



Eric Werker (with Kunal Sen and Sam Volpe)

Waiting on a miracle?

Growth episodes and the dynamics of state fragility



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State fragility is a development problem

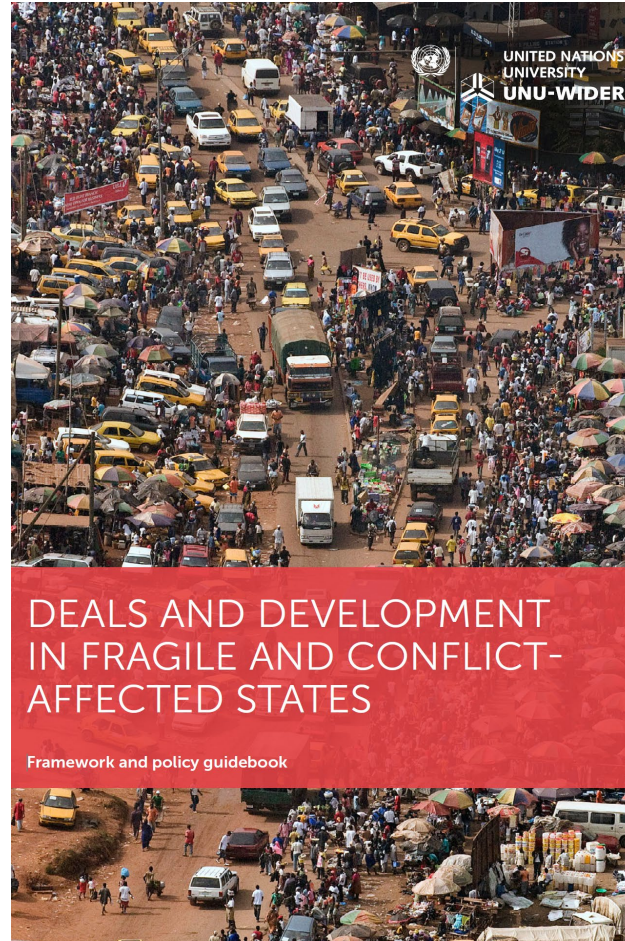
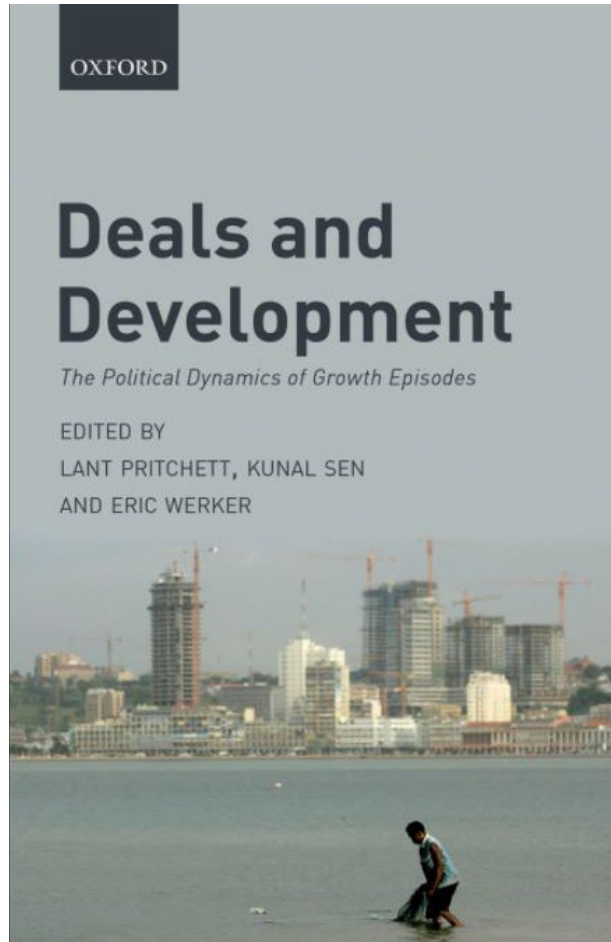
- 1.5 billion people in the world live in fragile and conflict-affected countries (± 1 in 5 people)
- By 2030, these countries will be home to up to 2/3 of the world's extreme poor
- Both low- and middle-income countries are affected by fragility risks, some far away from where the problems start
- Violent conflict has spiked dramatically since 2010, and the fragility landscape is becoming more complex

