Reviving the Somali Economy: Business Regulation and Development Opportunities Associated with Globalization

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I. Introduction

This contribution suggests a number of business and economic policies that a new government of the Somali Republic might consider in order to put the country on the path to successful economic reconstruction and development. The proposed policies are derived from a critical reassessment of today's integrated and interdependent world economy, which presents both opportunities and dire threats that could jeopardize the sovereignty and statehood of Somalia. The crucial role of a good and strong government is emphasized. Recent developments are also integrated into the analysis. The essay concludes by suggesting policies for creating a business and investment climate that guides and regulates (but does not stifle) the entrepreneurial spirit of the Somali people, which has flourished for fifteen years in the absence of state and government.

There are unprecedented opportunities in today's global economy for nations that create the right business regulatory climate and incentives to attract domestic as well as foreign investments. That is the first order of business for a new government. The whole project of reconciliation and nation-building may hinge on the successful implementation of policies that can help the Somali economy take advantage of the opportunities that globalization presents.

In Western industry and business theory and analysis, the state and its institutions are a given. Thus, Western models are not particularly helpful in dealing with the stateless situation that has prevailed in

Somalia for the last sixteen years. Nevertheless, they provide a starting point that permits an examination of their relevance to the Somali situation. We can thus derive policy implications grounded in the existing theory and the practical realities of the Somali Republic.

The remainder of the essay consists of four sections. The first discusses globalization, the criticisms leveled against it, and the economic development opportunities associated with it. The second and third sections draw on recently published research carried out under the auspices of the World Bank on the role that business regulations play in industry formation and economic development. The second section specifically tackles elements of the regulatory environment that governments need to establish in their national markets in order to foster growth. In the third section, the focus shifts to how governments can create favorable investment climates for domestic and foreign investors. The fourth and final section attempts to touch upon recent political developments. In this section, high priority issues that may need a new government's immediate attention are identified.

II. Globalization and its Critics

Somalia's civil war has roughly coincided with the flourishing of globalization. Joseph Stiglitz defines globalization as "the removal of barriers to free trade and the closer integration of national economies."[1] Countries across the globe liberalized their trade and opened up their economies for foreign direct investments, thus making their economies more integrated with, and more dependent on, the economies of the rest of the world. Globalization is based on the premise that if countries remove trade barriers and open up their markets to foreign investment, their economies would specialize in those goods and services in which they have a comparative advantage. Globalization was promised to lead to economic growth and poverty reduction in the Least Developed Countries (LDC) of the world. Under the exhortations of the World Bank, the International Monetary Fund (IMF), and the General Agreement on Trade and Tariffs (now the World Trade Organization, WTO), large amounts of capital have flowed from the rich countries of the world into developing countries to exploit the comparative advantages these countries have in untapped markets and inexpensive factors of production.

However, the promises of economic growth and poverty reduction, which were to result from globalization, fizzled out for the overwhelm-

ing majority of the LDC that followed the prescriptions (the so-called Washington Consensus) pushed by the World Bank, IMF, and WTO. According to Vietor, the Washington Consensus:

> prescribe[s] 10 policies for market reform: fiscal discipline, increased public expenditure on health and education, tax reform, interest rate liberalization, a competitive exchange rate, the removal of barriers to trade and barriers to foreign investment, privatization, deregulation, and secure property rights.[2]

In its 2004 report, the U.N. Conference on Trade and Development demonstrates that the above prescriptions had an "immiserizing effect" on the economies of LDC.[3] Among the disturbing findings of the report is that the economies of LDC are more open and more integrated with the rest of the world than are those of members of the Organization of Economic Cooperation and Development (OECD), the exclusive club of the rich countries of the world. Economic integration, as measured by the proportion of GDP that imports/exports account for, is 51% for LDC and 43% for the OECD. This is a clear indication that the OECD, which happens to be one of the major proponents of globalization, does not practice what it preaches.

