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THE BOTTOM BILLION:

WHY THE POOREST COUNTRIES ARE FAILING

AND WHAT CAN BE DONE ABOUT IT

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P R O C E E D I N G S

DR. BRAINARD: Good afternoon. Thank you for all coming over. We are thrilled to have Paul Collier here today to share the insights from his new book, *The Bottom Billion*, and I want to thank him and our other terrific panelists in advance.

Paul's book arrives at a critical juncture. More than ever, there is this recognition that instability anywhere in the world can threaten security across borders and have repercussions in all kinds of realms that were not traditionally associated with poverty and security.

Poverty is an integral part of that picture. It is a catalyst. It exhausts institutions, depletes resources, and creates a volatile mix of desperation and instability, and what is so refreshing about Carl's *Bottom Billion* is that he has both very rigorous analysis of the causes of that poverty conflict cycle but also, I think, very realistic while also thought provoking answers to what we should be doing about it. It's an area of particular interest here at Brookings. I think we have books in the back of the room on this issue of poverty and conflict and their relationship called *Too Poor for Peace*. We've also got some analyses on the U.S. foreign aid system, which is a system that doesn't address these issues particularly well, and some recommendations that I think align well with Paul's thoughts on what to do about it.

I think I'll leave it to Paul to give his analysis of the four main tracks that condemn countries to extreme poverty and conflict and also to talk about his prescriptions. Perhaps the one which has been most noted is that of much more frequent interventions in governments, even when those interventions are military, to help create an environment of peace to build institutions. Whatever anyone's opinion of those options at a moment where the Presidential debate here is all around Iraq, you've got to admire the boldness of the analysis. So, we're particularly delighted to have Paul here to talk through his analysis and his proposals.

Joining me to participate in that discussion are Gobind Nankani -- he is now president of the Global Development Network and a former vice president for Africa at the World Bank; Ann Tutwiler, who is managing director for Trade and Development at the Hewlett Foundation and one of the most knowledgeable people on the issue of agriculture and development out there; and Charles Griffin, who is directing the Transparency and Accountability Project here at Brookings in the Brookings Global Economy and Development Program.

I don't think I need to introduce Paul to any of you. He is world renown as a teacher, a thinker, and a writer on the political economic and social implications of poverty and conflict, and all of his very rigorous analysis is also informed by his many years as a practitioner. So, please join me in welcoming Paul.

PROF. COLLIER: Thank you very much. I assume the people standing at the back are standing there because they want to be able to get out quick when they get bored, but anybody who gets tired, there are seats in the front, all right?

I'm going to start straight in, because I've not got long and I've got a lot to say. I'm going to do a blend of bits, that the idea is in the bottom billion, bits of analysis that I've done subsequently to *The Bottom Billion*, okay? And I want to emphasize this is not a substitute for actually reading the book, all right? Thirty thousand people have already bought it despite Oxford University Press's best efforts not to make it available, and that's in just three months -- so the amazing thing is how there's been a lot of buy-in across the political spectrum, and I'll come to that in my closing remarks.

The Bottom Billion is partly a statement of what the real problem is. It's partly a diagnosis; it's partly a prescription. And let me start with a statement of what is the problem, and this is important because I depart quite radically from how the development problem has been defined, especially over the last 10 years. You'll recall that over the last 10 years the World Bank led the charge on saying, "Our mission is to reduce global poverty," and having stated that then there was a flurry of academic activity to count global poverty, and so there was a count. Each year it goes up, it goes down -- that sort of thing.

I think that's been a disastrous distraction in two senses. One is it's a terrible guide for actually navigating on strategic policy. Poverty is an outcome, but you just can't devise strategies by focusing on the quantity of the poor -- where are they and that sort of thing.

In the process of obsessing about these global numbers on poverty, we've missed what I regard as the big horror story of development, and that is that over the last 35 years a bunch of countries, now the bottom of the global economy, have diverged radically from the rest of mankind.

In my analysis there are about 60 countries that are now at the bottom of the world economy that have been basically stagnant for the last 35 years. The total population of 60 countries is about a billion people. That is the bottom billion. The bottom billion is a bunch of countries.

Because they've been, to a first approximation, stagnant -- poverty in those countries gone up a bit, gone down a bit -- basically not much has happened to the poverty story. The key story is that they're diverging at an accelerating rate from the rest of developing countries -- the other four billion people who live in developing countries. Since the 1980s, they've been diverging from the other four billion at five percent a year, which is a totally alarming rate, so that by the millennium the gap between the bottom billion and the rest -- the average person in the bottom billion, the average person in the next four billion -- was 5 to 1. And that's before we introduced the billion at the top.

And so the focus of development that I've been working with for 40 years is a billion rich people and five billion people in developing countries. It's just the wrong way to cut it. It's a billion at the bottom who are stagnating and, hence, diverging; four billion in the middle who are converging on the billion at the top at historically unprecedented rates; and the billion already at the top. That's the story, and the key development challenge is not poverty reduction; it's much more daunting than that. It's that the bottom billion have got to stop diverging and start converging. They've got to catch up, because at the same time as the world has been economically disintegrating into these two groups, it's been socially integrating. The stagnation and divergence of the bottom billion is not just a human tragedy for the billion at the bottom; it's going to be a social nightmare. So, that's the problem statement. The challenge is to reverse divergence of the billion at the bottom.

And then we come to diagnosis. Why is the billion at the bottom stagnating at a time of unprecedented global growth? Why have four billion people succeeded -- obviously, not all those four billion, but the countries with those four billion are converging. That's the conundrum of the diagnosis. And in the diagnosis I try and avoid the grandiose, the one-size-fits-all explanation poverty is the trap. I wonder who said that. But I also avoid the sort of anthropological type of arguments of everywhere is unique, everywhere is different. That's useless, okay? And so I come up with a categorization that is sort of what I regard as the minimal level of desegregation to get an informed analysis and, hence, to get informed prescriptions about what we need to do. And that minimum desegregation is four traps, and I'm going to run through those traps very quickly.

You can be in more than one trap at the same time and several of the bottom billion are. One trap is the conflict trap. It's fairly obviously a killer for economic development. It's development in reverse. It's a trap, because once you've been in conflict, you're much more likely to get back into it. You can escape, but a lot don't. And over 35 years actually a majority of the bottom billion have been badly affected by conflict.

Since that's the area I've written most about over the last decade or so, I'm going to say least about it.

The next category is the resource rich. I'm going to come back to that in a moment, because that is, to my mind, the key group to think about currently. So, the resource rich means countries with a lot of natural resources where the defining feature of the economy is natural resource growth. And there the problem is not an economic problem. It's not Dutch disease. It's a political economy problem. The politics fouls up. And we'll come to that.

The third group is the landlocked resource scarce, so if you're resource rich it doesn't matter whether you are landlocked or coastal, but if you're resource scarce it really does. If you're resource scarce and landlocked, you've had it. There is no game plan to take you to middle income. It's very much an African problem. Outside Africa, only one percent of the world's population lives in countries that are landlocked and resource scarce. In Africa, it's about 30 percent. Another way of stating that figure is that outside Africa, places which are landlocked and resource scarce haven't become countries, very sensibly. They're parts of other countries with better opportunities.

The best hope for the landlocked resource scarce is to piggyback on the growth of their neighbors. Outside Africa that is actually the strategy of the landlocked. If you look globally, growth spills over from neighbors, and the average spillover is about naught point four. That is, if neighbors grow up one percent about, you grow an extra naught point four percent. The landlocked outside Africa with spillovers naught point seven, so they're really harnessing growth elsewhere, and in Africa the spillover is naught point two. So, they're not harnessing their neighbor's growth. It hasn't mattered. There's been no growth to spill over.

