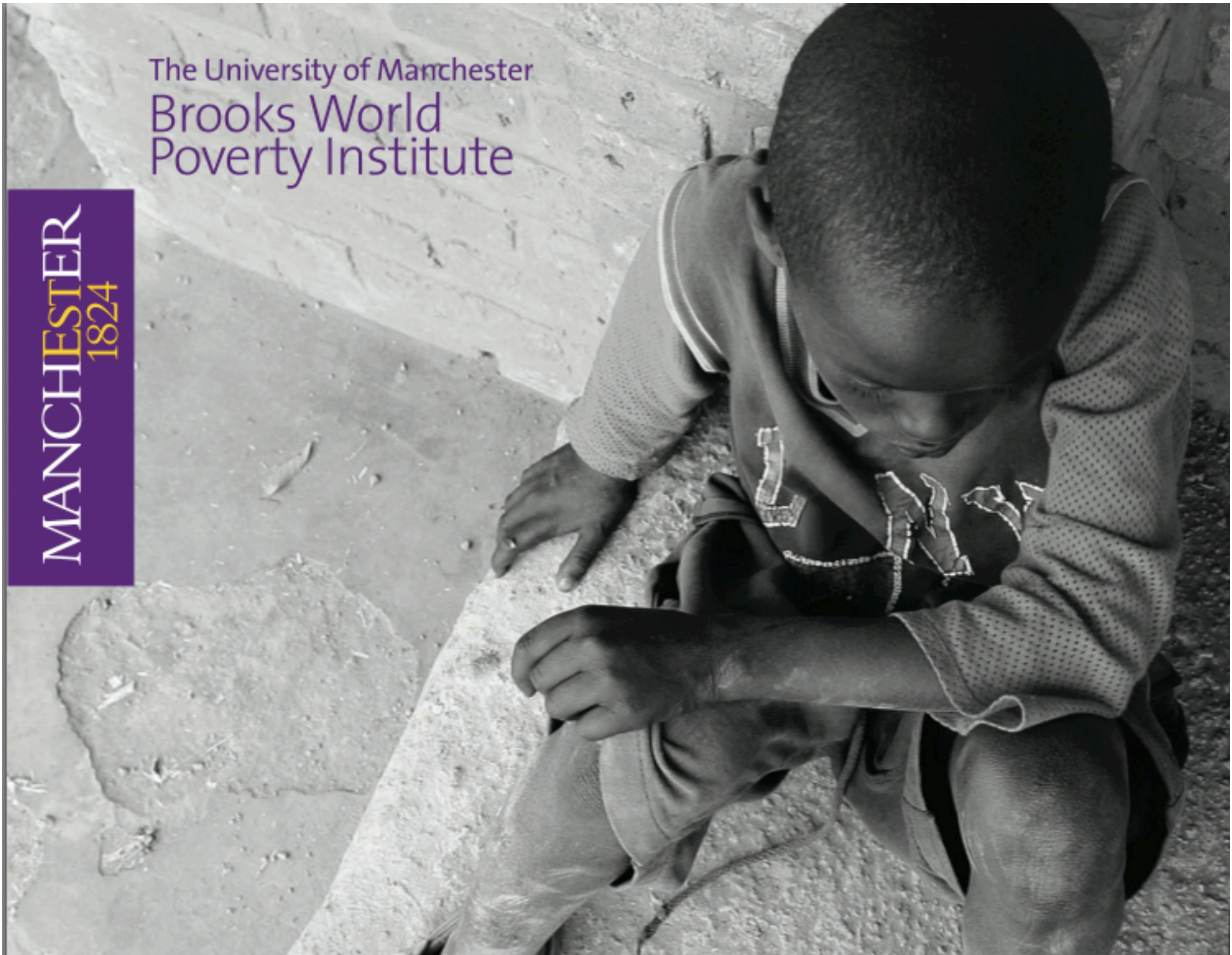


The University of Manchester
Brooks World
Poverty Institute

MANCHESTER
1824





Globalization & Poverty

Tony Addison

Presentation

Instituto Complutense de Estudios Internacionales

Madrid, June 2009



Globalization - Flows

- **Trade** – as a motor of economic growth, & therefore poverty reduction (China, Vietnam success stories, Africa's difficulties)
- **Finance** – flows of private capital, including to poor people (eg securitization of micro-loans)
- **People** – migration (both 'legal' & 'illegal') & remittance flows
- **Technology** – new ideas, IT & telecom but also energy etc. – but 'who owns science?'