The report, which covers the years 1999–2001, also shows that average incomes in the LDC are only slightly higher than they were in the 1990s, when most LDC opened up their economies. In real terms, average incomes in some of those countries fell below their 1990s levels. Neither did increased trade improve the lot of the extremely poor in those countries. The countries neighboring Somalia do not seem to have benefited much from globalization and the economic openness it champions. World Bank Development Indicators (paved roads in km per person, electricity consumption in kwh per person, public health spending per person, primary education pupil-teacher ratios) for Kenya, Ethiopia, Tanzania, and Uganda for the year 2003 show that these countries barely made any headway in a decade of unprecedented economic openness.[4]

It is expedient to scapegoat globalization for the dismal performance of the poor countries, but is globalization the real culprit? Globalization has been subjected to withering criticisms from all corners. Some of the most visible and vociferous of these criticisms emanate from trade unions and other labor organizations in developed countries. Apart from the rhetoric of these entities, their main concerns are likely

to be losing jobs to developing countries when investments from their developed home countries seek opportunities in other parts of the world. Thus, many of the raucous and sometimes violent demonstrations against the meetings of the IMF, World Bank, and World Trade Organization are organized and led by groups tied to trade unions and labor organizations in the developed world.

There have been, however, more serious and substantive criticisms against globalization and the ill effects in developing countries that are associated with it. Among the academic and serious critics are Stiglitz (2001), Rodrik (1997), and Hertz (2001). Stiglitz takes to task the supranational institutions: the World Bank, IMF, and WTO. A winner of the Nobel Prize for Economics, he speaks from a position of knowledge and authority. The work *Globalization and its Discontents* is based on his experiences and observations during his tenure as chief economist and senior vice president of the World Bank. Stiglitz exposes the hypocrisy of Western countries, which "pushed poor countries to eliminate trade barriers, but retained their own barriers, thus preventing developing countries from exporting their agricultural products and depriving them of desperately needed export income."[5] Stiglitz goes on to describe how the West manages the agenda of globalization and receives more of its benefits at the expense of poor and developing countries.

In response to critics of globalization, including Stiglitz, Wolf provides reasonable and logical refutations for the most common charges against globalization.[6] Wolf accepts, however, the validity of some of these criticisms. Similar to Stiglitz, Wolf concedes that Developed Countries use multilateral agreements to impose trade liberalization on poor countries while keeping their own markets off limits to the products of the poor countries. Another criticism that the two authors share is that the supranational institutions entrusted with the global economy seem to exacerbate the situation by prescribing and imposing rigid and outmoded policies.

The shortcomings of the World Bank, IMF, and WTO are well documented. However, the well deserved criticisms of these institutions and their policies should not be confused with globalization itself. Stiglitz himself reiterates in his book that he still believes that globalization has the potential to be a force for good. The opportunities that arise from globalization can be pursued without following the recipes or prescriptions, some of which are ill conceived, of the multilateral institutions mentioned above. The example of Malaysia is a case in point.

Malaysia prominently rejected the IMF's prescriptions in the aftermath of the financial market meltdown the Southeast Asian economies experienced in 1997,[7] instituting its own homegrown policies, which helped it become the first country to emerge from the crisis. Moreover, if the rough going of the current Doha Round of the WTO is any indication, some of the developing countries, led by Malaysia, China, India, and Brazil, are finally banding together to stand up to the OECD's hypocritical stance on agricultural subsidies.[8]

Globalization is accused of putting too much power not only in the hands of supranational organizations but also multinational corporations (MNCs). Hertz lists a litany of policies and tactics, both legal and illegal, that multinational corporations resort to in order to get their way with governments of developing countries.[9] It is increasingly evident, however, that globalization has not diminished the relative power of the nation-state vis-à-vis MNCs, if the former plays its cards well. After all, the markets and resources MNCs desire are within the boundaries of nation-states, and their respective governments have control over access to them.

III. The Role of Governments

Trade liberalization and economic integration with the rest of the world alone are not going to meet the developmental needs of countries like Somalia. The countries that benefit most from the opportunities that globalization offers, and that are most successful in minimizing its ill effects, do so through the establishment of the rule of law, the availability of robust institutional arrangements of checks and balances, the curbing of corruption, and the maintenance of fiscal and monetary discipline. The Fraser Institute, a Canadian think tank, in its yearly report on the economic freedom of the world, argues that countries like Somalia need economic freedom, defined by low taxes, protection of private property, freedom of contract, free trade, and monetary stability, to attract investment, both domestic and foreign.[10] All of the items that comprise the Fraser Institute's definition of economic freedom require a good and strong government.

