic crisis and ineffectiveness of the reforms recommended by the international financial institutions — do not appear to be even close to the premises of the developmental state, but are rather with the problem of reconstructing the state - and in the situations of what is coined as 'state failure'.

The paper therefore examines the different dimensions of the concept of the developmental state (section 1). This concept is then contrasted with a series of characteristics of Sub-Saharan countries, particularly in the perspective of economic trajectories, the possibility of structural transformation, state credibility and redistributive capacities (section 2). Some common features are highlighted, such as external dependence. They cover, however, marked divergences in the modes of public intervention and effectiveness, the functioning of institutions and the role of political regimes (section 3). The final section examines the reforms introduced by international financial institutions and their ineffectiveness in helping Sub-Saharan countries to escape the poverty trap in which they are currently caught. At the external level, the global environment imposes increasing constraints of adaptation on domestic governments and institutions, which is compounded by, at the internal level, modes of interactions between politics and economics which differ from the ones that have allowed the emergence of developmental states in Asia (section 4).

## 1. THE CONCEPT OF 'DEVELOPMENTAL STATE'

### The well-known elements

The concept of 'developmental state' was drawn up to describe the processes underlying the spectacular growth of North-East Asian late industrialisers - Japan, Korea and Taiwan (Hong Kong and Singapore being more particular cases)<sup>3</sup>. Late industrialisers have developed very diverse industrial structures – small firms in Japan and Taiwan vs. large conglomerates in Korea. They all, however, grounded their industrialisation on learning processes and the borrowing of technology rather than on creating new products. Developmental states have relied on active development strategies, especially industrial policies – as 'entrepreneurial' states, engaged in 'creating winners' than 'picking them'<sup>4</sup>. Industrial policies have involved targeted taxation, protection, limitation of foreigner shareholding, incentives for the banking sector and firm financing, and training in technology, all built around long-term relations between political power and the private sector, as well as between banks and public and private firms (following a model of 'alliance capitalism')<sup>5</sup>.

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<sup>3</sup> Among a vast literature, after the pioneering work of Johnson (1982), White (1988), Amsden (1989), Wade (1990), Evans (1989), Aoki et al. (1997).

<sup>4</sup> Wade (1990).

<sup>5</sup> Wade (2000).

Developmental states have used heterodox economic policies, e.g., state intervention in the economy and even political rent-seeking (for the Korean *chaebols* or the Japanese *zaibatsu* and *keiretsu*), but these public policies were tuned to market sanctions, i.e. export performance. For developmental state theorists, a key feature is that in developing countries market forces alone cannot induce economic growth. State policies were ‘getting relative prices wrong’ but conditional on developmental objectives<sup>6</sup>.

Industrialisation strategies were characterised by long-term flexibility while relying on short-term, rigid, regulatory measures aimed at encouraging the strengthening of institutions<sup>7</sup>. Developmental states have given priority to the autonomy of the technocracy vis-à-vis political power, but which is ‘embedded’ in society and private sector and industrial networks<sup>8</sup>. State intervention was linked to the notion of ‘public service’<sup>9</sup>. The developmental state model is not associated with a specific type of political regime, even if it is frequently associated with authoritarian regimes<sup>10</sup>. The institutional strengthening of these states over time has stimulated economic growth, which in turn has furthered the cause of democracy. Education and training, particularly within the civil service, were key strategies, in addition to the minimal use of foreign expatriates, and an emphasis on infrastructures<sup>11</sup>. Public intervention was circumscribed and targeted on growth. Asian late industrialising countries have implemented social policies that also involve non-state entities (e.g., families, firms) and have spent little on welfare directly, while keeping the role of the state as a regulator and guarantor of the application of social welfare programmes<sup>12</sup>.

Orthodox economists, in academia or the Bretton Woods institutions (BWIs), have accepted with reticence that economic growth in East Asian countries may have been founded on state intervention, which in theory constitutes a market distortion. This was demonstrated in the well-known debates over the World Bank’s report on the *East Asian Miracle* in 1993. The debate is still going on, having been revived by the 1997-98 Asian financial crisis, which was preceded by a slowdown in economic performance in the mid-1990s. The crisis led to a re-examination of the relevance of the developmental state concept<sup>13</sup>. It was also an opportunity for the Bretton Woods institutions to reactivate the economic ‘no-miracle-occurred’ analysis<sup>14</sup> and to accuse state intervention and industrial policies of being costly, responsible for the crisis and incompatible with free trade and WTO rules. They denounced the protection of non-competitive industries, over-valued exchange rates, financing by banks instead of markets, the weak prudential framework, the ineffective symbiosis between banks and industrial firms, impenetrable corporate governance of the banking sector, and the collusion between politicians, banks and private firms<sup>15</sup>. They also criticised business networks, in particular those in South-East Asia<sup>16</sup>: the so-called ‘Asian crony capitalism’<sup>17</sup>.

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<sup>6</sup> See Amsden (1989) on Korea.

<sup>7</sup> ‘Flexible rigidities’, coined by Dore (1986) for Japan; see also Chang (1995).

<sup>8</sup> Evans (1995).

<sup>9</sup> Which reminds one of the French meaning of the term, e.g., in addition to offsetting market failures, an irreplaceable utility of the missions of the state. In this connection, France has been analysed as a particular form of developmental State; see Loriaux (1999).

<sup>10</sup> A discussion of the democratic dimensions of the concept of the developmental state is in White (198).

<sup>11</sup> Brautigam (1995).

<sup>12</sup> Mkandawire (2001b), Goodman et al. (1998); see Garrett (1999) on the comparison of government spending across the world.

<sup>13</sup> An assessment a decade later is in Woo-Cumings (1999), especially Johnson (1999), and Wade (2000).

<sup>14</sup> According to the expression of Johnson (1982, p. 7).

<sup>15</sup> Wade (1998).

<sup>16</sup> Moon and Prasad (1994), Suehiro (2001).

Before the crisis, however, most studies were praising the ‘Asian model’ of governance and the interaction between governments and private sectors, with large-scale industrial groups controlled by a restricted number of families<sup>18</sup>. Whereas they were viewed as development models before 1997, the original modes of organisation and alliance with the banks of the *chaebols* (the large Korean conglomerates) became after 1997 the archetype of bad corporate governance and corruption<sup>19</sup>. Against the IMF, the studies that still supported the developmental state concept were highlighting the volatility of international markets and investment funds, the trade and financial liberalisation that weakened the regional economies and the responsibilities of the IMF itself, the erroneous diagnosis and prescriptions that turned an initial liquidity crisis into a regional financial crisis<sup>20</sup>.

The concept of the developmental state allows for a reflection on the dimensions that have underlain the economic performance of Asian countries. A comparison of these elements with some of the characteristics of Sub-Saharan economies is an exercise that may result in pessimism over the future prospects of the latter. A small number of countries in Sub-Saharan Africa (SSA), such as the frequently mentioned examples of Botswana and Mauritius, have displayed certain ‘developmental’ features, e.g., the combination of effective institutions with original compromises between interest groups<sup>21</sup> and the coalescence of political and economic interests<sup>22</sup>. Causalities and processes are obviously complex and arguments are usually based on broad and abstract concepts, such as the “weight of the state”, ‘the impact of liberalisation’, and so on. It is vague and possibly misleading to say that the ‘state’ has promoted growth in Asia or, as is often argued by the BWIs, has hindered it in SSA. Particular economic outcomes stem rather from particular modalities and actualisations of the concept of the state, from specific historical trajectories and combination of institutions and individual expectations. States overwhelmed by individual predatory rationalities, as, e.g., in some SSA countries, have little in common with states relying on values of public service or on state-led development as a national undertaking as in Japan or Korea during the 1960s. The state may even be viewed as non-existent - the ‘statehood’ of certain territorial entities in SSA may be questioned, as they get this status only through international recognition<sup>23</sup>, e.g., that of international financial institutions and creditors (the IMF and the World Bank)<sup>24</sup>. Similarly, liberalisation *per se* cannot be blamed or glorified: it is a reform affecting pre-existing balances and combination of local institutions which, depending on the presence or absence of certain institutions, may lead to increased welfare or to economic recession or aggravated inequality, as in Russia, or uncover economic fragility (e.g. a corrupt political system), as in Argentina<sup>25</sup>.

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<sup>17</sup> Or the well-known ‘ersatz capitalism’, coined by Yoshihara (1988) before the financial crisis.

<sup>18</sup> Yusuf (2001).

<sup>19</sup> The costs of ‘connections’ between regulatory authorities, firms and influential families are now stigmatised as the ‘predictable’ causes of the collapse of financial sectors; e. g. Bongini et al. (2000), on Malaysia, Johnson and Mitton (2001); on the importance of corruption as a dimension of the ‘developmental state’ in Korea and the Philippines, Kang (2002a and b); see also, before the Asian crisis, Bello and Rosenfeld (1990), Clad (1989).

<sup>20</sup> Among a huge literature, syntheses can be found in Stiglitz and Yusuf (2001), Haggard (2000), Robison et al. (2000), Rodan et al. (2001); on the responsibility of financial markets and their intrinsic volatility, Pettis (2001).

<sup>21</sup> These factors are even recognized within the Fund, Subramanian and Roy (2001).

<sup>22</sup> Acemoglu et al. (2001b).

<sup>23</sup> Jackson and Rosberg (1982).

<sup>24</sup> For example, Liberia, Sierra Leone, Somalia, Chad, Central African Republic, Congo-Kinshasa, among others: the nature of a state may be questioned, which does not pay its civil servants for years, even the presidential guard, in principle the ultimate bastion of its security and sovereignty?

<sup>25</sup> Sindzingre (2003), Rodrik (2001c).

### Developmental states as historical entities: stability or discontinuity

States are not fixed as developmental for eternity. By conceptual construction, developmental states are associated with better economic achievements. Their various components do not, however, automatically lead to development<sup>26</sup>. The features that characterise them cannot be transposed as such to other contexts, as they refer to institutions that are shaped by particular historical trajectories. Certain elements of developmental states include inherent risks. Selective industrial policies or the interventionism of governments may end in economic failure<sup>27</sup>. The autonomy of bureaucrats vis-à-vis political power is also risky if they pursue their individual interests. This fact is an implicit critique of the orthodox notion that the independence of agencies renders them more credible - e.g., central bank independence<sup>28</sup>. Conversely, the presence of cronyism or corruption in developmental states does not lead systematically to lesser growth, as is demonstrated by, for example, the weak enforcement of property rights and corruption in China<sup>29</sup>. Neo-patrimonial states can be developmental if rents are channelled into production<sup>30</sup> and interest and ‘client’ groups do not practice a generalised and decentralised kind of predation outside the control of a centralised political power<sup>31</sup>.

