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Is globalization good for development in the world's poor countries? Will it narrow the gap between rich and poor countries? Is it the key to bringing rapid declines in poverty around the world? Mainstream economists, once united on the merits of globalization, have splintered into three groups: cheerleaders, cynics, and worried doubters. None of the three is anti-globalization, but compared to a decade ago, there is now considerable debate around the margins - about how the global system (the WTO, the IMF) ought to work, and what trade and other policies countries ought to adopt. Here's what it's all about - and why it's complicated.

The cheerleaders: Let globalization roll

For economists, globalization refers to the increasing integration of economies and societies, with the higher and faster flow of goods, services, finance, ideas, and people across borders. It also, implicitly, refers to a set of policies that almost all economists hold dear: policies that emphasize the benefits of market transactions. In that sense, globalization is about the spread of the liberal market system - a system that seemed to have triumphed just about everywhere, at least in name, by the close of the 20th century.

Most economists are, most of the time, cheerleaders for the global integration of liberalizing market-led systems. They are joined by most heads of state, finance ministers, officials of the World Trade Organization, the IMF and the World Bank, members of the corporate and financial communities, and readers, probably of this magazine.

Globalization's cheerleaders point to the tremendous declines in poverty in China and India that have accompanied those countries' liberalization of their economies, their opening to foreign direct investment, and their growing involvement in the global trading system. Their argument is straightforward. Integration into the global economy has brought rapid economic growth to China and India. Growth in those two big countries pulled hundreds of millions of people out of poverty (defined as living on \$1 a day or less). As a result, the 1990s, a decade of global integration, brought the first ever decline in the number of people in the world living in poverty (from about 1.2 billion to 1.1 billion according to the World Bank).

Those cheering globalization invoke a holy diad: trade (a form of globalization) is good for growth; and growth is good for the poor. It is countries that have successfully entered the global market and participated in globalization that have grown most in the

past. That includes Japan, beginning in the Meiji era between 1868 and 1912; the poorer countries of Western Europe during the 19th century and then again during the post World War II period of European integration; and in the postwar era, Korea, Indonesia, and Chile among others. Poverty remains highest in the countries and regions and for peoples that are marginal to global markets, including many in Africa, some in South and Central Asia, and among people, the rural populations of China, India and Latin America. Cheerleaders see the major task in those settings to be reform and adjustment of domestic programs and policies, with reduction of the bureaucratic rents and insider corruption that undermine markets.

The cynics: The global rules are rigged

This minority group of economists is concerned that corporate and financial insiders are shaping the rules of the global system in their own narrow interests. The result is a system that is not fair (let alone efficient), and not friendly to development. Their fear is echoed by development advocates, social activists, non-governmental organizations that work on environmental, labor and human rights issues and by much of the popular press. The cynics argue that if globalization is to work for all, the global rules have to be fixed (and not primarily domestic policies and institutions).

The global trading system is the cynics' best example. Citing the Common Agricultural Policy of the European Union and the recent Farm Bill of the U.S., they observe that political interests in the rich and powerful countries dominate good sense; those rich country programs subsidize farmers to the tune of \$300 billion a year, six times the amount rich countries spend on foreign aid. Cynics worry that protection of agriculture in rich countries will disguise itself in new health and environmental restrictions -- the case when West African exporters of nuts lost \$1 billion because of a naturally occurring toxin. The quota system with which rich countries protect textile workers in North Carolina and Milan is due to end at the beginning of 2005, but cynics predict that high tariffs and heavy doses of anti-dumping actions will still keep out poor country exporters. The very process of complicated negotiations and dispute resolution puts poor and small countries with limited resources (to pay the best lawyers for example) at a disadvantage. The resulting protection of agriculture and textiles is particularly pernicious because these are the sectors most likely to generate more and better jobs for the poor and unskilled within poor countries.

Cynics point out that political constraints in rich and powerful countries also distort the way rules, even when they are reasonable on paper, are actually implemented. Their most compelling example is the high cost of patented medicines in poor countries, made especially visible by the terrible impact of the AIDS pandemic in Africa. Global trade rules (formalized in the WTO under what is called the TRIPS, or trade-related intellectual property rights agreement) aim to balance society's gains from incentives for invention with the benefits of rapid low-cost access to the resulting products. Cynics argue that even assuming the TRIPS itself strikes a good balance, its implementation has been rigged. U.S. pharmaceutical firms, they observe, have pressured the United States Trade Representative to threaten extra-WTO sanctions against poor countries (South

Africa, Brazil) that are prepared to use safeguards in the WTO rules to manufacture and distribute outside the patent system. Only the public outcry (those non-governmental activists) has protected those countries' ability to minimize suffering and death among their own citizens.

