Globalization and Rising Global Poverty

Abstract

Many of the studies in Globalization and Poverty in fact suggest that globalization has been associated with rising inequality, and that the poor do not always share in the gains from trade.

Keyword: Globalisation: Interconnectedness of world into a single sharing zone, Macdonaldisation: Change or advancement in the process of food consumption by inhabitants of metro Politian cities, Degenerated peripheralisation The process of polarization of masses into hinterlands that have very poor quality of living

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Introduction

Many scholars who are concerned about the fate of the world's poor now attribute their plight to globalization. They argue that globalization has weakened the position of poor countries and exposed poor people to harmful competition. Their concern is understandable, especially since the gap between rich and poor has indeed become more glaring in recent decades. However, proving a direct link between economic globalization and poverty is a complex task for several reasons: One such characteristic of arguments linking globalization and poverty is the generalization from specific instances of impoverishment to grand global developments. When governments assume debt in private capital markets and declining world demand for their commodities depresses prices and they seek funds from the IMF to repay loans and they agree to conditions for internal reform and these conditions impose hardship on their people, it is tempting to conclude that *therefore* "globalization" causes poverty.

Under economic globalization, many countries have opened up their economies to free flow of finance capital, technology and goods this has de established many of the traditional industries and led to reemployment of productive resources. It has also led to the reduction in the role of the state and shift from welfare to a market friendly system of governance. In urban sector it has meant handing over the responsibility of providing certain basic amenities to the private sector under commercial framework. Further it has meant large scale displacement or eviction of slums for allocating of more land for commercial and other profitable usages.

Although the process of globalization is strong and often all encompassing, the local communities have continued pursue their own demand and agendas. In countries having democratic polity like India, the conflicts and contradictions between the counter veiling forces are more evident. After liberalization, new industries have often been located in the villages and small towns around the big cities, due to easy availability of land, access to unorganized labour market and less stringent implementation of environmental regulation. This has resulted in what may be described as “degenerated peripheralisation” where the pollutant industries and poor migrants are obliged to locate in the hinterland that have very poor quality of living

Today the social and economic forces leading to a single global capital economy appear to be irresistible. In the 1950s, two men in san Bernardino, California, opened a hamburger stand where they sold “fast-food” hamburgers and milkshakes. Along with their partners, they franchised their idea, and McDonald’s restaurants were born. Today, in every corner of the globe, McDonald’s restaurants are found with large varieties of modern eatables.

Does globalization, as its advocates maintain, help spread the wealth? Or, as its critics charge, does globalization hurt the poor? In a new book titled Globalization and Poverty, edited by NBER Research Associate Ann Harrison, 15 economists consider these and other questions. In Globalization and Poverty (NBER Working Paper No. 12347), Harrison summarizes many of the findings in the book. Her central conclusion is that the poor will indeed benefit from globalization if the appropriate complementary policies and institutions are in place.

Harrison first notes that most of the evidence on the links between globalization and poverty is indirect. To be sure, as developing countries have become increasingly integrated into the world trading system over the past 20 years, world poverty rates have steadily fallen. Yet little evidence exists to show a clear-cut cause-and-effect relationship between these two phenomena.

Many of the studies in Globalization and Poverty in fact suggest that globalization has been associated with rising inequality, and that the poor do not always share in the gains from trade. Other themes emerge from the book. One is that the poor in countries with an abundance of unskilled labor do not always gain from trade reform. Another is that the poor are more likely to share in the gains from globalization when workers enjoy maximum mobility, especially from contracting economic sectors into expanding sectors (India and Colombia). Gains likewise arise when poor farmers have access to credit and technical know-how (Zambia), when poor farmers have such social safety nets as income support (Mexico) and when food aid is well targeted (Ethiopia).

The evidence strongly suggests that export growth and incoming foreign investment have reduced poverty everywhere from Mexico to India to Poland. Yet at the same time currency crises can cripple the poor. In Indonesia, poverty rates increased by at least 50 percent after the 1997 currency crisis in that country, and the poor in Mexico have yet to recover from the pummeling of the peso in 1995.

Without doubt, Harrison asserts, globalization produces both winners and losers among the poor. In Mexico, for example, small and medium corn growers saw their incomes halved in the 1990s, while larger corn growers prospered. In other countries, poor workers in exporting sectors or in sectors with foreign investment gained from trade and investment reforms, while poverty rates increased in previously protected areas that were exposed to import competition. Even within a country, a trade reform may hurt rural agricultural producers and benefit rural or urban consumers of those farmers' products.

The relationship between globalization and poverty is complex, Harrison acknowledges, yet she says that a number of persuasive conclusions may be drawn from the studies in Globalization and Poverty. One conclusion is that the relationship depends not just on trade or financial globalization but on the interaction of globalization with the rest of the economic environment: investments in human capital and infrastructure, promotion of credit and technical assistance to farmers, worthy institutions and governance, and macroeconomic stability, including flexible exchange rates. The existence of such conditions, Harrison writes, is emerging as a critical theme for multilateral institutions like the World Bank.

Harrison adds that more research is needed to identify whether labor legislation protects only the rights of those few workers who typically account for the formal sector in developing economies, or whether such legislation softens short-term adjustment costs and helps the labor force benefit from globalization. Anti-sweatshop activism suggests that selective interventions may be successful in this regard.

Harrison next notes that while many economists predicted that developing countries with great numbers of unskilled workers would benefit from globalization through increased demand for their unskilled-intensive goods, this view is too simple and often inconsistent with the facts. Cross-country studies document that globalization has been accompanied by increasing inequality within developing countries, suggesting an offset of some of the reductions in poverty.

Globalization and Poverty yields several implications. First, impediments to exports from developing countries worsen poverty in those countries. Second, careful targeting is necessary to address the poor in different countries who are likely to be hurt by globalization. Finally, the evidence suggests that relying on trade or foreign investment alone is not enough to alleviate poverty.The poor need education, improved infrastructure, access to credit and the ability to relocate out of contracting sectors into expanding ones to take advantage of trade reforms.

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