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Beyond Collier's Bottom Billion

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Beyond Collier's Bottom Billion

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Abstract:

The Bottom Billion by Paul Collier has raised a lot of attention in the world of development. The heart of the narrative presented in the book is that a group of almost 60 countries, with a population of about a billion people, are caught in four main traps. Their prospects for escaping the traps are poor, and they need a set of actions from the international community to achieve the rapid rates of growth that are argued to be necessary for poverty reduction. In this paper, Dr. Randy Spence provides a critical analysis of the book. The overall argument of this paper is that the analysis and narrative of the book need to be expanded in several ways to be of greater use to policy makers in the bottom billion (BB) countries, and to practitioners working on issues of global poverty and development. Drawing on his extensive experience in applied development policy and research in several regions and countries, the author provides insights on expanding the perspective presented in *The Bottom Billion* and raises questions and suggestions for further investigation and analysis. After reviewing the main perspectives presented in the book in greater detail, the paper looks at the concept of 'traps', and then at each of the four traps. The paper then picks up the threads of several broader factors which emerge in the discussion of the traps. Finally, a number of questions for further consideration are raised and a summary of suggestions to move forward is provided.

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1-Introduction

The Bottom Billion by Paul Collier is a book you have to think hard about while you are reading, and tend to think about afterwards. *The Bottom Billion* draws together and extends a large number of research studies which Prof. Collier and colleagues have conducted over a long period, and weaves them into a narrative. The heart of the narrative is that a group of almost 60 countries, with a population of about a billion people, are caught in four main traps. Their prospects for escaping the traps are poor, and they need a set of actions from the international community to achieve the rapid rates of growth that are argued to be necessary for poverty reduction. Such actions are in the interests of advanced countries for both humanitarian and long-term security reasons.

The overall argument of this paper is that the analysis and narrative of the book need to be expanded in several ways to be of greater use to policy makers in the bottom billion (BB) countries, and those working on issues of global poverty and development. More specifically, the discussion and argument of the paper is developed in the following step-wise fashion. Section 2 reviews the main points of *The Bottom Billion* in greater detail. Section 3 looks at the concept of 'traps,' and then at each of the four traps – the conflict trap, the natural resource revenue trap, the governance trap and the landlocked (with bad neighbours) trap. In each case, suggestions are made for expanding the perspective through which the traps are seen and the solutions proposed. Section 4 picks up the threads of several broader factors which emerge in the discussion of the traps. For example, it is argued that the prospects of a better life for the poorest look quite different in the multi-polar world emerging from the fast growth of China, India and other exporters of manufactured goods. Technologies are also changing the lives and prospects of people at the 'bottom of the pyramid'. Global warming, by contrast, is a major negative factor in the prospects of the poorest, but well designed international action can minimize this negative factor and turn it to the advantage of the BB countries. Section 5 raises a number of questions for further consideration and analysis, and provides a summary of suggested policy and research priorities that differ from those of

The Bottom Billion. This section first looks at the many sources of growth and development, moving beyond manufactured exports. It also examines the relationship between economic growth, and development of the capacities of a society to generate and manage market, non-profit and public sector activities. It draws out lessons from experiences on capacity development and examines development approaches and objectives not solely focused on GDP growth. Finally, it re-examines aid priorities in light of this discussion, and considers the likelihood or naivety of various recommendations for international action stemming from *The Bottom Billion* or the discussion in this paper.

What follows is the perspective of an economist with extensive experience in applied development. I have notably worked in ministries of finance and planning (Tanzania, Kenya, Uganda, and Canada) as well as developed and managed policy research programs with governments and other stakeholders in Asia. Most of this work focused on economic policy, Information and Communication Technologies (ICTs), and other technologies. Other experiences have included energy policy and university economics teaching in Canada. Throughout my career, learning from my colleagues has been rewarding, from farmers and economists to ministers and Nobel laureates.

2-The Book

The 'bottom billion' (BB) people refers to everyone living in a group of 58 bottom countries: most of Africa, Haiti, Bolivia, Yemen, Central Asian countries, Laos, Cambodia, Burma and North Korea. In the book, Prof. Collier argues that these countries are caught in one or more of four traps: the conflict trap, the natural resource revenue trap, the governance trap and the landlocked (with bad neighbours) trap. These countries have missed the fast growth boat that globalization has provided over the past two to three decades to other developing countries, especially Asian countries, to export manufactured products to global consumer markets on the basis of their low-wage labour. The author suggests that there will not be other such boats soon. The prospects for development of these countries are bad, and their problems are everyone's problems,

for security let alone humanitarian reasons. What can be done to help these countries develop involves the use of best instruments for each trap, the main instruments being aid, military intervention, laws and charters, and trade policy. More specifically, some main options and proposals are:

- **Conflict trap:** Continued improvement of aid and (long term) peacekeeping in post-conflict situations, and an international charter on post-conflict governance.
- **Natural resource revenue trap:** An international charter for resource wealth; something like a revised version of the Extractive Industries Transparency Initiative.
- **Governance trap:** With intervention in failed states largely discredited by Iraq et al. – charters and norms on international democracy and on budget transparency.
- **Landlocked trap:** Aid on a substantial scale, and with strong management by donors in countries with debilitated governance - plus aid to neighbours for transport corridors.

For countries trying to break out of limbo, an international charter on investment is needed to start domestic and foreign investment flowing, as is trade protection with respect to more advanced developing countries (in Asia) to put their low-labour cost manufactures on a competitive footing. In general, aid agencies should improve their programming and focus on the most difficult environments where their support is the most needed. Peacekeeping capability and decision making should be built by both developed and developing countries. Moreover, key international charters and trade protection measures should be promulgated using existing channels for the most part. Such international charters include the following:

- Charter for natural resource revenue
- Charter for budget transparency
- Charter for post-conflict situations
- Charter for investment
- Charter for democracy

Coordination and focus problems among donors will be stiff; in particular getting government agencies to work together within developed countries and across the global system.

A lot of the insights provided in the *Bottom Billion* are innovative, useful and sometimes familiar in light of a career of applied development policy and research. The identification of the four traps is itself an innovation, together with careful analysis of their sub-components (for example, how coups are different from civil wars) and inter-relationships – how they reinforce or counter each other in particular countries - in light of very persistent statistical and econometric research. The result on the one hand is a framework for better understanding the state and challenges of each of the 58 BB countries, and on the other hand, a basis for ‘aggregating’ broader solutions in aid, peacekeeping, international norms and trade policy.

The resource trap is not yet widely enough digested in the many facets of international development, and Paul Collier, Tony Venables and others have been at the forefront of its analysis. Resources range from (blood) diamonds and jewels, to minerals, forests, petroleum and many others. Resource revenues can induce problems such as the malfunctioning of democracy and conflict over the revenues, boom-bust instability, and the Dutch disease which occurs when a country’s currency appreciates due to foreign sales of its resources, which in turn makes it harder to diversify the economy and compete in low-cost manufactures. How to manage resource revenues well is reasonably well understood by experts and practitioners in countries that do it well. Resources are, however, unlikely to be managed well in the BB countries, which are often trapped in various cycle of instability, conflict, non-competitiveness in other exports, and governance snares.

Many specific perspectives and research findings presented in *The Bottom Billion* correspond with my personal experience (see Box 1). Some of them are contentious because of debates about causality. Do low income and slow growth cause civil wars, or do civil wars cause low income and slow growth? These questions have been examined in depth by a number of researchers and reviewers. This paper will thus not directly

address such questions, but will rather focus on expanding the perspectives provided in the book.

Box 1: Main Perspectives and Research Findings Presented in the *Bottom Billion*

- 73% of people in the BB have recently been in a civil war or are in one.
- Civil war is more likely to occur in countries with low income, slow growth/stagnation/decline, dependence on primary resource exports (oil, diamonds, etc.) - and is not statistically related to measures of political repression, ethnic strife or colonization experience.
- Civil wars re-start and get 'institutionalized', and military spending stays high; the immediate post-conflict period is a critical time for intervention and assistance.
- As demonstrated by De Beers and the Kimberly Process for the certification of diamonds, big companies can be a key part of the solution rather than being part of the problem.
- The cost of a typical civil war to the country and its neighbours can be put at about \$64 billion.
- Coups are more likely to occur in countries with low or slow growth and where there have been prior coups.
- Democracy undermines a country's ability to harness resource surpluses, especially in countries with close electoral competition; the resource revenue trap tends to generate a political development trap and checks and balances are more important than electoral democracy.
- Growth (and decline) spills over very substantially from neighbours to landlocked countries.
- Being resource poor and landlocked is dismal. Some strategies include increasing neighbourhood growth spillovers, improving economic policies, facilitating coastal access, becoming a haven for the region, not being air-locked or e-locked, encouraging remittances, fostering rural development, trying to attract aid, and creating a transparent investment-friendly environment for resource prospecting.
- Starting from being a failed state, a country is more likely to sustain a turnaround: the larger is its population, the higher is the % of population having secondary education, and whether the country recently emerged from a civil war.
- The expected time before a failing state achieves decisive change is fifty-nine years.
- The cost of a single failing state over its entire history of failure, to itself and its neighbours, is around \$100 billion.
- Capital outflows are as important as lack of capital inflows to the BB – by 1990, 38% of Africa's private wealth was held abroad.
- Migration can help, but BB countries have fewer qualified lower-skilled emigrants, and lose more of the domestically key high-skilled.
- Aid can fuel conflict traps and contributes to the Dutch disease, but overall, despite the bureaucracy, aid has been much more successful than oil as a source of development finance.
- Aid *policy* conditionality fails for reasons of condescension and time inconsistency (ease of breaking promises); aid *governance* conditionality (for domestic accountability) may succeed.
- During reform, technical assistance packages of \$250 million per year are justified and have an expected payoff of about \$15 billion.
- Budget support is appropriate for reasonably well governed BB countries, but well managed 'hands on' aid is needed for the substantial majority of others.
- Aid significantly reduces capital flight and aid worsens the problem of trade barriers.
- Developed country trade protection (agriculture) damages the BB as do their own trade barriers. Some options include regional integration (but not behind high trade barriers), export diversification, giving BB countries trade protection vs. Asia, and rethinking the BB in the World Trade Organisation (WTO).