Extensive research has shown the importance of government for the competitiveness of nations and their economic development.[11] Research also emphasizes the importance of the regulatory role of governments in the protection of the environment, energy production, trade policy, and industrial policy. A third important area of govern-

ment activity is institution building. Yet another area of government impact is deregulation, a subset of regulatory reform, which is defined as the "complete or partial elimination of regulation in a sector to improve economic performance."[12] The Somali case presents an opposite extreme situation, wherein the government and its institutions disappeared physically and also from the collective consciousness of the Somalis. Pearce tries to identify and isolate "governmental effects from other societal practices and expectations," and comes to the conclusion that the way out is "to study those unusual circumstances where governments have changed, forcing other institutions and expectations to adapt to them."[13] In Somalia the state itself ceased to exist, and by definition no government can exist where there is no state.

In the classical distinction between state and government, the former is a "durable institutional structure that embodies legal institutional order within a national territory."[14] The latter is "a group of decision makers that holds state power for a limited tenure."[15] States evolve slowly, except in the face of sweeping social revolutions that take place rarely.[16] Governments, however, come and go, bringing new initiatives and repealing and reinterpreting old ones.

Pearce calls governments that do not set up or enforce the rule of law non-facilitative, which means that, "they do not support or enable companies, firms, or other types of collectives that establish and pursue their own goals."[17] In this framework, the lack of government in Somalia could be considered a special case of a facilitative situation. Any governmental regulatory regime is going to be, by necessity, ex post. Private businesses in Somalia can set regulatory examples, which could eventually form the basis for the necessary and ex post regulatory regime that the future government will have to establish. Such a regulatory regime will most likely have fewer constraints on entrepreneurship and freedom—a most necessary condition for economic development according to Sen.[18]

Government regulations are indispensable for the conduct of business, such as those that deal with property rights, contracts, and trusts.[19] First, through their definition of private property, governments demarcate the nature and scope of economies. Second, governments use mechanisms like currency and price supports, which are essential for the conduct of economies. Third, governments intervene in the allocation of financial, human, and social capital resources in which private property rights have been created. Governments also intervene by regulating trade in property in ways that may create entry and exit

barriers. According to Demsetz, "property rights are an instrument of society and derive their significance from the fact that they help man form those expectations which he can reasonably hold in his dealings with others."[20]

Government intervention should alter the behavior of economic actors to make them more trustworthy in their dealings with one another. The building of trust starts with the government itself if it succeeds in eliminating, or at least reducing, corruption. Governments and states vary widely in the ways they intervene in the economy. States and governments also directly provide goods and services. It is one of the main functions of states and governments to help create jobs and foster growth in various sectors of the economy. States also have distributive, regulative, and redistributive functions.

Industries evolve through the development of technologies (or their adoption) and institutions, and through continuous interactions among many players in the government and marketplace. Businesses and industry arrangements are predicated on national political institutional structures. Jepperson has presented a model employing four archetypes, based on policy networks emanating from the interplay and interactions between state and society.[21] According to Jepperson's taxonomy, political institutional structures can be defined along two dimensions: "collective agency" and "organization of society." Collective agency has to do with how the state derives its authority intrinsically or from society. Along this dimension, two types of polities can be differentiated: state-centric and society-centered. In state-centric polities, as the name implies, the government guides and directs business and industrial activities, and derives its authority from the state. In society-centered polities, the government derives its authority and legitimacy from the social contract as a representative of the people.

> The second dimension, organization of society, can also be conceptualized on two levels: associational and corporatist. Associational societies are those in which basic units of interest representation comprise connections among individuals, whereas in corporatist societies the connections are among groups rather than individuals. In other words, associational societies are individualistic while corporatist ones are collectivistic. Because of their individualistic nature, associational societies focus on individual rights and choices, and corporatist societies focus on collective requirements and duties.[21]

In terms of business and industrial entrepreneurship, societal and corporatist institutional arrangements have the tendency to opt for "bricolage." Bricolage is a term coined by Garud and Karnoe as part of a taxonomy to characterize technological entrepreneurship, but it is also applicable in industry formation in general.[22] According to Garud and Karnoe, bricolage entrepreneurship proceeds through a series of small wins to create and then improve a technology, business, or industry. They contrast bricolage with breakthrough, in which individual actors compete to achieve technological progress in one great leap. The latter method is preferred by statist and associational institutional arrangements. This attitude also affects the government's business and industry development orientation. Diffusion orientation, as contrasted with mission orientation, is more consistent with social and corporatist institutional arrangements.

