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Aid and state transition in Ghana and South Korea

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Abstract

This paper examines the questions of why and how foreign assistance was utilized successfully in South Korea but less so in Ghana, with a focus on the role of aid in the process of state building and state transition in these two countries. Before the 1960s, South Korea and Ghana shared approximately similar levels of GDP per capita. However, while South Korea achieved rapid economic development and democracy in one generation, Ghana suffered from slow development and a general deterioration of the standard of living. In particular, the state in South Korea played a critical role in achieving economic development, while the Ghanaian state, although relatively successful in carrying out recent economic reforms, is still far from becoming a fully effective developmental state. Adopting a comparative historical research method, the study explains the divergent paths of these two countries with a special focus on the impact of foreign assistance on state transitions. It argues that contextual factors—including the effect of colonial legacy in each of these two regions in shaping modern states and the specific characteristics of foreign assistance intervention—provide useful insights in explaining the differential impact of aid on state building and state transition in Ghana and in South Korea.

Keywords: Ghana, South Korea, foreign aid, state transition, state building

JEL classification: F50, F54, H11, O10, O57

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Acronyms

AfDB	Africa Development Bank
CPIA	Country Policy and Institutional Assessment
DAC/OECD	Development Assistance Committee of the Organisation of Economic Co-operation and Development
ERP	economic recovery programme
HIPCs	heavily indebted poor countries
KOICA	Korea International Cooperation Agency
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFIs	international financial institutions
IMF	International Monetary Fund
PNDC	Provisional National Defence Council
WDI	World Bank's world development indicators

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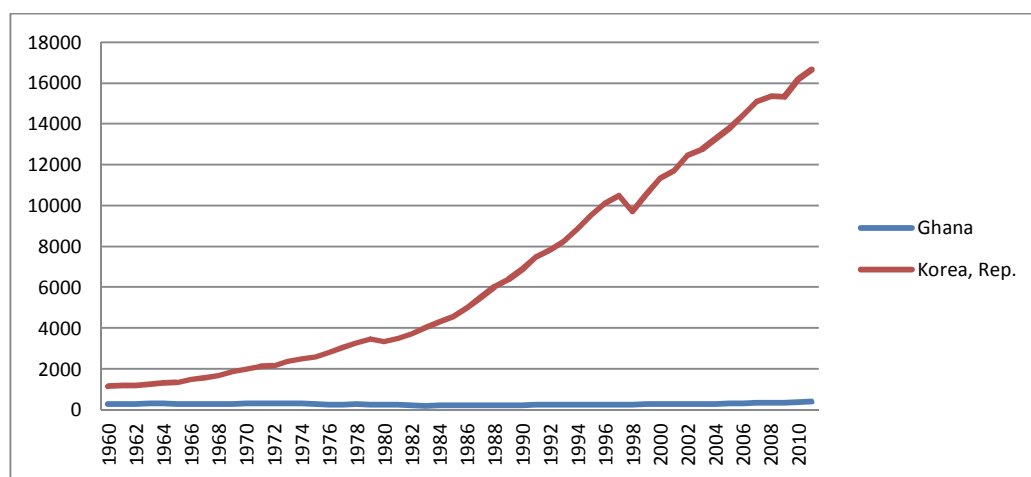
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1 Introduction

This paper deals with the questions of why and how foreign assistance was utilized successfully in South Korea but less so in Ghana, with a focus on the role of aid in the process of state building and state transition in these two countries. Despite the relatively successful economic performance of Ghana, especially in recent years in comparison to other aid-recipient countries in Africa, the gap in GDP per capita between South Korea and Ghana increased sharply and seems to be continuing to grow (as shown in Figure 1 and Table 1). At independence in 1957, Ghana—with a robust peasant economy, a prosperous middle class, and a relatively sound economic and social infrastructure—was widely recognized as the model case to lead African development. However, it was not long before Ghana (like many other African countries) began to experience a series of economic difficulties and political chaos, including military coups. Today, Ghana is an aid-dependent nation and one of the World Bank’s heavily indebted poor countries (HIPCs). South Korea, on the other hand, achieved the transformation from being one of the poorest and most aid-dependent countries to becoming the thirteenth largest economy in the world, with a trade volume of over US\$1 trillion per year. In addition, in joining the Development Assistance Committee (DAC) of the Organisation of Economic Co-operation and Development (OECD) in 2010, South Korea became the first member of OECD/DAC to overcome its long history as an aid recipient.

Figure 1: GDP per capita of Ghana and South Korea, 1960-2010 (constant 2000 US\$)



Source: Author’s computation based on World Bank databases WDI and GDF

Table 1: Major economic indicators for Ghana and South Korea, selected years

Year	GDP (constant 2000 million US\$)		GDP growth (annual %)		GDP per capita (constant 2000 US\$)		GDP per capita growth (%)	
	Ghana	South Korea	Ghana	South Korea	Ghana	South Korea	Ghana	South Korea
1961	1,967.24	30,356.299	3.43	4.94	282.716	1,180.010	0.22	2.28
1970	2,552.423	63,643.235	9.72	8.34	293.996	1,993.648	7.23	6.06
1980	2,642.708	128,029.123	0.47	-1.49	241.946	3,358.229	-1.90	-3.01
1990	3,270.405	295,601.777	3.33	9.16	221.072	6,895.467	0.53	7.91
2000	4,982.849	533,384.028	3.70	8.49	259.991	11,346.665	1.27	7.58
2011	10,053.617	830,523.428	14.39	3.63	402.695	16,684.213	11.76	2.87

Source: Based on the World Bank databases, WDI and GDF.

Prior to the 1960s, South Korea and Ghana in fact shared approximately similar levels of GDP per capita. But while South Korea achieved rapid economic development and democracy in one generation, Ghana faced slow development and a general deterioration of the standard of living. In particular, the state in South Korea played a critical role in achieving economic development by taking the lead within the private sector and becoming remarkably successful in developing and implementing various economic development policies and plans. The Ghanaian state, on the other hand, although relatively successful in carrying out economic reforms during recent decades, still has a long way to go before it can become a fully effective developmental state. This study adopts a comparative historical research method and explains the divergent paths of these two countries with a special focus on the impact of foreign assistance on the transition of the state. More specifically, it deals with the questions of why was South Korea able to succeed in establishing a developmental state while Ghana struggled? Has foreign aid facilitated or hampered state transition? Was aid necessary to the transition, or did South Korea create a developmental state in spite of aid? It is argued that contextual factors—including the effects of colonial legacies in shaping the modern state in Ghana and in South Korea as well as the specific characteristics of foreign assistance interventions—provide some useful insights to explain aid’s different impact on state building and state transition in these countries.

2 General characteristics of foreign aid in Ghana and South Korea

Both countries received large amounts of foreign aid for an extended period, and aid played a critical role in their development paths. This section conducts a brief overview of the general characteristics of foreign aid in Ghana and in South Korea.

2.1 Aid amount, timing, and duration

As seen in Figure 2, before the mid-1970s (more specifically in 1975), official development assistance (ODA)¹ per capita of South Korea was higher than that of Ghana. However, thereafter, ODA per capita in Ghana rose rapidly while it began to decrease sharply in South Korea. As reflected by its negative ODA per capita from the mid-1980s onward, South Korea repaid its donor loans and graduated from the list of aid-recipient countries by the mid-1990s (which explains the lack of per capita ODA data for South Korea after 1998). In contrast, as shown in Figure 2, Ghana’s ODA per capita has continually increased, recording US\$72.1 in 2011.

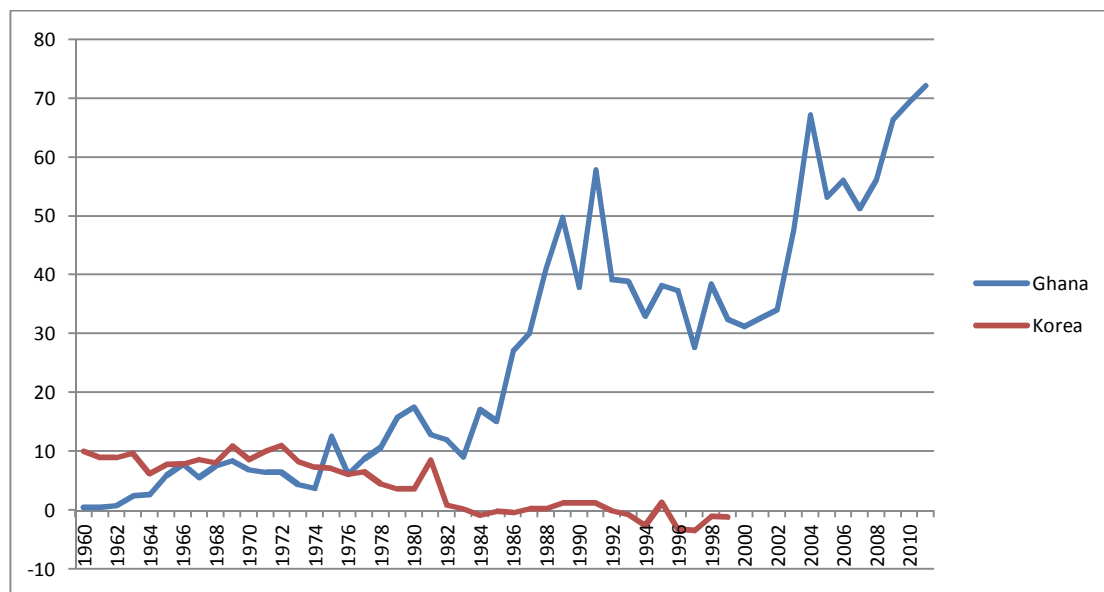
ODA to Ghana rose rapidly after the late 1970s; prior to that period, foreign aid had been rather insignificant (see Figure 3).² Today, Ghana is one of the largest aid recipients—according to the 2013 OECD/DAC statistics, it ranks as the eighth-largest ODA recipient in Africa—and, as Figure 3 shows, the amount of aid has increased significantly, rising from US\$40.9 million in 1973 to US\$190.81 million in 1980, US\$715.53 million in 1989, US\$1,418.69 million in 2004, and US\$1,800.03 million (a record high) in 2011. As is explained later, Ghana began economic reform in the early 1980s (specifically in 1983), as the nation started to receive structural adjustment loans from the World Bank and the

¹ ODA includes official transactions that are (i) administered for the promotion of economic development and welfare of developing countries as the main objective and (ii) concessional in character and convey a grant element of at least 25 per cent (OECD/DAC 2007).

