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## Continuity, aid and revival: State building in South Korea, Taiwan, Iraq and Afghanistan

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# Continuity, Aid and Revival: State Building in South Korea, Taiwan, Iraq and Afghanistan

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**Nematullah Bizhan**



The  
**Global  
Economic  
Governance**  
Programme



# Continuity, Aid and Revival: State Building in South Korea, Taiwan, Iraq and Afghanistan

Nematullah Bizhan<sup>1</sup>

## Abstract

Under what conditions does foreign aid in a post-conflict environment foster state building and consolidation? This paper argues that in the aftermath of war for an aid regime to reinforce state building it needs to ensure continuity in strength of the state and to use recipient mechanisms and finance policies that generate a greater state capacity. The existence and continuity of a Weberian state increases the likelihood of effective state building, regardless of the aid regime. If the state is a relatively strong state with a Weberian bureaucracy, aid can further reinforce it when aid is spent through national systems, with efforts to ensure that the recipient leaders reinforce state effectiveness by implementing policies that require greater state capacity. However, even under more adverse initial conditions—a neo-patrimonial state—the aid regime and state building strategy matter. Under these conditions aid undermines state building if it induces discontinuity in the existing state capacity and creates parallel institutions to those of the state. With these policies, leaders will be preoccupied with the politics of patronage that maintain a weak state. Evidence for this argument is provided through pairwise comparison of state building patterns between South Korea and Taiwan, on the one hand, and Iraq and Afghanistan, on the other. These countries received significant amounts of aid in different periods; their situations differed on the key variables of my theory; and they achieved diverse results.

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## Table of Contents

<b>1. Introduction</b>	<b>3</b>
<b>2. South Korea: Continuity and Aid</b>	<b>6</b>
<b>2.1 State Capacity and Reforms</b>	<b>9</b>
<b>3. Taiwan: Continuity and Foreign Aid</b>	<b>11</b>
<b>4. Iraq: Discontinuity and Aid</b>	<b>16</b>
<b>4.1 Reinforcing Fragmentation: State Building Strategy</b>	<b>17</b>
<b>5. Afghanistan: Limited Continuity and Aid</b>	<b>21</b>
<b>5.1 State Building Strategy: Creating Parallel Institutions</b>	<b>23</b>
<b>6. Conclusion: How Aid can help “Build” or Undermine a State?</b>	<b>26</b>
<b>References</b>	<b>28</b>

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# 1. Introduction

Aid dependency profoundly impacts post-conflict state building, while outcomes differ. This issue has received relatively little attention, with contested views on aid effectiveness. Neither donor nor recipient and transaction schools of thought on aid effectiveness alone can provide a holistic framework for assessing aid effectiveness in post-conflict state building. The recipient school contends that aid effectiveness depends on the quality of recipient institutions and governance standards. Paul Collier and the former US Agency for International Development Administrator, Andrew Natsios, are advocates of this school. Collier argues that both technical assistance and aid conditionality should be used in support of reforming governments and improving governance performance (Collier, 2007). Natsios argues that “all aid projects should be subordinate to the larger institution building task” (Natsios, 2010).

The donor school of thought focuses on the problems of aid effectiveness not in regard to the recipient, but the donor. It argues that unless the donor is well intentioned and well informed, it will be difficult to reach an agreement with recipients to deliver good development outcomes (Howes, 2013). William Easterly a main critic of foreign aid is a leader in this school (Easterly, 2002). Unlike Jeffrey Sachs he argues, “[a]id should set more modest goals, like helping some of the people some of the time, rather than trying to be the catalyst for society-wide transformation” (Easterly, n.d.).

The transaction cost school of thought is concerned that in a single country many donors deliver aid through enormous projects. If each project carries a fixed cost then a significant portion of aid is spent on transaction cost, reducing the overall effectiveness of aid. This school argues that donors should reduce the number of independent projects. They instead should integrate their projects with government projects. Donors should channel their funds through government systems and mechanisms. By reducing parallel processing, both among donors and between donors and government, the projects transaction costs could be reduced (Howes, 2013, p. 67). The 2005 Paris Declaration (OECD, 2005/2008) calls for reduced transaction costs. Jeffrey Sachs, an advocate for more aid who also supports the Paris Declaration, emphasizes improved donor coordination, simplification of their procedures, pooling of resources and working more through multilaterals (Sachs, 2005, pp. 288-309).

The three schools of thought all make significant contributions but should not be viewed in isolation from the others, since to do so would overestimate the role of donor, recipient or transaction cost and therefore fail to comprehensively explain aid effectiveness. As this study shows, an integrated approach that assesses all three factors—recipient institutions and policies, donor intention, and transaction cost—will best analyze the impact of aid on state building.

This paper focuses on the effect of foreign aid on state building and consolidation in a post-conflict environment. It uses pairwise comparisons of state building patterns between South

This paper focuses on the effect of foreign aid on state building and consolidation in a post-conflict environment. It uses pairwise comparisons of state building patterns between South Korea—in the aftermath of Korean war in 1953 to the end of the Park Chung Hee regime in 1979—and Taiwan—after World War II from 1945 until 1965 when US aid to Taiwan terminated. It also compares Iraq—after the US invasion in 2003 until end of the Nouri al-Maliki premiership in 2014—with Afghanistan—from the fall of the Taliban regime in 2001 until the end of Hamid Karzai presidency in 2014, on the other. These four countries were all aid dependent in the aftermath of conflict and were strategically important for the US, which provided them with significant military and economic aid.

The US foreign policy in these countries concentrated on the containment of communism (South Korea and Taiwan), safeguarding US access to oil in the Middle East (Iraq) and war against terror (Afghanistan and Iraq). These countries experienced conflict and external military intervention and subsequently faced threats. Afghanistan and Iraq faced internal threats caused by insurgency, while South Korea and Taiwan faced the external threats of invasion and assimilation from North Korea and Mainland China respectively.

South Korea and Taiwan inherited Weberian states. Since state building strategy and aid preserved and reinforced the existing state capacity, South Korea and Taiwan thus had institutional continuity. Conversely, Iraq and Afghanistan inherited neo-patrimonial states. State building strategy and creation of parallel systems undermined the existing state institutions. Therefore, Iraq experienced significant institutional discontinuity while Afghanistan had limited institutional continuity.

These four countries all achieved different outcomes. In constant 2012 US\$, during the periods mentioned above, South Korea received US\$ 4049 per capita, Iraq US\$ 2605, Taiwan US\$ 2103, and Afghanistan US\$ 1910.<sup>2</sup> South Korea and Taiwan emphasized economic democracy by achieving inclusive growth. Korea and Taiwan, with GDP per capita of US\$ 24,454 and US\$ 23380 (2012) respectively, are now among high-income rich countries with resilient states. On the other hand, Iraq and Afghanistan's emphasis on democratic state building and economic growth mostly benefited elites. Iraq, with GDP per capita of US\$ 6632 (2012), and Afghanistan, with GDP per capita of US\$ 688 (2012), are upper middle-income and lower income economies respectively. However, Iraq's higher per capita income does not indicate that it has an effective state and a developed economy. A large portion of Iraq's GDP was comprised of oil-revenue. Iraq and Afghanistan are among the most fragile states (The Fund for Peace, 2012).

The next paragraphs define the key concepts to be used in the rest of the paper. Institutional continuity here refers to the continuation of state institutions, such as military and civil administration. The most common types of states are neo-patrimonial and Weberian. They are distinguished on the basis of how their public and private realms operate normatively and organizationally. “[A] modern Weberian state ... is supposed to be impersonal, formal,

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<sup>2</sup> The data on aid from 1946-1961 is US economic assistance. The data from 1962 onward includes the official development aid (ODA) from the OECD database. ODA by definition does not include all of the data which is categorized as economic aid by USAID.

accountable and non-corrupt. The neo-patrimonial state is the precise opposite, with personalized and informal relationships between the boss or patron and his clients. The patron is accountable and hugely corrupt...and dispensing benefits to clients to stay in power” (Khan & Gray, May 2003, p. 28). In Weberian states recruitments are based on merit, unlike in neo-patrimonial states. Neo-patrimonial states suffer from uncertainty and the existence of contradictory formal and informal rules (Khan & Gray, May 2003; O’Neil, September 2007, p. 3).

Aid-dependency is “a situation in which a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and expertise”, and aid comprises about 10 per cent share of gross national product (GNP) or above (Brautigam, 2000, p. 2).

When aid is provided to a recipient government budget, using its financial systems and budget procedures, it is referred to as “budget support” or “on-budget aid”. The Trust Funds which are jointly managed by donors and government, provide coordinated financing mechanism and use the recipient mechanisms (Koeberle, Stavreski, & Wallister, 2006, pp. 5, 23). When aid is administered by semi-autonomous institutions which function independent of government and operating outside budget laws but in support of government priorities and institutions (Jacoby, 1966), it is here referred to as a “coordinated-flexible aid”. However, if aid is channeled outside the government budget, if it bypasses the national systems, and creates parallel processes, it is called “off-budget aid”. These mechanisms can reinforce or undermine state building. Tax revenue as a share of GDP is used to measure the state’s capacity (Hanson & Sigman, 2013).

