

## **The Globalized State**

On the impact of globalization on national state capacity in the perspective of sub-Saharan Africa



### **Bachelor of Arts: Thesis**

\* Name: Wessel Toonen

\* Research seminar III – ‘Globalization’

\* Student number: 3478289

\* Supervisor: Dr. Erik Nijhof

\* Version: 19<sup>th</sup> June, 2013

\* Word count: 14.251

## **Table of contents**

1.	Introduction.....	4
2.	Acknowledgements.....	8
3.	Capturing state capacity: An analytical framework.....	10
3.1.	Models and approaches.....	10
3.2.	History and theory.....	17
4.	Sub-Saharan Africa: A Non-western Paradigm.....	24
4.1.	African capacity errors.....	25
4.2.	Factors and institutions.....	30
4.3.	Statistics and the AU.....	40
5.	Conclusion.....	61
5.1.	History and institutions.....	61
5.2.	Culture and geography.....	63
5.3.	The Globalized State?.....	64

6.	Bibliography.....	65
6.1.	Primary sources.....	65
6.2.	Secondary literature.....	66
6.3.	Journal articles.....	67
7.	Glossary of terms.....	69
8.	Appendix.....	70
8.1.	Country Policy and Institutional assessment.....	70
8.2.	ICRG Quality of Governance Index.....	71

## 1. Introduction

*"World inequality dramatically increased with the British, or English, Industrial Revolution because only some parts of the world adopted the innovations that men such as Arkwright and Watt, and the many who followed, developed. The response of different nations to this wave of technologies, which determined whether they would languish in poverty or achieve sustained economic growth, was largely shaped by the different historical paths of their institutions.*

*By the middle of the eighteenth century, there were already notable differences in political and economic institutions around the world. But where did these differences come from?<sup>1</sup>*

Only little time has passed by since Daron Acemoglu and James A. Robinson first published their renowned book *Why Nations Fail*, in which they offer a compelling analysis of global inequality and its origins. The lines presented above form the opening of the part called 'Small Differences That Matter', which explains how even minor institutional differences between various countries leave their mark on the latter's development. These can either shape their unique patterns of economic growth or initiate trajectories that lead to demise. Depending on how these minor differences collide with the critical junctures of history.

There is solid reason behind my decision to commence the introduction to my inquiry with this particular quote from *Why Nations Fail*. First, these lines denote the dramatically increased world inequality from the Industrial Revolution and onwards. This historical Great Divergence, and especially its exacerbation with the dawn of globalization, also marks a cornerstone of my inquiry.

Second, the observation that only some parts of the world adopted modern innovations, while other areas did not, constitutes the historical framework on which I am able to build my own observations. Third, this quote stresses the importance and diversity of political and economic institutions. I will also stress their primacy with regard to the case of sub-Saharan Africa.

Finally, Acemoglu and Robinson raise the question where these differences come from. The answer will, so is my belief, help me to identify the nature of states' various responses to globalization.

---

<sup>1</sup> D. Acemoglu and James A. Robinson, *Why Nations Fail. The Origins of Power, Prosperity and Poverty* (London 2013) p. 105.

This is my final thesis of the Bachelor of Arts, by which I now conclude my undergraduate study of History at Utrecht University. Herein, I will examine the impact of globalization on national state capacity. Focusing exclusively on the case of sub-Saharan Africa, I will provide a study of how globalization has the potential to both benefit and worsen conditions in different areas of the world. Thereby, I shall determine the benchmarks of strong and weak national states by focusing on the different factors that constitute state capacity.

Acemoglu and Robinson have emphatically stressed the primacy of political and economic institutions in this type of studies. I will also include cultural and geographical factors in the following analysis. Any robust empirical equation has to contain every single variable significant in determining its outcome. The addition of cultural and geographical factors therefore serves the integrity of my inquiry.

Notwithstanding these empirical ambitions, certain states which are of unquestionable significance to the world economy have effectively been left out of the scope of the thesis. Similarly, the European model of state formation has not received special attention through a chapter of its own. Neither has the historical success of the United States of America in becoming a powerful global economic force been granted any thorough or separate analysis.

Paradoxically, the countries commonly associated with the 'West' do constitute the main *exempla* of national state capacity elevated through globalization.

Regardless, it has been chosen to limit the scope of this study to the case of sub-Saharan Africa. I will address these matters in detail in the 'Acknowledgements' on page number eight.

This inquiry begins with a conceptual definition of national state capacity. To this end, the latter notion will be captured in an analytical framework covering both its underlying theory and *de facto* models. This is required to serve the various practical ramifications which derive from the basic concept of state capacity.

The framed conceptual definition will then be contextualized in historical and theoretic models to provide a more extensive empirical foundation. These principally consist of the 'Predatory theory of the state' and the New Institutional Economics.

The inquiry then proceeds with the analysis of sub-Saharan Africa. Including its errors in capacity building and the different factors – history, culture, institutions and geography – underpinning them. These findings will be related to statistical methods concerned with the variables in determining economic growth.

Specifically, we will compare two sub-Saharan African countries, both more and less well-to-do, for their ability to extract revenues from society. To this end, we will analyse the capacity of these individual states to independently raise revenue through taxation. In this way, we will indicate the relationship between the quality and nature – inclusive vs. non-inclusive – of political institutions with the capacities of the selected countries. This allows us to determine what types of states are prone to economic growth while others dwell in poverty.

Next, this inquiry analyses the impact of globalization – through the African Union and NEPAD ('New Partnership for Africa's Development') – on this institutional model of capacity building. Thereby, we conceive globalization in terms of supra-national organizations that seemingly attract powers which were formerly reserved for national states. These can be seen as a by-product of global integration, which facilitates interdependence and requires for global governance. We will identify how these affect the institutional framework of states in sub-Saharan Africa.

Last, the national state capacity of this region will be measured through a critical interplay of factors. The observant reader will find that the title of this Bachelor thesis – *The Globalized State* – is rather misleading. In terms of capacity, there is not a single globalized state. Rather, there is a whole spectrum of national states in which some are well-equipped for a favourable impact of globalization. Others however, only gradually develop the tools required to increase prosperity in the era of globalization. Especially countries located in sub-Saharan Africa suffer dramatically under the latter's consequences.

The question that needs to be answered is how these factors have grown and developed throughout the course of history. To what extent does their interplay become critical in dealing with globalization? The main findings of this inquiry attempt to answer this question from the perspective of sub-Saharan Africa. This will be summarized in a final conclusion.

This inquiry draws extensively on a range of secondary literary sources. Especially on articles published in journals which cover topics such as international politics, governance and economics. Furthermore, I have also made frequent use of primary source material to enforce my arguments. These concern various data from the World Bank Group and a policy research paper from the National Bureau of Economic Research. (NBER) I will also deploy particular accounts from the African Union. Every distinctive category of source material will be alphabetically ordered in the bibliography presented on page 65.

In addition, I have provided a glossary of terms frequently deployed throughout the various parts of my analysis. Clarifications of any unknown abbreviations encountered whilst reading may therefore be located on page 69. Finally, the variables deployed throughout this inquiry will be detailed in the appendix presented on page 70.

I hope my final thesis will contribute to a better understanding of the historical origins of the many problems facing sub-Saharan Africa in the era of globalization. It is important to comprehend how even poor countries can become rich, and which broader movements lie at the heart of these transitions. Understanding the forms of national state capacity and the factors which determine the shape and weight of their reaction to the globalizing world leads to an increased awareness of the latter's challenges. At the same time, these findings also provide the lessons required to maximize the benefits of globalization.

Finally, I hope the reader may also learn these lessons from my final thesis. May my analysis and conclusions also start to concern you whenever you are hearing or reading about global poverty and related issues. I further hope that you will simultaneously experience the same inspiration and illumination in contemplating these subjects as I did. Both during the earliest stages of my research, through every individual step of the writing process and lastly in the completion of my Bachelor thesis.

## **2. Acknowledgements**

In accordance with my supervisor, I have decided to adopt the essential western or Eurocentric framework of state formation as an empirical fact. This will be deployed throughout the course of the entire thesis. However, it will not be framed into a single chapter. In this way, I am able to grant a substantial amount of attention more to subjects that concern sub-Saharan Africa.

Consequently, I will examine the non-western organization of the African Union in its own right. I am convinced that this will lead to a more independent and objective comparison with a western equivalent such as the European Union.

I further acknowledge that my inquiry effectively leaves significant global economies such as China and India out of the equation. The reason for this is not to downsize the importance of their capacity, but simply that they do not need to be included to reach conclusions about sub-Saharan Africa. In addition, my findings might just be sufficiently binding to also encompass implications concerning the state capacity of countries in different parts of the world.

Finally, there are a number of people to whom I would like to express my personal gratitude. First and foremost, I would like to thank both of my parents – Willem Toonen and Marga Toonen-Verdonschot – for their indefatigable support which they have always given to me unconditionally.

They encouraged me in my decision to start my study of History and they were at my side when I left home to start the next chapter of my life in Utrecht. Today, four years later, this chapter has nearly reached its end. At this point, I can be nothing but grateful that I have always had two people in my life who were there for me and never ceased to help me in developing my own capacities.

Secondly, I would like to thank my supervisor – Dr. Erik Nijhof – for his numerous suggestions for adjustments on my initial research proposal. Dr. Nijhof's thoughts and ideas on this topic were of much help in demarcating my research object more sharply from what it had been before.

Thirdly, my personal gratitude belongs to all the gifted fellow students and other talented colleagues I have been fortunate enough to work with – in various contexts and to different ends – during the past four years of my life. This has allowed me to gain notable skills in the field and I have learned much by spending time with you, for which I am thankful.

Finally, my special thanks are reserved for all the friends I made during my studies of Political Science and International Relations at Swansea University in Wales, from 2011 to 2012. This unforgettable life event helped me to further shape and develop my own personal and professional capacities in ways I could not have imagined. When I returned home from this exceptional time, I found myself thinking, acting and behaving more globally in a corresponding entrepreneurial attitude. In this way, what is now in the past will be of indispensable value to my future.

### 3. Capturing state capacity: An analytical framework

*"In contrast, contemporary states in the era of globalisation are faced with the challenge of acquiring new types of capacity that enable them to engage with a growing plurality of actors and institutions at the global, sub-national and local levels."*<sup>2</sup>

Francis Fukuyama defines state capacity as 'the ability of states to plan and execute policies and enforce laws cleanly and transparently.'<sup>3</sup> Especially the latter part of his definition reflects Fukuyama's conception of national state capacity as an essential feature of democratic politics.

Though 'cleanly' in this context could also denote a lack of substantial opposition to bargain with before executing policies. It could mean that the state does not need to resort to violent means in order to enforce its laws. Both of these implications could also be practiced in centralized and authoritarian regimes. Thus, while Fukuyama's definition provides a core meaning of state capacity, it does also contain limitations in clarifying the nature of the particular state to which it is applied. Nevertheless, Fukuyama does signify indispensable rudimentary aspects of state capacity which are vital to a correct understanding of their *de facto* embodiments. These are especially important for the purpose of this inquiry, because they provide a conceptual handhold in examining state capacities per national case. The next sections will take a closer look at these matters and place them in a broader historical and theoretical perspective.

#### 3.1. Models and approaches

The opening quote of this chapter points to a crucial discrepancy in transforming state capacities in the wake of globalization. On the one hand, the need for new state competencies, more flexible approaches and stronger institutions has been acknowledged. To the extent that these correspond with the changing role and

---

<sup>2</sup> M. Robinson, 'Hybrid States: Globalisation and the Politics of State Capacity', *Political Studies* 56 (2008) p. 567.

<sup>3</sup> Robinson, 'Hybrid States', p. 566.

functions of the state. On the other hand, reform prescriptions remain often confined to improvements in the attributes of state organisations operating in the domestic sphere.<sup>4</sup> This discrepancy has been endorsed by a historical division between states associated with the 'command-hierarchy' approach and the 'influence-network' model. The former, commonly associated with state forms that prevailed only recently in many welfare and developmental states, emphasises hierarchical relations and clear boundaries between different formal organisations.

The state is therefore separated from the wider society and policy formation operates as a state-led linear process.<sup>5</sup> In contrast, the 'influence-network' model is based on a very different approach. The emphasis lies on dense networks of relations that cross organisational boundaries and the interdependence of state and societal actors.

This model has profoundly deviating implications for capacity building than for states adhering to the conventional 'command-hierarchy' approach. Herein, complex interactions between networks of factors in state and society jointly emanate policies, whereafter the quality of outcomes serves as the principal determinant of accountability.<sup>6</sup> One may recognize that this model associates itself with a number of regulatory states, which have emerged in many advanced industrial economies since the 1980s.<sup>7</sup>

Theda Skocpol explains how these different state-society relations mark a paradigmatic transition within the conception of the state and its role within political science and sociology. In the 1950s and 1960s, society-centered ways of explaining politics and government activities viewed the state as merely 'the government': the arena within which normative social movements or economic interest groups contented or allied with each other, in order to shape the public policy making decisions. Moreover, Skocpol argues that those decisions were the allocations of benefits among demanding groups.<sup>8</sup>

---

<sup>4</sup> Robinson, 'Hybrid States', p. 567.

<sup>5</sup> Ibid, p. 568.

<sup>6</sup> Ibid, p. 568.

<sup>7</sup> Ibid, p. 568.

<sup>8</sup> T. Skocpol, 'Bringing the State Back In: Strategies of Analysis in Current Research', in: P. Evans, D. Rueschemeyer and T. Skocpol (ed.), *Bringing the State Back In* (Cambridge 1985) pp. 3-38, p. 4.

In this sense, research centered on the societal 'inputs' to government and on the distributive effects of governmental 'outputs'.<sup>9</sup> As we shall see, the informal networks of influence that solidify this early theoretical approach can still be traced in sub-Saharan Africa. In many countries, government decisions mainly serve to allocate benefits to particular groups in society.

However, social scientists gradually became more willing to offer state-centered explanations as they identified its increasing primacy through a series of post-1945 developments. They drew on the widely known writings of German scholars such as Max Weber for their new understanding of the state. In this way, the state was conceived as more than just the government which performs the role of the described arena.<sup>10</sup>

Conversely, states became treated as organizations that control territories and thereby shape structures and actions. This renewed attention paved the way for the 'command-hierarchy' approach, which allows us to consider the various ways in which historically changing transnational contexts condition state structures and actions. These contexts affect national states through interstate competition, world economic trade patterns and many other features commonly associated with globalization.<sup>11</sup>

In his article, Mark Robinson stresses the exogenous influences on state capacity which have generated divergent responses from states. The one most relevant for our purpose is the impact of globalization on the national state.

Scholars are as divided in their definitions of globalization as are the analysts in their assessments of its impact on the latter. One school of thought considers globalization as a threat to national states, undermining their capacity to fulfil its social obligations through welfare measures and thereby rendering them unable to protect those adversely affected by global competition.<sup>12</sup>

The rise of transnational corporations provides ample space for critical analysts, claiming that these are able to subvert the authority and power vested in the

---

<sup>9</sup> Skocpol, 'Bringing the State Back In', p. 4.

<sup>10</sup> Ibid, pp. 7-8.

<sup>11</sup> Ibid, p. 8.