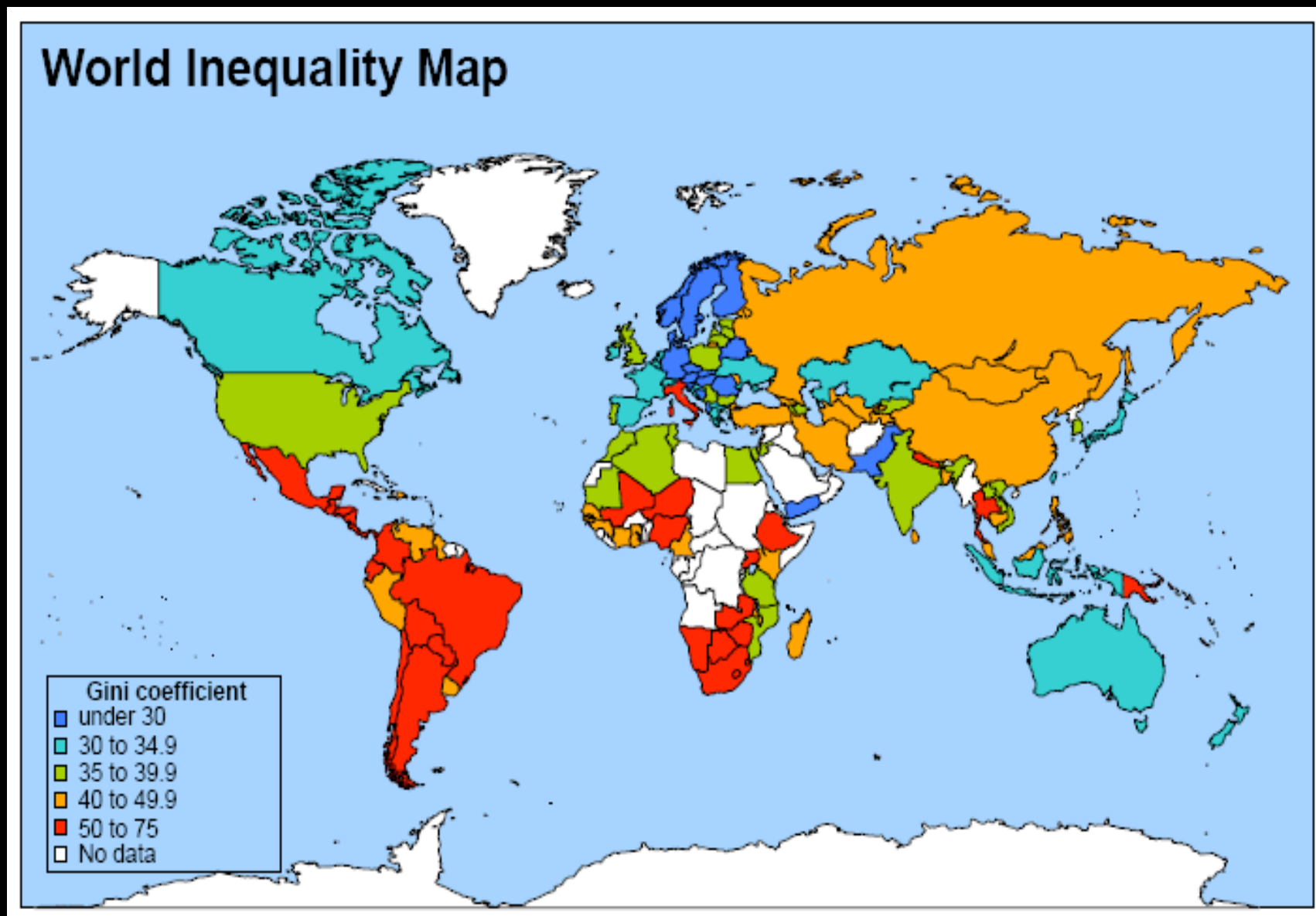


No “mechanical” link
from globalization to
poverty reduction...

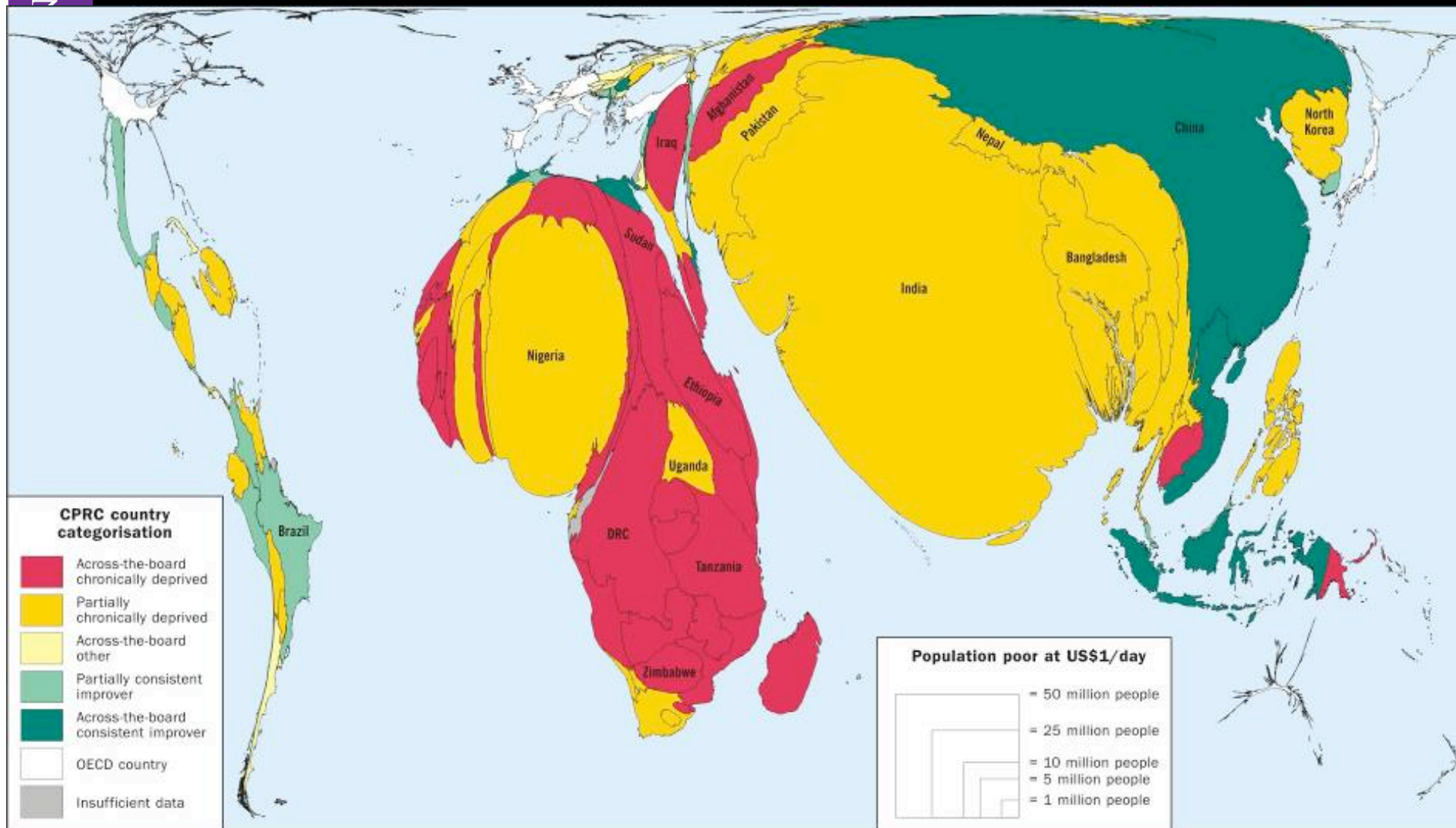




Country Context matters ...



Country Context is VERY important





What is Chronic Poverty?