Economic growth in fragile states is low and volatile

Quartile	Average growth	Standard deviation	Minimum	Maximum
Most fragile	-0.3%	7.0%	-36.4%	8.8%
2nd quartile	1.8%	2.3%	-4.9%	5.8%
3rd quartile	2.0%	2.6%	-4.5%	7.6%
Least fragile	1.4%	1.7%	-3.1%	5.0%

Most of the time, development policy seeks to promote economic growth

Bringing episodic growth dynamics to development and fragility policy



The countries we care about do not experience steady growth

- **Growth episodes** matter, especially negative ones
- **Fragile states are the slowest average growers, with the highest variance**

Growth episodes can favour or disfavour different political and economic actors

- Some growth episodes preserve narrow clientelistic, rent-seeking networks, while others lead to inclusive reform
- **This has implications for state fragility: investments in state capacity, the prevalence of violent non-state actors, and legitimacy**

Research question: **When can nations grow out of fragility?**

Are more rapid growth episodes associated with larger improvements in state fragility?

Is there “good growth” and “bad growth,” where state fragility only improves under the right conditions?

A new methodology for episodic growth and fragility

Measuring fragility

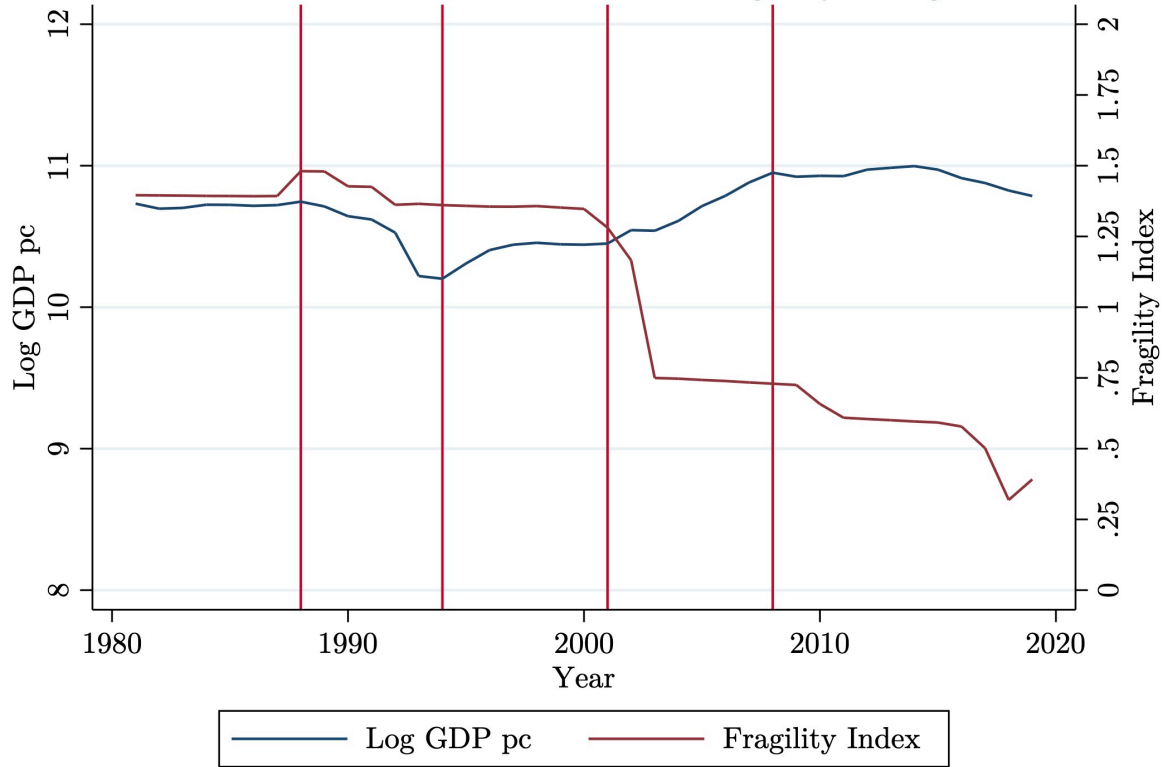
- Existing fragility indices are too recent and include economic collapse as a component of the index
- Define a new index of fragility based on IGC (2018) definition and V-DEM data:
 - Non-state violence
 - Government lacks legitimacy
 - Weak capacity for essential functions
 - Unattractive private sector environment
 - Deep societal divisions