Applying the above taxonomy and analysis to the situation in Somalia, a social corporatist institutional arrangement would better fit the present needs of the country. Thus, the state institutions would play a facilitative role, and the government would act as a protector and partner of business and industry, but would not necessarily lead new industry formation or expansion. In such a situation, state and government institutional arrangements would have a diffusion policy orientation, and employ bricolage entrepreneurial and new industry formation approaches.

IV. The Regulatory Climate

Recently the World Bank undertook a number of studies that culminated in the publication of the "Doing Business" series. To date, the first two books of the series have been published: *Doing Business in 2004* and *Doing Business in 2005*. Together the two studies, which were carried out in 145 countries, identified and collected data, and analyzed seven indicators of government regulations that directly impact business activities. The indicators apply to (1) starting a business, (2) hiring and firing workers, (3) registering property, (4) obtaining credit, (5) protecting investors, (6) enforcing contracts, and (7) closing a business. These indicators have important implications for capital and labor productivities, unemployment, poverty, attraction of domestic and foreign private investments, corruption, and the relative sizes of the formal and informal economies—and thus the efficacy of government tax collection.

In numerous poor countries, business regulations make it so hard to start a business that many entrepreneurs are forced into the informal economy, where they do not have to pay taxes or give benefits to their workers. If they resist the allure of the informal economy and go through all the hurdles of registering their new business, they then have to grapple with regulations dealing with hiring and firing workers. Rigid hiring and firing regulations force businesses to hire workers "under the table," with all of the attendant abuses of the informal economy.

Besides simplifying rules dealing with starting a business and hiring and firing workers, the third area governments should focus on is simple and straightforward regulations for the registration and protection of property rights. Entrepreneurs are less willing to invest where property rights are not secure. Protection of property rights links effort with reward. The second report of the World Bank found that the more bureaucratic and cumbersome property regulations are in a country, the more property disputes there are, bribes that businesses have to pay are more prevalent, and entrepreneurs and businesses keep more assets in the informal sector.[23] If cumbersome regulations force business people to keep their properties in the informal sector, it is harder for them to get credit since they cannot use their unregistered properties as collateral.

The fourth indicator is obtaining credit. The World Bank cites a number of studies that point out simple policies that governments can promulgate in order to facilitate the procurement of credit for businesses.[23] Among them are making access to credit easier, creating credit registries that sort good borrowers from bad ones, and putting in place laws to enforce collateral and debt collection, and bankruptcy.

The alternative to debt financing is equity financing, a proposition that is more appropriate in a country like Somalia, with its religion-inspired aversion to interest-bearing loans. Both equity and debt financing require robust legal protection for their proper functioning. Thus, the fifth indicator is investor protection, without which equity investment remains a risky endeavor and the sources of such investments will be limited to immediate family members, close relatives, and friends. The study points out three areas of investor protection: (1) disclosure of financial information for individuals and firms seeking investment; (2) legal protection of small investors; and (3) enforcement capabilities in the courts.

Enforcing contracts, the sixth indicator, will also require efficient and well-functioning business courts, involving fewer procedures, a shorter time to resolve disputes, and more efficient judges of good repute and integrity. Finally, the studies identify a number of important reforms that could improve the seventh indicator, the closure of businesses. Making it easier to close nonproductive businesses will free scarce human and financial resources to be put to more productive use elsewhere.

Both World Bank studies emphasize that the regulatory burdens that businesses have to bear in poor countries are higher than those in rich countries. These regulatory burdens tend to push businesses in poor countries into the informal economy, which accounts for over 40% of the overall economy in those countries. The studies maintain that in developing countries, government red tape presents a significant hindrance to economic growth. The more red tape a country has in place and the more cumbersome the regulations, the more likely they are to foster graft and corruption, which in turn hamper economic development in poor countries.