- Chronic poverty = poverty that persists
- Multiple deprivation
- Often lasts an entire lifetime
- The lifetime is short: the lives of the chronically poor often end with an early & easily preventable death
- Poverty is transmitted across the generations

How the Poor See Chronic Poverty



“ is poverty that is ever present & never ceases. It is like the rains of the grasshopper season that beat you consistently & for a very long time”

(group of disabled Ugandan women)



Global Recession

- **Sharp GDP contraction** – “rolled out” from US to UK, now Europe
- **Developing economies** – “decoupling” or not?
Emerging economies v very poor economies

And

- **Recessions associated with banking crises are amongst the worst** – so could be long & deep



Linkages to Watch for

- Recession's impact on state fragility
- Budgetary impact in fragile (& other) states
- Global financial impact, inc. on aid budgets & private capital flows to conflict/post-conflict countries
- Economic recession could endanger regional peace

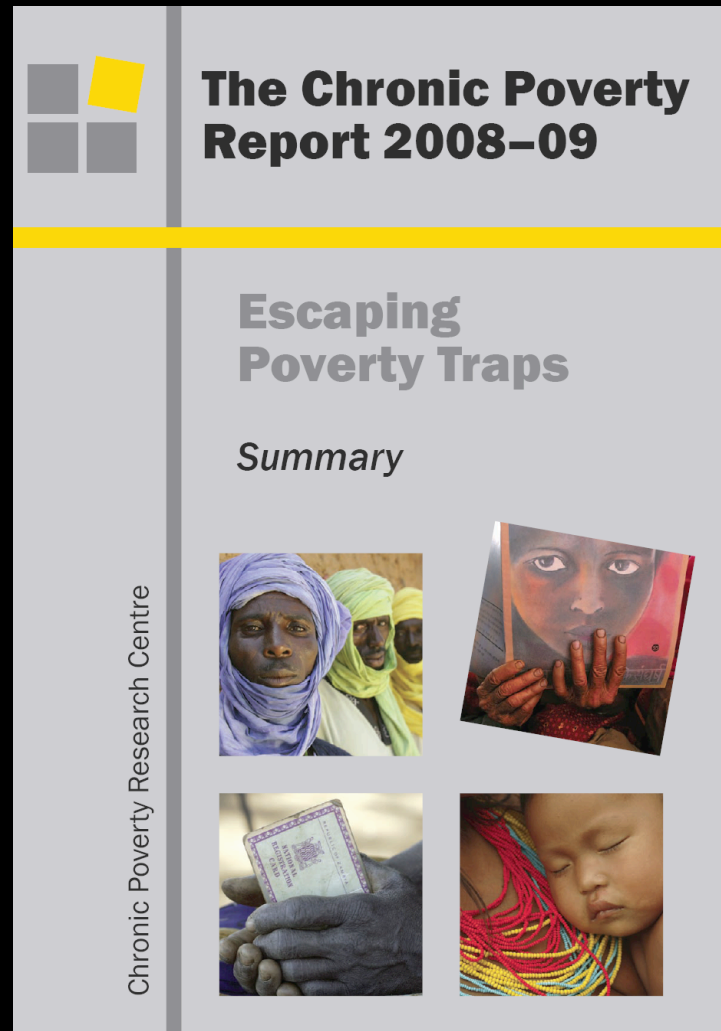


States under Strain

Chronic Poverty Report 2008/09

States create social
compacts in different
ways: fragile states
create none

Chapter 6 of CPR2



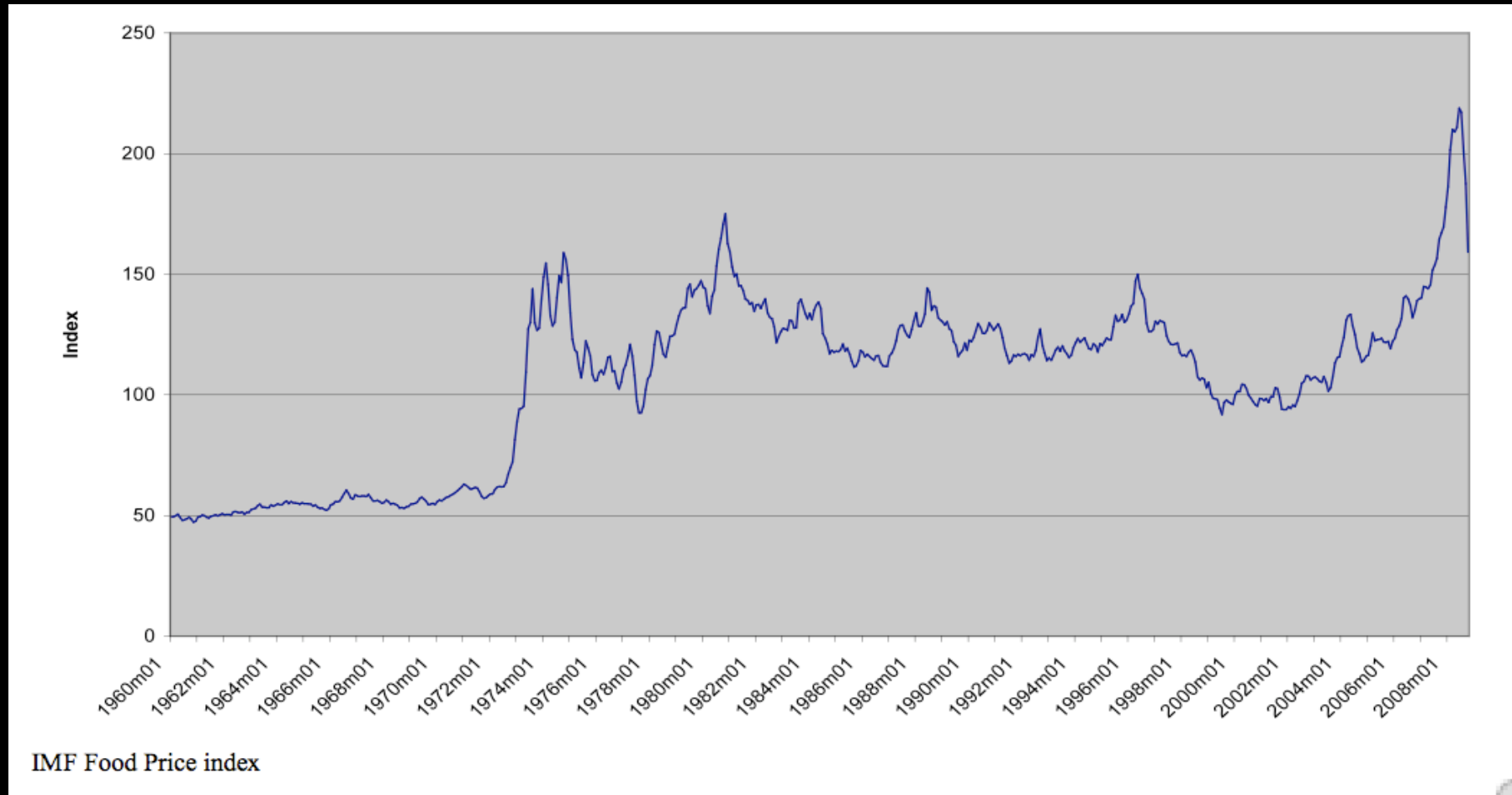
Recession raises risks & state fragility

