Successes or Failures of ‘Developmental’ Policies, Rent and Conditionality: Comparing Russia and Sub-Saharan Africa

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Abstract

Since the 1980s, the development strategies adopted by many emerging countries have gone against ‘orthodox’ policies and been subsumed under the concept of the ‘developmental state’, which was inspired by the experience of East Asian states. The paper evaluates this concept of developmental policies and investigates the conditions that lead to their success or failure, in particular the existing relationships between states and markets, through a comparison between examples from post-communist Russia and Sub-Saharan African states since the 1980s onwards. The paper shows that Asian policies have been developmental because they could meet two conditions - national economic guidance and industrialisation -, which explains their success. It demonstrates that though for different reasons, they were met neither by Sub-Saharan African states nor Russia. This comparison shows the importance of causal channels and constraints that have so far remained under-investigated by the literature on developmental states: i.e. that even if there is a political will towards developmental policies, the latter may be impeded by economic structures and political economy, such as the existence of rents and their detrimental incentives, and the externality of policy - more devised by supranational institutions than governments. The paper thus elaborates a typology of state-market relationships that explains variations in developmental policies’ effectiveness, via two main types of causalities: i) policy externalisation via the conditional lending of international financial institutions is a key constraint on developmental public policies, as it erodes their legitimacy and credibility; ii) rent-based economic structures are not incompatible with developmental policies but may foster deindustrialisation – both

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channels weakening the accountability of leaders to their citizens (notably the accountability established by taxation). In both Sub-Saharan Africa and Russia, these causal processes have contributed to the formation of economic and political incentives that have eroded the effectiveness of public policies, including developmental policies.

1. Introduction

Since the 1980s, the development strategies adopted by many emerging countries have gone against ‘orthodox’ policies and been subsumed under the concept of the ‘developmental state’, which was inspired by the experience of East Asian states. This concept must be situated in the context of the debates over the drivers of development, which generated a vast literature in economics, international political economy and even anthropology. Some radical views even led to the undermining of development as a Western-oriented concept (De Soto, 2000).

This article evaluates the concept of developmental policies and harnesses insights from these different disciplines, notably political science, international political economy and development economics. Such an analysis is particularly relevant due to two processes that occurred in the beginning of the 21st century: after the ‘lost decades’ of the 1980s-90s, the growth of Sub-Saharan African countries since the 2000s onwards may suggest that they could exhibit some elements of developmental states and policies. Simultaneously, the concepts of ‘developmental states’ and ‘developmentalism’ have been subject to new debates and pushed forward new models.

The article investigates the conditions that lead to developmental strategies’ success or failure, in particular the existing relationships between states and markets, through a comparison between examples from post-communist Russia and Sub-Saharan African states since the 1980s onwards. The paper shows that Asian policies have been developmental because they could meet two conditions - national economic guidance and industrialisation -, which explains their success. It demonstrates that though for different reasons, they were met neither by Sub-Saharan African states nor Russia.

This comparison shows the importance of causal channels and constraints that have so far remained under-investigated by the literature on developmental states: i.e. that even if there is a political will towards developmental policies, the latter may be impeded by economic structures and political economy, such as the existence of rents and their detrimental incentives, and the externality of policy – more devised by supra-national institutions than governments – both in Sub-Saharan Africa and Russia, though at different degrees and in different ways, due to these two areas’ obvious historical, economic and political differences.

The paper thus elaborates a typology of state-market relationships that explains variations in developmental policies’ effectiveness, via two main types of causalities: i) policy externalisation via the conditional lending of international financial institutions is a key constraint on developmental public policies as it erodes their legitimacy and credibility; ii) rent-based economic structures are not incompatible with developmental policies but may foster deindustrialisation - both channels weakening the accountability of leaders to their citizens (notably the accountability established by taxation). In both Sub-Saharan Africa and Russia, these causal processes have contributed to the
formation of economic and political incentives that have eroded the effectiveness of public policies, including developmental policies – or even prevented the very possibility of such policies, as it has happened in some highly commodity-dependent Sub-Saharan African states.

The paper is structured as follows. Firstly, it presents the concept of developmental state and policies, as well as the conditions of comparability of its features across different regions. Secondly, the variation in developmental policies effectiveness is explained through the lens of state-market relationships, and in particular two causal channels, policy externalisation and the nexus rent-(de)industrialisation. The conceptual issues that can be drawn from the comparison are finally addressed, and underscore the ways these two causal channels, in combination with specific historical, political and economic contexts, have fostered incentives that prevented developmental policies’ effectiveness.

2. Conceptual issues: assessing ‘developmental’ policies and their comparability

2.1. The concepts of developmental states and policies: East Asian states and their economic success as a model

To begin with, it must be underscored that the concept of ‘developmental state’, ‘developmentalism’ and ‘developmental’ policies should be distinguished from that of ‘development’. The spectacular growth of Japan, Korea and Taiwan from the 1960s onwards has been explained by a series of studies in the 1980s as an outcome of a specific set of features and policies that are common to all of them. These studies have subsumed these states under the concept of ‘developmental states’ (Johnson, 1982; White, 1988; Amsden, 1989; Wade, 1990; Aoki et al., 1996). This concept was later applied to Hong Kong and Singapore, and since the end of the 20th century, China. Some South-East Asian countries have also sometimes been viewed as ‘developmental states’, such as Thailand and Malaysia. Interestingly, the first developmental states were market (capitalist) economies (Japan, Korea, Taiwan): China shows that post-communist regimes can be included in this concept. Post-communist Vietnam has indeed also been analysed as a possible developmental state (Dixon, 2003; Masina, 2012), and notably as an original form of ‘market Leninism’ (London, 2009). This shows that the concept transcends boundaries of phenomena that would be strictly economic and political and refer to original combinations of economic and political features. In a now well-known distinction, Evans (1989) thus opposed developmental states to ‘predatory’ states.

Despite variations from country to country, a key commonality across these states and a core feature of the concept of ‘developmental state’ is the active role of government and state intervention in the economy, together with the success of these policies – in contrast with standard economic theories that advocate minimal interventions for the state and predict that the ‘heavy hand’ of public policies have negative consequences on economic performance.
For some (heterodox) economists, industrialisation is viewed as a key route towards economic growth when complementarities across investments are present (Matsuyama, 1996), when industrialisation fosters spillover effects to the rest of the economy (Rosenstein-Rodan, 1943) and generates backward and forward linkages across sectors, i.e. further investments in sectors that enable an investment to succeed (backward) or in sectors that develop subsequent stages of production (forward) (Hirschman, 1958). Indeed, East Asian developmental states’ public policies mainly consisted of industrial policies, which were targeting particular industrial sectors via subsidies or exonerations (Knowles and Garces-Ozanne, 2003) and export-oriented-growth (China having particularly relied on currency policies, which are also industrial policies, Rodrik, 2010).

The capacity of successfully implementing industrial policies is indeed viewed as a key characteristic of Asian developmental states (Hausmann and Rodrik, 2003), as was argued by the theories of the necessity of nurturing infant industries at early stages of development - developed as early as the 19th century by Frederic List (Shafaeddin, 2000). State intervention took the form of directive policies, rather than directly investing in the economy (Huff et al., 2001): policies provided incentives, rather than ‘owning’ the economy or recycling the country’s wealth via high levels of taxation (Sindzingre, 2007). As shown by Mah (2011), despite initial conditions such as a civil war and political instability, Korea’s developmental trajectory from the 1960s onwards relied on the ‘socialisation of private risk’, i.e. a particular organisation of the market by a strong leadership and bureaucracy able to foster growth by identifying strategic industrial sectors and allocating resources to them.

