OBSERVATIONS ON STATE-BUILDING IN THE WESTERN PACIFIC

Francis Fukuyama

OVERVIEW

This memo provides some observations on the process of state-building in two countries in the Western Pacific, Timor-Leste and Papua New Guinea, based on a trip that the author made to the region in December 2006. In an earlier book I had provided a general framework for predicting which public sector functions were more likely to be successfully developed with external help from donors or other outside actors. One of the purposes of the trip was to see whether this theoretical framework had any validity in practice. But there were many other issues regarding social and cultural factors, donor policies, and regional politics that were relevant to the question of state-building in this region, which will be touched on here.

This memo will begin with some general observations on why state-building projects promoted by external actors is difficult, and will then use examples from Timor-Leste and PNG to illustrate these points. The author does not intend to provide specific advice or criticism of particular policies, nor offer anything like a definitive analysis of the local settings or policies. Whatever virtues this exercise may have lie not in its generation of new knowledge about the Western Pacific, but in the placing of these cases into a larger comparative context of state-building efforts in other parts of the world.

GENERAL OBSTACLES TO INSTITUTIONAL REFORM

The following is a general framework for understanding why donor-supported efforts at state-building often run into difficulties and fail to achieve their objectives of helping creates well-governed societies. While the analysis in this section appears to proceed deductively, it was actually generated inductively by looking at the actual countries in question, as well as other historical and contemporary cases with which the author is familiar.

There are four broad categories of constraints to external efforts to promote state-building.

First, there are often problems of fit between the kinds of institutions that state-builders are trying to construct, and the nature of the underlying society. The models for well-functioning states in the minds of Western donors are often idealized versions of
their own political institutions, which in turn are based on some vision of a Weberian rational-bureaucratic state. For better or worse, these embed certain clear value choices and moral perspectives: that exchange should be impersonal, that in public life obligations to the whole society should trump narrower communal attachments, that hiring and advancement should not be based on kinship but on merit, etc. These values do not come naturally to any human society, and emerged in the West and in parts of East Asia only after a prolonged historical process. It is therefore not surprising that there is a poor fit in virtually all developing countries between the existing normative order and social structure and the kinds of institutions that donors prefer.

Many donors believe that the burden falls on the developing country to adjust to this idealized model. The adjustment, however, must be mutual. There are in fact no “optimal” forms of institutions; among developed liberal democracies, there is a wide variance in the way that institutions are implemented that make them “fit” their societies better. To take one example, Japanese democracy for much of the half century following ratification of the 1949 constitution was characterized by single party dominance, in which the most important contestation was organized not along programmatic lines, but between factions within the ruling party. This Japanese “wantok” system operated in large measure according to patronage rules and tolerated a fair degree of political corruption. It was compatible with a high rate of economic growth, however, because corruption was bounded, and the economic bureaucracy was largely insulated from the patronage system, though there were a number of notable scandals involving senior bureaucrats.

The second obstacle to institutional reform concerns the problem of transmission mechanisms and ownership. The objectives of service delivery and capacity-building are often at odds; because public sector services are weak or non-existent, donors are often tempted to provide them directly, which then weakens the capacity of the reforming country’s government to provide them over the long term. Most successful state-building projects, such as those of the East Asian fast developers, have been driven by domestic elites; the latter may have gotten help in the form of resources or technical assistance from outside allies or donors, but themselves created demand for reform. In the absence of such internal demand, donors are often tempted to stimulate it artificially, either through conditionality in lending to mechanisms like the European Union’s accession criteria. Alternatively, donors can seek to promote independent civil society and independent media, which, it is hoped, will unlock a latent demand for change by putting pressure on corrupt or incompetent governments.

The third obstacle is that state-building is at base a political process and not a technical one, one that involves access to power and resources and is therefore highly contested. Most dysfunctional public bureaucracies can trace their poor performance directly to the intervention of politicians who want to use the administrative machinery for their own purposes, or prevent it from interfering in their activities. This of course presents a major obstacle for external donors, whose influence on local politics is either
prohibited by statute, as in the case of the World Bank, or else is limited by past historical relationships (as in the case of Australia in the Western Pacific). Administrative reform pursued as a technical assistance project can get only so far if political will is lacking, and donors often do not have the patience to wait for the emergence of the right political conditions.