Large distributional changes

- Poor people live with **risk** - few assets or entitlements, and limited capacity to cope with shocks and stresses
- Climate change is already raising those **risks** – e.g. Bangladesh
- A fragile state is one that – either does nothing to reduce **risk** or, in the worse cases, raises it
- Global economic recession – adds to **risks** & reduces the ability of poor states to respond (could derail Bangladesh return to democracy)



Huge Run-Up in Global Food Prices





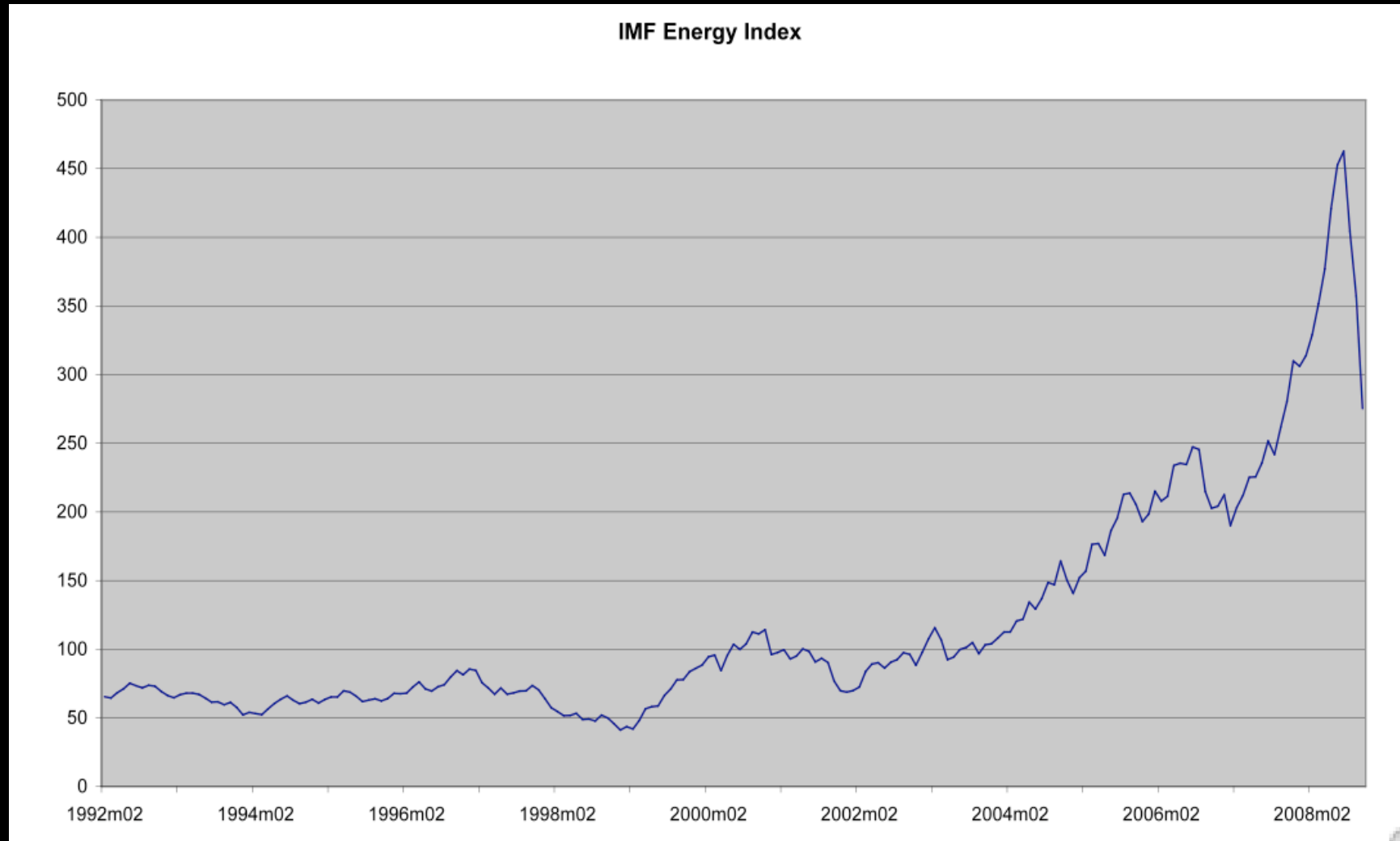
