# The Economics of Failed, Failing and Fragile States: Productive Structure as the Missing Link

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**Abstract**:

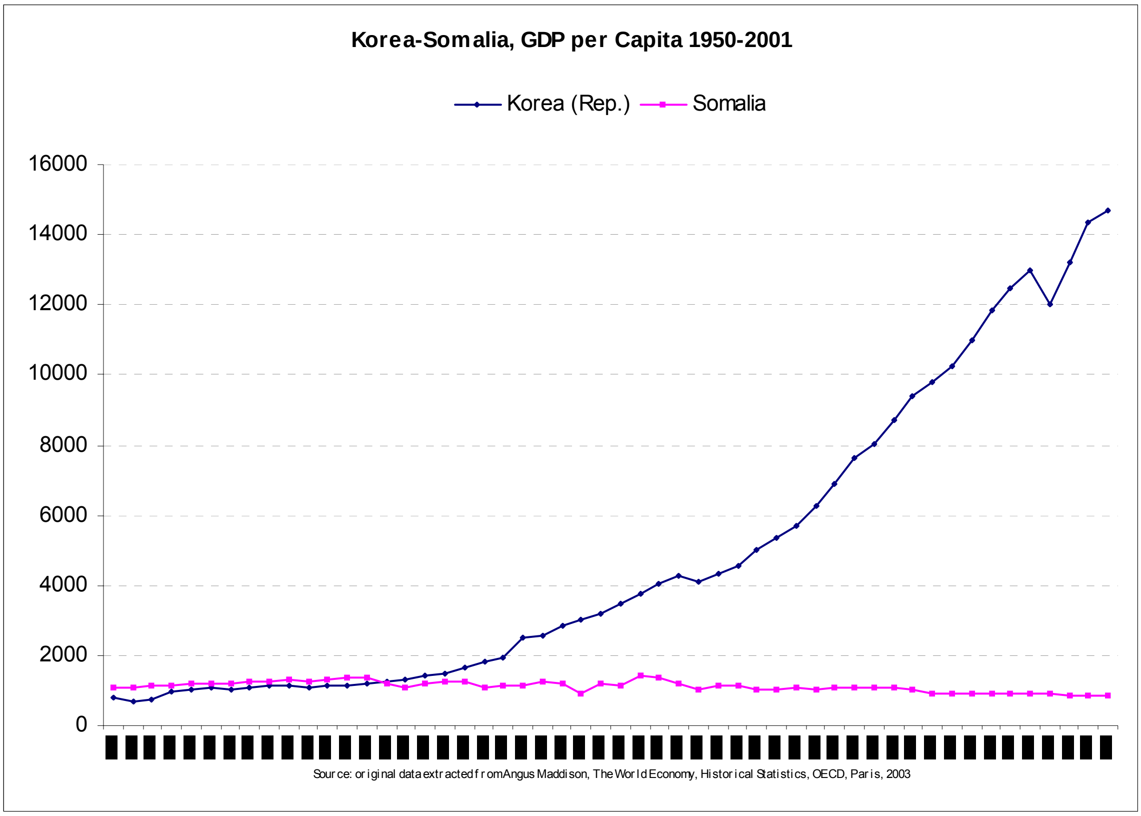
With all the economic receipt and military cum security pre-emptive or direct intervention in poor countries, the world is still experiencing an important number of countries which are qualified as failed, failing or fragile (FFF) States. One of the characteristics of poor countries lies in both the unhealthy governance provided by whatever is qualified as State and a lack of productive structure.

In light of the historical de-industrialization process in poor countries, this paper is also an attempt to contribute to the improvement of the traditional and mainstream economic orthodoxy which usually denies poor nations the adequate time and economic protection to promote their industrialization process. Based on selected times series statistics, it becomes obvious that there are strong correlations between a particular type of national economic production structure and the propensity of a Nation-State to fail and to diverge from industrialized countries.

Building productive structure as part of an agglomeration and entrepreneurial process should contribute to upgrade the objectives of “poverty reduction” into “wealth creation”. It will contribute to a more realistic strategic orientation consisting in supporting least industrialized countries to become effective middle-income countries. Hence, one of the major challenges for world leaders will be to effectively engage in supporting an economic convergence between poor and middle-income countries, using democracy as a second-best tool in support to human security, human progress and human well-being. Productive structure, participative democracy and respect of local culture should be given a serious re-consideration in redesigning and implementing sustainable development.

## 1. Introduction: Lost Theoretical Insights from US Secretary of State George Marshall.

Sixty years ago on 5 June 1947, US Secretary of State George Marshall gave a speech at Harvard University announcing what was to be called the Marshall Plan. The Marshall Plan was probably the most successful development plan in human history, re-industrialising and industrialising of countries from Norway and Sweden in the North to Greece and Turkey in the South-East. At about the same time, a similar process based on the same principles, re-industrialised and industrialised East Asia, spreading from Japan in the North-East towards the South West. In this way a *cordon sanitaire* of wealthy countries was created around the communist world, stemming the communist tide that was rising at the time of Marshall's speech. One country to benefit from the Marshall-type ideology was South Korea, a country that in 1950 was poorer (GDP per capita estimated at $ 770) than Somalia (GDP per capita estimated at $ 1057[2]), today's example of "failed" State (see table below).




Although sometimes it is misunderstood as a scheme for giving away huge sums of money rather than a re-industrialisation scheme, the Marshall Plan is well-known. What is less known is that the relatively short speech contained three key theoretical insights with strong relevance in today's situation:

The first insight is the link between **a certain type of productive structure** and what George Marshall calls "modern civilization", what in a more politically correct and neutral language today could be called "development and democracy" (italics added):

> *'There is a phase of this matter which is both interesting and serious. The farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life.* ***This division of labor is the basis of modern civilization****. At the present time it is threatened with*

> *breakdown. The town and city industries are not producing adequate goods to exchange with the food-producing farmer'.*

During the time of the growth of the European Nation-State, it was common knowledge that democracies and 'civilization' were both products of certain economic structures associated with 'city activities'. It was not lost on Enlightenment Europe that the first democracies – Venice and the Dutch Republic – were also the states where artisans and manufacturing were the dominant professions. Agricultural states meant feudalism and lack of political freedom. Already in 1613, Italian economist Antonio Serra identified the "glue" that creates the common weal of cities and nations as a large division of labour in activities all subject to increasing returns (falling costs as volume of production goes up, which excludes agriculture). As city-states grew first into dynamic agglomeration, then as Nation-States, the phenomenon described by Marshall could be observed.

Marshall's second insight regards the vicious circles that are created in societies without manufacturing activities:

> *'The remedy lies in* ***breaking the vicious circle*** *and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole. The manufacturer and the farmer throughout wide areas must be able and willing to exchange their product for currencies, the continuing value of which is not open to question.'*

It is notable that Marshall used the term vicious circle, which became fashionable only later – in the 1950s and 60s – with development economists like Gunnar Myrdal.

Marshall's third insight is that **development assistance must provide a cure** rather than a mere palliative:

> *'Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative. Any government that is willing to assist in the task of recovery will find full cooperation.'*

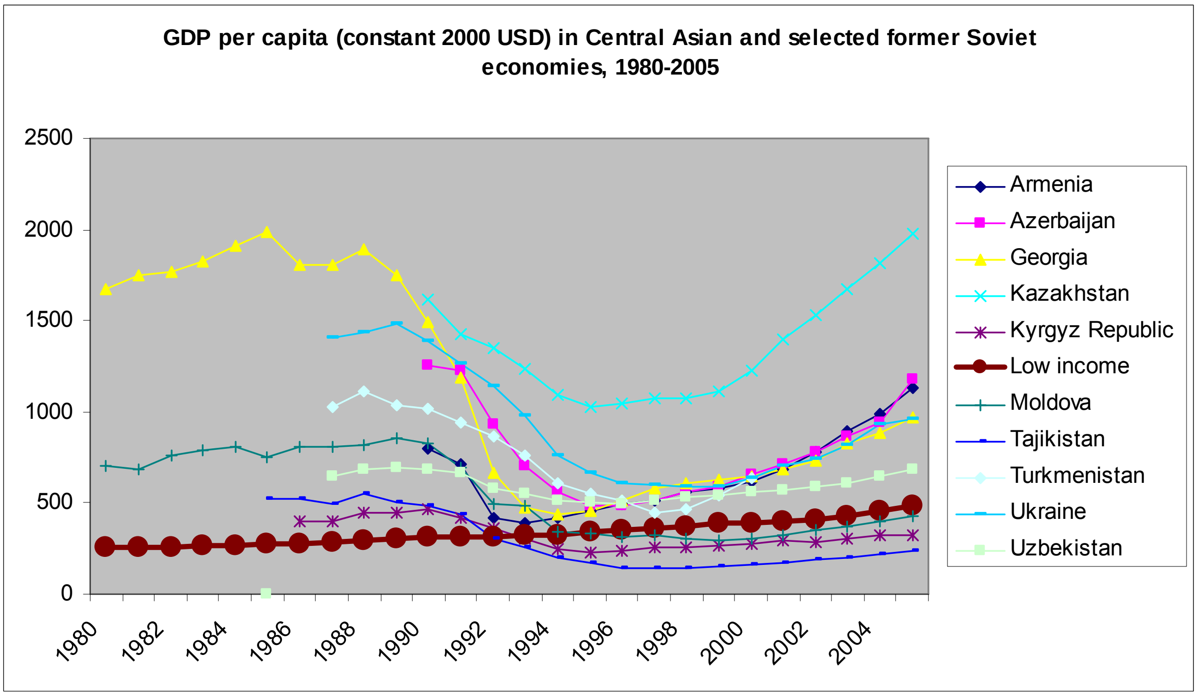
At the end of a sequence of unsuccessful Development Decades, the Millennium Development Goals were launched. These are – in the view of the authors – heavily biased towards palliative economics, treating the symptoms of poverty rather than addressing its root causes. In this paper we argue that the root causes of poverty lie in a certain type of economic structure which fails to produce the virtuous circles of economic growth that need increasing returns and sufficient diffusion of value added solutions in order to become self-sustainable.

## 2. Ibn-Khaldun: Pre-Industrial Rent-Seeking as a Zero-Sum-Game.

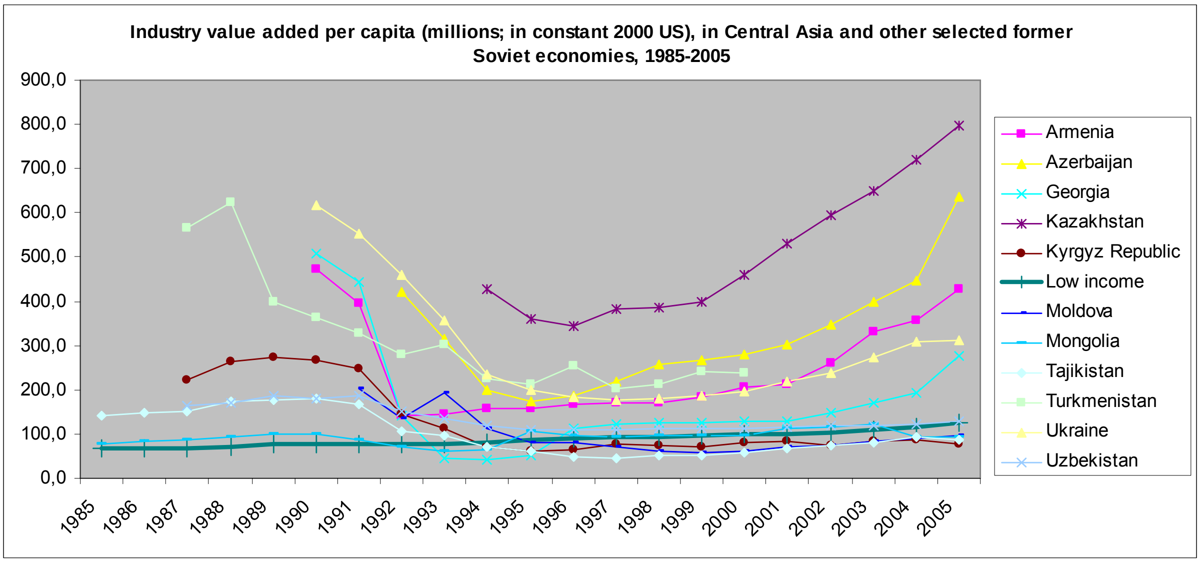
Muslim historian and philosopher Ibn-Khaldun (1332-1406) described society's development from the nomadic tribes of the desert, organised in clans originating in blood relationships, to agriculturalists and ultimately into town dwellers. The town dwellers become luxurious, and as their wants increase, the city must resort to constantly increasing taxation. Resenting the claims of their clansmen to equality they rely for aid on foreign supporters, who become necessary because of the decline of clansmen as warriors. Thus the State grows decrepit and over time becomes the prey of a fresh group of nomads, who undergo the same experience. In Ibn-Khaldun's pre-industrial setting, history logically becomes a cyclical sequence of tribal wars – with foreign supporters – fighting over the static and non-productive rents that accrue to the capital.

Pre-increasing returns and pre-common-weal productive system specialized in raw materials create a type of feudal political structure. But even where there is no real feudalism involved, like in some African agriculture, the State seems to continue the extraction of economic surplus characteristic of colonialism, and giving very little back. Sharing economic growth becomes a fundamental issue in the identification of responses to poverty alleviation. Under such conditions pre-capitalist production structures and political structures are very durable, and probably for some good reasons. One advisor to Tanzanian president Julius Nyerere, the Swede Göran Hydén, talks about Africa's "uncaptured peasantry". Similarly NATO and the West today face an "uncaptured peasantry" in Afghanistan. Our suggestion is that Nyerere's African socialism may have failed for the very same reason NATO and the West are failing in Afghanistan and in the Middle East in general. The absence of an increasing returns sector creates zero-sum-game societies of static rent-seeking. Patrimonial States became gradually a supplementary reason for Nation-State developing into FFF States.

In the former Soviet Republics in Central Asia, Moldova and in Mongolia we can see almost exactly the opposite process taking plave since early 1990s. With the breakdown of Soviet Union and following rapid liberalization of trade and economy in general, most Central Asian countries transformed within few years from relatively developed countries to fragile and poor states that by now exhibit often feudal patterns of political and socio-economic behaviour. (See Figures below) Also here we see the state collapse accompanied by heavy fall in GDP per capita and industry value added per capita. While before 1990 most of these countries had income levels well above what the World Bank calls low income countries,[3] then countries like Tajikistan, Kyrgyz Republic and Moldova have fallen well below low income countries income levels and stayed there throughout 1990s and early 2000. It is thus not a coincidence that we find Georgia, Kyrgyz Republic, Moldova, Taijkistan, Turkmenistan and Uzbekistan among the *Foreign Policy* failed state index 2007.[4]




Source: World Bank WDI online database; calculations by the authors.




Source: World Bank WDI online database; calculations by the authors.

Another important aspect in state failure and fragility is the fast pace of urbanization in many poor regions of the world. (Davis 2006; UNHSP 2003) The rise of slums in poor countries indicates an interesting phenomenon: state failure and fragility is often preceded or at least accompanied by failure and fragility of cities. In fact, such failed cities are often surviving on resource-based activities from the country-side (large-scale agriculture, natural resources such as minerals, mining etc). State and city failure reverses development logic (city does not support surrounding areas but vice versa) and creates thus huge dependencies and vicious circles. In such human settlements many survive in illegal activities and lodgings enforcing vicious circles.

The development that broke the Ibn-Khaldunian circle of rent-seeking tribal violence was the simultaneous development of a large division of labour and growth of increasing returns industries. With these activities, the capital became an asset to the countryside and vice-versa: the Nation-State was no longer a zero-sum game. Nations displaying these types of characteristics became the first democracies.