A key point is that these industrial policies were always conditional on performance. This enabled these policies to overcome the risks inherent in industrial policies and industry protection, e.g. ineffectiveness or collapse of industries when protection is lowered – which are used as an argument against industrial policies by mainstream economics (Pack and Saggi, 2006).

The concept of developmentalism, which has been elaborated from the analysis of the success of East Asian states, implies more than development and requires a strong and explicit political discourse on modernisation on the part of the authorities, an explicit national guidance oriented toward development and active public policies. The growth trajectories of Asian developmental states demonstrated that the capacity for conducting forward-looking public policies is crucial for the takeoff process and development, and in particular the capacity of conducting industrial policies. Asian developmental policies could meet two conditions - national economic guidance and industrialisation -, which explains their success.

Asian developmental states had no natural resources, which has been an incentive for public policies to focus on the development of labour-intensive activities. Hence a debated question is as to whether the presence of natural resources creates disincentives to developmental policies – Sub-Saharan Africa (SSA) being a example (but also Middle East states, and in Latin America, e.g., Venezuela) (McMillan et al., 2013) - and an incentive for ‘extractive’ and predatory policies (Acemoglu and Robinson, 2012).

East Asian developmental states were characterised by high levels of human capital (on Korea, Noland, 2012) and low levels of inequality, which is crucial for industrialisation (Murphy et al, 1989). Similarly, they had high levels of infrastructure, which is equally
crucial for industrialisation - it has been argued that Taiwan at the time of catch-up had a denser road network than the whole SSA (Brautigam, 1995). Infrastructure is indeed crucial for state formation, notably revenue collection (Herbst, 2000 for SSA), i.e. in making it cost-effective, otherwise it is more rational to have no revenue collection and only resource taxation or trade taxation, which are ‘easy to collect’, in contrast with developmental, modern or ‘hard to collect’ taxes (e.g., income, corporate taxes, VAT) (Aizenman and Jinjarak, 2006). When combined with resource abundance, it may be argued that it is more rational and cost-effective not to tax, and just extract shares of the resource and redistribute to the groups able to maintain the ruler in power (hence the link corruption-natural resources e.g., oil, Arezki and Brückner, 2009): this a ‘low equilibrium’ that has caught several oil states, notably in SSA.

Internal drivers’ efficiency in economic change is challenged by scholars advocating for the determinant role of external and international factors (e.g., Popov, 2009; Bafoil, 2012). In their view, the financial support provided by the United States’ national programmes towards Asian States during the cold war has been a major factor of the strong and rapid industrialisation in East-Asia.

In this perspective, developmental processes take place in very specific contexts. Hence, their replicability in time and space can be questioned. For example, China has the characteristics of a developmental state: for Naughton (2010), however, China’s economic performances have stemmed from an original intertwining of state and market that is based both on public ownership and competition, and its growth and public policies relied on specific state-business relationships that cannot be replicated.

In addition, Asian developmental states relied on a competent bureaucracy, said to be autonomous vis-à-vis political rulers. They were analysed as ‘alliance capitalism’ (Dunning, 1997; Wade, 2000), between the political rulers and the large private conglomerates (e.g., the Korea’s chaebols or China’s state-owned-enterprises, Pairault, 2013).

A key point is that Asian developmental states exhibited high levels of corruption, clientelism and in particular pervasive cronyism, i.e. exchanges of resources between politicians and economic agents (‘crony capitalism’), as underscored by Kang (2002b) for Korea, or Johnson and Mitton (2001) for Malaysia. This is also the case of the most recent example of developmental state, China, with the pervasiveness of the well-known ‘connections’ (guanxi) and recurrent corruption scandals. Rulers, however, made it so that this political and economic behaviour – clientelism, corruption - is subservient to the overarching objective of growth. Corruption, clientelism, cronyism are indeed not per se detrimental to growth; they are neutral from the point of view of economic performance and are attributes of specific political economies that can be found either in ‘failed states’ caught in extreme poverty or high growth economies. As shown by East Asia developmental states, they are perfectly compatible with growth and moreover over a long period (Sindzingre, 2012).

The crucial determinant and causal channel is as to whether rulers and associated political institutions are strong and legitimate enough for being able to curb cronyism or corruption when they threaten economic successes, when cronyism and corruption expand to a point such as they may threaten the ‘higher’ political economy equilibrium, in which developmental states have stabilised - the capacity to exercise such curbing and repression simultaneously reinforcing rulers’ strength and power (an example is the
anti-corruption campaigns started as soon as Xi Jinping became China’s president in 2013) (Sindzingre and Milelli, 2010). Such ‘equilibria’ result from combinations of political and economic features, which may be self-reinforcing, hence creating vicious or vicious circles and may be subject to threshold effects. Many SSA states are examples of stabilisation in low political economy ‘equilibria’. These processes and combinations of political and economic elements are dynamic, however, and may therefore be unstable: if it expands beyond certain thresholds, or sectors, pervasive cronyism may threaten to shift the system into a lower equilibrium³.

Vicious or virtuous processes are created endogenously: as shown by Olson (1993), a short time frame of rulers is an incentive for predation rather than taxation: this is a rational behaviour if the ruler knows he will be overthrown rapidly. Longer time frame is an incentive to build taxation, including in feudal regimes. In SSA, predation has fostered political instability that in turn fosters predation (or capital flight), thus generating trapping mechanisms: SSA states may be below the level of state and tax capacity of feudal regimes. These vicious circles have been reinforced by social fragmentation, which in turn reinforces clientelism and exclusionary redistribution, and therefore weakens the consensus of citizens, which in turn reinforces generalised predatory behaviour.

Another key issue is as to whether cronyism and corruption proceeds are used in a productive way or not (Baumol, 1990; Bhagwati, 2000). ‘Productive’ cronyism, with locally invested earnings and low capital flight may thus be contrasted with ‘unproductive’ corruption, as in SSA. The crucial causal channel is that in developmental states growth is the key instrument of legitimacy of rulers (Kang, 2002a). These causal channels generate vicious or virtuous circles when combined with the time frames of rulers: growth, political legitimacy, stability of expectations and investment reinforce each other, as do economic stagnation, lack of legitimacy, political instability and capital flight.

Developmental states were based on a consensus and adherence to policies (as shown by the behaviour of Korean citizens during the 1997 crisis ready to give a share of their savings to the government). They were likewise based on homogenous societies, or could homogenise their societies as governments and their public policies were able to deliver growth (Korea, China). This contrasts with SSA, where arbitrary colonial borders and weak states have created vicious circles that have reinforced ethnic affiliations and fragmentation (Englebert, 2000).

This shows that the concept of developmental state goes beyond purely economic features and refers to a holistic political economy, to a ‘regime’, where the concept of legitimacy is central.

³ The threat of, e.g., blatant incompetence of bureaucrats or political cronies in the private sector, which may destabilise existing equilibria, has been exemplified in Malaysia by the poor management by the authorities of the crash of the Malaysian Airlines flight in 2014, or in Korea by the sinking of a ferry in 2014, where it appeared afterwards that authorities left it in operation though it has infringed a great number of legal obligations.
2.2. Comparing different regions and trajectories: conceptual and methodological issues

Sub-Saharan Africa and Russia seem to refer to radically different economies. It may be argued that these three regions cannot be compared, particularly in a short paper, due to their heterogeneity and complexity. However the comparison being made in this article lies on both the issue raised, developmentalism, and subsequently on the disciplinary approach that is developed, i.e. international political economy.