The fourth obstacle has to do with the need for nation-building in addition to state-building. It is common for those involved in post-conflict reconstruction to concentrate on improving the capacity of public sector institutions, and to shy away from attempts to help formulate or strengthen national identity, common culture, or shared values within the client country’s society. Yet the latter is critical for the success of the former in the long-run. If bureaucrats in a public agency, for example, do not identify the public good with that of the nation as a whole, but rather see their purpose as helping one particular ethnic or kin group advance relative to others, then that agency’s purposes will be corrupted from the start. Outsiders usually have limited means of fostering national identity, though it is not impossible. Building a national identity is a very slow process, one that does not suit the timetables of most donors.

In addition to these general obstacles to donor-induced state-building, there are obstacles to specific public sector activities that make some of them much harder to foster than others. The framework provided in State-Building identifies transaction volume and specificity as critical parameters. Transaction volume refers to the number of administrative decisions that an agency typically makes in a given time period, while specificity refers to the degree to which the quality of its performance is observable by others. Those activities with low transaction volume and high specificity will be the easiest to strengthen or reform, while those with low specificity and high transaction volume will be the most difficult. The former can be most readily put within a formal monitoring-and-accountability system that seeks to align agent incentives with those of the principal. High transaction volume, low specificity activities must be approached differently. Since it is very difficult to monitor and reward performance externally, standards must be internalized through training or socialization. In the book, I suggested that certain public sector functions like central banking, fiscal policy, and activities requiring high degrees of technical expertise will be most readily transferred, while other activities like law enforcement, education, and provision of public health services will be more difficult to reform.

APPLICATION OF THE GENERAL FRAMEWORK TO TIMOR-LESTE AND PAPUA NEW GUINEA.

As noted above, the framework presented in the preceding section was not derived out of a prior theory, but inductively from the cases under consideration. It is therefore not surprising that they provide many examples to illustrate these points.
1. The poor fit between formal institutions and society. This was evident above all in Papua New Guinea, which represents a kind of extreme in terms of social fragmentation with its more than 850 language groups and physical geography that makes communication and national unity an extraordinary challenge. PNG was an acephalous society before it became a colony, and much of the country today remains outside the scope of the state. Traditional PNG society is characterized by “big man” politics, in which status is derived from one’s ability to distribute resources to people in one’s village. This practice has simply been transposed to a national level, where legislators seek to distribute national resources to their wantok or descent group. This of course violates the norms of a modern bureaucratic-rational state, in which exchange is supposed to be impersonal, and in which public resources are supposed to be directed towards public goods defined in a much broader sense.

The resilience of orientation toward the wantok produces some unusual consequences for the political system. Like other Westminster systems, PNG had a single-member constituency, first-past-the-post electoral system, which according to Duverger’s law is supposed to produce a two-party political system. But because of the primacy of wantok loyalties, broader coalitions fail to emerge, and candidates are elected with as little as 10 percent of the district’s votes. Since very small changes in voting behavior can lead to one candidate being elected over another, there is a high degree of turnover in parliament and electoral outcomes are extremely difficult to predict. The next national election will be held under a limited transferable vote system in which voters will indicate second and third choice preferences, which in theory should lead to the formation of broader coalitions. However, many of the using extralegal means to influence the way votes are allocated evident in previous elections will doubtless continue under the new system.

The problem of the “fit” between state and society is much less acute in Timor-Leste than in PNG, because Timorese society is less “strong” in Joel Migdal’s sense than that of PNG. Timor-Leste is ethnically, linguistically, and socially far more homogeneous than PNG, and the major political fault lines (e.g., between Fretilin and the opposition political parties) are easier to situate in a modern framework. However, there are emerging social cleavages that are destabilizing because they are not at this point reflected in the political system. The first is the fracture between easterners and westerners that some say was at the root of the communal violence in 2006, and the second between the martial arts gangs and the rest of Timorese society. There was a great deal of uncertainty among our interlocutors as to how deeply rooted the east-west division was, the extent to which it reflected existing political cleavages (e.g., long-time Fretilin veterans v. newer political players), or whether the gangs were autonomous or were being manipulated by the existing political players.