<sup>12</sup> Robinson, 'Hybrid States', pp. 569-570.

national state.<sup>13</sup> At the other end of the spectrum, there are theorists such as Peter Newell. They argue that states can develop creative institutional responses, to meet the challenges posed in the face of increased global competition and exchange of goods and services. Moreover, far from denying the corrosive impact which globalization may have on state sovereignty and their extent of legitimate control over territorial boundaries, they do question the notion of a retreating state under the imperatives of globalization.

Linda Weiss, for instance, bases her doubts on this pessimism on three interrelated premises: that states have greater room for manoeuvre than is commonly accepted by critics, that certain forms of state action may be enabled rather than constrained by globalization and primarily, that the strength and character of domestic institutions constitutes a critical determinant of state responses.<sup>14</sup>

In line with the introductory quote on page number four, we conceive globalization as a collection of phenomena in which a flow of capital, labour and ideas has been facilitated by the expansion and penetration of new information and communication technologies.<sup>15</sup> Moreover, as Acemoglu and James rightfully denote, it is striking how only some parts of the world adopted these innovations. Particularly, various nations responded differentially to the global waves of technologies, which has been largely shaped by the historical paths of their institutions.<sup>16</sup>

Regarding the exogenous influence of these phenomena on state capacity, we define globalization in terms of its byproduct. Mark Robinson describes this as “[...] the creation of new regulatory institutions at the international and regional levels, which may complement or supersede the national state.”<sup>17</sup> Thus, the challenge facing contemporary states in the era of globalization is to acquire new types of capacity which enable them to engage with this growing plurality of actors and institutions at these levels.<sup>18</sup>

---

<sup>13</sup> Robinson, 'Hybrid States', p. 570.

<sup>14</sup> Ibid, p. 570.

<sup>15</sup> Ibid, p. 571.

<sup>16</sup> Acemoglu and Robinson, *Why Nations Fail*, p. 105.

<sup>17</sup> Robinson, 'Hybrid States', p. 570.

<sup>18</sup> Ibid, p. 567.

However, the prevailing approaches to state capacity building are largely based on technocratic criteria and focus on conventional models of public administration.<sup>19</sup> They tend to emphasize only the three dimensions of capacity building as defined by Mamadou Dia. In particular, the upgrading of skills of individual bureaucrats (training and skill development), improvements in methods, procedures and systems (new budgeting arrangements, monitoring and reporting, results-based management) and institutional development. The latter refers to the reinforcement of capacity of an organisation in order to maximize the efficiency of human and financial resources.<sup>20</sup>

These strictly technocratic approaches neglect the influence of politics on reform implementation and development outcomes. Their limitations are therefore increasingly being recognized by policy makers and aid donors. However, their subsequent consensus on 'getting politics right' as an approach to ensure favourable reform outcomes is perhaps equally limited. The reason for this is that this approach remains largely confined within the parameters of reform prescriptions which continue to focus on centralised and hierarchical forms of state power.<sup>21</sup>

In fact, these reforms were premised on circumscribing the role and functions of the state and monitoring the behaviour of its officials, rather than the actual strengthening the capacity of the state so that it may operate effectively in different and challenging contexts. Furthermore, conventional approaches to state capacity building remain to a large extent bounded by the assumptions of the 'command-hierarchy' model. Policy makers thus continue to treat the state as a undifferentiated whole,<sup>22</sup> even when its different attributes and capacities have already started transitioning to the 'influence-network' model.

Conventional approaches fail to tackle the structural transformations in the state – caused by a set of exogenous pressures for reform which will be elaborated in the next chapter – but instead provide only a standardised set of 'one size fits all' reform approaches irrespective of the organisational context, form and nature of the particular state.

---

<sup>19</sup> Robinson, 'Hybrid States', p. 566.

<sup>20</sup> Ibid, p. 567.

<sup>21</sup> Ibid, p. 567.

<sup>22</sup> Ibid, p. 575.

Lastly, the treatment of political factors within these approaches tends to be confined to how they shape the implementation of state reform agendas. The primacy of these factors requires them to serve as fundamental imperatives governing policy choices and responses to exogenous influences.<sup>23</sup>

Various scholars and theorists have addressed these conceptual and empirical limitations by defining national state capacity in broader terms. They have advanced several notions of state capacity to extend the concept beyond conventional technocratic attributes to the ability of public officials to engage in new and different ways with external actors. Thereby, these notions promote approaches to capacity building which comply with the broader contextual changes that affect both the nature and functions of the state.<sup>24</sup>

To conclude this section, I shall outline the respective notions of state capacity which are most fundamental to my inquiry. Different types of capacity can particularly be associated with the divergent state forms to which they apply. Moreover, one type of capacity's relative significance over another reflects both the level of the country's socio-economic development and the degree of integration within the global economy.<sup>25</sup> These indications provide the equipment needed to estimate the impact of globalization on sub-Saharan Africa.

Relational capacity is the notion advanced by Kanishka Jayasuriya. Relational capacity denotes the ability of the state to engage in multiple sites of governance. It is rooted in the facilitation of strategic capacity of different agencies, rather than in specific institutional arrangements of the state with non-state actors. Relational capacity departs from the 'command-hierarchy' model and addresses issues of multi-level governance, in which authority is dispersed across multiple jurisdictions at international, national and sub-national levels, such as in the European Union.<sup>26</sup>

Transformative capacity denotes the ability of domestic policy elites to pursue

---

<sup>23</sup> Robinson, 'Hybrid States', p. 575.

<sup>24</sup> Ibid, p. 575.

<sup>25</sup> Ibid, p. 578.

<sup>26</sup> Ibid, pp. 575-576.

domestic policies and economic adjustment strategies, and therefor cooperating with organised economic interest groups with a view to upgrading and transforming the industrial economy. This type of capacity centres on the ability of public officials to form productive relationships with the private sector without abandoning autonomy in decision making processes and the overall policy direction. Distinct sets of organisational or individual attributes are not considered within this approach.<sup>27</sup>

Infrastructural capacity refers to the capacity of the state to penetrate society to extract resources. Furthermore, it considers the ability of the state to elicit cooperation from organised interest groups, in the pursuit of collective goals.<sup>28</sup> This capacity is of particular relevance, since raising revenue is the most basic task of the state. Indeed, in order to protect its citizens, provide justice or administer a bureaucratic apparatus, any state would first need to generate income by extracting resources.<sup>29</sup> The next section discusses these matters more in depth.

Distributive capacity has been integral to the ability of European welfare states to develop and manage complex social security systems, which they largely did through centralised bureaucratic mechanisms. Distributive capacity derives from infrastructural capacity, focusing on on the ability of states to distribute the gains of economic development to the wider populace. A distribution which proceeds through social welfare measures and transfers funded by general tax revenues.<sup>30</sup>

In practice, there is substantial overlap between these different capacity forms. The degree of distributive capacity is contingent upon the level of infrastructural capacity. We shall see how this relationship is reflected in the case of sub-Saharan Africa. Similar, low transformative capacity may also impede a state's ability to promote its relational capacity. In this sense, the nature and extent of the cooperation with organized economic interest groups may thus define the state's ability to foster economic development in the face of globalization.

---

<sup>27</sup> Robinson, 'Hybrid States', p. 577.

<sup>28</sup> Ibid, p. 577.

<sup>29</sup> D. Bräutigam, 'Building Leviathan: Revenue, State Capacity and Governance', *Institute of Development Studies Bulletin* 33 (2002) p. 1.

<sup>30</sup> Robinson, 'Hybrid States', p. 577.

### 3.2. History and theory

It seems a highly arguable reasoning that in Europe, inter-state war served as the primary cause of growth of the modern nation-state. Thomas Hobbes propagated this analysis in his *Leviathan*, stating that “[...] it is annexed to the sovereignty the right of making war and peace with other nations [...] that is to say, of judging when it is for the public good, and how great forces are to be assembled, armed, and paid for that end, and to levy money upon the subjects to defray the expenses thereof.”<sup>31</sup>

Thus, the sovereign needed to raise revenues, which in European history led both to more efficient bureaucracies and greater representation of the populace within governance. European interpretations of history therefore stress the link between war and taxation: the latter has been the tie binding rulers to the ruled. In this way, taxation supported broader representation, accountability and ultimately enhanced state capacity.

The historical connection between taxation and representation has therefore become a fundamental tenet of political development. That is, to say, for everyone raised within the Anglo-American tradition.<sup>32</sup>

This historical model for political development is underpinned by the Peace of Westphalia in 1648. This effectively altered the balance of power in Europe and it is often seen as the progenitor of modern nation-state sovereignty. The Westphalian system marked the transition from feudal principalities to sovereign states.<sup>33</sup>

Consequently, the very nature of European politics changed after 1648. Westphalia nullified any chance for a united Europe under an emperor and the Roman Catholic Church would never again enjoy a monopoly on political and spiritual power. The Westphalian notion of national sovereignty, characterized by autonomy and interstate competition, became the primary governing principle among European states.<sup>34</sup>

---

<sup>31</sup> Bräutigam, 'Building Leviathan', p. 2.

<sup>32</sup> Ibid, pp. 1-2.

<sup>33</sup> J. Farr, 'Point: The Westphalia Legacy and the Modern Nation-State', *International Social Science Review* 80 (2005) p. 156.

<sup>34</sup> Farr, 'Point: The Westphalia Legacy and the Modern Nation-State', p. 156.

Moreover, "religion and ideology were to be considered within the domestic jurisdiction of each territorial state and to be eliminated as aspects of international relations."<sup>35</sup> This solidified national state sovereignty and effectively laid the foundation for the modern competitive state system. Crucially, with the political and religious authority of the Habsburgs essentially destroyed and the Papacy weakened, monarchs and aristocrats identified the need for mutual cooperation. New states raised revenue through their aristocracies to finance imperial conquests. Aristocrats supported the state to ensure their economic well-being while the state increased its power in the competitive international system.<sup>36</sup>

However, further analysis shows that the *Leviathan* writings are mainly applicable to the European continent. Here, intense military competition created the environment which stimulated nation-building. This caused a rising demand for revenue which exacerbated under the global competition of imperialism.<sup>37</sup>

Meanwhile, at the other side of the globe, the Chinese employing magistrates were efficiently collecting annual land taxes from China's 90 million acres. These magistrates became employed with a decentralised but vast and coherent bureaucracy, after they had been selected through highly competitive national exams dating back to the Sui Dynasty. (581-618 AD)<sup>38</sup>

From this point of view, given China's long history of bureaucratic tax administration, the literature shows that efficient taxation existed already before the rise of the European nation-state. As a consequence, the stimulus of war between nation-states proves a variable that is neither required nor sufficient enough for the development of bureaucratic capacity.<sup>39</sup> In European history, the relevance of this variable has presumably been elevated through the momentum of specific historical contingencies that culminated in the Peace of Westphalia in 1648.

Deborah Bräutigam provides further and more detailed remarks of this Eurocentric interpretation of the history of state building. Firstly, the so-called link between the

---

<sup>35</sup> Farr, 'Point: The Westphalia Legacy and the Modern Nation-State', pp. 156-157.

<sup>36</sup> Ibid, p. 157.

<sup>37</sup> Bräutigam, 'Building Leviathan', p. 3.

<sup>38</sup> Ibid, p. 3.

<sup>39</sup> Ibid, p. 3.

rulers and the ruled operated only between economic elites and the sovereign. Thereby, she refutes the idea of ordinary citizens and peasants demanding a greater say in the disposition of their money. Crucially, if these economic elites happen to be largely outside the fiscal net, which is the case in many developing countries, then taxation becomes less likely to stimulate effective demands for power sharing from authoritarian rulers.<sup>40</sup>

Secondly, the need for revenues also stimulated institutional changes which provided a more secure and efficient foundation for taxation. This is important because institutional modifications may in fact be just as critical for development as the potential link between taxation and representation.<sup>41</sup>

Another important empirical model in assessing state capacity development is the so-called 'Predatory theory of the state.' This theory is heavily inspired by European interpretations of history,<sup>42</sup> relying on particular conjectural prerequisites which do not conveniently apply to more distant parts of the world. Conversely, the predatory theory of the state does provide us with useful assumptions regarding state building which strongly contribute to the analysis within the next chapters.

The predatory theory is useful as a tool in the assessment of state building activities, when these are conceived as an on-going process marked by internal and external rivalries to the state.<sup>43</sup> Focusing primarily on the effects of external rivalries, historically conceptualized as interstate wars, predatory theory reaches a general expectation of state building.

It asserts that the level of competitiveness of any state with external rivals is contingent upon its efficiency in extracting revenues from its societies.<sup>44</sup> The efficiency level of extraction relies on the state's ability to bargain with its own internal rivals for revenue, which has to be exchanged for protection from external rivals.

---

<sup>40</sup> Bräutigam, 'Building Leviathan', pp. 2-3.

<sup>41</sup> Ibid, p. 3.

<sup>42</sup> C. G. Thies, 'The Political Economy of State Building in Sub-Saharan Africa', *The Journal of Politics* 69 (2007) p. 716.

<sup>43</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 716.

<sup>44</sup> Ibid, p. 716.

Therefore, from the predatory perspective, the critical determinants of state building processes are constituted by 'bargaining', 'extraction', 'protection' and 'war making'.<sup>45</sup> As has been noted before, the raising of revenue constitutes the most basic task of the state. The sustainably generating of income through the extraction of resources, normally through taxation, is thus the primary concern of the state which has to be accomplished before it can set itself to pursuit further developmental targets.<sup>46</sup>

This is relevant for state building processes, since tax collection is the outcome of the joint interplay of policy making, the administration of law, the top-down monitoring of economic activity for compliance and the judicial means to enforce these. In this way, the measurement of the state's infrastructural capacity (see: 3.1. 'Models and approaches', p. 16) becomes a reliable tool for measuring state building progress as a whole.<sup>47</sup> Predatory theories provide a relatively simple but straightforward approach to determine how the European model of the state developed. Most scholars' attention has been drawn to external threats and competition to the state manifested in war. Nevertheless, the initial predatory theoretic account also considers internal competitors as significant factors within the equation.<sup>48</sup>

Tilly offers a version of predatory theory in which he stresses the interplay of both domestic and international politics. He argues that rulers engage in four main activities during state building processes. These then jointly constitute the cycle of state building which, according to predatory theory,<sup>49</sup> rulers must attend if they wish to remain in power:

1. Eliminating or neutralizing rivals located outside of the territory they are attempting to control (the national state) → the process of war making.
2. Eliminating or pacifying rivals to their rule from within their territorial base → the process of state making.

---

<sup>45</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 716.

<sup>46</sup> Bräutigam, 'Building Leviathan', p. 2.

<sup>47</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 717.

<sup>48</sup> *Ibid*, p. 717.

<sup>49</sup> C. Tilly, 'War Making and State Making as Organized Crime', in: P. Evans, D. Rueschemeyer and T. Skocpol (ed.), *Bringing the State Back In* (Cambridge 1985) pp. 169-191, p. 181.

