

Public Policy Design in Developing Societies

Beyond Transplantation

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ABSTRACT

The transplantation of public policies is a powerful tool in the hands of economic development. Powerful as it may be, transplantation verbatim et litteratim is not inevitably successful, thus not always desirable. There are good economic reasons to consider the practice of grafting in public policy transplants, i.e., consideration for the specificities of existing local institutions and how they may interact with a set of more overarching policy requirements and guidelines. An architecture for public policy design that institutionalizes some sort of negotiation between policy makers and stakeholders may provide a midway that avoids some of the intrinsic risks of standard transplantation architectures.

Keywords: public policy, negotiated public policies, institutional transplantation, institutional design, institutions, economic development

Introduction

A mayor visits a city abroad and comes back very enthusiastic about the urban development program they carry out; he wants this kind of program too. A consultant makes an appointment with a state commissioner; his model for local industrial development has been adopted elsewhere and he wants to show that it is the right model for this state too. An international financing organization says that it is inclined to help country X, but only if country X adopts a governance model that has proven successful in other countries.

Every so often and in different ways, public agents are exposed to proposals for public policy transplantation. Be it at the national, regional, or local level, copying models shows an almost irresistible appeal. Someone else has already paid the costs of designing them and the successful applications are on display as very persuasive evidence that the

model is robust. But there seems to be ample factual evidence about the failure of public policy transplantation.

As a shared practice of public policy design, believed by many to be a useful and proper way to draw policies, transplantation can be seen as an important institution in public policy making, and institutions have been heralded as a key ingredient in economic development (e.g., Acemoglu, Johnson, & Robinson, 2005; De Soto, 2000; North, 1990, 2005; Rodrik, Subramanian, & Trebbi, 2004). But is transplantation always a good method for designing public policies that have a successful local impact?

In this article, this question is addressed and the limits of transplantation as a designing mechanism for public policies are examined. Two common variants of the policy transplantation method are discussed and an alternative method is offered. This alternative design seeks to make the most of the benefits associated with transplantation while overcoming some of its pitfalls.

The article is divided as follows. The section “Transplantation in the Economics Domain” introduces the metaphor of institutional transplantation in economics. The following section (“Overlapping Institutions”) starts widening the metaphor to include the relevant aspects involved in transplantation that are often left out when this concept is used with regard to economic development. The section “Specificities and Compatibility Issues” discusses the question of compatibility between donors and patients. The section “Grafting” introduces the notion of grafting, a transplantation practice that takes into account the specific characteristics of a patient – in our case, a community in need of public policy. The following section “Alternative Architectures Compared” compares different practices of designing public policies in which negotiation with local agents is either involved or not. The last section “Final Remarks” wraps up the main arguments in favor of a design that institutionalizes the participation in its design of those potentially affected by a public policy.

Transplantation in the Economics Domain

One important branch of the economic development literature has argued that underdeveloped countries or regions can benefit from transplanting policies in use in the developed countries or regions. Underdevelopment is allegedly a proof that local institutions and policies are incapable of promoting economic development and must, therefore, be discarded in

favor of alien ones. The metaphor of institutional transplantation has been widely used in such arguments (De Jong, Lalenis, & Mamadouh, 2002). As in the medical context, transplantation is recommended for an unhealthy patient who can benefit from a healthy transplant from a donor.

In modern economics, the metaphor has become popular since John Williamson (1990) coined the term “Washington Consensus.” It describes the standard macroeconomic recipe of the International Monetary Fund (IMF) and the World Bank for countries that need financial support from them. In many ways, their need for an extensive transplantation of a single imported model could be questioned, but the circumstances gave little opportunity for discussion. While technological change ran apace and many economists saw differentiation via technical innovation as a source of competitive advantage, public policy innovation was deemed to be different. Homogeneous public policies transplanted from the developed countries to the less developed countries were assumed to be the best way forward.

The powerful rationale for transplantation cut across the different political and geographic levels of public policy. Not only countries but also regions, states, and municipalities within them were taken as apt units for this process. During this period, although many economists would acknowledge that localities were not created equal in terms of their material endowments or human competences, the idea that public policies should be created equal in spite of these local specificities was considered a given.

