Does Globalization Help or Hurt the World's Poor?

By

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Globalization and the attendant concerns for poverty and inequality have captured public imagination and become a focus of international discussion in recent years in a way few other topics (except for international terrorism or global warming) have. The events around the theme often have their own drama and also a touch of irony. Just to take an example from two reports in the newspaper on the same day (*The New York Times*, January 30) at the beginning of 2005: at the fifth annual World Social Forum at Porto Alegre, Brazil---held as a counterfoil to the gathering of the capitalist globalistas at the World Economic Forum at Davos, Switzerland---the Brazilian President Lula da Silva, the hero of the working class, was booed for 'selling out' to global capital; shortly thereafter he flew to the Forum at Davos, where around the same time a Hollywood actress, Sharon Stone, deployed her star power in a highly globalized business to rally attending corporate magnates at a poverty seminar to pledge just in five minutes $1 million to fight malaria in Tanzania.

Most people I know have a strong opinion on globalization and all of them are concerned with the well-being of the world's poor. The strength of conviction is often in inverse proportion to the amount of robust factual evidence they have. I have also noted that the confidence with which officials of international financial institutions and opinion-makers in influential newspapers and magazines assert their belief in the value of global free markets in expanding the horizons for the poor is only matched by the passionate intensity with which activist-protesters hold their opposite belief. Of course, as is common in contentious public debates, different people mean different things by globalization. Some interpret it to mean the global reach of new technology (particularly in information and communications) and capital movements, some refer to outsourcing by domestic companies in rich countries, others protest against the tentacles of corporate capitalism or US hegemony. So it is better to be clear at the outset that in this article I shall primarily refer to economic globalization in the sense of expansion of foreign trade and investment, and analyze how this affects the wages, incomes and access to resources for the poorest people in the world (they live mostly in the developing countries in Africa, Asia and Latin America). These countries, for the quarter century after the World War II, mostly adopted more or less autarchic policies that largely blocked the forces of globalization in our sense. In the last quarter century, however, unilaterally as well as under multilateral auspices, most of these countries have opened up. Taking the examples of the two largest countries of the world, both of which were pretty much insulated up to the middle 70's or so, trade in goods and services as a share of GDP (gross domestic product) rose from 23 to 46 per cent in China between 1980 and 2000, and it rose from 19 to 30 per cent in India in the same period. In general I intend to show that globalization can cause many hardships for the poor in these countries but it also opens up opportunities which some countries can utilize and others do not, largely depending on their *domestic* political and economic institutions, and the net outcome is often quite complex and almost always context-dependent, belying the glib pronouncements for or against globalization made in the opposing camps. Mainstream economists are less divided on the issues, compared to the rest of the scholarly community and the general public, since the majority of the former believe in the validity of the theory of comparative advantage and gains from trade which has underpinned international economics for the last 200 years, since classical economists like Adam Smith and David Ricardo wrote on the subject. But even among economists there are serious differences of opinion on the relative value of those gains from trade and the importance of social protection for the poor. Free-trader economists believe that the gains from the rising tide of international specialization and investment has the potential of lifting all boats (including those of the poor) in the long run. Others point out that in the absence of the capacity of many poor people to adjust, retool and relocate with changing market conditions, at least in the short run some redistributive policies are necessary, so that the winners from the policy of opening the economy actually share their gains with the losers. Much of the theory of comparative advantage is about the long run when people and resources are assumed to be fully mobile between activities, whereas much of the pain of adjustments is in the short run.

