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Dead Ends of Transition

Rentier Economies and Protectorates

Contents

Editorial

After the transition euphoria of the early 1990s, a sobering evaluation has started: Why do transitions in so many countries slow down, reverse, collapse, or barely get started in the first place? Apparently, authoritarian rentier economies are often the root cause of this lack of transition and of subsequent underdevelopment, conflict, and terrorism. In severe cases, the international communities has intervened and established protectorates. Their economies largely depend on foreign assistance and demand arising from the occupation force which exercises many core state functions, such as security, and sets limits to local democratic self-rule. Transition towards a democratic market economy is particularly difficult in these related types of political economy. How can they be transformed into well-governed democracies and led away from rent-seeking to become competitive economies based on work and innovation?

That was the subject of two international seminars: one on »Transforming Authoritarian Rentier Economies« (September 22/23 in Bonn) and a second on »The Transformation of Protectorates« (October 21/22 in Berlin). The first seminar took place within the framework of the triennial European Association of Development Research and Training Institutes (EADI) General Conference and was organized by the Friedrich Ebert Foundation in cooperation with the German Development Institute and the German Overseas Institute with the generous support of the Franziska- und Otto-Bennemann-Stiftung.

The present volume contains many – though not all – papers presented at these two seminars. The introduction by Michael Dauderstädt summarizes the main findings of the two seminars and provides a conceptual framework. Following this framework, the whole book is divided into two main sections. The first, »Rentier Economies as Obstacles to Development and Peace«, provides basic empirical and theoretical insights into the structure of rentier economies and their political and economic impli-

cations. The second section, »Exits from the Dead Ends of Transition«, deals with policies to counteract these problems. It contains two subsections: (i) »Overcoming the Resource Curse« and (ii) »Transforming Post-Conflict Societies.« All papers are available on the project website (/http://www.fes.de//fes4/publikationen/tare_workshop.htm), including those not published in the present volume. All authors write in their personal capacity and do not express the views of their organizations and institutions.

The editors wish to express their gratitude to all participants in both seminars, in particular commentators and chairs such as Mathias Basedau, Andreas Boeckh, Richard Caplan, André Gerrits, Eberhard Kienle, Giacomo Luciani, Andreas Mehler, Mick Moore, Marina Ottaway, Thomas Palley, Conrad Schetter, Geneviève Schmeder, Siegmar Schmidt, Rolf Schwarz, Angelika Spelten, Erich Weede, and Dominik Zaum, and to the staff organizing the events and assisting in the editorial process, in particular Marion Ackermann, Astrid Hill, Felix Hübner, Ursula Müller, Sarah Niehaus, James Patterson, and Antje Schnadwinkel.

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Dead Ends of Transition: Rentier Economies and Protectorates

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Transition towards democratic market economies has been seen as the panacea to humanity's problems of poverty and oppression. The collapse of Soviet communism in Central and Eastern Europe between 1989–1991 was the zenith of the third wave of democratization (Huntington 1991) which triggered further changes in the developing world. The high hopes, however, have somewhat abated since that time. Democratization got stuck in many transition countries. Critical observers talked about the »end of the transition paradigm« (Carothers 2002). The weakening of authoritarian control has sometimes led not only to less stability, but also to violence, war, and even state failure (Snyder 2000), which in turn has triggered interventions by the international community, sometimes resulting in the establishment of protectorates.

At the same time, the economic liberalization of former state-controlled economies has been a major ingredient of globalization, and has substantially contributed to the rise of international trade, investment, and migration over the last 15 years. But again, high hopes have been frustrated in the economic arena and in politics. Freeing markets has not always and not everywhere led to more prosperity. Growth and development have often been slow and volatile, and the distribution of its benefits has become increasingly unequal (Rodrik 1997). In many countries, economic liberalization has been accompanied and constrained by new forms of oligarchic control over markets and resources.