2. Transmission Mechanisms and Ownership. Both Timor-Leste and Papua New Guinea constitute fascinating experiments in donor-supported state-building because of the extraordinary level of outside involvement in the public sectors of the two
countries. Timor-Leste, of course, was run by entirely by UNTAET between 1999 and formal independence in 2002, with continuing heavy involvement by the international community, while Australia has played a very large continuing role in PNG’s governance. In both countries, the tradeoff between the need to provide immediate government services and the displacement of long-term indigenous capacity is acute.

In Timor-Leste, the degree to which indigenous capacity has been created varies greatly by sector (see the discussion of transferability in section 5 below). It was very evident to us, however, that even in those ministries where progress was most evident, the “handover” of control was often more apparent than real. We were told that in the Finance Ministry, for example, there was not a single Timorese accountant, economist, or lawyer, and that many of the staff lacked the numeracy to understand simple concepts like percentages. Much of the work continues to be done by donors; when the expat staff was evacuated during the troubles in the spring of 2006, the budgeting process simply stopped. The lack of capacity in the bureaucracy means that the ministers are overstretched, and get involved in micromanaging issues because of their inability to delegate.

In Papua New Guinea, the most interesting experiment in capacity-transfer by far is Australia’s Enhanced Cooperation Program (ECP), which arose out of the perceived success of the Regional Assistance Mission to the Solomon Islands (RAMSI). The ECP’s “whole of government” approach is innovative in two ways: first, it draws upon seconded government officials from different agencies in Canberra, and not simply AusAID personnel and their contractors, and second, it inserts them directly into in-line positions. The ECP was not intended initially as a capacity-building exercise, but rather as a short-term stop-gap to prevent further deterioration of public administration in PNG. It appears to be evolving in the direction of a longer term capacity-building exercise, and as such points to some alternative approaches to doing this.

Many people are understandably uncomfortable with the ECP, because it seems to be a throwback to the Australian colonial administration, and risks displacing indigenous Papua New Guinean capacity rather than enhancing it. The officials recruited are typically not development professionals and therefore lack familiarity with the problems of dealing with developing countries. It is clear that this approach works much less well in certain administrative areas than in others (e.g., policing; again see section 5 below).

On the other hand, we were surprised to hear rather favorable comments about the ECP from both Australians familiar with the program, and Papua New Guineans themselves. The positive assessments revolved around several issues. First, the seconded officials came with specific skills that were often lacking among staff with development backgrounds; it was easier to learn about local conditions after being in-country for a few months than to acquire technical knowledge about a specific area of public administration. Second, these officials possessed greater legitimacy in the eyes of their PNG counterparts because they were liable to the same pressures and problems as they were. This was not simply a recreation of the colonial pattern of authority, because
the minister at the top of the hierarchy was now a Papua New Guinean and not an Australian. Third, the transmission of knowledge through learning-by-doing was much more effective than classroom training, or reports written by short-term consultants. There were a lot of complaints in both Timor-Leste and PNG about the effectiveness of donor-funded consultants seeking to do “capacity building,” whose short tenures, uncertain qualifications, and limited local knowledge limited their authority. (On the other hand, a consultant like Kathy Whimp who had been around for a long time acquired both legitimacy and authority by virtue of her knowledge of the system.) The problem of capacity-displacement did not seem to be a problem with the ECP, though obviously it could be under many circumstances.

The ECP has been in place for only two years so it is very difficult to come to any final judgments about it. There are delicate problems with regard to corruption, and how seconded officials are trained to deal with corrupt transactions they witness in the course of their duties. Issues like the appropriate length of tenure of seconded officials have yet to be faced. The Australians also do not seem to have defined long-term goals for the program, i.e., whether it is a short-term stop-gap measure to prevent outright state failure, or whether it is intended to go on indefinitely. They do not seem to have formulated an exit strategy under which full responsibility can be returned to the PNG state by a certain period once its capacity is built, perhaps because the ECP was never conceived as a capacity-building exercise in the first place. It might however be useful to think it through in this light.

