

New Challenges Facing Democracies in Combating Poverty

It is possible to argue that poor democracies are confronted with rather new challenges because of certain special historical factors prevalent today; one may identify the following:

1. The spread of conflicts, the phenomenon of collapsed states and terrorism;
2. Challenges of transition from authoritarian rule to democratic and market freedoms;
3. Globalisation;
4. HIV/AIDS;
5. The degradation of the environment.

3.1 The Spread of Conflicts, Collapsed States and Terrorism

A remarkable feature of the post-Cold War period is the marked upsurge in intra-state conflicts. The Stockholm International Peace Research Institute (SIPRI) reports that in the 12-year period 1990–2001 there were 57 different major armed conflicts in 45 different locations of the world.³ All but three of these were internal. Almost all these conflicts have occurred in developing countries, located mainly in Africa.

Despite their intra-state nature, few of the conflicts existed in isolation: they were often influenced by external actors. In most cases, the supply of military material by state and sub-state actors and overt military intervention by states served to prolong and intensify the conflicts. Several of the intra-state conflicts have also spilled over international borders; of the 15 most deadly conflicts in 2001, for example, 11 spilled over international borders. As SIPRI notes, most commonly they constituted a threat to the stability of the neighbouring states through the burden of refugees, cross-border movement of rebels, and the undermining of legitimate economic and political structures by the illicit trade in resources and arms.

Not only were most of the recent conflicts intra-state in nature – albeit with significant cross-border spill-over effects; they also seem to last longer. In a study of 52 conflicts since 1960, a recent World Bank study found that wars started after 1980 lasted three times longer than did those beginning in the preceding three decades.⁴ Eleven of the 15 conflicts in 2001 – that caused more than 100 or more deaths – have lasted for eight or more years.⁵ These conflicts seem to acquire their own internal dynamic, making them intractable. The parties in conflict usually supported their military efforts through the sale of minerals, timber and narcotics and through remittances from abroad.

Conflicts and Poverty

It is not difficult to understand how this growing incidence of conflicts results in deep and stubborn levels of poverty in many countries. In the absence of security, farmers cannot grow crops, businesses cannot invest and traders cannot hold stocks and trade. As *The Economist*⁶ has reported, in eastern Congo, which is in strife, nobody wants to raise cattle, because marauding soldiers steal them. Once a nation descends into conflict and violence, its people focus on immediate survival rather than on the longer term.

Conflict leads to internal displacement of people (at a conservative estimate, some 22 to 24.5 million people are presently displaced within their own countries, as a result of civil conflict, civil unrest or persecution),⁷ refugees seeking shelter in neighbouring countries, and a loss of social capital, traditional skills and capacity for food production and other economic activities. Such countries also become breeding grounds for international terrorism.

By destroying fragile institutions of governance and causing displacement of people, flight of skills and deep social wounds that take time to heal, conflicts create a vicious cycle of poverty and strife. Large-scale conflict thus leads to a decline in incomes and growth, and especially to a decline in food production per head and a rise in hunger.

Failed States

The contemporary world has witnessed not only an increase in internal conflicts; the phenomenon of a complete collapse in central authority, with institutions of government ceasing to function for one reason or another, has also become more frequent. Failed states such as Afghanistan, Cambodia, Liberia and Somalia have been the settings for some of the worst humanitarian disasters in recent years. Sierra Leone, a member of the Commonwealth, has just emerged from years of violence in which the central government was unable to maintain law and order because of a particularly brutal rebel movement. Collapsed states pose difficult issues of international law, and the poor are the first to suffer great tragedies in those situations.

Terrorism

The events of 11 September 2001 have brought out dramatically the new threat of terrorism that envelops rich and poor countries alike. Terrorist networks have an insidious way of working within democratic societies and subverting democratic institutions. They make use of the democratic space to extend their networks, participate in the organised economy, and develop linkages with established businesses and political parties. Like a cancer, they can ruin the body politic.

Terrorism is an additional challenge to poor country democracies in tackling poverty: by reducing global growth prospects and financial flows, it alters the global economic environment for poor country growth; by enhancing insecurity, it undermines investment at national level; and by diverting precious resources into combating terrorism, it

limits public investment. In some cases, by criminalising politics and fanning group and communal conflicts, it qualitatively affects peace and democracy.