In the end, the link between economic and political transition has been weaker than expected. Some of the greatest economic successes have been achieved under authoritarian rule, notably in China and Vietnam. Still, the grand security strategies of the West designed in the wake of September 11, 2002 rely heavily on free markets and free polities to improve the world

1 I am grateful to André Gerrits, Arne Schildberg, and Andreas Wittkowsky for their helpful comments on an earlier version of this paper.

and enhance global security (White House 2002; Solana 2003). This paper will analyze the root causes which impede liberalization and its translation into more and more equally diffused prosperity. It focuses on the dead ends of transition, those politico-economic constellations which make it extremely hard to achieve democracy and prosperity for all and in which the policies and involvement of external actors (»the West«) have mostly failed. The constellations responsible for that failure fall mostly into two categories: rentier economies and protectorates.

Rentier Economies as Obstacles to Development and Peace

Rentier economies are societies in which a large proportion of incomes is the result of rents rather than of work and innovation in the form of wages and profits. More specifically, a large part of government revenue consists of rents rather than taxes on wages and profits. Rents usually originate from various sources, such as natural resources, foreign aid (so-called geopolitical rent), or contrived rent through political manipulation of prices (Auty 2006: 2). Such rents are well known from classical economics where they are used to explain differences between equilibrium prices under perfect competition and »value,« such as the consumer surplus or monopoly rents or rent from land. To the extent that these monopolies are created by public policies, including the protection of certain property rights, they usually lead to rent-seeking behavior on the part of economic agents. They can increase their income thanks to protection by barriers to entry or trade barriers, and are willing and able to bribe government officials. Corruption is, thus, often rife in rentier economies. In transition economies, the process of systems change, such as the privatization of former state-owned enterprises or the establishment of new market price systems (including regulatory frameworks), creates in the short run new opportunities for rent-seeking, while overcoming the rent-seeking opportunities associated with the »socialist« administrative economy (Ganev 2005; Hellman 1998; Knaus 2006; Wittkowsky 2006).

States often intervene in markets in order to change the distribution of income by allowing rents which are often easier to legitimate or to hide than direct subsidies or transfer payments. Democratic market economies, too, are obviously not free of rents. Elsenhans (2001) gives a broader definition of rents as income beyond the equilibrium income of production factors as determined by productivity. In many poor countries, the »marginal« population, whose productivity is below its reproduction costs, relies on rents to survive. This more general type of rent can also be found in developed, democratic market economies in the form of welfare payments to less productive citizens (handicapped, sick, elderly, unemployed).

Table 1: A Comparison of Two Ideal-Type Political Economies

	Democratic market economy	Authoritarian rent economy
Government	Elected, accountable	Self-appointed elites, without accountability and responsibility
Status of citizens	Citizens with rights, in particular the right to vote	Subjects and victims of violence, members of patronage networks
Change of government	Competitive, free, fair elections	Heritage, putsch, revolution, regime change
Opposition	Legal political parties and civil society, decentralised power	Illegal resistance movements, (regional) warlords
Media	Pluralistic, critical	Censored, *gleichgeschaltet*
State revenue	Taxes	Rents (customs duties, commodities)
Beneficiaries of state activities	More or less everybody: (changing) majorities, protection of minorities	Patronage networks based on families, ethnicity, religion, or region (nepotism)
Public administration	Rational bureaucracy; occasional corruption	Part of the patronage network, endemic corruption
Major source of income	Labor and entrepreneurship	Access to rents, jobs in the state sector, politically protected and controlled market niches
Shadow economy	Increasing, but still below 20 % of GDP	A major pillar of the survival strategies of the population
Foreign economic relations	Open, liberalized	Politically controlled, important source of rents

Source: Dauderstädt (2004).

Rents apparently are ubiquitous. But it makes a huge difference (see Table 1) whether they are constrained by competitive markets and democratic governance or whether they are the very foundation of state, economy, and society. In the latter case, they constitute obstacles to the transition to democracy and development (Moore 2004). Policies and the analysis

guiding them would have to tackle the problem of rent within all three spheres. In protectorates, international actors often seek solutions in the institutional arena through the establishment of institutional checks and balances. This focus omits the important interconnections between the three spheres and the influence on the rentier problem. In the following sections, we look at the conflicts that arise in rentier economies and at some important categories in these economies, such as resource-rich economies and protectorates.

