Globalisation and rural poverty

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Abstract: This paper surveys the effect of globalisation on rural poverty. It challenges the presumption of a positive relationship between globalisation and welfare of the poor. The forces of change through globalisation and liberalisation are seen to influence the welfare of the rural poor through their influence on productivity, growth, income distribution, technologies, security of livelihoods, and national policies. Globalisation has both debit and credit entries: large potential benefits, for example from accelerated growth, but also the real danger that the rural poor will be left out, for example they will not have access to the knowledge and other assets necessary for success in a commercial world.

Keywords: poverty; entrepreneurship; globalisation; liberalisation; free trade.


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1 Introduction

Even with their weak integration into economic life, the rural poor cannot escape the tides of change lapping on the shores of their national economies and their agricultures. The forces of globalisation, commercialisation and liberalisation are strong and intrusive.
They affect the rural poor in many ways. However, relatively little research has been conducted on these effects.

The following section of the paper explains the conditions of the rural poor in the changing environment, together with the overall effect of globalisation. Next, the specific effect of globalisation on the rural poor will be examined. The concluding section explains the reasons why the often-stated theoretical assumption of a positive relationship between globalisation and welfare of poor is not well supported.

2 Globalisation and the rural poor

2.1 Rural poor in changing environment

The changing global environment raises questions about the ability of traditional, small-scale agriculture to share the potential benefits offered by the changing environment. The rapid (though declining) population growth, coupled with even faster urbanisation, creates increasing demands for feeding the towns. In developing countries, urban populations in general grow about twice as fast as the overall total, and by 2020 they are expected to exceed the size of rural populations (Pinstrup-Anderson et al., 1999). Such a major demographic trend challenges the capacities of some traditional farming systems to cope with the increasing demands. In addition, land is gradually degrading due to these increasing demands, the pressures of rural population growth, and the sometimes slow rate of technological progress. Climate changes as well as extreme weather and natural disasters create further uncertainty, stress and vulnerability among the poor.

There have been considerable shifts in the world’s demand for agricultural goods. This is evident by the rapid growth in industrial countries’ demand for exotic fruits and vegetables, but also by a less noticed ‘livestock revolution’ (Delgado et al., 1999). Demand for meat is increasing at a considerable rate, which results in increased demands for the cereals used as animal feed. Whilst these shifts create some new possibilities for farmers in developing countries, they also raise questions regarding the welfare of those who cannot adapt fast enough.

2.2 Globalisation

‘Globalisation’ refers to the growing interdependence of the world’s economies, particularly the huge increase in capital movements and the rapid growth of world trade. Countries of the world are becoming interdependent on each other, one way or another. Production is becoming increasingly internationalised, with the rapid expansion of multinational corporations. The decrease in informational and communication costs due to information technology revolution has fostered this increased interdependence. These forces, in conjunction with the policies of international financial institutions, have influenced national governments’ economic policy formation.

Policies favouring globalisation were always expected to foster economic development and they have met with some success in this regard. According to data from the United Nations (UN, 2000, Table I.1), the world GDP grew at 2.5% p.a. in 1990–2000 and world trade at 6.4%. There has been a related decline in trade protectionism, with industrial countries’ tariff rates declining from an average of about 12% in 1960 to under 3% in the 1990s (IMF, 1997). There has also been an increase in
the level of participation of developing countries. For example, the number of developing countries accepting the obligations of World Trade Organisation (WTO) grew from 61 in 1980 to 110 in 1990. However, the expansion of agricultural trade has lagged behind. This reflects the lower-income elasticities of demand for primary goods. Accordingly, agriculture’s share of total world trade has been falling. Nevertheless, agricultural exports have grown a lot faster than world agricultural output, so here too globalisation is a fact. According to the WTO (2000, Table A1), world agricultural production grew at 1.9% p.a. in 1990–1999, while agricultural exports grew at 3.6%.

Agriculture trade liberalisation has so far made limited progress. Simply inserting agriculture into the mandate of WTO during the Uruguay Round of Trade Negotiation was regarded as a major achievement, even though the resulting freeing of agricultural trade was slight. Reluctance was shared by many developing as well as industrial countries regarding the insertion of agriculture into the mandate of WTO (Ingco, 1997).

