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## **Globalization and Rural Poverty**

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### **Abstract**

In this paper we provide an analytical account of the mechanisms through which globalization, in the sense of increased foreign trade and long-term capital flows, affects the lives of the rural poor in developing countries (in their capacity as workers, consumers, recipients of public services or users of common property resources). Globalization can cause many hardships for the rural poor, but it also opens up some opportunities which some countries can utilize and others do not, largely depending on their domestic political and economic institutions, and the net outcome is often quite complex and almost always context-dependent, belying the glib pronouncements for or against globalization made in the opposing camps.

Keywords: absolute poverty, self-employed, wage-employed, trade liberalization

JEL classification: F1, O1, Q1

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## 1 Introduction

As is common in most contentious public debates, different people mean different things by globalization. Some interpret it to mean the global reach of new technology and capital movements, some refer to outsourcing by domestic companies in rich countries, others protest against the tentacles of corporate capitalism or US hegemony (economic, military or cultural). In this paper I shall limit myself to interpreting globalization simply as openness to foreign trade and *long-term* capital flows. I shall ignore here the important issues arising from the devastation caused to fragile economies by billions of dollars of volatile *short-term* capital stampeding around the globe in herd-like movements, or the substantial poverty-reducing potential of international (unskilled) labour flows from poor to rich countries (even if allowed in temporary and regulated doses).

By poverty I shall refer to absolute poverty in low-income countries. A large part of the discussion around globalization is around its effect on relative inequality, which we will largely ignore in this paper. In many of these countries most of the poor are in the rural sector, which will be our main focus. While what happens to the urban manufacturing and services sectors as a result of globalization has attracted a lot of attention, and can have a large impact on the work opportunities of migrants from the rural sector and thus their poverty, I shall largely confine myself to the rural sector (both agricultural and non-agricultural). For example, the role globalization may have played in weakening trade unions and thus the bargaining power of organized industrial workers in achieving improvements in their living standards is an important topic, but since such trade unions are rare in the rural sector of poor countries, we shall not discuss this topic here.

In this paper I mainly provide a brief analytical account of the various processes through which globalization in our sense of the term affects the lives of the rural poor. In general I believe that globalization can cause many hardships for the poor in these countries, but it also opens up opportunities which some countries utilize and others do not, largely depending on their domestic political and economic institutions and policies, and the net outcome is often quite complex and almost always context-dependent, belying the glib pronouncements for or against globalization made in the opposing camps.

There have been attempts to positively relate trade liberalization with economic growth, and relate growth with poverty reduction on the basis of cross-country regressions. The former relation has been found controversial,<sup>1</sup> while the latter is more sturdy. In any case there are deep methodological-econometric flaws in such cross-country regressions, apart from acute problems of reliability and comparability of the data for many countries. The results of a more micro analysis of the impact of trade liberalization on total factor productivity growth at the enterprise level are mixed (and scanty for the rural sector). Even for the relationship between openness

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<sup>1</sup> See, for example, Rodrik and Rodríguez (2000). Warner (2003) has in turn refuted some of the criticisms of the earlier literature made by the latter. Wacziarg and Welch (2003) shift the focus from cross-section to time-series and panel analysis and seem to support the view that trade liberalization has a positive impact on growth.

and levels of firm productivity, the evidence is quite ambiguous, as can be seen in the survey by Tybout (2000). While the long-run effect of growth on poverty reduction is generally accepted, the usefulness of the average estimated value of the elasticity of this effect—taken to be 2 in an estimate reported in the *World Development Report* 2001, i.e., a 1 per cent increase in real per capita income has been associated with a reduction in the headcount incidence of poverty by 2 per cent—is somewhat limited, as the underlying causal model is underspecified. Also, the value of the elasticity varies from country to country depending on initial conditions (particularly initial levels of income and the extent of social and economic inequality), and, of course, varies a great deal, even within (large) countries.