So, it's a sequence. First fix the opportunities of the more fortunate countries, and then integrate the economies. That's an example of why navigating by poverty is so misleading, because of course the epicenter of the poverty problem is the landlocked resource scarce. But that's not the place to start in terms of policy prescription. The policies need to be focused on the more fortunate neighbors in order to generate some growth that can then spill over.

The final category is of very bad governance in countries that are very small with little education. If we go back 30, 40 years, most developing countries had really very bad economic policies in governance. I mean, you only have to look at China. You couldn't get worse. And so the poor countries of Africa, for example -- they were no worse in terms of policies and governance than a lot of other places. However, the pace of economic reform turns out to be strongly related to the size of population. Why? Because knowledge is a scale economy activity. Obviously, if you're very big, like India, you can have a really sophisticated set of media. You can have an economic press -- you know, press that specialized on financial and economic issues. Central African Republic -- you've practically no newspapers at all, let alone any specialist press. So, these places were too small to diagnose what was wrong and implement -- and to devise a strategy and implement it.

And reform can only come from within. The attempt to impose reform externally is a hopeless failure. We can do a lot to make reform easier and more likely to succeed, but we cannot impose reform. Fortunately, across the bottom billion, there are heroes and heroines. One is now a resident at the Brookings Institution. [Editor's Note: Ngozi Okonjo-Iweala]

Usually they fail. They fail because their opponents have the guns and the money, and the opponents are less squeamish about cheating and lying. It's incumbent on us to try and do what we can to strengthen the hand of the reformers. And that's what I try and do when I come to prescription.

Just before I come to prescription, let me say why it's important we do something. There is no, as it were, automatic process that's going to rescue these countries. In particular, globalization, although it's worked wonders for the four billion, is not going to work wonders for the bottom billion, and so part of my book contains an analysis of why globalization goes wrong for the bottom billion. Basically, when they integrate into capital markets they integrate in the wrong way. It's capital flight not capital inflows. The labor markets -- they're hemorrhaging their skilled labor, and with trade they're stuck in a narrow range of primary commodities, which reinforces the political economy problems of dependence on primary commodities. And so the big forces of globalization are not working in their favor.

The heart of what I've got to say is then prescription, and just as the argument so far has been you've got to narrow the focus from five billion people in the developing world to one billion, so the policy prescription is you've got to broaden the range of instruments from the obsessive focus on aid, aid, aid to a much wider array of instruments that are actually much more potent than aid. And we've had, in my view, this rather theatrical and dysfunctional polarized discussion of: Is aid the miracle solution? Is it the problem? In my view, it's neither. It's mildly useful. It's unlikely of itself to be decisive. And so I don't want to knock aid, but we've got to look beyond aid to the instruments that we actually, in other situations, have used very strongly.

If you actually think how Europe was rebuilt by America after the Second World War, yes, there was a Marshall Aid program, but there was much, much more.

What are the other policy instruments that we need to use? One is instruments of economic governance, and that is standards, codes, and laws; another is instruments for military security, which is basically peacekeeping and over-the-horizon guarantees; and the third one is trade policy. Those are the big three areas that we need to use. So, narrow the focus, broaden the instruments.

I want to, in my remaining 10 or 15 minutes, argue why these three instruments could be really potent in cracking the traps in which the bottom billion is stuck, and let me start with what I regard as the big opportunity that is likely to go sour, and how standards and codes and laws can make a really decisive difference.

The big opportunity that is likely to go sour is the present commodity booms in the resource-rich countries. It's both the price effect and the quantity effect. Obviously prices have increased enormously. That has induced a range of discoveries. Where are those discoveries taking place? The last places on earth where people have looked -- where are the last places on earth? It's not where it's cold. It's where it's politically been no-go. That is, the countries of the bottom billion.

A couple of weeks ago I was in Uganda. They just discovered oil there. Very helpful. An ideal place to discover oil. Underneath the lake, in between Northern Uganda and the Democratic Republic of Congo. There are already two dead. The boundary between that lake isn't defined yet. I held a press conference in Uganda. The first question was “are we heading for conflict?” So, even before you get to the question can we use this money well, there is the downside risk of more conflict.

Now, what's the prognosis on the present commodity booms? I mean, for the commodity exporting countries, they dwarf aid, right? They're a massive opportunity -- the biggest opportunity these countries have ever had. So, I looked statistically to see how is it going to play out. And I used a modern technique called co-integration analysis, which allows you to look at both the short-term effects and the long-term effects during a time series analysis. It's the first time that this technique has been applied to the question, but I think it's the right technique. Previous work has been basically cross section and cross section doesn't tell a convincing story, because obviously these are processes through time.

What I find -- and I'll pose the question -- what I find is in the short run everything is hunky-dory. The commodity booms produce wonderful growth. So, I've simulated the commodity booms of Africa's commodity exporters. If we start GDP -- constant price GDP at 100, by 2010 it's gone up to 110 relative to counterfactual. So, output is up 10 percent, never mind income. Income's up much more, because you've got terms of trade benefits. So, short run, hunky-dory, and then come back 15 years later and if the global path over the last 40 years plays out, it's not hunky-dory, it's humpty-fumpty.

GDP constant price relative to counterfactual is not 100; it's not 110; it's 75. Now, that's not Africa specific; that is, if global commodity exporting history of the last 40 years repeats itself.

Will it? Well, there are two reasons why countries fouled up. One is mistakes. Mistakes are a little bit easier to put right, because countries can learn. The other reason is that incentives might have been misaligned so that what happened last time was not a mistake; it was a result of misaligned incentives. People deliberately did what they did knowing what would happen. And I think the misaligned incentives argument is actually a better explanation.

But let's drill down a little bit more closely. We find that there is no resource curse for the agriculture commodities. The resource curse is confined to the nonagricultural. Now, why is that? Well, who gets these commodity booms? With agricultural commodities, the custodians of the money are generally farmers. With the nonagricultural commodities, the custodians are basically governments, because they're a big rent in nonagricultural commodities, and so quite properly they're taxed by governments, right? So, it's confined to the government-handled windfalls, and it turns out it's contingent upon initial levels of governance. If you go up the governance level above a certain threshold, there's no resource curse. In fact, you grow in the short term; you grow even more in the long term. That's Norway, all right? It's also a whole bunch of countries. It's below a threshold that things go wrong. Where's the threshold? About the level of governance in Portugal in the mid-1980s, to take a neutral example. That's not particularly high, but unfortunately it's higher than the governance levels currently in the bottom billion commodity exporters, with one or two rare exceptions, and so the prognosis is not that great. It says that institutions are probably not changed enough for the future to be that different.

Now, one respect in which institutions have changed a lot is democratization. So, I looked to see does democratization itself produce better economic governance of these commodity revenues? The global analysis by economists of the relationship between democracy and economic performance is that there isn't a relationship. That's because they're not controlled for resource riches. Once you control resource riches, you've got a clear pattern. The countries with low resource rents or none, democracy improves economic performance; the countries with lots of resource rents, democracy actually makes economic performance even worse. So, instead of democracy bringing accountability into resource management, the resource rents undermine drastically the normal functioning of democracy.

What can we do about that, and where do standards and codes fit in? Let's drill down into that governance effect and see what are the key decisions you have to take in moving from a commodity revenue boom into sustained growth? There are five decisions and I will run through them very quickly and show how standards and codes and laws can make a big difference. It's, to my mind, astonishing that that they're not there already.

Step one is how does the country sell the resource extraction rights? You know how resource extraction rights have been sold in the past? The company flies in. It does a deal with the minister. It's a great deal for the minister; it's a great deal for the company; and the country gets sold down the river.