2.3 Globalisation: a threat or a promise

There are two schools of thought regarding globalisation, as is evident from a comparison of the following two statements:

“Globalisation offers developing countries the opportunities to create wealth through export-led growth, to expand international trade in goods and services, and to gain access to new ideas, technologies and institutional designs.” (Solimano, 1999)

and

“Globalisation means decreasing national control and increasing control over the economy by outside players, most significantly foreign banks. It also means putting agriculture in the hands of modern technology owned and controlled by large multinational corporations whose primary interest is to generate profits for themselves, and not the welfare of the people, or something as social-oriented as food security.” (Tandon, 1999)

The existence of such wildly differing assessments of globalisation is not a new phenomenon. It was further underlined by the riots accompanying the December 1999 opening in Seattle of the WTO’s Millennium Round of trade negotiations. Some economic arguments imply that trade liberation should be favourable to the poor in developing countries. Since these countries generally have an abundance of unskilled labour relative to other factors of production and relative to developed countries, free trade should increase global demand for exports from developing countries, through utilisation of the cheap labour. This would result in increasing employment, raising wages and reducing poverty. However, the reality seems otherwise and must therefore be explained differently.

3 Effect of globalisation on rural poverty

Since globalisation is a macro-concept and rural poverty is a micro-concept, occurring at household and individual level, it is very difficult to establish causal linkages, or to quantify the specific effects of globalisation on rural poverty. However, it is possible to
identify a range of different channels through which various aspects of globalisation can be expected to change the welfare of rural poor.

3.1 Productivity and efficiency effect

Globalisation is often said to result in higher productivity, due to the access to global markets, abilities to specialise, and to take advantages of economies of scale and scope. Exposure to the global competition can result in high levels of productivity and efficiency. These potential benefits are particularly handy for small economies with limited internal markets, which include virtually all the least developed countries and a high proportion of other developing countries.

However, it is less crucial for large economies like China and India. Again, in principle, the potential gains to agriculture are also large, because globalisation enhances countries’ abilities to exploit comparative advantages arising from differing natural and ecological conditions.

These theory-based predictions of greater productivity and efficiency receive some support in the empirical literature. For example, a recent study by Miller and Upadhyay (2002) found total factor productivity to be strongly and beneficially influenced by openness.

At the level of national policy, these arguments seem to favour globalisation. Still, it is very easy to see how the rural poor could still lose out. The rural poor seek to reduce the risk inherent in farming by means of diversification of their livelihood, not specialisation. This is true in most case due to the lack of affordable insurance facilities in rural areas. In addition, those who have land usually have either small plots or larger areas of low-quality land, whilst many face growing problems of water supply.

There are many other factors which place small-scale farmers at a disadvantage. Most of them, especially in Africa and Asia, lack access to the technologies and market information that would enable them to comply with quality specifications and effectively respond to emerging opportunities. They rarely have access to credit and the other financial services necessary to compete in modern world. Many face high transportation and input costs that further reduce their ability to compete. Additionally, there are some whose cultures place greater value on the maintenance of traditional ways of life, rather than on material success in a competitive world.

Apart from these disadvantages, there is wider question of whether the economic and institutional infrastructures, and the structure of policies, are favourable for small farmers to succeed in international competition.

Table 1 shows the extremely varied extent to which developing regions have participated in the expansion of world trade. East Asia is revealed as doing best, with an 85% increase in its trade share in 1983–1998. Asia also comes out to be positive, on the basis of much improved performance in recent years. The Middle East and North Africa, by contrast, is shown as having lost nearly three-quarters of its share in world exports.
Table 1 Changing shares in world merchandise exports, 1983–1998 (%)

<table>
<thead>
<tr>
<th>Low- and middle-income countries</th>
<th>1983</th>
<th>1998</th>
<th>Change in share</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>5.5</td>
<td>10.2</td>
<td>+85</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>5.6</td>
<td>5.2</td>
<td>–7</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>6.8</td>
<td>1.9</td>
<td>–72</td>
</tr>
<tr>
<td>Asia</td>
<td>0.8</td>
<td>1.0</td>
<td>+25</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>2.8</td>
<td>1.4</td>
<td>–50</td>
</tr>
<tr>
<td>High-income countries</td>
<td>72.6</td>
<td>75.4</td>
<td>+44</td>
</tr>
</tbody>
</table>

Source: Computed from World Bank (1999a) and (2001), Indicator Table 20.