3-Some Thoughts on the Traps

Focusing on the BB, in terms of countries rather than people, is a choice Prof. Collier made, and one that makes a lot of sense. The world operates in terms of countries, and everyone in these 58 is in jeopardy or (much) worse. It may still be worth keeping in mind that the majority of the world's poor are in Asia, and in countries NOT in the BB group. They are poor within societies that are now growing and developing. One may not be as concerned about them because their countries are, or are becoming, in a position to do something about their plight, or because it is less politically feasible to intervene in favour of the poor minorities living in countries that are progressing. One may also think that they are not as likely as their counterparts in the BB countries to mount security and terrorist threats. Yet, there are some striking counter-examples.

Do any or all of the same traps apply to the poor living in non-BB countries, that is, the other bottom billion (OBB) populations? Many empirical questions arise. My experience says probably yes, but with different factors. For instance, rebels in Mindanao and Southern Thailand may be involved in conflict and resource revenue traps, and stagnant governance or political development. There are many cases and faces of the problem of poor or trapped minorities, religious states providing one whole set of countries which, by self-definition, discriminates against minorities - Nepalese in Bhutan, Palestinians within Israel, anyone who renounces Islam in Iran. There are, however, few religious states among the BB countries.

How do growth and average income compare in the BB and OBB? In some cases in the OBB, poverty may be more relative than absolute, but may also be experienced with equal resentment or anger. How we look at well-being and poverty is important. Poor people will often say that they are happy if this year is a little better than the previous one. By contrast, the biggest single health problem in the North is depression, and the biggest preoccupation security. Our preferences and expectations adapt to where we are now, and we use this as a benchmark for future changes in our well-being. Material well-being is not the whole story, yet most people would agree that there are minimum

adequate levels of nutrition, health, education and security. Lack of security, dignity and empowerment are greater plights in the BB countries, and for OBB people too, than in developed countries, though of course they are present there too.

It might be interesting to look at income and growth in the poor populations within OBB countries and perhaps, in some of them, look at the terms of trade between OBB enclaves and their more affluent countrymen and women. Can there be elements of Dutch disease within a country, even with a fixed internal exchange rate? Does the selling of resources by OBB enclaves undermine their ability to compete in the mainstream national economy? Are their traps or serious problems that condemn large numbers in advancing countries to poverty? Is their poverty going to be temporary, gradually eliminated by growth, and are they thus not just caught in the inevitable period of declining equity that accompanies fast growth and major technology change? Do the wealthier get the benefits first and foremost, and the rest benefit as growth and technology get diffused? Or are there also – as in the BB – systemic traps with their determining factors to address and change?

Put another way, a significant percentage of the population in BB countries enjoys European levels of income. Is that percentage higher in OBB enclaves? Moreover, in the richest countries, a significant percentage of the population lives in relative and even absolute poverty. What is trapping the poor and what are the common elements across poorer-to-richer countries? Can economic growth be sufficient for ending their poverty? Furthermore, is 'trap' really a good word for serious problems and constraints? When does a serious problem become a trap? Is HIV/AIDS, which gets one passing reference in *The Bottom Billion*, a serious problem or a trap?

3.1-The Conflict Trap

The analysis and conclusions presented in the book with respect to the conflict trap are appealing, including suggestions regarding the continued improvement of aid and (long term) peacekeeping in post conflict situations as well as the development of an international charter on post-conflict governance. The building of professional

international and regional peacekeeping forces, to be credible, will require unseen levels of military and political cooperation across a wide range of countries. Yet, a LOT could be done with a change in the main current global polarizations, and with a fraction of the resources spent on current military conflicts and interventions. There is at least a little room for optimism. A post-conflict charter is needed, and there is plenty of basis for it in the excellent work of many countries, donors and international organizations. In fact, there are some important pieces in place in the United Nations (UN).¹

The way in which the conflict (C), resource (R) and governance (G) traps interact is very important, and has many variations in different countries. At any point in time in a country, there can be 8 cases: CRG, CR, CG, RG, C, R, G, none.² Add to this that each trap can start and stop in ways related to the other traps and it becomes very difficult to define a clear set of policies for each case. Alternatively, as Prof. Collier seems to suggest, it is reasonable to follow **all** the main proposals made, not just one or two, and to fine tune the instruments to the countries as their situations change. Thus, all of the following policies (in particular) go together as a basic set for BB countries:

- improvement of aid and technical assistance (especially for landlocked countries, including aid to neighbours for building transportation corridors)
- improvement of sustained peacekeeping
- international charter on post-conflict governance
- international charter for resource wealth
- international democracy and budget transparency charters
- international charter on investment
- special trade protection / treatment

Some elements are clearly missing. Something has to be said about international arms production and trade. It may be my imagination, but there seems to be quite a wide

¹ See, for example, the United Nations Security Council Resolution 1325 on Women, Peace and Security (2005) and other general, regional and country resolutions of the UN Security Council (available at <http://www.un.org/Docs/sc/index.html>).

² This is setting aside the landlocked trap as, for the most part, one has usually no choice about being landlocked (though the bad or good neighbors can change), and being landlocked makes everything else harder. If the trap of being landlocked is added into the mix, there are 15 possible combinations of traps.

conspiracy of silence on this front. Everyday, millions of people get up in Oxford where Prof. Collier lives, Toronto where I live, Europe, China, Russia and notably America - still the world's largest arms producer and exporter – and go to work making weapons that blow people up or blow people away or blow their limbs off in distant parts of the world. One could argue that people – not guns – kill people or that if we do not arm the good guys, our enemies will keep arming the villains, or that if the more advanced countries stop exporting arms, their production will just be taken up elsewhere. However, these are little more than dodges, and it seems clear that a) international arms production and trade is a huge global industry that does not care at all about people anywhere, and b) without it, people might still fight it out with knives and machetes, but prospects would be a LOT different and better without all the hardware.

If there is a case for new international charters, this certainly has to be a prime candidate from the perspective of need. Probability? Probably low, but asking all the ministries of Northern governments to work together on aid, trade, military intervention and other charters strikes me as no more or less 'heroic' than asking for agreement on widespread arms reduction, where production is done and condoned by precisely these same governments. Global arms trade will remain a huge black mark on human history as long as it is done on this massive scale, practiced and protected by the powerful countries.

3.2-The Natural Resource Revenue Trap

The work of Prof. Paul Collier and his colleagues on the pitfalls and principles of resource revenue management has been valuable.³ The Commission on Growth and Development⁴ may have interesting things to say here too. My understanding is not complete, but principles of good resource revenue management would I think include, where feasible, the following: 1) establishing a transparent public royalty at a level which is low enough to stimulate production and export but keeps the rest for the public purse,

³ The new Oxford Centre for the Analysis of Resource-Rich Economies continues this tradition.

⁴ The main report of the Commission was launched on May 21, 2008. For more information, see <http://www.growthcommission.org/>.

2) the use of the public royalty for public investment especially in infrastructure, education and health, and 3) 'sterilizing' revenues as needed – parking them in good financial markets/instruments offshore, and bringing them in as fast as good investment projects are developed. This set of policies should minimize the Dutch disease effect of resource export revenues and build market capital, infrastructure and human capabilities.

The problem often – and more so in the BB countries – is getting anything like this going; moving from governance by theft to a serious development path. A charter would indeed be very helpful, and the Kimberly Process suggests that major global resource industry players might be involved in, and might comply with international norms. A serious look at possibilities for a similar kind of charter in each key resource sector sounds like a good idea – petroleum, gems, minerals and timber. Are there any sectors which would be particularly problematic in terms of patterns of foreign involvement and domestic management, i.e. where one or more of the central domestic and foreign interests are now willing to be governed by principles of good behaviour? Will British and American companies agree to behave? Will China and Chinese companies cooperate, not to mention the other fast-boaters of the developing world?

