The Bottom Billion: Why the poorest countries are failing and what can be done about it: Some insights for the Pacific?

Terry O'Brien[1]

A noted scholar of fragile states and of African economies, Paul Collier, argues that the appropriate focus for today's development effort is those countries whose residents have experienced little, if any, income growth over the 1980s and 1990s. On his reckoning, there are just under 60 such economies, home to almost 1 billion people.

Collier argues the plight of the 'bottom billion' is that they are caught in one (or often several) of four traps; (i) conflict; (ii) mismanaged dependency on natural resources; (iii) weak governance in a small country; and (iv) economic isolation among other very poor economies, with access to big markets available only at high cost. Or as he puts it in the African context, 'landlocked with bad neighbours'.

Countries such as East Timor, Papua New Guinea and Solomon Islands suffer several of the four traps Collier identifies. The growth performance over the last quarter-century of the six Pacific economies in the bottom billion has been significantly weaker than the average of the other states in the bottom billion. Effectively aiding the Pacific's attempts to improve decades of very weak per capita income growth may benefit from the insights into novel and 'whole of government' forms of development assistance that Collier identifies for the 'bottom billion'.

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1 For the last four years, the author has been the Alternate Executive Director on the Boards of the World Bank Group for a constituency of 13 shareholder countries, including Australia. He has recently returned to the Macroeconomic Group. The views are those of the author, and not necessarily those of the Australian Treasury. He wishes to thank Paul Collier and World Bank colleagues Alan Gelb, Ginger Turner and Bruno Vincent for initial comments and assistance, and Elena Chanchu for extensive assistance with the data. The paper has also benefited from the comments and suggestions of Treasury and AusAID colleagues Simon Duggan and Julia Newton-Howes.

Introduction

A noted scholar of African economies and fragile states, Paul Collier, has recently taken stock of the pattern of progress in reducing global poverty in a short, non-technical book, *The Bottom Billion: Why the poorest countries are failing and what can be done about it*. The book rests heavily on Collier's and others' earlier and more technical research, especially his work with Anke Hoeffler on the economics of conflict, aid, resources and fragile states. It proceeds mainly by practical and insightful narratives of the lessons learnt from the occasional success, and many failures, of work in some of the world's most stagnant economies.

Collier's book was aimed at a G-8 audience of concerned citizens and policy makers, and received its European launch at a May 2007 event on improving African economic performance, under the aegis of Germany's G-8 chairmanship. With that audience in mind, the book tends to be somewhat Africa-centred, but its insights are of much broader applicability. This article conveys some of Collier's insights, and points to their applicability to those Pacific states whose citizens are among the 'bottom billion'.

The need to focus development effort on the 'hard cases'

Collier argues that the world is no longer best pictured as 1 billion rich and 5 billion poor. Rather, it is 1 billion rich, 4 billion in countries rapidly developing and converging in living standards on the rich (even if still home to the majority of the world's extremely poor people), and 1 billion in states 'falling behind, and often falling apart'.[2]

This 1-4-1 division of the world's 6½ billion population is a useful approximation: there are about 1.1 billion people in the 30 developed countries of the Organization for Economic Cooperation and Development; and by various approaches to listing, there are almost 1 billion people in very poor countries that are not delivering much, if any, growth in per capita incomes. This leaves about 4 billion in the middle. But as we shall see, the definition of the 'bottom billion' cannot be wholly objective, and the category remains (at its margins) subject to debate and judgment.

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2 Collier (2007a), p 3.

Helping the bottom billion is not, in Collier's view, a task for which traditional Official Development Assistance (ODA) is well suited.[3] Their states are often characterised as 'fragile'; they suffer weak governance, often with a history of conflict, and with resultant limited government ability to disburse aid effectively. He argues they are subject to one or often more of four traps: conflict; mismanaged dependency on natural resources; weak governance in small countries; and being landlocked with bad neighbours.

Speaking of the European donors, Collier argues that development portfolios are generally not the best placed to lead donor governments to the most effective forms of assistance for the bottom billion, because aid ministers think in terms of increasing quantities of traditional ODA, and of targets such as the 0.7 per cent ODA/GNI ratio and the Millennium Development Goals. In contrast, the bottom billion would benefit more from the innovative 'whole of government' forms of assistance that Collier proposes, and that call on resources from other portfolios.

The 'bottom billion': defined by country, rather than individuals' poverty

One could group the world's poorest billion people in at least two ways.

- One could hypothetically search for the poorest billion individuals, by interspersing the data from national household surveys of income or expenditure, and ranking individuals from poorest to richest, so that poor individuals from many poor countries 'rub shoulders' at the bottom of the global income distribution with the very poorest individuals from middle-income countries, and even a few from developed countries.[4]

- Or one could take a national perspective, seeking the countries whose per capita GDPs are very low, and growing weakly if at all, and summing their populations across countries.

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3 ODA is defined as grants or loans to developing countries which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; and (c) at concessional financial terms. In addition to financial flows, technical cooperation is included in aid, but grants, loans and credits for military purposes are excluded. See the OECD's Development Assistance Committee's glossary: http://www.oecd.org/glossary/0,3414,en_2649_33721_1965693_1_1_1_1,00.html#1965422 ODA by this definition would not include, for example, international expenditures to promote standards and codes to assist better governance, and may not include peacekeeping expenditures.

