FOREIGN AFFAIRS CANADA

POLICY POSITION PAPER

Topic: FAILED AND FRAGILE STATES

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Name of Course:	**INTR 501**
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Summary of Class Discussion:

The restoration of order and good governance are high priorities in failed and fragile states, but Canada has limited its approach to only diplomacy and security. The International Policy Statement lacks trade and investment initiatives designed to address the economic conditions of failed or fragile states.

In the discussion forum, failed and failing states were described as "incubators for extremism and international terrorism" (from eDiscussion March 10, 2005). However, it was pointed out that poor states must not be confused with failing states. Yet in the same paragraph, it was noted that the root causes of terrorism could be attributed to "poverty and global inequality" and "unfair trade practices". Considering these comments, the boundary between fragile and poor states may not be so clearly defined. While poor states may or may not be in the midst of political degradation, certainly fragile states suffer from poverty along with political degradation. Therefore, why are economics and poverty reduction not included in Canada's strategy toward fragile states?

To address the economic aspects of fragile states we propose that Canada adopt both macro- and micro-economic based programs. Specifically we propose a three pronged approach that includes Trade-Related Technical Assistance and Capacity Building (TRTA/CB), the Canadian Investment Fund for Africa (CIFA) and micro-credit programs.

Areas of Consensus/Disagreement:

- Understanding how Canada defines failed and fragile states and which states it deems failed or fragile is critical toward understanding the policy direction best undertaken.
- Economic policies should be a necessary component in Canada's approach toward failed and fragile states. Economic policies should complement, not substitute for, diplomatic and security strategies.
- The economic policies advocated here are geared toward fragile, rather than failed states. We agreed that micro-credit programs may be effective for failed states as well. Micro-credit programs have proven to be a key policy in the battle to reduce poverty in both fragile and failing states if implemented and overseen at the ground-level by local NGOs.
- CIFA has the ability to significantly reduce Africa's marginalization. However, CIFA would be more effective if it were directed toward fragile states among Canada's list of

Bilateral Development Partners (i.e. Senegal and Burka Faso) rather than attractive FDI recipients such as South Africa.

Our three pronged economic strategy for fragile states is: 1) CIDA's priorities for TRTA/CB in developing states be expanded to include the delivery of similar programs in fragile states. The TRTA/CB initiative builds skills and capacity to enable fragile states to benefit from international trade and investment. 2) CIFA should be directed toward fragile states rather than the relatively attractive FDI destinations in Africa. 3) Canada can deliver the economic benefits of micro-credit in a cost effective way as part of CIDA with a focus on fragile and failed states.

Our response to one of the eDiscussion Questions:

Short vs long term commitment?

Many failed and fragile states have demonstrated a dependency on FDI in the short term as determined by their GDP. However, using FDI combined with a more diverse approach by CIFA into fragile markets coupled with technical assistance and capacity building (TRTA/CB) and a micro-credit scheme will help deliver long-term economic stability to failed and fragile states.

The benefits achieved are not only monetary in nature but also non-pecuniary. In the long term, these benefits will help fragile states develop a more stable economy, a more diverse investment landscape and a more educated workforce. The long-run benefit is sustainable economic growth in fragile countries.

Our Policy Recommendations concerning this question:

Canada's commitment to the UN Millennium Goals include reducing poverty and increasing security in the international community obligating Canada to address the issues of economic security even in the most insecure of places.

Therefore we propose to expand Canada's TRTA/CB to include not only developing countries, but also states considered too fragile to participate in the world economy. At the domestic level a national trade strategy would be developed within the context of a greater development strategy. CIFA focus on smaller, more fragile markets would have a more substantial effect than in larger and relatively more attractive FDI markets (currently over 70% of all FDI in Africa goes to five countries; South Africa, Nigeria, Egypt, Morocco and Algeria). Finally, micro-credit programs will deliver a grass-roots credit structure proven successful in reducing poverty and delivering prospects for growth and sustainable development.