**3. The Need for a Holistic View of Economic and Political Structures.**

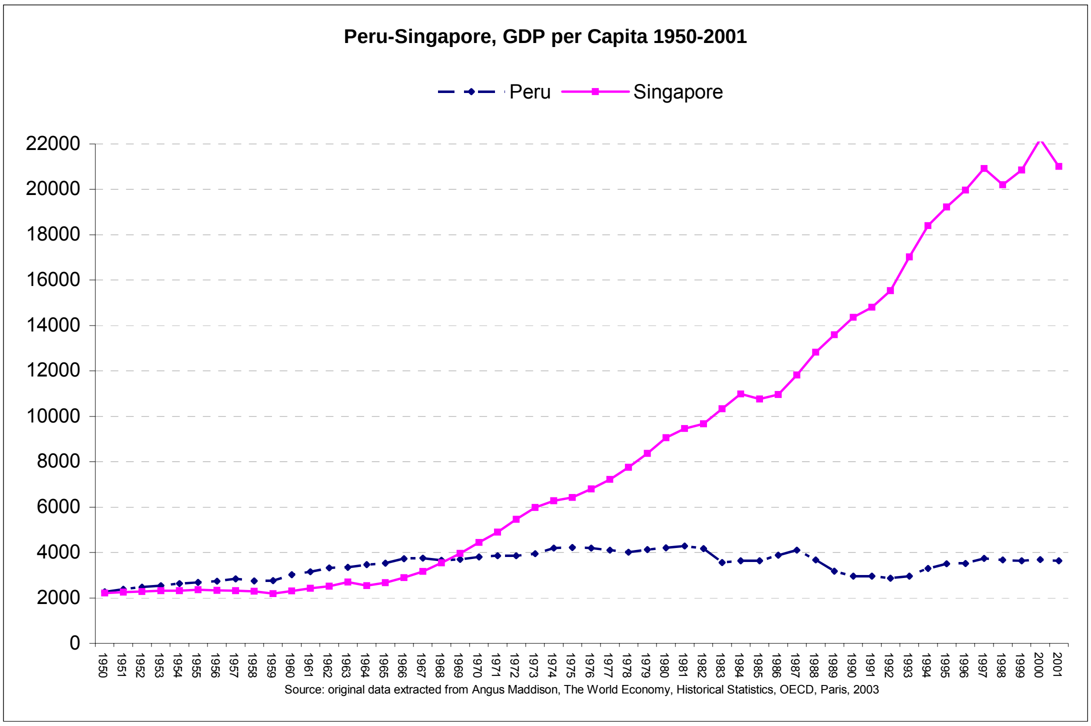
Three main differences between today's approach to economic development – as represented by the Washington Institutions – and previous theories of the development process are a failure to:

a) Approach economic development from a multidisciplinary standpoint, as in the German tradition of *Staatswissenschaft*,
b) Study and tailor-make policy-recommendations to the specific *context* in which a nation finds itself, and
c) Investigate differences between the productive structures of nations;
d) Understand role of the state in economic growth from any other standpoint than market failure.

These weaknesses all reflect the standard methodology of economics today. In particular the latter assumption leads to highly simplistic juxtaposition free market vs government intervention. Such dichotomy fails completely in understanding how real markets work: markets are often bundles of rules, institutions, regulations, enforcements (or lack thereof) and thus highly intricate webs of transaction costs and externalities that create context-specific motivators for particular economic behavior. This failure, in turn, leads to overly primitive understanding of the role of state and in particular of public administration in development (see further below) and thus further to policy solutions and advice (get market institutions right) that are often completely alien to the country they are meant to help. (Fukuyama 2004; Doornboos 2002)

One example where the lack of interdisciplinarity leads to theoretical blind spots is in the study of and approach to the important problem of *failed States*. According to the Financial Times, the World Bank keeps a list of 48 Nation-States that risk collapsing into failed States. The starting point of this paper is the proposition that there is a strong relationship between ***a particular type of national economic production structure and the propensity of a Nation-State to fail.*** The FFF States have common economic factors that distinguish them from, e.g. Canada, Finland, Norway, Germany or Singapore, (see Appendix 1).

The importance divergence trend between FFF States and industrialized countries appears a major source of concern, which could not simply be reduced to security related issues. In 1950, Singapore was poorer (GDP per capita estimated at $ 2219) than Peru (GDP per capita estimated at $ 2263, see table below[5]). A clear indication for a non-failed State is its ability to perform productive activities within a system that provide incentives for agglomeration and a rewarding system for value added support institutions. The assertion is that any policy aiming at preventing Nation-States from failing, should – in order to avoid treating mere symptoms rather than causes – include an analysis of how to bring the productive structures of failing States closer to the structure of those States that work satisfactorily and democratically. The challenge of sustainable development lies nowadays in the ability of policy makers and non-State actors to achieve mutual collective efficiency. It could be traced with an indicator such as the Gross Domestic Product per capita if data are converging. A GDP per capita convergence building approach should replace the usual static presentation of GDP per capita. A similar indicator should be developed within a country in order to highlight asymmetry within a country or a region. In fact, if GDP per capita does not converge with neighboring countries (intra-regional approach) or between regions (inter-regional approach), then poverty reduction might become an illusion even when selected countries are presenting two-digits economic growth based often on one or two major commodities (Equatorial Guinea is a typical example) . The overall approach of the Millennium Development Goals should be revisited[6] to include **productive structure as the bidding process.**




Common economic characteristics of failing States are, among others, very few if any urban increasing returns industries, very little division of labour (i.e. monoculture), no urban middle class bringing political stability, no important artisan class that is economically independent, commodity competition in export activities, a comparative advantage in supplying cheap labour to the world markets, a low demand for educated labour combined with very low level of education, and brain drain. In nations with this type of economic structure a particular type of regionalism tends to evolve, which in Latin America is referred to as *caudillismo* and in Somalia and Afghanistan is referred to as the rule of war lords. The economic structure that provides the "bonding agent" for a functioning Nation-State is not there. This economic structure should facilitate and promote a systemic auto-generation of value-added activities by dynamic actors structured in both unsolicited and solicited agglomeration environment.

In some cases, it can be observed that a productive system specialized in raw materials creates a type of feudal political structure. But even where there is no real feudalism involved, like in some African agriculture, the State seems to wish to continue the extraction of economic surplus characteristic of colonialism and post-colonial paradigm. These patrimonial States based on rent-seekers' syndrome can only give very little back. Under such conditions pre-capitalist production structures are very durable, and probably for some good reasons. Nevertheless, neo-feodalism governance cannot become a reference for FFF States because of their present delay in upgrading their productive structure. Lessons from Nyerere's Tanzania point in this direction (Göran Hydén). Seemingly it is only with the "common weal" synergies of increasing returns – *il ben commune che fa grandi le cittá* (Machiavelli) – that getting out of subsistence agriculture gives back more than it takes out. This synergy-based understanding of successful States is found already in Florentine State theory, with Brunetto Latini, in the 13th century. The Nation-State must probably operate under synergic increasing returns in order not to involve a negative-sum game from the point of view of the pre-capitalist subsistence sector. The argument of increasing returns was, according to Schumpeter, a key argument in 18th century national economic policy.

We suggest also going back to the literature at the time when early viable States with some kind of democracy were created. In Giovanni Botero (1588) and the *Staatsraison* ("reason of State") tradition there are clear links between economic structure and the viability of States. Botero's *Ragion di Stato* (reason of State) and *Sulle grandezze delle Cittá* (on the wealth of cities), are, after all, parts of the same work. This tradition was continued by 18th century social scientists, including Montesquieu. As one German author says at the time: *'it is not so that a primitive people become civilized, and then found industries, it is the other way around!'*. Friedrich List continues this core 18th century argument: linking manufacturing and 'civilization' directly. Max Weber is another theorist who contributes to the understanding of functioning and failing States. Already in early German social science, Veit Ludwig von Seckendorff (1626-1692) found that Germany did not have the economic basis to create a society like the one observed and so admired in the Dutch Republic. Seckendorff's approach to making the State function better was intimately tied to changing the economic basis of the State itself, its mix of professions and industries and their geographical relocation within the realm. In the tradition started by Seckendorff, the *Fürsten* (Princes) were turned into modernizers by arguing that their *Recht* (right) to govern was accompanied by a *Pflicht* (duty) to modernize and, in effect, in the long term create the conditions where the *Fürsten* in the end would be obsolete and the conditions needed for a functioning democracy would have been created. A successful Principality carried with it the seeds of its own destruction and the birth of democracy.

The first wealthy States with some kind of republican rule were often islands, like Venice and the Dutch Republic. The absence of arable land both led to an absence of a feudal structure and contributed to the creation of a diversified economic structure including activities subject to increasing returns. This makes Florence, with power also by landowners, so interesting. There the *corporazioni* (guilds) and the burgers fought for power among themselves, but very early (12th-13th century) they had banned the families that owned the land around from participating in politics (these continued to trouble Florence for centuries through alliances with other cities).

There is, then, a long history of trying to move the vested interests of the ruling class from land into manufacturing. The rulers who had a manufacturing strategy also tended to have a policy against the landed nobility, starting with Henry VII in England in 1485. The goal of converting the 'useless' landed nobility to something else was an important reason for Johann Heinrich Gottlob von Justi's appointment in Vienna in 1752, and for the establishment of the *Theresianum* there. Sometimes, however, the urban non-feudal modernizers lost, as in the *War of the Comuneros* in Spain in 1520-21.

## 4. Palliative industrialisation: from Primitivisation to "De-industrialisation"

De-industrialisation as an accident or as a well-planned process should always be considered as part of the explanation of FFF States. The international community's focus on palliative economics rather than on a "Renaissance of wealth creation" for the least industrialized countries may have contributed to erode the process of dynamism, thus pushing economically fragile States towards the failed States status. Top-down policy tool kits, which were used to 'fix' developing countries' development problems, Africa specifically, have produced poor results and many failures. There is a need to reverse the "publicly bad" synergies created in many least industrialized countries by the Washington Consensus. Any form of window-dressing adjustment to the "top-down straight-jacket economic structuring approach" should be revisited against the on-the ground result of vicious circles of "Primitivisation", De-industrialisation and loss of Critical Mass of effective success.

Countries such as China and India were stubbornly improving their economic structure and productive capacities and capabilities (see Appendix 2 and 3) thanks to an economic policy diverging from the one advised by the so-called Washington consensus. The question whether some economic structure could be jeopardized while promoting palliative industrialization needs to be re-discussed in the light of the lack of promotion of productive capacities and capabilities in the Millennium development goals strategies and targets. In addition to the call for "*an improvement of global investment climate as well as taking the social dimension of globalisation into account*", the G 8 should re-introduce the building of productive structure in FFF States as a mean to qualify them for a process leading to middle-income countries. After all, it is the fragile countries that are suffering the most of the globalisation process. Approaching the problem exclusively from the collateral effects which could be defined as an additional lack of predictability in terms of security threats for the international community, one may fail to address the root of the problem. Hence, asymmetric solutions are often offered which delay the human security and peace building process and increase the cost of building trust in FFF States. According to the International Crisis Group, *"civil war in a low-income country costs that country and its neighbours on average 42 billion Euro in direct and indirect costs. That is for a single conflict. To put that in perspective, the worldwide aid budget in 2004 was 60 million Euro."*

Since 1870 and 1950s (see Appendix 5), most of the poor regions are facing difficulties to reduce the rising gap between improving the country's economic wealth and people's real life conditions. Emerging economies are following an interesting path which focused on getting out of the vicious circle through the mastering of their productive structure. Declining aid in real terms and window-dressing debt relief embedded in donor-driven solutions have been unable to radically change the situation on the ground to the better. Today Africa is being split up between different trading areas (the so-called "spaghetti bowl") much as it was split up and divided by the colonial powers in the 1880s. The lack of collective governance in Africa, and regular external interventions to promote external interests over people's interest in Africa, generate social pressures. This is often kept under control by powerful political regimes supported by military powers, which are using the democratic deficit as a new management tool of governance. Failing to discuss and negotiate new terms to improve the sustainable development process, the international community often adopted palliative measures. Some of them were agreed upon and structured around the United Nations Millennium Development Goals with no clear reference to wealth creation. Long-term vision and strategies using bottom-up approaches should contribute to reverse the dominant donor-driven approaches which often contribute to facilitate poor country leadership with little interest for the well-being of the local population. Positive impacts on poverty reduction cannot be de-linked from wealth creation and synergic growth.

Recently the globalisation process was slowly reduced to issues of direct interest to rich and powerful countries. After the cold war, countries such as China, Korea, India, Japan, Brazil, and Russia (see Appendix 3) have become major players in the development process with a new paradigm. However, for poor countries globalisation means in practice that they should not enter into any industrialisation process but continue to take advantage of temporary measures such as Everything-but-Arms (EBA) of the European Union or the Africa Growth Opportunity (AGOA) of the United States of America, just to name some of them. Preferential trade access to rich countries' market through the promoting of only labourintensive manufactures, void of any learning potential, bereft of any scale effects and with obsolete technology, creates a race to the bottom. This is becoming an obsolete and unsustainable option. Better accountability, less corruption, more interest to serve local people's interests may have reduced the level of economic failure. A correlation between social peace, internal and external security cannot be guaranteed when the main concern of a government is to ensure that external powerful interests (public and private) are secured before those of the local citizens. Do external interests have a premium priority over local populations' interest when formulating and implementing "good governance"?

## 5. From Divergence to Convergence: Building and Upgrading Productive Agglomeration

Divergence and convergence does exist even at the regional level. Benchmarking selected regions based on GDP per capita reveals that regions with a large number of poor and FFF countries are also regions which faced difficulty to generate wealth and sustain development (see Appendix 5 and 10, Benchmarking selected world regions).

Collapsed, weak or healthy, a Nation-State is part of a building process towards wealth creation. From that perspective, FFF States should be considered as incomplete, unfinished and unsuccessful States in securing wealth for their population. How to give a new impetus to long-term over short-term perspectives while searching for development and progress? This main issue should not be overshadowed by military and security related actions. The latter should of course not be underestimated as a key issue in breaking the vicious circle of security in failed States. It becomes crucial to prevent a State from failing or when a State has already failed, to open new avenues where military actions and security considerations will not take the exclusive lead over development, peace building, conflict resolution process and economic progress.

Empirical analysis may be of help to understand how productive networking becomes a powerful leverage system for increasing power of synergies created within productive agglomerations. This systemic approach could perform poorly if it is not supported by an entrepreneurial system of governance and a free and conducive business climate. This approach is called the "building and upgrading of Productive Agglomeration" in this paper. In light of the historical de-industrialization process in economical weak influential countries, we argue that it is the lack of Productive Agglomeration or too many constraints neutralizing the expected impact of PA on peace and security building in FFF States which contribute to the auto-generation of systemic vicious circles explaining why Poor countries stay poor[7].

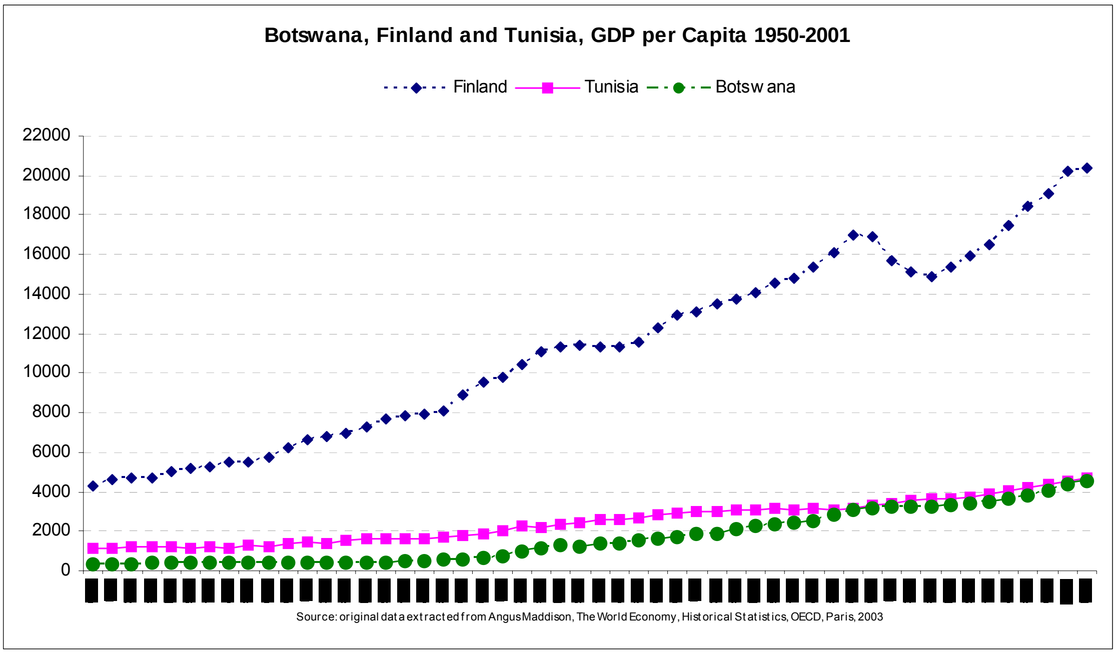
The missing link in the economics of FFF States is related to the lack of increasing returns based on "coo-petitive" (a mix of competition and cooperation) diffusion of means (technology, know-how, innovative culture, entrepreneurship and information sharing) in a predictable and conducive environment. The inability of countries' leaders to create and sustain such an environment appears as the fundamental root of economic divergence between countries and regions (see Appendix 5). Three main periods could be identified for increasing divergence between FFF States and industrialized countries:

- The divergence among regions was marginal during the first period i.e. from 1000 to 1870 ending with the geographical segmentation of the colonial world among former colonials' powers.

