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Overview

Despite the enormous potential of globalization in accelerating economic growth through greater integration into the world economy the impact of globalization on poverty reduction has been uneven. Asia has been the major beneficiary of globalization where high growth rates and its labor-intensive pattern contributed to a spectacular reduction in poverty. In contrast, the integration process in Latin America did not contribute to accelerating growth and employment and even led, in some instances, to an informalization of the labor force. In spite of opening up, the failure of sub-Saharan Africa to diversify and undergo structural transformation has led to the persistence of low growth and debilitating poverty. While the impact of globalization on poverty is context-specific, we argue that countries intent on benefitting from globalization need to adopt a pro-active stand in formulating regional and national strategies to enhance the potentially positive effects of globalization and moderate the negative effects.

Written by MACHIKO NISSANKE AND ERIK THORBECKE

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Linking Globalization to Poverty in Asia, Latin America and Africa

GLOBALIZATION AND POVERTY, ALONGSIDE THE ISSUE OF change epitomize two of the most pressing contemporary international development issues. Despite the enormous potential of globalization in accelerating economic growth and development through greater integration into the world economy, the spread and transfer of technology, and the transmission of knowledge, the impact of globalization on poverty reduction has been uneven and even marginal in some regions, such as in much of sub-Saharan Africa (SSA). Both the prevalence and depth of poverty in many parts of the developing world remain unacceptably high. A question often raised is whether the actual distribution of gains from globalization is fair and, in particular, whether the poor benefit proportionately less from globalization and could actually be hurt by it under some circumstances. The risks and costs brought about by globalization can be significant for fragile developing economies and the world's poor. The downside of globalization is most vividly illuminated during times of periodic global financial and economic crises. The costs of repeated financial crises fuelled by the globalization process, at least until the present major recession, have been borne overwhelmingly by the developing world and often disproportionately so by the poor who are the most vulnerable. On the other hand, the benefits from globalization during boom times are often not equally shared within the global community.

The fear that the poor have been bypassed, or actually hurt, by globalization was highlighted by the findings from a number of recent studies, which point towards a continuing prevalence of high inequality in the world income distribution, and limited income convergence among participating national economies and across regions.

The progress on poverty reduction has also been uneven. The share of the population of developing countries living below US$1.25 per day declined from 52 per cent to 25 per cent between 1981 and 2005, but this was

About the Authors

Machiko Nissanke *is* Professor of Economics at the School of Oriental and African Studies, University of London. She previously worked at Birkbeck College, University College London and the University of Oxford.

Erik Thorbecke is the H. E. Babock Professor of Economics, Emeritus, Graduate School Professor and former Director of the Program on Comparative Economic Development.

mainly achieved by the substantial reduction of the poor in Asia, in particular in China. Furthermore, over the period 1981–2005, the total number of people living under US$2 per day has actually increased worldwide by about 2 million to 2.53 billion in 2005. There is a clear disparity in regional trends in poverty reduction. While East Asia and the Pacific experienced the sharpest reduction in the proportion of poor living below US$1.25 per day from 78 per cent to 17 per cent, between 1981 and 2005, the poverty headcount ratio remained very high in sub-Saharan Africa (around 52 per cent) and the number of poor almost doubled from 212 to 388 million.

Though any observed trend in poverty and income inequality cannot be exclusively or even mainly attributed to the 'globalization' effect as such, these various estimates cannot dismiss the concerns raised that the globalization process may have had adverse effects on income distribution and on poverty among some segments of the population. Indeed, while most objective observers would argue that globalization is likely to have contributed to poverty alleviation on a net basis, it is also known to have created winners and losers at numerous levels throughout modern history. These concerns have generated a passionate debate worldwide as well as a powerful anti-globalization movement.

The extent of controversy surrounding this debate reflects the fact that globalization is not a process, proceeding neutrally in a policy vacuum; rather, it is a policy induced condition. Globalization is not purely driven by new technological innovations and progress or by 'neutral' market forces and other inescapable sociopolitical forces, as often depicted in popular writings. In particular, the current phase of globalization is, to a certain extent, an outcome emerging from the global acceptance and diffusion of the economic policy paradigm, emphasizing benefits and positive features of the liberalized policy regime characterized by the Washington Consensus.

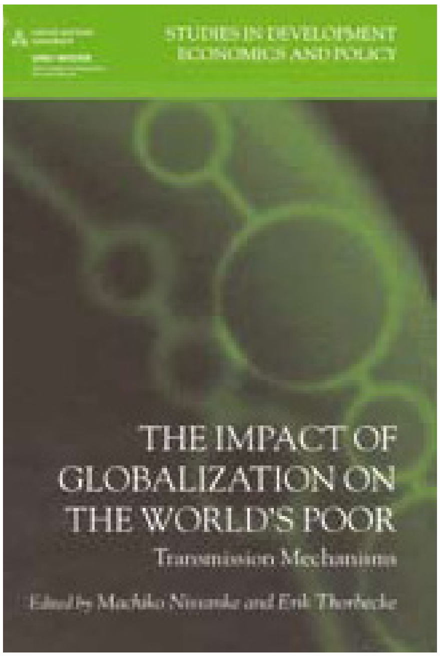
As the process of economic integration has intensified since the 1990s, the question of how globalization affects the world's poor has become one of the central issues in international political economy and international relations. However, the precise nature of the various mechanisms through which globalization has altered the pattern of income distribution and the conditions facing the world's poor are yet to be carefully analysed. This is because the globalization–poverty relationship is complex, non-linear, and heterogeneous, involving multifaceted channels. Besides the 'growth' effects of globalization on poverty (that is, the effects of globalization on poverty transmitted through economic growth), the integration process is known to create winners and losers directly through other channels, affecting both vertical and horizontal inequalities. Because these multifaceted channels interact dynamically over space and time, the net effects of globalization on the poor can only be judged on the basis of context-specific empirical studies. Cross-country studies requiring precise measurements and definition of the two key concepts—globalization and poverty—tend to fail to give robust insights into this critical nexus. Both concepts are multidimensional, and not easily captured in a composite index that may be used in a meaningful manner in cross-country comparative studies or regressions. Building on earlier research projects, UNU-WIDER initiated a project on 'The Impact of Globalization on the World's Poor' in 2004, to deepen our understanding of how conditions facing the world's poor have been evolving under the forces of globalization with emphasis on the economic manifestations of those forces. Various channels and transmission mechanisms were identified and explored through which the process of globalization affects different aspects and dimensions of poverty in the developing world. This was the main theme of the first methodological and conceptual conference held under the auspices of this project in Helsinki in 2004.

Subsequently three regional conferences focusing, respectively, on Asia (held in Tokyo), Latin America (Rio de Janeiro), and Africa (Johannesburg) were organized to help identify and illustrate the differential effects of globalization on growth, inequality, and poverty in the three continents. Approximately sixty specific case studies were initiated and completed under the auspices of this project. These studies are incorporated in the three published volumes, three special issues of journals and other publications resulting from this project (the complete list of publications is given at the end of this policy brief).

Focusing on distinct manifestations of globalization and channels through which they affect poverty, these case studies cover the spectrum from broad macroeconomic regional and country analyses to micro-oriented village studies on each of the three continents. These case studies illustrate clearly that the impact of globalization on poverty is extremely context-specific. Significant differences in initial conditions as well as distinct internal dynamic processes of institutional and sociopolitical change triggered by the forces of economic integration have influenced the poor in Asia, Latin America, and Africa in quite dissimilar ways. There are distinctive characteristics, specific to each of the three developing regions, shaping the ways in which globalization has affected the poor. This merits a comparative analysis of each region's experiences with globalization and integration.

Naturally, any attempt at estimating rigorously the impact of the globalization process on socioeconomic performance (and more specifically on poverty) faces the almost insurmountable obstacle of the lack of a plausible counterfactual scenario. In order to derive robust inferences, one would have to compare the performance under the present forces of globalization to an alternative scenario of no or limited globalization. Within limits, this could be done very approximately and roughly within a computable general equilibrium model for a given country or region of a country but this task is clearly infeasible for continents as large and diverse as Asia, Latin America, and Africa.

