Does Globalization Help or Hurt the World's Poor?

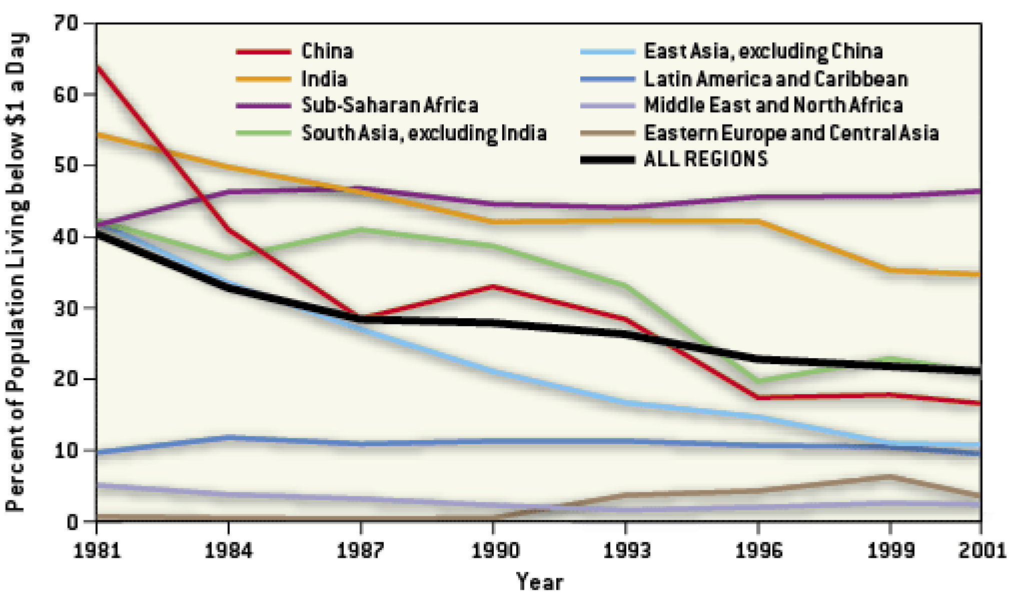
Most people have a strong opinion on globalization, and all of them express an interest in the well-being of the world's poor. The financial press and influential international officials confidently assert that global free markets expand the horizons for the poor, whereas activist-protesters hold the opposite belief with equal intensity. Yet the strength of people's conviction is often in inverse proportion to the amount of robust factual evidence they have.

As is common in many public debates, different people mean different things by the same word. Some interpret "globalization" to mean the global reach of communications technology and capital movements, some think of the outsourcing by domestic companies in rich countries, and others see globalization as a byword for corporate capitalism or American cultural and economic hegemony. So it is best to be clear at the outset of this article that I will primarily refer to economic globalization--the expansion of foreign trade and investment. How does this process affect the wages, incomes and access to resources for the poorest people in the world? This question is one of the most important in social science today.

For a quarter century after World War II, most developing countries in Africa, Asia and Latin America insulated their economies from the rest of the world. Since then, though, most have opened their markets. For instance, between 1980 and 2000, trade in goods and services expanded from 23 to 46 percent of gross domestic product (GDP) in China and from 19 to 30 percent in India. Such changes have caused many hardships for the poor in developing countries but have also created opportunities that some nations utilize and others do not, largely depending on their *domestic* political and economic institutions. The net outcome is often quite complex and almost always context-dependent, so understanding the complexities is essential to taking effective action.

Neither Plague nor Panacea

The case for free trade rests on the age-old principle of comparative advantage, the idea that countries are better off when they export the things they are best at producing, and import the rest. Most mainstream economists accept the principle, but even they have serious differences of opinion on the balance of potential benefits and actual costs from trade and on the importance of social protection for the poor. Free traders believe that the rising tide of international specialization and investment lifts all boats. Others point out that many poor people lack the capacity to adjust, retool and relocate with changing market conditions. These scholars argue that the benefits of specialization materialize in the long run, over which people and resources are assumed to be fully mobile, whereas the adjustments can cause pain in the short run.



Antiglobalizers claim that globalization is making the rich richer and the poor poorer, while proglobalizers assert that it actually helps the poor. But if one looks at the factual evidence, the matter is rather more complicated. On the basis of household survey data collected by different agencies, the World Bank estimates the fraction of the population in developing countries that falls below the $1-a-day poverty line (at 1993 prices)--an admittedly crude but internationally comparable level. By this measure, extreme poverty is declining in the aggregate.

The trend is particularly pronounced in East, South and Southeast Asia. Poverty has declined sharply in China, India and Indonesia--countries that have long been characterized by massive rural poverty and that together account for about half the total population of developing countries. Between 1981 and 2001 the percentage of rural people living on less than $1 a day decreased from 79 to 27 percent in China, 63 to 42 percent in India, and 55 to 11 percent in Indonesia.

But although the poorest are not, on the whole, getting poorer, no one has yet convincingly demonstrated that improvements in their condition are mainly the result of globalization. In China the poverty trend could instead be attributed to internal factors such as the expansion of infrastructure, the massive 1978 land reforms, changes in grain procurement prices, and the relaxation of restrictions on rural-to-urban migration. In fact, a substantial part of the decline in poverty had already happened by the mid-1980s, before the big strides in foreign trade or investment. Of the more than 400 million Chinese lifted above the international poverty line between 1981 and 2001, three fourths got there by 1987.