The concept of the developmental state is not a timeless one; it is an historical object and with economic performances associated with it<sup>32</sup>. It may be viewed as an ideal-type, a ‘family resemblance’ concept<sup>33</sup>. It makes it possible to detect common stylised facts in the variety of strategies that may be found across developing countries, but it does not necessarily correspond to a stable conceptual object. A developmental state is not an initial endowment but an outcome of an act of construction<sup>34</sup>. As it is linked to historical contexts, its ingredients — e.g., state intervention — may not be ‘developmental’ in other settings<sup>35</sup>. A developmental state may disintegrate under the influence of various factors, such as changes in political personnel or elites, inertia in the face of international changes, or liberalisation reforms – e.g., in the case of the Korean *chaebols*, a different context has led to a discontinuous change<sup>36</sup> and a string of bankruptcies even before the 1997 crisis, while certain Korean *chaebols* already suffered from profitability problems and had collapsed<sup>37</sup>. The types of firms that were supported by the state may have been rational institutional responses at the time of their creation, but their dimension of political rent-seeking may have become detrimental to growth over time, as was the case with the *zaibatsu* and *keiretsu* in Japan<sup>38</sup>. Elements of predation are always present but they may be limited by various safeguards: types of political power, institutions, education, and so on. Modification of equilibria may, however, make it so these

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<sup>26</sup> Loriaux (1999) on the case of France.

<sup>27</sup> Lall (2000).

<sup>28</sup> On this issue, among many others, see Alesina and Summers (1993) or Cukierman and Webb (1995).

<sup>29</sup> Rodrik (2001c).

<sup>30</sup> As shown by Bhagwati (2000) and Baumol (1990) on ‘productive’ vs. ‘unproductive’ rents.

<sup>31</sup> On the devastating effects of decentralised, vs. centralised corruption, Shleifer and Vishny (1993).

<sup>32</sup> Chang and Evans (2000).

<sup>33</sup> According to the well-known concept developed by Ludwig Wittgenstein.

<sup>34</sup> Rodrik (1996).

<sup>35</sup> See the doubts expressed by Beeson (2003).

<sup>36</sup> I.e. a ‘catastrophe’, a radical discontinuity, in the mathematical sense, see Feenstra et al. (2001) on the role of *chaebols* in the financial crisis.

<sup>37</sup> Joh (2001).

<sup>38</sup> Morck and Nakamura (2003).

elements resurface and destabilise the developmental foundations<sup>39</sup>.

A divergence between the developmental states of East Asia and patrimonial states of SSA is due to the historical context of their emergence and hence their prospects for catching up. For the North-East Asian countries after the Second World War and Korean War, global economic opportunities have appeared relatively open. The industrial strategies that were then possible appear now more difficult for the latecomers because of generalised world competition and openness – though the South-East Asian countries increased their share in the world economy (tropical exports and FDIs) after 1965, albeit with great variations between countries<sup>40</sup>. SSA latecoming economies are under the double pressure of trade and financial liberalisation as well as ‘global governance’ (the Bretton Woods institutions and the WTO rules), even though certain strategies relating to technology are still possible<sup>41</sup>. The global environment has obviously changed, with developed countries now tending to ‘kick away the ladder’ vis-à-vis poor countries<sup>42</sup>. SSA countries have implemented the rules of WTO and reforms of the BWIs, opened up their economies, and implemented liberalisation and privatisation, but growth has not occurred<sup>43</sup>. Other global and domestic factors have had adverse effects, which call into question the relevance of integration into world markets as a standard reform. As the WTO itself acknowledges with reference to Uganda<sup>44</sup>, whereas the aim of donors’ programmes was poverty alleviation and diversification, economic performance and export competitiveness was negatively affected by high production costs, declining terms of trade, climatic conditions, non-tariff barriers in export markets and the appreciation of the Uganda shilling.

The 1997-98 Asian crisis brought about a change in thinking on the roles of the state in developing countries. After having reluctantly acknowledged in the early-1990s the beneficial effects of state intervention in the growth of Asian countries, the BWIs took their revenge in 1997 by attributing the financial crisis to the model adopted by Asian states – e.g., interventionism, clientelist relations with their private sectors, and ‘crony capitalism’. In the context of the increasing risks of world market failures, the BWIs have subsequently justified their legitimacy via the theory of “global public goods” –e.g., global economic and financial stability, improved environment and health, for which market forces, individual states and private agents can only provide sub-optimal responses while international institutions assert they are in a better position to do so.

## 2. CONTRASTING DEVELOPMENTAL STATES AND SUB-SAHARAN ECONOMIES

### The resilience of dependence

A common feature of Asian developmental and SSA states is their dependence on external trade — on the imports, FDI strategies and growth of developed countries —, even if the Asian states have relied on export-led growth, whereas SSA has on import-substitution policies. Whether they export primary commodities or electronic components, they are all at the mercy of the economic conjuncture in the three major global markets: the USA, Japan and Europe. As numerous UNCTAD

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<sup>39</sup> Cumings (1999); on predatory regimes, Evans (1992).

<sup>40</sup> Booth (nd).

<sup>41</sup> Amsden (2000); on the late-industrialising economies (the ‘rise of the rest’), see Amsden (2001).

<sup>42</sup> According to the appropriate expression of Chang (2002).

<sup>43</sup> UNCTAD (2000).

<sup>44</sup> WTO website, Uganda Trade Policy Review.

studies have shown<sup>45</sup>, the Asian and SSA states are subjected to the similar negative impacts of the fallacy of composition: volatility and decline in world prices in the event of over-supply and inelastic demand and competition between low-income countries, which affects not only primary commodities but labour-intensive cheap manufactured products as well<sup>46</sup>. Vulnerability and dependence highlight the necessity of constant progress in technology intensity in exports in order for the developmental states to remain within the path of sustainable growth.

A key difference between SSA states and developmental states in the 1960s is the volatility and deterioration in the terms of trade for the former, particularly since 1980s, estimated in some sources at 36% during the period 1980-92<sup>47</sup>. Commodities volatility has markedly increased since the period preceding the economic take-off of developmental states in the 1950s and 1960s<sup>48</sup>; in any case East Asian states such as South Korea and Taiwan were not mainly producers of primary commodities, and were therefore not locked in to this category of exports. Prices of primary commodities have declined relatively to those of manufactured products during the last two decades: fixed at 100 in 1990, the price index of agricultural commodities was 208 in 1960, and 90 in 2002, while the petroleum index has been highly volatile: 34 in 1960, 19 in 1970, 205 in 1980, 57 in 1998, 127 in 2000 and 113 in 2002<sup>49</sup>. As is well-known, the first Asian developmental states integrated into the world economy through export-led growth and specialisation in specific sectors of manufactured goods. Despite two decades of reform since the first IMF stabilisation programmes in the 1980s, SSA countries have not escaped from the colonial model of the 'small open economy'<sup>50</sup>, nor have they diversified their exports from tropical commodities or oil. Though the share of manufactured products has increased (20% of total exports in 1990 and 33% in 2001, vs. 59% and 80% respectively for the East-Asia-Pacific<sup>51</sup>), SSA exports still consist mainly of oil (54.7% of exports in 1997, 75.6% in 1980) and of non-petroleum primary commodities (26.6% in 1997, 19.7% in 1980<sup>52</sup>).

Moreover, the number of exported products is very limited – the bulk of exports sometimes consists of only one product, e.g., cotton in the case of Mali, uranium in Niger (before the price collapse), and so on. At the beginning of the 20<sup>th</sup> century, Senegal produced 141 000 tons of groundnuts, which represented 68% of its exports in 1929, and 80% in 1960. At the end of the 20<sup>th</sup> century this commodity was still its principal export, but with the conditions of peasants having deteriorated because of structural adjustment and the liberalisation of the provision of fertilisers<sup>53</sup>. In 2000, producers of tropical beverages suffered from the lowest prices for over a generation<sup>54</sup>. Furthermore, SSA countries have not, unlike low wage Asian countries, succeeded in encouraging the relocation of multinational firms in labour-intensive sectors, despite very low labour costs in SSA (which has the lowest wage scale in the world). Whatever the occupation, wage levels in SSA in the modern sector are among the lowest in the world (i.e. in Lagos and Nairobi in 2003<sup>55</sup>), even

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<sup>45</sup> See for instance UNCTAD (2003).

<sup>46</sup> Mayer (2002).

<sup>47</sup> Collier and Gunning (1997, p. 12).

<sup>48</sup> Reinhart and Wickham (1994).

<sup>49</sup> World Bank, *World Development Indicators 2001*, table 6.4, and *World Development Indicators 2003*, table 6.4.

<sup>50</sup> Elaborated by Hopkins (1973).

<sup>51</sup> World Bank, *World Development Indicators 2003*, table 4.5.

<sup>52</sup> UNCTAD (2001b, table 9).

<sup>53</sup> Freud (1988, p. 73).

<sup>54</sup> World Bank (2001, p. 151).

<sup>55</sup> Only Karachi and Mumbai displayed lower wages; see the annual earnings survey made by the Union de Banques

lower than in India in the 1990s<sup>56</sup>. Moreover, real wages have fallen in certain countries since the mid-1970s, an example being Ghana<sup>57</sup>. Attempts to create export-processing zones (e. g. in Senegal and Togo) have failed, however, because of low productivity, the low standard of education and political economy factors – (countless obstacles to setting up firms, bribes, and arbitrariness of legal decisions).

### Capital flows

Divergences emerged early in several domains, such as the nature and levels of capital flows. International capital flows have not been of the same nature since the 1982 debt crisis. Prior to 1982 and the slump in commodity prices, in addition to the fiscal crisis of the end-1970s, SSA received private capital but in a series of niches: mining, large public infrastructure, and industries developed from import-substitution policies. The credibility of SSA states vis-à-vis international investors has been increasingly affected: investors now require a high profitability rate and in proportion to their perception of the risk of SSA countries - which in theory should make them more attractive for international investors seeking to diversify their portfolio<sup>58</sup> as investment returns are significant<sup>59</sup>. Yet global competition for attracting investment make institutional investors increasingly selective, examining the macro-economic fundamentals, the export structure (primary vs. manufactured products)<sup>60</sup>, and geographical factors. In contrast with Asian states, SSA countries cannot take advantage of neighbouring economies that could be vectors of regional growth<sup>61</sup>. The exception is South Africa, which indeed does invest in neighbouring countries and leads the various regional groupings (SADC, SACU), while Nigeria continues to be trapped in political crisis. The region is perceived as a high-risk zone<sup>62</sup>.

