PART I
Introduction

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A Mismatch with Consequences: U.S. Foreign Policy and the Security-Development Nexus

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Looking back, few would argue that it was a good idea for the United States and its allies to disengage from Afghanistan after the Soviet Union withdrew in 1989. Various *mujahideen* factions, many organized and funded with the support of the United States and Pakistan during the 1980s, fought to fill the power vacuum that was left, and civil war continued unabated until the Taliban, a guerrilla group intent on imposing a highly restrictive form of Islamic law, captured the Afghan capital, Kabul, in 1996. The Taliban regime quickly became an international pariah by providing safe haven for al Qaeda leader Osama bin Laden when he was expelled from Sudan. Until the September 11, 2001, terrorist attacks on New York and Washington, however, few realized Afghanistan's central role as a base for the recruitment and training of terrorists from Islamic fundamentalist groups around the world.

Afghanistan's role as a source of support for al Qaeda raised two pressing issues for policymakers. The first—how to combat terrorist groups and the regimes that harbor them—animated a wide-ranging international debate following the 9/11 terrorist attacks. The United States adopted a new doctrine of *preemption*, explicitly committing itself to "act against emerging threats before they are fully formed."[1] The war against Iraq was the first U.S. military demonstration of that principle in action. Heightened international

pressure on the regimes of North Korea, Iran, Syria, and Libya, among others, to abandon their efforts to obtain weapons of mass destruction and provide material support to terrorist groups also followed.

The second issue—how to prevent the collapse of governments in the developing world—has received far less attention. Failed states represent the ultimate disintegrative force. Incapable of providing even the most basic public goods to their citizens, governments find themselves confronted by opposition forces that challenge their legitimacy and monopoly on the use of force. The instability generated in such an environment poses a threat to neighboring states and to entire regions as civil conflict spills across borders, spreading disease, criminal activity, and conflict, and refugees seek safety wherever they can find it. Afghanistan demonstrates that the political vacuum predominating in such environments also creates the conditions for the spread and growth of terrorist groups.

But the challenge is not only one of how to prevent state collapse. More broadly, international peace and security now depend, in part, on the capacity of governments in the poorest countries to meet the needs of their citizens and to become responsible members of the international community. They must be capable of patrolling their borders; monitoring the inflow and outflow of people, resources, and money; and preserving internal security. State weakness, not simply state collapse, is therefore a pressing concern for policymakers. And it is an affliction of the world's poorest countries in particular.[2]

This volume explores the causes and consequences of state weakness in the developing world. It focuses on the set of states that we term *poorly performing states*—states that exhibit a combustible mix of poverty and deficient government institutions that appreciably raises the risk of a collapse into conflict. It presents a series of country studies to elucidate the causes of poor performance in different environments and to describe how the U.S. and international actors have engaged (or failed to engage) governments in failing states, with what consequences. It then offers the critical insights of policy experts on how five instruments of U.S. foreign policy—assistance, trade policy, encouragement of direct investment, police and military assistance, and promotion of democracy—can be used to strengthen states and to reduce the likelihood of collapse in the poorest countries.

In this chapter, we define what is meant by a *poorly performing state*, using a taxonomy of state performance based on the criteria for U.S. government Millennium Challenge Account (MCA) assistance. The MCA provides a useful method for grading countries on their economic, political, and social performance. However, in the case studies in this volume, authors use variety of

names for poorly performing states, including "weak," "fragile," and "failing." The range of terms used to describe poor performers illustrates the complexity and difficulty of precisely defining and assessing gradations of state weakness.

Redefining "Pivotal" States

The purpose of this volume is to explore the puzzling disjunction between the changing nature of the security threats emerging from the poorest countries and the response mounted by U.S. policymakers. U.S. policy in the developing world has traditionally revolved around the strategy of identifying "pivotal" states. A pivotal state is defined as a "hot spot that could not only determine the fate of its region but also affect international stability."[3] During the cold war, the United States provided military assistance, development aid, and political cover to many regimes and rebel groups to help impede Soviet expansion. That approach, the so-called domino strategy, was justified on the grounds that preventing the fall to communism of particular states would prevent its spread to neighboring governments as well; it was the pivotal states approach in action.

In the post–cold war period, a policy of narrow, selective engagement with developing nations has continued to dominate national policymaking. During the 1990s, interventions were mounted to avert genocide and ethnic cleansing in the Balkans, while international crimes of equal or greater enormity were ignored in Rwanda, Sierra Leone, and the Democratic Republic of Congo. Massive infusions of financial assistance flowed to stem the collapse of the Mexican, Russian, and the Asian economies, while overall foreign assistance to the poorest countries declined. The administration of George W. Bush made this pivotal states strategy explicit in its 2005 National Security Strategy for Africa, suggesting that one of its core strategies would be to promote progress in "anchor" states.[4]

The problem is that by explicitly targeting pivotal states in the developing world, U.S. policy risks leaving too many other countries behind. If the costs of U.S. disengagement were to be borne entirely by the inhabitants of the poorest countries, such a strategy might be practical, albeit morally questionable. However, state collapse has the potential to undermine U.S. national security as well.

Why do poorly performing states pose a threat to U.S. national security? Three particular channels often are cited. First, *illicit transnational networks* strategically target weak governments and porous borders, which enable them

to move money, people, weapons, and drugs around the globe; weak states thus become a priority in the fight against terrorists and criminal syndicates. This is the case of Afghanistan.

Somalia provides another glaring example. Following the failed U.S. and UN humanitarian intervention in 1993, both parties gradually disengaged from Somalia, leaving the country consumed by battles between regional and factional warlords. The resulting near-total dissolution of central government authority made Somalia an attractive haven for al Qaeda in the late 1990s. A 2003 UN report pointed to the central importance of Somalia as a training ground, transit point, and escape route for the organizers of terrorist attacks on an airliner and beach resort in Kenya.[5] Without an effective central government or regional leadership able to monitor the flow of goods, services, and persons, Somalia continues to represent a serious threat to U.S. interests.

Illicit trade networks thrive in insecure environments and tend to spill across borders. Following the dissolution of the Soviet Union, the illicit flow of small arms and light weapons increased throughout Central Asia as small-scale entrepreneurs, often protected by friends in government, sought profits on the international illegal arms market. The availability of cheap weapons fueled wars in the region; moreover, these networks have successfully equipped armed groups as far away as sub-Saharan Africa. Porous borders have made the implementation of rigorous export controls difficult, and Western governments have been slow to respond to the emerging challenge. Failure to stem the tide of arms at its source has resulted in a flood of weapons downstream to armed groups that oppose U.S. regional interests in the developing world.

Second, poorly performing states undermine regional and global stability through *spillover effects*, which transcend the boundaries of individual countries. Collapsing states often spawn wider regional conflicts; unrestricted cross-border trade in drugs fuels insecurity and criminality at home and in neighboring states; and infectious diseases cross borders unchecked through expanding local and global networks of trade and migration.

Entire regions have been engulfed following conflicts that first appeared to be isolated to individual countries. Take Liberia, for example. Most international actors, including the United States, ignored Liberia as Charles Taylor took advantage of the breakdown of the state to institute his own brand of ruthless authoritarian rule. From his base in Liberia, Taylor was largely responsible for inciting a decade-long civil war in Sierra Leone, providing material aid to the rebels in Côte d'Ivoire, and funding antigovernment dissidents in Guinea. The stability of West Africa has been compromised, while

early intervention might have made a difference. The United States later found itself challenged by various members of the international community to commit precious military resources to correcting the damage done.

Third, reversing the decline of weak states is central to allaying *regional insecurity*. Nigeria, Pakistan, and Sudan, for example—all fairly characterized as poorly performing governments—can be positive influences for stability and reform among their neighbors if they can escape from the trap of poverty and poor performance. On the other hand, a setback in democratic progress or reversion to conflict in key states can threaten regional advancement and undermine U.S. geopolitical strategy.

Recent developments in Bolivia threaten to shake the foundations of other democratic, pro-Western governments in the Andean region. In 2002, suffering from endemic poverty and regional economic malaise, the Bolivian government appealed to the United States for emergency assistance to maintain basic public services and social investments. President Gonzalo Sanchez de Lozada was rebuffed and then deposed by popular protests less than a year later. The ouster of Sanchez de Lozada, the fourth elected Latin American president to be driven out of office by the opposition in only four years, represents a dramatic setback to U.S. regional objectives and a force for destabilization in much of the Andean region. It could also presage a surge in a host of illicit activities, including an increase in new coca cultivation in the Bolivian countryside.

The key point is that while U.S. selectivity in engaging with the developing world has its benefits, it also has its costs. National security concerns increasingly challenge U.S. policymakers to address even the most difficult environments to prevent a host of transnational threats from taking root.

A Mismatch with Consequences

At the same time that U.S. security concerns dictate a more inclusive strategy of engagement with the poorest countries, U.S. and multilateral policy instruments are becoming more selective. In an effort to increase the effectiveness of new investments, policymakers have sought to restrict them to nations whose governments already have demonstrated sound policy choices and established transparent institutions of government. This approach means that weak and failing states are explicitly excluded from programs to promote development.

The most prominent example of the trend is the Millennium Challenge Account. Proposed by President George W. Bush and authorized by Congress,

the MCA promises to deliver substantial new flows of foreign assistance to low-income countries that are "ruling justly, investing in their own people, and encouraging economic freedom."[6] Central to the design of the MCA is its commitment to providing assistance only to select countries whose governments already have established the policies and institutions most conducive to development. This approach is a response to U.S. recognition that fifty years of assistance has failed to produce substantial economic development in many parts of the world and to the growing academic consensus that assistance provided in good policy environments produces better results.[7] A transparent public process that includes quantifiable indicators of progress is planned for recipient countries, making it difficult for policymakers to employ MCA funds for political rather than development purposes.

While the MCA offers the opportunity to incorporate cutting-edge reforms in the administration and delivery of foreign assistance, its scope suggests a marked focus on the "best performers" and away from the most troubled states in the developing world. Its proposed $5 billion annual budget represents a 50 percent increase over the $10 billion 2002 U.S. foreign aid budget and a 9 percent expansion in global development assistance.[8] However, the new funds, while substantial, will not be invested in the environments that are most conducive to the basing of terrorist networks and criminal groups and most at risk of collapse.

The MCA is not the only policy instrument that emphasizes selectivity in distributing benefits. The African Growth and Opportunity Act (AGOA), passed by Congress in 2000 and revised in 2003, offers preferential one-way access to U.S. markets to African countries that have established or are making continual progress toward "market-based economies; the rule of law and political pluralism; elimination of barriers to U.S. trade and investment; protection of intellectual property; efforts to combat corruption; policies to reduce poverty, increasing availability of health care and educational opportunities; protection of human rights and worker rights; and elimination of certain child labor practices."[9] These preconditions are defined in the legislation, but determining whether a country has made or is making progress toward pro-development institutions is the prerogative of the U.S. president and the U.S. trade representative. In practice, political considerations play a role in determining eligibility. Nonetheless, the emphasis on these prerequisites for participation has so far led to the exclusion of critical weak and failing states including Angola, Burundi, Liberia, Togo, Sudan, and Somalia, among others.

The rationale behind selectivity is fairly simple. True selectivity provides the strongest possible incentives for governments to set in place the economic policies and transparent institutions conducive to development. By directing the flow of resources to good performers, selectivity also helps to ensure that resources are used effectively to reduce poverty and promote continued reform. But the shift toward selectivity, especially if replicated broadly across other U.S. and multilateral policy instruments, entails a number of problems.

The first problem is that the funds and market access offered may not be significant enough to further deepen reform. This is a particular challenge for the MCA, which, as long as it remains a small percentage of total foreign assistance provided in the developing world, will find it hard to provide strong incentives for institutional reform in difficult environments. More likely, given its limited geographic scope and overall financial scale, the MCA will only be able to demonstrate the degree to which aid is more effective in good environments. In poorly performing states where political and economic arrangements favor a select few and corruption provides a major source of income, the marginal contribution to GDP of potential assistance from the MCA is unlikely to alter those arrangements.

