

Poverty Reduction in the Era of Globalization: Myth or Reality?

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List of abbreviations:

CPI –Corruption Perception Index

GCB – Global Corruption Barometer

(UN) IFAD – (United Nations) The International Fund For Agricultural Development

IMF – International Monetary Fund

TI – Transparency International

WGI – Worldwide Governance Indicators

The WB – The World Bank

WJP – World Justice Project

USSR – The Union of Soviet Socialist Republics

1.1 Introduction

During the last decade international community has been focused on poverty reduction, which became one of the Millennium Development Goals established during Millennium Summit of United Nations in 2000. Although some success has been achieved the goal is far from being complete. One of the factors that made poverty reduction possible is the phenomenon of globalization, which truly transformed the state of economic and political affairs across the world. While the globalization itself is not the only reason why poverty eradication goal was at least partly achieved it played an important part. There is no denying that globalization leads to decrease of poverty, however the conditions that aided poverty reduction during the era of globalization haven't been researched in detail. And because of this it is not possible to understand why some countries or even entire geographic regions benefited from the effects of globalization more than the others. One example that might be useful to illustrate this claim is the comparison between Asia and Africa. During the past decade economic records of most Asian countries improved, resulting in decrease of poverty level across a number of Asian states. At the same time, a number of African states remain one of the poorest, despite all the aid provided by the developed world. In addition, if we take into consideration the growth of population then the change in poverty level will be even more negative. The goal of this research is to understand *under which conditions states can reduce poverty in the long run during the age of globalization?* The question is particularly interesting because it will help to bridge the gap in existing literature and help to understand which conditions are important for poverty reduction. Ideally, near the end of thesis I should be able to gain a better of understanding of:

- 1) The connection between globalization and poverty decline in the world according to the neoliberal perspective
- 2) The role of factors, such as resource exporting, institutions and corruption on poverty reduction

By examining the impact of these factors on economies of different states it would become possible to analyze which factors are more important for poverty reduction in the states in the context of globalization.

The first question we want to answer is what is poverty? The definition of poverty varies and depends on what kind of poverty do we want to look at. The World Bank defines *extreme poverty* as living on less than US\$1.25 a day (PPP¹), moderate poverty as living on less than US\$2 a day.

¹ Purchasing Power Parity

Globalization and its effect on the level of income distribution and poverty have turned into one of the topics that gained attention during the past decade. Some scholars analyzed the possible effect that globalization might have using data provided by international financial institutions, such as the World Bank, while other scholars relied more on the theories, which could explain why globalization had or will have a certain effect on poverty. The first question that we can ask ourselves is how can globalization be best defined? It is quite difficult to define globalization, due to complex nature of the phenomenon. Each definition of globalization focuses only on a small number of aspects, which makes it quite hard to pick one that suits the purpose of the research. However the following definition provides the best explanation of the complex nature of the phenomenon of globalization

“globalization may be best understood as a syndrome of political and material processes, including historical transformations in time and space and the social relations attendant to them. Globalization thus constitutes a set of ideas centered on heightened market integration, which, in its dominant form, neoliberalism, is embodied in a policy framework of deregulation, liberalization, and privatization.” (Mittelman, 2002, p.4)

Then, it is important to understand why globalization is seen as a factor that can decrease the level of poverty. Since globalization is supposed to strengthen international cooperation and interdependence it is considered to be one of the forces that should foster economic growth across the globe. The most popular argument suggests that economic growth, in turn, is one of the major tools for reducing poverty in developing states (Dollar and Kraay, 2002). The most influential theory explaining eradication of poverty during the era of globalization is neoliberalism. Supporters of this theory believe that “largely unregulated capitalist system(a “free market economy”) achieves optimum economic performance with respect to efficiency, economic growth, etc” (Kotz, 2000, p. 1). According to neoliberal views, minimally regulated economies are likely to attract more investments, which in turn will aid in improvement of living conditions.

Some authors seem to be more optimistic in regards to the change in the level of poverty. In their mini article, Chandy and Gertz argue that globalization have already decreased poverty (2011). The authors provide figures showing that global poverty rate is decreasing every year, beginning from 2005, by 1-2 per cent every year. However, optimism vanishes, once they indicate that the reason for such change is China’s economic success and situation in the poorest region of the world, Sub-Saharan Africa, the poverty rate remained at 50% rate, coupled with region’s population growth, which means that the amount of poor people in the region generally doubled.

In this context it would be very interesting to see what the secret of China's success was. David Dollar analyses this matter and one of his findings was that the key to China's growth was the positive correlation between investment climate and performance of companies (2004). He comes to the conclusion that cities where investment climate is more favorable attract more investments, which would eventually result in better standard of living. Taking into consideration what has already been said about the possible effect of globalization on poverty reduction, the general pattern should look similar to this.

Globalization → Free Market Economy → Investments → Decrease in poverty

This seems to make sense and work in real life, however, the presence of foreign investments itself does not necessarily lead to decrease in poverty. As it was noted by Nissanke and Thorbecke not every geographical region benefitted equally from globalization (2010). The authors note that while Asian record was very impressive, Africa hasn't experienced a drastic change in poverty level. In an effort to understand the reasons why there has been such difference the authors analyze the behavior of regional states and come up with a policy suggestion that countries intending to benefit from globalization have to "take a pro-active stand in formulating regional and national strategies to enhance the positive effects of globalization and moderate the negative".

The analysis of the theoretical side of the connection between globalization and income distribution/poverty has also been carried out by Robert Hunter Wade who studies neoliberal's view on the issue of globalization and poverty. Neoliberals believe that "more open economies and more prosperous economies that liberalize more experience a faster rate of progress". In his work Mr. Wade question the empirical evidence of the neoliberal argument in addition to explaining why increasing poverty and the growing gap between north and south is dangerous (2004). It has been noted that one of the issues making it difficult to calculate whether the level poverty dropped is the change of methodology by the World Bank, which gives a big margin for error.

At the same time economic record of certain developing states suggests that the presence of natural resources², such as gas and oil, or presence of conflicts is another factor, which decreases the level of poverty in a country. Not much was written about this particular aspect by other scholars. This means that the abovementioned scheme is not complete. At least one of the conditions should be met in order to "trigger" investments, which are in turn expected to

² Economic success of countries like Russia and Brazil and many others can be, at least, partly attributed to natural resource export oriented economy.

decrease poverty. Taking into consideration the abovementioned facts we can say that investments will lead to decrease of poverty if there is at least one of the necessary conditions: natural resources; strong institutional framework; political stability and absence of violence, and finally, low level of corruption.

At the same time, a number of scholars criticize the neoliberal theory of globalization. One of such scholars is Joseph Stiglitz, the 2001 Nobel Economic Prize winner. According to Stiglitz, while globalization certainly provides new opportunities for every state there are certain dangers that have to be taken into consideration. First, Mr. Stiglitz believes that one the most serious problems that states might face is the fact that they are not prepared for such economic relations (Stiglitz, 2002, p. 17). This was nicely illustrated by a “small boat” metaphor used in his book. Another point of critique is that even the most advanced nations protected some of the most sensitive economic areas before they were ready to compete with foreign industries. Therefore, selective protectionism proved to be valuable and complete liberalization of economy is not wise for long term economic prosperity of a state. Last, but not the least there is a serious governing problem. Economic processes are regulated by IMF and World Bank, which reflect the interests of a small number of developed states³. Neoliberal theory also doesn't explain well why poverty remains a serious issue even though economies are interconnected.

In my effort to understand how various conditions affect poverty reduction I will use three hypotheses. Each hypothesis is aimed to understand how each condition affect poverty reduction. Most likely, none of those conditions alone can explain the decrease in the level of poverty. However, testing these hypotheses will explain better why certain countries were able to reduce poverty while others didn't succeed.

Hypothesis 1:

Globalization will lead to decrease in poverty in developing states if there is either a presence of a strong institutional framework or natural resource export oriented economy

This hypothesis is aimed to understand how the presence of strong institutional framework and/or natural resources can assist developing states in reducing the level of poverty. The idea is that investments made into the developing country will not be effective in combating poverty if there the rule of law in a country is weak, while the presence of natural resources might increase the amount of investments, which will also help to reduce the number of people living below poverty line. The presence of at least one factor increases the investments, therefore aiding the

³ Traditionally, head of IMF represents Europe, while the head of World Bank is American

decrease of poverty in a developing country. Generally, investors will be hesitant to invest into a state which lacks strong institutions in order to minimize their risks. At the same time, growing need and prices for natural resources might be a factor that makes them more willing to do so. In order to test this hypothesis I will use the cases of three countries broken down into three groups:

- First group: a developing country with natural resources and without strong institutional framework
- Second group: a state with strong institutions but with minimal/no natural resources
- Third group: a state lacking strong institutions and without natural resources

While it can appear that the presence of natural resources in a developing country is enough to combat poverty it is not necessarily so. First, investments into resource rich country will likely to lead to development of extracting industry only. Income generated by oil resource extraction might, indeed, aid in development of society and reduce poverty level if there is a low level of corruption. In addition, natural resource extraction can lead to high inflation and a phenomenon called “Dutch disease”, which is harmful for the development of healthy economy in the long term. The goal here is to analyze to what extent the presence of natural resources or strong institutional framework defined the success of the country in regards to poverty eradication.

Hypothesis 2:

Globalization will lead to decrease of poverty if a state hasn't experienced instability in domestic and/or foreign policy.

I intend to look into the past economic record of each state during the period of about 20 years and compare how the countries improved during this period of time. In order to do so, I will look at presence of conflicts that a country has been a part of; determine if any particular region of a country might have been hurt more compared to others because of conflict presence; search for information regarding perceived level of stability in a country and look into the changes of poverty level.

Hypothesis 3:

Globalization will lead to decrease of poverty if the corruption level in the country is low

One of the key issues in relation between globalization and poverty reduction is the level of corruption in a country. If we take a look at economic record of any state we will see that investments made into the country do not necessarily lead to decrease of poverty. The presence of strong institutional framework and/or natural resources will, probably, result in an increase of investments made into the country. However, if there is a high level of corruption⁴, economic benefits received by population will be limited. In this sense examining the impact of corruption is vital for understanding why in some cases globalization led to poverty reduction while it didn't in others. All three cases that have been chosen for this research have problems with managing the level of corruption. However, the fact that each of those states experience corruption related problems to varying degree would make it possible to uncover connection between poverty reduction and changes in the level of corruption. After the analysis of impact of each individual factor on poverty is finished, it would become possible to say why in certain cases poverty reduced, while in others the improvement was not as visible. Considering all these variables together might be also be beneficial for finding an answer to the research question.

In the next section I will focus on research methodology, case selection and a number of potential limitations of the research. Then I will focus on examining the impact of certain factors like corruption, institutional framework and the presence of natural resources on poverty reduction. The work will be concluded by some final thoughts.