## 2. South Korea: Continuity and Aid

South Korea inherited a Weberian state. Following the withdrawal of the Japanese in 1945, aid and state building strategy preserved and reinforced the existing capacity of the state. Continuity in the Weberian state, as well as the aid regime and policies adopted by the government, reinforced effective state building. South Korea has become a resilient state which helped to put the country on a path to long-term development.

The transformation of the Korean state from a patrimonial and ineffective bureaucracy into a highly authoritarian-Weberian bureaucracy took place under Japanese colonial rule from 1905 to 1945.<sup>3</sup> Japanese colonial rule in Korea ended after the defeat of Japan in World War II (1945) but it left a strong institutional legacy. A well-organized police force was established which grew to more than 60,000 gendarmes and police in 1941 (Chen, 1984, pp. 213-239).<sup>4</sup> The number of officials in Japanese-Korean government increased to 87,552 in 1937 from 10,000 in 1910, more than half of whom (52,270) were Japanese. Lower level officials were made responsible to those above them in the bureaucratic hierarchy, rather than to personal interests or to the interests of societal actors (Kohli, 2004, p. 35).<sup>5</sup> A land survey and land reform were successfully implemented which, especially, weakened the *Yangban* elites. Korea's roads and railways were among the finest that any developing county inherited from its colonial past.<sup>6</sup> Commendable progress was made in the area of industrialization. Japanese development intervention in Korea was on a model of deliberate development. It emphasized state building and using state power for socioeconomic change (Kohli, 2004, p. 33).<sup>7</sup>

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<sup>3</sup> Ruling arrangements in Seoul was highly authoritarian. The power of Japanese governor-general in both policymaking and implementation was absolute. Incentive structures were created in order to increase the compliance of senior Korean officials. These included higher salaries and "entertainments allowance". When these measures did not work, authority was further centralized. When these measures also failed Korean officials were replaced with Japanese officials (Chen, 1984, p. 36).

<sup>4</sup> While senior police officers were intended to be Japanese, Koreans comprised over half of the (lower officer) force. In addition to formal trainings, the Japanese maintained close supervision over the police force. Japanese trained the Koreans in Korean police academies (Chen, 1984, pp. 213-239). The police force penetrated every Korean village and, in addition to performing standard duties of maintaining law and order, was empowered with control over politics, religion, education, morals, health, and public welfare.

<sup>5</sup> On the eve of World War II there were 40,000 Koreans qualified as government officials, though they did not occupy senior government positions. When the demand for Japanese increased elsewhere during the World War II, Koreans moved up in the bureaucratic hierarchy. After the withdrawal of the Japanese, first under the American military government (1945-1948) and then when the Korean sovereign state was established these officials took over to run the state (Kohli, 2004, p. 35)

<sup>6</sup> Land revenue increased by 30 per cent in four years, from 4.9 million yen in 1905 to 6.5 million yen in 1908 (Kohli, 2004, p. 33).

<sup>7</sup> The South Korean development model was inspired by Japanese experience of Meiji era for domestic reform in order to catching up with Western powers. Some elements of this development model included: (1) the creation of a centralized state capable of controlling and transforming Japanese society, (2) deliberate state intervention aimed first at agricultural development and second at rapid industrial growth, and (3) production of a disciplined, obedient, and educated work force (Kohli, 2004, p. 33).



Subsequently, under the United States Army Military Government in South Korea (USAMGIK, 1945-1948) and then the South Korean, hereafter also referred to as The Republic of Korea, sovereign government, state building strategy and aid preserved and reinforced the existing capacity of the Korean state. The state was then extensively used to transform South Korea from a poor country to an industrialized and rich economy.

The US aid reduced the likelihood of the fiscal collapse of the state institutions as it was allocated in such a way as to reinforce institutional continuity. “With a poor natural resource base and one of the world's highest population densities, [South Korea] was almost entirely dependent on US aid after the war” (World Bank, 1993, p. 127). However, official development assistance (ODA) as a percentage of gross national income (GNI) gradually fell from 10 per cent in 1961 to less than zero in 1978 (2014). Aid provided South Korea with critical support until domestic policies and institutions were able to generate self-sustaining growth, and, “with mixed success, helping those domestic policies and institutions to emerge”(Smith & Howes, 2014). South Korea became a major ally of the US in Asia Pacific to contain communism both in its North and by joining the US and contributing troops to the Vietnam War. After the reestablishment of the relationship with Japan in the 1960s, Japan also provided substantial aid to South Korea and became the second major donor (World Development Indicators, 2014).<sup>8</sup>

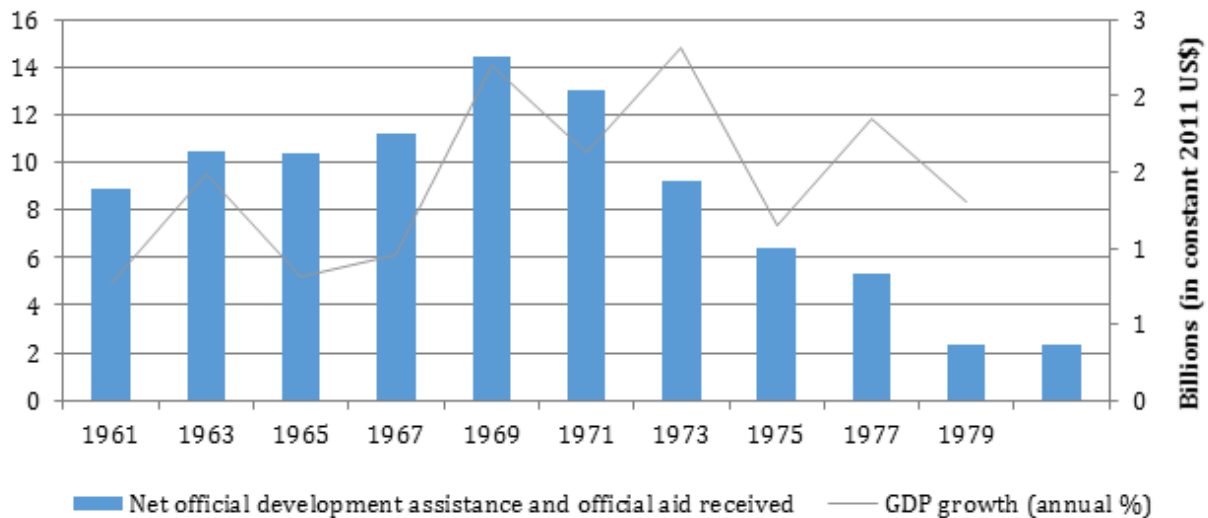
Between 1946 and 1979 the US provided US\$ 110 billion (in 2012 constant US\$) in military and economic aid to South Korea. Sixty five per cent of the aid was economic assistance (USAID). The economic aid under the US military government was part of the Government and Relief in Occupied Areas program. Once the sovereign South Korean government was established in 1948, the US focused on providing long-term aid for the economic stability of South Korea as part of the “US-Korea Economic Aid Agreement” (Kang, 2005, p. 227). After the cease-fire of 1953, which ended the three years of Korean War between North and South, the US aid to South Korea increased and, when in 1957 the balance of payments of the US deteriorated, US grants to South Korea were reduced and replaced by loans (Kang, 2005, p. 227). Figure 3 below shows that development aid contributed to South Korea’s annual economic growth, which on average grew by nine per cent per annum from 1961 to 1979.<sup>9</sup>

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<sup>8</sup> With the decline in the US military and economic assistance and its role in (South) Korean politics, development alternative to transform Korea gained prominence. The US economic advisors were not convinced with investment in heavy industries which were a crucial part of Park’s economic policy to transform South Korea. Such strong development alternatives, except in Taiwan, did not exist in Iraq and Afghanistan. Donor support was diversified in early 1960s, especially after the diplomatic and economic relationship with Japan improved. This reduced the influence of the US in Korean affairs and gave further leverage to Park in order to pursue his industrial policy, in particular. South Korea eventually moved from reliance on grants to concessional loans. The government policies resulted in real GDP growth averaging 10 per cent annually between 1962 and 1994. This spectacular performance was fueled by annual export growth of 20 per cent in real terms, while savings and investment rose sharply above 30 per cent of GDP. Industrial labor force rose to 20 per cent in 1970 from 7 per cent in 1953 (Steinberg, 1985).

<sup>9</sup> Aid also played an important role for development of the initial stages of import requirements. In the absence of it inflation could have been prolonged and harder to control (Wu, 1987, p. 378).