Cambodia's gross domestic product (GDP) is growing rapidly at around 5-6% per year. On a recent visit, I was told that 'everything is being sold'. Cambodia's growth is notably associated with considerable resource revenue from jewels, timber, bauxite, minerals, and even fish - and petroleum revenues are just around the corner. There is no transparency in the management of revenues, and no one expects anything different with petroleum. A lot of Cambodians would like this lack of transparency to change. New international norms, whether or not the Cambodian Government subscribes to them, would provide an important basis for concerned Cambodians, and those who would assist them, to make demands to their government. If there were a charter, developed country governments and oil companies would need to comply with it and would be required to be transparent about their international dealings. This is a very appealing prospect for change, but also a huge leap ahead of current practices.

What about coffee, tea, wine – even fruit, vegetables and flowers? These agricultural products are essentially natural resources and come from specific climates and geographical regions – if not from specific locations like oil and metals. In addition, their production and export have been promoted heavily in many BB countries and by major donors – with many successes. They thus serve to raise a range of questions about agriculture and ‘resources’. In particular, why do not we look at agriculture like other natural resource industries? Forest industries and timber production are close in nature to agriculture, and are usually seen as natural resources. Timber exports have been a resource revenue trap in many countries, like petroleum, due to governance by theft and relative ease of export in raw form to willing buyers. Biological (e.g. pharmaceutical) resources have strong resource-trap characteristics, and international charters and norms are relatively well debated and developed in these areas, if not always followed by BB villains and hungry bio-prospecting multinationals from West and East.

Unlike timber, and more akin to petroleum or base metals, exporting beverages (tea, coffee, wine, etc.) and horticulture products typically requires relatively advanced production and export capabilities as well as international connections. They represent important sources of growth and comparative advantage for many developing countries. Although they may be less prone to outright mismanagement than the more ‘footloose’ resources like timber and precious metals, they are not immune and there appears to be resource-trap elements in their mismanagement, particularly in those BB countries where governance by theft is entrenched.

Discussion often tends to skirt around agriculture as a source of growth for developing and BB countries because agricultural trade protection is such a blot on the face of the global economy. Agriculture is a rare sector – the others being mostly other natural resources sectors – in which the bottom countries often have a potential comparative advantage. So why do BB countries not export more agricultural products? Indeed, BB countries have comparative advantages in agriculture and natural resource industries stemming from their cheap labour and their endowments in natural resources. They also have a potential comparative advantage in producing manufactured goods and ‘mobile’

labour-intensive services. Do BB countries lack capacities to take advantage of the comparative advantages which stem from land and low-cost labour?

One could argue that specialization and increased exports do not occur much in agriculture because this is the one sector which the advanced market economies tenaciously protect. Countries of Europe and America, in particular, sacrifice a lot of national and global welfare to protect their farmers, and perhaps to protect their food security. This is a central ongoing public debacle of international development, making it very easy for the North to be accused of hypocrisy in other areas, and it is currently very unclear how and when U.S. and European agricultural protection may be reduced and eliminated. Nor is it clear exactly what would happen. Food exports of developing countries should expand a lot, particularly for those able to meet international standards in a growing number of areas - sanitary and phyto-sanitary (health and hygiene), environmental, fairness and other characteristics that consumers are likely to increasingly care about and demand.

While relative food prices should eventually decline, with efficiency increases in global food production and trade, they tend to rise initially. Is it also noteworthy that food prices are rising from rapidly growing demand from China, India and the whole group of countries that caught the fast manufactured-exports boats. The current generation of leaders in China still includes many who experienced famines in their younger days, and food storage in China is very high by international comparison. However, new needs from fast growth are driving food and other resource imports up anyway. The same pattern looks likely for India, but in a different form. There is an element in Indian development thinking which foresees a large productive agricultural sector in the future. All prior international experiences suggest that it will be small, but the pursuit of 'learning and changing villages' is deeply rooted in Indian policy and philanthropy.

Some of the net **losers** from reduced Northern agricultural production, according to almost everyone's modelling, would be BB countries importing food, and the current world food prices crisis provides a stern reminder of the consequences of unaffordable food for poorer people.

Some of the winners among agricultural producers and exporters should also be in the BB countries, but less so than other countries until they improve their transport and certification infrastructure. Many BB countries have done this in the sectors that are not protected in the North, including large scale exports of coffee and tea as well as horticulture and flowers. Increased productivity in the agricultural sector is certainly possible with investment from domestic and foreign partners. Agricultural development and export should be easier than for manufacturing production because BB countries start with much existing production capacity in agriculture and almost none in manufacturing production and export. Could agriculture be globalization's next fast boat? No, not that fast. Food demand, unlike consumer goods demand, tends to grow less quickly than income. More importantly, labour productivity in agriculture is much lower than in manufacturing production - it is thus the moving of people from agriculture to manufactures or services which is itself a major part of fast-growth phenomena like China.

However, even slower boats are very important for BB countries. Could the Organisation for Economic Co-operation and Development (OECD) countries summon the political will to dismantle their agricultural protection while at the same time being hit by job loss in manufactures? Or is global food demand going to rise fast enough to support current or near-current food production levels even in the North? Investment advisors and acquaintances tell me that Canada's comparative advantage is shifting back towards resources, and that food is a hot industry into at least the medium term.

If agricultural production and exports grow in BB countries, who will gain from it? Research and theory suggest that increases in agricultural productivity, where there is competition on the production side, mostly benefit consumers. Developing countries and BB producers may benefit very little or even lose ground on prices and profit margins, but are likely to gain a lot on volume - like the case with manufactured exports. 'Producers' include transport and marketing systems as well as farmers. Farmers will benefit less where intermediary controls are numerous and competition is restricted. However, communication innovations are gradually facilitating competition and the ability of

producers to sell directly to a range of buyers in many parts of the world, including in some BB countries.

In short, in spite of needed cautions and the large ongoing changes in technology and structure in the global food sector, it seems likely that growing food demand from the fast boaters, and the eventual end of agricultural protectionism in the North, could provide an alternative yacht for a lot of countries - not as fast a boat as manufactured exports, but a boat is a boat. A clear lesson drawn from *The Bottom Billion* and a career in applied development policy and research is that **it is more important to be going in the right direction than to be going fast.**

I would have to add agricultural protection and trade explicitly to the list of international charters that are needed. Such a charter of course exists in the form of the WTO and its principles, but it is just not applied and followed in agriculture. In addition, I would advance the suggestion of providing special assistance to BB countries to help them develop agricultural export infrastructure and investment relationships with foreign markets - companies and countries in the global food and resource sectors.

The natural resource revenue trap may also highlight two more broad sets of questions relating to sectoral sources of growth. First, are manufactured exports really the only fast boat? They have not always been. In fact, there are no historical fast boats up to about the 1950s. However, manufactured exports have recently been, in the past few decades of rapid globalization, almost the only fast boats. What can a country do if this boat is far from visiting its shores? What about resource and agricultural exports? How are comparative advantages shifting globally and where will the currently 'developed' countries come out? What about *non-export* sources of growth in the BB countries - domestic or non-traded food products, manufactures and services - which typically account for 90% or more of a market economy?⁵ Realistically, given that these may be

⁵ Even China has an export share of only 10%. The Economist (January 5-11, 2008) points out that this is very different from the 'headline' share of 30% or so, but the headline ratio is incorrect in using nominal (exports) and value added (GDP) measures in the same fraction. The ratio of nominal measures, or of value added measures, both give export shares of about 10%.

the only options for some countries for some time, even if Prof. Collier's recommendations were all acted upon, what are the prospects and best ways of pursuing them?

As a corollary, are fast boats the best boats? In the area of natural resources, the nutritional value of diets goes down with fast growth. The *quality* of food and the quality of growth also matter. One can argue that poor people mainly want growth – more food, medicines, consumer goods, etc. However, while there is much truth to this, *fast* growth is *not* what I have heard people in BB countries taking about; people care more about steady growth, together with security, kids going to school, being able to live without oppression, that is, their capabilities and freedoms. People who advocate that development should focus mainly on growth argue that more capabilities and freedoms come mainly from more income. As argued below, there is partial truth to this, but income growth also depends on growing capabilities; it is more like a two-way street.

Furthermore, what is actually happening at the 'bottom of the pyramid' (BoP) in the BB and OBB countries? Is "the fortune at the bottom of the pyramid eradicating poverty through profits" (C.K. Prahalad 2006)? Frankly, yes! There are large changes going on in some BB and OBB countries in terms of expansion of markets and services at the BoP – for instance, microfinance and insurance are now managed by mobile phone. Moreover, personal security is going up because of networking. Pretty much the whole range of economic services is beginning to emerge – finance, insurance, marketing and distribution (farmers and fishers connecting with markets, reduced middleman margins), employment services (drivers, casual workers), personal services, public telehealth and education services.⁶ These developments are quite new but look important and have a lot to do with the predicted diffusion of ICTs, a key globalization driver and knowledge carrier deserving more attention and analysis in general, and in the BB countries in particular.

