



The Impact of Globalization on the World's Poor: Transmission Mechanisms

Machiko Nissanke and Erik Thorbecke (eds)

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It seems self-evident that the increasing integration and interdependence of the world economy has contributed to the global wealth. However, the debate as to whether globalization alleviates or aggravates world poverty remains divided. The present collection of 12 papers, presented at a conference organized by the World Institute for Development Economics Research of the United Nations University in Helsinki in 2004, aims to analyze and assess the links between both phenomena: globalization and poverty.

The editors summarize these different transmission channels in the Overview (Chapter 1). The book starts with the topic of income inequality, the ‘major filter between growth and poverty’ (p. 7), continues with describing its incidence in rural areas and manufacturing industries, and concludes with discussing the impact of globalization on the poor through their economic vulnerability, perception of insecurity and institutional settings. As economists, the authors understand poverty essentially in terms of income and focus on the economic dimension of globalization. However, the editors’ intent differs from the dominant macro approach to globalization by their emphasis on case studies, which they expect to provide a better insight into the economic mechanisms than traditional cross-country regression analysis.

The review of knowledge on the openness–growth–inequality–poverty nexus by Machiko Nissanke and Erik Thorbecke (Chapter 2) is well organized and constitutes a good introduction to the problem, namely for students who will appreciate its relation to the theories of international trade. The authors argue convincingly that the *pattern* of globalization, and not merely its intensity, determines the final effect on the poor. This thesis can be extended to the rest of the book. Unfortunately, the following study (Chapter 3) illustrates the limits of the traditional macro approach. Almas Heshmati draws conclusions from a cross-country regression analysis of an arbitrarily created politico-economic index of globalization and indicators of national inequality and poverty. He finds ‘weak evidence that globalization reduces poverty’ (p. 89), but the sample of 62 countries includes only three of the 50 least developed countries. Thus, the claims on poverty are based on the preponderant observations of rich countries, which perpetuates the Northern economists’ bias.

In spite of its flaws — to some extent, Heshmati is aware of them — the results of the model underline the priority of the regional factor in agreement with the study by Adriaan Kalwij and Arjan Verschoor (Chapter 4). They decompose the effect of growth in income and inequality, and, on the basis of household surveys, they conclude that growth reduces poverty (as measured by the USD 2 per day line) differently in different regions. For example, in Sub-Saharan Africa, growth translated in terms of rising income inequality and the number of the poor remained unchanged. The capacity of



economic growth to help meet the Millennium Development Goals has been largely overestimated in other regions as well.

The regional discrepancies turn our attention to domestic policies. Another widespread belief is challenged by Martin Ravaillon (Chapter 5). He argues that the massive poverty reduction in China during the 1980s resulted from agricultural reforms rather than exports. The overall impact of China's WTO accession on poverty appears to also be negligible, and a case study from Morocco shows that 'the losses to the net producers of cereals outweigh the gains to the net consumers among the poor' (p. 137) so that it is principally the urban population that profits from globalization.

Indeed, the multiple roles of the poor as producers, consumers and users of public services stand at the origin of the heterogeneous effects provoked by the trade liberalization. In a typically rich and holistic analysis (Chapter 6), Pranab Bardhan explains that rising profits in one market can be easily wiped off by deformations in other markets or public sectors. Bardhan seems to be the only author to point out that it may be *less* globalization that hurts the poor because the rich countries impose tariffs on agricultural products and oligopolies increase the gap between domestic and international prices. Therefore, he recommends for anti-globalizers to focus more on anti-trust than anti-trade measures. In spite of the continuing depletion of natural resources, he is the only author to include the environment in his analysis.

Another transversal, yet important, issue is the one of the different effects of globalization on women and men. They are mentioned by Rhys Jenkins alone (Chapter 7), who identifies the winners and losers in global value chains in four Asian and African countries in an outstanding macro-meso-micro study. He concludes that the effects in the garment industry and horticulture are diverse: while the skilled workers benefit the most from involvement in export industries, the unskilled ones, especially, are worse off when foreign imports suppress domestic production and destroy jobs, like in the case of South Africa.

The contributions of the next two chapters are quite limited. Jinhua Zhao (Chapter 8) advocates for public support to the new but risky technologies among the rural poor, but his analysis lacks examples. Pierluigi Montalbano *et al.* (Chapter 9) observe a statistical correlation between volatility of trade and income of the poor in Central and Eastern Europe during the transition period, but the chapter surely does not present a 'substantive contribution to the debate on the globalization and poverty nexus' (p. 222), since it ignores the specificity of the transition from centrally planned economies.

Carol Graham's outlook in the 'economics of happiness' (Chapter 10) is quite a disturbing one, at least for an economist. She observes that according to surveys on well-being, the responders are not necessarily happier, even though their income increases over time. Many of those who succeeded see their situation as bad as that of those who are impoverished. Long-time surveys from Peru and Russia present unquestionably interesting data on social mobility during adjustment and transition, but their interpretation would certainly deserve a confrontation with a qualitative type of research.

Institutions as filters between globalization and poverty are studied by Alice Sindzingre (Chapter 11). While economic institutions change quickly, political and social institutions are more stable and the profits from globalization may be captured by rent-seeking elites. Institutions can even maintain poverty traps. She asserts that it is the



political economy of a country that determines the outcome of liberalization. This is consistent with the high regional context-sensitiveness already underlined by the co-authors of the book. The chapter would largely benefit from case studies. As such, it is too general and does not provide many operational concepts.

The book concludes in a strongly normative stance with Kaushik Basu's suggestion to change the economic focus from the total gross domestic product (GDP) to the GDP shared by the poorest 20 percent of a population (Chapter 12). Alongside the 'quintile axiom,' he argues that poverty reduction requires an optimal level of social inequality, which is, however, difficultly attainable as policy-makers in different countries are placed in a 'Prisoner's Dilemma' situation: countries cannot reduce inequality separately because they would lose investors and skilled workers. Hence, he claims that an international organization should address this coordination failure.

In sum, the economic approach to both globalization and poverty is both the main strength and the main weakness of the book. Economists will appreciate the wideness of approaches and will acknowledge that the links between liberalization and poverty reduction are far from being straightforward: growth is not inequality-neutral, and it can even hurt the poor, meaning that globalization cannot replace national development policies. Other social scientists will praise the strong accent on the micro-level, but they will have difficulties in accepting income as the sole measure of poverty and will criticize the imperfection of the data and a blindness to gender and the environment.

The authors' final recommendation is first to liberalize and, at the same time, to set up a safety net for the losers: 'Passive liberalisation may lead to marginalization' (p. 47). Next, they suggest that to make globalization truly pro-poor, an international organization should redistribute the gains worldwide more equally. This is a strong message for global policy-makers: if the economic impacts of globalization on the poor are context-dependent, as most of the authors in the book contend, the corresponding policies of the international organizations and of governments should be so as well.

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World Democratic Federalism: Peace and Justice Indivisible

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The book *World Democratic Federalism: Peace and Justice Indivisible* by Myron J. Frankman belongs to the sphere of literature dealing with the theme of globalization