Second, selectivity may exclude states that are simply too poor to institute the political and economic reforms necessary for growth. On the economic front, this situation has been called the "poverty trap."[10] Such countries are unable to provide even the most basic public goods—the health services, education, and physical infrastructure essential for long-term growth. Because growth is a fundamental requirement for reducing poverty, states find themselves in a vicious cycle of poverty, disease, and conflict. The poverty trap has a political dimension as well. In many autocratic political systems, leaders have little incentive to adopt better policies or undertake reform. A recent analysis of the political roots of poverty concluded that "under many of the least politically inclusive systems, good policy is bad politics, and bad policy can be good politics."[11] Political leaders may have little interest in taking advantage of benefits offered by international actors, even though such reforms might be in the best interest of the population at large.

The third problem posed by selectivity is that the United States simply cannot afford to ignore the countries excluded from the MCA and other selective programs in the short term. Security concerns are paramount, and the United States will need to design new programs and dedicate new resources to building state capacity in poorly performing states. Leaving them to their own devices is a recipe for instability and state collapse—both

of which threaten U.S. geopolitical interests and, potentially, the security of Americans at home.[12]

On the Other Side of the MCA

The developing world comprises countries that exhibit considerable diversity in their economic performance, the nature of their political regimes, the effectiveness of their government institutions, and their likely development prospects. Policymakers have sought to separate the good from the poor performers in order to target countries where aid is likely to be most effective. But no widely accepted measure of performance exists. Performance can be graded along a multifaceted continuum, and distinguishing good policy environments from bad ones is not an uncontroversial task.

In order to identify the countries of interest to the contributors in this volume, we started with a simple question: which states find themselves excluded from—or in our terminology, "on the other side of"—the MCA?

The Bush administration proposed a selection methodology that determines whether a country qualifies for MCA funding on the basis of three main factors:[13]

—Income. To be eligible to compete for MCA funds, a country must fall under a certain income threshold, which is anticipated to increase gradually over time. In the program's first year, countries with a per capita income of less than $1,435—which also were eligible to borrow from the World Bank's concessional lender, the International Development Association—competed for MCA funding. This delimits a set of sixty-three countries, after subtracting twelve countries otherwise deemed ineligible under U.S. law to receive U.S. foreign assistance for a host of political and security reasons.

—Performance. For each of the three prodevelopment principles outlined in the design of the program, the administration proposed sixteen indicators to be used to assess a country's commitment to "ruling justly, investing in [its] own people, and encouraging economic freedom." These indicators are outlined in table 1-1. For each of the three dimensions of performance, the administration identified a set of quantitative indicators that would be publicly available in order to enable transparent cross-country comparisons. The six indicators that measure "ruling justly" include assessments of a country's commitment to protecting civil liberties and political rights; establishing rules and institutions that reinforce the rule of law and inhibit corruption; and promoting the effective delivery of public services. The four indicators that measure "investing in people" include assessments of the immunization

Table 1-1. *Dimensions of Performance*

Dimension/Indicator	*Key questions*
Ruling justly	
Civil liberties	To what extent do citizens enjoy basic rights?
Political rights	To what extent do people participate freely in the political process?
Voice and accountability	To what extent does the country have free and fair elections, a representative legislature, fair legal systems, a free press, and a minimal role for the military?
Government effectiveness	To what extent does the country have a high-quality civil service and effective government bureaucracies?
Rule of law	To what extent does the country have fair and predictable rules for contract enforcement, dispute settlement, the protection of property rights, and the disposition of criminal law?
Control of corruption	To what extent is public power used for private gain?
Investing in people	
Spending on public primary education	What is the level of public spending on primary education?
Primary school completion rate	What percentage of graduation age children successfully complete primary school?
Spending on health	What is the level of public spending on health?
Immunization rate	What percentage of children receive immunizations for tetanus and measles?
Establishing economic freedom	
Country credit rating	What is the perceived risk of government default?
Inflation	What is the rate of inflation?
Regulatory policies	To what extent is the economic environment constrained by burdensome regulations, inadequate bank supervision, excessive controls on trade and investment, excessive restrictions on capital flows, and ponderous legal restrictions on ownership?
Budget deficit	To what extent does the government run a large fiscal deficit that must be financed by borrowing?
Trade policy	To what extent does the government set in place tariffs and quotas that restrict trade?
Days to start a business	How burdensome are the costs and procedures required to start a business?

Source: Authors' calculations.

rate, spending on public primary education, the primary school completion rate, and spending on health. The six indicators proposed to measure "economic freedom" include a country's credit rating, inflation rate, regulatory policies, budget deficit, trade policy, and support for business development.

—Corruption. Corruption is one of the key performance indicators in the "ruling justly" dimension. To emphasize its importance, however, the administration proposed eliminating any countries that score below the median on the measure of corruption. Corruption is thus counted twice, and it is a hard constraint on qualifying for MCA assistance.

The administration proposed using a "hurdles" approach to determine whether a country qualifies for MCA assistance. This approach requires countries to score above the median (the hurdle) on half of the indicators in each of the three dimensions of performance. In addition, the hard constraint on corruption means that a country must score above the median on that measure in order to qualify, regardless of how well it performs on the other indicators. Of sixty-three eligible countries, sixteen qualified for MCA assistance in the program's first year.[14]

Who Are the Poor Performers?

One can debate the relative merits of the administration's approach to measuring performance, but it provides a useful tool for describing poor performers. Table 1-2 lists the countries that, using the administration's proposed ranking method, should not qualify for MCA funding in the program's first year, assuming a strict adherence to the indicators.[15] As mentioned, the administration exercised discretion in several cases, deeming countries eligible that did not qualify on the basis of the indicators and vice versa. Therefore our list of "who should qualify" is slightly different from who actually qualified—the variation due to the administration's use of discretion. In addition, we include countries that are otherwise deemed ineligible for U.S. assistance due to statutory restrictions in order to survey the entire universe of low-income developing countries

It is helpful to divide these countries into four main categories. The first category includes the *worst performers*, those that performed poorly on all three dimensions of performance. Governments in these countries failed to set in place institutions to protect political rights and civil liberties; to dedicate public resources to making critical investments in health and education; and to lay the foundation for economic growth by establishing policies and institutions conducive to private sector growth. Sixteen countries, twelve of which are in sub-Saharan Africa, constitute the set of worst performers.

Table 1-2. *The Other Side of the MCA*

Category	*Dimensions of poor performance* — *Ruling justly*	*Investing in people*	*Promoting economic freedom*	*Controlling corruption*
Worst performers				
Afghanistan	X	X	X	X
Angola	X	X	X	X
Burundi	X	X	X	X
Central African Republic	X	X	X	X
Chad	X	X	X	X
Comoros	X	X	X	
Congo	X	X	X	X
Guinea	X	X	X	
Guinea-Bissau	X	X	X	
Haiti	X	X	X	X
Laos	X	X	X	X
Liberia	X	X	X	X
Myanmar	X	X	X	X
Sierra Leone	X	X	X	X
Somalia	X	X	X	X
Sudan	X	X	X	X
Struggling on many fronts				
Cambodia	X	X		X
Cameroon	X	X		X
Congo	X		X	X
Côte d' Ivoire	X	X		X
Ethiopia	X		X	
Niger	X	X		X
Nigeria	X	X		X
Togo	X	X		
Zambia	X		X	X
Zimbabwe	X		X	X
Near-misses				
Azerbaijan	X			X
Bosnia and Herzegovina	X			
Burkina Faso			X	
Djibouti	X			
East Timor			X	
Eritrea			X	
Gambia	X			X
India		X		
Kiribati			X	
Kyrgyz Republic	X			X
Mozambique		X		X

(continues)

Table 1-2. *The Other Side of the MCA (continued)*

	Dimensions of poor performance			
Category	*Ruling justly*	*Investing in people*	*Promoting economic freedom*	*Controlling corruption*
Nepal		X		
Pakistan		X		
Papua New Guinea		X		X
Rwanda	X			
São Tome and Principe			X	
Solomon Islands			X	X
Tajikistan	X			X
Tanzania		X		X
Tonga			X	
Uganda	X			X
Uzbekistan	X			X
Yemen	X			
Stung by corruption				
Albania				X
Bangladesh				X
Bolivia				X
Georgia				X
Indonesia				X
Kenya				X
Malawi				X
Moldova				X
Good Performers				
Armenia				
Benin				
Bhutan				
Cape Verde				
Ghana				
Guyana				
Honduras				
Lesotho				
Madagascar				
Mali				
Mauritania				
Mongolia				
Nicaragua				
Senegal				
Serbia and Montenegro				
Sri Lanka				
Vanuatu				
Vietnam				

Source: Authors' calculations based on MCA data compiled by Steven Radelet and Rikhil Bhavnani for the 2004 MCA selection process. Data available at www.cgdev.org.

The second category, governments that are *struggling on many fronts*, includes countries that performed poorly on two of the MCA's three dimensions of performance. An additional ten countries appear in this category, including Côte D'Ivoire, Ethiopia, Nigeria, and Zimbabwe. Only one non-African country, Cambodia, falls into this subset of states.

The third category includes so-called *near-miss states*, which failed to pass the hurdle on only one of the three dimensions of performance described above. This group of twenty-three countries is highly diverse, including five Central Asian states, India, Pakistan, and Yemen, and a number of other African countries. Ten of the twenty-three near-miss states, even if they made progress on the missing dimension, would still fail to qualify for the MCA because they exhibit high degrees of corruption.

The fourth category, states *stung by corruption*, includes those whose governments have demonstrated a commitment to protecting political freedom, making key investments in social sectors, and establishing the conditions for growth but that nevertheless have failed to counteract corruption among public officials. Eight governments are stuck in this position, on the verge of good performance.

These four categories represent the countries "on the other side of the MCA." The first three comprise the countries that we refer to as *poorly performing states.* These states exhibit poor economic performance and widespread poverty, and they are ruled by governments that, through lack of either will or capacity (or both), fail to guarantee political freedom, provide the foundation for economic activity and stability, and dedicate their resources to key investments in public goods. Some of these forty-nine states are implementing necessary and critical reforms on key dimensions of performance, but by and large, they are fragile and pose significant challenges to U.S. policymakers.

The MCA is not unique in using a set of static indicators to categorize performance. The World Bank employs a similar method in its program for "low-income countries under stress" (LICUS), identifying three dimensions of poor performance that substantially overlap with those of the MCA: poor service delivery, poor economic management, and limited participation by citizens.[16] A static approach makes it possible to compare countries with one another on the same, transparent indicators, at a single point in time. However, an alternative approach employed by the Overseas Development Institute in a new study more fully incorporates the dynamic evolution of particular indicators in assessing performance. This approach analyzes performance in terms of whether a country has been able to do "better or worse than before."[17]

The snapshot indicators used by the MCA reveal the poor policy environments and weak institutions that characterize poorly performing states, but they reveal little about the causes of poor performance. Before identifying the factors that put states on a path toward deterioration and collapse, we first explore the key characteristics of poorly performing states.

Looking in more detail at the four categories of states reveals a number of interesting variations. Table 1-3 summarizes some key differences between these states and the good performers.

The Worst Performers

Nearly 240 million people live in the sixteen worst-performing states. It is important to note that these states, which had an average per capita GDP of just over $300 in 2001, are the poorest of the low-income economies. They receive slightly more than twenty-three dollars per person of U.S. foreign aid, and they are among the most highly indebted, when considering debt-to-export ratios. The worst-performing economies have grown at an average of 2 percent per year, only slightly outpacing population growth, which averaged around 2 percent in low-income countries between 1980 and 2000. The worst performers are highly dependent on the export of primary commodities (including petroleum, coffee, cashews, and uranium), and nearly one-quarter are dependent on a *single* commodity for more than 50 percent of their export earnings. Politically, the worst-performing governments exhibit the outmoded political regimes of a previous era. They tend to be authoritarian or semi-authoritarian regimes that fail to protect civil or political rights and make only tentative steps toward the establishment of political freedoms. Most important, perhaps, the worst performers are conflict-ridden states; nearly 50 percent experienced a major war between 1998 and 2003.