² See Appendix 2 for further information and statistical data on aid to Ghana.

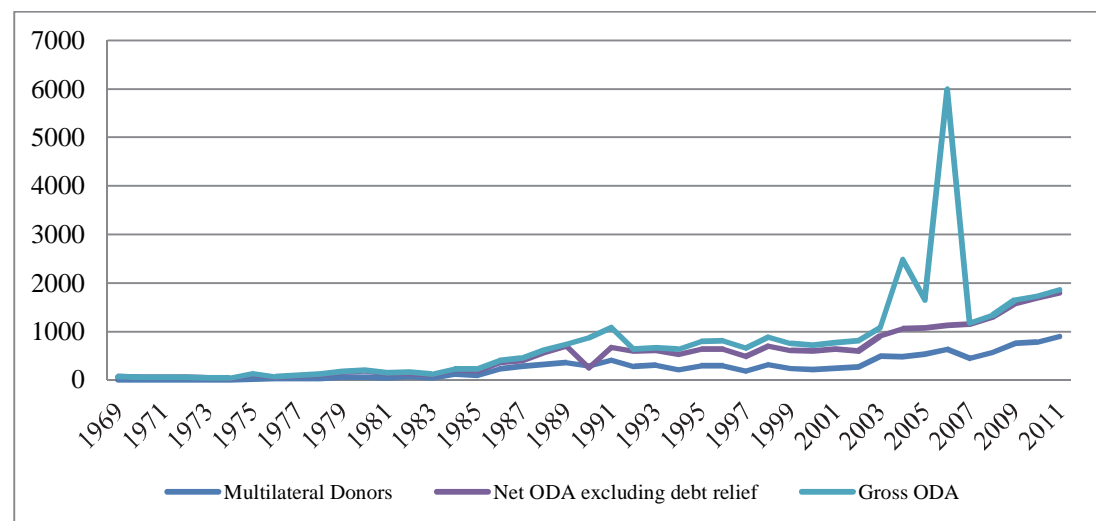
International Monetary Fund (IMF). Since then, Ghana has received large amounts of aid from these international financial institutions (IFIs) as well as from other bilateral donors.

Figure 2: ODA per capita of Ghana and South Korea, 1960-2010 (unit: US\$ in current prices)



Source: Author's computation based on data extracted from the OECD.Stat dataset.

Figure 3: ODA to Ghana, 1969-2011 (USD million in current prices)



Source: Author's computation based on data extracted from the OECD.Stat dataset.

Unlike Ghana, where aid flows did not achieve full scale until decades after its independence, South Korea relied heavily on aid from the very beginning. After its independence from Japanese power in 1945, South Korea was under a US trusteeship for about three years. Starting from this US occupation era, South Korea received substantial foreign assistance, totalling US\$10,550.1 million between 1945 and 1990 (see Table 2). This figure, however, does not include military assistance to South Korea; if military assistance is added, the total amount of aid increases drastically. For instance, according to one study, the United States alone supplied South Korea with US\$12.6 billion in economic and military assistance between 1946 and 1976, and international institutions and Japan provided an additional US\$1.9 billion and US\$1 billion, respectively, making South Korea one of the top recipients

(particularly in terms of per capita assistance) throughout the 1950s-70s period (Mason et al. 1980: 165). Lastly, as was mentioned, it is important to note that while aid flows to Ghana were increasing, foreign aid in the case of South Korea decreased significantly. For instance, in 1975 South Korea was dropped from the International Development Association's (IDA) list of the least developed countries, graduating finally in 1995 from the World Bank's list of recipient nations.

Table 2: Official development assistance to South Korea, 1945–1999 (unit: in millions of US\$)

Year		1945–60	1961–75	1976–90	1991–99	Total
Aid modality	Grants	3,045.6	1,990.0	750.4	1,202.5	6,997.5
	(Ratio, %)	(98.3)	(50.7)	(21.4)	(54.0)	(54.8)
	Loans	52.3	1,942.4	2,760.4	1,023.7	5,778.8
	(Ratio, %)	(1.7)	(49.3)	(78.6)	(46.0)	(45.2)
Donors	Bilateral	2,518.4	3,777.3	3,312.2	2,200.0	11,807.9
	(Ratio, %)	(81.3)	(95.8)	(94.3)	(98.8)	(92.4)
	Multilateral	579.5	164.1	198.6	26.2	968.4
	(Ratio, %)	(18.7)	(4.2)	(5.7)	(0.2)	(7.6)
Total		3,097.9	3,941.4	3,510.8	2,226.2	12,776.3
(Ratio, %)		(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Source: KOICA (2004: 74).

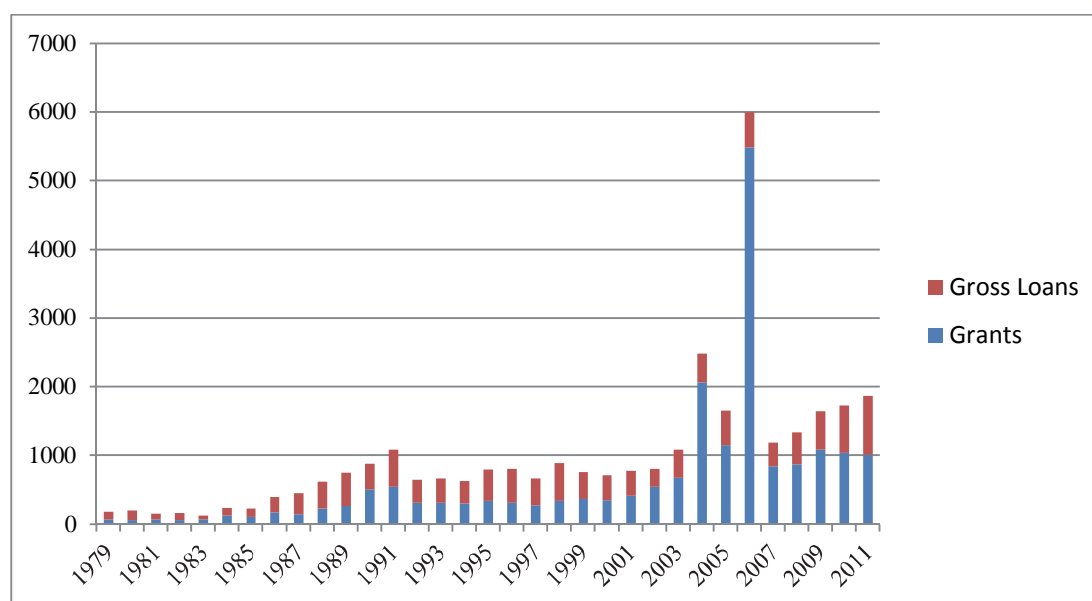
2.2 Donors and types of aid

Like many other African partners, Ghana has had numerous donors, both multilateral and bilateral. For instance, in 2007 disbursements made to Ghana by the World Bank accounted for 20.4 per cent of its total ODA, followed by the Netherlands (12.8 per cent), the United Kingdom (11.9 per cent), the United States (9.4 per cent), the European Union (6.7 per cent), AfDB (5.4 per cent), and Denmark (5 per cent), with Canada, France, Germany, Japan, and Spain contributing between 2.5 and 4.7 per cent each (Geddes et al. 2009). In addition, as seen in Figure 3, aid to Ghana has been predominantly provided through multilateral channels, namely IFIs. Since the inception of structural adjustment or the World Bank and IMF designed economic reform, assistance from these IFIs has risen markedly, and it was only after the mid-2000s that aid from bilateral donors increased considerably vis-à-vis multilateral aid. The rising proportion of bilateral aid largely reflects an increase in bilateral grants after Ghana's adoption of the enhanced debt relief under the HIPC Initiative of the World Bank and IMF in 2001.

Indeed, up until the end of the 1980s, loans were the dominant form of Ghana's ODA, and it was not until after the mid-1990s (and more clearly after the 2000s) that the aid type began to shift from loan to grant financing (see Figure 4). For instance, by 2005-07 bilateral grants accounted for an overwhelming 91.3 per cent, while loans accounted for only 8.1 per cent (Geddes et al. 2009: 9) (although loans appear to be increasing in recent years). Such a sharp reduction of loans and rising proportion of grants were, of course, due mainly to the country's rapid rise of public debt. Indeed, a drastic rise of external debt has been a key characteristic or side effect of foreign aid in Ghana, and, as seen in Figure 3, net ODA excluding debt relief shows a much more gradual increase, suggesting that a significant portion of ODA was spent in the form of debt relief. External debt increased considerably after the implementation of the economic recovery and structural adjustment programme (SAP), designed largely by the World Bank and the IMF. For instance, in 1982 Ghana's debt amounted to US\$577 million (114 per cent of GDP), and at the end of 2000 its external debt in net present value terms had

reached US\$3.9 billion, corresponding to about 571 per cent of fiscal revenue, about 157 per cent of exports of goods and non-factor services, and about 78 per cent of GDP (BoG 2009). Ironically, Ghana's key creditors were actually the aid donors: at the end of 2000, multilateral creditors accounted for 65.6 per cent of the overall nominal value of external debt and included IDA (51.9 per cent), AfDB (5.9 per cent), IMF (4.3 per cent), and IFAD (1.1 per cent) (ibid.). In addition, bilateral creditors held 27.9 per cent of the total outstanding debt, of which 26.5 per cent was attributable to Paris Club creditors. Lastly, since the 2005 Paris Declaration, donors in Ghana have increasingly employed new aid modalities (including budget support and a pooled approach) for enhancing aid effectiveness. However, according to a recent report by Geddes et al. (2009), the actual level of tied aid is still significant and there has been limited progress in donor efforts to use Ghana's public management system to channel aid (Geddes et al. 2009).

