Globalization and Global Poverty

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The Big Issues

• Does Globalization make for more poverty or less poverty?
• If poor countries resist globalization, does it help or hurt?
• How do policies of rich countries matter for global poverty?
Why This Matters

• A large part of the world is poor.
Chart 4: 1990 Population Distribution of Per Capita National Income Excluding China and India

1990 Population, Millions

- Nigeria (96)
- Indonesia (178)
- Pakistan (112)
- Bangladesh (108)
- Brazil (149)
- Turkey (56)
- Iran (56)
- Thailand (56)
- Philippines (51)
- Mexico (82)
- Italy (58)
- UK (57)
- France (57)
- Japan (124)
- W. Germany (63)
- US (250)
- China (1134) + India (850)
Why This Matters

• A large part of the world is poor.
• Poverty is not just low income; it is also high child mortality, low life expectancy, adverse working conditions, etc.
• Opinions differ on
  – The role of globalization as cause or cure for poverty.
  – The desirability of particular policies
What Is Globalization?

- Increased trade in goods and services
- Increased international movement of capital
- Increased international migration

All of which imply:

- Increased economic interdependence among countries
Does Globalization Help or Hurt the Poor

• There is no single answer
  – The poor in many countries benefit from
    • Increased jobs
    • Cheaper consumption
    • Opportunity for education, savings, entrepreneurship
  – In other cases
    • Workers are displaced by imports and lose jobs
    • Poor consumers pay more, not less, for what they need
Does Globalization Help or Hurt the Poor

• On average
  – Countries that have embraced globalization have done better, on the whole, than those who have not
  – Within those countries, economic growth has raised incomes at all levels, including the poor
  – Some countries have done especially well by exporting
    • S. Korea
    • Other Asian countries
Does Globalization Help or Hurt the Poor

• In general
  – Globalization alone is never enough to cure poverty
  – Other things needed
    • Investment in capital and infrastructure
    • Education
    • Good governance
Does Resisting Globalization Help or Hurt?

• Countries that have cut themselves off from the world (or been cut off by others) have done poorly
  – China under Mao
  – Cuba
  – N. Korea
  – Burma (Myanmar)
Does Resisting Globalization Help or Hurt?

• Experience with “Import Substitution” versus “Export Promotion”
  – Import substitution (limiting trade) was popular and respectable during 1950s & 1960s.
    • Pursued by Latin American, India, etc.
    • Economic growth was slow
  – Export promotion (free trade and/or subsidizing exports) was used by only a few
    • The Asian Tigers – Hong Kong, S. Korea, Singapore, Taiwan
    • They prospered
  – In 1980s, more and more countries switched from IS to EP
Does Resisting Globalization Help or Hurt?

- Many poor countries chose not to participate in global trade liberalization
  - Joined the GATT/WTO, but were exempted from lowering their own import tariffs.
  - Result was that rich country tariffs remained high on their exports
Does Resisting Globalization Help or Hurt?

- Current trade negotiations in the WTO (The “Doha Round”) is stalled
  - Reason is (only partly) resistance by group of large developing countries (Brazil, S. Africa, India, China)
  - Trend instead is toward bilateral trade agreements
Regional Trade Agreements (RTAs) Notified to GATT/WTO
Does Resisting Globalization Help or Hurt?

• Bilateral Agreements are worse for poor countries than multilateral liberalization
  – Smallest, poorest countries likely to be excluded
  – Terms of agreements slanted toward interests of rich countries
Rich-Country Policies

• Don’t import goods produced in “sweatshops” and/or by child labor
  – Motive is (said to be) to improve conditions of poor-country workers and children
  – Effect is likely to make them worse off
  – Much better to use positive policies, like financial assistance
    • To make factories safer
    • To put children in school
Rich-Country Policies

• Subsidies to agriculture in rich countries
  – These are common, and large, due to
    • Political power of farmers (& agribusiness)
    • Sympathy of public for farmers
  – Policy lowers the world price of farm goods (food, cotton, etc.)
    • Cheaper food benefits the poor in some countries
    • Destroys the livelihoods of poor in others
Rich-Country Policies

• High Tariffs on Poor-Country Exports
  – Rich countries lowered tariffs most on exports of each other
  – Tariffs remain highest on exports of poor countries
    • Textiles and apparel
    • Many agricultural products
  – When poor-country exports expand, rich world sometimes responds with protection
Rich-Country Policies

• Trade Policies Meant to Help
    • Lowers tariffs on many products if exported by eligible African countries (38 as of May 2007)
    • Trade of Africa has not, in fact, grown since 2000
  – EU: Everything but Arms (EBA) initiative of 2001
    • Eliminates all tariffs and quotas on all but arms and munitions from 49 Least Developed Countries
    • Immediate implementation except for bananas, sugar, and rice
Conclusion

• Globalization is not the cure for poverty
• Openness to globalization
  – Is more often (but not always) a help than a hurt
  – Does make poor countries more vulnerable to ill-advised policies (their own and others’)