Determining growth episodes

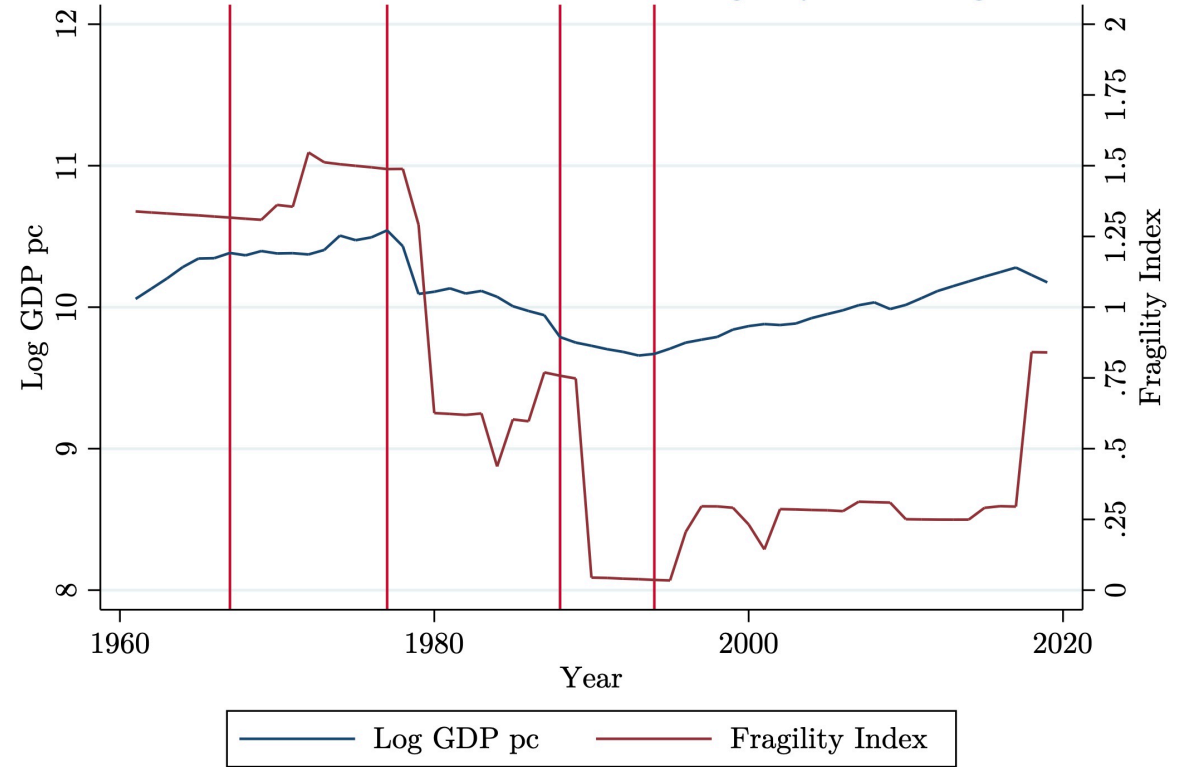
- Include countries that are among 35 most fragile at least 20 times from 1960-2019, gives 35 countries
- Run Bai-Perron test on real GDP per capita time series for each country to statistically identify growth “breaks”
- Categorize resultant growth episodes into