After the mid-1990s, the empirical results of such transplantation of macroeconomic policies came under critical scrutiny and many questions were raised about the real benefits received by the patients (for a small sample, see Birdsall, Torre, & Menezes, 2001; De Jong et al., 2002; Lora & Panizza, 2002; Portes, 2006; Rodrik, 2002; Santiso, 2004). Many East Asian countries skipped the neoliberal recipe for macroeconomic policies and performed much better than the Latin American countries that followed it; large countries with regional disparities, like Brazil, neglected regional policies in favor of the homogeneous treatment of unequal regions and as a result, did not see much improvement in the poorer regions (Azzoni & Ferreira, 1997; Domingues & Ruiz, 2006).

Different views of this situation sparkled and gained attention in underdeveloped and unequal countries. Most of them, not necessarily new, focused on the relevance of peculiar features of local socioeconomic driving forces. Overall, they called attention to the endogenous factors

that could enhance or hinder the impact of public policies. Some of these views have used insights from institutional economics in one way or another to highlight the relevance of local values, customs, and interaction patterns.

The overlapping of actual structures (in terms of both organization designs and public policy makers' frames of thought) dedicated to or used to carry out transplantation with the new verve of relying on local forces to help formulate public policies has produced a plethora of efforts to combine them productively. These efforts have been registered over the world in case studies, and scholars have tried to bring them together under a theoretical apparatus that helps to explain them in a more systematic way. From the literature on complex systems and information, for instance, authors have emphasized the terms "top-down" and "bottom-up" to identify such initiatives. Other authors have tried to develop a framework to deal with policies that have both of these features, but which can best be identified as a "meet-in-the-middle" approach (e.g., Evans, 2004; Ostrom, 2005).

Overlapping Institutions

Notice that the issue at hand involves two kinds of collective habits (or institutions) at different analytical and practical levels. One is the historical practices of a locality – competences, cultural specificities, interaction and coordination makeups, socioeconomic hierarchies, and so on. The other is the tendency of public agents to rely on the mechanism of transplanting public policies in different formulation and intervention levels.

Established habits of thought and interaction in a local community make it a specific terrain over which public policy can operate. They become socially ingrained, a meaningful way of life with values, expectations, and knowledge that shape what individuals accept or repulse as legitimate changes or interventions.

In general, public policies try to address what are understood as a universal set of needs, and transplantation becomes especially attractive in such a view. If, however, local endowments of physical and human resources are responsible for different performances of the same overarching public policy, there is good reason to suspect that local institutions influence such variance.

Both public policy makers and local agents may share a fixed mindset toward transplantation. In either case, great value is often placed on

exogenous knowledge. Even so, public policy makers usually have technical expertise and local agents have knowledge of local specificities. It is recurring that both groups may be subject to believe that they are in a good position to assess all core issues involved and make the necessary adjustments.¹ Considering, however, that a public policy may be directed at many different (and perhaps unique) localities, the chance of mismatches is not insignificant. Moreover, local agents may represent only limited local interests and thus ignore the voice of other relevant agents.

As far as public policies are concerned, these two overlapping habits may be at least partially responsible for some disappointing results. Lack of interaction between public policy makers and local stakeholders leaves room for mismatched expectations, frustrating performance, and increasing mutual disbelief. In a nutshell, the transplantation of public policies seems to suffer from incompatibility issues, and the agents involved continue to struggle with developing new practices to tackle the problem.

As a result, verbatim et litteratim transplantation of public policies invites reexamination. In what follows, it is argued that the metaphor of transplantation can be fruitfully expanded in order to deal with the problem. In the domain of the metaphor (medicine), transplantation requires previous compatibility checks between donors and patients. Not only that, but a donated organ can be adapted to some specific characteristics of the patient through grafting.

Specificities and Compatibility Issues

“One-size-fits-all” recommendations for both national and local spheres have received many recent blows. Chang (2002a, 2002b, 2003), for instance, has highlighted the many pitfalls of such a strategy. Perhaps Chang’s most salient point is that current policies and institutions of developed countries cannot be simply transplanted to underdeveloped countries, because their institutional matrices are obviously different and serious compatibility issues arise. At the same time, other authors have stressed the wide variety of policies and institutions used around the world to overcome underdevelopment, both at national (Aoki, Kim, & Okuno-Fujiwara, 1998; Jütting, 2003; Rodrik, 1994; Wade, 2003) and local levels (Cooke & Morgan, 2000; Diniz, 2001; Evans, 2004; Ostrom, 1999, 2005; Shirley, 2002).