3.2 Challenges of Transition from Authoritarian Rule to Democratic and Market Freedoms

The 1980s and 1990s were marked by a growing acceptance and movement towards political and economic freedoms simultaneously. The collapse of the Soviet Union has both inspired and fuelled this trend. It can be argued that the countries in transition – and these are not only the countries of the former Soviet Union and Eastern Europe – are faced with particularly historic challenges: they are under the imperative of moving rapidly towards the new order, but often lack either the institutional or human capacity to implement change or create the well-developed civil society and the free media that are a necessary complement of these freedoms. Parliamentary traditions, inclusive political processes, market institutions and the associated legal regulatory regimes take time to build. Administrative law that respects the political independence of the civil service and protects it from the arbitrary interference of political leaders, financial and accountancy standards and entrepreneurial classes that learn to operate within legitimate frameworks of law – which are all essential in making the new freedoms real – cannot be manufactured overnight: they take time to get established. The problems of transition are well illustrated in the experience of many countries who have found that:

- The opposition was often marginalised, as no parliamentary traditions had developed in regard to its role;
- The lack of well-established property rights meant that market institutions cannot function;
- The process of privatisation became flawed as adequate legal and regulatory safeguards were missing, resulting in instances of asset stripping and flight of capital (as, for example, in Russia), and the creation of new monopolies that are much more damaging to public welfare;
- Non-performing assets have burgeoned in the financial sector and financial fraud has flourished due to lack of adequate financial skills, standards and codes.

Beyond such limitations of political, human and institutional capacities that countries in transition face, it can be argued that they also have the difficult task of dealing with the pent-up expectations for improved living that come with change – expectations that are fuelled by the knowledge of wide and rising absolute disparities between their own levels of living and those of people living in prosperous countries. The desire to see an immediate change, but the lack of means to achieve it, imposes considerable strain on political and economic processes. For example:

- Dissatisfaction with government leads to an anti-incumbency factor in elections, with the result that political parties become populist in their agendas, undermining sound government;
- Popular dissatisfaction and the associated lack of political stability may often result in coalition governments becoming the norm, and it is sometimes the case that coalition politics undermine cohesion and unity of purpose in government. (It has been observed, for example, that fiscal deficits tend to be larger under coalition governments);
- The gap between expectations and reality leads to a drain of precious skills – for example those of nurses, teachers, IT engineers, doctors and accountants – facilitated by new freedoms of movement and access to information. This in turn has the effect of enhancing salary and wage inequalities as firms try to compete for these precious skills which are in short supply;
- Internal and international demonstration effects erode citizenship values as elites emulate rich country life styles, creating a sense of frustration and injustice on the part of those who are left behind.

It can be argued that these constitute new historical challenges that the presently mature democracies and industrialised countries escaped in their own development.

3.3 Globalisation

It is widely agreed that globalisation has shifted the context for the industrial as well as for developing countries. Does globalisation make the task of poverty reduction less or more difficult?

Several analysts have argued that the success of East Asian countries in the last quarter century in reducing poverty shows the positive potential of globalising forces to help the poor. The new technologies, shrinking distances, the reduced cost of transport and communications, and the liberalisation of markets for goods, services and capital, it is argued, open immense possibilities for the elimination of poverty.

However, some argue that these expectations have not been realised. Joseph Stiglitz, a Nobel Prize winner in economics and former Chief Economist of the World Bank, says: 'to many in the developing world, globalisation has not brought the promised benefits'. To quote him further:

A growing divide between the haves and have-nots has left increasing numbers in the Third World in dire poverty, living on less than a dollar a day. Despite repeated promises of poverty reduction made over the last decade of the twentieth century, the actual number of people living in poverty has actually increased by almost 100 million. This occurred at the same time that world income actually increased by an average of 2.5 per cent annually.

Stiglitz (2002), p. 5

The fact that, in a period of globalisation, the number of the absolute poor in the world has not declined, while disappointing in itself, does not mean that globalisation is the cause of this failure; or that all the success of some countries in reducing poverty is the result of globalisation. We also know that while millions were being lifted out of poverty, population growth meant that many more were being added to the ranks of the poor.

Many people believe that globalisation has indeed helped to reduce poverty. As Martin Wolf of the *Financial Times* puts it: 'Evidence suggests the 1980s and 1990s [the period when globalisation had gathered force] were decades of declining global inequality and reductions in the proportion of the world's population in extreme poverty.'⁸ Further, dividing countries into two groups – those that were globalising and those that were not – the World Bank, in a recent study,⁹ argued that:

- The new globalisers – those that have seen reductions in their tariff rates and increases in their trade to GDP ratios, which include China and India, the two most populous countries – with a population of around three billion, have experienced large-scale poverty reduction: during the 1990s, the number of their people who were living in poverty fell by 120 million. Within the globalising states, integration has not led to greater income inequality.
- The countries who participate less in trade today than they did 20 years ago, with a population of around 2 billion, have been experiencing stagnation in incomes and rising poverty. Some are failed states.
- Since 1980, the overall number of poor people has at least stopped increasing, and has actually fallen by an estimated 200 million. Since 1980, world inequality has also stopped increasing, and may have started to fall.

