

# **The Economics of Failed, Failing and Fragile States: Productive Structure as the missing link**

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# 1. FFF ECONOMIES AND RETROGRESSION: The race to the bottom

## Wealth Divergence Today

Poverty

Wealth



(AFP/GETTY IMAGES)

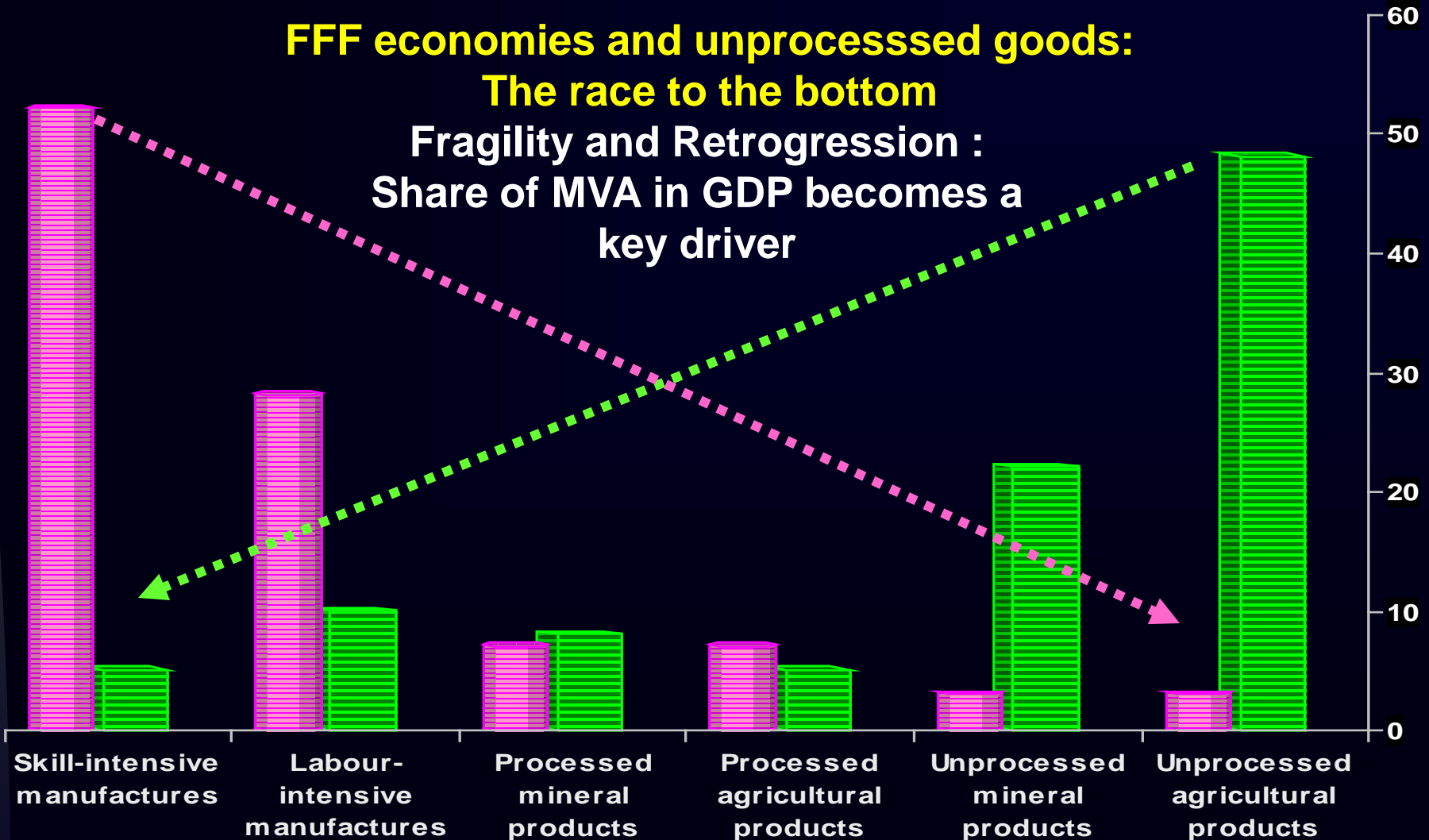
## Regional Export composition 1999-2001 % of total exports

■ Land-Scarce Industrialized countries

■ Africa

**FFF economies and unprocessed goods:  
 The race to the bottom**

**Fragility and Retrogression :  
 Share of MVA in GDP becomes a  
 key driver**



Source: Adapted from Jörg Mayer and Pilar Fajarnes, *Tripling Africa's primary exports: What? How? Where ?*, UNCTAD, Discussion papers No. 180, October 2005.

## FFF in Sub-Saharan Africa World Bank Classification (2007)

### Oil Exporters

1. Angola
2. Cameroon
3. Chad
4. Equatorial  
Guinea
5. Congo (Rep.)
6. Gabon
7. Nigeria

### Middle-income Countries

1. Botswana
2. Cape Verde
3. Lesotho
4. Mauritius
5. Namibia
6. Seychelles
7. South Africa
8. Swaziland

### Low-income countries

1. Benin
2. Burkina Faso
3. Ethiopia
4. Ghana
5. Kenya
6. Madagascar
7. Malawi
8. Mali
9. Mozambique
10. Niger
11. Rwanda
12. Senegal
13. Tanzania
14. Uganda
15. Zambia

### Fragile States

1. Burundi
2. Comoros
3. Congo (DRC)
4. Côte d'Ivoire
5. Eritrea
6. Gambia
7. Guinea
8. Guinea-Bissau
9. Liberia
10. Centralafrica
11. Sao-Tome and Principe
12. Sierra Leone
13. Togo
14. Zimbabwe

- **Failed or failing States does not exist**
- **WB's problems :**
  - **Ability to service debt immediately**
  - **Influence on the type of governance to service debt**
  - **Free market economic growth policy focusing on paying off debt: Prioritising international debt over local**
  - **Strait-Jacket Blue print policy advice**

# MVA LOW LEVEL IN FFF (Sub-Saharan Africa)

## MVA in GDP per WB classification, 2007 (Min & Max)

### Oil Exporters

1. Angola, 5%
2. **Cameroon, 17%**
3. Chad, 6%
4. Equatorial Guinea, ?
5. Congo (Rep.), 6%
6. Gabon, 4 %
7. **Nigeria, 3%**

### Middle-income Countries

1. **Botswana, 3%**
2. Cape Verde, ?
3. Lesotho, 19%
4. Mauritius, 20%
5. Namibia, 11%
6. Seychelles, ?
7. South Africa, 18%
8. **Swaziland, 44%**

### Low-income countries

1. Benin, 8%
2. Burkina Faso, 14%
3. Ethiopia, 5 %
4. Ghana, 8%
5. Kenya, 11%
6. Madagascar, 16%
7. Malawi, 14%
8. **Mali, 3%**
9. **Mozambique, 15%**
10. Niger, ?
11. Rwanda, 6%
12. Senegal, 14%
13. Tanzania, 7%
14. Uganda, 8%
15. Zambia, 11%

### Fragile States

1. Burundi, 9%
2. Comoros, ?
3. Congo (DRC), 6%
4. Côte d'Ivoire, 18%
5. Eritrea, 5%
6. Gambia, 5%
7. **Guinea, 4%**
8. Guinea-Bissau, 8%
9. Liberia, 13%
10. Central Africa, 8%
11. Sao-Tome and Principe, ?
12. Sierra Leone, ?
13. Togo, 10%
14. Zimbabwe, 14%

### • Regional perspectives

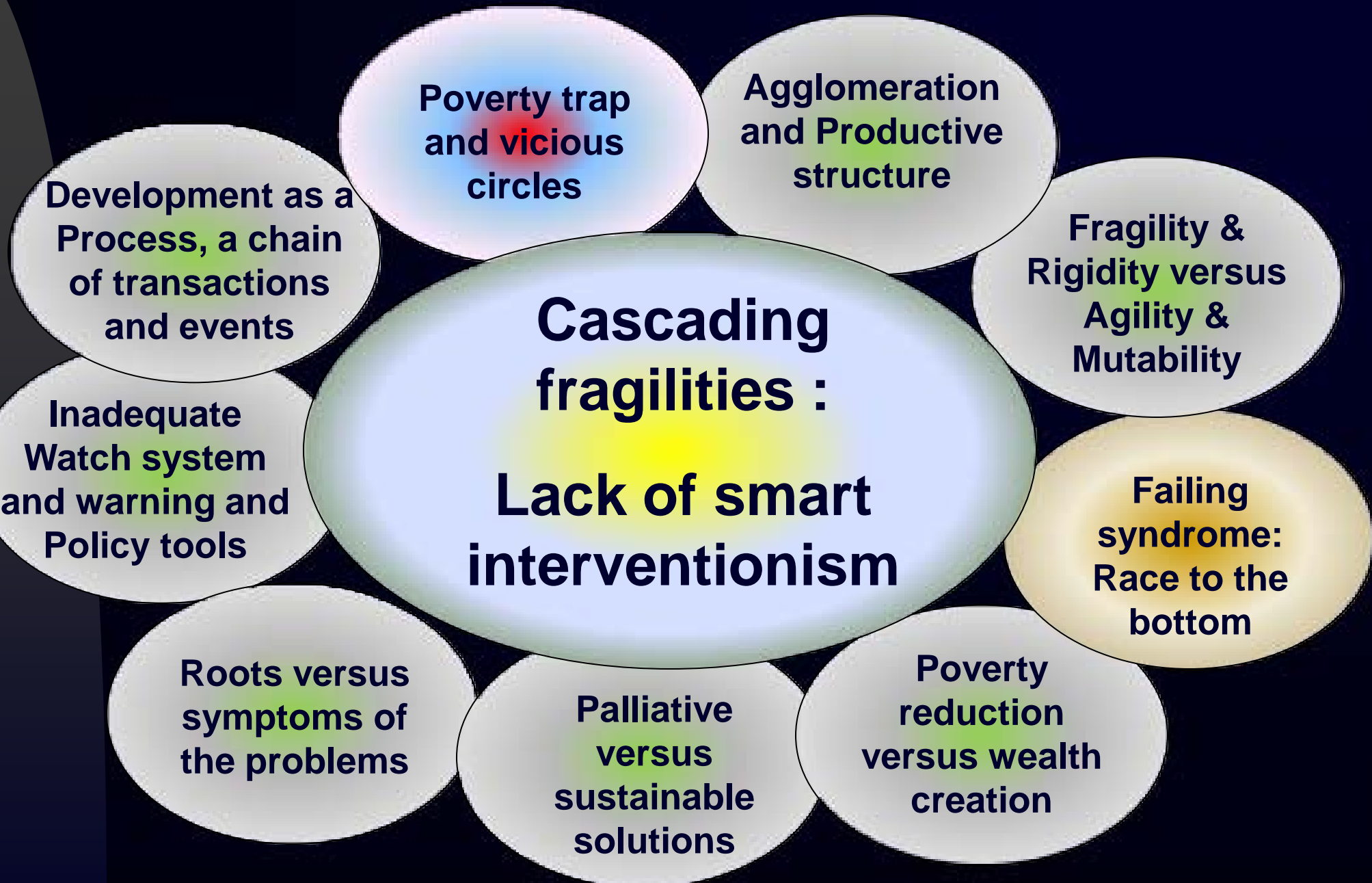
- SSA : 14%
- LAC: 18%
- **EAP: 30%**
- **ME & NA: 12%**
- Euro Area: 18%
- Eur. & Central Asia: 19%
- World: 18 %

# Benchmarking Analysis:

- Regional average,**
- World average,**
- Economies with similar criteria** (size, resources, outputs, etc.)