Budgets under Strain



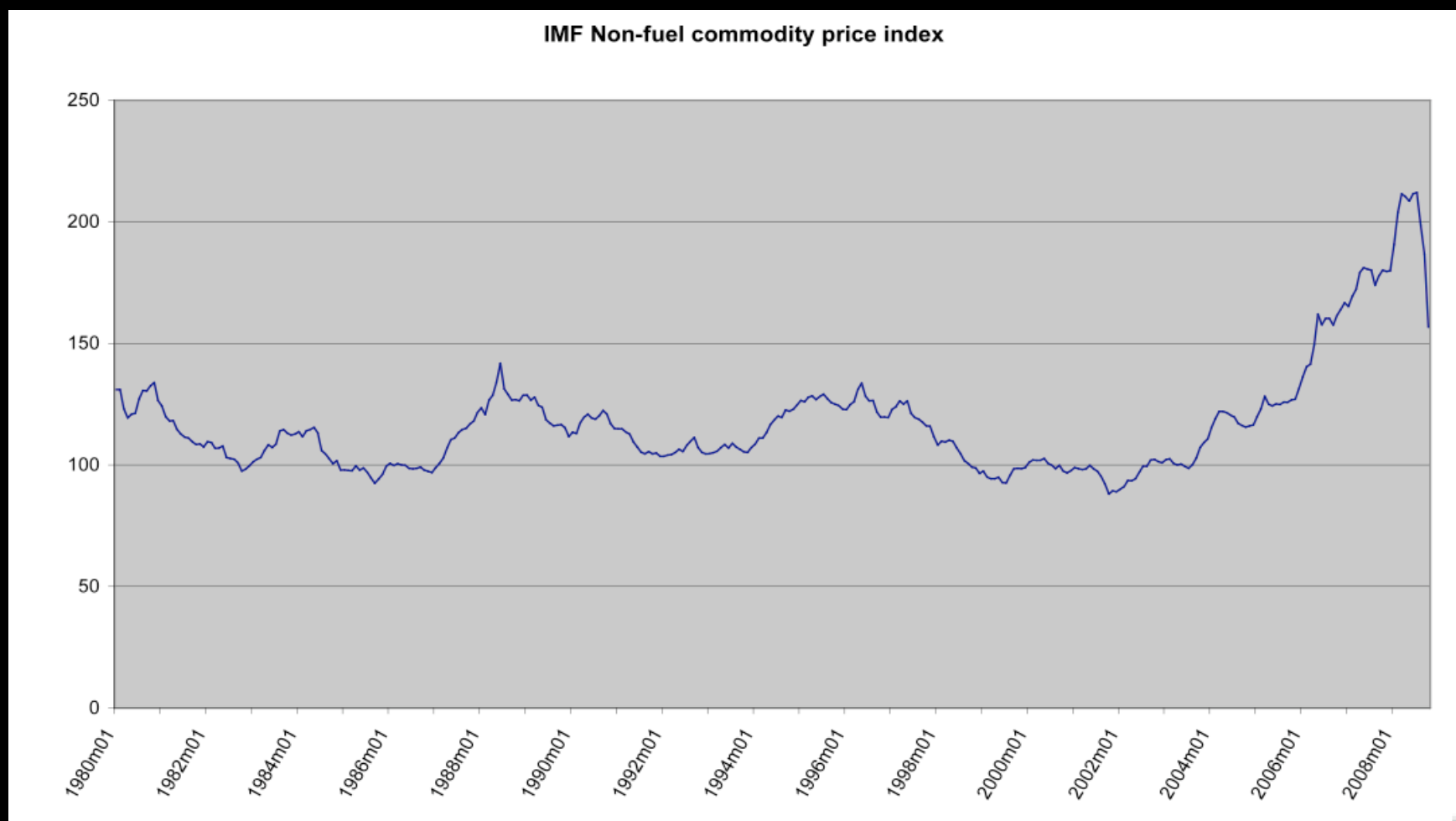
Fiscal Base of the State

- **Growth cuts the revenue base** – & thus ability to contain social tension (military spending v social spending)
- **Credit Rationing & sovereign-debt downgrades** – will compound fiscal problem
- **“Post conflict” states will become more aid dependent** – at a time when aid could stall
- **Revenue downturn especially severe in resource-rich countries** – most prone to conflict

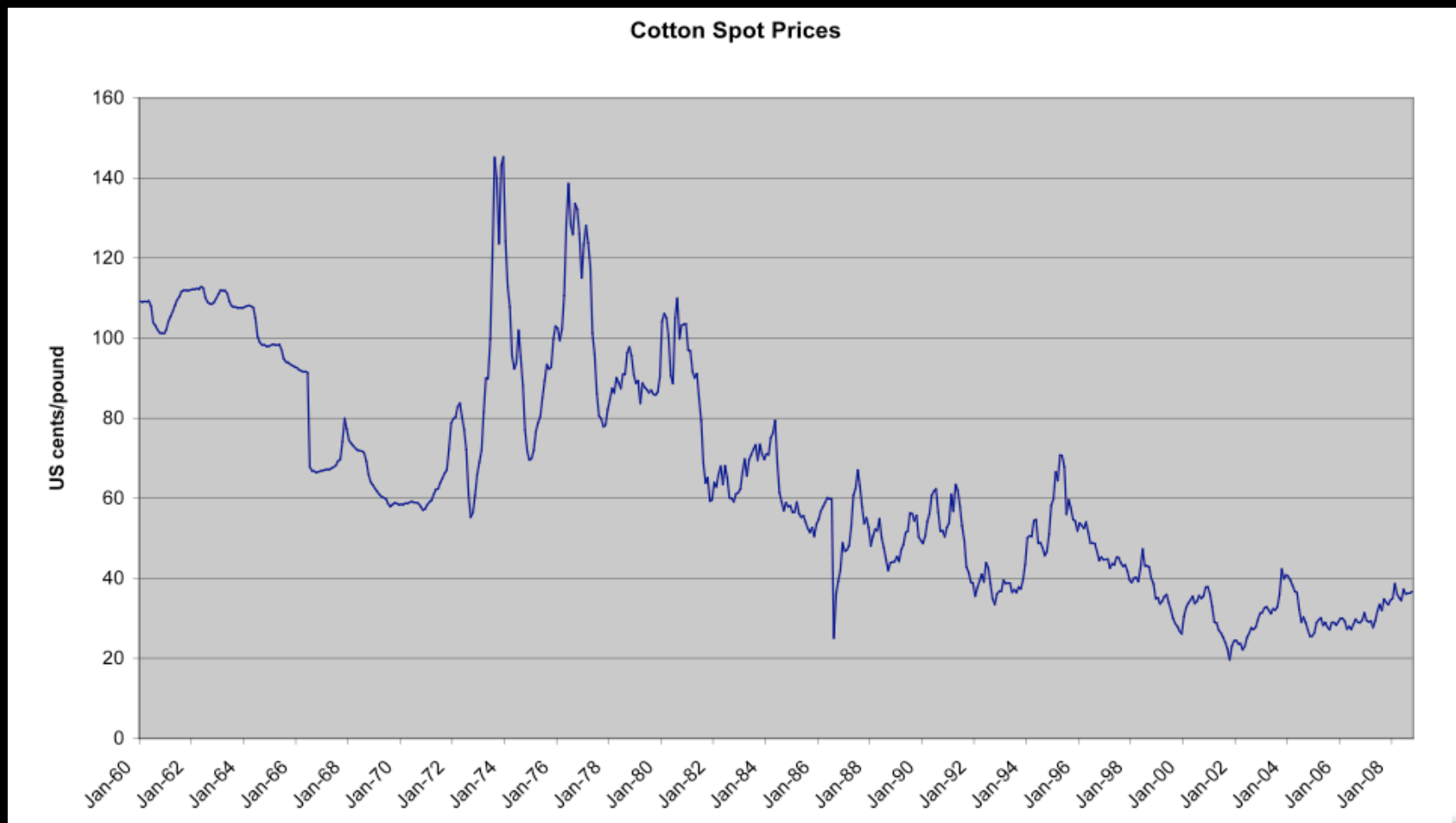
Energy Price run up ... then sharp pull back