I felt we did not have nearly enough time or information to evaluate other aspects of the Australian aid program. On our final day in Canberra we got into a discussion of education and health service delivery, and the question of the extent to which the Australian aid program runs parallel to that of the PNG’s government. They appear to have made relatively little headway with respect to education; they said that primary school attendance was only 32%, which is low even for an African country. Why this is the case deserves further inquiry.

3. Centrality of Politics. The politicization of public administration by politicians was central to the administrative difficulties faced by both countries.

In Timor-Leste, the problem was most acute in the security sector, and was the direct cause of the trouble that broke out in the FDTL and PNTL in April and May. The Interior Minister, Rogerio Lobato, overrode the authority of the PNTL hierarchy and seems to have been trying to create his own police force within it. As noted in section 1 above, it is not certain how deeply rooted the divide between easterners and westerners is in Timorese society, but both the prime minister and the president to differing degrees used the split to their own advantage in their maneuverings in the wake of the crisis. There was a clear failing by the international community to monitor and contain this politicization, though as will be noted below, its ability to fix the problem was and remains limited.
In PNG, we heard multiple accounts of how the civil service had come to be corrupted by the political system over time. It is not clear exactly how professional or competent the PNG civil service was at the time of independence; one observer noted that memories of this period might be a bit nostalgic. A large number of Australians continued to work for the government for some time after independence, but their numbers decreased over time.

One very knowledgeable observer traced the problem of politicization to the early 1980s, and actually pinned part of the blame on a World Bank project that sought to introduce greater discretion into decision-making. As Allen Schick has pointed out, a New Zealand-style administrative reform that decentralizes authority and grants greater discretion to lower echelons of the bureaucracy needs to be preceded by a more conventional type of civil service reform that establishes a baseline of competent and non-corrupt administration. Decentralizing a weak bureaucracy and granting more discretion will simply open it to greater politicization, and that appears to be exactly what happened in PNG’s case. This initial politicization was compounded by the decentralization reform that was attempted from 1995 on, which appears to have been captured by the parliamentarians in Port Moresby. Rather than decentralizing authority to state institutions at a provincial and local level, the reform led to the extension of the parliamentarians’ authority at these levels.

In both Timor-Leste and Papua New Guinea, the prospects for further state-building and reform are entirely hostage to the political process. Both countries will hold elections in 2007, whose outcome will be critical to the state-building process. In Timor-Leste, the chief issue would appear to be whether Fretilin will continue to dominate the political landscape, and whether it will gracefully cede power if that dominance is threatened. In Papua New Guinea, the fragmented social system makes electoral outcomes extremely difficult to predict, a situation that is compounded by the introduction of the LPV system in the upcoming national election. It is possible that a reformist coalition will be elected, but whether this actually happens will be driven by a host of contingent factors, rather than by any grassroots pressure for change.

4. Nation v. State. Both Timor-Leste and PNG suffer from the absence of a strong sense of national identity, that has direct effects on public administration.

National unity in Timor-Leste was built around the independence struggle against Indonesia, but once independence was achieved, there were no clear unifying institutions or symbols around which national identity could be built. The single most debilitating problem concerns language. The strong political and diplomatic support provided by Portugal and Lusophone countries throughout the period of the exile strengthened the bonds of many of the older leadership, many of whom lived abroad during that period, and these strong bonds led them to chose Portuguese as the national language, and the language of public administration. In a country that suffers from a grievous lack of capacity, the requirement that the civil service and judicial system work
in Portuguese constitutes a major self-inflicted wound. Virtually all lawyers in Timor-Leste, for example, are trained in Indonesia and speak Bahasa rather than Portuguese.