Most of the general statements one sees in popular presentations on the impact of globalization on poverty are essentially those of correlation. Pro-globalizers point to the large decline in poverty in China, India and Indonesia (countries long characterized by massive rural poverty) in the recent decades of international economic integration. Chen and Ravallion have estimated that between 1981 and 2001 the percentage of rural people living below an international poverty line of US\$1.08 per day (at 1993 purchasing power parity) declined from about 79 per cent<sup>2</sup> to about 27 per cent in China, from about 63 per cent to about 42 per cent in India, and 55 per cent to 11 per cent in Indonesia. But, contrary to repeated assertions in the international financial press, no one has yet convincingly demonstrated that this decline is mainly due to globalization. In China it could instead be, to a large extent, due to internal factors like expansion of infrastructure or the massive 1978 land reforms or policy changes relating to grain procurement prices or the relaxation of restrictions on rural-to-urban migration. That the spurt in agricultural growth following the 1978 decollectivization and land reform may be largely responsible for poverty reduction in China is suggested by the fact that the substantial part of the decline in poverty in the last two decades already happened by mid-1980s, before the big strides in foreign trade or investment.<sup>3</sup> Similarly, rural poverty reduction in India may be attributable to the spread of Green Revolution in agriculture, large anti-poverty programmes or social movements in India, and not the trade liberalization of the 1990s (which, in any case, was largely confined to the non-agricultural sectors). In Indonesia<sup>4</sup> sensible macroeconomic policies—an active rice price stabilization policy, massive investment in rural infrastructure—and the green revolution played a substantial role in the large reduction of rural poverty between 1981 and 2001 (note that by early 1980s the oil boom was largely over and by 2001 the economy has not fully recovered from the financial crisis).

Those who are more dubious of global processes point out that in the same decades, poverty has remained stubbornly high in Sub-Saharan Africa; as Chen and Ravallion

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2 This figure actually relates to China in 1980.

3 Ravallion and Chen (2004) note that mean tariff rates in China fell only slightly in the 1980s and non-tariff barriers actually increased, and show econometrically that growth in the primary sector (mainly agriculture) rather than in the secondary or tertiary sectors is largely responsible for the decline in poverty. One of their conclusions: ‘our data do not suggest that expanding trade can explain China’s progress against poverty’.

4 See, for example, Timmer (2004).

(2004) have estimated, between 1981 and 2001 the percentage of people<sup>5</sup> living below the poverty line of US\$1.08 per day (at 1993 purchasing power parity) increased in Sub-Saharan Africa from about 42 per cent to about 46 per cent. But this may have little to do with globalization, and more to do with unstable or failed political regimes, wars and civil conflicts which afflicted several countries in Africa; if anything, such instability only reduced their extent of globalization, as it scared off many foreign investors and traders.

## Section 2

If one goes beyond correlations, the causal processes through which international economic integration can affect poverty primarily involve the poor in their capacity as workers, as consumers, and as recipients of public services or users of common property resources.

Let us first take the case of poor workers in the rural sector. They are mainly either self-employed or wage earners. The self-employed work on their own tiny farms or as artisans and petty entrepreneurs in small shops and household enterprises. The major constraints they usually face are in credit, marketing and insurance, and infrastructure (like roads, power, extension service and irrigation), and government regulations (involving venal inspectors, insecure land rights, etc.). These often require substantive domestic policy and governance changes; foreign traders and investors are not directly to blame. If these changes are not made and the self-employed poor remain constrained, then, of course, it is difficult for them to withstand competition from large agri-business or firms (foreign or domestic). Let us just cite two examples. Using panel data for farm households in Zambia, Deininger and Olinto (2000) show that many households could not reap productivity benefits from external liberalization because they lacked key assets like draft animals and farm implements. Similarly Lopez, Nash, and Stanton (1995) show from panel data of farm households in Mexico that the supply response to price incentives is much lower for households with more limited access to capital. Opening the product markets internationally without doing anything about the weak or distorted factor markets like credit or infrastructural services may thus be a sub-optimal policy for many poor farmers and artisans, both from the point of view of their exploiting new opportunities and of social protection for those who may need extra help to cope.