**Figure 1: Aid Flows and GDP Growth (1961-1979)—South Korea\***



Source: World Development Indicators (2014). \*The US economic aid to South Korea from 1961 to 1979 was US\$ 26 billion. This aid is partially included in the above Figure as ODA by definition does not include all of the data which is categorized as economic aid by USAID.

While a pro-American political order was established in South Korea during the transition period, the US maintained a repressive colonial bureaucracy. Despite the fact that the political mood in Korea was anti-Japanese, the Americans asked senior Japanese officials to stay on and work in South Korea as advisors (Kohli, 2004, p. 64). The US was determined to maintain a capitalist system in South Korea to contain the spread of communism in the Korean peninsula. It used aid to South Korea to attain this goal (Kang, 2005, pp. 276-277). The US also helped the emergence of an elite group of highly trained bureaucrats through education and training programs.<sup>10</sup> But the elites who were educated previously in Japan significantly shaped Korean state building and development. For instance, President Park Chung Hee (1961-1979) and two of his main economic advisors were educated in Japan during Japanese colonial rule and were inspired by the Japanese model of development (American Broadcasting Company; H.-A. Kim, 2005). This situation thus facilitated institutional continuity in Korea

South Korea did not inherit an industrialized economy because a reasonable amount of industries were located in the north and significant industrial concentrations were destroyed during the Korean War. The war took one and a half million lives and destroyed two-thirds of the South's industrial capacity (World Bank, 1993, p. 127) and reduced 40 per cent of its buildings to ruins (Steinberg, 1985).<sup>11</sup> However, the institutions and practices of industrialization survived,

<sup>10</sup> The Leaders Program was one of the most direct and long-standing efforts to develop the South Korean bureaucrats and politicians' skills. Economic Development Institute (EDI) in Washington, D.C., a private think tank, also provided additional trainings for Korean bureaucrats (Brazinsky, 2007, pp. 59-62).

<sup>11</sup> Industrialization under the Japanese rule was economically dependent on Japan. Thus, after the defeat of Japan and division of Korea, the economic structure of the Korean peninsula was almost unable to function independently.

including the knowledge and ideas associated with industrialization and a group of entrepreneurs who had got their start under Japanese rule (Kohli, 2004, pp. 64, 27-61).

## 2.1 State Capacity and Reforms

Although South Korea founding President, Syngman Rhee (1948-1960), wanted to make South Korea a second Japan (Moon & Jun, 2011, p. 116), his government was ineffective in initiating major economic reforms and it was charged that corruption existed at the highest level of government (Hyung-A, 2010, p. 226).<sup>12</sup> It is argued that aid during the 1950s was not followed by results and the Korean politicians and the US remained disillusioned with their own and each other's performance (Steinberg, 21). Under Syngman Rhee the Korean economy did not change significantly. GDP per capita only rose to about US\$ 90 in 1961 from US\$ 67 in 1953 (World Development Indicators, 2014).

General Park Chung Hee, a visionary and pragmatic leader, and his military allies, formed the Military Revolutionary Committee in 1961 and took over power and removed from office the elected President, Yun Bo-seon (1960-1962). They pledged to the Korean people to build a self-reliant economy and wipe out all corruption and evil practices in the government by introducing a "fresh and clean morality" (See Paine, 2010, p. 227).

Park Chung Hee established an authoritarian regime.<sup>13</sup> He imposed martial law from 1961 to 1963 and quickly consolidated power, removing those he considered corrupt and unqualified from government and army positions. During nearly two decades of rule, he put South Korea on the path to cohesive-capitalist development by reorganizing the government to promote rapid development (Kohli, 2004, p. 24; World Bank, 1993, p. 170). The existence of a Weberian state along with the reforms which Park Chung Hee later implemented, and a favorable international environment—which helped South Korea to absorb foreign direct investment for development of its industries—made significant contributions to the rapid transformation of the country into a stable state and prosperous economy (Kang, 2005, pp. 281-296). By the end of Park Chung Hee's rule in 1979 per capita GDP had risen 20-fold to \$US1858 (World Development Indicators, 2014).

Park Chung Hee suffered from a deficit of legitimacy. He had served in the Japanese military and came to power through a military coup. He attempted to bolster his legitimacy by achieving inclusive growth. Land reform and universal access to education were crucial to achieving this

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<sup>12</sup> President Rhee and the US had extensive bargaining on policies and there had been disagreements between them. However, Rhee's policy focus was to maximize the flow of foreign assistance instead of developing an autonomous economic system (Steinberg, 1985, pp. 19,23).

<sup>13</sup> While the Korean state has evolved under the reign of Park Chung Hee,<sup>13</sup> to a large extent it took the form of a bureaucratic authoritarian state. James Cotton argues that the state in South Korea evolved in terms of fluctuation in the "degree of authoritarianism" which took the forms of military regime (1961-1963), quasi-competitive political system (1963-1972), dictatorial system (1972-1979), disputed quasi-dictatorial system (1980-1987) and post-1987 regime transition (Cotton, 1992).

objective.<sup>14</sup> The reformist bureaucrats in the Ministries of Finance and Reconstruction and some of the ruling elites close to Park established an Economic Planning Board (EPB) in July 1961 to strengthen and control national planning and budgeting (Parka Era, 100, Steinberg, p. 29). On the economic front, Park pursued a strategy of economic nationalism which included "...import protection, industrial policy, and export promotion to promote infant industries into internationally competitive engines of growth" (B.-K. K. Kim & Vogel, 2011, p. 115). Tax revenue as share of GNP increased to 11 per cent in 1966 from 7 per cent in 1962 (Kohli, 2004, p. 104).

US aid to South Korea was channeled through both the government budget and outside the government's budgetary processes. The portion of aid which flowed outside of the regular budget process supported Korean government priorities such as the import substitution industrialization (ISI). However, the aid administration does not seem to have created parallel institutions, such as a dual public service or non-state militias to undermine state building. Aid at times financed a third of the total government budget in a given year, and more than 58 per cent of the budget in 1958 (Steinberg, 1985). A joint economic planning commission which was established during the Korean War contributed to improved aid coordination. The commission helped to coordinate donor-recipient policies and to ensure that the various types of American aid were effectively used.

The administration of aid supported state building. Aid was aligned with government policies and donors largely followed the government lead. Apart from the foreign relief assistance which was administered largely by donor (Steinberg, 1985, p. 66), US aid generally followed the Korean government policies and priorities. Donors, with few exceptions, followed the government lead. Overall, the aid emphasis changed with shifts in the South Korean government's policies (Steinberg, 1985, p. ix).

South Korea thus experienced institutional continuity. It inherited a Weberian state. The state building strategy and the aid regime helped to preserve the state institutions. The government's subsequent policies, especially under Park Chung-Hee, enhanced the state's capacity. These factors reinforced effective state building and put South Korea on a path to long-term development.

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<sup>14</sup> "Three ... factors have been critical in promoting longer term, relatively equitable economic growth. These are land reform throughout the Republic; equal social, physical, and gender access to primary education; and a meritocratic government service (and similar employment in many quasi-governmental institutions, such as banks), the primary access to which was through an impartial examination system. The first two items were assisted by foreign donors...." (Steinberg, 1985, p. 11). Land reform was implemented in two stages. Firstly, the US forces in 1947 distributed the land confiscated from the Japanese to the tillers and put a limit on the rent of other lands. Secondly, the Korean government implemented the reform following the Korean War. It paid nominal compensation to landlords for lands taken from them, and distribute them to 900,000 tenants (World Bank, 1993, p. 161).

### 3. Taiwan: Continuity and Foreign Aid

Like South Korea, Taiwan inherited a Weberian capitalist state from its Japanese past colonial period (1895-1945). Aid subsequently helped to preserve the Weberian state. The Taiwan government implemented policies that further enhanced state capacity. Thus continuity of a Weberian state, the aid regime that was implemented, along government policies, all further reinforced state building.

Japan established authoritarian rule in Taiwan after 1895. It built an extensive police network which was welded with the traditional Chinese *baojia* (community-based system of law enforcement), capable of infiltrating every corner of Taiwanese society (Chu & Lin, 2001, p. 106). The Japanese colonial government conducted surveys on Taiwan's geography, land, customs and population to improve tax collection, seize unclaimed properties and monopolize key industries (Chu & Lin, 2001, pp. 105-106). Japanese acquired 21 per cent of arable land and built most of the modern manufacturing plants (See Aviles, 2009; Scitovsky, 1985, p. 220). In 1945, following the withdrawal of the Japanese by the end of the war, the confiscation and redistribution of this land to Taiwanese reduced the inequality of private land holdings.

Japan had invested heavily in infrastructure and industries during its colonial rule. In order to meet Japanese demands at home, such as rice and sugar, farm productivity and food production were developed (Barrett, March 1982, p. 1067). Roads, railways, and harbors were built and an education system was developed to improve business and government practices. Thus, Taiwan had relatively improved infrastructure, a rational bureaucracy and effective farmer associations, along with implementation of land reforms. These factors provided an excellent base for the subsequent development of Taiwan after 1945 (Scitovsky, 1985, p. 220).