Those Struggling on Many Fronts

An additional 288 million people live in the ten states that are struggling on at least two of the three MCA dimensions. These countries are slightly richer than the worst performers, with an average per capita income of $428. Like the other poorly performing states, they display limited economic growth, although their situation is better than that of the worst performers. Interestingly, this set of states receives an even smaller share of development assistance per capita ($19), and 50 percent of the countries in this category are highly dependent on the export of single primary commodities, including coffee, petroleum, and uranium. Politically, their ratings on civil liberties and political rights are only slightly better than the worst performers, indicating

Table 1-3. *Some Characteristics of Poorly Performing States*

Characteristics	*Worst performers*	*Struggling on many fronts*	*Near misses*	*Stung by corruption*	*Good performers*
Total population (millions)	237.315	288.598	1,409.243	438.174	194.127
Number of countries	16	10	23	8	18
Economic indicators					
Average per capita GDP (dollars)	302.25	427.60	409.00	594.75	565.60
Average annual GDP growth 1990–2001 (percent)	1.97	2.61	2.71	0.76	3.59
Development assistance Per capita (dollars)	23.40	19.38	37.79	40.13	62.60
Percent of countries dependent on a single primary commodity for 50 percent or more of export earnings	25	50	17	12	5
Political indicators					
Average civil liberties rating[a]	5.31	5.00	4.05	3.63	2.94
Average political rights rating[a]	5.94	5.30	4.41	3.25	3.06
Percent of countries experiencing major war since 1998	44	20	17	0	11

Sources: Central Intelligence Agency, *The World Factbook* (Washington, 2003); World Bank Group, *World Development Indicators* (Washington, 2003); Paul Cashin and others, *How Persistent Are Shocks to World Commodity Prices?* IMF Staff Paper 47.2 (Washington: 2000); PRIO/Uppsala Conflict Database (2003); Steven Radelet and Rikhil Bhavnani, "MCA Data for the 2004 Selection Process" (2004).

a. On a scale of 1 to 7; 1 = best.

stunted progress toward greater freedom and institutionalized democracy. Twenty percent of states in this category have experienced a major civil war in the last five years.

Near Misses

The 1.4 billion people who live in countries showing mixed progress in establishing institutions and policies conducive to development have slightly higher per capita incomes and annual GDP growth than the worst-performing states. Governments of these states receive higher levels of development assistance and are less reliant on the export of primary commodities. Although the countries in this category have very mixed records, on average they have shown substantial progress in protecting civil liberties and political

freedom. Nonetheless, major civil conflicts have not left this group unscathed, with nearly 20 percent experiencing significant conflict between 1998 and 2003.

The Good Performers and Those Stung by Corruption

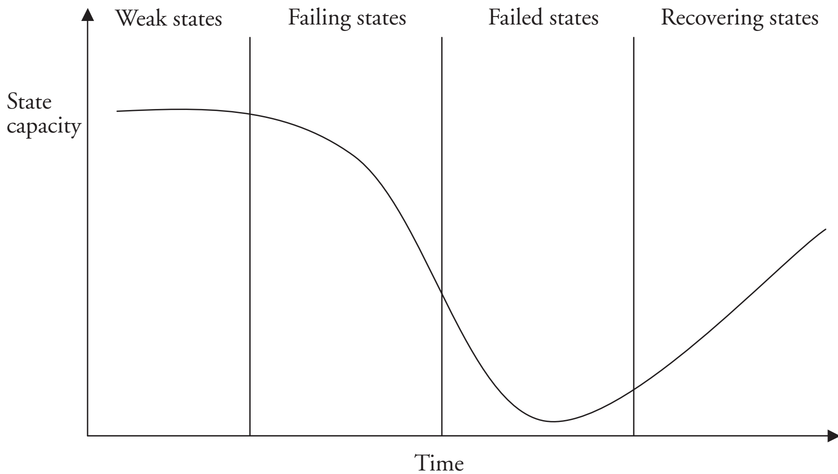
The fourth category, *those stung by corruption*, we do not consider poor performers. Aside from levels of corruption, they are largely indistinguishable from the so-called "good performers." Thus, while those *stung by corruption* find themselves "on the other side of the MCA," they are discussed here with the good performers. The good performers and those states that demonstrate solid commitments on all three dimensions but are plagued by corruption exhibit substantially better outcomes than the low-income, poorly performing states. Per capita income in the good performers is nearly double that of the worst performers, with average annual GDP growth of 3.6 percent, likely outpacing population growth. In addition, their per capita development assistance is nearly triple that of the worst-performing states (indicating selectivity already at work). The good performers, in particular, are also more highly diversified economically and less sensitive to the exogenous shocks to commodity prices that threaten the socioeconomic stability and fiscal balance of the poorly performing countries. Politically, both categories of countries are more democratic and less prone to conflict, suggesting stark differences between the good and the poor performers on political dimensions as well.

Four Stages of State Deterioration

While the empirical measurement of performance provides a useful list of countries for illustrative purposes, it does little to help us identify the key factors that contribute to state deterioration and collapse. For that, we turned to the theoretical literature for guidance.

First, we needed to be clear about the dependent variable of interest. The ultimate outcome of concern to policymakers is state failure. Here, we define state failure in simple terms: a failed state is one in which the government faces a significant armed challenge to its authority by one or more rivals. In such an environment, a government exhibits a limited capacity to deliver the most basic public goods to the population. Security is the most essential public good, and a government in a failed state finds itself challenged by armed insurgency, communal unrest, and political instability—all of which impede the delivery of other essential public goods, including health care and education. The environment is characterized by rising criminality, weakened institutions,

Figure 1-1. *The Dynamics of State Failure*



limited or destroyed infrastructure, and rampant corruption. Another important characteristic is that the government of a failed state has little capacity to effectively monitor and control its borders, facilitating the illicit flow of people, money, drugs, and arms. Outward indicators of state failure include the collapse of a political regime, the loss of substantial segments of territory, and violence that results in a significant number of civilian deaths.

Of the low-income countries, the *worst performers* exhibit the highest incidence of state failure. Slightly less than half of these states experienced a large-scale civil conflict between 1998 and 2003, while the others have been afflicted with unconstitutional regime changes (coups in the Comoros and Guinea-Bissau), low-level instability and violence (Chad and Somalia), and repressive authoritarian dictatorships (Liberia and Myanmar).

But state failure is an extreme condition—the ultimate result of sustained deterioration in the state's capacity and legitimacy or of reversion to conflict following an abbreviated recovery. Intermediate stages of state deterioration exist along the path to and from state failure. Figure 1-1 plots the dynamics of state deterioration over time, pointing to other zones of state weakness that merit attention. Introducing a dynamic element enables us to point to *weak states*, which exhibit underlying risk factors for collapse; *failing states*, where warning signs of conflict are visible; *failed states*; and *recovering states*, where, following the end of hostilities, conditions for improving state capacity are gradually being put in place but reversion to conflict is possible.

States *struggling on many fronts* and the *near-miss* countries fall into a variety of categories. One subset includes states in recovery. Bosnia, Cambodia, East Timor, and Haiti all have emerged from significant civil conflicts and are in the process of rebuilding their government institutions. Another subset includes failing states, which perform poorly across the dimensions outlined in the MCA and have highly visible signs of conflict on the horizon. Côte d'Ivoire and Nepal face growing challenges from armed groups, and each is threatened with the loss of total control over some of its territory. Pakistan, Rwanda, and Zimbabwe also exhibit worrying signs, as authoritarian leaders struggle to maintain their monopoly on political power through constitutional and extra-constitutional means.

On the other hand, some countries in these middle categories are exhibiting substantial progress in building sustainable democracies, such as Kenya, while others are establishing the types of institutions conducive to poverty reduction and growth, such as India and Uganda. But even the majority of states characterized as *struggling on many fronts or near-miss* give cause for concern on at least one of the key MCA dimensions—ruling justly, investing in people, or promoting economic freedom. For example, in Nigeria successive democratic elections have brought an end to decades of military rule, yet President Olusegun Obasanjo has failed to set in place the institutional architecture and economic policies needed to promote private sector development, and he has not reined in widespread corruption. Few of the near-miss states are on the verge of collapse, yet the sources of their weakness portend continued state deterioration unless they make substantial policy changes.

The question is this: What causes state capacity to deteriorate? Why do some governments lose both capacity and legitimacy? How are others able to maintain control and stability when their capacity is weakened or their legitimacy challenged?

The Causes of State Deterioration

To organize our thinking about the causes of state failure, we found it helped to distinguish between "ultimate" and "intermediate" outcomes. Ultimately, we were concerned with the collapse of governments—situations in which a political regime is confronted by a credible armed challenge within its borders. To make sense of the conditions under which states fail, we focused on three key determinants: geography, income, and institutions.

Geography relates to the impact of a country's physical location, characteristics, and natural resources—for example, latitude, proximity to water, terrain,

climate, and stores of such natural economic assets as oil and minerals. *Income*, which represents the absolute level of wealth in a country and an assessment of how it changes over time, characterizes the economic situation confronting the population and the government. *Institutions* refer to a country's formal and informal governing arrangements—from systems to protect property rights to the political institutions established to govern to non-state community institutions.

State deterioration is a gradual process, and two of the key determinants of collapse, income and institutions, are endogenous factors that co-evolve with conflict and change over time. A country's economic condition has important implications for the nature of the political institutions that emerge and their resilience in the face of change. However, there is growing recognition that the quality of formal and informal institutions also plays a critical role in shaping economic outcomes. Understanding intermediate outcomes and their relationship to one another is essential for making sense of the stages of state deterioration. We start with geography, an influence that can plausibly be called exogenous.

Geography

Geography plays an important role in determining the likelihood of state failure and the outbreak of conflict through a number of channels. Its direct impact is felt in two ways. First, the nature of the terrain plausibly shapes the ease with which armed groups can effectively organize a credible challenge to the government.[18] A mountainous, forested country poses a substantial challenge to the capacity of its government to establish sovereignty and effective control over large swaths of territory. Second, the endowment and quality of natural resources, especially oil and minerals, raises the value of the "prize" to be had if armed groups can capture the state.[19] The incentives geography provides for insurgent groups to seek control of the state are particularly pronounced in environments where centralized control is necessary to extract resources effectively.

Geography also shapes state failure through two other channels. First, geography is a key determinant of the income of a country. Its natural resources may not be marketable, depriving a country of a critical source of income. The quality of the soil and the amount of rainfall may not be conducive to growing crops, weakening the agricultural sector of the economy. The climate shapes the likely exposure of citizens to some diseases, making geography an important determinant of the quality and quantity of human capital. Geography also has an impact on the extent to which a country can

trade in world markets. Distant, landlocked countries face an uphill road trying to integrate into trading networks.

Second, geographic conditions affect the development of institutions. It is argued that environments plagued by disease, for example, led colonists to set up "extractive institutions" that transferred natural resources from the colony to the colonizer and failed to protect local property rights or to set in place checks and balances against government expropriation.[20] Many former colonies are still stuck with the remnants of legal systems and institutional structures developed during the colonial period. Sizable resource endowments, particularly in oil and minerals, are associated with the development of rent-seeking and rent-distributing institutions.[21] In such environments, if the government is capable of controlling the extraction of resources, it has few incentives to establish a social contract with the population.

The rich literature on the role of geography illustrates its critical role in shaping economic outcomes, political institutions, and the likelihood of conflict. Arguably exogenous, geographic influences are the deepest determinants of state failure and the most difficult to influence though policy. But geography is not the final word. Even with "bad" geographic endowments, some countries manage to avoid state deterioration and collapse, as in the case of Botswana, a mineral-rich, landlocked country in southern Africa. So it makes sense to look more closely at other key determinants of state failure.

Income

The significance of poverty as a driver of state collapse is an emerging theme in the literature on civil conflict and instability. In a 2003 study, Paul Collier and his colleagues at the World Bank argued that low-income countries face a risk of internal conflict that is around 15 times higher than the risk in countries that belong to the Organization for Economic Cooperation and Development (OECD).[22] Others have replicated their results, finding that $1,000 less in per capita income is associated on average with a 41 percent greater annual chance of onset of civil war.[23]

Poverty may make state failure more likely through two distinct paths. In the first, low and declining income, especially if poorly distributed, tends to create a pool of impoverished and disaffected young men who are easily recruited by armed opponents of the state. Economic alternatives for such potential combatants may be nonexistent or substantially worse than those promised by an armed group. Low per capita income also is associated with a second path to failure. Financially, organizationally, and politically weak central governments make insurgency more feasible and more attractive to

leaders of armed groups, and they tend to lack the capacity to impede the growth of opposition.

Poverty, then, seems to be an important variable in predicting the likelihood of state deterioration. But that begs the question of what causes poverty. Here the interrelationships between the key variables become more visible.

