



L21 Worth Noting

Volume VI, Issue VIII

Worth Noting is the journal of research and conferences company L21. It is focused on social, economic, political and international issues of relevance and interest to senior executives.

Definitions of 'globalization' changes from year to year.

A decade ago, globalization was meant to signal the beginning of the end of our state based international system. The argument was that states were becoming increasingly supplanted by 'transnational' or 'global' actors. States were becoming less relevant, less 'sovereign', and multinationals like Toyota and Microsoft would be the new international actors of tomorrow.

In an early edition of *Worth Noting* in 2002 (Volume II, Issue V), we argued that such predictions were way off the mark. States still controlled the most important and influential functions for organizing people: the use of force, setting and enforcement of laws and regulations, revenue and taxation collections systems, and control of large bureaucracies essentially for administration. Huge multinational corporations, whilst influential, are merely profit-making conglomerates that lack the ambition and capacity to serve as pseudo-administrative entities. Importantly, multi-nationals lack the legitimacy needed to inspire or at least demand loyalty and compliance from their employees in ways that states enjoy. If Microsoft declared war on another entity, could you ever imagine their employees taking arms under the Microsoft banner?

Rightfully, the talk about multi-nationals overtaking the international state based system has died down. However, a new meaning for the term is gaining traction and with it an increasing vocal group of dissenters. 'Globalisation' is now increasingly seen to imply a so-called 'capitalist' world order of free trade and the unrestricted and global movement of

capital and labour. This has led to debates about the winners and losers of 'globalisation' and whether an increasingly globalised world in this sense is a good thing. In this edition of *Worth Noting*, we thought we would assess this newer turn in the debate about the good or bad of globalization, in particular the argument that free trade and the free flow of capital and labour exacerbates poverty in undeveloped economies.

The Anti-Globalist Movement

From the anti-WTO riots in Seattle in 1999, to the massive demonstrations in Argentina in November 2005, to the enduring anti-capitalist figure of Fidel Castro, and the new popularism of Hugo Chavez in Venezuela, the broad church that is the anti-globalist camp gets a pretty good run in the media. This is not to say that the media supports these positions but there is certainly very little critical analysis of what they stand for compared to the criticism offered against explicitly pro-globalist proponents. Much of this is inspired by an anti-Americanism which is taking hold worldwide since the U.S. is the self-professed leader of this globalist movement. The principles of free trade, open economies, and the free movement of capital and labour, are bonded together by what is sometimes known as the 'Washington Consensus.'

Who are the anti-globalists? They are sometimes referred (derogatively) as the "antiglobalisation.com" group and consist of influential individuals, unofficial groups who communicated largely through the Internet, but also many labour unions and non-governmental organizations (NGOs) who reject the argument that open trade is largely good.

The anti-globalist movement point to various losers of this system: countries who refuse to be the lackeys of the great American imperialist, and more specifically, developing and Third World countries who many see as being exploited by the global system. Globalisation has been variously blamed for low wages, 'sweat shops', environmental degradation and economic and cultural ruin for poorer countries that cannot stand up against global giants like the U.S. and E.U. states.

Despite the appeal that the anti-globalist movement holds for many in both developed and undeveloped countries, UK Financial Times head editor Martin Wolf argues that there is not one anti-global economic experiment that has succeeded while pro-global camps can point to countless examples where 'Washington Consensus' policies lifted millions out of poverty.

How does the 'Washington Consensus' understanding of globalization stack up? There are two ways we can approach this. The first is to debate the general causation behind prosperity and poverty, and how this is connected to global free trade and open markets. Although for a thorough debate, this is needed, it cannot be done adequately in a short paper. The second is to ask an empirical or historical question. What impact has opening up economies to global markets had on creating or reducing poverty? This is the approach we will briefly look at in this edition of *Worth Noting*.

Has globalization and free trade been successful?

This obviously depends on what we mean by 'successful' but in countering the most evocative argument of anti-globalists, if 'successful' means the impact on poverty or prosperity of particular developing countries, then the answer has to be a resounding 'yes'. Despite the emotive counter-claims, all credible evidence supports the fact that globalization and in particular free trade have resulted in huge benefits to participating economies and societies. Let's look quickly at some of the evidence in making this argument.

The most common claim against globalization is that globalization exacerbates poverty and primarily benefits the developed and rich countries. The historical evidence debunking this claim is pretty strong.

In comprehensive studies done by the *Institute for International Economics*, the world's leading and most authoritative economics think-tank, if we adjust figures according to purchasing power parity set at 1985 levels (i.e., how much we can actually buy at 1985 levels), in 1820, 83% of the world's population made less than US\$1 per day. By 2000, this figure had dropped to 13%. If we bear in mind that about 80% of people today still live in undeveloped and developing countries, the prima facie evidence supporting globalization as a poverty reducing force is strong.

Let's take another macro survey.