DRC last year exported something upwards of $200 million of resource rights of natural resources. The revenue accruing to the DRC Treasury from royalties was $86,000. That's the scale of the problem we're facing. What's needed is a simple standard and code which says how should these rights be sold. Not only is there an agency problem -- ministers selling their country down the Sewanee -- there's a huge base of metric information problem. Governments very often don't know up from down, and they're facing companies that have the money to buy the finest expertise in the world, and so as soon as they get into negotiation, they've lost. You must avoid negotiation.

There's a simple institutional technology that should be part of global standards, and that is auctions. Mineral rights should be sold through auction. The genius of auctions is that you don't need to know anything. The competition reveals the value, all right? Now, auctions can be gamed, and so auctions need to be verified internationally that they meet a set of standards. At the moment, we haven't got the standards, we haven't got the verification. It's dirt cheap to provide these things. African Development Bank is interested in providing a verification service within Africa. It would make a big difference.

Second step is not how you sell the rights; it's what the tax regime is. Let's look at Zambia. Two billion dollars worth of copper exports last year. Revenue to the government, $36 million. If they'd had the tax regime of Chile, it would have been closer to $800 million revenue, all right? Just massively, massively out of line with best practice. The big mistake in Zambia and in a lot of the bottom billion countries is the tax regime is not fiercely aligned to commodity prices. In Zambia it wasn't aligned to commodity prices at all. It was drawn up when copper prices were low, and nobody thought what would happen if they were high. When I say "nobody thought," that's not strictly true. The company that bought the rights did think. That's why it insisted on a deal that says "and the tax rules won't be changed for evermore." If there'd been a simple international standard which said tax regimes should look like that, steeply ramped on commodity prices, the Zambia fiasco would have been avoided.

The third step -- you've sold the rights, you've got your tax regime -- now you've got to save the money, and of course Ngozi pioneered that in

Nigeria. She did a fiscal responsibility bill, which is, unfortunately, still a bill. It was never passed. It was never signed. But she had to invent that from scratch, on the hoof, during a commodity boom. And it's her law. Let's hope it will survive.

But wouldn't it have been more sensible if there'd just been an international standard which said this is the sort of range and sort of considerations that should determine how much she saved? And then reformers could have rallied around these international standards instead of falling out with each other and said this is what we're going to do. An international standard also has the big advantage of sorting the sheep from the goats. The sheep are the good guys. The goats at the moment have a very easy time, because neither the sheep nor the goats are adhering to any international standards. There aren't any. But if there were standards, the sheep would sign up, and that would reveal the goats. And then there'd be some pressure on the goats from within their own societies.

The fourth and fifth areas where we need standards are how the savings are used for domestic public investment. There has been some crazy advice. I mean, for awhile the [International Monetary] Fund was advising low-income countries to do a sort of Norway, saving a future generation's fund in New York. That's Norway's aid program to America. And it's almost sensible for Norway, because Norway is so capital rich. It's the most capital-rich-per-worker country on earth. They don't need more capital formation. But the low-income countries do. They've got to gradually transform these savings into capital formation within their countries.

There are two critical hurdles before that works. One is the capital formation has to be done honestly. Secondly, it has to be done efficiently. Honesty is about rules of procurement in public investment. Obi Ezekwesili in Nigeria pioneered that. She set up a competitive tendering rule. When she did that, the unit cost of public investment fell 40 percent overnight.

Neither Ngozi nor Obi managed to get in place any system for checking efficiency of investment. I was in Nigeria last week. There's just nothing there. And so you can be honest, but you can make some awfully big mistakes.

The Ajaokuta steel mills would have been a disaster however honestly they were commissioned. And in fact, the efficiency checks are logically prior to the procurement. The efficiency checks are about whether you should go ahead. Procurement is once you've decided to go ahead, all right? What's needed for efficiency? You need little units in each ministry of finance that can screen projects for their rate of return. That's technically demanding, and so again there's some need for some international benchmarking of how to do it.

There's another reason why you need an international verification process. The technocrats will be subject to a lot of political pressures to bend their analysis to suit the minister. That's why there has to be international verification that assessments are being done to proper standards. The verification protects the technocrats from political pressure.

So, here are five areas which, between them, will make the difference between sustained growth of the best opportunity that these countries ever had and humpty dumpty, and none of them are currently in place. They've been very easy to do, and both think tanks and the international agencies should be working as hard as possible to get them into place.

So, that's standards and codes. I've obviously gone into that in much more detail than I can with the other issues.

I've done that because this is the big one at the moment. It's the single most important issue facing the bottom billion and whether they harness these unprecedented opportunities for growth. Remember, the short-term effects are hunky-dory regardless. You can't go wrong in the short term with a commodity boom, and so Africa can't help but do better at the moment. Let's hope it's turned the corner, but that itself is not evidence that they have.

Let me turn to -- I should say that in what I've said I've added information that isn't in *The Bottom Billion*, because my research continues. *The Bottom Billion* just drew a line -- a time line where the research got to, all right?

The same is true with the security story. The security story was the most controversial part. I was advocating that there was a role for military intervention in developing countries, and for some reason that seemed to be contraversial. Obviously, Iraq has massively muddied the waters for sensible thinking about security issues. I do not have in mind more Iraqs, all right? What I do have in mind is more Sierra Leone where a small military force made the difference between war and peace and has kept the peace very effectively. Now, that's one country. That's all I had at the time I wrote *The Bottom Billion*. Since then, I've received data from the U.N. on peacekeeping operations, and so I've looked at 66 post-conflict interventions to see whether peacekeeping troops actually bring down risks. Sixty-six is all that there are, as it were, in terms of post-conflict situations that are analyzable.

The average risk of going back into conflict for those 66, was that 40 percent within a decade went back into conflict. That's why security in these post-conflict situations is such a first-order issue. To date, the international community has predominantly relied upon political solutions, and that hasn't worked. Unfortunately, democracy in post-conflict societies actually increases quite substantially the risks of reversion to violence, and post-conflict elections shift to the risk. The year before the election, things are nice and safe; the year after the election, they're much more dangerous. The net effect is to increase risk.

The international community has, to date, been using post-conflict elections as the milestone for troop withdrawals. If you think about what I've just said, you will realize that that is a disastrous misreading. And I kid you not, DRC -- what was the strategy in DRC? Elections October the 29th, date for withdrawal of peacekeeping forces October the 30th, 2006. What did we have to do? We had to fly them in, not fly them out.

I haven't got time to tell you why that is the effect, but just think about it. It's quite easy.

Peacekeeping troops significantly and substantially bring risks down. They're a very cost-effective way of bringing risks down. So is economic development post-conflict. But economic development is a slow process, and so peacekeeping and economic development are complements. The economic development that comes from big aid and policy reform is the exit strategy, the credible exit strategy, for the peacekeeping forces. Meanwhile, the peacekeeping forces give the confidence for investment in these environments. That's post-conflict.

What Britain has done in Sierra Leone is now developed another instrument, which is the over-the-horizon guarantee. There are only 80 British troops in Sierra Leone, but if there's trouble there's a credible commitment that they'll be flown in overnight. So, that's one country. It's worked. But can we statistically look at more?

Yes, and there's a natural experiment back in history, which is France. For 30 years France provided an informal sort of security guarantee for Francophone Africa, which was credible because there were a lot of military bases for France around West Africa. So, I looked to see did it work?

I've got a model of the risk of going into violent conflict, and the risk of Francophone Africa in that 30 years was one-third of what you'd otherwise have expected. So, the commitment really did work. It brought risks down. It was a very cost-effective way of reducing the incidence of civil war. So, there is a role for military invention as peacekeepers. There's a role for the over-the-horizon guarantees. Not in the way the French ended up doing it. That's why they stopped once they got perilously close to propping up a regime in the course of genocide in Rwanda. We can do better than that.

Let me turn finally to trade. How can we do trade policy better to help the bottom billion? Trade policy is absolutely standard in the policy tool kit, and for the bottom billion we've really made a mess of it. The Doha round, even if it had succeeded, would have done nothing for Africa.