Beyond this, Timor-Leste suffers from the secretive and somewhat authoritarian mind-set that the Fretilin leadership acquired during the years of the independence struggle. It was originally organized as a centralized Marxist-Leninist vanguard party, and while it has dropped the Marxist ideology, critics point to decisions and behaviors by some Fretilin leaders that signal a belief that the party knows better than the people themselves what is in their best interest. The chief political divisions in the country are therefore not so much over economic policy issues, but rather over the role of key political parties or power groups and the validity of their self-positioning as the custodians of national interest and identity. The self-protectiveness of the Fretilin old guard would appear in turn to be one of the sources of the split between easterners and westerners that led to the rupture in the FDTL in April 2006.

National identity, or the lack of it, is something that most external observers take for granted in the case of Papua New Guinea. Any conversation with an Australian aid official usually begins with the observation that wantok loyalties trump national loyalty in PNG. The question is, what can be done to mitigate this problem, and what expectations are reasonable in defining a future national identity for PNG?

Senior officials in the PNG government told us frankly that creating a single national identity would not be feasible, and that broader regional identities were the most that could be hoped for in the near term. On the other hand, we met with the Kumul Foundation in Port Moresby, which represents the capital’s educated young elite. Many of them retain strong ties to their family’s place of origin, but some felt uncomfortable speaking their local language. Using institutions does not seem to have been a priority for PNG’s leadership in recent years. The four national high schools that existed on independence deliberately sought to move students around to other parts of the country to give them a sense of PNG as a whole; they serve local educational needs and have not been replaced by institutions with a similar integrative function.

One anthropological question that was not clear to me was the extent to which certain cultural practices and traditions were shared across PNG’s different descent and tribal groups. One is constantly reminded about the country’s 850 plus languages, but one suspects that many institutions and customs have evolved in parallel across these linguistic divides, and that there may be more of a basis for a shared sense of identity that is apparent at first.

5. Transferability of Public Sector Activities. In a broad sense I felt that the framework laid out in State-Building was vindicated, but with several important caveats. Clearly public sector activities with higher specificity and low transaction volume were transferred more readily than those at the other end of the matrix.

In Timor-Leste, the economic ministries with heavy donor participation could operate more or less competently, as could the health ministry, which everyone agreed was one of the bright spots in the TL government. Both of these are characterized by
high specificity; they require technical competence that is relatively easy to observe, and have (at least at the national level) relatively low transaction volume. On the other hand, policing is a lower specificity activity that requires a great deal of local knowledge and must be tailored to local conditions. In Papua New Guinea, the Finance Ministry and the Prosecutor’s office were much more susceptible to outside help via the ECP than were the police or the Education Ministry delivering primary education around the country.

That being said, it should be obvious that the actual degree to which these institutions can be successfully constructed depends very heavily on the quality of the leadership at the head of the ministry, something over which donors have little control. There was thus a wide variance in leadership quality, running (as I understand it) from excellent in the Health Ministry and Inspector General’s office to poor in the Education Ministry to disastrous in Interior. In East Timor the problem appears to be compounded by Fretilin’s secretive and top-down style of decisionmaking, which got in the way of their ministers’ willingness to delegate, as well as the problem of Portuguese. Under a competent finance ministers, the PNG Finance and Treasury Departments seemed to work reasonably well, granted the structural problems of their inability to monitor discretionary funds and other forms of spending.

The decision to include policing in the original list of ECP activities in Papua New Guinea would seem to be an odd decision, one that was quickly foreclosed by the PNG Supreme Court’s decision that immunity for Australian nationals would be unconstitutional. Policing is a relatively low-specificity activity; in the United States, where it is controlled at a state and local level, there is a huge variance in the approaches taken by different police forces. Especially when it comes to community policing, the police have to be embedded in the community, speaking its language and getting intelligence from local social networks. The immunity issue is not a tangential one: if police are not accountable to their local communities, it is difficult to build up the trust that is necessary for them to function properly. Australia appears to have developed a systematic doctrine for police activities outside its own borders, which deserves to be studied in greater detail by other groups engaged in postconflict reconstruction and peacekeeping.