3. Protection of those parties within their territorial base which are in favour of their continued rule.

4. Extraction of resources from the population and territory they are attempting to control in order to accomplish the first three activities.<sup>50</sup>

The rulers of early modern Europe testified to these activities, as they were faced with threats from external and internal competitors. Consequently, they were compelled to extract resources from those sections in their societies which supported their continued rule. In this way, the rulers became able to wage war against external rivals and pacify or neutralize those internal rivals which opposed their rule and sought to remove them from power.<sup>51</sup>

Logically, the process of bargaining between the state with groups that constitute alternate rulers made the burden of tax fall unevenly across society. Differential levels of internal and external violence across Europe led to a variation of the overall amount of revenue captured by the state across Europe.<sup>52</sup> The next chapter examines the degree to which this simple model of predatory state building contributes to a better understanding of sub-Saharan Africa.

Particularly for those countries belonging to the current developing world, it is important to note already at this stage that any application of predatory theory must be grounded in a region-specific context.<sup>53</sup> There is obviously a profound risk of oversimplification when all divergent factors determining the institutional infrastructure of any given country are not carefully taken into account.

The last theoretical perspective on our conception of national state capacity is the New Institutional Economics (NIE). Rather than a mere theory, however, NIE can be more broadly defined as an overarching paradigm where economics is expanded to social sciences such as law, politics and sociology.

---

<sup>50</sup> Tilly, 'War Making and State Making as Organized Crime', p. 181.

<sup>51</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 717.

<sup>52</sup> Ibid, p. 717.

<sup>53</sup> Ibid, pp. 717-718.

NIE discards itself from some unrealistic assumptions of neoclassical economists – perfect information, full rationality, zero transactions costs – while retaining the assumption of self-seeking individuals attempting to maximize an objective function subject to institutional constraints.<sup>54</sup>

NIE places its primary focus, as the name already implies, on the primacy of institutions, in order to gain more understanding of the theoretical relationship between these and economic development. In particular, the NIE has been advanced to refine the neoclassical economic focus on markets and the equilibrating process as the main vehicle for resource allocation. This latter approach has ultimately led to a failure in providing a satisfactory explanation for the wide range of institutional conditions present in developing countries.<sup>55</sup>

In contrast, the NIE provides a finer theoretical focus to be deployed in analysing the structure of transactions and their governing institutions.<sup>56</sup> The literature on this subject holds several interrelated definitions of ‘institutions’. North’s definition of institutions appears, considering its broadness, the most useful for the purpose of this inquiry. He defines institutions as the “humanly devised constraints that shape human interaction” or “the established pattern of cooperation/interaction in the society which relate to certain aspects of social life.”<sup>57</sup>

A further working definition of institutions is provided by Williamson, who conceives it as “transactions cost minimising arrangements which can evolve or change with changes in the nature and sources of transactions cost.”<sup>58</sup> They are a set of formal and informal rules of conduct that facilitate the coordination of relationships between individuals and groups.

Williamson argues that the NIE operates on both the macro and micro level. On the macro level, we examine a set of fundamental political, legal and social ground rules. These establish the basis for production, exchange and distribution – the so-called

---

<sup>54</sup> G. Herath, ‘Analysis of the potential and problems of New Institutional Economics for Third World development’, *International Journal of Social Economics* 32 (2005) p. 879.

<sup>55</sup> Herath, ‘Analysis of the potential and problems’, p. 877.

<sup>56</sup> *Ibid*, p. 877.

<sup>57</sup> *Ibid*, p. 878.

<sup>58</sup> *Ibid*, p. 878.

'rules of the game.' On the micro level – to which we refer as the 'institutional arrangement' – NIE analyses the institutions of governance. In this sense, an institutional arrangement is basically just an arrangement between particular economic agents that governs the ways in which members are able to cooperate and/or compete with one another.<sup>59</sup> As we shall see, both levels lie at the heart of state capacity errors within Sub-Saharan Africa. They therefore constitute an integral part of the following analysis.

In conclusion, the 'rules of the game' definition treats both markets and formal organizations such as labour unions as institutions. Paradoxically, markets embody rules and regulations, formal and informal, that govern their operations while labour unions provide sets of rules governing the relationship both among their members and non-members.<sup>60</sup> These are important differences in terms of economic efficiency and distributional features which determine the character of a particular institution, and set the stage ready for the NIE perspective.

In particular, institutions can be both formal and informal. This means that members of the formal sector subject to constraints posed by a particular set of institutional rules confront a different set of transformation and transactions costs than which are facing members of the informal sector.

The NIE starting point is that it are these differences in the transformation and transactions costs, associated with formal and informal institutions, which give rise to their importance for the development process. The NIE thus directs attention towards the critical relationship between the process of economic development and the 'rules of the game' which constrain human activity in it.<sup>61</sup>

The next chapter examines how our framed conception of 'national state capacity', contextualized within this historical and theoretic framework, applies to the capacity errors of sub-Saharan Africa. Thereafter, we shall see how these in turn are affected by globalization.

---

<sup>59</sup> Herath, 'Analysis of the potential and problems', p. 878.

<sup>60</sup> Ibid, p. 879.

<sup>61</sup> Ibid, p. 879.

#### 4. **Sub-Saharan Africa: A non-Western Paradigm**

*"Was it historically—or geographically or culturally or ethnically—predetermined that Western Europe, the United States, and Japan would become so much richer than sub-Saharan Africa, Latin America, and China over the last two hundred years or so?"<sup>62</sup>*

This chapter examines the global area known as sub-Saharan Africa. First, it will be analysed for its national state capacities. To this end, the different factors in capacity building processes – history, institutions, culture and geography – will be included and measured for their relevancy in the development of these processes. This inquiry will be performed within the parameters of the theoretical framework sketched in chapter 3. Though, this framework captures the paradigm of state building in the West – characterised by conjectural historical phenomena which are predominantly applicable to European states.

The following analysis shows that sub-Saharan Africa departs from these on many points. It therefore constitutes a paradigm wherein issues, questions, errors and facets in state capacity building processes express essential non-Western features. The title part 'non-Western Paradigm' seems therefore justified.

Next, sub-Saharan Africa will be examined in the perspective of its collective political and economic organization – the African Union – to see how it relates to the latter. This will provide us with lessons of how its state capacity is affected by its integration into the global economy. We will draw particular attention to the role of NEPAD in securing the African place within the global political economy.

In this way, we will become able to further estimate the impact of globalization on national state capacity. In particular, this allows us to determine the interplay of factors which enforce or reduce state capacity in dealing with global governance issues. Let us first identify the capacity errors which anchor the development problems of sub-Saharan Africa.

---

<sup>62</sup> Acemoglu and Robinson, *Why Nations Fail*, p. 428.

## 4.1. African capacity errors

*"Seventy percent of these people [living in trapped countries] are in Africa, and most Africans are living in countries that have been in one or another of the traps. Africa is therefore the core of the problem."*<sup>63</sup>

Paul Collier provides a vivid description of development traps. These impede economic growth in developing countries, maintain limitations on capacity building processes and continuously constrain the prospects of gradually climbing out of poverty. They are the conflict trap, the natural resources trap, the trap of being landlocked with bad neighbours and the trap of bad governance in a small country.<sup>64</sup>

Indeed, the African continent constitutes the core of the problem. Though, Africa and the Third World are not entirely synonymous, considering South Africa is not among the poorest of countries.<sup>65</sup> The statistics however, show the harsh but evident facts regarding this continent. In 2006, there were around 980 million people living in 'trapped' countries, a number which is likely to have reached or exceeded one billion already.

Seventy percent of these people live in African countries, which have been caught in at least one trap. When the British prime-minister Tony Blair launched his commission on development in 2005, this effectively turned into a commission *for Africa*.<sup>66</sup> This strongly denotes the geographic concentration of developmental problems in the sub-Saharan part of Africa.

These countries indeed cope with interminable capacity errors. Their infrastructural capacity is almost entirely absent, and this has many reasons. State-building is seen in terms of the ability of a government to raise revenue by extracting money from its society. In predatory theory, this process then triggers a series of developments which ultimately strengthen the state as a whole.

---

<sup>63</sup> P. Collier, *The Bottom Billion. Why the Poorest Countries Are Failing and What Can Be Done About It* (Oxford 2007) p. 7.

<sup>64</sup> Collier, *The Bottom Billion*, p. 5.

<sup>65</sup> *Ibid*, p. 7.

<sup>66</sup> *Ibid*, pp. 6-7.

But what if foreign aid is a – or sometimes *the* – major source of revenue in a particular society?<sup>67</sup> The infrastructural capacity error of these many low-income countries has a long historical trajectory. Naturally, the colonial era has left its dramatic mark on sub-Saharan Africa. This period embodies the origins of many issues which are not particularly helpful in building strong, secure and economically flourishing states.

The problem underlying infrastructural capacity in sub-Saharan Africa, however, could also be signified through the predatory theory. The European cycle of state-building as illustrated by Tilly requires an threatening environment in which the state is continuously challenged by internal and external competitors. The critical determinants within this model are the interstate wars, which represent the external threats, and the ability of the state to neutralize or eliminate their internal rivals.<sup>68</sup>

Both of these predatory prerequisites pose a problem in their application to sub-Saharan Africa. They may thus point to an explanation for the latter's failure to develop infrastructural capacities. Firstly, many Africanists have concluded that most developing states do not face a threatening external environment.<sup>69</sup>

According to predatory theory, the absence of interstate warfare within the continent thus leads to the inability of the state to effectively penetrate society to extract revenue.<sup>70</sup> This inability to generate income through extracting resources undermines the most basic task of the state. Thus, the latter is deprived from any basis on which a bureaucratic apparatus could have been administered. Meaning that the state also becomes unable to provide for justice and to protect its citizens.<sup>71</sup>

Obviously, matters are more complicated than this predatory representation of reality. Predominantly, the Chinese example demonstrates the absence of an apparent interrelationship between historical interstate warfare and the gradual development of bureaucratic tax administration.<sup>72</sup>

---

<sup>67</sup> Bräutigam, 'Building Leviathan', p. 1.

<sup>68</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 717.

<sup>69</sup> Ibid, p. 718.

<sup>70</sup> Ibid, p. 718.

<sup>71</sup> Bräutigam, 'Building Leviathan', p. 1.

<sup>72</sup> Ibid, p. 3.

Furthermore, even if the magnitude of this variable can be downgraded to a contingent factor applicable only within the European model of state-building, then what are its theoretical implications for similar conflicts which do erupt in sub-Saharan Africa? Buzan and Weaver already point out that war and interstate rivalry have been on the rise in many sub regions of Africa, notably in the horn and central Africa.<sup>73</sup> Though the absence of interstate wars does provide some helpful insights, the extent of its relevancy as a factor in determining the origins of African capacity errors remains relatively ambiguous.

The second predatory prerequisite of the model seems to bear far more empirical significance. Administrations in sub-Saharan Africa are effectively impeded to pacify or neutralize internal rivals that seek to remove them from power. Crucially, the bargaining of these administrations with groups that constitute alternate rulers, thereby unevenly dividing the tax burden,<sup>74</sup> leads to a fragile, unfair and essentially hazardous equilibrium of their societies. Therefore, rather than the appeasement of internal rivals predicted by predatory theory, the stability of the sub-Saharan African state seems continuously prone to threats from inside.

The keyword is 'ethnicity.' Rather than a cultural phenomenon representing a primordial identity, the African ethnicity is primarily a political construction.<sup>75</sup> Ethnic groups have proven exceedingly practicable instruments for mobilizing interests to secure state-controlled resources. Political representation in these countries tends to be crafted around cautiously formed ethnic coalitions. By virtue of this construction, the state is often able to define ethnicity as it pleases to secure its own power, thereby setting the stage for competition between ethnic groups.<sup>76</sup>

Crucially, these African rulers often incorporate ethnic groups into their patronage networks through ethno-regional elites or ethnic intermediaries.<sup>77</sup> Infrastructural capacity in these countries is therefore contingent upon their rulers' ability to accommodate rival ethnic groups so that they support their continued administration.

---

<sup>73</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 718.

<sup>74</sup> Ibid, p. 717.

<sup>75</sup> Ibid, p. 719.

<sup>76</sup> Ibid, p. 719.

<sup>77</sup> Ibid, p. 719.

Now would this not be so different from predatory theory, had it not been for the fact that rival ethnic groups with a secure resource base and constituency are likely to attempt to capture the state. These groups would rather claim their own legitimacy to attain power and seize any opportunity to do so, rather than bargaining with the sitting rulers for the purpose of maintaining the latter's administrations.<sup>78</sup>

Indeed, political opposition in those countries did not focus on particular policies, but involved challenges to the government itself or the existence of the state.<sup>79</sup> Rather than the threat of internal conflict resolvable through bargaining, these states are therefore confronted by (the threat of) violent civil wars. Where domestic security threats may provide a stimulus for the extraction of resources, civil conflicts result in further fragmentation and considerable hostility among different segments of the population.<sup>80</sup>

Statistically, however, the evidence of a relationship between ethnic diversity and proneness to civil war is far from overwhelming. Numerous peaceful societies consist out of more than one ethnic group. However, Paul Collier does stress the increased risk of countries experiencing "ethnic dominance"<sup>81</sup> – meaning that one ethnic group is large enough to form the majority of the population while other groups are simultaneously still significant in numbers. In countries such as Burundi and Rwanda, this ethnic dominance constituted the framework wherein massive and bloody conflicts occurred.<sup>82</sup>

Effectively, many of these states have proven unable to accommodate their populations' increased demands for political participation. They also could not realize a more equal distribution of the national income among the different groups in society. The *de facto* result of this has often been the domination of the state by a single ethnic group, which seeks merely to control its rivals.<sup>83</sup>

Therefore, we now recognize that states in sub-Saharan Africa failed to pacify or neutralize their internal rivals in the manner required to productively extract

---

<sup>78</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 719.

<sup>79</sup> Ibid, p. 719.

<sup>80</sup> Ibid, p. 719.

<sup>81</sup> Collier, *The Bottom Billion*, p. 25.

<sup>82</sup> Ibid, p. 25.

<sup>83</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 719.

resources from society. Instead, they have accommodated only dominant ethnic groups – those with a secure resource base and constituency – into their patronage networks. In this way, they have bypassed the increased political participation, representation in governance issues and more fair distributions of national income, which were part of the general expectation of predatory theory. Conversely, in order to consolidate their power in the face of civil conflict, rulers resorted to neo-patrimonial policies. These had the *de facto* result of enhancing rulers' personal power through corruption, nepotism and clientelism.<sup>84</sup>

These matters have devastated those states infrastructural capacities. Penetration of society for the purpose of resource extraction has been little,<sup>85</sup> and only severely limited state making has therefore occurred. Analytically, these states have adopted only some of Tilly's state-building activities,<sup>86</sup> and only to the extent to which the likelihood of a *coup d'état* by other ethnic groups can be avoided. Moreover, the ethnic dominance, low incomes, slow growth and primary commodity dependence which characterize these countries make them prone to civil wars.<sup>87</sup> When these do erupt, then increased extraction will even be more difficult to attain.<sup>88</sup>

Consequently, the critically damaged infrastructural capacity has also undermined their distributive capacity. (see: 3.1. 'Models and approaches', p. 16) In contrast with a solid capacity of this type, economic development in these low-income countries is minimal at most, social welfare measures are absent and tax revenues are incidental. Sub-Saharan African administrations are therefore unable or unwilling to distribute any gains to the wider populace.<sup>89</sup>

The means required to strengthen distributive capacities – political participation, representation, conventional bargaining – have not been implemented. In particular, these lack the required basis that should have been delivered by the strong infrastructural capacity which, as we have seen, remains to be developed.