“Patient” specificities and compatibility issues have thus come to the fore. Even when transplantation can be considered a fruitful strategy, one

cannot avoid dealing with the impending problems of *corpus alienum*. A policy is never transplanted into an ahistorical socioeconomic vacuum and, thus, may not function as expected when it ignores the local set of existing institutions. Institutions can be defined as “durable systems of established and embedded social rules that structure social interactions” (Hodgson, 2005, p. 86). As “systems,” they involve smaller and interlinked parts; and being “durable,” occasional changes in the system may involve substituting new parts for old ones, but parts that fit with the other functioning parts. Disregard for compatibility may render the whole system less functional than it used to be.²

Authors like Chang (2002a), Eisinger (1988), Evans (1995), O’Brien (2007), Polanyi (1957), and Streeten (1993), for instance, give details of empirical cases in which national states combine with other national institutions (e.g., markets, business groups, syndicates) to constitute development policies. Still other authors like Adhikari and Lovett (2006), Aoki and Hayami (2001), Arzt (2007), Ostrom (2005), and Porter (2000) break down interactions to local governments, communities, smaller groups, and specialized supporting agencies to show the wide range of mechanisms developed to solve local problems. This literature poses a challenge to the “one-size-fits-all” recipe. The reader can surely imagine the kinds of problems that can come about if her own community stands as a passive receiver of a public policy whose design disregards its local peculiarities.

Grafting

Let us consider that a public policy is deemed necessary, transplantation is seriously considered, and compatibility issues are now on the agenda. This means that grafting an original design of public policy toward better compatibility becomes an option.³

Local specificities may exist in the form of varying kinds of formal or informal organizations, which may help or hinder a transplanted public policy. Accordingly, the public policy design may be exposed to the disproportional influence of longstanding interest groups and/or rent-seeking behavior. In this context, grafting allows not only adjustments to local specificities but also improvements on the original model (the so-called second-mover advantages). In any case, transplantation of public policies cannot avoid being experimental by nature, be it verbatim et litteratim or grafted. Grafting, however, allows for a wider redesign of

public policies that can attend to local specificities. What used to be seen as the space where the state or big firms operate almost exclusively can now include local demands, competences, and institutions.

In many instances, public policy makers have developed ways in which local interests are heard and may be a part of the design process. Local or sectorial counsels, forums, or chambers illustrate the case. These institutional designs can be a target for transplantation and should not ignore compatibility issues. The point is that both cases, one in which a source model allows no grafting and the other in which a source model is accompanied by grafting, are bound to confront compatibility issues.

Some variety, thus, should be expected and praised, for local integration at both levels (design of public policy and design of participatory mechanisms) can be anticipated as a means of achieving the increased commitment of a larger group of stakeholders. Some criticize this idea on the grounds that smaller stakeholders lack interest in taking part in the process and that it leads to a costly lengthening of the design process. These can surely be obstacles, but in a dynamic context, an institutional architecture that encourages participation and shows its potential long-term results may help mitigate these problems.

Any suggestion for such an institutional architecture for public policy design has to deal with the question of naming the architects. In this regard, Robert Goodin states the following:

...[E]ven within the realm of our intentional interventions, what we should be aiming at is not the design of institutions directly. Rather, we should be aiming at designing schemes for designing institutions – schemes which will pay due regard to the multiplicity of designers and to the inevitably cross-cutting nature of their intentional interventions in the design process. (Goodin, 1996, p. 28)

It is advisable, thus, that those in traditional positions to design public policy with local impact be concerned, on the one hand, with institutionalizing local participation in order to benefit from local knowledge and engagement that avoids only opportunistic involvements. On the other hand, institutionalization should not seek a “one-size-fits-all” structure for negotiation but a meta-architecture that gives room for participation in the design of public policy.

The public policy maker does not hold all the knowledge about all relevant local variables at stake and their links. Local participation, thus, should help to bridge this gap. In addition to that, the public policy

maker may not have all the knowledge about local interaction structures involving cooperative and conflict patterns, and established interests that may want to capture a public policy. The policy maker may end up listening to and designing a policy that favors a group because it is able to get itself organized to lobby the policy maker, but this group may be representing exactly the interests historically responsible for local socio-economic backwardness.