SUGGESTIONS FOR FURTHER RESEARCH

As noted above, I do not feel qualified to give advice to any of the donors involved in either Timor-Leste or PNG, much less to the governments of the two countries. However, I can make a few general observations about areas that might repay further research in each of the areas delineated above as problematic from a state-building perspective.

1. **The fit between formal institutions and the underlying society.** It is clear from the outset that the state-building project attempted by Australia before and after
PNG’s independence was among the most ambitious ever undertaken by a donor. Much of PNG was acephalous before it was colonized by Europeans, and much of it essentially remains that way today. States are all about the projection of enforcement power throughout a society, but the strength of the society, its ability to resist penetration, and the sheer physical geography of Papua New Guinea makes this extraordinarily difficult. It is very unlikely that socioeconomic modernization will break down these social structures (i.e., the wantoks or descent groups) any time in the near future, for example, through rapid urbanization or changes in the country’s employment structure. While a new, Western-oriented and educated elite is emerging in Port Moresby and perhaps elsewhere, it is very small.

Virtually all of the discussions we had with Australian aid officials began with a discussion of the wantok system, and these officials’ perceptions of the way that wantok loyalties impeded the development of modern, impersonal exchange, whether economic or political. The question arises: since the wantok system is not going to disappear anytime soon, how would you design institutions that took them into account and thereby legitimized them to some extent? As noted earlier, the gap between society and the state can be closed more readily by moving the design of the state closer to that of the society rather than vice versa. What would this mean in practice?

One possible route would be through greater formalization of the discretionary fund system. During our visit to the National Research Institute, the Public Sector Governance group presented a report decrying the way that parliamentarians had undercut the decentralization reform, taking control of local money rather than devolving that spending authority to local governments. The parliamentarians’ discretionary funds have been a constant source of perceived corruption, and reformist politicians like Mekere Maurata and Bart Philemon have tried to cut them back, only to see them restored. It was clear, however, that part of the reason the institution of the discretionary fund exists in the first place and is so durable was that local government in many parts of the country have no capacity to actually provide services or distribute resources, as a modern, rational Weberian state is supposed to do. It of course benefits politicians directly to be able to be the source of resources, but they are also bypassing a very dysfunctional or in some cases nonexistent administrative mechanism. We asked at one point whether anyone had tried to do an empirical study of how discretionary fund monies were actually used. We were told that no such study existed, but that anecdotal evidence suggested that while the money was often used for clearly corrupt purposes (like paying for a foreign vacation for the legislator and his family), in other instances they were used for public purposes like building schools or supporting poor constituents in need.

The question that suggests itself is the following. What would happen if the PNG government decided to set aside, for the time being, the goal of creating an effective, accountable local state apparatus, and to focus on making the discretionary fund system
fairer and more transparent? Under the current electoral system, the parliamentarians’ districts are much larger than a single descent group, which accounts for why so many are elected with a very small percentage of the vote (often 10-15 percent under the old first past the post system). This presumably means that patronage resources are being distributed very unequally, going to the small minority of voters in the district that supported the officeholder. Greater transparency might mean that descent groups not receiving money would have incentives to vote for candidates or coalitions promising wider distribution. Alternatively, one could imagine bringing the wantoks into the resource distribution system explicitly, and concentrate on a broader and more fairminded distribution of resources among them.

2. Transmission mechanisms and ownership. Community-driven development is today seen as a potentially promising avenue for increasing local ownership of development projects. CDD programs are built around villages or other existing communities in other parts of the world, and could be a promising mechanism for coming to terms with the wantoks. As in all CDD projects, donors will have to spend a great deal of time selecting and shaping the communities, to make sure that they are not captured by local elites, do not discriminate against women, and the like. Instead of fighting the wantok system, however, a properly designed CDD project would seek to make use of it, even as its members were given incentives to break out of certain traditional social arrangements.

Both Japan and Britain in the course of building their colonial empires would periodically seek to map the local system of customary law in their colony, and then codify it into formal law. This is the opposite of the Australian approach of seeking to build a modern Weberian state on top of PNG society. Simply codifying customary law has many drawbacks: it legitimates a traditional system that often appears unfair to many (particularly in its treatment of women), gives formal powers to existing elites, and obstructs modern economic exchange. One could argue that an approach that sought to work with rather than against the wantok system would simply legitimate the latter and prevent PNG society from ever evolving into a more “modern” one in which primary kinship ties gave way to broader, more impersonal social relationships.