Pull back in non-oil commodity prices



... & long-term picture for
commodity-dependent economies is
weak





Finance under Strain



Capital Markets Locking Up

- **Huge financing needs of US & UK governments** – US fiscal deficit (10% GDP?)
- **Developing Country Sovereign debt** – risk premium sharply up & finding it difficult to borrow (e.g. Ghana & Nigeria)
- **Poor economies** – back to dependence on official financing? But at a time when aid flow is under strain
- **Fiscal space squeezed** – pro-poor government spending under strain

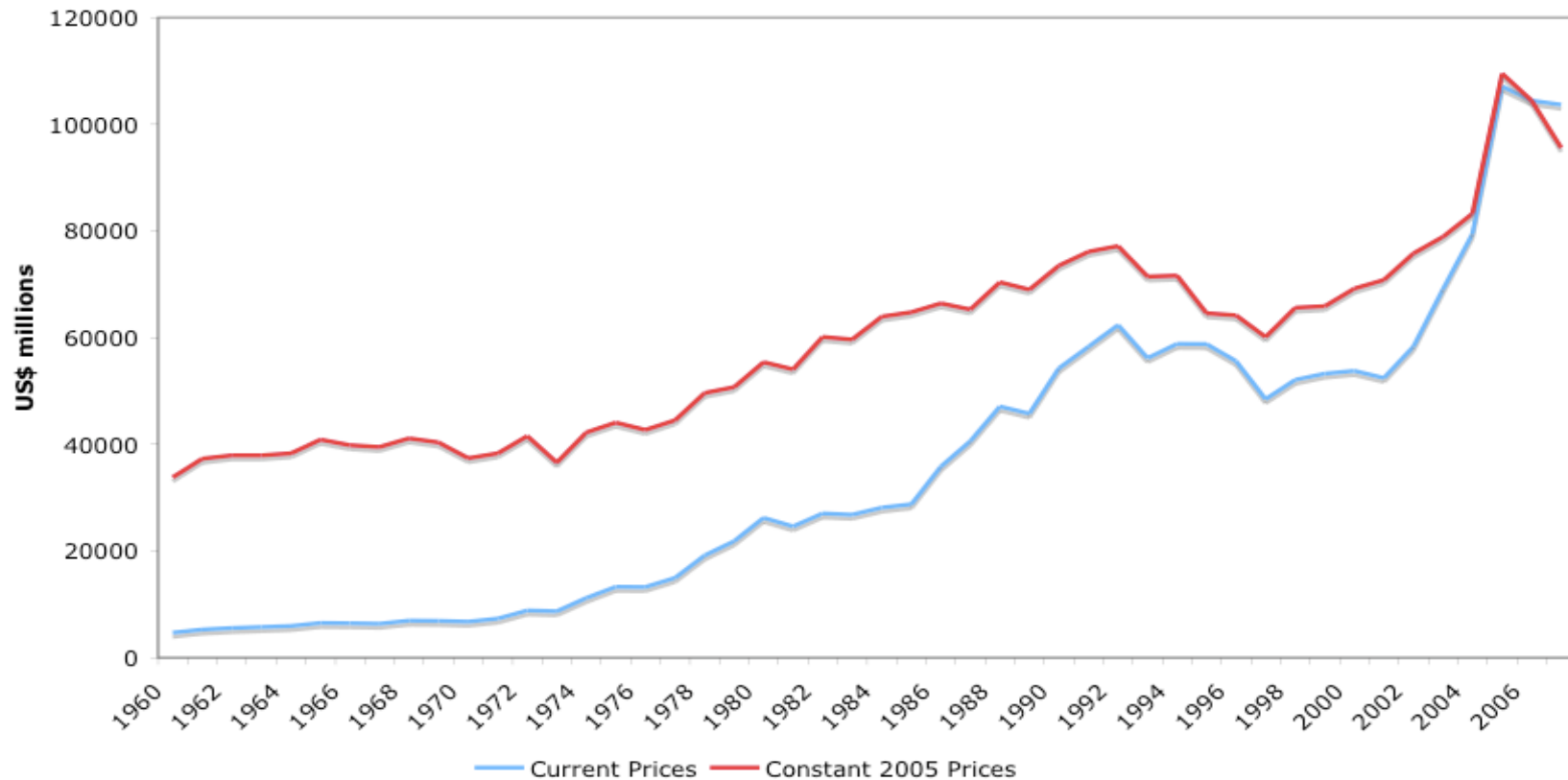


Pressure on Official Aid Flows

- **UK aid** – 0.5% GDP (Norway: 0.9%, US: 0.18%). **UK spent 2.5% GDP on bank bailout** (average financial crisis: 10%; Norway 1987: 8%; Japan: 20%)
- **“Post-conflict” economies** – very aid dependent (aid finances 50% of budget on average, still 30% in Uganda)
- **“New” aid donors to the ‘rescue’?** – Venezuela? (no) India? (no) Korea? (no) Turkey? (no) Iran? (no), China? (maybe)