Measurement of the direct impact of trade reform on poverty is actually quite tricky. Apart from the scarcity of detailed household data before and after trade reform, it is often difficult to disentangle the effects of trade reform from those of other reforms and other events and shocks that affect the household poverty dynamics. Most existing attempts to measure are really with simulation models. Litchfield, McCulloch and Winters (2003) is among the first empirical attempts, using household survey data for more than one period in time. For Vietnam in the 1990s, for example, they find in a multinomial logit model that the trade variables have a positive significant effect on a household's chance of escaping poverty.

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<sup>5</sup> This relates to the total population; they do not yet have a separate estimate for rural poverty.

It is not hard to see that openness to foreign trade and investment may sometimes help in relieving some of the bottlenecks in infrastructure and services and in essential parts, components and other intermediate products like fertilizers and pesticides. Gisselquist and Grether (2000), for example, show how farmers in Bangladesh benefited as liberalization increased the availability of farm inputs. In a more general sense international diffusion of technology in agriculture, of which the Green Revolution has been a dramatic example, has led to large reductions in poverty, particularly in Asia, even though the larger dependence of farm households on purchased inputs that became necessary increased the importance of the constraints of credit and irrigation.

Small farms or firms that are not severely handicapped by the credit and other constraints are sometimes more productive than their larger counterparts, and are also sometimes more successful in export markets. Small producers are often heavily involved in exports (for example, coffee producers of Uganda, rice growers in Vietnam, shrimp farmers in coastal Bangladesh or India, garment producers in Bangladesh or Cambodia). But in exports the major hurdle they face is often due to not more globalization but *less*. Developed country protectionism and subsidization of farm and food products and simple manufactures (like textiles and clothing) severely restrict their export prospects for poor countries.<sup>6</sup> By estimates of the World Bank, based on the widely used GATP (Global Trade Analysis Project) model, the total income losses incurred by developing countries on account of rich-country trade barriers on textiles and apparel amount to about US\$24 billion. Taking tariffs and tariff-equivalent of subsidies in agriculture, Cline (2004) estimates that the overall protection in agriculture is about 20 per cent for US, 46 per cent<sup>7</sup> for EU, 52 per cent for Canada, and 82 per cent for Japan. The annual loss to developing countries from agricultural tariffs and subsidies in rich countries is estimated from a static CGE model and the GATP trade and protection database by Cline (2004) to be about US\$45 billion (and much higher if dynamic effects are taken into account).

I wish the anti-global protesters of rich countries turned their energies toward the vested interests in their own countries which prolong this protectionism and cripple the efforts of the poor of the world to climb out of their poverty. Pro-poor opponents of NAFTA, for example, point out how competition from northern agri-business is destroying the livelihoods of small farmers in Mexico, without being equally vocal about the farm subsidies and tariffs in the US and Canada (now going to be even substantially larger under the new US farm policy) which are, to a large extent, responsible for this. US wheat export prices are estimated to be 46 per cent below cost

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<sup>6</sup> This is, of course, not to minimize the trade barriers imposed by developing countries on imports of other developing countries, which are often higher than those imposed by rich countries. There are some conflicting estimates of the welfare gains of the reduction in trade barriers imposed by developing countries themselves in relation to that for reduction in trade barriers imposed by industrial countries. A convincing estimate by Cline (2004) suggests that industrial-country liberalization provides from about half to two-thirds of the total potential welfare gains to developing countries from trade liberalization all around.

<sup>7</sup> Adjusting for preferential entry of farm products from some countries, the agricultural protection for EU goes down to 34.5 per cent.

of production, US corn export prices are at 20 per cent below cost, and so on.<sup>8</sup> It is not surprising that US subsidies in cotton provided a major flashpoint in the breakdown of the WTO's ministerial negotiations in Cancún in September 2003, as this crop is grown by farmers in some of the poorest countries of the world. Of course, this is not to minimize the responsibility of domestic governments. In Mexico, for example, following the peso crisis of 1994 the government abandoned its plans to phase in the trade liberalization gradually, and also largely withdrew from providing the necessary public support infrastructure for poor farmers.