Since the end of the 1970s capital flows have mainly taken the form of multilateral and bilateral official development assistance (ODA) in SSA, and of private flows in Asian developmental states<sup>63</sup>. SSA is the most assisted region in the world; in 2002 it received 32% of total development assistance<sup>64</sup>. Some SSA countries are over-dependent on external aid, which may represent a significant share of investment budgets. Aid represented 39% of SSA gross capital formation in 1994, declining to 23% in 2001 (1.4% and 1.3% respectively for the East-Asia-Pacific region)<sup>65</sup>. Aid flows are sometimes more important than government fiscal revenues<sup>66</sup>. Aid dependence varies according the country and corresponds to political choices. Aid accounted for 28% of Mozambique's GNI in 2001 (33% in 1996), 32% in Guinea Bissau, 41% in Eritrea, 16% in Burkina

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Suisses (UBS) (2003).

<sup>56</sup> Wages calculated in PPP: in 1994, an engineer in Nairobi earned 7 times less than his counterpart in Frankfurt, and 4 times less than its counterpart in Bogota; a skilled worker in industry 10 times less and 4 times less respectively; see World Bank (1995a, p. 4).

<sup>57</sup> World Bank (1995b, p. 17; on the Ghanaian context, Sindzingre (2000b).

<sup>58</sup> Erb et al. (2000).

<sup>59</sup> As shown by Bhattacharya et al. (1996).

<sup>60</sup> Haque et al. (2000).

<sup>61</sup> Easterly and Levine (1998).

<sup>62</sup> Collier and Gunning (1997), Collier and Patillo (2000).

<sup>63</sup> Nissanke (2000).

<sup>64</sup> DAC (Development Assistance Committee), net aid by region 2002, DAC website.

<sup>65</sup> World Bank, *World Development Indicators 2001*, table 6.10.

<sup>66</sup> Thus, in 1993, French assistance to Niger exceeded fiscal revenues, and in Chad, it represented 165%, Fuchs (1995, p. 20).

Faso, but only 0.5% in Nigeria<sup>67</sup>. Aid dependence functions as a significant constraint on the emergence of the basic developmental state elements, due to the double volatility of government budgets (and hence instability of economic policies), i.e. volatility stemming from fluctuations in the prices of exported commodities and that of aid, which rely on the mood of external donors (and which may even be more volatile and unpredictable than commodity prices<sup>68</sup>). This is worsened by the lack of co-ordination between donors. ODA declined sharply during the 1990s, in both relative and absolute terms<sup>69</sup>, but was not replaced by private flows.

Bilateral donors often condition aid flows to the use of equipment and technical assistance provided by the donor country (23% of public bilateral aid was tied in 1998, and in 2002 11% for the DAC countries excluding technical assistance)<sup>70</sup>. At the micro-economic level, the many foreign technical assistants repatriate their income to their country of origin, so that even if aid is untied, it has a negative economic impact in the recipient countries – though a positive one for the donors in terms of their own job creation. SSA debt structure confirms the increasing power of aid agencies, especially that of international financial institutions, which have become the main creditors. The international credibility deficit of SSA is so high that despite the efforts of the BWIs, attempts to establish financial markets and stock markets remain disappointing, handicapped by their limited liquidity and accounting for less than 10% of the GDP in some countries (with the exception of South Africa). On the other hand, stock markets capitalisation accounts for over 100% of the GDP in some Asian countries<sup>71</sup>.

Banking intermediation also represents a constraint on the emergence of developmental elements. The banks are mainly subsidiaries of foreign groups, French or British, and it is above all the formal foreign firms that resort to banking services<sup>72</sup>. In West Africa, for example, banks have limited their intermediary functions since the mid-1980s, after the crisis over the accumulation of non-performing loans and bankruptcies of most of the public development banks (for agriculture, industrial credit, housing, etc) that had been set up at independence. These banks were plagued by political clientelism, the fall in the terms of trade of the primary commodity<sup>73</sup>, and the conditionalities of the BWI's programmes that led to the banks' liquidation<sup>74</sup>. Private banks are therefore very cautious and no longer take any risks; in particular, they do not lend to small and medium-sized local firms. In the West African Franc zone, banks are in a position that is paradoxical for developing countries in that they are over-liquid and invest their assets in the monetary market of the zone.

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<sup>67</sup> This is obviously, but partially, explained by its size; World Bank, *World Development Indicators 2003*, table 6.10; see Gabas and Sindzingre (1998).

<sup>68</sup> See Bulir and Hamann (2001).

<sup>69</sup> All kinds of official funding for development, totaling 65,5 billion US\$, showed in 2000 their lowest level since 1990, and net private flows, at 117 billion US\$ were at their lowest level since 1993, with a sharp drop in equity flows, as investors retreated from emerging markets, according to the DAC (DAC website, final ODA figures for 2000).

<sup>70</sup> DAC 2002 figures, DAC website; see also Jepma (1991).

<sup>71</sup> E.g. Malaysia, and the city-states, Hong Kong and Singapore, but, significantly, not in the developmental states that protected their financial markets, e.g. Korea.

<sup>72</sup> Nissanke (2001), shows the contrast between financial systems in SSA and Asia, based on financial repression and institutional arrangements avoiding the short-termism of Anglo-American systems; on WAEMU, see the website IZF ("investing in the Franc Zone")

<sup>73</sup> A review of the financial sectors in SSA is in Mehran et al. (1998).

<sup>74</sup> Benin found itself completely deprived of banks in 1989, and all activities became more or less informal without its standard of living actually being affected; see Sindzingre (1995).

In contrast, Asian developmental states were supported by high savings rates. SSA is characterised by a low savings rate and which has been declining since the 1980s – (14.5% of the GDP during the decade 1989-1999, compared to 19.3% for the period 1975-1979, excluding South Africa). During the same period, the investment rate dropped from 23.1% of the GDP to 18.2%<sup>75</sup>. As is well known, the SSA share of the global stock of foreign direct investment (FDI) declined from 5.3% in 1980 to 2.3% in 2000: there has been an increase in the volume of FDI flows to SSA, but which has not kept pace with flows to the other regions of the world<sup>76</sup>. The concentration of FDI is very uneven across SSA countries and within countries as well; it is sometimes similar to the enclaves of colonial ‘*comptoirs*’. FDI only flows to a limited number of oil-producing and mining countries (e.g., Angola and Nigeria). FDI is not intrinsically positive and may have a negative impact in poor and small countries, e.g. the crowding out of domestic investment — which was not the case in Asia<sup>77</sup> —, appreciation of exchange rates, and exploitation of existing endowments<sup>78</sup>. FDI may also correspond to privatisation, which almost by definition leads to windfall gains<sup>79</sup>. FDI may reflect ‘deals’ pushed by profits, high risks, the poor reputation of SSA, lingering colonial ties, illicit networks, civil wars and the erosion of institutions or civil services (corrupt police and porous borders)<sup>80</sup>. As shown by the map of FDI flows, they do not constitute the criteria of developmental states, even if economic theory underlines their contribution to growth. In SSA, FDI may flow toward countries run by dictatorships, in the midst of a civil war or suffering from notorious corruption, as well as towards economies classified as Least Developed Countries, such as Chad and Angola<sup>81</sup>.

### Taxation and state intervention

Developmental states in East Asia relied on the state intervention for the industrial ‘catch up’, but this interventionism did not mean large public sectors and ‘big governments’ (as in the Western welfare states). Their tax to GDP ratio is rather low, even lower in average than in SSA (in 1990 and 2000, current revenues in the East Asia-Pacific region averaged 12 and 11% of the regions’ GDP). The developmental dimension of the state refers to the quality of the bureaucracy and its effectiveness in supporting the industrial sectors that meet export performance criteria, as in South Korea. In SSA the ratio of taxation to GDP - the ratio of public revenues to GDP – averaged 23.5% in 2000, e.g., 16% for Côte d’Ivoire, 16% in Cameroon, but 44% (1997) for the country said to be the most ‘developmental’, Botswana. These ratios approach half the GDP in some European countries: 36% for the United Kingdom, 39% for Sweden, and 44% for Belgium. The United States, where certain sectors are entrusted to the market that are handled by the state elsewhere, has a lower level (21.5%)<sup>82</sup>. According to the so-called ‘Wagner law’, transfers and the weight of the state in the economy as a recycling device increase with the standard of living, a low GDP per capita being associated with a low level of taxation.

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<sup>75</sup> UNCTAD (2001b).

<sup>76</sup> See Basu and Srinivasan (2002).

<sup>77</sup> Agosin and Mayer (2000).

<sup>78</sup> UNCTAD (1998).

<sup>79</sup> As Ashanti Goldfields privatisation in Ghana.

<sup>80</sup> Sindzingre (2002).

<sup>81</sup> In the LDCs group, on the period 1986-1999, the first recipient countries of FDIs in absolute amounts were Angola, Myanmar, Lesotho, and Sudan, UNCTAD (2001a, table 3).

<sup>82</sup> World Bank, *World Development Indicators 2003*, table 4.11 and *World Development Indicators 2000*, table 4.13.

The problem in SSA is that taxation — and hence fiscal revenues — derives from levies on external trade rather than on domestic taxation (on income or value added). In 1990 SSA was the region in the world that derived the highest proportion of its current revenue from taxes on international trade: 35% in 1980 and 27% in 1990, compared to almost zero for European countries (1% for the United States), with taxes on income and profits in SSA only accounting for 23% of the total (e.g., in 2000 taxes on international trade represented 77% of the revenue in Guinea, 40% in Côte d'Ivoire, 52% in Madagascar, and 48% in Uganda). The richer the country, the more the extractive capacities of state are based on taxes on income, property and services, and on social security contributions. In the United States, taxes on income, profits and capital gains, and social security taxes amounted to 81% of its total current revenue in 2000<sup>83</sup>.

Commodity price volatility may therefore have a dramatic impact on public revenues, as shown by oil-producing countries, which after the 1986 shock had to suddenly and drastically cut their budgets (e.g., Gabon and Nigeria). It is obviously difficult to handle budgets that may vary by as much as 100% within a fiscal year or from one year to another, and which are unpredictable given their dependence on international price fluctuations: in Nigeria petroleum revenues represented 82% of total revenues in 2000 and petroleum exports 96% of total exports of goods<sup>84</sup>. In Zambia, trade taxes represented 4.6% of GDP in 1998; with extraction royalties, 27% of total revenue<sup>85</sup>. In Côte d'Ivoire, BWI conditionalities reduced the levies on cocoa and coffee to 2.5% of GDP in 1999, i.e. 13% of total revenue<sup>86</sup>. The BWIs have sometimes proposed off-budget accounts as a solution (as in Norway or Cameroon<sup>87</sup>). The local political economy (e.g., predation), however, may transform it as an instrument for corruption and capital flight.