1.2 Methodology:

The research will be carried out by using qualitative methods. I will employ process tracing to gain a deeper understanding of the impact of each factor on poverty level change. This will give a possibility to minimize the effects of intervening variables, and understand which factor has more effect on poverty reduction in each case. In order to test the hypotheses I will rely on data provided by a number of international organizations including Transparency International, The World Bank, World Justice Project, United Nations and others. Short description of data gathering procedure followed by those organizations will be provided in a brief introduction to each chapter

The analysis will be carried out by looking at the changes that have taken place during the past two decades in three different countries. In order to test the hypotheses and see whether connection between these factors and poverty exists I have decided to pick three cases: Nigeria,

⁴ The case of Nigeria, for example

Turkey and Belarus. All three countries belong to the group of developing states and each country has at least one problematic area, in terms of the factors that were mentioned before. This makes them good cases for studying the impact of each of those factors on poverty reduction. I have decided to pick cases representing as many geographical regions as possible to understand whether the presence of strong institutions and/or natural resources, corruption and absence of violence/level of political stability are truly a factor shaping the change in the level of poverty in different parts of the world. In addition, this approach will make it possible to avoid selection bias.

There are a number of issues that have to be mentioned to make the work fair. First, data gathering used by various international organizations differs, which means that information provided by them can be used to complement each other and cannot be compared with each other. Another issue that has to be mentioned is that most ratings are constructed on the basis of expert and household surveys. However, little information is provided about the details like average income of those households, which can raise questions regarding the accuracy of those surveys. Another potential problem is the criteria for expert selection. If scores are constructed on the basis of interviews of different experts every year, then the findings presented by those organizations might be biased. While these issues might have influence on the outcome it is highly unlikely that the impact will be too big. Also, there is no alternative way to measure concepts such as “corruption”, “poverty”, “absence of violence” and others, which is why data achieved by way of expert and household survey will be included into the work.

Despite these potential shortcomings, by employing this approach it would be possible to minimize the influence of potentially distorted data on the outcome of research. In addition, due to the fact that cases are not perfectly matched employing process tracing method will make it possible to create a stronger basis for resting causal relations between variables.

2.1 Rule of law and natural resources:

The strength of rule of law seems to be one of the key issues that affect poverty level in developing countries. A number of reports by various organizations and articles have been dedicated to the connection between the rule of law and its effect on poverty reduction. General logic suggests that countries with strong rule of law are more likely to have less people living below poverty line. Existing literature supports this statement. According to Birner:

“Poor and disadvantaged groups, especially the rural poor and women often lack access to justice. The transaction costs of accessing the formal juridical systems are typically high, and the system is often captured by elites who have few incentives to serve disadvantaged groups. Poor people thus have few prospects to defend their land or labor rights or to take action against violence, which contributes to inequalities.”(2009, p. 530)

United Nations support this claim by saying that “more than 4 billion people of the world’s poor are excluded from the rule of law, resulting in the lack of legal protection of their rights and entitlements”. In one of the reports of the UN Commission on the Legal Empowerment of the Poor it has been mentioned that “it is not the lack of assets or lack of work that holds them (poor people) back, but the fact that the assets and work are insecure, unprotected, and far less productive than they might be” (2008. pp. 1-2). In other words, if the rule of law is strong, then the most disadvantaged groups of people will be better protected, which will lead to better income distribution and eventually lead to decrease of poverty.

Important question to answer before proceeding is what can be defined as a rule of law and how can we measure it? Worldwide Governance Indicators (WGI), which is based on a research program of the World Bank defines “Rule of Law” as: *“the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcements, the police, and the courts, as well as the likelihood of crime and violence”* (Kaufman, Kraay, Mastruzzi, 2007, p. 4). In other words, the idea behind this term is to understand whether the law is observed and whether everyone is equal.

One tool that might of assistance for measuring “rule of law” is the WGI, which is research dataset providing information on the quality of governance based on 6 indicators. One of those indicators is the rule of law. Information on rule of law, and other five indicators, on each country, is available beginning from 1996. The information for determining WGI indicators is being drawn from combining similar indicators from a number of sources and calculating their average.

Another tool explaining how people in various countries experience the rule of law is World Justice Project (WJP) Rule of Law index. This index is also based on surveys. According to the information provided by WJP, Rule of Law index is based on over 100,000 household and 2,400 expert surveys in 99 countries. The rule of law is measured on the basis of 47 indicators organized around eight themes: fundamental rights, order and security, regulatory enforcement, civil justice and criminal justice. The overall score of the country is calculated by simply calculating the average of eight individual factors.

In regards to natural resource export oriented economies, it is more difficult to understand how the presence of such economy will impact poverty. From one point of view, presence of natural resources will result in huge investments into the country, which would result in quickly generated revenue, thanks to the growing need for natural resources. This, in turn, will lead to improvement of infrastructure that will speed up poverty reduction. In the worst case scenario, income generated by resource exports will not result in poverty reduction and lead to long-term economic instability because other sectors of economy will not develop quickly enough, due to the large inflow of revenue, and it will lead to loss of competitiveness in those fields. It is also important to note that mostly developing states are subject to negative consequences of resource exporting, due to the political pressure to bring in the capitals into the country at once. Obviously, the probability of one of the abovementioned scenarios happening depends on a number of factors, such as regime type, the degree of dependency on resource exports, etc.

The three cases that were selected for this research will, hopefully, provide an insight into the connection between these two factors to poverty and give us an understanding of how countries belonging to different groups will react to presence or absence of any of those factors.

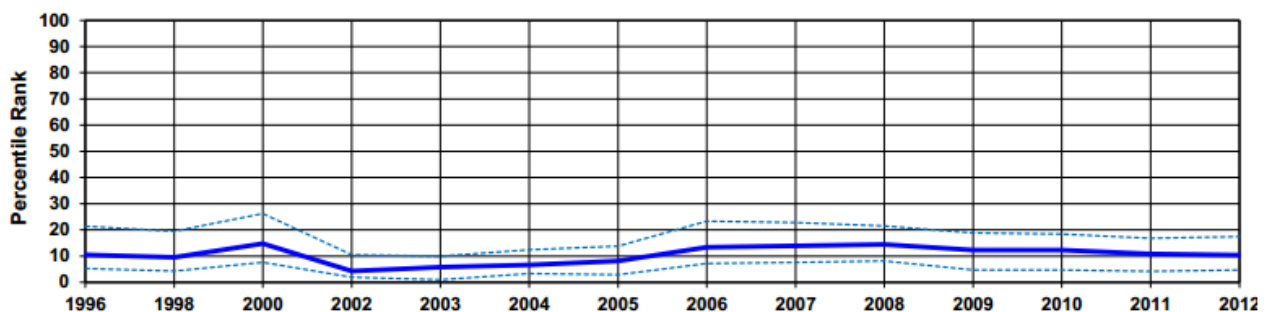
2.2 Nigeria

In order to understand how the presence of natural resource export oriented economy influences the change of poverty level I will rely on the example of Nigeria. Nigeria is one of the most suitable and interesting cases for understanding how the presence of resource export oriented economy affects poverty in the country. Nigeria gained its independence in 1960, however soon after that this African country faced decades of military rule. During this time, especially in the 1970s Nigeria generated huge revenues, thanks to the oil boom. Despite this, little was done to improve the living standard of the population, aid business development and infrastructure renewal. Nigeria regained democracy only in 1999, when it elected Olusegun Obasanjo as the

Head of State, ending 33 years of military rule. Since then Nigeria became Africa's largest economy (GDP) in 2014 (Al Jazeera, 2014), it is regarded as an emerging market by the World Bank and is expected to become one of the world's Top 20 economies by 2050. Economic success of the country can be attributed to its oil exporting sector. Today Nigeria is the 12th largest producer of petroleum, 8th largest exporter and has the 10th largest proven reserves (Library of Congress, 2008, p.8). Such economic potential and achievements gives us valid ground to assume that poverty level in the country would be low, however as it was said this might not be necessarily so. It is also interesting to note that according to existing reports, Nigeria lost about \$10.9bn as a result of oil theft (Fin24, 2013).

Niger Delta is the region, mostly known for its oil production, which accounts for over 95 percent of nation's export earnings since 1975, has suffered ecological damage from decades of oil drilling and gas extraction (Ebegbulem, Ekpe and Adejumo, 2013, p. 283). Region once known for its good agricultural lands, fishing resources and developed industrial base has now become home for a large number of people living in poverty (Amnesty International, 2009). Extensive resource extraction resulted in a bad ecological situation, which damaged farming and fishing industry. Existing data shows that during the last decades approximately 1.5 million tons of oil has been spilled within the Niger Delta (Kadafa, 2012, p. 41). In a way, it is weak rule of law that aided progress of environmental damage in Niger Delta region and therefore creating opportunities for poverty to flourish. Lack of legislation aimed at protecting environment, or lack of control over implementation of such legislature negatively impacted environment. In addition, people living in such regions can't defend their rights adequately, which makes their condition even more difficult.

According to WGI rule of law index situation in Nigeria hasn't improved during the past 18 years. The only significant and more or less long-term change took place between 2006 and 2009 when this indicator was higher compared to other years. However, after 2009 the rule of law rating started to decrease again and in 2012 it reached the level of 1996. At the same time, the lowest rating was reached in 2002 and it took three years to return to 1996 level.



Source: Worldwide Governance Indicators

As a result, according to WGI ratings, not much changed in the country despite all the calls and efforts. Worldwide Governance Indicators provide a general understanding of situation in Nigeria. In order to get a more detailed picture we will refer to World Justice Project's Rule of Law Index for 2014, which will provide an insight into various sectors of governance in the country. According to the findings, the overall score of the country is 0.39, which places Nigeria on 93rd position out of 99 countries. Even more interesting, Nigeria's score is very low even compared to other regional countries, which is evident from its regional score, 16th out of 18 nations. And finally, there are no signs of improvement in the country compared to the previous year. On the contrary, "Order and Security" indicator worsened over the past year, and as a result the country's ranking on this single factor is 98th out of 99 states.

According to the World Bank data, today about 63 percent of population lives below \$1.25 dollar a day. During the past decade situation worsened considerably. Ten years before, the poverty level in the country was 48.4 percent. If we take into consideration high population growth rate then it becomes obvious that the amount of people living in difficult conditions increased dramatically. This data shows that revenues generated by natural resource exports didn't have any impact on poverty reduction in the country, while weak of rule of law coupled with fast growing population, especially in rural areas, explains why more and more people live in desperate conditions. In regards to poverty situation is even worse in rural regions of Nigeria. Existing data shows that 80 percent of rural population lives below poverty line. This data highlights the lack of efficiency to promote the rule of law, on behalf of government, to aid rural people.

The case of Nigeria shows that there is little correlation between the level of poverty in the country and the amount of income generated by natural resource exports. In other words, while resource exports do quickly generate huge revenues these funds did little to decrease poverty in Nigeria. In certain regions, oil and gas extraction even worsened poverty situation, mostly because of lack of legislation for environmental protection or lack of implementation of such laws. In both cases, this is the result of a weak rule of law in the country. While it is possible to argue that correlation between rule of law and poverty is limited, due to the fact that rule of law indicators have not changed much during the past decades, while the poverty is on the rise, we should not forget about fast population growth. Population growth in Nigeria is the factor that explains the negative change in the level of poverty. Therefore, low level of rule of law, indeed,

hurts the country's poverty level. This is especially noticeable in rural areas where the size of families is large.