Then there is international migration, the least liberalized of all markets. The rules that govern legal migration seem stacked against the poorest countries, and the weak and unskilled in those countries. Cynics decry the contrast between increased mobility and protection for global capital, vs. the restricted and illiberal market for global labor.

The doubters (and worriers): It's not that simple

Doubters take the awkward position that life is complicated and many things matter. Being economists, they haven't given up on globalization altogether. But they worry that more globalization alone, even with better rules, would not produce the transformation of poor countries' economies that equitable and sustainable development implies.

Doubters argue that China and India are hardly paradigmatic examples of liberal open economies, any more than were Korea, Taiwan and Malaysia in their years of rapid ("miracle") growth. In most countries and regions, the number of poor people continued to rise in the 1990s, heavily offsetting the gains against poverty in China and India. In Latin America, the rate of growth in the 1990s was barely 1 percent per capita, and the limited gains from global integration went mostly to a privileged few with university education or good timing in shifting their assets abroad. In sub-Saharan Africa, the number of people is still increasing faster than the economic product, despite exchange rate reforms, the undoing of state monopolies (in agricultural marketing for example) and the "opening" of economies by reducing tariffs and export subsidies -all supported by repeated rounds of IMF "adjustment" loans and other official financing. And then there is the seemingly endless "transition" to growth in countries of the former Soviet Union such as Ukraine, Belarus, Georgia, and Russia itself. The doubters fear that the initial rounds of corruption associated with their privatization programs have locked in privileges that will undermine competitive markets for years to come.

The doubters' doubts are based on two textbook style arguments.

First, markets are imperfect, and global financial markets particularly so - subject to the herd behavior and speculative bubbles of domestic financial markets, and then some. Emerging market economies, with their local financial markets less resilient, and creditors more wary, are all too vulnerable to the panicked withdrawal of capital typical of bank runs. This seems to be the case even when their overall management of their economies is reasonably sound. For these countries (the doubters worry), global trade has been generally a boon, but global finance of the last decade pretty much a bust. The resulting problems are not only a systemic threat to global financial stability. They are also bad news for the working poor and the incipient middle class in emerging markets. If

global integration hurts too much for too long middle-income households, it may undermine democratic and other institutions and stir the resentment that feeds political instability, violence and even terrorism, risking the sustainability of the global market system itself.

Mexico, Thailand, Korea and Russia are now recovering from the financial crises of the late 1990s. But taxpayers in those countries will be financing for years the socialized public debt originally assumed by what Keynes called (in this very context) the “rentier” class of private bankers and business owners. That will limit their countries’ ability to invest in the health, education, and infrastructure that could build their economies, accelerate their growth, and improve the lot of their poor. In Argentina, Brazil and Turkey, the demands of the global market for fiscal responsibility (to minimize the risk of runaway public debt) brought several years of high real interest rates and high unemployment. Argentina’s debt default is a special disaster from the point of view of its effects on poverty there. In this favored child of liberalization and globalization in the 1990s, more than 50 percent of households in greater Buenos Aires are now living below the poverty line (of \$2 per capita per day). Even if Brazil and Turkey manage to avoid defaulting on their debt, they have accumulated a debt burden their taxpayers (including the poor, who after all consume most of their income and so do pay the value-added taxes on which these countries heavily rely) will be servicing for years to come.

The second argument of the doubters is, ironically, that some markets work all too well. Markets reward those who already have productive assets: financial assets, land, physical assets, and perhaps most crucial in the technologically driven global economy, human capital. That means globalization can leave poor countries as well as poor people behind. Most poor countries, without stable political systems, secure property rights, adequate banking supervision, reasonable public services, and so on, lack the “assets” - the institutional and political infrastructure and the human capital -- that support private risk-taking. Local financial capital goes abroad because the risks and returns are too low at home. That explains why most foreign direct investment goes to developed countries, and little if any to sub-Saharan Africa (see chart).