This Policy Brief is published within the UNU-WIDER research project 'Impact of Globalization on the World's Poor' directed by Erik Thorbecke and Machiko Nissanke. More detailed findings are set out in a series of working papers (available to download free at: www.wider.unu.edu):

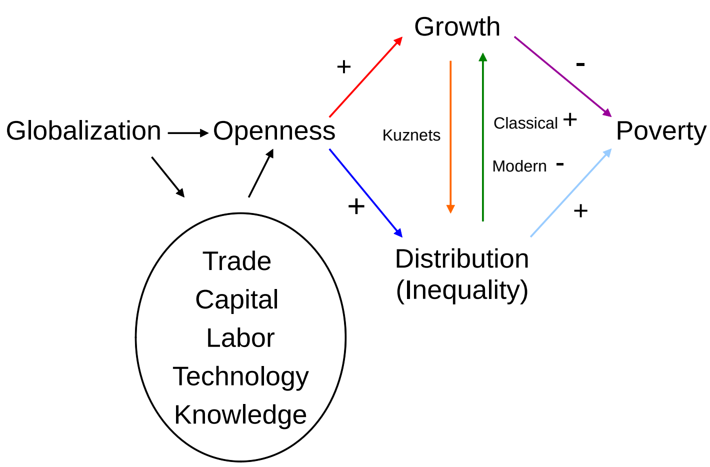


Instead, we first attempt to describe some major recent socioeconomic trends on each of these continents that one can legitimately claim were influenced by the globalization process even if they were, in fact, the net consequences of a whole series of factors with some of them independent of the forces of globalization. Further, while there are clear intercontinental differences in the effects of globalization on the poor, it is also true that significant differences can prevail *within* each regional block as well. Hence, the general picture we paint with a broad brush can usefully serve as a backdrop to the sixty specific case studies generated by this project. The next section presents a brief summary of our analysis of the channels and transmission mechanisms through which the process of globalization affects different aspects of poverty in the developing world. Section 3 provides a comparative analysis of the differential impact of globalization—operating through these channels—on the poor in the three different regions. Finally, Section 4 suggests a policy framework that could make globalization more pro-poor.

2 Channels Linking Globalization to Poverty

What are the transmission mechanisms through which the process of globalization affects poverty directly and indirectly? The first and foremost of these mechanisms is the growth-inequality-poverty channel. Figure. 1 is our attempt to illustrate schematically the various critical links of the causal chain running from globalization (openness) to poverty, focusing on the most critical links and abstracting from some feedback effects.
Globalization, as defined in this project, means greater economic integration manifested through increased openness via numerous transmission mechanisms such as trade and investment liberalization, movements of capital, labour migration across borders and within countries, the nature of technological change and diffusion of knowledge and technology, worldwide information flows, and institutional environments. These mechanisms, in turn, affect poverty through two different paths: first, through their contribution to the growth channel (in the upper part of the diagram in Figure 1) and, second, through their impact on income distribution (in the lower part of the diagram).
The specific links shown in this Figure are from openness to growth, from openness to income

Transmission Channels: The Globalization-Openness-Growth-Distribution (Inequality)-Poverty Nexus



distribution (inequality), from growth to income distribution and vice versa, from growth to poverty, and from income distribution to poverty, respectively. In turn, the two main channels of globalization—the 'growth' and 'distribution' channels—further interact dynamically over time to produce a growth–inequality–poverty triangular relationship, which is captured by the right hand side triangle of the Figure describing the arithmetic-statistical relationship among growth, inequality, and poverty.

Each subset of links embedded in the *globalization (openness)–growth–income distribution–poverty nexus,* schematically illustrated in the Figure, can be contentious and controversial. For example, the direction of causality in the openness–growth link is still being debated (the consensus view is that trade contributes to growth rather than vice versa) as well as how trade and capital flows could be interlinked into a virtuous circle.

In this context it can be argued that the positive openness–growth link is neither automatically guaranteed nor universally observable, as the growth-enhancing effects of trade openness depend critically on the way and extent to which a country is integrated into the global economy. Indeed, a greater integration/openness process does not necessarily ensure uninterrupted growth spells. Rather, it also entails accepting greater downside risk of the contagion effects of crises, as demonstrated by the globally synchronized slowdown that has engulfed all the economies in the developing world since September 2008.

Further, relating the causal chain

Publications from the Project 'Impact of Globalization on the World's Poor'

The Impact of Globalization on the World's Poor: Tranmission Mechanisms

Edited by Machiko Nissanke and Erik Thorbecke
Basingtoke Palgrave Macmillan, 2006

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Machiko Nissanke and Erik Thorbecke

Chapter 2 Channels and Policy Debate in the Globalization–Inequality–Poverty Nexus
Machiko Nissanke and Erik Thorbecke

Chapter 3 The Relationship between Income Inequality, Poverty and Globalization
Almas Heshmati

Chapter 4 Globalization and Poverty Trends across Regions: The Role of Variation in the Income and Inequality Elasticities of Poverty
Adriaan Kalwij and Arjan Verschoor

Chapter 5 Looking Beyond Averages in the Trade and Poverty Debate
Martin Ravallion

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Pranab Bardhan

Chapter 7 Globalization, Production and Poverty
Rhys Jenkins

Chapter 8 The Role of Information in Technology Adoption under Poverty
Jinhua Zhao

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Pierluigi Montalbano, Alessandro Federici, Umberto Triulzi and Carlo Pietrobelli

Chapter 10 Globalization, Poverty, Inequality and Insecurity: Some Insights from the Economics of Happiness
Carol Graham

Chapter 11 Explaining Threshold Effects of Globalization on Poverty: An Institutional Perspective
Alice Sindzingre

Chapter 12 Globalization, Poverty and Inequality: What Is the Relationship? What Can Be Done?
Kaushik Basu

Publications from the Project
'Impact of Globalization on the World's Poor'

Globalization and the Poor in Asia: Can Shared Growth be Sustained?

Edited by Machiko Nissanke and Erik Thorbecke
Basingstoke Palgrave Macmillan, 2008

Chapter 1 Globalization and Poverty in Asia: Can Shared Growth be Sustained?
Machiko Nissanke and Erik Thorbecke

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Nanak Kakwani and Hyun H. Son

Chapter 3 How Does Vietnam's Accession to the World Trade Organization Change the Spatial Incidence of Poverty?
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Chapter 6 Economic Development Strategy, Openness and Rural Poverty: A Framework and China's Experiences
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from income and wealth inequality to growth (the 'inequality–growth' link), there are two conflicting theoretical strands: the traditional (classical) approach and the 'new' political economy of development theories (modern). Whilst the former emphasizes the growth-enhancing effects of income inequality and wealth inequality through the saving-enhancing effects (the rich save proportionately more than the poor) as well as the existence of investment indivisibilities and incentive effects, the latter links greater inequality to reduced growth through various conditions. These conditions include the diffusion of political and social instability leading to greater uncertainty and lower investment, unproductive rent-seeking activities, high transaction costs, and increased insecurity of property rights. The Kuznets hypothesis of the inverted U-shaped relationship between growth and inequality that examines the opposite causal flow (i.e., the 'growth–inequality' link) is also challenged by a number of recent studies. Thus, the new political economy of development approach suggests that growth patterns yielding more inequality would, in turn, engender lower future growth paths resulting in less of a growth-induced poverty reduction, as Figure 1 illustrates. Thus, we argued that while globalization-induced growth may benefit the poor, the ultimate poverty reduction effects depend on how the growth pattern affects income distribution, as inequality acts as the *filter* between growth and poverty reduction. Effective poverty reduction requires some combination of higher growth and a more pro-poor distribution of the gains from growth.