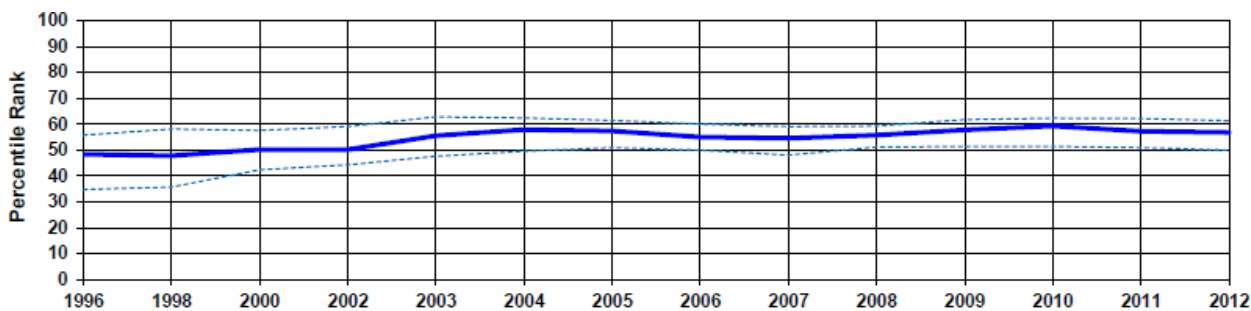
2.3 Turkey

Turkey is considered to be one of the emerging markets (IMF, 2011, p.3) and one of the fastest growing economies. In 2010 and 2011 Turkish economy improved by 9.2 and 8.5 percent respectively, despite economic crisis. Agriculture has traditionally been one of the key points of Turkish economy. Although the share of this sector has been declining during the last decades, it still accounts for about a quarter of work places for Turkish economy, resulting in 8.9 percent of economy. Currently 63.8 percent of Turkish GDP originates from services sector, which makes it key field of national economy. Turkey produces both gas and oil, however, the country is dependent on imports of both types of resources to cover the growing need for energy. Despite this during the past decades Turkey has become an important country in the field of energy security because of its location and the fact that a number of pipelines pass through the country. Traditionally Turkey depended on trade with EU member states, however, during the last decade Turkey shifted its focus towards developing countries in an effort to expand their trading markets. Main importers of Turkish products are Germany, Iraq, Iran and UK.

According to the World Justice Project's Rule of Law Index Turkey has an overall score of 0.5, which puts the country on the 59th position out of 99 countries. The most problematic areas are criminal justice, which has the lowest score among all eight factors, openness of government and protection of fundamental rights. Problems in these areas are potentially dangerous for rural population, since this group of population usually experiences difficulties in accessing justice for protection their rights. Existing information supports this claim. According to information provided by the International Fund for Agricultural Development (IFAD) 35 percent of rural households in Turkey experience poverty, while only 22 percent of urban households face difficult economic situation. However, the numbers are decreasing, partly because of internal migration of rural population to more prosperous cities located in the western part of the country.

Let's take a look at WGI Rule of Law indicator for a better understanding of the changes that have taken place in Turkey during the previous decades. The first thing that we see from the table is that Turkey made some progress during the time between 1996 and 2012. During the first six years improvement in the ratings was observable, however, the changes were insignificant. Improvement continued during the next two years and as we see on the table, it was more

significant. In the following years rule of law ratings changed twice: negative changes are observable between 2005 and 2007, and then ratings improved once again and reached the peak point in 2010. In 2011 and 2012 country's score decreased slightly, however, the country retained its relatively high rating. Turkey's rule of law rating improved during the period that covers analysis and is higher compared to other cases used for this analysis.



Source: *Worldwide Governance Indicators*

Poverty in Turkey decreased from 27 percent in 2002 to 18.1 percent in 2009. Despite the overall decrease, we have noticed increase of poverty twice. The first one took place in between 2002 and 2003, when the poverty level increased by 1.1 percent from 27 to 28.1 percent. The second increase took place between 2008 and 2009 when an increase of 1 percent was noticed. As a result in 2009 the World Bank recorded that 18.1 percent of population lived below poverty line. The World Bank does not provide information regarding poverty rate in Turkey in the following years, therefore we will look for alternative sources to see developments. Data provided by CIA factbook shows that in 2010 Turkey's poverty score reduced and reached 16.9 percent.

The case of Turkey also provides evidence supporting the claim that the presence or lack of natural resources has little impact on poverty reduction. Number of people living below poverty line in Turkey is relatively high, despite well developed economy. If natural resource exports were vital for poverty elimination in a country, then we would have probably seen different results.

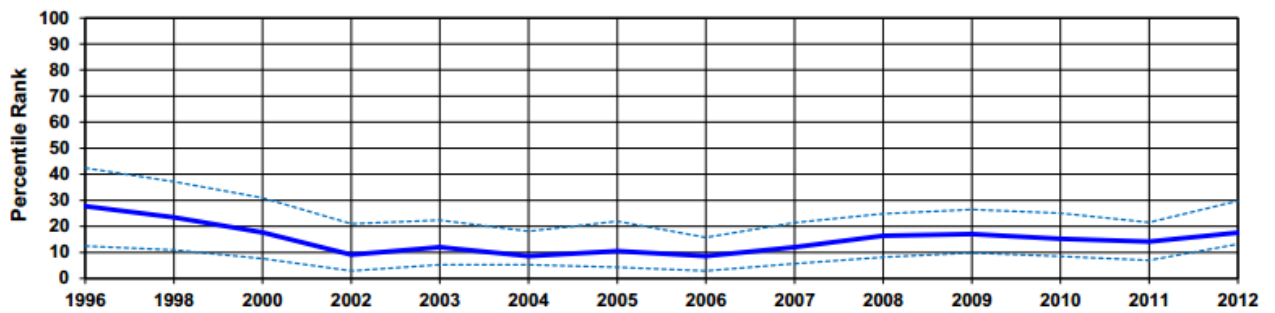
At the same time, the case of Turkey uncovers interesting connection between rule of law and poverty reduction. Higher value of rule law in the country didn't result in elimination of poverty in the country. In fact, percentage of people living below poverty line is quite high for a country with a relatively high score of rule of law. There are number of possible explanations for this. It is possible that another variable distorts the connection between rule of law and poverty. The first thing that comes to mind is the existing instability on certain border regions, which might create opportunities for increase of poverty in those regions. This matter will be investigated in the next chapter. However, general trend is that the rule of law in the country got stronger and

number of people living below poverty line decreased. This becomes obvious if we take a look at poverty decrease between 2003 and 2006. During this period rule of law score increased and poverty reduced by 10.3 percent. From 2006 to 2008 poverty reduced by 0.7 percent only, while rule of law rating remained on the same level. Internal migration of rural population also helped to decrease the number of people living below poverty line, which also indicates that rural population experiences difficulties in protection of their rights.

2.4 Belarus

After the disintegration of Soviet Union all former countries including Belarus faced economic difficulties. In order to tackle this Minsk chose a path of state controlled economy as opposed to other states that opted to open up their economies. Belarus had difficult economic period in the second half on 90's, mostly because of the financial crisis that broke out in Russia during that period. Although Belarus had a well developed industrial base and high standard of living after the collapse of USSR, now it has to move away from state controlled economy. However, there are a number of problems that Belarus faced during the last few years as a result of 2011 financial crisis in the country. In addition to this, little foreign investments in recent years and growing trade deficit also impact national economy negatively. Although Belarus has small deposits of oil these deposits are not significant and undeveloped. Other natural resources exported by the country are not as valuable, therefore this factor will not have as much of an impact on economic record of Belarus. According to 2013 data GDP of Belarus is \$150.4bn and located on 63rd place compared to other countries. During the same year annual growth rate equaled to 2.1 percent.

While the economic situation in the country is not good enough, another big problem is the rule of law in the country. The WGI reports show that the rule of law in the country has declined compared to 1996, when the ratings have first been introduced. From 1996 till 2002 the ratings have decreased dramatically. In 2002 rule of law indicator was roughly 3 times less than in 1996. Not much has changed during the next five years, and the rating remained, generally, the same until 2007. During the next year country scores improved and after that they generally remained on the same level.



Source: *Worldwide Governance Indicators*

By comparing the scores, we can see that while an increase in rule of law ratings is definitely a positive sign, Belarus still has significant problems. Interestingly Belarus has a relatively high result in the report of World Justice Project’s Rule of Law Index. The country has a score of 0.51, which placed it on the 50th position out of 99 countries. According to the report, certain areas improved, such as the openness of government, however the country is still ranked very low compared to other nations in regards to this factor. Nation’s current position on this single factor is 79th out of 99 states. At the same time country’s score in other sectors decreased compared to previous year. Civil justice and criminal justice ratings are decreasing with the second factor being in more serious situation. The score for this factor is 0.43 and it puts the country on 50th among 99 nations. Another serious problem that Belarus is facing is the protection of fundamental rights. No observable change took place in the last year in regards to this factor. One potential explanation to such a big difference in ratings between WGI and WJP’s Rule of Law Index is that Worldwide Governance Indicator is centered on combining a number of ratings provided by different organizations, while WJP Rule of Law Index is a result of household and expert surveys.

Data provided by the World Bank shows that poverty level is generally low in Belarus. In 2012 it was estimated that about 6.3 percent lived below poverty line. The percentage of people living below poverty line in Belarus was decreasing during the last two decades with only two exceptions. 2008 and 2011 have been marked by an increase in number of people living below poverty line. These changes can be best explained by 2008 global financial crisis and domestic economic problems, which were mentioned in the beginning. In contrast, in 2000, when rule of law score was similar to current level, 41.9 percent of population lived in desperate economic conditions. In the next year, while rule of law ratings kept decreasing, poverty ratings improved by 13 percent. General trend in Belarus is that poverty level was very high after the collapse of Soviet Union and decreased in the following years, with a few exceptions. The World Bank data shows that the average life expectancy is 72 years, school enrolment equals to 99 percent and 99

percent of rural population has improved access to water sources. These non-material indicators, coupled with other statistics provided by the World Bank give us a ground to say that Belarus doesn't have significant problems, in regards to poverty, that require urgent attention.

Absence of any significant resources in Belarus and positive change in the level of poverty in the country indicates that correlation between natural resource exports and poverty reduction is limited. Since poverty level changed positively despite absence of resource exports oriented economy we should look at an alternative explanation for this change. What we see from these findings is that the rule of law in Belarus is quite low, and hasn't changed significantly. At the same time, amount of people living in poverty decreased dramatically during the past decade. Non-material poverty factors also indicate that situation in the country in regards to poverty is better than in most other developing states. The biggest change in poverty level took place between 2002 and 2007. During these five years poverty dropped from 30.5 percent in 2002 to 7.7 percent in 2007. However, the rule of law remained relatively on the same level. This shows that the rule of law has limited effect on poverty, if the country has a relatively well developed industrial base, large number of educated people, etc. At the same time, poverty level was high before the drop of rule of law rating, which suggests that connection between two factors can't be determined by looking only at the case Belarus.