What does Africa need? Just as standards and codes will help the resource rich, so trade policy properly used can help the coastal resource scarce -- countries like Kenya. Kenya is in a pretty difficult position. It's got an exploding population, an eroding land base. It has to get economic diversification in a way that it's not seen in the last 40 years. In fact, it has to try and imitate Asia and break into labor-intensive markets and manufacturers. If Kenya could imitate Bangladesh -- Bangladesh has about three million jobs in labor-intensive manufactured exports. Kenya's governance is no worse than Bangladesh's. Actually, it's a lot better, all right? So, why is Kenya stuck? And the answer is that Asia broke in at a time when Kenya was very badly governed. And now that Asia is established on the block, its costs of production of labor-intensive manufacturers are much lower, and that's because as you build clusters of exporting firms, costs fall.

If you don't believe me, I'll give you one statistic, which is the one statistic you'll remember next year from this talk, and it's about buttons. Sixty percent of the world's buttons are made in Qiaotou, China. Button-making firms like to cluster together. Why? Not because it's friendly; it's because it drives costs down, all right? That's the process which has happened in Asia. Clusters of similar firms doing similar things in exporting. And ask yourself: Can Kenya export buttons? No. It hasn't gotten a conglomeration and somewhere else has. Now, fortunately, there are other niches where the conglomeration economies are not quite as powerful as with buttons. Goodness knows why button conglomeration economies are so powerful. It's a different story, right?

Garments/textiles are an area where Kenya should be able to break in, if it's close to the threshold. It's not quite there. What it needs is our trade polity to help it over the threshold temporarily to give Kenya an advantage so that the clusters form. Once the clusters are formed, you can actually take the trade preferences away, because the clusters have driven the costs down. It's a chicken-and-an-egg problem. That's why coastal resource-scarce Africa is not broken into labor intensive manufacturers.

What trade policy is needed? Not Kenyan protection against the rest of the world. The Kenyan market is small, rather peculiar, and useless. The markets that matter are here and Europe and Japan. And so what Africa needs is a phase of temporary protection from Asia in our markets.

Now, in case that sounds like political cuckoo land, let me tell you, you're already doing it. It's called the Africa Growth and Opportunity Act. Europe's doing it as well. It's called Everything but Arms. The devil with trade policy is always in the detail. As a European, of course, I'm told repeatedly that Europe cares about Africa, and America, as we know, has no heart. So, I really enjoy amusing myself in telling Europe that as it happens, America's scheme, AGOA, works, and Everything but Arms might as well be called Everything but Manufacturers, because it's useless.

Only one part of AGOA has worked, and that's the bit which has got not just the usual AGOA rules but what's called a special waiver, which allows generous rules of origin. Only a tiny sliver of AGOA has this special waiver. That's the only bit which has worked. But, boy, has it worked. There have been many things wrong with AGOA. It was renewed every three years, which meant the average time horizon was only 18 months until last December when you renewed it for five years. Great, all right? Despite all those flaws, within this narrow niche where the waiver was, African exports to America increased sevenfold in five years. Over the same period, the same niche exports to Europe fell. What are the two design features that make Everything but Arms, the European scheme, useless? The countries included and the rules of origin.

I asked the director general of trade policy at the European Commission why are you focusing only on the least developed countries? And he said because we want to focus exclusively on the most needy. That's a very sensible thing until you switch your brain on. It means if you want to set up a shirt factory and export to Europe from Somalia, you can -- but not if you put your factory in Kenya. And then I asked the director general of trade policy: So why do you have these very civic rules of origin? He said to me oh, because we want to force deep integrated industrialization in Somalia. This is just gesture politics at its worst, isn't it? It's political theater.

I went one step up from the director general of trade policy to the Trade Commission led by Peter Mendelson and explained it to him. He said why don't we just align with AGOA? His officials are in the room. They look like sick parents.

You have the opportunity here to say to Europe why aren't you doing what we're doing? Why don't we do the same thing? What we need is not a European scheme, a Japanese scheme, an American scheme. We need a common scheme. AGOA needs to go global.

Now, there's a debate in Congress at the moment for making AGOA global, but it's the wrong sense of global. What's being proposed in Congress is that AGOA should apply to all developing countries. No advantage for Africa. And people say oh, poor Bangladesh. Why give favor to Africa and not Bangladesh? It's not a matter of fairness; it's a matter of what is necessary. Bangladesh has already got three million jobs in garments and textiles. It's already over the threshold. It's got the clusters. Africa does, paradoxically, need protection from Bangladesh for awhile until it gets the clusters. That's the answer to Bangladesh. And it's why in taking AGOA global, you shouldn't go that way as applying it to all countries; you should make all the OECD adopt AGOA.

There are two big opportunities to do that. One is the European-Africa summit in Lisbon in December. Let's hope it's not another piece of political theater about aid levels. That's the danger, that aid will just divert attention from something that really matters. If Africa demands the right thing, trade preferences, and America says: Why on earth aren't you doing it? -- look, it works, Europe will cave in. The other opportunity for a PAN OECD policy is the G-8 in Japan. I tried really hard to get this into the German G-8 last summer, and the big impediment was Doha. Everybody said oh, don't do anything that might upset Doha, as if this would. Just let's pronounce the last requiem on Doha and move on. Let's do something that would really make a big difference -- not to all of the bottom billion but to the coastal resource scarce.

So, to conclude, I've tried to show how these three instruments -- governance standards and codes, security interventions, and trade policy -- all could make a big difference to the bottom billion. They're policy instruments easily within our power. When America rebuilt Europe after the Second World War, it used all these instruments. There wasn't just the Marshall Plan. There was a total reversal in American trade policy, the establishment of the GATT, the integration of Europe into the American economy. There was a total reversal of American security policy from isolationism to a 100,000 troops in Europe for 40 years. There was a total reversal of the isolationist governance strategy, the encouragement of the building of the OECD for mutual governance rules, and the encouragement of the European community. That's what happened when America got serious, and it got serious because it knew it had to get serious in rebuilding Europe.

The real tragedy of the bottom billion is that although it's a serious problem, nobody's pointing rockets at us, and so the politics we get is the politics of gestures.

I ask you to read *The Bottom Billion* so that you're much better prepared than just listening to me, and if you agree with those ideas once you've read it, please become ambassadors for them. Thank you.

DR. BRAINARD: Thank you, Paul. I think what I'd like to do now is ask our panelists to comment on particular parts of Paul's analysis, and then we'll broaden out to the overall audience.

I wanted to start, Gobind, with you. You've spent a lot of time in Africa. You've worked with a lot of African governments, and if you could comment a little bit on to what extent this analysis is shared in some of the countries or some of the surrounding countries of Africa and owned by some of the African governments, and what are the impediments to making progress either on a regional or subregional basis as a sort of African initiative?

DR. NANKANI: Thank you very much, Lael, and it's really a pleasure to be here, Paul. I think I could summarize my comments very briefly and not have too much more to add because I liked the book so much. I think it's a major contribution to the debate on Africa Plus. I think it's extremely well written. It's bold in its recommendations, shies away from political correctness. It's imaginative. It's very well empirically grounded, and it gives grounds for cautious optimism in a world in which so many of the images we get of Africa Plus are so depressing.

I think it was very important for Paul to oversimplify a bit the messages in order to get them across. I think his audience is a very important audience. So, what I want to do is to ask the following question: In what ways, from a policy point of view, is the analysis here oversimplified, and how might you actually want to bring in a little bit more complexity?

And I think that really speaks to the questions you raised, Lael, about how shared is the analysis and what might impediments be in African countries to taking this forward?