# FRAGILITY AND RETROGRESSION



# SELECTED COMMONALITIES IN ALL FFF ECONOMIES

Share of MVA  
in GDP low &  
High level of  
inequality

Preference for  
Trade over  
Development of  
Productive  
capacities

Brain Drain  
and lack of  
incentives for  
return

Development  
priority lower  
than staying in  
Power (stability)

AID Syndrome:  
TINA as a  
culture

**Virtuous circles  
of increasing  
shared returns  
broken**

Freedom and  
democracy not  
considered as  
a leverage

Weak capacity  
of absorption

Knowledge  
diffusion  
under strict  
control

Patrimonial  
Governance

Weak  
Technology  
resilience  
(Technology content  
and diffusion  
neutralized)

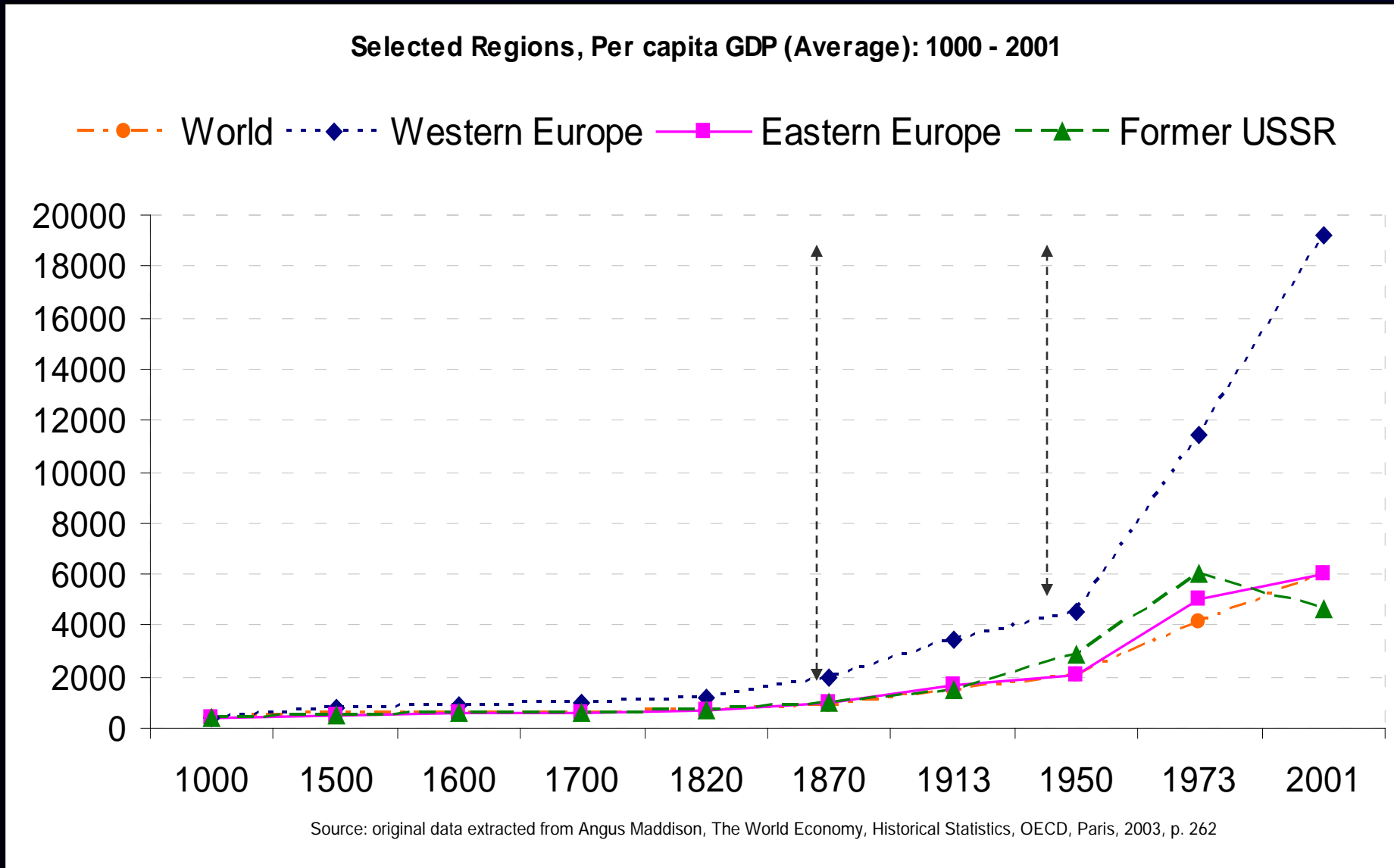
**« Society becomes increasingly  
non-zero-sum  
as it becomes more complex,  
specialized, and interdependent »**

Robert Wright, *NonZero : The Logic of Human Destiny*, Pantheon Books, 2000

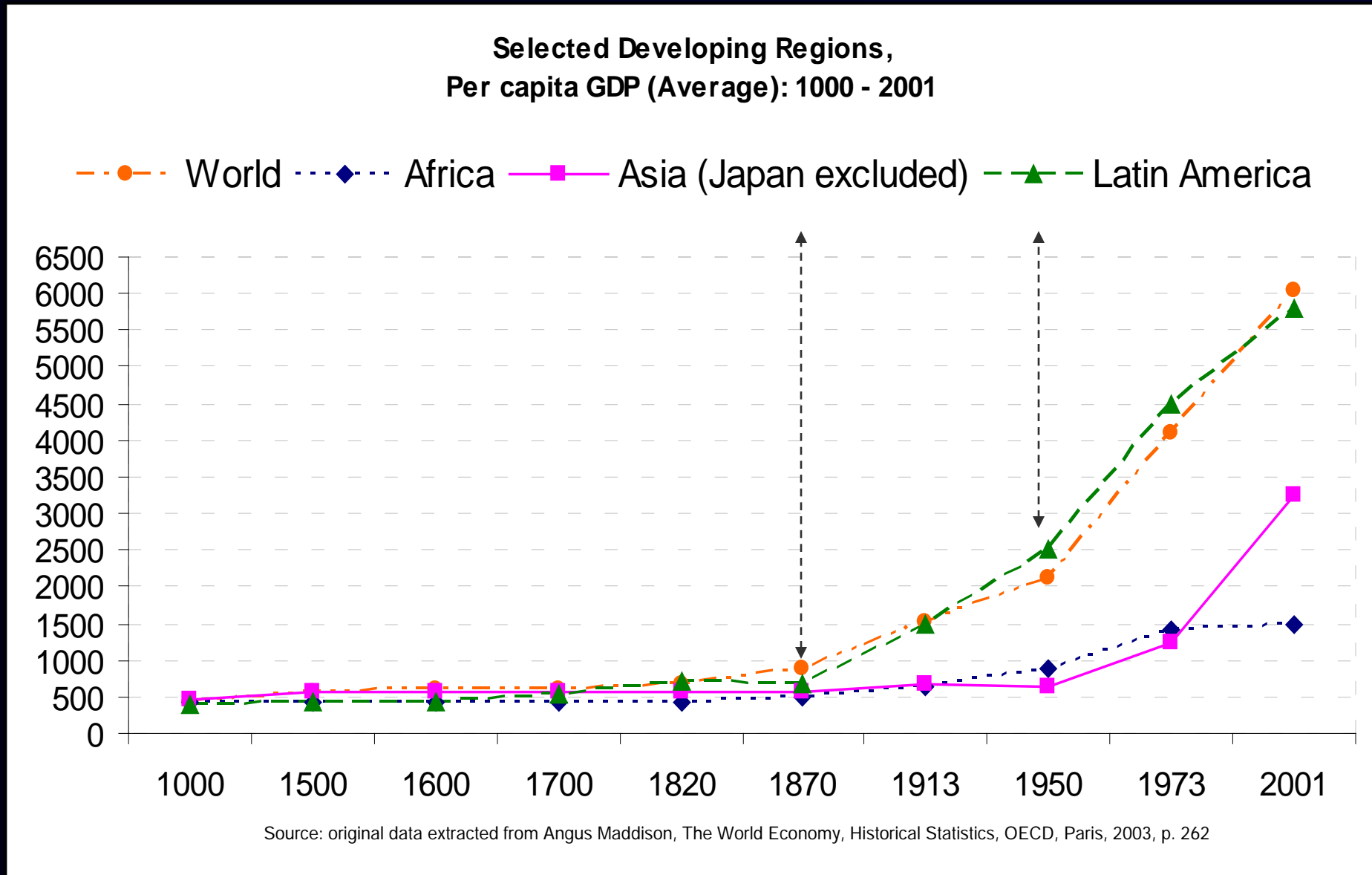
- ❑ **FFF States will not escape this development path !**
- ❑ **Retrogression will have an end ? Nobody knows when and at which costs?**
- ❑ **The Challenge for FFF economies : Towards Productive Agglomeration?**
- ❑ **Ending vicious circles: Reversing the race to the bottom and involve the bottom millions in wealth creation**