I should also make clear that by international investment I shall refer to *long-term* movements of capital (invested largely in durable plant and equipment and technology), not to the speculative short-term capital (invested in shares, bonds, currency, hedging instruments, etc.) that, often at the click of a mouse, stampedes around the globe in herd-like movements, sometimes causing massive damage to the lives of poor people in fragile economies. For example, the speculative attack against the Thai currency *baht* in 1997 led to events as a result of which the percentage of poor people in rural Thailand jumped about 50 per cent in just one year. In Indonesia, in the first year of the Asian financial crisis, real wage in manufacturing dropped 44 per cent. Many economists (even those who otherwise support free trade) now believe in the need for some form of control over short-term capital flows, particularly if domestic financial institutions and banking standards are weak, though there are differences on the specific form such control should take and on the assessment of the effects of the rise in the cost of capital this may entail. It is widely believed that China, India, and Malaysia largely escaped the severe impact of the Asian financial crisis because of their stringent controls on capital flights. I shall also desist from discussing globalization in the form of international labor flows or more emigration of workers from poor to rich countries. If larger numbers of unskilled workers were allowed entry into rich countries as 'guest workers' even in limited and regulated doses, a big dent could have been made to world poverty, many times what can possibly be brought about by other forms of international integration, but the general rise in anti-immigration political temperature in many rich countries makes the current climate not very hospitable to the idea.

One common cliché in the media as well as in the street protests is that globalization is making the rich richer and the poor poorer. This suggests a rise in economic inequality and poverty as a result of globalization, but if one looks at the factual evidence, the matter is much more complicated, yielding no easy or general answers. First, let us look at what the poverty numbers over the last two decades in developing countries tell us. On the basis of household survey data collected by different agencies in different countries and put together by the World Bank, and using, an admittedly crude but internationally comparable, poverty line of about $1 a day at 1993 prices, we can find out what percentage of the population in developing countries falls below even this extremely low poverty line. Figure 1 gives the summary picture for developing countries as a whole (with and without China) between 1981 and 2001. On the whole it suggests a declining trend: in this aggregative sense the poor are *not* getting poorer. If one takes a regional breakdown, as in Table 1, the declining trend in poverty is particularly pronounced in East, South and Southeast Asia.

Pro-globalizers point to the large decline in poverty in China, India and Indonesia (countries long characterized by massive rural poverty) containing about half of the total population of developing countries. Between 1981 and 2001 the percentage of *rural* people living below the above-mentioned poverty line declined from about 79 per cent to about 27 per cent in China, from about 63 per cent to about 42 per cent in India, and 55 per cent to 11 per cent in Indonesia. But, contrary to repeated assertions in the international financial press, no one has yet convincingly demonstrated that this decline is mainly due to globalization. In China it could instead be, to a large extent, due to internal factors like expansion of infrastructure or the massive 1978 land reforms or policy changes relating to grain procurement prices or the relaxation of restrictions on rural-to-urban migration. That the spurt in agricultural growth following the 1978 decollectivization and land reform may be a large factor in the poverty reduction in China is suggested by the fact that a substantial part of the decline in poverty in the last two decades already happened by mid-1980's, *before* the big strides in foreign trade or investment. (For example, of the more than 400 million Chinese lifted above the international poverty line between 1981 and 2001, three-fourths got so lifted by 1987). Similarly, rural poverty reduction in India may be attributable to the spread of Green Revolution in agriculture, large anti-poverty programs or social movements in India, and not the trade liberalization of the 1990's. In Indonesia sensible macro-economic policies, an active rice price stabilization policy, massive investment in rural infrastructure, and the Green Revolution played a substantial role in the large reduction of rural poverty between 1981 and 2001. This is, of course not to deny that globalization, particularly in the form of expansion of exports of light manufacturing goods that employed millions of people, had a significant impact on poverty in China and Indonesia (although for various domestic institutional and policy reasons this has not yet happened in India).

Those who are more dubious of global processes point out that in the same decades poverty has remained stubbornly high in sub-Saharan Africa; between 1981 and 2001 the percentage of people living below the international poverty line increased in sub-Saharan Africa from about 42 per cent to about 46 per cent. But this may have little to do with globalization, and more to do with unstable or failed political regimes, wars and civil conflicts which afflicted several countries (29 out of 43 countries in sub-Saharan Africa in the 80's and 90's had civil conflicts). If anything, such instability only reduced their extent of globalization, as it scared off many foreign investors and traders.