The Taiwanese state survived after the withdrawal of the Japanese following their defeat in World War II (1945).<sup>15</sup> The ratio of tax to GNP was 13.5 per cent in 1951 and 13.9 per cent by 1964 (Jacoby, 1966, p. 284), showing the existence of a greater administrative capacity even in the early 1950s. While for Taiwan, assimilation into mainland China posed a threat, the absence of the US direct military intervention, as happened in South Korea, Iraq and Afghanistan, minimized the chances of discontinuity in state institutions.<sup>16</sup> The Taiwanese government, after

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<sup>15</sup> Japan was instructed to surrender its troops in Taiwan to the National Revolutionary Army, the military arm of the Chinese Nationalist Party or Kuomintang (KMT). In mainland China the Chinese Communist Party, under the leadership of Mao Zedong, defeated the Chinese Nationalist Party—led by Chiang Kai-shek—in a civil war. The Communist Party established the People's Republic of China (PRC) in the mainland, while the Chinese Nationalist Party found refuge in Taiwan and established Government of Republic of China (ROC). During 1948 and 1949 more than a million and a half people fled from mainland China to Taiwan (Barrett, March 1982, pp. 1067-1068). When the People's Republic of China supported North Korea in Korean War (1950-1953), this further undermined the PRC relations with the US.

<sup>16</sup> Historically, Taiwan situation differed than the mainland China. A Chinese official in 1720s noted, "the situation of Taiwan's order and disorder does not match our expectations" (Phillips, 2003, p. 1). The island had civil rule and military infrastructure based on hierarchical order (Phillips, 2003, p. 1). Taiwan became a prefecture of China's Fujian province in 1684 and later in 1885 a full-fledged province of China. Japan invaded Taiwan and turned it to one of its colonies from 1895 to 1945. In 1945 it became a

the Chinese Nationalist Party took over Taiwan administration in 1945, relied extensively on coercive measures during the installation stage and then shifted to selective co-optation, and then to limited electoral opening (Chu & Lin, 2001, p. 102). Martial law was initially imposed to suppress local opposition against the government in 1949 which remained effective until 1987.

Post-war Taiwan suffered from economic decline, corruption and ineffectiveness under the leadership of Governor Chen Yi. An appointee of the Nationalist Party, he was plundering the local economy to send its surplus to Mainland China to help support the Nationalist fight against the Communists. Chiang Kai-shek assumed the governorship of Taiwan after his defeat by the communist party in Mainland China in 1949. A steady stream of soldiers, monks, artists, peasants and intellectuals followed him (U.S. Department of State). Economic recovery thereafter happened rapidly. By 1956, Taiwan, had not only recovered the prewar peak levels of output in most industries, it had also regained the prewar level of per capita GNP (Jacoby, 1966, p. 33).

The Nationalist Party was pragmatic and deeply aware of its failures in China to address price inflation and concentration of land ownership.<sup>17</sup> Monetary stabilization and land reform were included in their initial economic goals and were successfully pursued (Jacoby, 1966, p. 136). The ROC government had to establish its political viability, and then strengthen itself against the threats from mainland China. It aimed to earn public confidence by fostering inclusive economic growth. Particularly, as Taiwan was separated from mainland China by 100 miles of water, the threat was seen as political (Wu, 1987, p. 379).

Taiwan was short of capital because of war and economic decline. The US economic and military assistance strengthened the defense of Taiwan and reinforced state building; as well as contributing to economic growth. Between 1951 and 1965, the US provided around US\$ 27 billion (in constant 2012 US\$) in aid, of which 66 per cent included military assistance (USAID). About 14 per cent of economic assistance was made up of food aid. US economic aid comprised about 13 per cent of Taiwanese GNP in 1951 which fell to about two per cent in 1965 (Jacoby, 1966, p. 230). Aid was a key driver of the import substitution policy in Taiwan being used to control inflation and finance the trade deficit.<sup>18</sup> By stimulating the import of capital and intermediate goods while penalizing exports, import substitution contributed to a growing trade

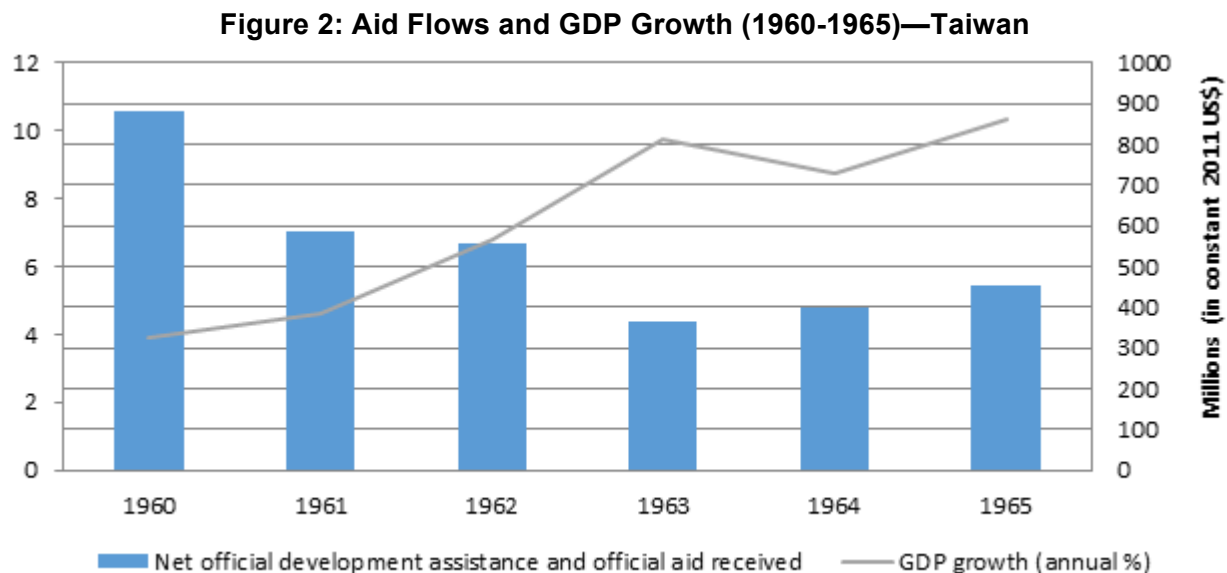
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province of Republic of China and eventually an independent nation (Phillips, 2003, p. 3). Taiwan with population of 23 million is consisting of 84 per cent Taiwanese, 14 per cent mainland Chinese and 2 per cent indigenous people. Mandarin Chinese is the official language (The World Factbook), making Taiwan more homogenous than Iraq and Afghanistan.

<sup>17</sup> The nationalist party ideology was deeply influenced by its pragmatic founder, Sun Yat-sen, a medical doctor. In the view of a Chinese economist, Sun Yat-sen was a pragmatic leader. He did not advocate for Marxism and nineteenth-century capitalism, but he instead “adopted the strong points and rejected the defects of both systems in Europe and America but also of the conditions of [his] own country” (Jacoby, 1966, p. 136). The Nationalist party also learned from the past. It believed that their failure in mainland China was due to price inflation and concentration of land ownership.

<sup>18</sup> The World Bank (1993) in a report entitled East Asian Miracle noted, “by the end of the 1950s, industrial production [in Taiwan] had doubled. However, the costs of import substitution increased over time.

deficit, financed largely by U.S. aid” (World Bank, 1993, p. 131). Figure 2 below shows that Taiwan GDP, on average, grew by 6 per cent per annum from 1960 to 1965.



Source: World Development Indicators, Penn World Table, OECD and (Jacoby, 1966).

The US policy was to assure the external security of ROC from mainland aggression. As stated by US President, Harry Truman (1945-1953), thus, “... to prevent the Korean conflict from spreading south led to the U.S. policy of protecting the Chiang Kai-shek government on Taiwan” (U.S. Department of State). The US recognized ROC in Taiwan as the legitimate government of China until 1979 and supported it to hold the Chinese seat in the United Nations (U.S. Department of State).<sup>19</sup> The US provided significant aid to Taiwan, most of which was military assistance.

The ROC had one of the biggest military forces in the world. It comprised 600,000 men at the end of 1964, equal to 4.9 per cent of its population. It also had the highest military expenditures than any country in the world in proportion to the GNP, 9-11 per cent of GNP during 1951-1965, and in proportion to government expenditures (Jacoby, 1966, p. 118). Military aid was spent in the local economy to buy raw materials and equipment for Taiwanese arsenals, as well as drugs and medicines, constructing airfields and bridges (Jacoby, 1966, p. 121). Military aid was administered under the supervision of the US Military Advisory Group.