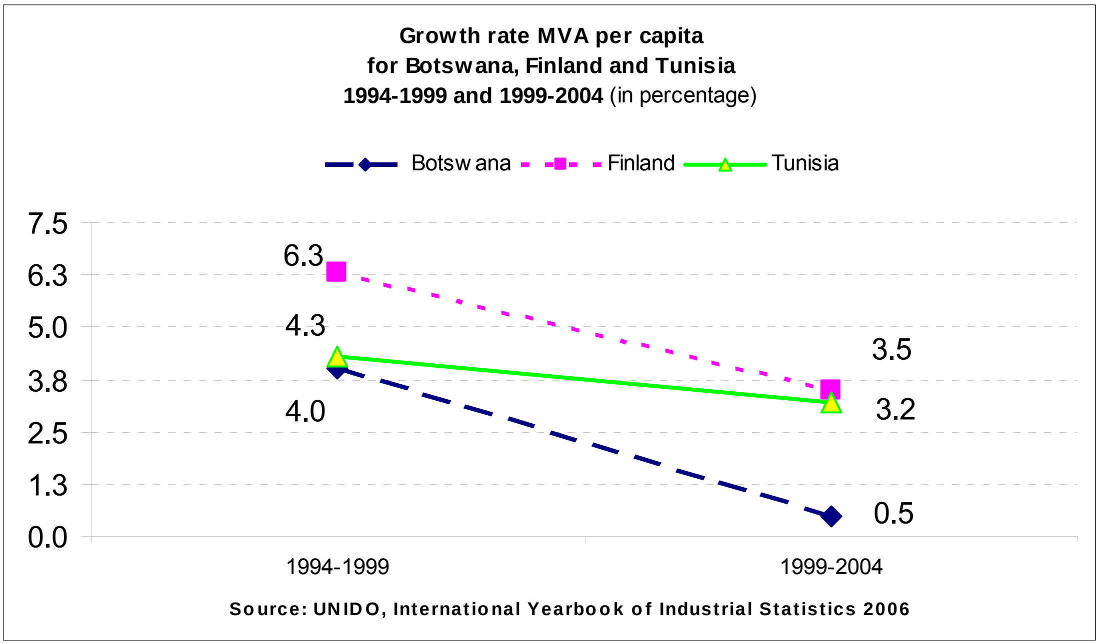
- During the second period between 1870 and 1950, developing regions such as Africa, Latin America and Asia (excluding Japan) were unable to boost their GDP per capita on a sustainable basis above the world average. Asymmetry among those regions is mainly due to the fact that developing regions which managed to become economical independent or directly integrated in the productive structure of the regional economic locomotive (such as Japan for Asia) could gradually re-appropriate their economic wealth with special reference to Frederic List's theory of *"productive power"* [8]. Whenever visionary leaders were dedicated to the promotion of public goods for their respective population, the country or the region experienced a convergence with industrialized countries in terms of GDP per capita, share of MVA in GDP and growth of MVA per capita (see Appendixes 9, 11 and 12). Bad governance usually leads to a convergence among FFF States which is another form of the race to the bottom.

- Between 1950 and 2001, economies with productive structures in place benefit from the gradual acceleration of the globalisation process. The divergence accelerates between poor FFF economies and rich industrialized countries. In parallel, middle-income economies even considered sometimes as fragile are gradually experiencing a convergence with the world average (see Appendixes 6, 7 and 10)

Cumulative approaches in economics or productive "governance" often enforce the development of sustainable productive structures based usually on a participatory system. More the participatory system is closed to democracy and shared economic growth with special focus on health, education and communication infrastructure building, more quickly the divergence between countries narrows down. Using GDP per capita and MVA per capita, Tunisia, Finland and Botswana are given as examples of non-failing States. But the increasing lack of convergence between Finland and both Tunisia and Botswana from 1950 and 2001 should be the starting point for reviewing the Governance process (see graph below) in terms of wealth creation in general, in the productive sector in particular.



Although Botswana succeeded to move out of the group of Least developed countries to Lower-middle income countries, the recent downward trend of its average annual growth rate of Manufactured Value Added per capita between 1994-1999 and 1999-2004 is shrinking, from 4.0% to 0.5% respectively[9]. The country is worldwide commended for its "good governance" of its resources, especially diamond. Nevertheless and according to UNIDO, the share of MVA in GDP also experienced a downward trend: from 5.1% in 1995 to 4.1% in 2004[10].




The convergence between Botswana and Tunisia in terms of the average annual growth rate of MVA per capita, respectively 4% and 4.3% in 1994-1999 became a divergence with respectively 0.5% versus 3.2% during 1999-2004 and should be highlighted (see graph above). With a downward trend of this indicator, Tunisia appeared as less fragile than Botswana in terms of sustaining its industrial development. This divergence is confirmed with reference to the share of MVA in Tunisian GDP (Botswana 4.1% and Tunisia 18.6% in 2004[11]). The downward trend of the average annual growth rate of MVA per capita of Finland in 2004 (from 6.3% in 1994-1999 to 3.5% in 1999-2004) is more a sign of a post-industrialized country focusing on productivity in manufacturing, a process of delocalisation of manufactured products with low-technological content. The share of Finland's MVA in GDP in 2004 was estimated at 26.6%, far above the African average of 12.1% and the world average of 19.9%[12].

More important than the difference in statistical figures, it is crucial to identify appropriate indicators capturing trends towards convergence or divergence in productive capacity building. In order to acknowledge a country's performance in relation with productive agglomeration, it is suggested that performance in value addition in productive sectors be analyzed using at least the following five main indicators:

1. Trend of GDP (or Gross national income - GNI) per capita over a long period;
2. Share of MVA in GDP over a period and in comparison with (a) the world and region average, (b) the best performer at the level of sub-regions and (c) countries with a

similar convergence starting point. The share of MVA in GDP should be equalled or above world average on a sustainable basis to ensure an effective development of productive structures in a country (or a region). It is important to explain the divergence or convergence of performance in productive agglomeration over an agreed period;

3. Growth rate of MVA per capita which indicates the real commitment of a Government to promote industrialisation; this indicator helps not to be misguided by countries failing to promote productive structures because of unforeseen rent activities based on a few commodities or minerals[13];
4. Benchmarking Business environment indicators which should be better than the region (or sub-region) average. Most data are available with the World bank (business environment databank[14]);
5. Selected competitiveness index[15] with special focus on the existence of a pool of human capital expertise structured around value chains (indicator of capability and capacity of absorption), productivity, innovation and technology content especially at local level. Special references should be made to proxy-indicators related to the industrial complexity and the level of regional/global integration of processed goods and the impact on services of know-how and technology at local level (indicator of capability).
6. Real wage dynamics.

This paper concentrates more on the first three indicators which usually provide enough information on whether the country or region could be classified as fragile, failing or failed State. Based on the five groups of indicators mentioned above, an integrated index which could be called “Poverty reduction index” or preferably “Wealth creation index” will be required to establish a system of an “early alert” on economic failing States. Such a watch mechanism which will not be “security bias”, should contribute to identify correlations between effective State’s commitment to promote productive structures and the real chances to escape the vicious circles of the failing states process.

28 countries are considered as “failed States” by the non-governmental organization *Fund for Peace*[16], among them the following countries: Sudan, Democratic Republic of Congo (DRC), Côte d’Ivoire, Iraq, Zimbabwe, Chad, Somalia, Haiti, Afghanistan, and Guinea… All of them have a share of MVA in GDP below 17%[17], a level necessary to reach the 7% of GDP growth suggested by the United Nations to achieve the MDGs. In contrast, non-failing States such as China and Russia should not face difficulty to reach the MDG by 2015. China’s share of MVA in GDP increased from 34.7% in 1995 to 39% in 2004 as compared to Russia Federation, respectively 20.8% to 23.7%, both countries being above the 17% of MVA required to ensure growth on a sustainable basis.

With a share of MVA in GDP in 2004 of 6% for Sudan, 4% for DRC, 2% for Iraq, 14% for Zimbabwe (see Appendix 11) and using the growth rate MVA per capita as well as the level of the GDP per capita (see Appendix 12), it is possible to highlight the dynamic and the progress in terms of governance changes towards increasing productive capacity as a mean to generate wealth and to offer new approaches to peace building process. The Gini index should also be considered to capture the inequality within the country. The main outcome of analysis of above-mentioned indicators attests that countries which are facing severe constraints to promote their productive capabilities as a substantial contribution to their overall GDP (country’s wealth) have less chance to get out quickly from the vicious circle of poverty and to reach the UN-MDGs in 2015.

The wealth creation index (WCI) should contribute to benchmark the performance of FFF States and prevent countries from falling from the status of fragile States to failing and failed States. WCI should then be used to benchmark the Fragility of a country. Fragility is a dynamic concept which enables States to be classified as committed, partially committed and irresponsible in implementing effective governance. The WCI classification should avoid spreading the usual donors "good or bad" approach often spread by donors' agencies. For example, DFID [18], the UK Department for International Development (DFID)) classifies fragile States into four categories:

1. Good performers with capacity and political will to sustain a development partnership with the international community;
2. Weak but willing States with limited capacity;
3. Strong but unresponsive States that may be repressive and
4. Weak-weak States, where both political will and institutional capacity pose serious challenges to development[19].

The convergence (or the lack of convergence) between economies could be attributed to a type of governance where the building of an "entrepreneurial organisation at the level of the country" becomes part of an effective vision, strategy and objectives of a country or a region. An entrepreneurial organisation at the country level could be defined here as the awareness of countries' leaders to structure a country (or a region) as a collection of resources (including capital (money), people and productive assets) and to regularly identify new and additional combinations of those resources based on a network of relations, information with the objective to share economic growth at all levels. Here the key concept, however, is that of administrative capacity: to what degree country's administration (in terms of structures, coordination, competencies and real achievement) can handle problems faced by that particular country. It is important to note that administrative capacity is highly context specific.

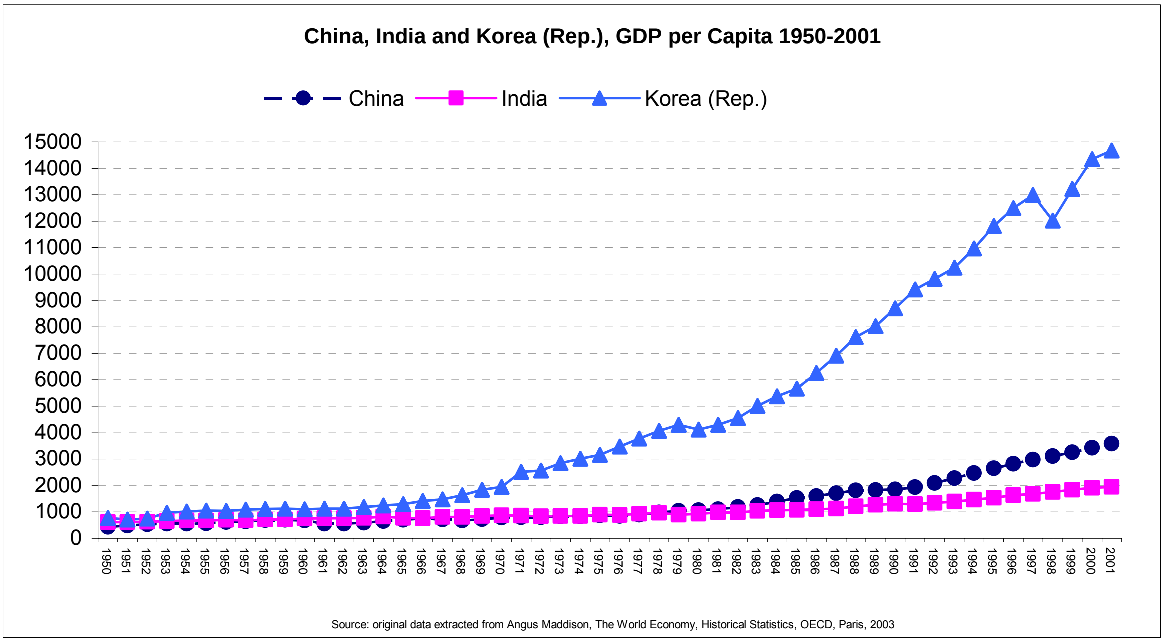
Washington Consensus and its underlying neo-liberal ideology have had great impact on the way development community understands administrative capacity. Probably the main idea behind Washington Consensus understanding of administrative capacity is the assumption that government intervention has more often than not negative impact on private sector transaction costs and market externalities and thus hampers market forces and free trade that could otherwise bring development. Thus, according to Washington institutions, government intervention is, as we stated above, justified only in cases of market failure. Ronald Coase is often credited as the intellectual founding father of this appoarch, and despite of his explicit warnings that he has been misunderstood (Coase 1988), the impact has been huge both in developing and developed countries. First, we see growing trend to privatize government functions and encouragement to use more and more market-like mechanisms also in the public sector management (e.g. performance pay) even though there is almost no empirical evidence to suggest that such reforms have ever made public sector or the government in general perform better (see in general Pollitt and Bouckaert 2004, and Katula and Perry 2003 on performance pay). Second, there is growing emphasis on 'governing by networks', which generally means using increasingly more partnerships with the private and the third sectors to govern specific fields from policy design to implementation (e.g. setting up a development agency as a NGO, where government, private companies and other NGOs have more or less equal footing). (A well-balanced overview of the topic is Goldsmith and Eggers 2006).While such an approach to governing can indeed bring substantial gains (e.g. tapping into new human and/or financial resources; utilizing local initiative etc), there is a strong evidence to suggest that unless there is a very high administrative capacity present, the impact of using networks is increasingly negative. (See further Goldsmith and Eggers 2006) In detail, using networks often means that there tends to be high degree of difference in goals between private and public sectors; in addition, networks as organizations operate often outside of public law domain and thus under different standards of accountability and legality. Particularly the latter aspect brings often outright corruption and high-jacking of agenda by private interests.

At the same time, there is strong evidence to suggest that developing countries profit strongly from classical weberian bureaucratic structures, in particular in terms of administrative capacity as weberian administration relies on strict legal principles (government actions are regulated by public law), there is a strong emphasis on merit, competence and achievement based public service (entrance and promotion based on merit, competences and achievement) and clear hierarchies that enhance accountability. (See in particular Evans and Rauch 1999, Rauch and Evans 2000, also Wade 2003). Weberian bureaucracy tends to focus on long term strategic goals and thus provide especially developing countries with direly needed stability in policy planning and design. Indeed, previous lack of strategic capacities in policy making is perhaps the strongest reason why many developing countries should be particularly careful in experimenting with most recent administrative reform fashions like ‘governing by network’. (See also Schick 1998) However, we see also in developed European countries a growing trend towards what’s been termed neo-weberian state where notions of legality and accountability, competence and merit are re-entering both academic discourse and actual changes in public sector reforms. (Pollitt and Bouckaert 2004; Drechsler 2005)

It is obvious that any combination which gives privileges to corruption or favours a minority of actors over the majority of the population could be identified as an entry point into a failing State system. When the combination of resources is structured on purpose to diverge from social responsibility including security, then the type of governance applied can only lead to the creation of failing and failed States. In the light of the above, following clear characteristics could be highlighted to defined FFF States:

- Central government does not control the territory and lost authority over selected zones (including cross-border);
- Internal conflict moving from social to violent confrontations are becoming out of control and attempt to keep social cohesion is gradually vanishing from new “zones” in the process of becoming out of control; new group leaders are emerging with the objective to change the existing wealth creation and social architecture”; constraints on political “rotation”, abuse of power and deficit of democracy are becoming common laws[20];
- Human rights, control of media, lack of free information and democracy failure are reaching an alarming point where the lack of wealth creation leading to hunger, poverty, and inequality is becoming widespread, raising alarm with interested international community;
- Altered form of democracy with direct consequences on corruption is not effectively sanctioned by the international community;
- Inability to actively participate in regional integration process through economic convergences.