---

<sup>84</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 719.

<sup>85</sup> Ibid, p. 718.

<sup>86</sup> Ibid, p. 717.

<sup>87</sup> Collier, *The Bottom Billion*, pp. 22, 25.

<sup>88</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 719.

<sup>89</sup> Robinson, 'Hybrid States', p. 577.

These shortcomings have played a major role in causing errors within the most basic capacities of the sub-Saharan African state. Let us now focus on the different factors and institutions which further disrupt transformative and relational capacity (see: 3.1. 'Models and approaches', p. 15) within this region. In this way, we will provide a more detailed clarification on the origins of these distortions.

## 4.2. Factors and institutions

The interaction of ethno-cultural divisions combined with a weak administrative capacity had led to a personalist form of rule in much of sub-Saharan Africa. Herein, the state serves as a 'fountain of privilege', but only for the ruler and his supporters, who engage in what can be referred to as 'warlord politics'.<sup>90</sup> Indeed, intergroup ethnic conflicts tend to lead to a vicious circle which eschews politics in an all-or-nothing race for control over the state and its resources.<sup>91</sup> Which underlying factors can be distinguished in the origins of these, so aptly labelled 'quasi-states'?<sup>92</sup>

One might assume cultural factors to play a significant part within the equation. In particular, sub-Saharan Africa is located not only geographically but also culturally at great distance from the Western world. At an even larger distance however, stands this assumption from the empirical truth. The culture hypothesis – which relates prosperity to culture – is irrelevant in explaining world inequality. Cultural approaches may provide insights into social norms, which sometimes support institutional differences and might be difficult to alter in the face of increasing global interconnectedness.<sup>93</sup>

However, the aspects of culture which are often emphasized – religion, national ethics, African values –<sup>94</sup> do not play a significant part in explaining weak state capacity in sub-Saharan Africa, or how they seem to be missing out on the benefits

---

<sup>90</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', pp. 719-720.

<sup>91</sup> Ibid, p. 719.

<sup>92</sup> Ibid, p. 720.

<sup>93</sup> Acemoglu and Robinson, *Why Nations Fail*, pp. 56-57.

<sup>94</sup> Ibid, p. 57.

of globalization. As a matter of fact, though African societies did not 'officially' develop technologies as the wheel, writing or the plow, they were aware of them much earlier than the Europeans.<sup>95</sup> These technologies were not adopted because their historical trajectory led them to alternative incentives – which is illustrated by the history of the Kingdom of Congo.

The Congolese learned about the wheel and the plow by virtue of their intense contact with the Portuguese, who even encouraged their adoption through agricultural missions. However, they were more eager to adopt an entirely different Western invention: the gun. The Congolese deployed guns in response to market incentives by the capturing and exporting of slaves.<sup>96</sup>

Thus, the Congolese did not adopt these technologies because they lacked the incentives to do so. They were confronted with the risk of all their output being expropriated and taxed by their all-powerful king. Moreover, the Congolese were continuously threatened by the prospect of being captured and sold as slaves.<sup>97</sup> This example therefore illustrates how European colonial influences effectively impeded African economic development and replaced it with the predatory distrust that would continue to trouble sub-Saharan Africa after independence.<sup>98</sup>

How about the geography factor then? The geography hypothesis claims that the great divide between rich and poor countries worldwide has been created by geographical differences. It is argued that poor countries, such as those in Africa, suffer from tropical climates whereas rich nations tend to be in temperate latitudes.<sup>99</sup>

The French political philosopher Montesquieu noted this geographic concentration of prosperity and poverty. Consequently, he branded people living in tropical climates as lazy and lacking inquisitiveness. Supposedly, they did not work hard for these reasons and were not innovative, hence their poverty.

---

<sup>95</sup> Acemoglu and Robinson, *Why Nations Fail*, p. 58.

<sup>96</sup> *Ibid*, pp. 58-59.

<sup>97</sup> *Ibid*, pp. 59-60.

<sup>98</sup> *Ibid*, p. 60.

<sup>99</sup> *Ibid*, pp. 48-49.

To go even further, Montesquieu suggested a linkage between these characteristics and dictatorships, which were associated with economic failure.<sup>100</sup>

The modern geography hypothesis, forcefully advocated by the economist Jeffrey Sachs, stresses not the direct influence of climate on work and thought processes.

Instead, this version looks at the effects of individual climate characteristics.

Tropical diseases (malaria e.g.) are known to have highly adverse consequences for health which make them hazardous for labor productivity. Furthermore, tropical soils tend to be less suitable for agricultural purposes.<sup>101</sup> Following this line of thought, one might reason that temperate climates have a comparative geographical advantage over tropic or semi tropic areas.<sup>102</sup>

However, historical experience shows that this assumption also stands quite distant from the truth. By the time of the discovery of the Americas by Columbus, the tropic areas in the south were home to the Aztec and Inca civilizations. Both of these were politically centralized empires, able to build roads and provide for famine relief.<sup>103</sup>

They stood in sharp contrast with the temperate north, which by then was habited by Stone Age civilizations who lacked key technologies required to rapidly process and distribute large amounts of information.

The Aztec and Inca peoples, on the other hand, were already deploying these on a steady basis to create a solid administrative capacity.<sup>104</sup> The more recent economic success of a country as Botswana further dismisses the illusion of an explanatory relationship between climate or related geographical factors with prosperity or economic failure.<sup>105</sup>

The Saharan desert presents a geographic barrier to the movement of goods and ideas from the north to sub-Saharan Africa. Though history shows that this obstruction has not been insurmountable. Long-distance traders have played a key role in the economies of the West African Sahel for many centuries.

---

<sup>100</sup> Acemoglu and Robinson, *Why Nations Fail*, p. 49.

<sup>101</sup> Ibid, p. 49.

<sup>102</sup> Ibid, p. 49.

<sup>103</sup> Ibid, pp. 49-50.

<sup>104</sup> Ibid, p. 50.

<sup>105</sup> Ibid, p. 49.

North African merchants sold trans-Saharan imports and exported slaves via caravan routes.<sup>106</sup> However, their trade voyages remained continental and focused exclusively on slaves and luxury goods. The Europeans were able to sail around the coast of Africa and eliminated gaps in knowledge at a time when cleavages between rich and poor were tiny compared to their size today.<sup>107</sup> Why has sub-Saharan Africa not been able to ignite similar endeavours?

This is because of their divergent historical trajectories and institutional development. States in sub-Saharan Africa lacked legitimacy from their first day of independence. They were not the outcome of an indigenously shaping process from within societies and nor did their leaders participate in any sort of this construction. The ruling class basically inherited the state from its former colonizers.

As such, the state became their instrument to appropriate resources and dominate competing groups in society.<sup>108</sup> These states were the territorial remnants of colonialism which were never built on a social contract with its peoples, or resulted out of the need to reduce transaction costs. The departure of the colonial powers left the African peoples in a state of *anomy*, where after they turned their loyalties to familiar institutions (kinship networks) rather than the newly formed state.<sup>109</sup>

This revisionism was then enforced by developments in the international environment. In 1963, the Organization of African Unity (OAU) consolidated all inherited colonial boundaries by declaring them legitimate.<sup>110</sup> The new rulers collectively feared that the artificial boundaries drawn by the colonial powers, who did not take any account of the spread of ethnic groups across the continent, would all collapse if even one of them was contested.

This OAU norm secured rulers' positions and removed their fear for their survival by guaranteeing them the territorial integrity of their state borders. Since then, interstate wars have been relatively few and boundaries have not significantly

---

<sup>106</sup> S. Baier, 'Trans-Saharan Trade and the Sahel Damergu, 1870-1930', *Journal of African History* 18 (1977) p. 37.

<sup>107</sup> Acemoglu and Robinson, *Why Nations Fail*, pp. 53-54.

<sup>108</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 719.

<sup>109</sup> *Ibid*, p. 718.

<sup>110</sup> *Ibid*, p. 718.

changed.<sup>111</sup>

The historian recognizes similarities between this OAU arrangement and the Concert of Europe. Both were aimed at securing peace and stability in an international environment which had been shocked by events that dramatically contested its historical status-quo. Consequently, the OAU norm has done so by impeding the rise of nationalism,<sup>112</sup> and the Concert lasted until the outbreak of the First World War nearly a whole century later.

The main difference is that the colonial powers left sub-Saharan Africa without any institutional basis for economic development. Napoleon, however, destroyed medieval institutions such as feudal land relations, abolished guilds and imposed equality before the rule of law. In this way, he paved the way for inclusive institutions in much of Europe – and the economic growth that these would spur.<sup>113</sup> However, insofar that Napoleon had any real influence on institutional development in Europe, it appears to remain restricted to the continent.

Napoleon never conquered Great Britain, where the Glorious Revolution of 1688 had already relocated the power to determine economic institutions to Parliament. This event further opened the political system to a broad cross section of society, whereby it created the world's first set of inclusive political institutions.<sup>114</sup> Thus, even the Napoleonic heritage appears to contain a high degree of historical contingency in this respect.

Tropical diseases are the source of much suffering and high rates of infant mortality in Africa. However, the gravity of the impact of malaria is rather a consequence of poverty than vice versa. Acemoglu and Robinson argue that governments have largely been unable or unwilling to perform the public health measures required to tackle these diseases.<sup>115</sup>

---

<sup>111</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 718.

<sup>112</sup> Ibid, p. 718.

<sup>113</sup> Acemoglu and Robinson, *Why Nations Fail*, p. 291.

<sup>114</sup> Ibid, p. 102.

<sup>115</sup> Ibid, p. 53.

But how could they have? Given that they were increasingly preoccupied with bargaining or repressing (potential) internal rivals, rather than investing in projects designed to spur long term economic growth and thereby benefiting the whole society.<sup>116</sup> What money should they have invested?

States confronted with a high degree of ethnic fragmentation in their societies can be expected to take up a smaller amount of national income than ethnically homogenous states. This is because the latter requires no such bargaining and taxes are levied on all segments of society. The former states' rulers however, rather favour the groups which are relatively satisfied with their continued administration.<sup>117</sup>

Effectively, the groups favoured by the tax system in the first days of independence are still favoured by it today. This has led to a standstill which leaves ethnically heterogeneous states in sub-Saharan Africa without tools to strengthen their transformative capacity.<sup>118</sup> (see: 3.1. 'Models and approaches', pp. 15-16)

The type of productive relationships with organised economic interest groups and state abilities which this particular capacity denotes,<sup>119</sup> cannot be achieved without accompanying institutional developments. We find that 'institutions' is another keyword in defining African capacity errors. Many aspects which indicate a particular country's economic well-being – such as the extent to which people trust each other and are willing to engage in cooperation – are mostly an outcome of institutions.<sup>120</sup>

Upon independence, many of the new OAU states created development agencies in an attempt to exert their political control in the rural areas. This was, of course, largely meant for the purpose of taxation.<sup>121</sup> However, the success of these proved only incidental and was contingent upon various forms of local social institutions to which people in the rural areas resorted. Moreover, those who left the rural areas and ventured out to the rapidly growing cities met only little cultural-institutional

---

<sup>116</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 718.

<sup>117</sup> Ibid, p. 721.

<sup>118</sup> Ibid, p. 719.

<sup>119</sup> Robinson, 'Hybrid States', p. 577.

<sup>120</sup> Acemoglu and Robinson, *Why Nations Fail*, p. 57.

<sup>121</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 718.

support.<sup>122</sup> These urban dwellers – who historically should have been on the forefront of economic growth – instead became fodder for predation. The African state could then have been described as “the representative of the group that holds power in the capital [city].”<sup>123</sup>

Most rulers were unable to meet the needs of their growing urban populations, which all too often resulted in political instability along ethnic lines. The control over the capital city was simply the most cost-effective exercise of power available to rulers.<sup>124</sup> As we have indicated, these ethnically divided societies are marked by patronage politics which is indeed a more cost-effective strategy for winning elections than the provision of public services. However, the use of resources to supply private patronage rather than public services,<sup>125</sup> effectively leaves out prospects for economic growth.

Rulers, not surprisingly, seek to maintain this limited institutional infrastructure because it at least benefits them and their recipients. Furthermore, when any given institutional landscape is found to be functioning, at least reasonably and for some, it then gets locked in. In particular, even minor changes to the setting could already inflict quite disruptive consequences for the system as a whole, given the dependence between the various parts of the institutional landscape. This ‘hysteresis’ or ‘path dependence’<sup>126</sup> is especially crucial in sub-Saharan African societies where high sensitivity to ethnic divisions catapult their proneness to the eruption of civil conflicts. It could be reasoned that the status-quo provides at least for some stability and that therefore, it is imperative to be maintained.

However, Paul Collier points out that the political characteristics associated with autocracy are detrimental in ethnically diverse societies.<sup>127</sup> He argues that the significance of support for an autocratic ruler by his own ethnic group is inversely proportional to the extent of ethnic diversity in his society.

---

<sup>122</sup> Thies, ‘The Political Economy of State Building in Sub-Saharan Africa’, pp. 718-719.

<sup>123</sup> Ibid, p. 719.

<sup>124</sup> Ibid, p. 719.

<sup>125</sup> Collier, *The Bottom Billion*, p. 45.

<sup>126</sup> D. Rodrik, ‘Feasible Globalizations’, National Bureau of Economic Research (NBER) Working Paper No. 9129 (September 2002), [http://www.nber.org/papers/w9129.pdf?new\\_window=1](http://www.nber.org/papers/w9129.pdf?new_window=1), pp. 7-8.

<sup>127</sup> Collier, *The Bottom Billion*, p. 49.

In particular, the rulers' own group is likely to be smaller in societies which express high ethnic plurality. This affects the autocrat's incentives, meaning that he is more willing to sacrifice economic growth in order to redistribute income to his own group, which is correlated with the narrowness of his own base of social support.<sup>128</sup>

Resource-rich and ethnically diverse societies require a democracy which does not primarily denote electoral competition, but stands for political constraints to power.

The benefits of the latter over the former for economic growth is demonstrated by the comparison of Botswana with Nigeria. Botswana, a country rich in diamonds, has been a democracy ever since its independence. Its efforts to accommodate all groups of society have been comparatively well, especially from the perspective of sub-Saharan Africa.

However, never has a single of its elections actually changed the composition of the government. Nevertheless, due to democratic 'checks and balances', the sitting government has always preserved adherence to due process. In this way, the Botswana government policy on public investment projects requires them to meet a minimum rate of return, which has been enforced through the accumulating of a significant amount of surplus funds in foreign assets.<sup>129</sup>

This stands in sharp contrast with Nigeria. Africa's most oil-rich country had been ruled by military dictators for over a decade prior to 1979. The country then turned to democratic elections, but the elected president Shehu Shagari faced no constraints in this patronage-driven electoral competition.

Among the new government's first acts was to recall a massive public investment project for a dam of which the price had multiplied by five since the military government.<sup>130</sup> Though the Nigerian elections in 2003 were also fierce, checks and balances were virtually missing, so that president Obasanjo effectively had to introduce and adequately implement them first,<sup>131</sup> before the country would have a chance for economic growth.

---

<sup>128</sup> Collier, *The Bottom Billion*, pp. 49-50.

<sup>129</sup> Ibid, p. 50.

<sup>130</sup> Ibid, p. 48.

