

THE FAILED STATE INDUSTRY

Drawing heavily from experience in Iraq and Afghanistan, U.S. policymakers continue to wrestle with the question of how to transform failed and weakened states.

Francis Fukuyama, Professor in International Political Economy at Johns Hopkins University at the Paul H. Nitze School of Advanced International Studies (SAIS), engaged the topic of what he termed "Washington's new failed state industry" at a recent Global Strategy Institute (GSI) Forum. Fukuyama drew from his most recent book, *State Building: Governance and World Order in the 21st Century*. Among the keys to state building identified by Fukuyama are:

- Institutions matter more than market privatization
- Centralized approaches to state building, such as the Coalition Provisional Authority in Iraq, are unsustainable and ineffectual
- Afghanistan is a success because the international community achieved local buy-in and effectively ceded power to diverse local interests.

Institutions and Markets

Rejecting the "shock therapy" approach famously taken in Russia by Jeffrey Sachs and others after the collapse of the Soviet Union, Fukuyama offered evidence that the establishment of rule of law through state institutions is more important than taking early steps to privatize the economy. Fukuyama finds agreement on this point not only from Russia's recent history, but also from an unlikely source, the outspoken free market economist Milton Friedman. Friedman has stated that privatization and the free market are meaningless without the rule of law.¹ Further supporting the impact of institutions and rule of law on markets is Michael Klein, Chief Economist at the International Finance Corporation and Vice President of Private Sector Development at the World Bank Group. Klein presented evidence at a GSI Forum earlier this year that poor regulatory governance can drag down countries by as much as 2.2% of annual economic growth.²

By creating a "stateness matrix," Fukuyama compared the ability of states to enforce violence, contracts, etc. (the strength of state functions) with the scope of their function (wide versus narrow, central planning versus laissez-faire). Another way of putting this is that the scope of state functions refers to the

Wanted: Strong Institutions With Narrowly Defined Functions

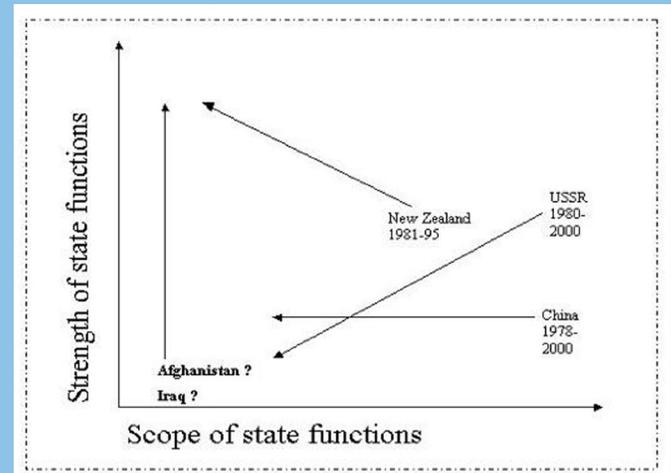


Figure 1: Francis Fukuyama's "Stateness Matrix" showing changes over time.

number of functions a state and its institutions might take on, while the strength describes how well the state is managing its functions. In that sense, a country can be both large and weak at the same time. For example, Maoist China had a massive scope of state functions, but little state strength to look after them. As another example, the disintegration of the Soviet Union led to less government control (decreased scope), but also left in place a weak enforcer of the state functions (decreased strength). On the other hand, countries such as Afghanistan, Haiti, and Liberia are weak in both structure and scope. They are neither ambitious nor strong enough to foster solid institutions and wide scope.

Fukuyama's ideal state is situated at the upper left of the stateness matrix, with limited directed mandates for strong institutions. New Zealand, exemplifies this transition, having moved to the upper left of the matrix through a series of reforms in the second half of the 1980s.

However, you cannot force New Zealand reforms on Zimbabwe. The international community must have the patience and tolerance to see states select their own provisional paths, but to encourage along the way strong institutional development complemented with limited state scope.



Dr. Francis Fukuyama speaking at a Global Strategy Institute Forum on May 19, 2005. Dr. Fukuyama discussed what he termed “Washington’s new failed state industry.”

Making Things Worse

Achieving this new approach to development requires local knowledge and cultural insight, which relies on strong local partnership and buy-in. International financial institutions and other donors—a necessary ingredient in the nation-building phase—often get heavily involved too early, applying complex solutions that disregard local constraints.

Fukuyama pointed to the Coalition Provisional Authority in Iraq and the High Representative in Bosnia as two recent cases of what he calls “authoritarian state building.” There is generally a presumptuous attitude of the international community operating in failed and weak states—perhaps resulting from an attitude of “you got yourself into this, and we’ll get you out.” Today, nine years after the Dayton Accords, and with huge participation by international organizations, Bosnia Herzegovina is still unable to stand on its own. While the Iraqi liberation was regarded as a success in military terms, the reconstruction efforts, commonly known as Phase IV, have been a disappointment in the eyes of most people. Fukuyama observed that the Coalition Provisional Authority based many of its policies on faulty assumptions and inefficient public diplomacy, relying too heavily on military presence to achieve more nuanced goals.

The current situation is drastically different in Afghanistan,

where the international community was able to achieve an early return of sovereignty through the “light footprint” occupation model. Fukuyama argued, “We need to tolerate the loss of control in the interests of local buy-in.” Working alongside local allies and funneling the resources through the Afghan government, the United States achieved its goals more quickly, though with a certain tolerance for less centralized authority.

State Building Among the State Builders

With the war on terror and the wars in Afghanistan and Iraq, significant fault lines have developed in American foreign policy related to state building. Many Republicans are now the foremost advocates of democratization and state building—ideas strongly advocated by the Clinton Administration, and refuted by many Republicans during the 1990s. On the other side of the aisle, the Democratic Party has become increasingly averse to the process of state building. This reversal of party ideologies is more tragic than comic, Fukuyama argued, because building states remains an important component of American foreign policy, and that requires support across government.

To this end, Fukuyama called for a major reorganization of Washington soft power institutions like the US Agency for International Development, the Department of State, and the civil affairs units of the military. The United States would need to replace ad-hoc planning with a permanent institutional home for people with experience in prior efforts. The New Office of Stability and Reconstruction at the Department of State is a good starting point, but Fukuyama believes it will quickly be overwhelmed with the needs of the future. In short, the United States and the international community are finding it necessary to strengthen their state-building capabilities and to reconsider their approaches to this temperamental process.

Endnotes

1. Preface to Economic Freedom of the World Report (James Gwartney et al, 2002: Fraser Institute)
2. Doing Business in 2005: Removing Obstacles to Growth

In our next issue:

China’s HIV/AIDS Crisis: A look at the future of HIV/AIDS in Second Wave Countries.