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## Globalization, Poverty and Inequality



The Linkages, the Debate and  
Managing Risks

**Kishore Rao, BearingPoint, Inc.**

**([Kishore.Rao@BearingPoint.com](mailto:Kishore.Rao@BearingPoint.com))**



# Two Views—Who is Right?

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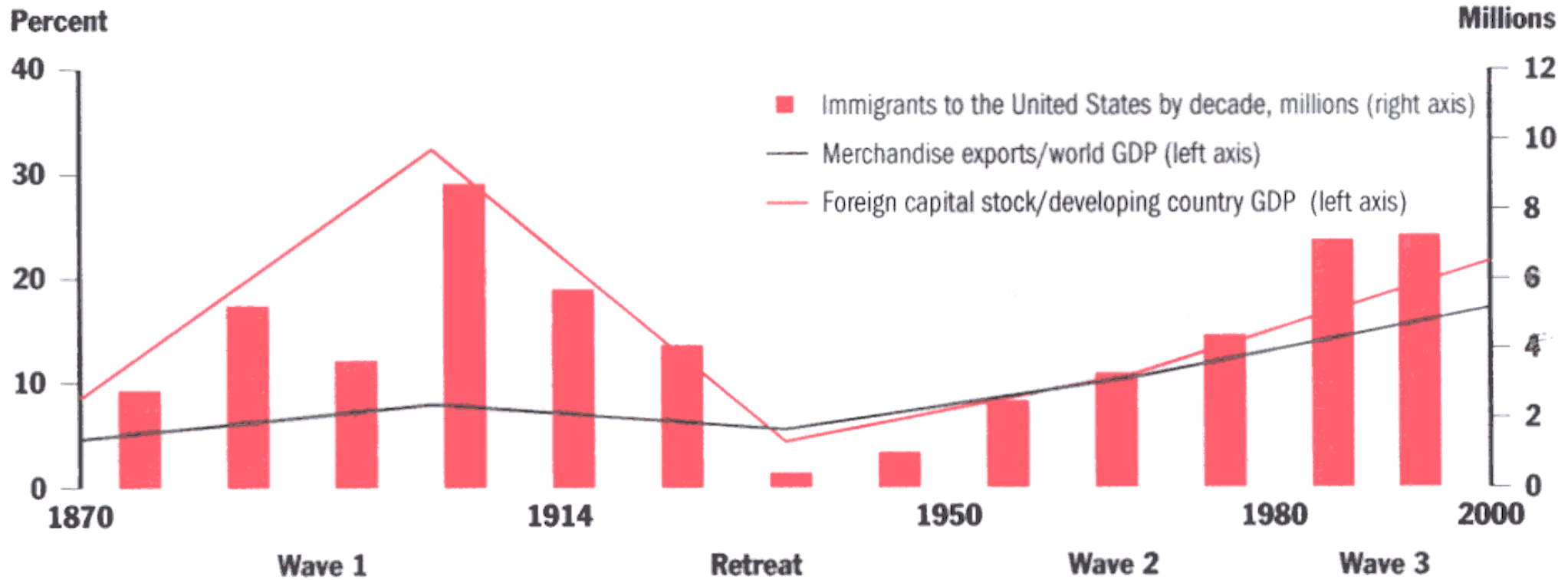
- *“Globalization has dramatically increased inequality between and within nations”*

Jay Mazur, “Labor’s New Internationalism,  
*Foreign Affairs*, January/February 2000

- *“So far, the current wave of globalization, which started around 1980, has actually promoted economic equality and reduced poverty”*