Figure 4: Foreign assistance to Ghana: loans versus grants, 1979-2011 (USD millions in current prices)



Source: Author's computation based on data extracted from the OECD.Stat dataset.

Unlike Ghana where multilateral donors played a significant role in providing foreign aid, bilateral aid throughout the period was the dominant form of ODA for South Korea, accounting for 92.4 per cent of the total (see Table 2). More importantly, while Ghana has had numerous bilateral donors with no particular dominant bilateral donor, the leading donors to South Korea were the United States and Japan. Foreign aid from these two bilateral donors accounted for almost 90 per cent of the country's total ODA. In particular, from 1945 until the end of the 1950s (approximately throughout the period of the Syngman Rhee government, 1948-60), the United States was the leading (and almost the only!) donor, and it is worth noting that most of American aid to Korea during this period was provided as grants. As shown in Table 3, the United States provided a total of US\$5,542.3 million in bilateral aid to South Korea, of which 72.3 per cent (US\$4,004.9 million) was in the form of grants. US aid began to decrease sharply in the 1960s, and soon Japan became South Korea's dominant donor. Interestingly, as shown in Table 3, Japanese aid was mostly in the form of public loans (73.2 per cent); together with Japanese commercial loans, these played a critical role in boosting South Korea's economy, especially in the early 1960s.

Table 3: Bilateral aid to South Korea from US and Japan, 1945–99 (unit: in millions of US\$)

Country		1945–60	1961–75	1976–90	1991–99	Total	
USA	Grants	2,464.7	1,524.0	16.0	0.2	4,004.9	(72.3)
	Loans	52.3	982.1	496.0	7.0	1,537.4	(27.7)
	Total	2,517.0	2,506.1	512.0	7.2	5,542.3	(100.0)
Japan	Grants	—	335.1	267.6	750.6	1,353.3	(26.8)
	Loans	—	744.8	1,943.2	1,010.5	3,698.5	(73.2)
	Total	—	1,079.9	2,210.8	1,761.1	5,051.8	(100.0)

Source: KOICA (2004: 75).

This section has examined the key features of foreign aid in Ghana and South Korea, focusing on aid amounts, timing, duration, donors, and aid type. Later we discuss how these features and specific aid intervention that affected the politics of foreign assistance in these two countries, focusing on its impact on state transition. In what follows, we first discuss the legacy of the colonial era for the formation of modern states in the two countries, as it is important to understand the origins of the modern Ghanaian and South Korean states for further discussion and analysis of the impact of aid on their politics and state building and state transition.

3 The colonial legacy to Ghana's and South Korea's modern state

The colonial experience left long-lasting impacts on the institution-building processes in both Ghana and South Korea after independence in 1957 and 1945, respectively. As in many other colonies in Africa, British rule (1896-57) in Ghana left behind a largely fragmented society, a distorted economic system, and a limited level of modernization of society.³ In South Korea, on the other hand, modern industrial, social, and political systems were introduced during Japanese rule, rapidly modernizing the traditional society. In particular, the Japanese colonial state vitally affected the state formation of the newly independent South Korea. In what follows, we examine the nature of the state and politics inherited by Ghana and South Korea from their colonial past.

3.1 Ghana

At independence in 1957, Ghana was viewed as a prominent country among the African regions with strong potential for attaining political self-government. Ghana had more schools and health services than any other British territory in Africa as well as a better road system. In addition, it enjoyed a relatively robust economy, a solid middle class, and an able bureaucracy, and the country was led by a prominent African nationalist political leader, Kwame Nkrumah. However, it was not long before Ghanaian politics began to experience turbulence and chaos, with frequent military coups. In particular, the Ghanaian state was largely ineffective (especially in comparison to South Korea) in developing and implementing sound economic policies for sustainable development, and its economy began to crumble at the beginning of the 1970s. By the end of the decade and the early 1980s, the economic situation was in total crisis. A fall in the international price of cocoa (Ghana's main export item), ineffective policies and the absence of an effective developmental state, among

³ For more about the general impact and legacy of colonial rule in Africa, see, for instance, Young (1994), Bayart et al. (1999) and Herbst (2000).

other factors, have often been singled out as the main causes of the fall of the Ghanaian economy during this period.⁴

Ghanaian politics during most of the post-independence era can be characterized as the zero-sum nature of power relations, the personalization of politics, corruption, inefficiency, and mismanagement (Chazan 1983). Indeed, as many have pointed out, the absence of a modern state has been at the centre of Africa's sluggish development, and the origins of such a problematic, ineffective state go back to precolonial as well as colonial periods. Ghana is no exception. Even though there were numerous small states in the region as early as the twelfth century,⁵ it was not until the development of the Asante Empire in the eighteenth century when a powerful, centralized state came into being in Ghana.⁶ However, even the Asante Empire suffered from weak structure, namely limited capability in controlling provincial regions.⁷ Such a fragile nature of state structure in conjunction with the incompetence of the Asante kings (around the late nineteenth century) and the advancement of the British led to the collapse of the empire in 1874 (Boahen 1975).

The effect of the colonialism on the formation of the Ghanaian state was no different than in other former British colonies. With no serious attempts to introduce modern institutions, the colonial state in the Ghanaian region was largely exploitative, repressive, and highly authoritarian. The British colonial era did little to introduce a modern state in Ghana; instead the main goal of the colonial state was to exploit the natural resources of the colonies and expand the markets for industrial goods produced by Western powers.

Ghana was created rather arbitrarily by the British during the last two decades of the nineteenth century, mainly to satisfy the latter's economic ambitions, and to react to the challenges posed by the French and Germans as well as violent opposition from Ghanaians (Boahen 1975). The British colonial state was largely isolated from the African society, worked mainly to support its own interests, and frequently relied on repression as the governing mechanism. For instance, the colonial power actively developed the mining industry, but Ghanaians were completely excluded, as foreign (expatriate) mining companies dominated the industry, a practice that largely continues to this day. Indeed, the neglect of industrialization, overdependence on the cocoa crop, and the domination of foreign firms in sectors such as mining, banking and the foreign trade characterized Ghanaian economic structure during the colonial era. In other words, a colonial economy, marked by the exploitation of natural resources to the advantage of colonial powers, was established in Ghana. And the role of the colonial state in Ghana was mainly concentrated on supporting colonial economy with little efforts in establishing modern political institutions.

⁴ Highlighting poor performance of exports as the chief proximate cause of Ghana's payments problem and economic crisis in the 1970s, Killick criticized the industrialization, mechanization, and socialization policies of the Ghanaian state. According to Killick (2010), Ghana's early state-led industrialization failed to achieve actual growth and development, and led instead to deterioration of both the transportation system and agricultural productivity.

⁵ Many of these were involved in gold trading with European and Arabic countries.

⁶ For the political history of Ghana, this paper referred mainly to Boahen (1975) and Kimble (1963).

⁷ According to Herbst (2000), such a limited state capability in controlling the periphery was the prevalent problem of traditional African states and was largely attributable to low population density.

A modern state, according to Max Weber, is characterized as the ‘compulsory association with a territorial base’ with ‘the monopoly of the legitimate use of physical force’ in that territory. In particular, a modern state is run by an impersonal bureaucracy, meaning that ‘the personnel of state bodies is recruited and trained in bureaucratic manner and is (usually) expected to be politically neutral, enabling state bodies to resist ideological enthusiasms of the government of the day’ (Heywood 1997: 86). Based on these definitions of a modern state, many states in Africa are far from being considered ‘modern’. In particular, the absence of an effective, modern bureaucracy has been a key feature of the African state. Yet the situation of Ghana was somewhat different: because Ghana had been considered a ‘model colony’ of Britain, in the later years of its rule, higher education was expanded for Africans, so that the country had a significant number of educated and talented bureaucrats available on independence. However, deterioration of the local economy led to a significant number of these trained government workers leaving Ghana for the advanced countries or employment with international organizations, a fact that contributed to the country’s slow improvement of state capacity.

In addition, the modern state in theory represents the permanent and general interests of society, that is, the common good or general will rather than the specific interests of a segment of society. However, as a number of Africanist scholars highlight, ethnic, regional, and other sectarian divisions are an undeniable feature of politics in many African states, with potential implications for development, governance, and conflict (Easterly and Levine 1997). In particular, the British, in adopting indirect rule, did not disregard Ghana’s traditional rulers;⁸ but instead recognized to some degree their power over the people and land, thus contributing to the problem of dual sovereignty. Many Ghanaians pondered over their role as a member of the new state or as a member of an ethnic group that has roots predating the colonial era (Ray 1986). Modern Ghanaian politics, too, has been struggling with the challenge of ethnic diversity and the legacies of ethnic division in the colonial past: Ghana ‘has been unable to rid itself of its political past simply by becoming independent’ (Ingham 1990: 41). In short, Ghana inherited an unreformed, traditional, patrimonial, and repressive state with a relatively low state capacity. More importantly, Ghana failed to carry out political reform to construct a more effective state sector with a more developmental orientation. Foreign aid in Ghana, as is explained later, failed to bring about—or, to some extent, delayed—the needed political reform.