The redistributive and social capacities of states that recycle only about 10% of the national wealth are obviously limited. In the context of predatory and redistributive clientelist politics, and in the absence of developmental objectives at the highest political level and of an 'autonomous' bureaucracy committed to these objectives, these limited capacities challenge the credibility of the state vis-à-vis the citizens. They challenge its capacity to promote developmental or industrial policies as well, particularly costly policies such as the building of infrastructure or selective subsidies. In absolute terms wealth is very limited since most SSA states are classified among the poorest countries in the world, with a GDP per capita that is lower than \$900<sup>88</sup>. Despite the vagueness of this concept, moreover, state redistributive capacities are limited by the importance of informal sectors. The so-called modern sector only provides 10% of jobs, and in the mid-1990s formal employment only accounted for about 3% of employment in industry and 9% in services<sup>89</sup>. The informal sector often contributes as much as half of the GDP and of employment — as in Tanzania's urban sector, where it represents one third of the GDP in the secondary sector, and half of the GDP in the tertiary sector in Senegal<sup>90</sup>. Informalisation seems to have increased after the 1980s in some countries with stabilisation and structural adjustment programmes.

The limited developmental dimension of SSA states is not compensated by a dynamic private

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<sup>83</sup> World Bank, *World Development Indicators 2003*, table 4. 13.

<sup>84</sup> International Monetary Fund, *Nigeria: Selected Issues and Statistical Appendix, Country Report 01/132*, 2001, p. 4.

<sup>85</sup> International Monetary Fund, *Zambia, Statistical Appendix*, 2001, table 11.

<sup>86</sup> International Monetary Fund, Côte d'Ivoire, *Article IV Consultation, Country Report 1/168*, 2001, table 3.

<sup>87</sup> See the analysis of temporary export windfall in Bevan et al. (1990, chap 4).

<sup>88</sup> One of the criteria of inclusion into the category of LDCs, being 49 in 2000.

<sup>89</sup> Adenikinju and Oyeranti (1999).

<sup>90</sup> Data of 1995 and 1991 respectively, Ngoi (1997), Fall (1997).

sector, which post-independence governments did not support for political economy reasons, as they felt threatened by its autonomy. The type of private sector that was accepted had to comply with the patronage rules. The share of the public sector to GDP is still high after two decades of adjustment. SSA gross public investment has been stable at around 6% of GDP over the 1990s and around half of gross private investment (which increased from 8.7% of the GDP in 1980 to 12% in 2000<sup>91</sup>). Domestic credit to the private sector represented 65% of the GDP in SSA in 2001, compared with 110% in East Asia, and 137% for the high-income countries – but 24% in Latin America and the Caribbean and 47% in the Middle East<sup>92</sup>. In contrast with developmental states, SSA governments may be ‘entrepreneurial’ but mainly in a public ownership and control framework (state-owned enterprises), and they do not give priority to the national private sector. More subsidies and exemptions were granted to the foreign private sector after independence (e.g., in Côte d’Ivoire). This is still the case four decades later with the opening of economies, globalisation and competition between countries to attract international capital with a variety of tax exemptions<sup>93</sup>. Local banking sectors do not give priority to the national private sector either. For example, in Côte d’Ivoire in 1993 most banks only gave loans to foreign companies (de facto French). Yet the weight of the public sector is relatively weak in SSA. Contrary to a conventional wisdom that looks at their low levels of fiscal revenue, SSA states do not have over-sized civil services. The two countries said to have developmental features - Mauritius and Botswana - have higher public employment ratios than the SSA average (known for 20 countries): 5.5% and 5.8% respectively, compared to 1.5%<sup>94</sup>. The number of civil servants in relation to the total population is low, and has sometimes even fallen since the stabilisation programmes in the 1980s.

### Trade openness

In economic theory, trade openness boosts economic development, but it is not a sufficient factor, particularly in the poorest countries where initial conditions are unfavourable – e.g., those that are landlocked have poor infrastructure. Countries show large variations in the relationship between trade openness and growth. At some period in history, certain ‘closed’ countries have had higher growth rates than ‘open’ countries (with measures based on trade policies, i.e. tariff and non-tariff barriers)<sup>95</sup>, as shown by the examples of Latin America before WWI<sup>96</sup> or of India and China, or of the counter-example of an open, impoverished country like Haiti<sup>97</sup>. The SSA region has a high level of openness, stemming from the model of the post-colonial ‘small open economy’ characterised by low value added and exports of primary products. According to a World Bank study, the trade openness ratio in SSA - exports and imports/real GDP - was 39% during the years 1988-90 and 42.9% during the years 1998-2000 (in South Asia, 19.7%, in Latin America-Caribbean, 51.5% and in East Asia-Pacific 67.2%<sup>98</sup>), and in 2002, this ratio is above the world average (20%) in SSA, with the ratio of exports/GDP being 30%. The Asian city-states of Hong Kong and Singapore, which are tantamount to regional warehouses, obviously have a higher ratio, with exports representing over

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<sup>91</sup> World Bank, *African Development Indicators 2002*, tables 2.9 and 2.10.

<sup>92</sup> World Bank, *World Development Indicators 2003*, table 5.1.

<sup>93</sup> Rodrik (2001b).

<sup>94</sup> Sindzingre (2001), Goldsmith (1999).

<sup>95</sup> Rodriguez and Rodrik (1999).

<sup>96</sup> Clemens and Williamson (2002).

<sup>97</sup> Wade (2001b).

<sup>98</sup> World Bank (2001, appendix 1) and World Bank (2004, appendix 1).

200% and 150% of their GDP respectively. Korea and Taiwan are less open, their exports representing about half of the GDP, but these countries have their own domestic markets. This latter feature represents a significant developmental factor that has enabled private consumption to cushion external shocks connected with the open economy and export-led growth models.

On the other hand, SSA countries are characterised by extremely small domestic markets, which explain the sluggishness of investment in the sectors of consumption goods (e.g., car assembly, household appliances, etc), due to poverty and low purchasing power, as well as political economy factors such as the multiple obstacles to the circulation of goods and people at borders - corruption, poorly maintained infrastructures and prohibitive transport costs<sup>99</sup>, historical state rivalries (a legacy of colonialism) and competition rather than economic complementarity. SSA countries produce similar primary commodities, which is a disincentive to regional trade - stagnating at a very low level and mainly informal -, and they export mainly to former colonial powers<sup>100</sup>. This is in contrast with the protection of certain sectors, especially financial, that accompanied development in North-East Asia. The elimination of this protection due to liberalisation, introduced under pressure from international financial institutions, was one of the factors behind the crisis of 1997-98<sup>101</sup>.

### **Developmental states, taxation, redistribution and social policies: the issue of credibility**

In the political domain a number of SSA states are characterised by personal rule, which is sustained by its capacity to redistribute, redistribution functioning here as a norm of justification and legitimisation. Criticisms levelled at governments during the democratisation processes in the 1990s — and at erstwhile BWI technocrats turned politicians — have often centred on the fact that they redistribute less than did the leaders of the early post-independence era (e.g. in Benin). Redistributive policies are confined to groups of clients, which is the very definition of clientelism. This political vicious circle, in which clientelism and the absence of democracy mutually strengthen each other, makes it difficult to focus on developmental objectives. A key criterion of divergence from developmental prospects is the low level of publicly-provided social security, as shown *a contrario* by western democratic welfare states, which are founded on a political conception of equality and social security. The capacity to ensure redistribution is essential, as it is the basis of state credibility, regulates inequalities and social conflict, and consolidates the middle classes. The ‘taxation trap’ therefore has a detrimental effect, with the lack of credibility resulting in a low level of taxation and a weak redistributive capacity. The absence of developmental states in Latin America may be explained by high inequality and oligarchies that impede social mobility (e.g. by preventing access to education)<sup>102</sup>. The credibility of norms relating to states and political legitimacy are therefore strongly tied to taxation: to its level, the sectors subjected to it, and to the pattern of redistribution.

The existence of a middle class has an important economic as well as political economy dimension. Developing countries typically have small middle classes compared to rich countries<sup>103</sup>. A vast

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<sup>99</sup> Amjadi and Yeats (1995); it is well-known that for persons and goods, it is sometimes easier to travel via Europe if one goes from one SSA country to another.

<sup>100</sup> Clear examples are the tensions between Ghana and Côte d’Ivoire immediately after their independences, Sindzingre (1996).

<sup>101</sup> Chang and Yoo (2000).

<sup>102</sup> Bourguignon and Verdier (2000).

<sup>103</sup> Milanovic and Yitzhaki (2001).

economic literature has shown that high polarisation is an obstacle to growth<sup>104</sup>. In SSA, the middle classes shrunk even further after the economic recession and structural adjustments of the 1980s and beyond, which froze civil service employment and exposed to greater international competition the formal industrial sectors that were previously protected and based on import-substitution. Empirical studies have found that a higher share of income for the middle class and lower social polarisation are associated with higher income, higher growth, more education, better health, infrastructures and economic policies, more political stability and democracy<sup>105</sup>, as well as lower fiscal deficits and instability<sup>106</sup>. Confirmed by cross-country econometric studies<sup>107</sup> a low level of inequality is, analytically speaking, associated with higher growth in both directions, brought about through greater access to credit and education, and a higher probability of individuals participating in the activities of the community in homogeneous societies with low degrees of polarisation and/or social fragmentation (in terms of income, discrimination, and so on). Developmental states, however, demonstrate that lower levels of inequality are not necessarily linked to specific forms of political regimes (for example, democracy is not necessarily a prerequisite, as was demonstrated by the authoritarian regimes that have accompanied growth, as in South Korea<sup>108</sup>). Societies that are more egalitarian and with highly educated middle classes will, however, increase the probability of democratic claims.

In developmental states social policies have contributed to reducing inequalities, as they have enhanced the credibility of welfare states in the European social democracies, e.g., France and Great Britain<sup>109</sup>. Asian developmental states made political use of the provision of social welfare. Governments built up social policy institutions and welfare programmes not only because of the international context but also for domestic political motives, i.e. strengthening their legitimacy and building political support, as in the case of South Korea<sup>110</sup>. In SSA, personal rule and the instability of political regimes have not incited post-colonial leaders to make efforts to improve equity. Rather, weak legitimacy and patrimonialism – the assimilation of political positions with private economic resources - have functioned as incentives to prevent development — particularly private sector development — when this implied an autonomous accumulation that could easily become a political treat. Welfare, equity, and social policies have little relevance if the political priority is to stay in power with the support of patronage systems. In SSA the mode of allocation of resources does not reinforce state credibility. For example, public expenditure on health represented an average of 2.3% of GDP in the 1990-1997 period (1.6% outside South Africa), e.g., 1.2% in Burkina Faso, 1.2% in Côte d'Ivoire, and 0.7% and 1.9% respectively in oil-producing Nigeria and Gabon<sup>111</sup>, compared with 8.6% of the GDP in Germany, 7.4% in France, 6.6% in the United States in 2002. South Korea's public spending on health was 5.3% of GDP<sup>112</sup>. Developed countries devote about 5% of their GDP to public education; despite unreliable statistics and wide variations, the figures are in the same range in SSA countries. The percentage of expenditure on education in

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<sup>104</sup> Alesina et al. (1997) on the allocation of budgets; Woo (2000).