2.5 Summary:

The analysis of three cases suggests that there is a connection between rule of law and poverty, however some questions remain unanswered. The case of Nigeria indicates that when a country has a low rule of law score this results in high poverty ratings. The cases of Belarus and Turkey show different and more surprising results. Belarus, which had a low rule of law rating on Worldwide Governance Indicators, also had low poverty rate, while Turkey's rule of law score was higher compared to Belarus and poverty level was higher. This shows that either there is an important difference in two countries that makes higher rule of law score ineffective in regards to fighting poverty in Turkey, or strong rule of law is not as important as existing literature suggests. As it was said before, one possible explanation is that Turkey has experienced some instability in domestic and/or foreign politics, which could have affected the nation's poverty reduction efforts. This issue will be examined in greater detail in the next chapter.

Connection between resource exports oriented economy and poverty reduction is easier to trace. Nigeria relies heavily on its natural resource extracting industries that damages environment in

some regions of the country, which suffer from poverty the most. Although resource exports generate huge income, poverty level in the country remains high. Factors like difficult access to quality education and healthcare indicate that unless government takes serious steps to counter these problems poverty level, especially in rural areas, will remain high. Turkey and Belarus have little or no natural resources to export and low poverty, which means that the presence of resource exports oriented economy, is not a necessary requirement for poverty reduction.

One of the issues that makes accepting results difficult is that methodologies used by WGI and WJP are different, and both methods of gathering data have flaws. The WJP relies on households and expert surveys, which do not usually reflect true state of affairs in the country. It is also important to note that the perception of the strength of rule of law in Belarus depends on the point of view. While governance in Belarus might be seem not up to Western standards, the government is able to control society, therefore some might consider rule of law rating in Belarus to be higher than others.

3.1 Political Stability and Absence of Violence

As it was mentioned in the previous chapter one of the factors that might have influenced poverty level in some countries is the political stability and absence of violence. First, it is important to explain what is meant by political stability. Political stability can be defined as: “propensity of a change in the executive, either by “constitutional” or “unconstitutional” means” (Alesina, Ozler, Roubini, Swagel, 1996, p. 192). Obviously, stability is an important factor for economic growth, a claim which was supported in a number of works. The authors of the same work explain relationship between economic growth and political instability by saying that “a high propensity of a change of government is associated with uncertainty about the new policies; risk averse economic agents may hesitate to take economic initiatives or may “exit” economy, by investing abroad”. In regards to presence of violence it must be said that we will look into ethnic or religious type of insurgency. Insurgency can be defined as “the organized use of subversion and violence to seize, nullify or challenge political control of a region”(US Government Counter Insurgency Guide, 2009, p. 6)

Although it is not a priority for this research, the analysis might show whether presence of political instability and violence also had an impact on the rule of law and corruption in certain cases. If we find out that presence of violence might have affected poverty level in a country then we will see an increased number of people living below poverty line in regions where violence happens more often.

However, the question here is not whether stability and order is important for economic growth and poverty eradication. We rather want to know how important this factor is. There are a number of examples where poverty levels decreased despite political instability, with a number of Asian and Post-Soviet countries being just a few examples. By analyzing the changes in the poverty level created by political instability and violence we will be able to understand better how important stability is in the context of fight against poverty.

As it was also the case before, the first question is how can political stability and absence of violence be measured? There are a number of tools available, which will help us to understand whether political stability is low. In order to see how political stability changed in the countries under examination we will once again refer to WGI. Data provided by Worldwide Governance Indicators shows changes in the level of political stability and absence of violence. WGI combines data from a number of sources to form an aggregate score that will show the change in the level of an indicator during the time between 1996 and 2012. The only downside of this tool is that it only gives us general information regarding changes that took place in the country

during that period. World Justice Projects Rule of Law Index might also be helpful again because it also provides information regarding political stability and violence in a country. Information provided by WJP covers a shorter period of time, however, the data is more detailed.

In the next three sub-sections political stability and violence data will be compared with changes in the levels of poverty. Ideally we will see increase in the number of people living below poverty lines during times when political instability and level of violence had increased.

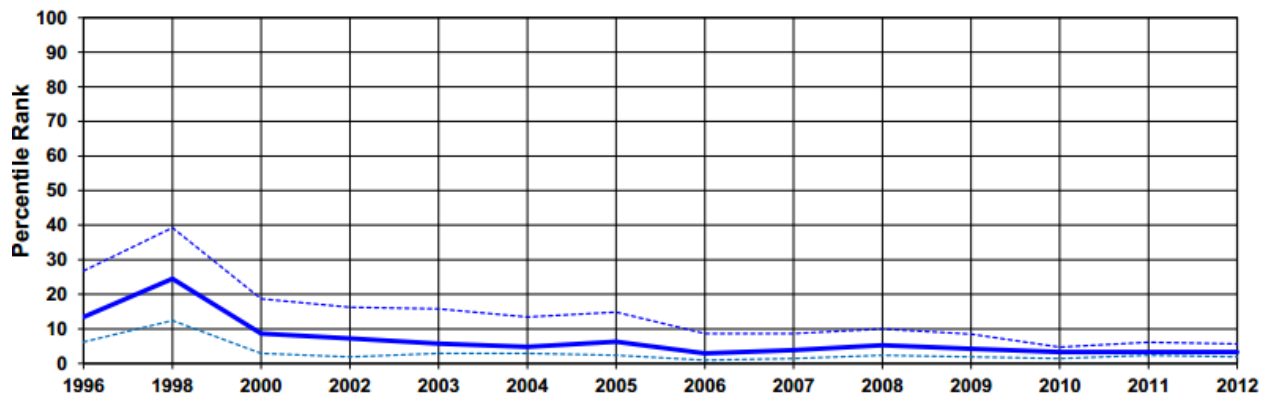
3.2 Nigeria

One of the most serious problems in the modern history of Nigeria is the Islamic insurgency, which started in 1999. According to existing research about 50.8 percent of Nigerian population is Christian (*PEW Research Center, page 11*), while Muslims account to 47.9 percent of population. During the first few years of conflict more than 10.000 people died. Some analysts conclude that the real cause of tensions is not religion, but high number of people living in poverty (*Isaacs, 2004*). The most affected regions are located on the north of the country, where Sharia law has been implemented. This division between northern and southern states of the country indicates that there are serious threats in regards to both long-term and short-term stability of the country. It is understandable that a country facing problems like religious unrest and high level of poverty cannot be regarded as politically stable, however we'll look at a number of sources to see what household surveys and experts think about stability and violence in Nigeria.

Data provided by WJP indicates that there are significant challenges in front of Nigeria. The most serious issue is low order and security score. Nigeria scored only 0.36 on a scale from 0 to 1, which puts the country on the 98th position out of 99 countries included into analysis. Furthermore, the score decreased from 0.47 a year before, which is an alarming sign. Rule of Law index indicates that there are significant challenges in two areas: absence of crime and absence of civil conflicts. Nigeria scored below regional and global average on both indicators, with a score of 0.34 and 0.31 respectively. Most probably, current ratings of Nigeria would decrease even further, due to the fact that the most violent group, Boko Haram, carries out attacks in rural areas constantly, and certain acts attract international attention, as it was the case with recent kidnapping of Nigerian girls.

Results provided by WGI are not positive either. During previous nine years political stability and absence of violence indicator received very low scores. The best rating has been achieved in

1998. Shortly after that the ratings started to decrease, a trend which continued until 2006. There has been a slight increase in the following few years, however, situation generally remained the same. One possible explanation for such a dramatic change that took place after the end of previous century is the start of insurgency. If it is indeed the case, then we can ask ourselves an interesting question: was the high poverty level responsible for the outbreak of insurgency or the instability and violence paved way for poverty to flourish?



Source: Worldwide Governance Indicators

In order to understand why poverty might have had an impact on escalation of religious tensions in Nigeria we have to take a look at the main source of controversy. The major problem here is an unfair allocation of resources to states. There are claims that allocation of revenues favors southern states, especially those that have a large share of oil production. Table of monthly allocation of revenues provided by the World Bank indicates that certain Southern states located close to Niger Delta, receive more funds, both in terms of overall and per capita allocation

Rank	State	Gross Allocation (Billion Naira)	Region	Rank	State	2011 Estimated Population (million)	Per capita Allocation (Naira)	Region
1	Rivers	23.99	South-ND	1	Bayelsa	2.0	9,077	South-ND
2	Akwa-Ibom	23.79	South-ND	2	Akwa-Ibom	4.7	5,026	South-ND
3	Delta	20.34	South-ND	3	Delta	4.9	4,110	South-ND
4	Bayelsa	18.30	South-ND	4	Rivers	6.3	3,793	South-ND
5	Lagos	11.01	South	5	FCT	2.4	2,389	North
6	Kano	7.55	North	6	Nasarawa	2.2	1,814	North
7	Ondo	7.36	South-ND	7	Ondo	4.1	1,789	South-ND
8	Kaduna	6.00	North	8	Taraba	2.7	1,699	North
9	FCT	5.73	North	9	Yobe	2.8	1,611	North
10	Katsina	5.71	North	10	Ebonyi	2.6	1,547	South
11	Imo	5.71	South-ND	11	Gombe	2.8	1,471	North
12	Borno	5.57	North	12	Kwara	2.8	1,469	North
13	Oyo	5.6	South	13	Cross-River	3.4	1,464	South-ND
14	Bauchi	5.50	North	14	Edo	3.8	1,407	South-ND
15	Niger	5.46	North	15	Ekiti	2.9	1,394	South
16	Edo	5.32	South-ND	16	Abia	3.3	1,334	South-ND
17	Jigawa	5.22	North	17	Adamawa	3.8	1,257	North
18	Benue	5.14	North	18	Plateau	3.8	1,227	North
19	Cross River	5.00	South-ND	19	Kebbi	3.9	1,213	North
20	Sokoto	4.94	North	20	Imo	4.7	1,210	South-ND
21	Anambra	4.82	South	21	Kogi	3.9	1,204	North
22	Kogi	4.75	North	22	Zamfara	3.9	1,177	North
23	Kebbi	4.74	North	23	Enugu	3.9	1,556	South
24	Adamawa	4.72	North	24	Niger	4.8	1,134	North
25	Ogun	4.67	South	25	Sokoto	4.4	1,121	North
26	Plateau	4.66	North	26	Borno	5.1	1,094	North
27	Zamfara	4.64	North	27	Osun	4.1	1,080	South
28	Taraba	4.61	North	28	Ogun	4.5	1,029	South
29	Yobe	4.58	North	29	Benue	5.1	1,015	North
30	Enugu	4.49	South	30	Jigawa	5.2	1,013	North
31	Abia	4.45	South-ND	31	Lagos	11.0	1,003	South
32	Osun	4.44	South	32	Anambra	4.9	982	South
33	Gombe	4.19	North	33	Bauchi	5.7	973	North
34	Kwara	4.12	North	34	Katsina	6.9	826	North
35	Nasarawa	4.04	North	35	Kaduna	7.3	823	North
36	Ekiti	4.00	South	36	Oyo	6.8	822	South
37	Ebonyi	3.96	South	37	Kano	11.4	662	North

Source: The World Bank, 2013.^{5 6}

While unfair revenue allocation is an important indicator it doesn't provide any significant data on poverty level among Nigerian states. The highest poverty level among all states belongs to the Northern Jigawa state where 77.5 percent of population lives below poverty line. At the same

⁵ The table represents monthly allocations for December, 2011. However, the report indicates that monthly allocation reflect the general pattern.