## **2. Divergence and Convergence Divide among Regions**

# World Regions (1), 1000 – 2001: Convergence and Divergence GDP per capita (\$)



# World Regions (2), 1000 – 2001: Convergence and Divergence in GDP per capita (\$)



## From Convergence to Divergence of FFF economies: 3 main periods, 3 main problems

### Periods:

1. **1000-1870:** Marginal Divergence among regions (geographical segmentation of the world among colonial's powers)
2. **1870-1950** Africa, Latin America and Asia (excluding Japan) unable to boost GDP per capita and Share of MVA in GDP
  - Independent economies supported by regional economic locomotives re-appropriate economic wealth (Frederic List's theory of "productive power")
3. **1950-2001:** Economies with productive structures in place benefited from the gradual acceleration of the globalization process
  - Divergence accelerated between poor FFF and rich industrialized countries.
  - Middle income economies to be compared to the world average of selected indicators

### Problems:

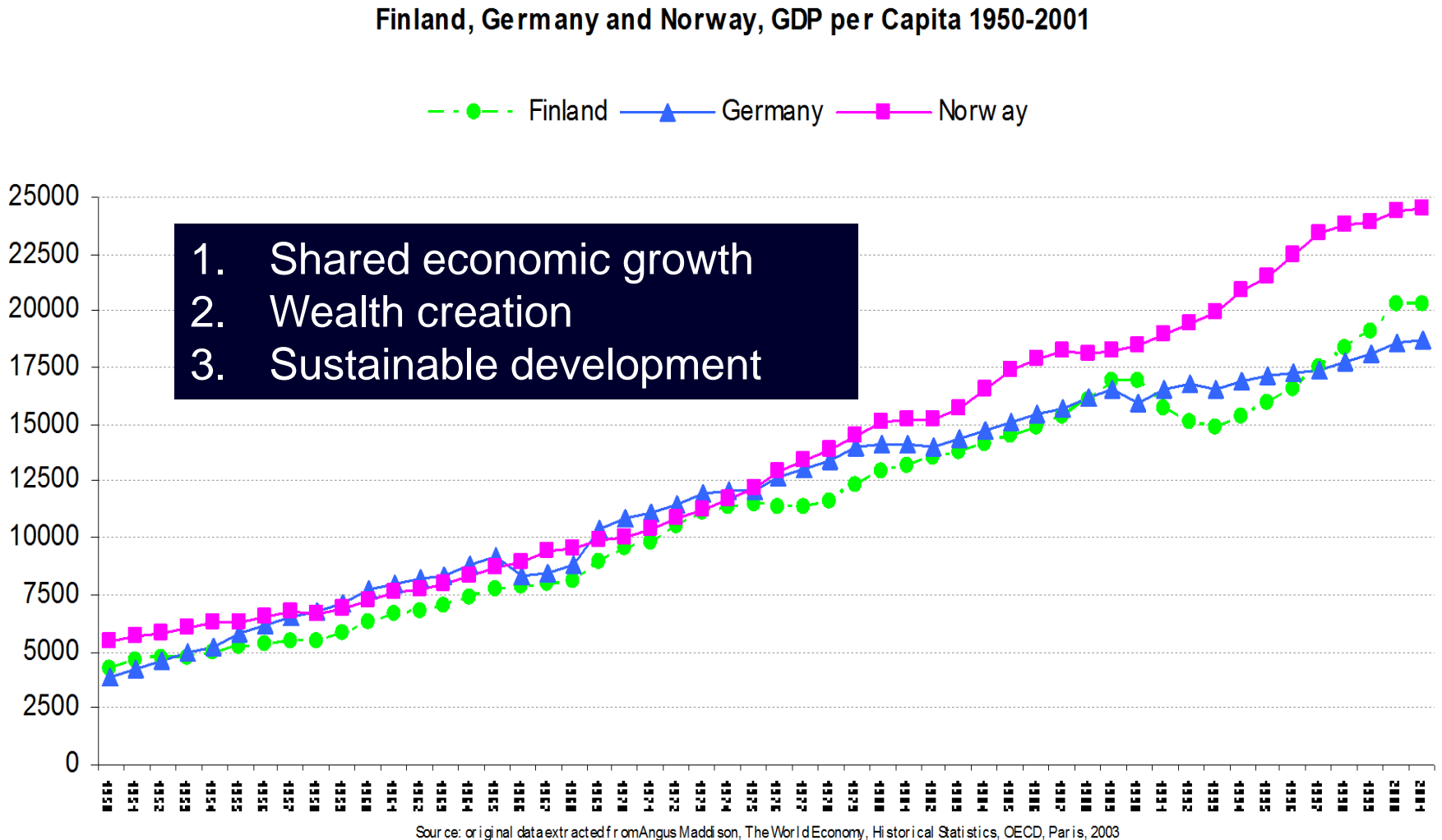
1. **PRODUCTIVE AGGLOMERATION** (Lack of)
2. **CUMULATIVE APPROACHES** (Lack of)
3. **PRODUCTIVE GOVERNANCE** (Lack of)

### **3. Divergence and Convergence Divide among Countries**



# Convergence of High-income Economies: 1950- 2001

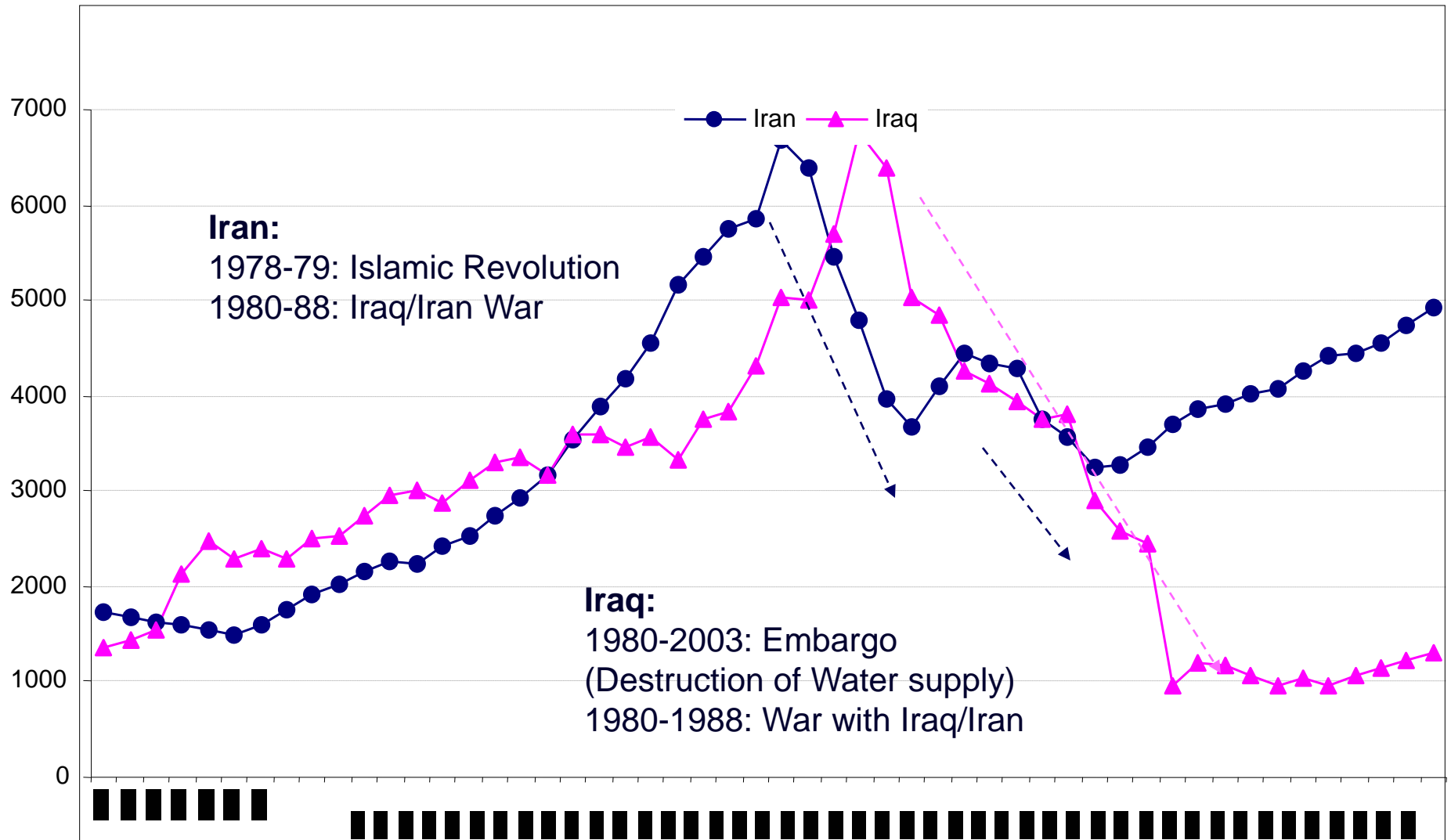
## Finland, Germany and Norway, GDP per Capita (\$)