Transparency International, a non-governmental organization devoted to curbing corruption, has been ranking countries each year since 1993 on how corrupt their governments are perceived to be. Transparency International's Corruption Perceptions Index (CPI) measures "the degree to which corruption is perceived to exist among public officials and politicians." Corruption is defined as the abuse of public office for private gain. In this year's report, Transparency International estimates that corruption costs the world economy at least $400 billion per year.[24] With the exception of Djibouti and Somalia, which were not ranked this year, all members of the Intergovernmental Authority on Development (consisting of Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, and Uganda) are included among the 60 most corrupt countries in the world, out of 146. Eritrea, Ethiopia, Kenya, Sudan, and Uganda scored less than three out of a clean score of ten. The report recommends that the best way to fight corruption is to require transparency on the part of both governments and multinational corporations in public procurement. The report takes to task the developed world and its multinationals for not doing enough to curb corruption.

V. The Investment Climate

Although the investment climate is a subset of the business regulatory climate, it deserves separate treatment because of its crucial importance for attracting and keeping domestic and international entrepreneurs. The World Bank defines investment climate as "the location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand."[25] A good investment climate is essential for growth as well as poverty reduction. By removing unnecessary costs, thereby lessening risks and barriers to competition, governments can create an ambiance in which entrepreneurs feel secure to invest in job creating businesses. Before they decide whether and where to invest, both domestic and international investors scrutinize government policies and behaviors as a whole package. They look at property rights, taxes, finance, infrastructure, and corruption. Having the requisite formal policies in place is not enough; they have to be matched by government practice. Arbitrary regulation and lack of microeconomic discipline on the part of the government can scare away potential investors.

The World Bank identifies four basic areas that comprise a good investment climate. First, securing political and macroeconomic stability, without which none of the other policies will take root. Thus, one of the first tasks the new government has to tackle is reconciliation and the return or compensation of properties unlawfully expropriated during the civil war. The rights to land and other properties have to be verified because they may have changed hands many times since their initial confiscation.

Second, governments should put in place regulation and taxation that ensures the reconciliation of the interests of firms and the broader social needs of the general public. Third, governments should help foster financial markets and infrastructure that connect firms with lenders and investors. Fourth, they should establish educational systems that can produce a workforce equipped with the necessary skills for a modern economy.

VI. The Civil War and What it has Wrought

Despite the anarchy and extensive destruction that ensued soon after Siyaad Barre was ousted in a popular revolt, and notwithstanding the lawlessness and insecurity that became an integral part of the landscape in Somalia, businesses have boomed and many services that were hard to obtain during Barre's 21-year near-monopoly of the public sector have become readily available to those who can afford them.[26] The highly risky business environment has not deterred enterprising domestic and foreign firms from investing in Somalia. The civil war transformed the Somalis from people who fifteen years ago were dependent on an all-encompassing and stiflingly pervasive government into entrepreneurs imbued with initiative and acute business *savoir-faire*. Thus in some respects, the absence of a central government turned out to be a blessing in disguise. It has unfettered the entrepreneurial spirit of the Somali people in a way that no one could have foreseen.

Private clinics, hospitals, health care centers, and pharmacies have sprung up everywhere. Private schools at all levels have been established and staffed—some with outside help, others with local initiative and resources. There are numerous universities and institutes in the capital city, all of which opened their doors to students in the last six to seven years. The universities offer courses from Arabic and Islamic Shari'ah to business administration and computer science. (These educational institutions suffer from a dearth of qualified instructors and severe scarcity of other resources, unfortunately, and cannot accommodate even half of the students who apply for admission every year.)

The business and educational achievements, however, come at an enormous price. Impressive they may be, but the attained successes have to be weighed against the devastation to the collective body and soul that the Somali people have endured since 1991. No public building, utility, or infrastructure has escaped the blatant thievery and unabashed greed of clan militias, unaffiliated robbers, and lawless thugs that roamed the streets of Somalia. The physical environment has suffered much damage. The scant and irreplaceable trees of the Somali semi-desert have been uprooted and burned into charcoal for domestic consumption and exportation to the insatiable markets of the Middle East. There have been widespread rumors that some warlords were bribed to allow dumping of hazardous wastes in parts of Somalia.