<sup>131</sup> Ibid, pp. 48-49.

Consequently, Nigeria's inability to induce economic development against Botswana's success of becoming a middle-income country is due not to a lack of resources or a lack of democratic politics. Their different growth outcomes are based on their different implementation degrees of checks and balances. We see that the economic growth of resource-rich and relatively democratic countries still remains determined by the nature and quality of their political institutions.

Hence, we introduce 'political institutions' into the analysis, which can be either extractive or inclusive. Rulers in many sub-Saharan African states deploy extractive political institutions to maintain their administrations. These concentrate power in the hands of a narrow elite and place few democratic constraints on the execution of it.

Predatory elites then deploy their institutionalized political power basis to extract resources from their societies through extractive economic institutions.<sup>132</sup> Political institutions of this kind enable elites to choose economic institutions without democratic constraints or opposing parties.

Extractive economic institution then enrich these elites, which economic wealth then enables them to consolidate their political power. From this point, they will also become able to structure future political institutions. Thus, there is a synergistic relationship between extractive economic institutions and political institutions.<sup>133</sup> Moreover, these two tend to be mutually reinforcing and in this way, reach a considerable level of persistence.<sup>134</sup> In this way, extractive political institutions put an on-going stance on the country's economy.

Infrastructural capacity building effectively gets confined by the limitations underlying the extractive and predatory character of the state. This then paralyzes distributive capacity by restricting national income, through resource extraction, to the elite and thereby denying the wider populace the financial means for development.

---

<sup>132</sup> Acemoglu and Robinson, *Why Nations Fail*, p. 81.

<sup>133</sup> Ibid, p. 82.

<sup>134</sup> Ibid, pp. 81-82.

Inclusive political institutions, on the other hand, allow for the broad distribution of power in society. Institutions of this type are subject to democratic checks, which constrain its execution and thereby prevent arbitrary use. In this way, it becomes more difficult for rulers to implement extractive institutions for personal gain. The synergistic relationship however, is no different. Inclusive economic institutions create a more equitable distribution of income, which facilitates the endurance of inclusive political institutions.<sup>135</sup>

We have now outlined the relationship between political institutions and economic growth, and we have argued that extractive political institutions lead to extractive economic institutions. This particular combination erodes infrastructural capacity and thereby undermines distributive capacity.

The example of Botswana and Nigeria also demonstrates how the presence and quality of political institutions affect decision making and governance issues there. In the next section, we will further explore the relationship between extractive and inclusive political institutions and economic growth.

This will be done by measuring the extent to which sub-Saharan African countries are capable of independently raising revenue through taxation, the most primary task of the national state. This analysis will then be deepened with other issues in global governance resulting from globalization, and how these are effectively dealt with by the African Union.

---

<sup>135</sup> Acemoglu and Robinson, *Why Nations Fail*, p. 82.

### 4.3. Statistics and the AU

In July 2000, the committee of experts concerned with the design of an African Union (AU) presented their Constitutive Act to the OAU summit. It was then adopted a year later. It thereby met a long-standing African impulse for unity dating back to the decades preceding and following independence.<sup>136</sup> The African Union is different from the OAU in the greater scope of its ambition, which renders it similar to the purposes of the European Union.

The AU proposes the accelerated integration of the African continent into a single political and economic unit. It has installed seventeen Union institutions – including an African Economic, Social and Cultural Council (ECOSOC) and a range of unitary financial institutions. However, though admirable, this aim also seems relatively over-optimistic. The OAU had only four institutions which already were quite inefficient and its member-states are more than \$ 50 million in arrears with their dues.<sup>137</sup> Nevertheless, the AU members committed themselves to regional economic integration and thereby moved into the mainstream of regional institutional politics.<sup>138</sup>

Alex de Waal however, has some further critical remarks concerning the origins of the AU which has profound implications for its usefulness in economic development. The international organization has had a fragile and too rapid founding, marked by over-optimistic assumptions with only little consultation. The Constitutive Act of the Union seemingly was never taken seriously as it was never debated by neither national parliaments nor civil societies prior to its adoption.<sup>139</sup>

The time span granted by the Lusaka summit in July 2001 for establishing the Union was too short for a small staff and inexperienced secretary-general. De Waal even goes so far as to describe the organization as an 'aspirational union': "the expression

---

<sup>136</sup> A. De Waal, 'What's new in the 'New Partnership for Africa's Development'?', *International Affairs (Royal Institute of International Affairs 1944-)* 78 (2002) p. 467.

<sup>137</sup> De Waal, 'What's new in the 'New Partnership for Africa's Development'?', pp. 467-468.

<sup>138</sup> Ibid, p. 468.

<sup>139</sup> Ibid, p. 468.

of an end-goal of a future rather than the organic fruition of existing economic and political ties.”<sup>140</sup>

Though this statement indeed has some ground, it is also exaggerated and overlooks the noteworthy efforts which the AU has made in various fields. Only four years later since De Waal wrote his article, the AU has made collective advancements in the pursuit of peace and security throughout the continent.

Specifically, its Peace and Security Council (PSC) has worked diligently to implement a Continental Early Warning System. (CEWS) In this way, there can be worked towards the improved anticipation and prevention of conflicts and wars in Africa.<sup>141</sup>

Thereby, the initiators sought tight cooperation with regional mechanisms (usually through government authorities, locals and public media), which gather information about their own focal area. These can then be deployed in further detailed analysis of conflict sensitivity, which is of use in the making of recommendations and the anticipation of action.<sup>142</sup>

In this way, the AU acknowledges the detrimental effects of violent conflicts on the continental economy and performs an important role in capacity building for their prevention. Furthermore, The AU provides the continent with an organ of states through which efficient cooperation with the international community can be realised. Indeed, the Protocol Relating to the Peace and Security Council of the African Union clearly states the commitment of the member-states to collaborate with the United Nations, (UN) its agencies, other relevant international organizations, research

---

<sup>140</sup> De Waal, 'What's new in the 'New Partnership for Africa's Development'?', p. 468.

<sup>141</sup> 'Report of the Workshop on the Establishment of the AU Continental Early Warning System' – Background Paper No. 1, Conflict Management Division of the Peace and Security Department, African Union Commission (ed.), in: *Meeting the Challenge of Conflict Prevention in Africa: Towards the Operationalization of the Continental Early Warning System*, © African Union 2008, [http://www.africa-union.org/root/AU/AUC/Departments/PSC/PSC/CD/11\\_BACKGROUND%20paper%20No.%201.pdf](http://www.africa-union.org/root/AU/AUC/Departments/PSC/PSC/CD/11_BACKGROUND%20paper%20No.%201.pdf), pp. 2-3.

<sup>142</sup> 'Report of the Workshop on the Establishment of the AU Continental Early Warning System' – Background Paper No. 1, in: *Meeting the Challenge of Conflict Prevention in Africa: Towards the Operationalization of the Continental Early Warning System*, [http://www.africa-union.org/root/AU/AUC/Departments/PSC/PSC/CD/11\\_BACKGROUND%20paper%20No.%201.pdf](http://www.africa-union.org/root/AU/AUC/Departments/PSC/PSC/CD/11_BACKGROUND%20paper%20No.%201.pdf), p. 7.

centres, academic institutions and NGOs,<sup>143</sup> for the purpose of a solid strategy to prevent the eruption of violent conflicts through the CEWS. Though the political and economic ties between its members may be relatively fragile, the AU could in this way act as an important safeguard of order within the continent.

In the face of increased global interconnectedness, it provides the African continent with the organizational framework, tools and equipment through which it may strengthen its relational capacity. To this end, it constitutes a supra-national framework which allows individual states to engage in multiple sites of governance in ways similar to the EU.<sup>144</sup>

It is imperative to fight the eruption of political violence in sub-Saharan Africa. In particular, politically motivated conflicts have tremendous negative effects on the quality of governance in developing countries. Failing to control for political violence could effectively produce a spurious relationship between high levels of foreign aid and deteriorating governance or declining tax revenues.<sup>145</sup> Crucially, violent conflicts weaken existing institutions, undermine law and order and can be expected to promote corruption.<sup>146</sup>

Though conflicts in ethnically divided societies may provide the incentives for taxation, they are also likely to impair governments' capacity to collect these revenues. While they may stimulate taxation, violent conflicts may also reduce the Gross Domestic Product (GDP) of the particular country. The net effect of conflicts on the tax share of GDP thus remains ambiguous.<sup>147</sup>

The table below presents the results when changes in the International Country Risk Guide (ICRG) index are used as dependent variables to measure the quality of governance:

---

<sup>143</sup> 'Report of the Workshop on the Establishment of the AU Continental Early Warning System' – Background Paper No. 1, in: *Meeting the Challenge of Conflict Prevention in Africa: Towards the Operationalization of the Continental Early Warning System*, [http://www.africa-union.org/root/AU/AUC/Departments/PSC/PSC/CD/11\\_BACKGROUND%20paper%20No.%201.pdf](http://www.africa-union.org/root/AU/AUC/Departments/PSC/PSC/CD/11_BACKGROUND%20paper%20No.%201.pdf), p. 15.

<sup>144</sup> Robinson, 'Hybrid States', pp. 575-576.

<sup>145</sup> D.A. Bräutigam and S. Knack, 'Foreign Aid, Institutions, and Governance in Sub-Saharan Africa', *Economic Development and Cultural Change* 52 (2004) p. 269.

<sup>146</sup> Bräutigam and Knack, 'Foreign Aid, Institutions, and Governance in Sub-Saharan Africa', p. 269.

<sup>147</sup> *Ibid*, p. 269.

AID DEPENDENCE IN AFRICA AND THE ICRG QUALITY-OF-GOVERNANCE INDEX

	OLS METHOD		2SLS METHOD	
	Column 1	Column 2	Column 3	Column 4
Aid variable	Aid/GNP	Aid/government	Aid/GNP	Aid/government
Constant	9.836 (3.371)	7.827 (3.514)	10.228 (2.409)	8.322 (2.470)
Initial ICRG index value	-.778** (.189)	-.616** (.190)	-.776** (.144)	-.610** (.165)
Population change/initial population	-3.708 (4.105)	-.672 (4.162)	-4.116 (3.250)	-.573 (3.217)
GDP population change/initial GDP population change	1.528 (.960)	.931 (1.275)	1.603 (.978)	.895 (1.060)
Political violence	-2.366 (1.324)	-2.345 (1.735)	-2.324 (1.280)	-2.517 (1.636)
Aid	-.061 (.038)	-.023 (.013)	-.080* (.033)	-.034* (.014)
N	32	28	32	28
Mean, dependent variable	+1.21	+1.75	+1.21	+1.75
R <sup>2</sup>	.60	.49	.60	.51
Standard error of estimate	2.09	1.98	2.10	2.01

NOTE.—Dependent variable is the ICRG quality-of-governance index. Standard errors are in parentheses. Instruments in 2SLS include infant mortality in 1980, initial (log) population, initial (log) GDP per capita, and French, British, Portuguese, and Belgian former colony dummies. Note that R<sup>2</sup> does not have its usual interpretation in 2SLS.

\* Indicates significance at .05 level for two-tailed tests.

\*\* Indicates significance at .01 level for two-tailed tests.

148

Taking a sweep over sub-Saharan Africa in the period from 1982 to 1997, these numbers clearly indicate that political violence can indeed be associated with the deterioration of governance. The ICRG ratings measure the quality of governance through subjective indexes. They are unique in covering the majority of African states over a relatively long time span. The ICRG used here deploys a 18-point scale index to measure the quality of governance.<sup>149</sup>

This 18-point scale is created by the summing of three individual six-point scales: corruption in government, bureaucratic quality and the rule of law. The values are annual, because we have taken the mean of twelve monthly observations for each year.<sup>150</sup> Details concerning the ICRG variables are specified in the appendix on page 71 of this document.

<sup>148</sup> Bräutigam and Knack, 'Foreign Aid, Institutions, and Governance in Sub-Saharan Africa', p. 270.

<sup>149</sup> Ibid, p. 266.

<sup>150</sup> Ibid, p. 267.

However, the table also illustrates that political violence is only one factor within the equation. Columns 1 and 2 focus on ordinary least squares (OLS) regression results and test the effects of aid/GNP (Gross National Product) and of aid/government spending on the quality of governance. Its impact however, should not be statistically overestimated.

The violence coefficient of  $-2.4$  in column 1 indicates that the quality of governance index would be reduced by only 1 point out of 18 in an additional seven years with violent conflicts over the 1982-1997 period.<sup>151</sup> Nevertheless, the very presence of political conflicts thus poses a threat to the efficiency of governance in poor African countries. Bad governance and policies are, as Paul Collier indicates, only one of the development traps of sub-Saharan Africa. These are able to destroy an infantile economy with alarming speed.<sup>152</sup>

We have already denoted one fundamental of bad governance and its endurance. Patronage through predatory elites along ethnic lines are the cause of 'collective action problems' in sub-Saharan Africa. Winners and losers of the status-quo have different incentives to maintain the affairs which are beneficial to them, or to engage in actions to overthrow them. Bad governance and policies through collective action problems inevitably hurt the public good of the state.<sup>153</sup>

Another variable which poses impediments on the quality of governance is foreign aid. We have already briefly raised the question what if foreign aid is a – or sometimes *the* – major source of revenue in a particular society?<sup>154</sup> The answer is of a rather dichotomous nature. Major levels of foreign aid have indeed the potential to improve governance standards. However, these are just as likely to contradict or impede these improvements.

The effects of foreign aid on a particular country can be measured through the clarity of their development agendas. The example of Botswana shows that foreign aid can even be deployed to improve the quality of the civil service, to strengthen the

---

<sup>151</sup> Bräutigam and Knack, 'Foreign Aid, Institutions, and Governance in Sub-Saharan Africa', pp. 269-270.

<sup>152</sup> Collier, *The Bottom Billion*, p. 64.

<sup>153</sup> D. Bräutigam, 'Foreign Aid and the Politics of Participation in Economic Policy Reform', *Public Administration and Development* 20 (2000) p. 255.

<sup>154</sup> Bräutigam, 'Building Leviathan', p. 1.

policy and planning capacities and to establish strong central institutions.<sup>155</sup>

However, large amounts of aid from abroad may also weaken institutions rather than enforce them. Aid is accompanied by high transaction costs and multiple donor projects only promote fragmentation in society.

Foreign aid obstructs the opportunities for developing countries to learn and the effect of this money on the domestic budget process can be detrimental.<sup>156</sup> Especially this combination of institutional weakening and increasing transaction costs is hazardous for a developing economy.

In the framework of New Institutional Economics, institutions evolve to lower transaction costs and are therefore essential to the performance of economies. Governments in developing countries are capable of managing the nature and role of transaction costs by increasing the potential of existing institutions. In this way, economic performance is determinable through the quality of economic institutions, which are dictated by political actors within the state.<sup>157</sup>

The new institutional economist Sonja Opper also stresses the importance of implementing appropriate political institutions to support economic development. She thereby refers to a broad scale of empirical findings on this matter. Societies which are politically open, respect the rule of law and private property rights have growth advantages over those where the political and economic institutions of transparency, accountability and property are restricted.<sup>158</sup>

Furthermore, Keefer and Knack studied the pervasiveness of corruption, the rule of law and the risk of expropriation and contract repudiation as typical institutional outputs of insecure property rights. Their findings suggest that the weak protection of property rights had significant and adverse effects on the per capita growth of developing economies from 1960 to 1989.<sup>159</sup>

---

<sup>155</sup> Bräutigam, 'Building Leviathan', p. 1.