Rodrik divides the "deep" determinants of economic performance into three categories.[24] One is the extent of a nation's integration into the world economy. The difficulty of accessing and participating in world markets is determined in part by the physical location of a country, but it is also a function of a government's policy choices. Openness to trade leads to specialization, technology transfer, capital flow, and the sharing of management expertise—in short, it is a key route to prosperity. The State Failure Task Force, which produced a CIA-sponsored study on the correlates of state failure, found that low levels of trade integration nearly doubled the odds of state collapse, perhaps by reducing the level of income.[25]

We have already explored Rodrik's second category, geography. Some of the same factors that raise the likelihood of state collapse also affect a country's development prospects. Resource endowments are both a blessing and a curse. They offer the prospect of an income stream to sustain economic growth, but their presence invites exploitation and makes it more difficult to build high-quality institutions that are favorable to economic development. Climatic conditions also influence growth by affecting the productivity of the land, and they are believed to have influenced the nature of the institutions that were constructed during colonial times, which still influence government economic policies in some countries today.

So Rodrik's third category, institutions, matters a great deal in economic performance. Economists increasingly believe that some institutional forms are more favorable to development than others—in particular those that protect property rights, preserve judicial independence, and develop the bureaucratic capacity to deliver public goods. And key geographic conditions, including a tropical climate and the presence of natural resources, seem to impede the development of exactly those types of institutions, thereby creating a major constraint on growth. What are the other key determinants of institutional quality?

Institutions

Our brief review of the literature illustrates the pivotal role of institutions in creating the conditions for state deterioration and collapse on one hand and a path to successful development on the other. Because institutions come in so

many shapes and sizes, it is important to pinpoint the exact institutional arrangements that heighten the risk of state collapse in order to more efficiently identify the factors that lead to those arrangements.

Four types of arrangements stand out. The first is partial autocracy, often referred to as semi-authoritarianism, in which the government has adopted some of the key facets of democracy (including regular elections and legal opposition parties) but leaders maintain strict control over the governing institutions, creating in effect a stalled transition to democracy.[26] These institutions are particularly unstable under a second type of arrangement, which exists when leaders formalize the permanent exclusion of minority groups, as in countries where one ethnic group is dominant and controls the reins of government.[27] Looking at institutions in a dynamic sense points to a third unstable arrangement, in which new regimes, enmeshed in an immediate transition to democracy, face much higher risks of conflict.[28] A related, fourth result is that any political instability in governing arrangements (toward or away from democracy) makes state collapse more likely.[29]

So the message is pretty clear. Nondemocratic, exclusionary governments, particularly when they have unleashed the forces of democratic opposition by taking some tentative steps toward political opening, face the highest risk of collapse. The dynamics of transition exacerbate instability even if political reforms might ultimately produce more stable institutions. Political environments of this sort stand in marked contrast to the governing regimes and institutions seen as favorable to good economic performance. So why do some countries fail to get the institutions right?

One answer is that it is just plain hard to do. That is true particularly where geography impedes the establishment of stable, transparent, and long-term government institutions that protect property rights and formalize a social contract with the citizenry. It is already apparent that tropical climates and natural resource endowments leave countries at a distinct disadvantage on this front.

A second challenge to institution building is that countries need to grow in order to develop stable and effective government bureaucracies. Poverty itself is an impediment to institutional development. Many used to argue that democratic, accountable government institutions were a luxury of rich countries, but there is increasing recognition of the fact that democracy can thrive in poor countries.[30] It is just that the transition to democracy in poor countries is inherently unstable, and governments find it difficult during the transition to raise the resources they need to govern and to manage conflicts

over the distribution of goods and services, which are heightened by broad, open participation in governance.[31]

It also is clear that poverty creates incentives for the construction of weak, opaque, and unaccountable institutions. Political clientelism tends to be the norm, with politicians using state resources to provide jobs and services to narrow constituencies; politicians also may use their control of state resources for personal benefit.[32] Bratton and van de Walle use the term *neopatrimonialism* to refer to such arrangements, in which individuals rule by dint of their personal prestige and power, granting few rights and privileges to the citizenry.[33] Neopatrimonial governments tend to have a strong executive, a weak judiciary, and an inefficient or corrupt civil service—precisely the institutions thought to impede development. When the state has deteriorated substantially, new forms of governance take hold that benefit even smaller and narrower constituencies and find ways to integrate themselves into the legal or illicit global economy.[34] The implication here is that economic growth is critical to, if not a precondition for, institutional development, as it increases demand for stability, new and fairer rules, and a more effective civil society capable of disciplining the governing elite.

If geography and poverty work against the development of effective institutions in poorly performing states, what's left? How can countries with the cards stacked against them push for institutional change?

Only tentative offers can be answered here, but there appears to be an important role for the international community to play. One cannot ignore the dramatic growth of electoral democracies in the past thirty years.[35] Whereas only 39 of 142 countries (28 percent) were electoral democracies in 1974, now fully 121 of 192 countries (63 percent) are holding regular elections. While the march of democratic progress, one of the defining trends of the late twentieth century, has many causes, it clearly was spurred by major pro-democracy investments by developed countries, changing norms and beliefs in the international community, and significant outside (and inside) pressure on nondemocratic regimes to change their ways.

The problem is that international pressure has taken institutional development only so far, succeeding in making a place for elections and opposition parties but fundamentally failing to upset the authoritarian equilibrium that predominates in the poorest countries. Transitions to democracy have often been shallow, and many of the new electoral democracies still have not established an independent judiciary and other institutions to check abuses of power, protect civil and political freedoms, and unleash the potential of civil

society. At the same time that elections have become more common, the proportion of liberal democracies—those governments with a deeper commitment to transparency and accountability—has fallen markedly. Ottaway calls this the rise of "semi-authoritarianism" and defines it as one of the key challenges of our time.[36] But transforming such institutions is no easy task, as she admits. Institutions are not easily replaced or reformed, especially when their current inhabitants have strong incentives to preserve them. So Ottaway returns to the underlying conditions, suggesting that international pressure and assistance be combined in efforts to reinvigorate economies, address deep political polarization, reaffirm the capacity of the state, and push for a more balanced distribution of power.

Interrelationships of Determinants of State Failure

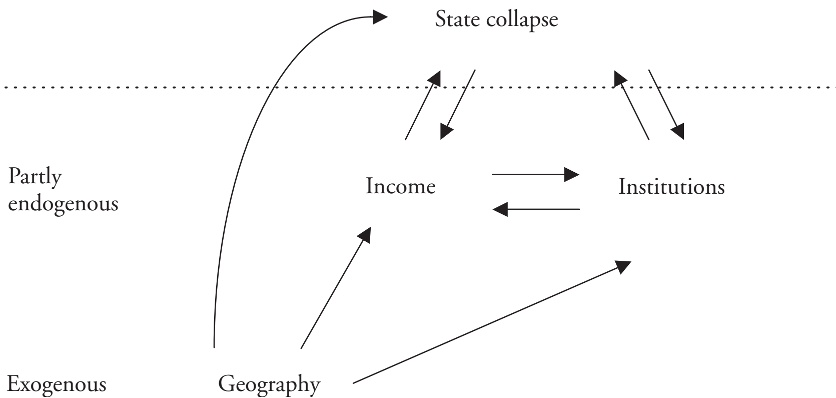
As figure 1-2 demonstrates, the relationships among the core determinants of state deterioration and collapse are complex. State failure is a product of multiple influences, some of which are largely exogenous (geographic factors), while others, such as economic performance and quality of institutions, are partly endogenous—the result of policy choices and political decisions.

One challenge is that intermediate outcomes—including the level of income and the nature of institutional arrangements—while susceptible to reform, change slowly. Progress on economic performance can help to create the conditions for more transparent and accountable governance, although economic failures merely promote the continuation of personalistic, corrupt political regimes. The establishment of high-quality institutions can lay the foundation for dramatic improvements in economic performance, but the rise of semi-authoritarianism and the threat of regime instability are likely to impede the investment necessary for economic development. Progress on economic growth and institutional change are interrelated and reinforce one another, but change takes time and often fails to be sustainable.

Moreover, state collapse and conflict have feedback effects on income and institutions. Conflict weakens the economy, damages infrastructure, and creates uncertainty, impeding investment. Conflict also weakens the foundations of the state, threatening the existing regime and challenging the rules and arrangements that govern social and economic behavior. Once a government fails, its risk of future collapse increases. The poverty trap proposed by Sachs is more fairly a cycle of poverty, weak governance, and instability.

Given these powerful feedback effects, the questions become clearer. Why do some weak states collapse, while others remain mired in poverty and repression? Which arrows in figure 1-2 matter most and why? Are countries

Figure 1-2. *Causes of State Deterioration*



with poor geographic endowments doomed to repeat the cycle of poverty, weak governance, and instability? Can economic growth prevent state failure even if transparent and accountable institutions are not established? Can such institutions stem the tide of state deterioration in the absence of growth?

And the implications for policymakers are obvious. If some countries are too poor and too weak to avoid a slide into conflict, are programs that target the relatively well off and strong the answer? How can incentives for change be created? How can outside actors break the negative equilibrium that emerges in such coountries?

The Country Studies

The country studies included in this volume open a window into the interrelationship of core determinants of state deterioration and collapse, complementing what we have been able to glean from cross-country empirical evidence. Part I features seven country studies, each of which engages a country expert in the task of identifying specific causes of poor performance (and collapse, if applicable) and exploring the dynamics of U.S. policymaking and influence in attempts to shape a country's trajectory. Some broad themes are worth highlighting as an introduction to the studies.

—*The privatization of state resources for personal gain has serious consequences for performance.*

Although corruption takes different forms in different environments, the channeling of state resources for private gain is one key cause and consequence

of state deterioration and collapse. Across the seven country studies, unique forms of such "privatization" appear: dictators distributing patronage to supportive constituencies, militaries providing special benefits to the military elite, governments capturing gains from natural resources and distributing them as private rewards, and collapsing governments exploiting their own weakness to further distribute economic power through the sharing of state control to buy off threats to their power. The absence of countervailing institutions—formal or informal—allows such corruption to thrive and to sow the seeds of further state weakening and collapse.

Take the case of the Democratic Republic of Congo, as presented by Pierre Englebert. To many, Congo is emblematic of the phenomenon of state collapse, although the author points to its surprising resilience (reflected in most citizens' continued belief in its viability) in the face of its own structural weaknesses and extremely adverse international conditions. With per capita GDP in 2000 at one-third of its 1960 value and buffeted by years of internal conflict, Congo is a profile in mismanagement and predation. But Congo's failure to deliver economic growth and political rights to its population has come under two forms of government—the powerful, centralized dictatorship of Joseph Mobutu and the decentralized control of warlords of the post-Mobutu era. What the two forms of government shared, however, was an abiding commitment to using the state or state-like institutions to reward certain individuals and small groups. Under Mobutu, the government asserted unchallenged control of the national polity and economy, making the generation of wealth entirely dependent on access to political office or on the president's good graces. Mineral wealth and patronage continually fed this beast. In the wake of Mobutu's demise, rebel leader Laurent Kabila sought to replicate his national system of predation, but Kabila was constantly challenged by armed groups in the east and north that began to carve out regions of control for their own exploitative purposes. State weakness, rather than state strength, enabled corrupt elites of the ruling government and armed groups to continue looting the country's resources at the expense of the population. An equilibrium of predation still dominates Congo and the country's poverty continues, even as the faces at the helm change.

Such state-sponsored predation is exacerbated in countries that are rich in resources, such as Congo and Nigeria. As Peter Lewis explains, Nigeria's oil wealth changed the basic calculus of its governing elites, shifting their concern from revenue generation to distribution of proceeds from the sale of oil derived mainly from abroad. Political competition thus focuses on gaining access for one's own group to state resources and limiting the claims of other

groups. Democratic deficits result in these *rentier* states, and the development of organized opposition groups that appeal to national (rather than communal) and public (rather than private) goals is suppressed. In his chapter on Myanmar, David Steinberg tells a similar story about a different governing institution—the military. Amid great poverty, Myanmar's military rulers exist in a "self-constructed cocoon" with access to well-managed and well-equipped educational and health institutions, food and staples at subsidized prices, and housing and jobs provided through military-run commercial operations. The wealth generated from the country's natural resources, foreign direct investment, foreign assistance, and the drug trade has gone to finance increasing the power and scope of the military, with benefits only narrowly distributed to the population.