Another increasingly important barrier to trade many small farmers of developing countries face in world markets is that rich countries now shut out many of these imports under a whole host of safety and sanitary regulations (sometimes imposed under pressure from lobbyists of import-competing farms in those countries). This actually increases the importance of the need for involving rich-country transnational companies in marketing poor-country products. These companies can deal with the regulatory and lobbying machinery in rich countries far better than the small producers of poor countries can and at the same time can provide to consumers credible guarantees of quality and safety. Of course, these companies will charge hefty fees for this marketing service (usually much larger than the total production cost), but the small farmers will usually be better off with them rather than without.

Similarly, it may be very difficult, costly, and time-consuming for small producers of manufactures or services in developing countries to establish brand name and reputation in quality and timely delivery, which are absolutely crucial in marketing, particularly in international markets (much more than comparative costs of production which traditional trade theory emphasizes). This is where multinational marketing chains with global brand names, mediating between domestic suppliers and foreign buyers, can be very helpful for a long time, and paying the high marketing margin they charge may sometimes be worth it. At the same time coordinated attempts on the part of developing countries, with technical assistance from international organizations, to build international quality certification institutions for their products should be a high priority.

There is very little empirical evidence on the precise figures of marketing margins. There are occasional newspaper reports, for example, that for a 44lb box of bananas that sells for about US\$25 in US supermarkets, the producers in Ecuador get only US\$2 or US\$3. Similarly there are reports that for a shirt that sells for at least US\$20 in Gap stores in the US, the producer in Hong Kong gets less than US\$1. Of course, much of the difference is made up of transportation, distribution and inventory costs, but the marketing margins are likely to be substantial. Those who are thus justifiably outraged by the extremely high marketing margins the monopoly multinational companies currently charge the poor producers should agitate more for anti-trust action, not anti-trade action. There should also be more energetic international attempts to certify codes against international restrictive business practices and to establish an international anti-trust investigation agency, possibly under WTO auspices. Even if such an agency may not have much enforcement powers,

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<sup>8</sup> See, for example, the recent Oxfam Report (2002).

internationally publicized reports of anti-trust investigations by a recognized international body will have some impact on rapacious monopolies.

Trade liberalization, even when increasing the mean incomes of the poor, may heighten their vulnerability, particularly by increasing the variance of prices or income sources. Theoretically, there can be conflicting factors working here, and whether in a particular case variability increases or not can only be resolved empirically for different cases. For a brief summary of the empirical literature on this question, see Winters, McCulloch, and McKay (2004). For example, they cite a study of how trade liberalization may have helped to mitigate the post-flood food crisis in Bangladesh in 1998 with private imports stabilizing prices; on the other hand, they cite evidence from Côte d'Ivoire that the ending of domestic marketing arrangements with liberalization may have increased the variance of prices. There is, of course, general agreement on the low capacity of the poor to cope with negative price and income shocks.

There is also the issue of commodity concentration of exports. More than 50 developing countries depend on three or fewer primary commodities for more than half of their export. Exports of such products are often a curse as well as a blessing for these countries, as their prices fluctuate wildly and as the economy is too dependent on them. As a result of recent cases of elimination of the erstwhile inefficiently-run marketing boards and the dismantling of wasteful stabilization schemes, farmers in many African countries now receive a higher fraction<sup>9</sup> of a more volatile (and in some cases, lower) world market price.<sup>10</sup> International commodity agreements among these countries to control their supply in the world market have not worked very well in the past. For reducing their economic vulnerability there is probably not much alternative to attempts at diversification in production and skill-formation, and gradual movement up the supply chain toward activities with more value addition for the same commodity and arranging at an international level institutions of insurance for farmers in poor countries.

With the opening of the economy just as export crops face new opportunities potentially lifting their producers from poverty, crops where the country may lack comparative advantage will lose out and push their small producers into poverty if in a situation of pervasive failure of credit and insurance markets, there is no vigorous programme of public adjustment assistance and extension services to help producers to reallocate their resources. The poor growers of traditional crops are often ill-equipped to shift by themselves to the new commercial products like fruits, vegetables, flowers, dairy products, processed foods, etc. These products require new storage and transport infrastructure, large set-up costs, marketing connections, and new legal rules and institutional structures that can facilitate contract farming and agro-processing in a way that does not expose small producers to exploitation by large marketing chains. This is clearly not an argument against globalization but for proactive public programmes to help poor farmers adjust and coordinate. International

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<sup>9</sup> Unless the public monopsony is replaced by private marketing cartels.