As a consequence, the real power structure has changed in the country (or region) although the international community still rely on “former existing power structure” to work out solutions. It is clear that there are no blueprint solutions to the problem of FFF States. The usual and obsolete use of military force can only be considered as a mean to enforce the restoration of productive structure in the country (or region). Failing to do so, several of the short term humanitarian interventions or military intervention usually complicate and aggravate matters[21] in the long run with a syndrome of dependency of the population over the international aid or support.

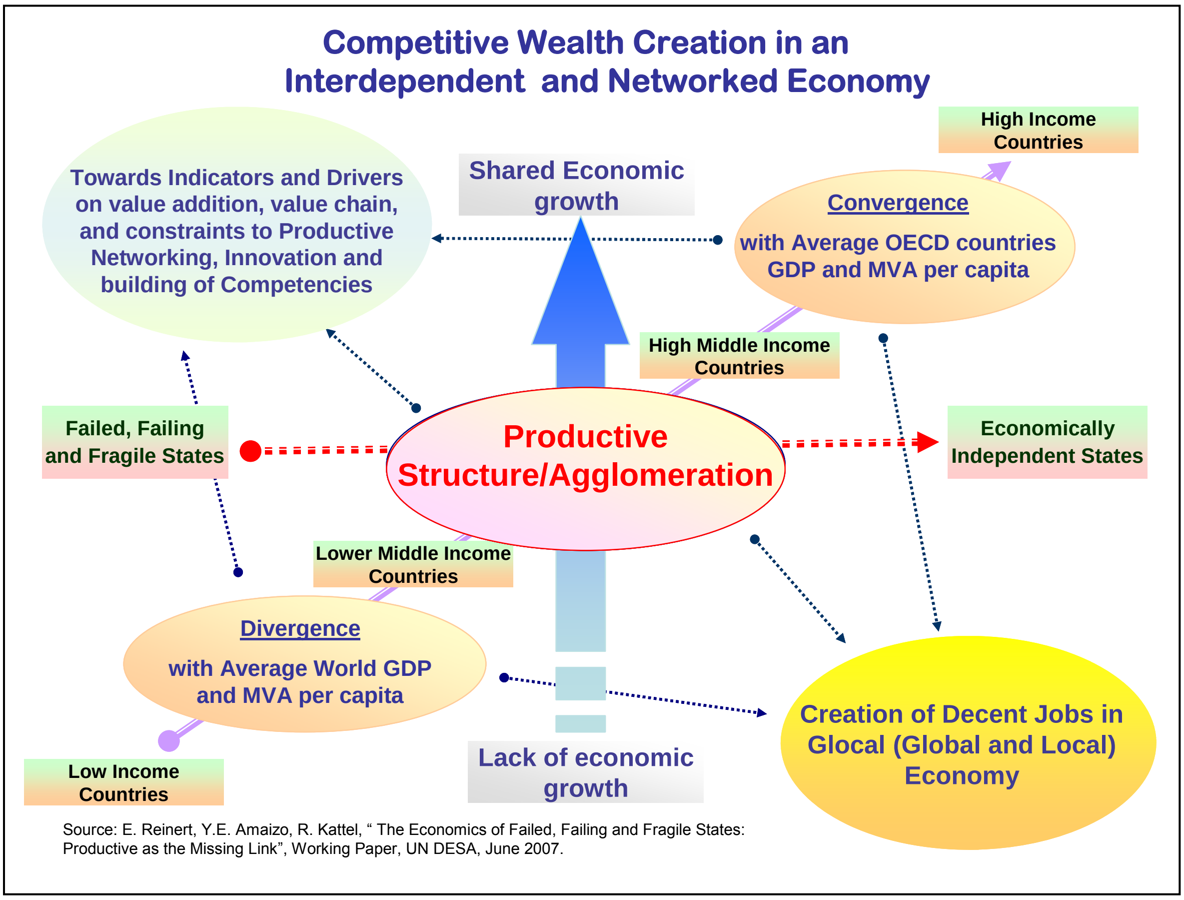


The importance of controlling the value created at the local level in a productive agglomeration while benefiting from the global market environment becomes a challenge. Productive agglomeration helps also to reduce the risk of failure while increasing collective efficiency. Failed and fragile States appear as those who were unable to master this process. As a consequence, their economy gradually diverges from the pattern of countries with permanent GDP per capita growth (see graph above). Even between fast growing countries such as India and China which cannot be classified as failed States (see Appendix 9), one should start to identify a convergence gap in the way value added is created. China is growing today with an investment based on a surplus of liquidity and value created at the bottom segments of the value chain production system. In contrast, India has focused his major growth approach on “creating value” with the objective to diffuse at a later stage wealth to the entire population based on a system of “value creation” and “agglomeration structures” such as the development of clusters and productive agglomeration zones in various parts of the country.

Nevertheless, such an economic structure which is creating the “bonding agent” of synergetic common wealth cannot only be sustainable if the type of “governance” promotes productive structure and participatory systems. Decentralised governance and entrepreneurial productive “zones” identified here as productive agglomeration should be given a serious attention to avoid falling into the trap of self-building trend towards failing States. The main objective is to achieve collective efficiency using productive structure/agglomeration as a systemic process methodology (see graph below).

The situation of failed, failing and fragile productive structures/agglomerations in low income countries explains why FFF States exist and become part of the vicious circles pushing for the rate to the bottom in terms of salaries instead of concentrating on the race towards creating value in an interdependent and networked world economy. With the segmentation and fragmentation of the world production system as well as the blurring frontiers between agriculture, industry and services, FFF States should be reconsidered in light of the changing world industrial transmutation. With a new situation of economic growth with no job creation, the overall competitive wealth creation process should be reconsidered with the objective to upgrade FFF States, often least industrialized countries to middle income countries. This paper is arguing that the objective of sustainable development should clearly be linked with the objective of promoting economically independent States while finding new synergies embedded in Productive structure/agglomeration and shared economic growth. Appropriate indicators and drivers on value addition creation in value chain networks should be promoted.

The identification of constraints to Productive networking, innovation and the building of competencies should be given more importance when looking for the creation of decent jobs in glocal (global and local) economy.




Today's methodology is also based on cultural bias, often considered as mistakes in many donor-driven development programmes. This should be re-discussed with new, predictable and more reliable partners. The division of labour and the distribution of wealth in the development of sectoral and cross-cutting value chains cannot continue to be structured around exchange of simple products with extremely low value added. The inability to build and master the value chain transaction flows and the break-down of such systems are two pillars explaining why States become fragile. The value chain workflow at both sectoral and cross-cutting should systematically be prepared to enable FFF States to identify how "value is generated and how it is distributed" and eventually through a participative mechanism to renegotiate the terms of "productive sharing" among stakeholders. Such a mechanism should become gradually a precondition to sustain "shared economic growth" at the microeconomic level.

As a consequence, networks of economic actors also become unable to generate synergies in productive agglomeration, creating a system of vicious circles. Some beliefs of the international community need to be questioned and readjusted. As an example, in FFF countries, trade cannot become a palliative for the lack of industrialisation as well as civil society organizations cannot replace States in their ordinary function. Even if trade openness contributes to economic growth, such growth often does not create decent jobs or alleviate poverty in fragile and failed States.

Therefore because of the uneven level of development between countries, most of the present on-going concept linking trade to development aid including trade preference mechanisms (the African Growth Opportunity Act (AGOA[22]), the Economic Partnership Agreement

(EPA[23]), the EBA (Everything But Arms[24]), the Aid for Trade package from the World Trade Organization or any bilateral and multilateral aid lacking non-wealth generating considerations should be redesigned and adjusted to enable an effective wealth creation in developing countries through the upgrading and integration of productive economic structures to regional and global markets. In fact, even the MDGs should be revisited to ensure that wealth creation becomes more explicit and supported by the promotion of effective "productive structures" in least industrialized countries. FFF will then need to reach a 7% GDP growth per capital with an equivalent growth of 17% of manufactured value added per year to achieve the MDGs by 2015.

Corollary, GDP per capita growth of 4.6% in 2003-04 for low-income countries should reflect those improvements and reach at least 7% in 2015-16. The challenge is not out of reach if there is real commitment of the international community and national authorities to acknowledge that economic interdependency and increasing return activities are required to transform fragile groups into proactive clusters and networks of income-generating activities. This should also sustain and improve the human productive capabilities in fragile States.

Rebuilding failed States will need a new alternative vision on economic governance, but should not exclude the provision of security guarantees for the people involved. The issue of regional integration needs to be promoted effectively. Colonial borders with no relations to local ethnic groupings should be revised (in fact forgotten) before any pre-emptive actions take place. The latter may destabilise and worsen the situation as compared to the preceding situation. In the case of Sudan/Darfur and Eastern part of Chad (May 2007), none of the two countries is interested in welcoming United Nations Peace Troops, which are in fact fully fledged military force of "blue helmets" peacekeepers. It is the overall trust building process which is at stake when the Prime minister of Chad[25] declared *"we don't want war… We want the United Nations to support a police force, not troops, to protect the refugees, displaced civilians and humanitarian workers in eastern Chad"*. Progress will be noticeable if the international community accepts to "equip" the African Union peacekeeping mission in Darfur. Recent decisions of the United Nations Security Council are moving into the right direction.

Why so much distrust for "Western controlled" multinational force being deployed in the Southern border of Sudan? Probably because of the intervention in Irak and Afghanistan, there is no guarantee that the outcome will contribute in the long run into an effective productive agglomeration conducive to the return of social cohesion. Besides, many African leaders do not understand why the International community delays its commitment to build the capacity of African troops. Due to the partition strategy often adopted by the international community in other conflicts, African leaders including "rebels" are often joining hands to keep the "territorial integrity of their country" while negotiating peace. Peace building cannot be based on a system that dismisses people's interest at the local level. Economic proposal supported by Productive agglomeration approach could ease and even accelerate the peace building process.

In the case of Sudan, some major actors do not want a United Nations military peace-keeping force to be deployed in East Chad or South Sudan because each of the leaders (in Chad or Sudan) may see foreign troops as a threat. Offering proposals on productive agglomeration with job creation in fine on issues such as construction, water, health, income generating activities based on small technology diffusion and micro-finance could help. Today's enemies may become allies and implement concrete projects[26] jointly. Therefore, pre-emptive actions with no clear development strategy embedded in the creation of productive capacities cannot alone prevent negative spill-over effects on fragile States. Alternative solutions should acknowledge interdependency[27] as an important factor to soften current threats to the defence of common and public goods.

Benchmarking relations between countries based on GDP per capita (a level of income and therefore of economic poverty) and the low level of manufacturing may provide interesting indications of the relationship between poverty, lack of manufacturing and FFF States. Today's actions by the international community are often taken only when the collateral consequences of this situation spread into social unrest, civil war, and destabilisation of entire regions. We consider this lack of preventive and pro-active action in order to address the root causes of these problems as major strategic mistake. Preventive initiatives should consider primarily strengthening Productive structure. With due consideration to the constraints of statistical data, gross domestic product per capita, manufacturing value added per capita, and share of manufacturing in GDP should be used as key proxy statistical drivers to support the views expressed here.

There are no effective solutions for improving the situation of FFF States without leapfrogging out of the vicious circles of an unwritten system, which neutralize industrialisation. The promotion of peers' control to prevent States governance failures is recommended to ensure regular update of operational approaches. Sustainable-shared economic growth cannot be delinked from the promotion of agglomeration of productive structure. The main policy issue is now to create and strengthen existing local capabilities to enable the emergence of solicited and unsolicited agglomeration of productive structure (groups of individuals, enterprises, institutions, cities, regions) which could gradually take an effective "driver's seat" in the sustainable development and wealth creation process at local level.

The objective will still be to eradicate the systemic race to the bottom of FFF States and correct the indecent divergence in GDP per capita between rich and poor countries. Agglomeration of productive structures is often missing in FFF States or does not contribute to promote shared economic creation of wealth leading to knowledge and innovation diffusion. Countries, which were unable to double the level of their GDP per capita of 1950 after five decades, should be considered as fragile States. As a consequence, serious consideration should be given to promote agglomeration as part of an effective regional integration policy with special focus on the agglomeration of productive structures. Improvement of manufacturing value added (MVA) per capita and the share of industrialisation in the overall countries GDP should become a fundamental criterion to be highlighted in macro and micro-economic policy scoreboards.

FFF States are characterized by the collapse or the risk of collapsing of the central government, with clear upraising of security threats with regional and global consequences. Failure of governance is simply an external sign of failed or failing productive structure in both central and decentralized areas of a country or a region. Focusing exclusively on security issues as a mean to understand, to prevent or to rebuild FFF States, appears as a "top-down" illusion which is conducive to focus on artificial and short-term prioritization of security over development and poverty reduction. Peace building and conflict resolutions should incorporate the "building and upgrading of productive agglomeration" right from the beginning of the negotiation as part of a participatory process with shared responsibility with major concerned stakeholders including donors and the international community. Somalia is a failed State in Africa. Most of the other cases such as Chad, Côte d'Ivoire or Sudan should be considered as failing or fragile States, even if only part of the territory is concerned by the problem (see Appendix 4, GDP per capita of those countries). It is not clear whether failed or failing States should be categorized as “neo-patrimonial monopoly States”. It is nevertheless obvious that most of the post-colonial States have experienced and are experiencing leaders who take control (sometimes with the regular army, sometimes with groups of private army) over productive structure with privileged access to available resources (human, mineral, energy, transportation and services).

With alternative financial resources originating from the control over productive structure in a country, there is no interest for leading groupings (even in charge of State) in building peace and security, especially when revenues are based on violence, war logic and law-free areas[28]. Finding alternatives to a lack of productive structure for leaders (democratically elected or not) becomes a challenge because the formal State institutions are becoming clear constraints while trying to apply the rules of law. Status quo is usually preferred. But changes are not impossible. As an example in Kenya in 2002-2004, *“transit trade into Kenya and satellite phone companies has shifted activities away from sale of arms, export of scrap metal and diversion of food relief towards activities that require a degree of stability security and predictability, not warfare and criminality”*[29]. Diversification of activities requested by the market could contribute to an improvement of State facilitation over productive structures.

From another perspective and taking into consideration Somalia and South Sudan, the two so-called failed States might be considered as an “alternative to the State itself[30]”. The question is: do we need a State at all if the FFF State “is no longer able or willing to perform the Regalian tasks of a State such as security and order, welfare, justice, representation and regulation… Do we need a State in failing state when *“core functions associated with the State are undertaken by different types of non-State actors”*[31]*?* Is it a new process of rebuilding State differently with a new participative approach and less “public direct interventionism” both from outside and inside the country? The non-intervention in domestic affairs by the international community does conflict with the “responsibility to protect” although it is often done with clear political and geo-economic interests. The main problem is to avoid selecting arbitrary those who are supposed to represent the people. With the participatory approach, the decentralized process of identifying “legitimate representation of people” including the Diaspora and non-State actors should be considered. Local solutions based on local consensus are often possible if the Diaspora is involved in the process. It helps a lot in attracting remittance funds with direct impact on the building of the productive structure including networking with key players outside the country. The role of the Diaspora is crucial to the building of Productive Agglomeration because of its indirect impact on attracting foreign investors into the process. The latter often base their decision on the number of Diaspora actors actually returning to business in their home country. This appears also as a key driver for an improved investment climate. With an interdependent and interconnected world, conditions to rebuild a FFF State have changed. The international community cannot exclusively continue to focus on providing short-term and self-image building answers to “humanitarian crisis”. It becomes more important to promote sustainable development and poverty reduction through the upgrading of sectoral value chains as part of a “cosmopolitan governance”[32].

The key functions of the State should include not only security, order and democratic principles but also economic considerations such as access to energy, water, health, transport, communication, justice and credit in an open and free predictable environment. Outside involvement of international actors is often characterized by “chronic inability to adapt their assistance to the [local] political dynamics"[33] of the State they seek to support mainly because of bias in promoting their own interests. It takes often the form of "subsidiary" approaches including "subcontracting arrangements" to local institutions. Official involvement of the international community into decisions taken at regional levels by regional institutions does not necessary guarantee that the International community is not involved.