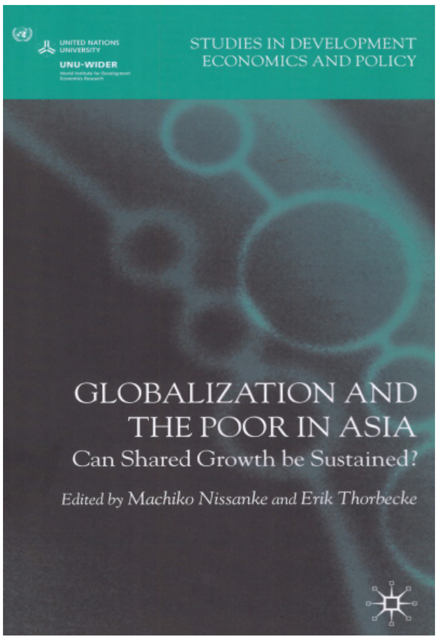
In addition, several specific features associated with the current phase of globalization have contributed to possible adverse effects on the poor. These include: (a) the nature of technical changes biased in favour of capital and against unskilled labour, the asymmetrical access to new technology and knowledge, and the uneven process of technology diffusion; (b) the often perverse pattern of international migration which tends to encourage a migration of skilled labour from developing countries to developed countries, while unskilled labour migration tends to be strictly controlled by legal restrictions in developed countries; (c) the perverse movements of capital, such as in the form of capital flight from developing or emerging market economies to safe havens in the rich countries or *diversification* finance characterizing portfolio capital flows conducted through asset swapping for risk hedging and shedding, which results in global macro imbalances and periodical financial crises, and; (d) uneven, skewed foreign direct investment (FDI) flows, which have not necessarily guaranteed host developing countries access to potential benefits of management and knowledge transfer. These features have affected, in a number of instances, the functional income distribution between labour and capital against the former.

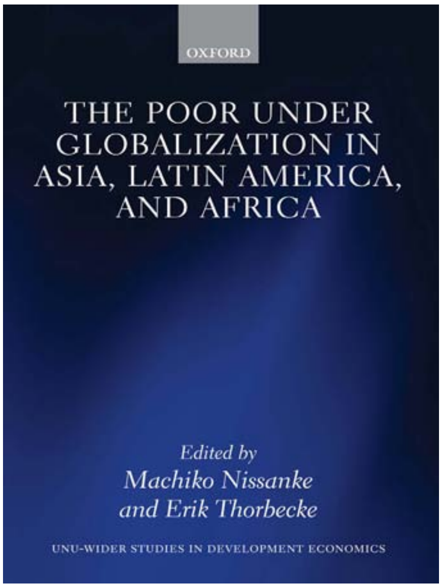
Concerns are particularly strong about the increased vulnerability of the poor to globalization forces that generate greater fluctuations in income and expenditure caused by global shocks, such as the various financial crises that have hit Latin America and Asia in the last two decades or the ongoing global financial crisis and food crisis. There is significant evidence that these repeated shocks have hurt the poor disproportionately. Thus, while globalization can be a major engine for growth, it is critical to put in place strong institutions that mediate the various channels and mechanisms through which the globalization process influences poverty. Indeed, institutions act as a filter intensifying or hindering the positive and negative pass-through between globalization and poverty and can help explain the diversity, heterogeneity, and non-linearity of outcomes. Examples of such institutions, operating as safety nets, are discussed in the comparative analysis that follows.

Globalization and poverty, alongside climate change, epitomize two of the most pressing contemporary international development issues

3 How did Globalization Affect the Poor in Asia, Latin America, and Africa?

Emerging empirical evidence on the recent increase in world income disparity between the rich and the poor can at least be partially attributed to the forces shaping the current process of globalization. In particular, the observed 'big time' divergence in inter-country income levels (when each country is weighted equally)





calls into question the validity of the openness-induced income convergence thesis. The reality is that the mere adoption of open trade and investment regimes does not guarantee, or necessarily promote, developing countries' entry into the 'income convergence club'. It can be argued that the conundrum of the persistent 'non-convergence' of world per capita income should be explicitly addressed in terms of structural features of the global economic relationships as they evolved over time and institutional and sociopolitical conditions found in participating countries. The income convergence trend among nation states, to the extent that it has been observed historically, is likely to be explained more effectively by the specific nature of the integration and specialization process followed by subgroups of countries, rather than by the degree of openness of the trade and investment regimes per se, as often claimed.

A theoretical study undertaken under the auspices of the present project and based on a 'human development trap model' showed that in the presence of multiple equilibria, development and underdevelopment can coexist as steady states under globalization. This study concluded that globalization is a necessary, but not a sufficient, condition for convergence to development. Indeed, many poor countries that have opened their economies since the 1980s have fallen behind, and have not succeeded in reaching the take-off point necessary for benefiting from the positive forces of globalization. Above all, countries need to have reached the take-off point, as the effects of international trade on growth are critically dependent on the structure of growth and pattern of specialization and integration. In terms of the inter-sectoral growth pattern, evidence shows that in early development stages the growth of agriculture has a far greater impact on poverty than the growth of other sectors. For example, the bulk of poverty reduction in China occurred during the phase of agricultural de-collectivization and increases in food prices procurement before 1980, rather than in the subsequent trade-opening phase. As will be seen in the comparative analysis, countries that went through an early and smooth structural transformation, as in most of Asia, were much more successful in generating a shared-growth process benefitting the poor than countries that delayed or failed their structural transformation process, as is typical of SSA.

In terms of patterns of specialization a country specializing in an industry endowed with a larger positive externality would experience a faster growth rate compared with a trading partner that specializes in an industry with weaker spillover effects. Thus, the growth rates of two trading countries could differ considerably, depending on the pattern of specialization. A

The risks and costs brought about by globalization can be significant for fragile developing economies country with an initial comparative advantage in 'non-dynamic' sectors may end up in a low equilibrium trap through the evolving patterns of production and trade. Similarly, the effects of FDI on host economies diverge enormously, depending on the sectors into which transnational corporations (TNCs) are attracted to move in and invest. Low-income developing countries tend to attract natural resource-based FDI in extracting mineral resources or FDI geared towards the lower end of TNCs' vertical integrated global operations (their global value chain) such as simple assembly line operations. These sectors and activities are characterized by limited dynamic externalities, as well as knowledge and skill spillovers.

In general, globalization experiences in the South tend to be very heterogeneous. In this context, we argue that developing countries have to undergo substantial changes in their trade and production structures, so as to be able to reap more benefits from the dynamic forces unleashed by globalization and experience income convergence. Indeed, sharp divergences have emerged in the development paths followed by different countries in the South over recent decades.

These divergences can be explained by the distinct internal patterns of economic growth and forms of integration adopted. As a consequence some countries in the South were able to benefit from virtuous cycles of globalization-induced growth, while others were left behind in vicious cycles of globalization-induced decline. Not only did the growth rates diverge

Publications from the Project
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The Poor Under Globalization in Asia, Latin America and Africa

Edited by Machiko Nissanke and Erik Thorbecke
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widely but there emerged a marked difference in the ways the benefits of economic growth trickled down to the poor as these developing economies were integrating into the global economy. The sharp differential impact of the forces of globalization on the poor in the developing world can be analysed by focusing on the integration experiences of three broad regions (continents): Asia, Latin America, and Africa, respectively.

3.1 Impact of Globalization on Poverty in Asia

Asia is the region widely regarded as having benefited most from the dynamic growth effect of the recent wave of globalization, which has also resulted in a very substantial reduction in abject poverty in many economies. Furthermore, the growth pattern achieved through increased trade and FDI in East Asia in the 1960s and 1970s was especially seen as highly inclusive, and often viewed as a model of 'shared growth'. Yet, there is growing evidence that in the last three decades, inequality has been rising as part and parcel of the integration process in many parts of Asia. Hence, it is critically important to examine the mechanisms at work in the globalization–poverty nexus in Asia.

First, there is very little disagreement over the powerful growth enhancing effects of openness through trade and FDI in the case of most Asian countries. In particular, following aggressively an 'outward-oriented development strategy', most East Asian economies had not only managed the process of integration into the world economy much earlier than other developing countries, but also improved their form of linkages to the global economy in the years of their rapid economic growth. Prior to the financial crisis of 1997–8, many of the East Asian economies registered spectacular growth performances accompanied by a substantial reduction in poverty—through

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dynamically evolving changes in their socioeconomic structures. A number of earlier studies attributed this successful growth performance to an appropriate set of economic policies and institutions well suited to the conditions prevailing in East Asia during that period. The relatively quick turnaround of many emerging economies in East Asia in the years following the severe crisis of 1997–8 is often attributed to their strong export performance and renewed adaptability and flexibility in responding swiftly to new opportunities offered by globalization.