The Canadian-based Fraser Institute¹⁰ makes a similar point. The Institute, in its *Economic Freedom of the World Report of 2002*, measures economic freedoms in 123 countries and ranks each country according to how seriously various factors are taken, including small government, low taxes, protection of private property from expropriation, monetary debasement and the ability to trade freely with other countries. It finds that:

- The poorest fifth in all the countries studied – be they *laissez-faire* or not – receives around 2–3 per cent of national income;
- The countries which are more free economically have higher income levels;
- The poorest 10 per cent of the population in the freest countries had a per capita income of nearly ten times that of the poorest 10 per cent in the unfree countries.

Others, however, question the veracity of the evidence on poverty reduction on the following grounds:

- The World Bank's findings do not establish a causal relationship between openness

and growth. They leave open the question of what other circumstances, policies and institutions are necessary for a country to benefit from the opportunities offered by trade.¹¹

- The statistical basis for counting the poor is weak or doubtful. Statistics on poverty can be sensitive as to whether national accounts or household survey data is used (for example India).¹² However, it is widely accepted that poverty has been increasing in parts of sub-Saharan Africa, but that the number of poor people has declined in China and India – which account for 38 per cent of the world's population.¹³
- Comparisons between countries are affected by whether market exchange rates or purchasing power parity (PPP) rates are used in comparing incomes.¹⁴
- While the relative gap between the per capita incomes of developing countries and industrial countries weighted by population might be declining because of the higher than average growth rates of China and India in the 1990s, whether or not income inequality in the world as a whole (that is, treating all the people of the world as one population) is declining depends also on what is happening to inequalities within countries. There is no reliable or comparable data which enables one to measure income inequality as between countries.¹⁵

The *Human Development Report 2002* concludes that although it may be difficult to distinguish clear trends in global inequality in recent decades, its level is extremely high – a cause for considerable concern. From the most recent available estimates for 1993, it suggests that:

- The world's richest 1 per cent of people receive as much income as the poorest 57 per cent;
- The income of the world's richest 5 per cent is 114 times that of the poorest 5 per cent.

As Mrs Sakiko Fukuda Parr, lead author of the *Human Development Report 2002*, said in a letter to the *Financial Times* of London in July 2002:

The debates about the global distribution of income should not obscure the fact that the gaps in income between rich and poor have risen sharply over the past decade, in which more than 60 countries have ended up with lower per capita incomes than at its beginning; or that the gaps that divide the world are not just about income but about access to markets, to knowledge and education and to the wonders of the new global age, such as breakthrough treatment of HIV/Aids.

The existence of such vast income gaps, coupled with a greater sense of insecurity and awareness of what is possible if conditions were right, fuels a deep sense of injustice among the poor and the deprived of the world.

While the evidence on the impact of globalisation on poverty and inequalities is thus patchy and needs to be clarified further, one may ask: has globalisation changed the development – i.e. poverty reduction – context for better or worse, qualitatively?

- It is argued that while liberalisation of trade and capital markets opened immense opportunities for economic prosperity, it has made the world economy more risk prone, and the poor more vulnerable. The sudden shifts in comparative advantage and the volatility in capital flows that now mark the world economy illustrate the risks involved, particularly for smaller states and open economies with little diversity in their production structures. As poor countries lack adequate social safety nets, the poor have thus become more vulnerable to risks in the world economy.
- The opportunities created by globalisation are asymmetrical, as illustrated by the significant barriers to trade precisely in those areas of comparative advantage of developing countries – for example agriculture, processed foods, labour-intensive manufactures, and maritime and construction services. At the same time, world trade is being increasingly dominated by fewer firms, as mergers and acquisitions concentrate economic power – a situation which poorer countries find difficult to penetrate.
- The composition of world trade is changing in favour of knowledge-intensive products and financial and other services – areas in which the vast majority of developing countries start with a disadvantage. And the movement of labour (i.e. the movement of natural persons) – that holds great potential gains for developing countries – continues to remain restricted, unlike in the nineteenth-century when people, including people from Europe, migrated more freely in search of employment.¹⁶
- It is widely contended that the intellectual property regime agreed in the Uruguay Round of Trade Negotiations is biased against the poorer countries, resulting in significant transfers of income on account of royalties.¹⁷
- Globalisation has reduced the space available for national policy-making, making the task of economic management in poor country democracies – which face much more complex social and economic situations – that much more difficult.

Thus globalisation, while opening up new opportunities, has also changed the environment in which poor country democracies confront the task of poverty reduction.

