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Private Sector Development in Resource-Rich Developing Countries

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April 4, 2017

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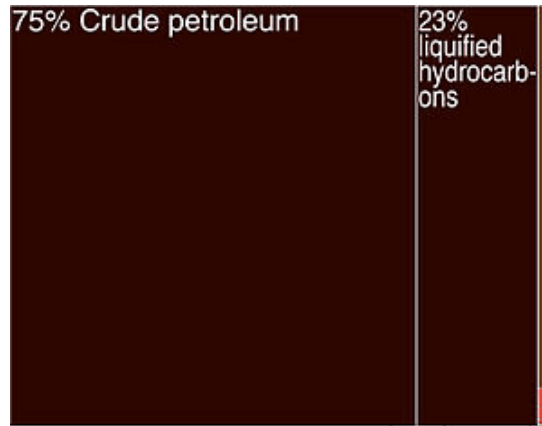
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Fastest Growing Countries in the World 1997-2013

Rank	Country	Average growth rate (1997-2013)
1	Equatorial Guinea	24.3
2	Liberia	13.7
3	Qatar	12.1
4	Azerbaijan	11.5
5	Myanmar	10.4
6	Macao SAR, China	9.9
7	China	9.6
8	Iraq	9.0
9	Afghanistan	8.7
10	Rwanda	8.2
11	Chad	8.0
12	Mozambique	8.0
13	Cambodia	7.9
14	Turkmenistan	7.7
15	Angola	7.7

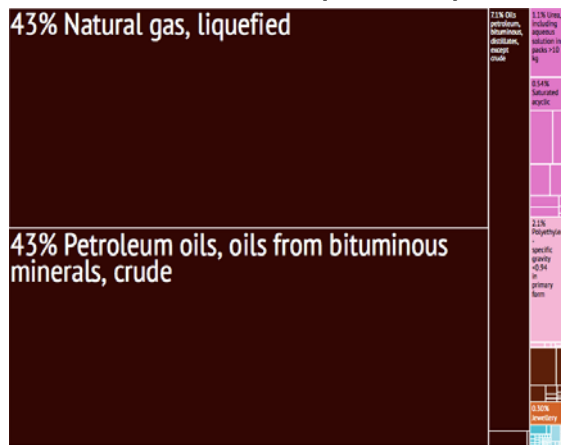
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Equatorial Guinea exports (2009)



Source: Observatory of Economic Complexity, MIT

Qatar (2012)



Source: Observatory of Economic Complexity, MIT



Doing Business

Growth 1997-2013 rank	Country	Doing Business 2017 rank (/190)
1	Equatorial Guinea	178
2	Liberia	174
3	Qatar	83
4	Azerbaijan	65
5	Myanmar	170
6	Macao SAR, China	-
7	China	78
8	Iraq	165
9	Afghanistan	183
10	Rwanda	56
11	Chad	180
12	Mozambique	137
13	Cambodia	131
14	Turkmenistan	-
15	Angola	182

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The deals and development framework

- Growth episodes matter
- “Institutions” cannot be “fixed” in the time frame of intervention
- Deals matter for explaining growth during a growth episode
- The distribution of economic interests and the political settlement determine the feedback loops between growth, structural transformation, and institutions

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Table 3: Examples of various "types" of transition dynamics, using 10 year (overlapping) growth rates						
Country	Proportion of all 5 year (overlapping) growth rates in the growth categories:					
	<2 (collapse)	2<g<0 (stagnation)	0<g<2 Slow growth	2<g<4 Moderate growth	4<g<6 Rapid growth	6<g Boom
Steady Moderate Growers (sum of category 3 and 4>.9) (27 of 120 countries)						
TUR	0.000	0.000	0.471	0.583	0.000	0.000
GBR	0.000	0.000	0.492	0.492	0.000	0.000
COL	0.000	0.000	0.708	0.292	0.000	0.000
Growth collapses (sum of category 1 and 2 > .5) (21 of 120 countries)						
HTI	0.184	0.474	0.211	0.132	0.000	0.000
LBR	0.271	0.179	0.036	0.036	0.071	0.107
SOM	0.643	0.357	0.000	0.000	0.000	0.000
Boom and Bust (both the sum of growth states 1 and 2 and the sum of growth states 5 and 6 above .1) (30 of 120 countries)						
(not mutually exclusive with above, can include 'collapses' if they have booms)						
BRA	0.000	0.104	0.417	0.063	0.354	0.063
GHA	0.070	0.209	0.419	0.163	0.023	0.116
PNG	0.000	0.316	0.263	0.263	0.132	0.026
Rapid growth (sum of 5 and 6 above .5) (8 of 120 countries)						
BWA	0.000	0.000	0.132	0.184	0.422	0.342
KOR	0.000	0.000	0.022	0.244	0.356	0.378
TWN	0.000	0.000	0.000	0.128	0.298	0.574