One would need to think very carefully, then, about parallel processes that both built upon existing social capital and community structures, while at the same time pushing them gently in the direction of a more diverse and modern social organization (something that will be encouraged in any event by economic growth). All well-run CDD projects attempt to do something like this: they make use of existing communities, but also try to modify them to make them more inclusive, less discriminatory, and less under the control of local elites.

Although such an assertion may seem contradictory, there are other cases in which taking ownership away from the local government entirely may be called for. Stephen Krasner has suggested that in some cases where poor governance is too deeply entrenched, it may be better to look toward models of shared sovereignty instead, in
which international actors play the role of trustees or guarantors. One such model is the Sustainable Development Programme (SDP). The SDP was designed with the explicit aim of making sure that the revenue stream from the Ok Tedi mine would be used for developmental ends once BHP pulled out, and to prevent it from being diverted to potentially corrupt uses. For that reason it was incorporated in Singapore and has a mixed PNG-foreign board of directors. In general it would seem to be a very attractive governance model for future resource projects in highly corrupt countries. The only problem is that it was founded in rather unusual circumstances, with BHP gifting its shares to SDP simply because it wanted to avoid legal liability at a time when natural resource prices were relatively low. It is not clear how many other natural resource projects around the world could start out with the sorts of assets that SDP had.

On the other hand, some forms of globalization may be making good governance more difficult. Chinese investment in the Ramu Nickel mine was seen negatively by several interlocutors; we were told that the Chinese were succeeding in avoiding a lot of environmental legislation through bribery, and that they planned to bring in large numbers of Chinese workers to do low-skill jobs that would normally be taken by Papua New Guineans on similar projects. It would be worthwhile to do further research to see whether these concerns could be substantiated.

3. The centrality of politics. Both PNG and Timor-Leste will have elections in 2007 that will in many ways determine the prospects for political stability and development over the coming years. There is relatively little that outside donors can do to affect these political processes, given the political constraints that they themselves operate under. It is my observation, however, that donors can sometimes talk themselves into excessive passivity out of concern for local sovereignty, when relatively small interventions could have big effects in strengthening sovereignty down the road. This is particularly true in Timor-Leste, where state institutions remain extremely weak and where the transfer of sovereignty from UNTAET to the government of Timor-Leste was in some cases more apparent than real.

4. Nation vs. State. Again, outside donors usually feel constrained from intervening in sensitive issues concerning national identity, with good reason. Discussions of national identity must originate within the society itself. But donors can facilitate these discussions, press local actors to address these issues when the latter themselves are hesitant to do so, and ensure that the right stakeholders are represented.

5. Transferability of public sector activities. It has become a cliché within the community of practitioners involved in postconflict reconstruction to say that security is primary, but that is a lesson that is hard to apply in practice. In Timor-Leste, there was clearly a failure on the part of the international community to monitor developments within the FTDL and PNTL closely enough, and a lack of leverage points by which it could intervene prior to trouble breaking out. This was not an inevitable outcome; there could have been, for example, embedded foreign military officers who could have kept
better tabs on attitudes within the FTDL, and used their collegial authority to head off problems before they broke into public view.

Further research is needed on the subject of the degree to which the police is like the military with respect to best practices, i.e., whether there are doctrinal and implementation models that are well understood and readily transferable across societies, or whether it admits of greater local variation. The Australians have developed their own international police and a doctrine to undergird their deployments in the Western Pacific. It would be very much worthwhile to see what the rest of the international community could learn from their experience.