Conflicts over Rents versus Democracy, Development, and Peace

A contested tenet of modernization theory (Lipset 1959) asserts that with economic development the probability increases that authoritarian regimes will democratize. Przeworski et al. (2000) assume that economic development does not demonstrably increase the probability that authoritarian regimes will democratize (Przeworski et al. 2000: 273), while others (Boix and Stokes 2003) assume that economic development does increase the chances of a regime change from dictatorship to democracy if one considers the history of all democracies (that is, from around 1850). According to Boix (2003), two factors basically determine the political system of a society: the extent of inequality in income and wealth distribution and the structure and character of wealth. This second factor – »asset specificity« – distinguishes between societies in which the wealth of the rich is resources-bound (for example: land, minerals, oil) and those in which it is predominantly mobile (for example: financial capital). Ruling elites may also simply have learned to promote growth while at the same time blocking democratization, as, for example, in Russia or China (Bueno and Downs 2005).

When inequality is great and assets immobile, the rich fight against democratization since they fear that the poor majority would force through redistribution by taxation (or even expropriation). When inequality is modest, however, and assets quite mobile, moderate taxation is to be expected, since otherwise the assets will flee. In this case, democratization is probable. The rich elites compare the costs of democratization with the costs of oppression, which will increase with the strength of the opposition. A functioning civil society internally or external pressure can increase the costs of continuing authoritarian governance and make democratization more attractive. In poor agrarian societies, above all, the

distribution of land – that is, immobile capital – plays an important role. In particular, the ruling elites in rentier economies are not dependent on the consent of the tax payers. In more developed countries, on the other hand, education and mobile capital increasingly acquire a decisive function. The conditions for democratization in that way become more favorable.

Does democracy promote growth and development? On the one hand, democracy threatens the power of the rich who, as a result, do not invest, or it deprives them of income as a result of which the savings rate falls since poor beneficiaries of redistribution have a higher propensity to consume. Democracies are also likely to have problems carrying through unpopular and/or painful reforms, for example, the Washington Consensus. On the other hand, democratic controls guarantee property rights, which encourages investors. Apart from that, they hinder the one-sided utilization of possible rent sources, such as monopolies (Olson 2000). Finally, they offer a better supply of public goods, including social peace (Kurzman 2002). Democratic transitions do not harm growth (Rodrik and Wacziarg 2005). In relation to income distribution, democracies – at least from a certain income level – are more egalitarian than authoritarian regimes. They tend to use labour more economically and more efficiently and to pay better, while dictatorships are more unproductive, but also have relatively worse wage levels (Przeworski 2000: 178–179; Kurzman 2002). Democracies generally produce more socially just societies (Merkel and Krück 2003).

Empirical research into the impact of democracy on growth has reached mixed conclusions. Barro sees a positive connection (Barro 1997: 49–87). Przeworski and Kurzman do not see an unambiguously positive connection, but not a negative one either; in other words, democracies are not significantly more successful economically, but also not less successful than dictatorships. The positive effects of democracy which are due to better education and less inequality may be offset by a lower rate of physical capital accumulation (Tavares and Wacziarg 2001). On the other hand, other experts close to democracy-promoting institutions see a clear advantage for democracies, also in the realm of economic development success (Siegle et al. 2004). The most convincing empirical study by Gylfason (2006) shows a clear relationship between growth and democracy based on the assumption that diversity is central to development. A high share of natural wealth is, thus, harmful to growth, while the strong investment in

human and social capital, which democracies tend to provide better than dictatorships, is essential.

In the absence of democracy, the availability of rents may, if not trigger, at least sustain violent conflicts. The distribution of rents is likely to provoke greed and grievances: greed obviously because of the amounts involved, grievances when certain groups feel excluded. Additionally, external, international actors who want to control or exploit natural resources and the rents originating from them might cause conflicts. Empirically, resource-rich countries have been significantly more conflict-prone than others (Berdal and Malone 2000; Sala-I-Martin and Subramanian 2003; Ross 2004).