⁶ For more information on these new developments, please consult the work of LIRNEasia on 'Teleuse at the bottom of the pyramid,' (available at <http://www.lirneasia.net/projects/>), of Research ICT Africa (RIA) on e-use across Africa (available at <http://www.researchictafrica.net/>) and of the *Dialogo Regional sobre Sociedad de la Informacion* (DIRSI), on 'Mobile Opportunities: Poverty and Telephony Access in Latin America and the Caribbean' (available at <http://www.dirsi.net/english/>).

3.3-The Governance Trap

Bad governance can take many forms. From the book and my experience, there are a few main dimensions that might be suggested. Main dimensions of governance traps, for example, might be usefully explored along the following axes:

1. well-motivated / corrupt
2. military / non-military
3. politically cohesive / fragmented
4. competent / incompetent

A country may have problems in none, some or all dimensions; the number of variations being 15. A few examples may illustrate such variations.

Burma is a country that was and should be doing very well economically. The country is a rice bowl perched between South and East Asia with an educated population and a reasonably good government up to the 1980s. However, Burma is today in the multiple governance traps of being completely military, quite corrupt and no longer very competent, with university and other education systems also having fallen slowly apart due to a lack of resources and outside contact. This is a particularly difficult variation to change – to attain well motivated, non-military, and competent – because the military is at great risk with change. Unlike Iraq, Burma was and is potentially quite politically and culturally unified, with only small minorities. Here, there is a strong case for concerted foreign pressure, but in this case it appears to be mostly up to China, with internal opposition and any other foreign support, to bring about regime change. Test case for China, with the world watching.

Kenya is at a crossroads, a crucial moment, with a government that has been non-military and quite competent since independence, but also quite corrupt and with the potential for political disunity lurking in the Kikuyu ‘majority without plurality’. With 18 tribes, Tanzania has it easier, curiously, as none of its 18 ethnic groups is highly dominant. A peaceful and non-military solution in Kenya is so desirable relative to civil war or the state failing – at a cost of \$65 - \$100 billion as estimated by Prof. Collier – that

nothing could be better than negotiation and settlement. Kenya is perhaps the perfect example of the political development trap set out in *The Bottom Billion*. A close, but unstable, electoral balance among groups was held together by corrupt politics and a relatively good civil service. Now that the balance has tipped, checks and balances - in fact a coalition government of checks and balances – is now as crucial as fair elections for the coming years.

The Bottom Billion often speaks of villains and heroes, and governance traps of many varieties are a reminder that there are villains and heroes at the centre of power and also all throughout the system. Aung San Suu Kyi is a hero who may yet again lead a democratic country. Voices close to the Chinese leadership, or Burmese generals, could be decisive - as could voices close to Kibaki and Raila Odinga in Kenya. People in and around positions of power face risks, persecution, and sometimes death when pushing for change. If change starts, and when growth and development are taking place, what seems to matter is what the government can deliver (competence), and how broad, effective and enduring is the national coalition (political cohesiveness).

The requirements for achieving a growth spurt are not the same as those for sustaining growth and development. The latter have more to do with the development of capabilities of individuals, institutions, processes and systems in private, non-profit and public sectors – a subject little touched in *The Bottom Billion* and further explored below.

Competence

In Uganda, at the end of the civil war in 1986 and 1987, two Ugandan economists were particularly crucial in essentially re-booting the economy. One was a Professor at Makerere University who had managed to keep teaching (and learning) through the civil war, and the other was a recent graduate of the University of Chicago who had been funded by a well respected American religious group with foresight. They were heroes in those critical emerging-from-war moments, and people that were and are absolutely needed. So were many of the people working in what remained of the central bank and government, who had kids to send to school and had wanted peace and progress for

over a decade, people that were and are absolutely needed. So were a lot of other Ugandans who had kept their decency and faith in the future intact.

Political cohesiveness

We tend to think about democracy in relation to traps, as *The Bottom Billion* does, but there is also a large body of knowledge in the area of social justice and social choice – how societies do and can best get the services and other outcomes they share, and so have to achieve collectively. Welfare economics⁷ has a lot to offer in terms of tools to assess efficiency and equity of public goods and services provision, but cannot posit a system to do it. Markets work efficiently for private goods and services because they are sold to individuals, so producers know what each person wants. Public services are in part consumed collectively – justice, security, education, health – some more than others. Governments do not know day by day what people want, and with collectively consumed services, there is no optimal set to provide, except in the unlikely event that everyone agrees on everything. In the private market segment of the economy, typically ¾ of the total economy, markets can be very efficient in filling demand because sellers continuously know what buyers want. In the public sector, which is much smaller but nevertheless also crucial, there is ***no such market mechanism***.

Cost-benefit analysis and other welfare-related tools are widely used for micro decisions faced by governments and they are valuable. However, good public sector performance requires more than analytical tools; missing in emphasis by outsiders, and in teaching and practice in the BB countries, is building the capabilities, systems and institutions of government - and knowledge about justice and social choice, federalism, the means of managing opposing political interests and what really matters in constitutions. The building up of the efficient processes and institutions of government is an essential element of development and growth.

⁷ I use this term, as it has been used in the post-war period, to refer to a body of economic theory which addresses maximizing the welfare of a society and its individuals - welfare derived from consumption of goods and services. It includes theory better known as 'neoclassical,' 'orthodox' or even 'micro' economics – and public finance for collectively consumed goods and services. *Foundations of Economic Analysis* by Paul Samuelson and *Public Finance in Theory and Practice* by Richard A. Musgrave and Peggy B. are seminal treatments.

South Africa's constitution, for example, looks to have got a lot right, in being explicit about freedoms, and will hopefully withstand current political storm clouds. Canada's Charter of Rights and Freedoms is proving to be a very positive part of political cohesiveness. All this range of knowledge is now taught in economics and social sciences in the North, and it is time that it be brought more into the mainstream in the South - particularly in the BB countries where governance is most problematic. The African Economic Research Consortium (AERC), which Prof. Collier and I have served, is one ideal place to start, as it funds collaborative Economics masters and doctoral programs across the continent.

Welfare economics is not by itself a sufficient basis for economic or overall governance and public policy, but it remains a vitally important part. Borrowing from some current thinking on development and growth, development is the expansion of what a society is able to do; individuals, systems and institutions that know how to do things - build and sustain markets and enterprises of all sizes, governments of all levels, non-profit and civil organizations. These capabilities take decades to build, but only years to unravel; **development is asymmetrical, up and down.** All sectors need capable people everywhere. Individual and group capabilities increasingly reside in and are reinforced by networks. Economic growth is measured as the increase in production and consumption of goods and services by all of the sectors of the economy - typically 60-70% market, 5-15% non-profit and 20-25% government. **Private sector growth is the lion's share of economic growth.**

The more important government functions for growth, beyond avoiding conflict and corruption, are articulating and implementing economic and regulatory policies, that is, monetary, fiscal, trade and investment policies, and sectoral regulations. Over time, of course, public spending and investment are also key to growth, particularly infrastructure, education and health. However, none of these key policy functions will be done well without capable people and institutions, and the same is true in the private and non-profit sectors, including informal sectors that make up typically $\frac{3}{4}$ or more of an economy.

In short, there is no such thing as disembodied growth. It was no accident that the fast manufactured export boats landed in East Asian ports. Their governments were investing heavily in education and health. It is fair to argue that market growth is needed much, and needed early - and that it enables necessary human and institutional developments to take place. It is, however, also simple observation that human development is necessary for growth and enables growth. There has been a long debate about how necessary and how sufficient is growth in the picture of development. My experience suggests that growth and capability development are both necessary parts of development, depending on and feeding each other.

Not that economic growth has been over-emphasized, but it has been emphasized by multilateral and bilateral donors and others, including much of the economics profession, at the expense of human development and system or capability building. Both are necessary and both could easily have been pursued in the BB countries and the developing world, integrally, as they are in many advanced countries. The BB would likely be in appreciably better shape if the emphasis on education and health of the 1970s had been sustained to the present, and that holds for the future too. In an increasingly multi-polar world economy, where all societies will need to both create and adjust to *comparative* advantages, challenges of building and growing will be substantial. Europe and North America may become classic International Monetary Fund (IMF) cases, having to dismantle agricultural protection because the efficiency loss is eroding their competitiveness in manufacturing, technology and services. Welfare economics, the capability approach and other frameworks can be priceless, forgive the term, in avoiding big mistakes and economic losses in a positive-sum but highly competitive global economy.

3.4-The Landlocked with Bad Neighbours Trap

In this area, the analysis and strategies put forward in *The Bottom Billion* are clear, and the strategies resonate with my experience of countries including Uganda, Laos and Mongolia. These strategies include aid and technical assistance on a substantial scale, aid to neighbours for transport corridors, and a set of strategies to improve economic

policies, improve coastal access, become a haven for the region, avoid being air-locked or e-locked, encourage remittances, pursue rural development and create an investment-friendly environment.