Economic Growth vs State Fragility: Angola

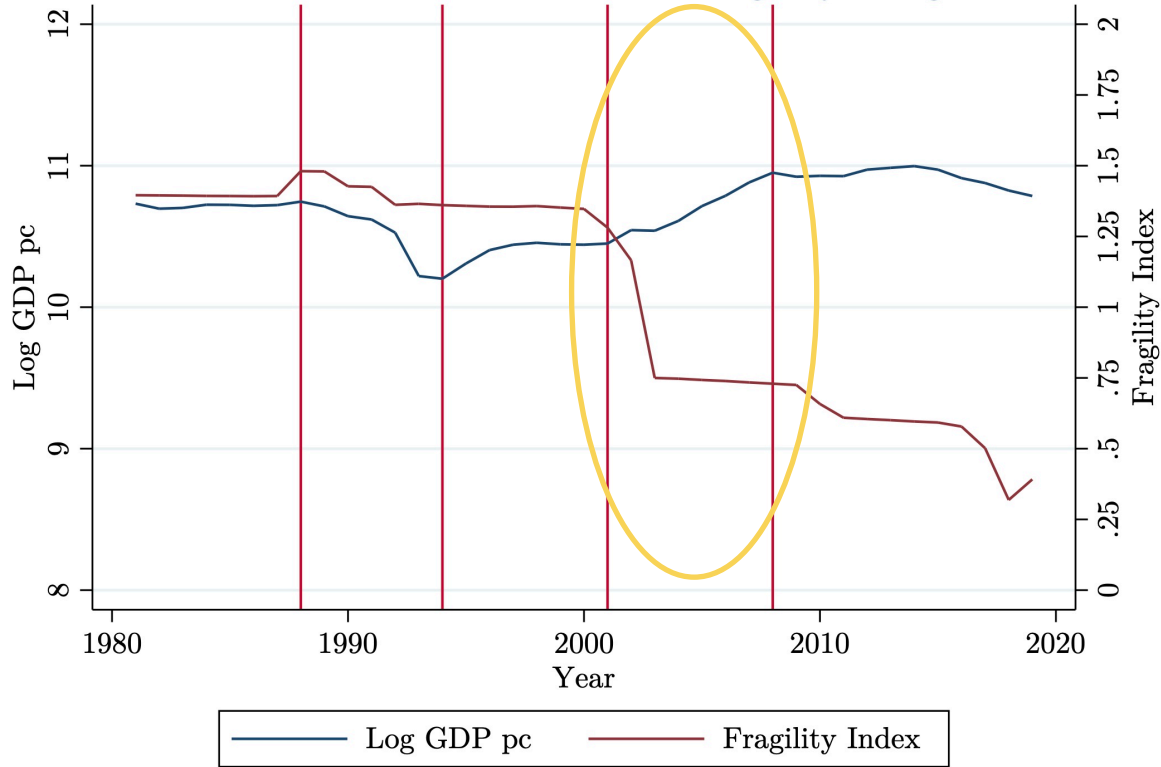


Economic Growth vs State Fragility: Nicaragua