The business and educational successes attained during the civil war also have to be weighed against the opportunity costs arising from the insecure climate within which Somali businesses operated. The risky business and investment climate allows for only "bazaar-type" business relationships, a situation not known to have ever led to economic development. The lack of government regulatory protection precludes long-term investments and long-term business dealings, without which the economy will not develop beyond subsistence level.

VI. Recent Developments: The Islamic Courts

Siyaad Barre's government collapsed following a popular armed uprising in 1991. Within ten months, state institutions crumbled during what the Somalis in Mogadishu call "the four-month war," when the two faction leaders, General Aideed and Mr. Ali Mahdi, could not agree to share power. This culminated in an all-out war fought in the streets of Mogadishu. That was when the real civil war began, and although the rest of the country had its own local armed confrontations, nothing matched the civil strife in the Old Benadir region (Mogadishu, Lower and Central Shabelle) in its intensity, brutality, and destruction.

It is not by accident that the most devastated parts of the city are mostly state buildings, whether government offices, schools, universities, hospitals, or factories. Somalia was not a state before the British, French, and Italians gradually occupied the country in the 19th century. State institutions were thus a novelty to the Somalis. In fact, in the Somali mind there is no distinction between the state and the government. To the average Somali (i.e., the generation that knew no government other than Siyaad Barre's), the government *was* the state. Therefore, during the anarchy that followed the "four-month war" in Mogadishu, state buildings and properties were not only thoroughly looted but destroyed as well. The jagged remains of such famous buildings as the old parliament, the new parliament, and the socialist-era monuments all testify to the pent-up destructive anger unleashed by the fall of the Siyaad Barre regime.

The only institutions that have survived the civil war, albeit not totally intact, are the religion of Islam (embodied in the mosques and religious schools) and kinship structures. In fact, one may argue that the areas that were spared extensive damage were those where the kin structure was not thoroughly poisoned by Siyaad Barre's destruc-

tive kin policies. Mogadishu being the capital, the kin structure was thoroughly compromised by the time Siyaad Barre was chased out of the city. The religion of Islam fared slightly better than the kinship structure, but it was not strong enough to withstand the ruinous forces unleashed by the collapse of the regime. And it was these two home-grown institutions that came to the rescue in April 2006, when the warlords finally overstepped their limits by declaring that they would round up all "terrorists" and hand them over to the United States.

The main reason that all the previous attempts at reconciliation in Somalia failed rests with the warlords, who had profiteered from the civil war. It was clear from the beginning that the warlords would always try to find a pretext to oppose whatever system the Somali people agreed on. The ill intentions of the warlords became evident when they started using their subversive tactics as soon as they returned to Mogadishu in 2004 from the last reconciliation conference in Nairobi, Kenya. All the agreements they had signed were thrown out the window. The warlords resumed their old ways of disruption, intimidation, extortion, and plain brutality, as if the two years spent on the reconciliation conference in Kenya were an aberration. The Transitional Federal Government (TFG) located itself first in Jowhar, the capital of the Middle Shabelle region, just northeast of the national capital. Then it moved to Baidoa, the capital of the Bay region, northwest of the capital. The TFG, however, has been ineffective in both of the two locations.

In this bleak situation arose the Union of Islamic Courts (UIC). No one, least of all the people who formed the UIC, expected the meteoric rise to power of this ragtag group of Islamic warriors. According to many eyewitness accounts, everything happened almost by accident. Less than a year ago, a group comprising the most vicious warlords formed an organization they called the Alliance for the Elimination of Terrorism and the Restoration of Peace (in Somali, *Isbahaysiga la Dagaallanka Argagaxisada iyo Nabad Soo Celinta*). Furthermore, the Alliance's relationship with the U.S. was never a secret. In fact, the Alliance openly boasted that it got its funding and armaments from the U.S.

This was the situation until February 2006. That fateful day the warlords finally crossed the line. The proverbial "straw that broke the camel's back" took the form of an announcement promulgated by an alliance of warlords, which amounted to a declaration of war against the religious leadership of the capital. That was the tipping point. In the inevitable war that ensued, the religious leadership, in the form of

militias guided by the Islamic Courts, defeated the combined forces of all the warlords. The last pocket of resistance, which was holed up on the main campus of the National University, was finally overcome on July 9, 2006. The remaining institutional buildings were surrendered peacefully.