3.2 South Korea

Many attempts have been made to explain the miraculous economic growth of South Korea and that of the other Asian tigers, or ‘the four little dragons’.⁹ Most studies have highlighted the effective role of the state in guiding or leading the economy in South Korea.¹⁰ However, many of the studies have limitations in explaining the historical origin of the South Korean developmental state or ‘capitalist-cohesive state’.¹¹ In what follows, we trace the

⁸ For instance, the British recognized re-introduction of the Asante Confederacy in 1935.

⁹ This expression refers to Hong Kong, Taiwan, Singapore, and South Korea and is borrowed from the title of a book by Vogel (1990).

¹⁰ See, for instance, Evans (1995); Amsden (1989); and Wade (1990), among many others.

¹¹ Kohli (2004) is an important exception. In his comparative study of Korea, Brazil, India, and Nigeria, he provides the historical background of modern politics and states for these countries; he developed the concept of the ‘capitalist-cohesive state’ to describe the nature of the South Korean state.

development of a modern state in South Korea, focusing on the legacy of Japanese colonial rule.

Unlike many newly independent countries in Africa, South Korea (and actually Korea as a whole) has a long history as a unified nation-state that goes back at least to the tenth century to the Goryeo period (918-1392): thus, prior to Japanese occupation, a centralized state institution had ruled the peninsula for approximately a millennium with considerable international independence. In addition, unlike Ghana and other African countries with diverse ethnic groups, the Korean society is predominantly composed of a single ethnic group, contributing to a high level of nationalism and social stability.¹² During the Chosun era (1392-1910), the last kingdom before the advance of the Japanese in 1910, the Korean political system was monarchical and patrimonial in nature, characterized by a highly inflexible, classified social system with slaves at the lowest social stratum. It was primarily the Japanese who introduced the modern state to Korea—against the will of the Korean people, of course—and replaced the traditional monarchical state with a modern, cabinet-style government. Obviously, the colonial government was ruled by the Japanese. In particular, the governor-general, usually a military officer, headed the colonial state and held almost absolute power and authority, and the state was highly repressive and centralized. In fact, Japanese intentions with regard to Korea were fundamentally different from the aims of the European powers in Africa. While Europeans were rather inattentive to the ‘modernization’ of the African society and strongly maintained a policy of segregation,¹³ the Japanese tried to build a little Tokyo in Seoul, implementing a series of modernization projects based on their own domestic experiences. These included the construction of modern infrastructure such as roads and railways and the provision of universal education to Koreans, especially at the primary level. Although this modernization was largely intended to consolidate Japanese rule in Korea and though the Japanese tried to eradicate local culture and turn Koreans into Japanese, it is evident that Japanese rule contributed to building Korea’s modern infrastructure.

In particular, the Japanese introduced an effective, disciplined government bureaucracy in the country. Even though Korea had a long tradition of government bureaucracy and a civil service examination system, these, according to Kohli (2004), were far from effective and modern bureaucracy became institutionalized in Korea only because of Japanese rule. Kohli describes the extent and intensity of bureaucratic penetration in Korea during the Japanese rule as incomparable to any other colony: starting from around 10,000 officials in 1910, the number of bureaucrats increased rapidly to 87,522 by 1937; more importantly, a significant portion of these were actually Koreans who were trained and employed by the Japanese (Kohli 2004: 35). Even though most Korean officials worked at lower government levels, many moved up the bureaucratic hierarchy over time. Thus, on the eve of independence, Korea had a substantial pool of experienced officials knowledgeable in running government administration, and when the United States advanced into South Korea in 1945—to stabilize the region after the retreat of the Japanese—South Korea was well equipped with disciplined,

¹² According to the fractionalization data on South Korea, Korean, as of 1990, was the dominant ethnic group accounting for 99.9 per cent of the population; Ghana, on the other hand, has numerous ethnic groups, including as of 1983, Ewe (11.9 per cent), Ga-Adangme (7.8 per cent), Other Ghana (7.5 per cent), Gurma (3.3 per cent), and Yoruba (1.3 per cent). Full dataset is available at www.nsd.uib.no/macrodatabank/set.html?id=16&sub=1.

¹³ As a result, modernization in many cases in Africa during the colonial period was limited to, and concentrated in, areas essential for meeting the goals of resource and market exploitation, resulting in an unbalanced economic structure and a substantial rural-urban gap.

trained officials. It is also important to note that a substantial portion of these government officials were in the police force, as the Japanese relied heavily on repression to rule the ‘unruly’ Koreans. The extensive and intensive police supervision of the colonial state was largely continued by the new Korean state. Having said that, it would be problematic to conclude that the South Korean developmental state was solely (or even mainly) attributable to Japanese rule. As is explained later in the paper, it was the internal dynamics of South Korean politics, especially the leadership of Park Chung Hee, that induced the emergence of an effective developmental state. We have thus far highlighted the differences in the nature and capacity of the newly independent Ghanaian and South Korean states as one key contextual factor that may promote a better understanding of the effect of aid on politics and states in these countries.

4 The politics of foreign assistance in Ghana and South Korea

The previous section examined the colonial legacy and its effect on the formation of modern a state in Ghana and South Korea, highlighting the fact that the colonial state in both countries was highly authoritarian and repressive. Yet, while a modern state with an effective bureaucracy was introduced by Japan to Korea, Ghana inherited an unreformed, patrimonial state with limited capacity. This section discusses further the role and impact of foreign aid on state transition (or its failure) in these two countries. The section begins with a theoretical discussion on the state, development, and foreign assistance.

4.1 The state, development, and foreign aid

Despite continuous and active efforts by the international donor community, the impact of foreign aid on sustainable development of recipient countries has been mixed at best, and there have been many attempts to explain aid ineffectiveness. However, the dominant approach to aid and development has been largely apolitical in the sense that donors (especially the major IFIs, the World Bank and IMF) have paid little attention to politics and the states of the developing countries in the efforts to understand aid ineffectiveness.¹⁴ Such relative inattention to domestic politics and the state has probably been one of the main reasons for the rather slow progress in our efforts to accumulate systematic knowledge (both theoretical and empirical) on aid and development relations, because, as articulated by Leftwich (2000: 67), development is essentially a political process that requires the central role of the state. Defining politics as ‘all the activities of conflict, cooperation and negotiation involved in the use, production and distribution of resources’, the author explains why development is political:

The processes of development in human societies always involve the organization, mobilization, combination, use and distribution of resources in new ways.... And because resources are to be used and distributed in new ways, there will inevitably be disputes amongst individuals and groups about how such resources are to be used as

¹⁴ According to Leftwich (2000: 71), prior to its recent focus on ‘governance’, the World Bank was generally silent on political questions under the principles of non-interference in the affairs of any member country and the avoidance of political criteria in lending-decisions.

they calculate who will win and who will lose as a result of different configurations. It will be clear from this why *all 'development' is therefore inescapably political*.¹⁵

Foreign aid should also be understood as a political process because aid packages, especially structural adjustment loans often inevitably involve profound changes in the use, production, and distribution of resources or, in other words, the *politics* of recipient countries (Leftwich 2000).

More specifically, many scholars have highlighted the importance of an 'effective state' in achieving growth and development as well as aid success. In general, the state is responsible for making and implementing various policies to achieve growth, and often the capacity and commitment of the state in devising and enforcing these policies are critical to the pace and extent of development in a country. In particular, as mentioned, many have highlighted the effective role of the state in explaining the rise of the East Asian newly industrializing countries, South Korea included. On the other hand, state ineffectiveness is frequently cited as the main obstacle to the sustainability of Africa's development. For instance, focusing on state structure and state-society relations, Evans conceptualizes (1995: 12) two types of states—predatory versus developmental states—and notes that:

predatory states extract at the expense of society, undercutting development even in the narrow sense of capital accumulation... [while] developmental states not only have presided over industrial transformation but can be plausibly argued to have played a role in making it happen.

More specifically, Ghani and Lockhart (2008) identify ten factors that contribute to state effectiveness: (i) rule of law, (ii) monopoly on legitimate means of violence, (iii) administrative control, (iv) sound management of public finances, (v) investment in human capital, (vi) creation of citizenship rights through social policy, (vii) provision of infrastructure services, (viii) creation and expansion of markets, (ix) sound management of public assets, and (x) successful public borrowing.

How, then, can state effectiveness be achieved? More specifically, how does foreign aid affect the nature of the state and politics of a partner country? In what ways does foreign aid help or hinder state reform? Indeed, while criticizing bad governance as a main cause of aid failure in many African countries, donors increasingly have highlighted the importance of 'good governance' of recipient countries.¹⁶ For instance, the World Bank developed the Country Policy and Institutional Assessment (CPIA) to rate countries based on the following criteria: (i) economic management, (ii) structural policies, (iii) policies for social inclusion and equity, and (iv) public sector management and institutions. In addition, there have been increasing donor efforts to reform the public sector of African partner countries, especially as a form of aid conditionality. In what follows, through a comparative case study of Ghana and South Korea, we discuss the impact of aid on domestic politics and state transformation.

¹⁵ Emphasis added.

¹⁶ The World Bank adopts a narrow definition of good governance and emphasizes the capacity of the government to formulate and implement policies and sound development management. For this definition, the concept of good governance is largely apolitical, as it excludes the nature of politics and the political system (e.g., whether it is democratic or not), factors that often shape and determine the level of government capacity and the policy-making process.