In general global market competition rewards people with initiative, skills, information, and entrepreneurship in all countries, and poor people everywhere are handicapped by their lack of access to capital and skill formation to be able to adjust to the changing market. Workers in some developing countries (say, Mexico) are losing their jobs in labor-intensive manufactures which are now produced in poorer countries in Asia. But foreign investment has brought new jobs in the factories at the northern border of Mexico, and there is evidence that low wage poverty is declining in the regions in Mexico that are more exposed to the international economy than others (even abstracting from the fact that more skilled and enterprising people migrate to the northern part of the country improving incomes there). A recent study which takes into account only people born in a particular region (thus leaving out migrants) finds that on average labor incomes of such people in Mexican states with high international exposure increased by about 9 per cent over the 90's compared to low-exposure states. Meanwhile in poor Asian economies like Bangladesh, Vietnam or Cambodia large numbers of women now have work in the garment export factories at wages that are low by world standards but are much higher than what they would have earned in alternative occupations. Of course, their work conditions may be considered as those of 'sweatshops' against which there is a lot of opposition among rich country consumers. But those who complain about the exploitation of young women in the garment factories of transnational companies have to appreciate the *relative* improvement in the conditions and status of these women (say, in Bangladesh) compared to the alternatives otherwise available to them. (In their opposition to the garment sweatshops the campus radicals of the US are joined by the mullahs of Bangladesh who do not want young women to work outside the household). To take a typical example, an Oxfam Report quotes an interview with Rahana Chaudhuri, a 23-year old mother of three children working in the export processing zone producing garments in Bangladesh:

> "This job is hard-- and we are not treated fairly. The managers do not respect us women. But life is much harder for those working outside. Back in my village, I would have less money. Outside of the factories, people selling things in the street or carrying bricks on building sites earn less than we do. There are few other options. Of course I want better conditions. But for me this job means that my children will have enough to eat, and that their lives can improve."

A 2001 survey of 1322 women workers in Dhaka shows that the average monthly income of workers in garment export factories was nearly 86 per cent above that for other wage workers living in the same slum neighborhoods.

Of course, one should support efforts to improve the appalling working conditions in the sweatshops (and certainly fight against the totally indefensible cases of forced labor or hazardous or unsafe work conditions), but one should also face up to the severely limited existing opportunities for the poor and the possible unintended consequences of 'fair trade' policies advocated in rich countries which may otherwise end up punishing the victims. Similar arguments apply to the case of child labor in poor countries. Banning imports of products using their labor will not send the children to schools, but often to inferior occupations. To give an example of unintended consequences, let us cite the case of a bill that was brought in the US Senate in 1993 supported by good-hearted liberal senators to ban imports of products using child labor. It was not passed subsequently, but almost immediately after the introduction of the bill the garment industry in Bangladesh dismissed an estimated 50 thousand children it formerly employed. UNICEF and others subsequently investigated what had happened to these children. It was found that (with the concerted effort of some education NGO's) about 10 thousand children did go back to school, but the rest went to much inferior occupations, including stone breaking and child prostitution. Clearly, a much better policy than banning imports is to help funding scholarships which make the poor parents afford to send their children to school. Such programs like Food for Education or scholarships for girls have been successful in Bangladesh.

But even when there are new opportunities for jobs opened by the integration into the international economy, old jobs and occupations disappear, and there is no doubt that such 'churnings' in job reallocation and dislocation raise anxiety and hostility among many workers worried about job security. In many poor countries there is very little effective social protection available from the state. International organizations that preach the benefits of free trade should take the responsibility of funding and facilitating adjustment assistance programs in poor countries that can help workers in coping with job losses and getting retrained and redeployed.