Second, the structural transformation of most economies in East Asia has been facilitated considerably by the integration/globalization process. The catch-up process and associated growth dynamism in Asia, as a whole, can be examined in terms of the 'flying geese paradigm', wherein a sequence of staggered catch-up growth episodes has successively taken place in the region since the end of the Second World War. More specifically, poverty alleviation has been occurring, in flying geese style (i.e., in tandem with growth) among these rapidly catching up Asian economies. The incidence of poverty (based on the US$1.25 poverty line) is estimated to have dramatically declined from 78 per cent in 1981 to 17 per cent in 2005 in East Asia including China, and from 60 per cent to 40 per cent in South Asia during the same period.

Globalization is likely to have contributed to poverty alleviation on a net basis

Thus, the high growth performance—accompanied by a substantial reduction of abject poverty—in East Asia can be explained in terms of the region-wide comparative advantage recycling in the production and export of labour intensive goods. The process involves a strong demand for unskilled and semi-skilled labour, driven by exporting labour-intensive goods and attracting pro-trade FDI, bringing about effective technology, knowledge, and skill transfer. Most of the East and South-East Asian economies have successfully gone through the structural transformation of their production and trade structures with continuous upgrading of their human skill endowments and technology/knowledge base. By relying on their fast evolving dynamic comparative advantages these countries were able to maximize the benefits from dynamic externalities. Their increasing specialization in sectors with large spillovers and dynamic externalities was conducive to engendering a pattern of equalizing growth.

Third, in most of East Asia, the pro-poor pattern of public expenditure in favour of the rural poor at early stages of development produced and sustained the 'shared' growth process at least until the 1970s. There were concerted efforts on the part of governments to facilitate building primary assets of the poor through such measures as an equitable distribution of land (through appropriate land reforms), extensive public provision of free and universal primary education, promotion of small-scale enterprises and development of rural infrastructure—roads, irrigation, schools, agricultural support outposts, health stations, and irrigation systems. In this context, the observed pro-poorness of growth in East Asia is not purely a manifestation of market-driven growth effects.

Fourth, notwithstanding the ongoing urbanization process, the great majority of the poor in Asia continue to reside in rural areas—63 per cent at last count. The accelerating rural to urban migration in response to the rapid expansion of job opportunities has contributed both to economic growth in urban areas and to the alleviation of poverty in rural areas by (i) reducing surplus labour in

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'The Impact of Globalization on the World's Poor'
Guest Editors Machiko Nissanke and Erik Thorbecke

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Globalization, Local Ecosystems and the Rural Poor
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Globalization's Bystanders: Does Trade Liberalization Hurt Countries that do not Participate?'
Alan V. Deardorff and Robert M. Stern

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Gregory Graff, David Roland-Holst and David Zilberman

Poverty and the Welfare Costs of Risk Associated with Globalization
Ethan Ligon

agriculture, and (ii) through the remittances from migrant workers that presently 10.65Indeed, despite the sharp reduction in the incidence of extreme poverty (less than US$1.25 a day), poverty remains high in many developing countries in Asia if it is measured on the basis of the US$2 a day poverty line.
It is estimated that the latter declined from 86 per cent in 1981 to 73 per cent in 2005 in South Asia and from 92 per cent to 38 per cent in East Asia (dominated by China) over the same period. The reduction in this measure is remarkable (in particular in East Asia), but poverty is still widespread in Asia as a whole, and the challenge facing policymakers in the region in attacking poverty of this magnitude is still daunting. The 'inequality increasing' effect of globalization should be attenuated by public policy measures to ensure that benefits from globalization-induced growth are shared more equally and equitably.
In this context, it is worth remembering that the pattern of shared growth from wealth-sharing policy measures provided legitimacy for governments to pursue pro-growth and pro-business economic policy in the early drive for rapid industrialization in East Asia. Sustaining the shared growth process is hence critical for ensuring economic growth to continue under this era of globalization. Alternatively, growing inequalities can weaken social cohesion and risk reducing the momentum for economic growth and integration in the region.

3.2 Impact of Globalization on Poverty in Latin America

Latin America occupies an intermediate position in its integration experience compared to the other two regions. Like countries in sub-Saharan Africa, many economies in Latin America have been historically natural resource-based in their linkage to the global economy through primary commodity exports. Though the economies in the region are much more diversified in their production and trade structures than those in SSA, they have been largely susceptible to the 'global development cycle', dominated by external shocks. Many countries in the region were exposed to a deterioration in their 'terms of trade' caused by the sharp drop in the prices of a number of primary commodities in the 1980s. In addition, as main recipients of commercial loans based on abundant petrodollars in the 1970s, middle income countries in the region suffered from the sudden hike in real interest rates at the end of the 1970s. Resulting from the ensued severe debt crisis, the region had to endure a 'lost decade' of economic growth in the 1980s characterized by negative external resource transfer and stagnant growth rates in per capita income. The annual average growth of GDP in the 1980s for the Latin American region was barely above 2 per cent. After the belated market-based debt restructuring under the Brady Plan and the sweeping policy reforms of liberalization and deregulation, middle-income economies in the region reintegrated into the global economy as emerging market economies in the early 1990s. Yet, the region's economic integration, spurred by the liberalization and privatization drive and based on the premise of large 'growth' dividends from globalization, has not delivered the promised benefits of sustained economic growth to these economies. The average annual growth of GDP in Latin America during the 1990s was only around 3 per cent. A well-known Latin American specialist summarizes the prevailing view on the region's performance over the last two decades, by noting that 'Latin America has wholeheartedly embraced the faith in open trade and freer capital markets and yet, subsequent growth is well short of expectation'. On the whole, the globalization induced economic growth in the region has been much more precarious and fragile than that recorded in Asia throughout the last three decades.

Under the impetus of highly volatile portfolio capital flows, economic growth has been interrupted by the periodic crises in capital accounts of balance of payments since the mid 1990s. Much of the eagerly anticipated increase in FDI took the form of asset acquisition of newly privatized public utilities rather than that of green field investment in productive capital. Operating within the global production network, TNCs in the manufacturing sector in the region have adopted new production technologies with little new employment created.

Each subset of links embedded in the globalization (openness)–growth–income distribution–poverty nexus can be contentious and controversial

Multinational corporations in Mexico and the Caribbean tend to specialize in low technology manufactures, mainly operating assembly plants with little potential of technology and skill transfers. Thus, during the recent spell of globalization, there is evidence that 'South America has experienced premature deindustrialization, while Mexico and Central America avoided this trend by specializing in high import intensive manufacturing exports, but with limited benefits in terms of growth'. It remains to be seen if the growth spurt starting in 2004 (yielding an annual growth rate of GDP of around 5 per cent a year until 2008), largely fuelled by temporarily rising commodity prices, is sustainable. Clearly the growth transmission channel has, at least until very recently, been much too weak to play a significant role in reducing poverty in the region.

In contrast to Asia, the Latin American region has experienced a very low rate of formal job creation in the tradable sector under globalization. In some cases, economic growth was 'jobless', with a negative rate of creation of formal jobs. Keen observers have noted the sharp disparities in performance between large (often operated by TNCs) and small enterprises in the region: large scale enterprises recorded high rates of productivity growth with a shrinking labour force, while the number of small and informal low-productivity enterprises continues to grow. Thus, labour markets in the region

are characterized by a high degree of segmentation in parallel with an increasing 'casualization' of the workforce.

As firms operating in the formal sector are subject to increased international competition as liberalization proceeds, the informal sector has expanded by absorbing negative income shocks as workers in the formal sectors are laid off. This process has given rise to the fear of 'social exclusion' of the self-employed, operating almost entirely in the informal sector. One of our case studies notes that the self-employed now account for one-third of the labour force in the Mexican economy and are one of the most vulnerable groups. This process of 'casualization' and 'informalization' of the workforce can help explain the reduction in open unemployment in Mexico and other Central American countries during the 1990s, while open unemployment was rising steadily in Argentina, Brazil, and Colombia, and other Latin American countries. The share of the informal sector in urban employment rose significantly in most countries of the region.

While the distribution of income and assets in this region is known to have historically been the most unequal in the developing world, many empirical studies confirm that income and asset inequality has continued to rise significantly during the integration process after 1980. In the second half of the 1990s, all Latin American and Caribbean (LAC) countries were grouped at the very top end of the world inequality ranking according to the World Bank's World Development Indicators (WDI) dataset—with a median Gini coefficient of almost 57 per cent and a mean of just under 55 per cent. Between the mid-1990s and mid-2000s, inequality rose in nine LAC countries, while it fell in only two countries and remained essentially the same in four countries. The lethal combination of low growth and increased income inequality resulted in little overall poverty reduction. While the headcount ratio for the LAC region as a whole (based on the US$1.25 a day poverty line) fell from almost 13 per cent in 1981 to 8 per cent in 2005, the number of poor rose from 366 million to 550 million during the same time span.