<sup>105</sup> Easterly (2000a).

<sup>106</sup> Woo (2003).

<sup>107</sup> Alesina and La Ferrara (1999).

<sup>108</sup> And unbalanced growth more in favour of the large *chaebols* than the small enterprises, see Park (2003).

<sup>109</sup> This is shown by many works by Atkinson, e. g. Atkinson (1999).

<sup>110</sup> Kwon (1999); Yang (2000).

<sup>111</sup> On the period 1990-96, World Bank, *African Development Indicators 2002*, table 13.12.

<sup>112</sup> OECD, *Statistics on the Member Countries*, 2004, OECD website.

the total expenditure budget does not exceed 20%<sup>113</sup>.

In the absence of social security institutions created by a third party — i.e. the state —, individuals have to organise social security themselves, through norms governing exchanges and circuits of reciprocal rights and obligations. The coalescence between these two sources of social security — public and individual — is a key developmental dimension. In Asia social security is provided by a combination of the state, market and family structures – which link the first two and also function as production units and safety nets<sup>114</sup>. Despite the economic success of the four ‘dragons’, the Asian social policy ‘model’, constituted by family support and completed by public policies, is not an alternative to the European social model, as there is also a demand for a welfare state in these countries<sup>115</sup>. Neither the market nor the state alone can provide a solution to the problems of efficiency and equity faced by the social sectors of poor countries<sup>116</sup>. The coalescence between the family structures and public institutions of developmental states has been described as a ‘productivist’ welfare regime in which social policies are subordinate to objectives of economic growth and economic policies<sup>117</sup>.

This contrasts with the discontinuity in SSA between public social security, usually reserved for the formal sector (public and private), and that provided by the so-called informal sector. SSA societies are characterised by fissiparous structures (‘segmentarity’) and a limiting of the norms of trust and reputation to particular groups and networks, which tend to exclude the non-members<sup>118</sup>. Networks in SSA are more fragmented than their Asian equivalents<sup>119</sup>, and their effects are efficient within small exchange circuits, limiting the space of transactions and the potential for development<sup>120</sup>. A vast literature has compared these constraints with the productive dimensions of the Chinese networks in Asia<sup>121</sup> and their specific contractual arrangements permitting the continuation of efficient networks in terms of accumulation and preventing free-riding effects in market environments. In SSA, since the state provides limited social security, only the possession by an individual of a ‘stock’ of claims over other individuals can provide insurance and make it possible to be covered against risk and uncertainty — e.g., sickness or unemployment — because of the *longue durée* instability of the economic and political contexts<sup>122</sup>. Local norms institute mechanisms whereby individuals are included in circuits of rights and obligations, supplying time, goods and money from the richest to the poorest. The norm obliging the richest to redistribute does not entail in SSA an enforceable obligation for the recipient individuals to provide work in exchange<sup>123</sup>, in contrast with Asian contexts where different norms incite ‘social debtors’ on the labour market and work in exchange for assistance. Individuals insure themselves against risks by investing in these circuits, creating social debts and expecting returns, but in SSA their anticipation is itself risky

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<sup>113</sup> On the period 1993-97, except Botswana and Kenya, World Bank, *African Development Indicators 2002*, table 13.21.

<sup>114</sup> Gough (2000a).

<sup>115</sup> Goodman et al. (1997).

<sup>116</sup> Mwabu et al. (2001).

<sup>117</sup> Gough (2000b).

<sup>118</sup> Casella and Rauch (1999); a review of the efficiency of business networks in terms of international trade is in Rauch (2001).

<sup>119</sup> One must take care in comparing local networks in SSA and China, Sindzingre (1997).

<sup>120</sup> Fafchamps (1992), Platteau (1991 and 1994) on the difficulties of village societies in adopting market mechanisms; Greif (1994) on the example of Maghribi traders.

<sup>121</sup> Gomez (1999), Yeung (2000), Chan (2000), Malaizé and Sindzingre (1998).

<sup>122</sup> Berry (1993), showing that the social history of SSA is characterized by the fact that ‘no condition is permanent’, which creates specific risk coverage strategies.

<sup>123</sup> Mahieu (1990).

because of poverty, collective (covariant) risks and opportunities for free riding that accompany social fragmentation.

As microeconomic theory has shown, these ‘interlocking contracts’ function simultaneously on the markets for labour, credit and insurance: a contract simultaneously provides insurance in exchange for a job. This is a typical feature of developing countries; broadly speaking, however, it encourages, in the case of Asia, the emergence of family firms and consumption and impoverishment in the case of SSA<sup>124</sup>, as descendants are obviously more likely to provide parents with some kind of insurance against the vagaries of life. This is one of the factors of the slow demographic transition in SSA, which thereby sets in motion a vicious circle in which the state remains poor — and is therefore incapable of providing transfers and social security — and demographic growth contributes to pushing states resources deeper into poverty. This creates an inter-generational poverty trap that reduces opportunities for development (mixing poverty, bad health and a low standard of education) because when households are affected by a shock, children are put on the informal labour market, which does not offer promising future prospects. The instruments for risk coverage and insurance involve individuals who may be members of groups that are also poor and vulnerable; the risk in this case is covariant. This contributes to the expansion of the informal sector, which in turn aggravates the taxation trap and the weakening of states and institutions, contrary to the theories that sometimes praise the informal sector for a dynamism that is free from the grips of the state<sup>125</sup>.

The divergences between developmental states and SSA states are translated in the social indicators. North-East Asian states invested in human capital and achieved high levels of education. They pursued equalising developmental strategies before the 1997 crisis — Taiwan among them<sup>126</sup> — even though certain Asian countries suffered from widening income inequalities during the 1990s<sup>127</sup>. The resulting demographic transition made it possible for budgets to support educational efforts, in contrast with SSA states. Even though the literacy rate has improved in SSA, in 1999, it was at an average of 39% (50% in 1990<sup>128</sup>) and only a minority had access to secondary education (27% of the relevant age group during 1994-97<sup>129</sup>). Secondary education is of a very uneven quality and has actually declined in certain countries<sup>130</sup>. The literacy level has even dropped in certain countries that do not have sufficient public resources to keep up with what are among the highest population growth rates in the world, thus setting in motion the vicious circle of the poverty trap, and which is compounded by inequality and populist regimes. Despite the unreliability of data, SSA countries may be viewed as highly inegalitarian, with an average Gini coefficient of 0.52 for the region<sup>131</sup>. Most countries have Gini coefficients ranging between 40 to 50, for example 37 for Côte d’Ivoire (1995), 50 for Mali (1994) and Niger (1995), 51 for Nigeria (1996-97), South Africa being one of the most inegalitarian countries in the world with 59 (1995), along with Brazil with 59 (1998) - to be compared with the rich democratic welfare states: 25 for Sweden (1995) and Belgium (1996), 26 for Norway (1995) and Finland (1995), with the well-known exception of the United

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<sup>124</sup> Udry (1994).

<sup>125</sup> For example the theses on social capital, or the ones popularized by Hernando de Soto.

<sup>126</sup> Bourguignon et al. (1998).

<sup>127</sup> Ahuja et al. (1997).

<sup>128</sup> World Bank, *African Development Indicators 2002*, table 13.14.

<sup>129</sup> World Bank, *African Development Indicators 2002*, table 13.20.

<sup>130</sup> For example in Tanzania or Madagascar, Morriison (2000), Michaelowa (2000).

<sup>131</sup> Milanovic and Yitzhaki (2001) relying on available national surveys for 1993.

States with 41 (1997)<sup>132</sup>. In SSA (in those countries where data exist), over the 1986-97 period the richest 20% received about half of the national income, whereas the 20% poorest received around 5%<sup>133</sup>. Inequality is not only monetary but also involves access to health and education, SSA labour markets being characterised by a high degree of dualism and segmentation of qualifications, both in terms of education and employment.

### 3. INSTITUTIONAL AND POLITICAL FEATURES OF DEVELOPMENTAL AND NON-DEVELOPMENTAL STATES

#### The concept of institution in relation to developmentalism

In the development economics literature the mediocre performance of patrimonial and predatory states in developing countries is usually blamed on the vague notion of the ‘weakness’ of institutions. Development economics rediscovered institutions in the 1980s, with the emergence of neoclassical institutional economics — elaborated, by, among others, Douglass North and Oliver Williamson, — and the marginalisation of the early institutionalist theorists (e.g. Thorstein Veblen and Karl Polanyi). For neoclassical economics, the conceptualisation of institutions is often limited to the use of an ‘institutional variable’ in econometric regressions, for example, the number of political parties, elections, free press, and so on. The concept of institutions is clearly more complex and crucial for the understanding of the elements of developmental states. As has been known since Max Weber, one difference between the institutions of the old Western democracies, on the one hand, and patrimonial states, autocracies and illiberal democracies, on the other, is that in the former institutions are sources of impersonal individual obligations, in reciprocal adaptation with political and economic spheres according to more or less long periods. Among other causalities, the maintenance of particular institutions, rights and legal systems constitute expressions of power relationships between individuals or groups, e.g., specific property rights, discrimination laws, uneven social treatment of vulnerable or poorer groups, and so on.

In contexts of personal rule, even if institutions formally exist, a ‘weak’ institutionalisation means that an institution is mostly the expression of this personal power and that of its client groups<sup>134</sup>. Furthermore, institutions are not concrete objects but mental representations, which have a normative dimension of obligation<sup>135</sup>. Institutions have a lesser function on their own than they do through their relationships with other existing institutions, which may give them meaning and limits. Institutions are the outcomes of historical processes of transformation that are to be understood at given points in space and time, in combination with other institutions and sometimes in hierarchical relationships with institutions to which they provide norms (e.g., the institutions of democracy provide norms to the institutions of government and of justice). Institutions have forms and contents that vary in time, and depend on the presence or absence of other institutions. Their meanings or functions are not fixed or predictable *ex ante*. Institutional forms may have numerous

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<sup>132</sup> World Bank, *World Development Indicators 2003*, table 2.8.