Rural development may merit more attention, along with 'bottom of the pyramid' (BoP) enterprise and services development, which is both urban and rural. All economic opportunities are important. For instance, Uganda is rich in agriculture and should be expanding exports of plants, flowers, food, food products, coffee, etc. Food processing has also been one of the solid sectors of development in many countries, and is needed to some degree just to meet export standards and engage in international markets. Uganda, among others, is also doing well in terms of ICT access and local BoP market and services development. Another example is the quiet **local development** revolution going on in the Philippines, with major improvements in many dimensions of well-being (education, health, security), led by both communities and local governments, and typically preceding market and income growth.

Prof. Collier's point about regional integration may be particularly important to the landlocked-trapped countries - integration can generate economic benefits, but will not if it is done behind high collective trade barriers. Experience also suggests that the processes of regional integration are needed parts of the building of systems and institutions. For example, in the Canada-U.S. free trade discussions before the North American Free Trade Agreement (NAFTA), Canada's main motive - next to securing access to U.S. markets - was to constrain its own bureaucracies from economically wasteful industrial policy interventions. Regional arrangements can be good for national economic policy making. Other regional institutions will also be important to strengthen; for example, the Nile Basin Authority will come under enormous pressure with global warming and probable conflict over water use. Global warming is mentioned again below because global warming will harm the BB people unless alternatives are consciously designed and implemented to do the opposite. As elaborated below, a globally or widely agreed system of carbon credits is one approach which could be both efficient and equitable.

4-Picking up the Threads

4.1-A more multi-polar World

China and India face challenges, but will likely continue to grow relatively rapidly for the foreseeable future. China is on the domestic and manufactured export fast boat, indeed the major yacht in this class. China is one of few major economies not protecting agriculture through tariffs and subsidies. However, running an artificially low exchange rate both boosts manufactured exports and discourages agricultural imports. Pressure is mounting for China to take its foot a little off the urbanization/manufacturing accelerator, but this will be resisted as much as possible by China. It is a good strategy, running a large trade surplus and lending the reserves back to the U.S. and Europe so that they can buy more imports. It may be an interesting question whether or not smaller economies could do something similar. Job loss in manufacturing currently fuels protectionism in the West, but the West's financial systems rely increasingly on flows from China, Asia and the fast boaters.⁸ Overall, you might bet that China will continue its penetration of global manufacturing markets and continue to grow quite fast (see box 2).

Box 2: Excerpt from Speech on the 11th Five-Year Plan by Minister Ma Kai

"In the 11th Five-Year Program period, we will implement the strategy of rejuvenating our nation through science and education and take science and technology advancement and innovation as a major driving force of economic and social development. We will give more strategic importance to developing education and fostering high-quality talented people who are endowed with capability and integrity, deepen system reforms, increase input, accelerate the development of science, technology and education, and make great efforts to build an innovation-oriented nation and strong nation with abundant human resources (Minister Ma Kai, The People's Republic of China (PRC), 2006).

India has so far pursued domestic manufacturing behind (diminishing) protection, but not yet manufactured exports on a large scale. The biggest economies benefit from trade,

⁸ The picture is full of boat images; some current Chinese researchers ask whether 'the boat will sink the water,' the boat being a traditional image for the ship of state in China, and water a traditional image for the people.

but unlike the smaller open economies, they can achieve those important economies of scale and agglomeration to a substantial degree within their borders. It is not clear to many people what India and Indian policy makers see as future comparative advantage, but services appear to be the biggest part of it. An economist colleague and friend made the point that Bangladesh benefited a lot from the end of the global multi-fibre agreement, but India could have blown Bangladesh out of the water in textiles if its manufacturing sector had been more competitive. It could become so - more bad news for the BB's manufactured export prospects. In agriculture, the government has also placed a new emphasis on the development of food chain infrastructure to kick start exports, double farm sector production, and create rural employment. It however appears that India will be importing resources as well as more food and manufactured products than at present (manufactured products likely more from China than from elsewhere).

What about the West? Canada has comparative advantages at present in resources and in a large set of niche manufacturing, services and technology activities. Canada could maintain these comparative advantages quite a while if it invested sufficiently and widely in education. It is not doing that, particularly in secondary education where student performance is optional and violence is now an endemic problem. We will pay a big price for this in the emerging global economy if we do not fix it fast. The U.S. is in some ways in a similar position, and much more important to the global economy. One prominent view is that more advanced economies maintain their comparative advantages in large part through moving upscale in technology and high-end manufacturing and services activities. Given a head start, this strategy has some legs if education and research capabilities continue to grow. Otherwise, we predictably will not compete with China and India, even in high-technologies. News media recently reported violence in Canadian high schools, along with 'a hush all over China' as students belted up for a week of national exams.

Economists have long understood factor price equalization – the tendency for the wages of workers and the prices of other factors of production (capital, resources, knowledge/technology) to become equal in a global system of relatively free trade and

competition. The easiest and perhaps only realistic path for this to happen is for everyone's prosperity to grow, but for the prosperity of the poorer to grow (much) faster, and that is what is been happening with the advanced (OECD) countries growing at around 2% and the fast boaters and India at 5-10% or more. 'Comparative advantage' says that everyone should benefit, including the less advanced and BB countries. There should be other reasonably rapid boats, launched by this current round of globalization, which they can catch if their traps or serious problems do not prevent them from doing so. It is likely that there will be further waves of footloose investment in labor intensive standard-technology manufacturing (toys, footwear, textiles and apparel) for countries that invest in primary education and seek foreign investment because labor costs are rising in the countries on the fast boats.

4.2-What about technology?

Some argue that high technology is clearly not for the BB. No and yes. No, there are very pressing needs elsewhere, but yes, the impact of ICTs and other technologies in the BB is becoming significant. The expansion of BoP goods and services markets is taking place in BB and OBB countries, in Africa in particular. Uganda is among the leaders. An often quoted case is that of Somaliland, North-Eastern Somalia, which has little of what you would call government and no regulation. There is widespread use of mobile phones at prices (local and international) among the lowest in the world. However, in Somaliland, there are five providers with no inter-connection, so you have to have five phones to be sure you can call anyone. Minimal enabling regulation, preserving competition, would be perfect. However, this is not the story of Africa, nor of aid in the 1990s.

The critical importance of competition and good regulation in telecoms and the ICT sector is understood today, and there are stakeholder groups actively and successfully making improvements in many BB countries. This took a while. The World Bank (WB) and major donors pushed privatization of monopoly government telecoms heavily in the 1990s, and got what they asked for; monopoly private telecoms. Expansion of landlines halted, literally. Mobile phone operators, however, avoided regulators and monopoly

long enough to have enough (three or more) service providers in an economy to ensure real competition. Mobile use has expanded exponentially. Good regulation achieves spectrum allocation, competition, interconnection, low cost of service and a society's universal service objectives. The WB and other donors were not the only ones to miss focusing on what was most needed, that is competition. They were rather focused on the privatization ideology relative to research; not the Bank's finest hour. Sequencing is important everywhere; more below.⁹

What about biotechnologies, nanotechnologies and cognitive technologies? Their rapid progress will be a prominent feature of the global economy, potentially very positive in terms of economic activity and human well-being - longer lives, better health, cheaper cleaner energy, cheaper food - but also with big ecosystem, biodiversity and security risks. BB countries will benefit last, and incur high risks because of their weak regulatory systems – e.g. bio-safety for genetically modified crops. A lot of effort is going into strengthening these capabilities. Most BB countries are actively engaged with new technologies and innovation systems – including innovation in and for the BoP – the few exceptions include Burma, Cambodia and countries which are in conflict.

Knowledge is becoming a relatively larger factor of production in the global economy; this is hard to measure and prove, but accepted widely, with the implication that education, research and innovation systems are important pieces of the system-building that constitutes development. Several major donors are providing more and better aid in this area and experience suggests it is especially needed and useful in BB and OBB countries, wherever there is not actually conflict or general failure. Good foreign partners are important. New technologies promise to fuel global economic growth and development, if managed well, but also to widen the gap between the BB countries and the rest in the coming decades. A significant positive impact through ICT-related development at the BoP might reasonably be expected, and trickle-down from the growth impacts of ICTs and newer technologies in the more advanced sectors of the economy and countries of the world.

⁹ To be fair, both privatization and greater competition were needed in many countries, and in some cases, experience shows that doing the privatization first was effective and arguably easier.

4.3-Global warming and global arrangements

Global warming, unlike technology, is inherently a factor hindering economic development, and is going to impose structural adjustments on everyone - adaptation and mitigation - which is large by historical standards. Advanced countries are better able to adjust, to adapt and to benefit from mitigation activities and new technology, particularly in energy and the underlying bio and nano technologies. The BB countries seem likely to get hit with rising energy costs of petroleum for at least another decade, along with high adaptation costs of global warming. For them, there is no obvious upside.