4 This is the approach taken by Milanovic (2005). It seeks to overcome various problems of gaps in national data, and lack of ready comparability among available data, among many conceptual and practical difficulties that need not detain us here.

This second approach is the one chosen by Collier, for practical reasons of policy relevance: whether a community can grow richer is only partly a function of individuals' capabilities and efforts, but substantially a function of the national policy environment. Is the country at war, or peace? Can the government supply basic infrastructure, health and education, or not? Do governance structures secure property rights, or give rein to corruption? Is the national market growing, or contracting?

Identifying the countries of the 'bottom billion': relation to 'fragile states'

Using this second approach, Collier speaks of a group of some 58 countries with a current population of 980 million who constitute the 'bottom billion'. While he does not list those countries, he argues they are distinguished by:

- low per capita income levels and weak per capita GDP growth; and
- being judged subject to one or more of the four traps.[5]

These countries tend to be small: the average population is 17 million.

The problem of the 'bottom billion' is closely related to the difficulties confronting 'fragile states', which are also broadly defined in terms of low incomes, and poor policy, institutional and governance capacities.[6] The World Bank, the African Development Bank, the Asian Development Bank and the OECD donor countries that are members of the Development Assistance Committee have all discussed the special development challenges of these weakly performing states, and offered slightly different ways of identifying them. Box 1, Figure 1 and Appendix A offer some comparison of the countries these institutions have grouped into the 'fragile state' category, and Box 2 provides a brief overview of the policy approaches suggested for aid donors to best help fragile states.

5 Collier (2007a), pp 5-12.

6 See, for example, OECD/DAC, (2007). En route to the current usage of 'fragile states', this topic has had a rapid succession of 'politically correct' names: 'failed states', 'Low Income Countries Under Stress' (LICUS), and 'difficult development partners'.

Box 1: Listing 'fragile states': different approaches towards the 'bottom billion'?

The World Bank now identifies globally some 35 'fragile' and 'borderline fragile' states and territories, home to almost half a billion people and characterised by weak institutions, poverty and vulnerability to conflict. Operationally, these characteristics are defined by: being an International Development Association (IDA) borrower, plus suffering weak policy and institutional capacity (measured by a score below 3.2 (roughly the bottom two quintiles) on the 0-5 scale of the Bank's Country Policy and Institutional Assessment (CPIA) index. (This listing includes Timor Leste, Papua New Guinea, Solomon Islands, Tonga and Vanuatu, plus Cambodia, the Lao PRD and Myanmar in the East Asia and Pacific region.)

Other agencies that have sought to enumerate the fragile state concept have generally arrived at similar or broader lists:

- The African Development Bank, focusing just on its membership in sub-Saharan Africa, and using both the CPIA index and its own 'country vulnerability index', has added six African countries to the 21 African countries identified in the World Bank listing.

- The Asian Development Bank, focusing just on its Asia-Pacific membership, proposes an identification of 'weakly performing countries' based on its own Country Performance Assessment (CPA) system, and involving either a CPA score in the fourth or fifth quintile in two of the three most recent years, or vulnerability based on conflict or post-conflict status. The CPA for 2006 has been published, but the list of weakly performing countries is not published. We understand the Asian Development Bank's CPA and the World Bank's CPIA ratings are highly correlated, so probably much the same group of Asia-Pacific countries are identified as 'weakly performing' by the Asian Development Bank's approach as are classified as 'fragile' by the World Bank approach.

- The United Kingdom Department for International Development (DFID) (2005) includes a 'proxy list of fragile states', which it defined as countries that had appeared at least once in the fourth and fifth quintiles of the World Bank's CPIA between 1999 and 2003. That produced a list of 46 countries, home to some 920 million people, approaching in aggregate Collier's 'bottom billion' of 58 countries and 980 million. The criterion led it also to include Indonesia in its list.

Box 1: Listing 'fragile states': different approaches towards the 'bottom billion'? (continued)

The marked differences at the margins of these four listings, and with Collier's approach, can give rise to large differences in the numbers of people included, and in the 'fragile' group's measured economic growth.

- For example, the DFID list includes Indonesia, which with its population of 220 million and strong GDP growth (even allowing for the Asian financial crisis), significantly raises the group's population-weighted average per capita GDP and growth.

- Some data-dependent approaches necessarily exclude countries for which there are no CPIA or GDP measures (such as Iraq and North Korea), whereas more subjective approaches can include such countries (on the judgment that their policy and institutional capacities are obviously very low, even if not formally measured).

- Analysts usually impose some judgmental lag process on their listings, so that a country is not classified as having escaped fragility until it has sustained several years of good performance (rather than having just enjoyed the temporary fruits of a commodity boom, for example).

To illustrate the comparative economic performance of Collier's 'bottom billion', this paper uses a composite listing of 54 countries of 960 million people, and compares it with the World Bank's list of 36 fragile states of 460 million people. Figure 1 and Appendix A aggregate the listings from the World Bank, the African Development Bank, and DFID.

These classification issues are well summarised in World Bank (2007b).