<sup>133</sup> On the period 1986-96, World Bank, *African Development Indicators 2002*, table 13.3.

<sup>134</sup> For a Kabuli legal expert it is ‘a thermometer for measuring the power relationships’ between individuals or political parties, ‘nobody thinks that a court is made to establish the law’, and ‘justice crashes down on you like a natural disaster’, *Libération*, 16 January 2002.

<sup>135</sup> This approach of institutions is developed in Sindzingre (2003).

meanings, e.g. ‘public service’, ‘state intervention’, ‘civil service’, ‘private sector’, and so on.

The ‘autonomy’ of bureaucracy is therefore not an ingredient *per se* of the developmental state because in some SSA countries (e.g. ‘failed states’) civil services may actually be considered as highly ‘autonomous’ vis-à-vis the executive, as they are corrupt or do not comply with government instructions or the rule of law. For its part, the executive may behave in an ‘autonomous’ manner, as its limited legitimacy renders it incapable of delegating power and information or controlling the bureaucracy (e.g., as is shown by the ‘decentralised corruption’ that is independently practiced by every civil servant and which may result in a country’s generalised collapse<sup>136</sup>). These civil services are ‘embedded’ in the private sector, as officials have ‘privatised’ their activities and top jobs in the private sector depend on political influence. Civil servants may also be viewed as ‘embedded’ in society, as they are under the pressure of family networks. In non-developmental states, social fragmentation or, on the contrary, the shared norms relating to the private appropriation of the public domain poses the classical problem of ‘who is to supervise the supervisors?’<sup>137</sup>. How can reforms be implemented if the ‘controllers’ share the norms of the ‘controlled’, e.g., in customs services, central banks, etc? Populism, clientelism and the siphoning off of public resources are reinforced by the fact that rulers and clients otherwise lose everything in a “winner-take-all” system (populist policies are not associated with a low level of development<sup>138</sup>).

Politics here is not institutionalised or impersonal but composed of multiple individual local powers and norms. It is usually in the interest of politicians in all regimes to stay in power. When institutions can be manipulated, public and private positions depend on the executive power according to patrimonial norms that spread in a capillary mode thanks to the absence of sanctions against the depleting of public resources. Bureaucrats do the same as the leaders, which leads to a generalised mimetism (e.g., via generalised political affiliation), since incentives mostly come from the leader’s decisions. Such systems tend to reproduce themselves. The presence of institutions that provide non-predatory incentives, which transcend personal power and prevent personalised spoil systems, imposes limits and makes such clientelist practices less necessary, as is the case in developed democracies. Independent legal institutions that do not share predatory norms - the ‘supervisor of the supervisors’ – are a key ingredient of developmental states, the question being the conditions of their emergence and maintenance – incentives, interests, or norms? Institutions’ functions and impact are not fixed, nor stable – e.g., the executive can make the judiciary lose its anti-corruption or equity dimension. Another element of developmentalism is the coalescence between the executive and institutions, and the actual links between different institutions. A country may have a press that denounces corruption but a link is not necessarily made with the institution of the judiciary or with administrative sanctions. In SSA these relations are discontinuous (the state may be ‘suspended’ far from the society)<sup>139</sup>. In SSA states two ‘public spheres’ of legitimacy and norms have often coexisted, the formal ‘public’ sphere and the other ‘public’ sphere made of widely shared norms<sup>140</sup>. The public sphere organised by the state may be viewed as less legitimate than the ‘public sphere’ made up of shared norms.

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<sup>136</sup> Shleifer and Vishny (1993) on the economic collapse created by decentralised corruption.

<sup>137</sup> Stiglitz (1999).

<sup>138</sup> As shown by some Latin American countries.

<sup>139</sup> Hyden (1983).

<sup>140</sup> According to the relevant expression of Ekeh (1975); on the positive dimension of the coalescence of the two legitimacies, Englebert (2000).

### **Developmental states: the uncertain links to types of political regimes**

The economic problems of the poorest countries, such as in SSA, are of a political nature, in particular the historical construction of the political sphere of post-colonial governments and their frequent manipulation by external powers, the outcomes being uneducated, corrupt, illiterate, or kleptocrat leaders<sup>141</sup>. Yet the modes of exercising political power in SSA are not linked to an institutional form such as the lack of democracy. Anti-developmental leaders who, for example, ruin their country may do so within institutional contexts that respect democratic forms. The neoclassical political economy literature analyses the non-economic factors underlying growth or human development (education and health) in terms of ‘governance’, a concept that provides a depoliticised view of political economy. The problem of patrimonial states is less governance than the nature of politics and the historical and geopolitical (pre-colonial, colonial and post-colonial) formation of the state.

There is no robust relationship between specific forms of patrimonial or developmental states and formal types of political systems, such as democracy. The developmental states in North-East Asia emerged under authoritarian regimes, such as South Korea, Singapore (or later China, though it should not necessarily be viewed as ‘developmental’). In the 1950s in developing countries, authoritarian regimes were reputed to be better equipped to introduce modernisation and generate progressive political movements<sup>142</sup>. On the other hand, several patrimonial states in SSA are formally democratic, with democracy remaining at a purely formal level, which makes it difficult to analyse institutions on the basis of cross-country regressions<sup>143</sup>. Relations between institutions – the judiciary, the parliament, administrative control agencies – and executive power may be imbalanced, with these institutions often being outgrowths of personal rule. The correlation between a political regime and economic performance is not conclusive in studies based on cross-country regressions<sup>144</sup>, in particular the correlation between growth and democracy<sup>145</sup> (as shown by the Indian democracy, the authoritarian regime of Singapore, and the spectacular growth of China). Similarly, there is no definite linkage between a type of political regime and a type of economic reform (either of the ‘gradual’ or the ‘big bang’ model), between an economic crisis and the probability of economic reforms<sup>146</sup>, or between an economic crisis (intense or rampant) and the probability of political change. There are a variety of combinations with different political or economic consequences under a diversity of forms of political regimes<sup>147</sup>. On the other hand, democracy is analytically more favourable to development<sup>148</sup> and equality<sup>149</sup>. By contrast, repressive regimes are not favourable to the foundations of development (as shown by SSA but also the Middle East).

The relationship between growth and political stability is stronger<sup>150</sup>, though the variable of political stability alone is, however, inadequate to defining a developmental government. The same applies

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<sup>141</sup> Evans (1992), Robinson (1996), Acemoglu and Robinson (2000a) on these rulers as barriers to development; from an IMF perspective, see Charap and Harm (1999).

<sup>142</sup> Joseph Bahout, about the Arab world, interview in *Libération*, 27 December 2001.

<sup>143</sup> Sindzingre (2004).

<sup>144</sup> Przeworski and Limongi (1993), Bardhan (1993); Bratton and van de Walle (1997) on SSA.

<sup>145</sup> Bardhan (1993), Przeworski and Limongi (1993); Tavares and Wacziarg (2001).

<sup>146</sup> Drazen and Easterly (1999); Drazen (2000).

<sup>147</sup> Pei and Adesnik (2000).

<sup>148</sup> Sen (1999).

<sup>149</sup> Roemer (2001).

<sup>150</sup> These are the conclusions of Przeworski et al. (2000).

to the participation of a society in the choice of its rulers, as can be seen in regimes that are populist or fascist. This variable gives no indication of the social and developmental choices of governments. Populist or military regimes (for instance, South Korea or Thailand) may be compatible with developmental strategies if the institutions form adequate and stable frameworks of expectations for individuals, as well as corrupt regimes, as long as it channels rents towards productive sectors<sup>151</sup>. By contrast, more or less benevolent dictators may – and often seek – to hold on to power for as long as possible. The former Zaire (which was the paradigm of a predatory state for Peter Evans) is an extreme example of political stability defying the usual correlation between economic crises and changes in politicians. What is important for development is the stability of rules, institutions and individual expectations, i.e. not to change arbitrarily and repeatedly the rules of the game and to prevent individuals from having this expectation. An extreme example of the change of the rules is the modification, not just of ordinary legal rules but fundamental constitutional laws by rulers to fit their personal interests<sup>152</sup>.

The relationship with ethnicity is also complex despite a vast literature in development economics that associates ethnic fragmentation with lack of growth<sup>153</sup>. On the one hand, ‘ethnicity’ is a vague concept that blurs the facts, as societies include and superimpose multiple variations in degrees of membership and multiple sub-groups with antagonisms that are only revealed in specific situations<sup>154</sup>. Ethnic membership often functions as an idiom constructed ex post that reflects pre-existing antagonisms (as religious affiliations). Ethnicity and religion, involving emotional mobilisation and exclusion mechanisms, are suitable candidates for cementing mass beliefs, whatever the level of development and education. On the other hand, homogeneous countries do not necessarily develop more successfully<sup>155</sup> and ethnically fragmented countries can and do develop. The relevant variables are centralisation of the political management of the access to economic and political resources, the allocation and exercise of rights, and the legitimacy or the congruence of political institutions with local institutions (e.g. pre-colonial)<sup>156</sup>. Predictions as to these variables’ economic outcomes cannot be assessed with certainty: ‘legitimate’ and consensual local institutions may appear to be anti-developmental, inequitable and discriminatory (e.g. caste systems). Furthermore, social fragmentation may have many other criteria outside ethnicity or religion, the usual candidates being, for example, profession, education or other individual characteristics. Wars of attrition and competition between interest groups for political resources — i.e., economic resources — may rely on any type of affiliation and undermine economic growth as well as the credibility of the political system. The relationship between civil conflicts and growth is clearly negative, SSA being the continent with the highest number of civil wars<sup>157</sup>.

More important than the form of political regime is the trust of citizens, their political participation, the modes of resource allocation and the ways they are reflected in institutions, e.g., proportional or highly polarised presidential systems. Capital flight is a classic indicator of mutual distrust between states and civil societies - it is very high in SSA<sup>158</sup>, especially when compared to Asia (3% for Asia

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<sup>151</sup> Doner and Ramsay (2000).

<sup>152</sup> As in Côte d’Ivoire. This is not specific to SSA, as shown by many examples from developed countries, for example the Italian prime minister changing the penal law based on his own legal problems.

<sup>153</sup> Easterly and Levine (1997).

<sup>154</sup> See the example of Somalia; these are the ‘segmentary processes’ of anthropology.

<sup>155</sup> As shown by Senegal, outside Casamance.

<sup>156</sup> Englebert (2000).

<sup>157</sup> Stewart et al. (1997); the World Bank now put an emphasis on the relationship between civil conflict and development.