Vast numbers of the poor work, not for wages, but on their own small farms or firms or household enterprises and shops. The major constraints they usually face are domestic, in access to credit or marketing channels, or poor conditions of available 'infrastructure' (like roads, power, extension service and irrigation) or government regulations (involving venal inspectors, insecure land rights, etc.). Opening markets without relieving these domestic constraints may make things difficult for these small enterprises in withstanding market competition. Over and above these, in export markets the major hurdle poor countries face is often due to not more globalization but *less*. Rich country protectionism and subsidization of farm and food products and simple manufactures (like textiles and clothing or shoes) severely restrict their export prospects. I wish the anti-global protesters of rich countries turned their energies toward the vested interests in their own countries which prolong this protectionism and cripple the efforts of the poor of the world to climb out of their poverty. The annual loss to developing countries from agricultural tariffs and subsidies in rich countries is estimated to be at least

$45 billion; their annual loss from rich country trade barriers on textile and clothing is estimated to have been about $24 billion. Overall these losses due to rich country protectionism far exceed the total foreign aid amounts they receive. Of course, the loss is not equitably distributed among poor countries. Some would benefit more than others if these protections are lifted (as is obvious in the case of China benefiting disproportionately more than others from the lifting of country quotas on textile imports in US early in 2005).

Small producers of poor countries often lack the marketing network, brand name or quality reputation for making inroads into rich country markets. This is where transnational retail companies can help them, but the marketing margins and fees they charge are often very high and the standards and practices they insist on are very difficult for small producers to adopt. Restrictive business practices by transnational companies are difficult to prove but there is a great deal of circumstantial evidence. There are reports, for example, that in UK for every £ 1 that shoppers spend on loose Ecuadorian bananas, around 40 pence goes to supermarkets, while plantation workers receive just 1.5 pence. Even accounting for large shipping and distribution costs, this may not be entirely unconnected with the fact that 5 companies control over 80 per cent of the global market in bananas. In general in agricultural and food products, giant companies like Monsanto, Cargill, Nestlé, and Wal-Mart dominate the supply chains, from the stage of seeds all the way to the supermarket shelf. Studies show that the gap between the price that the commodity producing countries (often poor) receive and the retail price at which the international trading companies sell to consumers nearly doubled between 1975 and 1994, suggesting the increasing market power of those companies. The international coffee market, for example, is dominated by 4 companies. In the early 90's the coffee earnings of exporting countries were a little less than $12 billion, and the retail sales were around $30 billion; by 2002 retail sales more than doubled and yet coffee-producing countries received *about half* their earnings of a decade earlier.

Those who are outraged by the high marketing margins the monopoly transnational companies currently charge the poor producers, by their price-fixing cartels, or by their efforts to push out small producers from the supply chains should agitate more for *anti-trust* action, not *anti-trade* action. There should be more energetic international attempts to certify codes against international restrictive business practices and to establish an international anti-trust investigation agency, possibly under the auspices of the WTO (World Trade Organization). Even if such an agency may not have much enforcement powers, internationally publicized reports of anti-trust investigations by a recognized international body will have some impact on the monopolies, and strengthen the hands of domestic Competition Commissions in developing countries.

Environmentalists argue that international int

overexploitation of the fragile natural resources (like forests or fishery) and thus damage the livelihoods of the poor. Similarly a common charge against transnational companies is that they flock to poor country 'pollution havens' to take advantage of lax environmental standards there. It is true that under lax regulations international exposure has the potential of worsening environmental degradation. There are many anecdotes, but very few statistical studies on these questions. One careful empirical study from detailed plant-level data in Mexico (1990), Morocco (1985-90), Venezuela (1983-88) and Côte d'Ivoire (1977-87), however, show that there is very little evidence that foreign investment in these countries is related to pollution abatement costs in rich countries (the single most important factor in determining foreign investment found in this study is the size of the domestic market in the host country). Also, within a given industry foreign plants often use cleaner types of energy compared to their local peers. Lax environmental standard is ultimately a domestic policy or institutional failure. A lack of well-defined or well-enforced property rights or of community regulations over common property resources often leads to their overuse. In some cases domestic government policies are primarily responsible for environmental degradation. For example, administered under-pricing of precious environmental resources (irrigation water in India, energy in Russia, timber concessions in Indonesia and the Philippines, etc.), prolonged by the pressure from powerful political lobbies, is a major cause of resource depletion. Domestic vested interests, not globalization, are responsible for the continuation of such socially damaging policies.