Above all, SSA is not a homogenous entity and gathers countries that may significantly differ in their economic and political structure. It may be possible, however, to refer to ‘SSA’, as SSA states share some common traits. Their creation is very recent – at the time of independence in the late 1950s-early 1960s for most of them, and for this reason many SSA states had to cope right from independence with political instability due to competition for the control of these new states and the associated resources following the wave of democratisation in the 1990s, most states are de jure formal democracies, but de facto authoritarian regimes; these authoritarian regimes govern countries that are affected by low levels of incomes (27 SSA countries are classified as low-income countries4) and low tax ratios (often around 15% of GDP, Le et al., 2012), therefore by weak state capacities (notably redistributive capacities), which in turn affect their political legitimacy; also, their export structure is based on primary commodities (‘soft’, e.g. agricultural, or ‘hard’, e.g. mineral, commodities, in particular oil) and their industrial sectors are limited.

In contrast, Russia’s economy sharply differs from SSA in many aspects. Russia has inherited a prestigious position as the challenger of the United States’ leadership. Although its economic potential had been overestimated, especially in the 1980s, its economic potential remains so far in the top rankings for its GDP (8th rank, according to the IMF World Economic Outlook, IMF, 2014a), and as for the GNI per capita, Russia is a high-income country5. Russia is a country of old industry. Heavy industry has been flourishing since the 19th century, and then set by the Soviet policy makers as a key sector for the militarisation of the economy. The Socialist developmental policy set strong institutions, and developmentalist bureaucracies in the USSR as well as in China (Popov, 2009). Hence, economic structures, notably infrastructures, have been developed in this huge territory. As well as in China, the socialist system’s high stress put on education and research potential built a major asset for the economy, since they are viewed in development economics as key drivers of productivity growth. In the post-Soviet period, however, high state capabilities have been offset by a low tax effort (Le et al., 2012). The country’s high and growing dependency on raw material exports, mainly oil and gas, prompted experts to define Russia as a rent-seeking economy (Ross, 2001; Gustafson, 2012; Oomes and Kalcheva, 2007).

Beyond these differences, the two areas, however, display common features: high growth rates since the 2000s onwards, a significant reliance on commodity production and exports (see the map in annex), high market potential based on a growing middle class (for some SSA countries), and at some point externality of public policies. In the

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4 According to the World Bank Classification, low-income countries are defined by a GNI per capita of 1035$ or less: http://data.worldbank.org/about/country-and-lending-groups#Sub_Saharan_Africa

5 High-income economies are defined by a GNI per capita of 12616$ or more, http://data.worldbank.org/about/country-and-lending-groups#High_income
1990’s these two areas experienced transition policies, to democracy as well as to a market economy. Russia may thus undoubtedly be described as an emerging country, and this label may be applied to some SSA countries (besides South Africa, some upper middle-income countries, e.g. Botswana, Namibia, Angola, or some promising lower-middle income countries). This label is undeniably vague; however it refers to strategies of integration into the global economy and to the challenges resulting from it.

Can these states be defined as developmental? This is the question that is addressed in the argument and causal channels analysed below. The concept of developmentalism raised in this article interconnects economics and political science, and the theoretical framework used here is that of international political economy. The perspective here is to articulate economic structures to the political and institutional context into which they take place. Such an approach has been already developed in neo-institutionalist theories (North, 2005). In this article, the focus is put on state and market ties, as a specific lens used for analysing the role of institutions in development. Significantly, emerging economies offer an opportunity to address the various pathways to globalisation and integration into the global economy.

3. Explaining variations in developmental policies’ effectiveness: policy externalisation and commodity-based rents as causal channels

Understanding the drivers of success or failure of developmental policies is complex. The comparison shows that causalities may involve different definitions of developmental policies. The article argues that even if political will underlies public policies, they are constrained by economic structures and political economy. A typology of state-market relationships is presented below. It explains variations in developmental policies’ effectiveness, via two types of causalities: policy externalisation; rent-based economic structures and their links with deindustrialisation.

3.1. Policy externalisation as a constraint on developmental policies effectiveness

Policy externalisation, i.e. domestic policies that are conducted by agencies that are external to the government, is a key constraint on developmental public policies, as it erodes their legitimacy and credibility. A paradigmatic example is the lending that is conditional to domestic reform practiced by the international financial institutions (IFIs, i.e. the International Monetary Fund/IMF and the World Bank).

Sub-Saharan Africa is a key example here, as the externalisation of the policies conducted by its governments is a key feature of SSA states. This policy externalisation rapidly started after SSA states gained their independence in the 1960s. SSA states are therefore a paradigmatic form of policy externalisation, as the latter took place in states that were very recent and succeeding to decades of colonisation by foreign powers. This externalisation is a crucial determinant of the limited developmental capacity of these governments’ policies.

As is well-known, due to their commodity-based export structure, SSA states have been exposed to external shocks due to commodity price volatility, in particular in the late 1970s, which generated severe balance-of-payment crises, these crises obliging
governments to have recourse to the IMF financing (as one of its mandates is the financial support to governments that face such crises)\(^6\). Such IMF financial support (lending) is conditional to reform programmes, which, as stated in the IMF mandate, focus on fiscal, financial and monetary sectors. In developing and emerging countries, these IMF financial programmes are usually accompanied by World Bank reform programmes (e.g., the ‘structural adjustment’ programmes of the 1980s-90s), where lending is also conditional to reform, and focus on structural and sectoral issues (liberalisation, privatisation). Other agencies may make their financial aid (loans or grants) also conditional to reform, e.g. the European Union, or bilateral aid agencies.

In SSA economies, these reform programmes that started in the early-1980s did not modify the root cause of fiscal crises, i.e. vulnerability to external shocks due to a distorted export structure that is based on primary commodities with volatile prices. SSA states have been caught from the 1980s onwards in a long succession of reform programmes and accumulation of conditionalities (becoming ‘prolonged users’, as acknowledged by the IMF itself, IMF, 2002). The limited improvement of economic outcomes over the 1980s-90s led the IFIs to accumulate conditionalities and moreover in the 1990s to extend them to non-economic domains (such as the ‘good governance’ of governments, or their democratisation).

However, in both democracies and dictatorships, externalisation of domestic policies is detrimental to the effectiveness of these policies. Since the first IFI programmes in the 1980s, policy failures and policy ineffectiveness have indeed characterised SSA. Growth rates were stagnant during the 1980s and ‘90s, which have been coined ‘the lost decades in spite of policy reform’ (Easterly, 2001). SSA states became caught in a high level of aid dependence that has perpetuated since the 1980s and similarly shows its ineffectiveness (Sindzingre, 2012). Some SSA countries depend on external aid for basic public goods such as infrastructure, health or education. Net official development assistance (ODA) to SSA represented in 2011 4% of GNI, 18.7% of gross capital formation and 8.8% of imports of goods, services and income (World Bank World Development Indicators, 2013). Besides the small island economies of Oceania, SSA is the region of the world that is the most dependent on aid, and much above the average of low-income- and middle-income countries. This poor performance is driven by SSA low-income countries, and indeed some SSA countries, typically oil countries, do not depend on foreign aid.