Since World War II, countless International Monetary Fund (IMF) studies have shown a connection between poverty reduction and free trade. If we take indicators such as poverty, life expectancy, health, and education, more people within open economies have benefited in these areas in the last sixty years than ever before. According to Asian Development Bank data, in the greatest period of globalised trade (from the late 1980s to 2000), the percentage of people living below the poverty line (defined as less than \$1 per day) dropped from 30% in 1987 to 13% in 2000. Most of this progress occurred in East Asia which has been the region that has been most rapidly integrated into the global economy. The people existing on under \$1 a day was halved in this region.

Bear in mind through that increasing 'Washington Consensus' globalization does not in itself reduce poverty. Despite greater open economic systems, countries in the Middle East, North Africa and Sub-Saharan Africa have experienced slower rates of poverty reduction. Globalisation in itself cannot solve the problems that retard growth such as corrupt governments and systems, health problems such as HIV, and civil wars. However, corruption is generally more severe in closed economies, and closed economies are more often than not run by authoritarian and repressive governments where corruption is systematic and officially entrenched. In this sense, the connection between entrenched corruption, poverty, and closed economies is close.

What can be said, therefore, is that while globalization does not in itself reduce poverty, lack of participation in the globalised system certainly increases poverty. Take the comment of Ghana born UN Secretary-General Kofi Annan:

“I believe the poor are poor not because of too much globalization but because of too little.”

Finally, let's cite specific examples that bring out these arguments.

Countries like South Korea, Taiwan, and most recently, China, are examples of where economic growth, poverty reduction, and greater integration with the world economy have drastically reduced poverty in those countries. In addition to South Korea and Taiwan, experiences in countries like Brazil, Mexico and Chile display a link between open markets, increased trade, and more open, democratic processes and economic growth – classic ‘Washington Consensus’ stuff. (The jury is still out on China.)

Are there reasons for doubt?

What can anti-globalists point to as evidence of why globalization is bad? As far as an example of an economy that has rejected free trade, and the greater ease of movement of labour and capital, yet reduced poverty, there are no such exemplars. Martin Wolf is right in saying that anti-globalists cannot point to one anti-global system that has been successful.

Instead, anti-globalists can really only make two kinds of arguments, neither of which goes close to establishing their position.

First, we can point to examples where increased globalization has not worked in the way it should. Russia is perhaps the best example. Post-communist Russia opened up quickly to the world after the fall of the Soviet Union and the results there have been mixed at best. Where once the State was the official owner of all capital, the Russian economy is now largely an oligarchic one run by organised crime syndicates and industrialists who are a law unto themselves. The standard of living for many of the poor is worse than what it was during Communism. After the period of privatization instigated by former President Yeltsin, current President Putin is now looking at nationalizing businesses in several key industrial sectors.

Pro-globalists would correctly reply that Russia's problems have less to do with globalization than with ineffective regulation and enforcement of rules and norms. As Russia's economy privatized rapidly, changing their system was not complemented by societal and normative reform essentially for the effective functioning of any free market. President Putin's move to nationalize certain businesses is not a blow for globalization, only a statement about Russian's internal problems. Had Russia instituted the same privatisation reforms under a closed economy, the same problems would occur.

Second, anti-globalists point to alleged unscrupulous and sometimes exploitative behaviour by some multi-nationals in undeveloped economies: running sweat shops, environmental degradation etc. However, instances of such behaviour is hardly evidence that globalization creates poverty. Pointing out instances of such practices as proving a general rule is like arguing that the recent troubles with AWB proves that our economic system is fatally flawed.

Finally, anti-globalists will point out that the unfairness of agricultural subsidies erected by first world economies (especially the U.S., EU states, and Australia) is hypocritical, undermines the supposed globalised system, and contributes to the impoverishment of poorer countries. They are actually absolutely correct but this argument undermines the anti-globalist cause.

Agricultural subsidies cripple the capacity of many developing countries to export many of their few exportable products. One of the best examples is American cotton producers who receive about \$3 billion in subsidies every year. The surplus cotton produced encouraged by this subsidy is then 'dumped' on global markets at a considerable disadvantage to about 10,000 African farmers who cannot compete with price of the dumped U.S. product. To put the issue of first world agricultural subsidies in context, the World Bank estimates that if global agricultural trade was genuinely liberalized, agricultural trade by developing countries would increase their income by about \$150 billion by 2015. The logic of removing agricultural subsidies is precisely the globalization one – freer trade creates better outcomes and reduces poverty.

Conclusion

The argument that globalization is bad, and free trade in particular creates poverty, is a persistent one but one which has very weak foundations. More often, such a stance is really a protest against a more specific issue: perceived American hegemony, unscrupulous behaviour by individual multi-nationals, environmental groups who perceive increased economic activity will worsen environmental degradation in certain areas, groups standing to lose from loss of subsidies and tariffs, and employees fearing that their jobs will be outsourced overseas.

Another way of looking at it is to say that the overwhelming historical record shows that while there are winners and losers from globalization, there are more winners than losers while the inverse is true for closed economies.