<sup>10</sup> See, for example, Gilbert and Varangis (2003) for the case of cocoa. For a whole range of crops in Africa see the analysis in Townsend (1999).

agencies which preach the benefits of free trade have an obligation to contribute to such programmes with financial, organizational and technical assistance.

What has been said in the preceding paragraphs about self-employed farmers is also largely valid for those who are self-employed in non-agricultural activities in the rural sector. Some firms adjust well to new trade opportunities, while others find it difficult to cope with the competition, depending on their initial asset, credit and other infrastructural conditions. Parker, Riopelle and Steel (1995) in their study of small enterprises in five African countries show that firms that adapted quickly benefited from import liberalization, while those ill-prepared to face competition lost out. What is called for is, therefore, liberalization to be accompanied by a comprehensive policy package for enhancing the capability of latter firms and a safety net for people who lose in the process.

In rural industrialization the most successful recent case with a major role of exports and foreign direct investment is, of course, that of the township and village enterprises in China, whose phenomenal growth in the 1980s and the 1990s may have played an important part in the reduction of poverty in China. Exports of apparel and light manufactures also led to a significant reduction of poverty in Vietnam—for a measurement of the poverty impact on the basis of a micro-simulation model, see Hertel *et al.* (2003). Ravallion and Datt (2002) find across states in India, that the elasticity of poverty reduction with respect to non-farm output growth varies depending on initial conditions, like literacy or land distribution.

### Section 3

Turning to poor wage earners, the literature on how international trade affects the absolute level of the real wage or employment of unskilled workers is extremely small relative to the one on wage inequality (which, though an important issue, is not directly relevant for my concern with absolute poverty here). Empirically it is hard to disentangle the effects on wages of trade reform from those flowing from macroeconomic policy changes or other on-going deregulatory reforms and technological changes.

The traditional international trade theory suggests that the workers in a poor country (presumably having abundant supplies of unskilled labour) having a comparative advantage in products intensive in unskilled labour should benefit from trade liberalization. The improvement in wages and employment of garment workers in Bangladesh or Mauritius or Vietnam with expanding exports is an obvious example. The matter is, of course, complicated for some developing countries (say, Brazil or Mexico or Turkey) which may import labour-intensive products from even poorer countries (say, China or Indonesia or Bangladesh), so that trade, consistent with the traditional theory, may lead to lower wages in the former set of developing countries, for which there seems to be some evidence.<sup>11</sup> Similarly, if a poor country has large

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<sup>11</sup> This was emphasized by Wood (1997). For detailed evidence from Colombia, see Goldberg and Pavcnik (2001).

supplies of non-labour factors of production (like land or mineral resources), trade liberalization may not benefit the labour-intensive sectors.

On the basis of household survey data, Hertel *et al.* (2003) estimate that global trade liberalization leads in the long run (i.e., when labour and capital are mobile across sectors) to a decline in poverty for all strata of the population; this is largely because of increased demand for unskilled labour which lifts income even of some of the formerly self-employed who now move into the wage labour market. Edmonds and Pavcnik (2003) also note how Vietnam's liberalization of rice trade in the 1990s led to a gainful reallocation of labour of the poor from household occupations to the wage labour market.

In some cases, however, intersectoral mobility is limited for prolonged periods. If some factors of production are intersectorally immobile, and some goods are non-traded, real wage of an unskilled worker in a poor country may not go up with trade liberalization even in an otherwise standard model of trade theory. Take a three-good model in a hypothetical African country: one is a non-tradable good (say, a subsistence food crop) that is largely grown by women who, for various social and economic reasons, cannot move to other sectors, another good (say, an exportable tree crop) produced largely by men in a capital-intensive way (maybe simply because tree crops lock up capital for a long period), and the third good is an importable (say, processed food) which is somewhat substitutable in consumption for the subsistence food. In this three-sector model it is not difficult to show that the real wage of women may go down when the importable processed food is made cheaper by trade liberalization (under the condition that the elasticity of substitution in consumption of the two foods is sufficiently high). What we have said about poor African women here is equally true for other people anywhere who are mobility-constrained (old workers and people who do not have the collateral to raise capital to start new ventures or move to new sectors, etc.).