Policy externalisation, conditional lending and aid dependence are indeed detrimental to policy effectiveness. Aid flows may induce, e.g. Dutch disease, their volatility also has intrinsic negative effects (as aid flows may even be more volatile than fiscal earnings that are affected by commodity prices volatility, Bulir and Hamann, 2008). In particular, policy externalisation and aid dependence may undermine domestic institutions and their legitimacy, in particular tax institutions (Moss et al., 2006). When domestic policies are devised by external agencies and when rulers are more accountable to these external agencies than their own citizens, this breaks the necessary link between rulers and citizens and the citizens’ consensus that underlie state legitimacy. Indeed, accountability of rulers to citizens is a central element of state formation, notably via the mechanisms of taxation and redistribution (Kaldor, 1963), and a central element of the effectiveness of their policies; it is a central element of legitimacy of political regimes.

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\(^6\) See the IMF Articles of Agreements: http://www.imf.org/External/Pubs/FT/AA/index.htm#art4
and institutions, notably of delegation (democracy), as otherwise citizens feel unable to weigh on domestic policies and deprived of ‘voice’.

In addition, the externalisation of policies and the very mechanism of conditionality inherently generate resistance from governments (e.g., policy reversal) and citizens, and may induce endless detrimental games and moral hazard effects. Conditionality indeed implies and highlights the inherent divergence of interests and asymmetry between the aid-providing IFI and an aid-receiving government, including domestic interest groups. Aid is typically affected by the ‘Samaritan dilemma’ (Gibson et al., 2005): e.g., if the recipient government knows that donors condition their aid on a reduction of poverty, it has little incentive to exert high effort toward this objective, as in doing so it will receive less aid in the future. The ‘Samaritan’s dilemma’ is aggravated by moral hazard: the donor can never know if a poor outcome is the result of low effort (‘bad policies’) or ‘bad luck’ (Svensson, 2005). Rulers may also exploit policy externalisation in order to stay in power (e.g., using the IFIs as scapegoats, Vreeland, 1999, or practicing ‘double-edge diplomacy’, Putnam, 1988). On their side, aid agencies may not enforce conditions, due to their own institutional incentives to lend (or make grants). The device of conditionality has therefore contributed to the erosion of the credibility of the IMF vis-à-vis borrowing countries (Marchesi and Sabani, 2007), and more generally the erosion of the effectiveness and legitimacy of policies, even if these policies have developmental objectives.

Against these mixed outcomes, the IFIs have argued that policy externalisation is beneficial in predatory states, because in such states policies lack credibility, especially external credibility vis-à-vis for international markets and investors: rulers’ domestic policies must therefore be ‘locked’ by external ‘hand-binding’ devices that are costly to renege; such costs are incentives to comply with conditions and reforms, and give domestic policies credibility (Rodrik, 1995). Examples of such devices (or ‘agencies of restraint’, Collier, 1991) are international treaties, regional or monetary arrangements (Stasavage, 1997; Masson and Pattillo, 2001 for the Franc Zone), the allocation of policymaking to independent agencies (e.g., central banks, revenue collection agencies) or agreements with the IFIs (e.g. stabilisation or adjustment programmes). For the IFIs, such hand-binding devices are also beneficial for citizens in predatory or dictatorial regimes, as they protect them against arbitrariness and clientelism.

The fiscal balance of SSA states improved in the 2000s, relaxing the grip created by dependence on aid and conditional lending. A key point is that these improvements are less due to domestic policies (prescribed or not by the IFIs) than to higher commodity prices in the 2000s, i.e. also factors that are external to domestic policies, as high commodity prices have been driven by China’s growth and demand, and more generally emerging countries’ growth (as acknowledged by the IMF itself, IMF, 2014b). Higher growth rates have not therefore changed the initial economic structures that generated the dependence on external reform-based conditional lending and the associated externalisation of domestic policies. These improvements are vulnerable to any reversal of the international environment, the latter being obviously out of the control of SSA governments’ domestic policies (e.g. China’s growth deceleration).

In the case of Russia, externalisation took place via transition programmes aiming at restructuring the state-owned economy. Massive policy transfers have been financially and technically monitored by international organisations, and, more than any other, by
the IMF and the World Bank. Transition to a market economy has been enacted on the basis of the classic toolbox of structural adjustment policies: mass-privatisation, large budget-cuts to state-owned-enterprises, price and foreign trade liberalisation (Wedel, 2001; Dezalay and Garth, 2002). The ‘shock-therapy’ was implemented on the Polish example, designed by Jeffrey Sachs, an economist from the Harvard International Development Institute and economic adviser to Russian leaders in the early 1990’s. However, the shock therapy labelled as ‘market bolsheism’ by institutional economists and political scientists, was far from successful (Reddaway and Glinski, 2001). Policy-making during this period has been documented as being very undemocratic and restricted to a narrow circle of counsellors originating from the ‘Chubais-Gaidar clan’, implementing the principal measures via decrees thereby depriving the parliament any substantial debate over the reform programme (Wedel, 2001).

This reform package led to a high volatility of the ruble, hyper-inflation until 1995, and massive fraud in the privatisation programmes. At the end of the decade, the fiscal gap and budget deficit were offset by government bond issuance and massive foreign capital inflows attracted by increasing interest rates. Instability and growing macroeconomic unbalances, however, ended up in a massive public debt crisis in August 1998, when President Yeltsin announced a default on Russia’s public external debt and a devaluation of the ruble.

What precisely failed in the crisis management in Russia? This massive failure of economic reform spawned numerous essays, including from insiders, such as leading economists. In his famous article “Who lost Russia?” Joseph Stiglitz (2002), former chief-economist at the World Bank, pointed out the failures of IMF programmes, which favoured tabula rasa over creating and supporting market institutions. The main criticism, however, focused less on the reform goals and ideological framework used than on the methodology implemented, and on its supposed side-effects, such as corruption. Some economists argue that conditionality is not at stake here, but rather that the unconditional support of the IMF to the reformers’ team, as well as to financial liberalisation contradicted the prime goals of reforms: i.e. macroeconomic and financial stabilisation (Jordan, 2001). Nevertheless, neither the political legitimacy of the reforms nor economic success were met in this experiment. The IFIs management continued to provide financial and technical support to Yeltsin’s successive governments in a context of growing popular dissent and communist party’s increasing popularity. Paradoxically, Yeltsin’s popularity remained high, but this episode generated a profound delegitimation of the Western-oriented model of reform. This article’s purpose is not to criticize the IFI’s role in the transition process, which has been amply commented, but rather to demonstrate how this period led to a new paradigm of economic reform in Russia after the 1998 debt crisis (Dufy and Thiriot, 2013). Hence, this episode legitimated political leaders’ new discourse on Russia’s radical specificities and inoperability of the standard toolbox. In contrast with Boris Yeltsin, Vladimir Putin has repeatedly advocated in favour of Russia’s specific pathway to modernization (Gille-Belova, 2013).

3.2. Rent-based economic structures and constraints on industrialisation?

As mentioned above, East Asian developmental states were not endowed with natural resources, and it has been argued that this limited endowment provided incentives for
choosing developmental strategies that were initially based on labour-intensive industrialisation with subsequent upgrading. Russia, as with SSA, is endowed with abundant natural resources, including ‘hard commodities’ – oil, gas, metals. This has significant consequences for the rest of the economy - economic and in terms of political economy -, as has been documented by a vast literature, notably the risk of creating rents.

