Does Globalization Help

By Pranab Bardhan

Globalization and the attendant concerns about poverty and inequality have become a focus of discussion in a way that few other topics, except for international terrorism or global warming, have. Most people I know 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 contentious 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 shall 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

OR Hurt the World's Poor?

The answer is: both. The real question is how to maximize the help and minimize the hurt

JEAN-FRANCOIS PODEVIN

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 same is true for low-wage workers in the U.S., although the effects of globalization on rich countries are beyond the scope of this article.) The net outcome is often quite complex and almost always context-dependent, belying the glib pronouncements for or against globalization made in the opposing camps. 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.

The debate among economists is a paragon of civility compared with the one taking place in the streets. Antiglobalizers' central claim is that globalization is making the rich richer and the poor poorer; 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 [*see bottom illustration on opposite page*].

Rice field, Jiangxi Province, China, early 1990s

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 (in which the Mao-era communes were disbanded), 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.

The sharp DECLINE IN EXTREME POVERTY in China may have more to do with the 1978 land reforms and other internal factors than with foreign trade or investment.

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.

Overview/*Globalization and Poverty*

- The expansion of international trade and investment is one of the dominant trends of our time, but policymakers and advocates tend to discuss it without carefully examining the evidence available in social science.
- Because the modern era of globalization has coincided with a sustained reduction in the proportion of people living in extreme poverty, one may conclude that globalization, on the whole, is not making the poor poorer. Equally, however, it cannot take much credit for the decrease in poverty, which in many cases preceded trade liberalization.
- Countries that get the economic basics right—improving infrastructure, ensuring political stability, carrying out land reform, providing social safety nets, addressing market failures such as impeded access to credit—tend to succeed at reducing poverty. Although globalization can help, it is only one factor among many.

GREG BAKER *AP Photo*

The Bund, Shanghai, 1999

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. If anything, such instability reduced their 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 [see "Can Extreme Poverty Be Eliminated?" by Jeffrey D. Sachs; Scientific American, September 2005].

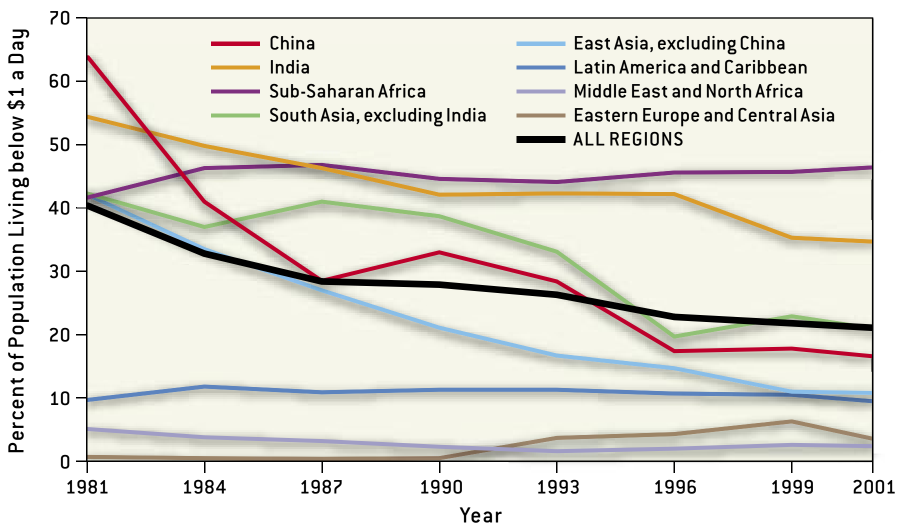
Sweatshops

GLOBAL MARKET competition in general rewards people with initiative, skills, information and entrepreneurship in all countries. Poor people everywhere are handicapped by their lack of access to capital and opportunities to learn new skills. Workers in some developing countries—say, Mexico—are losing their jobs in labor-intensive manufacturing to their counterparts in Asia. At the same time, foreign investment has also brought new jobs. Overall, the effect appears to be a net improvement. In Mexico, low-wage poverty is declining in the regions that are more involved in the international economy than others—even controlling for the fact that skilled and enterprising people migrate to those regions, improving incomes there independently of what globalization accomplishes. A recent study by Gordon H. Hanson of the University of California, San Diego, which took into account only people born in a particular region (thus leaving out migrants), found that during the 1990s average incomes in the Mexican states most affected by globalization increased 10 percent more than those least affected.

In poor Asian economies, such as Bangladesh, Vietnam and Cambodia, large numbers of women now have work in garment export factories. Their wages are low by world standards but much higher than they would earn in alternative occupations. Advocates who worry about exploitative sweatshops have to appreciate the relative improvement in these women's conditions and status. An Oxfam report in 2002 quoted Rahana Chaudhuri, a 23-year-old mother working in the garment industry in Bangladesh:

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

In 2001 Naila Kabeer of the University of Sussex in England and Simeen Mahmud of the Bangladesh Institute of Development Studies did a survey of 1,322 women workers in Dhaka. They discovered that the average monthly income of workers in garment-export fac-



EXTREME POVERTY has become less prevalent over the past two decades—including the period during which globalization has taken hold. Therefore, it is simply incorrect to claim, as many do, that globalization makes the poor poorer. Regions that have stagnated (notably Africa) are largely cut off from the global economy, so their plight must have other causes.