Mirrors vs. trackers

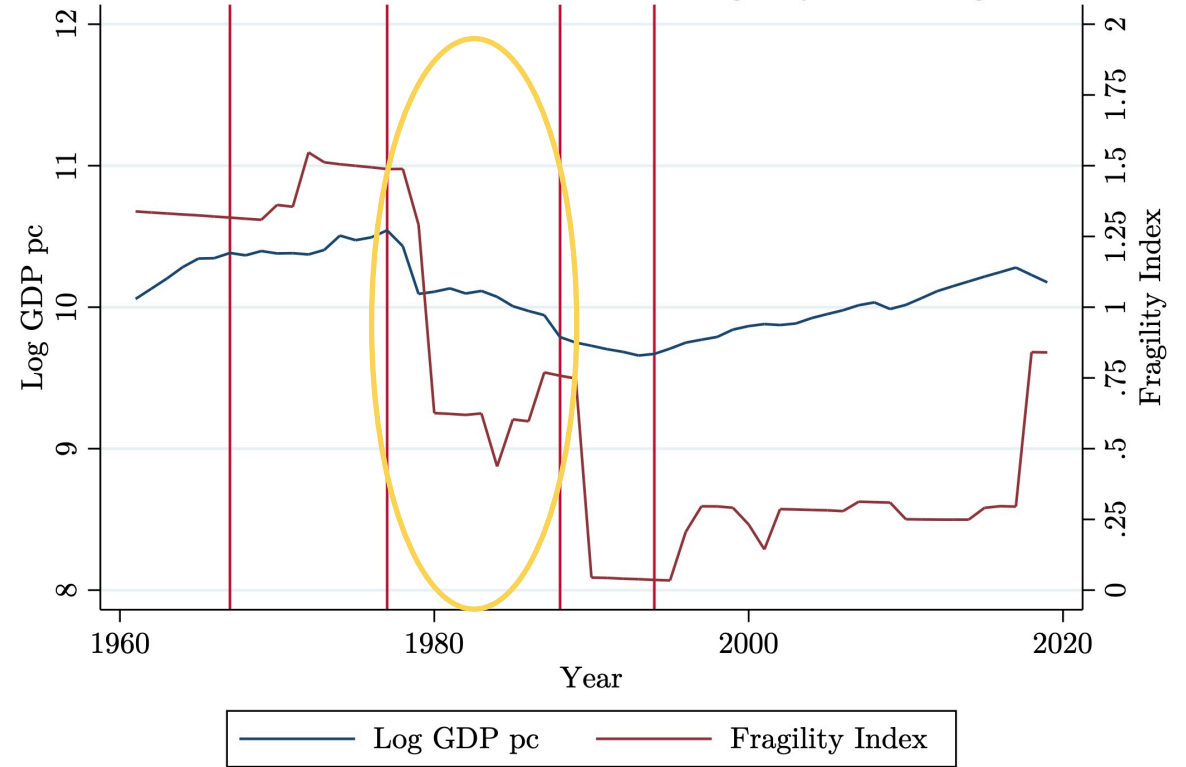
Economic Growth vs State Fragility: Angola