4.2 Ghana

Around the time of independence, Ghana had one of the highest GDP per capita in Africa and has abundant natural resources including gold, cocoa, timber, diamonds, bauxite, and manganese. Although its per capita income around 1957 was similar to that of South Korea, Ghana today is aid-dependent and by no means a highly industrialized country: subsistence agriculture still accounts for 35 per cent of GDP and employs 55 per cent of the work force (Senadza and Laryea 2012). In particular, we argue that foreign assistance in Ghana has failed to reform the state sector and has, to some extent, consolidated the existing characteristics of African politics. In particular, aid played a role in creating the massive level of debt that further threatens the political legitimacy and stability of the Ghanaian state.

Suggesting that the combination of rent seeking, low state capacity, and the dominance of ideology (rather than economic efficiency) in the process of economic policy-making largely explains the poor performance of African economies, Van de Walle (2001) defines African politics as neo-patrimonial regimes. According to this author, African neo-patrimonial regimes are characterized by clientelism, access to state resources, the centralization of power, and hybrid regimes (meaning that a neopatrimonial state coexists with the formal trappings of the modern state) (ibid.). Ghanaian politics largely embodies these characteristics of neopatrimonial regimes, and from the early years of the Nkrumah government, state-oriented patronage leadership network has been a key feature of its politics. As the structural weakness of the state became evident with access to the state and resources blocked, the people began to search for an alternate route, namely personal ties with the patrons. According to Chazan (1983: 84), the development of patrimonialism in Ghana may be viewed as a 'utilitarian outgrowth' where mobility is severely constrained and 'the notion of obedience to higher authority was deeply embedded in the traditions of many Ghanaian societies'.

Ghana gained independence in March 1957, and the country was under the rule of Prime Minister Kwame Nkrumah until 1966. Representing a new brand of African nationalism, Kwame Nkrumah adopted an economic strategy of reduced economic dependence, accelerated industrialization, and an expanded role of the state. More specifically, Nkrumah's administration actively supported a strategy of state-led industrialization based on import-substitution, structural change, and a less open economy. Even though Nkrumah's rule was ended in 1966 by a military coup, succeeding governments largely continued his economic strategy. However, these state-led economic development strategies largely failed to produce sustainable development, and by the mid-1960s the Ghanaian economy was beginning to show signs of trouble, with a falling GDP growth rate and a sharp reduction in foreign reserves. This suggests that policy failure was central to the fall of Ghanaian economy during post-independence period. However, it was not until 1983 that Ghana actively adopted foreign aid from the IFIs and implemented a fundamental economic reform towards a market-friendly, neoclassical economy. Indeed, Ghana had maintained a highly suspicious attitude towards foreign aid, especially during the Nkrumah years, and foreign aid, along with other kinds of foreign capital, was largely viewed as inimical to the national ideology of economic independence and a socialist society.¹⁷ This largely explains the rather insignificant level of foreign aid in Ghana prior to 1983.

¹⁷ As shown in Table 3, aid to Ghana began to increase after the Nkrumah era: for instance, after 1966, the United States, the United Kingdom, Germany, the World Bank group, and others provided considerable long-

Why, then, did Ghana begin to receive larger amounts of aid in 1983, especially from the IMF and the World Bank? The simple answer is that Ghana had little choice but to seek for help from these IFIs.¹⁸ As shown in Table 1, Ghana's economy began to crumble in the late 1960s, and the years from 1972 to 1983 were 'the black years', a decade of deep economic downturn, acute balance of payments problems (primarily caused by the poor performance of the cocoa industry), and extreme political instability; Ghana experienced five different administrations and frequent military coups in less than twelve years. It was under such a crisis that the Rawlings administration finally decided to embark on the economic recovery programme (ERP) supported by the World Bank, the IMF, and other donor agencies. Highlighting macroeconomic stability and the logic of the neoclassical market economy, the ERP in Ghana supported liberalization of the external trade and financial sector regimes, the phasing out of price controls, measures to improve financial performance of many state-owned enterprises, and the introduction of more competition.¹⁹ In short, structural adjustment programmes (SAPs)²⁰ in Ghana highlighted stabilization of prices, mainly through balanced budgets, market liberalization, and public sector reform, all of which were aimed at creating a market-friendly environment. SAPs have been widely imposed as a form of aid conditionality in Ghana, similarly to other IMF and World Bank fund-recipient countries.

Assessments of the impact of foreign aid on the Ghanaian economic reform have been mixed. While some (including the World Bank and the IMF) have lauded a significant and positive role of aid in Ghana, others have been less enthusiastic.²¹ One thing is clear: unlike South Korea, where foreign aid was successfully used for sustainable development, aid in Ghana has exacerbated the problem of external debt and aid dependency. Its external debt has experienced a sharp rise after the introduction of SAPs, jumping from US\$1,067 million in 1977 to US\$3,287 million in 1987 and reaching US\$7,510 million in 1999 (Konadu-Agyemang and Takyi 2001: 29). In particular, IMF's share of Ghana's total debt service was significant: 31 per cent in 1987, 29 per cent in 1995, and 13.7 per cent in 1999 (Konadu-Agyemang and Takyi 2001). Obviously, such a drastic increase in external debt, together with other 'side effects'²² of reform, has played a role in further weakening political legitimacy and exacerbating political instability in Ghana. In what follows we further explain the limitations of foreign assistance in achieving political and state reform in Ghana.

As was already briefly mentioned, aid caused a high level of political instability in Ghana. Even though some may argue that the crisis contributed to the success of the reform as it galvanized political support for the restructuring (Callaghy 1990), the reform process in

term development aid. Total aid commitments in 1968-69 accounted for 19 per cent of imports, 20 per cent of government revenues, and 27 per cent of gross investment (Killick 2010: 120).

¹⁸ In fact, Ghana sought assistance from socialist countries, including the Soviet Union, which turned down Ghana's request and advised the country to seek help from IFIs.

¹⁹ For more specific information on the Ghanaian ERP, see Akonor (2006: chapter 4).

²⁰ SAPs refer to a set of comprehensive neoclassical economic policies designed by the World Bank and the IMF for the purpose of reforming a country's economic structure to be more market friendly.

²¹ For positive assessments of Ghanaian reform, see, for instance, Tsikata (2001) and Callaghy 1990); for less enthusiastic views, see, for instance, Killick (1991, 2010); Konadu-Agyemang (2001) and Akonor (2006).

²² These include an increase in the cost of living (caused by devaluation of the Ghanaian currency), a sharp rise in unemployment rate (due mainly to massive cutbacks in government and the private sector), and drastic cutbacks in social services. For specifics on these side effects of SAPs, see, for instance, Konadu-Agyemang and Takyi (2001).

Ghana, as in many other countries in Africa, has been far from smooth. For instance, following the IMF and the World Bank ‘advice’, the government went through a massive devaluation of the *cedi*, the Ghanaian currency, which led to increases in import prices. This resulted in a sharp rise in the cost of living because the country was heavily dependent on imports for essential supplies such as fuel, medicines, and machinery. Also, drastic cutbacks in both the public and private sector have directly resulted in massive unemployment: by 1999, 20.3 per cent of the workforce was unemployed (Konadu-Agyemang and Takyi 2001: 29). In addition, donor pressure for cuts in government spending resulted in drastic cutbacks in social services, including education, health, and welfare. Such disastrous political ramifications of SAPs have been widely recognized in other cases, and Ghana’s story was no different. Throughout the era of Rawlings’ Provisional National Defence Council (PNDC) (1981-92), the Ghanaian government had to step back time and again from its economic reform, because of a volatile political environment caused by anti-reform forces, including urban workers and civil servants. There were coup attempts and labour strikes throughout the reform era, creating a very precarious political environment. Even though the Rawlings administration was relatively successful in maintaining power, the regime’s survival was possible only through ‘intimidation, coercion, and co-optation’ (Akonor 2006: 48).

In particular, we suggest that aid, to some extent, has played a role in consolidating the existing characteristics of African politics. First of all, aid has played a role in preserving the authoritarian nature of the Ghanaian state because foreign aid—especially SAPs—resulted in political instability and anti-reform protests, and the government frequently relied on authoritarian measures to suppress these. Second, as Whitfield notes (2005), foreign aid further consolidated elite rule because the Rawlings administration needed to embrace the existing national elite in order to gain political support for reform. Originally, the support base of the Rawlings administration mainly included workers, students, army ranks, and the intellectual left. However, with the introduction of ERP, the Rawlings government had little choice but to form an alliance with the traditional ruling elites, as it was evident that its original allies would not be supportive of the reform. These national elite groups included the following (Akonor 2006: 49):

- top professionals in the arts and sciences (including lawyers);
- top echelon of the military (colonels and above);
- top and eminent persons in business and commerce (including large landowners and wealthy commercial farmers);
- senior administrators in the public and civil service, including union leaders;
- senior journalists (especially at the editorial level);
- senior members of the clergy;
- holders of government office (i.e., ministers and analogous positions);
- senior politicians, and
- important traditional rulers.

More importantly, these national elites were the main beneficiaries of the existing neopatrimonial regime and of SAPs, consequently they had little incentive to support political reforms. For instance, despite donor pressure for decentralization, little progress was made in this field simply because there was limited support from the powerful central bureaucracy (Haruna 2001). Indeed, with the introduction of foreign aid, especially of SAPs, centralized

decision-making, a key feature of African politics, was further consolidated in Ghana; only in recent years have donors started to highlight the participation of civil society in the economic policy-making process. Indeed, over time, foreign aid has become a powerful political actor in Ghana, playing a critical role in the decision-making process (Konadu-Agyemang 2001; Akonor 2006). Because of the enormous external debt, economic policy and many other plans have been created largely to meet donor conditionality and requirements rather than to reflect dynamics created by the internal Ghanaian political process (*ibid.*). In addition, through various ‘consultative meetings’, donors have involved themselves in the economic policy-making process of the country. With the nation relying so heavily on aid and, more importantly, experiencing donor intervention, it would be unrealistic to expect strong ownership and effective civil society to have developed in Ghana.

