

Globalization and Global Poverty

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The Big Issues

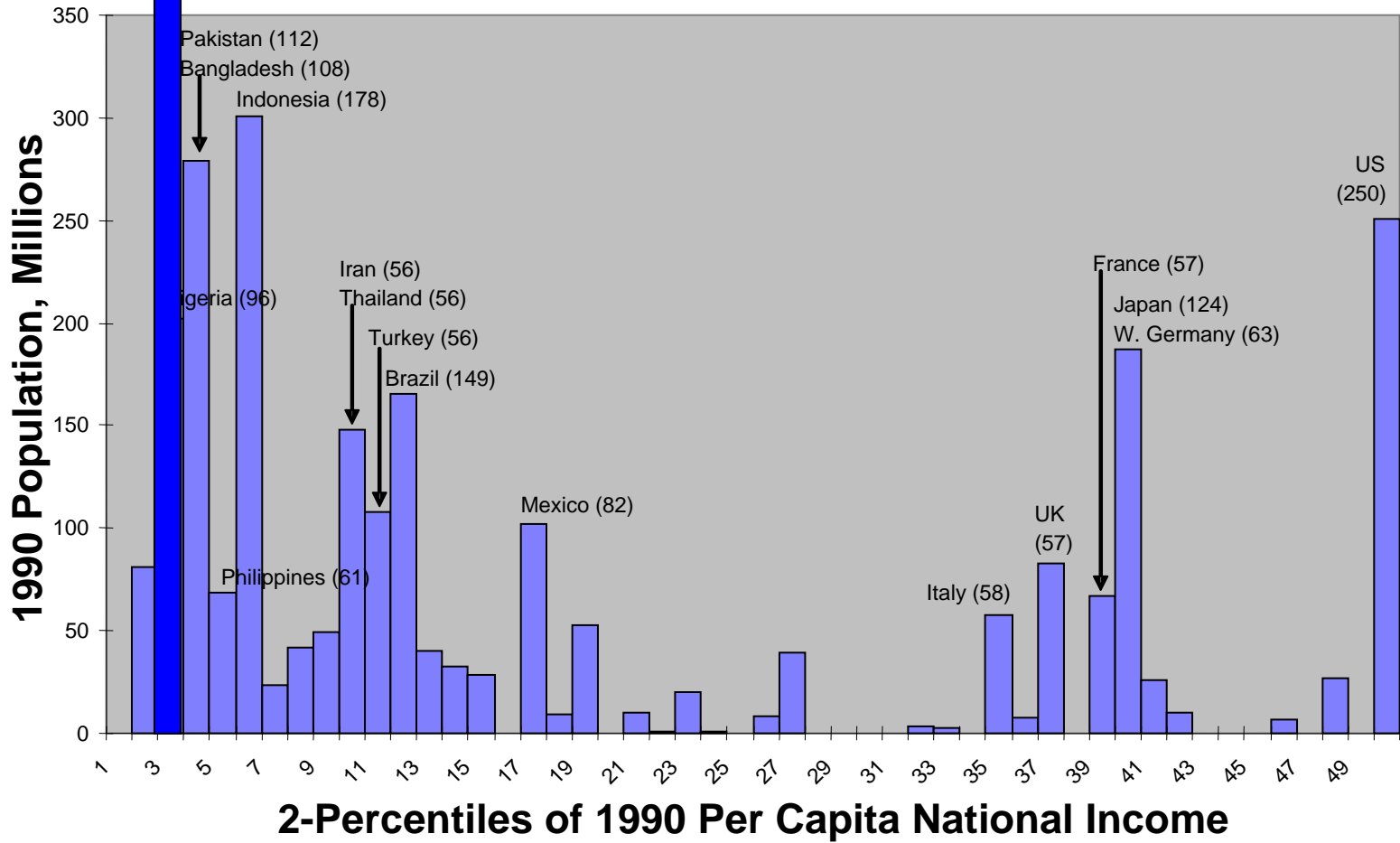
- Does Globalization make for more poverty or less poverty?
- If poor countries resist globalization, does it help or hurt?
- How do policies of rich countries matter for global poverty?