<sup>156</sup> Ibid, p. 1.

<sup>157</sup> Herath, 'Analysis of the potential and problems', p. 881.

<sup>158</sup> S. Opper, 'New Institutional Economics and Its Application on Transition and Developing Economies', in: É. Brousseau and J. Glachant (ed.), *New Institutional Economics: A Guidebook* (Cambridge 2008) p. 401.

<sup>159</sup> Opper, 'New Institutional Economics and Its Application on Transition and Developing Economies', p. 401.

Findings which are further enforced by Henisz, who placed an even stronger focus on the role of politics and developed an index to measure political institutions. He found convincing evidence that political constraints have a major influence on national growth rates, examining 157 countries between 1964 and 1994.<sup>160</sup>

Large amounts of aid however, are just as capable of reducing incentives for democratic accountability. We already noted that in European history, bargaining over revenues and taxation triggered the development of accountability. Foreign aid however, serves as a 'non-earned' revenue source which is little affected by government efficiency.<sup>161</sup> This leads to diminishing incentives to improve state capacity. Governments have little need to be accountable to their citizens when state revenues do not depend on taxes raised from citizens and businesses. Thus, states in sub-Saharan Africa which are highly dependent on foreign aid as a source of revenue develop bad governance, in the sense that accountability becomes structured between the state and its donors rather than between state and society.<sup>162</sup>

The table on the next page presents us with various data. These are used in cross-sectional analyses regarding the relationship between aid dependence, tax revenues and GDP:

---

<sup>160</sup> Oppor, 'New Institutional Economics and Its Application on Transition and Developing Economies', p. 401.

<sup>161</sup> Bräutigam and Knack, 'Foreign Aid, Institutions, and Governance in Sub-Saharan Africa', p. 265.

<sup>162</sup> Ibid, p. 265.

AID DEPENDENCE IN AFRICA AND TAX REVENUES AND GDP

	OLS METHOD		2SLS METHOD	
	Column 1	Column 2	Column 3	Column 4
Aid variable	Aid/GNP	Aid/government	Aid/GNP	Aid/government
Constant	22.634 (5.702)	26.043 (5.861)	23.287 (5.412)	26.390 (5.177)
Initial tax share	-.949** (.072)	-1.044** (.075)	-.956** (.070)	-1.050** (.073)
Population change/initial population	1.000 (9.385)	.533 (9.611)	.840 (9.250)	.462 (9.471)
GDP population change/initial GDP population change	.444 (3.236)	-.888 (3.179)	.682 (3.370)	-.858 (3.204)
Political violence	-14.485** (3.616)	-11.764** (3.681)	-14.708** (3.674)	-11.737** (3.721)
Aid	-.338** (.090)	-.137** (.048)	-.376** (.085)	-.142** (.046)
N	24	24	24	24
Mean, dependent variable	-4.26	-4.26	-4.26	-4.26
R <sup>2</sup>	.89	.89	.89	.89
Standard error of estimate	6.09	5.92	6.10	5.92

NOTE.—Dependent variable is the change in the tax share. Standard errors are in parentheses. Instruments in 2SLS include infant mortality in 1980, initial (log) population, initial (log) GDP per capita, and French, British, Portuguese, and Belgian former colony dummies. Note that R<sup>2</sup> does not have its usual interpretation in 2SLS.

\*\* Indicates significance at .01 level for two-tailed tests.

163

The columns 1 and 2 test the effects of aid/GNP and of aid/government spending on tax effort. We find a robust regression-to-the-mean-effect, because higher initial tax effort can indeed be associated with larger decline over the whole period.

The variables of 'population' and 'income' are not related to tax efforts, while higher aid and political violence significantly reduce them.<sup>164</sup>

Furthermore, if we take a closer look at the aid coefficient in column 1, we recognize that each percentage-point rise in aid/GDP is associated with a fall of about one-third of a percentage point in tax revenues/GDP. The results of both tables are not very sensitive to reasonable changes that might have been fostered by model specification.

For this reason, the statistical evidence indicates that the relationship between high aid levels and government deterioration is fairly robust.<sup>165</sup>

<sup>163</sup> Bräutigam and Knack, 'Foreign Aid, Institutions, and Governance in Sub-Saharan Africa', p. 272.

<sup>164</sup> Ibid, p. 271.

<sup>165</sup> Ibid, p. 271.

The attraction of humanitarian aid and post-conflict rehabilitation assistance may be positive and appealing in the periods immediate after the outbreak and expiring of conflicts.<sup>166</sup> However, it also has profound and distorting implications for the quality of the receiving country's governance on the longer term. It effectively damages the ability of states to independently raise revenue through taxation.

We will now assess the relationship between country policy/institutions and their economic development. To this end, we will firstly perform a comparative analysis of respectively resource rich and non-resource rich countries in sub-Saharan Africa in the period of 2005 to 2011.

This allows us to determine the weight of these variables in the government's ability to pursue the right policies through inclusive institutions. As we have argued, primary commodity dependence is a factor which makes countries prone to civil wars,<sup>167</sup> and thereby effectively erodes the most basic forms of state capacity. For the purpose of integrating of all statistically measurable variables within the equation, the notion whether these countries are land-locked or not has also been included as the parameter of the geography factor. The variables are rated in a self-evident numerical index.

---

<sup>166</sup> Bräutigam and Knack, 'Foreign Aid, Institutions, and Governance in Sub-Saharan Africa', p. 269.

<sup>167</sup> Collier, *The Bottom Billion*, p. 22.

Table (1): *Resource rich sub-Saharan countries*

	2011	2010	2009	2008
CPIA efficiency of revenue mobilization rating (1=low to 6=high)	3.1	3.1	3.1	3.1
CPIA equity of public resource use rating (1=low to 6=high)	3.0	2.9	2.8	2.8
CPIA macroeconomic management rating (1=low to 6=high)	3.5	3.5	3.5	3.5
CPIA policies for social inclusion/equity cluster average (1=low to 6=high)	2.9	2.9	2.8	2.8
CPIA policy and institutions for environmental sustainability rating (1=low to 6=high)	2.8	2.6	2.6	2.6
CPIA property rights and rule-based governance rating (1=low to 6=high)	2.4	2.3	2.3	2.3
CPIA public sector management and institutions cluster average (1=low to 6=high)	2.7	2.6	2.7	2.6
CPIA transparency, accountability, and corruption in the public sector rating (1=low to 6=high)	2.5	2.4	2.5	2.5
CPIA social protection and labor rating (1=low to 6=high)	2.8	2.8	2.9	2.8
CPIA quality of public administration rating (1=low to 6=high)	2.6	2.7	2.7	2.7

Source: Country Policy and Institutional Assessment. Click on a metadata icon for original source information.

	2008	2007	2006	2005
CPIA efficiency of revenue mobilization rating (1=low to 6=high)	3.1	3.1	3.1	3.2
CPIA equity of public resource use rating (1=low to 6=high)	2.8	2.8	2.8	2.9
CPIA macroeconomic management rating (1=low to 6=high)	3.5	3.5	3.5	3.5
CPIA policies for social inclusion/equity cluster average (1=low to 6=high)	2.8	2.8	2.8	2.9
CPIA policy and institutions for environmental sustainability rating (1=low to 6=high)	2.6	2.7	2.8	2.9
CPIA property rights and rule-based governance rating (1=low to 6=high)	2.3	2.3	2.3	2.3
CPIA public sector management and institutions cluster average (1=low to 6=high)	2.6	2.7	2.7	2.7
CPIA transparency, accountability, and corruption in the public sector rating (1=low to 6=high)	2.5	2.5	2.5	2.5
CPIA social protection and labor rating (1=low to 6=high)	2.8	2.8	2.8	2.8
CPIA quality of public administration rating (1=low to 6=high)	2.7	2.7	2.7	2.7

Source: Country Policy and Institutional Assessment. Click on a metadata icon for original source information.

These numbers derive from the *Country Policy and Institutional Assessment* database of the World Databank, which is an important part of The World Bank.<sup>168</sup>

<sup>168</sup> 'Resource rich sub-Saharan Africa Countries', *Country Policy and Institutional Assessment*, World Databank, © 2013 The World Bank Group, All Rights Reserved., <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

Table (2): *Non-resource rich sub-Saharan countries*

	2011	2010	2009	2008
CPIA efficiency of <a href="#">revenue</a> mobilization rating (1=low to 6=high)	3.5	3.5	3.5	3.5
CPIA equity of public resource use rating (1=low to 6=high)	3.5	3.5	3.4	3.3
CPIA macroeconomic management rating (1=low to 6=high)	3.6	3.7	3.7	3.6
CPIA policies for social inclusion/equity cluster average (1=low to 6=high)	3.3	3.3	3.2	3.2
CPIA policy and institutions for environmental sustainability rating (1=low to 6=high)	3.3	3.1	3.1	3.1
CPIA property rights and rule-based governance rating (1=low to 6=high)	2.9	2.9	2.9	2.9
CPIA public sector management and institutions cluster average (1=low to 6=high)	3.1	3.1	3.1	3.1
CPIA transparency, accountability, and corruption in the public sector rating (1=low to 6=high)	2.9	2.8	2.8	2.9
CPIA social protection and labor rating (1=low to 6=high)	3.0	3.0	3.0	3.1
CPIA quality of public administration rating (1=low to 6=high)	3.0	3.0	3.0	2.9

Source: Country Policy and Institutional Assessment. Click on a metadata icon for original source information.

	2008	2007	2006	2005
CPIA efficiency of <a href="#">revenue</a> mobilization rating (1=low to 6=high)	3.5	3.5	3.4	3.5
CPIA equity of public resource use rating (1=low to 6=high)	3.3	3.4	3.4	3.3
CPIA macroeconomic management rating (1=low to 6=high)	3.6	3.6	3.6	3.5
CPIA policies for social inclusion/equity cluster average (1=low to 6=high)	3.2	3.2	3.2	3.2
CPIA policy and institutions for environmental sustainability rating (1=low to 6=high)	3.1	3.1	3.1	3.1
CPIA property rights and rule-based governance rating (1=low to 6=high)	2.9	2.9	3.0	2.9
CPIA public sector management and institutions cluster average (1=low to 6=high)	3.1	3.1	3.1	3.1
CPIA transparency, accountability, and corruption in the public sector rating (1=low to 6=high)	2.9	2.9	2.9	2.9
CPIA social protection and labor rating (1=low to 6=high)	3.1	3.0	3.1	3.1
CPIA quality of public administration rating (1=low to 6=high)	2.9	3.0	3.0	3.0

Source: Country Policy and Institutional Assessment. Click on a metadata icon for original source information.

Table (3): *Non-resource rich sub-Saharan countries, landlocked*

	2011	2010	2009	2008
CPIA efficiency of revenue mobilization rating (1=low to 6=high)	3.5	3.4	3.4	3.4
CPIA equity of public resource use rating (1=low to 6=high)	3.5	3.5	3.4	3.3
CPIA macroeconomic management rating (1=low to 6=high)	3.6	3.7	3.7	3.6
CPIA policies for social inclusion/equity cluster average (1=low to 6=high)	3.4	3.2	3.2	3.2
CPIA policy and institutions for environmental sustainability rating (1=low to 6=high)	3.4	3.1	3.1	3.0
CPIA property rights and rule-based governance rating (1=low to 6=high)	2.9	2.9	2.9	2.8
CPIA public sector management and institutions cluster average (1=low to 6=high)	3.1	3.1	3.0	3.0
CPIA transparency, accountability, and corruption in the public sector rating (1=low to 6=high)	2.8	2.8	2.7	2.7
CPIA social protection and labor rating (1=low to 6=high)	3.0	3.0	3.0	3.0
CPIA quality of public administration rating (1=low to 6=high)	2.9	3.0	2.9	2.8

Source: Country Policy and Institutional Assessment. Click on a metadata icon for original source information.

	2008	2007	2006	2005
CPIA efficiency of revenue mobilization rating (1=low to 6=high)	3.4	3.4	3.4	3.4
CPIA equity of public resource use rating (1=low to 6=high)	3.3	3.4	3.4	3.3
CPIA macroeconomic management rating (1=low to 6=high)	3.6	3.6	3.6	3.5
CPIA policies for social inclusion/equity cluster average (1=low to 6=high)	3.2	3.2	3.2	3.2
CPIA policy and institutions for environmental sustainability rating (1=low to 6=high)	3.0	3.2	3.1	3.0
CPIA property rights and rule-based governance rating (1=low to 6=high)	2.8	2.8	2.8	2.8
CPIA public sector management and institutions cluster average (1=low to 6=high)	3.0	3.0	3.0	3.0
CPIA transparency, accountability, and corruption in the public sector rating (1=low to 6=high)	2.7	2.7	2.7	2.8
CPIA social protection and labor rating (1=low to 6=high)	3.0	3.0	3.2	3.0
CPIA quality of public administration rating (1=low to 6=high)	2.8	2.9	2.9	2.9

Source: Country Policy and Institutional Assessment. Click on a metadata icon for original source information.

170

We recognize that the overall ratings of these three tables are rather low, since not a single variable in any group of countries equals or exceeds the value of 4,0.

Therefore, it can safely be argued that the quality of country policy and institutions in pretty much the whole of sub-Saharan Africa in the period 2005-2011 is moderate at best, though the overall average score of all variables taken together remains in the lowest numerical category of the index.

Table 1 indicates that the 'CPIA efficiency of revenue mobilizing rating' (see: 'Appendix', p. 70) in resource-rich countries has a 3,1 average score. Combined with the 2,9 average score of the 'CPIA equity of public resource use' (see: 'Appendix', p.

<sup>170</sup> 'Non-resource rich Sub-Saharan Africa countries, of which landlocked', *Country Policy and Institutional Assessment*, World Databank, © 2013 The World Bank Group, All Rights Reserved., <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

70) for this group, this seems to provide fairly robust evidence for the assumption that the mobilizing of revenue in these resource-rich countries comes at the expense of fairness in the distribution of public resources. This claim is further supported by the mere 2,84 average score of the 'CPIA policies for social inclusion/equity cluster average' (see: 'Appendix', p. 70) and the dramatic 2,3 overall score of the 'CPIA property rights and rule-based governance rating.' (see: 'Appendix', p. 71)

Add these numbers to the 2,49 average score of 'CPIA transparency, accountability and corruption in the public sector rating' from 2005 to 2011. (see: 'Appendix', p. 70) The low average score of this indicator leads to the numerical confirmation of our assumption that the poor quality of political institutions in sub-Saharan African countries provides a sound basis for the predatory elitist behaviour and collective action problems described earlier.

The low average scores of 'CPIA public sector management and institutions cluster average' (see: 'Appendix', p. 70) and the 'CPIA quality of public administration rating' (see: 'Appendix', p. 71) of respectively 2,67 and 2,69 further support the claim of an institutional gap, leading to a deterioration of infrastructural and distributive capacity.