Aid relieved the government from fiscal pressure. It freed the local resources which otherwise would have been allocated for military expenditures. As a military authoritarian regime, the government leaders wanted to use economic growth as an alternative source of legitimacy, for

<sup>19</sup> Tensions between PROC and ROC in the 1950s resulted in an armed conflict over strategic islands of Jinmen or Quemoy and Mazu (two miles and ten miles far from mainland China and city of Fuzhou respectively) in the Taiwan Strait which were under the control of ROC (U.S. Department of State). In January 1955, the U.S. Congress passed the “Formosa Resolution”. It gave President Eisenhower total authority to defend Taiwan and the off-shore islands (U.S. Department of State).

compliance with the US aid conditions, and to empower Taiwan against external threats. Economic independence for Taiwan was long an objective of the US administration. The US mission had a strong and persistent influence on the formation of Taiwanese economic policies. Though not very effective, one of the main instruments of influence for the US mission over the ROC government was “a stick and carrot approach”. Taiwanese government was warned through written analysis and oral presentations. Another approach was to retain independent experts to study the development process, especially in the area of taxation, central banking, foreign exchange rates, or housing.

The ROC government and the US had effective coordination. An important agreement between them in 1960 included the “19-Point Program”, a major reform package consisting of important economic policy measures and an extension of an earlier reform program (Eight Point Program of Action).<sup>20</sup> A wealth-sharing program was designed to include non-elites in economic growth. A cadre of economic technocrats was insulated from narrow political pressures in order to formulate policies. And, mechanisms were established to share information and win the support of business elites. Public policies such as education, land reform, and support for small and medium-size industries helped to share the benefit of growth and to win the support of the non-elites.

The wealth-sharing mechanisms differed from granting direct income transfer or transfer of subsidies, such as fuel and food, and facilitated upward mobility (World Bank, 1993, pp. 160-161). Land reform and expansion of education were built on erstwhile initiatives. Land redistribution (or rental reduction) affected nearly 75 per cent of the Taiwanese rural families. By the early 1960s, about 80 per cent of the rural families owned all or part of their land (Chang, 1965, p. 156). Planned economic development was launched (1953-1964). The first Four-Year Plan (1953-1956) “guiding principles were the improvement of existing facilities and new methods of production” (Chang, 1965, p. 153).

The aid regime in Taiwan reinforced state building and avoided doing harm. Except for a small portion, US aid was administered outside of the government budget by semi-autonomous institutions, the Council on International Economic Cooperation and Development and a Joint Commission on Rural Reconstruction (Jacoby, 1966, p. 222). These institutions were financially independent and functioned outside of Taiwanese ministries, and were not constrained by local laws and regulation. Workers on a Joint Commission project were paid more than workers on a similar project funded by Taiwan provincial government.

However, it seems that the semi-autonomous institutions did not compete or undermine the state. This type of aid administration also had some disadvantages. The extrabudgetary control of aid to Taiwan made the transition to economic independence difficult because it increased

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<sup>20</sup> The reform included: “Noninflationary fiscal and monetary policy, tax reform, unification of foreign exchange rates, liberalized exchange controls, establishment of a utilities commission and of investment banking machinery, and also the sale of the government enterprise to private owners. Attainment of self-generated growth with five years was projected. .... actions to encourage saving and private investment, fully utilize government production facilities, remove subsidies, raise public utility rates, liberalize trade regulations and hold the military expenditures to the real 1960 level” (Jacoby, 1966, pp. 134-135).



the transactions costs and inhibited the spread of developmental knowledge and skills throughout the government ministries (Jacoby, 1966, p. 222). Despite these disadvantages, the administration of aid by semi-autonomous institutions worked well. A main reason for aid outside of government budget was to protect developmental funds against the influential and persistent demands for more money by the military establishment—for whom development was not yet a priority because of prolonged preoccupation with defense and security (Jacoby, 1966, p. 222). The US also provided grant to government budget which, on average, comprised 16 per cent of government expenditure—28 per cent in 1960. It aimed to prevent the government from increasing tax revenue, issuing bonds or more paper money to finance budget deficits (Jacoby, 1966, p. 330).

The US actively used aid to influence economic policy and to inaugurate a favorable climate for private investment and enterprise. However, it avoided using aid as a device to “democratize” Taiwan. “[US] ... underwrote the stable political framework for economic progress provided by an authoritarian government and let political reforms come later (Jacoby, 1966, p. 244). The US and Taiwan had mutual focus on development as the major policy objective, and they used aid and local resources to increase output, rather than for relief, social welfare, spreading employment, or political influence (Jacoby, 1966, p. 243). Thus, continuity in a Weberian state and employing an aid regime that preserved the state’s existing capacity, along with policies which the government adopted, strengthened state building in Taiwan and contributed to aid effectiveness.

## 4. Iraq: Discontinuity and Aid

Iraq, an oil-rich country, inherited a neo-patrimonial state and experienced major institutional discontinuity with the removal of President Saddam Hussein's regime in April 2003. The state building strategy adopted by the US and its allies disrupted the state's preexisting capacity. The creation of parallel institutions to those of the state further undermined state building.

The Bush administration's "alleged purpose of the war was eliminating Saddam Hussein's weapons of mass destruction, but it turned out he [did not] have any" (Walt, 2012). The rationale then shifted to creating a pro-American democracy (ibid). The US and its three close allies, Britain, Australia and Poland, occupied Iraq in March 2003. In response to worsening security, the US increased its troops in Iraq to 166,300 by late 2007 from 90,000 in 2003. The American troops fully withdrew in December 2011 (The New York Times, June 22, 2011). Two months before the occupation, the Coalition Provisional Authority for Iraq had issued the *de-Baathification* Order. This aimed to remove the influence of the *Baath* party from all institutions.<sup>21</sup> The Iraqi army, dominated by Baath party members loyal to Saddam, was dismantled. *Baath* party members were also removed from the civil administration. This policy proved counterproductive, destroying many institutions of the state and the exceptional level of experience in administration. It turned Iraq into an "induced failed state" (Mueller, 2005) and, especially, the police and army largely disintegrated.

Even before the US occupation, Iraq had a fragile political structure and a weak state. The origins of fragility go back to the failed attempts at state building by the British colonial power. After the collapse of the Ottoman Empire in the wake of World War I (1914-1918), in accordance with the League of Nation's vision of self-determination, Britain attempted to transform Basra, Baghdad, and Mosul (three provinces of the former Ottoman Empire) into a sovereign state. These three provinces had different ethnic and sectarian populations. Basra was dominated by Shi'a Arabs, Baghdad by Sunni Arabs, and Mosul by Sunni Kurds (Saikal, 2014, p. 144). Out of the 33 million Iraqis in 2013, about 63 per cent were Shia Arab and 35 per cent of them were Sunni Arab and Kurds (Central Intelligence Agency, 2013).

Britain, however, largely relied on despotic power of the state in order to establish order but failed to build the state's infrastructure power. British colonial officials relied on "*hukumat al tayarra*" (government by aircraft) by using the British Royal Airforce to control the population which further weakened the state and made it an object of the people's resentment (Toby, 2006, p. 187). Local governance in Iraq was a mixture of traditional practices and tribalism (Mingus, 2012, p. 2). This fragile state structure endured over the subsequent decades.

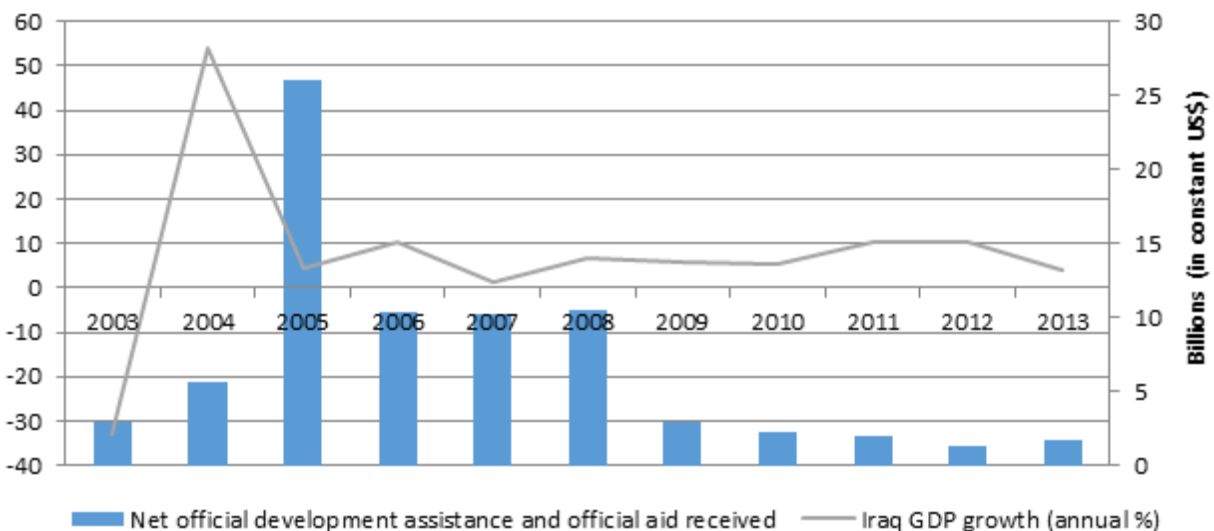
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<sup>21</sup> The *de-Baathification* of Iraq Society Order emphasized, "full members of the Baath Party holding the ranks of 'Udw Qutriyya (Regional Command Member), 'Udw Far' (Branch Member), 'Udw Shu'bah (Section Member), and 'Udw Firqah (Group Member) (together, "Senior Party Members") are hereby removed from their positions and banned from future employment in the public sector" (Coalition Provisional Authority, 2003).