A key question therefore is whether or not rent-based economic structures are compatible with developmental policies, notably industrial policies and the development of performing industrial sectors. Indeed, such rent-based structures may generate disincentives regarding industrialisation, not only economic, but also political disincentives when rulers view these rents as an element of their legitimacy.

3.2.1. Sub-Saharan Africa long-lasting dependence on commodities

Sub-Saharan African countries have in common an export structure that is based on primary commodities. This export structure has been remarkably resilient, as this dependence on commodities already characterized most SSA countries at the beginning of the 20th century during the colonial period. SSA states are viewed as examples of the ‘small colonial economy’ model coined by Hopkins (1973), i.e. the exports of primary products to the colonising country, and the import of manufactured products from it.

According to the World Bank World Development Indicators 2004 and 2014 (table 4.4), in 2012, the structure of SSA exports was the following: food represented 13% of total merchandise exports; agricultural raw materials, 5%; fuels, 40%; ores and metals, 15%; and manufactures, 26%. The lack of structural transformation and persistence of this distorted composition of exports when these figures are compared with 2000, where food represented 14% of exports, agricultural raw materials, 5%; fuels, 44%; ores and metals, 7%; and manufactures, 27%. More than half of SSA exports are comprised of fuels, ores and metals. SSA countries have diversified their exports since the 2000s, notably to China, and have benefitted from higher commodity prices since the early-2000s, in particular for oil and metals, again thanks to China’s demand as commodities are crucial inputs for its own growth. SSA composition of exports, however, has remained unchanged (World Bank, 2013).

Such an export structure intrinsically generates detrimental effects, and these have been key obstacles for SSA governments that would have aimed at implementing developmental policies, especially industrial policies – and since independence, there have been few of them (Mkandawire, 2001).

A first detrimental factor is the so-called secular decline in commodity prices, which had been underscored in the 1950s by Raul Prebisch and Hans Singer; despite debates regarding the existence of supercycles (Erten and Ocampo, 2013) rather than decline, it is confirmed for many commodities (Baffes and Haniotis, 2010) – oil (and the associated minerals, such as gas) being an important exception. Above all, commodity prices are inherently volatile and are thus associated with recurrent shocks, a recurrence that is per se detrimental to growth (Loayza et al., 2007). In addition, commodity-based export structure expose countries to windfall gains that are very difficult to manage and

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7 http://wdi.worldbank.org/table/4.4
are likely to induce Dutch disease – as has been the case in oil countries (Nigeria, Angola) where oil represent since the 1990s the quasi totality of exports at the expense of all other sectors, e.g., agriculture and manufactures, or a copper-exporting country such as Zambia.

In commodity dependent countries, and in particular most SSA countries, taxation is based on external trade, and a large share of fiscal revenues stems from the production and export of commodities – e.g., for oil, via taxation mechanisms such as royalties or production-sharing. Therefore, fiscal revenues are characterized by high volatility (Sindzingre, 2007). In SSA oil-rich countries (Nigeria, Angola, Gabon...), government revenues from natural resources accounted for 60% of total government revenues in 2011 (World Bank, 2012). This fiscal structure makes the fiscal earnings of these countries very vulnerable to commodity price volatility and terms of trade shocks (World Bank, 2014), in particular public investment. This volatility also destabilises the anticipations of private investors, which, in the context of uncertainty, will prefer the status quo and not to invest (Fernandez and Rodrik, 1991) - and notably may prefer capital flight (Ndikumana and Boyce, 2011).

High prices (and emerging countries’ demand, such as China vis-à-vis SSA commodities) are thus an incentive to remain in this export pattern and a disincentive to diversify towards manufactures. Moreover, structural transformation and shift to industry is more difficult in commodity-based economies, and as argued by Macmillan et al. (2013), some primary sectors such as minerals operate at high levels of labor productivity, and have a very limited capacity to generate employment. The fact that commodity-based export structure hinders the shift to industry is confirmed historically by the difficulty in SSA to achieve the shift from agriculture to industry, which Asian developmental states did in being able to successfully invest the surplus extracted from agriculture in the industrial sector (Thorbecke and Wan, 2004).

Symmetrically, such a pattern of exports and taxation makes it so that in period of low commodity prices, public investment is impeded, and if the government has borrowed for this investment, debt is likely to become rapidly unsustainable (UNCTAD, 2008; Akyuz and Gore, 2001). Such ratchet effects took place during the drop in commodity prices in the late-1970s, and they induced a fiscal crisis and then the recourse to the IFIs in exchange for reform programmes. As a consequence of such vicious circles of high debt and low public investments, and in a context of very poor infrastructure, much of infrastructure in SSA relies on external donors (even if investments take the form of public-private partnerships). This has also been a major constraint on developmental policies.

Commodity dependence has also prevented industrialisation. As underscored above, the share of manufactured products in total exports, a better indicator than industry (as industry includes construction, mining, electricity, water and gas), has been stable at below 30% of exports. The share of SSA in global Manufacturing Value Added (MVA) tends even to decrease. Moreover, in SSA including South Africa, 49% of the MVA in 2011 was resource-based, 24.9% was low-tech, 26.1% was medium and high-tech. Excluding South Africa, these figures were respectively: resource-based: 66.1%; low-tech: 25.5%; medium and high-tech: 8.3% (UNIDO, 2013). These figures show the difficulty of SSA to shift towards a non-resource-based industrialisation.
The share of SSA in global trade is even declining, due to the low value added of SSA exports: despite the increased trade orientation of SSA, the share of SSA in world trade has declined because its exports have grown much more slowly than world exports (figure 1).

Figure 1: Sub-Saharan Africa’s exports: percentage of world exports (right axis) and value (left axis), 1948-2013 (USD billions)


Commodity dependence has created vulnerabilities that have fostered policy externalisation and IFIs policy reform, the conceptual framework of which being based on liberalisation, notably trade liberalisation. Together with WTO membership, this had prevented SSA states from the 1980s onwards to conduct industrial policies – e.g. subsidies, temporary protection - as did Asian developmental states (Amsden, 1999; Rodrik, 2009).

The dimension of rent in a commodity-based export structure has also induced certain types of political incentives. SSA states are characterised by their recent creation, which has significant consequences in terms of economic, political and institutional fragility. At the time of independence in the 1960s, lack of infrastructure and poverty as initial conditions of the new states were also detrimental to the competitiveness of exports. Immediately after independence, SSA states were also plagued by political instability due to political competition over these new states’ resources, which has fostered the short time frames of rulers, notably the perception of local entrepreneurs and their wealth as political threats (Berry, 1993; Van de Walle, 2001). At the extreme, authoritarian rulers have preferred genuine ‘anti-developmental’ policies (e.g., generalised predation) rather than policies that could have enabled the enrichment of entrepreneurs who could be possible challengers (Acemoglu and Robinson, 2006). This has facilitated trade based taxation and taxation on commodities – ‘easy to collect’ – typically in marketing boards for specific commodities (e.g., cocoa such as in Ghana or Cote d’Ivoire). Such taxation, however, has entailed the risk to discourage the reinvestment of surplus in industrial sectors (Grabowski, 2010), in contrast with East Asian developmental states.
3.2.2. Russia: detrimental effects of natural resources

Vladimir Putin’s accession to the Russian presidency in 2000 paved the way for a new model of modernisation: authoritarian modernisation advocated by the Kremlin’s grey eminence, Vladislav Surkov. This alternative to the liberal reform design is based on a state-centred industrial policy, active interventionism, and centralisation (Surkov, 2010). Hence, national models of development have been promoted in a large number of industrial sectors. The Law on Strategic Sectors adopted in 2008 defined sectors of strategic importance for the country’s modernisation, among them aviation, space and arm production (Pomeranz, 2010). The priority of modernisation has been even more salient from the global financial crisis onwards, which contributed to lower the steady growth trend that had characterised the 2000’s.