Are things any different in non-resource rich countries? The average measures for the same variables in table 2 rate a 3,49 score for 'efficiency of revenue mobilizing rating' and a 3,4 average score for the 'CPIA equity of public resource use' variable. It therefore seems likely that the absence of resources provides for a better revenue mobilizing efficiency and more equity in the use of public resources. However, these comparative findings should not be overestimated as they differ only respectively +.39 and +.3 points from resource-rich countries.

Moreover, the 'CPIA policies for social inclusion/equity cluster average' has an average score of only 3,23, diverging from resource-rich countries with a mere +.39 as well. Combined with the 2,87 average of 'CPIA transparency, accountability and corruption in the public sector rating', which diverges from resource-rich countries by only +.38, it becomes credible to state that the quality of political institutions in non-resource rich countries experiences only a very minor positive deviation from the

situation in resource-rich countries. The scores of 'CPIA public sector management and institutions cluster average' and the 'CPIA quality of public administration rating' deviate by respectively +.43 and +.3 support a slight statistical improvement of standards in state capacities of non-resource rich countries. The *de facto* experiences of peoples in resource-rich/non-resource rich countries however, are thus likely to express complete similarity.

How about land-locked countries that suffer from a lack of resources then? We already dismissed the relationship between climate/geography factors and prosperity/poverty as a fictional narrative.<sup>171</sup> The indicative ratings of country policy and institutional assessment we have so far deployed display findings similar to this statement. The 'efficiency of revenue mobilizing rating' deviates by respectively +.31 from resource-rich and +.08 from non-resource rich countries.

The 'CPIA equity of public resource use' in these land-locked countries deviates by +.5 from resource-rich countries and is equal to those that lack resources but are not land-locked. It thus seems that the lack of resources promotes larger equity of public resource use in land-locked countries than in resource-rich countries. However, this has nothing to do with the fact that those countries are land-locked. There is a 0,0 deviation from other non-resource rich countries which are not land-locked in terms of the equity of public resource use.

Moreover, the deviations from the parameters by which we have here measured the quality of political institutions are not significant. 'CPIA Transparency, accountability and corruption in the public sector rating' deviate only by respectively +.41 and +.03 from resource-rich/non-resource rich countries.

This shows no statistical improvement in the climate that should have been created by inclusive political institutions. Indeed, deviation rates in 'policies for social inclusion/equity cluster average' are only +.39 and 0,0. This shows that being land-locked has absolutely no impact on the government's ability to implement inclusive policies and thereby promote equity.

---

<sup>171</sup> Acemoglu and Robinson, *Why Nations Fail*, p. 49.

The deviations in the 'CPIA quality of public administration rating' are respectively +.21 and -.09. Combined with the +.08 deviation in the efficiency of mobilizing revenue compared to other non-resource countries, this would suggest that the quality of public administration reduces while revenue mobilizing efficiency increases. However, these numbers are statistically non-significant given their miniscule size. The deviations in the variable of 'public sector management and institutions cluster average' are respectively +.33 and -.1 compared to resource-rich/non-resource rich countries. Overall, we can identify a clear depiction of how the presence of natural resources impedes the country's capacity to effectively mobilize revenue. In this way, the capacity of these states to perform other tasks is also eroded. This is an obvious conclusion from the comparison with the same variables in non-resource rich (land-locked) countries.

The deviations between resource-rich/non-resource rich countries on these points are not statistically significant or non-existing. In all three categories of sub-Saharan African countries, we recognize the poor quality of political institutions which numerically do not provide for restraints (transparency/accountability) or equity in the distribution of resources. Thus, it is safe to say that the lack of politically institutionalized inclusiveness leads to an overall degradation of state capacity in sub-Saharan Africa.

How about countries that are facing hostilities from neighbouring states? The majority of the literature on Africa focuses on internal threats. Nevertheless, Buzan and Weaver point out that interstate war and rivalry have been emerging in many sub-regions of the African continent. It would therefore be an interesting question for further empirical analysis whether these types of external threats in Africa constitute a significant impetus for resource extraction.<sup>172</sup>

Given our findings so far, it seems reasonable to presume that the presence of hostile neighbour states will increase the general share of foreign aid. (% of GDP) The extraction in resource-rich countries is likely to increase in order to raise revenue. However, the illustrated high corruption and low accountability levels of these countries will prevent this extraction from having any significant effect on the

---

<sup>172</sup> Thies, 'The Political Economy of State Building in Sub-Saharan Africa', p. 718.

economy. We now analyse the relationship between the quality of political institutions, the extent to which taxation contributes to national revenue and how these numbers correspond with levels of foreign aid. Our focus is placed on Botswana and Nigeria – respectively rated upper middle-income and lower middle-income countries – in the period from 2006 to 2009.

Both of these countries are located in sub-Saharan Africa, so an analysis of their different economic outcomes will place the former relationship into an inter-regional perspective. This analysis will also provide insights about how the former relationship affects internal inequality within society.

Lastly, this chapter will be concluded with a few remarks about how the AU further deals with governance related issues on these matters.

**Table (4): Botswana WDI 2006-2009**

	2006	2007	2008	2009
GDP growth (annual %)	5	5	3	-5
GNI per capita growth (annual %)	5	4	3	-2
GNI growth (annual %)	7	6	5	0
Tax revenue (% of GDP)	24	23	22	24
Net ODA received (% of GNI)	1	1	6	2
Net ODA received (% of central government expense)	2	3	19	7
CPIA transparency, accountability, and corruption in the public sector rating (1=low to 6=high)	..	..	..	..
CPIA public sector management and institutions cluster average (1=low to 6=high)	..	..	..	..
CPIA property rights and rule-based governance rating (1=low to 6=high)	..	..	..	..
CPIA policies for social inclusion/equity cluster average (1=low to 6=high)	..	..	..	..
Natural gas rents (% of GDP)	..	..	..	..
Oil rents (% of GDP)	..	..	..	..
Taxes on goods and services (% of revenue)	9	11	15	14
Taxes on income, profits and capital gains (% of total taxes)	43	37	39	40
Taxes on income, profits and capital gains (% of revenue)	25	22	27	26

Legal | Access to Information | Jobs | Site Map | Contact

© 2013 The World Bank Group, All Rights Reserved.

173

Botswana experiences steady GDP growth rates from 2006-2008 and then suffers 5 percent-points decline in 2009. A similar trend is echoed by the Gross National Income (GNI) per capita which declined by –2.0 (annual %) and the annual GNI

<sup>173</sup> 'Botswana', *World Development Indicators*, World Databank, © 2013 The World Bank Group, All Rights Reserved., <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

growth which came to a standstill. This is paralleled by a growth in tax revenue of +2.0 (% of GDP) from 2008-2009. Furthermore, taxes on goods, services, income, profits and capital gains only decline by –1.0 (% of revenue) while the share of income, profits and capital gains in total taxes remained about the same.

Therefore, it seems that the effects of taxation in Botswana are somewhat irrelevant to its economic growth percentages. The growth of tax revenues and minor declines in individual tax category percentages can hardly be believed to account for the more excessive declines in national growth. More significant are the declines of Official Development Assistance (ODA) within this timeframe.

This type of foreign aid includes grants and loans with a grant element of more than 25%.<sup>174</sup> From 2008-2009, the net ODA received as a % of GNI declined by –4.0. This inflicted a major decline of –12.0 in the net ODA received as a % of central government expense.

It therefore seems right to assume that the central government's ability to boost the economy is highly contingent upon the aid provided by ODA. Thus, while taxes on income, profits and capital gains constitute an average 25% of revenue, they do not represent a sound basis for the national economy of Botswana. Furthermore, gains generated through natural resources – of which oil and gas are included in the table – are statistically irrelevant and can thus be neglected.

Unfortunately, the *World Development Indicators* do not provide any information concerning the quality of Botswana's political institutions, as measured by the parameters included in the table. However, the World Bank's general overview of Botswana indicates the heavy reliance of the country on its export of diamonds. Moreover, Botswana is still in the process of developing strategies to respond to external shocks caused by the recent uncertainty in the global market and the fragile economic recovery of more advanced countries.<sup>175</sup>

Furthermore, the overview states how Botswana's "impressive track record of good governance and economic growth [...] stands in contrast to the country's high levels

---

<sup>174</sup> Bräutigam and Knack, 'Foreign Aid, Institutions, and Governance in Sub-Saharan Africa', p. 268.

<sup>175</sup> The World Bank: Working for a World Free of Poverty, 'Botswana Overview' (last updated: April 2013), <http://www.worldbank.org/en/country/botswana/overview>.

of poverty and inequality [...].<sup>176</sup> Botswana's economic progress over the past 40 years seems to have benefited only particular groups in society.

Poverty rates have declined from 50% at independence to around 21% today, though the phenomenon remains profound especially within the rural areas of the country.<sup>177</sup> In this way, we arrive at a clear indication of the inclusiveness of Botswana's political institutions.

Though the World Bank praises the country for its level of democracy and governance agenda,<sup>178</sup> its overall effort of including all segments of society into the reached economic prosperity has so far been absent. Today, Botswana's income inequality is among the highest in the world,<sup>179</sup> and the government has yet to implement the institutional apparatus required to accomplish a reversal.

**Table (5):** *Nigeria WDI 2006-2009*

	2006	2007	2008	2009
GDP growth (annual %)	6	6	6	7
GNI per capita growth (annual %)	..	..	..	..
GNI growth (annual %)	..	..	..	..
Tax revenue (% of GDP)	0	0	0	..
Net ODA received (% of GNI)	8	1	1	1
Net ODA received (% of central government expense)	124	18	9	..
CPIA transparency, accountability, and corruption in the public sector rating (1=low to 6=high)	3	3	3	3
CPIA public sector management and institutions cluster average (1=low to 6=high)	3	3	3	3
CPIA property rights and rule-based governance rating (1=low to 6=high)	3	3	3	3
CPIA policies for social inclusion/equity cluster average (1=low to 6=high)	3	3	3	3
Natural gas rents (% of GDP)	4	4	5	2
Oil rents (% of GDP)	33	30	31	23
Taxes on goods and services (% of revenue)	..	2	2	..
Taxes on income, profits and capital gains (% of total taxes)	100	1	21	..
Taxes on income, profits and capital gains (% of revenue)	1	0	1	..

Legal | Access to Information | Jobs | Site Map | Contact

© 2013 The World Bank Group. All Rights Reserved.

180

<sup>176</sup> The World Bank: Working for a World Free of Poverty, 'Botswana Overview' (last updated: April 2013), <http://www.worldbank.org/en/country/botswana/overview>.

<sup>177</sup> The World Bank: Working for a World Free of Poverty, 'Botswana Overview' (last updated: April 2013), <http://www.worldbank.org/en/country/botswana/overview>.

<sup>178</sup> The World Bank: Working for a World Free of Poverty, 'Botswana Overview' (last updated: April 2013), <http://www.worldbank.org/en/country/botswana/overview>.

<sup>179</sup> The World Bank: Working for a World Free of Poverty, 'Botswana Overview' (last updated: April 2013), <http://www.worldbank.org/en/country/botswana/overview>.

<sup>180</sup> 'Nigeria', *World Development Indicators*, World Databank, © 2013 The World Bank Group, All Rights Reserved., <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

The lower middle-income Nigeria displays a completely different picture. Here, taxation as a source of revenue (% of GDP) is entirely absent and the government seems to rely much more on the aid received through ODA.

In addition, the country earns a substantial share of revenue (% of GDP) through its oil rents. The presence of the natural resource oil in Nigeria is most likely to account for the continued interest from foreign donors in the country. Indeed, Nigeria has proven to be the biggest oil exporter in Africa and has the largest natural gas reserves in the continent.<sup>181</sup> The overall quality of political institutions has an average 3,0 rating. Though this is not particularly high, the fact that Nigeria's inclusiveness is 'stuck-in-the-middle' provides a solid basis to further improve institutional standards and thereby foster economic development.

Indeed, Nigeria was among the first countries that adopted the 'Extractive Industries Transparency Initiative' to improve governance and the oil sector.

Furthermore, it is noteworthy that the Nigerian population consists of 200 ethnic groups that speak 500 different indigenous languages. The country's federal structure effectively balances the fragmentation of the Nigerian identity along ethnic, geographical and cultural lines, with a strong emphasis on the central government to represent the six major geopolitical zones and these different cultural and ethnic identities. As a result, Nigeria's socio-political environment has been fairly stable.<sup>182</sup>

The Nigerian example thus seems to demonstrate that even a sub-Saharan African country wherein tax revenues are of nil value and ODA and natural resources constitute a major source of income is able to develop inclusive political institutions and foster economic prosperity. However, the extent of this success should not be overestimated. The World Bank indicates the dangers of Nigeria's dependence on oil exports and the constraints on economic growth in the investment climate. The country may not be on track in meeting the majority of the Millennium Development

---

<sup>181</sup> The World Bank: Working for a World Free of Poverty, 'Nigeria Overview', <http://www.worldbank.org/en/country/nigeria/overview>.

<sup>182</sup> The World Bank: Working for a World Free of Poverty, 'Nigeria Overview', <http://www.worldbank.org/en/country/nigeria/overview>.

Goals. (MDGs)<sup>183</sup> The Nigerian state consists of a central government, 36 smaller sub-states and 774 local governments. Most of these states have weak capacities, which hampers the improvement of governance through fiscal decentralization. When the local governments receive considerable policy autonomy, control over 50 percent of government revenues and responsibility for delivery of public services, they will become able to tackle the country's unemployment and human underdevelopment on a regional basis.<sup>184</sup>

The inclusiveness of political institutions is, at least to a reasonable extent, already present and imperative to further develop capacity in these Nigerian sub-states. Undoubtedly, there is scope for the African Union to play an essential part in improving governance, reducing poverty and reaching the MDGs within the continent. This pan-African collection of states serves as the mechanism through which the political integration of the continent can be structured and exacerbated by dealing with common issues in governance.

Thereby, sub-Saharan Africa will be provided with the framework of tools required to build on its relational capacity with the rest of the continent and donors such as the EU. Finally, the AU is already playing its vital role in the attempt to prevent and/or contain outbursts of violence in individual countries through the CEWS.<sup>185</sup>

Lastly, the New Partnership for Africa's Development (NEPAD) should be a promising framework to improve standards within the continent. This programme in support of the AU frames its targets around the MDGs to improve governance in a whole range of developmental issues. In this way, NEPAD ensures its presence on the agendas of the G8 and the Organization of Economic Co-operation and Development (OECD) and challenges aid donors to take their commitment to global poverty reduction seriously.<sup>186</sup>

---

<sup>183</sup> The World Bank: Working for a World Free of Poverty, 'Nigeria Overview', <http://www.worldbank.org/en/country/nigeria/overview>.

<sup>184</sup> The World Bank: Working for a World Free of Poverty, 'Nigeria Overview', <http://www.worldbank.org/en/country/nigeria/overview>.

<sup>185</sup> 'Report of the Workshop on the Establishment of the AU Continental Early Warning System' – Background Paper No. 1, in: *Meeting the Challenge of Conflict Prevention in Africa: Towards the Operationalization of the Continental Early Warning System*, [http://www.africa-union.org/root/AU/AUC/Departments/PSC/PSC/CD/11\\_BACKGROUND%20paper%20No.%201.pdf](http://www.africa-union.org/root/AU/AUC/Departments/PSC/PSC/CD/11_BACKGROUND%20paper%20No.%201.pdf), pp. 2-3.