The occupation of Iraq in 2003 had paradoxical effects. On the one hand it resulted in massive institutional discontinuity, and, on the other hand it helped lift the economic sanctions imposed by the United Nations Security Council (UNSC) on Saddam Hussein’s regime and reshaped the political order. A new Constitution was adopted and parliamentary elections were held in 2005. The existing Kurdish regional government was recognized and Iraq was declared a federation (DESA-United Nations, July 2006).

After the sanctions were lifted significant amounts of aid flowed to Iraq and economic growth expanded rapidly by 54 per cent and then 10 per cent in 2004 and 2006 respectively, from only about one and half per cent in 2002 (See Figure 3). Unlike the three other cases (South Korea, Taiwan, and Afghanistan) Iraq, the second largest crude oil producer in the Organization of the Petroleum Exporting Countries (OPEC), had access to significant amounts of oil revenue (See U.S. Energy Information Administration, January 30, 2015), receiving US\$ 41 billion in 2009 from oil and gas. Thus, the Iraqi state did not face the challenge of fiscal collapse the same way Afghanistan did (Bizhan, 2013). However, the Iraqi state remained weak. Tax revenue was about one per cent share of GDP in 2008 (Reuters, 2008). In addition, the execution of investment funds for development was only 50 per cent by 2011, indicating a weak capacity of the Iraqi state to effectively spend its budget (UN Joint Analysts Policy Unit, 2013).

**Figure 3: Aid Flows and GDP Growth (2003-2012)—Iraq**



Source: World Development Indicators (2014).

#### 4.1 Reinforcing Fragmentation: State Building Strategy

The form of state building strategy adopted induced discontinuity in the state capacity and exacerbated the sectarian and ethnic divides. Unfavorable regional conditions such as the competition between Iran and Saudi Arabia over influence in Iraq exacerbated this situation (Saikal, 2014). Between 1996 and 2000, the armed forces of Iraq were 429,000, about 2 per cent of the population (DESA-United Nations, July 2006, p. 5). The disbandment of the Iraqi

army not only created a security vacuum but also created a considerable number of disenchanted and unemployed individuals (Saikal, 2014, p. 154). Individuals were dismissed from government service depending on their rank in the civil service or *Baath* Party. They were not individually assessed on the basis of their competence, involvement in human rights violations, or other measures of integrity (Sissons & Al-Saiedi, March 2013, p. 9). *De-Baathification* also perversely impacted the civil administration. For example, between 2003 and 2005, out of 6,600 employees of the Finance Ministry, 19 per cent, were *de-Baathified* (Sissons & Al-Saiedi, March 2013, p. 25). But only four people were reinstated by 2006.

After the Baath party members were fired new people were recruited to fill their positions. The recruitment process, however, was less transparent and suffered from sectarianism and the politics of patronage (Sissons & Al-Saiedi, March 2013, p. 15). According to United States Assistance for International Development (USAID), "hiring and promotions [were] not merit-based, but . . . based on political connections" (Pincus, October 5, 2010).

The establishment of political order also proved difficult.<sup>22</sup> Iraqi prime minister, Nouri al-Maliki (2006-2014), failed to build the trust of different segments of the society, especially Sunnis. When, for instance, he dismissed the deputy prime minister, Saleh al-Mutlaq, because he had undermined his position, and directed the Interior Ministry to arrest the Vice-President Tareq al-Hashimi on charges of terrorism, this act against two senior Sunni politicians provoked outrage in Iraq and Washington. The large *Iraqia* bloc, led by secularist Allawi embargoed the coalition government and threatened to pull out from the already fragile governing coalition (Saikal, 2014, pp. 162-163). The national elites remained fragmented along ethnic-sectarian lines and according to a secularist-Islamist split rather than distinguished on developmental policies. The result of the 2010 parliamentary elections demonstrated this fragmentation. None of the political coalitions secured a majority in the 325-member Representative Council (Saikal, 2014, p. 165).

The *de-Baathification* policy not only decreased the state's capacity, it also deepened the social divide. It contributed to the subsequent instability that took an increasingly sectarian nature. "Sunnis repeatedly portrayed *de-Baathification* as "de-Sunnification," complaining that *de-Baathification* had become a sectarian instrument wielded to prevent Sunnis from participating in public life" (Sissons & Al-Saiedi, March 2013, p. 17). *De-Baathification*, therefore, unintentionally undermined the state and reinforced the social divides.

Off-budget expenditure had been a feature of Iraqi state even before the foreign intervention in 2003. In 2002, for example, the total government budget was close to US\$ 10 billion, but only US\$ 1.3 billion was included in on-budget expenditure (Iraq, October 2003, p. 14). The rest

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<sup>22</sup> After the collapse of the law and order in Iraq, files, records, documents and databases were destroyed systematically. Except the Ministry of Oil complex, which was guarded by the US-led Coalition, other government departments suffered substantial damage. For example, the Ministry of Trade main building was burned several times (Allawi, 2008, pp. 115-116). It was in the interest of the former Baath party members that the records to be destroyed as they would have been used against them (See Allawi, 2008, pp. 115-116).

included off-budget expenditure funds through Oil for Food Program fund.<sup>23</sup> After 2003, foreign aid made the off-budget expenditure even larger. The Iraq government budget did not include aid expenditure in its 2003 and 2004 budgets (See Iraq, October 2003). The subsequent budget was not made public. The US aid in particular was spent off-budget and financed parallel mechanisms and institutions. In May 2003, for example, the US directed US\$ 1.5 billion in assistance which was to be delivered through US businesses and non-governmental organizations (NGOs) (USAID Office of Inspector General, 2004). In addition, in response to worsening security situation and to fight Al-Qaeda, the US established about 100,000 personnel tribal militias (Karsh, Fall 2010),<sup>24</sup> and by 2008 subcontracted 155,826 people, about the same size as the American troop deployment, to provide security services, such as guarding installations, protecting convoys, or acting as bodyguards (Dunigan, 2013). By 2009, US\$ 400 million was appropriated for the tribal militia, Awakening Movement. Parallel processes and structures, such as independent militia groups and private security contractors, were financed by aid, which diverted political and financial resources from building permanent state institutions.

Iraq was historically a rentier state because of its high dependence on rents. After the 2003 intervention, the flow of off-budget aid exacerbated the rentier pathologies such as fiscal secrecy and deficit of accountability. The Open Budget survey in 2010 found that the Iraq government “did not provide the public with any of the information on central government’s budget and financial activities” (International Budget Partnership, 2010).<sup>25</sup> The US accountability office also argued that there was deficit of information about the Iraqi budget (United States Government Accountability Office, January 2008). This opacity, common in undemocratic rentier states (Ross, 2012, p. 59) was exacerbated by foreign intervention and the aid modality. Not only did donors fail to promote fiscal transparency and accountability in Iraq, but with the rise in oil revenue aid declined, further reduced the leverage aid donors could apply to improve the Iraqi government’s fiscal transparency. Corruption became rampant. An Iraqi minister put it, “the Iraqi government is an institutionalized kleptocracy” (Cockburn, March 4, 2013). Citizens had to pay bribe to access government services or get a job. While multifaceted factors contributed to corruption, largely the Iraqis’ view was that the “UN sanctions destroyed Iraqi society in the 1990s and the Americans destroyed the Iraqi state after 2003” (Cockburn, March 4, 2013).

Iraq inherited a neo-patrimonial state. The post-2003 intervention and state building strategy disrupted the state’s preexisting capacity, which was weak to begin with, turning Iraq into an induced failed state and exacerbated the social divides. The Iraqi army and police largely

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<sup>23</sup> Oil for food program was launched in 1990 after the United National Security Council (UNSC) imposed comprehensive sanctions on Iraq following that country’s short lived invasion of Kuwait (Office of the Iraq Programme: Oil-for-Food, November 21, 2003).

<sup>24</sup> The militia groups were formed along ethnic, sectarian and tribal lines and were not accountable to the Iraq’s government (See Saikal, 2014, pp. 154-157). The main tribal militias called Sons of Iraq (or the Awakening movement) emerged in 2006. By the time of its integration into the government’s forces, out of a list of more than 100,000 personnel, the Iraqi government accepted to integrate 94,000 of them. However, the Iraqi security forces and civilian ministries only hired 9,000 and 30,000 personnel respectively (Karsh, Fall 2010).