It is often suggested that globalization associated with more 'informalization' may worsen the conditions of workers. If large firms facing more foreign competition and pressure to reduce costs outsource activities to smaller firms or household enterprises in the informal sector,<sup>12</sup> the average wage (of those formerly employed in the formal sector) may go down, but this need not impoverish workers in general if the poorer informal workers get more employment this way.

Let us now discuss the case of the poor as consumers. Whether they gain as consumers from trade depends on whether they are net buyers of tradable goods—for example, the landless labourers in east or south India who are net buyers of rice may gain from imports of cheaper rice from Thailand, but may lose from higher prices of medicine as the Indian drug market becomes internationalized (with the laws changing in 2005 from recognizing only process patents to the international product patent system under TRIPS), or how monopolistic is the retail market structure which often blocks the pass-through from border prices to domestic prices—for example, in

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<sup>12</sup> Attanasio, Goldberg and Pavcnik (2004) find some evidence that the increase in the size of the informal sector in Colombia towards the end of the 1990s is related to increased foreign competition.

Mexico after NAFTA, the cartelized tortilla sector largely maintained prices even with the availability of cheaper North American corn. In one of the most disaggregated exercises in the empirical literature, with the use of Morocco's household survey of living standards and a general-equilibrium simulation of trade policy change, Ravallion and Lokshin (2004) show that liberalization of cereal imports in that country (which does not have a comparative advantage in water-intensive cereals production) leads to a rise in rural poverty, with the losses to the net producers of cereals outweighing the gains to the net consumers among the poor.

Whether developing countries are net importers or exporters of agricultural products varies a great deal from country to country. From FAO data sources Valdes and McCalla (2004) compute that of the 115 low-income and low-middle-income countries, 62 are net agricultural-good importing countries and 53 are net agricultural-good exporting countries. In general with the expected price rise from agricultural trade liberalization in the form of reduction of agricultural tariffs and subsidies in developed countries, the former set of countries is likely to lose and the latter to gain. So contrary to the impression one gets from advocates of agricultural trade liberalization, many poor countries will not gain from this liberalization.<sup>13</sup> In particular, of the 46 least-developed countries (by UN classification) 30 are net agricultural-good importing countries,<sup>14</sup> and it is unlikely that with liberalization some of the latter will transform themselves into large agriculture-exporting countries. Even in the case of the fewer agriculture-exporting least-developed countries, many of them are likely to lose the special preferential status they enjoy under the current regime in some developed markets; for example, many least-developed countries in Africa have duty- and quota-free access to the EU market so that they currently sell in this market at the high EU internal prices. This, of course, does not apply to the recently publicized case of poor countries exporting cotton, as the highest domestic subsidies (depressing world price) are in the US.

#### **Section 4**

Let us now briefly turn to the case of the poor as recipients of public services. In the low-income developing countries, the poor, particularly those who are in the preponderant informal sector, do not receive much of effective social protection from the state, but the public sector is usually involved in basic services like education and health and public works programmes. Cuts in public budgets on these basic services are often attributed to globalization, as the budget cuts to reduce fiscal deficits often come as part of a package of macroeconomic stabilization prescribed by international agencies like the IMF. Trade reforms can bring about a decline in customs revenue (which is usually a substantial source of total government revenue in low-income countries) due to tariff cuts, to the extent these are not compensated by the replacement of the pre-existing quotas by tariffs. But Pritchett and Sethi (1994) analyse the experience of Jamaica, Kenya, and Pakistan on their tariff reductions and

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<sup>13</sup> See Panagariya (2004).

<sup>14</sup> In terms of population, roughly one-fifth of the total population of these least-developed countries is in one country, Bangladesh, which is a net importer of agricultural goods.

found that revenues often fell substantially less than tariff rates did. Much depends on the nature of customs administration, the degree of complexity of the tariff structure, and the scope for expansion of the revenue base following trade reform.