David Dollar and Aart Kraay,  
*Foreign Affairs*, January/February 2002

# Three Waves of Globalization



Source: World Bank

# Impact on Developing Countries as a Group Has Been Positive

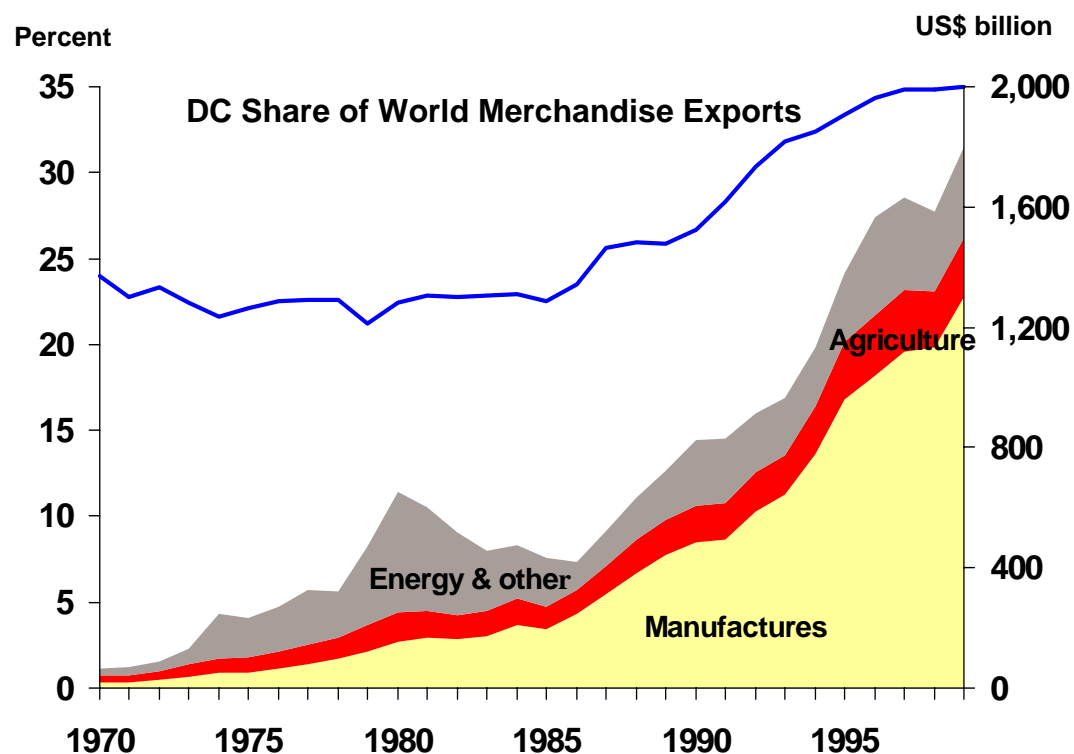


## Trade

- Share of world trade rose from 19% in 1971 to 29% in 1999
- Manufactured goods now account for 80% of DC exports—from just 25% in 1980
- Commercial services now account for 17% of DC exports, from 9% in the 1980s

## Financial Flows

- DC share of world FDI increased from 24% in 1983 to 32% in 2002
- Total portfolio capital flows to DCs rose from \$20 b in 1985 to \$160 B in 1995