While corruption is characteristic of many failing states, it is not a sufficient condition for state deterioration and collapse. Indonesia, for example, prospered under the rule of General Suharto, even in an environment of political clientelism and corruption. Andrew MacIntyre hypothesizes that Suharto's effective state bureaucracy managed to keep corruption at tolerable levels, making sure that it did not become too expensive or so unpredictable as to deter investment. Organized, controlled corruption, he suggests, can coexist with poverty-reducing growth, if the state has the incentive and capacity to control it.

—*International actors play a part in creating and replicating poorly performing governments.* The country studies point to the critical role of the international community in supporting, emboldening, and replicating ineffective governments in weak and failing states. Three distinct patterns can be drawn out.

The first pattern is the standard cold war–era story of superpower support for tin pot dictators, in which geostrategic interests trump development considerations. The rise of Mobutu in Congo and the Burmese military dictatorship both can be linked to U.S. strategic investments in stemming the spread of communism in the developing world. But such *realpolitik* considerations were not limited to preventing the spread of Soviet influence. The U.S. and other international actors have taken a permissive attitude toward unconstitutional regime change and rule in Nigeria and Indonesia, primarily because they have been more concerned with protecting access to vital energy sources (in Nigeria) and maintaining regional stability (in Indonesia). This pattern continually repeats itself: recent examples include U.S. backing for Laurent Kabila and his son Joseph in Congo, both of whom took power unconstitutionally in 1997 and 2001, respectively. The problem here is that such

transitions, while they may remove bad regimes, do little to change the incentives for local elites to exploit state resources and so feed corruption.

The second pattern is described in Sheila Carapico's chapter on Yemen. There, instead of propping up personalistic dictatorships, the international donor community has been constructing unwieldy, illegitimate state structures that are no more than the "sum of past aid projects." Infusions of foreign assistance to the governments of both North and South Yemen, before their unification, led to the organization of highly centralized states and enshrined public sector dominance of the economy; access to political power became a key channel for wealth accumulation. Carapico details how eight to ten aid agencies competed with one another in the water sector in the 1980s, building parallel national government institutions to manage supply and demand, and by 1997 ironically recommended a return to indigenous, local water management.

Martha Brill Olcott elucidates the third pattern in her description of reform trajectories in Central Asia. Western aid-givers, she argues, began to believe that states in Central Asia were not really "ready" for political and economic reform given their experience under Soviet rule, effectively giving autocrats an out—allowing them to centralize power, restrict civil liberties, and institutionalize corruption in the transitional years. Here, support for dictators was not explicit, as in Congo and Burma. Yet the rhetorical commitment of the United States and other international partners to democratic opening was never realized in practice. Political stability has been the result—four of the five men at the helm in 1991 are still in charge—but at the cost of rising authoritarianism, the crushing of political discontent, and the plundering of public resources.

—*Policy choices cannot be ignored.* Because poverty is such a critical determinant of state deterioration, the role of economic policy choices in determining a state's trajectory should not be underestimated. Good policy choices are characteristic of the resilient countries described in this volume.

In Indonesia, Suharto used his autocratic authority to make the country grow. MacIntyre describes how the government, in conjunction with the International Monetary Fund, implemented a dramatic macroeconomic stabilization program that introduced responsible fiscal management, a stable exchange rate, and an open capital account. A flood of foreign investment followed. Suharto took the revenues from the oil boom of 1973 and invested heavily in key public goods including roads and infrastructure, education, and health. When commodity prices dropped, the Suharto regime unleashed a host of liberalizing reforms, leading to a boom in manufactured exports and

increasing diversification of the economy. MacIntyre explains that although many highly contentious policy reforms and adjustments were required, the Suharto government used its autocratic authority to make rapid changes without too much instability.

Olcott uses the divergent reform trajectories of Kazakhstan and Kyrgyzstan on one hand and of Uzbekistan on the other to demonstrate the importance of making economic adjustments to reduce poverty and increase state capacity. Kyrgyzstan was the first post-Soviet state to engage in financial restructuring. Kazakhstan exhibited a strong banking sector and pro-investment policies quickly after independence. Both countries moved rapidly to privatize ownership of land, reorganize the social safety net, invest in education, and bring spending under control. They have grown faster than their neighbors, and in spite of some political backsliding, Olcott argues that neither faces imminent threat of failure.

She explains that Uzbekistan, on the other hand, faltered under the leadership of President Islam Karimov, who employed decisionmaking models from the Soviet era. His restrictions on private ownership and trade have devastated the Uzbek economy and severely undermined the reform efforts of other Central Asian states that rely on its domestic market, industrial sector, and transportation networks. The Uzbek government now finds itself largely cut off from international assistance, with a growing threat from radical Islamic forces in the country.[37] One need only look at the economic policy choices adopted by the Burmese military government, the Nigerian government during its oil economy's boom-and-bust cycle, and Mobutu's policies of "Zaireanization" for further evidence of the harm done by poor economic policy choices.

Political leaders' ability to shape their own trajectory is not limited to choices about the economy. Political policy choices can also make a difference. For example, in the late 1990s, Indonesia was hit with two radical shocks—the Asian financial crisis and the breakdown of the Suharto regime. MacIntyre argues that severe economic pressure from the economic reversal in 1997 upset the delicate balance of political forces that had kept the Suharto regime afloat. With the collapse of a highly centralized and effective autocratic bureaucracy, Indonesia experienced an upsurge in various forms of deadly violence, including armed regional uprisings. In addition, the popular discontent unleashed by the democratic opening gave rise to a highly fractious and weak political system—the exact reverse of what predominated under Suharto's rule. MacIntyre argues that the limited progress in reversing Indonesia's decline after Suharto is a key consequence of weak political institutions, the

high turnover among political elites, and the inability of the executive and legislative branches to reach agreement on policy reforms. While it is too early to say, key institutional reforms—including the establishment of direct presidential elections, which brought president Susilo Bambang Yudhyono to power in 2004, and consolidation of the party system—promise to address the underlying causes of weak national leadership that have threatened Indonesia's recovery.

While Indonesian reforms made greater centralization and executive power the priority for achieving stability, Nigeria provides an example of political policy choices that institutionalized greater decentralization. Lewis argues that following the devastating civil war in Biafra, the Nigerian government obtained a broad social peace by transforming the political system—instituting two tiers of state and local governments, establishing a new formula for allocating central government revenues, and setting in place constitutional changes to preserve communal diversity in appointments and distributive policies. In subsequent years, Lewis shows how predatory political leaders mismanaged those new institutions. Nonetheless, Nigeria as a state has shown resilience in the face of communal tensions. National political institutions that protect the rights of competing groups are undoubtedly part of its limited success.

—Transitional periods are critical, yet reformers face an uphill battle. Weak and failing states are especially vulnerable to exogenous shocks, and it is during transitional periods that downward trends may be initiated, reinforced, or reversed. Yemen provides a good example. Carapico argues that the newly unified Yemen of 1990—North and South Yemen were brought together largely to maximize the economic gains from their joint production of oil from common deposits—was particularly susceptible to exogenous shocks, dependent as it was on international assistance and foreign direct investment. Carapico shows how the Yemeni government's vote in the Security Council against the Gulf War of 1990 was devastating toYemen, leading to the loss of most sources of revenue, including private remittances and international aid and investment flows, in the period that followed. The domestic economy went into a tailspin and southern separatists emerged, with the goal of attempting to recapture access to resources by establishing their own state. Weak government bureaucracies propped up by international financing collapsed, and fighting broke out.

Indonesia provides another example. MacIntyre points to the exogenous shock of the Asian financial crisis as the key impetus for the collapse of the Suharto regime. Economic insecurity exposed the lack of national consensus

around Suharto's increasingly rigid dictatorship, and his collapse unleashed pent-up demands from across the archipelago, giving rise to criminal and political violence of unforeseen proportions.

The challenge is that when existing arrangements are upset, the competition for power tends to reflect the patterns of behavior exhibited by the previous governing regime. Weak governments tend to replicate themselves.

The collapse of the Soviet Union eliminated the West's need for Mobutu in Congo. As Englebert shows, Mobutu was deprived virtually overnight of the sustained flow of funds that had propped up his political regime. Laurent Kabila then mounted his armed challenge, greeted with cheers from the Congolese population and the international community. Yet Englebert argues that on arrival in Kinshasa, Kabila tried to install a system of personal rule similar to that of Mobutu, albeit with a slightly revised set of beneficiaries. Political openings in societies organized around state predation may be merely opportunities for new coalitions of individuals to capture control of the state.

Even when new forces embrace political and institutional change, the problems left by their predecessors can be a serious impediment to reform. Lewis demonstrates that President Obasanjo, Nigeria's first elected president in twenty years, faced an uphill battle. The institutions of government were depleted by years of mismanagement and plundering, resources were scarce, huge debts were left by departed dictators, and new democratic freedoms released communal tensions that Nigeria's untested political institutions were unprepared to handle. The most serious problem, Lewis suggests, is that Nigeria is characterized by a "social dilemma"—one in which individuals pursue individual interests at the expense of collective welfare. This equilibrium, developed over time and reflecting communal tensions, is difficult to change even when reform advocates emerge.

—*The replacement of an individual ruler can make a big difference if it is accompanied by formal institutional change.* It is clear that past patterns of state deterioration and predation have remarkable staying power. Even when political change occurs and rulers are replaced, we find that new leaders replicate past patterns of poor performance. Simply look at the experiences of Myanmar, Congo, Nigeria, Yemen, and Uzbekistan. The international community has been all too comfortable with shallow regime change, especially in the poorest countries.

The country studies suggest that stemming the tide of state deterioration requires much more substantial action than installing a revolving door for changes of autocratic, predatory leaders. Formal institutional reforms

supported by a new political consensus can reduce political elites' incentives to exploit the state, thereby arresting deterioration.

Susan Burgerman's essay on the experience of postconflict reconstruction in Central America provides some critical pieces of evidence. Although she is careful to elucidate the fundamental challenges still facing the recovering states there, her review of the postconflict experiences of El Salvador and Guatemala points to a critical lesson: formal constitutional, legislative, and institutional reforms laid the foundation for peace, growth, economic diversification, poverty reduction, and increasing political freedom in the 1990s.

Postconflict peace accords made this type of radical change possible. In looking at the Salvadoran accords, Burgerman describes the fundamental electoral and security sector reforms agreed to and mandated by the competing parties. Political parties were given a greater voice in electoral decision-making and voter registration; a new, independent electoral tribunal was established; the police function was separated from that of the armed forces; and major reforms were launched to promote judicial independence. The Guatemalan accords also codified substantial institutional changes in both political parties and the security sector, while the negotiation process provided an opportunity for civil groups to build capacity and express their opinions about future political structures. While substantial impediments to fully formed democratic institutions remain in both countries, parties from across the political spectrum have largely respected the institutional changes made, and progress in development has followed. Indeed, in 2004 five Central American countries negotiated a free trade accord with the United States—something that would have seemed entirely implausible in the mid-1990s.

Burgerman's discussion of the experience in Nicaragua sounds a note of caution. While the postconflict environment provides a unique opportunity to formalize changes in institutions, that opportunity can be quickly lost if a settlement does not mandate reform and provide the political push to implement it. In Nicaragua, Burgerman explains, there was no negotiation agenda and the peace agreement failed to commit the government to the reintegration of all parties, to reform in the security sector, and to political development. Burgerman concludes that without a negotiation process and a firm commitment to reform in the postconflict period, no clear political consensus emerged and Nicaragua struggled its way through the 1990s with a highly polarized polity and weak institutions.

The Central American cases provide important examples of recovering states and how best to use the postconflict period to lay the foundation for state reconstruction.

—*Changing the political incentives that give rise to poor performance is not easy and may require willingness to depart from past practices.* The country studies do little to increase confidence that significant changes in the domestic practices of poorly performing governments can be brought about by standard diplomatic practices. Indeed, the clearest cases of positive change, those in which states emerged from a period of extended state deterioration or avoided sliding into failure, seem to be a consequence of idiosyncratic developments.