⁶ ND refers to Niger Delta states, which benefit from oil allocation principle

time Lagos State, located on the southwest of the country, has the lowest percentage of population, 22.9 percent, lives in poverty. It is also interesting that Lagos state made a big progress by reducing poverty from the beginning of 2003. Poverty in Lagos state decreased by almost 20 percent: from 43.8 to 22.9 percent. Data provided by the World Bank indicates that average poverty in Northern states is higher compared to Southern. Average poverty in North East and North West is 59.7 and 58 percent respectively. Situation in North Central states is slightly better, about 48.8 percent of population live in poverty. By contrast poverty rates in South West, South East and South Central are 30.6, 39 and 37.6 percent respectively (The World Bank, 2013, p 9).

In conclusion, it would be unfair to say that lack of political stability and high level of violence alone is responsible for high poverty. Obviously, this had a certain impact on poverty; however the effect is localized in a small number of Northern states. Weak rule of law coupled with low political stability, violence and lack of employment possibilities limited opportunities for local people, thus making their participation in violent acts more likely. This makes fighting poverty even more difficult goal to achieve. One of reasons why insurgency remains strong is unfair allocation of resources between the north and the south of the country. Unless the government takes this matter into account and finds a suitable solution to the problem of poverty in the northern states, it is unlikely that violence will reduce. So, Nigeria is in difficult position: poverty leads to instability and violence, and instability leads to more poverty. The problem of violence in Nigeria has been best summarized by International Crisis Group in their report on curbing violence in Nigeria:

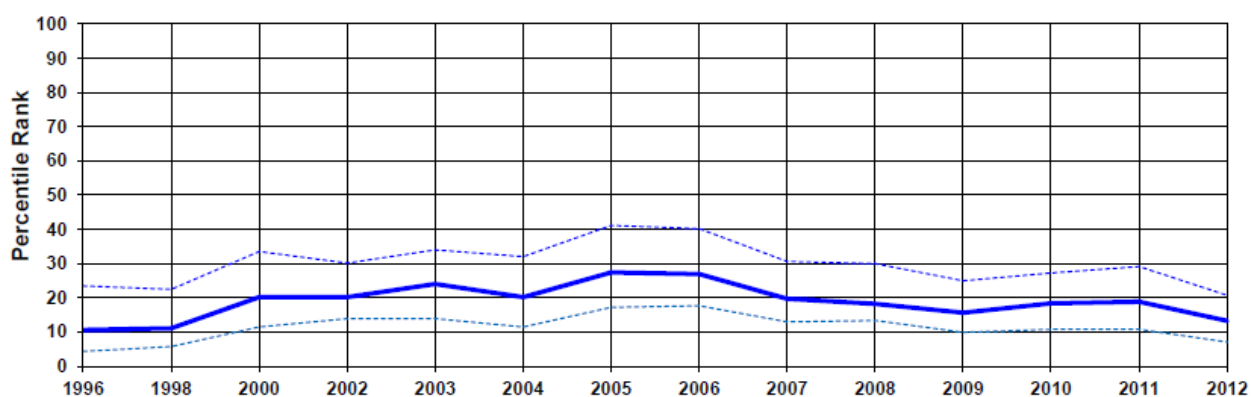
“Unless the federal and state governments, and the region, develop and implement comprehensive plans to tackle not only insecurity but also the injustices that drive much of the troubles, Boko Haram, or groups like it, will continue to destabilize large parts of the country. Yet, the government’s response is largely military, and political will to do more than that appears entirely lacking” (The World Bank, 2013, p. 1).

As the report suggests, military action is not enough to stop Boko Haram and other insurgents from *violence* and *Nigerian* government must step in with *better* coordinated economic and political incentives to curb violence and make an important step towards poverty eradication.

3.3 Turkey

A big part of reality in Turkey is the presence of Kurdish insurgency, which has started approximately in 1984. It is believed that 45.000 have been killed since the start of the conflict (Naharnet News Service, 2013). The most affected region is the southeast and east of Turkey; however insurgents carry out attacks in other parts of the country as well. During the years the spillover of the conflict to Northern Iraq has been observed. The goal of the insurgency is to separate from Turkey and form a new country or alternatively to achieve greater autonomy. Insurgents also demand greater political and cultural rights for Kurdish population living in Turkey. The question here is how much of an impact did Kurdish insurgency have on Turkish economy in general and poverty level in particular in Turkey and the most affected regions by violence?

Worldwide Governance Indicators' scores show that during the period between 1996 and 2012 Turkey had problems with political stability and despite the progress made during the past decade level of stability and absence of violence is similar to 1996 levels. During the period between 1998 and 2005 ratings of Turkey improved roughly by three times. The period between 2006 and 2009 can be characterized by decreased stability ratings. Situation improved slightly in the following year, however during the period between 2011 and 2012 situation worsened and countries rating decreased again by half. Although there is no information on further changes, protests in 2013 and corruption scandal at the end of the same year give us a possibility to say that the ratings wouldn't improve much, if at all.



Source: *Worldwide Governance Indicators*

WJP's Rule of Law index indicates that the biggest challenge in front of Turkish society is the presence of civil conflict, while situation with absence of crime is pretty good. Ankara has a significantly lower score compared to Eastern European and Central Asian states, in regards to the first indicator (0.73), however the score is considerably better compared to Nigeria. As it was said before, situation with crime is good, as the nation score is close to the regional average.

Overall “order and security” score is 0.67, which puts Turkey on 67th position out of 99 states. Another important detail is that Turkey’s score improved compared to 2012. The score of 0.63 has been achieved in 2012. One potential problem with WJP scores is that there is no indication of the degree of analysis in Southeastern and Eastern regions of Turkey.

Results of public opinion surveys carried out in 2013 by ruling Justice and Development party indicate that 57.7 percent of population favors negotiations with insurgents. The highest support for negotiation process was expressed by population of Southeastern and Eastern Turkey, 81 and 77 percent respectively. Other regions of Turkey showed different scores, ranging from 55 percent to 44 percent in favor of negotiations (Today’s Zaman, 2013). Huge support expressed by Southeastern and Eastern population can be explained by the fact that these regions are suffering from the poverty more than other parts of the country. Research carried out in 2007 indicated that there is large gap between poverty in east and southeast compared to poverty in other regions of the country. 33.97 percent of eastern and southeastern households experience poverty, while only 3.74 percent of households in western and northwestern part of the country find themselves in similar conditions. The GDP per capita in three poorest regions located in the Eastern and Southeastern Turkey accounts for only 40 percent of Turkey’s average income (Ertugal, p. 200). The second poorest region is the Central Anatolia, where about 32 percent of people experienced material difficulties (Saatci and Akpınar, 2007).

Region	Rural		Urban		Total	
	household	person	household	person	household	person
Aegean-Marmara (west and northwest)	5.43	4.36	0.00	0.00	3.74	3.01
Mediterranean (south)	22.27	21.03	14.36	13.00	19.80	18.55
Central Anatolia	29.14	23.33	38.33	32.94	32.01	26.30
Black Sea (north)	11.28	8.76	8.75	7.41	10.49	8.34
Eastern and Southeastern	31.88	42.53	38.57	46.64	33.97	43.80

Source: *Croatian Medical Journal*

It is interesting to note that in Eastern/Southeastern and Central Turkey poverty rate in urban households is higher compared to rural households. Another important detail is lack of quality education in those regions, and especially in rural areas. Previous researches indicate that there is a lack of teachers, and sometimes they have to teach out of their field of expertise:

In many villages there were too few teachers, many lessons went untaught, students from different classes were brought together and taught in one crowded room, schools had technical shortcomings, teachers changed frequently because they could not adapt to rural conditions, teachers were not qualified, and in particular there was a shortage of teachers in some subjects so that teachers were teaching classes outside their field of expertise. (Olgun, Gümüş, & Adanacioğlu, 2009, p. 539)

The findings indicate that there is a significant degree of inequality between various regions of Turkey. Regions located on the east and southeast of the country experience higher poverty rates. Both rural and urban population of eastern and southeastern Turkey experience severe poverty and the fact that this is not seen in other regions indicates that that Kurdish insurgency has had a serious impact on the economy and poverty levels of those regions. Situation is also becoming worse due to lack of good education for next generations living in troubled regions. According to some sources, Kurdish insurgency has already cost the Turkish economy \$300-450 billion (International Crisis Group, 2012 p.1). Obviously, there are serious issues in southeast and east of Turkey, and the fact that poverty rates in these parts of the country are higher indicate that measures already taken haven't been very effective. The fact that during the 30 years of insurgency Turkish government has been unable to curb poverty and improve education leads to a conclusion that the strategies used to tackle these challenges have to be reconsidered.

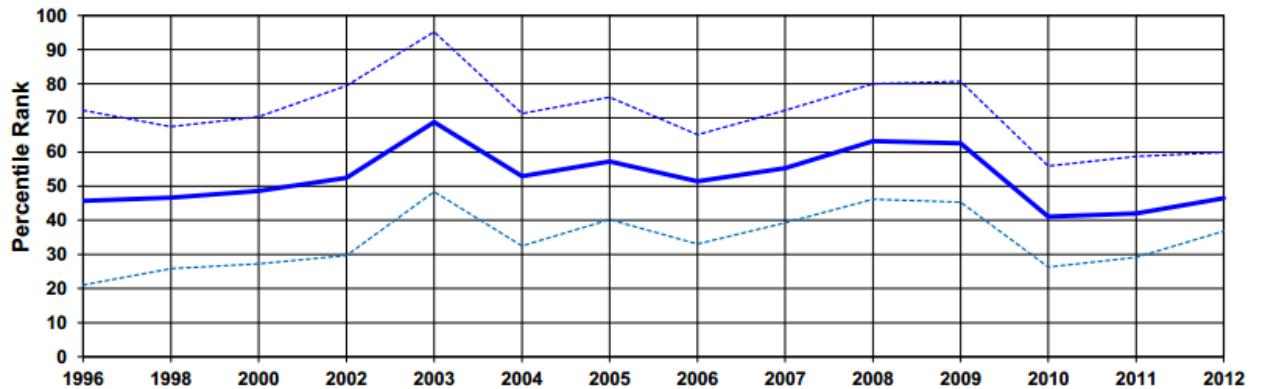
3.4 Belarus

Belarus is another interesting case for testing connection between political stability/absence of violence, and poverty. After the collapse of Soviet Union Belarus became one of the few lucky countries that managed to avoid any conflicts. Despite this, there are serious questions regarding the level of political stability in this Eastern European country, due to discontent voiced by large groups of citizens⁷ and its possible impact on the poverty level.