Box 2: Suggested policy approaches for donors to help fragile states

OECD donor countries that are members of the Development Assistance Committee have participated in a dialogue with the World Bank, the European Community (EC) and the United Nations Development Programme (UNDP) to shape a consensus on how best to engage in fragile states. Resultant broad principles include:

1. Take context as a starting point: understand the local limits to capacity, political will and legitimacy.

2. Do no harm: for example, don’t inadvertently worsen corruption or disrupt budget processes by large, uncoordinated swings in aid.

3. Establish state building as the central objective: strengthen the capabilities of states to perform their core functions and address democratic governance issues.

4. Align with local policies and/or systems: donors should use local systems for disbursements where they are satisfactory, and where not, disburse aid in a way that helps build local capacities.

5. Recognize the political-security-development nexus: fragile states need help in all dimensions, and a ‘whole of government’ approach among donors is likely to work best.

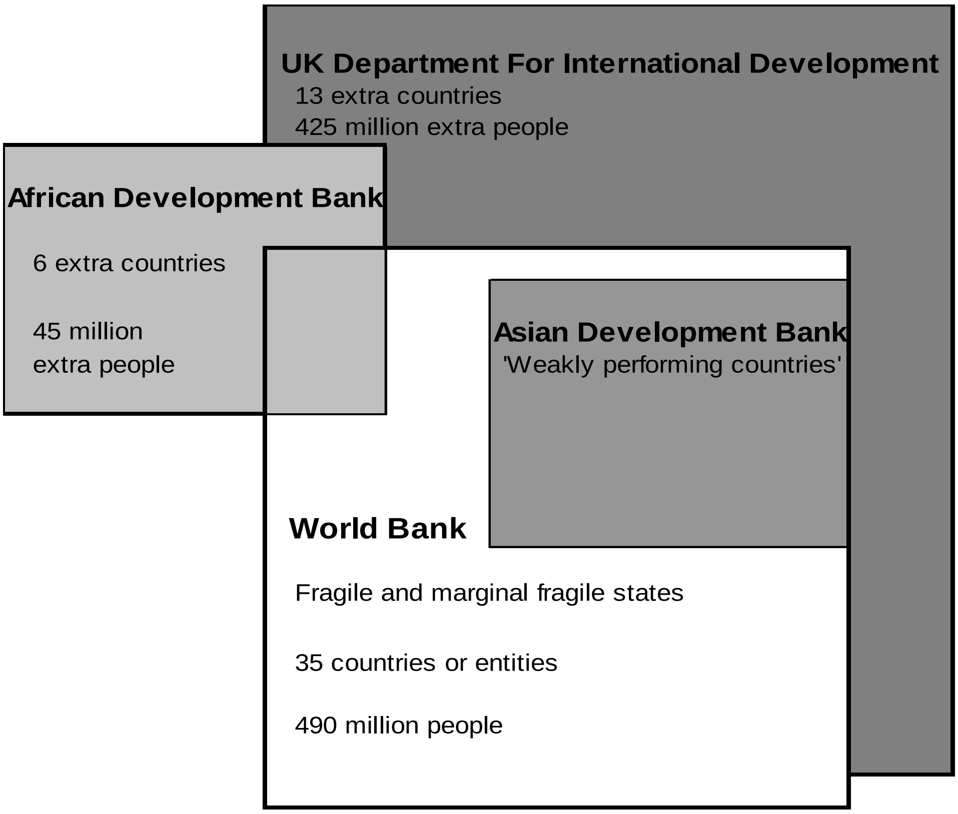
6. Promote coherence between donor government agencies: where possible, use joint assessments and shared strategies among donors and with host governments.

7. Act fast: take rapid action where the risk of instability is highest, but stay engaged long enough to give success a chance in what is inevitably a slow state-building process that may encounter setbacks.

8. Avoid ‘aid orphans’: areas characterised by low engagement and field presence.

OECD/DAC (2007).

Figure 1: Overlapping definitions of 'fragility', relative to the World Bank definition



Total: 54 countries, 960 million people
Collier *Bottom Billion* : 58 countries, 980 million people

One would expect Collier's country list of 58 to include all 35 of the World Bank's fragile states, plus most of the countries added in the listings of the African Development Bank, the Asian Development Bank and DFID. He mentions examples such as Timor Leste, Fiji and PNG to illustrate his arguments, but says of the bottom billion that,

> When I want to use a geographic label for them I describe them as 'Africa +', with the + being places such as Haiti, Bolivia, the Central Asian countries, Laos, Cambodia, Yemen, Burma and North Korea.[7]

7 Collier (2007a), p 7.

He does not, in this context, mention the Pacific, although five Pacific states are included in the World Bank's fragile state listing and six in DFID's.[8]

Table 1: Relative growth rates of the bottom billion (GDP per capita, PPP constant 2000 US$)

	Top billion		Middle 4 billion		Bottom billion 54 countries composite list		Bottom half-billion (World Bank) 35 fragile states	
	$	annual % growth	$	annual %	$	annual %	$	annual % growth
1980	16,587		2,190		1,423		1,398	
1990	20,062	1.9%	3,086	3.5%	1,572	1.0%	1,290	-0.8%
2000	24,143	1.9%	4,025	2.7%	1,605	0.2%	1,153	-1.1%
2005	25,975	1.5%	5,190	5.2%	1,834	2.7%	1,294	2.3%
2005 as multiple of 1980	1.57		2.37		1.29		0.93	
Annual % growth, 25 years		1.8%		3.5%		1.0%		-0.3%

Notes: Per capita incomes shown above are population-weighted averages of the per capita GDPs of the countries of each income group.
The 'top billion' are the OECD economies.
The 'bottom billion' are approximated by the 54 economies shown in Appendix A.
The 'bottom half-billion' are the World Bank's 35 'fragile states' shown in Appendix A.
The 'middle 4 billion' are all other economies not included in the other two categories. (The 'middle 4' growth rates shown in this table are consistent with a grouping in the bottom billion of 54 countries. If focusing instead on a more restrictive listing of 35 fragile states, the larger 'middle' group has a slightly lower growth rate of 3.4%).
Growth rates are geometric averages.
Source: World Bank Development Data Platform.