Nigeria's emergence as a democratic power in West Africa did not result from underlying changes in the incentives shaping political behavior in the country. Indeed, Nigeria, which still has a petroleum monoculture, battles intense communal politics and is withering under the competing demands of different ethnic groups, regions, and political factions. However, it did emerge from years of international isolation and decline when its dictator, Sani Abacha, died suddenly, providing some wiggle room for reformers to take a stab at democratic governance. It is too early to know whether it will succeed.

Indonesia's transformation from benevolent dictatorship to nascent democracy and now, slowly, to a consolidated democracy was helped along by a series of unforeseen developments: the Asian financial crisis, gradual recovery, and increasing international attention to the region following the terrorist attacks of September 11, 2001, and the Bali nightclub bombing of October 12, 2002. The Indonesian government is now mounting substantial institutional reforms, which MacIntyre sees as critical to preventing any further state deterioration, with the active support and attention of the United States and other international actors.

Across the country studies, however, the diplomatic actions of external actors have more consistently only reinforced the process of state deterioration, albeit with different faces at the helm of government. Englebert's story of Congo's cycling through predatory leaders shows U.S. support for the next "reformer" every time. In Myanmar, U.S. support for the military dictatorship in the 1970s and 1980s turned into a policy of total isolation, one that has heightened the irrational fears of the regime and led to greater consolidation of military control.

These case studies pose questions rather than offer answers regarding the utility of constructive engagement compared with that of isolation as a strategy for shaping state behavior in the worst-performing states. But as Englebert makes clear in his plea for a reevaluation of the tendency to simply continue the flow of assistance, or "life support," to failing states, the very notion

of sovereignty is at stake in thinking about how to prevent state collapse. To the extent that the problems of poverty and institutional weakness are self-reinforcing and that regime change only replicates mismanagement and predation, the international community may need to fundamentally rethink its commitment to protecting, first and foremost, the sovereignty of states. In many of these environments, what is needed is a new social contract between the population and its government—one difficult to form unless institutions are entirely upended and renegotiated, as in the case of postconflict Central America.

U.S. Policy toward Poor Performers

The country studies that make up Part I of the volume offer useful lessons to policymakers on the primary causes of poor performance. Part II evaluates the appropriateness and effectiveness of policy levers currently used by U.S. policymakers charged with formulating strategies toward poorly performing states. What is the role of the international community, specifically the United States, in engaging poorly performing governments? What policy instruments are likely to play an important role in building the capacities of such states and preventing a slide into failure? Experts in five distinct policy domains offer answers to these questions in their examination of five tools commonly employed by policymakers: foreign assistance, trade and market access, foreign direct investment, security sector assistance, and promotion of democracy.

Foreign Assistance

Carol Lancaster argues that U.S. foreign assistance can help encourage reform and reward progress in poorly performing states where the political elites are willing to make good policy choices. Where the elites aggressively resist reform, foreign assistance may have little if any impact in the short term.

Lancaster presents a set of guiding principles for building an enlightened foreign assistance policy designed to prevent state failure. She argues for a policy that is comprehensive and sustained, one with the heft to positively influence the cost-benefit calculations of political elites who stand in the way of political and economic reform. Wary of cookie-cutter approaches, she warns that U.S. assistance programs must be designed and implemented on a case-by-case basis, adjusting the ratio of carrots to sticks to reflect the incentive structures in a given country and the particular factors that render a government prone to institutional deterioration. Lancaster also cautions that

there may be cases in which foreign assistance by itself (irrespective of the amount) will not be sufficient to prod elites to adopt sensible policies. Here, other approaches—including military intervention—may be more suitable and should remain on the table.

She argues that if assistance is to be used effectively, these principles must be accompanied by corresponding organizational changes within the U.S. government. She recommends establishing a permanent entity within the State Department—led by a senior-level director—that would be responsible for providing U.S. government leadership on weak and failing states. Such an entity would be complemented by a counterpart at the National Security Council, lending White House credibility to the effort. With a high-level mandate, improved coordination, and perhaps most important, political will at the highest levels, the U.S. government could reverse the bureaucratic inertia that has plagued serious engagement with poorly performing states. She concludes by emphasizing that while getting the U.S. house in order is necessary, "going it alone" is not likely to be productive. A revamped U.S. approach must be linked to a strengthened international capacity for responding to state failure. She calls for the creation of a small international organization to take the lead in conducting early warning operations and coordinating bilateral and multilateral efforts in weak and failing states. Such a body would be the natural locus for coordinating activities to eliminate international incentives for poor performance, such as the Kimberley process on conflict diamonds, multilateral efforts to counteract money laundering, and much-talked-about initiatives on transparency in the extractive industries.

It is heartening to note that several of Lancaster's central recommendations have either been implemented or are under serious consideration by the highest levels of the executive branch of the U.S. government. With support from Congress and at the direction of the National Security Council, the State Department established the Office of the Coordinator for Reconstruction and Stabilization in July 2004 to "lead, coordinate, and institutionalize U.S. government civilian capacity to prevent or prepare for post-conflict situations, and to help stabilize and reconstruct societies in transition from conflict or civil strife."[38] The office has an initial staff of approximately thirty-five people, with representatives from U.S. government agencies such as USAID; the Departments of Defense, Justice, and the Treasury; and the CIA. The office is a positive though modest start in enhancing U.S. civilian capacity in this area. The office hopes to increase its staff to eighty employees and has asked for $100 million in the fiscal year 2006 budget to finance its operations;

however, budget shortfalls threaten to limit the effectiveness and sustainability of the office.

USAID has also taken modest steps toward increasing the visibility of poorly performing states in its day-to-day operations. In August 2004, USAID issued its Fragile States Strategy, which seeks to "imbed a fragile states business model" within the agency. Among other things, the strategy proposes the creation of contingency financing mechanisms for rapid response teams that could be mobilized and deployed to crisis areas and for new early warning and strategic planning capacities within the agency.

Finally, the Department of Defense has proposed sweeping reforms that would elevate the priority that poorly performing states receive within the massive Pentagon bureaucracy. A recent Defense Science Board study advised the secretary of defense that the Pentagon had not focused sufficiently on operations in postconflict or crisis environments—"stability operations" in Pentagon parlance—and that more, not fewer, countries such as Haiti, Afghanistan, and Iraq will surely be on the military's agenda in the coming years. In response, Secretary of Defense Donald Rumsfeld has ordered a major Defense Department strategy review to recommend organizational changes that would further institutionalize and prioritize stability operations within the department.

Individually, these reforms reflect increased recognition of the fact that state failure is a growing threat to U.S. security interests. Collectively, however, they do not amount to the coherent strategy recommended by Lancaster, nor do they address the problem of diffusion of responsibility. In order to implement coherent policies on poorly performing states, the U.S. government will need to adopt a "whole-of-government" approach that integrates the skills and talents of USAID, the Departments of State and Defense, and at least a dozen more government entities ranging from the Department of Agriculture to the Peace Corps.

Trade and Market Access

Arvind Panagariya's chapter on trade policy contends that deficiencies in governance, not barriers to trade, are at the root of economic failure in poorly performing states. Panagariya points out that over the past few decades, developing countries have all enjoyed similar levels of market access, yet there has been significant divergence in their growth rates. Countries that have experienced significant growth have done so because of the economic policy choices they have made, not the preferential market access they have been given.

If U.S. policymakers wish to provide greater market access to poorly performing states, Panagariya believes that they should do so by concentrating their energies on full-scale multilateral liberalization rather than the use of unilateral trade preferences or bilateral free trade agreements. He argues that multilateral liberalization is more favorable for several reasons. First, poorly performing states are more reliant on regional and neighboring country markets than on U.S. or European Union markets. Unlike unilateral or bilateral arrangements, only multilateral liberalization will reduce the barriers to trade in key developing countries. Second, under a multilateral regime, developed countries cannot pick and choose the imports that they grant preferential treatment. Under existing unilateral trade preference arrangements, the U.S. and the EU have been highly selective in deciding precisely which imports can enter their markets at low (or zero) tariff rates. Unilateral arrangements such as the United States' African Growth and Opportunity Act and the EU's Everything but Arms initiative, for example, have intentionally excluded imports in "sensitive" sectors such as agriculture, apparel, and textiles. Under a multilateral regime, developed countries could not impose such barriers to key exports of the developing world such as rice, sugar, cotton, footwear, and textiles. Finally, a global multilateral regime provides positive incentives for the poor performers to liberalize their own markets *and* for developed countries to fully open their markets to sensitive textile and apparel imports from developing countries.

Panagariya's suggestion that preferential arrangements are not a panacea, particularly for the worst-performing states, is an important contribution to the debate. Yet new empirical research on the impact of the African Growth and Opportunity Act—an initiative designed to grant sub-Saharan Africa substantial access to U.S. markets—provides some evidence of the utility of one-way arrangements. William Cline calls AGOA "a major achievement," with more than 75 percent of exports from eligible countries now entering the United States duty free. In addition, non-oil exports from AGOA-eligible countries to the United States have rapidly increased in recent years, rising by 3.8 percent (relative to non-oil exports from other non-OECD countries) in the period following the AGOA's implementation.[39] In addition to the obvious cases of Nigeria and South Africa, the AGOA has also yielded several other success stories. For instance, exports to the United States from the tiny African nation of Lesotho have almost doubled in the past few years, jumping from $215 million in 2001 to nearly $400 million in 2003. Since AGOA's inception, the garment and textile industry has exploded in Lesotho: in 2003 textiles or apparel accounted for approximately 99 percent

of the country's exports to the United States. According to the U.S. trade representative, thanks to AGOA, 2003 marked the first time in Lesotho's history that private sector manufacturing employment exceeded government employment.[40]

Even Panagariya admits that with greater product coverage, more flexible rules of origin requirements, and an extended time horizon, the development impact of unilateral arrangements (such as AGOA and the Office of the U.S Trade Representative's Generalized System of Preferences) could be substantially enhanced, with real benefits to the poorest countries.

Foreign Direct Investment

Conventional wisdom often holds that the poorest countries are unlikely to attract significant foreign direct investment (FDI) in the nonextractive and noninfrastructure sectors. In contrast to that gloomy prognosis, Theodore Moran argues that the challenges of luring investors, generating economic growth, and reducing poverty "have proven quite surmountable" for several poor countries. Citing Mauritius and the Dominican Republic as examples, he commends the use of export processing zones (EPZs), which, if implemented properly, can attract FDI by eliminating duties on capital expenditures, providing competitively priced infrastructure, and otherwise shielding foreign investors from adverse operating conditions.

However, establishing EPZs that offer enticements to foreign investors is not enough to generate investment. According to Moran, host countries must also let foreign investors decide where to locate such zones, allowing them to choose sites with ready access to economic centers and modestly skilled workers. Perhaps more important is that a key determinant of the success or failure of EPZs is the degree to which host countries pursue sound economic policies that help establish an inviting investment climate. A stable macroeconomic environment with a low rate of inflation and a steady exchange rate, access to duty-free imports and reliable infrastructure (roads, ports, and so forth), and a reliable legal-regulatory framework go a long way toward attracting and sustaining foreign direct investment.

However, it is likely that even under the best circumstances foreign investors will be hesitant to invest in many poorly performing countries. For that reason, Moran concludes that developed countries like the United States must play a role in encouraging FDI through a package of incentives that might tip the scales for investors reluctant to accept the risk of putting their money in potentially unstable environments. Specifically, Moran urges the U.S. government to make better use of existing mechanisms such as the

Overseas Private Investment Corporation (OPIC), one of the United States' quasi-official export credit agencies, which are either underutilized or precluded from supporting many types of foreign direct investment in the developing world. Currently, legislative statute forbids OPIC from providing political risk insurance or loan guarantees to companies investing in "sensitive sectors" (such as textiles, footwear, electronics, and so forth) and prohibits support for foreign companies with a substantial presence in the United States. Moran provides a compelling case for revision of the OPIC's mandate and practices to facilitate greater investment in sensitive sectors and support for foreign companies with a large presence in the United States. Moran also proposes utilizing other agencies of the U.S. government, such as the Foreign Commercial Service and the Foreign Service, to more effectively identify potential foreign investment projects, not just export opportunities.

Security Sector Assistance

In their review of U.S. military and police assistance to poorly performing states, Adam Isacson and Nicole Ball argue that internal political crises in these countries feed the unhealthy growth of security forces. Police and military institutions are highly embedded in these countries' economies, political systems, and even social services, making it impossible to think of the security sector outside of a development context. Reforming social services in many of these countries without addressing the role of the security sector often results in only partial or unsustainable reforms. Isacson and Ball suggest that reforming the security sector in poorly performing states must be part and parcel of a larger, more comprehensive strategy to address deficiencies of governance.