# Divergence in Middle-Income Economies, 1950 – 2001

## Iran/Iraq War: From Failing to Failed economies, (GDP per capita (\$))

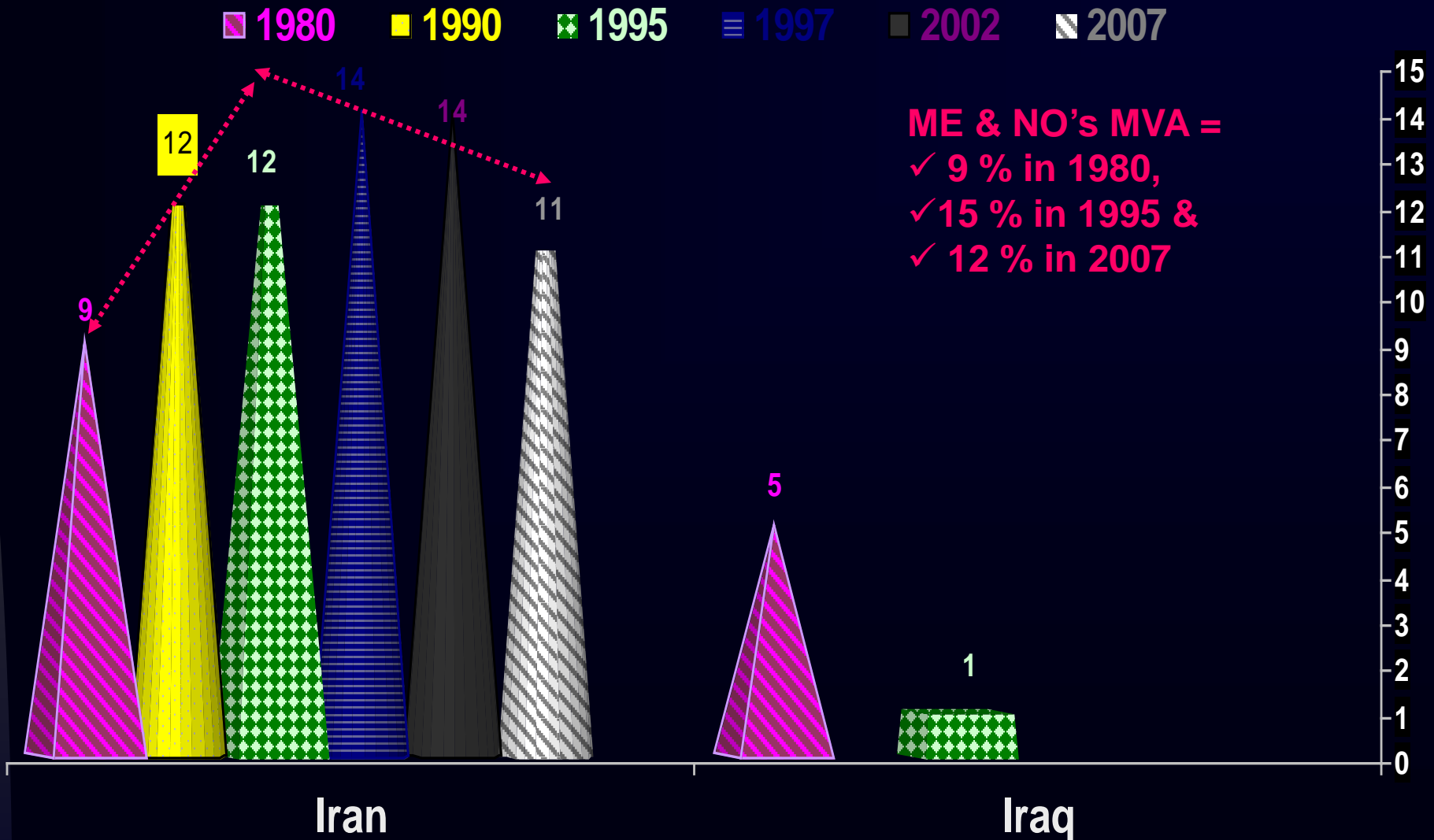
Iran-Iraq, GDP per Capita 1950-2001



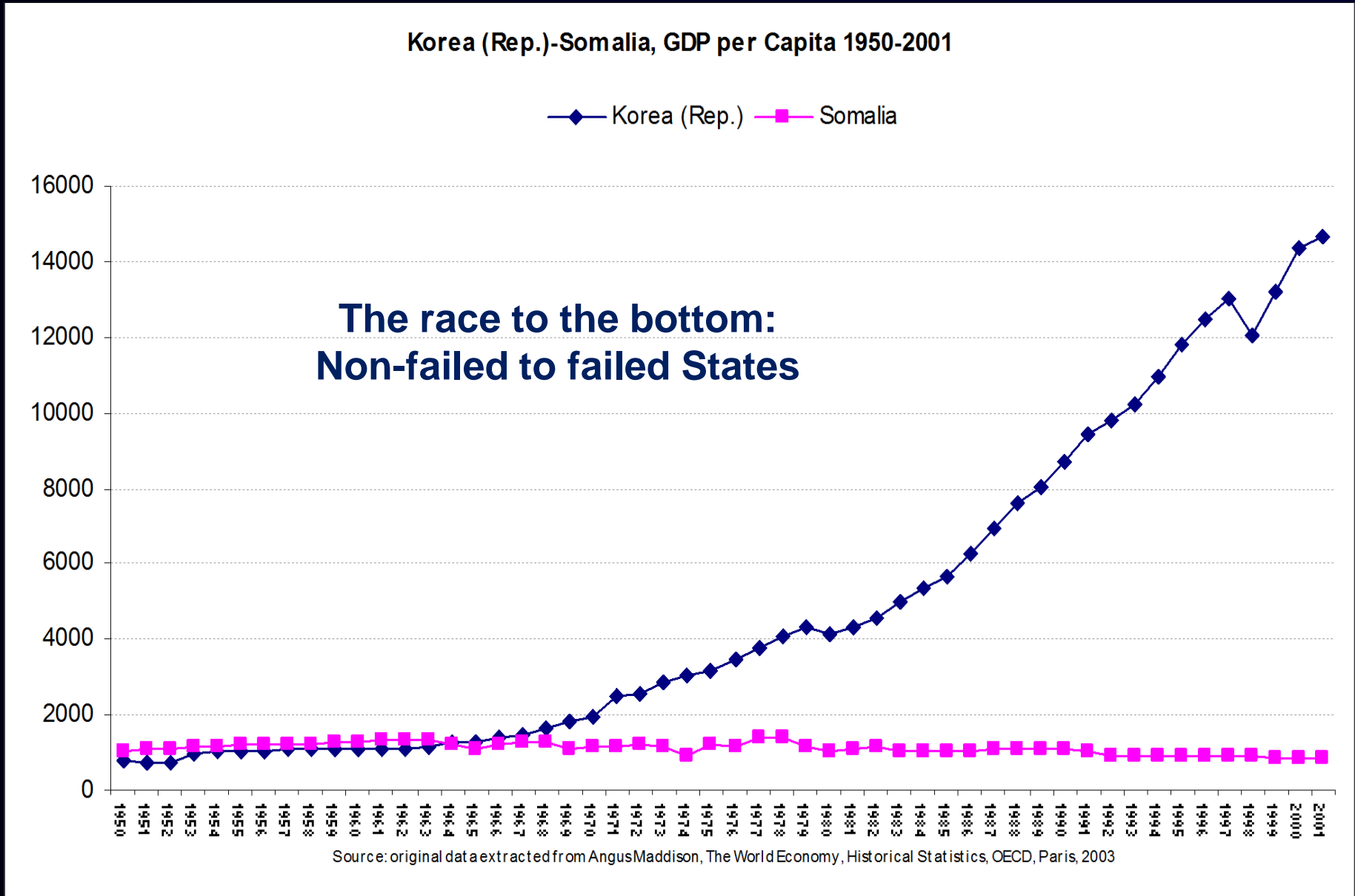
Source: original data extracted from Angus Maddison, The World Economy, Historical Statistics, OECD, Paris, 2003

## IRAN and IRAQ, Share of MVA in GDP, FRAGILITY = MVA in GDP below regional average

Cascading fragilities: war, revolution, embargo, remote control interventionism...

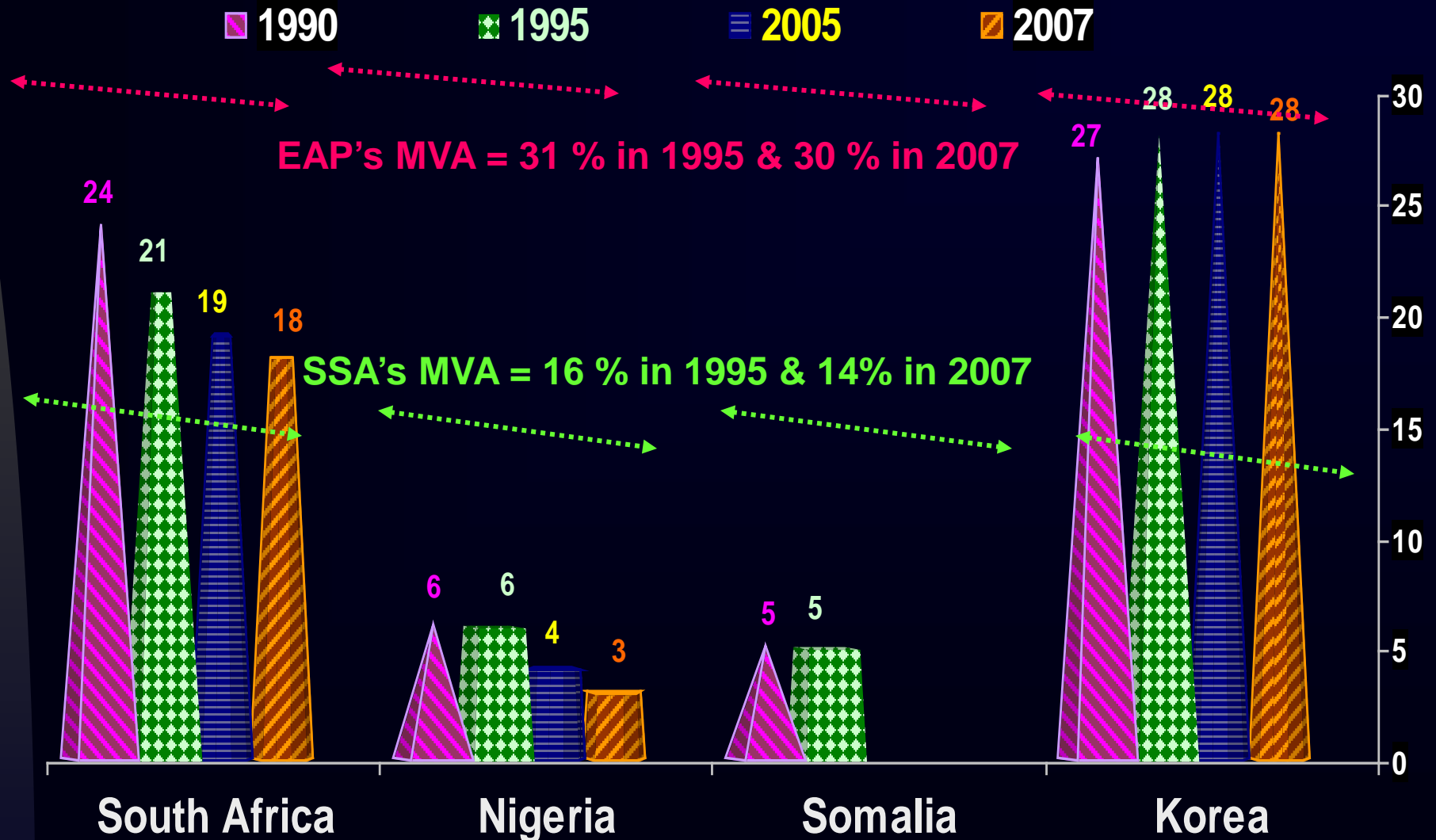


# Divergence between Korea and Somalia: 1950 – 2001



# Share of MVA in GDP, Somalia, Korea, South Africa and Nigeria

**FRAGILITY = MVA in GDP permanently below regional average**



Source: WB, WDI 2003, pp. 190-192, WDI 2007, pp. 194-196 and WDI, pp. 208-210.