In general while globalization inevitably creates winners and losers, opening the economy to trade and long-term capital flows need not make the poor worse off, *if* appropriate domestic policies and institutions (particularly for support infrastructure to help production reorganization, labor market adjustment and social protection) are in place. In fact it can open the door for some new opportunities for the poor. Whether a country can harness the opportunities unleashed by globalization in helping its poor people depends a great deal on the structure of domestic social and political institutions. Weak states, unaccountable regimes, lopsided wealth distribution, inept or corrupt politicians and bureaucrats often combine to block out the opportunities for the poor. Contrasting case studies of countries involved in the global economy but having markedly different domestic institutional structure make this quite apparent:

-the island economies of Mauritius and Jamaica had similar per capita incomes in the early 80's, but their economic performance in the two following decades has been dramatically different, with the former having better participatory institutions and rule of law, and the latter mired in crime and violence;

- South Korea and the Philippines had similar per capita incomes in the early 60's, but there were dramatic differences in economic growth in the next four decades, with the Philippines languishing in terms of political and economic institutions;

- Botswana and Angola are two diamond-exporting countries in southern Africa, with the former having a continuous democratic regime and high growth since independence, while the latter was ravaged by civil war and plunder.

In many countries poverty alleviation in the form of expansion of credit and marketing facilities or land reform or public works programs for the unemployed or provision of basic education, training, and health need not be blocked by the forces of globalization (particularly in medium to large sized countries where most of the world's poor live). Substantial, though necessarily time-bound, income support programs coupled with retraining and extension facilities for displaced workers or distressed farmers and small producers are essential to relieve the obvious anxieties about economic insecurity generated by globalization. This, of course, requires a restructuring of existing budget priorities in those countries and a better and more accountable political and administrative framework, but the obstacles to these are often largely domestic. Closing the economy does not reduce the power of the relevant vested interests: landlords, corrupt and/or inept politicians and bureaucrats, and the currently subsidized rich. The poverty alleviation measures mentioned above are not merely redistributive, they also enhance the productivity of workers and farmers, and hence need not be at the expense of global competitiveness of a country's products. All this means that for many developing countries globalization is often not the main cause of their problems, contrary to the claim of critics of globalization; just as globalization is often not the main solution of these problems, contrary to the claim of some over-enthusiastic free-traders.

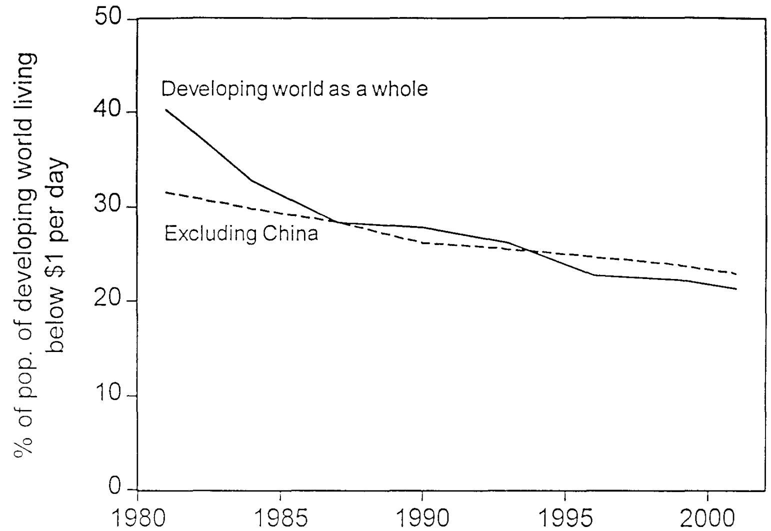
It, of course, does not absolve the responsibility of organizations and entities in helping the poor of the world. This can be achieved by