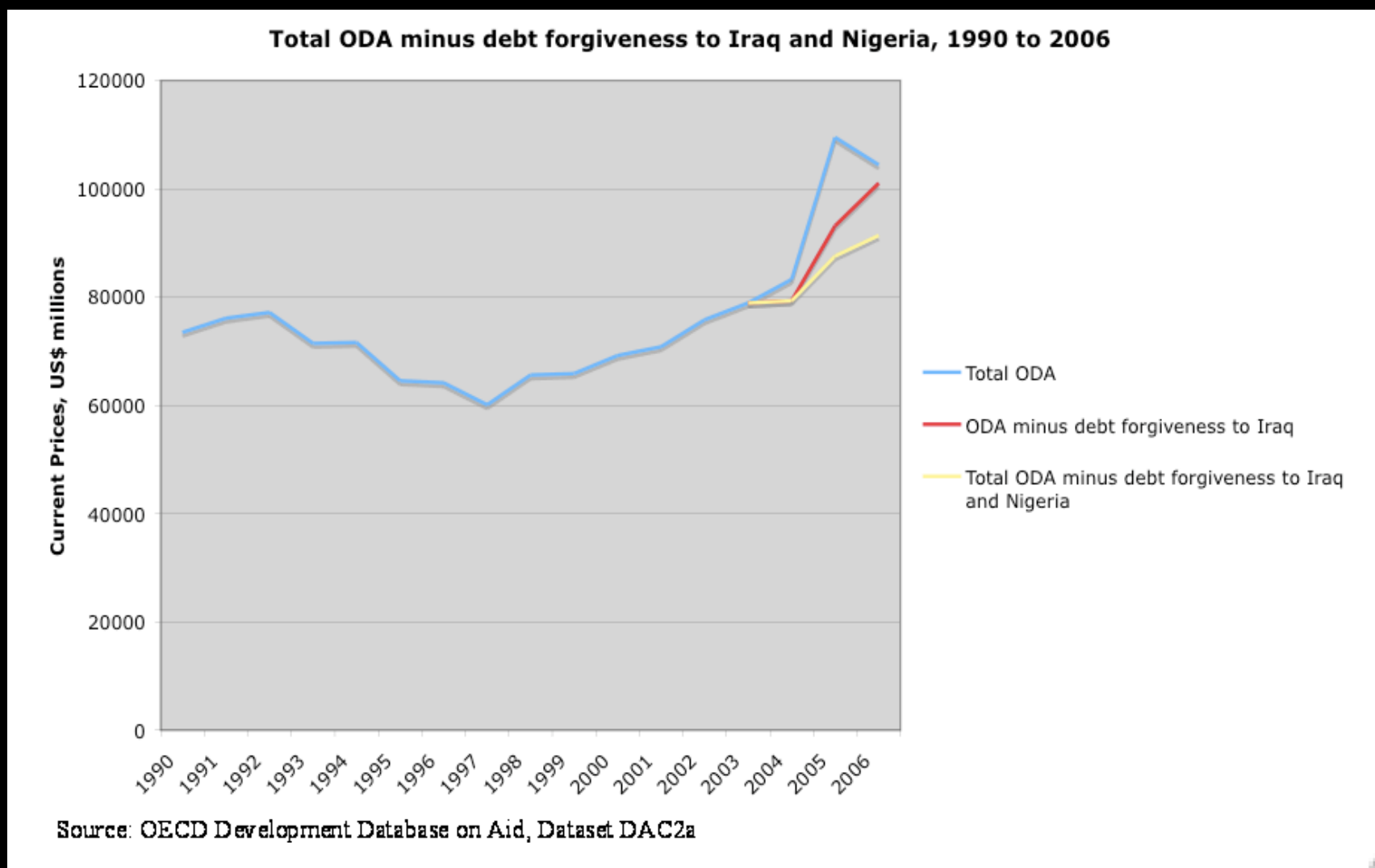
Aid rose from 2000 after post-cold war stagnation in 1990s