In short, globalisation presents real dangers to the rural poor, to set against the possible advantages for the wider economy. One important factor, which will influence the outcome, is the extent to which they are able to participate in cash crop production and to develop a niche market, where low labour costs and specific agro-ecological conditions weigh more heavily than modern technology and scale economies.

3.2 Economic growth effect

As already noted, the fundamental argument in favour of globalisation is the positive link between globalisation and overall economic growth. The two obvious reasons for this are the possibilities of export-led growth and investment resulting from increased access to world savings. Other potential benefits include improved access to foreign technology and managerial expertise.

There have been varied views concerning the connection between trade openness and gross domestic product (GDP) growth, and this has given rise to a large body of empirical literature, suggesting positive relationship between trade openness and GDP growth. Edwards (1998) concludes that greater openness accelerates economic growth, and that large departures from free trade dampen it. The evidence suggests that liberalising countries outperform those who failed liberalisation attempts (Michaely et al., 1991). In contrast, Helleiner (1986) suggested that a certain level of national development is necessary before the objective of export-led growth can be realised.

One reason for these results is that the economies, which are more open, tend to enjoy high private investments, particularly foreign direct investment (FDI). Other things being constant, openness attracts foreign capital, and the evidence suggests that the growth-enhancing effects of FDI exceed those of domestically-financed investment (Balasubramaniam and Balasubramaniam, 1996). These effects can be quite large because of the rapid growth of FDI associated with globalisation: total flows to all developing countries grew from US$ 24 billion in 1990 to US$ 163 billion in 1997 (World Bank, 1999a). When FDI is expressed relative to GDP, the regional discrepancies are less striking. Table 2 shows the averages of FDI inflow into the regions of the world, as a percentage of GDP during 1990 to 1996. As readers are undoubtedly aware, these investments have been concentrated on a limited number of countries, particularly China and East Asian countries and some of the more advanced Latin American countries.
Table 2 Average FDI inflow as percentages of GDP, 1990–1996

<table>
<thead>
<tr>
<th>Areas</th>
<th>Average FDI as percentages of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>3.5</td>
</tr>
<tr>
<td>Africa</td>
<td>1.9</td>
</tr>
<tr>
<td>Middle East and Europe</td>
<td>3.6</td>
</tr>
<tr>
<td>Western Hemisphere</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: IMF (1997), Chart 35.

Overall, the evidence indicates that openness promotes faster growth. Still, the question remains as to what might this do for the rural poor, particularly as little FDI flows into agriculture, least of all small-scale agriculture.

The evidence here is strong and points to the benefits for the poor. Changes in income of poor (income poverty) can be broken down into the effects of change in GDP and changes in income distribution. Roemer and Gugerty (1997), using a sample of 61 observations drawn from 26 developing countries, found a roughly one-to-one relationship between overall growth in per capita GDP and changes in the incomes of the poorest 20% to 40% of the population.

The income of the poor fell in the economies experiencing the periods of declining per capita GDP. Lundberg and Squire (2001) provide evidence of a strong positive effect of openness on growth. They also found that, when growth and inequality were examined simultaneously, GDP growth was far more controllable by manipulation of policy changes than income inequality. Fields (1989) found from a sample of 18 developing countries that in only one case the growth was not associated with falls in income poverty. The World Bank (1995, p.45) similarly found growth to be the most significant influence on changes in income poverty. Some studies suggest that the incomes of the poor may rise less than others (Demery et al., 1995), but most evidence suggests that the poor are substantially included in improvement from growth.

To summarise, the effect of globalisation on rural poverty depends upon the changes in GDP and changes in income distribution. The evidence suggests that the poor overall are substantially included as beneficiaries from economic growth. However, the extent of inclusion varies internationally. As discussed earlier, free trade and openness results in faster growth.

Growth might be expected to specifically benefit the rural poor to the extent that the agricultural sector is included in the economic expansion. In fact, there is little evidence that trade expansion in developing countries has actually taken this form (World Bank, 2001).

3.3 Technological effect

Transfer of technology is one of the prominent features of globalisation and one of the major reasons for predicting improved growth. The term ‘Green Revolution’ refers to dramatic increases in cereal-grain yields in many developing countries, beginning in the late 1960s, due to the use of genetically improved varieties. It resulted in raised incomes of farmers and an increased demand for labour, particularly in Asia. In spite of this, there remains controversy about the distribution of Green Revolution technologies. Without doubt, many formerly poor farm workers and farmers saw major improvements in their
livelihoods, but the improvements were in a very limited area and to a very limited number of people.