Yet it is important to note that the aggregate statistics hide the good performance of some individual countries. The best performer in terms of growth and poverty alleviation was Chile, where the US$1.25 a day poverty has been practically eradicated, and Brazil and Mexico succeeded in reducing both inequality and poverty substantially since the mid-1990s despite unspectacular growth, at least prior to 2004.

The increased income inequality is often explained by the widening income gaps between skilled and unskilled workers as well as between the formal and informal sectors reflecting the differences

Institutions act as a filter intensifying or hindering the positive and negative pass-through between globalization and poverty

in human capital endowments. Brazil's experience since the late 1980s provides a revealing counterevidence marked by a falling wage inequality and income inequality (after 2000) as one of our case studies makes clear—illustrating thereby the risk of blanket generalizations.

However, some economists have challenged the power of these explanations of the pattern of income distribution, exclusive of other factors, arguing that the effects of globalization on income distribution in the region are most pronounced at the extreme ends of the income distribution. In other words, they argue that Latin America is characterized by a rising income polarization. In turn, this polarization trend can be explained by the way the LAC economies have integrated into the global economy, as evidenced by the Mexican case where the share of wages fell from 40 per cent of GDP in 1976 to just 19 per cent in 2000. Wages in low technology manufacturing sectors, in which Mexican 'maquila' enterprises specialize, stagnated, while large productivity gains were reflected by a sharp rise in profit margins. In short, globalization, at least partially through its technology transmission channel, appears to have shifted the functional income distribution against labour in the region and the rising income inequality further dampened the poverty alleviation effect of a modest growth performance.

Paradoxically, while the evidence is persuasive that income inequality is high and rising and contributing to perpetuate poverty in the region, much of the development literature ignores the fact that income inequality and income-based poverty are not necessarily the only or even best measures of economic and social well-being. Poverty and inequality are multidimensional concepts that can only be imperfectly reflected by money-metric measures. In this context, and to further muddle the development performance picture, one of our studies finds that during the 1980s and 1990s, inequality measured in the health and education dimension fell in Latin America and that this decline contributed to a substantial improvement in health and education indicators.

Asia is a region regarded as having benefited most from the dynamic growth effect of the recent wave of globalization

This evidence of socioeconomic development in Latin America would have been missed through a narrow focus on money-metric measures alone.

Poverty incidence is much higher in rural areas than in cities, although there is an ongoing increasing urbanization of poverty trends due to rural-urban migration.

While some major efforts have been in place in recent years to redress income inequality through such schemes as the Brazilian Bolsas and the Mexican Progresa and Opportunidades

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and notwithstanding the progress noted above, inequality in non-income measures such as education, nutrition, health, and access to utilities remains persistent. The poor are particularly disadvantaged in accessing these public goods.

While a claim has been made that increasing international remittances could become a massive resource transfer mechanism to reduce poverty levels by increasing the income of poorer households, a study undertaken under the auspices of this project shows that remittances are not going to the poorest members of rural communities in Mexico.

During the 1990s, there were some noticeable surges in social expenditures channelled through public transfers and human capital formation in many countries. In a rigorous empirical analysis of the relationship between growth patterns, poverty, and inequality in Brazil, one of our studies provides an important insight into the crucial role of incomes derived from social security and other government transfers in cushioning the effects of macroeconomic shocks triggered by the forces of globalization, specifically among the poorest segments of Brazilian society during the period, 1995–2004. Another study examines the performance of various public transfer schemes in eight countries in the region. It concludes that, on the whole, public transfers in the region have not yet managed to redistribute income to the poor significantly. Mitigating the negative effects of globalization on inequality and the poor is of particular importance in the LAC region, where there is today widespread dissatisfaction with the social injustice associated with high poverty and inequality.

A strong case can be made that high vulnerability to external shocks—a direct consequence of the way the LAC economies have integrated into the global economic system—has considerably impaired the institution-building process towards a more equitable society. Governments have faced serious constraints both on the fiscal front and monetary policy choices for sustaining public transfer programmes or other social policies in order to address growing inequality and the unacceptable prevalence of poverty.

> The process of integration of many Asian economies into the global economy has generated such a strong growth impact that the poor were not left out

The previously noted achievements of Mexico and Brazil, as well as Chile, contrast with an overall picture of little progress in the provision of safety nets to reduce the vulnerability of the poor to shocks in the LAC region. It is also clear that the inconsistent (stop and go) and populist economic and monetary policies followed by many LAC regimes have contributed in no small measure to the mixed socioeconomic performance described above. There appears little doubt that with sounder policies and governance, the net and overall impact of globalization would have been more favourable to most segments of the population.

3.3 Impact of globalization on the poor in sub-Saharan Africa

Following largely an inward-oriented development strategy in the early decades of the post-independence period, the majority of SSA countries failed to take advantage of the potential provided by the dynamic growth spurt that characterized the global economy starting in the 1970s. The region was largely marginalized and experienced slow growth and stagnation.
With growing recognition of their disadvantageous position, most economies in SSA significantly liberalized their trade and investment policy regimes as part of Structural Adjustment Programmes since the mid 1980s. Today, SSA is not behind other developing regions in trade openness, as conventionally measured through a trade intensity index (imports and exports relative to GDP). In spite of the increase in trade intensity, however, Africa's share of total world trade has fallen over the last two decades. Many countries in SSA have also intensified their efforts to attract FDI with the help of various fiscal and other incentive measures. However, FDI flows to the region have so far been largely limited to the extraction of oil and other natural resources.
Thus, SSA presents a clear example in support of the argument that the shift to an open policy regime alone is not sufficient to bring about economic growth and consequently poverty reduction. After two

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decades of reforms dominated by liberalization, privatization, and deregulation, the economies of SSA have not yet been able to escape from the 'growth tragedy' syndrome—the term popularly used in characterizing the region's dismal economic performance in the comparative growth literature. The recent upturn in economic growth recorded in many natural resource-rich economies in SSA was closely associated with the temporary price hike of oil and mineral commodities in world markets. The sustainability of these high growth rates appears most questionable in the light of the free fall of commodity prices observed immediately after the events in September 2008 that triggered the global financial crisis. Highly competent macroeconomic management over the commodity price cycle is required to avoid the 'Dutch disease' often associated with commodity booms. Otherwise, the foundation for long-term economic development of these natural resource-rich economies would remain fragile. Indeed, the high primary commodity dependence remains one of the most conspicuous characteristics of the trade linkage of countries in SSA with the rest of the world. Low-income countries dependent on primary commodity exports and a natural resource-based structure could be locked in an international poverty trap through integration. It is not a mere historical accident that the beginning of the debt crisis in many countries in SSA in the late 1970s coincided exactly with that of the 'commodity crisis'. The demand management of commodity-dependent economies governed by external shocks should be countercyclical to the commodity price movements. Yet, at times of an externally induced balance of payment crisis accompanied by a sharp drop in domestic demand, these countries, in the absence of alternative financial facilities, have been forced to adopt stabilization policy measures that aim at a further contraction in aggregate domestic demand. Effective and flexible facilities of contingency financing to deal with external shocks on an ex ante basis have been largely absent in debt relief mechanisms including the Heavily Indebted Poor Countries (HIPCs) Initiative. The debt crisis of HIPCs ended only when a near total debt cancellation was achieved under the Multilateral Debt Relief Initiative in 2005.

The failure of SSA economies to diversify and undergo structural transformation, and hence, to benefit from the technology-driven, highly dynamic aspects of the ongoing globalization process has led to major drawbacks in terms of low economic growth and persistent poverty. The incidence of poverty by some measures has worsened in the region. According to recent estimates, the number of poor below the US$1.25 a day

> In contrast to Asia, the Latin American region has experienced at a very low rate of formal job creation and informalization of the labour force

international poverty line almost doubled in SSA from about 212 million in 1981 to 388 million in 2005, while the proportion of poor (the headcount ratio) in SSA fell marginally during this same period from about 53 per cent to 51 per cent—by far the highest relative incidence among the major regions in the world. Poverty in SSA is both most prevalent and severe in rural areas.