Similarly, rural poverty reduction in India may be attributable to the spread of the Green Revolution in agriculture, government antipoverty programs and social movements--not the trade liberalization of the 1990s. In Indonesia the Green Revolution, macroeconomic policies, stabilization of rice prices and massive investment in rural infrastructure played a substantial role in the large reduction of rural poverty. Of course, globalization, by expanding employment in labor-intensive manufacturing, has helped to pull many Chinese and Indonesians out of poverty since the mid-1980s (though not yet as much in India, for various domestic institutional and policy reasons). But it is only one factor among many accounting for the economic advances of the past 25 years.

Those who are dubious of the benefits of globalization point out that poverty has remained stubbornly high in sub-Saharan Africa. Between 1981 and 2001 the fraction of Africans living below the international poverty line increased from 42 to 47 percent. But this deterioration appears to have less to do with globalization than with unstable or failed political regimes. In fact, such instability reduced the extent of globalization, as it scared off many foreign investors and traders. Volatile politics amplifies longer-term factors such as geographic isolation, disease, overdependence on a small number of export products, and the slow spread of the Green Revolution.

When talk gives way to action

Fortunately, the two sides of the globalization debate are--slowly--developing some measure of agreement. In many areas, advocates in both camps see the potential for coordination among transnational companies, multilateral organizations, developing country governments and local aid groups on programs to help the poor. Going beyond the contentious debates and building on the areas of emerging consensus and cooperation, international partnerships may be able to make a dent in the poverty that continues to oppress the lives of billions of people in the world. Here are some measures under discussion.

Capital controls. The flow of international investment consists both of long-term capital (such as equipment) and of speculative short-term capital (such as shares, bonds and currency). The latter, shifted at the click of a mouse, can stampede around the globe in herdlike movements, causing massive damage to fragile economies. The Asian financial crisis of 1997 was an example. Following speculators' run on the Thai currency (the baht) the poverty rate in rural Thailand jumped 50 percent in just one year. In Indonesia, a mass withdrawal of short-term capital caused real wages in manufacturing to drop 44 percent.

Many economists (including those who otherwise support free trade) now see a need for some form of control over short-term capital flows, particularly if domestic financial institutions and banking standards are weak. It is widely believed that China, India and Malaysia escaped the brunt of the Asian financial crisis because of their stringent controls on capital flight. Economists still disagree, though, on what form such control should take and what effect it has on the cost of capital.

Reduced protectionism. The major hurdle many poor countries face is not too much globalization but too little. It is hard for the poor of the world to climb out of poverty when rich countries (as well as the poor ones themselves) restrict imports and subsidize their own farmers and manufacturers. The annual loss to developing countries as a group from agricultural tariffs and subsidies in rich countries is estimated to be $45 billion; their annual loss from trade barriers on textile and clothing is estimated to be $24 billion. The toll exceeds rich countries' foreign aid to poor countries. Of course, the loss is not equally distributed among poor countries. Some would benefit more than others if these import restrictions and subsidies were lifted.

Trust-busting. Small exporters in poor nations often lack the marketing networks and brand names to make inroads into rich-country markets. Although transnational retail companies can help them, the margins and fees they charge are often very high. Restrictive business practices by these international middlemen are difficult to prove, but a great deal of circumstantial evidence exists. The international coffee market, for example, is dominated by four companies. In the early 1990s the coffee earnings of exporting countries were about $12 billion, and retail sales were $30 billion. By 2002 retail sales had more than doubled, yet coffee-producing countries received about half their earnings of a decade earlier. The problem is not global markets but impeded access to those markets or depressed prices received by producers, as a result of the near-monopoly power enjoyed by a few retail firms. In certain industries, companies may actively collude to fix prices. Some economists have proposed an international antitrust investigation agency. Even if such an agency did not have much enforcement power, it could mobilize public opinion and strengthen the hands of antitrust agencies in developing countries. In addition, internationally approved quality-certification programs can help poor-country products gain acceptance in global markets.

Social programs. Many economists argue that for trade to make a country better off, the government of that country may have to redistribute wealth and income to some extent, so that the winners from the policy of opening the economy share their gains with the losers. Of course, the phrase "to some extent" still leaves room for plenty of disagreement. Nevertheless, certain programs stir fairly little controversy, such as assistance programs to help workers cope with job losses and get retrained and redeployed. Scholarships allowing poor parents to send their children to school have proved to be more effective at reducing child labor than banning imports of products.

Research. The Green Revolution played a major role in reducing poverty in Asia. New international private-public partnerships could help develop other products suitable for the poor (such as medicines, vaccines and crops). Under the current international patent regime, global pharmaceutical companies do not have much incentive to do costly research on diseases such as malaria and tuberculosis that kill millions of people in poor countries every year. But research collaborations are emerging among donor agencies, the World Health Organization, groups such as Doctors Without Borders and private foundations such as the Bill & Melinda Gates Foundation.

Immigration reform in rich countries. A program to permit larger numbers of unskilled workers into rich countries as "guest workers" would do more to reduce world poverty than other forms of international integration, such as trade liberalization, can. The current climate, however, is not very hospitable to this idea.

Simplistic antiglobalization slogans or sermons on the unqualified benefits of free trade do not serve the cause of alleviating world poverty. An appreciation of the complexity of the issues and an active interweaving of domestic and international policies would be decidedly more fruitful.

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