The focus today is on the potentials and dangers of biotechnology. In principle, the benefits here too can be large (Pinstrup-Andersen et al., 1999). The benefits can be from raised productivity, reduced risks from drought and pests, as well as lower food prices. The latter are particularly important for the poor who typically spend a high proportion of their income on foodstuffs.

Biotechnology research has been most relevant to the problems of high-income countries, with small spill-over benefits for some of the relatively advanced developing food-exporting countries (ISNAR, 1996). The benefits tend to be specific to particular environments, conditions or markets, or to those who possess expertise not commonly possessed by poor small-scale farmers (Maxwell et al., 2001). A small number of multinational corporations are carrying out much of the research. There has been a general focus upon the problems of farmers in rich countries, with little attention being paid to developing countries’ basic food crops and the problems of their small farmers.

Within developing countries, the Green Revolution focused particularly on raising yields in irrigated and high-potential areas, but excluded or ignored regions lacking the necessary water supplies. The crops to which it applied and the technologies which it required, meant that it had little application in much of Africa. With the current biotechnology revolution, similar issues arise.

3.4 Distributional effect

A recent study (Hanmer and Naschold, 2000), sampling 58 countries, found that the growth-poverty elasticity in low inequality countries was –0.93 (1% increase in GDP would result in nearly equal proportionate reduction in poverty), whereas the elasticity was only –0.34 in high inequality countries. Thus, the elasticity of poverty with respect to growth has been found to decline with the extent of inequality, resulting in a widening gap between rich and poor. Further evidence suggests that inequality is also bad for overall economic growth (World Bank, 2001). Initially severe income disparities, hence work against poverty reduction both by slowing the expansion of incomes and by indicating conditions, further increase the inequalities.

Overall, there is evidence that global inequality has been increasing throughout the last decade. Milanovic (1999) reported widening global disparity for 1988–1993 based on household survey data. Milanovic points out that his results are heavily influenced by the slow growth of rural incomes in populous Asian countries, combined with rapid urbanisation in China. Thus, there can be a negative effect of globalisation on inequality and ultimately on poverty reduction.

Whilst it is not possible to gauge the overall effect of globalisation on the level of inequality, the effect on women in LDCs is less ambiguous (White and Killick, 2001; World Bank, 2001). Many women are hampered from benefiting from the changes arising from globalisation. They have less access than men to education and training, less time to devote to productive activities, less command over important resources such as land, credit and capital. In some developing countries, the sexual division of labour precludes women from income derived from cash crops. In addition, they also have less incentive to respond to economic signals, since they are likely to have less control over any income.
3.5 Transformational and insecurity effect

Poverty is not always directly related to income. It can also refer to an intense level of insecurity. There is a large-scale movement of people in and out of income poverty, which itself creates a sense of insecurity. Many times those who have managed to improve their position are pressed back down again by natural disasters, inflation and other shocks.

Some aspects of globalisation increase such problems. Globalisation is generally associated with accelerated pace of change in economic life and increased competitive pressures. This requires a speedy adaptation, which may simply be outside the range of those with few modern skills or other assets. As indicated earlier, globalisation is linked to increased specialisation, but this, for all its advantages, increases risks for farmers by pushing them to ‘play all their cards’. These factors are further compounded by the transformational and insecurity effect due to volatile environment.

Greater financial interdependence amongst national economies, resulting from globalisation, has the effect of transferring or spreading shocks from one nation to another. This can be seen from the financial crisis in Russia in 1988 which affected the rest of the world, leading to a global slowdown. The enormous cross-border movements of highly mobile financial capital, and the difficulties of regulating this have resulted in the tendency for financial shocks to spreading around the world.

Many of these shocks coming from the rest of the world hit the urban sector hardest. Still, there are a number of channels through which the effect is transferred to the rural poor. These include reduced remittances from relatives in the towns, return of unemployed migrants who then compete for work in rural markets, etc. The same problems were seen in the Asian case, which, were then compounded by governments cutting back on social spending and rural infrastructure (World Bank, 1999b). Among the consequences in Asia were a marked decline in rural saving, with an increase in loan default, which, in turn, reduced the villagers’ access to credit that might have helped tide them over.