As Prof. Collier has said on several occasions, the BB should not be asked to contribute to carbon reduction, having had a negligible part in global warming, and would have very little to contribute even if they were asked. We could perhaps do even better. A normative welfare economics solution, again borrowing from others, would be for all countries to agree on (declining) maximum carbon emission levels that have to be reached globally, year by year, to stop and reverse global warming - then assign these global quotas to countries on an agreed basis (like population) that favours poorer countries. BB countries would get higher allocations than they needed, and could sell rights or credits to others. A true marginal cost of burning carbon would be established, including environmental conservation and renewal costs, and poor countries would gain.¹⁰

The amount of revenue received could be very large for BB countries, and the Dutch disease effects might need consideration. The probability of such schemes being adopted in the current global political environment seems low, but no lower than dismantling Western agricultural protection or reducing global arms trade or having the

¹⁰ The challenge is of course more complex. For example, how effective are carbon credit arrangements among *some* countries, if broad global ones are infeasible? How much could a carbon tax system accomplish, and what are the best particulars of carbon credit and tax options? The work of the Commission on Growth and Development is developing some clear analyses in this area.

multinationals of Western and fast-boating countries all behave well in petroleum and resource industries. One may hope that changes in countries like America could help make all the needed international charters and norms more feasible, but recent history is only occasionally encouraging in this regard.

What can realistically be asked and expected from China, India and the BB countries? Quite a bit! China behaves very well in international institutions and arrangements; roughly as well as the United Kingdom (U.K.) and better than the U.S. The examples of bad behaviour cited in *The Bottom Billion* are useful to monitor and discuss, as are those of the OECD countries. Will China become more responsible much faster, historically, than the colonial powers did? Again, maybe. Chinese leaders are not at all unaware of the difficulties and risks of buying resources from BB countries, and Chinese decision making systems have been quite quick and successful - again by historical standards - in learning and adapting. At the same time, both China and India are only part way through enormous changes which demand growing food and resource imports as consumers become more prosperous and production expands.

These are reasonable and positive developments in any economic framework, and we might be able to help the BB more to benefit from them, as well as working to minimize the bad behaviour of China, India and our own countries. Special assistance in linking BB producers with global (Western, Chinese, Indian, etc.) food and resource sectors might be very effective in reducing resource-trap behaviour on both sides of the table, as well as in terms of growth. Funding could come from aid or carbon rights, if these were handled well. Either would need the serious management attention indicated in *The Bottom Billion* for countries with poorly functioning governments.

5-Suggestions and Questions

Following from the preceding discussion, this section summarizes suggestions for expanding analysis and extending proposals for changes in policy and practice in both

BB and more advanced countries. Starting with some specific suggestions about international charters, the perspective then moves to sources and strategies of growth and development, as well as capabilities and freedoms. Finally, how to integrate growth and development and international aid efforts are examined.

5.1-Charters

In addition to the suggestion of the Bottom Billion - for charters on natural resource revenue, budget transparency, post-conflict situations, investment and democracy - there is arguably a need for charters or norms in the following areas:

- Global arms trade – it's time.
- Agricultural trade – the norms exist in the WTO, but they need to be implemented by (mainly) European countries and the U.S.
- Carbon emissions – arrangements favouring BB countries in particular, and less advanced developing countries in general.
- Trade – serious preferential trade access for BB countries in the WTO (not just with respect to their trade with Asian countries).
- Access to technology and intellectual property - arrangements favouring BB countries in particular, and less advanced developing countries in general.
- Global macroeconomic stabilization and cooperation (especially for the Group of 8, China and India).

With respect to formulating charters and norms, it would be useful to see some assessment of human rights and the Universal Declaration of Human Rights (UDHR), now in its 60th year. Prof. Collier finds that the relationship between political repression and the risk of civil war is weak and that ethnic strife is not demonstrably causal in civil strife either. Conflict can rather be understood as problems arising from poverty (low income and slow growth), dependence on primary commodity exports (greed and self-interest), and often donations from diaspora communities. Hence, Collier's analysis of conflict is not unlike the analysis of famines by Amartya Sen and others; indeed, famines occur because they are in the interests of people in power.

The realities behind famine and natural resource revenue traps mean that an international agreement is needed on how to bring judgment and consequence to those who commit genocide, brutality and large scale robbery. Genocide could be addressed in a charter for post-conflict situations. Such a charter would also apply in conflict situations. Hence, charters for both conflict and post-conflict situations could be considered, and perhaps connected with the International Court of Justice (ICJ). The global system is currently struggling with these issues; people committing crimes against humanity have to know they will be tried, and punished if guilty. The U.S. resists participating because it does not have to, at least yet, and does not want to be judged or constrained internationally. Africa resists outside-judgement of its leaders for reasons that may be right in principle but can be fatally wrong in any given case. Can Africa and the African Union participate effectively in the ICJ and in international mediation and peacekeeping? Can China and India participate prominently? What can be learned from the experience of the UDHR about design and implementation of international charters?

With respect to the proposed charter on natural resource revenue, an effective charter might indeed minimize rogue behaviour and integrate some BB countries into 'formal' international resource sectors – petroleum, minerals, precious minerals and timber. Could villains be brought to international justice courts, whether from South or North? China's negative behaviour deserves comment, but should we not also be modest and reformist given that Northern companies and consumers have participated in these resource traps for decades, and their governments have either backed or not stopped them?

5.2-Sources of Growth and Development

The manufactured export boat is the fastest that this stage of globalization has to offer. However, for all the reasons the book documents, it may not be accessible for many BB countries any time soon. All economic opportunities nevertheless matter. How promising are the other sources of growth and development and how are they best

pursued by the BB countries and by practitioners of international development? What follows is a list of themes and questions for analysis and further consideration.

The Bottom of the Pyramid (BoP)

Understanding what is going on in the BoP and in BB countries, with the refocusing and redevelopment of business in the BoP, looks inexpensive and worthwhile. Where are markets and services expanding quickly, and how big is the role of mobile phones, ICTs, and other factors? What is the size of the BoP economy and how much economic opportunities would be realized if it grew at significant rates of about 5 or 10%? What are ICTs, communications and networking contributing in terms of the capabilities of individuals, groups, systems and institutions? How can policy and donors best help?

Agriculture

Many investment analysts and advisors are forecasting continuing rises in food and commodity prices, relative to manufactured goods for consumption. Are they right? What do world food import demand projections look like with the growth of demand from China, India and the fast boaters? What would they look like with a halving or an elimination of European and American agricultural protection and when might that happen? Where might there be considerably more domestic food demand and demand growth if traps were to be escaped? What kind of assistance would best help the BB's food sectors to build the capabilities needed to process export and link into global food chains - and how can benefits to small scale producers and traders be raised in the process?

In the first three years of its opening up in the early 1990s, Vietnam moved from being a rice importer to being the world's third largest rice exporter. Vietnam's economic reforms facilitated a huge boost to the economy, and the country is now engaged in low-cost manufacturing production and export. Was this just a special case – fast growing neighbours and pent-up savings freed by the change to private land ownership rights for farmers? My personal experience suggests that there was more - to do with capabilities and institutions that were in place. For example, Vietnam, like China, had a large and

well organized set of education and research institutions, and many world class scientists.

Other Sectors

To what extent can domestic demand and production growth be a significant and complementary source of growth? How much potential is there in regional integration if it is not done behind high trade barriers, and how significant are the spin off benefits in capability and institutional development? What can aid and other kinds of support help increasing growth and equity results in non-traded goods and services, and in regional integration?

5.3-Strategies of Growth and Development

Many use the words growth and development synonymously, and to me that is not wrong. However, it is not close enough to the reality and needs a closer look. It was not an accident that fast boats were built in Asia; the tigers and Thailand had been investing heavily in infrastructure, health and education for some decades. Moreover, they had governments that were substantially more cohesive and better trained than in Africa. Vietnam's successful leap into rice exports revealed what policy makers had rightly foreseen. Indeed, Vietnam's capabilities in terms of farming, communities, state enterprises, scientific and research institutions, and governance were very advanced; and fairly quick to refocus from the centrally managed to the more market oriented mentality.

Tanzania's failure relative to China, as *The Bottom Billion* indicates, was perhaps influenced by (British) Marxists in some unfavourable ways. However, that was not the main story. In the early 1970s, I was one of the economists in the Ministry of Economic Planning and Development (MEPD) in Dar es Salaam who read the paper one morning to discover that the government had nationalized all buildings in the country. The article mentioned that the MEDP had a plan for their management and maintenance, and we were all of course rounded up first thing that morning to construct the plan, by noon if possible. Tanzanians quickly realized that no such plan was even hopefully feasible and

the nationalization project was reversed. At that time, there was a lot of nation building going on in the capital and among the eighteen ethnic groups across the country. Julius Nyerere, like his friend Pierre Trudeau, was not attracted to economics and this resulted in economic opportunities being lost in Tanzania. However, the political and social building went well, unlike in Kenya and Uganda.