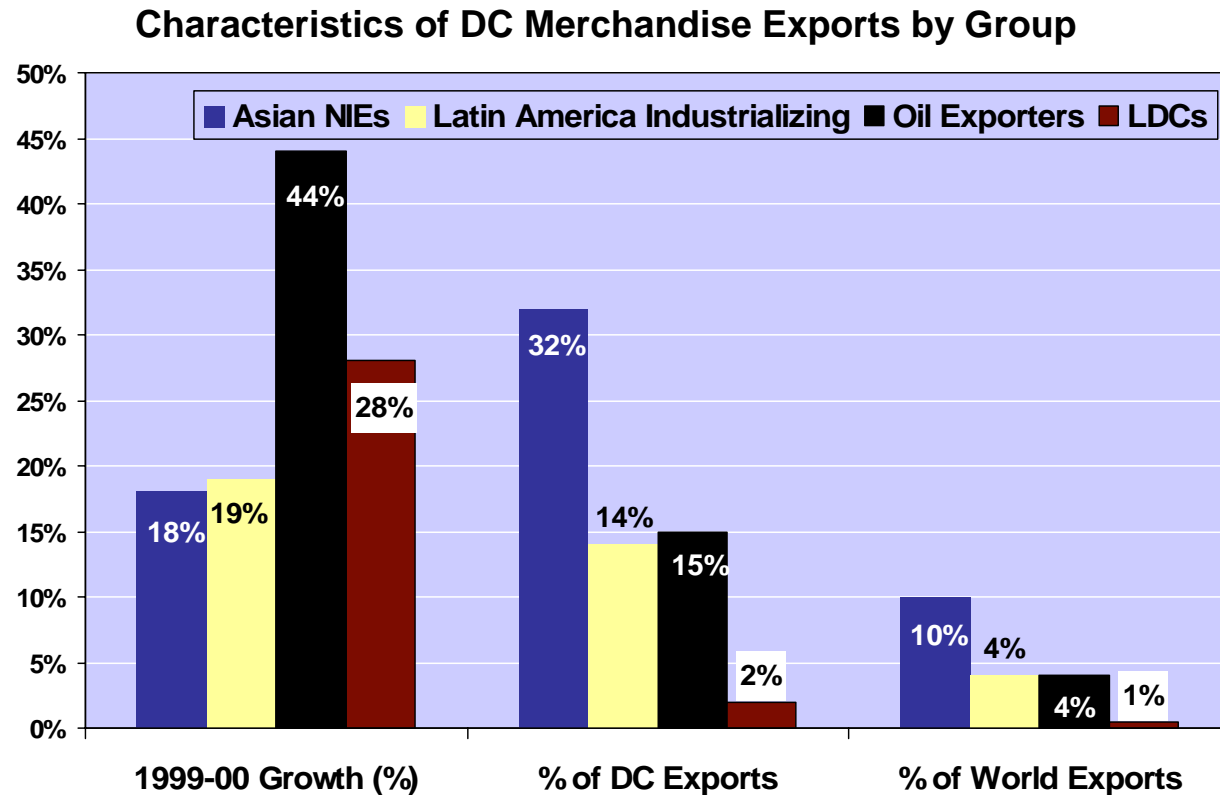


Source: World Bank

# But Poor Developing Countries Have Done Less Well



- LDCs account for less than 0.4% of world trade, 1% of world exports and only 2% of DC exports
- Sub-Saharan Africa receives less than 2% of annual total private capital flows to DCs
- 5 developing countries account for 80% of FDI flows to DCs; the share of LDCs is negligible and falling
- The least developed countries are increasingly becoming marginalized



# Trade, Growth and Poverty: Proponents

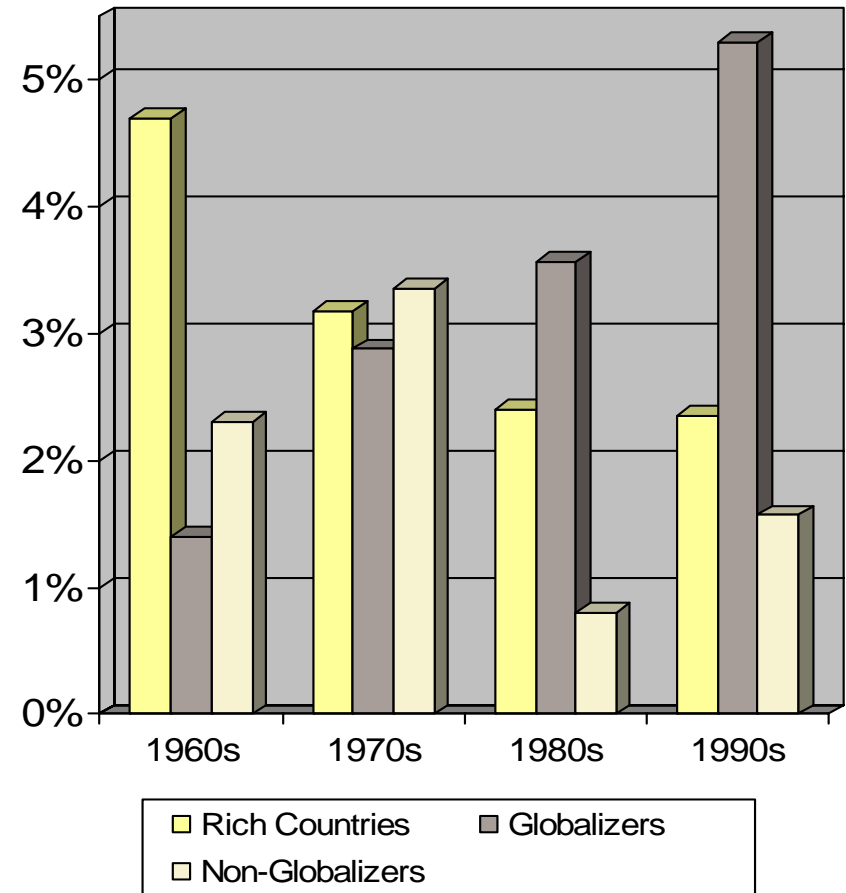


## World Bank research suggests that trade increases growth...

- An increase in trade as a share of GDP of 20% increases growth by 0.5%-1% per year
- Globalizers grew by 5% per capita in the 1990s, compared to 1.4% for non-globalizers

