Globalization and Poverty

Most of the world's people live in countries where markets do not work properly and resources are not efficiently allocated. The notion that liberal economics has "failed" misses the point that in many areas of the world it has not really been tried.

Poverty–often cast as the fault of multinational corporations or "imperialist governments"–is the most virulent killer on our planet. Many continue to believe that increased government regulation and control, particularly when it comes to international trade, is the best way to combat poverty, ignoring the fact that real liberalization–truly free and competitive markets–is in fact the agenda of the world's poor.

If we use export shares as a measure of globalization, then developing countries are now more "globalized" than high income countries. Yet more than 1 billion people still live in extreme poverty, and half the world's population lives on less than $2 a day.

The poor in countries with an abundance of unskilled labor do not always gain from trade reform. Trade reforms may result in less protection for unskilled workers, who are most likely to be poor. Finally, penetrating global markets even in sectors that traditionally use unskilled labor requires more skills than the poor in developing countries typically possess.

The poor are more likely to share in the gains from globalization when there are complementary policies in place. The studies on India and Colombia suggest that globalization is more likely to benefit the poor if trade reforms are implemented in conjunction with reducing impediments to labor mobility. The other policies are needed to ensure that the benefits of trade are shared across the population suggests that relying on trade reforms alone to reduce poverty is likely to be disappointing.

Export growth and incoming foreign investment have reduced poverty. Poverty has fallen in regions where exports or foreign investment is growing.In India, opening up to foreign investment has been associated with a decline in proverty.

Globalization produces both winners and losers among the poor. It should not be surprising that the results defy easy generalization. Even within a single region, two sets of farmers may be affected in opposite ways. Within the same country or even the same region, a trade reform may lead to income losses for rural agricultural producers and income gains for rural or urban consumers of those same goods.

The cross-country studies present evidence on the relationship between poverty, inequality and globalization. Easterly finds that increasing trade integration is associated with falling inequality within developed countries and greater inequality within developing countries.

Let see the how globalization has created an indirect means for the provert reduction.

Globalization, a positive force for development:

- There are sharp differences between countries in many of these dimensions. For example, countries have embraced the Internet and open communication to very different degrees. Developing countries - many of which 20 years ago had quite restrictive policies toward foreign trade and investment - have opened up to the global market to quite different extents. These differences across countries provide evidence for the examination of the impact of globalization on development.
- Integrating with the world economy is a powerful vehicle for growth and poverty reduction in developing countries, but it would be still more powerful if the rich countries further increased the openness of their own economies. It is in the interest of developing countries to work to enhance the openness of the trading regime and to participate in the WTO.

Complementary institutions and policies:

- Developing countries themselves can take action to ensure that they benefit more strongly from globalization, in particular by building key institutions and policies that can support and complement the expansion of trade.
- Countries benefit from their own market-opening in many ways. One is technological: foreign direct investment brings with it innovations in product, process, and organizational technologies, while importation of goods brings embedded technologies and access to lower-cost production inputs and consumer goods. Another benefit is greater efficiency: competition from abroad spurs domestic industry to make productivity improvements, promoting growth and employment over the medium term.
- Thus liberalization, if accompanied by appropriate policy and institutional reforms, will help the liberalizing country, notwithstanding the fact that the gains would be still greater if the richer countries reduced their protection.
- Open trade and investment policies will generate little benefit if other institutions and policies are not in place. It is necessary to create a sound investment climate. The investment climate is affected by a number of factors: macroeconomic stability; bureaucratic harassment, especially in the administration of regulations and taxes; the strength of financial institutions; the rule of law (including law enforcement) and corruption and crime; the quality of infrastructure, including power and telecommunications; the effectiveness of the government in providing sound regulatory structures for the private sector; the effective provision of public services or the framework for such services; and the quality of the labor force.

Role of international markets and sequencing:

- Developing countries that have done well have taken a step-by-step approach to liberalizing different types of exchange.
- The rapid growth of trade in services is one of the interesting developments of the past decade. These markets can be used to ensure good provision of power and telecommunications, accounting services even customs and tax administration as well as financial services.

Globalization, income inequality, and poverty reduction:

One of the most common claims today is that globalization typically leads to growing income inequality within countries, so that its benefits go primarily to the rich. This claim is simply not true. In fact, it is one of the big myths of the anti-globalization movement. Certainly there are important examples, notably China, where opening has gone hand-in-hand with rising inequality, but that has not been a general pattern. In many developing countries, integrating with the international market has coincided with stable inequality or declines in inequality. When trade liberalization goes hand-in-hand with stable or declining inequality, the benefits for the poor are quite powerful. Trade creates jobs which helps for the poverty reduction. Here, the link from trade to poverty reduction was very clear.

Even where inequality has increased, it is still the case that globalization has led to rapid poverty reduction. China is perhaps the best example of this. But the benefits of the globalization for the poor are particularly strong in the cases where inequality is stable or declining.

There is ample evidence that the gap between the richest and poorest countries, and between the richest and poorest groups of individuals in the world, has increased. But inequality may increase without an increase in poverty rates, for example if globalization increases opportunities for the wealthy more rapidly than for the poor. Since increasing wealth may be due to many causes, showing that the rich get richer because the poor get poorer is trickier than recording and lamenting the fact of inequality as such.

Developing countries can take steps to make globalization as a tool for proverty eradication. The three most important ways to do this are through basic education, through social protection measures to deal with adjustments, and through ensuring that all regions of a country are connected to the global economy.