When a community is well represented and participation ensues, a meta-architecture of design will allow current local agents to participate using the interactive patterns to which they are used to. In a different context, when a community is biased and participation is precluded, a meta-architecture can impose wider representation or participation, or even suggest models for that to happen, like chambers, councils, or forums in which such and such parts have a saying. Although it may sound like an oxymoron, the meta-architecture in such cases dictates democracy. It may not eradicate endogenous conflicts, but it may be a first step in the direction of understanding and compromise.

In a way, public policy makers become *meta-institution makers* or institution provokers. They are in charge of designing public policies that will be partially designed by local agents. As such, the central design may confront problems like asymmetric information and power, biased representation, and lack of positive interaction patterns. With the institutionalization *ex ante* of a wider mechanism for negotiation of public policies, one can expect better outcomes. One benefit is that the policy ends may be better delineated according to local needs, and the policy means may be better understood by local agents. Another benefit is that they may find it easier to operate since local legitimation and a sense of belonging can provide support and engagement (Amin & Thomas, 1996). Even if such a design may present a higher initial investment, maintenance may be less expensive. Moreover, the initial commitment may represent a first step toward the development of interaction patterns with positive results on collective actions that lead to economic development (Axelrod, 1984; Eggertsson, 1991; North, 1995).

Alternative Architectures Compared

To illustrate the arguments presented so far, three alternative architectures for public policy design are compared in this section. They are obvious analytical reductions of what happens in actual practice, but they allow us to highlight some relevant attributes through comparison.

Each of the three architectures considered comprises two groups of agents: those potentially affected by a public policy in a community and those in position to implement a public policy. We refer to the first group as the stakeholders, stressing that this group includes those who may be affected by a public policy even though they may not have claimed a stake in it. The second group we refer to as the architects. This terminology fits well with the standard transplantation model, but it becomes slightly strained as we move away from it. A different description of what they mean in this context will be provided.

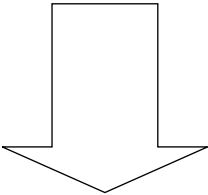
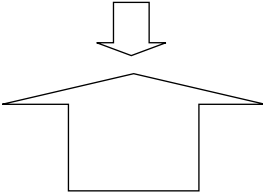
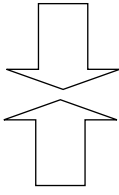
Figure 1 gives shape to the comparison. The three architectures considered are labeled: Standard Transplantation (ST), Local Independence (LI), and Negotiated Public Policy (NPP). Although the three architectures are general enough to accommodate a wide array of actual configurations, neither the architectures nor the attributes in comparison intend to be exhaustive. In addition, it is not meant here that ST and LI necessarily exclude negotiation. They, however, lack structural mechanisms to guarantee negotiation. As a result, negotiation usually takes place haphazardly and favors biased or limited participation based, for instance, on the voluntarism of the architects or privileged information provided by specific coalitions of stakeholders.

In Figure 1, each column is devoted to one of the selected architectures. The arrows indicate the origin of design and point to the stance of application or adaptation. Their boldness shows the level of participation of each agent in the design. Further below, each column lists some relevant attributes of the corresponding architecture.

In ST, the architects do the whole design and the stakeholders must adapt to the policy requirements. Whereas the average design costs for the architects diminish as the design is transplanted further, adaptation costs for each particular group of stakeholders may be inhibitive. This is particularly true if we consider that most targets of public policy with local impact are poor communities.

When ST is promoted by the architects, negotiations may exist but the stakeholders are very often underrepresented. Their demands would have to be ideally matched by someone involved in the design, e.g., architects who are all-knowing and fully engaged with all local interests (an unrealistic assumption, as argued earlier), a benevolent dictator (Musgrave 1959), or a perfect representative democracy that is in control of the architects.

