



Thinking Global, Acting Local: A Country-Level Perspective on Globalism and Poverty

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Overview

- Perspectives on globalism
- Characteristics of poverty
- Links between trade/investment and poverty
- Country-level considerations – each country has its own context
- The increasing importance of international agreements – the WTO and the proliferation of plurilateral trade agreements
- Perspectives on USAID projects to implement USG trade agreements

Perspectives on Globalism

- Globalism has become a catch-all for the positive and negative impacts of international influences on domestic activity
- In terms of economic dynamics at the country level, globalism encompasses cross-border trade in goods and services, investment and capital flows, transfers of technology and information flows
- Globalism involves new strategies for production, marketing and financial management by multinational corporations and NGOs that focus explicitly on global rather than national objectives
 - e.g. regional and increasingly global production networks supplying parts and services from many countries to produce final goods; NGOs and labor groups follow the trade and capital flows
- As communication and transportation costs decline, the impact of globalism on domestic activity intensifies
- Globalism spurs advances in international governance, as governments organize to facilitate and/or manage international influences

Characteristics of Poverty

- **Demand-constrained poverty:**
 - excess supply of low-skilled labor leads to low labor income resulting from underemployment and depressed wages
 - poor people rely heavily on labor income
 - low labor income implies high poverty levels

Remedies for Demand-Constrained Poverty → Increase Demand for Low-Skilled Labor

- Deregulate policies and improve market institutions in local economies, encouraging private sector and enterprise development as the foundation of industrialization
- Encourage export growth
- Gradually but steadily liberalize import protection, recognizing adjustment costs

Characteristics of Poverty (2)

- **Supply-constrained poverty:**
 - Poor workers and farmers constrained by limited education, poor health, living in isolated areas, discrimination
 - Poor who do not benefit from greater labor demand
 - Poor with a limited political voice

Remedies for Supply-Constrained Poverty

- Target income transfers to the poor in the short-run
- Improve education and health, and poor-intensive infrastructure in the medium-term

Links Between Trade/Investment and Poverty

- Rapid export growth and inflows of foreign investment increase demand for able-bodied, low-skilled workers and farmers in developing economies → rising labor income key to helping demand-constrained poor grow out of poverty
- Greater international integration introduces risks and adjustment costs that can be borne significantly by the poor and near poor
- Trade and investment have a limited affect on supply-constrained poor
- Trade always involves winner and losers, which requires a viable domestic political economic process to resolve distributional trade-offs
- Resolving distributional trade-offs is always easier when there is strong growth → a positive rather than zero sum game

Trade and Poverty Links Are Country Specific

- No cookie-cutter pro-poor development strategy – each country is different, with different resource endowments, levels of development, governance and political will, legal and market institutions, and geography
- A strong pro-poor development strategy should include a systematic set of policies dealing with both demand and supply constrained poverty
- Greater integration into the world market, through higher exports, imports and investment flows, should be an important element of a broader, systematic development strategy
- Sustained export growth is positively correlated with lower poverty levels – export growth is one of the fastest and most effective ways to increase demand for low-skilled labor, which in turn increases labor income for demand-constrained poor

The Evolving Context for Shifting to Export-Led Growth

- Traditionally the shift to an export-led growth strategy was done on a unilateral basis or as part of a WB/IMF restructuring effort
- Increasingly economic integration is advancing in the context of a stronger WTO, strict WTO accession requirements, and/or preferential bilateral and regional trade agreements
- Other international agreements are increasingly important, including the WIPO conventions for IPR, the Kyoto Agreement on Customs, and the ILO for labor
- Private standards monitored and enforced by private companies and NGOs are increasingly important, including voluntary labor and environmental standards, and internet protocols

The Evolving Context for Shifting to Export-Led Growth (2)

- Preferential trade agreements enhance market access to trading partners, but also require major commitments to legal and administrative reform and liberalization of market access
- Such trade agreements limit the use of policy instruments for industrialization strategies – binding lower tariffs, elimination of import quotas, market access for services, improved IPR enforcement, and liberalization of foreign investment
- Preferential trade agreements create different legal and policy regimes for members of each agreement relative to non-members, which places great pressure on countries with limited administrative capabilities and creates incentives for corruption

The U.S. is Increasingly Entering into Preferential Trade Agreements with Developing Countries

- U.S. bilateral/regional trade agreements typically build upon a NAFTA base, which is WTO plus and monitored and enforced strongly
- U.S. trade agreements provide preferential access into the U.S. market
- Similarly strong commitments, without as strong tariff reductions, are required for countries acceding to the WTO or normalizing trade relations with the US

U.S. Trade Agreements Typically Require Parties to Improve Systematically:



- 1) market access for trade in goods and services
- 2) protection of intellectual property rights
- 3) liberalization of investment flows (typically WTO plus)
- 4) commercial laws and dispute settlement processes that presume a strong court system
- 5) transparency of laws and regulations, and the right to comment on draft laws
- 6) the establishment of administrative law procedures with due process and court review to appeal government decisions
- 7) the Jordon FTA includes labor requirements, and there is pressure to include environment requirements as well – will this trend continue?
- 8) unlike NAFTA and the WTO, most FTAs with developing economies do not include a binding dispute settlement process among parties to the agreement

Considerations for USAID Projects to Support Trade Agreements

- Once a trade agreement is signed, domestically laws and regulations need to be adjusted to confirm to the treaty commitments
- Assistance to developing country negotiators and implementers of U.S. trade agreements raises sensitivities with U.S. negotiators – **USAID coordination with USTR and the Embassy is likely to be required**
- U.S. trade agreements usually require major changes in laws and regulations, with demands to develop a strong court system to adjudicate commercial disputes – **a USAID project to support implementation of a trade agreement becomes in large part a legal development project**

Some Considerations for USAID Projects to Support Trade Agreements (2)

- U.S. trade agreements usually include strong requirements for trade in goods and also for opening trade in services, for protecting IPR and for liberalizing investment policies -- parties required by the treaty to improve market access, but cost-benefit analysis to show net welfare benefits and to evaluate adjustment costs can support the reform process
- In many cases, countries are expected to start or complete implementation of key commitments before the agreement is formally approved (commitments due upon entry into force) – a **USAID project supporting negotiations should also focus on implementation**
- Entering into trade agreements raises political sensitivities in the developing country, requiring careful positioning of USAID assistance and issues of “firewalls” between USAID-supported TA and USTR/Embassy officials who are ultimately responsible for implementation of the agreement



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