Three points come to mind. First, I think the world view that Paul has, compelling as it is, is partial. Why do I say that? A lot of the analysis tells us that the serious development challenge of today is the bottom billion. Well, maybe it's 80 percent of the development challenge, but I'm not sure it's a 100 percent of it. I think the world is sometimes characterized by many, including Jim Wolfensohn, as a four-speed world, and Paul is missing one of the pieces. He has the rich world. He has the emerging middle-income countries. He has the bottom billion. But there's another group of countries in the in between -- the gap countries – as we sometimes refer to them. And they are just as stuck, and I think we should not forget them.

But beyond that, Paul's emphasis is on a message to the G-8. I think Brookings, among others, has pointed out that we really ought to think in terms of global governance of entities such as the G-20 and others. Countries like Brazil and India and China, South Africa, and so on, are very much a part of the international development community when it comes to dealing with issues like the bottom billion.

I also think that Paul's passing references -- and only passing references -- to the African Union are not enough. I think a lot of the challenge of what the bottom billion is all about falls at the feet of the African Union. And I think there ought to be, in further analysis, a challenge as to what role a revived, a stronger, and a growing African Union -- can play, particularly on the military intervention point, which I'll come to in a moment.

And in terms of the partial view, Paul, I know you drew a line somewhere, but I think the presence of China in Africa -- it's on such a large scale. Last year, Chinese aid to Africa is estimated at $19 billion for 2006. Excluding debt relief, all of the aid from the DAC countries was somewhere in the range of $25 to 30 billion. And this has happened in a few years -- five years. China has strategic implications for Africa, as well as for Africa's other partners.

Secondly, I think while there are lots and lots of good examples in the book, in many ways the bottom billion countries are a bit of a black box in the book in the sense that one doesn't get a sense of the internal dynamics of the bottom billion. I remember working with Kenya in the international arena and how much the voices of external partners were emphasized in the anticorruption debates within Kenya, how much pressure was being put by development partners on the Kenyan government. But if you actually visited Kenya, what you saw was that most of the pressure actually was coming from within -- from the NGOs, from the students, from the media, from the various civil society organizations.

And I just want to say -- you made the point that this is not an anthropological piece. True. But the fact is that that the success or failure of what you're recommending will be driven in the final analysis, and you do mention this but not enough, by what is happening internally in the bottom billion, and you need -- and we need, in a policy sense, to be much more aware of that ferment and encourage it.

I think another point I would make about the internal dynamics, clearly what you recommend about manufacturing is critical, but we should not forget that for many of the Africa Plus countries in the initial stages it is agriculture and natural resources that will give them the leg to begin to walk, and I say this not in a simplistic way, because if you look at the examples of Chile, of Vietnam, of Malaysia, and historically, of course, of Canada and New Zealand and Australia, these are all countries that used this as an important prop in the beginning, and I am surprised that there isn't enough of an emphasis, while I agree very much with you that the Kenyas of the Africa Plus countries will need to take advantage of manufacturing.

And one other point. I visited Zambia also recently, and Mozambique, and you go to those countries and you see, to misuse Paul's phrase a little bit, a million miracles taking place in many African countries. There are a lot of success stories, and they need to come out in a book like this or in the further extension of analysis like this. There's a lot that is happening, and the demonstration effect is important, and I think the optimism that is part of your book would be even greater if this was given more emphasis.

Finally, Paul, on the robustness, I think this is the most empirically grounded piece of work I've seen, and yet I feel perhaps there's a bit of casualness about it. Why do I say that? First, I was very surprised not to see much of a reference to what Aid for Trade is trying to do. The manufacturing references that you recommend, which I strongly support, will get nowhere without major efforts at investing an infrastructure for strength facilitation, and the like, in those countries.

I also think you made very passing reference and not enough attention to the issue of tariff escalation. The fact is that in agriculture and in natural resource processing, the tariff as commissioned issue is very serious, and unfortunately it's even worse in Asia. Tariff is commissioned, rates of duty -- import duties on imported processed commodities from Africa to China and India are far worse than in the E.U. and the U.S., and I think this is a big challenge. That's where the growth is. That's where most of the growth -- 50 percent of incremental growth in the world today is in Asia. We can't forget that.

I think on the standards and so on, it's tremendous. I think this is really the best part of the book. Very challenging. I just think we should bear in mind that it's going to be very difficult to make progress here. EITI is a major example that you give, and you just have to look at countries like Angola and Equatorial Guinea, who have taken the first of a hundred steps toward signing EITI and proclaim that they are now in EITI and not doing the rest of it, so I think the incentive and the pressures that actually play and impinge on these standards need a little more analysis, and I just think we shouldn't belittle that. It will be very difficult. It will be painstakingly slow. But we should do it. I agree with you.

On the military intervention point, I cannot say more than it doesn't make much sense to talk about the European Union command doing interventions in Africa. The African Union is trying to set up an African Union command. It's asked for financing for it. It's not getting much of that financing. That's where the bucks need to be. It may be slow, it may be painstaking, but it needs to start somewhere. The principle is right, but I think it has to be done through regional approaches, and of course strengthening the U.N. system to the extent that that can be done.

One last point. I know as I said, this is a very empirically strong piece of work. I just want to be reassured, Paul, that some of the weaknesses of cross-country regressions have satisfactorily been analyzed. I mean, when you talk about the cost of a conflict at $64 billion period, I fear there's a lot of analysis, particularly of cross-country regressions, which clearly demonstrate that simple specification biases, when tested, show that the coefficients are very fragile. So, if we talk about fragile economies with fragile coefficients, let's be a little more humble about the numbers.

Finally, in concluding, let me say, Paul, that Sachs raised the issue of the importance of aid at least until he talked about the pitfalls of aid. I think what you've done is you've taken the debate onto a much, much higher plane by talking about aid as a useful adjunct and broadening the number of instruments we should look at. The only point I would make is you've taken us very far, but this is not yet the final word on today's development challenge.

Thank you.

PROF. COLLIER: Thank you.

DR. BRAINARD: Thank you.

And, Paul, we'll give you a chance to come back on any and all of these points.

I wanted to pick up on the trade piece of the conversation. I was kind of twitching as Paul was talking, having gotten some scars trying to get those special waivers the first time around and knowing just how convoluted the politics of these things are here in the U.S. and in other rich countries, and I wanted Ann to comment a bit on the trade instrument that Paul talks about. What's the political possibility there, and, is Doha irrelevant? Can we get that one piece of AGOA broadened out to cover a lot more importing countries?

MS. TUTWILER: Well, first of all, thank you for having me here, and this was one of the best books I've read on this whole matrix of development issues in a long, long time. So, I thank you for that.

I wanted to talk about what I see as some of the great messages on trade that I thought were in the book and then talk about some of the issues where I wanted to raise a couple of questions.

I thought the points that were made about the importance of developing countries reforming their own policies are incredibly important. It's something that has completely gotten left out of the current Doha round debate and has been skipped over by a lot of the NGOs who have been campaigning on these issues, and I think it's just very important that it's been reemphasized.

I also appreciate your analysis that fair trade is not the answer to this problem, that fair trade -- coffee and all of these products, as important as they might be to producers who can grow them -- they're not a solution to global poverty, and I think that's a message that's important to get out into the general debate.

The other message on the trade front that I've heard before but again, I think it was important to hear you articulate it so well, is the relationship between corruption and protectionism, and I think this is another point where a lot of the NGOs who are campaigning on policy space and campaigning to exempt the least developed countries from any kind of trade reform miss the role that, as Paul puts it, petty and grand corruption plays in trade protectionism.

And then finally the argument which I think is particularly salient for the small countries is the role that exporting plays in increasing their own productivity, that they don't have the luxury of a large home market to allow that competition to happen, and I think those were all messages we don't hear enough of in the policy debate around trade.