In particular, by further consolidating the political power of the existing ruling elites, foreign aid provided no political incentive to carry out public sector reform, nor to promote the transition to a modern, more effective, and developmental state. The state in the immediate post-colonial era was pro-active and participated vigorously in the economy, especially through state-owned enterprises. In addition, after independence, the country enjoyed continued growth and expansion of public services: the number employed in the public sector increased from 97,789 in 1970 to 143,237 by 1986 (Haruna 2001: 120). A big government apparatus, however, does not necessarily mean a more effective state; in fact, low state capacity with less than satisfying job performance of the Ghanaian bureaucracy has been frequently recognized as the main culprit behind its economic woes. Making the Ghanaian state more effective and adopting a developmental orientation would need genuine political reform led by effective leadership and a robust civil society, and, as discussed, the role of foreign aid in this regard has been limited, at best. Moreover, foreign aid in Ghana has further weakened state capacity and legitimacy. Next we examine the impact of aid on the Ghanaian state.

Obviously, the heavy reliance on aid, in conjunction with a high level of external debt for an extended period of time, has challenged the legitimacy of the state in Ghana. As examined, aid generally and SAPs especially have created many anti-reform forces and caused political instability. Such political instability, together with the intense reliance on donors for policy advice, has further weakened the political legitimacy of the Ghanaian state. For instance, in explaining Ghana’s continued dependence on the World Bank and IMF (despite the less than outstanding outcome), Whitfield (2005) refers to the problem of policy rent, meaning that the government has turned donor conditionality to its advantage and become addicted to donor finance for its survival. The problem of moral hazard also evident in Ghana, as aid continued to be allocated despite frequent noncompliance by the government,²³ further exacerbating aid dependency and contributing to the continuation of patrimonial politics by creating rents for the ruling elites. In addition, other widely recognized side effects of aid on state capacity—including the unnecessarily complicated paperwork, endless meetings with donors, and the problem of bypassing the central government—all apply to Ghana.

More specifically, according to Haruna (2001), foreign aid has exacerbated the situation of many Ghanaian citizens by supporting a ‘small state’: as donors pressured the country for tight fiscal policy and privatization, the state shifted from active to passive leadership, sharply reducing its role in the social sector. In particular, Ghana adopted the World Bank

²³ According to Akonor (2006), during the PNDC era the Ghanaian government was at times noncompliant with SAPs due mainly to strong protests and political instability.

and IMF's Poverty Reduction Strategy Initiative, which highlighted country-driven, results-focused, long-term, comprehensive, and partnership-oriented approaches, and donors have further intensified pressure for public sector reform. However, a field study revealed that there has been no real change in the donor-driven policy-making process and that there has been limited progress in public sector reform in Ghana (Whitfield 2005), suggesting that state reform can only be realized through internal political demands and dynamics, not through externally imposed aid conditionality.

4.3 South Korea

From its rank as one of the poorest countries in the 1950s, South Korea achieved a remarkable level of economic growth in one generation. In addition, after decades of authoritarian rule, the country began its transition to democracy in 1987 and has been successful in consolidating democracy ever since. As discussed in the previous section, the key features of its modern state with an effective bureaucracy originated during the Japanese occupation era, and over time the country made the transition to a development-oriented and effective state. In particular, it should be noted that this state transition in South Korea took place in spite of foreign assistance. In other words, the negative impact of foreign assistance on state capacity and legitimacy was rather limited in South Korea, unlike in Ghana and many other African countries.

An in-depth discussion of how and why South Korea was able to introduce a developmental state is beyond the scope of this paper. Here, we merely highlight the fact that the transition was largely the result of the dynamics of domestic politics and, more importantly, transpired regardless of South Korea's heavy reliance on aid. It was only after the rise of the Park Chung Hee regime (1962-79) that the state became developmental in nature (Jones and Sakong 1980; Kohli 2004). In fact, the main goal of Syngman Rhee was not exactly long-term national development or economic growth; rather, prioritization was limited to the political sphere, namely the creation and integration of a new nation and consolidation of his own rule (Jones and Sakong 1980; Kohli 2004). In South Korea one critical factor explaining the rise of, or transition to, a developmental state was the leadership of President Park Chung Hee. Coming to power through a military coup in May 1960, Park emphasized growth among the regime's priorities. For Park, economics took priority over politics (including democracy):

The Asian peoples want to obtain economic equality first and build a more equitable political machinery afterward....The gem without lustre called democracy was meaningless to people suffering from starvation and despair (Jones and Sakong 1980: 43).

Park was indeed committed to economic development, and this was demonstrated by the time he devoted to economic matters and his strong support for growth-oriented bureaucrats, technocrats, and entrepreneurs. For instance, Park established the Economic Planning Board (EPB) under his direct leadership and recruited the ablest government officials. This super-agency was responsible for developing and managing various national economic development plans and operated under the protection of the president himself (who ruled the country in an authoritarian way with total power); this enabled EPB to function with unmatched power and independent of various political and business interests. In addition to the country's strong commitment to national development, other contextual factors—including the existence of the Japanese model, sound local entrepreneurs, Confucianism, and an effective bureaucracy—played a significant role in South Korea's rise to a developmental

state. However, again, without committed political leadership, these potentially beneficial contextual factors would not have been effectively utilized for state transition. In other words, the emergence of a developmental state was mainly the outcome of the internal dynamics of South Korean politics.

Having said this, it is important to note that even though Rhee had been preoccupied with consolidating and prolonging his rule rather than building a strong democracy, the South Korean state that Park inherited from the Rhee era was relatively effective, with sound basic bureaucratic structure of government, and relatively strong national identity and integration. In addition, despite the high inflation and instability of the economy during Rhee's term, South Korea had been quite successful in rebuilding infrastructure, essential for further industrial development. In particular, despite the country's heavy reliance on aid, foreign aid in South Korea did not seriously threaten state legitimacy and capacity even during the Rhee era when the country was in dire need of US support. We argue that the way in which aid was managed and utilized guaranteed relative autonomy for the Korean government and, by doing so, allowed aid to contribute indirectly to state transition. In what follows, we further elaborate this point.

Throughout most of the Rhee era (1948-60), foreign aid was largely humanitarian and emergency relief, and aid served to meet various national challenges, including widespread poverty and war reparation.²⁴ In 1945, the US started to provide significant levels of emergency relief to South Korea, mainly in the form of grains, food, fuel, clothing, and medical supplies. After the Korean War, the United States and the United Nations provided a large amount of aid for reconstruction. As is argued elsewhere, foreign aid during the Rhee era was successful in the sense that it had made a substantial contribution to preventing massive starvation or the outbreak of epidemics. By 1956, three years after the armistice, South Korean economic development had recovered to its pre-war level (Kim 2011). More importantly, aid in the Rhee era contributed largely to relative social and political stability by successfully meeting its humanitarian expectations.

Indeed, contrary to the situation in Ghana, foreign aid in South Korea during the Rhee era did not induce massive protests or serious political instability. What explains such different political ramifications of foreign aid? First of all, the absence of strong social groups mobilized against foreign aid is one of the key factors in South Korea to account for the politically less disturbing impact of aid. As discussed, there was a strong anti-reform force in Ghana that received support from the beneficiaries of the pre-reform era. In contrast, in South Korea, although there were sporadic protests against US dominance and its intervention in the country's politics and policy-making process (especially by students and the political opposition), the scale of these protests was far from threatening. More importantly, there was no existing, powerful social class to challenge the central government. A successful land reform (which took place during the US Trusteeship period) abolished the traditional landowning class, and the South Korean civil society was very weak. In addition, the nature of aid intervention and its management have an important role in explaining why aid did not produce severe political instability or seriously weaken state capacity and legitimacy in South Korea.

²⁴ For information about aid to South Korea, including the aid management system, reference is made to Kim (2011: 260-86).

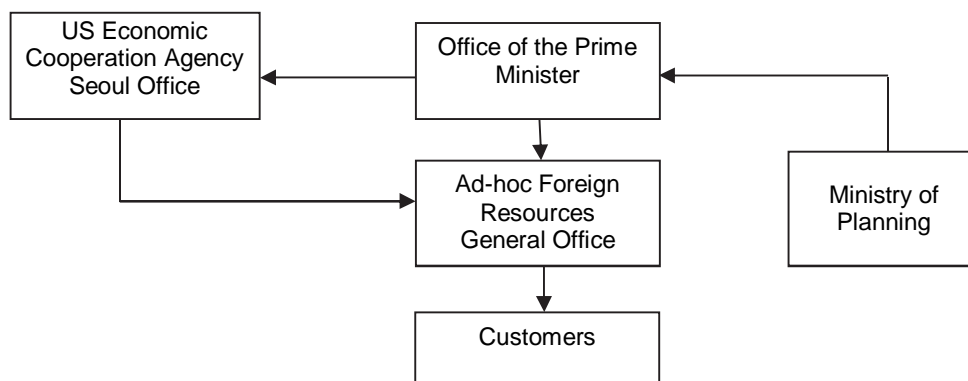
First of all, there was a strong suspicion of foreign aid in Ghana, as many viewed aid as a form of neoimperialism; the fact that major donors were their former colonial masters further magnified such suspicions (Killick 2010). Thus, from the very beginning it was politically risky for the Ghanaian government to invite large-scale foreign aid, especially when there were strings attached such as the SAPs whose potential impact on domestic politics was highly disturbing. In the case of South Korea, on the other hand, the United States was generally viewed as a saviour. US aid was vital for the Rhee administration for its political survival: Rhee, having a weak domestic political support-base, came to power only because of the strong political and financial backing of the United States (Mason et al. 1980). Furthermore, as aid came predominantly from the USA (via a bilateral channel), South Korea did not have to deal with numerous donors or complicated administrative systems; this helped to minimize the administrative cost of foreign aid. In addition, the United States provided aid in the form of grants, which explains why South Korea was not burdened with a serious debt issue when Park started the nationwide development movement in the early 1960s.