The problem, note the doubters, is not exactly that the poorest countries have failed to join the global economy. In fact, most are heavily engaged in global trade. Most, including in Africa, have been “open” for at least two decades, with ratios of exports to GDP as high or higher as those of today’s most successful exporters throughout much of the 1990s, and with reductions in their import tariffs comparable to other developing countries. But, highly dependent on primary commodity and natural resource exports in the early 1980s, and without the institutional wherewithal to diversify into manufacturing, they seem trapped in a vicious circle of continuing high debt, low or unstable export revenue (as prices of cotton, cocoa and minerals continue to decline), weak and sometimes predatory government, insufficient human and financial resources to cope with terrible disease burdens, and institutional paralysis. Among all developing countries, those most dependent on commodity exports have failed to grow at all in the last two decades (see chart). Despite frequent but usually fragile government efforts to

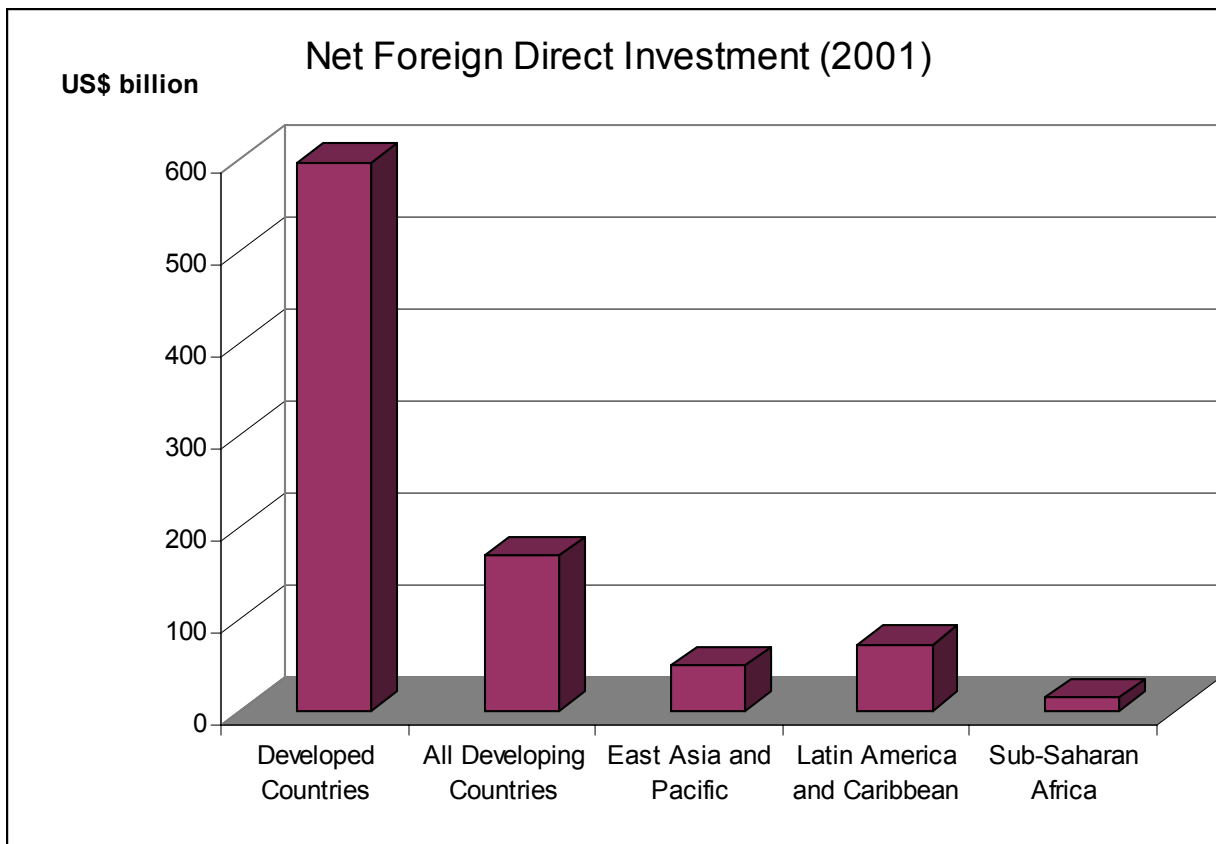
undertake economic reforms and to enter global markets, they too often fail to sustain reform or build adequate institutions. For them, success in global markets might be an outcome of future growth and development, but it does not look like the key missing input.