# Korea economic Development path: Could FFF States emulate this approach

## 1. Smart Strategic vision:

- ✓ Government commitment to industrialize:
- ✓ From rice to manufacturing as a mean to create decent jobs

## 2. Partnership

- ✓ Government's selection of priority industries in close consultation with the Private sector

## 3. Visible hand's priorities :

- ✓ Tariff Protection, subsidies and various forms of government support and incentives...

## 4. Watch system:

- ✓ Benchmarking Korea with other emergent and advanced economies: while infant industries were growing up (complexity, segmentation, focused market and unique products)
- ✓ Decision for Government intervention based on whether selected national industries can survive international competition

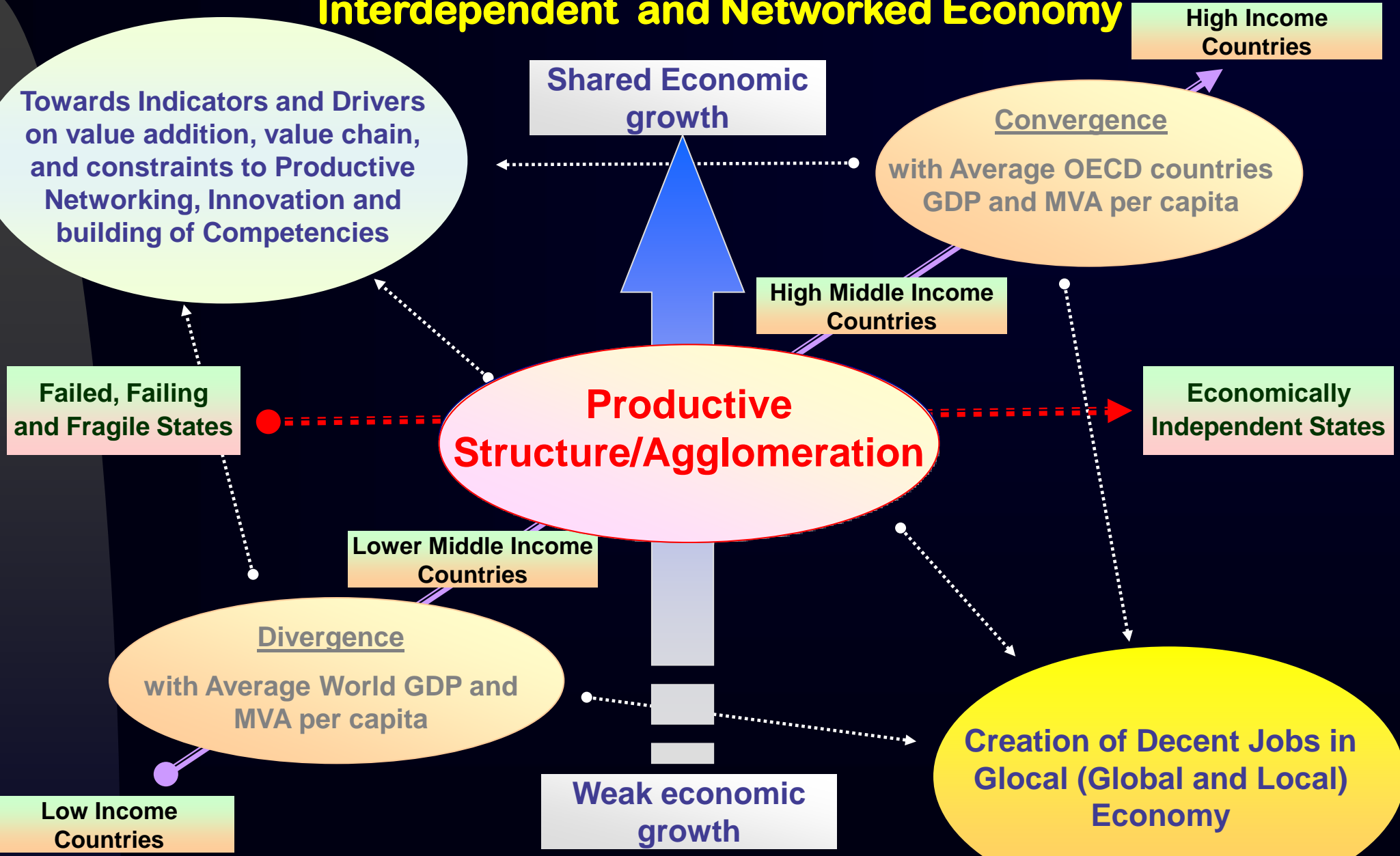
## 5. Gradual openness:

- ✓ Gradual liberalization of a sector
- ✓ Gradual openness of the whole economy

- ❑ **FRAGILITY of economies** : Generating wealth based on Free Trade if dynamic and competitive Productive structures (capacities, capabilities, institutions and competitive transaction costs) are not part of a long-term strategic economic policies?

## **4. FFF economies: Productive Structure as the missing link**

# Competitive Wealth Creation in an Interdependent and Networked Economy





## From poverty alleviation to wealth creation: Symptoms versus Roots of the problem

1. Waste of available resources: natural, processed and human capital
2. Difficulty to generate middle-income actors and move towards Middle-income countries (ensure sustainability)
3. Globalisation versus primitivisation (more trade, less wages, avoiding promoting environment-friendly productive capacities)
4. MDG, EPA, Doha Dev. Agenda (WTO): a/ Industrialisation not mentioned; b/ too much focus on symptoms of poverty (palliative activities and disguised wealth creation)
5. Shared economies growth: distribution of appropriate wages in an distributive economy (example of Norway/Austria versus Somalia/DRC)
6. Aid may not contribute to “sustain jobs creation” system (Does not mean that Aid is not necessary)
7. From economy of subsistence to export: Is protection and/or subsidies becoming a policy mistake in free-market environment?
8. No alternative for FFF economies: Protecting Infant industries during a limited period with the objective that protection becomes unnecessary
9. Commitment to Industrialisation correlated with a type of economic governance (production and consumption system benefitting a minority or a majority)

## **FFF economies' myth: Revisiting concepts and shifting to cumulative approaches**

1. Division of Labour (city/urban versus farms/rural)
2. Dynamic agglomeration does not take place without manufacturing activities (usually in cities)
3. Correlation between Wealth creation, type of governance and productive structure
4. Holistic approach to economic activities: productive capacities as a cornerstone
5. Marshall Plan, 1947: major re-industrialisation and reconstruction plan
6. Development assistance and MDGs' myth (Perception that the Private sector will successfully develop the productive sector in FFF economies)
7. Aid focus on palliative measures and indirectly appears as an instrument to promote donors' export market
8. **Obsolete economic behaviour and culture: Protection which never ends, Subsidy which prevents competition, no importance provided to proximity economy**
9. **From Patrimonial States to FFF: Zero-sum game societies and static rent-seeking**

# Why alternative economics in FFF States is needed?

1. Top-down policy tool kits
  - ✓ Straight jacket policy and no cumulative synergies)
  - ✓ China and India deviate from the Washington consensus
2. De-industrialisation: accident or well-planned
3. Primitivisation and informalisation of the economies
4. Palliative measures: simple dysfunction?
5. Economies with and without decent transfer of wages and revenues
6. Working in isolation and with low-content technology
7. **Patrimonial States (feudal political structure, specialisation in few materials, static rent seekers, lack of commitment to promote productive structure, no wealth creation behaviour)**
8. Consequences of non productive agglomeration
  - ✓ Failures to generate wealth in State and city
  - ✓ Vicious circles (“take but do not give back” syndrome)

# Preconditions for Economic growth and Industrialization

<p><b>Protection</b> (subsidies and trade preferences)</p>	<p><b>Local/Export</b> (Regional and International market)</p>	<p><b>Competition</b> (exception for infant industries)</p>
<p><b>Aid</b> Ending TINA syndrome and House slave syndrome</p>	<p><b>Productive structure</b></p>	<p><b>Emulation and Looking for Anchor</b></p>
<p><b>Conducive business, legal and social environment</b></p>	<p><b>Agile culture, behavior and management</b></p>	<p><b>Convergence</b></p>

## Revisiting collective efficiency in FFF economies

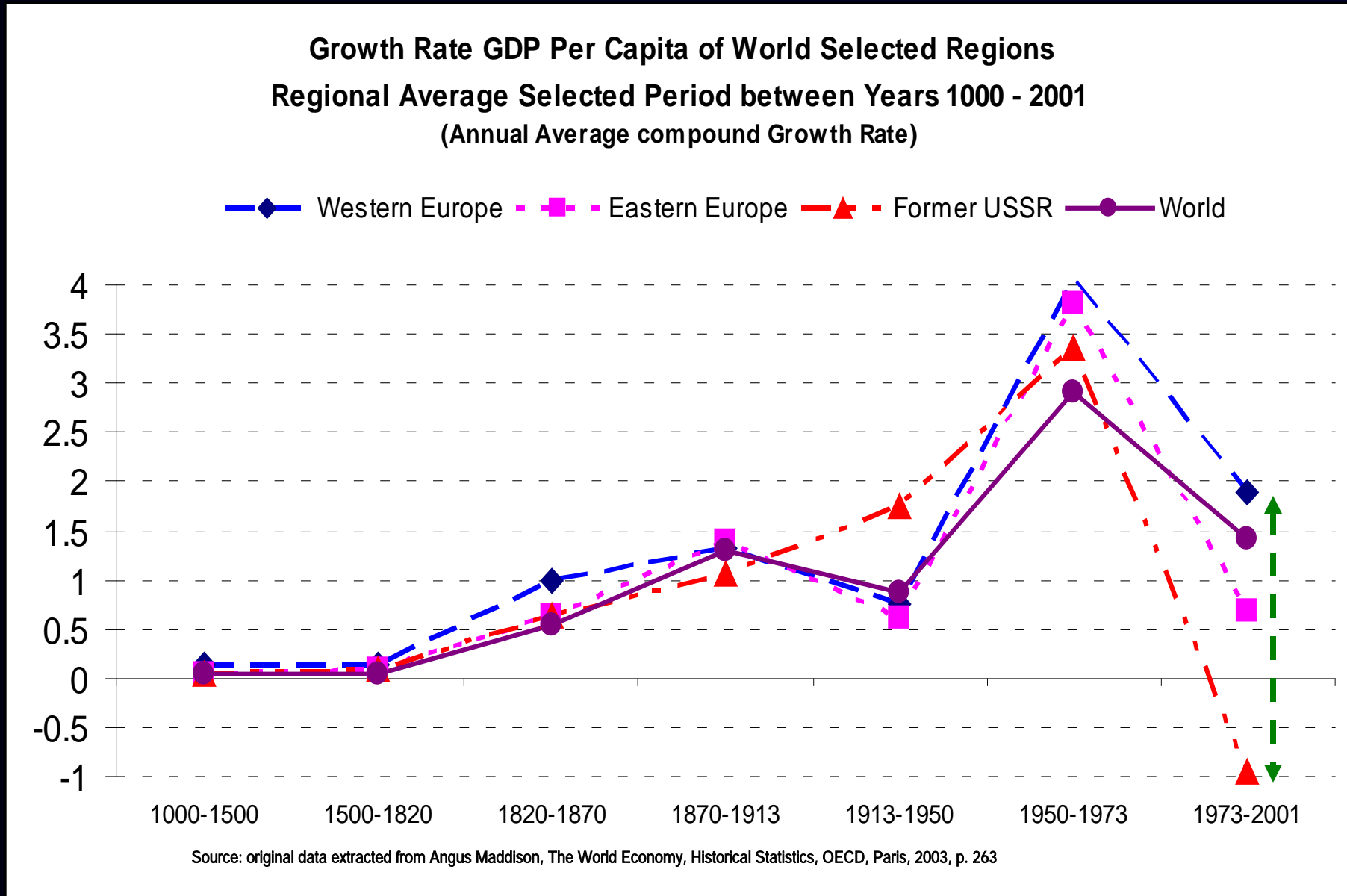
- ❑ FFF economies face serious difficulty controlling the creation of value at local level and in dynamic productive agglomerations while benefiting from the global market
- ❑ Productive structure (capacities and agglomeration) helps also to reduce the risk of failure while increasing collective efficiency
- ❑ In FFF States, Trade cannot become a palliative for the lack of industrialization (Civil society organizations cannot replace States in their core activities, the reverse is also true)
- ❑ Accountability and responsibility for public goods in FFF economies must be revisited (unipolarization, uniformization and standardization of solutions must pass the ownership test)

