

April 25, 2005

## State-Building: Capturing Lessons Learned

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In his interview with CIPE, Francis Fukuyama discusses the importance of having a strong, efficient state and talks about the development agenda in the light of his recent work, *State-Building: Governance and World Order in the 21st Century*. This book builds on the idea that there are two crucial dimensions of the state, scope and strength, and evaluates the challenges of state-building and finding the right balance between the two dimensions.

The interview also looks at current challenges in Afghanistan, Iraq, and other post-conflict and failed states. The real challenge there is to allow these countries to stand on their own to develop institutions that will allow them to govern themselves. In these countries, legitimacy is absolutely critical to state-building and ultimately to the promotion of democracy. The ultimate secret of development, as Dr. Fukuyama argues, is that no state is ever developed by outsiders. The development really has to come from within, particularly in the creation of institutions.



published by the

**Center for International Private Enterprise**

an affiliate of the U.S. Chamber of Commerce

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**CIPE:** In your book, you present state-building as one of the most critical issues in development today. This sounds counter to the trends of the past several decades, which have emphasized liberalization and limiting the role of the state. What has changed here?

**Mr. Fukuyama:** Nothing has changed. I think that there are two separate dimensions of the state that people get mixed up. One dimension is the scope of the state. This dimension deals with questions like how extensive your state is, how much regulation does it do, or does it try to own companies and interfere in market processes? The thrust of the world politics in the last 25 years has been to cut back the scope of the state, and, I think, quite rightly. The reason is that states have gotten too big, both in the industrialized world and in many developing countries, where they really were interfering with private markets and, therefore, interfering with growth.

But there is another completely separate dimension of the state. This dimension deals with the ability of states to make and enforce their own laws and do it cleanly, transparently, and without corruption. This dimension applies to any state activity. From the standpoint of economic development, the optimal place to be is to have a state that has a relatively restricted scope, which means states should focus on key issues that everybody agrees they have to do – such as providing public goods, law and order, rule of law, and security.

In the developing world, these two aspects of the state are the real problem. The scope problem is evident in places like India or China, where you have too extensive a state. In many African countries, the real problem is that there is no state at all – meaning that the state is not capable of doing the most minimal kinds of tasks such as repairing roads and providing health or education. So that is the state-building challenge that I think the book is about.

**CIPE:** In some ways, this sounds similar to the speech President Reagan gave at Westminster, when he talked about the infrastructure of democracy. You seem to be talking about the infrastructure of the state and the infrastructure of the market. Are these interrelated?

**Mr. Fukuyama:** They all have to be built on common institutions. For example, rule of law is critical for democracy, because what democracy means is simply a limitation on the arbitrary rule of the powerful. Similarly, markets need rule of law to govern commercial transactions and to facilitate property rights and investments. In this sense, the economic and the political agendas are very much served by the same kinds of institutions.

**CIPE:** Yet, when we look at Latin America today, we see some backsliding with the rise of populism. How do you see this kind of approach playing out in the Latin America context and does that mean we really have not yet seen what you might call a liberal democracy in Latin America?

**Mr. Fukuyama:** In Latin America, in general, the problem has been more the liberal part rather than the democratic part. We have many democracies in the region, but what we really do not have is a stable rule of law that respects basic rights. It is too common in Latin America, that if you do not like the inconvenient rules that stand in your way, you try to change them and just use your power arbitrarily to pack the Supreme Court or completely get rid of it. This is probably the area of institutional development that has been really lagging behind all across Latin America. It has weakened economic growth and without growth you don't have support for democracy. Instead, you get populism and leaders that cater to some real social injustices.

**CIPE:** How would you look at somebody like Hernando de Soto, who has talked about some of those issues in the Latin America context? Would your work and your book reinforce and support his or are you taking a slightly different approach?

**Mr. Fukuyama:** I think that Hernando de Soto is probably the single person that is responsible for this focus on governance in developing countries, because his book, “The Other Path,” was really about weak governance in places like his own home country of Peru. He has this famous example of trying to get a small business license and it took something like nine months and \$1,400 in bribes and so forth in order to simply open a business. This example does not simply illustrate too extensive government, because any government has to register small businesses, but it shows well how ineffective a government can be.

So he set the agenda that you need strong institutions and you need a rule of law. He emphasizes the informal sector a great deal, but a lot of the reason that you have an informal sector in poor countries is that the formal sector is so bad. In fact, in his first book, he's got a whole section on why it is better to live under rule of law rather than have to live by all of these informal laws. He also talks about how much you lose by not having regular, transparent, and understandable rules by which people can interact with each other. I think the agenda is really identical. And I think CIPE, right from the beginning, has understood these governance issues as being kind of front and center.

**CIPE:** You've also spent a lot of time looking at Iraq and Afghanistan. In some ways, they are at the opposite end of this spectrum which you are describing in Latin America, where you've got too much governance. There, on paper, there may be a lot of government, but once you get outside of the green zone of Iraq or outside of Kabul, there doesn't seem to be much. How do you move forward in those environments? What do you conclude are the necessary steps that we've got to go through?

**Mr. Fukuyama:** It's not just Iraq and Afghanistan. We have this whole slew of so-called failed or fragile states like Somalia, Haiti, and Liberia, and it seems to be a kind of accelerating problem in the post-Cold War world. There, I think you've got this big conundrum, because if the international community comes in to help these countries, it has to help them in a certain way by providing that governance itself. Then, the real challenge in the long run is to allow them to stand on their own to develop institutions that will allow those countries to govern themselves. In fact, that is the only way that you are ever going to get an exit strategy in countries like that.