On the Doha round, let me just say I have always been in the more optimistic camp than a lot of people, and I'm still holding out hope. We are hearing good messages from Geneva, talking to the trade negotiators, talking to some of the people at the WTO about what's been happening there in the last few weeks. Obviously still a long way to go, but I think what we're hearing is that people are getting down to business, that they're actually negotiating numbers and texts and words, which has not been the case up until now. That said, even if we do get a Doha agreement it's not likely to be as ambitious as many of us had hoped and wanted at the beginning of the round.

An analysis was recently released by a couple of agricultural experts that basically showed, with even an ambitious result on agriculture, there is no binding on U.S. or E.U. agricultural policies until 2013. In other words, there's nothing that the U.S. or the E.U. would have to change, even under the foreign policy that was just passed by the House, until 2013. However, if there's no Doha deal, there's no discipline at all, so I think you have to take your pick of whether 2013 or 2020, 2025 is what you're looking at.

On the point about the importance of the WTO as an institution for the developing countries, I agree with Paul that it was probably wrong to call Doha the development round, because the WTO is not a development institution. What we should have been talking about was integrating the least developed in the developing countries into the global economy, and unfortunately that whole role that I think the WTO should be playing has been left off the table since this negotiation began.

The WTO, I think, plays a very important role not just in providing a forum for negotiations, and in fact that may be its least important role at the moment. It provides, to my mind, a more important role as a setter of global rules, and I think that the least developed countries can benefit and do benefit, and we ought not to forget that that is an important role the WTO can play. And that's one reason why I think that the focus on getting some of these countries more engaged in the global economic governance of the WTO is important and not saying that they shouldn't be maybe a part of the WTO or that they should be treated in a way like the IDA countries where they're given unreciprocal market access as negotiators. I think that this is a place where the WTO -- where the developing countries need to be actively engaged in the governance of the institution and then in the conversations around that.

I think this notion of unreciprocated access -- one of my concerns about that strategy is that one of the benefits of the WTO has always been that it helps countries do what they need to do for themselves. It gives them an excuse or a reason to do something that they should be doing. And for the least developed countries for whom reforming policies is tough, having to do that as part of an international agreement can be helpful.

Let me talk now for just a minute about the prescriptions in the book, Paul talks a lot about what governments can do, what ordinary citizens can do, and even I think implicitly what NGOs can do, but there are two groups that weren't mentioned that I think we need to think about. There are a lot of corporations out there now who do want to do the right thing or better things for developing countries. A lot of the examples in the book are cases where the corporations were, let's just say, not on the up and up. But I do think there are a lot of companies now out there who want to be engaged in a positive way, and I think it would be interesting to hear your thoughts about how some of those companies can be more engaged.

The other group that you didn't talk about was the foundations, and I just want to end by talking about some of the things that the Hewlett Foundation is doing in these areas, in part because our work was so largely influenced by a lot of Paul's thinking. One is that we are supporting a conversation around what should the U.S. role, vis-à-vis the least developed countries, be in the 2008 elections to try to get those issues out on the table in an election that we think will be largely revolving around what is the U.S. role in the world. We are focusing very heavily, as Charlie will talk about I think, on what can be done about improving transparency and accountability in the resource-rich countries and the aid-dependent countries, and a lot of what we're doing is very directly related to the kinds of prescriptions that Paul has just talked about. So, I think that we owe you a debt of gratitude.

On the agricultural side, which is my responsibility, we are promoting very heavily the notion of regional integration and regional trade facilitation in Africa. We are in the process of developing an initiative on regional infrastructure to try to promote trade and to take advantage of this commodity boom but to do it in a way that benefits the broader communities around the infrastructure investments that are taking place because of the commodity boom.

We do have a proposal, which we will be talking about afterwards, to basically improve AGOA and, yes, to extend it to some of the other least developed countries but improving the rules of origin, making the program permanent, and providing an extra Aid for Trade for Africa as part of that to help them actually take advantage of the preferences.

And, finally, we are still heavily focused on trying to reform the U.S. and E.U. agricultural policies, because we think it is such an important background and trendsetter for how the developing countries approach the world economy.

DR. BRAINARD: To Charlie, I was hoping -- but you needn't -- that you would connect up the really interesting work you're doing on trying to strengthen this -- Gobind really brought this up -- how you bring those internal dynamics to bear -- what are the internal intermediary organizations that can make those external standards really meaningful in the internal political context, and what is required there in terms of either transparency or mechanisms to help make those standards have teeth.

DR. GRIFFIN: Thanks, Lael.

First of all, I'll try to avoid taking too much time. I know it's already 10:30 at night for Paul. He just arrived yesterday. And the rest of you would rather hear him than me, so I'll try to be as fast as I can.

First of all, I'd like to join with my small voice the chorus and praise for the book. It's fantastic. I hope you take it as a compliment from me, Paul, that it's almost the freakonomics of development economics. Taking really difficult, big problems, taking them apart in a way you can analyze them and then bringing the best numbers you can to bear to figure out what to do next. It's not perfect. It doesn't solve every problem. The $64 billion question that Gobind brought up is, you know, those things are there, but it's really fantastic. Thanks so much for writing it. It changed -- it helped me, and I think I'll do a little ad for you here. Thirty-five years ago when I was an undergraduate in college trying to avoid going to the Vietnam war, I would never have expected today we'd have no cold war, we'd have a completely different landscape, that we would actually have your four billion in between and two and a half billion of those in China and India, actually having incredibly different possibilities than we ever dreamed 35 or 40 years ago. Who would have known we'd be here for this. And so, your intellectual journey is also my journey through this life, and I really appreciate your shedding light on how things have changed and what is the intellectual construct going forward. It may not be all right, it may have some problems, but it's a tour de force, and it's a paradigm-shifting book. So, much appreciate it. And, I might add, a jocular book. How can you get to the point of a sentence like this "that Mao Tse-Tung did his job for economic reform in China by dropping dead." You have to enjoy it. I'm not giving the book away, but there are hundreds more of those in the book. So, it's not the dismal science; it's fun to read and it changes your way of thinking.

So, that said, I'll just say two additional things. On transparency and accountability, it's throughout the book. Part of what we're doing here at Brookings is also heavily influenced by Paul's thinking. I was very happy to see it fleshed out in many different ways in the book, and we agree it's a core element of it. We are trying to do our part to figure out strategies for doing it effectively and how to use civil society organizations effectively to encourage governments to actually become more accountable for what they do.

But there are two other things that I'd like to mention about the book itself, and the first is the last part it, and one of the major contributions of the book, to me, is exactly what Gobind said, which is to introduce -- well, there are four -- there are four traps, and we're all economists here, right? So, you need four instruments to do something about it. So, the great -- one of the great benefits of Paul's thinking is to introduce these additional instruments, but the problem there, for someone like me who reads the book, is convinced by it, and wants then to act, is it was so much easier when there was only one instrument. We have the the institutions for more aid, and we just have to do what we know how to do, but these additional instruments create the complications you talked about at the end. We now have a 4 x 4 matrix to deal with, and it's not quite as simple as the Marshall Plan, because there, there was one actor -- really visionary people involved, of course, but one actor that needed to change its behavior. Now we have multiple actors who have to actually work together to do the things that you are arguing for. Bill Clinton said the United States can walk and chew gum at the same time. But I think in the same analogy you're asking the G-8 to walk, chew gum, maybe jump rope and juggle at the same time. I've seen it in Cirque du Soleil, but I haven't seen the G-8 do it yet. So, I think it's a huge challenge for all of us, and I want to succeed, but I'd love to hear -- as your thoughts develop, maybe we have you come back in six months and give us more guidance about how to something about that.