Income performance of the states of the bottom billion

Collier reports that since the 1970s, per capita incomes in the middle 4 billion of developing countries accelerated away from the stagnant incomes of the bottom billion in his set of 58 countries by between 2 and 5 percentage points a year, depending on the decade.[9]

Using data from 1980 to 2005, we can broadly confirm the Collier picture. Table 1 shows the average per capita income growth experience of the last quarter-century for the top and bottom billions, and the middle 4 billion.

- For the past 25 years, per capita incomes of the middle 4 billion have grown at almost double the annual rate of the top billion. While the absolute gap in per capita income has widened (from about US$14,000 in 1980 to about US$21,000

8 The five are Papua New Guinea, Solomon Islands, Timor Leste, Tonga and Vanuatu; Kiribati is added to the DFID list.
9 Collier (2007a), p 10.

in 2005), there is a beginning of convergence (with the middle group's per capita income rising from one-eighth of the top billion's in 1980 to one-fifth in 2005). Collier notes that the current rate of sustained strong per capita income growth in the middle 4 billion is unprecedented in human history.

- For the bottom billion (as approximated by the 960 million people of the composite listing of 54 countries of Appendix A, including six Pacific states), incomes have grown at little more than half the rate in the top billion. Their living standards are still diverging from those in rich countries.[10]

- Within this illustrative 'bottom billion' set of 54 countries, for the 35 'fragile states' identified by the World Bank (home to almost half a billion people, and including five Pacific states), real income levels have fallen by more than 5 per cent in a quarter century, compared to almost 60 per cent growth for the top billion. The citizens of the World Bank's listing of fragile states could now perhaps fairly be called 'the very bottom half-billion'.[11]

- Although not shown in Table 1, the contraction of GDP per capita in the bottom billion over the last 25 years is concentrated in sub-Saharan Africa. As a group, the other bottom billion states' real per capita incomes grew a little, but either still slower than the OECD countries (if Indonesia is excluded from the bottom billion group) or somewhat faster (if Indonesia is included in the group). But in either case, incomes in the 'non-African, bottom billion' states grew much less than in the countries of the 'middle 4 billion' people.

Collier stresses that the problem of the 'bottom billion' is not the 'quality of growth' (for example, the inequity with which the fruits of growth are distributed), it is no growth.[12] Available data probably understate the problem: we lack internationally comparable GDP data for some of the poorest or most turbulent countries (such as North Korea and Iraq). Moreover, weak growth in the measures of national income that are available has parallels in social indicators: progress towards the Millennium Development Goals is disproportionately weak for the fragile states, compared to other developing countries (Table 2).

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10 Even this modest result is heavily influenced by the inclusion of Indonesia in the illustrative bottom billion listing of 54 countries. If Indonesia were instead classified in the middle 4 billion group, that group's growth rate would barely rise, but the new 'bottom three-quarter billion', minus Indonesia's 220 million people, would see their average annual per capita GDP growth fall to about zero (-0.4 per cent, to be spuriously precise).

11 The numbers are best regarded as approximate, because national accounts for many poor countries were of poorer quality, or non-existent, in the 1970s and 1980s, and the quality and coverage of Purchasing Power Parity estimates in that era were also limited. As a generalisation, coverage has been weakest for the poorest countries.

12 Collier (2007a), p 11.

Table 2: Fragile states face the largest deficit in most Millennium Development Goals

Indicator	Total in developing countries (million)	Total in fragile states (million)	Fragile states per cent share
Total population (2004)	**5,427**	**485**	**9%**
MDG1 - Poverty (2004)			
Extreme poverty	985	261	26%
Malnourished children	143	22.7	16%
MDG2 - Universal education			
Children of relevant age that did not complete primary school in 2005	13.8	4	29%
MDG4 - Under five mortality			
Children born in 2005 and expected not to survive to age five	10.5	3.3	31%
MDG5 - Maternal health			
Unattended births	48.7	8.9	18%
MDG6 - Diseases			
TB deaths	1.7	0.34	20%
HIV+	29.8	7.2	24%
MDG7 - Environmental sustainabiliy			
Lack of access to improved w ater	1,083	209	19%
Lack of access to improved sanitatioı	2,626	286	11%

Source: *Global Monitoring Report 2007*, p 13.

Traditional aid: already past the point of diminishing returns in the bottom billion?