## Data also shows that growth is positively linked to poverty alleviation...

- Growth is associated with higher incomes of the poor on a one-to-one basis on average
- Trade openness does not affect inequality on average, but is associated with *greater inequality* in low-income countries

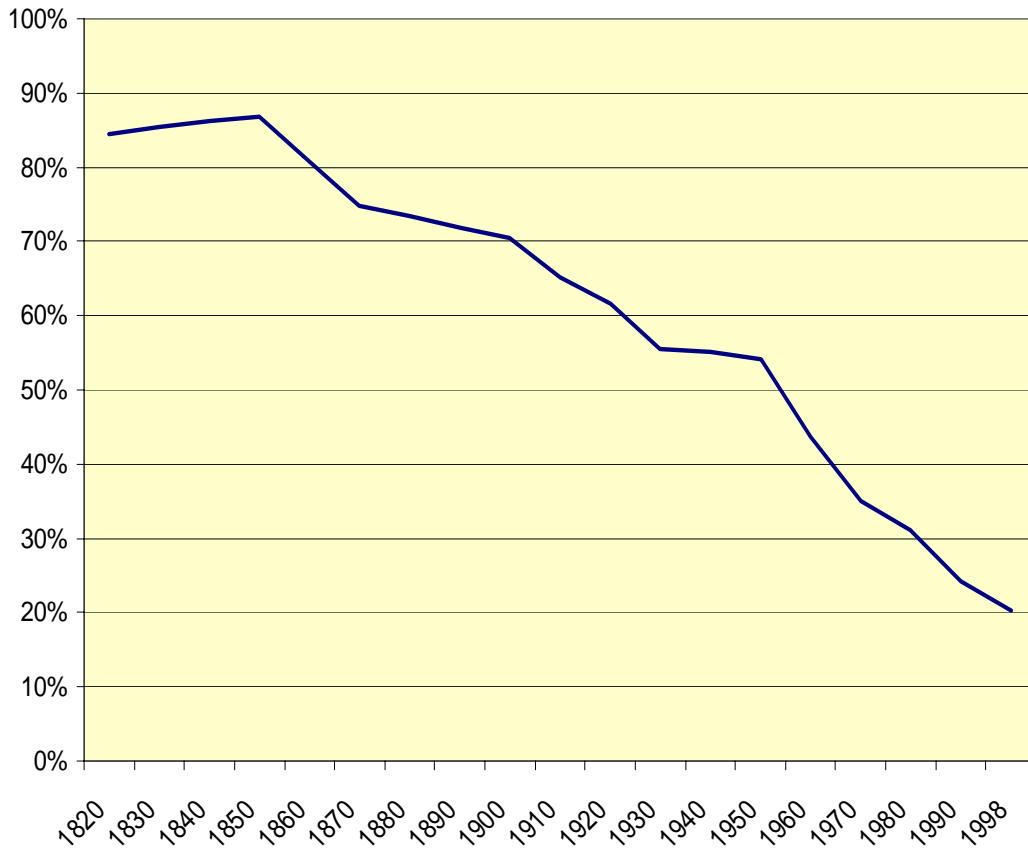


Source: World Bank

# Absolute Poverty Has Declined

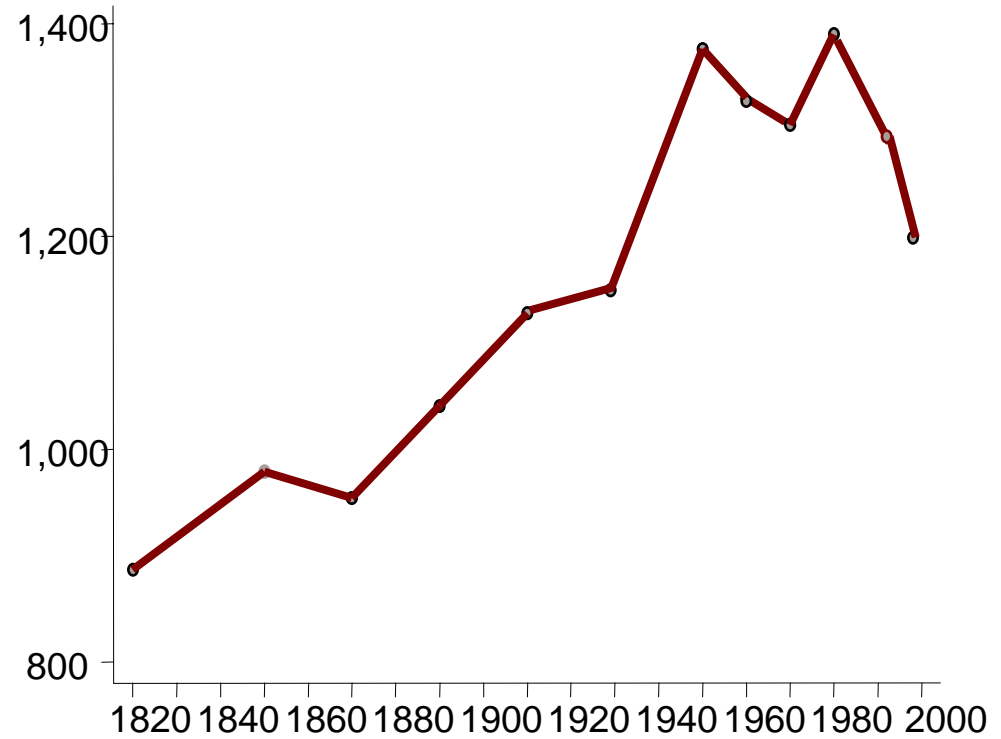


### Proportion of World Population of People Living on Less than a Dollar a Day, 1820-1998



Source: World Bank and US Bureau of the Census

### Numbers of People on Less than a Dollar a Day



# Trade, Growth and Poverty—the Critics

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## Relationship between policies and poverty reduction is unclear

- Different concepts of poverty and inequality (e.g., relative vs. absolute inequality); openness related to size indicators not policies, etc.
- Direction of causation is not established—do good policies cause growth or does the lack of growth result in bad policies?
- Most of the recent reduction in absolute poverty levels is due to growth in China and India; once corrected for, no correlation (e.g. India and China had growth before openness)

## Poverty and income inequality is due to many other factors

- Poverty is also a result of poor governance structures, weak governments, adverse location, climate, inadequate infrastructure, education, social systems, etc.
- Poverty and inequality also reflects existing conditions

# Perceived Risks of Economic Integration

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## Trade liberalization has multiple, sometimes offsetting, effects

- **Consumers**—access to a greater variety of lower-priced goods
- **Producers**—lower cost inputs & technology versus greater competition
- **Fiscal revenues**—reduction in trade taxes versus income from new industries, and increased growth
- **Employment**—loss of import-competing jobs versus new employment in new industries; impact on the poorest groups