<sup>186</sup> De Waal, 'What's new in the 'New Partnership for Africa's Development'?', pp. 464-465.

The strongest aspect of NEPAD might perhaps be its 'enhanced partnerships', which represents a common commitment by donors and African countries to a set of development outcomes as defined by the countries themselves.

In these 'partnerships', the donors guarantee funds for an extended period, which are channelled through budgetary processes jointly monitored on the basis of outcomes. In this way, the transaction costs deriving from the receipt of aid could be lowered and African ownership promoted.<sup>187</sup> Both of these serve – according to New Institutional Economics – as instruments which could benefit economic growth in developing countries.<sup>188</sup>

In addition, one aim of these 'enhanced partnerships' is the reducing of the currently high transaction costs of receiving international aid. This is done by the simplifying and harmonizing of the aid encounter. In this way, the implementation of NEPAD's 'enhanced partnerships' should allow for a more efficient use of recipient capacity.<sup>189</sup>

The impact of globalization on sub-Saharan Africa is perhaps best demonstrated through the omnipresence of the HIV/AIDS pandemic. Today, this is the number one survival threat to both African individuals and their countries' prospects for governance and development.<sup>190</sup> This pandemic therefore constitutes a collective problem which requires collective action.

In the perspective of Africa's capacity errors, the governance measures required to tackle the continuing threat of HIV/AIDS involve issues which might seem insurmountable on the national state level. However, NEPAD offers the best chance Africa has had for many years to ensure that the continent's concerns are heard and received in the highest level of the international community.<sup>191</sup> The increasing global interdependence might in this way be deployed to improve the development prospects of sub-Saharan Africa.

---

<sup>187</sup> De Waal, 'What's new in the 'New Partnership for Africa's Development'?', pp. 465-466.

<sup>188</sup> Herath, 'Analysis of the potential and problems', p. 881.

<sup>189</sup> De Waal, 'What's new in the 'New Partnership for Africa's Development'?', p. 471.

<sup>190</sup> Ibid, p. 475.

<sup>191</sup> Ibid, p. 475.

## 5. Conclusion:

*"Although today, developed nation-states tend to exercise their power within the nonterritorial region represented by these new sites of rule making, geographically delimited enclaves – in the form of export processing zones, offshore financial centres, and the like – continue to embody some states' attempts to gain a grip on processes of international economic integration."<sup>192</sup>*

The impact of globalization on national state capacity is a highly complex outcome of various exogenous pressures. This requires the accurately conceptualizing of the forces that embody globalization, where after these need to be carefully structured alongside a set of parameters and indicators by which the impact can be measured. The scope of this inquiry has been too limited to frame all of these within the analysis. Nevertheless, we have deployed a working definition of globalization – 'political' through decision making in new supra-national sites of governance – throughout this inquiry. In the perspective of national state capacities within sub-Saharan Africa, this constitutes a highly significant dimension of the increasing global interconnectedness of our world economies.

Furthermore, we have identified how the impact on globalization on national state capacity is highly contingent upon the 'state of the state.' In our analysis of sub-Saharan Africa, we have indicated the weight of several factors in the shaping of state capacities. Moreover, the interplay of notably historical and institutional factors has marked processes of capacity building and how these may be affected through globalization.

### 5.1. History and institutions

In our case study of sub-Saharan Africa, we have identified the importance of colonial legacies in shaping state capacities. In sub-Saharan Africa, independence went hand-in-hand with a reorientation towards traditional institutions. This led to an institutional gap and power vacuum, which became filled by predatory elites.

---

<sup>192</sup> Phelps, 'Gaining from Globalization?', p. 372.

The international consolidation of the pre-independence boundaries through the OAU norm effectively guaranteed that no changes occurred within this status-quo. Crucially, political institutions were unable to resolve the high levels of internal conflicts within sub-Saharan Africa.

These institutions were not inclusive in nature and saw to an unequal distribution of political power. This generated high levels of political instability which effectively undermined infrastructural and distributive capacity. Transformative capacity rested on patronage networks in which governments were reluctant to make the slightest distributional policy changes.

The crucial need of the government to secure the support of particular groups for its existence and the threat of being overthrown marked the policy decisions. This is in line with the features of states associated with the 'influence-network' model.

As we have seen, the level of political instability undermined tax efforts in sub-Saharan Africa. High levels of foreign aid are found to have detrimental effects on the state's capacity to independently raise revenue. Furthermore, our indications show that the presence of natural resources in these countries has adverse consequences for the equity within distributive capacity.

We have identified that factors leading to the weakening of capacities – such as foreign aid and political violence – directly damage those states that have not developed any further than the lowest levels of capacity. In this way, we also recognize how these different stages of capacity building affect the ways in which national states manage or deal with globalization.

In sub-Saharan Africa, the AU and NEPAD are designed to promote African interests through international developmental governance. They also seek the political integration of the continent to overcome the problems undermining the most basic capacity forms, such as the high level of internal conflicts within the continent. To this end, they have developed the CEWS which provides a hopeful endeavour.

The impact of globalization on national state capacity thus holds region-specific implications. Thereby, it prescribes the policy strategies of these respective regions – depending on their particular stage of capacity building – and their preferences in

dealing with collective governance issues. Globalization has a more adverse impact on sub-Saharan Africa than on different parts of the international community. To a great extent, this can be solved through an institutional correction on the former's part, with the latter's support in governance issues such as HIV/AIDS.

## 5.2. Culture and geography

Admittedly, this inquiry has neglected the cultural dimensions of globalization. However, it would be quite difficult to statistically measure the impact of free flows and syntheses of culture on national state capacity. Moreover, we have laid out the culture hypothesis and its role in determining the prospects of national states to economically flourish or dwell in poverty.

As we have demonstrated, most arguments based on the culture hypothesis rest on superficial analyses made in a distant past. Though particular indigenous structures and networks may perhaps not be very helpful in building stronger state capacities, culture *per se* is not the problem.

Furthermore, ethnic diversity in society itself does not generate violent conflicts. Violent conflicts are only generated when an institutional gap exacerbates inter-ethnic tensions and patronage politics restrain participation processes to particular groups with a vast resource or power base. For this has the tendency to transform diversity into disparity and tensions into violence.

In a similar way, we have demonstrated the futility of the geography thesis. The tables provided show that being land-locked has no significant impact on a country's record of economic achievements. Nor does any form of cultural or geographical situation relate to countries' distribution of power through political institutions and its economic progress. The statistics all testify to the fact that these are only minor variables in the broader political institutional framework that may enforce or inhibit development.

### 5.3. The Globalized State?

Finally, this inquiry concludes with a short answer to the question raised at the beginning. In particular, the globalized state does not appear to exist. A non-Western paradigm of state building has been indicated throughout this thesis. We have found that some states are more globalized than others. This has mainly to do with the interplay of both historical and politico-institutional factors.

However, the history of international relations consists of contingent coherencies, which have promoted institutional development in the one country and left cleavages in the other. We have seen how contingent historical events in Europe culminated in a predatory model of state building, whereas the colonial era left sub-Saharan Africa with a far less suited basis to build its new national states.

Today, the less globalized states will have to build capacity to solve their lower capacity problems while the more globalized states will have to upgrade relational capacity to overcome collective governance issues. Meanwhile, globalization remains an on-going process and states will only continue their efforts to shape its outcomes to their own ends.

## 6. **Bibliography**

### 6.1. **Primary sources**

© African Union 2008, 'Report of the Workshop on the Establishment of the AU Continental Early Warning System' – Background Paper No. 1, Conflict Management Division of the Peace and Security Department, African Union Commission (ed.), in: *Meeting the Challenge of Conflict Prevention in Africa: Towards the Operationalization of the Continental Early Warning System*, <http://www.africa-union.org/root/AU/AUC/Departments/PSC/PSC/CD/11BACKGROUND%20paper%20No.%201.pdf>, pp. 2-3, 7, 15.

Rodrik, D., 'Feasible Globalizations', National Bureau of Economic Research (NBER) Working Paper No. 9129 (September 2002), [http://www.nber.org/papers/w9129.pdf?new\\_window=1](http://www.nber.org/papers/w9129.pdf?new_window=1), pp. 7-8.

© 2013 The World Bank Group, All Rights Reserved., 'Botswana', *World Development Indicators*, World Databank, <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

© The World Bank: Working for a World Free of Poverty, 'Botswana Overview' (last updated: April 2013), <http://www.worldbank.org/en/country/botswana/overview>.

© 2013 The World Bank Group, All Rights Reserved., 'Nigeria', *World Development Indicators*, World Databank, <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

© The World Bank: Working for a World Free of Poverty, 'Nigeria Overview', <http://www.worldbank.org/en/country/nigeria/overview>.

© 2013 The World Bank Group, All Rights Reserved., 'Non-resource rich Sub-Saharan Africa countries', *Country Policy and Institutional Assessment*, World Databank, <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

© 2013 The World Bank Group, All Rights Reserved., 'Non-resource rich Sub-Saharan Africa countries, of which landlocked', *Country Policy and Institutional Assessment*, World Databank, <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

© 2013 The World Bank Group, All Rights Reserved., 'Resource rich sub-Saharan Africa Countries', *Country Policy and Institutional Assessment*, World Databank, <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

## **6.2. Secondary literature**

Acemoglu, D. and J. A. Robinson, *Why Nations Fail. The Origins of Power, Prosperity and Poverty* (London 2013) pp. 48-49, 50, 56, 58-59, 81-82, 102, 105, 291, 428.

Collier, P. *The Bottom Billion. Why the Poorest Countries Are Failing and What Can Be Done About It* (Oxford 2007) pp. 5-7, 22, 25, 45, 48-50, 64.

Opper, S., 'New Institutional Economics and Its Application on Transition and Developing Economies', in: É. Brousseau and J. Glachant (ed.), *New Institutional Economics: A Guidebook* (Cambridge 2008) p. 401.

Skocpol, T., 'Bringing the State Back In: Strategies of Analysis in Current Research', in: P. Evans, D. Rueschemeyer and T. Skocpol (ed.), *Bringing the State Back In* (Cambridge 1985) pp. 3-38.

Tilly, C., 'War Making and State Making as Organized Crime', in: P. Evans, D. Rueschemeyer and T. Skocpol (ed.), *Bringing the State Back In* (Cambridge 1985) pp. 169-191.

### **6.3. Journal articles**

Baier, S., 'Trans-Saharan Trade and the Sahel Damergu, 1870-1930', *Journal of African History* 18 (1977) p. 37.

Bräutigam, D., 'Building Leviathan: Revenue, State Capacity and Governance', *Institute of Development Studies Bulletin* 33 (2002) pp. 1-4.

Bräutigam, D.A. and S. Knack, 'Foreign Aid, Institutions, and Governance in Sub Saharan Africa', *Economic Development and Cultural Change* 52 (2004) pp. 265-267, 269-272, 279.

Bräutigam, D., 'Foreign Aid and the Politics of Participation in Economic Policy Reform', *Public Administration and Development* 20 (2000) p. 255.

Farr, J., 'Point: The Westphalia Legacy and the Modern Nation-State', *International Social Science Review* 80 (2005) pp. 156-157.

Herath, G., 'Analysis of the potential and problems of New Institutional Economics for Third World development', *International Journal of Social Economics* 32 (2005) pp. 877-879, 881.

Robinson, M., 'Hybrid States: Globalisation and the Politics of State Capacity', *Political Studies* 56 (2008) pp. 566-571, 575-578.

Thies, C.G., 'The Political Economy of State Building in Sub-Saharan Africa', *The Journal of Politics* 69 (2007) pp. 716-719, 721.

Waal, A. de, 'What's new in the 'New Partnership for Africa's Development?',  
*International Affairs (Royal Institute of International Affairs 1944-)* 78 (2002)  
pp. 464-468, 471, 475.

## **7. Glossary of terms**

AU	African Union
CEWS	Continental Early Warning System
CPIA	Country Policy and Institutional Assessment (database)
ECOSOC	African Economic, Social and Cultural Council
EU	European Union
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
G8	Group of 8
ICRG	International Country Risk Guide
MDGs	Millennium Development Goals
NBER	National Bureau of Economic Research
NEPAD	New Partnership for Africa's Development
NGOs	Non-Governmental Organizations
NIE	New Institutional Economics
OAU	Organization of African Unity
ODA	Official Development Assistance
OECD	Organization of Economic Co-operation and Development
PSC	African Peace and Security Council
UN	United Nations
WDI	World Development Indicators

## **8. Appendix**

### **8.1. Country Policy and Institutional Assessment**

*CPIA efficiency of revenue mobilizing rating:* This indicator assesses the overall pattern of revenue mobilization. Not only the *de facto* tax structure, but also revenue from all sources as actually collected.

*CPIA equity of public resource use:* This indicator assesses the extent to which the pattern of public expenditures and revenue collection affects the poor and is consistent with national poverty reduction priorities.

*CPIA policies for social inclusion/equity cluster average:* This indicator measures the policies for social inclusion. The equity cluster includes gender equality, equity of public resource use, building human resources, social protection and labour. It also includes policies and institutions for environmental sustainability.

*CPIA transparency, accountability and corruption in the public sector rating:* This indicator assesses the extent to which the executive can be held accountable for its use of funds and for the results of its actions by the electorate and by the legislature and judiciary. It also assesses the extent to which public employees within the executive are required to account for administrative decisions, their use of resources, and the results obtained. The three main dimensions assessed here are the accountability of the executive to oversight institutions and of public employees for their performance, the access of civil society to information on public affairs, and state capture by narrow vested interests.

*CPIA public sector management and institutions cluster average:* This indicator includes property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public

administration, and transparency, accountability, and corruption in the public sector.

*CPIA quality of public administration rating:* This indicator assesses the extent to which civilian central government staff is structured to design and implement government policy and deliver services effectively.

*CPIA property rights and rule-based governance rating:* This indicator assesses the extent to which private economic activity is facilitated by an effective legal system and rule-based governance structure in which property and contract rights are reliably respected and enforced.<sup>193</sup>

## **8.1. ICRG Quality of Governance Index**

### **ICRG Quality of Governance Index**

*Corruption in government (0–6).* Lower scores indicate that “high government officials are likely to demand special payments,” “illegal payments are generally expected throughout lower levels of government” in the form of “bribes connected with import and export licenses, exchange controls, tax assessment, police protection, or loans.”

*Quality of the bureaucracy (0–6).* High scores indicate “autonomy from political pressure,” “strength and expertise to govern without drastic changes in policy or interruptions in government services” when governments change, and “established mechanisms for recruiting and training.”

*Rule of law (0–6).* This variable “reflects the degree to which the citizens of a country are willing to accept the established institutions to make and implement laws and adjudicate disputes.” Higher scores indicate “sound political institutions, a strong court system, and provisions for an orderly succession of power.” Lower scores indicate “a tradition of depending on physical force or illegal means to settle claims.” On changes in government, new leaders “may be less likely to accept the obligations of the previous regime” in low-scoring countries.

194

---

<sup>193</sup> © 2013 The World Bank Group, All Rights Reserved., *Country Policy and Institutional Assessment (CPIA) Database*, <http://www.worldbank.org/ida>.

<sup>194</sup> Bräutigam and Knack, ‘Foreign Aid, Institutions, and Governance in Sub-Saharan Africa’, p. 279.