Then one final thing. My life is in the social sector, so I just have a question. Not every page, but probably every other page of the book, skills of the population come out as so important, and you, in many ways, justify technical assistance as a way to make up for skills. I saw it myself in Afghanistan. The ministries that had access to outside skills could do heroic things. They could do things that were not possible even the year before. But the ministries that had skills from the outside, but also complementary skills from the inside could do much more and it was much more sustainable over time. So, I just have a question. The bottom billion, in my mind, also suffers from a trap of lack of education, and I just wonder why that one got thrown out as you were trying to figure out what was the doable number, and it also strikes me that education is something that you can do without a state, because the parents have a very strong interest in getting it done. So, in the bottom billion, with all the other problems that are there, there should be ways for donors to actually help that investment take place, even if the government's not functioning so well. And I won't say the words "human capital," which Paul says, and I agree, is one of the worst phrases ever concocted, but at any rate, it is an investment very much of the nature of roads and ports, and for small, landlocked, resource-poor countries, in addition, basically their main resource is their people, so I was just wondering how that fell off the map.

But otherwise, a tour de force. Thank you very much.

DR. BRAINARD: Let me gather a few more questions from the audience and then give you one long chance to give us a synthesis.

And just to mention, I believe there's a reception following this, so you'll get a greater chance for interaction at that juncture as well.

So, any questions from the audience, please just raise your hand and identify yourself and your institution.

MR. BERGER: Fred Berger with Louis Berger Group. Addressing your issue on standards and acceptance and marrying that with your point about it has to come from within the country, not from without, what are the carrots or whips that will encourage the, for lack of a more appropriate term, leadership of those countries to accept any kinds of standards? It seems to go against their enlightened self-interest.

DR. BRAINARD: Other questions? I think there's one right there.

MS. SPINDOLA: I'm Claudia Spindola. I come from Colombia. I am a consultant, and I have worked with the government in all these issues. I would like to know what do you think about protectionism and paternalistic programs in developing the billion bottom countries, especially vulnerable communities? Thank you.

DR. BRAINARD: Thanks.

MR. Goldizimer: Aaron Goldzimer from Environmental Defense. Actually my question is not about the bottom billion. I'm wondering how your first prescription, economic governance, applies to the more middle-income countries. I'm thinking about Peru. I'm thinking about countries that are really on the margins of some of these governance challenges in the current commodity boom.

DR. BRAINARD: And right here is one.

SPEAKER: My name is (inaudible) from Mauritius. I'd like to take up a point that has been raised, and I speak under the correction of Mr. Nankani. I think it was the first prime minister of India who said that the future of India is in the classroom. I believe that the future of Africa is in the classroom and therefore we need to put a lot of emphasis on education. I'd like to just draw attention to the case of Mauritius, which could be described as a sea-locked and resource-poor country whose economy had been made to become addicted to trade preferences. And Mauritius today has to face the challenge of moving from preference addiction to an economy that is fully integrated to the global economy. With the dismantlement of the Multifiber Agreement and trade deliberalization generally, the reform of the (inaudible) cultural policy in Europe, the economy is facing tremendous challenges. That's why I fully subscribe to the point that was made about Aid for Trade as a measure to allow these countries to transit from a preference-based economy to an economy that is fully integrated, and I fully also support the point that was made that AGOA extension to other LDCs should take into consideration the fact that most of the countries in Africa doesn't have a supply of capacities at this particular stage to compete with some of those very competitive economies from Southeast Asia.

DR. BRAINARD: And one over here and then one over here, and then I think we'll wrap it here so that Paul isn't here until 7.

MR. OWEN: I'm Henry Owen. I was a government official and then for a longer time an investment banker where I had more money to deal with. I'd like to ask you -- first of all, I want to signal what you said. It's absolutely right -- for the first time we have enormous amounts of money to provide through the public sector and the private sector to the developing world. The leading institution is clearly the World Bank. It's got the most money, the best staff, and the best record. The Bank is effective when the president of the World Bank personally pushes something. He can't do 20 things; he can do four or five. What are the four or five main things you think the new president should focus on?

DR. BRAINARD: Great. And final question.

MR. CHRISTENSEN: Sorry, I think I snuck in there. Skye Christensen from IFES.

Paul, you said that post-conflict elections often increase the risk of returning to conflict, and I just wanted to add, I think, that in Africa we see that subsequent elections are often correlated with, of course, lack of conflict, and so I wanted to maybe move the critique from not only the post-conflict election and maybe the lack of support the year after but also the lack of support that we see for the second and the third election and the fourth election, and once you get to the fourth election, you're golden, you're not coming back. Thanks.

DR. BRAINARD: All right. Last last question.

MR. GAJEWSKI: I'm Greg Gajewski, and I'm with the Louis Berger Group. When you mention your Africa Plus and the one percent outside of Africa, it seems there's an awful lot of countries and very strategic countries that are outside of Africa, and it would be interesting to hear more about the Plus part and maybe some solutions for those countries as well.

DR. BRAINARD: Well, don't feel compelled to be comprehensive. But we'll remind you what you forgot.

PROF. COLLIER: Well, thank you very much. Let me pick and choose.

Gobind started off saying, you know, what about the G-20, and I entirely agree with that. I addressed the G-20 in Washington in May and in South Africa earlier this month. I think the appropriate architecture for the 21st century, it's got to look very different from the objects of the 20th century. In a sense, the Bank and the Fund are a little bit kind of dinosaurs.

In June I was invited to address the annual board meeting of World Vision, which is a huge NGO. Huge. And two things struck me. One is they've got an email list just in America of 1.2 million members, so their capacity to move public opinion in the U.S. is enormous relative to the World Bank or the IMF. Just enormous.

And, secondly, I was really impressed by the governance structure. Their board had basically equal representation from every region in the world and was -- it was a bottom-up process of sort of election. So, it just struck me that there's a 21st century institution able to -- it's got a head, a brain, so it was, you know, trying to think strategically. It was trying to think how to use this huge communication power that it had. It's also got a much bigger staff than the World Bank, and it's disbursing billions of dollars. So, you know, maybe it's the -- it's partly the G-20. It's partly more radically the sort of new organizations of civil society that are going to shape the 21st century world.

And so a word on internal politics of the bottom billion countries. That's actually my main focus of research now. But I think it's not an entirely happy story. Yes, there are a lot of heroes trying to get change, but this is why I think the sort of democratization and accountability agenda is going to be a lot harder than we thought.

Ask yourself this question: If you were a government in one of these countries, what would be the most cost-effective strategy of winning an election given that there's competitive elections but no checks and balances restraining how you win, which is the normal situation, all right? Now, one strategy is try and be as good a government as you possibly can be. Deliver the public goods to people, okay? Well, in the OECD, that gives you about a 55-60 percent change of winning the next election if you're an incumbent government, all right? If you get it right. It's harder for these governments, because it's so hard to get it right. They've very little confidence that they can get it right, that the best they can hope for is something that, you know, 55-60 percent, and then you compare it with some of the other strategies that are available given that there are no restraints, all right? You can buy votes. You can intimidate voters. You can lie to them. Finally, you can miscount the votes, okay? And boy are those strategies more effective. It's no contest.

I just came back from Nigeria where by far the best gubernatorial candidate lost. He got 47 percent because he refused to use any dishonest methods. The people who really, really put a big effort into winning these elections are people who see a huge advantage from becoming congressmen or a governor, and that is immunity from prosecution. Who really benefits from immunity from prosecution? Those who are basically criminals.

I came across one wonderful story where it was a race between whether the police could get to the guy who'd just been elected deputy governor before he got sworn in.

So, the internal political processes are messy. And we have to face up to it. Ngozi -- it's a pity Ngozi's not here, but when I talked to Ngozi last she said basically we've got to fix the processes of political campaigning and campaign finance before we've got a secure basis for economic policy reform.