Countries in SSA display a relatively high intra-country inequality. This can be seen as a puzzle as Africa should be a low inequality continent according to the Kuznets hypothesis because according to an authority on income distribution issues, 'African countries are poor and agriculture-based, and also because the main productive asset—agricultural land—is relatively evenly distributed in most of SSA (except the region of Southern Africa) in part thanks to the tradition of communal land holding'. Notwithstanding these conditions the degree of income inequality in Africa has increased sharply between the 1980s and the 1990s.

While it has become almost universally accepted that sustained poverty reduction requires economic growth, the pattern of growth, as discussed in Section 2, does significantly affect the rate of poverty reduction. In this context, it can be argued that Africa's growth has been distinctly against the poor not only in terms of its ability to deliver the required (high) growth rate to ensure that the poor could benefit from economic growth, but also in terms of its pattern. Economic growth in SSA, where it has occurred, has not been translated into significant poverty reduction. Critically, the combination of three factors, i.e., the nature and pattern of integration of the SSA economies into the global economy, the slow rate of structural transformation and the neglect of the agricultural sector, has precluded the generation of virtuous cycles of globalization induced growth and poverty reduction.

Governments in SSA have systematically ignored (if not exploited) their agricultural sectors—failing to undertake pro-poor public investment in rural areas; rather, tending to extract a surplus from agriculture at an early stage of development. It has also been argued that divisive fiscal instruments such as subsidies or preferential credits were more extensively used by politicians in SSA than other regions as the favoured mechanism to buy political support or to appease various interest groups. Furthermore, with the advent of the debt crisis in the 1980s, fiscal retrenchment (hence reduced spending on rural infrastructure) has been consistently pursued as part of the stabilization-cum-

Major efforts have been in place to redress income inequality through such schemes as the Brazilian Bolsas and the Mexican Progresa and Opportunidades

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adjustment policies. Governments were typically left with little capacity and resources to undertake public investment on a sustained basis. Under such conditions, it is difficult to expect structural transformation to take place. The majority in rural areas were de facto disenfranchised from the developing process. Private agents and rural farmers were likely to have refrained from making forward looking productive investments. Today, many parts of SSA remain isolated from global markets and the global community as the region's access to information and technology is limited.
On the whole, while globalization has made some contribution to economic growth in SSA, it has not yet facilitated the process of structural transformation required for countries to reach the take-off stage and accelerate the process of economic development and poverty reduction.
Instead, the forces of globalization have increased intra-country inequality and done very little to reduce poverty.
Whilst the impact of globalization on poverty is extremely context-specific, the limited scope of globalization in SSA appears to be, generally, the result of a combination of poor initial conditions, such as fundamental disadvantages of location (disease-prone tropical countries with a harsh environment), inadequate political institutions, poor governance, extremely underdeveloped physical infrastructure, and a related high risk investment climate.

Policies to Help Make

Globalization more Pro-Poor

4.1 Strategic national policies towards globalization

The empirical case studies from the three regions in this UNU-WIDER research project support the contention laid out at the outset that the effects of globalization on poverty are diverse, and in many ways, context specific. Indeed, our studies confirm the view that the forces of globalization as such are not inherently beneficial or deleterious for development prospects. At the same time, our comparative analysis of globalization experiences across the three developing regions shows that the effects of globalization on the poor depend critically on the nature and pattern of the economic integration process.

In particular, our analysis suggests that globalization works best for the poor through the 'growth' channel when globalization-induced economic growth generates secure employment opportunities continuously at a steady rate for a growing population and labour force. On the whole, the employment creating effect of growth has been and continues to be pronounced in East Asia, where globalization has brought about a substantial reduction in poverty due to vigorous growth despite increasing inequality. The process of poverty reduction in the Asia and Pacific region has followed closely the waves of employment creation for unskilled labour and the poor in tandem with the evolution and shifts of comparative advantages within the region in the ever-accelerating integration process. In contrast, such a poverty reduction process through globalization could not be achieved in SSA and ECLAC regions, where liberalization of trade and investment regimes failed to produce either strong or significant employment creating growth. Instead the pattern of growth has resulted in 'jobless' growth, 'casualization' of employment and 'informalization' of their economies. This observation leads us to argue that the employment creation effect achieved through globalization-induced economic growth is a most direct and powerful channel through which globalization can make a noticeable dent in poverty. While the prospect of substantial poverty reduction can be increased considerably wherever globalization brings about job-generating economic growth, this potential is realized only when economic growth is characterized by a relatively high 'employment elasticity'. However, such a growth outcome cannot be necessarily guaranteed whenever globalization/integration is embraced on its own as a development strategy. Instead,

The failure of SSA economies to diversify and undergo structural transformation has led to low economic growth and persistent poverty

the dynamic integration experiences in Asia point to the need for policies of active strategic integration, not of passive integration or de-linking from the global economy. Such an active strategic stand should, first of all, aim at facilitating the transformation of production and trade structures from the narrowly based commodity dependence that is bound to increase the exposure of economies to external shocks. In terms of sustained economic growth, developing countries that have successfully diversified their exports structures into manufactured goods, in particular, increasingly into medium and high technology sectors, have systematically outperformed those dependent on primary commodities, and natural resource-based processing goods. Thus, whether global market forces establish a virtuous circle or vicious circle depends not only on the initial conditions at the time of exposure but also crucially on the effective design and implementation of policies to manage the integration process. The issue confronting policymakers is not whether to integrate into the global economy but how to integrate so as to have a stable foundation for sustainable and equitable growth.

Clearly, an active strategic position towards globalization cannot be equated with a mere adoption of liberal trade and investment regimes, or a simple fine-tuning of the pace and sequence of liberalization measures. At the same time, there is no place for an old style, poorly designed and implemented protection policy, which is mired in unproductive rent-seeking activities, patron-client relationships between governments and private agents or consolidation of 'vested' interests of the protected sectors. An import substitution strategy can work only when protection is granted to firms with a clearly specified 'graduation' clause in a performance-based system. That is, protection should always be seen as temporary and 'time-bound' by agents in return for better performances.

In particular, national integration strategies should be designed in the light of the skewed nature of the ongoing process of globalization. First, dynamic externalities and rent-rich activities are increasingly concentrated in high skill, knowledge-intensive sectors. In short, the skill- and technology-related divide has become wider over recent decades. This trend is clearly reflected in the continuously declining terms of trade of less skill intensive manufactured goods relative to high skill and technology intensive goods over recent decades. The markets for many labour-intensive products have come to resemble those for primary products. The entry of China and India into global markets for these products has depressed and will continue to depress real wages and returns in these low-technology and low-skill sectors. Given the sheer size of large surplus

> Effects of globalization on poverty are diverse, and in many ways context specific

labour in rural areas, China and India are likely to retain their comparative advantages in low-skill-intensive sectors for some time to come while gaining new capabilities in medium-to high-tech sectors. On the other hand, a number of primary commodities experienced a sharply upward phase in their commodity price cycles of 2002-8, in the face of the surge in demand for raw materials and other commodities from fast growing economies in Asia. Consequently, many natural resource-based economies in SSA and Latin America did enjoy a period of 'growth spurts' associated with the 'commodity' boom. However, the subsequent sharp fall in commodity prices, as the world economy entered into a severe downturn phase starting in the second half of 2008, has illustrated the high vulnerability of these economies to commodity price shocks. This demonstrates once again the difficulties in sustaining economic growth that is capable of creating job opportunities for a rising labour force, exclusively on the basis of the primary commodity boom. A broadly based development pattern for these economies would require a strategy of using resource rents and windfalls for economic diversification.

Second, intra-firm trade in parts, components and other intermediate goods, and intra-industry trade with highly differentiated products make up a predominant share of contemporary global trade. In particular, international trade is less and less conducted at arm's length relationships among firms. Rather, a growing share of world trade is accounted for by intra-firm trade undertaken within TNCs. There has been a tremendous growth in offshore outsourcing and global division of labour, dictated by TNCs' globally integrated production and marketing strategy. TNCs' activities are strategically organized and integrated either horizontally or vertically. In particular, with a sharp decline in transport and communication cost over recent decades, TNCs have been aggressively organizing their operations vertically by slicing up the production process finely into numerous separate operations and locating them in different parts of the world according to the cost advantage of each location.