Figure 1.
Architectures of Public Policy Design Compared

Standard Transplant (ST)	Local Independence (LI)	Negotiated Public Policy (NPP)
<p style="text-align: center;">Architects</p>  <p style="text-align: center;">Stakeholders</p>	<p style="text-align: center;">Architects</p>  <p style="text-align: center;">Stakeholders</p>	<p style="text-align: center;">Architects</p>  <p style="text-align: center;">Stakeholders</p>
Relevant Attributes	Relevant Attributes	Relevant Attributes
<ul style="list-style-type: none"> • Design costs fully borne by the architects • Decreasing average costs of design • Adaptation costs fully borne by stakeholders • Stakeholders' mobilization costs are absent • Monitoring costs are fully borne by the architects • Results depend on the power of the architects and on the capacity and willingness of stakeholders to adapt 	<ul style="list-style-type: none"> • Design costs fully borne by stakeholders • Nondecreasing and cumulative average costs of design (sum of design costs of all local initiatives) • Adaptation costs fully borne by the architects • High stakeholders' mobilization costs (plus costs of mobilizing architects) • Monitoring costs fully borne by stakeholders • Results depend on the power of stakeholders and on the capacity and willingness of the architects to adapt 	<ul style="list-style-type: none"> • Design costs shared by stakeholders and the architects • Design costs for the architects; at worst, equal design costs in ST • Design costs for stakeholders; at worst, equal design costs in LI • Decreasing average costs of design for the architects • Shared adaptation costs • Mobilization costs shared and smaller for either agents than in ST and LI • Monitoring costs shared and smaller for either agents than in ST and LI • Results depend on the synergy among stakeholders and between them and the architects

Source: Developed by the author.

In LI, local agents take charge of designing their own policies or institutions and look for legitimation, financial or political support, or some other form of exogenous aid to implement them. The architects in this case become the middle persons with little or no part in the design process. There is little or no use of their ability to provide a more homogeneous direction to policy and diminish the average design costs. Local efforts may succeed, of course, but may be very limited in terms of their

spillover effects. When a local effort succeeds, others may want to follow suit through transplantation, and we may end up with the same initial problems of ST. Probably many reported cases in the social capital literature illustrate this case. In LI, additionally, efforts by local groups to mobilize architects may result in their capture, reifying a design that attends mostly or solely to their particular interests. Negotiation, in this case, includes mostly organized and better endowed groups – most likely in detriment to diverse interests and poorer groups. Local political chiefs (e.g., a caudillo or strongman) and powerful landowners in rural areas are known for regular use of this type of architecture in its retrograde form (Reiter, 2008).

In NPP, there is room to benefit from what is best in each of the previous models. The architects play the role of drawing a general picture of what development goals they favor and the underlying set of general incentives, and also the role of dictating democracy in designing public policies if necessary. The latter role is the ultimate assurance that there is fair representation of stakeholders in the policy design process. This, however, does not guarantee that local representatives may not be captured by prevailing local interests. In any case, exogenous agents like the architects may have a better chance of maintaining the necessary independence of the local representatives.

On the one hand, new or newly organized local agents may lack the competences required to design or implement public policy. The negotiation process should be able to address such deficits and to provide means to deal with them. On the other hand, the knowledge of local agents about the particulars of their communities should be able to raise discussions on the efficacy of the mechanisms of a public policy on their lives. This could bridge *ex ante* the gap, caused by the designers' lack of knowledge of local institutions, between an ideal policy and the actual form in which it might otherwise exist. Participation in the policy design can create the incentives for stakeholders to monitor and fine-tune the public policy. Additionally, participation can spur a sense of ownership among stakeholders toward a public policy and spread out the sense of responsibility and involvement that helps to implement it and, occasionally, fine-tune it (Schrank, 2009).

All models are subject to unsound and spurious synergies. Unsound synergies can occur when stakeholders and the architects, at all levels of participation, agree to implement a public policy that does not produce the anticipated effects on economic development. The NPP deals with this problem by promoting *ex ante* confrontation of ideas between the

design agents. Even when uncertainty is pervasive, debating different policy frames (*à la* Kahneman & Tversky, 1986) held, for example, by local agents and government agencies, works like a hedging strategy. Critical points and potential flaws can be identified *ex ante*, at least those related to ambiguous interpretation of each other's competences, interests, and obligations. LI mostly trusts that stakeholders are fully capable of understanding and mitigating all risks of a misguided policy, and pays little attention to the architects' knowledge. ST operates with a similar logic, only in reverse – it trusts the capability and understanding of the architects but not of the local stakeholders.

Spurious synergies can happen when particular interest groups from the architects and stakeholders, at all levels of participation, work together to design a public policy or institution to their own benefit and the exclusion of others. Both ST and LI make spurious synergies less costly. In ST, it is relatively unproblematic for the architects to look for local interest groups that benefit from their initial design and to nominate them as local voices or representatives. In LI, the same logic operates with the agents' positions reversed. In NPP, the capture costs are higher since the negotiation process is institutionalized and includes a wider group of participants with more diverse interests. Particular interest groups either within the architects or the stakeholders would have to capture a lot more agents and keep this hidden in the institutionalized procedures. These conditions make capture more expensive, unstable, and risky, since all the groups involved have an incentive to monitor against the development of collusive practices.