In general, aid dependency leads to donor intervention, and this in turn exerts a negative impact on the transition to an effective state by further weakening state legitimacy and capacity. Although the United States intervened in, and extended strong influence over, the management of aid in South Korea, the country's aid management system guaranteed a relative degree of ownership for the government. In December 1948, the ROK-US Agreement on Aid was signed; in exchange for aid, the United States required the government to adhere to certain economic policies, including balancing the budget and regulating foreign exchange. In particular, the agreement also regulated the establishment of a 'counterpart fund' with the Central Bank of Korea as well as the use of these funds for mutually agreed purposes only, as articulated by the US and Korea, demonstrating a lack of confidence in the Korean government's ability to use aid funds effectively. In fact, US-ROK relations in connection with the management of aid were far from peaceful. Specifically, while the United States emphasized macroeconomic stability, including the curbing of inflation, the Rhee government wanted more aid funds to support fast reconstruction and growth. Rhee did, in fact, occasionally use the counterpart fund without US consent for rebuilding infrastructure.

More importantly, though the content of US aid was largely decided by the Americans, its ultimate uses and beneficiaries as well as actual delivery were largely determined within the framework of the economic policies of the South Korean government (Mason et al. 1980: 193). This implies that unlike in Ghana and many other aid-dependent countries, donor intervention in South Korea in the policy-making process and in politics was not so intense as to critically challenge state legitimacy and the central power of the government. Figure 4, illustrating the aid-management mechanism in operation around 1949–51, when aid from the United States was channelled through the US Economic Cooperation Agency (ECA), shows the US intervention in the process, particularly in the examination of budget plans submitted by the South Korean government (specifically, by the Office of the Prime Minister). However, it was the South Korean government through which the actual distribution of aid goods (mainly local businesses) was made. In addition, ownership of the South Korean government in the use and management of aid increased over time, especially after the outbreak of the Korean War.²⁵

²⁵ The Korean War (1950-53) further enhanced the geopolitical importance of South Korea and provided the country with expanded legitimacy in seeking international support and assistance: the Rhee government strongly

Figure 4: South Korean government – ECA operation mechanism for foreign aid



Source: Kim (2011: 269). Reproduced here by permission of *Pacific Focus*.

Furthermore, the emphasis of Rhee government on rapid infrastructure rebuilding later proved to be a necessary and important element of the country's fast growth. According to Mason et al. (1980: 205):

attempts by the aid donors—principally the United States, in the 1950s and early 1960s—to force the Korean government to give greater emphasis to stability, either instead of growth, or as a necessary condition for growth, were ineffectual and probably misguided in that they diverted attention from the real impediments to growth, and delayed Korean assumption of responsibility for guidance of the economy.

Furthermore, unlike in Ghana, aid to South Korea did not continue forever; beginning in the late 1950s, motivated mainly by its rising internal problems, including a deteriorating economy and unfavourable public opinion of foreign aid, the US made a unilateral announcement to drastically cut its grant aid in favour of loans. In 1957 the US had provided US\$383 million in aid to South Korea but by 1961, this had declined to US\$154 million (KOICA 2004: 55). Having been highly dependent on US aid, the reduction was a shock for many Koreans, but it certainly played a part in preventing serious moral hazard and pressured the government to reduce its reliance on US aid and to devise an effective national development strategy. These were the circumstances when Park Chung Hee came to power.

On 16 May 1960, Park Chung Hee led a military coup and seized power, overthrowing the fragile Jang Myun government. As mentioned, he made 'development' the national goal and actively began to initiate state-led economic development. During the Park period, in particular the nature of aid changed to development assistance, and foreign aid—along with other kinds of foreign resources—was effectively used to finance various national development projects. For instance, Park announced in 1961 the First Five-Year Economic Development Plan (1962-66), the aim of which was to reform South Korea's industrial structure towards manufacturing and heavy and chemical industries, an endeavour that relied significantly on aid to fund investment. Indeed, in response to the sharp reduction in US aid, the Park government actively sought to attract foreign resources and searched for other donor

urged the need for increased foreign aid and more active participation in decision-making processes regarding aid management, emphasizing the symbolic and geopolitical importance of South Korea as the vanguard of the international anti-communist struggle.

agencies. In 1965, despite popular protests, Park normalized diplomatic relations with Japan and invited their assistance; by the mid-1970s, Japan had replaced the United States and had become the country's leading donor. It is important to note that unlike US aid, most of which was provided in grants, during the Park era aid from Japan was in the form of loans. However, while aid loans led to a debt trap in Ghana, there was no accumulation of national debt in South Korea, thanks mainly to the success of Park's export-led industrialization drive. Indeed, by the late 1960s the centrality of foreign aid as an investment source was sharply reduced as other forms of foreign resources, including commercial loans, financial institution loans, bank loans, foreign and private bonds, and foreign direct investment were rolling into South Korea at full scale, indicating that investors had begun to perceive the country as a sound and advanced capitalist economy.

During the Park era (1960-79), aid—along with other kinds of foreign resources—was centrally managed by the Resource Mobilization Office of the EPB. As was already mentioned, the EPB was an autonomous government organization, with full powers in economic policy-making, and donor intervention in aid management and policy-making was limited. In fact, the Park government preferred bilateral loans to multilateral ones, believing it easier to restrict donor intervention under bilateral loans than under those from IFIs. In particular, a large proportion of Japanese public loans to South Korea were given as a reparation fund, so no strict conditionality was attached. Thus far, we have highlighted that state transformation in South Korea evolved despite the presence of foreign aid, because the side effects of aid on political institutions were limited. In particular, focusing on aid management and specific features of aid intervention, we have demonstrated that donor involvement in domestic politics and the policy-making process in South Korea was not intense—particularly in comparison to Ghana and other African countries—even during the Rhee era, when the country was heavily dependent on US aid.

5 Conclusion: lessons from the South Korean case

In this paper, we have examined the impact of aid on politics and on the state sector of two recipient countries: Ghana and South Korea. In Ghana, foreign aid failed to bring about an effective state sector; furthermore, aid has delayed, to some extent, political reform by consolidating the existing power structure and features of African politics. In contrast, South Korea's heavy reliance on aid did not induce a serious deterioration of state legitimacy and capacity. In this concluding section, we offer some policy recommendations with regard to aid, state transition, and development by extracting lessons from the South Korean case.

Above all, the South Korean case demonstrates that the way donor agencies intervene in aid management determines the impact of aid has on domestic politics. In particular, as was highlighted, aid intervention in South Korea in the domestic policy-making process was less dominant than in Ghana, which allowed for some ownership by the Korean government in the use of aid funds, even during the Rhee era when the country was heavily dependent on US aid. Specific features of aid intervention, including the existence of a single dominant donor (the United States during the Rhee era and Japan during the Park era), a limited number of multilateral agencies, the provision of aid in grants during the Rhee period, and aid channelled through a local centralized management system, all contributed to minimizing the negative side effects of aid on domestic politics in Korea. We believe these points have important policy implications for effective donor intervention and aid management.

Having made this point, it is important to note that the rise of the South Korean developmental state resulted largely from the dynamics of internal political processes; as shown in the case of Ghana, the concept of building a sound state sector through external force (aid included) seems to be largely misguided and without strong empirical evidence. This paper has also highlighted and examined the effects of the colonial legacy in determining the nature and efficacy of modern states in Ghana and South Korea. South Korea—in contrast to Ghana and many other African countries—inherited relatively effective statecraft and a sound bureaucracy, which enabled the country to make the transition to a developmental state under a strong and committed political leadership. This suggests that building a modern, effective state is essential for national development and that, to achieve this goal, political reform led by committed leadership and sound bureaucracy is essential. More importantly, it should be vital for donors to recognize that the development of an effective state sector can be achieved only through dynamic internal political processes and by finding ways to minimize the side effects of aid intervention on domestic politics.