The main purpose of reintroducing Productive agglomeration as a key to peace, security and long-term development building lays in the fact that local citizens are often considered as passive victims of State failure. In fact, citizens should be considered as the entry point of the process of rebuilding trust because of their capability to survive and to adapt to various governance failures. Often, trust building needs time to materialize. Due to "budget constraints" and donors' own agenda, local actors are often simply bypassed in the decision making process of development. It does have a cost in terms of peace and security building because of time consuming exercises in negotiation (Middle East, Iraq, Somalia and Sudan/Darfur are a few examples among many others). Building joint productive structure while discussing ways out of the crisis might still be of help in conflict resolutions and peace building process.

## 6. Conclusion: Creating Participative Democracy and Middle Income Countries

The relation between de-industrialization and non performing productive agglomeration in poor countries needs to be addressed if *wealth creation* is supposed to be given priority over *poverty reduction*. Cultural behaviours are crucial to fine-tune the capability of national actors to build a society of trust and progress. Any effective participative democracy should enable local citizens to take an effective part in the decision-making process related to their development process. From a worldwide perspective, it is not sustainable to perform the development agenda in a global and open world systematically at the expense of the populations of FFF States.

In light of the historical de-industrialization process in poor countries, it is the lack of Productive Agglomeration (PA) or too many constraints neutralizing the expected impact of PA on peace and security building in FFF States which contribute to the self-diffusion of systemic vicious circles done at the expense of wealth creation. De-industrialisation is directly related to non-performing productive agglomeration and may explain the lack of convergence between FFF least industrialized countries and industrialized countries. Improving industrialisation needs an enabling governance system. Trade without Production is not sustainable and the economics of failed, failing and fragile States must be re-engineered with performing Productive Structure.

Countries in general, FFF States in particular, may revisit Participative Democracy with the objective to facilitate and prompt their upgrading strategy to Middle Income Countries. Nevertheless, seven main lessons should be drawn from the experience and the analysis crystallizing Productive structure as a key and new dimension to approach the interdependent peace building and wealth creation challenges:

1. Accountability and responsibility for public goods while rebuilding FFF States should be defined at the earliest stage of the process with all stakeholders being kept responsible for clear outputs aiming at collective efficiency;

2. Security cannot continue to be enforced at the expense of sustainable development; State re-foundation should take place with the active participation of all representatives local people (including Diaspora) in the decision making process;
3. Avoiding aligning countries' future economic policy with the international community' s interest because of the perception of indirect control over people' s future economic sovereignty;
4. Future donors' financial multiform assistance should be predictable and subjected to official commitment approved (owned) by the local actors interested in the re-foundation of the State;
5. Pro-active and visible role of the International community and the private sector in efficient rebuilding of infrastructure and attracting investments favouring the emergence of Productive agglomeration;
6. Countries with a high level of military expenses as part of their country's export should gradually be requested not to act as peacemaker unless it could be demonstrated that they are no conflicting interests in building productive structures at local levels;
7. Media should help ending unclear on-going support of selected world leaders promoting neo-patrimonial States in FFF States. Often neo-feodal or personal leadership in those States are gradually translated into direct and indirect control over Productive Structure which limits local capabilities and capacities to emerge and to " anchor" to the needed innovation and industrial processes at local level;
8. Cultural considerations should be reintroduced in the trust building process and blue-print approaches should be replaced by best practices guidelines.
9. One of the highest priorities should be to (re-)build administrative capacity along the lines of neo-weberian state: legality and accountability, merit and competence based public service.

Highlighting the relation between poverty, wealth creation and the low level of manufacturing and productive agglomeration is an integrated part of the paradigm of interdependency. Bypassing this relationship is becoming a source of global and local instability. World leaders should strive to reintroduce this productive correlation in peace building and poverty alleviation. Negotiation approaches on failed, failing and fragile States cannot simply generate past strategic mistakes and fall into the trap of unipolarity and standardized uniformisation of solutions. De-industrialisation, productive agglomeration should not be delinked from national and international security as Production cannot be de-linked from Trade in an open, free and democratic society. FFF States should be given the chance to promote a new interactive logic of interdependency. Supportive stakeholders should revise their blue-print approaches, acknowledge their shared responsibility and promote participatory democracy with the objective to build trust and confidence. Self-development process should be re-engineered to the benefit of the population. How to transform fragile States into Agile States becomes the new sustainable development challenge!

## APPENDIXES

**Note:**

All Per Capita GDP between 1000 and 2001 are calculated with 1990 international Geary-Khamis dollars extracted from: Angus Maddison, *The World Economy: Historical Statistics,* OECD, Paris 2003. Otherwise, it is extracted from UNIDO, International Yearbook of Industrial Statistics 2006, using dollars US constant prices of 1995.

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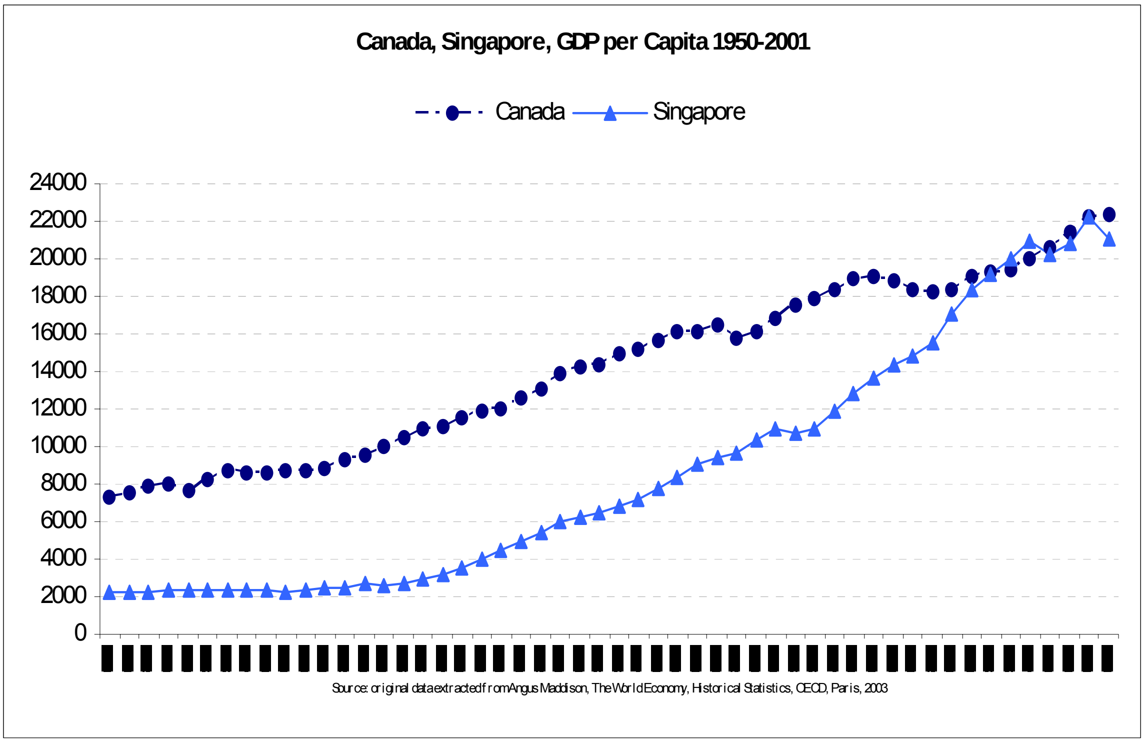
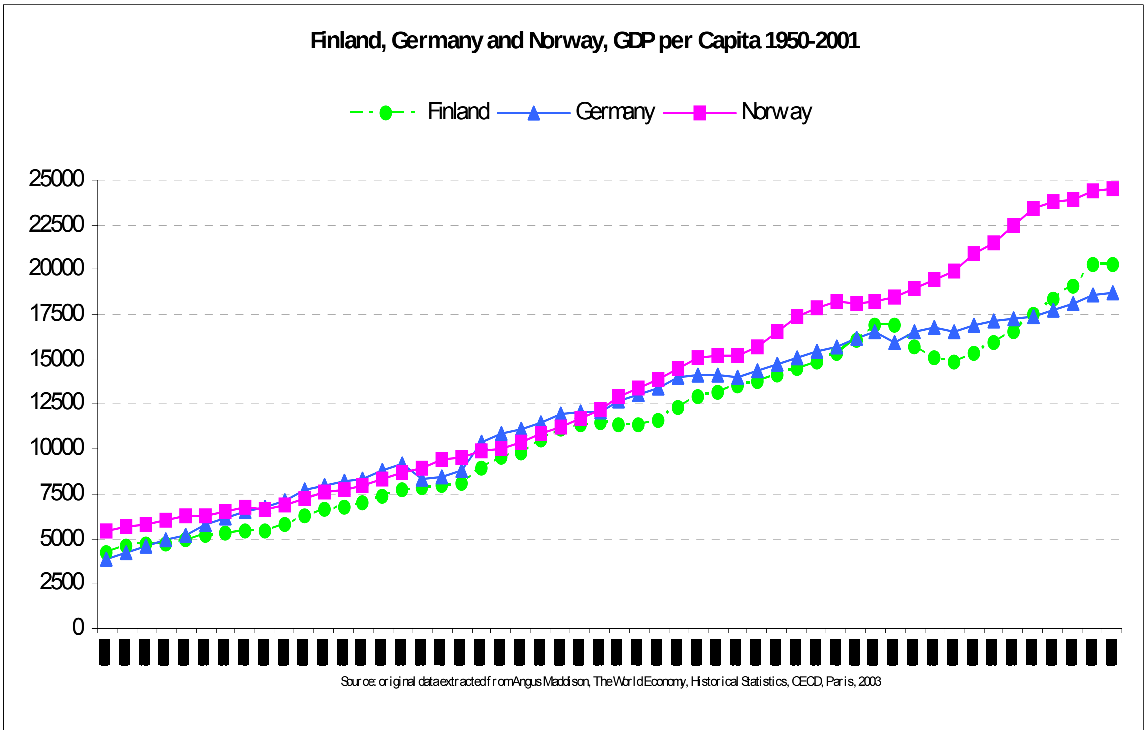
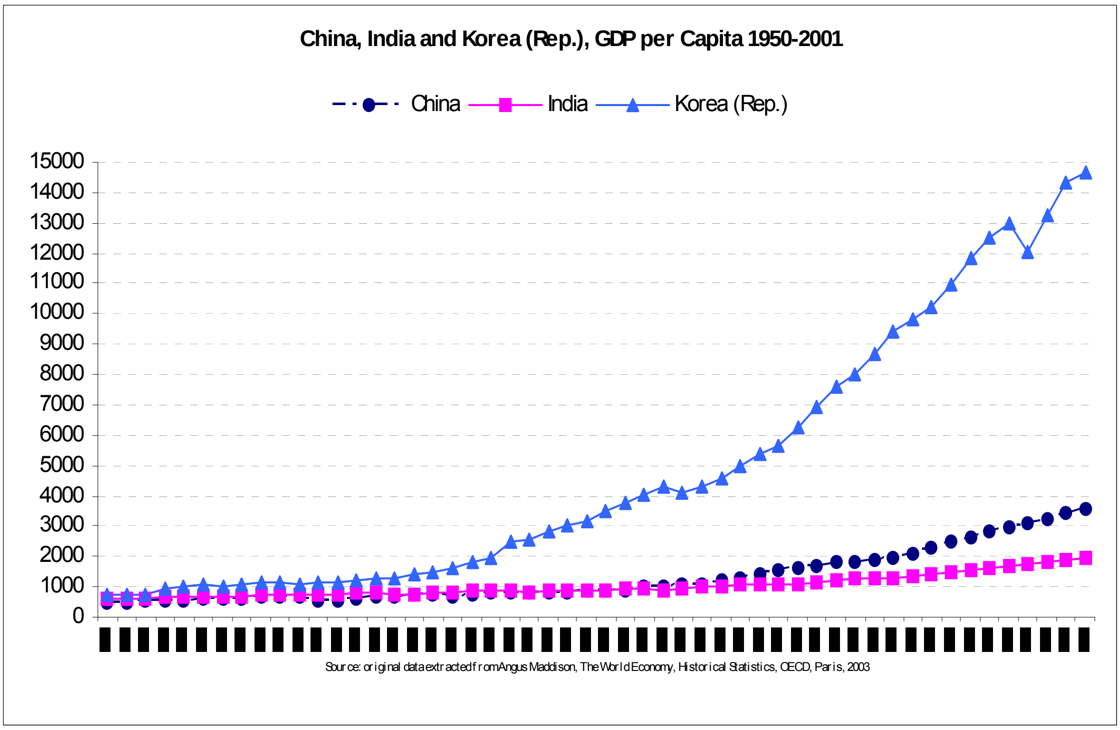
|---|---|
| Appendix 1: | Selected Countries, GDP per Capita, 1950 – 2001 |
| Appendix 2: | China and India, GDP per capita and MVA per capita, 1950-2001 |
| Appendix 3: | China, Korea, India, Japan, Brazil, and Russia: MVA per capita |
| Appendix 4: | GDP per capita for Chad, Côte d'Ivoire, Somalia and Sudan |
| Appendix 5: | GDP per capita for selected world regions |
| Appendix 6: | Benchmarking per capita GDP: Selected Failed, Failing and Fragile (FFF) States versus Industrialized and Emerging Countries, 1950 – 2001 |
| Appendix 7: | Benchmarking per capita GDP: Failed, Failing and Fragile (FFF) States versus Neighboring Countries, 1950 – 2001 |
| Appendix 8: | Appendix 8: Per capita GDP in Selected Countries: Convergence and Divergence in the same region, Average evolution per decade |
| Appendix 9: | Per capita GDP in Selected Countries: Average evolution per decade, Convergence and Divergence in the same region Growth Rate GDP Per Capita of World Selected Regions. Regional Average Selected Period between Years 1000 – 2001 (Annual Average Compound Growth Rate) |
| Appendix 10: | Growth Rate GDP Per Capita of World Selected Regions. Regional Average selected period between Years 1000 – 2001 (Annual Average Compound Growth Rate) |
| Appendix 11: | Share of MVA in GDP for selected countries and regions, 1995-2004, in percentage |
| Appendix 12: | Average annual Growth rate of MVA per Capita, 1994-1999 and 1999-2004 for selected countries and regions |