<sup>25</sup> Later, the improvement in Open Budget Index was insignificant (from 0 per cent in 2010 to 4 per cent in 2012 out of 100 per cent) (International Budget Partnership, 2012).

disintegrated and the civil administration lost most of its capacity. Thus, Iraq experienced major institutional discontinuity in which the creation of parallel institutions exacerbated the state's weakness.

## 5. Afghanistan: Limited Continuity and Aid

Afghanistan presents another example of aid effects after the US led military intervention. Post-2001 state building strategy resulted in limited continuity in the state's preexisting military and administrative capacity. Aid also had a paradoxical impact. It contributed to the building of state capacity and expansion of public services such as education and health, while it undermined state building by creating parallel institutions using off-budget. Hence, institutional legacy, the state building strategy and the aid regime had major implications for post-conflict state building.

In late 2001, the US<sup>26</sup> in alliance with local Afghan commanders, mainly the United Islamic Front for the Salvation of Afghanistan (also known as the Northern Alliance who fought against the Taliban) removed the theocratic regime of the Taliban from power, which had hosted the leader of Al Qaeda (Osama Bin Laden). The Taliban leadership retreated to Pakistan, and with support from Pakistan's Inter Service Intelligence (ISI), reorganized to fight against the Afghan government and the Coalition (See Riedel, August 24, 2013).<sup>27</sup> The American troop deployment reached its peak at 100,000 people by August 2010 from just 2500 in December 2002 (The New York Times, June 22, 2011). The US also contracted private security contractors to provide security services, numbering 94,413 by 2010 (Dunigan, 2013).

Afghanistan—made up of multiethnic groups including Pashtuns, Tajiks, Hazaras, Uzbeks, Turkmens, and Aimaqs (Barfield, 2010)—had suffered from long-term political instability and violent transfers of power for most of its modern history. Violent transfers of power weakened the state.<sup>28</sup> Instability was exacerbated by the decline or loss of external revenue since mid-eighteenth century, whether in the forms of tribute, subsidies or foreign aid, and the disintegration of centralized revenue collection, all of which seriously undermined continuity in the state building process.<sup>29</sup>

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<sup>26</sup> The United States (US) military was the third external force which entered Afghanistan to remove an existing regime since the mid-eighteenth century. It aimed to protect its interests in the region and the world. Unlike the previous invasions, the intervention of the US and its North Atlantic Treaty Organization (NATO) and non-NATO allies in Afghanistan reconnected the country with the rest of the world.

<sup>27</sup> Afghanistan had never been a colony. Afghanistan twice defeated the British troops inside Afghanistan (1939-1942 and 1968-1969). In 1919, Afghanistan gained its full independence from British who had control over Afghanistan's foreign policy

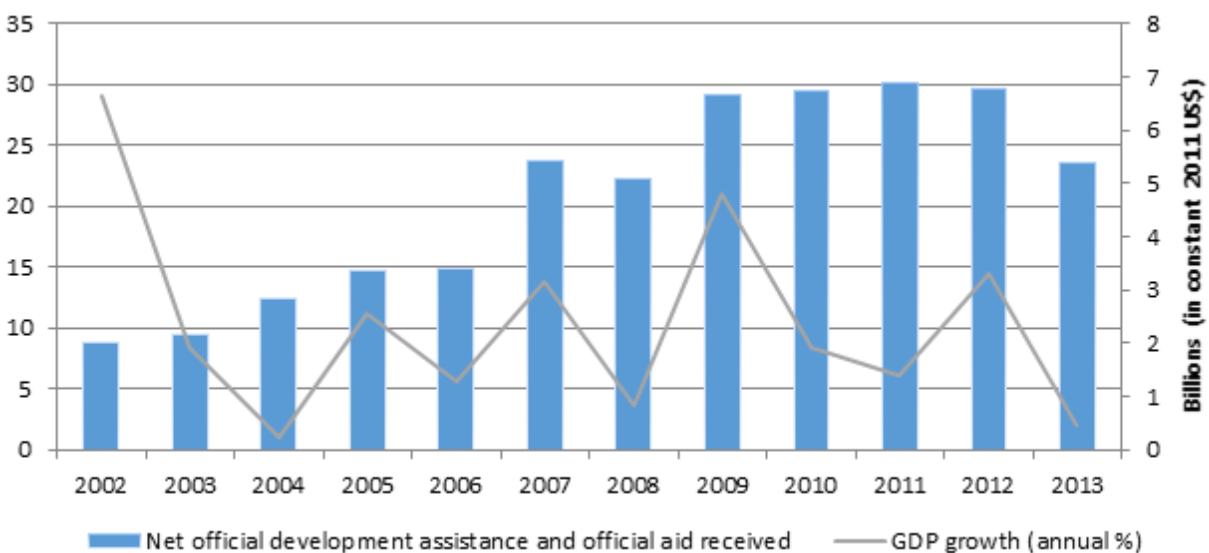
<sup>28</sup> Since the early 20<sup>th</sup> century, dozens of leaders have been forced to leave office, mostly through violence, and been either exiled or killed. However, successive regimes remained highly centralized; they have included a reformist monarchy, a reactionary Islamic emirate, through to a traditional monarchy, a Republic to communist authoritarianism, Islamic state, theocratic emirate (under the Taliban), and now democracy post-2001.<sup>28</sup>

<sup>29</sup> Under the Taliban Afghanistan's failed state turned to a pariah state. State failed to deliver services and it was only recognized by Pakistan, Saudi Arabia and the United Arab Emirates. The latter two also cut diplomatic ties with the Taliban because of the protection that the Taliban were given to Bin Laden (Rashid, 2002, p. 77). The Taliban appointed their loyal clergies in senior positions across the state institutions, including army and civil administration. They brought their own loyal army and established a parallel army, which included Pakistani and Arab fighters. This strategy had further weakened the administration. After the fall of the Taliban regime, senior officials associated with them also left. Troops

A new political order was established in post-2001 Afghanistan. A *Loya Jirga* (a traditional grand assembly) was held to agree on new political order and this elected Hamid Karzai as the head of state. Presidential and Parliamentary elections followed in 2004 and 2005 respectively. A new constitution was adopted in 2004 which guaranteed the democratic rights of citizens and emphasized traditional and Islamic values. The 2004 Constitution envisaged a limited role for the state in economic matters by emphasizing a market economy (Islamic Republic of Afghanistan, 2004, p. Article 10).<sup>30</sup>

The initial conditions for post-2001 state building in Afghanistan were thus unfavorable. The state was weak—barely able to collect domestic revenue and implement policies—and the Afghan economy was devastated because of the protracted war since 1978. Afghanistan, therefore, relied heavily on foreign military and economic assistance to finance state building and development efforts. The country received US\$ 52 billion in official development aid (ODA) from multiple donors between 2001 and 2012 of which the US provided US\$ 25 billion. In addition, the US has contributed US\$ 48 billion in military aid to Afghanistan (USAID). ODA on average comprised about 40 per cent of GNI over this period. Figure 4 below shows that the annual gross domestic production (GDP) on average grew by 10 per cent between 2002 and 2013.

**Figure 4: Aid Flows and GDP Growth (2002-2013)—Afghanistan\***



Source: World Development Indicators (2014) and *Da Afghanistan Bank* (2011).

\*Military aid is excluded from the above Figure. The US economic aid is partially included because ODA by definition does not include all of the data which is categorized as economic aid by USAID.

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loyal to President Rabbani, head of the Mujahidin government deposed by the Taliban from Kabul, recaptured Kabul.

<sup>30</sup> In 2008, the Afghan government reiterated that its strategic objective was “to enable the private sector to lead Afghanistan’s development within a competitive market-based economy in which the government is the policy maker and regulator of the economy, not its competitor” (Islamic Republic of Afghanistan, n.d., p. 7).



## 5.1 State Building Strategy: Creating Parallel Institutions

The post-2001 state building strategy led to limited institutional continuity. Although many civil institutions survived the conflict, the civil administration was weak. While “many of the formal structures and some of the traditional practices of public administration remained in place, they lacked the human, financial and physical resources to do their job, particularly in modern context” (World Bank, 2012, p. 1). The Defense Ministry represented about 100,000 soldiers and officers.<sup>31</sup>

Domestic revenue in 2003 was about US\$ 131 million, 4 per cent of GDP (Bizhan, 2013), indicating the weakness of administration paralleling the weakness of the economy. The government relied on aid to finance its operations and development expenditure. In 2004, donors pledged that they would fund a 70,000 man army, conditional to adjustment on the basis of needs (ANDS Secretariat, 2006). After the reorganized Taliban began making insurgent attacks in Kabul and other major urban centers, a new higher target was set for the Afghan Security Forces. In 2012, at the NATO Summit in Chicago, the Afghan government and the main foreign donors for Afghanistan envisaged a force of 228,500 people with an estimated annual budget of US\$ 4.1 billion to be funded by the international community (NATO, May 21, 2012).