Results provided by Worldwide Governance Indicators show that during the period between 1996 and 2012 Belarus have had mixed scores on “political stability and absence of violence”. The period between 1996 and 2003 has been marked by continuous improvement of the score. During the next 12 month country's score dropped to 2002 level. Although, the scores changed twice during the next three years, at the end of 2007 level of stability returned to 2004 level. Ratings slightly increased during the next year and remained on the same level throughout 2009.

⁷ 2006 “Jeans Revolution” and 2010 Post Presidential Elections protests are some examples.

After that country's score decreased dramatically during 2009 and 2010. In the following two years a slight increase in the score has been observed, which returned the country to 1996 stability level. Although the scores changed a number of times throughout the period under analysis, Belarus ratings were and are higher compared to those of Nigeria and Turkey.



Source: Worldwide Governance Indicators

WJP's Rule of Law Index also indicates that Belarus scored much better compared to both Nigeria and Turkey. Report indicates that "absence of civil conflict" score is 1, which means that there is no civil conflict in the country. Another positive factor is high "absence of crime" score, which equaled to 0.87. The total "order and security" score is 0.79, which puts the country on 33rd position out of 99 states. Compared to results published in 2012 nation's score improved slightly by 0.01 point. The low level of crime and civil conflict indicate that the government of Belarus manages to control situation within the country.

Let's take another look at poverty rate change in Belarus and see whether there absence of conflicts and relatively high political stability level can explain changes in the dependent variable. As of 2012 the World Bank estimates that about 6.3 percent of population in Belarus lived below poverty line. Poverty level in the country decreased dramatically from the second half of 90's with two notable exceptions: in 2008 and 2011 an increase in the number of people living below poverty line has been observed during these periods. As it was mentioned before both 2008 and 2011 were marked with severe economic challenges for this Eastern European country. The time period between 1996 and 2003 shows that was a connection between increasing level of stability and poverty reduction. However, despite the increase in number of people living below poverty line in 2008 and 2011 level of political stability either remained on the same level or improved slightly, which indicates that the negative change in poverty level cannot be attributed to the change in political stability and absence of violence score.

What we see from the findings is that although the economy of Belarus is considerably less developed and intertwined with the rest of the world, low levels of violence coupled with relatively high political stability scores eventually resulted in improvement of living standard in this Eastern European Country. Absence of civil conflict in the country helped to rebuild the economy of the state, without focusing too much on military expenditures, after the disintegration of USSR, an accomplishment that took less time compared to some other Post-Soviet states that have experienced violence. The importance of absence of civil conflicts becomes visible if we compare the findings with the cases of Nigeria and Turkey.

In the second half of 90's we have observed a decrease in the percentage of people living below poverty line, which coincided with the increase of political stability and absence of violence rating. Negative changes in the level of poverty in 2008 and 2011 cannot be attributed to the changes in the level of political stability due to economic difficulties experienced during those periods.

3.5 Summary

As we see from the analysis the importance of absence of conflicts within the country is an important indicator of poverty level. Turkey and Nigeria, both experience insurgencies, and in both cases we have observed an increased number of people living below poverty line in regions most affected by violence, while in some unaffected regions poverty decreased. Both in Nigeria and in Turkey regions affected by outbreaks of violence also suffer from lack of quality education, which limits the possibilities of youth to break away from poverty. In addition the response of government to existing threats is usually military and not much is done to address the core of the problem. Although there are certain similarities in these two cases there are also differences, which eventually influence poverty level. While both Nigeria and Turkey have ongoing conflicts, Turkey has a lower poverty rate. Possibly the biggest difference between Nigeria and Turkey is that in the first case two judicial systems are in place, while in Turkey Sharia law hasn't been implemented, which is also one of the signs of stronger political stability.

Belarus is the only country in the list, which didn't experience civil conflicts or any other sort of insurgency. And the poverty rate decreased dramatically in this European country. It is, however, questionable to what degree relatively high level of stability played an important role in decrease of poverty, because economy of Belarus is not well integrated into global economy. However, the economy of Belarus is closely connected with Russian economy. The most recent indicator

of this connection is the planned establishment of Eurasian Economic Union. The treaty was signed on 29 May 2014 by presidents of Belarus, Russia and Kazakhstan and the agreement will come into force on 1 January 2015 (Tashc, 2014). Although it is understandable that certain political interests made it possible to create this economic bloc, the importance of perceived political stability in Belarus should not be underestimated.

As we see countries that have lower “political stability and absence of violence” rating have higher poverty rate. The findings indicate that the more a country scored on this factor the less people living below poverty line have been observed. At the same time, slight changes in the ratings didn’t result in serious and instant variation in the dependent variable, which means that slight changes in the level of stability and absence of violence are insignificant for poverty reduction. However, when a country constantly received higher scores on political stability and absence of violence scale, poverty level reduced quickly. This leads to a conclusion that longer periods of stability are more important than short periods of high stability and absence of violence level.

4.1 Corruption

Corruption is another important factor that can affect poverty level in the country. The first question we would ask ourselves is how corruption can be defined? The World Bank defines corruption as an abuse of office for private gain. Although this definition can seem to be too broad it allows us to include all forms of corruption that can be encountered, which would produce more accurate results. Due to the nature of such illegal operations measuring corruption can be quite difficult and it has to be based on the experiences of people and experts, which are not necessarily the most reliable and accurate sources of information. Despite these challenges Transparency International provides us with two interesting mechanisms for measuring corruption and the most corruption prone sectors of any country across the globe. The first one is “Global Corruption Barometer”. This toolkit is based on a survey carried out of more than 114.000 respondents in 107 countries. The focus of the survey was to uncover people’s experience with bribery and corruption in the main institutions in their countries. This tool will provide additional information on corruption and complement the next tool for calculating corruption is “Corruption Perception Index” (CPI). The CPI was first launched in 1995 and is calculated on a scale from 0 to 100, with the rating of 100 being considered a very clean and transparent country. A score of less than 50 indicates that there is a serious corruption problem in a state. The 2013 CPI uses 13 surveys to measure the perceived public sector corruption levels in 177 countries. The amount of countries under investigation changes every year, but usually remains close to the abovementioned number. One of the positive factors is the availability of CPI reports for every year since the launch date of the project. Another useful tool for measuring globalization is Worldwide Governance Indicator, which is a dataset that provides information on quality of governance based on six indicators. One of those indicators is control over corruption in the country. Changes in this indicator are presented in the form of table, which makes it easy to trace any significant variations in the level of control over corruption.

What is the connection between corruption and poverty? Popular belief and logic suggest that higher levels of corruption negatively affect poverty levels in the country. World Bank’s 2001 report on tackling poverty nicely summarizes the connection between corruption and poverty reduction:

“For those without money and connections, petty corruption in public health or police services can have debilitating consequences. Corruption affects the lives of poor people through many other channels as well. It biases government spending away from socially valuable goods, such as education. It diverts public resources from infrastructure investments that could benefit poor

people, such as health clinics, and tends to increase public spending on capital intensive investments that offer more opportunities for kickbacks, such as defense contracts” (World Bank 2001, p. 102)

If we look at countries with highest levels of poverty we will see that all of them have high degrees of corruption⁸, as well as, some of abovementioned problems. However, as it was said before, the biggest issue is the problem of measurement, which makes it difficult to understand the true impact of corruption on poverty.

4.2 Nigeria:

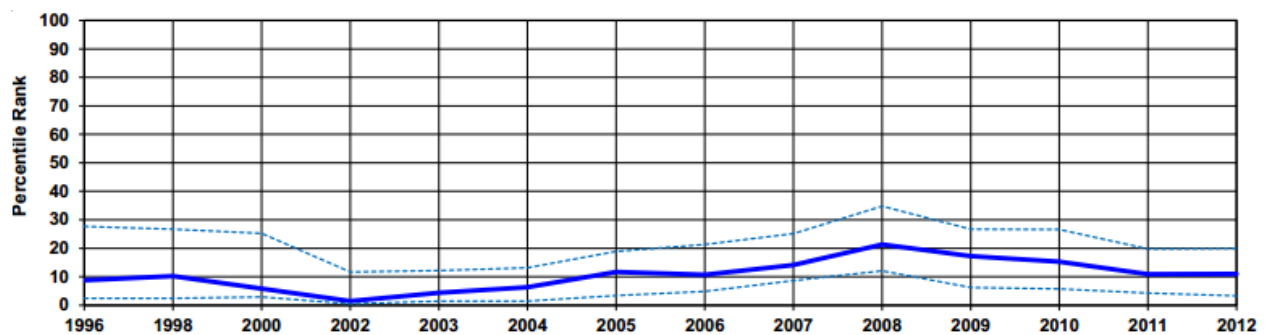
Unfortunately, corruption in Nigeria is not a recent phenomenon, which was widely discussed in the media and a number of academic works for a long time. According to 2012 Corruption Perception Index Nigeria was ranked 139th out of 176 countries. A number of reasons might be seen as defining high levels of corruption in the country. First reason and most obvious is the presence of natural resource. The so called “resource curse” is the phenomenon that partly explains high corruption rate in resource rich countries. Huge revenues from resource export make it possible for interested parties to maintain their authority by distributing wealth according to their interests. The presence of offshore tax havens makes it even easier to hide illegally acquired funds, thus fuelling corruption even more. High corruption rate make courts useless in settling disputes, which in turn makes investment climate in the country less attractive. This leads to a situation when companies willing to invest into Nigerian economy are less likely to do so, the problem that makes poverty eradication more difficult.

Let’s see what various organizations have to say about corruption level in Nigeria. According to CPI Nigeria currently holds a score of 25 on a scale from 0 to 100 and currently ranked as 144th out of 177 states. In 2012 Nigeria had a score of 27. Five years before that this oil exporting country scored 2.2 on a scale from zero to ten. In 2002 Nigeria scored 1.6 points and was placed on the penultimate 101 place. Results of Corruption Perception Index show that the positive changes witnessed between 2002 and 2012 seem to have ended. As it was mentioned before, Nigeria currently has a score of 25, with a score of below 50 meaning that the country has problems, and ranked as 144th country in the world. Global Corruption Barometer is another tool provided by Transparency International. While it doesn’t give us a clear picture of a scale of corruption in any country, it is more helpful to understand what people think about corruption in

⁸ Haiti, Equatorial Guinea, Zimbabwe are some examples of such correlation

any given sector and their opinions on how it can be changed. According to the GCB report, Nigerian population believes that during the last year corruption in the country increased and institutions most affected by corruption are police and political parties. Despite the negative reaction towards corruption in Nigeria about 44 percent of local population admitted that they have paid a bribe during the past 12 month. And finally, 56 percent of Nigerian population believes that they can make a difference in a fight against corruption, which is lower than global average (67%).