## Appendix 1: Selected Countries, GDP per Capita, 1950 – 2001

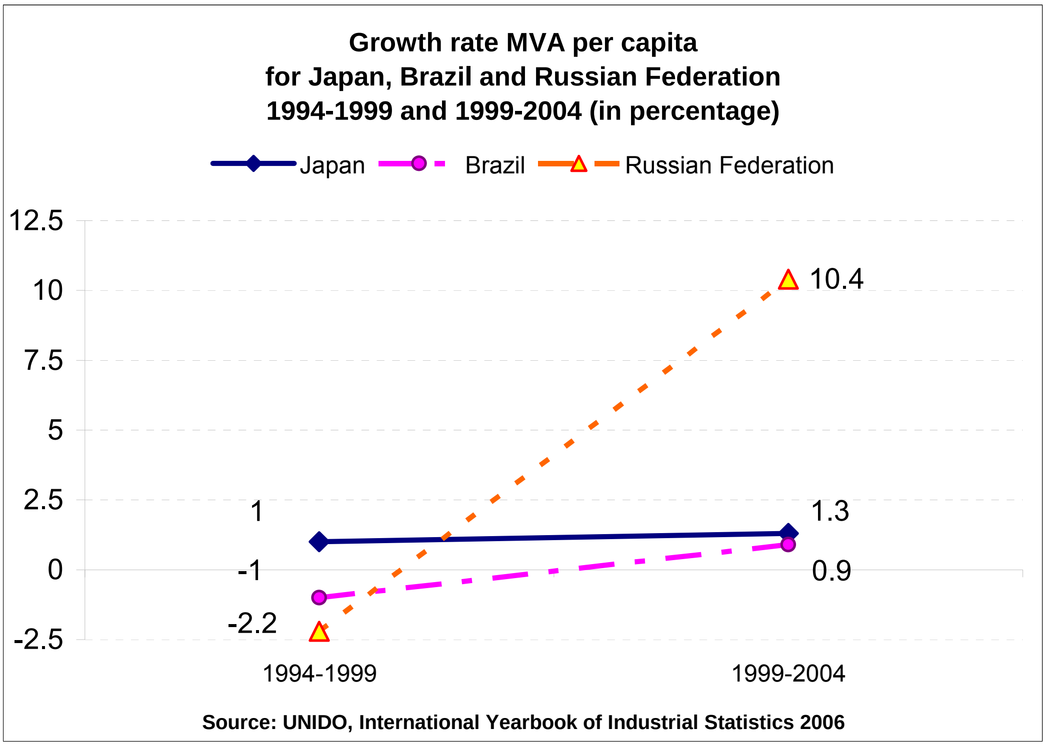


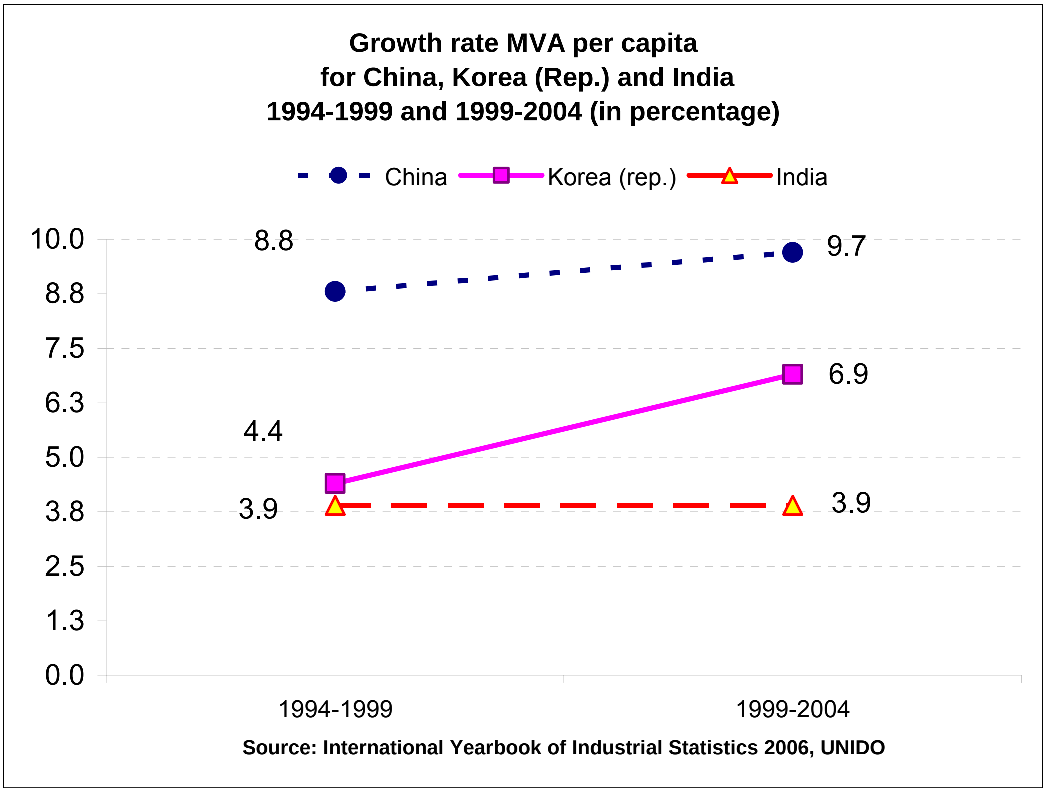



## Appendix 2: China and India, GDP per capita, 1950-2001

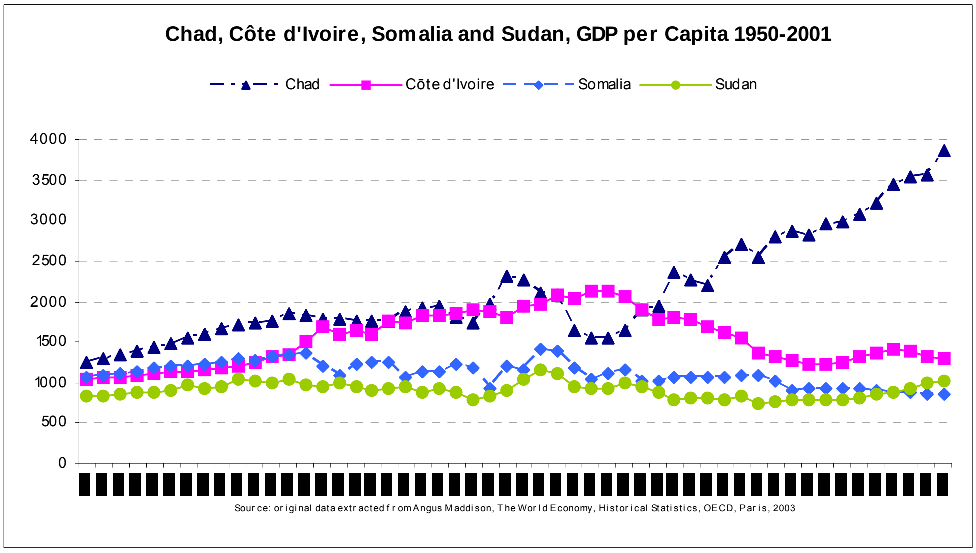


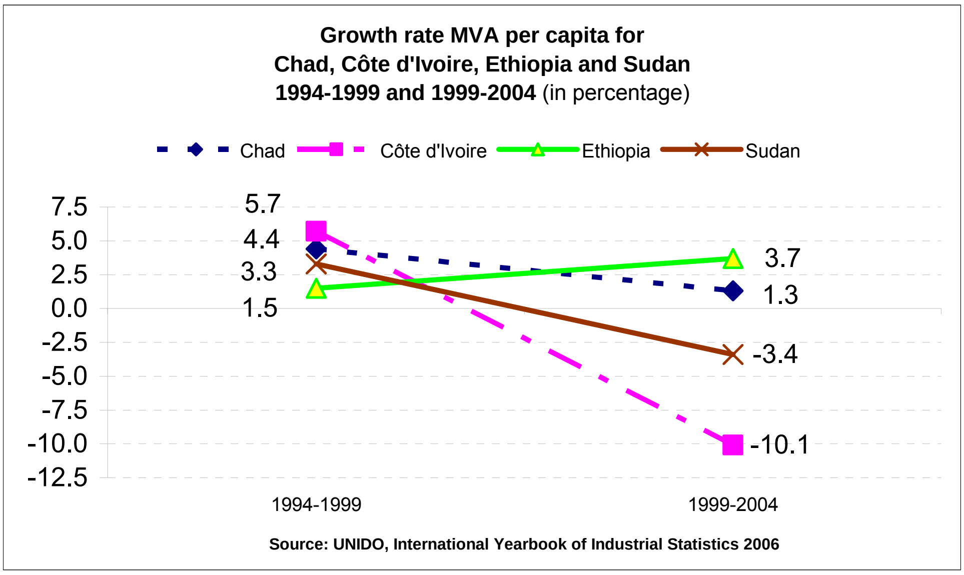
**Appendix 3: China, Korea, India and Japan, Brazil, Russia: Growth rate of MVA per capita**



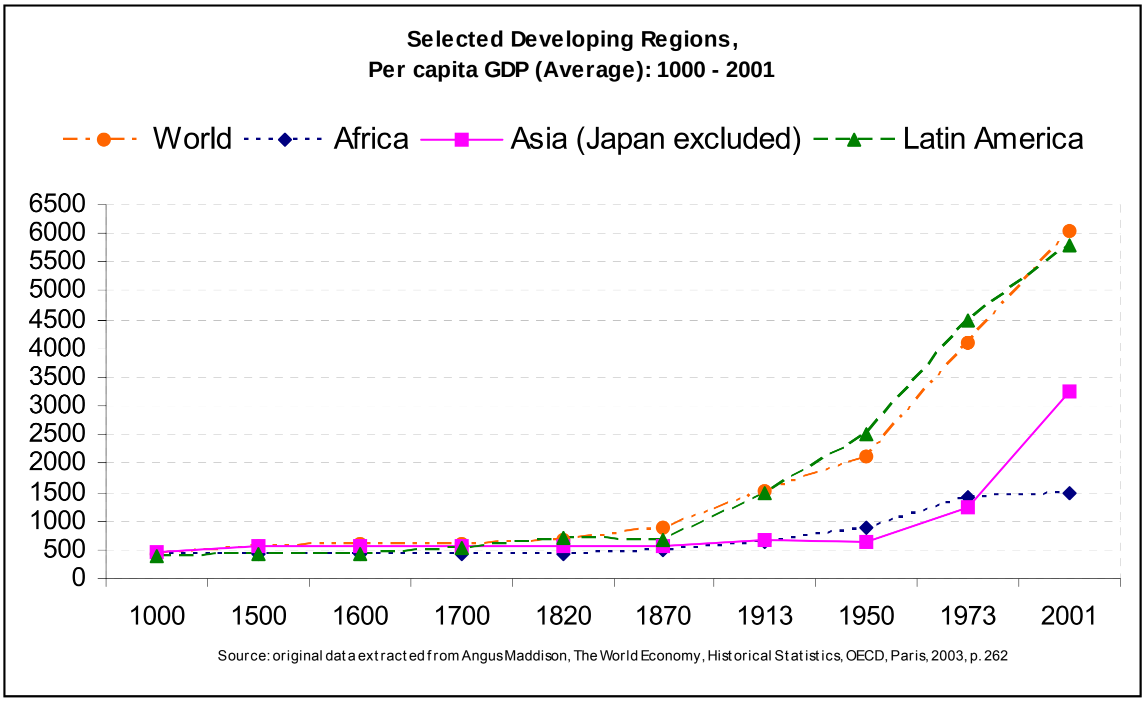



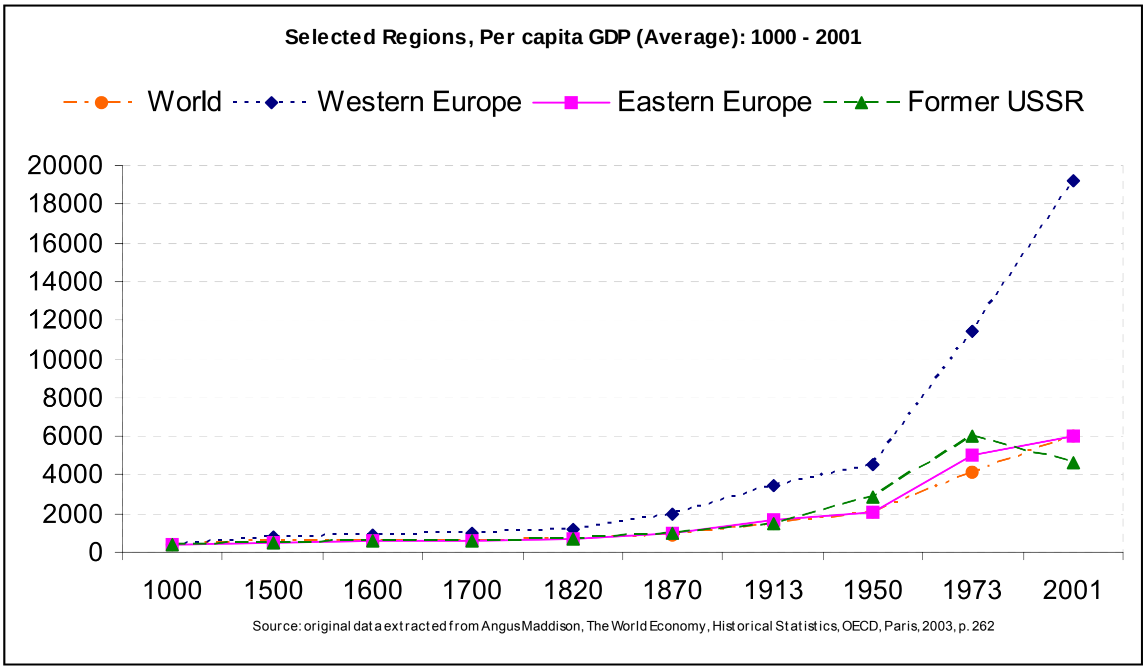
## Appendix 4: GDP per capita for Chad, Côte d'Ivoire, Somalia and Sudan



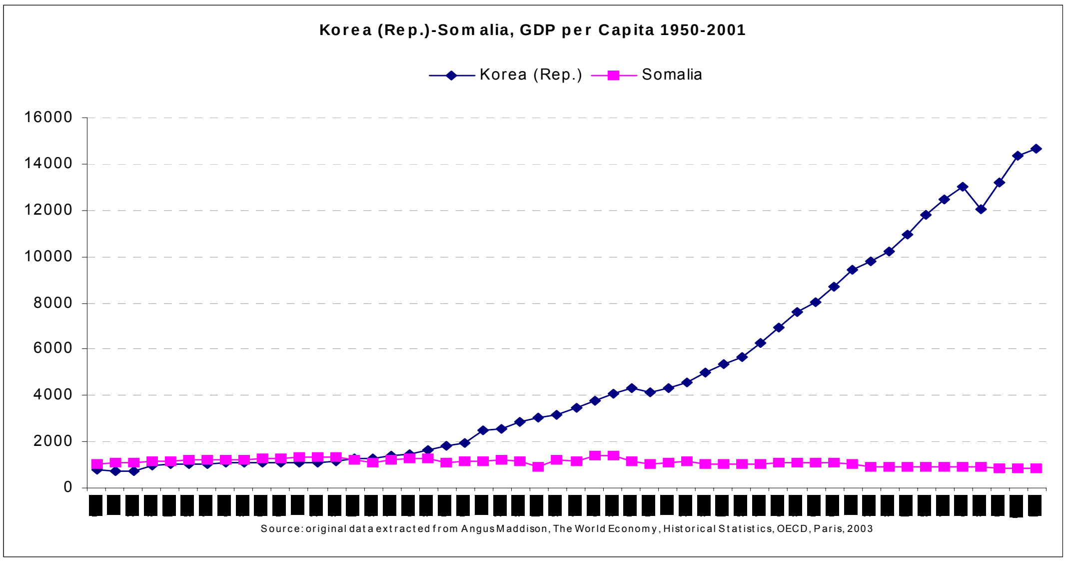



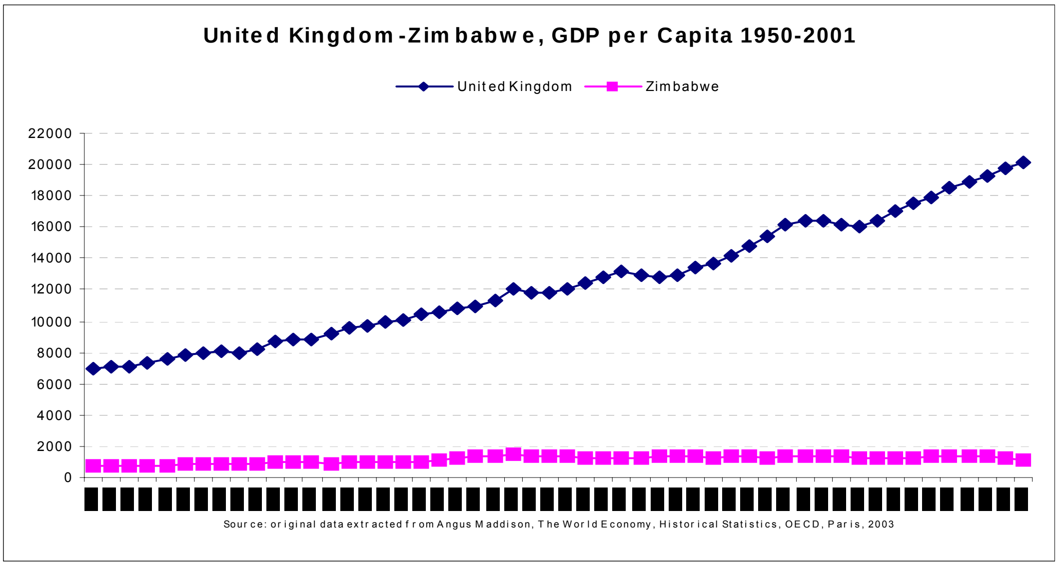
**Appendix 5: GDP per capita (average) for selected world regions: 1000 - 2001**