# **5. FFF economies: Towards a wealth creation index (Poverty reduction index)**

## **Indicators capturing convergence or divergence in the building of Productive structure**

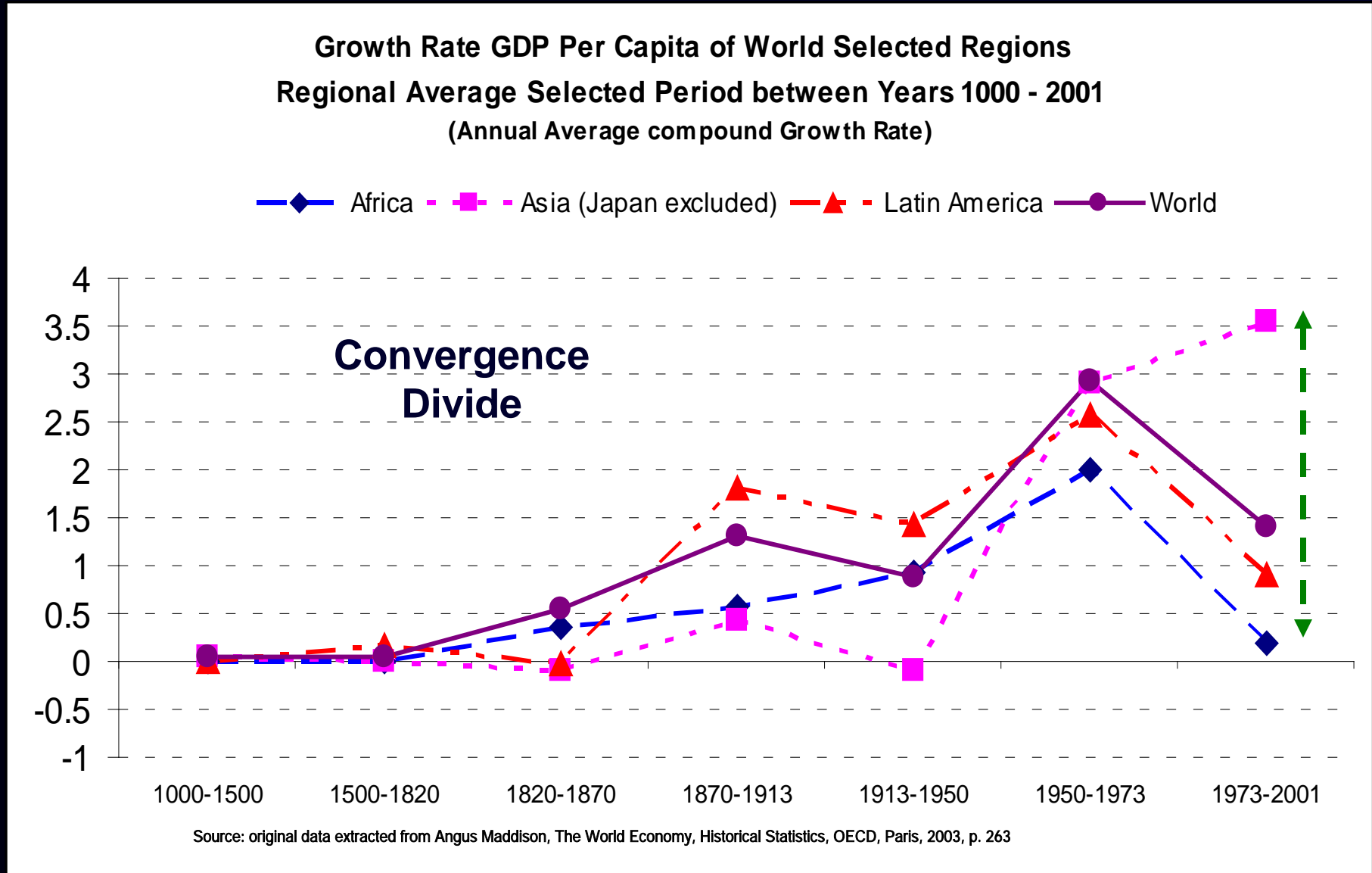
1. **Trend of GDP or GNI per capita**
2. **Share of MVA in GDP (above regional/world/cluster average)**
  - **Comparison with the world and the region average and the best performer of the sub-region and similar convergence starting point**
3. **Growth rate of MVA per capita (commitment of the Government to promote industrialization and stop bad rent activities)**
4. **Benchmarking Business environment indicators (country above the region average)**
5. **Selected competitiveness index with special focus on pool of human capital/expertise including among the Diaspora**
6. **Capacity of absorption, capabilities at institutional levels, productivity, innovation, technology content especially at local level**
7. **Capacity to master subcontracting and concessional arrangements**
8. **Real wage dynamic (effective non-asymmetric transfer/inequality gap)**

# GDP per capita Growth rate for Western Europe, Eastern Europe and former USSR: Convergence and Divergence over 1000 years (in %)