The bottom line

The best case, unfortunately, is with the doubters, who see no single simple solution to making globalization work for all. Yes, root out corruption and liberalize markets in the poor countries. But don't rely on open markets alone, and watch out for the costs of open capital markets in particular. Yes, fix the global rules. But don't expect that alone will do. After all, the poorest countries are so far behind they may not be able to compete on a level playing field (without help to build their human capital and improve their local infrastructure and institutions); and the emerging market economies need domestic adjustments, not global protections, to protect them from the risks of heavy reliance on foreign capital.

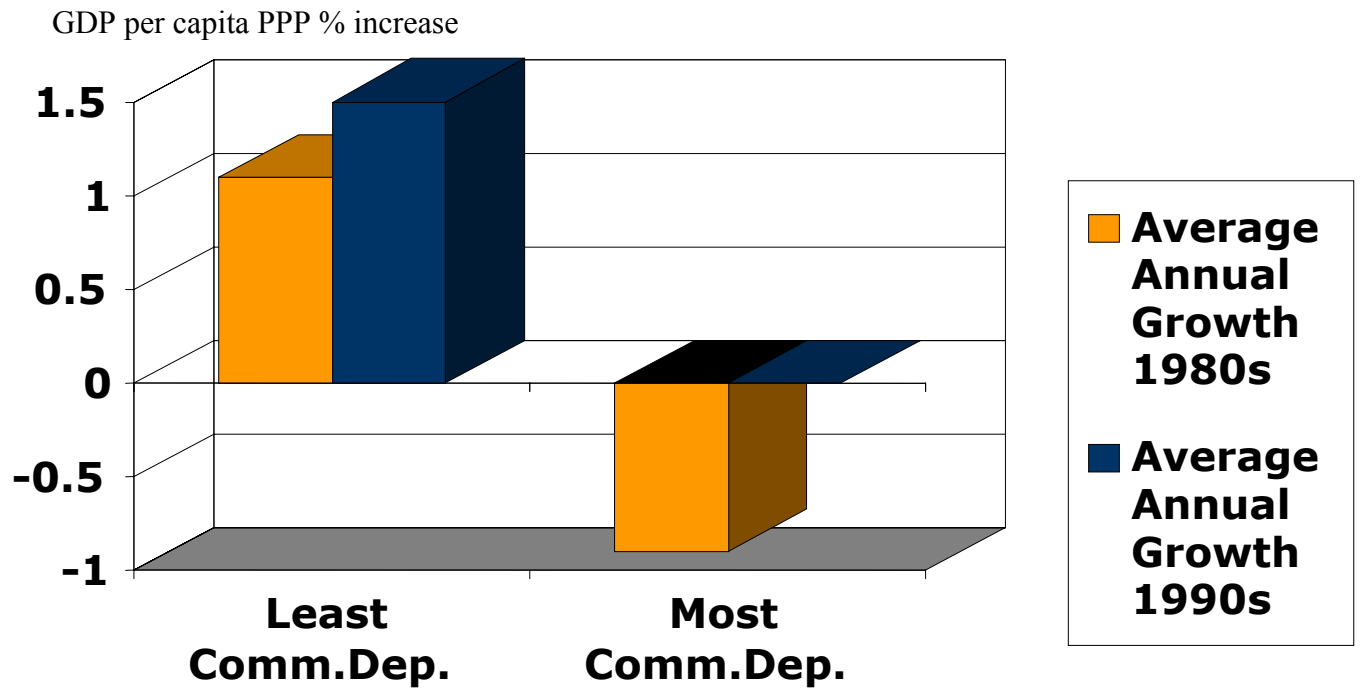
The reality is that globalization is not the cause of developing country problems, but it alone is far from the solution. Too bad, but globalization, like life, is complicated.

Figure 1: Global foreign direct investment flows



Source: World Bank (2002) Global Development Finance 2002. Tables available at: <http://www.worldbank.org/prospects/gdf2002>

Figure 2: Developing countries that are most dependent on primary commodity exports have failed to grow in the 1990s.



Source: Birdsall and Hamoudi (2002). Available at <http://www.cgdev.org>