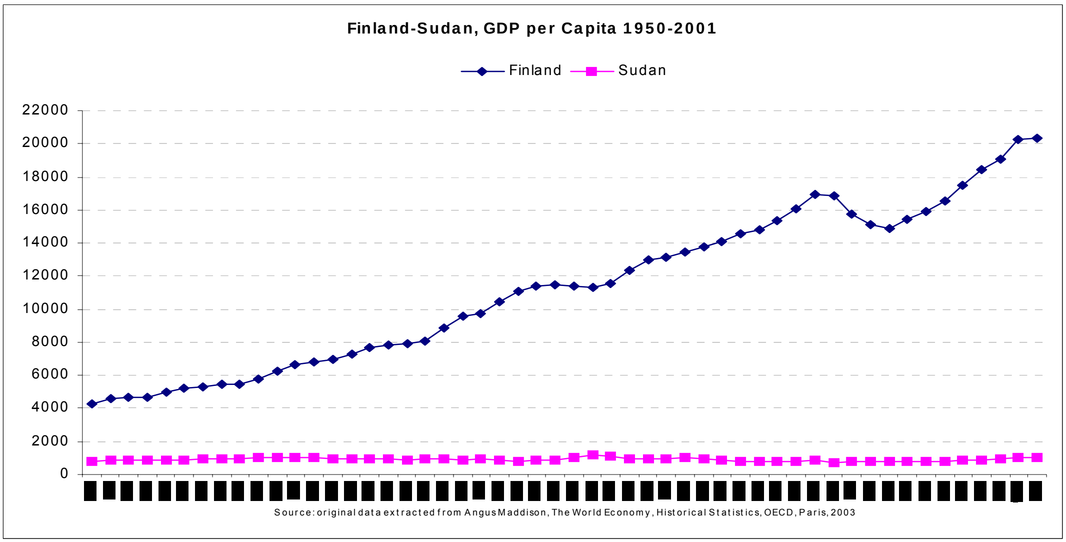


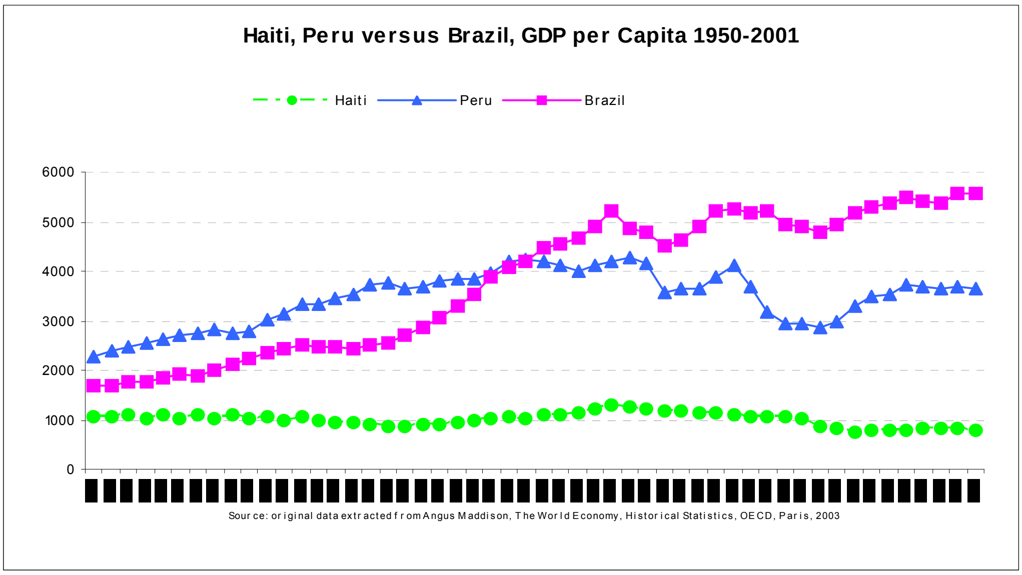
**Appendix 6: Benchmarking per capita GDP: Selected Failed, Failing and Fragile (FFF) States versus Industrialized and Emerging Countries, 1950 – 2001**

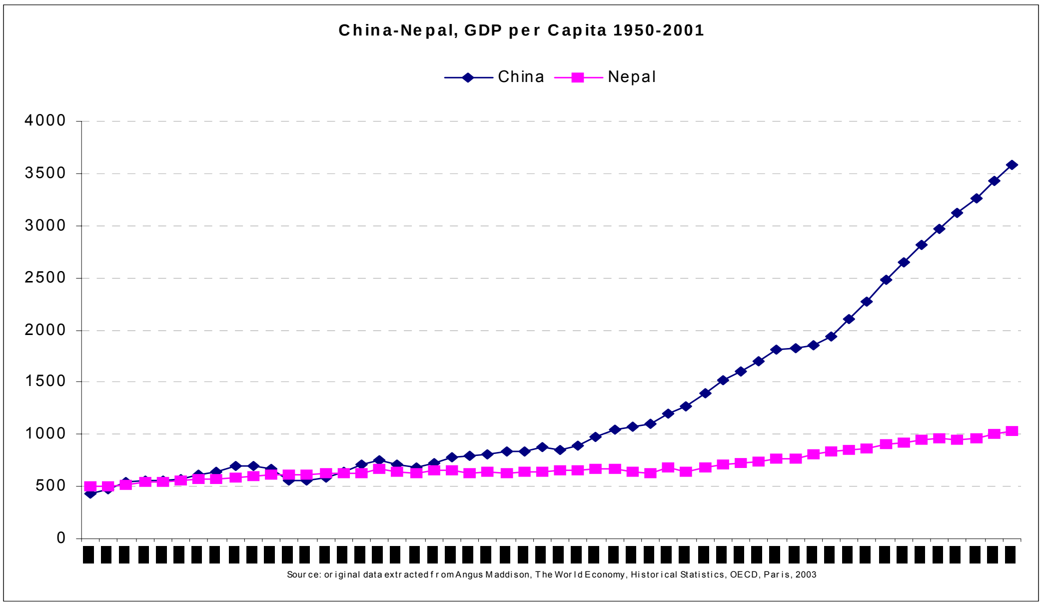


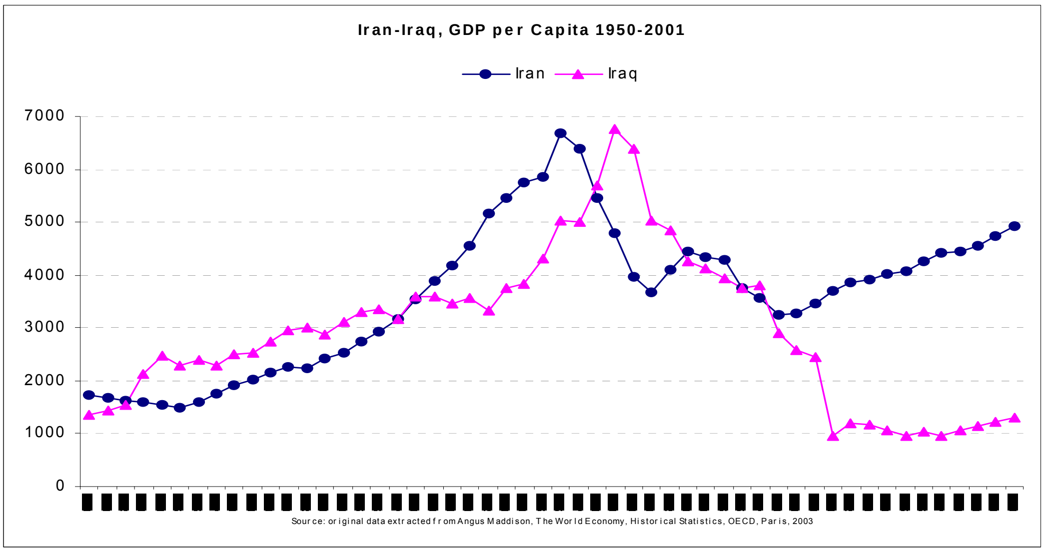



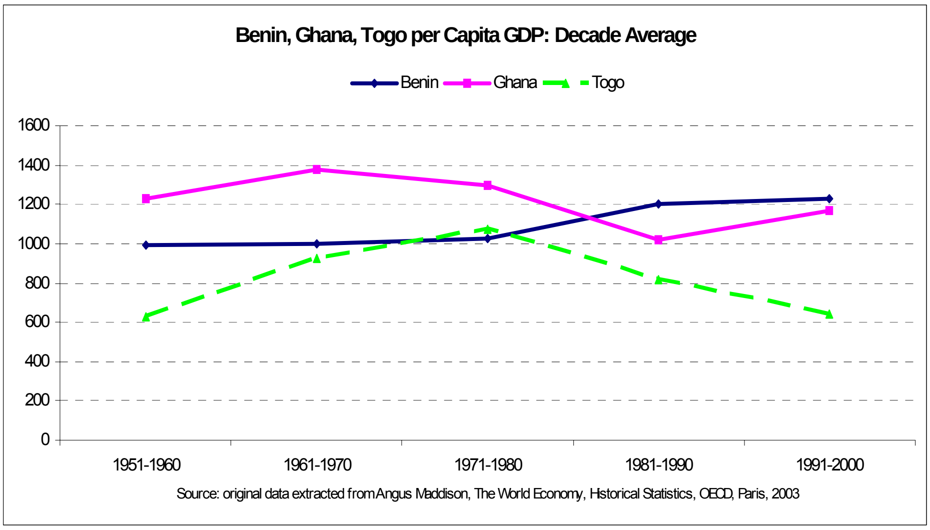
**Appendix 7: Benchmarking per capita GDP: Failed, Failing and Fragile (FFF) States versus Neighboring Countries, 1950 – 2001**

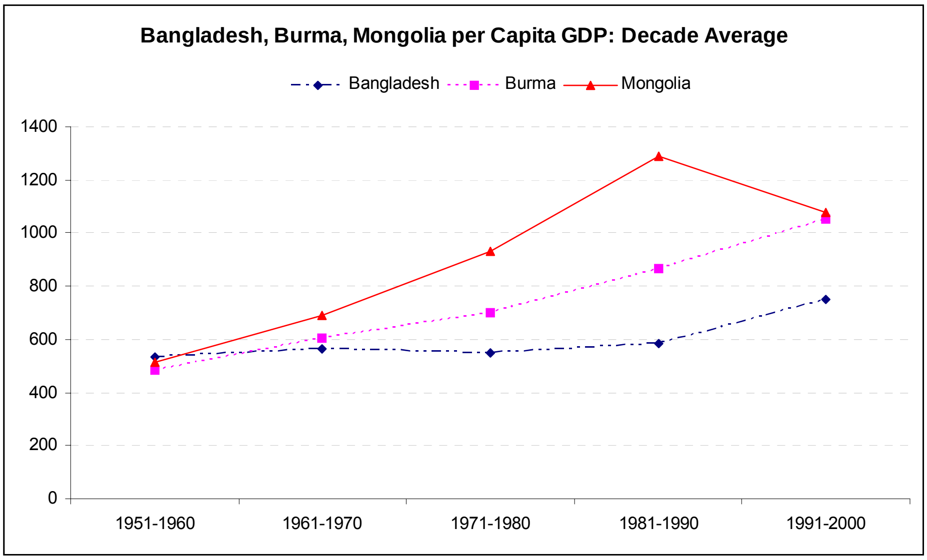


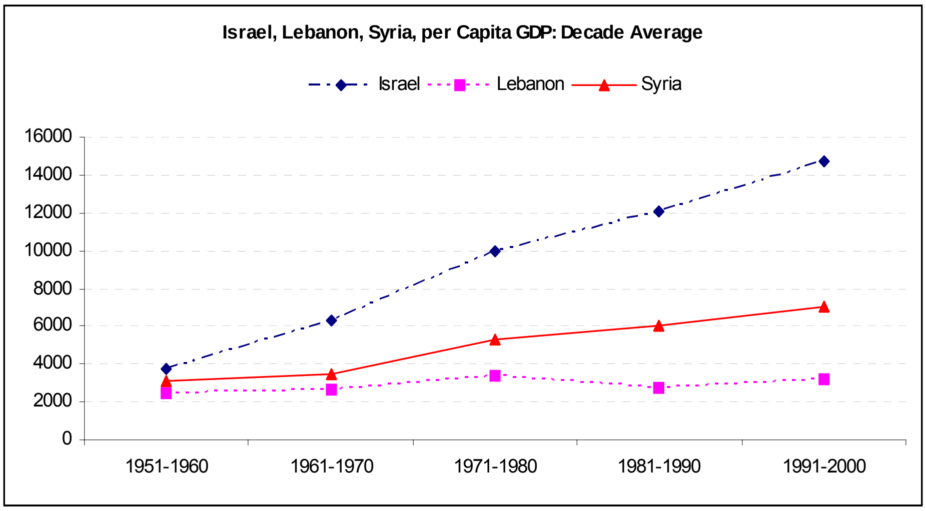



**Appendix 8: Per capita GDP in Selected Countries: Convergence and Divergence in the same region, 1951 – 2000,** Average evolution per decade

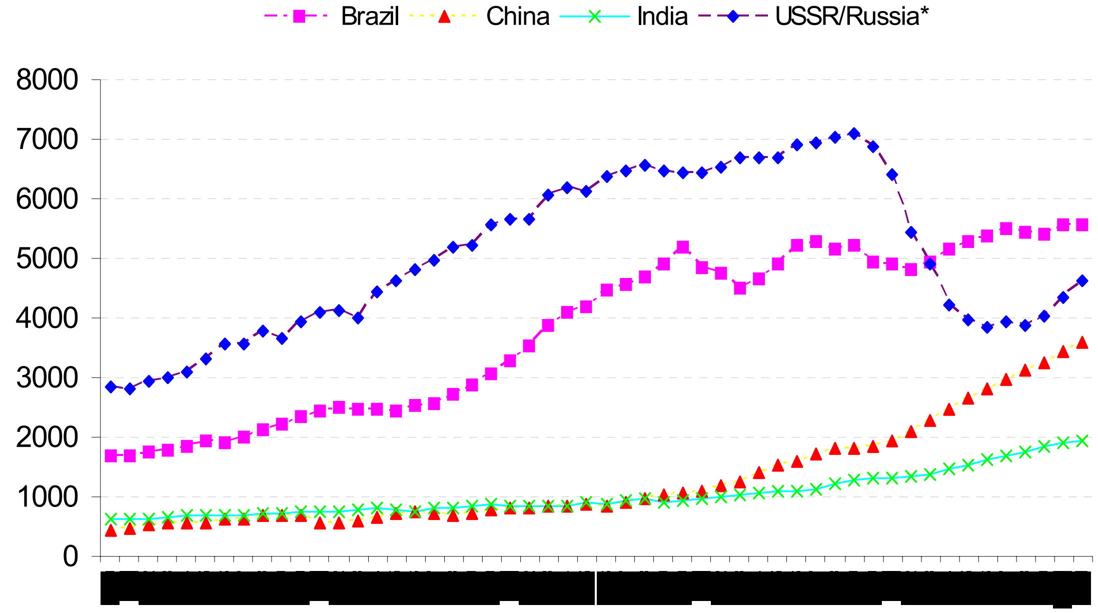


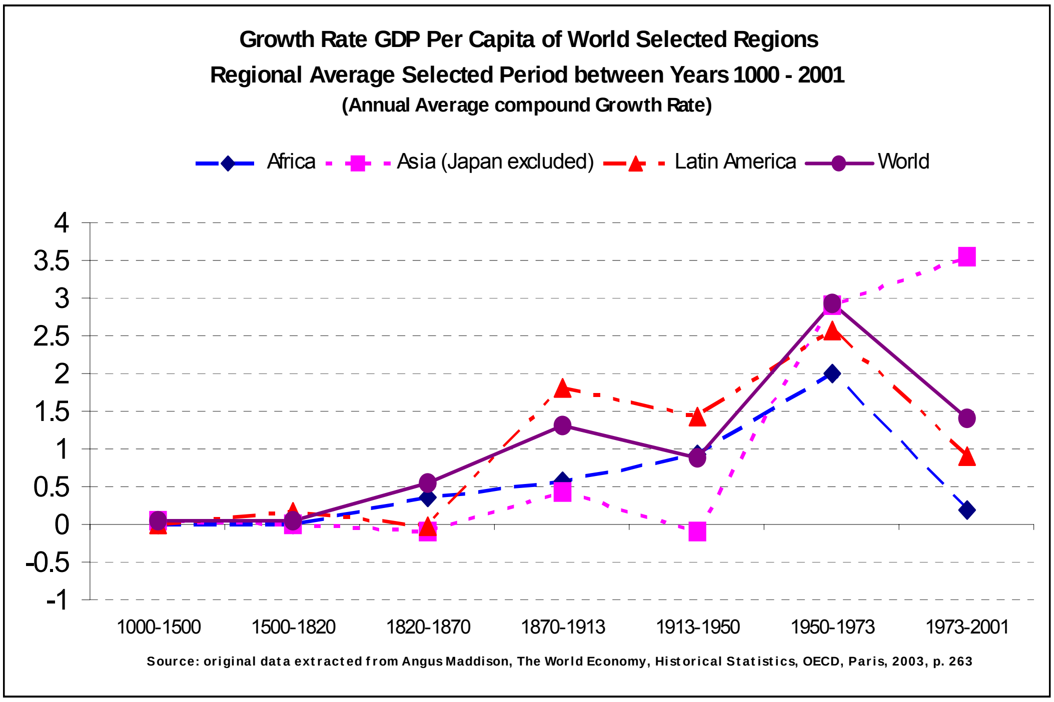
**Appendix 9: Per capita GDP in Selected Countries: 1950 – 2001**
Average evolution per decade, Convergence and Divergence in the same region