So the secret is to give them enough governance to get things going again, but to figure out a way to have it be Iraqis or Afghans that are doing it. Such strategy has actually worked relatively well in Afghanistan, because we went in with a light footprint and, unlike in Iraq, did not try to do everything ourselves and were patient. In fact, we guided donor money into an Afghan ministry that made decisions on behalf of an Afghan government. We took kind of the opposite tact in Iraq, where we were trying to provide and create all aspects of government for the Iraqis, and we have been trying to correct that mistake ever since we've made it in the early days after the occupation. But there is no easy solution to it, because the whole reason the international community is there in the first place is that these countries are so weak that they really can't govern themselves.

**CIPE:** In your book, you talk a lot about legitimacy. Is that what you are referring to here, especially in the Afghan case, that through some process the international community was able to find a way to get legitimacy from local institutions?

**Mr. Fukuyama:** Legitimacy is absolutely critical to state-building and ultimately to the promotion of democracy, and that legitimacy has to come from within the society. I believe that it comes from democracy and most societies, even ones that have not had experience with democracy in today's world, find that elections are probably the main route

to creating legitimate institutions. But there are other ones, like the Loya Jirga in Afghanistan, which is not democratic in a modern sense, but somehow representative and certainly regarded by Afghans as legitimate.

One of the dangers of being too intrusive in a failed state situation is that you don't have legitimacy for whatever type of government you set up, and I think that was one of the problems that we had in the early days in Iraq, where we were seen to be running the country ourselves.

**CIPE:** Another issue you talk about in here is very similar to Douglass North's discussions on the importance of local knowledge. In thinking about the difference between Afghanistan and Iraq, it seems that in Afghanistan there was more incorporation of local knowledge into the equation than perhaps in the mechanisms that were used in Iraq.

**Mr. Fukuyama:** That is right. The ultimate secret of development is that nobody is ever developed by outsiders. The development really has to come from within, particularly in the creation of institutions. Foreign models really have to be translated into the local dialect and sometimes the language is really quite different.

Everybody pays lip service to the need for local knowledge and ownership and the people themselves doing this job, but many cannot keep their hands off of the final product. So if it doesn't have women's rights and environmentally friendly policies and a whole list of things that people in the West find attractive about a country, we oftentimes want to be more intrusive than I think is good for the legitimacy of the local institutions.

**CIPE:** What other kinds of main insights has your work led you to?

**Mr. Fukuyama:** I think that the single fact that everybody who has looked into development since the end of World War II or even since the end of colonialism comes to realize is just how complicated the development is. We have gone through decade after decade of "silver bullet" kinds of solutions to the development problem. In the 1950s and early 1960s it was big infrastructure projects, and then it was education, women's empowerment, or structural adjustment beginning in the 1980s and 1990s. The long, sad history of that is that neither one of those strategies by itself was sufficient to really produce sustained development.

We had a lot of development successes, particularly in East Asia, but those were on the part of societies that basically figured out how to do it themselves. They figured out how to use the global market and take advantage of that, but the

impetus really came from within. But there are many places where our attempts to help countries develop, in a certain sense, set them back. Africa is a good case where, in a way, all the well-meaning help from the outside community has been a little bit like the resource curse of having oil as a stable source of funds that encourages all sorts of counterproductive behavior. It is kind of a depressing story, but it is also one where there is a little bit of hopefulness, because I do think that as a result of this painful experience, we are learning some things.

We have had, especially in the democracy promotion business, some really remarkable successes just recently, not just with the fall of communism, with Serbia, Ukraine, Georgia, and now Kyrgyzstan. I think all of those successes did depend on foreign assistance and it shows that we have learned something about how to help these countries.

**CIPE:** You have talked about some of the phases that we have gone through in our understanding of democratic development. How does the current emphasis on institution-building avoid becoming just another pit stop along that path?

**Mr. Fukuyama:** It could easily become just the latest fad. As a political scientist, I like this emphasis on institutions, because you're dealing with real political variables, but I think it is good to step back and realize that there are other issues that remain important. So institutions without the right connection to global markets, without good politics and leaders, and without the right economic policies can also lead to bad outcomes. So my hope is that this new emphasis on institutions is not a substitute for all the earlier theories, but kind of a complement to what we know already.

**CIPE:** You are well known for your "The End of History and the Last Man" thesis, which kind of posits the free market democratic system as the ideal or the system that everybody is gravitating to. Do you still hold to that thesis? Is this new wave of democratization reinforcing your view?

**Mr. Fukuyama:** Well, properly understood, I never believed that you could create democracies instantly in any society. President Bush, in one of his speeches recently, said that the desire for liberty burns in every human breast, and I think that is true in a very general sense. But between the burning in the human breast and the actual success of democracy, you need institutions and those institutions are frequently very difficult to create.

If you can get economic development, I think it is much easier to sustain democratic institutions. Therefore, what my thesis in "The End of History" was saying is that there is this

long process called modernization and one of the components of modernization is the opening up of political systems to greater participation. I do think that that is something that remains the case and that it is a kind of universal pattern of development. It is not culturally limited by any particular religion or historical experience. So understood in that sense, I still stand by the thesis.

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