Isacson and Ball examine the U.S. provision of security sector assistance to four subgroups of poor performers: frontline states in the "war on terrorism"; other states of strategic importance; lower-priority countries; and countries that receive low levels of security assistance due to legislative or policy bans. They find that the frontline states—such as Afghanistan, Pakistan, the Central Asian states, and so forth—account for a disproportionate share of U.S. security sector assistance. According to the authors, twenty-nine of the forty-seven countries that fall into these four subgroups received less than $2 million in U.S. security assistance between 2000 and 2004. Moreover, weapons and equipment transfers are largely reserved for frontline states and, to a lesser degree, for states of strategic importance, while the remaining poor performers receive only modest amounts of peacekeeping training, technical assistance, and educational programming.

The authors also challenge the wisdom of America's current security sector policies on a number of other fronts. They criticize the tendency to focus on short-term gains (equipment transfers to frontline states) at the expense of long-term objectives (civilian oversight of the military and democratic accountability). They argue that this lopsided approach has serious negative consequences, including the overall effect of "making weak states weaker." Isacson and Ball express concern that providing massive amounts of material assistance to security forces with questionable reputations in the short term may reduce the leverage that the United States has over them in the long term; inadvertently increase regional insecurity; and reward corrupt elites who flout the rule of law with impunity. An important byproduct of recent trends, they write, is a shift away from civilian programs run by the Departments of Justice and State and by USAID toward a much greater role for the Department of Defense. The net result is a security assistance policy that lacks transparency and coherence and that ultimately is governed by the Pentagon rather than by U.S. officials "charged with guaranteeing the full spectrum of U.S. interests." Isacson and Ball recommend that the State Department reclaim its leading role—as legislated in the Foreign Assistance Act—in setting security assistance policy.

It is an undeniable reality that the United States will always provide large amounts of foreign assistance to countries that it deems necessary to protecting its national security; a cursory look at U.S. aid programs to Israel and Egypt demonstrates the point. Security concerns, such as the threat of terrorism or "loose nukes," will require continued provision of large security assistance packages to frontline states and states of strategic importance. However, in providing security sector assistance to those countries, the United States should preserve a healthy balance between short-term security priorities and the longer-term goal of improving their civilian security and border control agencies and increasing the transparency of their security budgets and military resources.

Promotion of Democracy

The final chapter, on assistance in promoting democracy, begins with the premise that successful development is as dependent on sound political choices as economic ones—if not more. That sentiment is clearly echoed in work undertaken by the World Bank on the influence of good governance on the effectiveness of aid as well as in the United Nations' recent emphasis on democracy and good governance as preconditions for human development.[41]

As David Yang points out, there is an active debate about the efficacy of U.S. efforts to promote democracy. While Yang hails the USAID's existing Democracy and Governance (DG) framework, which underpins U.S. strategic planning for democracy assistance, he argues that USAID's weak analysis of in-country governance has resulted in unfocused and ineffective programming. Using Haiti, Kenya, and Cambodia as case studies, he demonstrates that U.S. programs have yielded limited results "that reflect a conceptually shallow approach to democracy promotion."

In Haiti, USAID was forced to implement its democracy and governance programs in a daunting political environment, one in which President Jean-Bertrand Aristide was mired in a deadlock with his political opponents, who accused Aristide's supporters of rigging the 2000 parliamentary elections. While the DG framework identified the key political issues of the day, Yang believes that it contained no real analysis of the nature of the problems or the actors and institutions that must be involved in crafting a solution. In Yang's estimation the USAID mission made no mention of existing or possible reform activities in the five areas of the framework (consensus, rule of law, competition, inclusion, and governance). As a result of vague (or absent) analysis, the resulting programming—in civil society, elections, governance, and rule of law—was "at once comprehensive and superficial." Lacking a democracy strategy that focused on specific results, USAID provided aid across the board by devising cookie-cutter programs that lacked creativity or selectivity. For instance, Yang heralds USAID's decision to fund a new nationwide coalition of civil groups yet argues that the USAID mission should have had a better understanding of the coalition's target. If USAID had analyzed specific ways in which Aristide had clamped down on political and economic freedoms, according to Yang, it could have distinguished among the ways in which the media, nongovernmental organizations (NGOs), and political parties could be reformed and strengthened.

To be fair, the cases examined by Yang represent three of the more difficult environments in which to implement democracy programs. For example, Yang describes USAID's efforts in Kenya as "a donor casting many seeds to the wind in the hope that some will find fertile soil." Yet one could tell a very different story about USAID's work in Kenya. USAID-financed NGOs established the Kenyan Anti-Corruption Coalition, which has worked toward drafting a new anticorruption law to replace the previous law, which was ruled unconstitutional. USAID also provided crucial assistance to civil groups that have assumed a parliamentary watchdog role—including monitoring and influencing important budget proceedings. However, quantifying

the success of USAID's work is difficult because democratic progress and change rarely happen overnight and causal relationships are not always easy to decipher.

Yang offers several proposals for how the United States might overhaul its strategic planning process for delivering democracy assistance to ensure that it is tackling the most critical issues, working with the most effective reformers, and targeting the right institutions. He calls for renewed emphasis on strong analysis that can act as the foundation for a refined DG framework and that ranks issues by their importance. Yang also believes that USAID should adopt the framework as official agency policy—to strengthen its implementation—and require senior agency officials in Washington to review and scrutinize the framework, particularly the analytical portions.

Appropriateness and Effectiveness of U.S. Policy Levers

Earlier, we highlighted several key themes that emerged from the country studies, which attempt to diagnose the causes of poor performance across a wide array of states. A review of the five chapters on policy instruments reveals four key lessons that might inform future U.S. engagement with poorly performing states in the developing world.

—Reforming governance should be a central objective of U.S. policy in poorly performing countries. The chapters in this volume present compelling evidence that political and economic policy decisions made by elites have tremendous influence on a country's development. When governments make poor policy choices, their development prospects suffer, and despite donors' best intentions, governance failures make it very difficult to realize gains. It comes as no surprise, then, that U.S. policy instruments have had a marginal impact, at best, when elites stood in the way of positive reform and progress.

Yet if the intent to reform and pursue sound policies exists, these policy instruments can be quite effective. Lancaster cites the example of U.S. foreign assistance to South Korea, which struggled in the 1950s to achieve results in the context of a poor policy environment, including a government opposed to reform. In the 1960s, when reform-minded Park Chung Hee assumed power and adopted pro-growth policies, aid contributed to rapid progress in development. Lancaster cites similar experiences with U.S. foreign assistance in Tanzania, Ghana, Bolivia, and Vietnam. Arvind Panagariya refers to analogous examples in the trade arena. From the 1950s to the 1970s, most developing countries pursued isolationist economic policies that shunned integration in the global trading regime. But a few—namely Asian

nations such as Korea, Taiwan, Singapore, and Hong Kong—decided to play in global markets, and the result was sustained economic growth. Their experience was then replicated in Indonesia, India, Vietnam, Chile, and Uganda. In his chapter on foreign direct investment, Theodore Moran also argues that willingness to reform and establish a sound policy environment is a prerequisite for growth and development. Moran cites as recent examples the experiences of two low-income countries, Madagascar and Lesotho. Both made decisive reforms to liberalize their economies and provide tangible incentives to foreign investors. Madagascar awarded EPZ status to foreign investors regardless of where in the country they chose to base their operations; as a result, 120 firms set up shop in Madagascar within the first five years. Similarly, Lesotho managed to employ similar incentives to attract fifty-five foreign-export-oriented manufacturing firms to initiate operations in-country.

When the intent to reform is lacking, policymakers will have to dig deeper for another set of tools that may make a difference in such environments. These might include sanctions, diplomacy, and even military intervention. And as Lancaster points out, there may be cases—such as Zimbabwe—where no amount of foreign assistance will be able to convince the leader and the entrenched elites to change course and adopt prudent policies.

A willingness to take risks is crucial to any strategy for counteracting further state decline and collapse. Lancaster argues for continuing assistance to poor performers "where the performance of governments is not so bad" that any efforts to improve socioeconomic progress are doomed to fail. She believes that such aid is crucial, so that when improvements in governance finally arrive, the country has sufficient human and economic resources to take full advantage. Aid over the long term may also help tilt the cost-benefit calculations of elites toward implementing reform. As education and civil systems are strengthened, the demand for better governance also will increase.

—Policy instruments have varying impacts depending on the nature of the political and economic environment in which they are deployed. When constructing country strategies, U.S. policymakers must resist the temptation to generalize about all poor performers. While many poor performers exhibit common characteristics, each country is different—its demographics, particular fault lines, and sources of instability can vary greatly. Policy instruments, such as foreign assistance or debt relief, are likely to have different impacts in different contexts.

Arguing that inadequate situation-specific analysis has been the Achilles heel of U.S. democracy promotion efforts in poorly performing countries,

David Yang posits that a more strategic and in-depth analysis of a country's institutions, key actors, and cross-cutting issues is necessary if the United States is to avoid cookie-cutter democracy programs. According to Yang, the analytical weakness of USAID's DG framework renders its programs "vague and often unjustified."

Yang's discussion of USAID's programming in Cambodia throughout the 1990s illustrates his point well. Though USAID noted in Cambodia the absence of the rule of law and an inclination to resolve disputes on the basis of wealth and political power rather than impartial justice, it failed to analyze which Cambodian political parties took part in the corruption or how ruling elites wielded their power and influence over judicial civil servants. The mission then proposed to provide assistance to civil groups to help foster transparency and greater accountability, yet did not state whether such groups were capable of carrying out impartial monitoring activities that could be linked with government reform initiatives.

Isacson and Ball warn of the unintended consequences that may result from the infusion of U.S. security assistance to security forces in Tajikistan, Turkmenistan, and Uzbekistan—staunch allies in the war on terrorism. Security forces in these countries have committed serious human rights violations and continue to subvert the rule of law. U.S. post-9/11 assistance has only strengthened their hand. "The kind of assistance offered these countries," write Isacson and Ball, "is at best inappropriate and ineffective; at worst, it is counterproductive." In 2002 the United States funded a stepped-up border security program in Tajikistan to prevent the spread of weapons of mass destruction and to curb narcotics trafficking. The following year, the State Department's Bureau of International Narcotics and Law Enforcement reported that Tajik officials are likely involved in the trafficking of illicit goods and that corruption among law enforcement officials runs rampant.

In her chapter on foreign assistance, Lancaster cites the importance of identifying a country's particular risk factors for collapse but, at the same time, recognizes the difficulties in doing so. She mentions ongoing work by the State Failure Task Force, which has produced a number of reports on the factors that contribute to state failure—with a particular emphasis on the impact of the quality of governance on state weakness. Lancaster also commends the work of USAID, which has attempted to categorize risk factors into clusters, such as root causes, facilitating factors, and regional or international factors. This ongoing work offers a promising starting point for identifying when, why, and how states fail, but the bottom line is clear: the U.S. government should continue to invest in research and policy analysis that

seeks to identify the conditions under which particular policy interventions are effective in preventing, mitigating, and responding to state failure.[42]

—*The U.S. government must be organized and equipped to develop coherent polices toward poorly performing states.* Because poor governance stands in the way of progress in many of these environments, fundamental change often requires powerful incentives for reform. In practical terms, the United States needs to speak with one voice on policy matters; dedicate part of the bureaucracy to focus on the problems of these states; issue a high-level mandate to prioritize this set of countries in policy development and implementation; and set in place flexible policy instruments. Only then will U.S. policy have enough muscle and influence to address the challenges faced by the poor performers.

This begins with a better organizational focus in the U.S. government. At present, no specific agency has responsibility for identifying, monitoring, or responding to weak and failing states. Lancaster cites the need for an organizational locus for preventing and reversing state failure and proposes setting up a permanent bureau within the Department of State as well as corresponding entity at the National Security Council that can identify weak and failing states and develop appropriate response strategies. In addition, the U.S. government does not speak with a unified voice on development issues; in fact, it often speaks in contradictory ones. Isacson and Ball describe how, as a result of the atrophying of civilian agencies, U.S. security sector assistance is increasingly being channeled though the Defense Department. Security packages often end up serving short-term goals rather than long-term development imperatives that are, formally, under the purview of the State Department.