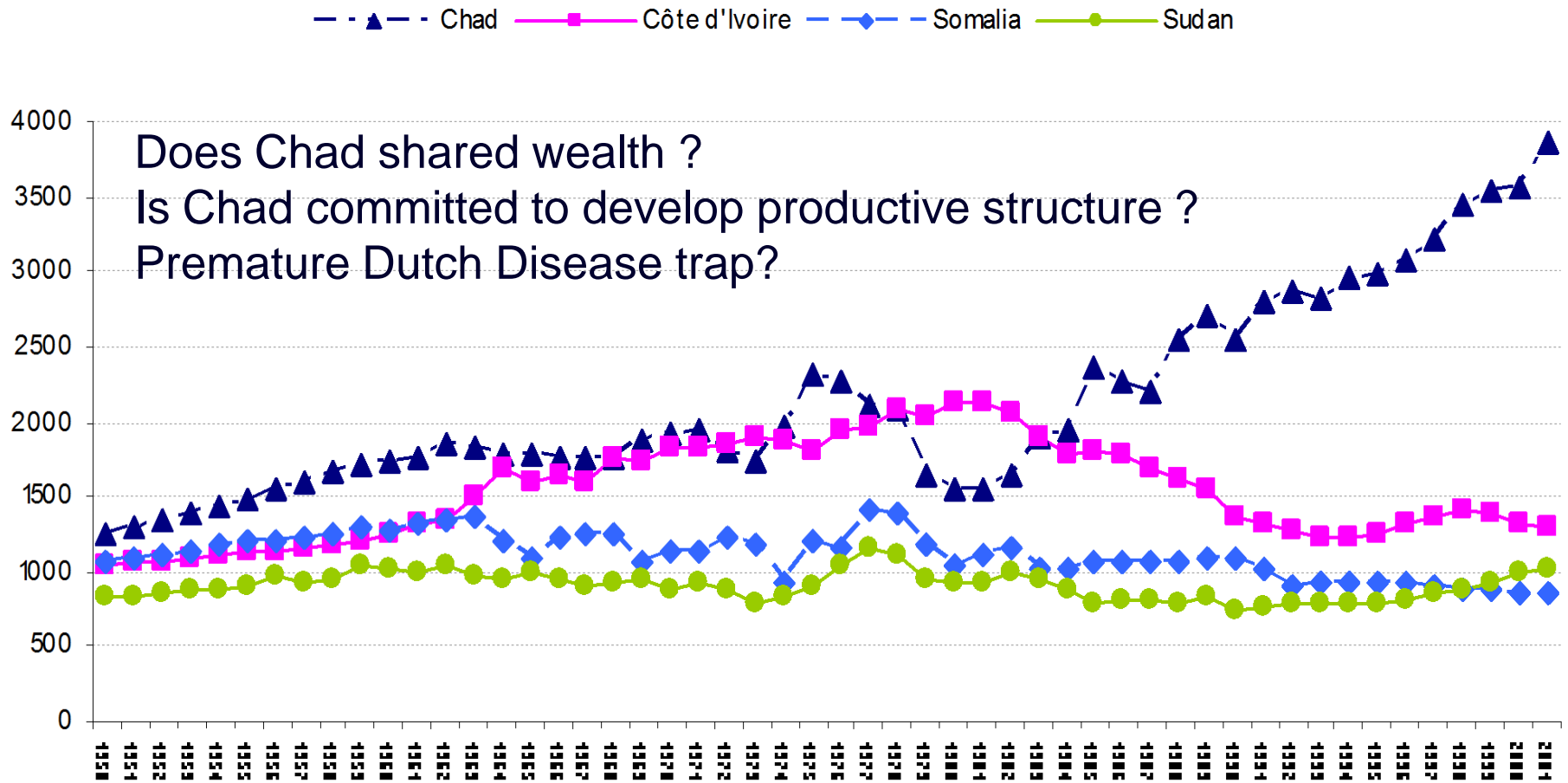


# GDP per capita growth rate for Africa, Asia and Latin America: Convergence and Divergence (in %)



## GDP per capita growth rate 1950 – 2001 (in %) Convergence and Divergence over 1000 years

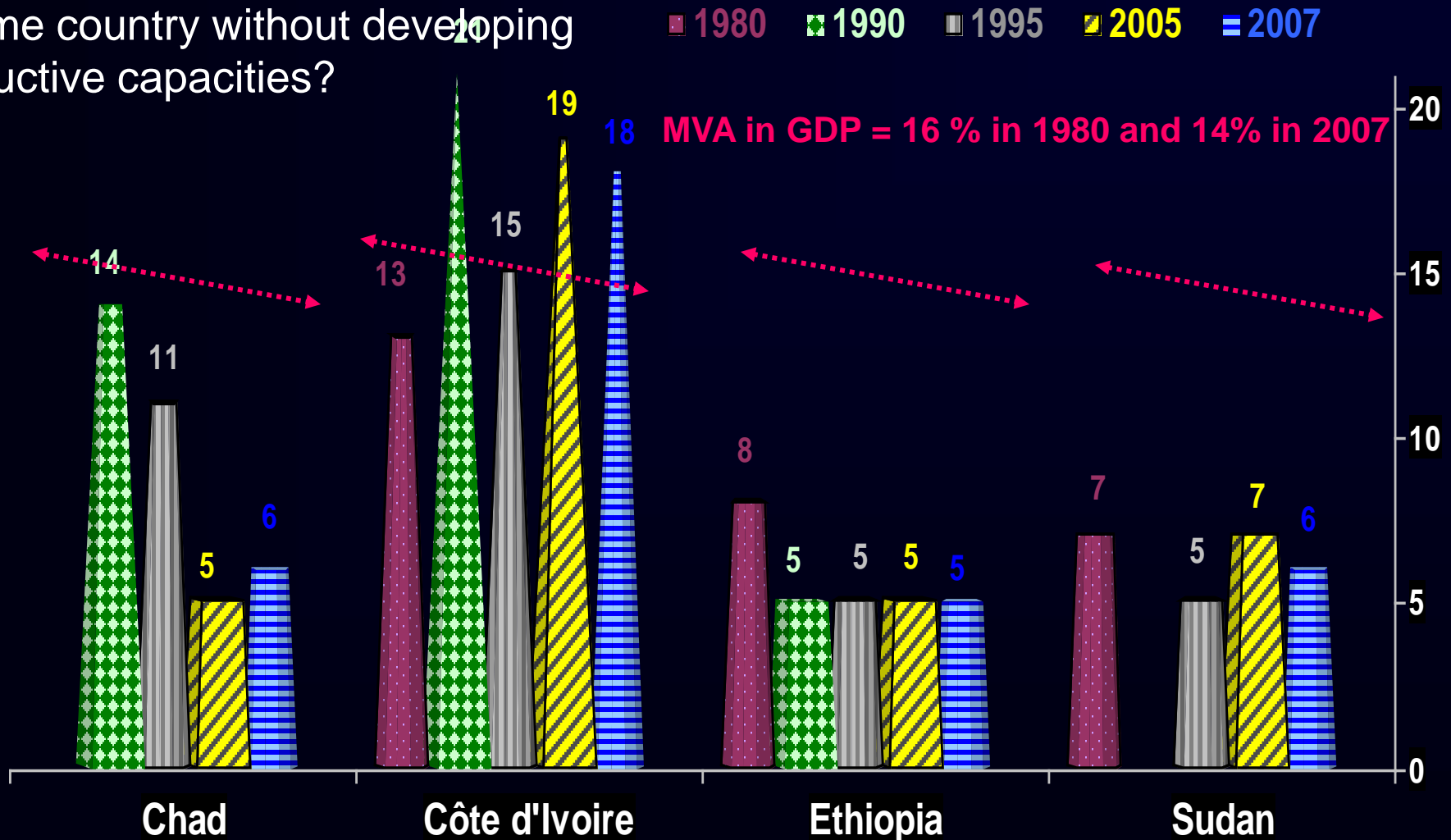
Chad, Côte d'Ivoire, Somalia and Sudan, GDP per Capita 1950-2001



Source: original data extracted from Angus Maddison, The World Economy, Historical Statistics, OECD, Paris, 2003

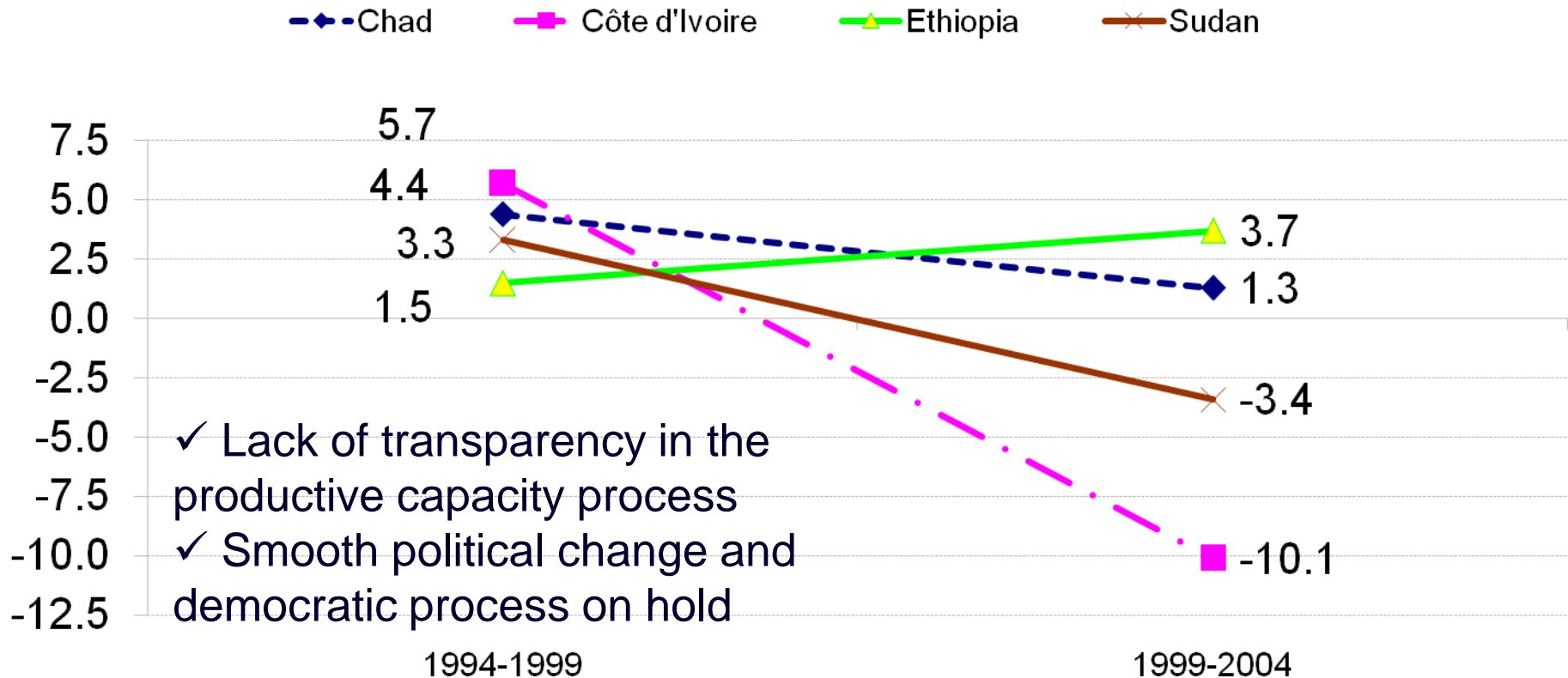
# Share of MVA in GDP : Chad, Côte d'Ivoire, Ethiopia & Sudan (in %) : Above Regional average is conducive to Convergence with Middle income countries

Could Chad become a Middle income country without developing productive capacities?