Collier believes traditional ODA is not well suited to strengthening growth in the 'bottom billion'. Returning to his previous writings that tease out the similarities and differences between aid and oil (both being basically a source of 'sovereign rents' to governments in weak governance environments), he argues that traditional aid to African countries in the 'bottom billion' may already be at levels that produce diminishing returns. He uses the recent surge in oil prices as a natural experiment to test whether the Gleneagles G-8 promises to double aid to Africa might be beneficial. The oil price surge has already given African oil producers more resources than additional aid is likely to, while at the same time African non-oil producing countries have been hindered by high oil prices. Yet so far, there has been no difference in the economic performance of the two groups, suggesting that the four traps are sufficiently powerful to overwhelm the impact on oil exporters of additional resources.[13]

Nonetheless, Collier remains a defender of traditional ODA. Aid is better than oil, because donors' conditions on ODA expenditures (for example, auditing) and on the form of assistance (including, for example, the often-criticised use of international

13 Collier (2007a), pp 101-2.

consultants) have added value to the flow of funds. In the 'bottom billion', he describes aid as the 'holding operation that has prevented things from falling apart'.[14]

The four traps

Why has the 'rising tide' of strong economic growth in the developing world not 'lifted all boats' in the 'bottom billion'? In Collier's view they have fallen into one or often more of four traps, and resolving their problems will require novel ways of addressing those traps.

Trap 1: Conflict

Almost three-quarters of the people in the bottom billion live in conflict or post-conflict countries. Collier reports his and Hoeffler's striking findings that conflict (both civil wars and coups) is little related to the intensity of political repression or the depth of historical grievances. ('Rebels usually have something to complain about, and if they don't, they make it up.'[15]) Rather, violence is best predicted by poverty, lack of growth, dependence on misgoverned resource wealth, and a previous history of civil conflict or coups.

At the policy level, Collier argues conflict prevention is basically trying to ease all four traps. But since conflict is persistent and many conflicts are flare-ups of previous conflicts, there is great scope for post-conflict foreign military intervention, which he argues should be: committed for a significant period (a decade or so); mandated to fight and be prepared to take casualties; and with pre-arranged obligations on the host country, such as reducing the scale of its own military while training quality police forces.

Collier uses the example of the British forces in 'Operation Palliser' in Sierra Leone as a model of how to intervene, and various Dutch, French, and African Union examples of how not to intervene.[16] He also argues that prolonged foreign intervention and small local forces are superior to relying on large local forces, which in the 'bottom billion' tend to operate as a protection racket, extorting funds from their government under implicit threat of coup. (Collier's studies also suggest some 40 per cent of the cost of large militaries in many 'bottom billion' countries is inadvertently financed by ODA (through the fungibility of financial flows)).[17]

14 Collier (2007a), p 100.
15 Collier (2007a), p 24.
16 Connaughton (2000), pp 91-4.
17 Collier (2007a), p 103, and in more detail, Collier (2007b).

Trap 2: Mismanaged dependency on natural resources

Almost one-third of the 'bottom billion' live in countries that are resource-dependent. Collier marshals evidence that resource rent dependency in developing country conditions tends to cause 'Dutch disease'[18], corruption, malfunctions of democracy through patronage politics, and often, autocracy.

Collier notes that moves to develop natural resources in the bottom billion, to reduce consuming countries' dependency on autocratic and politically unstable producers in the Middle East, underestimate the role of resource dependency in producing autocracy and political instability: 'Becoming reliant upon the bottom billion for natural resources sounds to me like Middle East 2'.[19]

However he affirms that notwithstanding the challenges, resource-rich countries have to exploit those resources to grow. Resources are their comparative advantage, so the policy question is how best to help them reduce the risks of the resources curse.

He judges aid as 'fairly impotent' to address the resources curse directly, though it can be indirectly powerful through addressing weak governance.[20]

Trap 3: Weak governance in small countries

The World Bank defines public sector governance as 'the way the state acquires and exercises its authority to provide and manage public goods and services, including regulatory services'.[21] Weak governance capacities have bedevilled the countries of the bottom billion, and Collier argues that small, poor states heavily reliant on aid and often resource-rich, face particular governance challenges: 'The minimal state is not a viable model in the context of oil and aid; the government must transform its money into public services'.[22]

Collier argues that in such cases an important contribution to strengthening governance can come from appropriate international standards and codes, including:

- a more comprehensive Extractive Industries Transparency Initiative;

18 'Dutch disease' is *The Economist's* (26 November 1977) memorable nickname for the tendency for large foreign currency inflows (such as from oil exports or ODA) to raise the real effective exchange rate, disadvantaging other exporters and import-competing industries. Collier argues the reason resource wealth has not had adverse political effects in, say, Norway, Canada or Australia, is that those countries had solid institutional and democratic inheritances before their largest surges of natural resource wealth; Collier (2007a), pp 42-4.

19 Collier (2007a), p 52.

20 Collier (2007a), p 107.

21 World Bank (2006), p 10.

22 Collier (2007a), p 66.

- a comparable initiative for the construction industry (particularly important given the vulnerability of this sector to corruption, and the very strong growth of ODA for infrastructure investment);

- continued roll-out of fiscal transparency standards and a charter for budget scrutiny;

- an international investment charter, working around limitations in Multilateral Investment Guarantee Agency and national risk insurance institutions and delivering on the promise of the failed OECD attempt to negotiate a Multilateral Agreement on Investment; and

- a 'post-conflict' charter for donors and the international security system.