<sup>158</sup> Ajayi (1997).

vs. 37% for SSA during the period 1970-90<sup>159</sup>) – as well as an indicator of ‘bad’ public policies (or of a financial crisis) or those that lack credibility. The credibility or legitimacy of institutions, states, their policies and bureaucracies does not imply that they are democratic or oriented towards the well-being of society and equity. Authoritarian regimes or illiberal democracies (often the result in SSA of the readaptation in the 1990s of single parties to BWIs’ democratic conditionalities) may be viewed by citizens as legitimate.

### **Deficits in credibility for states, but also for the reforms of international financial institutions**

An important element of a developmental state is the credibility of its institutions, which is typically path-dependent and historical. The patrimonial state is affected by a deficit in legitimacy as soon as it is formed, but there is also a deficit in the credibility and legitimacy of the BWIs and other donors, which, together with states, are the largest source of funds, opportunities and rents in SSA. This deficit is due to their exteriority and prescriptions that have been inefficient, sometimes detrimental to growth<sup>160</sup>, and poorly negotiated by the recipient governments. Poor credibility mutually reinforces itself due to the dialogue of the BWIs with governments that may themselves be viewed as illegitimate, as they are maintained by the BWIs’ lending.

The lack of credibility of international institutions is intensified by the lack of credibility of the sanctions they have imposed over the years, although governments repeatedly did not implement conditionalities and reforms, postponed them or reversed promised policies as soon as they received the loans, which are in principle conditional on reform implementation. Donors seek to maintain the cycle of loans, and the recipient governments are fully aware of this. Over the years, new loans may have been granted under the same conditions as the preceding ones, e.g., rationalising the civil service, privatising state-owned enterprises, creating agencies for public procurement or against corruption, and so on<sup>161</sup>. Certain developing countries are remarkable for their capacity to ‘resell’ the same reform in exchange for funds year after year. Lack of legitimacy affects international financial institutions in continuum with states and bureaucracies, which is one of the factors of routine corrupt behaviour and the bad economic performance of many developing countries.

## **4. THE INTERNATIONAL CONTEXT: HISTORY, POLITICS AND MULTILATERAL FINANCIAL INSTITUTIONS**

### **History, geopolitics and the macroeconomy: external and internal determinants**

Developmental states comprise internal economic, political and institutional ingredients. Their economic success, however, also stems from the combination of these ingredients with a series of external geopolitical factors that characterised the particular moment of their emergence and contributed to the building of favourable initial conditions. SSA states suffered from more constraining initial conditions than Asian states at the time of their independence in the 1960s.

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<sup>159</sup> Collier and Gunning (1997), though data have to be handled with precaution.

<sup>160</sup> As shown by Przeworski and Vreeland (2000).

<sup>161</sup> Sindzingre (1998a).

Some states remain to be ‘constructed’<sup>162</sup>. The colonisers left the new states with a low level of education and human capital<sup>163</sup>, little infrastructure — except for railways or roads that linked ports with the hinterland for the extraction of the natural resources (minerals, cash crops) — and few indigenous industrial firms (apart from traders, both local and diaspora). An increasing literature in development economics now highlights the importance of geographical handicaps for growth prospects — e. g. landlocked regions, tropical climate and agriculture<sup>164</sup> — as well as the reliance on natural resources (the ‘natural resources curse’<sup>165</sup>) and their combination with fragile institutions, incentives and legal rules<sup>166</sup> (‘institutions matter’<sup>167</sup>).

The non-developmental character is of an economic but also an historical nature. The international integration of SSA followed the model of the ‘small, open, dependent, colonial economies’<sup>168</sup>. Its economic structures barely changed during the 20<sup>th</sup> century<sup>169</sup>: trade openness, revenue instability due to primary commodity exports, absence of diversification, and taxation based on customs duties. This mode of global integration has intensified types of micro-economic behaviour, which have been more focused on individual strategies of risk coverage than entrepreneurship and risk taking<sup>170</sup>. The colonial economic structures in SSA have shown great resilience and have created underdevelopment traps while the rest of the world became industrialised and globalisation intensified competition between developing countries. Furthermore, in contrast to Asian states, SSA economies were constrained by low levels of private savings, preventing them from setting in motion a virtuous circle of investment and disengagement from external assistance and external institutions structural adjustment programmes and conditionalities<sup>171</sup>. Cross-country regressions stress that SSA economic stagnation since the end of the 1970s cannot be entirely blamed on internal ‘bad policies’, contrary to the arguments of the ‘Washington consensus’. Stagnation may be explained by recurrent external shocks, e.g., high world interest rates, debt burden, growth in developed countries, and skill-biased technical changes. This analysis arouses pessimism, for it suggests that policies have little power in terms of fostering growth, that growth during 1960-1979 could not last and that the stagnation during the 1980s and 1990s may be a return to a historic divergence with developed countries<sup>172</sup>.

The historical determinants of the presence or absence of developmental features are also political. The external conditions provided by the geopolitical environment, especially after WWII and during the Cold War, differed markedly in Asia and SSA. The economic catching up of Japan is linked to its defeat in WWII. In the context of the Cold War, Northeast Asia had a strategic interest in justifying a significant amount of aid (for example, American aid after the Korean war) and investment in infrastructure and education. SSA was the theatre of confrontations that were external

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<sup>162</sup> On the colonial state in SSA, Young (1994).

<sup>163</sup> A handful of graduates in the Belgian Congo; on the comparison between initial conditions in Ghana and Côte d’Ivoire, Sindzingre (1996).

<sup>164</sup> Sachs and Warner (1995 and 1996), Gallup et al. (1998).

<sup>165</sup> Among many others, see Auty (2001), Leite and Weidmann (1999).

<sup>166</sup> Freeman and Lindauer (1999); among a huge literature on the role of geography, natural resources and institutions in economic growth, the stocktaking paper by Sachs and Warner (2001), Easterly and Levine (2002).

<sup>167</sup> Engerman and Sokoloff (2003 and 1997), among many others.

<sup>168</sup> Developed by Hopkins (1973); an analysis of the effects of colonisation on growth is in Acemoglu et al. (2000b) and Acemoglu et al. (2001a).

<sup>169</sup> Colin et al. (1993).

<sup>170</sup> Berry (1993).

<sup>171</sup> Akyüz and Gore (2001).

<sup>172</sup> Easterly (2000b and 2001).

to it. In Northeast Asia the objectives of the big powers and the colonisers (e.g., Japan, the US) – in the case of colonised countries – after the military phase were transformed into a search for security and economic outlets. The Japanese colonisers in Korea and Taiwan at the beginning of the 20<sup>th</sup> century were ruthless; they pursued the same extractive there as did European colonisers in SSA. However, it has been argued that Japanese colonialism had a series of positive side-effects: they left infrastructure, destroyed the traditional state and introduced a Japanese-style developmental state — and hence the conditions for an economic catching up and an efficient administration<sup>173</sup>.

Asian developmental states had the advantage of being close to Japan, which for economic security reasons aimed at increasing its influence over the region, supported it financially, invested in it and later relocated its firms in it<sup>174</sup>. To have such a neighbour was more positive than, for example, being in close proximity to, say, Nigeria or apartheid-era South Africa. The growth of the East-Asian countries had ratchet effects in the region - the famous ‘flying geese’ model -, through cross-border investments in South-East Asia. The effects of geography and proximity did not disappear with globalisation nor did transport costs, for capital is not totally footloose. It is obviously better for a country to have a neighbour that is growing and who has a surplus of capital to invest rather than a poor neighbour going through a civil war. The type of states in proximity to a given developing country and the regional patterns of growth are therefore an important factor in explaining its growth trajectories and developmental prospects. Economic geography retains its pertinence despite globalisation, as is revealed by the unequal distribution of agglomeration effects, wages and land rents. High-income regions are almost entirely concentrated in a few temperate zones, half of the world’s GDP is produced by 15% of the world’s population, 54% of the world’s GDP is produced by countries occupying just 10% of the world’s land area, and 17 of the poorest countries are in SSA<sup>175</sup>.

The absence of developmental states in SSA also stems from the responsibilities of the former colonial powers and trade partners. The components needed for the endogenous construction of a state were not introduced — e.g., the notion of a ‘public service’ — in social-political contexts that were already fragmented because of the classic colonial divide and rule attitude. Due to the low educational level of rural populations, and despite political consciousness (such as in Ghana or Senegal<sup>176</sup>), many leaders in SSA in the 1960s were the instruments of clientelist politics from developed countries. Bilateral aid has perpetuated dependency and remains a dimension of foreign policy: recipient countries are selected according to geopolitical criteria rather than their needs and levels of poverty<sup>177</sup>. Since governments are the interlocutors of international financial institutions and bilateral donors, aid can contribute to their maintenance. Aid projects frequently relate to motives determined within donor countries, e.g., job creation, exports of equipment, and so on, generating over-costs for recipient countries, especially if the aid is tied – these over-costs have been estimated at around 20% higher than world prices<sup>178</sup>. The proliferation of projects and

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<sup>173</sup> This has been argued Kohli (1999), while other studies disagree; see the critique of such ‘revisionist’ theses by Haggard et al. (1997) and the reply by Kohli (1997); see Booth (2003).

<sup>174</sup> The famous so-called ‘Greater Asian co-prosperity sphere’; on Japan and Southeast Asia, Beeson (2001).

<sup>175</sup> Henderson, Shalizi and Venables (2000).

<sup>176</sup> Participation of the so-called ‘tirailleurs sénégalais’, who were in fact often non-Senegalese, in WWII played an important role here.

<sup>177</sup> Alesina and Dollar (1998): e.g., Israel, Egypt, receiving 2/3 of US aid, and Cameroon, the Congo or Côte d’Ivoire for France.

<sup>178</sup> Yeats (1991).

technical assistance has often created further disorganisation in local administrations<sup>179</sup>. The power of the BWIs through the conditionalities of adjustment programmes in the 1980s constituted another form of dependency, and often induced resistance on the part of civil servants that has been harmful to the developmental management of economies. Middle-income countries had significant room for manoeuvre vis-à-vis the BWIs and were therefore more in a position to negotiate reforms.

### **The responsibilities of multilateral financial institutions in developmental trajectories**

The BWI reforms of the 1980s diminished the possibility of the emergence of developmental states, although the world economic context was more competitive than the one faced by Asian states in the 1960s. The BWIs viewed the decolonisation period as a proof of the failure of statist import-substitution policies – though developmental states took shape in certain countries (Botswana and Mauritius)<sup>180</sup>. The BWIs carried out ‘experiments’ based on market forces, i.e., trade and financial liberalisation, privatisation, users’ fees in social sectors, minimal state intervention, and so on. In the 1990s the BWIs promoted the concept of the state as a supplier of public goods. The failure of the minimalist paradigm of the state in poor countries and the lack of investment have resulted in a theoretical and operational reversal, even though the neoclassical model of the state as a cause of distortions has not disappeared. During the late 1980s economic theories focused on the necessary functions of the state (e.g., institutionalist, information asymmetries, and market failure theories<sup>181</sup>), i.e., the supplying of public goods that markets have no incentive to supply, such as regulations aimed at economic stability and reducing uncertainty of individual expectations, and correcting market failures and information asymmetries (the ‘post-Washington consensus’)<sup>182</sup>. Government policies were not, however, viewed as exempt from failure.