Final Remarks

Institutions and public policies may be swiftly imagined, but they are not easy to be implemented and grow into collective habits. Some laws and norms make a huge impact, while others are simply ignored; there are some social practices that are widely reproached, but we just seem unable to act collectively to stop them. The transplantation of public policies lives in this kind of world. It provides a powerful architecture for institutional change and economic development. Grafting seems to be a further and useful procedure in the transplantation of public policies. It may be able to improve local chances of transplanting public policies that are more representative and legitimate in terms of local needs for economic development, even if it requires persistence and *ex post* adaptation before the outcomes can be determined.

The institutional designs used to formulate and implement public policies can be drawn in such a way as to allow grafting. Inserting a negotiation mechanism in the design of public policies makes it more time consuming. Local agents and public policy makers who have never had the shared experience of negotiating a design will surely have initial difficulties to overcome. On the other hand, a negotiated design permits the narrowing of the gap between an idealized policy design and a design that effectively takes into account local specificities.

A trade-off illustrates this case. A public policy can be quickly drawn and implemented by policy makers regardless of any interaction with local agents, but at the cost of poor performance caused by incompatibility issues. Alternatively, more time can be taken to formulate policy with the contribution of local agents, but it results in greater involvement on the part of those with a stake in it and a more legitimate outcome. Institutionalized interaction helps promote negotiation where none exists, and strengthens negotiating forums that already operate (Platteau, 1994). Furthermore, it helps people make complementary use of their competences and clarifies what the roles are of those involved in the process.

In any case, institutionalizing further participation of more local agents in the design process experience is per se an increase of individual freedom and competences, which is an important measure of development, as argued by Amartya Sen (1999). In this sense, the NPP architecture promotes freedom by giving individuals more opportunity to shape decisions they otherwise would not be allowed to shape. Moreover, such decisions tend to have a direct impact on their lives through local institutions, entities that evoke a sense of belonging and are thus seen as their possession. The NPP also promotes increasing competences (and responsibilities) by helping individuals develop new abilities to negotiate local integration with the policy architects, and thus they gain the ability to change their locality to their benefit. The architects are still very important since they can work as a countervailing power to offset the power of particular established interests that may want to perpetuate a local structure that is detrimental to the development of the majority of the population.

The transplant metaphor is a powerful tool in organizing our thoughts and framing our decisions, and we can make better use of it for the purposes of public policy design. The extension of the analogy to include the practice of grafting encourages us to pay more attention to compatibility

issues and the specificities of those at the receiving end of the public policy being transplanted. This will hopefully lead us to discuss how to design policies that address local realities and take advantage of them to the benefit of those most in need.

ACKNOWLEDGMENTS

This article was completed during a visiting research fellowship at the Brazilian Institute of Applied Economic Research (IPEA) in the New Institutionalities for Negotiated Public Policy Group. I am grateful for their institutional and financial support. A previous version was presented at the seminar, “World Crisis and Regional Development: Challenges and Opportunities for Brazil,” promoted by IPEA, Brazilian Development Bank (BNDES), and the Brazilian Ministry of National Integration. The author is thankful to Liana Carleial, Bruno Cruz, Carlos Wagner de Oliveira, Elson Pires, Fabiano Dalto, Luiz Esteves, Nilson de Paula, and Victor Pelaez for helpful comments.

NOTES

1. The literature on behavioral economics provides evidence that “overconfidence” is a recurrent feature of human judgment (see Brenner Koehler, Liberman, & Tversky, 1996; Daniel, Hirshleifer, & Subrahmanyam, 2001; Griffin & Tversky, 1992; Klayman, Gonzáles-Vallejo, & Barlas, 1999; Shiller, 2002, 2005).
2. Burlamaqui, Souza, and Barbosa-Filho (2007) provide a case study of the Brazilian economy in the mid-twentieth century in which compatibility issues in the midst of institutional changes play a central role. See also Geva-May, Nasi, Turrini, and Scott’s article (2007), which is a case in point for different developed countries.
3. In fact, not only grafting is an apt extension of the analogy but also the concept of follow-up treatment (e.g., immunosuppressive drugs, scans, and fine-tuning interventions).

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