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Globalization and Rural Poverty

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Summary. — 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 not only cause many hardships for the rural poor, but it can also open 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.

Key words — absolute poverty, self-employed, wage employed, trade liberalization, globalization

1. THE CORRELATIONS

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 the 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) labor 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, the majority 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 that 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

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relation has been found controversial, [1] while the latter is sturdier. 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 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, that is, a 1% increase in real per capita income has been associated with a reduction in the headcount incidence of poverty by 2%—is somewhat limited, as the underlying causal model is underspecified. Also, the value of 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 during 1981–2001, the percentage of rural people living below an international poverty line of $1.08 per day (at 1993 purchasing power parity) declined from about 79% [2] to about 27% in China, from about 63% to about 42% in India, and 55% to 11% 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 occurred by mid-1980s, before the big strides in foreign trade or investment. [3] Similarly, rural poverty reduction in India may be attributable to the spread of Green Revolution in agriculture, large anti-poverty programs or social movements in India, and not the trade liberalization of the 1990s (in fact as we will discuss later, there is some evidence of trade liberalization slowing down poverty reduction in India). In Indonesia [4] 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 during 1981–2001 (note that by early 1980s the oil boom was largely over and by 2001 the economy had 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 (2004) have estimated, during 1981–2001 the percentage of people [5] living below the poverty line of $1.08 per day (at 1993 purchasing power parity) increased in sub-Saharan Africa from about 42% to about 46%. 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.

2. THE POOR AS SELF-EMPLOYED WORKERS

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. In the rest of this section, I shall discuss the self-employed poor, and the next section will be on the poor as wage earners and as consumers. Section 4 will be on the poor as recipients of public services or users of common property resources. Section 5 concludes.

The self-employed work on their own tiny farms or as artisans and petty entrepreneurs in small shops and household enterprises. The