While there is a lot of scope for improvement in the internationally prescribed (occasionally ideologically blinkered) stabilization programmes to minimize their adverse impact on the poor, one should keep in mind that the fiscal deficits in these poor countries are often brought about in the first place more by domestic profligacy in matters of subsidies to the rich, salaries for the bloated public sector or military extravaganza. Faced with mounting fiscal deficits the governments often find it politically easier to cut the public expenditures for the voiceless poor (along with public investment programmes), and that is primarily due to the domestic political clout of the rich who are disinclined to share in the necessary fiscal austerity, and it is always convenient to blame an external agency for a problem that is essentially domestic in origin.

The low quality and quantity of public services like education and health in poor countries is not just due to their relatively low share in the public budget. To a large extent, even the limited money allocated in the budget does not reach the poor because of all kinds of top-heavy administrative obstacles and bureaucratic and political corruption. The development literature is full of accounts of targeting failures in social expenditures.<sup>15</sup> Again this is a domestic institutional failure, not largely an external problem. The major effort required here is to strengthen the domestic institutions of accountability.

Apart from basic public services, the poor are also users of common property resources, the decline in which is not usually taken into account in the standard estimates of poverty, based as they are on either household surveys of private consumer expenditure or national income accounts. Environmentalists argue that trade liberalization damages the poor by encouraging overexploitation of the fragile environmental resources (forestry, fishery, surface and groundwater irrigation, grazing lands, etc.) on which the daily livelihoods of particularly the rural poor crucially depend. Here also the answers are actually complex and mere trade restriction is not the solution. The environmental effects of trade liberalization on the rural economy depend on the crop pattern and the methods of production. Take, for example, an African rural economy where the exportable product is a capital-intensive tree crop (like coffee or cocoa), the import substitute is a land-intensive crop (like maize), and there is a labour-intensive subsistence (non-traded) crop (like roots and tubers). The economy may have a comparative advantage in tree crops. In this case under a trade protection regime, an increase in import substitution leads to an expansion of cultivated land under the land-intensive crop as well as a shortening of the fallow period, leading to depletion of natural vegetation and biomass. Trade liberalization in this context, through encouraging the production of the less land-intensive tree crop, can significantly improve the natural biomass, as has been shown by Lopez (2000) for Côte d'Ivoire in the latter part of the 1980s, using the data from the Living Standards Survey and some remote sensing data from satellite images.

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<sup>15</sup> See, for example, Lanjouw and Ravallion (1999).

One reason why land-intensive crops may lead to overuse of land and depletion of natural vegetation (or that expansion of the agricultural frontier in general leads to deforestation) is the lack of well-defined property rights or lack of their enforcement in public or communal land. In such cases private cost of expanding production is less than the social cost and there is overuse and degradation of environmental resources. If the country exports such resource-intensive products, foreign trade may make this misallocation worse. International trade theorists point out that trade restriction is not the first-best policy in this situation, correcting the property rights regime is (including community based regulations and coordination). But the latter involves large changes in the legal-regulatory or community institutional framework which take a long time to implement, and given the threshold effects and irreversibilities in environmental degradation (a forest regeneration requires a minimum stock, for example), one may not afford to wait. In that case some programme of (time-bound) trade restriction coupled with serious attempts at the overhaul of the domestic institutional framework may be necessary. In other cases domestic policy changes can be implemented much more quickly, and restricting trade is unnecessary and undesirable. For example, when coastal shrimp ponds in a shrimp-exporting country like India or Bangladesh pollute the water supply and destroy surrounding mangroves, domestic taxes on the basis of 'polluter pays' principle are imperative. In some cases domestic government policies are primarily responsible for environmental degradation. For example, administered underpricing of precious environmental resources (irrigation water in India, energy in Russia, timber concessions in Indonesia and the Philippines, etc.), prolonged by the pressure from powerful political lobbies, is a major cause of resource depletion. Domestic vested interests, not globalization, are responsible for the continuation of such socially damaging policies.