What has happened in Somalia recently was a genuine revolution spearheaded by a new phenomenon called Islamic Shari'ah courts, which were founded on kin structures. Because the anarchy and chaos were lasting indefinitely and the warlords barred every initiative to bring some kind of order to Mogadishu, clan-based neighborhoods got together and formed Islamic Shari'ah courts to protect themselves from the freelance militias who thrived on extortion, robbery, and rape. Quickly the idea took off in neighborhood after neighborhood. The militias that the Islamic courts used for their police operations were borrowed from kin militias and those attached to businesses. Thus, it could happen that a fighter would belong to a business militia and join court police operations when needed. This fluid situation was galvanized by the announcement of the Alliance. The neighborhood Islamic Courts, which by then formed a unified system, got the spark they needed when the Alliance labeled individuals active in the Islamic Courts movement as terrorists, and declared that they would be rounded up and handed over to America. This single declaration united the disparate groupings that comprised the Islamic Courts.

The now temporary stabilization that the Islamic Courts brought to the central and strategic Benadir region (Mogadishu, the national capital, and the Lower and Middle Shabelle) could not have come at a more opportune time for the Somali people. Alas, that possibility has since been extinguished by the military intervention of Ethiopia.

VII. Where to Start, What to Do?

What Somalia needs is a strong government that fosters and protects both the economic and physical environments. The new Somali government should at a minimum focus on two functions of good government: designing proper business regulations in general, and creating a business climate that fosters investment in particular. Without these regulations in place, a new government will have a difficult time creating job opportunities for the Somali people, especially the youth (a panacea for the establishment of lasting security). Political stability will not be possible without creating legitimate job opportunities to

lure the unemployed youth that now swell the ranks of the private militias. The following sections will expand on these two functions.

A new government would not have to repeal any formal business laws. In today's Somalia, there are no formal laws; everything is in the informal sector. A new government will be starting out with a clean slate, with minimal red tape, unless it chooses to reinstitute the draconian gridlock of the Siyaad Barre regime or go back even further to colonial era laws. (Most developing countries still have on the books rules that the colonial powers deliberately designed in order to discourage indigenous entrepreneurship.) Business regulations, however, will need to be promulgated for protecting property rights and the environment, for granting titles, and for establishing fair courts that can enforce contracts and debt payments. It is essential that these regulations, so fundamental to economic development, be kept to the absolute minimum necessary. Once a rule is on the books it is not easy to repeal or reform it. A new government has to balance the need to provide incentives and encouragement for investment with the need to protect the interests of society at large. This balancing act is an ongoing process of improvement that requires regular review and adjustment of policies.

The provision of the public good is a most important function. It comes as no surprise that this is the area of public life that suffered the most in the absence of a central government. Left to its own devices, the market cannot look after the public good. In its broadest sense, the public good includes ensuring security of property through the establishment of the rule of law and the independence of the legislative and executive branches of government. This requires the creation and maintenance of such institutions as courts, a police force, and prisons. It is incumbent on the new government to have sound fiscal and monetary policies, which are hard to maintain for any government without a robust and independent central bank. With such institutions in place, the new government will be able to curb the excesses of the market—what economists call internalizing externalities.

According to conventional wisdom, it takes many years to establish the institutions that are so indispensable for sustainable economic development. Recently, however, two studies have suggested that an initial economic growth spurt may be achieved through small, piecemeal policy changes, which in turn may lead to long-term institutional reforms.[27] The examples cited include the protection of property rights reforms that Deng Xiaoping introduced into China in 1978, which

directly led to China's unprecedented economic growth. Similarly, reforms implemented by General Park's regime in South Korea provided the necessary impetus for the boom in private investment in that country. General Pinochet did something similar for Chile in 1983. In all three countries these simple reforms led to more fundamental ones, which in turn ensured the successful continuation of economic development. The end results are visible to all.

A new government's efforts should be prioritized, gradual, and incremental. It should build on the few institutions already in existence in the country that established positive track records during the civil war. New regulations, processes, and institutions should be introduced on a need basis and not under the prescription of policies developed somewhere else or developed for some other country, regardless of how that country appears to be similar to Somalia.