Agricultural policy is very relevant from this perspective and exemplifies the trend of modernising through domestic industrialisation. Up to 1998, Russia was massively importing food to insure the subsistence of Russian citizens in a context of collapsing domestic production levels. Foreign food aid programmes were a main supplier for urban populations, suffering from hunger and food insecurity throughout 1998. According to officials, Russia relied on foreign supply for 70-80% of its consumption (Wegren, 2010). From the mid-2000s, however, agriculture became a main target of strategic policies. In 2008, the Doctrine of Food Safety in the Russian Federation (doktrina prodovol’vennoj bezopasnosti) launched by Dimitri Medvedev set the goal of becoming a major actor in international agricultural markets and a major crop exporter. The decree enacting this doctrine from the 30 January 2010 defined food security as a core element of national security. Thus agriculture was integrated in an economic and global design of “preservation of national security, of sovereignty”. Food security appeared both as a strategic national priority and as a core dimension of Russia’s foreign policy. These active public policies led to the building of efficient value-chains, more specifically in the grain sector.

Large public investments were made to promote agriculture as a major exporting sector in Russia. Processes, such as industrialisation of production and financialisation, dramatically changed the Russian agricultural landscape. By the years 2010, large farms were listed on the stock exchange and Russia had among the largest farms in the world. This trend has diverged significantly from the policy recommendations formulated by the World Bank, which focused on the development of family-run farms (Spoor et al., 2013). This trend contributed to restore a powerful agro-industry sector and was in line with the end of the Soviet period in the 1980’s, when reformers promoted the massive industrialisation of agriculture through large financial transfers in order to promote agriculture as a major exporting sector in Russia.

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8 Surprisingly, Vladislav Surkov succeeded in putting the modernization issue at the agenda of public policies, in spite of being Medvedev’s advisor.
9 The crisis originated from the American financial system, which was used as a symbol of the US fragility.
10 Agriculture, more than many sectors, has been enduring several detrimental factors during the 1990: population outflows, privatization of state–owned farms, disorganization of logistics and distribution networks and large cuts in subsidies (Wegren, 2010; 2011).
11 According to Spoor et al. (2013), “Land reform in Russia has not been a redistributive or empowering one, whether because the institutions in the early stage of transitions were not adapted or because the intentions weren’t there at all” (Spoor et al., 2013, p. 6).
enhance productivity in state owned farms (Kirtchik, 2007). The federal authorities also supported the construction of a grain chain sector, paving way for higher productivity and competitiveness (Barsukova, 2009). In 2009, a state grain company was created, in order to increase grain export and improve productivity in the sector (Liefert et al., 2009). One must note however that this model of highly industrialised agriculture is limited to Russia’s western and southern regions. This concentrated and industrialised sector still coexists with small family owned firms, which are hardly mechanised. The production levels have allowed the country to come back as a world leader in grain production. In 2011, the Russian Federation was the 5th most important grain exporter in the world according to FAO data. Within ten years, from the financial crisis onwards, the country’s production in grain has grown by 80%, from 100 million metric tons to 180 in 2008. Export expansion has increased even more dramatically, to 18 million metric tons (Liefert et al., 2009). Russia’s imports have risen even more substantially, due to growing income in the urban middle class. The fast industrialisation of agriculture shows that modernisation discourses are not empty words.

Figure 2: Russian production and exports in grain, 1996-2008 (million metric tons)

However these policies have few spillover effects in a context where domestic revenues are mainly commodity-export driven. Russia’s industrial tradition of heavy industry is being contradicted by a rapid growing weight of mineral products in the domestic economy. Many domestic indicators reveal the country’s high and increasing dependency on raw materials: e.g., GDP, trade and budget. From 2008 onwards, mineral products account for more than 70% of Russia’s total export volume. In 2011, the value of minerals traded is more than ten times higher than in 1995. Simultaneously, their share in the trade global value has grown subsequently and continuously: from

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12 Source: FAOstat: http://faostat.fao.org/desktopdefault.aspx?pageid=342&lang=en&country=185. This high ranking might be lowered in the short term, due to the severe droughts that affected Russia in 2010 and led to a significant decrease in annual production levels.
13 Russia is a world leader in imports of specific goods, such as meat, and more specifically beef and poultry (Liefert et al., 2009; Wegren, 2011).
42% in 1995, to over 50% in 2000, and over 60% in 2005 (methodology based on Customs’ data, Russian, national statistics portal. The dependency on oil and gas market price is a major threat for Russia’s sustainable growth model. Consequently, the value-added embodied in export goods is rather low. The largest share of Russia’s imports is represented by machine and transport units. Hence, the country’s commodity trade structure resembles a neocolonial structure (Dufy, 2011). This trend has not been reversed in spite of the rhetoric of political leaders, referring to the country’s “humiliating dependence on raw materials” as a major impediment for modernisation.

This view validates the theories mentioned above regarding the detrimental effects of commodity dependence: it is argued that such a market structure fosters rent-seeking behaviour. The existence of rent-seeking behaviours has been argued to induce detrimental incentives for growth on development, although the endowment with rich natural resource has been considered a key driver of industrialisation in the 18th and 19th centuries. Research on the macroeconomic impact of primary commodities on development emerged in the 1950 and expanded in the 1970’s with the discovery of large off-shore gas fields in the North Sea. The ‘Dutch’ disease theory has been extensively documented. Initiated by Corden and Neary (1982), it showed that commodity-dependent economies are exposed in the case of a price boom to large windfall gains and currency inflows that appreciate the exchange rate: this appreciation reduces the external competitiveness of the economy, notably of the ‘non-booming’ and the non-tradable sectors, i.e. often the agricultural and the industrial sectors. Imbalances increase between the ‘booming’ and ‘non-booming’ sectors due to strong re-allocation effects, with the first expanding at the expense of the second ones. This gap is aggravated by differentiated investments inflows across sectors and uneven allocation of skilled labour, leading to the shrinking of the manufacturing sector. A vicious circle of inefficient incentives originates from a resource boom. When the boom ends, economies are thus worse-off than before the boom, and this is why, when booms (shocks) are recurrent, commodity-based economies perform worse in terms of revenue per capita than economies deprived of natural resources. More generally, several factors are mentioned to explain rent-based economies’ low development profile: trapping effects, self-reinforcing causation, vicious circles between commodity dependence, incentives to remain in commodities, high commodity prices or price volatility, low levels of industrialisation, non developmental taxation and predatory political economy.