Appendix 1: Major economic indicators for Ghana and South Korea, 1961-2011

Year	GDP (constant 2000 million US\$)		GDP growth (annual %)		GDP per capita (constant 2000 US\$)		GDP per capita growth (%)	
	Ghana	South Korea	Ghana	South Korea	Ghana	South Korea	Ghana	South Korea
1961	1,967.24	30,356.299	3.43	4.94	282.716	1,180.010	0.22	2.28
1962	2,048.07	31,102.566	4.11	2.46	285.264	1,176.478	0.90	-0.30
1963	2,138.312	34,067.176	4.41	9.53	288.974	1,255.237	1.30	6.69
1964	2,185.555	36,643.076	2.21	7.56	287.167	1,316.349	-0.63	4.87
1965	2,215.475	38,544.903	1.37	5.19	283.750	1,351.031	-1.19	2.63
1966	2,121.134	43,440.106	-4.26	12.70	265.585	1,486.772	-6.40	10.05
1967	2,186.366	46,089.969	3.08	6.10	268.254	1,541.546	1.00	3.68
1968	2,194.431	51,482.408	0.37	11.70	264.048	1,683.821	-1.57	9.23
1969	2,326.232	58,741.465	6.01	14.10	274.186	1,879.800	3.84	11.64
1970	2,552.423	63,643.235	9.72	8.34	293.996	1,993.648	7.23	6.06
1971	2,685.560	68,889.190	5.22	8.24	301.366	2,113.437	2.51	6.01
1972	2,618.752	71,967.189	-2.49	4.47	285.646	2,163.409	-5.22	2.36
1973	2,694.293	80,627.951	2.88	12.03	285.543	2,375.962	-0.04	9.82
1974	2,878.920	86,418.753	6.85	7.18	297.035	2,497.229	4.02	5.10
1975	2,521.023	91,558.614	-12.43	5.95	254.067	2,595.125	-14.47	3.92
1976	2,432.027	101,238.555	-3.53	10.57	240.342	2,824.027	-5.40	8.82
1977	2,487.333	111,356.972	2.27	9.99	241.707	3,058.249	0.57	8.29
1978	2,698.158	121,707.855	8.48	9.30	257.916	3,292.160	6.71	7.65
1979	2,630.301	129,963.323	-2.51	6.78	246.644	3,462.549	-4.37	5.18
1980	2,642.708	128,029.123	0.47	-1.49	241.946	3,358.229	-1.90	-3.01
1981	2,550.132	135,919.579	-3.50	6.16	226.759	3,510.048	-6.28	4.52
1982	2,373.570	145,875.768	-6.92	7.33	204.183	3,709.398	-9.96	5.68
1983	2,265.247	161,593.723	-4.56	10.77	188.149	4,048.953	-7.85	9.15
1984	2,461.135	174,686.535	8.65	8.10	197.487	4,323.282	4.96	6.78
1985	2,586.447	186,569.643	5.09	6.80	200.936	4,572.113	1.75	5.76
1986	2,720.920	206,381.182	5.20	10.62	205.168	5,011.198	2.11	9.60
1987	2,851.386	229,298.004	4.79	11.10	209.066	5,515.286	1.90	10.06
1988	3,011.867	253,698.106	5.63	10.64	214.965	6,044.029	2.82	9.59
1989	3,165.046	270,808.733	5.09	6.74	219.908	6,390.013	2.30	5.72
1990	3,270.405	295,601.777	3.33	9.16	221.072	6,895.467	0.53	7.91
1991	3,443.142	323,368.202	5.28	9.39	226.282	7,473.611	2.36	8.38
1992	3,576.716	342,368.325	3.88	5.88	228.459	7,841.154	0.96	4.92
1993	3,750.187	363,368.460	4.85	6.13	232.851	8,247.877	1.92	5.19
1994	3,873.943	394,387.464	3.30	8.54	234.006	8,872.010	0.50	7.57
1995	4,033.256	430,548.633	4.11	9.17	237.294	9,548.015	1.40	7.62
1996	4,218.885	460,681.098	4.60	7.00	242.058	10,119.299	2.01	5.98
1997	4,395.924	482,107.174	4.20	4.65	246.198	10,491.082	1.71	3.67

Appendix 1 (continues)

Appendix 1: Major economic indicators for Ghana and South Korea, 1961-2011 (con't)

Year	GDP (constant 2000 million US\$)		GDP growth (annual %)		GDP per capita (constant 2000 US\$)		GDP per capita growth (%)	
	Ghana	South Korea	Ghana	South Korea	Ghana	South Korea	Ghana	South Korea
1998	4,602.550	449,061.334	4.70	-6.85	251.765	9,701.673	2.26	-7.52
1999	4,805.062	491,660.743	4.40	9.49	256.740	10,546.812	1.98	8.71
2000	4,982.849	533,384.028	3.70	8.49	259.991	11,346.665	1.27	7.58
2001	5,182.163	554,577.929	4.00	3.97	263.962	11,710.580	1.53	3.21
2002	5,415.360	594,230.348	4.50	7.15	269.229	12,478.064	2.00	6.55
2003	5,696.959	610,885.293	5.20	2.80	276.405	12,764.272	2.67	2.29
2004	6,015.989	639,102.209	5.60	4.62	284.849	13,303.820	3.05	4.23
2005	6,370.932	664,392.466	5.90	3.96	294.408	13,801.829	3.36	3.74
2006	6,778.672	698,799.258	6.40	5.18	305.751	14,446.359	3.85	4.67
2007	7,216.556	734,478.718	6.46	5.11	317.736	15,113.353	3.92	4.62
2008	7,824.948	751,359.801	8.43	2.30	336.352	15,349.850	5.86	1.56
2009	8,137.279	753,760.393	3.99	0.32	341.552	15,325.940	1.55	-0.16
2010	8,788.961	801,399.965	8.01	6.32	360.324	16,219.388	5.49	5.83
2011	10,053.617	830,523.428	14.39	3.63	402.695	16,684.213	11.76	2.87

Source: World Bank databases, WDI and GDF.

Appendix 2: Foreign assistance to Ghana – selected indicators

Year	ODA	Multilateral donors	Grants	Gross loans	Debt forgiveness	Loan repayment	Net debt relief	Net ODA excl. debt relief
1960	2.94	0.41	3.04	-	-	-0.1	-	2.94
1961	2.97	0.36	3.37	-	-	-0.4	-	2.97
1962	5.61	0.06	4.16	2.49	-	-1.04	-	5.61
1963	18.01	0.83	5.13	13.86	-	-0.98	-	18.01
1964	20.22	1.11	7.9	13.47	-	-1.16	-	20.22
1965	46.22	1.59	8.55	38.53	-	-0.86	-	46.22
1966	62.19	-1.36	18.19	47.97	-	-3.97	-	62.19
1967	45.28	-1.36	19.32	30.46	-	-4.49	-	45.28
1968	62.2	10	11.04	46.93	-	-3.35	-	62.2
1969	71.27	10.49	17.19	52.22	-	-3.14	-	71.27
1970	59.1	7.77	20.47	39.73	-	-4.1	-	59.1
1971	56.84	7.32	24.18	38.05	-	-5.39	-	56.84
1972	58.56	8.54	22.67	43.34	-	-5.45	-	58.56
1973	40.9	4.54	23.07	24.17	-	-5.34	-	40.9
1974	36.32	10.67	31.52	13.79	-	-6.99	-	36.32
1975	124.21	19.74	32.15	101.92	-	-7.86	-	124.21
1976	61.54	27.39	44.84	29.16	-	-10.46	-	61.54
1977	90.17	38.1	53.71	47.39	-	-8.93	-	90.17
1978	112.18	36.57	66.13	55.74	-	-8.69	-	112.18
1979	168.22	63.04	66.44	114.61	-	-12.83	-	168.22
1980	190.81	58.45	64.03	140.9	-	-14.12	-	190.81
1981	144.12	42.84	75.29	83.16	-	-14.33	-	144.12
1982	138.73	70.7	62.4	97.8	-	-21.47	-	138.73
1983	108.39	52.58	74.32	54.86	-	-20.79	-	108.39
1984	213.12	122.78	129.87	104.67	-	-21.42	-	213.12
1985	194.33	104.72	104	124.25	-	-33.92	-	194.33
1986	358.88	235.3	171.56	226.7	-	-39.38	-	358.88
1987	409.02	283.62	143.04	309.51	-	-43.53	-	409.02
1988	575.59	326.84	229.27	392.15	-	-45.83	-	575.59
1989	715.53	361.79	266.15	484.25	6.81	-34.87	6.81	708.72
1990	559.72	293.7	507.09	374.16	297.32	-321.53	297.32	262.4
1991	878.63	420.92	548.52	535.63	198.77	-205.52	198.77	679.86
1992	612.78	281.65	317.74	327.33	7.46	-32.3	7.46	605.32
1993	625.82	307.1	317.42	352.55	6.16	-44.14	6.16	619.66
1994	546.28	218.05	304.33	330.4	6.11	-88.45	6.11	540.17
1995	648.43	295.76	343.89	451.18	17.02	-143.99	14.37	634.06
1996	649.83	301.48	311.41	493.77	8.83	-155.31	8.83	641

Appendix 2 continues

Appendix 2: Foreign assistance to Ghana – selected indicators (con't)

Year	ODA	Multilateral donors	Grants	Gross loans	Debt forgiveness	Loan repayment	Net debt relief	Net ODA excl. debt relief
1997	493.62	188.63	271.52	393.37	3.89	-169.39	2.01	491.61
1998	701.55	324.11	344.21	544.88	19.93	-167.97	0.38	701.17
1999	607.78	247.76	367.31	395.32	5.38	-149.72	0.27	607.51
2000	598.17	219.22	350.45	364.21	1.58	-115.1	0.16	598.01
2001	640.62	250.28	420.01	357.35	4.35	-135.86	3.46	637.16
2002	686.2	276.91	546.9	261.97	159.24	-43.91	82.8	603.4
2003	983.45	497.3	679.69	404.91	132.25	-35.85	67.82	915.63
2004	1418.69	483.6	2069.06	412.02	1350.16	-56.18	361.48	1057.21
2005	1150.69	529.18	1150.65	506.07	505.14	-80.21	79.34	1071.35
2006	1243.24	646.62	5489.55	508.66	4793.61	-66.11	112.79	1130.45
2007	1165.21	453.08	845.81	339.3	9.75	-19.69	9.75	1155.46
2008	1306.93	575.43	877.2	463.7	9.11	-33.96	9.11	1297.82
2009	1581.82	755.09	1089.45	561.16	28.93	-28.17	9.83	1571.99
2010	1692.54	789.22	1041.45	690.29	5.2	-33.37	2.61	1689.93
2011	1800.03	898.22	1012.72	856.51	4.96	-64.25	0.98	1799.05

Source: OECD QWIDS database.

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