EUGENE HOSHIKO *AP Photo* (*top*); JANA BRENNING; SOURCE: WORLD BANK (*bottom*)

Burmese refugees in textile factory, Mae Sot, Thailand, 1990s

ALISON WRIGHT *Corbis*

tories was 86 percent above that of other wage workers living in the same slum neighborhoods.

Another indication of this relative improvement can be gauged by what happens when such opportunities disappear. In 1993, anticipating a U.S. ban on imports of products made using child labor, the garment industry in Bangladesh dismissed an estimated 50,000 children. UNICEF and local aid groups investigated what happened to them. About 10,000 children went back to school, but the rest ended up in much inferior occupations, including stone breaking and child prostitution. That does not excuse the appalling working conditions in the sweatshops, let alone the cases of forced or unsafe labor, but advocates must recognize the severely limited existing opportunities for the poor and the possible unintended consequences of "fair trade" policies.

The Local Roots of Poverty

INTEGRATION INTO the international economy brings not only opportunities but also problems. Even when new jobs are better than the old ones, the transition can be wrenching. Most poor countries provide very little effective social protection to help people who have lost their jobs and not yet found new ones. Moreover, vast numbers of the poor work on their own small farms or for household enterprises. The major constraints they usually face are domestic, such as lack of access to credit, poor infrastructure, venal government officials and insecure land rights. Weak states, unaccountable regimes, lopsided wealth distribution, and inept or corrupt politicians and bureaucrats often combine to block out the opportunities for the poor. Opening markets without relieving these domestic constraints forces people to compete with one hand tied behind their back. The result can be deepened poverty.

Conversely, opening the economy to trade and long-term capital flows need not make the poor worse off if appropriate domestic policies and institutions are in place—particularly to help shift production to more marketable goods and help workers enter new jobs.

Contrasting case studies of countries make this quite apparent. Although the island economies of Mauritius and Jamaica had similar per capita incomes in the early 1980s, their economic performance since then has diverged dramatically, with the former having better participatory institutions and rule of law and the latter mired in crime and violence. South Korea and the Philippines had similar per capita incomes in the early 1960s, but the Philippines languished in terms of political and economic institutions (especially because power and wealth were concentrated in a few hands), so it remains a developing country, while South Korea has joined the ranks of the developed. Botswana and Angola are two diamond-exporting countries in southern Africa, the former democratic and fast-growing, the latter ravaged by civil war and plunder.

The experiences of these and other

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Brothel near Mahim train station, Mumbai, India, 2002

countries demonstrate that antipoverty programs need not be blocked by the forces of globalization. There is no "race to the bottom" in which countries must abandon social programs to keep up economically; in fact, social and economic goals can be mutually supportive. Land reform, expansion of credit and services for small producers, retraining and income support for displaced workers, public-works programs for the unemployed, and provision of basic education and health can enhance the productivity of workers and farmers and thereby contribute to a country's global competitiveness. Such programs may require a rethinking of budget priorities in those nations and a more accountable political and administrative framework, but the obstacles are largely domestic. Conversely, closing the economy to international trade does not reduce the power of the relevant vested interests: landlords, politicians and bureaucrats, and the rich who enjoy government subsidies. Thus, globalization is not the main cause of developing countries' problems, contrary to the claim of critics of globalization—just as globalization is often not the main solution to these problems, contrary to the claim of overenthusiastic free traders.

What about the environment? Many conservationists argue that international integration encourages the overexploitation of fragile natural resources, such as forests and fisheries, damaging the livelihoods of the poor. A common charge against transnational companies is that they flock to poor countries with lax environmental standards. Anecdotes abound, but researchers have done very few statistical studies. One of the few, published in 2003 by Gunnar Eskeland of the World Bank and Ann Harrison of the University of California, Berkeley, considered Mexico, Morocco, Venezuela and Ivory Coast. It found very little evidence that companies chose to invest in these countries to shirk pollution-abatement costs in rich countries; the single most important factor in determining the amount of investment was the size of the local market. Within a given industry, foreign plants tended to pollute less than their local peers.

Like persistent poverty, lax environmental standards are ultimately a domestic policy or institutional failure. A lack of well-defined or well-enforced property rights or regulation of common property resources often leads to their overuse. Responding to pressure from powerful political lobbies, governments have deliberately kept down the prices of precious environmental resources: irrigation water in India, energy in Russia, timber concessions in Indonesia and the Philippines. The result, unsurprisingly, is resource depletion. To be sure, if a country opens its markets without dealing with these distortions, it can worsen the environmental problems.

Wages and conditions in GARMENT FACTORIES are poor by world standards but better than those in alternative occupations such as domestic service or street prostitution.

ALEX MAJOLI *Magnum Photos*

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.


Polling station, Gaborone, Botswana, 2004

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 ex-

Globalization does not explain the differing fates of Botswana and Angola, both diamond exporters, one democratic, the other RAVAGED BY CIVIL WAR.

THEMBA HADEBE *AP Photo*


Teenage government soldier, Benguela, Angola, 1993

ARMANDO FRANCA *AP Photo*

ists. 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. SA

MORE TO EXPLORE

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