UNDERSTANDING AND ADDRESSING POLITICAL INSTABILITY

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Framing the Issue

Understandably, recent attention on the G-20 has mainly focused on stabilizing financial markets and restoring growth. But the potential for the current global economic retrenchment to cause political chaos should be of equal concern, even if poorly understood, and deserves attention.

History shows that political instability and recession generally track each other—but very imprecisely (see graph). Increases in the number of countries in recession occurred following the oil crisis in the 1970s, the debt crisis in the 1980s, the collapse of the former East Bloc in the early 1990s, and the crises in emerging markets in the late 1990s. None of these spikes, however, were followed by surges in instability. Instead, the level of worldwide instability rose steadily between 1975 and 1991, dropping off after the end of the Cold War. Despite ongoing conflicts around the globe, the world is now experiencing the lowest amount of political violence since the 1960s. Will the current crisis reverse this trend?

For the first time since the Great Depression, the world economy is expected to shrink in 2009. Across the developing world, shuttered factories, frozen construction sites, empty tourist spots, and rising numbers of jobless are becoming increasingly common. There are forecasts that job losses in East Asian economies could surpass that of the Asian Crisis, even though this time the crisis began elsewhere. In China, no less than 20 million workers have lost jobs primarily in coastal manufacturing cities, many of whom may now stream back into the countryside.

Often there are cross-border consequences to job loss. Over 200,000 expatriates—one out of every 15 workers—may leave Singapore this year. Malaysia is expelling some 100,000 Indonesian workers while thousands of Burmese shoe and textile workers are leaving Thailand. Guest workers in the Persian Gulf kingdoms are losing jobs by the thousands and are facing the loss of work visas and repatriation, while their countries of origin are losing remittance flows.

The Indian state of Kerala, for example—home to approximately half of the estimated five million Indian workers in the Gulf, and which receives remittances amounting to 25 percent of the state economy—is bracing for the return of 500,000 expatriates in a few months. The same pattern is being repeated in many other places: Bangladesh, the Kyrgyz Republic, Philippines, El Salvador, and Tajikistan among others, may see sharp declines in remittances this year as their overseas workers head home. And along the U.S.-Mexico border, apprehensions of illegal crossers have fallen to levels not seen since the 1970s.

At a time when progress is being made in the fight against poverty, millions risk falling back into destitution. During previous crises, cuts in public health spending and education funding amid recessions pushed millions back into poverty, many who had recently achieved tenuous middle-class status. The World Bank estimates that, this time around, 53 million people will plunge back into poverty. Preventing this involves a $700 billion spending shortfall that international financial institutions and donors will be unable or unwilling to fill.

These events are heightening financial pressures on countries that are ill-equipped to deal with these shocks. As jobless ranks swell, as remittances fall, as poverty rises, and as the global credit squeeze cuts off other financing options, can these nations prevent their social fabric from unraveling?

Policy Considerations

Increases in armed insurrections and internal wars are most likely to be localized in countries with endemic conflicts and weak governments. But recession also creates conditions under which policy disputes can lead to significant amounts of (nonviolent) instability—government collapse, constitutional crises, general strikes, and political uncertainty. In developed economies, the current crisis has already brought down governments (e.g., in Iceland and Ireland, coming close in Greece). Crisis-related protests have erupted in Bolivia, Bulgaria, China, Kazakhstan, Latvia, Lithuania, Madagascar, the Philippines, Russia, and Venezuela.

Of course, the political effects of the global slowdown will depend on a number of country- and region-specific circumstances. But across the developing world, the crisis is likely to manifest itself in several ways:

1. **The (further) spread of anti-Western populism**: More than in recent memory, citizens in low- and middle-income countries may soon be united by their anti-Western and anti-market sentiments. Russian, Chinese, and some Latin American leaders have openly blamed the West for the current crisis. In Russia a majority of citizens now express a dislike of the West in general, and in particular, of the United States. More ominously, the youngest adults are now more anti-Western than their parents. The current crisis may also provide opportunities for leaders in many countries to use disillusionment with the Anglo-American model of capitalism for political advantage (see #2 below).

2. **Rising tensions in authoritarian states**: In good times when autocrats can ensure a steady flow of economic benefits to the population, citizens tend to acquiesce to their lack of voice. But in hard times, this “authoritarian bargain” can come undone. Under these conditions, some leaders may embark on limited political liberalization to survive. Others (e.g., Venezuela’s Hugo Chavez) may choose different approaches, relying on crackdowns, on expropria-

tions of foreign assets, and on anti-Westernism. And there is always the threat that governments may rely on xenophobia, factionalism, or ethnic loyalty to shore up their support, boosting the likelihood of violence.

3. **More violence in fragile states**: In sub-Saharan Africa, recession is expected to hit the most resource-dependent states the hardest: Nigeria, Angola, and the Democratic Republic of the Congo, where the Chinese have recently abandoned 40 copper smelters. In Bolivia, struggles for control over oil and gas reserves may turn violent in a deteriorating economy. And violence in Iraq, Afghanistan, and Pakistan may flare up as al-Qaeda and other militant groups find new recruits from the ranks of the newly unemployed.

4. **An increase in global criminality**: Maritime piracy off the horn of Africa and drug-related violence along the U.S.-Mexico border may both be omens of an increasing criminality among gangs that stretch around the globe, peddling guns, drugs, counterfeit goods, and human beings, and that thrive as economies collapse.

5. **Greater policy uncertainty everywhere**: Even where they can limit traditional political risks (violence, war, expropriation, currency inconvertibility, etc.), governments may find it impossible to resist public pressures to unwind trade and investment commitments, or to change regulatory and tax rules to benefit domestic constituencies over foreign investors. This kind of policy risk remains difficult to insure against, but is more likely to spread during bad economic times.

Action Items for Global Coordination

In hard times it is always difficult for governments to make international economic cooperation a priority. The G-20, representing the world's largest economies, is in a unique position to play a role in establishing dialogues on appropriate national and international responses:

1. **(Re)build safety nets in developing countries**: Beyond increasing short-term allocations for health and education spending, developing nations within the G-20 need to prioritize the reform and reconstruction of their welfare states. In particular, many of these countries lack well-integrated, universally-accessible welfare benefits that provide some form of common insurance against income loss. Instead, safety nets in most of these countries are typically a hodge-podge of public employment schemes, transfers to the poor, and incentives to maintain private employment (e.g., by cutting wages and work hours) alongside a limited social security system.

2. **Promote diversification in resource-dependent economies**: If it has not been abundantly clear until now, commodity-price booms do not make middle- and low-income countries rich. They need competitive, innovate real sectors to create jobs and growth, and to create a middle class that is not in constant danger of having its lower echelons decimated during downturns.

This requires countries to prioritize new skills and new approaches to post-primary education, and to support the establishment and funding of national research and development infrastructures.

3. **Focus on flash-points**: Targeting development aid to potential global hotspots—the fragile states, and states under severe fiscal stress due to debt-sustainability constraints—before conflicts flare may prove critical in the coming year.

4. Emphasize a greater role for regional core states: Large regional economies should take the lead in seeking collective solutions to problems of security and instability, as well as in stabilizing markets, thereby relieving developing nations from having to rely exclusively on richer governments or international financial institutions. Brazil, China, India, and South Africa, for example, are relatively well-positioned to keep regional markets open, to keep smaller regional governments in line, and to exert leadership in difficult times.