Despite this, there are situations where the development in the agriculture sector, stimulated by globalisation, has been a potent way of reducing insecurity of food and livelihood. This was demonstrated most clearly in the East Asian case, where the crisis in the 1990s was quite short-lived, and the impact on poverty and employment was less dramatic than originally feared. There has been a strong recovery throughout the region, even in Indonesia, which according to the IMF (2000) has the largest structural weakness.

3.6 Policy

Governments of many developing countries have, in a sense, discriminated against agriculture and those who depend upon it for livelihoods. This ‘discrimination’ has typically taken the form of overvalued exchange rates, state trading monopolies for domestic and external marketing of agricultural commodities. Additionally, the revenues from commodity exports have been used for the growth of civil services and urban development, rather than reinvestment in agriculture. Results of studies by Schiff and Valdes (1992, 1998) are shown in Table 3:
Table 3  Direct and indirect taxation/protection of agriculture (percentage)

<table>
<thead>
<tr>
<th>Area</th>
<th>Indirect protection</th>
<th>Direct protection</th>
<th>Net total protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa &amp; middle east</td>
<td>–24.6</td>
<td>–21.7</td>
<td>–46.3</td>
</tr>
<tr>
<td>Asia</td>
<td>–22.8</td>
<td>–2.5</td>
<td>–25.3</td>
</tr>
<tr>
<td>Western hemisphere</td>
<td>–21.3</td>
<td>–6.5</td>
<td>–27.8</td>
</tr>
<tr>
<td>Sample means</td>
<td>–22.5</td>
<td>–7.9</td>
<td>–30.3</td>
</tr>
</tbody>
</table>


Source: Computed from Schiff and Valdes (1998, Table 3).

Africa and the Middle East are recorded as having by far the most biased policies, but all three regions were penalising their agriculture sector through the mid-1980s. The most extreme in the sample was Ghana where, from 1958 to 1976, net negative protection came out to be 60%, due to a combination of indiscriminate industrial protection, massive currency over valuation and heavy taxation of cocoa exports.

It can be argued that the various structural reform policies associated with globalisation have been intended to reduce such biases. Yet there remains the wider issue of the impact of structural reforms on the poor (Sahn, 1996; White, 1997; World Bank, 2001). The net impact of reform packages on rural populations has been ambiguous. Reardon et al. (1999, p.389) suggested that an excessive focus on macro-level reforms ‘has simply laid bare underlying structural weaknesses in rural markets’.

The influence of reform programmes on economic performance can also be seen as a function of the extent to which they have actually been implemented. A high proportion of IMF programmes get terminated before the end of their intended life and on average, World Bank programmes have taken twice as long to complete as intended (Killick, 1998).

4 Conclusion

Having surveyed a range of different channels through which the forces of change from globalisation of the wider economy affect the welfare of rural poor, it is clear that there are many credits and debits. There are potential benefits, for example from the rapidly expanding market for exports. In addition, there are benefits from more productive resources, improved access to technology, and related policy improvements. Against these, there are very real dangers that the rural poor will be left behind. They may not have access to knowledge and other necessary assets for success in an increasing competitive world.

At this point, we might look back at the theoretical presumption that trade liberalisation will be favourable for the poor, especially in developing countries as they have an abundance of unskilled labour relative to other factors of production. Freer trade should increase global demand for developing country exports, resulting in increasing employment, rising wages and reducing poverty. However, the reality is much more complicated. From the above discussion, we can see certain explanations for this partial failure of the reality to match those theoretical expectations.
Globalisation and rural poverty

Within many developing countries, agricultural trade liberalisation has so far been achieved only to a very limited extent. Industrial protectionism and other anti-agricultural biases persist. Any residual tendency for the forces of globalisation to favour developing country labour-intensive agriculture tends to be neutralised by technological progress.

A variety of factors prevent the rural poor from responding as well as they might to market opportunities and intensified competition: poor information, weak institutions, poor infrastructure, and inadequate control over assets. Heightened instability and uncertainty prevent general economic progress from being translated fully into improvement in the welfare of the poor.

Acknowledgement

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**Notes**

1Elasticity = % change in (x)/% change in (Y).

2Growth poverty elasticity = % growth/ % increase in poverty.