Outcomes have hardly met expectations in terms of development, poverty reduction and redistribution. There is no consensus among experts as to whether Russia is concerned by the Dutch disease. Evidence remains difficult to find empirically (Oomes and Kalcheva, 2007). Hence, the argument developed below is that the main impact of economic incentives cannot be isolated from a systemic political analysis of state-

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15 Medvedev’s vibrant plea in his “Go Russia!” speech defined the country as a rent-seeking economy and urged citizens to get rid of a “humiliating dependency on raw materials”, http://eng.news.kremlin.ru/news/298, accessed 22 February 2012.
17 The combination of four indicators are usually regarded as necessary to revealing a Dutch disease syndrome: 1) real appreciation of the local currency; 2) a slowdown in manufacturing growth; 3) an acceleration in service sector; and 4) an increase in the overall wage level (Oomes and Kalcheva, 2007).
market ties in rent-seeking economies. This economic structure has long term effects on the ruling of the country.

The role of institutions has been the main focus of a broad literature, exemplified by the work of Douglass North, and in post-Soviet studies, mainly by Stark and Bruzst (1998), on the basis of the path-dependency approach. This article pushes arguments beyond a mere discussion of ‘the role of institutions’ to highlight the interconnection of the state-business nexus and rent-seeking economic structures. From this perspective, political economy is the adequate approach that allows for the articulation of economic mechanisms and political structures. Indeed, Russia’s social and economic structure enters into deep resonance with the political structure. The character of the oligarchs\textsuperscript{18}, a specific feature of Russia’s social structure and elite, reflects the duality of the economy between non tradable and tradable sectors, as well as the strong social, economic interconnection of business actors with political elites. They emerged through the process of privatisation of state-owned firms, which allowed in many cases for the accumulation of considerable wealth. Significantly, oligarchs are found mainly in commodity and natural resource sectors; oil, gas, metals (Guriev and Rachinski, 2005).

The state capture operated by the first generation oligarchs during Boris Yeltsin’s presidential mandates, from 1991 to 1999, was followed by an opposite situation, when the centralization of power promoted by Putin led to business capture by authorities (Kinyakin, 2013). This neopatrimonial setting of the blurred frontier between the political sphere and business, between private and public interests, has huge effects on the type of legitimacy derived by the country leaders (Laruelle, 2012; Stewart et al., 2012). Large oil revenues are consistent with a horizontal source of legitimacy, rooted into state-business ties, and less a vertical legitimacy originated from citizens\textsuperscript{19}, through elections and tax collection. The state-business field of research is much more relevant on these issues than common institutional framework of analysis.

Authoritarianism, legitimated by state interference in business, is a key pillar of this regime, hence vertical legitimacy derived from popular consent is obtained by other means.\textsuperscript{20} As a consequence of this specific consensus, the international organisations’ leitmotiv promoting the rule of law, transparency, accountability and good governance has little relevance (Williamson, 2012). “Corruption is not an issue”, as had argued Vladislav Surkov (Surkov, 2010, p. 141). The political struggle declared against corruption has been reported broadly in the media. It had concrete outcomes, involving all levels of hierarchy, from low-rank bureaucrats, to top officials\textsuperscript{21}. However, it is conducted simultaneously as a deep process of institutionalisation of corruption (Barsukova, 2013). Consequently, corruption and prebends cannot be viewed as the central and determinant factor, but as a by-product of these strategies, although many labels have been created to design post-Soviet countries: e.g., ‘ersatz capitalism’, or

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\textsuperscript{18} Some experts report oligarchs in other post-Soviet societies such as Ukraine and Kazakhstan for instance (Stewart et al., 2012). The case of Belarus is of particular interest since, in contrast with the Russian situation, ‘minigarchs’ are characterised by a much lesser autonomy toward the ruler.

\textsuperscript{19} This distinction is borrowed from Pierre Englebert (Englebert, 2000).

\textsuperscript{20} It is argued that vertical legitimacy is not absent from Putin’s regime, it is achieved by other means than elections, by nationalism for instance, which is in line with the authorities’ developmental discourse.

\textsuperscript{21} Corruption scandals have involved the inner circles of the power, and led to the dismissal of some high-ranked bureaucrats and politicians, such as the Ministry of Defense, Anatoly Serdiukov, a lifelong friend and ally of V. Putin.
‘prebendal capitalism’ (Andreff, 2012). Capitalism is not inherently prebendal in Russia; rooted corruption is an institutional setting that results from Russia’s specific pathway of integration to globalisation via a rent-based economy. The line is undeniably blurred between state and business, and between private and public interests. As argued by Bafoil, the rule of law is an essential criterion that differentiates the model of market capitalism from the model of political capitalism defined as interconnecting political, business and military elites (Bafoil, 2012, p.73).

Portraying Russia’s economy as deeply shaped by rent-orientation rather than by corruption is, however, theoretically more consistent and empirically more relevant. This analysis leaves room to display a mixed and complex picture of the economy. A strong bureaucratic control over rent-based sectors, coexisting with sectors of rapid state-driven modernisation, such as the agriculture sector and sectors embedded in the global economy, e.g., the food industry or the banking industry. This precision allows for the making of a clear-cut distinction with other areas, such as SSA, were corruption is endemic. As argued by Bach (2012), “neopatrimonialism exists within the state, and does not pervert the entire state”. Besides, the rent-factor enables for the making of a better account of short-term variations in the overall trend of increasing dependency. Hence, the rent-based model’s concrete characteristics depend on the volatility of commodity market prices. Significantly, debates over modernisation occurred during oil crises and sharp drops in market price.

4. The relevance of the Asian developmental state model in other contexts? The interaction between economic structures and political incentives

The following theoretical points emerge from this comparison regarding the impact of specific state-market relationships on developmental policies’ success or failure.

The analysis of two causal channels – externalisation of policies, and rent-based economic structures -, have highlighted the contrast with East Asian states and the kind of developmental policies they have been able to successfully implement at the time of their catch-up, especially industrial policies via strong governments and economic guidance. Their analysis in two settings, SSA and Russia, has underscored the conditions that could have been common with Asia, but also the differences with Asia – East Asian developmental states rapidly got out of dependence of external aid, notably the US one, and above all never relied on the exploitation of natural resources. This analysis has also underscored the historical, political and economic specificities of these three areas.

In both SSA and Russia, but obviously in different ways due to the heterogeneity in these areas’ historical trajectories, these two causal processes have contributed to the formation of economic and political incentives (e.g., stemming from the quest for legitimacy and power for rulers, or maintenance of their interests for economic elites), which draw a clear contrast with the East Asian developmental model. These political and economic incentives, fostered by and in turn reinforcing policy externalisation and commodity-based economies, have eroded the effectiveness of public policies, and even prevented developmental policies in the cases of countries where highly commodity
dependent economic strictures have combined with predatory political economies, such as in SSA. This erosion of policy effectiveness could happen also when these policies had the objective to be developmental, as in Russia, which has elaborated an original, ‘semi-developmental’ model, both industrial (but with weak spillover effects) and rent-based.

4.1. Institutions matter, in combination with economic structures

The comparison of these two areas, SSA and Russia, confirms that institutions, political economy, and path dependence matter. Institutions have been a key root of China’s developmental capacities and growth. In contrast, the destruction of institutions by policy externalisation (‘shock therapy’) has been crucial for the weakening of developmental capacities of policies in Russia (Popov, 2009; 2010). Indeed, per se ‘natural resources’ do not induce any curse, as is demonstrated by Canada, Australia, the United States or Norway. This is a state’s institutional capacity that reorient rents towards development (David, 2007; Wright and Czelusta, 2002; 2004; Rodrik et al., 2002). This has been shown by Scandinavian countries, which, being driven by their political institutions oriented towards development and the welfare of their citizens, could overcome the negative effects of resource endowments (such as Norway with oil).