A final observation concerns Australian policy in the region. Canberra’s heavy involvement throughout the Western Pacific, not just in Timor-Leste and PNG, but in the Solomons, Fiji, Tonga, and elsewhere is driven both by developmental objectives and by foreign policy ones. The foreign policy interests shape the kinds of developmental strategies that are most favored in certain distinct ways. There is a strongly held Australian view that PNG cannot be allowed to become a failed state, and that state failure there would reverberate throughout the region with cascading effects. The Australians seem to be calculating that the costs of intervention in the event of total state breakdown would be enormous, and that it is a central foreign policy goal to prevent this from happening. Under the current framework, with state-building interventions seen as serving both foreign policy and developmental objectives, there is some risk of moral hazard. The PNG government may Australia as constantly willing to back it up in the event the former makes policy blunders. If Australia were less worried about the strategic and foreign policy consequences of state weakness in PNG, however, one could imagine a much more arms-length development strategy toward that country. Under it, Papua New Guineans would be allowed to make their own mistakes, and build their own institutions to correct them. Social conflicts would not be mediated from the outside, but would have to be solved by the parties themselves in a process that Jeremy Weinstein labels “autonomous recovery.”13 Under the arms-length approach, there would be a much smaller Australian footprint in PNG, and less danger of Australian aid crowding out domestic capacity.

It is not for me to pass judgment on how Australia sees its national interests in this region. Canberra has taken on an extraordinarily difficult task in try to bring order and institutional development to the Western Pacific. State-building in PNG is one of the most extraordinary challenges undertaken in recent years, both on the part of Papua New Guinean and Australia, as well as other donors. There are clearly a lot of lessons that the rest of the international community could learn from this experience, and I personally appreciate the opportunity to look at this issue first hand.
1 Francis Fukuyama is Bernard L. Schwartz Professor of International Political Economy at the Johns Hopkins School of Advanced International Studies, and author of State-Building: Governance and World Order in the 21st Century.

2 This trip took place between Dec. 5-17, 2006. It involved visits to Dili, Timor-Leste, Port Moresby, Papua New Guinea, and Canberra, Australia. The author had extensive discussions with a wide variety of interlocutors in each capital, including government officials of the country in question, members of opposition parties, academics, representatives of aid agencies, embassies, and other foreign missions. The trip was preceded by extensive consultations with a variety of regional experts both in person and via videoconference. The author is particularly grateful to Dame Meg Taylor, Ombudsman of the International Finance Corporation, members of the Center for State, Society, and Government in Melanesia at the Australian National University, and AusAID.


4 These observations can also be applied to occupation authorities like the United States in Iraq.

5 It is for this reason that North and Weingast label this kind of society a “natural” order, as opposed to a modern “open” order. See Douglass C. North, John J. Wallis, and Barry R. Weingast, “A Conceptual Framework for Interpreting Recorded Human History” (unpublished paper, Dec. 2006).

6 Both the United States and Japan are widely seen as strong rule-of-law societies. But they differ greatly in the way that legal institutions function in the two societies, in ways that go well beyond the fact that one has a common and the other a civil law tradition. Japan has a substantially lower number of lawyers per capita and a much lower rate of civil litigation. This does not reflect deep cultural difference between consensual versus adversarial societies as much as differing institutions: many of the disputes Americans settle through litigation, the Japanese settle through a less costly arbitration system. The latter was the result of deliberate design, motivated in part a desire on Japan’s part to avoid the kinds of transaction costs generated by the American legal system. See Frank Upham, “Mythmaking in the Rule-of-Law Orthodoxy,” in Thomas Carothers, Promoting the Rule of Law Abroad: In Search of Knowledge (Washington, DC: Carnegie Endowment, 2006).
Sunil Khilnani argues that Indian national identity was in fact created by the British, who gave the subcontinent a common language, bureaucracy, institutions, and traditions. The only problem is that this process took a couple of centuries to complete, and could happen only because the British believed they were not guests in the country but rulers who had no intention of leaving. See Sunil Khilnani, The Idea of India (New York: Farrar, Straus, and Giroux, 1998).


This particular assertion deserves more careful scrutiny. The New Zealand reforms did not occur until the late 1980s, and it seems implausible that the Bank would have been promoting this kind of agenda at this early point.


A recent case of this, in my view, was the failure of the American occupation authorities to exert greater supervision over the execution of Saddam Hussein in Iraq.