Collier and Hoeffler (2005) have shown that the duration of civil wars depends on the availability of ways of financing rebel armies. Sources of finance usually include natural resources, smuggling, drugs, and the arms trade, which all benefit from rents, the latter from rents originating from government policies that limit supply. In the specific case of Middle East terrorism, Kitschelt (2004) argues that »predatory regimes hinder economic growth with their rent-seeking policies that resort to arbitrary coercion, patronage, and tight control of markets. As soon as resource wealth is no longer able to keep up with population growth and thus imposes ever narrower limits on the strategy of co-opting potential opponents these regimes are confronted with mounting discontent.«

The high incidence of conflicts, civil war, and terrorism in rentier economies makes these resource-rich countries more likely to be subject to international intervention. Interventions by the international community in the case of state failure, civil war, or terrorism sometimes result in the establishment of protectorates.

Resource Curse

The relationships presented above between the role of rents in a society and its political and economic development already indicate that resource-rich countries will be much more likely to find themselves in the »dead ends of transition« than other, seemingly less-lucky economies. The relevant theories date back to the 1990s: The »resource curse« (Auty 1993), also called the »paradox of plenty« (Karl 1997), has been identified as an obstacle to development (Basedau and Mehler 2005: 9–24). Empirical studies

that also summarize the existing literature (Isham et al. 2005; Soysa 2006) confirm that resource wealth affects economic and political development.

There is a major debate concerning why some resource-rich countries are stable and successful societies, while others are not. One obvious variable is the time sequence: Most rentier countries developed a certain type of polity and economy before the resources were discovered and exploited. This historical legacy explains some variation in development between resource-rich countries. Norway is often quoted as a case of a stable democracy which remained so and managed its new resource wealth in a sensible way. An example of a stably developing rentier state is Botswana which had stable institutions, inherited from its status as a protectorate of the British Empire, when diamonds were discovered at the end of the 1960s/1970s. The actual development of all rentier countries depends on both the structure of society (polity and economy) and the type of resource.

The resource with the highest and most widespread impact has been oil. Oil wealth has transformed many countries, notably in the Middle East, Central Asia, and the Gulf of Guinea (Soares de Oliveira 2006), but also in Latin America, and South East Asia. Other mineral and agrarian resources have affected the political and economic development of various countries. The physical and technical conditions of their exploitation have influenced the type of rentier economy and subsequent conflicts. When resources are geographically concentrated and difficult to exploit (so-called point source resources), it is easier to control the revenue either by central government or the (often multinational) enterprises that possess the necessary technology. Typical cases are offshore oil or mineral resources that need deep mining. When resources are widespread and need mostly cheap labor to exploit them, the resulting revenues are more difficult to control and need either more oppression or a regulated legitimate market. If the latter does not emerge due to political deficits, conflicts are very likely to arise. Local warlords then can easily finance their activities by controlling local resources like diamonds in Sierra Leone, coltan (columbite-tantalite) in the Congo, timber in Cambodia, or drugs in Afghanistan or Colombia (Rubin 2006).

Let us briefly consider the impact of resource wealth on the polity and economy:

- **Impact on polity**: The existence of states virtually always predates the arrival of resource wealth. As the types of regimes vary substantially, so

do the changes that occur in the wake of rising rent revenues. When there has been authoritarian rule and lack of accountability to begin with, these features will be reinforced. Where there have been pre-existing coalitions of several important interest groups or classes, such a semi-authoritarian/corporatist regime may be strengthened (Smith 2006). The revenue from resources reduces the need to extract taxes from the society, and provides funds to buy off opposition through patronage (Moore 2004). Nonetheless, resource-rich countries tend to be more oppressive and not to respect human rights (Soysa 2006). The mix of patronage and oppression very often succeeds in stabilizing authoritarian regimes in these rentier states. At the same time, however, the regimes end to be riddled with corruption and bad governance.

- **Impact on economy**: The central effect of resource wealth on the economy is so-called Dutch disease. The boom stemming from the export of resources provokes a real appreciation of the national currency which then undermines the competitiveness of all economic activities other than the exploitation and export of resources, while the production of non-tradable goods and services increases. This market effect is compounded by the effects of bad governance based on »easy money.« Even when there are government efforts to diversify the economy, the funds dedicated to that purpose are often wasted due to profligacy. But even these efforts frequently are lacking: The government is not really interested in developing the national economy as a tax base because of the availability of rents. Therefore, the state does not establish the basic institutions for market-led development such as property rights, regulation, or a sound macroeconomic framework, including a stable national currency (Isham et al. 2005).