## Winners and losers

- Losers may not be gainers; are the poor net consumers or producers?
- In-country inequality may be worsened in states with weak governments and predatory business practices
- Benefits depend on level of development

## Increased volatility and vulnerability, particularly to short-term capital movements

# Managing Risks and Reaping Rewards

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**The key issue for most DCs is not to globalize or not globalize, but *how* and *what* to globalize**

**Some key strategies:**

## **1. Effective trade capacity-building**

- Better negotiation techniques or even more effective implementation of commitments is not enough
- Upgrade understanding of the economic impacts of trade policy choices—what are the implications for different groups, industries?
- Examination of the best approach to sequence and integrate reforms
- Enhance understanding and application of more effective tools to deal with trade liberalization costs, rather than relying on protection
- Need a genuine and honest examination of issues from country perspective; reach beyond government to the business community and civil society

# Managing Risks and Reaping Rewards

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## 2. Complementary and Compensating Policies and Programs

- Much more emphasis on efforts to defeat state capture, regulatory capture, rather than an after-thought
- Policies and programs aimed at the poor to more directly gain from liberalization; an example would be much more emphasis on agriculture (majority are rural poor); removing barriers to access to OECD agricultural markets, of course, would have a profound impact
- Programs to build the “supply side” response of domestic enterprises
- Hard and soft infrastructure development

## 3. Public Education and Coalition Building

- More than just PR, but building coalitions of support including grass roots organizations



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