One of the top priorities of the new government must be the protection of the environment. The market cannot take care of preserving the environment and controlling pollution without active governmental intervention. Passing and enforcing laws banning the exportation of charcoal is indispensable. In the longer term, domestic use of charcoal should also be curtailed in urban areas. This cannot be done unless the government makes it a high priority to develop modern cooking methods, especially those that utilize solar energy and wind power. At the present rate of charcoal production, in which irreplaceable trees are cut down and converted into charcoal, Somalia will turn into a barren desert in less than a generation.

The Somali countryside does not have plenty of trees, but it has plenty of sunshine. In the absence of an effective government, electricity production relies exclusively on fossil fuel burning, 100% of which has to be imported. In the last few decades, the technologies that underpin electricity production based on solar energy and wind power have made dramatic advances, rendering such energy alternatives much more affordable in developing countries.

Economic reconstruction will entail repairing and rebuilding the basic infrastructure. The few remaining examples of infrastructure are in total disuse and decay. Roads, soil health, water for irrigation, drinking water, sanitation, and modern cooking fuels will have to be the primary areas of concentration for a new government. In addition, basic health care concerns, such as TB, childhood diseases, childbirth, nutrition, and control of malaria, should be addressed. Finally, the new government has to put in place accreditation processes for the private

schools that at present provide primary and secondary education in the absence of state-owned schools. A skilled labor force is a *sine qua non* for a modern economy, and proper education is the main ingredient of such a force.

Somalia needs a strong, corruption-free, and accountable government. Accountability requires transparency, which cannot occur without freedom of expression and a free press. Only a government that encourages these qualities will be able to create an environment in which people can become more productive. Every report on economic development emphasizes that there are no economic ills that a good government cannot remedy. Corruption and misuse of public funds have denied Somalia and other developing countries the economic development they sorely need and deserve.

VIII. Conclusion

As other contributions in this volume have emphasized, whichever government establishes itself in Somalia will have the daunting task of reintroducing security and stability into a country where internecine bloodshed and irredentism have become a way of life for more than a decade and a half. But a new government may also have a good chance to succeed in implementing the necessary government policies and behaviors for economic reconstruction and growth. It is not going to inherit bad policies that ought to be reformed or scrapped. There is a dire need, however, for government regulations essential for the stewardship of a modern economy. The government should resist the temptation to import regulations from other countries or policies put together by consultants or non-governmental organizations that are not well versed in the intricacies of the Somali situation. It should also resist dismantling homegrown institutions because of unfounded foreign claims that they pose a security threat to one country or another. Instead, a new government may wish to build on some of the worthy wartime institutions that the Somali people themselves established, often without outside assistance. Building on those institutions will create a sense of ownership and continuity, two ingredients essential for the success of state building.

One lesson that the Somalis learned from their long and costly civil war is that they can accomplish many things without a government. Other experiences taught them that there are an array of challenges that are impossible to tackle without an effective central authority. The

job of any new government is to strike a fine balance between these two experiences: to get out of the way of the people in the former, and to ensure a pervasive presence in the latter.

A new government should not try to reinvent the wheel. There is a sizeable, readily accessible body of knowledge in the world about how best to create the necessary environment for economic reconstruction and sustainable development. The new government should solicit the advice of people who have the requisite knowledge and expertise. Under their supervision, it should judiciously choose and implement the most applicable policies, benchmarking the performance of applied policies against comparable countries that preceded the Somali Republic on the path to development and economic prosperity. It is the duty of Somali scholars to ensure that well-researched policy alternatives are available to a new government. The duty of a new government is to accord serious and careful consideration to the suggestions put forward, and act on them.

Notes

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3. UNCTAD 2004.
4. World Bank 2005b.
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6. Wolf 2004.
7. *The Economist* 1999.
8. *The Economist* 2003.
9. Hertz 2001.
10. Gwartney and Lawson 2004.
11. Porter 1998.
12. OECD 1999.
13. Pearce 2001.
14. Benjamin and Duvall 1985.
15. Golstein and Lenway 1989.
16. Skocpol 1979.
17. Pearce 2001.
18. Sen 1999.
19. Demsetz 1967.
20. Ibid.
21. Jepperson 2002.
22. Garud and Karnoe 2003.

23. World Bank 2005a.
24. Transparency International 2005.
25. World Bank 2005b.
26. Mayoux 2001.
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