Growth is essential to a development strategy as it literally pays for public services and investments in people and capital. Public services in BB countries are indeed typically strapped for tax revenue and governments can not borrow beyond narrow limits without messing up the economy. Particularly where the military takes a lot of the budget, there is very little money for infrastructure, security, health and education. At the same time, growth does not come *without* these capacities being present and being developed. Catching a fast boat or, for most BB countries slower alternative boats, will require aggressive resource-constrained, and therefore 'efficient', human and system capability building.

During the early 1990s, I lived in Jiangsu in China, a prosperous province on the Yangtze River. Surprisingly, only one out of twenty township and village enterprises that I visited in the Nanjing area was at that time export oriented. This enterprise was exporting designer jeans to Germany, with German investment. Most village enterprises were assisted by urban state enterprises or by their retired people who had experience. Some enterprises were in the second and third generation of trying to profitably produce a good, failing and trying again. There were some 12,000 research institutions at the national, provincial and local levels, and scores of universities across China. These research institutions had come a long way in 20 years since the end of the Cultural Revolution in 1976, but they had built on institutions that had survived. The party and country had learned from the Cultural Revolution and the succession of the Kuomintang in Taiwan that legitimacy could be maintained only by delivering on development. In comparison with China, Tanzania's experience in the 1970s was not different mainly because of the persistence of socialism, or by its small size, but much more by its much lower initial level of human, institutional and political development.

If one agrees with the importance of capability building in development, some further considerations need to be taken into account:

- Sequencing is very important. A country should be as liberal as possible in terms of economic policy to take advantage of its economic opportunities, but it is not just ‘open the floodgates and let her role’. Important lessons have been learned in trade and financial sectors; countries typically have to do some serious building of capabilities before or along with liberalizations to achieve potential benefits. Achieving real competition, with consequent opportunities for all prospective market participants, is one key ingredient.
- Lessons have been learned at many levels, notably in trade and financial sector policy, but also in other sectors. Neoliberal economics pushed the privatization of the state sugar monopoly in Mauritius. Private monopoly power resulted with no benefit to producers and net job loss. The intent was right, but the capacity was not there to ensure competition in production, marketing and export. As with telecoms, privatization would have gone much better and quicker with serious attention to competition policy, but both domestic and foreign monopoly interests were hostile to that, and the International Financial Institutions (IFI) did not or could not push it too far in the face of opposition from their controlling member countries.
- Education and health services expenditures should grow roughly¹¹ at the pace of market growth. Hence, there is a strong case for consistent and better aid to education and health – not only in terms of money, but also in terms of the relationships among institutions in more advanced and BB countries. Donors were building universities and both primary and secondary education capacities in the early years of foreign aid. They drifted off into basic needs, policy reform,

¹¹ For some people, this may revive memories of balanced and unbalanced growth discussions; some imbalances can clearly be highly positive in terms of dynamics. The dimension that has been added here is the broader idea of societies building their capabilities, with no single model of the end result or the process. The most promising imbalances have to be identified, tried and adapted. Conceptual frameworks are invaluable, but country-specific considerations must often dominate.

poverty reduction and a succession of smaller intervening trends. It is hard to imagine African countries escaping BB traps without better health and good schools - and fairly easy to imagine it with these.

- BB countries and their donors might usefully give more thought to knowledge and experience in the area of building capabilities and capacities, including social choice, social justice, the capability approach in economics and a lot of political and other social sciences. Welfare economics and economists, particularly the more neoliberal or neo-conservative,¹² might be much more effective if they worked with thinkers and practitioners from a broader range of fields. Interdisciplinarity has a very good reputation in applied development research and policy analysis, for good reasons, as it is often indispensable in solving problems.

5.4-Capabilities and Freedoms

Amartya Sen and a rapidly growing human development constituency regard human development as the primary focus or objective of development. This consists in increasing the capabilities and freedoms of individuals and groups – economic, political, social, ethical and security freedoms as described in Sen's *Development as Freedom*. The objective of human development incorporates economic growth, equity and sustainability - human development clearly means development for everyone, and equal or better opportunities for future generations mean environmental conservation and renewal. The conceptual framework of the capability approach encompasses economic growth and the tools of welfare economics. The framework also includes knowledge and practice of how societies can best make social choices, achieve social justice and organize / optimize public services provision. The framework takes into account the several dimensions of well-being, beyond material well-being, that people highly value,

¹² In the history of economic thought, small "I" liberal is not too different from large "C" Conservative – 'liberalized' economic policy and conservative social policy. Large "L" Liberal, as for example in the Canadian Liberal Party, carries the meaning of 'liberalized' economic policy but liberal (more focus on equity) social policy.

but that do not come automatically or necessarily with material growth - and the consequent need to target these dimensions in public policy and action - notably security, dignity and empowerment.

This approach also points out the instrumental as well as intrinsic value of investments like health and education, in enabling market growth while building capabilities. Many welfare economists – my background - resist. ‘It is too complicated; policy makers will lose focus with multiple goals – look at their performance with only one.’ There is some truth to this, and efficiency/growth will remain central. Welfare economics has introduced a lot of needed discipline into policy discussion and global thinking. Without it, people can say almost anything, and do. However, my experience says more. A big number and range of people in developing countries explicitly want other freedoms too. The majority of civil servants in Uganda or Laos, who are not corrupt, want decent quality of life as much as those in the U.K. or Canada, and have little problem in practical terms - from my experience - dealing with multiple objectives. They are very often highly motivated and able to do so.

People in developed countries are not that different – insecurity, indignity and disempowerment are growing problems. Integrating paradigms is never easy, but many advanced countries do integrate human development and economic growth effectively. One approach is to think rather separately about material well-being and markets on one side, and about collectively produced and consumed services and non-material freedoms on the other side. This works reasonably well in the short run, and there is definite progress in synthesizing and integrating different conceptual frameworks in terms of theory and policy in light of practice and experience. However, quicker progress would be more ‘efficient’.

In the mid-1960s and early 1970s, the dominant economics and public finance textbooks listed efficiency, equity, stabilization and participation as the four fundamental goals of economics. This was before the full impact of ‘The Road to Serfdom’ and Hayek’s backers, before much of the economics profession went rather obsessively for efficiency and growth for the next three decades or so. One hears that ‘growth is back’, in the U.K.

Department for International Development (DFID) and the U.K. Government. The truth is that it never went away; market growth and liberalization has been the dominant economic paradigm in international institutions and relations since the mid-1970s.

5.5-Integrating Growth and Development

The first IMF team to visit Uganda in 1986 stayed in the country for two days. The Ugandans had prepared their own policy package, and asked why the IMF team did not stay longer to discuss and resolve. A young member of the IMF team replied that they did not want to risk becoming sympathetic. At one level, this was quite reasonable, and everyone saw that. They were there to lay down a few rules concerning the size of the government budget in relation to GDP and the size of foreign borrowing. International experience was pretty clear and local detail somewhat irrelevant. However, at another level, everyone else in the room knew there was something badly wrong with the picture.

The IMF and the WB provoked a lot of the critics that they encountered. Approaches did not need to be so one-dimensional and top-down. There was little serious thought about capacity building until the 1990s. But these were clever people, so one had to believe that they saw globalization and economic development differently than most others. Their opponents stressed the darker and nastier sides of globalization – arms everywhere, the behaviour of Western multinationals in resource industries, the compliance by commission or omission of their governments, the use of military force to support tyrants and thugs over democrats, the unwillingness and inability of the international and bilateral donor agencies to deviate a lot from the neoliberal line.

At the same time, the Washington Consensus saw more clearly than their opponents the importance of efficient resource allocation, markets, productivity and economic growth – and although influenced and generally controlled by their political masters, their economists at least had a framework that is right-headed when it is not abused or pursued in fundamentalist or ideological ways. There is in fact a huge amount in welfare economics that is invaluable for pursuing inclusive growth, equity, stabilization, participation and poverty reduction. It is past time, one might argue, to stop fighting and

put human development and welfare economics together. While somewhat complex, this is not so daunting; students increasingly get it and vote with their feet. Globalization brings tension and volatility along with the growth kick, and there are enough other areas of conflict among regions, nations, religions and others to be able to afford a wasteful conflict over growth and capability development. **It is not one or the other, it is clearly both.**

In one perspective, global growth has been pushed quite single-mindedly for three decades and has been achieved in large measure. Very little explicit attention was given to security and environment, and that was successful too – conflict and increasingly disastrous environmental destruction were the results. **Beware of what you do not ask.** Recent research on happiness¹³ indicates that it has remained static or has declined in wealthy countries over the past 50 years in spite of enormous growth in per capita incomes. **Beware of what you ask.** Depression and crime are large and growing problems. Some of the ways in which we pursue growth are responsible for the static and declining happiness observed. The countries that have asked for both human development and growth¹⁴ have also generally succeeded - Holland, Sweden, Norway, Denmark, Switzerland, New Zealand, Australia, Canada and others. It is known to be possible because it has been done. **Ask for the right things.** We seem to be very timid, both about setting development objectives and about collecting the data needed to monitor their achievement and guide policy.