Such developments need to be driven by civil society and governments in poor and rich countries, in Collier's view, and he argues that developed countries' non-government organisations would get better results stressing these areas than environmental and employment policies, which matter less to the 'bottom billion'.

He also argues that regional peer review arrangements to bolster applications of such codes would be valuable.[23] Fiscal codes are particularly important for resource-rich 'bottom billion' states, to help them perform the awkward reconciliation of high resource rents, low need for personal or consumption taxes, and the need for high government accountability. (The difficulty of this task is captured in Thomas Friedman's (2006) aphorism, 'no representation without taxation', also summarised in his 'first law of petropolitics': when oil prices rise, democratisation falls.)

Trap 4: 'Landlocked with bad neighbours' (or high-cost transport to large markets?)

Collier argues from his African research that a prominent trap of the 'bottom billion' is that they are landlocked with bad neighbours. Of course, being landlocked did not hurt Switzerland, but that is because Switzerland's neighbours are big, rich markets and Switzerland invested heavily in transport infrastructure. Landlocked countries in Africa are hemmed in by very poor, small markets, often in conflict, and very poorly invested in the infrastructure that would permit trade at lower costs. He argues the only landlocked African states that have overcome this geographic penalty have been those well endowed with very high value natural resources and that have enjoyed good governance. But with that exception (illustrated by Botswana), Collier argues 'If

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23 A current example of developing country peer review occurs in the New Partnership for Africa's Development (NEPAD); http://www.nepad.org/2005/files/inbrief.php.

you are coastal, you serve the world; if you are landlocked, you serve your neighbours', and are limited by their economies.[24]

There is a broader form of Collier's argument. High transport costs, from whatever source, greatly circumscribe potential growth in living standards. It is apparent from the spread of railroads in Europe and the United States in the 19th century, that as transport costs fell in each region progressively connected cheaply to larger markets, an increase in trade, specialisation and division of labour, productivity growth and income followed. Being landlocked in Africa is just one particular case of the problem of high transport costs to large markets, the maritime version of which bedevils the Pacific. Collier's focus on being landlocked, rather than at high-cost distance from big markets, perhaps explains why he defines the 'bottom billion' as being 'Africa + landlocked countries in central Asia, Cambodia etc' rather than 'Africa plus the Pacific'.[25]

Collier's recommended policy responses to the 'landlock trap' generalise well beyond Africa, and have potential application in the Pacific. He argues that to minimise the economic damage inflicted by geography, one needs a broad range of reforms. Many of these reforms will necessitate external development initiatives by donors, because the costs of initiating a regional solution are large, and the benefits are spread over many states, no one of which can capture a sufficiently large share of the benefits to justify incurring the overall cost. In more technical terms, regional public good issues and collective action problems prevent economic solutions from arising locally or spontaneously.

Minimising the disadvantages of geography requires:

- increasing neighbourhood growth spillovers (Niger can not prosper until Nigeria does);
- improving neighbours' economic policies (for example through regional peer reviews);
- lowering transport costs (or as Collier argues, improving coastal access) through transport infrastructure investments and policy reforms. Again, this may not happen without external development initiatives because of externalities;
- avoiding damage by bad policies or regulations on air travel or electronic trade. Very competitive structures in these areas may reduce the natural disadvantages of geography;

24 Collier (2007a), pp 56-7.
25 Collier (2007a), p 7.

- encouraging migration and remittances. (That is, since it is costly to export goods, it may be more feasible to increase the mobility of people, in enlightened and mutually beneficial migration or work arrangements. Maximising the development benefits from such mobility requires the economic and financial policies that encourage remittances and business start-ups in the sending country);

- paying attention to rural development, since under the best of policies, most people in the bottom billion are going to remain rural. In their countries' special cases, the technologies for rural productivity increase may require heavy investment in local knowledge;

- trying to attract responsible foreign investment in resource development through transparency and the assistance good host-country governance can provide to maintaining a good corporate image for the resource investor;

- trying to attract aid. Collier argues that ODA ought become more heavily concentrated in higher risk, bottom billion environments, which will require higher 'governance conditionality', and higher tolerance in donor communities of the supervision costs and risks of failure of operating in fragile states. Technical assistance, often reviled as 'aid to consultants' rather than to the bottom billion, is very pertinent, given their countries' skill gaps. Recipients who understand these dilemmas and work with donors can win ODA that might otherwise go elsewhere. At present, Collier argues (particularly from his UK and EU perspective) that donor politics and NGO support for debt forgiveness, 'vertical funds' and so on are generally naive and likely to produce either avoidance of donor commitment to 'bottom billion' countries, or perverse results.[26]

Trade policies for helping the bottom billion

Collier devotes a chapter to trade policy which includes insights that:

- rich country agricultural protectionism is the worst form of 'policy incoherence' for donors who want to help the 'bottom billion'. Viewed from the objective of true economic development, it undoes the benefits of aid;

- protectionism in the 'bottom billion' occurs mainly because it is a key instrument for corruption (import licences, bribes to customs officials and so on);

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26 Collier (2007a), pp 99-123.