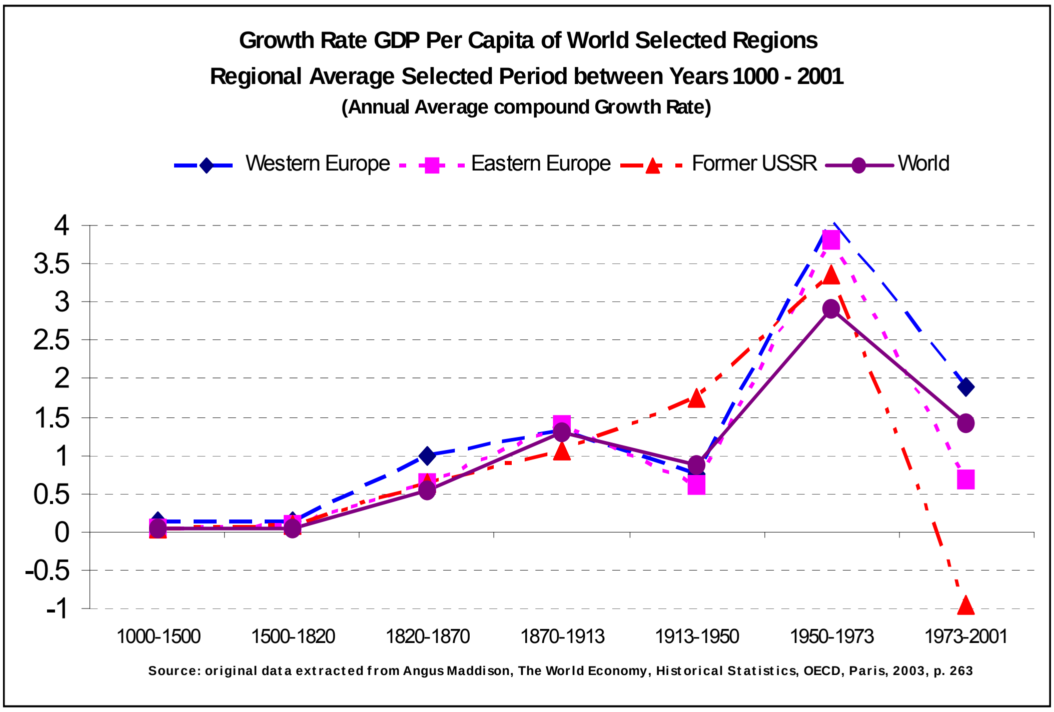
**Benchmarking Selected Sub-continents: Per Capita GDP for Brazil, China, India and USSR/Russia***



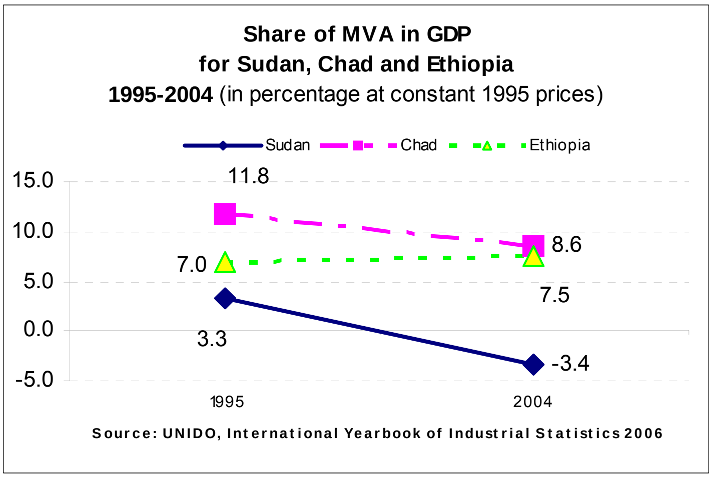

**Source: original data extracted from Angus Maddison, The World Economy, Historical Statistics, OECD, Paris, 2003 *USSR became Russia in 1991.**

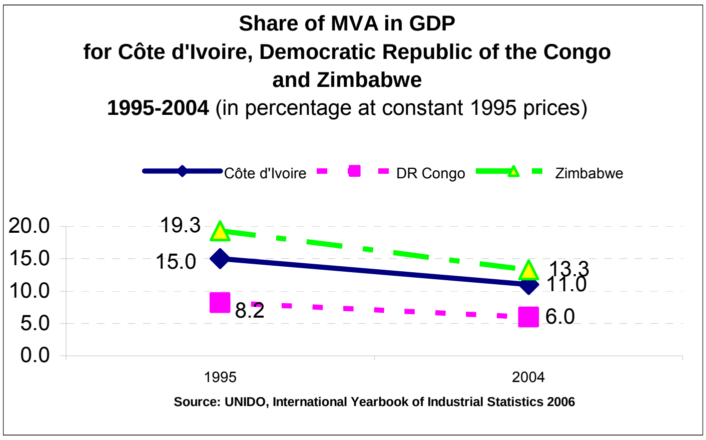
**Appendix 10: Growth Rate GDP Per Capita of World Selected Regions: Regional Average Selected Period between Years 1000 – 2001**
(Annual Average Compound Growth Rate)

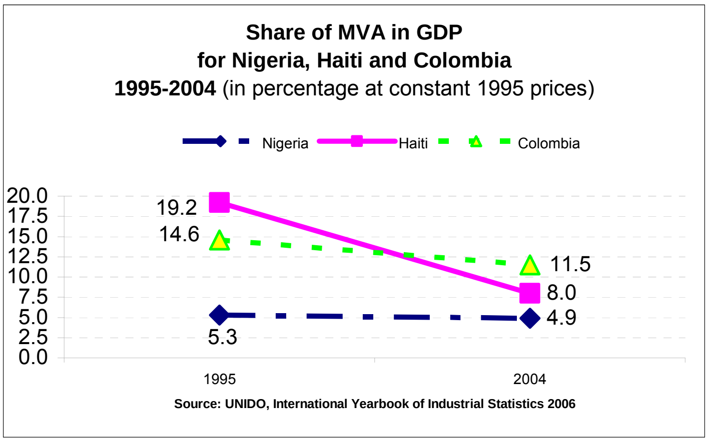


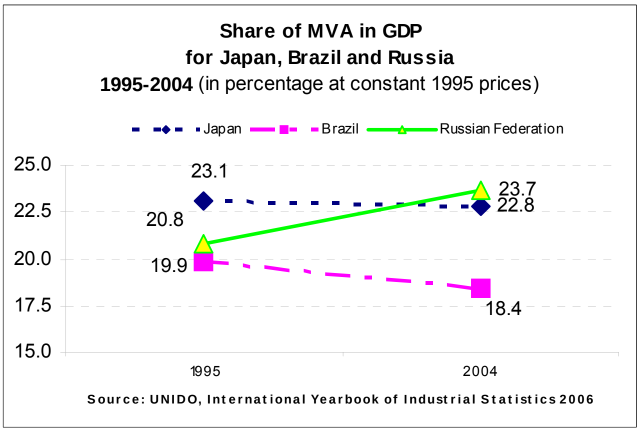



**Appendix 11: Share of MVA in GDP for selected countries and regions 1995-2004,** in percentage

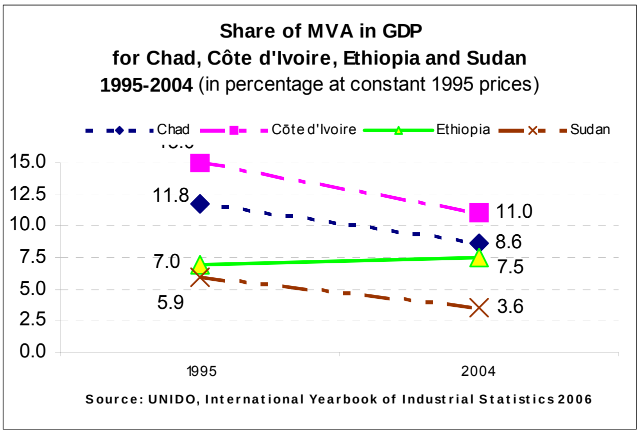


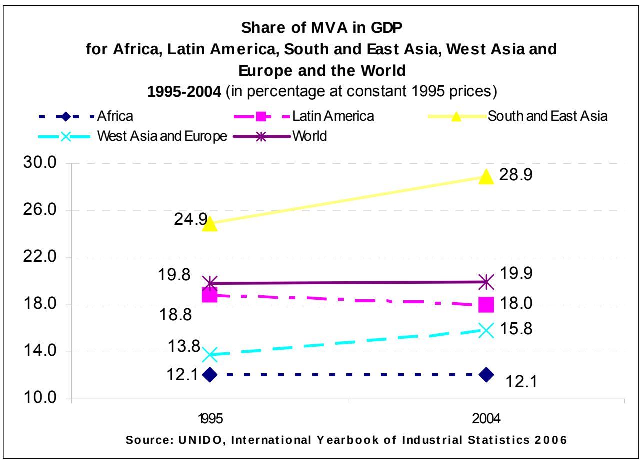





Share of MVA in GDP
for Japan, Brazil and Russia
1995-2004 (in percentage at constant 1995 prices)
Japan
Brazil
Russian Federation
25.0
22.5
20.0
17.5
15.0
23.1
20.8
19.9
23.7
22.8
18.4
1995
2004
Source: UNIDO, International Yearbook of Industrial Statistics 2006

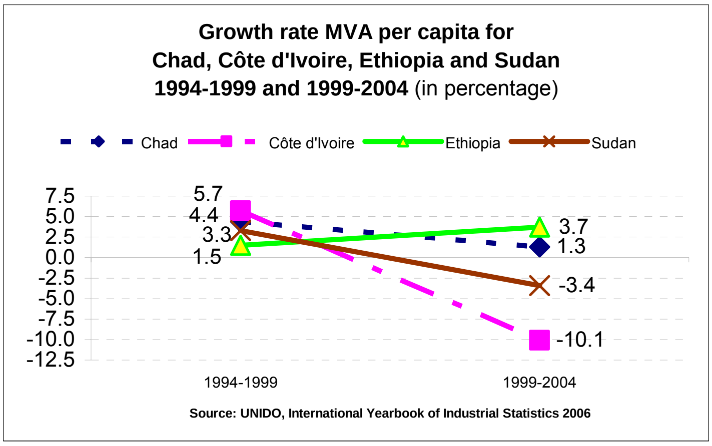



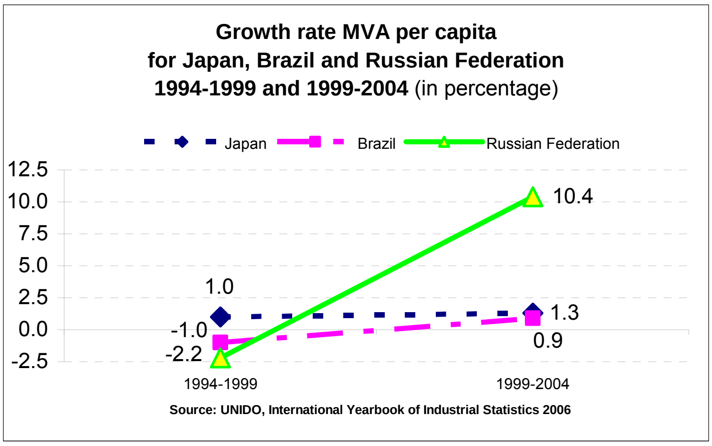
Share of MVA in GDP
for Chad, Côte d'Ivoire, Ethiopia and Sudan
1995-2004 (in percentage at constant 1995 prices)
Chad
Côte d'Ivoire
Ethiopia
Sudan
15.0
12.5
10.0
7.5
5.0
2.5
0.0
11.8
7.0
5.9
11.0
8.6
7.5
3.6
1995
2004
Source: UNIDO, International Yearbook of Industrial Statistics 2006

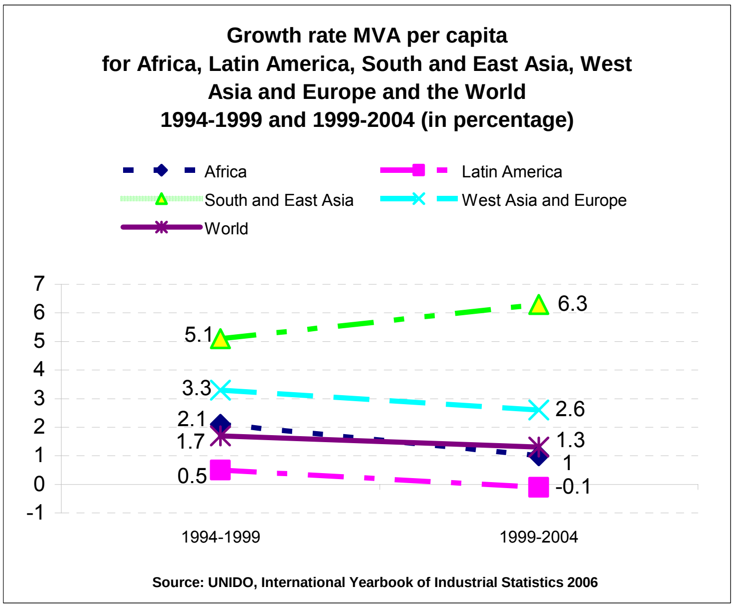



Share of MVA in GDP
for Africa, Latin America, South and East Asia, West Asia and Europe and the World
1995-2004 (in percentage at constant 1995 prices)
Africa
Latin America
South and East Asia
West Asia and Europe
World
30.0
26.0
22.0
18.0
14.0
10.0
24.9
19.8
18.8
13.8
12.1
28.9
19.9
18.0
15.8
12.1
1995
2004
Source: UNIDO, International Yearbook of Industrial Statistics 2006

**Appendix 12: Average annual Growth rate of MVA per Capita for selected countries and regions, 1994-1999 and 1999-2004**



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[1] The views expressed therein do not imply the expressions of any opinion whatsoever of the part of UNIDO and UNU-WIDER: Contact authors: ESR@nifo.no, yeamaizo@unido.org and kattel@staff.ttu.ee

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[10] UNIDO, op. cit., p. 43; According to the World Bank (World Development Indicators 2007, p. 190 and 194), the average annual growth of Botswana between 1990-2000 and 2000-2005 decreased from 4.4% to 0.8%. The share of MVA in GDP in 2005 reached only 4%.

[11] Data are from UNIDO, op.cit.; Nevertheless with this position is confirmed with the World Bank statistics with 4% for Botswana and 18% for Tunisia in : World Bank, *World Development Indicators, 200, pp.* 194 and 198.

[12] Ibid, p. 47.

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[26] The case of Cote d'Ivoire could be mentioned as an example: reconciliation process based on clear distribution of productive activities was followed by the end of the war between "government supporters and rebels".

[27] Yves Ekoué Amaïzo, *De la dépendance à l'interdépendance: une chance pour l'Afrique?* Collection "interdépendance africaine", éditions l'Harmattan, Paris, France, 1998. Countries' interdependency is different from Countries' dependency. Pre-emptive measures based on military means and justified by security considerations should always be revisited with new approaches based on productive structure. Otherwise, the destruction or controlling of the existing productive capacity of a country should be considered as a clear neutralization of development.

[28] It is often difficult to make any difference between money coming from "clean sources" for the Government and money based on "arbitrary taxation of the local population including random plunder of local entrepreneurs, foreign investors, extractive or agricultural resources including drug production, kidnapping, road blockades, trafficking, prostitution and smuggling, illegal trade such as petroleum, arms, diamonds, timber…".

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