3.4 HIV/AIDS

Perhaps one of the great new challenges confronting poor country democracies in their fight against poverty is the HIV/AIDS pandemic. By particularly affecting the working age population, HIV/AIDS reduces the labour force; and by affecting women, it undermines the welfare of those who are already vulnerable, including children. Schools are deprived of precious teachers, the valuable skills of trained workers are lost and public

resources are diverted from much-needed investment in the economy. The facts are staggering: more than 20 million people have died from AIDS, another 40 million are HIV-positive and new infections are occurring at the rate of 15,000 a day. Infection rates are rising, in several cases rapidly, in several Asian countries and in many of the successor states to the Soviet Union.¹⁸ As Bernhard Schwartlander of WHO observed:

- By 2020, more than 25 per cent of the workforce in some countries might be lost to AIDS;
- GDP growth may decline by 2.6 per cent points in countries with a prevalence rate of over 20 per cent.¹⁹

While a few countries, for example Uganda, Senegal and Thailand, have made remarkable progress in arresting and reversing the trend of this pandemic, poverty, lack of education and the high cost of drugs pose enormous challenges to reducing its spread. The establishment of a Global Fund to fight HIV/AIDS, tuberculosis and malaria, and the Global HIV Prevention Working Group are welcome developments that need to be built on, if this modern scourge is not to consume the poor of the world. (See also Section 12 below.)

3.5 The Degradation of the Environment

Life on earth is confronted with a great new challenge in contemporary times: the degradation of the environment. This is evident in the unprecedented loss of forests, pollution of air and water, sinking ground water tables and growing water scarcity, desertification, shrinking bio-diversity, global warming and the depletion of the ozone layer. Natural disasters have become more frequent and devastating.

The degradation of the environment constitutes a new and particular challenge for poor country democracies in combating poverty. The reasons for this are twofold. Firstly, poor countries have to meet the costs of environmental damage arising not only from national causes, but also trans-border causes such as greenhouse gas emissions for which the industrial countries are mainly responsible. For example, global warming that is due to greenhouse gas emissions is changing weather patterns in unexpected ways, upsetting traditional agricultural patterns and possibly resulting in a greater frequency of natural disasters; small island states are threatened by the prospect of a rise in sea-level. Thus poor country democracies (and small island states) have to find resources to tackle the consequences of causes that lie beyond their national borders – putting a great burden on their economies.

Secondly, poverty and environmental degradation are interrelated: one causes the other. The people whose lives are impoverished by environmental degradation are often the poorest: the marginal farmers on fragile lands; the rural poor and urban slum dwellers without access to safe drinking water or clean sanitation; women who have to walk long

distances to collect water; the poor exposed to noxious and foul air and pesticides; and the people whose livelihoods are diminished by the shrinking commons. And it is the poor who are the main victims of man-made or natural disasters. At the same time, poverty puts pressure on the environment: as Mrs Indira Gandhi once famously said, poverty is the greatest polluter of all. Poor countries are thus caught in a bind. By virtue of their poverty, they cannot find the wherewithal – material or human resources and technology – needed to arrest environmental degradation; and without arresting environmental degradation, they cannot effectively tackle poverty.

Agenda 21 and the Rio Charter, agreed a decade ago, produced a wave of optimism that the need to address these problems comprehensively had reached the global agenda; and indeed there was some positive movement. The Montreal Protocol aimed at arresting the ozone depletion is a success story. But a decade after the Rio Summit, targets for reducing carbon dioxide emissions have been missed and bio-diversity continues to shrink. The promised enhancement in overseas development assistance to help developing countries has failed to materialise.

It is encouraging that at the World Summit on Sustainable Development held in Johannesburg in August–September 2002, China announced ratification of the Kyoto Protocol on green house gases, and Canada and Russia indicated their intention to ratify it soon – giving it enough support for it to come into force. The Johannesburg Summit also resulted in new commitments: for example, the commitment to cut by half the number of people with inadequate water and sanitation, and to try to do so by 2015. It also agreed to do more to conserve and restore fish stocks by 2015, in part by guarding ocean areas already designated as protected. And it committed itself to taking greater action to promote the use of renewable energy. It also reiterated the commitment to enhance Overseas Development Assistance (ODA) flows as agreed at the Monterrey Conference (see Section 10 below).

The Johannesburg Summit also provided greater opportunities for governments, the private sector and NGOs to demonstrate their willingness to collaborate in arresting environmental degradation (the so called ‘Type 2 Initiatives’), that will help import private money and expertise into sustainable development projects.

While these developments at Johannesburg represent movement, action still falls short of what is needed, given the intimate link between the environmental degradation and the depth of poverty in the world. It is disappointing that the US, which is responsible for one-quarter of all greenhouse gas emissions, has refused to ratify the Kyoto Protocol. Tackling environmental degradation thus continues to constitute a huge new challenge for the poor country democracies in combating poverty.