Neither political nor economic changes offer an easy way out of the resource curse. When natural resource prices, notably for oil, decline, regimes do not necessarily collapse. Actually, some of the most spectacular collapses, such as Iran, happened during revenue booms rather than busts (Smith 2006). However, declining rents increase the pressure for economic reforms. These reforms might even lead – also because of the lessening impact of the Dutch disease when oil prices decline – to the emergence of a new private business sector. But the overall mentality of rent-seeking continues to prevail and to prevent the emergence of a true competitive business class. Thus, economic reform does not necessarily lead to political change (Schlumberger 2006).

The effects of political change on economic reform do not appear substantially more promising. Collier and Hoeffler (2005b) suggest – contrary to some optimistic findings quoted above (such as Gylfason 2006) – that within resource-rich countries, democratization may even have a detrimental effect on growth, because electoral competition could reinforce the distribution of wealth and income through patronage networks. In the end, rentier states are often very stable. When they are weak, their failure or collapse might lead to increasing conflicts and even civil war. In the following section, we will consider the political economy of the protectorates that sometimes result from such crises.

The Rentier Character of Protectorates

The term »protectorates« is used here to describe territories that are under international administration, generally after the intervention by peacekeeping forces or armed forces of international coalitions (often, but not always based on a UN mandate). Thus, sovereignty in protectorates is often limited, and core state functions, such as security or economic policy, are executed by international agents. Usually, protectorates suffer from political and economic problems that make the transition towards a democratic market economy particularly difficult.

Politically, protectorates often are not democracies, since power lies with the international administration, which is not subject to popular vote and control. In the best cases, the international administration provides good governance, respects human rights, and prepares for the transition towards national self-rule as soon as possible. The transitory character of international rule might reduce the sense of ownership with protectors opting for short-term stability rather than a realistic representation of societal forces and interests. International administrators may not be »roving bandits« (Olson 2000), but they are likely to be roving. The transition may be slower than hoped for if the traditional cleavages and conflicts that led to civil war and intervention persist. Transferring power to political representatives of the local society might also be delayed when most qualified politicians and bureaucrats belong to the old ruling elite who were responsible for the conflicts and oppression. In many transitions, the members of the administrative and political elites of the *ancien régime* have been banned from entering the new government (»De-Baathification« in Iraq, lustration

in some post-communist countries). Free elections require functioning institutions (minority rights, checks and balances) which in turn are not legitimate unless they result from or are confirmed by elected representative bodies. In the absence of that democratic institutional framework, voting may lead once more to violence (Snyder 2000) or to illiberal democracies (Zakaria 2003).

Some countries which were rentier economies before intervention – since this state of affairs is a major cause of conflict – became a different kind of rentier economy afterwards. The new rents, however, result not from natural resources but from aid flows. The international administration is financed by international funds which flow into the territory either (1) directly into the state treasury, (2) in kind, or (3) as monetary demand for goods and services:

1. In the first case, the (internationalized) state has less commitment to tax-paying citizens than to foreign donors. Subsequently, there might be few incentives to build a working tax system and a prosperous national economy as a tax base. Newly created bureaucracies might focus their efforts on the acquisition of donor money rather than on solving problems in their constituency.
2. In the second case, the international presence on the ground provides (public) goods and services that are paid for by aid, and the suppliers are foreigners who usually receive their pay abroad. An example is a soldier who provides security, but receives his/her salary at home. Expatriate employees will still spend some of their salaries locally which will then have effects on the local economy, discussed below (3). The users of the public services provided this way will have little loyalty to their national government and are unlikely to be willing to pay taxes.
3. In the last case, the administration buys goods and services from the local economy which in turn might import some of these goods. In fact, this might circumvent the national government to a large extent. For example, in Afghanistan, »less than a quarter of all expenditures were channeled through the Afghan government's budget« (Rubin 2006). The international demand drives up prices due to its usually much higher purchasing power, and induces new patterns of supply into the local economy. Sectors typically affected by this phenomenon, which then experience expansion and rising incomes, are housing and personal services such as interpreting, transport, private security, and so on. Increasing prices reduce the real value of other types of income including local state salaries, thus possibly inducing corruption.