- regional trade liberalisation among poor countries is very damaging, leading to accelerating divergence in living standards from global trends, and trade diversion. (There are more regional trade agreements than countries, and the typical African economy is in four agreements, usually incompatible with each other;)[27]

- 'fair trade' consumer movements in developed countries are not merely a harmless form of self-imposed consumption tax; they transfer resources to poor countries only in forms less useful than ODA (for example, higher coffee prices), because they are conditional on producers continuing traditional exports.

Such thoughts lead Collier to argue that:

- it is now getting harder for the bottom billion to benefit by trade, as China and India have driven competition from the field of labour-intensive, low-cost, simple manufacturing. (This claim may only be true for a limited time — historically, countries have always moved up the 'value chain' as they became more productive, and it seems likely China and India will too);

- the 'bottom billion' need temporary protection from low-income Asia, before rich countries' protection falls so low that there is no means to achieve this. Collier favours US-style African Growth and Opportunity Act initiatives (which in the area of apparel, have increased African exports to the US by 50 per cent, because of simple and unrestrictive rules of origin). In contrast, Collier judges the EU's 'anything but arms' initiative to have been ineffective;

- given the low utility of the WTO as a bargaining vehicle to the 'bottom billion', Collier favours an unreciprocated reduction of the trade barriers against them, which he argues would be analogous to the emergence of IDA as a (near) gift to eligible countries after the recognition that the International Bank for Reconstruction and Development's post WWII design for European reconstruction would not benefit broader economic development[28];

- to the extent that he has any support for a 'big push' in ODA, he favours it being used in infrastructure (both physical and social) that would lower the barriers to the bottom billion's trade.

In his conclusion, Collier positions his views between the left (such as Jeffrey Sachs' *The End of Poverty*) and the right (such as William Easterly's *The White Man's Burden*).

27 Collier (2007a), p 164.
28 Australia has made such an unreciprocated reduction in its barriers to 48 Least Developed Countries (see Lippoldt 2006).

He pleads that we need to focus today not on the development challenges of the past 40 years, but on the new challenges of the bottom billion who are stuck in poverty, and being left behind by the large majority of developing countries. The politics of the bottom billion's progress is 'a dangerous contest between moral extremes' in fragile states, to which rich countries cannot be bystanders. But donors need to think creatively about how to intervene with broad 'development policies', not more traditional and narrow 'aid policies'. 'In short, we need to narrow the target and broaden the instruments.'[29]

Applications in the Pacific?

An earlier *Economic Roundup* article reported that most of the Pacific economies have performed weakly over recent decades, notwithstanding high volumes of traditional ODA.[30]

Five of the Pacific countries feature in the World Bank's list of 'fragile states' (and six feature in the illustrative composite listing of 54 states in the bottom billion). Their per capita income growth over the last quarter-century has been about 3 percentage points a year lower than in countries of the middle 4 billion. Those Pacific states have been weaker by about half a percentage point than the other states we have used as an approximation to the bottom billion, but have modestly outpaced the growth of the other countries in the smaller group of the World Bank's fragile states list (Tables 3 and 4). [31]

29 Collier (2007a), p 192.
30 Stewart (2006), pp 91-115.
31 The reason the relative performance of the Pacific states appears weaker when measured against the larger group is that, in moving from the narrow World Bank listing of 35 fragile states, home to almost half-a-billion, to any list of some 50-60 states home to the bottom billion, one adds some large states that are relatively stronger performers. For example, the DFID list includes Indonesia (Appendix A).

Table 3: Pacific and the bottom billion (GDP per capita, PPP constant 2000 US$)

	Top billion		Middle 4 billion		Bottom Billion minus Pacific six* 48 countries composite list		Pacific six*	
	$	annual growth	$	annual growth	$	annual growth	$	annual growth
1980	16,587		2,190		1,423		2,127	
1990	20,062	1.9%	3,086	3.5%	1,572	1.0%	2,027	-0.5%
2000	24,143	1.9%	4,025	2.7%	1,605	0.2%	2,440	1.9%
2005	25,975	1.5%	5,190	5.2%	1,834	2.7%	2,367	-0.6%
2005 as multiple of 1980	1.57		2.37		1.29		1.11	
Annual % growth, 25 years		1.8%		3.5%		1.0%		0.4%

* The Pacific six are Papua New Guinea, Solomon Islands, Timor Leste, Tonga, Vanuatu and Kiribati.

Table 4: The Pacific and World Bank fragile states (GDP per capita, PPP constant 2000 US$)

	Top billion		Middle 4 billion		WB fragile states minus Pacific five* (30 countries)		Pacific five*	
	$	annual growth	$	annual growth	$	annual growth	$	annual growth
1980	16,587		2,130		1,398		2,100	
1990	20,062	1.9%	2,963	3.4%	1,290	-0.8%	2,004	-0.5%
2000	24,143	1.9%	3,824	2.6%	1,153	-1.1%	2,408	1.9%
2005	25,975	1.5%	4,896	5.1%	1,294	2.3%	2,341	-0.6%
2005 as multiple of 1980	1.57		2.30		0.93		1.12	
Annual % growth, 25 years		1.8%		3.4%		-0.3%		0.4%

* The Pacific five are Papua New Guinea, Solomon Islands, Timor Leste, Tonga and Vanuatu.

Throughout the Pacific, countries face the pervasive challenges of separation by high transport costs from large markets, weak governance, sometimes high dependency on natural resources, and in some cases, periods of conflict or coups.