Post-conflict order, rising oil production

- Decreasing legitimacy, private sector attractiveness

Economic Growth vs State Fragility: Nicaragua

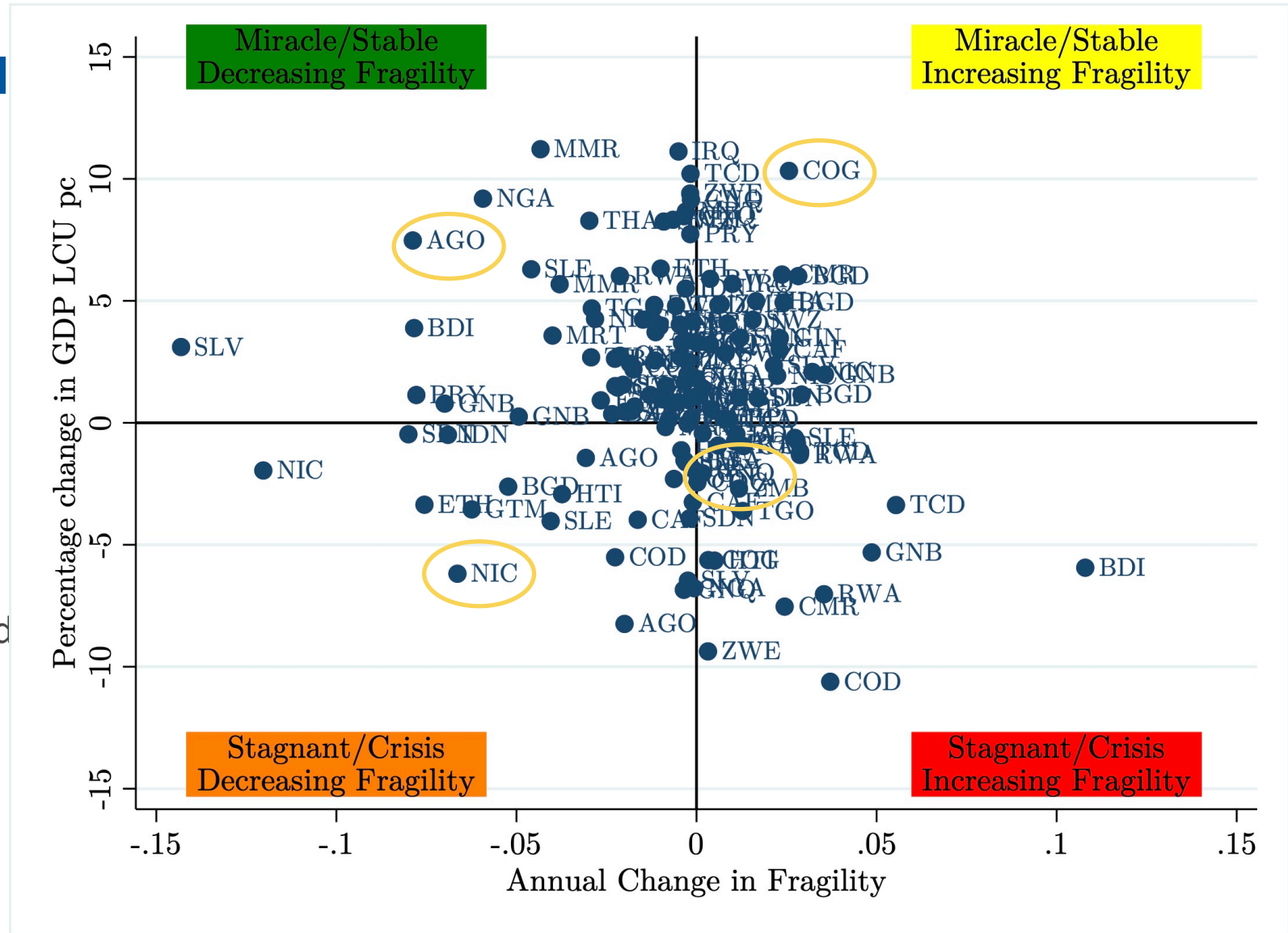


Sandinista revolution, reforms

- Increasing violence
- All other measures of fragility improve

Diagonal and off-diagonal growth episodes

- Faster growth episodes are not exclusively associated with decreasing fragility
- Slower growth episodes and even crises are not exclusively associated with increasing fragility



		Change in Fragility						
		Decreasing Fragility			Increasing Fragility			
Growth Episode Categorization	Miracle / Stable Growth	Q1			Q2			
		Episode count:	56		Episode count:	26		
		Year count (total):	612		Year count (total):	291		
			<i>Increasing</i>	<i>No Change</i>	<i>Decreasing</i>	<i>Increasing</i>	<i>No Change</i>	<i>Decreasing</i>
		Weak State Capacity:	9%	2%	89%	Weak State Capacity:	19%	8%
	Non-State Violence:	9%	59%	32%	Non-State Violence:	46%	54%	0%
	Government Illegitimacy:	9%	63%	29%	Government Illegitimacy:	46%	46%	8%
	Private Sector Unattractiveness:	4%	63%	34%	Private Sector Unattractiveness:	31%	65%	4%
	Social Fragmentation:	5%	57%	38%	Social Fragmentation:	58%	42%	0%
	Stagnant / Crisis Growth	Q3			Q4			
Episode count:		40		Episode count:	29			
Year count (total):		408		Year count (total):	300			
		<i>Increasing</i>	<i>No Change</i>	<i>Decreasing</i>	<i>Increasing</i>	<i>No Change</i>	<i>Decreasing</i>	
Weak State Capacity:		10%	3%	88%	Weak State Capacity:	59%	0%	41%
Non-State Violence:	8%	70%	23%	Non-State Violence:	52%	45%	3%	
Government Illegitimacy:	5%	53%	43%	Government Illegitimacy:	45%	41%	14%	
Private Sector Unattractiveness:	10%	48%	43%	Private Sector Unattractiveness:	14%	55%	31%	
Social Fragmentation:	13%	45%	43%	Social Fragmentation:	41%	52%	7%	