There was some -- oh, cost of conflict, just as an aside. Sixty-four billion is of course a very soft number. To be fair to me in my academic work, I've actually done -- I put confidence into the realm. I've pulled that out. Sixty-four billion is a radical underestimate of the likely cost of a civil war, because it misses so many things out. The growth consequences, which are the foundation for that number, are just that you lose 2.3 percent a year off the growth rate, which is a very conservative estimate, and then you use that number plus the duration of the conflicts and the time it takes to get back, and the most conservative number you can get is that sort of figure, all right? But I think it's a radical underestimate. The power of that number is that even though it's a radical underestimate, it's huge, you know?

Let me pick up on both China and businesses, and let me focus in on the resource extraction businesses. I've actually been invited by the 16 biggest resource extraction companies other than the oil companies of the world to go and talk to them next month precisely to -- they're actually interested in what can we do? -- you know, we actually want to be good citizens. And here's my radical suggestion. It was too radical to put into the tour. That the analogy is with the OECD Antibribery Law, which was passed, what, about four years ago. Remember that common OECD law, which prevented -- made it a criminal offense to bribe government officials in developing countries. Before that, not only was it legal, in some countries it was tax deductible.

Now, what I would like to see is the equivalent law, perhaps across the OECD, saying -- and this focusing on resource extraction -- saying if a company acquires resource extraction rights other than through a process of very fine auction, those rights will not be enforceable in OECD courts. Now, think how that would play out. I'll tell you when it's a proposed -- at a proposal stage, the resource extraction companies would say it's a terrible idea, don't, all right? And they justify that by saying it will hand all the resources in the world to China. And think whether it would. Suppose we pass that law across the OECD. Here's the China bit. At the moment, China is indeed up to some pretty doubtful deals in Africa. I just got the details of the Nigerian deal a couple of days ago. A package of a construction contract and resource extraction rights, a package so opaque that it was very hard to determine what sort of deal it was. The headlines looked good, and the detail revealed that it was a rip-off. China wouldn't be able to do that sort of thing.

Now, would it hand all the resources in the world to China on a plate? Well, I've just come, as I said, from Uganda. Just think of their decision problem if the OECD had passed these laws. If it said we're not going to an auction, it would then know that the only country that it could sell the rights to would be China, and it would know that China would know that. In other words, you are negotiating with somebody you've given a monopoly to. You know you're going to be ripped off, right? And so there'd be overwhelming pressure in countries to say of course, we're going to do an auction -- China, you can participate. And China would. And so the benefit of this approach is that you would actually get China in the tent of international verified auction processes, which would be a huge bonus. So, we clean up not just our own act. We'd clean up China's act.

So, that's an example of how businesses could I think -- and I think good businesses will recognize the power of that. And that is partly an answer of the carrots for standards that -- the -- it's not a carrot, it's a stick, but it's saying if you don't pick up on these standards, you're in deep trouble. Here I'm actually more inclined to go for the sticks, and that is to say the separation of the sheep from the goats. Once you've got these standards, the sheep sign up and that reveals the goats as goats. At the moment, the goats have a free ride. They could be goats without revealing it, because there's no way of sorting the sheep and the goats, all right?

Mauritius. I wanted to pick up on Mauritius. The phrase "preference junkie" or "preference addict" is I think quite misleading. Don't forget -- where did Mauritius start, all right? We have a Nobel Prize winner, James Meade, who went to Mauritius and said this place is doomed, it's going to be a dirt-poor sugar island for evermore. What the Multifiber agreement did -- the Multifiber agreement was a horrible evil trade scheme. But inadvertently, as the small change of Europe being able to protect itself and so on, it gave Mauritius a leg up into global markets. Without the MFA, Mauritius would never have broken in. Now, it was a temporary preference scheme, and so of course Mauritius faces the pain of withdrawal from that. It's not a dramatically severe pain, because in the intervening years, Mauritius has gone up the ladder of skilled development and of learning about markets. It's already having to withdraw, even without the ending of the MFA from the dirt cheap labor-intensive stuff. It had moved up. Its wage levels have gone up way higher than that. And so the Mauritius story is, I think, a great example of how a temporary preference scheme can pump prime a permanent development, and Mauritius is no longer a dirt-poor sugar island and never will be.

The Africa Plus -- so, the Plus part of Africa. I think the Central Asian stems have a lot in common with the -- and especially the resource-rich and landlocked countries of Africa -- is that the same prescriptions apply, okay? The same prescriptions apply. I talk Africa, because I know Africa. But I think the analysis extends to the middle-income countries. Somebody asked me about middle-income countries. Some of the analyses excretes up into the middle income, but I wouldn't want to sell this as sort of globally applicable, all right? It's focused on a particular set of problems. As Gobind says, this is not the only development problem in the world, okay? I agreed with pretty well everything that Gobind said, but by God it's an unduly neglected problem.

The Bank, for example, needs to put its brightest and best on these difficult countries, and the argument that there aren't enough people in them to justify it just misses the point that they're stuck and the glamour postings of China and so on are not stuck.

Let me end with two things. The WTO rules as the defense of the weak. Yes, to an extent, all right? To an extent. Let's take intellectual property rights rules. They are not defense of the weak against the strong; they are the defense of the strong against the weak. They're really quite inappropriately posed. Let's think about it analytically. Intellectual property is naturally a public good. Rights to make it into a private good are social artifacts. They're necessary to encourage innovation. The country in the world that most benefits, most wants innovation is the richest country -- here. The countries in the world that have the biggest need for just let's have it as a global public good knowledge are the poorest. What the WTO did was pick up the intellectual property rights of the richest country and try to apply it globally, and that was utterly, utterly wrong. So, it wasn't the defense of the weak. Sometimes it can be. But it certainly wasn't then.

And, finally, education. The yes spot. The returns to education tend to happen when the returns to it are high, and then people kind of vote with their brains, you know? So, to some extent it's a matter of getting the conditions which raise the rate of return to education, which is basically about putting in place strategies which will credibly deliver growth, and so education I think is not necessarily the driver. In some -- I don't want to overstate that, but I think in a lot of contexts, education is the response to getting your growth strategies right, all right? And so the -- and I should say I'm suspicious of all the sort of blanket panaceas that apply everywhere, like education or whatever. The development community has been full of this recycling of facts, and we need to get from facts to actual strategic analysis that is grounded in a well-based empirical diagnosis of what's been going wrong.

Thank you.

PROF. COLLIER: Oh, I'm so sorry. I'm so sorry. You asked me what should the president of the World Bank do.

PROF. COLLIER: I started to think about it, because I'm seeing him on Friday, so I thought oh, goodness, what should I tell him, and I'll tell you what I was thinking. The World Bank needs to redefine itself from being an aid agency to being the premier development agency, and that means it has to speak out forcefully across all four of the areas of policy instruments, okay? And it's done a so-so job on some of these things in the past, but it needs to just conceptualize itself as just that, as the premier development agency, all right?

Earlier today I was in the Bank and someone gave me the example of the enormous difficulty of giving technical assistance to resource-rich countries, because the resource-rich countries didn't want to borrow, and the technical assistance was kind of geared up to borrowing so that this Bank staff said, you know, the governance would say I need technical assistance and I would say do you want a loan. And of course, loan finance wasn't even the appropriate finance for the sort of resource extraction stuff that they were doing, so there's a lot of consequences in saying you've got to redefine yourself as a development agency. But the -- it's partly an advocacy role, and it's partly the huge resource of

World Bank staff expertise has to be used more neutrally -- and money -- across these --

MR. OWEN: (Inaudible)

PROF. COLLIER: Well, as I say, the number one is the resource extraction. Harnessing the present commodity booms for good is by far the number one issue for the bottom billion at the moment. If these booms turn sour, like the history of the last 40 years suggests, it will be the biggest missed opportunity, the biggest opportunity missed that these countries have ever had.

DR. BRAINARD: You've given us a lot of food for thought. We'll now offer you some food for your stomachs. There's a reception right next door, and you can carry on the conversation there. Thank you, Paul.

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