While corruption remains a big problem in Nigeria, the government of this African country is showing little effort to control corruption. In fact, according to WGI's corruption control indicator, the level of control over corruption remains on a similar level compared to 1996.



Source: *Worldwide Governance Indicators*

This table shows that from 1996 till 2002 control of corruption in Nigeria was diminishing, which resulted in the country's reaching its lowest point. In the next six years, from 2002 to 2008, government increased control over corruption, peaking in 2008. In the next four years corruption control reduced and the country returned to its 1996 position. According to World Bank estimates huge corruption rate in this African country led to a situation when 80 percent of energy revenues benefit only 1 percent of the population (Library of Congress, 2008, p.10). Since energy revenues is the largest and the most important source of income for Nigeria it becomes hard to say that natural resource exports alone, without decrease of corruption level in the state can combat poverty.

Situation in Nigeria, in regards to poverty, is quite serious, requires urgent attention and hasn't changed much during the last decade. In 2004 about 48 percent of population lived beyond national poverty line. In 2010 situation improved slightly with about 46 percent of people living in poverty. Currently, about 63 percent of people live below \$1.25 dollar a day. Again, these figures show approximate percentage of people below poverty line and doesn't give us any information on the degree and severity of poverty in this African country. According to existing reports, about 80 percent of rural population lives below poverty line (IFAD, 2012, p.2). In order

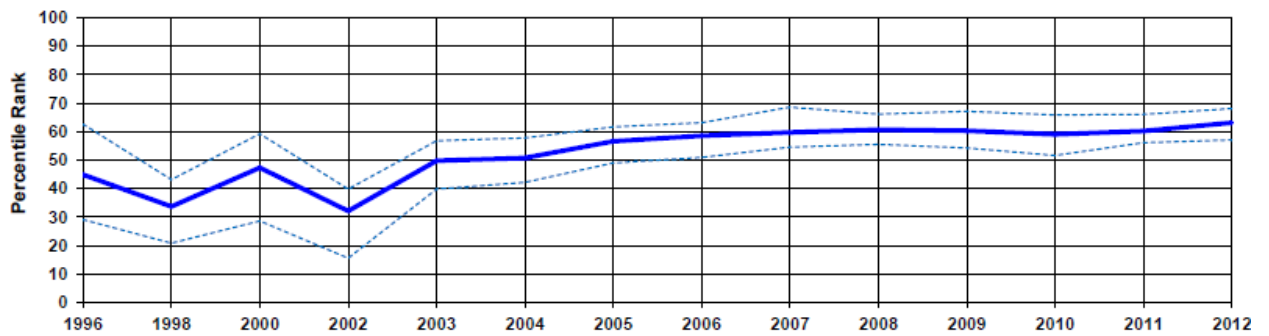
to get a deeper understanding of poverty in Nigeria we can take a look at non-material indicators of poverty. About 2.300 children under five die every day from malnutrition or a preventable disease; about 10.5 million children don't go school, which is the most of any country in the world (UK Department for International Development, 2014). Situation is getting worse, especially in the rural areas, because of diseases like HIV, malaria and tuberculosis (IFAD, 2012, p.2). Taking into consideration the high population growth rate in the country, lack of adequate infrastructure outside of the oil industry, extremely high corruption and absence of any significant measures to reduce corruption and eliminate income inequality makes it possible to say that poverty levels will not improve in observable future, unless these problems will be solved quickly.

So what we see from these ratings and findings is that while Nigeria shows signs of improvement, corruption still remains a huge problem in the country. The rate of improvement is also unacceptable and can be explained by the fact that CPI, Global Corruption Barometer and WGI corruption control scores are calculated on the basis of surveys, which do not necessarily show the whole picture, because respondents might not be interested in revealing the truth. Also, it is impossible to include everyone into the survey, especially in remote rural areas, which would likely lead to an increase in the corruption scores. Although Nigerian population is unsatisfied with current situation almost half of respondents admitted paying bribes during the last 12 month. It must also be said that paying bribes can sometimes be an easy way out of problems for local people. Regardless of the motives, such actions only fuel corruption even more. So what we see regarding the link between corruption and poverty in the case of Nigeria is that the decrease in the level of corruption is too small to attribute any positive change in the level of poverty to it. While the presence of high level of corruption is definitely a problem that has to be tackled as quickly as possible another factor that hinders the decrease of poverty level is the lack of well developed infrastructure, such as hospitals, which would aid people especially in rural areas. However, we can say with confidence that high level of corruption slow down poverty decrease, even if the revenues from resource exports are high, and make certain methods of combating poverty less successful than they could have been. Unless serious measures are taken to tackle corruption, which leads to inequality in income distribution, poverty level in the country will likely to remain relatively the on the same level. Also, high level of corruption might present a possibility for oil extracting companies to avoid bureaucratic procedures and avoid taxation, which will again, hurt ordinary people's interests.

4.3 Turkey

Corruption remains a large problem in Turkey and it is listed as one of the key issues preventing Ankara from joining European Union. Some political scientists believe that the reason why corruption became one of the major challenges in front of modern Turkey was the lack of transparency and weak law enforcements when Ankara started carrying out economic reforms that involved lucrative privatization deals (Baran, 2000, p.1). The problem became evident in late 1990's during privatization of Turkish Trade Bank, also known as TurkBank, which led to the resignation of Prime Minister Mesut Yilmaz and the collapse of government. No major corruption scandals took place in the following decade. However, recent developments indicate that corruption is a problem that hasn't still been solved. In December 2013 criminal investigation was involving a number of key people in the government, with some of them being closely connected to ruling Justice and Development Party. Although going into much detail about the scandal is not the purpose of this work, it must be said that the scandal led to the replacement of ten ministers (Zaman News Service, 2013). Despite the fact that Turkey was not able to deal with corruption problems in the country effectively, situation is much better compared to most developing states.

According to reports released annually by Transparency International in 2013 Turkey had a score of 50 on a scale from 0 to 100 and the country was ranked as 53rd out of 177 states. Turkey's score improved slightly compared to 2012 when Ankara had a score of 49. In 2007 Turkey scored 4.1 out of 10 and was placed on 64th place out of 179 states. In 2002 the country had a score of 3.2 out of 10 and also reached 64th place tied with Thailand. A score of 4.1 was reached in 1995, which was the first time when CPI ratings were released. Results of Global Corruption Barometer indicate that Turkish respondents consider their political parties to be the most corrupt institution in the state. 21 percent of surveyed people admitted paying bribes in the past 12 month. Turkish population, generally, seems to be more optimistic in regards to the fight against corruption with about 68 percent of respondents claiming that they can make a difference in the fight against corruption, which is slightly higher than the global average. Worldwide Governance Indicators offer a look into how national government controlled corruption in Turkey. The findings are relatively positive for a country with serious corruption problem. Overall, control of corruption in Turkey has improved during the period of time between 1996 and 2012. During the first two years Turkey's rating diminished, which can be attributed to the abovementioned Turkish Trade Bank scandal.



Source: *Worldwide Governance Indicators*

During the next four years the indicator under review showed changing dynamics, improving from 1998 till 2000 and then dropping again during the next two years to its all time minimum. From 2002 till 2006 government strengthened control over corruption in the country, this made it possible to almost double the score of Turkey. In the next six years, from 2006 till 2012 situation, generally, remained the same. It is possible to say, the score for 2013 and 2014 would be lower due to the corruption scandal that took place in the country, which was also discussed briefly in the beginning of this section.

According to the World Bank data, poverty level in Turkey reduced from 28.1 percent in 2003 to 18.1 percent in 2009. This is, indeed, a positive change, however during 2008 poverty rate increased by 1 percent, a change which can probably be explained by the outbreak of global financial crisis. Unfortunately the World Bank doesn't provide any data on poverty in later years, therefore we will refer to other sources to trace any further changes. CIA factbook indicates that in 2010 16.9 percent of Turkish population lived in poverty. The problem of poverty is felt stronger in rural areas, where, according to IFAD 35 percent of households experience material difficulties, compared to 22 percent in urban areas. Incomes in those areas are approximately 40 percent lower than national average. Although situation has improved compared to the past decade, rural population still has difficulties in accessing quality education and health care and lack of employment options. Problems of poor people in Turkish rural areas are similar to those of Nigerian people: large size of families, lack of infrastructure as well as lack of good healthcare system to support them.

From what we see Turkey hasn't fought corruption as effectively as it could have, even though there are signs of improvement. Turkish population also seems to be unsatisfied with current situation, which usually results in street protests in various parts of the country, and believes that they can make the difference in this fight. Poverty level in the country is also diminishing. The big question here is can this change be attributed to decreasing level of corruption in the country? Although logic suggests that one factor can't be totally responsible for such a positive

change, what we see from the abovementioned data is that poverty decreased the most during the periods when corruption rate in Turkey was reducing or, at least, remained on a relatively same level. Alternative explanation for this fact could be that urbanization of Turkish society aided poverty reduction. High percentage of urban population reduces the number of people living below poverty line, thanks to better employment options. Poverty rate is still very high in Turkey, even though it is lower compared to most neighboring states⁹.

4.4 Belarus

Due to the country's international image one might assume that corruption is a huge problem for this European country. Such an assumption would not be far from truth, corruption is indeed a serious problem that hinders economic development of Belarus. Belarus is country with largely state controlled economy and the most common types of corruption include bribery, abuse of office and fraud. According to official information 1.779 corruption cases have been recorded in 2012. It was also mentioned that the average bribe was \$300, while the highest recorded was around \$500,000 (Business Anti-Corruption Portal). During the past decade the government of Belarus took certain steps to strengthen the fight against corruption, such as declaration of political will to fight corruption, consultations started by the government of Belarus in 2012 to develop the new anti-corruption strategy. Although these measures are steps taken in the right direction, corruption still remains a serious problem, most likely because of lack of transparent judicial system.

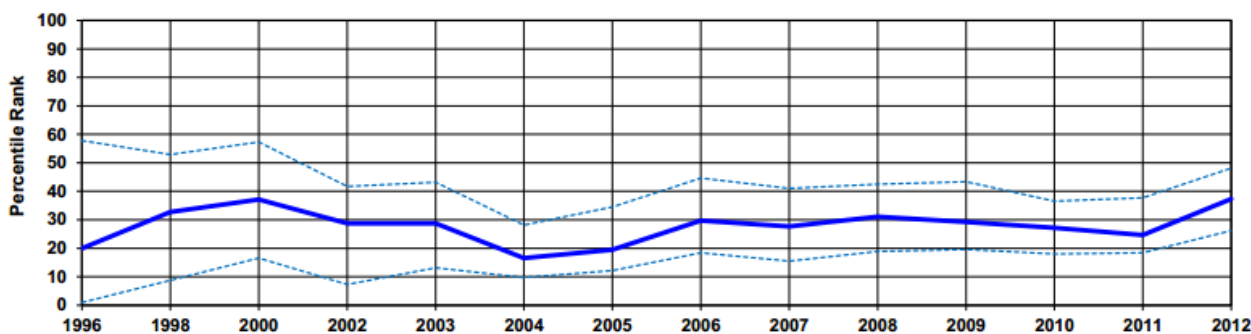
According to Corruption Perception Index released in 2013 Belarus was ranked as 123rd out of 177 states with a score of 29 out of 100. In 2012 results were generally the same, however, the score was slightly higher, 31 out of 100. CPI provides interesting insight into the fight against corruption in the country. In 2007 CPI score of Belarus was 2.1 out of 10. And the most interesting change took place during the previous five years. Since 2002 CPI score of this European country changed from 4.8 in 2002 to 2.1 in 2007. It is an interesting change for a country, which is known for its isolationist policies and weak institutions, from a relatively high to a low score. In 1998 and 1999 Belarus had a score of 3.9 and 3.4 respectively.