The distorting effects of international spending are so great because their value is so high in comparison with national spending. The huge discrepancies between the per capita incomes of the rich countries (which usually intervene) and those of the poor countries (where intervention takes place) are compounded by the differences between exchange rates and purchasing power. International spending is made up largely of international salaries which tend to be even higher than domestic salaries in rich countries, as they have to compensate for the costs and risks of expatriate employment and scarcer skills such as language or intercultural competencies. Consequently, the cost of international state building is orders of magnitude higher than the usual domestic cost of running a government: The Hague tribunal costs more than the Serbian national justice budget, the cost of the American military presence in Iraq is higher than Iraq's national income, and elections in Afghanistan require a huge share of the total government budget (Dauderstädt 2003).

The existence of such a dual public sector implies an even more complex social-economic set-up. Post-conflict economies usually have different sub-economies which pose additional challenges to a transition to a market economy (Ehrke 2003; Verkoren 2006):

- An informal economy, encompassing a black market underground economy and a traditional subsistence economy – depending on the stage of development.
- A criminal sub-economy, consisting of smuggling, trade in drugs and arms, and so on, often based on the militia structures of the former conflict.
- A foreign »enclave sector« catering for expatriates working for the international administration (see above).
- A small formal market economy, often marginal.
- Remnants of a state-owned public sector, in some cases from a former planned economy in which ownership status is ill-defined and a probable source of corruption, murky privatization, and/or asset stripping (Wittkowksy 2006).

This structure makes it difficult to regulate and tax economic activities. Establishing a minimum of political control may reignite old conflicts.

Post-conflict societies are usually also in need of a large reconstruction program because of the destruction they suffered during the previous conflict. Reconstruction might be funded to a large extent by foreign assistance. Not coincidentally, the term »reconstruction« forms part of the name of some of the largest international donor banks (IBRD, EBRD). The distribution of grants and credits is a potential source of patronage. In conflict-ridden societies with deep social or ethnic cleavages between former civil war enemies, the decisions regarding the allocation of such aid funds are highly sensitive, and could potentially trigger new conflicts. Obviously, such decisions cannot be left to the »market,« that is, to private banks choosing borrowers on the basis of collateral and income prospects, leading to adverse selection. Conversely, decisions taken on political grounds risk the spending of money without getting value in the form of real reconstruction (Verkoren 2006). Generally, the effects of aid to post-conflict countries are hotly debated among analysts (Collier and Hoeffler 2004b; Suhrke et al. 2005).

Another specific feature of post-conflict societies is the need to transform former combatants into either »normal« citizens or members of the new security forces. This comes under the heading of disarmament, demobilization, and reintegration (DDR). Providing jobs to former fighters offers many opportunities for rent-seeking and patronage. Mostly, these jobs will be found in the new dual (that is, internationally sponsored) public sector. Again, economic and social problems are superseded by political ones when the income and societal position of former combatants depends on foreign aid sources.

Exits from the Dead Ends of Transition

The multiplicity of obstacles blocking the transition of rentier economies and protectorates recommends the adoption of caution and patience by any approach to promoting and accelerating their transition towards stable and prosperous democracies. The fact that their development is in so many ways path-dependent and constrained by mutually reinforcing features of their political and economic system is liable to make reformers despair. But there may be exits even from the dead ends of transition. The following sections discuss internal dynamics and external policies bringing with them opportunities and risks which might support an, albeit slow, transition.

Internal Dynamics within Rentier States

The »natural« exit from a rentier economy is the exhaustion of the sources of rent income when natural resources are depleted or geopolitical rents stop flowing in. It might be sufficient that rents decline relative to total national income so that profit-oriented capitalism becomes the dominant logic of the economy. Path dependency and institutions matter. When societies are based on the logic of extraction, they tend not to build the institutions necessary for capitalist development (Acemoglu 2001). Thus, it is questionable whether a capitalist economy, which is based on market transactions, will evolve quasi automatically after the exhaustion of rent sources when a rentier economy has been established, and the available surplus in the society is acquired by power or force rather than in competition on a capitalistic market. It is likely that the logic of hierarchy and power will remain inherent to the economy which remains therefore a rentier economy and a rentier state. Conversely, when rents arrive in established democratic market economies such as the UK, Norway, or the Netherlands in the wake of natural resource discoveries, they are used in a more prudent way, although some problems like the »Dutch disease« unavoidably arise. Even Venezuela was long considered as a democracy whose stability was based on oil rents (Boeckh 2005).