In the case of some resource-intensive exports, it is difficult for a country by itself to adopt environmental regulations if its international competitors do not adopt them at the same time and have the ability to undercut the former in international markets. Here there is an obvious need for coordination in the environmental regulation policies of the countries concerned. Given the low elasticity of demand for many resource-intensive primary export commodities from developing countries in the world market,<sup>16</sup> such coordinated policies, while raising prices and the terms of trade, need not lead to a decline in export revenue.

A common charge against multinational companies is that they flock to developing country 'pollution havens' to take advantage of lax environmental standards. In one of the very few careful empirical studies on the question, Eskeland and Harrison (2003) examine the pattern of foreign investment in Mexico, Venezuela, Morocco and Côte d'Ivoire. They find no evidence that foreign investment in these countries is related to pollution abatement costs in rich countries. They also find that within a given industry, foreign plants are significantly more energy-efficient and use cleaner types of energy compared to their local peers.

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<sup>16</sup> Repetto (1995) puts together the estimates of world elasticity of demand for some of the natural resource-intensive export commodities of developing countries. For the eight commercial agricultural commodities considered by him, the absolute value of the elasticity does not exceed 0.5. For tropical timber, it is 0.16 for nonconifer logs, 0.74 for nonconifer sawnwood, and 1.14 for nonconifer plywood.

## Section 5

In general the debates on globalization often involve a clash of counterfactuals. On one side, those who are against the pace of business-as-usual global trade and investment are making a plea for doing something about the jobs and entrepreneurial opportunities for the poor and for small enterprises that are being wiped out, and against the monopolistic practices of giant multinational companies and the environmental damages caused by the economic expansion. So their counterfactual is the world of more social justice and less dominant trading and investment companies, which gives some more breathing space to the poor producers and workers. On the other side, the counterfactual for pro-globalizers is the case when there is no (or limited) trade or foreign investment, a world which may be worse for the poor (as it is in the extreme cases of the closed economies of North Korea and Burma). The way out of this clash of counterfactuals is to insist that there are policies that may attempt to help the poor without necessarily undermining the forces of globalization. In this paper we have emphasized that in the medium to long run, globalization need not make the poor much worse off, if appropriate domestic policies and institutions are in place and appropriate coordination among the involved parties can be organized. If the institutional prerequisites can be managed, globalization opens the door for some new opportunities even for the poor. Of course, domestic institutional reform is not easy and it requires political leadership, popular participation and administrative capacity which are often lacking in poor countries. One can only say that if we keep the focus on agitating against multinational companies and international organizations like the WTO, attention in those countries often gets deflected from the domestic institutional vested interests, and the day of politically challenging them gets postponed. In fact in some cases opening the economy may unleash forces for such a challenge.

As in the debates several decades back around 'dependency' theories in development sociology, there is often a tendency to attribute much of the problems of underdevelopment to the inexorable forces of the international economic and political order, ignoring the sway of the domestic vested interests. In many countries, rural poverty alleviation in the form of expansion of credit, marketing and extension facilities, or land reform, or public works programmes for the unemployed, or provision of education, vocational training, and health need not be blocked by the forces of globalization. This, of course, requires a restructuring of existing budget priorities and a better and more accountable political and administrative framework, but the obstacles to these are often largely domestic (particularly in countries where there are some coherent governance structures in place). In other words, for these countries, globalization is often not the main cause of their problems, contrary to the claim of critics of globalization; just as globalization is often not the main solution of these problems, contrary to the claim of some over-enthusiastic free traders.

All this, of course, does not absolve the responsibility of international organizations and entities in helping the poor of the world, by working toward a reduction of rich-country protection on goods produced by the poor, by energetic anti-trust action to challenge the monopoly power of international (producing and trading) companies based in rich countries, by facilitating international partnerships in research and development of products (for example, drugs, vaccines, crops) suitable for the poor, and by organizing more substantial (and more effectively governed) financial and

technology transfers and international adjustment assistance for displaced workers, and help in (legal and technical) capacity-building for poor countries in international negotiations and quality certification organizations. Globalization should not be allowed to be used, either by its critics or by its proponents, as an excuse for inaction on the domestic as well as the international front when the matter involved is that of relieving the crushing poverty in the life of billions of people in the world.

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