Unfortunately, Transparency International didn't include Belarus into 2013 Global Corruption Barometer, therefore we will look into previous GCB surveys. According to 2010/2011 edition of GCB only 25% percent of people believe that in the past three years corruption in the country

⁹ For example, Greece (20%), Iran(18.7%).

reduced, while 49 percent claims that situation has not changed at all. At the same time, 39 percent of respondents believe that measures taken by government in a fight against corruption are effective. Public officials, police and judiciary system were regarded as the most corrupt institutions in the country.

According to Worldwide Governance Indicators the government has had mixed success with control over corruption during the past two decades. The data provided by WGI indicates that the highest rating of control over corruption was achieved in 2000 and in 2012. During the first four years, from 1996 till 2000, the score of the country improved almost twice. The next four years, however, were not as successful; in 2004 the lowest score was achieved. After that an increase of control over corruption was observed during the next two years. Situation remained more or less the same over the next three years. However, since 2009 till 2011 the ratings fell and after that they rose to the all time peak.



Source: *Worldwide Governance Indicators*

In regards to poverty, situation improved dramatically over the past decade. According to the World Bank data in 2004 17.1 percent of population of Belarus lived below poverty line. Over the next six years percentage of people living below poverty line reduced and reached 5.2 percent in 2010. During the next year this indicator increased to 7.3 percent and a year after dropped to 6.3 percent. United Nations provide additional information on poverty in Belarus prior to 2004. According to UN data the highest percentage of people living below poverty line in Belarus was recorded in 1999 when about 46.7 percent of population was living below the poverty line, while in 1997 the same indicator was lower, only 32 percent.

Although corruption is a serious problem in Belarus, it doesn't affect population as bad as it does in other cases, most notably in Nigeria, possibly due to the fact that compared to the case of Nigeria Belarus has a higher rule of law score, which eliminates certain problems that Nigerian population faces on a regular basis. Negative dynamics in the poverty level in the late 90's and the beginning of the previous decade can be attributed to Russian financial crisis, which took

place in 1998 and definitely had a negative impact on the economy of Belarus, which is closely linked to Russian economy. This event can explain the 14 percent poverty change between 1997 and 1998. The lowest percentage of people living below poverty line was recorded during times when control over corruption and corruption itself was also low, for example in 2007. This shows that high degree of corruption, which can be observed in the country during the past few years didn't result in an increased percentage of poverty, which indicates that corruption and poverty level change are not correlated in the case of Belarus.

4.5 Summary

The first case, which was analyzed in the work uncovered that during the previous decade corruption in Nigeria was decreasing. However, the trend stopped after 2012, when corruption started increasing again. The analysis of poverty indicates that despite the decrease of percentage of people living below poverty line, the number of people increased due to high population growth rate. In the case of Nigeria we have seen an increase in of poverty rate and decrease of corruption, which can mean two things: either the decrease of level of corruption was not significant enough to affect poverty reduction or high corruption rate alone is not responsible for poverty growth and only strengthened the impact of other factors. Considering the findings of the previous two chapters it is more likely that corruption only worsened the impact of weak rule of law and violence.

Analysis of corruption in Turkey provided different results. Decrease of poverty in the country coincided with periods when corruption rate was decreasing or remained stable. Considering that political stability and absence of violence level were low, as rule of law score was, decrease in the level of corruption is the only major factor that can explain positive change in the poverty level.

Unfortunately, Belarus is not the perfect case for explaining connection between corruption and poverty. In the second half of 90's and the beginning of previous decade corruption scores of Belarus were considerably higher than current level. In other words, level of corruption during the past decade increased, while poverty levels decreased dramatically. So, despite the fact that corruption rate is high in this Eastern European country we have observed a decline in the number of people living below poverty line, which means that there is no correlation between corruption and poverty.

Considering that we see positive correlation between corruption and poverty in only case out of three, it would be safe to assume changes in corruption level can be held accountable for poverty level changes. This can be argued by saying that it is impossible to give a definitive answer in Nigerian case due to the fact that Nigeria has other significant challenges that might distort the outcome. However, corruption in the case of Nigeria rather strengthened the effect of weak rule of law, and therefore it definitely damaged living conditions of Nigerian population.

5.1 Findings and conclusion

The analysis shows interesting results. In the case of Nigeria it is hard to say exactly which condition led to high poverty rate. The first obvious conclusion coming from the analysis is that natural resource exports didn't have a positive impact despite huge amount of income generated. In fact, some of the regions known for oil and gas deposits are suffering heavily from high poverty level. Therefore, revenue generated by resource exports alone cannot and will not decrease poverty level in any country. High corruption rate has had devastating consequences for Nigerian people. High corruption creates unnecessary constraints, especially for poor people preventing them from benefitting from revenues generated by resource exports. This is only a part of the problem, because due to corruption people experience difficulties with accessing justice, which also increases poverty. Analysis shows that high corruption and weak rule of law also had an impact on poverty in Nigeria. Weak rule of law and problems with high corruption rate is interconnected and create a vicious circle, the presence of weak rule of law creates opportunities for corruption to flourish, which in turn weakens rule of law even more. The cause of high poverty rate in Nigeria is systemic, and cannot be explained by one single factor. Instability, corruption, weak rule of law, violence, each issue has had an impact on poverty rate in this African country. Although the percentage of people living below poverty line might have decreased over years, the number of people living below poverty has increased, due to a very high population growth rate.

The case of Turkey shows completely different relation between variables. The first big difference that became visible is the absence of resource exports oriented economy. Since resource exports account for a very small part of Turkish economy it becomes possible to say that in this case absence of resource oriented economy didn't have negative impact on poverty level in the country. Interestingly, Turkey has an average level of corruption, 50 out of 100 according to CPI, and also relatively high poverty rate for a country with a well developed economy. The WGI graph shows that control over corruption in Turkey improved over the years, and during times when control over corruption was considered to be high poverty levels in the country decreased. One of such examples is the time period between 2005 and 2010. During this period poverty decreased by 4.4 percent, while corruption was also decreasing. Relatively high poverty rate can be explained by the presence of ongoing conflict in the East and South East of Turkey, which means that high levels of political stability and absence of violence are important for poverty reduction.

The case of Belarus was probably the most predictable among others included into research. The country without natural resource exports oriented economy, relatively high rule of law and high corruption rate was expected to have quite average poverty level. However, the results are quite interesting. First thing that we see from the analysis is that lack of resource export oriented economy and poverty level is not connected in this case. Correlation between strength of rule of law in Belarus and poverty reduction depends on point of view one has regarding rule of law in the country. Certainly, some institutions might not work in a way that is considered to be close to Western standards, however, they we have to admit that institutions function despite the fact that human rights are not respected in this Eastern European state. Connection between political stability and absence of violence is probably the factor that explains poverty reduction in Belarus the best. Especially, absence of violence played an important role for Belarus. If we compare this Eastern European state with Nigeria and Turkey we will see that while the latter two countries spent billions on curbing violence Belarus could invest funds into building infrastructure that aided poverty reduction. Analysis of connection between corruption and poverty also uncovered interesting results. The level of corruption in Belarus has been high during the last decade and at the same time poverty level decreased dramatically. However, during the first few years of this century corruption ratings were lower, while poverty was very high. General mood in the public regarding the change in the level of corruption in the country indicates that population is undecided whether situation is improving or not. Results stemming from this case do not allow us to draw any conclusions regarding connection between corruption and poverty level change in the country.

The presence of resource exports oriented economy and its connection to poverty reduction was the first factor analyzed in the work. Analysis of three cases indicates that there is no correlation between these two resource exports and poverty. Nigeria, rich with resources, has a strong economy and at the same time tens of millions of people living below poverty line and lacking access to some of the basics needs, such as education and healthcare. Turkey and Belarus do not rely on resource exports, yet poverty decreased in both cases. Rule of law also proved to be important for poverty eradication. Belarus and Turkey had a higher rule of law score and less people living in poverty, while Nigeria was low rule of law ratings and higher percentage of poor people. Although Ankara had the highest rule of law scores poverty in Turkey is higher compared to Belarus, which means that active Kurdish insurgency played a role in poverty increase. The only factor that explicitly explains variation in poverty level in all three cases is political stability and absence of violence. Analysis of cases with ongoing conflicts shows that regions affected by insurgency have higher poverty rates. Also, higher levels of political stability

create more economic possibilities for states, which can be best illustrated by the example of Belarus and the newly formed Eurasian Economic Union. Generally, the same can be said about corruption and its relation to poverty. Nigeria, which had a high corruption rate and low control over corruption, has more poor people, while Turkey had opposite ratings in both factors. However, in the case of Belarus we have observed negative correlation between corruption and poverty, which shows that there might have been other factors that also reduce poverty even with higher corruption ratings. Political stability and absence of conflicts seems to be the factor that explains why Belarus, which has higher corruption has smaller percentage of people living below poverty line.

It must be said that each of the factors included into the analysis has influence on the poverty level in a country. However, the effects vary on the degree of severity of each factor. While the problems of corruption and weak rule of law are similar, they have different effects on poverty level. Weak rule of law hurts poverty level, and so does corruption. However, a nation with relatively high level of rule of law and low level of corruption will perform better, compared to a country with weaker rule of law and high level of corruption. One explanation for this interesting finding is that high level of corruption limits effectiveness of judicial system, which eventually hurts ordinary people.

The analysis shows that if there is a single factor that shapes the expected level of poverty in a country, then this factor is the presence of civil conflict in a state. In two cases where civil conflict is present we have observed an increased amount of people living below poverty line. The fact that level of violence and poverty in Nigeria is significantly higher compared to Turkey shows that no matter how strong the economy of a nation is, if there is civil conflict, then population of affected regions will find themselves in more difficult financial condition. This might result in spillover to neighboring regions, which will damage the efforts of the government in the fight against poverty.

This indicates that criticism of neoliberal theory is valid and governments, indeed, have to take pro-active stance in regards to their efforts to curb poverty. However, the roots of poverty do not stem from globalization; they are of a “local” nature. If such local problems exist, then globalization might strengthen the effects those issues. Neoliberal theorists suggest that globalization is the cure for poor economic performance, while in reality globalization will not necessarily result in decrease of poverty. As the analysis suggests, neoliberal theory would successfully explain poverty reduction in a country if a number of conditions in place.

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