Transitions may occur during resource booms and busts (see above; Smith 2006). When regimes collapse, the outcome depends largely on societal structures. Where powerful, cross-ethnic commercial classes exist and lower classes are incorporated into politics, there is a good chance of a successful transition to a democracy that uses accountable and strong institutions to resist and resolve the distributive pressures that are inherent in rentier economies. Where ethnically-based institutions and cleavages dominate, chances of accomplishing a successful democratic transition are poor (Smith 2006).

The prospect of declining resource wealth has sometimes prompted far-sighted ruling elites to diversify their economies to prepare for a future with less rent income. Although these efforts are often wasted by subsidizing unproductive or uncompetitive activities, they might slowly lead to

the emergence of a new private sector and corresponding commercial class. Luciani (2005) argues that in some Arab Gulf countries such development is taking place. In fact, using rents to subsidize industrialization is a time-honored path to development. In particular, late industrialization was often based on the subsidization and protection of emerging industries. Its final success, however, depended on strong political institutions that forced the emerging commercial class to achieve – eventually also international – competitiveness. Where governments were too weak, they became the victims of a class of rent-seeking pseudo-entrepreneurs who determined the structure of state expenditure rather than industry being structured by an enlightened industrial policy (Sid Ahmed 2005). An interesting subject for further research would be the identification of the societal factors which determine whether an effective developmental state evolves or the logic of rent continues to dominate development.

When the political will exists, there are institutional models which may be followed in order to deal with the resource curse. One model is the National Integrity System (NIS) of Botswana which includes democratic accountability, an independent judicial system, an ombudsman, a free media, and a long tradition and institutions for fighting corruption (Transparency International 2006). Another instrument is oil funds such as Norway's State Petroleum Fund. Oil funds have several functions such as intergenerational justice, financing of economic diversification, or as an accountable transparent way of managing savings and smoothing over volatile revenues from natural resources They occur therefore under very different political regimes, but can offer a way of stimulating public debate about the use of resource wealth (Fasano 2006).

The emergence and success of such institutions will often depend on the support of international actors. An anti-corruption NGO, Transparency International, was involved in setting up the policies and institutions of Botswana's NIS. Oil funds probably work better when they are linked to international initiatives to publicly control and account for payment flows to commodity exporting countries.

External Actors Promoting Transition

The international community of developed, democratic market economies (in short: »the West«) has a strong general interest in the transition of au-

thoritarian rentier economies and in the development of post-conflict societies as the strategic documents quoted at the beginning of this article show (Solana 2003; The White House 2002). The political will, however, to implement costly policies or even to intervene depends much less on high principles than on a hard evaluation of costs and benefits which takes into account a wider range of short- and long-term interests such as raw material supply security, geopolitics, and respect for property rights.

The development of many resource-rich countries has been shaped by an unholy alliance of consuming states, corporate actors, and domestic elites (Soares de Oliveira 2006), which has served all parties rather well. It is basically the rise of conflicts and terrorism rather than concern about continued underdevelopment and poverty that has led to second thoughts on the part of the West. Its readiness to confront the two other parties of the alliance has depended to a large extent on the substitutability of the raw materials concerned and on the spillover effects of the local conflicts threatening Western interests. Usually, Western governments have intervened in the relatively free flow of international trade in the context of inter-state conflicts by establishing trade embargoes and export controls. In some cases, campaigns by NGOs have shamed and pushed governments, multilateral organizations, and private companies into action.