- working toward a reduction of rich-country protection on goods produced by the poor,
- energetic anti-trust action to challenge the monopoly power of international (producing and trading) companies based in rich countries,
- facilitating international public-private partnerships in research and development of products (for example, drugs, vaccines, crops) suitable for the poor,
- organizing more substantial (and more effectively governed) financial and technology transfers and international adjustment assistance for displaced workers and farmers,
- help in (legal and technical) capacity building for poor countries in international trade negotiations, and
- quality certification organizations for poor country products in international markets.

Fortunately, there is now some, slowly developing, measure of agreement between the two sides of the globalization debate. There are many areas where people on both sides see the potential of some degree of coordination and international partnerships between transnational companies, multilateral organizations, developing country governments and NGO's on programs to help the poor. Going beyond the contentious debates and building on the areas of emerging consensus and cooperation we may be able to make a dent at the massive poverty that continues to oppress the lives of billions of poor people in the world.

Ms. Stone's effort at a Davos seminar to raise $1 million in five minutes flat to fight malaria in Tanzania was a dramatic gesture, but we have a very long way to go.

Figure 1: Poverty incidence in the developing world 1981-2001



Source: World Bank

Table 1. Percentage of People below an International Poverty Line of $1.08 a day (1993 Purchasing Power Parity) in Developing Countries by Region, 1981-2001

Region	1981	1984	1987	1990	1993	1996	1999	2001
East Asia	**57.7**	**38.9**	**28.0**	**29.6**	**24.9**	**16.6**	**15.7**	**14.9**
China	**63.8**	**41.0**	**28.5**	**33.0**	**28.4**	**17.4**	**17.8**	**16.6**
East Asia exc China	**42.0**	**33.5**	**27.0**	**21.1**	**16.7**	**14.7**	**11.0**	**10.8**
Eastern Europe and Central Asia	**0.7**	**0.5**	**0.4**	**0.5**	**3.7**	**4.3**	**6.3**	**3.6**
Latin America and Caribbean	**9.7**	**11.8**	**10.9**	**11.3**	**11.3**	**10.7**	**10.5**	**9.5**
Middle East and North Africa	**5.1**	**3.8**	**3.2**	**2.3**	**1.6**	**2.0**	**2.6**	**2.4**
South Asia	**51.5**	**46.8**	**45.0**	**41.3**	**40.1**	**36.6**	**32.2**	**31.3**
India	**54.4**	**49.8**	**46.3**	**42.1**	**42.3**	**42.2**	**35.3**	**34.7**
South Asia exclu	**42.2**	**37.0**	**41.0**	**38.7**	**33.1**	**19.7**	**22.9**	**21.0**

India								
Sub-Saharan Africa	**41.6**	**46.3**	**46.8**	**44.6**	**44.1**	**45.6**	**45.7**	**46.4**
Total	**40.4**	**32.8**	**28.4**	**27.9**	**26.3**	**22.8**	**21.8**	**21.1**
Total excluding China	**31.7**	**29.8**	**28.4**	**26.1**	**25.6**	**24.6**	**23.1**	**22.5**

Source: World Bank

For Further Reading

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4. G. H. Hanson, "Globalization and Labor Income in Mexico", National Bureau of Economic Research Working Paper no.11027, Cambridge, MA, January 2005
5. N. Kabeer and S. Mahmud, "Globalization, Gender and Poverty: Bangladeshi Women Workers in Export and Local Markets", *Journal of International Development*, 13, January 2004.