



How Can Globalization Become *More* Pro-Poor?

**Presentation Based on UNU-WIDER Program
of Research on “The Impact of Globalization
on the World’s Poor”**

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What Is Globalization?

What Are its Manifestations?

Greater integration within the world economy via **increased openness** to:

- International trade
- International capital and labor movements
- International flow of technology
- International flow of information, knowledge, and ideas (Internet super-highway)



Questions Frequently Asked:

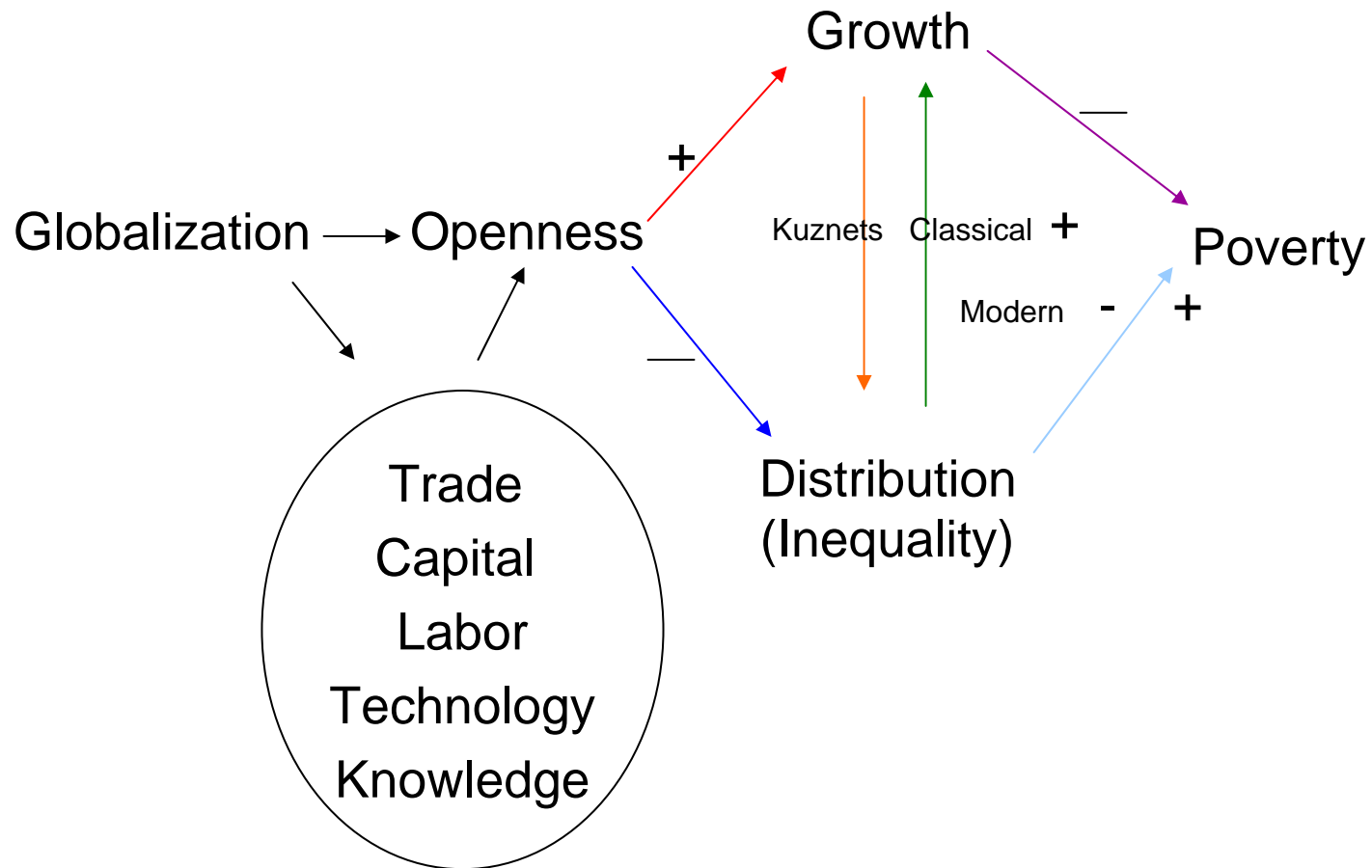
- Whether the actual distribution of gains is fair? Whether the poor benefit less than proportionately from globalization – and under some circumstances might actually be hurt by it ?
- The downside of globalization – Who bears most of the costs? Are they borne disproportionately by the developing world and the poor (**often unskilled workers**) who are more vulnerable ?
- Whether changes in inequality (both ‘between-countries’ and ‘within-countries’) and the observed poverty dynamics are related to globalization?