Why This Matters

- A large part of the world is poor.

↑ China (1134) + India (850)

1990 Population Distribution of Per Capita National Income



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

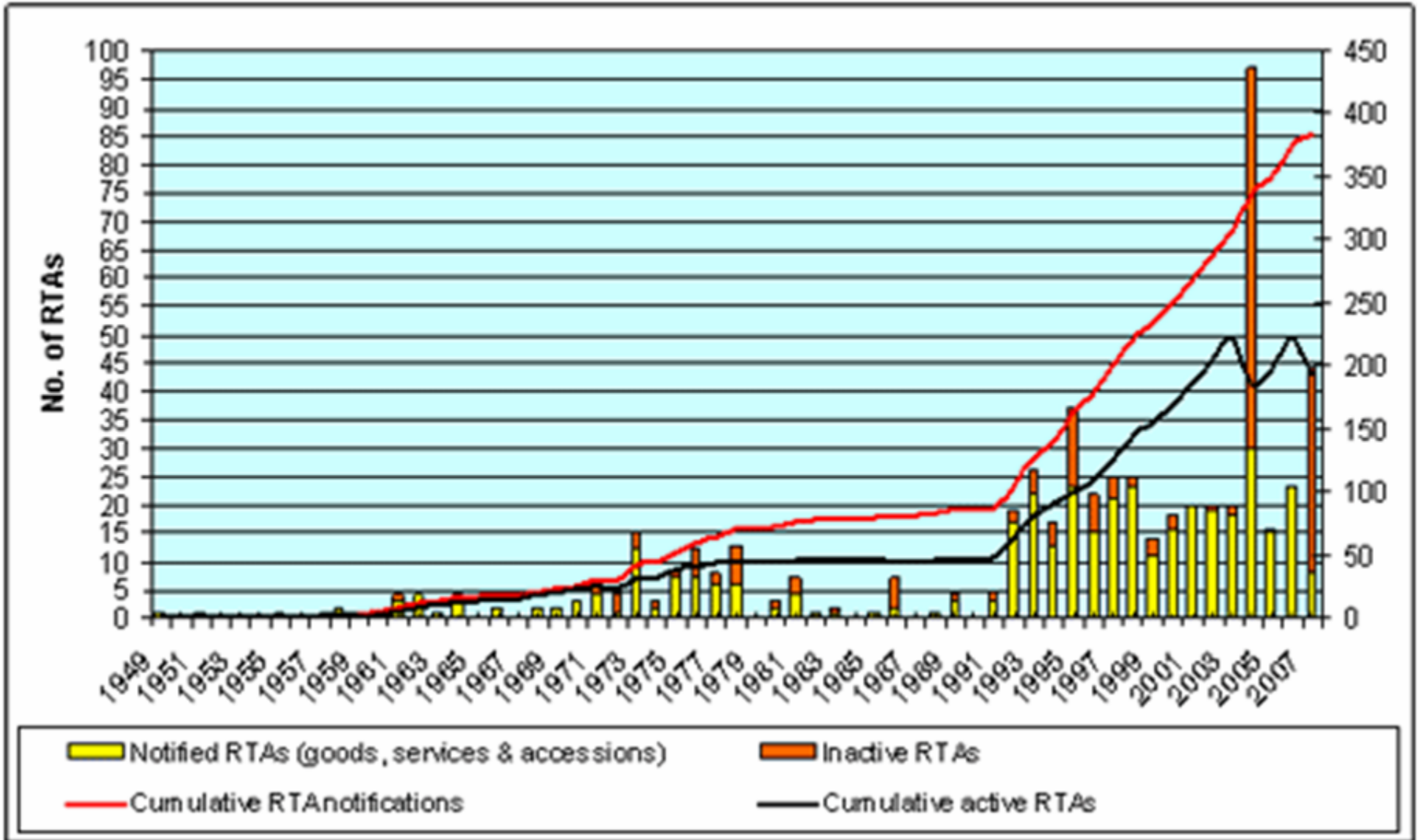
Does Resisting Globalization Help or Hurt?

- 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
 - US: African Growth and Opportunity Act (AGOA) of 2000
 - 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')