Patterns of fragility and its components, by quadrant

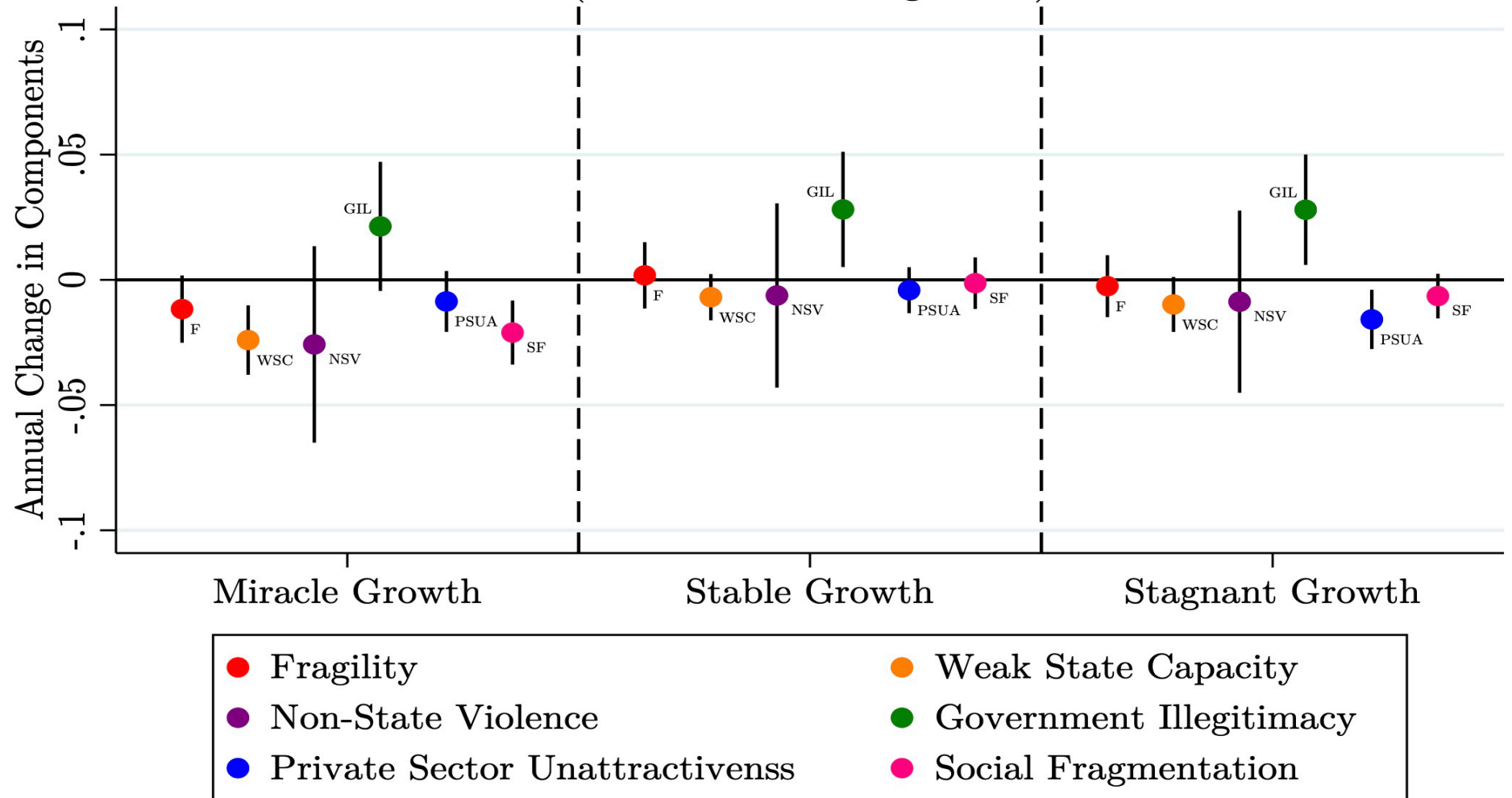
- Fragility decreasing more often than increasing in the sample
- Decreases in fragility tend to be during high-growth episodes, and vice versa
- State capacity is on a secular path of improvement, only regressing during low-growth, fragility-increasing episodes
- Non-state violence and illegitimacy follow fragility, not growth regime
- Private sector attractiveness and social fragmentation worsen more during high-growth episodes

Growth episodes and components of state fragility

Miracle growth is associated with improving state capacity and social cohesion

Crisis growth is associated with improved government legitimacy

Regressions of fragility components on growth regimes (relative to crisis growth)