In this context, it should be noted that considerable asymmetries in market power and access to information, technology and other intangible knowledge assets between TNCs, on the one hand, and local entrepreneurs, farmers and traders in developing countries, on the other, have resulted in a hugely skewed distribution of gains from trade. This is reflected in the TNCs' dominance in commodity and value chains of traded goods, as well as in frequently observed conditions such as the sharp decline in real wages in export processing zones. Under this condition, the benefits of productivity improvements, instead of going to the fragmented producers and

Globalization works best for the poor through the 'growth' channel

Publications from the Project 'Impact of Globalization on the World's Poor'

Erik Thorbecke and Machiko Nissanke. 'The Impact of Globalization on the Poor in Latin America.' *Economía* 9.1 (2009): 153-186.

Machiko Nissanke and Erik Thorbecke. 'Linking Globalization to Poverty', WIDER Policy Brief No. 2 (2007)

Globalization offers new opportunities for accelerating development and poverty reduction, but also poses new challenges for policymakers. And there is much concern about the distribution of benefits; in particular whether the poor gain from globalization, and under what circumstances it may actually hurt them. To meet this important agenda, the project on the 'Impact of Globalization on the World's Poor' aimed at producing rigorous theoretical and empirical analysis of the poverty impact of globalization, thereby providing a framework upon which to build strategies for 'pro-poor globalization'. The project has been particularly interested in understanding better the mechanisms through which globalization ultimately affects poverty. It has also evaluated how different poor groups are affected in different ways by globalization (the rural versus urban poor for example). The project has produced thematic papers as well as country and case studies of globalization's poverty impact in Asia, sub-Saharan Africa and Latin America.

farmers, are largely appropriated by the TNCs and global supermarket chains. This uneven distribution of market power points to the need to improve the negotiating positions of developing country governments vis-à-vis TNCs, aiming at a strategic, targeted approach to FDI, so that FDI could facilitate skill and technology transfer and generate strong positive productivity spillovers benefiting domestic firms.

Generally, given the observed trends towards inequality both globally and within many nations, developing countries have to take strategic steps to position themselves more favourably in the globalization process in order to derive greater benefits from globalization's dynamic forces. They need a long-term vision for upgrading their comparative advantages towards high value added activities by climbing the technology ladder rung by rung through 'learning-by-doing' and adaptation. To succeed, developing country governments should consciously engage in building institutional capacities for integration, including a capable nation state that is ready to take on the enormous challenges posed by globalization. The positive benefits from globalization are neither automatic nor guaranteed, whilst passive liberalization would risk perpetual marginalization.

Furthermore, since openness could potentially benefit the poor in countries which have already reached the take-off stage, it is very critical that in addition to a long-term vision for strategic integration, low-income countries should embark on the path towards structural transformation of their agrarian economies, as a necessary condition for successful integration. The importance of this critical step in relation to the globalization–poverty nexus is underscored by the fact that in many developing countries the majority of the poor still reside in rural areas. Further, there are critical thresholds that need to be reached before the positive effects of globalization on poverty reduction can be realized. The non-linear Laffer-type relationship between globalization and poverty shows that openness helps those with basic and higher education, but reduces the income share of those with no or little education and it is only when basic education becomes the norm for the poor that openness exerts an income equalizing effect.

The human development trap model also points to the possible coexistence of development and underdevelopment under globalization, and hence underscores the critical importance of national policies to enhance human capital endowments and develop technological capabilities. Thus, sizable public investment in skill upgrading, as a specific pro-poor measure, is the key for ensuring positive benefits from globalization for the poor. In conjunction with building assets of the poor in their human capital base, there is a complementary need to invest in rural physical and social infrastructures and create market supporting institutions, so that the poor can be connected and networked beyond isolated communities and villages. In terms of inter-sectoral flows, a continuing gross flow of resources should be provided to agriculture—

irrigation, inputs, research, and credit—to increase this sector's productivity and potential capacity of contributing an even larger return flow to the rest of the economy and hence provide a net agricultural surplus to finance the subsequent development of the rest of the economy.

Finally, our project case studies unequivocally point to the need for instituting safety nets and appropriate regulations to protect the poor from the large downside risks associated with globalization. Clearly, globalization has significantly increased the vulnerability of the poor in all three developing regions through channels such as: (i) the increased scale and frequency of macroeconomic shocks, as most vividly demonstrated by the global financial and economic crisis of 2008-9; (ii) larger exposure to changes in the ecosystem potentially resulting from new technologies with often uncertain pay-offs and costs; and (iii) deteriorating working conditions and weakening bargaining powers for the unskilled and the poor in global value chains. Thus, governments should take a pro-active and pro-poor stance in instituting various schemes of public transfers and safety nets to shelter the poor from these adverse conditions. Indeed, the distributional issue raised in the globalization debate should be seen as a strong case for pro-active public programmes to protect the poor.

All in all, our comparative analysis of the three regions suggests that governments of developing countries need to pursue both strategic integration and an active domestic development agenda to ensure that the poor benefit from globalization while they are also adequately protected from negative impacts. What is called for is that integration be accompanied by a comprehensive policy package for enhancing the capability of the poor and instituting appropriate safety nets for people who could otherwise lose from the globalization process. This requirement is a tall order for any government, let alone for a fragile state typically found in most low-income developing countries. Hence, in order to make globalization work for the poor, the first imperative is to strengthen the capacity of the nation states, so that an institutional environment conducive to the design and implementation of a pro-poor programme could be fostered.

> Pro-poor globalization can be defined as the inclusive process of globalization

4.2 A quest for pro-poor globalization

Our comparative analysis of the 'globalization–poverty relationships' inevitably raises a critical question whether the present form of globalization/integration is conducive to a process of growth-cum-structural transformation of developing economies that is capable of engendering and sustaining pro-poor economic growth with favourable distributional consequences. With the current wave of globalization, 'within country' income inequality has been steadily rising. A number of our project studies, focusing on specific settings, suggest that globalization indeed can produce adverse distributional consequences at both the national and global levels. As 'global markets are inherently disequalizing', market driven globalization and growth tend to increase inequality everywhere. Asia is no exception to this trend. Hence, we should search for ways to influence the globalization process so that it is more effective in improving the lot of the poor—hence, our quest for forms of pro-poor globalization.

Pro-poor globalization can be defined as the inclusive process of globalization, wherein sharing opportunities for growth and development take place ex ante, encompassing the poorer segments of population on a global scale. As the tidal waves of global growth lift all boats, it should also lift the canoes of the unskilled. Pro-poor globalization could remain an elusive concept, if the process is left entirely to market forces alone. In order to make pro-poor globalization a realistic perspective, there is a need for instituting viable mechanisms to insure that the poor share in the distribution of assets and income generated by the forces of globalization and are adequately protected against the vagaries of global shocks.

Ideally, under pro-poor globalization, it should be possible to make equity and efficiency interact dynamically ex ante so that a virtuous circle of growth and equity/equality could be created in the process of globalization.

Defined as above, our quest for pro-poor globalization leads us to revisit the debate concerning the relationships between equity/inequality, on the one hand, and growth/efficiency on the other. The traditional view held by economists on the growth–inequality nexus emphasizes the existence of a fundamental trade-off between the objectives of productive efficiency/growth and social justice represented by equity/equality considerations, often on the grounds that too much equity would discourage incentives to innovate and reap the rewards of successful entrepreneurship. In contrast, the alternative recent political economy of development literature suggests instead that there is a long-run complementarity between the two within some range that does not stifle incentives. If there is no clear trade-off on economic grounds, equitable and shared growth should be good for efficiency and future growth as well. Indeed, 'if equality is conducive to growth, it then becomes a means towards economic development and future poverty alleviation', and hence, 'the conflict between the ethical objective (norm) of egalitarianism and the economic conditions required for growth disappears'. In this new paradigm, wealth redistribution (particularly of human capital) to the less endowed is, on the whole, growth enhancing, because redistribution is the key to creating a virtuous circle in the growth–equality nexus.