In order to go beyond the observation that ‘institutions matter’, the paper underscores more complex and context-specific causal channels and incentives underlie formal institutions. China is often accused of having a weak de jure legal system: due to their objectives of rulers to successfully implement developmental policies, however, rulers have managed their relationships with the other groups that may challenge them (e.g., within the communist party) so that these groups have also an interest in growth and in keeping the anticipations of investors, even in a context of cronyism. In Russia, rules may exist de jure, but the de facto arbitrariness of policies has made it so that the anticipations of investors cannot be stable, though their stability is a crucial ingredient of development (Rodrik, 2004).

In addition, the relationships between economic structure, institutions, legitimacy and development are dynamic. As shown by the example of commodity-based economies, in particular those of SSA, their combinations may generate ‘low equilibria’ and trapping processes. Indeed, for economies that are above low equilibria thresholds, unpredictable events, or the expansion of a particular element of an equilibrium, may always shift the system in a lower equilibrium that entails more vulnerabilities in terms of development (Sindzingre, 2012b). In this case, as was argued by the theoreticians of the ‘big push’ and its risk of failures, developmental policies are more costly, much more difficult to implement, and more likely to be ineffective.

The analysis of these two areas, SSA and Russia, both of which are characterised by the predominance of commodities in the production and export structure, demonstrate that economic structures matter, they create incentives on their own – or disincentives. In particular, the presence of endowments in natural resources is a key difference with Asian developmental states. As was shown above, commodity production and exports create economic incentives that may deter industrialisation and the associated economic incentives, which is confirmed by a vast economic literature on the crowding out of industry by the incentives created by the windfall gains induced by commodities exports, and the subsequent Dutch disease effects. Commodities sectors typically
function as ‘enclaves’, and the reliance of an economy on production typically impedes spillovers and linkages across the entire economy. Effectiveness works inside sectors, not across sectors.

4.2. The endogenous relationships between economic and political incentives, notably via the construction of legitimacy

It is argued, however, that the impact of economic incentives cannot be isolated from a systemic political analysis of state-market ties in rent-seeking economies. For any ruler, a key question is the foundations of his legitimacy, the mechanisms that maintain him in power and the groups that participate to it: the construction of legitimacy is a crucial determinant of the formation of political incentives, which can never be dissociated from economic incentives (Acemoglu and Robinson, 2012).

The legitimacy regime and the nexus rulers-groups on which it relies differ according to contexts: in Korea, the large conglomerates (chaebol) were linked to an autonomous bureaucracy. In China, members of the communist party ruled state-owned enterprises with the objective of China’s growth and ‘going global’, and were made subservient to an economic nationalism explicitly aiming at becoming richer than the West as a political goal. In SSA, due to the limited ‘anciency’ of states, rulers have been ambivalent vis-à-vis groups and individuals who could have driven industrialisation because they might have been a political threat, or the domestic private sector could have been entirely created by rulers. Again, in fine it is the state capacity and strength as build by history and ‘longue durée’ that determine development paths and bifurcations, with constant feedback effects with rulers political incentives and their policies.

Russia shows an original nexus as well. In democratic regimes, political legitimacy relies on vertical links between rulers and citizens where taxation and redistribution are pivotal mechanisms (social contract) (Kaldor, 1963; Moss et al., 2006). Russia displays a specific framework from that perspective. Rents provide incentives to a horizontal redistribution of the country resources, between rulers and oligarchs. Political leaders’ legitimacy is not vertical, bottom-up, but operates horizontally, among peers. It has been argued that these horizontal links may have had detrimental effects as they operate in a context of destruction of state institutions by transition, and that in contrast a root of China’s economic success is the fact it has enjoyed a long continuity of its institutions (Popov, 2014).

4.3. The irrelevance of rule of law

In such a redistributive regime, the absence of rule of law, especially regarding the business environment, is not a failure: in fact it is not relevant. There are no political incentives for fostering a rule of law or creating stable anticipations for investors: they were irrelevant. Therefore industrialisation and innovation are impeded. The rent-seeking economy accounts for few outcomes in developmental policies. Effective results have not met expectations and proclaimed goals. Hence, ‘developmentalism’ has been a very attractive model for Russian elite. The dismissal of Western-oriented

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22 It has been argued that some states in SSA could include the elements of developmental states, such as Rwanda and Ethiopia, which indeed display some institutional ancieny.
patterns of reform paved the way for an alternative model of modernisation. The so-called ‘Beijing consensus’ that promotes the Chinese model advocates for state control over business, sovereignty and political guidance. The conflict over Ukraine in spring 2014 and the set of sanctions generated pushed even further Russia towards Eastern Asia. In this line, officials’ discourses have set China as an example of authoritarian modernisation. Nationalism and anti-Western ideology have contributed to strengthening the model’s coherence. The episode of the Sotchi Olympic games in 2014 has exemplified the state’s development capabilities: infrastructure, transport facilities and impressive construction works have been built over a couple of years. As shown above, however, existing redistribution patterns do not generate adequate spillover effects in the economy. From this perspective, Russia’s accession to the WTO will hardly have any short term impact.

In fine, this shows that the legacy of the concept of developmental state as it was elaborated for explaining the spectacular growth of East Asian states needs to be refined. The analysis of other states that have aimed at elaborating developmental policies, such as Russia, reveals the possible discrepancies between discourses and outcomes, and that sectors of high productivity, efficiency may exist, but do not spillover to the rest of the economy.

5. Conclusion

The paper has explored the concept of developmental states and policies, as was elaborated in order to explain the exceptional growth of East Asian states in the last third of the 20th century. This paradigm in development thinking, which has been coined in the early 2000s as the ‘Beijing consensus’, challenges the view supported by the IFIs that development is driven by trade liberalisation and deregulation, via enhanced attractiveness for international investment flows. It has benefitted from a strong interest worldwide due to the East Asian states’ economic success, and especially China.

This article has presented the policies (i.e. industrial policies) as well as the political economy that underlay the developmental state model, notably growth being instrumental to the legitimacy of rulers. It has also analysed the factors that make it so that developmental policies are very difficult to implement or ineffective, effective policies being context dependent (Popov, 2009). Constraints can be identified, and this article underscored two negative causal channels. It demonstrated that the externalisation of policymaking and the reliance on commodities for exports are two key factors that prevent developmental policies to be effective, via a comparison of their impact in two areas, Sub-Saharan Africa and Russia. In addition, the article has shown that such economic structures create series of political economy mechanisms and incentives, which at the extreme may result in predatory and anti-developmental regimes’ as in Sub-Saharan Africa, or in rentier or prebendal type of capitalism.

The case of Russia also highlights the variations of the different forms of legitimacy, in particular the existence of horizontal and vertical legitimacy, both producing different

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23 V. Putin has been praised by top officials from the International Olympic Committee, for his rapid and efficient economic guidance in this project.
types of economic and political incentives and having different impacts on development - the preeminence of horizontal legitimacy between oligarchs and rulers being particularly detrimental for development, rule of law and anticipations of investors, which explains the failures of developmental policies despite Russia’s successes regarding industrial policies in certain sectors. Russia has exhibited high levels of industrialisation, then became unable to restrain the expansion of rent-based structures (oil, gas), thus representing an original model of developmental-cum-rentier (and possibly prebendal) state.

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Annex:

Share of net commodity exports in exports and GDP, world (percent)