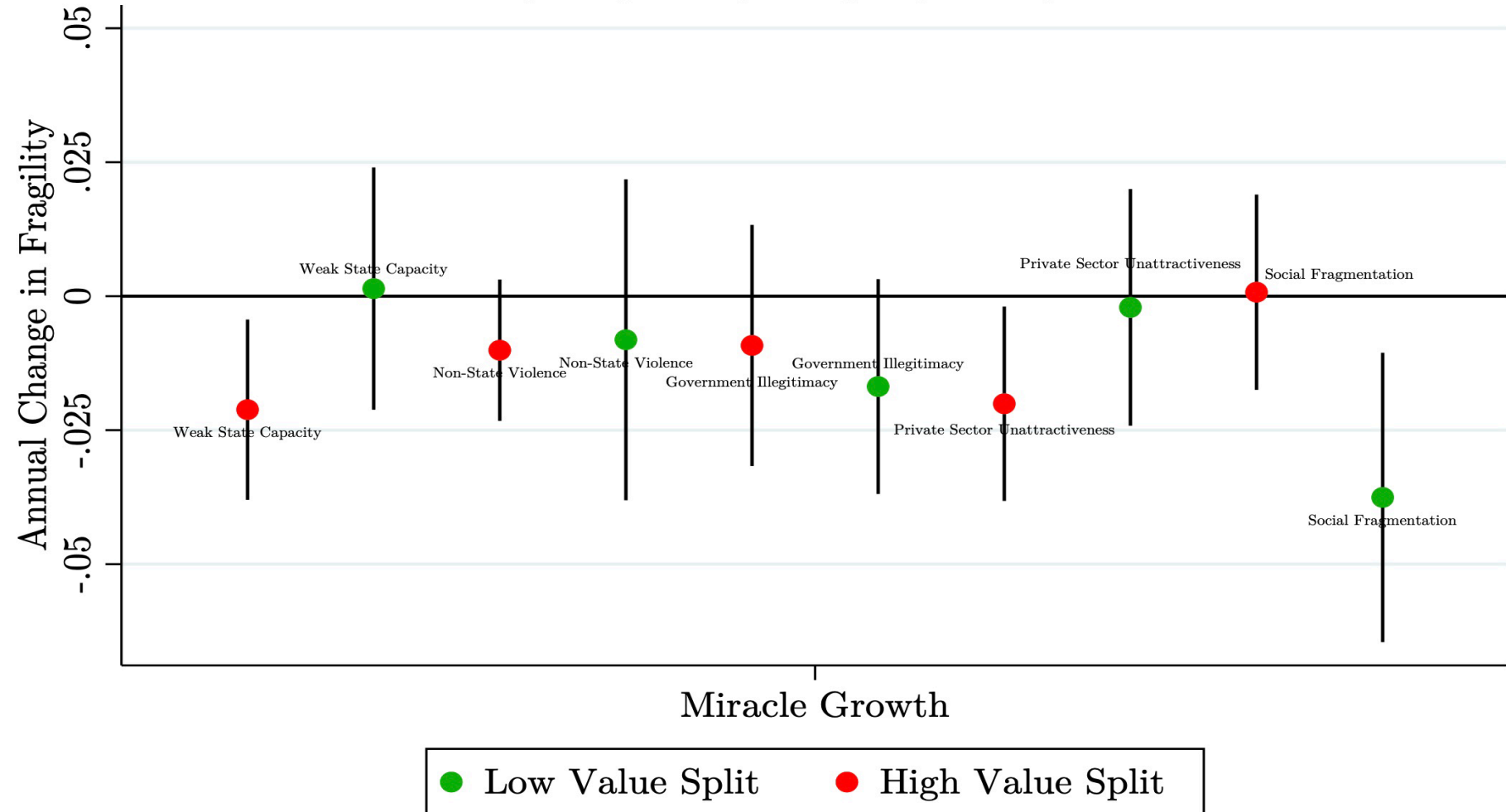
90% Confidence Interval

Fragility reduction under different conditions

Low state capacity, unattractive private sector see *greater reductions in fragility* from miracle growth: **catch-up effect**

However, miracle growth is only effective in reducing fragility when there is more social cohesion: **precondition effect**

Coefficients of Fragility on Miracle Growth Sample Splits by Fragility Components



90% Confidence Interval



Policy implications

Initiating a more rapid economic growth episode in fragile states is not guaranteed to bring about improvements in fragility

Miracle growth episodes affect the different components of fragility differently

Not all fragile states are alike

Miracle growth interacts with differently-fragile states differently



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