Transmission Mechanisms through which Globalization Affects Poverty

- *Globalization affects poverty through many different channels: growth, inequality, international capital movements and labor migration, technology, information, vulnerability and institutions...*
- The first and most important of the mechanisms through which the process of globalization affects poverty directly and indirectly is the **growth-inequality-poverty channel**.

The Globalization-Openness-Growth-Distribution (Inequality)-Poverty Nexus





Empirical Evidence Relating to Globalization-Growth-Poverty Channel

- Openness is a necessary but not a sufficient condition for successful development
- The pattern of economic growth and development, rather than the rate of growth per se, has significant effects on a country's income distribution and poverty dynamics
- Fundamental role of agriculture in structural transformation early in development process.



Alternative Definitions of Pro-Poor Growth

- Gains of poor from growth only need to be positive (weak absolute definition)
- Poor gain proportionately more than the non-poor (relative definition)
- Poor gain absolutely more than the non-poor (strong absolute definition)

Alternative Definitions of Pro-Poor Growth: An Example

	<u>Per Capita Income</u>		
	Poor	Non-Poor	
Year 1	100	500	
Year 2	101	520	Weak Absolute
Year 2	106	520	Relative
Year 2	121	520	Strong Absolute

Empirical Evidence (continued)

- Bulk of poverty reduction in China occurred during phase of agricultural de-collectivization before 1980, rather than in the subsequent trade-opening phase
- Great majority of the poor live in Rural areas
- As **consumers** the poor may gain or lose from globalization depending on whether they are net sellers or net buyers of tradable goods (e.g. rice)
- As **recipients of public services**, the poor could lose from globalization: (1) through budget cuts resulting from structural adjustment programs; and (2) falls in tariff revenues following trade liberalization
- As **users of common property resources** the poor can be hurt by over-exploitation (e.g. deforestation)



Empirical Evidence (continued)

- Investigation of global value chains (garments, horticulture and textiles) in four developing countries revealed that growth of labor-intensive exports creates employment opportunities, particularly for women and rural migrants. However, overall impact on employment appears small.
- In Kenya and South Africa, skilled workers benefited from globalization while unskilled workers were adversely affected.



Additional Channels through which Globalization Impacts the Poor

- Growth is the main channel affecting poverty but when it increases inequality its net effects on poverty are dampened.
- Inequality is the filter between growth and poverty reduction.
- Other channels through which globalization can produce winners and losers:
 - International capital movements and labor migration and changes in relative factor and good prices;
 - Technical progress and transfer of technology
 - Vulnerability, information diffusion, institutions

Channel 2: International Capital and Labor Movements and Changes in Relative Product and Factor Prices

- Changes in relative product prices induce changes in relative factor prices with the advent of globalization:
- *Theoretical* prediction: **Unskilled labor** is a winner in low-income countries and a loser in developed countries
- *Empirical* evidence: **Wage gaps** between **skilled and unskilled labor** have been **increasing** in many developing countries (in particular, in Latin America and Africa with Brazil as an Exception)

Channel 2: International Capital and Labor Movements and Changes in Relative Product and Factor Prices (continued)

Explanations why theoretical prediction doesn't hold:

- Increasing Wage gap in LA and Africa because of entry into world economy of low-income Asian economies with abundant reserves of unskilled labor such as China and India into the world markets
- The nature of new technology is heavily biased in favor of skilled and educated labor

Channel 2: International Factor Mobility

Perverse Factor Movements :

- Capital and **skilled labor** do not migrate to poor countries as much as among developed countries. Capital often moves from poor to rich countries as flight capital
- Portfolio capital flows are **diversification** finance rather than **development** finance (asset swapping for risk hedging and shedding);
- FDI is dominated by intra-industry FDI among developed countries
- There is a tendency for **skilled labor** to migrate from developing countries to developed countries (e.g. African doctors and nurses to U.S. and Europe, Philippine MDs to U.S.)
- Migration of **unskilled workers** to rich countries is often hampered by administrative obstacles and restrictions in DCs
- **Wage equalization** does not take place through labor migration (as was the case in the previous globalization era of 1870-1914 when 60 Millions largely unskilled migrated)
- **De facto factor** mobility through TNCs' strategic relocation of production sites and outsourcing dominance of TNCs in commodity and value chains

Channel 3: Technical Progress and Transfer of Technology

- The nature of **new technology** is heavily biased in favor of **skilled and educated labor**
- Technical change emanates from R&D activities in the developed countries in response to local developed country conditions (**labor-saving and skill-biased**);
- New technology is **complementary to capital and skilled Labor**, while it substitutes for unskilled labor;
- Hence technical change tends to increase inequalities universally both in developed and developing countries;
- Increasing privatization of research, e.g. bio-technology, may make it less affordable to the poor; present bio-technological revolution is in the private domain while the “green revolution” was in the public domain
- Need for new type of institution: Intellectual property right clearing house

Other Channels

Vulnerability:

- The poor seem to be more vulnerable to trade shocks and global financial crises. Some evidence that the trade liberalization implemented in the 1990s may have actually worsened the growth and welfare performance in Eastern Europe.

Information Diffusion (Internet Super Highway):

- Flow of information can change perceptions and reference norms. Individuals in LDCs compare their standards of living with those of similar individuals in DCs rather than within their own countries.
- Increased insecurity and fear of falling into poverty contribute to negative perceptions of globalization process, particularly in countries with no or weak social security systems.

Institutions:

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



Path towards Pro-Poor Globalisation

- Whether global market forces establish a virtuous circle or vicious circle will depend on the initial conditions at the time of exposure and the effective design and implementation of policy to manage the integration process
- Globalization offer potential benefits for those countries with a strategic position (benefits are neither automatic nor guaranteed). Passive liberalisation could lead to marginalization.
- It requires a long-term vision for upgrading their comparative advantages over time towards high-value added activities by climbing the technology ladder through learning and adaptation.
- Critical thresholds exist for positive effects of globalization on poverty reduction
- Openness is a necessary but not a sufficient condition for successful development and poverty alleviation
- The fundamental role of agriculture in the structural transformation
- The need to invest in agriculture in order to reach the take-off-point to allow the structural transformation of their economies to proceed



Policy Issues

- Globalization should not be viewed as a reliable substitute for a domestic development strategy.
- Governments of LDCs need to be proactive in designing and implementing a pro-poor growth and development strategy.
- One of the critical issues facing policy-makers in low-income countries in formulating their **strategic position** towards the globalization process is how to evolve their **comparative advantages over time in their abundant factor (unskilled labor)**
- Governments of developing countries should consciously engage in building institutional capacities for successful integration.
- Examples of institutions for pro-poor globalisation at the national level
- Safety nets and social protection schemes that reduce vulnerability and shelter the assets of the poor (such as human capital for their children) during the crisis
- Public investment in education, health and other social and economic infrastructures for the poor
- Measures for reducing labor market fragmentation and discrimination
- Making globalization work for the poor with a set of more effective re-distributional mechanisms at both the national and global levels.