Notwithstanding the long-run complementarity between the twin objectives, growth and equity, a practical policy choice exists over the actual weight given to the 'equity' consideration against the 'efficiency' consideration. Such a policy choice would be ultimately determined by the social norms prevailing in a society. However, we should bear in mind, in evaluating the optimal weight to be assigned to each of these objectives that market forces alone would not lead even to a Pareto efficient equilibrium in the presence of imperfect information and imperfect competition, as demonstrated by recent advancement of economic theories. As Stiglitz infamously remarked, 'an invisible hand is not visible, because it does not exist'. Therefore, not only is there a moral case on ethical grounds but also a strong rational economic case on 'efficiency' grounds for breaking away from the present mode of globalization. In making globalization more inclusive and truly pro-poor, we should search for pro-active ways to create a more inclusive development path for the poor in the process of integration of developing countries. It is also necessary to restructure governance mechanisms over economic policies at both national and global levels. Despite the ever-accelerating pace of globalization, the nation state remains a critical political unit within which citizens can express democratically their choices over economic policies and development strategies. Hence, at the national level, policymakers need to design and implement an active development strategy not only to benefit from globalization, but also to help counteract the negative effects of the immutable forces of globalization. Hence, a form of passive integration into the global economy through liberalization and deregulation cannot be viewed as a reliable substitute for a domestic development strategy. Indeed, it is now widely acknowledged that there is no universally applicable 'one-size-fits-all' development model. Therefore, there should be more room for open discussion and debate on the merits of different development models, not just one based on following the dictates of totally free and unregulated markets and the Washington Consensus. Yet, it can be argued that under the current wave of globalization, the feasible policy space related to development strategy has been shrinking for developing countries. In particular, the policy space of nation states has been eroded considerably in the name of financial globalization. It is known that policymakers in open economies face a macroeconomic trilemma (the 'inconsistent trinity' thesis). The thesis stipulates that whilst policymakers typically have three desirable objectives (exchange rate stability, free international capital mobility, and monetary policy independence to engage domestic economic goals), they are in practice forced to give up one objective, since only two out of the three can be mutually consistent. Financial globalization has also led to a loss of fiscal autonomy under 'fiscal termites', when financial openness makes it hard to tax internationally

A more effective globalization process requires a new system of global governance

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footloose capital relative to labour due to the competition for foreign savings through tax incentives and general financial arbitrage by poor countries. This often results in fewer available resources to provide social safety nets to people adversely affected by globalization.

Besides providing more policy space to allow developing countries to manage the integration process at the national level, it is necessary to recognize that globalization has also given rise to a set of cross-border economic issues that can be addressed only at the global level, since they cannot, by nature, be dealt with effectively by individual nation states in isolation. These include addressing global negative externalities such as greenhouse effects leading to a dramatic climate change, prevention of global financial crises or preservation of global security. They require an effective system of international coordination and cooperation, as well as cross-border regulations and enforcement mechanisms.

A more effective globalization process requires a new system of global governance. Yet, over the last three decades, economic globalization and integration have largely proceeded with increasing intensity, relying on the presumed self-regulatory capacity of markets without adequate structures and systems in place to govern the process. This has placed enormous strains on the international economic and financial system and may eventually bring globalization itself to a crossroads. In the last few years environmental challenges posed by climate change and the appearance of large cracks in the international financial system threaten the stability of the world economy–as evidenced by the sharp hike in primary commodity and food prices, and the global financial crisis.Soaring key commodity prices hit the world economy during a severe financial crisis, triggered by the sub-prime mortgage crisis in the US with the background of growing global macroeconomic imbalances, which spread to major industrial economies through poorly regulated global financial transactions and systems. The rapidly increasing prices of basic goods such as fuel and food sparked off temporary social and political disquiet and unrest across the globe. The rising cost of fuel and the shortages of food hit particularly hard the livelihood of the urban and rural poor in developing countries. The financial turmoil with a severe liquidity crisis and the credit crunch at first appeared to be confined mainly to financial markets and institutions based in the US and Western Europe. The world economy, on the whole, managed to maintain its momentum until mid-2008 on the back of the buoyant economic growth posted by emerging market economies as well as resource-rich developing economies that enjoyed a commodity boom.By mid-September 2008, however, the events that hit the major financial institutions in the US had altered radically the fate and the course of the globalized economies. The fear of accelerating inflation and of fuel and food shortages worldwide was overtaken by a greater fear of global recession engulfing all economies in the developing world. No country could afford to remain a mere bystander in the fast evolving global financial crisis. In the last quarter of 2008 and in the first quarter of 2009 the global financial crisis turned into a globally synchronized recession and economic crisis at a pace hitherto inconceivable to imagine, as the magnitude of world trade fell drastically. As the global financial and economic crisis spread, the plight of the poor in the developing countries has been receiving much needed attention from policymakers around the world. The poor started to be recognized as innocent victims of the large-scale gambles taken by financial institutions in the West. Given the scale of financial turmoil and the depth of its recessionary effects felt worldwide, more open academic debates and policy discussions are currently taking place, advocating the reform of the global financial system. However, in order to avoid the repetition of the catastrophic transmissions of the financial crises spilling over into world trade and real economic activities, reforms are also required, beyond the system of financial regulation and supervision, to governance structures over the globalization process as a whole. The present global crisis has demonstrated clearly that the world community is not currently equipped to deal with these global issues of enormous proportions in a satisfactory and timely manner. Economic globalization has outpaced political globalization by a wide margin. The current system of global governance suffers from a democratic deficit at many levels. It is becoming increasingly recognized that the governance structures prevailing within many multilateral development institutions are antiquated and not appropriate for dealing with contemporary global issues. Various reform agenda have been put forward and discussed at different international forums in the aftermath of the global financial and economic crisis of 2007-9.

It would be most desirable if the quest for pro-poor globalization could be actively considered as a part of such a global reform agenda. For example, there is need to reappraise the prevailing system of rule-settings at the WTO. For the WTO, or any other multilateral agencies, to become a true development forum, it is important to recognize explicitly the hugely asymmetrical unequal economic power relationships existing among member countries. These global agencies should endeavour to create a genuine 'policy space' to allow developing countries to engage in and promote their development agenda within the context of the broader integration and globalization process. The current rules and governance structures should be critically reappraised in this light. A more meaningful 'level playing field' can only be created if effective, fair and more development focused 'special and differential treatment' is legitimately instituted as a guiding rule governing multilateral negotiations and institutions. Furthermore, in order to address

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the distributional consequences of globalization, a set of much more effective redistributional instruments may be required at both national and global levels. Globalization can bring about increased volatility and insecurity for many cohorts, particularly those that are not well positioned to take advantage of the opportunities created by the opening of trade and capital flows. Indeed, the relevance of 'global income inequality' as a valuable concept for measuring trends in world income distribution, should increase over time, as people move from using national yardsticks to global ones when comparing their income with that of others. While globalization is a major engine for growth in aggregate, globalization either introduces or exacerbates other trends that affect people's well-being as much, if not more, than income, for example, through the increasing flow of information about the living standards of others, both within and beyond country borders. This flow of information can result in changing reference norms and increased frustration with relative income differences as one of the project studies demonstrates. It may be utopian at this stage to recommend that resource transfers from the developed world to the developing world be more globally progressive. Yet such a move would contribute to the forces of globalization becoming more pro-poor. The current system of foreign aid (the main existing form of global resource transfers) is not the most efficient and progressive way to mobilize and utilize resources as a redistributional instrument to address global income inequality.

Globalization requires a set of new innovative instruments for financing development as well as for provision of global public goods. In this context, the world community could be more open to evaluate various radical proposals such as a global social contract to finance equal opportunity investments benefiting the weak and the disadvantaged; the creation of a new scheme of inter-country transfer using per capita income of the bottom quintile of the population as a yardstick (as recommended by another of the studies undertaken under this project); or instituting global arrangements to minimize asymmetric risks and costs of global market failures. While these proposals require further careful studies and critical scrutiny to determine their intrinsic merits and the political feasibility of implementation, it is clear that the world community should give serious attention to more enlightened global measures benefitting the poor than those that prevail today. Indeed, we should be engaged in a fresh debate on how the enormous potential benefits of globalization can be steered towards a more equitable sharing of those benefits, while reducing the vulnerability of the poor to some of the adverse consequences of global market forces.

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World Institute for Development Economics Research

United Nations University: World Institute for Development Economics Research of the United Nations University

Katajanokanlaituri 6 B

FIN-00160 Helsinki

Finland

Tel. +358-9-6159911

info1@wider.unu.edu

www.wider.unu.edu