Figure 1: Total DAC Aid Flows, 1960-2007

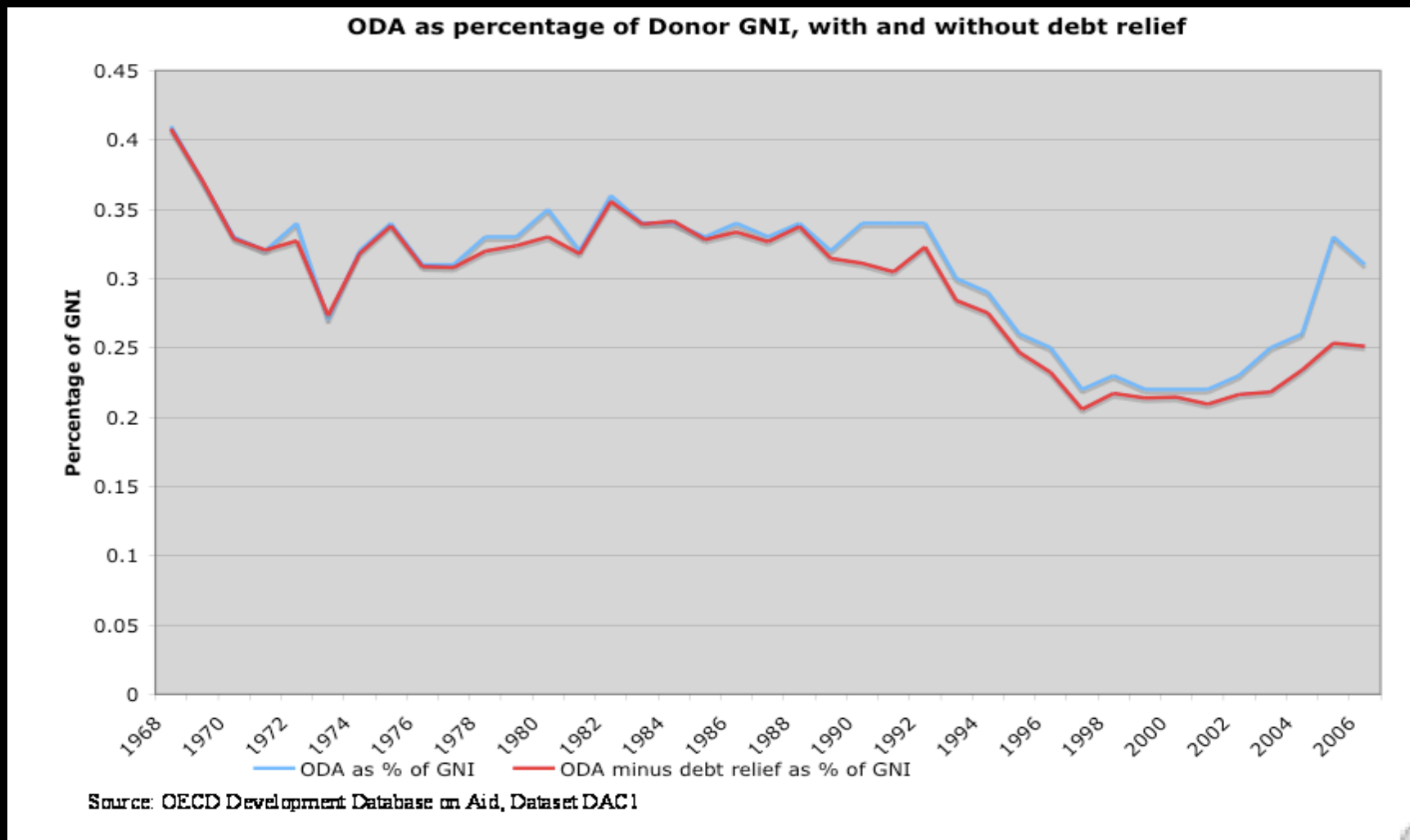


Source: OECD Development Database on Aid, Dataset DAC1

Modest rise in aid flows (very modest when debt relief excluded)



Global aid remains below 1960s levels





Responding to the Poverty Impact of the Present Crisis



Poverty reduction of recent years going into reverse

- **Millennium Development goals** – under threat, cannot be achieved in many cases
- **Social protection** – good for the poor, good for economic growth, good for business
- **Conditional cash transfers** – especially linked to education, in Brazil, El Salvador & Mexico
- **Reinforce capacity of social movements** – Bangladesh BRAC

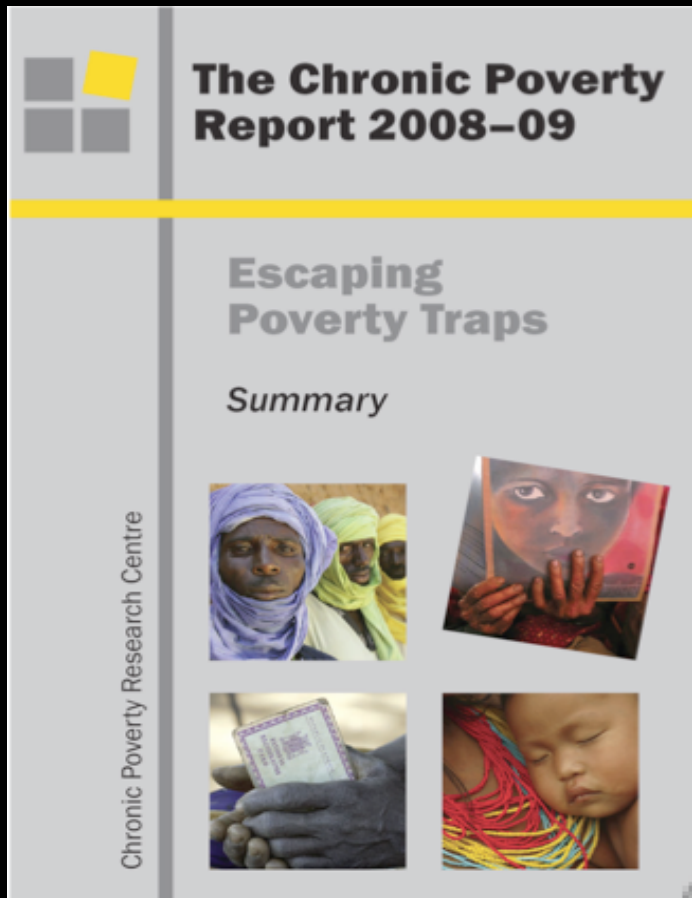
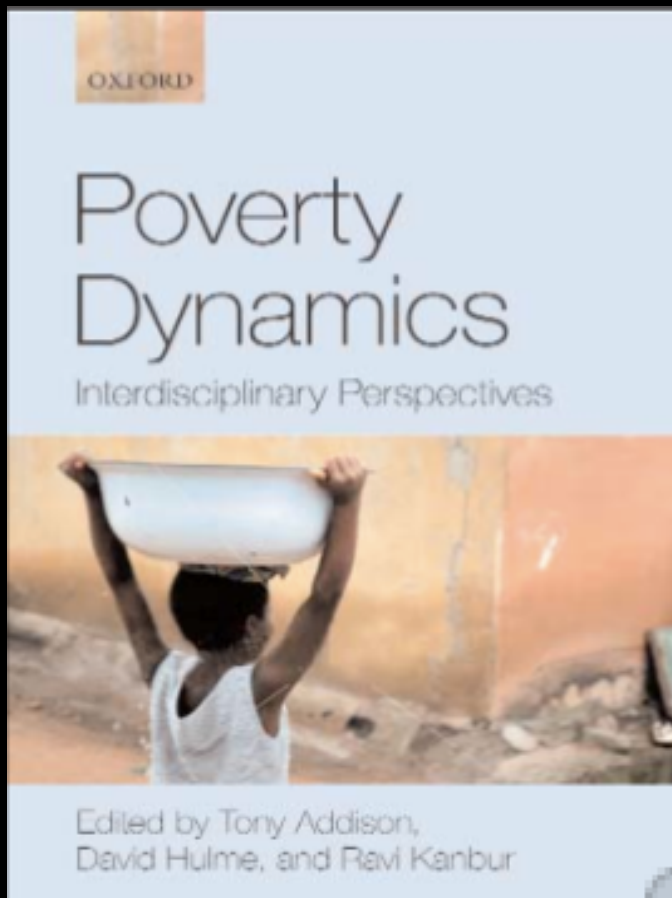






To conclude

- **Turning point** – in ideas: conventional wisdom of the last 30 years (belief in lightly regulated markets) overturned
- **Huge dangers** – if growth not restored in developed & developing worlds – gains from globalization will go into reverse
- **Poor people** – some are too poor for recession to have much impact, others will get hit hard
- **Expect the unexpected**



www.chronicpoverty.org