Although SSA governments were often incompetent and corrupt, the BWIs have a partial responsibility for their existence, although they stigmatised these governments and thereby justified adjustment programmes. The BWIs grant loans to states by mandate and thus reinforce through their financing particular governments that may be illegitimate or inept. The BWIs may destabilize governments through the choice of the timing and sequencing of their reforms, e.g., devaluation or privatisation, and the possible social instability that ensues. The BWIs practice politics although their mandate is formally apolitical, mostly under the influence of the G7 countries<sup>183</sup>. The BWIs would not have been able to introduce such drastic reforms in the middle-income countries in Asia or Latin America, which do not borrow at concessional terms from the Bank’s International Agency for Development (IDA) as do poor SSA countries, but from IBRD instead, and have stronger negotiating capacities due to their geo-strategic weight. The poor results of the reforms of the 1980s, coupled with the absence of room of negotiation, have led to the resistance of SSA governments that have diverted and postponed the reforms whenever they could, setting in motion a vicious circle of increased BWI conditionality on the one hand, and political manipulation by

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<sup>179</sup> Sindzingre (2000a).

<sup>180</sup> Mkandawire (2001a).

<sup>181</sup> For which George Akerlof, Joseph Stiglitz and Michael Spence won the Nobel Prize in 2002; Joseph Stiglitz had occupied an important position at the World Bank; among others, Stiglitz (1974) on sharecropping, and Stiglitz (1989) on the state.

<sup>182</sup> One example is the *World Development Report* of the World Bank published in 1997, on the rehabilitation of the state, where Joseph Stiglitz’s influence can be perceived; see Sindzingre (1998b).

<sup>183</sup> Wade (2001a), Sindzingre (2000c); however, the BWIs do not entirely reflect the US stance, and disagreements occur on some issues, such as the core labour standards, the increase of aid, and the priority of reducing world poverty.

populist governments of the legitimate criticisms by their citizens of the BWIs' reforms, on the other. This vicious circle constitutes a political economy dimension of the poverty trap of SSA.

Appropriate conditions for escaping the poverty trap have not been established by the reforms. The latter have intensified specialisation in exports of unprocessed commodities and dismantled protection of the non-competitive industrial sectors – e.g., Congo and Nigeria are more dependent on oil nowadays than they were in the 1980s -, in an international environment characterised by a decline and volatility in world prices<sup>184</sup>. The BWIs have recommended starting the production of such commodities as palm oil, coffee, etc, in numerous countries (e. g. coffee in Vietnam), thus triggering a mechanism of fallacy of composition (decline in prices because of excess of supply and inelastic demand). SSA has thus become even less competitive in the sectors of its 'comparative advantages' and traditional exports. The BWIs have also contributed to eroding conditions of possibilities for the developmental states in SSA in terms of human capital as well. As is well-known, one of the ingredients of developmental states has been investment in education. The BWIs help to finance health and education in poor countries, but mostly for primary healthcare and primary education, with the apparently 'anti-rentier' motive that hospitals and universities are basically for the rich. The BWIs may thereby undermine human capital and the level of education of the elites, while attracting the most educated individuals in their projects. The BWIs thus participate in the brain drain, which seriously undermines the effort to build developmental states in SSA. Because of poverty and the small size of labour markets — not to mention political motives (illegitimate leaders may perceive educated elites as a threat) —, SSA is a region with a high brain drain of educated workforce, which is another dimension of the poverty trap: the share of African immigrants to the US rose from 1% in 1955-64 to more than 9% in 1995-97, and emigration out of SSA is expected to be multiplied by 4 between 2000 and 2025<sup>185</sup>. SSA states invest and borrow from the BWIs to finance education of individuals that ultimately profits other regions; they do not receive the expected returns of this investment, even if emigration may personally benefit the individual concerned.

The effects of the BWIs' civil service reforms have also been detrimental to the ingredients of developmental states. Yet their objectives were to reinforce meritocracy, skills, efficiency and productivity of services through wages based on results, and to provide insulated enclaves against political pressure and patronage networks in autonomous executive agencies in strategic sectors, such as financial services, customs, taxation, public works and statistics. The BWIs nevertheless continued to send confusing political signals about keeping dictators in power and clientelist recruitment. In the enclaves and 'autonomous agencies' — such as taxation — which were intended to be models of good performance and management, revenues may initially increase, but a return to the former poor performances often follows in short order. 'Capacity building' and 'ownership', the leitmotifs of efficient civil services in developmental states, have been nullified by the competing objective for donors of quick-disbursed aid and projects carried out directly by expatriate experts. The proliferation of donor projects and heterogeneity of their remunerations have fragmented civil services, resulting in a situation that contrasts sharply with the cohesion of the technocracy that characterized developmental states. Likewise, civil service reforms aimed at attracting investors and FDI did not produce the expected results<sup>186</sup> - the positive effects of FDI being now increasingly

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<sup>184</sup> See UNCTAD (2003 and 2004) on commodity-dependence and poverty traps.

<sup>185</sup> Hatton and Williamson (2001a, table 3), Hatton and Williamson (2001b, table 5), Haque and Khan (1997).

<sup>186</sup> Loungani and Razin (2001).

viewed in terms of attracting international investors<sup>187</sup>. In a situation of uncertainty, civil servants rationally tended to prefer the status quo<sup>188</sup>.

International financial institutions and aid agencies have therefore been part of the problem more than of the solution in regard to the ineffectiveness of SSA states. Certain economic reforms produced unexpected results, or produced no results at all. Reforms sometimes aggravated inequalities because the political aspects were not understood, for example, the privatisation of state-owned enterprises (although state-owned enterprises were often inefficient used as rents for political cliques). State-owned enterprises were, for their part, historically linked to state formation; they constituted most of the industrial employment and provided legitimacy to the new states through a wide national redistribution of formal employment. In the context of corruption and private accumulation of public resources, their privatisation frequently led to the official legalisation of ‘unofficial property rights’ and their appropriation by the only individuals who were rich enough to buy them, i.e., political clientele<sup>189</sup>. Trade liberalisation has sometimes dismantled entire segments of the previously protected infant industries that typically characterize small dependent economies<sup>190</sup> in view of the theory on comparative advantages – e. g., SSA supposedly having no advantage in the industrial transformation of rice, cotton, cocoa, palm oil, or in the import-substitution of consumer goods. At the political economy level, the simultaneity of economic and political conditionalities prescribed by the BWIs has turned out to be a problem. It can function efficiently (the economic big bang accompanied by a change of regime and a re-shaping of institutions), but it can also destabilise governments or encourage permanent procrastination (e.g., in Côte d’Ivoire and Kenya). Domestic politics are always pre-eminent for rulers when they simultaneously face economic and political liberalisation<sup>191</sup>.

The reforms initiated in the early 1980s were either ineffective, or reversed, or not implemented, or not properly evaluated by international financial institutions. Governments had to cope with a long lasting crisis, which led to a specific international political economy regime: the ‘politics of permanent crisis’<sup>192</sup>. Yet the BWIs less blamed themselves for the failures and poor design of their reforms than the recipient governments that have been held responsible: the reforms failed because of fiscal deficits, indebtedness, unrealistic exchange rates, bad governance, and so on. The recent idea of selective aid, i.e. giving aid to ‘deserving’ countries<sup>193</sup> that practise ‘good policies’, still places the responsibility for success or failure on the recipient governments. Developed states’ growth strategies, however, did not rely on these types of reforms. In contrast, they pursued their own interests as often as necessary - through protectionist strategies, public subsidies, or industrial policies<sup>194</sup>.

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<sup>187</sup> Rodrik (2000, 2001a and b).

<sup>188</sup> Fernandez and Rodrik (1991).

<sup>189</sup> Tangri (1995).

<sup>190</sup> Lall (1992).

<sup>191</sup> As shown by Ghana: the ‘good student’ attitude of, for instance, J.J. Rawlings vis-à-vis the BWIs and his Minister of Finance. The latter was ousted as soon as J.J. Rawlings had to choose between him and an individual who was strategic for his domestic political support. This demonstrates the priority of all leaders to focus on their interest in holding on to political power: the ‘double-edged diplomacy’, see Evans et al. (1993); on Ghana, Sindzingre (2000b), among many studies of the difficult articulation of both economic and political spheres in Ghana, Bofo-Arthur (1999).

<sup>192</sup> According to the expression of van de Walle (2001).

<sup>193</sup> See World Bank (1998) on selectivity.

<sup>194</sup> The European Common Agricultural Policy being a classic example.

## CONCLUSION: RECONSTRUCTING STATES

This paper has examined the divergence between Asia and SSA states in terms of their developmental characteristics. Though Asian developmental states benefited from better initial conditions, however, their achievements are not ‘given’ but result from permanent processes<sup>195</sup>. In SSA, because of the historical trajectories of the states, the reforms have not contributed to better economic performances and more efficient civil services. Globalisation may erode the capacities of states, while the reaping of its benefits requires that states enjoy greater legitimacy, an ability to ensure economic stability and handle external shocks, as well as reinforced democratic institutions. In SSA, after the shocks of colonisation, decolonisation and structural adjustments, states and institutions have yet to be built, an urgent task because of the widening economic divergence between countries<sup>196</sup>.

This agenda implies different types of reforms on the part of multilateral financial institutions. State capacity-building is an explicit objective of the reforms, but has usually been centred on the rehabilitation of financial and statistical services needed by donors to implement their reforms, as well as to facilitate the integration of SSA states into world markets. The consolidation of states, and with development as the principal objective, was considered to be a side-effect – a spillover effect - of growth, being itself an effect of reforms. Furthermore, the international financial institutions often underutilised their leverage power when political regimes behaved in an openly anti-developmental way and against the interests of their citizens, and they hid behind their apolitical and technocratic mandates. The mechanisms of conditionalities, often criticised for their inefficiency, could become useful in terms of development when directed towards economic diversification and sanctions against anti-developmental regimes. The international financial institutions find here opportunities of using their power in the poorest countries in a positive and developmental way. Reforms aimed at development and the construction of developmental states, however, cannot be reduced to copies of the Asian model but have to take into account the specific features of SSA countries and their capacities<sup>197</sup>.

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