Collier's diagnoses of the policies required to help the bottom billion are thought-provoking for the Pacific:

- challenging the Pacific countries to develop policies to minimise the adverse effects of geographic barriers to growth, and manage the governance challenges of resource revenues and aid flows;

- challenging donors to sustain patient 'whole of government' commitment to helping strengthen governance and repair breakdowns in security; and

- encouraging greater development of international codes to help strengthen countries' own performance in mining and construction industry transparency and fiscal transparency.

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APPENDIX A

Components of the bottom billion

	World Bank fragile & marginal fragile			African Development Bank			UK DFID		
Region		Country	Population (Million)		Country	Population (Million)		Country	Population (Million)
Sub-Saharan Africa	1	Angola	15.9	1	Angola	15.9	1	Angola	15.9
	2	Burundi	7.5	2	Burundi	7.5	2	Burundi	7.5
	3	Central African Republic	4.0	3	Central African Republic	4.0	3	Central African Republic	4.0
	4	Chad	9.7	4	Chad	9.7	4	Chad	9.7
	5	Comoros	0.6	5	Comoros	0.6	5	Comoros	0.6
	6	Congo DR	57.5	6	Congo, DR	57.5	6	Congo DR	57.5
	7	Congo, Republic of	4.0	7	Congo, Republic of	4.0	7	Congo, Republic of	4.0
	8	Cote d'Ivoire	18.2	8	Cote D'Ivoire	18.2	8	Cote d'Ivoire	18.2
	9	Eritrea	4.4	9	Eritrea	4.4	9	Eritrea	4.4
	10	Guinea	9.4	10	Guinea	9.4	10	Guinea	9.4
	11	Guinea-Bissau	1.6	11	Guinea-Bissau	1.6	11	Guinea-Bissau	1.6
	12	Liberia	3.3	12	Liberia	3.3	12	Liberia	3.3
	13	Nigeria*	131.5	13	Nigeria	131.5	13	Nigeria*	131.5
	14	Sao Tome & Principe*	0.2	14	Sao Tome and Principe	0.2	14	Sao Tome & Principe*	0.2
	15	Sierra Leone*	5.5	15	Sierra Leone	5.5	15	Sierra Leone*	5.5
	16	Somalia	8.2	16	Somalia	8.2	16	Somalia	8.2
	17	Sudan	36.2	17	Sudan	36.2	17	Sudan	36.2
	18	Togo	6.1	18	Togo	6.1	18	Togo	6.1
	19	Zimbabwe	13.0	19	Zimbabwe	13.0	19	Zimbabwe	13.0
	20	Gambia, The*	1.5	20	*Mali*	*13.5*	20	Gambia, The*	1.5
	21	*Mauritania**	*3.1*	21	*Benin*	*8.4*	21	*Mali*	*13.5*
				22	*Equatorial Guinea*	*0.5*	22	*Cameroon*	*16.3*
				23	*Senegal*	*11.7*	23	*Ethiopia*	*71.3*
				24	*Seychelles*	*0.1*	24	*Kenya*	*34.3*
				25	*Zambia*	*11.7*	25	*Niger*	*14.0*
		SS Africa Sub-Total	**341.4**			**382.7**			**487.7**

Components of the bottom billion (continued)

	World Bank fragile & marginal fragile		African Development Bank		UK DFID	
Region	**Country**	**Population (Million)**	**Country**	**Population (Million)**	**Country**	**Population (Million)**
Caribbean	22 Haiti	8.5			26 Haiti	8.5
					27 Dominica	0.1
					28 Guyana	0.8
	CAR Sub-Total	**8.5**				**9.4**
East Asia & Pacific	23 Cambodia*	14.1			29 Cambodia*	14.1
	24 Lao PDR	5.9			30 Lao PDR	5.9
	25 Myanmar	50.5			31 Myanmar	50.5
	26 Papua New Guinea*	5.9			32 Papua New Guinea*	5.9
	27 Solomon Islands	0.5			33 Solomon Islands	0.5
	28 *Timor Leste*	*1.0*			34 *Timor Leste*	*1.0*
	29 *Tonga*	*0.1*			35 *Tonga*	*0.1*
	30 *Vanuatu**	*0.2*			36 *Vanuatu**	*0.2*
					37 *Indonesia*	*220.6*
					38 *Kiribati*	*0.1*
	EAP Sub-Total	**78.2**				**298.9**
Europe & Central Asia	31 Uzbekistan	26.2			39 Uzbekistan	26.2
					40 Tajikistan	6.5
	32 *Kosovo*				41 *Azerbaijan*	*8.4*
					42 *Georgia*	*4.5*
	ECA Sub-Total	**26.2**				**45.6**
Midddle East & North Africa	33 *Djibouti**	*0.8*			43 *Djibouti*	*0.8*
	34 *West Bank & Gaza*	*3.6*			44 *Yemen*	*21.0*
	MENA Sub-Total	**4.4**				**21.8**
South Asia	35 Afghanistan	31.9			45 Afghanistan	31.9
					46 *Nepal*	*27.1*
	SAR Sub-Total	**31.9**				**59.0**
	Total	**490.6**		**382.7**		**922.4**

* Marginal fragile.
Italics: Countries on less than three of the four institutions' lists.