Political elites remained fragmented. The strongmen, especially the *mujahidin* commanders who fought against the Soviet invasion, dominated politics, while the Taliban insurgency challenged the state building process. President Hamid Karzai (2001-2014) was preoccupied with the politics of survival and with consolidating his power. He relied extensively on an accommodation of the strongmen in the state and offered state resources and senior positions in exchange for support (Sadiq, December 9, 2010). He did not prioritize economic development and remained reluctant to overcome the rampant corruption, which existed at the highest level of his government. Karzai relied mainly on “several trusted operatives” rather than the institutions to govern Afghanistan (Mashal, June 23, 2014). Thus, permanent institutions were undermined by donors and by Karzai’s approach. This situation constrained the emergence of an effective Weberian bureaucracy.

A large portion of the aid was spent off-budget, which adversely impacted state building. Between 2001 and 2009, 82 per cent of the total aid to Afghanistan bypassed the state and national mechanisms and was directly allocated and managed by donors (Islamic Republic of Afghanistan, 2010). Off-budget aid functioned outside government budgetary processes. It was flexible enough, for instance, to enable payments of higher wages to project employees in comparison with wages paid to government employees. Off-budget aid mechanisms while helping to improve project implementation diverted the financial and political resources which could have been used to government departments. In 2002, only US\$ 20 million was provided by donors to finance 260,000 civil servants via the Afghanistan Reconstruction Trust Fund

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<sup>31</sup> There was dispute about the total number of officers and soldiers under the command of defence ministry (Ghani, Lockhart, Nehan, & Massoud, 2007).

(ARTF), while the international community provided US\$ 1.8 billion to the UN and NGOs through off-budget mechanisms (Lockhart, 2007, p.10). Off-budget also became a major source of corruption (SIGAR, January 30, 2012).

Off-budget aid created parallel institutions to deliver aid in Afghanistan. Multiple actors, such as non-governmental organizations (NGOs) and consulting companies, were charged to participate in state building efforts. Inside the government structure, thirty five autonomous Project Implementation Units (PIUs), Grant Management Units (GMUs) Project Management Units (PMUs) and Project Management Offices (PMOs) were established by donors across the ministries to distribute aid and implement projects (Commisiun Mu'zaf Ba Artibat' Juz' (14) Mādah Aval' Farmān Shūmārah (45) Mu'rikh 1391/05/05 Mūqam' Riāsat' Jamhūrī Aislāmī Afghanistan, n.d.). Some government functions, such as procurement, were outsourced (Bizhan, 2014). This approach resulted in the creation of organizations and mechanisms that aimed to autonomously implement development agendas independent of the Afghan government.<sup>32</sup>

The government did not have discretion over off-budget aid. Donors allocated the off-budget aid and earmarked a large portion of on-budget aid. This type of aid administration outside the rigid-centralized system of the government largely improved implementation. But it increased the transaction costs because of multi-level subcontracting of projects and it undermined state building by creating parallel institutions to those of the state. Aid coordination became a daunting task, though distinctive roles were defined for different external actors.<sup>33</sup> It was difficult and time consuming to coordinate off-budget aid and align it with the government's priorities. The US, Japan and the UN used off-budget mechanisms extensively.

The government made repeated demands that a large proportion of the aid should be channeled through the government budget or through the Trust Funds, jointly managed by donors, international institutions and the government. The World Bank used the on-budget

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<sup>32</sup> Discontinuity in off-budget aid was also a challenge. Off-budget project employees were recruited on the basis of short-term contracts. After the termination of the projects, the staff would leave their jobs and many shifted, if lucky enough, to another project. Such lack of continuity damaged the long-term prospects for those who would learn a certain set of skills in working with a particular project but then had to look for another job in the market in unrelated area.

<sup>33</sup> Sixty international actors, such as donors, international institutions, as well as a multitude of international NGOs, participated in reconstruction and state building efforts. Bilateral donors sponsored particular sectors and programmers. The US took the lead in building the Afghan National Army (ANA); Germany has led the development of the Afghan National Police (ANP), Italy, the Justice system, and the UK, counter narcotics. The United Nations Children Fund (UNICEF) has led support for primary and secondary education, while Japan became the lead donor for Disarmament, Demobilization and Reintegration (DDR) of armed groups. NATO took the lead in the International Assistance Security Forces (ISAF), while Provincial Reconstruction Teams (PRTs) of concerned donors followed their military presence in the provinces to deliver basic construction projects such as bridges, schools and clinics for local communities. The International Financial Institutions, such as the World Bank and the IMF, mainly worked closely with the Ministry of Finance and the Central Bank of Afghanistan (*Da Afghanistan Bank*), focusing on public financial management and macroeconomic issues. The United Nation Special Mission for Afghanistan (UNAMA) assisted and monitored the implementation of the "Bonn Agreement" of 2001 (Bizhan, 2013).

mechanisms (Islamic Republic of Afghanistan, 2012). The government and donors finally agreed at the 2010-Kabul conference that at least half of donors' aid, including the US aid, should be channeled through the government budget conditional upon improvements in the government public financial management systems. The progress differed among donors but the US significantly lagged behind the achievement of this target (Islamic Republic of Afghanistan, 2012, p. 53)<sup>34</sup>

Afghanistan inherited a neo-patrimonial state. The state building strategy and the effects of the protracted conflict have led to limited continuity in state's institutions. The creation of parallel institutions to those of the state and continuity in the politics of patronage then reinforced the state's weakness.

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<sup>34</sup> Out of \$US10 billion military and economic aid in 2011, seven per cent was channeled through government budget and five per cent through jointly managed Trust Funds (Islamic Republic of Afghanistan, 2012, p. 53).

## 6. Conclusion: How Aid can help “Build” or Undermine a State?

The four cases demonstrate that aid dependency profoundly affects post-conflict state building. Aid can prevent the fiscal collapse of the state, ensure continuity and reinforce state building. In the short term, therefore, aid may be essential to rebuild state capacity after disruption by international or civil war. However, aid can undermine state building based on the prevailing institutions and conditions and it can exacerbate state weakness. While pre-existing institutions partly explain the effectiveness of aid in the state building process, the actual mechanism is complex. The effects of aid depend on whether the state building strategy preserves the existing state capacity and on whether aid modality reinforces institution building or results in the creation of parallel institutions that are not accountable to the state.

While the findings of this research offer important lessons about state building patterns, the general applicability of them may have some limits. Further study is required to expand this research framework and examine two types of additional cases. These are countries that had neo-patrimonial states, received significant amounts of aid, and (whether) built effective states, and countries that inherited Weberian states but failed to build effective modern states.

**Table 1: State Building Patterns and Aid**

Type of State	Parallel Institutions	Trust Funds and Coordinated-flexible Aid	Budget Support Aid	Institutional Continuity
Neo-patrimonial state	Further weakens the state.	Supports the state but little effect on state building.	Supports state building but corruption and low implementation capacity are the risks.	Depends: <ul style="list-style-type: none"> <li>Continuity in the existing state capacity supports state building.</li> <li>Continuity in patronage practices reinforces state weakness.</li> </ul>
Weberian state	Little effect on state building.	Encourages the state’s activities but little effect on state building.	Supports state building.	Reinforces state building.

Source: Author’s analysis.

As the above table shows, the type of state and its continuity matter in post-war state building. If an aid regime endures continuity in a Weberian state, it increases the likelihood of effective

state building. Budget support strengthens the state's capacity, while the channeling of aid through semi-autonomous institutions supports state activities but has little effect on state building. The presence of a former Weberian state with a greater institutional capacity may reduce the likelihood of aid donors creating parallel institutions to those of the state. Even so, they may have little effect on the state building pattern.

On the other hand, continuity in a neo-patrimonial state may have mixed impacts. Continuity in the existing state capacity reinforces state building. Continuity in practices of patronage undermines the efforts for effective state building. Creation of parallel institutions to those of the state undermines state building, diverts political and financial resources from the state's permanent institutions and may unintentionally strengthen institutions and actors that can undermine the state. While on-budget aid reinforces state building by enhancing government ownership and capacity, it may be exposed to risk if there is limited capacity and corruption. However, there is no convincing evidence to prove that the risk of corruption in on-budget aid is greater than the cases of off-budget aid. Trust Funds are a more desirable approach which support state activities without undermining state building; they have little impact on state building.

The findings show that it is not only the types of state but the nature of post-war state building strategy and government policies that may be crucial for successful state building. Aid plays the role of a catalyst. It may reinforce or hinder state building, depending on the recipient's types of state, the state's capacity and whether aid ensures continuity and supports state activities or creates parallel competing institutions to those of the state.

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