The campaigns and initiatives that have advanced most are as follows (Paes 2006):

- The Kimberley Process Certification Scheme is the most successful initiative, which includes a binding legal framework, technical assistance, and a »chain of warranty« from producer to consumer. It has worked, because the producer countries (Angola, Liberia, Sierra Leone) and the commodities concerned (diamonds) were of a relatively low strategic importance.
- The Extractive Industries Transparency Initiative has at least some government support (UK) involving some pilot countries (Azerbaijan, Ghana, Nigeria, Sierra Leone, East Timor, Trinidad and Tobago), but remains a voluntary endeavor.
- The Extractive Industries Review was a process undertaken by the World Bank between 2001 and 2003. Its impact will be largely on the World Bank's own activities.
- The »Publish What You Pay« Campaign is an NGO initiative without much real effect, but has considerable support in civil society.

The record of these rather weak interventions in the usual workings of international relations shows how high the thresholds involved are. Western governments barely use the leverage they have on private corporations to induce responsible and cooperative behavior (Spelten 2005). Most traditional economic and other policies, such as aid and trade policies, are of doubtful effectiveness (Dauderstädt and Lerch 2005). Common interests have to be much stronger to justify still deeper interventions within sovereign states such as peace making or peace keeping operations and the establishment of international administrations (protectorates). Mostly these interests are geopolitical and related to the external effects of civil war (for example: Kosovo, Bosnia) or a specific regime (Afghanistan, Iraq). Correspondingly, the level of knowledge of the internal societal structures of the »target countries« is often insufficient, and the strategies and policies adopted by external actors are based on abstract concepts such as free markets and elections rather than on a concrete in-depth understanding of the structures and interests of the local society. Participation by domestic actors is often weak or considered undesirable, and can, therefore, not compensate for these deficiencies.

Case studies confirm the difficulties experienced by external actors in transforming the economies and polities of protectorates. Often the knowledge of basic facts concerning the local society, such as population, employment, income, and enterprise structure, is lacking or dubious (Knaus 2006; Gromes 2006). Basic institutional decisions are not taken by the parties to the conflict, which continue to operate para-states in order to circumvent the internationally sponsored new state (Gromes 2006). Citizens might even prefer private security arrangements to public ones (Smith-Höhn 2006). Economic policy decisions have to be taken rapidly by the external actors to avoid chaos and income losses which could trigger a resumption of violence (Gray 2006). On the one hand, apparently sensible technocratic decisions, therefore, often lack legitimacy and public consent and support. On the other hand, transferring economic policy competencies to democratically legitimate local authorities often leads to »political capitalism« rather than immediately to a full-fledged democratic market economy (Wittkowsky 2006). Sequencing is probably crucial in finding an exit out of the mutually reinforcing economic and political obstacles.

There are no royal roads out of these dead ends. But the lessons learned in various cases suggest some policies:

- **Aid funds**: Similar to resource rents, aid rents should be subject to transparent control, possibly by channeling them through aid funds that are administered in a transparent and accountable way, involving as much local participation and representation as possible (Rubin 2006).
- **Dutch disease**: The gap between exchange rate and purchasing power should be closed as rapidly as possible. This requires an active monetary policy. Dollarization and Euroization could be helpful in the short term by providing international purchasing power to all citizens, but make long-term development more difficult. International incomes should be taxed to correct the income distribution and balance returns on domestic and international activities. Local tax authorities should get information about all flows of revenues from the international presence to local households and enterprises.
- **Transfer of power**: Elements of democratic control and accountability should be introduced into the international administration as rapidly as possible. Transparency, separation of powers, judicial control, and opportunities to appeal should be implemented, even when a complete transfer of power seems not to be immediately feasible. No group should be excluded from democratic electoral competition regardless of ideology or regime background, except those advocating violence (Grzymala-Busse 2005).
- **Better intelligence**: Intervention should be guided by the appreciation and acceptance of local realities, particularly the interests of the population, rather than by a pre-conceived »conventional mission wisdom.« There never is a »tabula rasa« – a complete absence of a civil society – in post-conflict countries, although the structures of its economy, society, and polity may not fit the concepts of traditional social and political science or (neo-)classical economics. Intervention should be accompanied by critical social analysis, involving local expertise.

There is life in the dead ends of transition. Transition might not necessarily and quickly end in an ideal-type democratic market economy, but it can slowly lead towards systems that better fulfill the aspirations of people in transition countries. As long as there is no immediate threat to be countered, the West has neither an interest in initiating nor the resources to sustain a system or regime change just because its own aspirations and values are different.