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Table 8: Strong correlation between the level of income and 'institutions' but almost no connection of growth and institutions and even less of growth and changes in institutions, even over a 20 year period					
Dynamics:	Bureaucratic Quality	Corruption	Law and Order	Democratic Accountability	Average
R-Squared of regressing either level or growth in GDPPC 1985-2005 on the level or change in "institutions"					
Level of income on level of quality of 'institutions'	0.457	0.434	0.464	0.476	0.472
Growth of GDPPC on initial level of 'institutions'	0.094	0.064	0.077	0.058	0.074
Growth of GDPPC on changes in 'institutions'	0.027	0.001	0.014	0.016	0.016
Number of countries (non-oil)	92	92	89	89	
Initial Year	1985	1985	1985	1985	
Duration	20	20	20	20	

Source: GDPPC data from Penn World Tables 6.3, ICRG rankings for 'institutions'

Understanding variation in growth requires understanding differences between countries of similarly bad institutions.

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Deals, not rules, dictate the terms of investment

	Open <small>(deals depend on <i>actions</i> of agents (including influence activities) but not identities)</small>	Closed <small>(deals are available only to specific individuals/organizations—deals depend on identities)</small>
Ordered <small>(deals done stay done, predictable)</small>	“Retail” corruption (e.g. driver’s licenses in Delhi)	“Cronyism” (e.g. Indonesia under Suharto, Russia under Putin, China, Korea (1960s))
Disordered <small>(unpredictable what deals are available, deals have uncertain time horizon)</small>	“Informal” sector in many countries	“Fragile” states

- In a deals world, investor terms and protections are selectively enforced
- All deals regimes are not equal for allowing economic growth within an episode
- The deals environment(s) offered is not accidental

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Deals and long run growth, accelerations and sustained accelerations

“Deals” environments (e.g. “natural orders” (NWW), “extractive economic institutions” (AR))

“Rules” environments (e.g. four dimensional “developed” (PWA), “open order” (NWW), “inclusive economic institutions” (AR))

State capability for policy implementation (e.g. bureaucratic quality, lack of corruption, rule of law)

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The rent space links economic activity with demands of government

	High Rent	Competitive
Export-Oriented	RENTIERS Oil and gas, mining	MAGICIANS Manufactures, garments, services, tourism
Domestic Market	POWERBROKERS Power generation and distribution, ports, natural monopolies	WORKHORSES Small-scale farmers, homebuilders, restaurants, retailers

- Business strategy is distinctly different in each market, so firms in each market will have a very different demand of the state
- The “capabilities” generated by the state will have longer-run economic effects

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Mapping the rent space

Dominican Republic

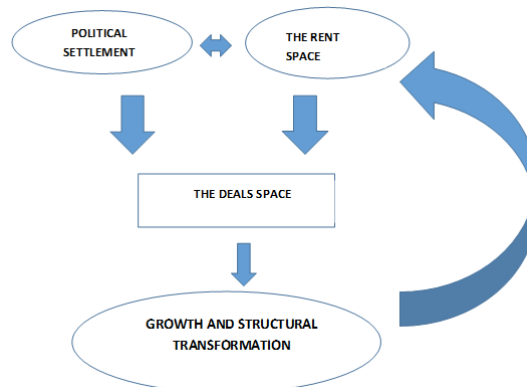
Angola

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The political settlement (Khan) links political power with policy implementation

- Distribution of power = “the relative holding power of different groups and organizations contesting the distribution of resources”
- A political settlement “emerges when the distribution of benefits supported by its institutions is consistent with the distribution of power in society” and the outcomes emerging is sustainable over time
- There may be multiple political settlements that could support the same rent space

Describing and predicting growth episodes



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Approaches to PSD and appropriate advice

	High Rent	Competitive
Export-Oriented	RENTIERS Maximize tax revenue, linkages	MAGICIANS Cluster development, industrial policy
Domestic Market	POWERBROKERS Beware of capture, Regulation/deals	WORKHORSES Doing Business, Cluster development in natural resource-facing, industrial policy

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What about subnational policy?

- Regions and communities are subject to environmental and social costs and extreme economic cycles but often do not
 - Receive commensurate tax revenue or have ability to influence the local business environment
 - Have capacity to take advantage of economic opportunities
 - Have resources to plan for diversification and life after resources
- Benefit agreements are a new tool for minimizing impact and maximizing economic opportunity and participation
- Governance issues at the national level can be recreated at the local level
- Complication: economic logic for non-resource PSD may not be there

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What role for Canada (& Liu)?



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