If preventing state failure is to be a foreign policy priority, development deserves high-level attention within the bureaucracy. Though the Bush administration has made development a central pillar, along with diplomacy and defense, of U.S. national security, the president's cabinet has no U.S. government advocate for development. The fragmentation of U.S. development policy, the decline of USAID, and the lack of a coherent development budget have hampered U.S. foreign assistance efforts. The U.S. government needs a high-level advocate for development with a political mandate and a seat at the table in key interagency forums.

Finally, the U.S. government must have a high degree of leverage—in terms of carrots and sticks—when dealing with poor performers. When a country is moving away from authoritarian rule, the United States needs the flexibility to provide rapid economic and political assistance to bolster a nascent democratic government. Likewise, as a country emerges from violent

conflict, the United States needs to promote the reconstruction process by jump-starting its war-torn economy. This flexibility entails taking advantage of old instruments in new ways. For instance, David Rothkopf argues for greater use of the Overseas Private Investment Corporation in the poorest countries. OPIC is precluded from providing risk insurance or guarantees to investments in "sensitive sectors" (textiles, apparel, and so forth) and can deliver services only at commercial rates; both restrictions impede its capacity to make a difference in the poor performers.[43] At the same time, U.S. policymakers must have the appropriate sticks at their disposal to dissuade decisionmakers from straying from reform or exploiting their control of the state to create private wealth. Without sufficient positive and negative inducements, U.S. policy can prove ineffective, if not damaging.

—*Policymakers must take a long-term perspective when dealing with poor performers.* There are no quick fixes when it comes to transforming the world's poorly performing countries. Engendering economic growth, creating more transparent and accountable institutions, and institutionalizing civilian control over the military are difficult and complex tasks that require patience and persistence. A purist foreign policy that engages the good performers while shunning the poor performers is both unrealistic and shortsighted. Though the direct impact of U.S. democracy programs is difficult to quantify, the 2002 election of President Mwai Kibaki in Kenya demonstrates that investments in democracy and civil society can bear fruit over the long haul. The election was most certainly a popular endorsement of his campaign pledges to curtail corruption and invest in social development—seeds that were sown by U.S.-sponsored democracy and governance programs throughout the 1990s. Moran argues that success in attracting foreign direct investment has required a trial-and-error approach. In Mauritius, providing foreign investors with tax incentives to initiate export operations initially yielded little benefit until the government adopted more aggressive economic reforms and offered investors enhanced flexibility. Isacson and Ball warn of the danger of short-term thinking in the delivery of U.S. security assistance to those countries considered most critical in the U.S.-backed war on terrorism. Even when dealing with these states, they write, "it is not in Washington's interests to simply write checks, ship weapons, and transfer lethal skills." A long-term vision that places short-term goals within a broader framework of U.S. objectives regarding democracy and governance is necessary to ensure the effectiveness of U.S. engagement. Finally, Arvind Panagariya writes that one of the major disadvantages of the West's penchant for unilateral trade preferences is

that despite their political utility in the short term, they can give poor countries serious disincentives to liberalize their trade regimes. Because unilateral trade preferences are by definition nonreciprocal, beneficiary countries can receive increased access to developed country markets irrespective of the protectionist nature of their trade policies. That leaves developed countries, such as the United States, with little further leverage to challenge developing countries to continue on the path of political and economic reform.

Conclusion

The ubiquity of weak, failing, and failed states is as astonishing as it is regrettable. A cursory glance at the headlines from the world's leading newspapers on any given day is perhaps the most sobering evidence of the phenomenon. Afghanistan's nascent, embattled transitional government struggles to consolidate its power over the vast hinterlands of its territory and to jump-start its sputtering economy. The international community heralds the start of a new era of peace in war-torn Liberia—the scourge of West Africa throughout the 1990s. New beginnings are also on the horizon in Sudan—which has suffered Africa's longest civil war, at a cost of more than 2 million casualties—as the country's warring parties struggle to agree on the terms of peace. Zimbabwe, under the tyrannical reign of Robert Mugabe, inches closer toward the brink of disaster, its economy in shambles and its society coming apart. Almost daily, disconcerting talk is heard of an impending implosion in an increasingly ungovernable Pakistan.

Despite the absence of a one-size-fits-all palliative for the problems of weak states, new investments in poor performers, a more effective policymaking apparatus, and a more coherent strategy could go a long way toward improving U.S. capacity to better identify, respond to, and prevent state decline and failure. The analyses offered here provide a starting point—a foundation on which U.S. policymakers can build such a strategy. In an increasingly uncertain world, one thing U.S. policymakers can count on is that developing countries that are not making progress will not disappear. In this era of greater interconnectedness, poorly performing states will become more visible and more important as a strategic priority of the United States.

Notes

1. See *The National Security Strategy of the United States*, introduction (Washington: White House, 2002).

2. Center for Global Development, *On the Brink: Weak States and U.S. National Security*, Report of the Commission on Weak States and U.S. National Security (Washington, 2004); Stuart Eizenstat, John Edward Porter, and Jeremy M. Weinstein, "Rebuilding Weak States," *Foreign Affairs* 84 (January-February 2005): 134–46.

3. See Robert S. Chase, Emily B. Hill, and Paul Kennedy, "Pivotal States and U.S. Strategy," *Foreign Affairs* 75 (January-February 1996): 33–51.

4. The anchor states include South Africa, Nigeria, Ethiopia, and Kenya. See the president's Africa policy at www.whitehouse.gov/infocus/africa/.

5. United Nations, Report of the Panel of Experts on Somalia Pursuant to Security Council Resolution 1474 S/2003/1035 (New York: 2003).

6. See the president's March 2002 speech at www.whitehouse.gov/news/releases/2002/03/20020314-7.html.

7. See Craig Burnside and David Dollar, "Aid, Policies, and Growth," *American Economic Review* 90 (September 2000): 847–68. This consensus is not without its detractors. For instance, Michael Clemens, Steven Radelet, and Rikhil Bhavnani ("Counting Chickens When They Hatch: The Short-Term Effect of Aid on Growth," Working Paper 44 [Washington: Center for Global Development, 2004]) found that once aid is disaggregated on the basis of the plausible timeframe of its impact, there is a positive, causal relationship between "short-impact" aid and growth, irrespective of a country's level of income or the quality of its institutions and policies.

8. See Steven Radelet, *Challenging Foreign Aid: A Policymaker's Guide to the Millennium Challenge Account* (Washington: Center for Global Development, 2003), p. 1. Congressional appropriations for the MCA have lagged behind the administration's requests, and the Millennium Challenge Corporation (the governing body of the MCA) also has been slow to disburse funds. Despite its slow pace, the establishment of the MCA has greatly influenced the "selectivity" debate among OECD countries.

9. For the AGOA legislation, see www.agoa.info.

10. See Jeffrey D. Sachs, "The Strategic Significance of Global Inequality," *Washington Quarterly* 24 (Summer 2001): 187–98

11. See Bruce Bueno de Mesquita and Hilton L. Root, "The Political Roots of Poverty: The Economic Logic of Autocracy," *National Interest* 68 (Summer 2002): 27–38.

12. Center for Global Development, *On the Brink*.

13. See Radelet, *Challenging Foreign Aid*, chapter 2, for further elaboration.

14. Sarah Lucas and Steven Radelet, *An MCA Scorecard: Who Qualified, Who Did Not, and the MCC Board's Use of Discretion* (Washington: Center for Global Development, 2004). The board of the MCC, in determining which countries would receive assistance in the program's first year, deviated from a strict application of the indicators by exercising discretion in seven cases.

15. We are grateful to Steve Radelet and Rikhil Bhavnani of the Center for Global Development for sharing and explaining their data on the Millennium Challenge Account, which provide the foundation for our taxonomy.

16. See the World Bank, *World Bank Group Work in Low-Income Countries under Stress: A Task Force Report* (Washington: 2002).

17. See Joanna Macrae and others, *Aid to 'Poorly Performing' Countries: A Critical Review of Debates and Issues* (London: Overseas Development Institute, 2004).

18. See James Fearon and David Laitin, "Ethnicity, Insurgency, and Civil War," *American Political Science Review* 97 (February 2003): 85

19. Ibid.; Paul Collier and others, *Breaking the Conflict Trap: Civil War and Development Policy* (Washington: World Bank, 2003), p. 60.

20. Daron Acemoglu, James A. Robinson, and Simon Johnson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91 (December 2001): 1369–1401.

21. See Terry Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (University of California Press, 1997); Michael Ross, *Timber Booms and Institutional Breakdown in Southeast Asia* (Cambridge University Press, 2001); and Nancy Birdsall and Arvind Subramanian, "Saving Iraq from Its Oil," *Foreign Affairs* 83 (July-August 2004): 77–89.

22. See Collier and others, *Breaking the Conflict Trap*, p. 5.

23. See Fearon and Laitin, "Ethnicity, Insurgency, and Civil War," p. 83.

24. See Dani Rodrik, *In Search of Prosperity* (Princeton University Press, 2003).

25. See Jack A. Goldstone and others, *State Failure Task Force Report: Phase III Findings* (McLean, Va.: Science Applications International Corporation [SAIC], 2000).

26. See Marina Ottaway, *Democracy Challenged: The Rise of Semi-Authoritarianism* (Washington: Carnegie Endowment for International Peace, 2003). For empirical results on the relationship between regime type and conflict, see Fearon and Laitin, "Ethnicity, Insurgency, and Civil War," p. 85, and Havard Hegre and others, "Toward a Democratic Civil Peace? Democracy, Political Change, and Civil War, 1816–1992," *American Political Science Review* 95, no. 1 (March 2001), p. 42.

27. See Collier and others, *Breaking the Conflict Trap*, p. 57.

28. See Jack Snyder, *From Voting to Violence: Democratization and Nationalist Conflict* (New York: W. W. Norton, 2000).

29. See Fearon and Laitin, "Ethnicity, Insurgency, and Civil War," p. 85.

30. See Adam Przeworski and others, *Democracy and Development: Political Institutions and Well-Being in the World, 1950–1990* (Cambridge University Press, 2000), pp. 2–3.

31. Ibid., p. 269.

32. See Robert Bates, *Markets and States in Tropical Africa* (University of California Press, 1981); Richard Joseph, *Democracy and Prebendal Politics in Nigeria* (Cambridge University Press, 1987).

33. See Michael Bratton and Nicolas van de Walle, *Democratic Experiments in Africa: Regime Transitions in Comparative Perspective* (Cambridge University Press, 1997), p. 61.

34. See William Reno, *Warlord Politics and African States* (Boulder, Colo.: Lynne Rienner, 1999).

35. See U.S. Agency for International Development, *Foreign Aid in the National Interest* (Washington: 2001).

36. See Ottaway, *Democracy Challenged*.

37. Post-9/11, the situation has become considerably more complicated because Uzbekistan's proximity to Afghanistan has rendered it a "key strategic partner" in the U.S.-led war on terrorism.

38. U.S. Department of State, *Office of the Coordinator for Reconstruction and Stabilization Fact Sheet* (Washington: 2005).

39. William R. Cline, "Trading Up: Strengthening AGOA's Development Potential," *Center for Global Development Policy Brief* 2, no. 3 (Washington: Center for Global Development, 2003).

40. U.S. Department of Commerce, *U.S.–Sub-Saharan Africa Trade Statistics* (Washington, 2003); U.S. Trade Representative, *Comprehensive Report on U.S. Trade and Investment Policy toward Sub-Saharan Africa and the Implementation of the African Growth and Opportunity Act* (Washington, 2003).

41. See Daniel Kaufmann, Aart Kray, and Pablo Zoido-Lobatón, "Governance Matters," World Bank Policy Research Paper 2196 (Washington: World Bank, 1999); and UN Development Program, *Human Development Report 2003*: *Millennium Development Goals: A Compact among Nations to End Human Poverty* (New York: 2003).

42. See *State Failure Task Force Report*. See also U.S. Agency for International Development, *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (Washington: 2004) and *USAID Fragile States Strategy* (Washington: 2005).

43. David J. Rothkopf, *The Price of Peace: Emergency Intervention and U.S. Foreign Policy* (Washington: Carnegie Endowment for International Peace, 1998).