## MVA per capita growth rate, 1994-1999 and 1999-2004 Convergence and Divergence

### Growth rate MVA per capita for Chad, Côte d'Ivoire, Ethiopia and Sudan 1994-1999 and 1999-2004 (in percentage)

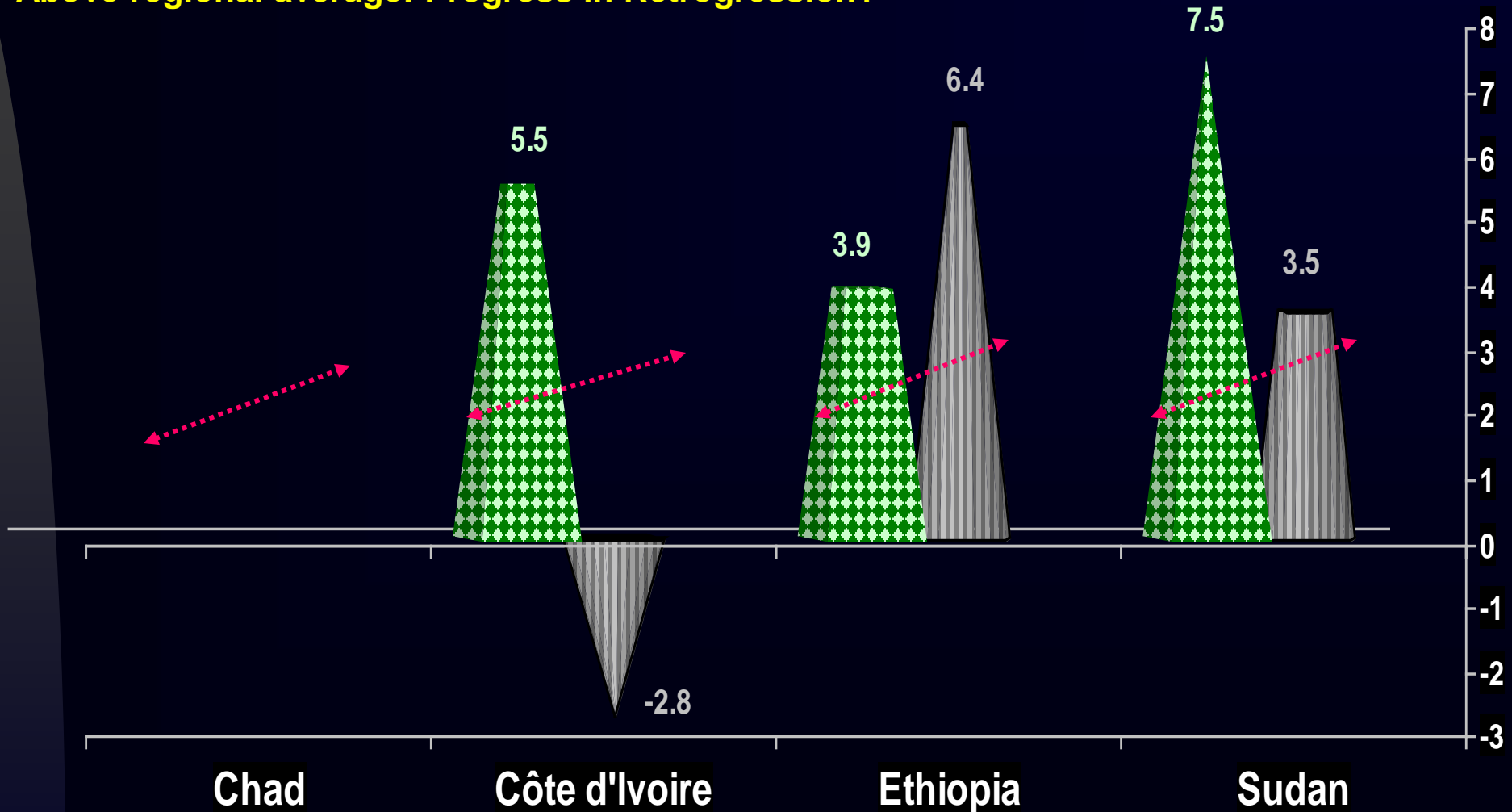


Source: UNIDO, International Yearbook of Industrial Statistics 2006

## Growth rate of Manufacturing: Chad, Côte d'Ivoire, Ethiopia & Sudan Above Regional average (in %): 1990-2000 and 2000-2007

MVA in GDP in SSA = 2.1% in 1990-2000 and 3.2% in 2000-2007  
 ✓ Above regional average: Progress in Retrogression?

■ 1990-2000 ■ 2000-2007



# **6. Participative Democracy in FFF States: a Leverage towards Middle income economies**

## **FFF States:**

### **From Agile economies to Middle income economies**

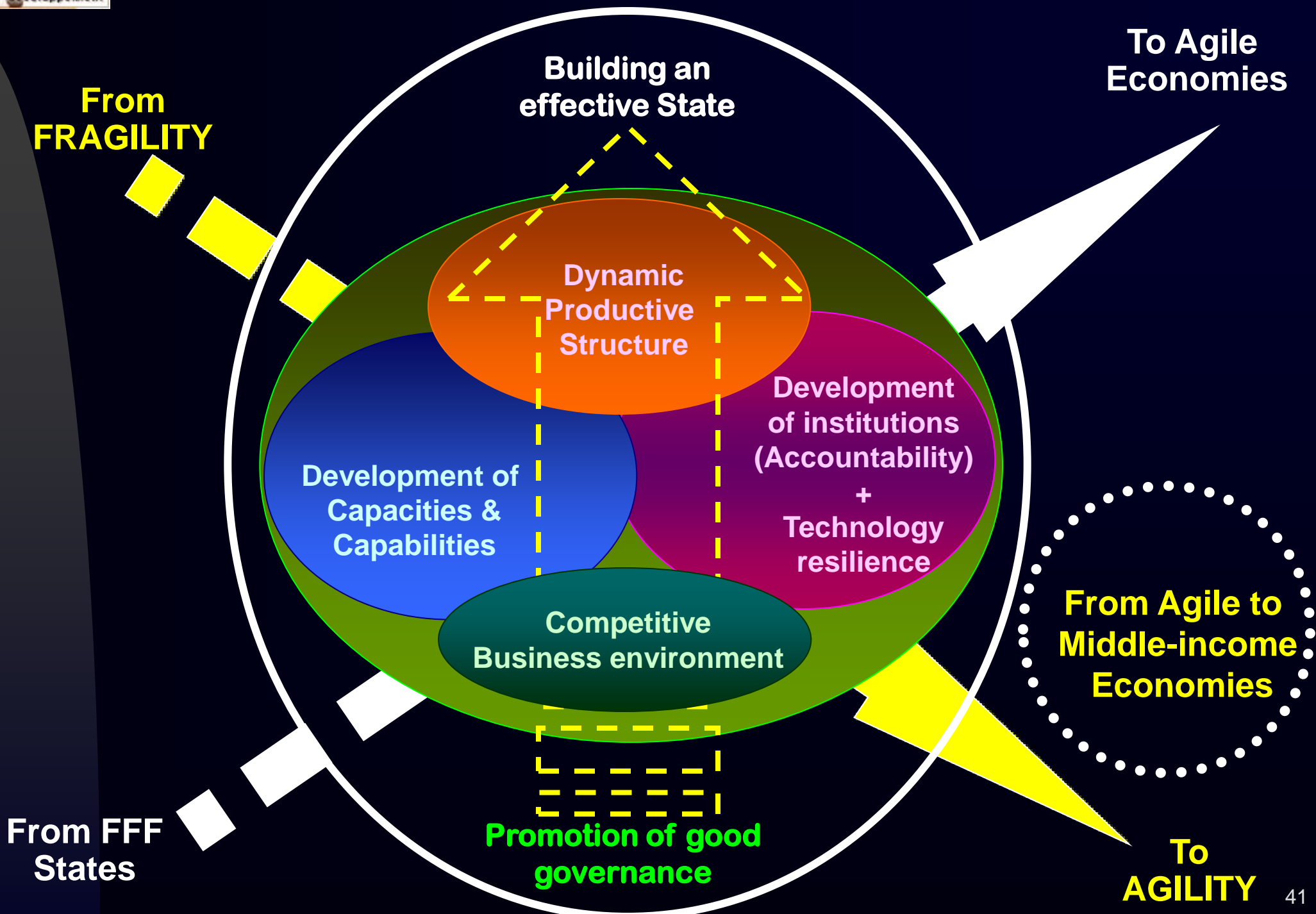
- 1. Productive agglomeration not to be delinked from Security**
- 2. Production cannot be de-linked from Trade**
- 3. Historical de-industrialization process in FFF economies**
- 4. Low level of manufacturing and technological content:  
source of global and local instability**
- 5. New paradigm in support of convergence: interdependency  
and participative democracy (accountability and responsibility)**
- 6. From FFF States to Agile economies**
- 7. From Agile economies to Middle income economies**

# FFF economies: Reversing **Premature Dutch Disease**

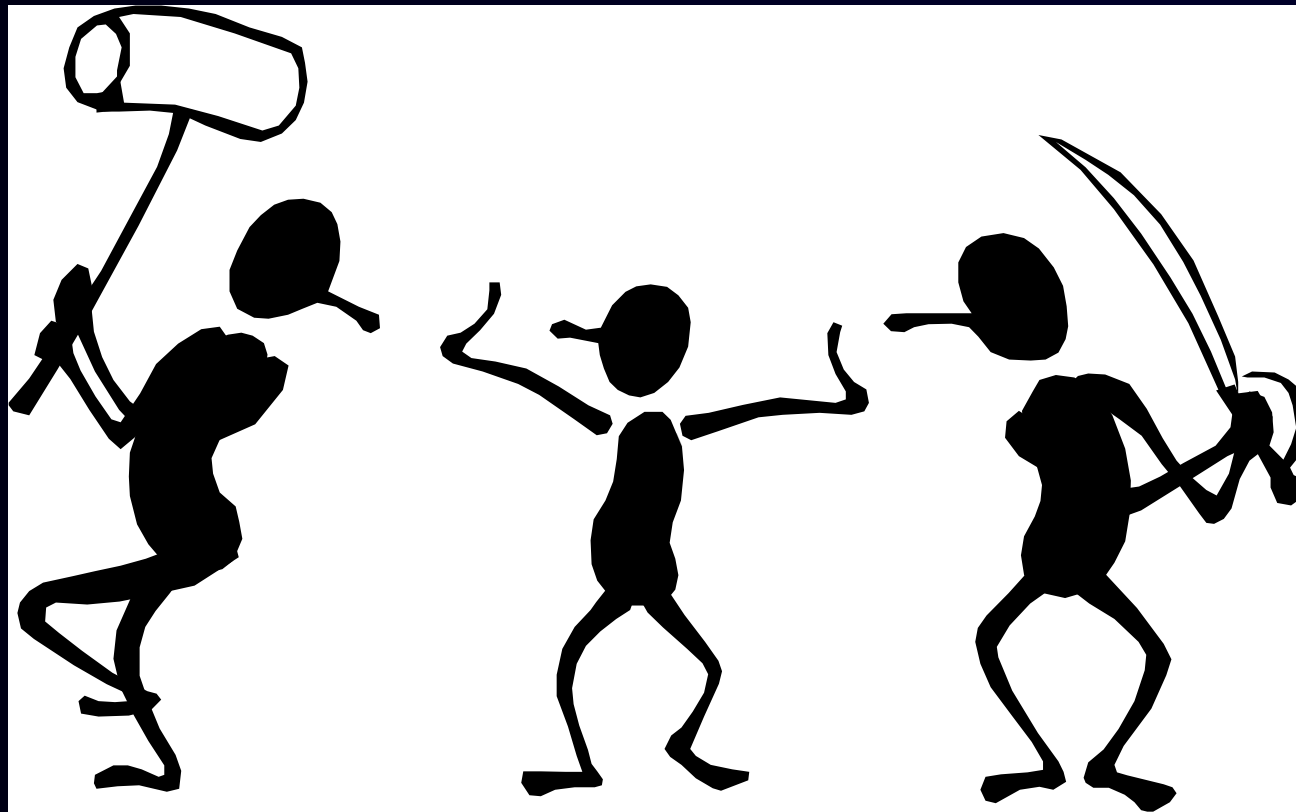
- It is the premature deindustrialization of a nation's economy that occurs:
  - ✓ while the country's GDP per capita increases,
  - ✓ making processed goods (low level of MVA in GDP) less competitive while benchmarking other economies.
  
- This deindustrialization process tends to:
  - ✓ increase imports of finished value added products, decrease imports of intermediate goods necessary to integrate the global production network system,
  - ✓ reduces significantly exports,
  - ✓ weakens the country's ability to master its productive infra- and info-structure, and indirectly
  - ✓ increases its long-term economic independence

After the discovery of the North Sea gas, some industrialized countries were confronted with the Dutch Disease, the deindustrialization of their economy, (Terminology originated from Holland)





# Discussions ?



Thank you !