Along with putting the missing dimensions of well-being into the objectives set, they need also to be put into data collection systems and general awareness. Some of this is happening in many specific initiatives and an important OECD programme is sponsoring the bringing together of datasets - with advanced comparison, analysis and presentation

¹³ *Happiness: Lessons from a new Science* by Richard Layard provides a very good introduction to literature on happiness and development.

¹⁴ In Layard's book, the 'big seven' factors contributing to happiness are family relationships, financial situation (especially security), work (especially security), community and friends, health, personal freedom and personal values.

capabilities.¹⁵ Support for data development is important to people within countries and important to the international system, which is under constant and growing pressure to provide global public goods. To keep doing better will require more extensive data on people and non-market activity along with national accounts and market data.

The Oxford Poverty and Human Development Initiative (OPHI) has developed and is piloting measures of security, dignity, empowerment and employment quality for use in many current international datasets, including the World Bank Living Standards and Measurement Survey (LSMS), the World Bank Core Welfare Indicators Questionnaire (CWIQ), Demographic and Health Survey (DHS), the UNICEF Multiple Indicator Cluster Survey (MICS) and the International Household Survey Network (IHSN). A pilot project is beginning with the international Community Based Monitoring Systems Network (CBMS). There are dozens of other valuable data initiatives. Some produce institutional and policy assessment data like the World Bank initiative on governance indicators, described and used by Prof. Collier, or the Telecom Regulatory Environment measures and processes developed by LIRNEasia and its sister networks.

An interesting hypothesis is that individual, group, system and institutional capabilities increasingly reside in, and are reinforced by, networks.¹⁶ Capability development is noticeably changing and speeding up with the networking power and mathematics of electronic communications. It is less visible in the BB countries, but it is there. For instance, mobile phones are helping to build both economic activity and personal security in poor communities.

5.6-What about aid?

Prof. Collier makes significant recommendations for improving the design and delivery of aid and technical assistance to suit the needs of countries in different trap configurations.

¹⁵ OECD, Measuring the Progress of Societies: World Forum on Statistics, Knowledge and Policy, (available at http://www.oecd.org/site/0,3407,en_21571361_31938349_1_1_1_1_1,00.html)

¹⁶ James Foster - who economists will know from, among other things, the Foster, Greer and Thorbecke (FGT) poverty measures – has added an analysis of external capabilities and ICTs.

At the same time, as he indicates, there is Dutch disease, and aid has diminishing returns, so there are limits. One might add:

- Special assistance appears necessary in BB countries to build sectoral capability to export, wherever comparative advantage lies, and link with foreign companies and markets. There is a lot of experience available to draw on here, on better and worse ways to do this in agriculture and horticulture for example, and in the other main resource sectors. We seem much less confident about helping build capacity for manufactured exports in the BB, perhaps because these sectors are typically starting from scratch rather than from an existing production base.
- Consistent long term effort is needed in education and health. In addition, sufficient attention to research and innovation systems, including the expansion of innovation going on in the BoP – particularly in agriculture, food processing, and development of informal enterprises and services – and in ICT network development, along with other infrastructures.
- A closer look at aid is useful in terms of net resource transfers. Studies over the past three decades show that if you discount aid flows by the large amount that is military, the repayment cost of loans, the efficiency costs of tied aid and a couple of smaller factors, then the net resource transfer is 1/4 to 1/3 of the total flow. Aid is also a dysfunctional business in a lot of ways described by Prof. Collier and others. However, at 1/4 to 1/3 of nominal value, it is not clear that aid has ever been tried seriously enough to conclude much about diminishing returns, or whether the capacity constraints to achieving constant or increasing returns can not themselves be reduced by persistent effort.
- Few donors take capacity building seriously. Prof. Collier's points about technical assistance on a broad and sustained basis are good ones, for example, but this will do little good if the foreign advisors do the work rather than assist the domestic people and institutions. Capacity building is not an afterthought; the resources have to be included in aid projects and programs. A shift in donor attitudes to recipients is needed in many cases, with less condescension and

more genuine collaboration, and there are very few kinds of aid worth doing if capacity development is not one of the main components.

- The Paris Declaration on Aid Effectiveness of March 2005, endorsed by over 100 donor and recipient countries, provides important commitments and monitoring mechanisms for improving aid alignment, coordination, management and accountability, while building the capabilities of recipient countries. It surely deserves particular mention and sustained dedication with respect to the BB countries.

6-Conclusion: Is this All Quite Naïve?

In terms of global politics and the will of the more developed and rapidly developing countries, 'overly optimistic' is a kinder term for what *The Bottom Billion*, in all of the book's recommendations, asks of the West, China, India, other Asian countries and companies - compared to what they have so far been willing to do. More resolve will be needed in the Top Billion countries, and there are some encouraging signs. The paragraph which appears alone on the cover of the recent white paper on Irish aid, for example, does not explain how to do it, but it is not a bad start (see box 3).

Box 3: Excerpt from White Paper on Irish Aid

"First and foremost, we give aid because it is right that we help those in greatest need. We are bound together by more than globalisation. We are bound together by a shared humanity. The fate of others is a matter of concern to us. From this shared humanity comes a responsibility to those in great need beyond the borders of our own state. For some, political and strategic motives may influence decisions on the allocation of development assistance. That is not the case for Ireland. For Ireland, the provision of assistance and our cooperation with developing countries is a reflection of our responsibility to others and of our vision of a fair global society." (Government of Ireland, 2006)

The world economy is changing quickly, calling for new thinking and policy on commercial, military, donor and other kinds of interactions. Awareness and concern will grow in Western countries as they become less dominant. *The Bottom Billion* is convincing on why we should care about these countries and their people. Media coverage and interest should improve, and growing communications at all levels with BB

countries and people will happen. There are some grounds for being optimistic. *The Bottom Billion* brings important new insights and prompts us to re-examine all our assumptions. The learning can be nothing but good.

However, as I re-examine my own assumptions and experience, I find some substantial differences with the narrative of *The Bottom Billion*:

- The world's poorest people live in countries that are trapped in ways described in the book, but they also live trapped in similar ways within countries that are now doing better. Development is the building of what societies can do; the capabilities of individuals and institutions, and the well-being that people consequently experience. Some of this building takes the form of increased production and consumption of goods and services – both market and public – and is measured as economic growth. Some takes other forms – the generation of other freedoms and forms of well-being that are only starting to be consistently measured.
- Economic growth is a necessary but *not* sufficient condition for development, increased equity and reduced poverty. Most economists accept this, but the almost exclusive focus on fast market growth and liberalization of the past three decades has generated negative consequences of many varieties – notably weak public services and sectors, large scale environmental damage, and failure to achieve non-material dimensions of well-being, including security, dignity and empowerment. Some of these negative consequences have undermined growth and development prospects, particularly in the least advanced countries. **Countries that have taken a more balanced approach over time have done measurably better in terms of material and non-material well-being.**
- There are different strategies to achieve sustained economic growth. In addition to the fast boat of manufactured exports, these include development of manufacturing production for domestic consumption and of agriculture, natural resources and services for both domestic consumption and export. Countries have succeeded in these strategies, and all opportunities are important –

particularly for the poorest. Expansion of goods, services and innovation in the BoP deserves particular attention and policy reinforcement.

Moving beyond economic growth to development will require conceptual frameworks that go much further than welfare economics, particularly the neoliberal version. Important approaches can be found in the human development and capability framework, in areas including institutional and behavioural economics, and elsewhere. It is more important for societies to be moving in the right direction than to be getting there fast. Will the dominant neoliberal paradigm recognize its flaws and work with other essential approaches? Most current evidence says 'not very soon'. The page will turn eventually, when global problems get sufficiently large and clear. In the interim, there will be a lot of patient work, a lot of villains who thrive in the North and South with the backing or disregard of the major powers, and a growing tendency to discard the useful and important elements of welfare economics instead of using them for the creation of broader and more effective understanding and practice.

Acronyms & Abbreviations

AERC	African Economic Research Consortium
BB	Bottom Billion
BoP	Bottom of the Pyramid
CWIQ	Core Welfare Indicators Questionnaire
DHS	Demographic and Health Survey
DFID	Department for International Development
CBMS	Community Based Monitoring Systems
GDP	Gross Domestic Product
ICJ	International Court of Justice
ICT	Information and Communication Technologies
IFI	International Financial Institutions
IMF	International Monetary Fund
IDRC	International Development Research Centre
IHSN	International Household Survey Network
LSMS	Living Standards and Measurement Survey
MEPD	Ministry of Economic Planning and Development
MICS	Multiple Indicator Cluster Survey
NAFTA	North American Free Trade Agreement
OBB	Other Bottom Billion
OECD	Organisation for Economic Co-ordination and Development
OPHI	Oxford Poverty and Human Development Initiative
PRC	People's Republic of China
UN	United Nations
UDHR	Universal Declaration of Human Rights
WB	World Bank
WTO	World Trade Organisation

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