

## GLOBALISATION AND POVERTY: POTENTIALS AND CHALLENGES

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### *Introduction*

Globalisation is the defining socio-economic characteristic of our time (Khor, 2000). Time and space are shrinking and many borders are disappearing, giving rise to an increasing interdependence between economies, between cultures and between people.

This latest historical stage has created new opportunities and raised new hopes for the developing world. Technological innovations, expanding trade and increasing foreign direct investment offer enormous potential to eliminate poverty in the century that has just started (UNDP, 1999).

Until now, however, globalisation has been driven by the expansion of markets, leading to increasing levels of inequality in income, resources and opportunities. It has benefited only one fifth of the world's population, while marginalizing the rest.

This paper analyses the impact of globalisation on human poverty and income distribution within and between countries. While the record so far has not been too bright, the paper argues that globalisation – if organised differently and managed in favour of the poor – can lead to human development for a majority of the world's population in the near future.

The paper is organised as follows: Section 1 discusses the main components of the process of globalisation and some of its potential benefits; Section 2 studies the impact of globalisation on human poverty and income inequality in the world over the last few decades; Section 3 proposes some measures that are needed to manage globalisation in favour of the poor.

## 1. GLOBALISATION: DEFINITION, CAUSES, AND POTENTIAL BENEFITS

### 1.1 *Definition and main characteristics*

Many economists see the current process of globalisation as the continuation of a long process of increasing interaction between nations and between people in the world economy. Sachs and Warner (1995, p. 5), for example, argue that 'the re-emergence of a global, capitalist market economy since 1950, and especially since the mid-1980s, in an important sense re-establishes the global market economy that had existed one hundred years earlier'.

The current process, which started with the collapse of the Bretton Woods System in the early 1970s has, however, important particularities that make it historically unique (UNDP, 1999). First and foremost, the astonishing volume of international financial transactions and its increasing independence from real economic operations are major defining characteristics of the current process of globalisation that distinguish it from other periods of capitalist development. Second, new actors have emerged, from Transnational Corporations (TNCs) to the WTO. With new rules and norms, they play a leading role in shaping the global economic environment. Third, faster and cheaper means of communication have been created.

### 1.2 *The internationalisation of financial transactions*

Globalisation at the end of the twentieth century is primarily 'economy- and finance-led' (Malhotra, 1997, p. 1). This economic process can be described as a situation of 'economic interdependence between countries where cross-border linkages among markets and production and financial activities have reached such an extent that economic developments in any one country are influenced to a significant degree by policies and developments outside its boundaries' (Milberg, 1998, p. 71). As such, it has three different dimensions: increasing trade flows, increasing foreign direct investment (FDI) and increasing financial flows.

#### a) *Increases in trade flows*

In the last twenty-five years, world trade has grown much faster than world GDP (figure 1). As a result of this unprecedented expansion, world export flows increased from 12.1% of world GDP in 1985 to around 20% in the late 1990s, reaching \$7 trillion in 1998 (UNDP, 1999).

This dramatic growth of international trade has been mainly caused by the liberalisation policies that most developing countries have implemented

in the last twenty-five years. It has also been facilitated by the expansion of Transnational Corporations (TNCs): the number of TNCs increased from 7,000 in 1970 to 37,000 in the early 90s, reaching 44,000 with 280,000 foreign affiliates in 1996 (Malhotra, 1997). The substantial reduction in transport costs, in the case of air transportation by more than 50% since 1950 (Milberg, 1998) also contributed.

World trade is not only much larger than ever before but it has also experienced important *qualitative changes* (Krugman, 1995). First, there has been a rise of intra-industrial trade, that is, of exchanges of similar goods between similar countries. Second, production is now organised on a global scale with the production process broken into many geographically separated stages. Third, 'super-traders' have emerged, countries with extremely high ratios of trade to GDP. Finally, and more importantly, a tremendous expansion of manufacturing exports from some developing countries has taken place.

This last tendency has raised *new possibilities for developing countries*. While this group as a whole saw its share of world exports decrease from

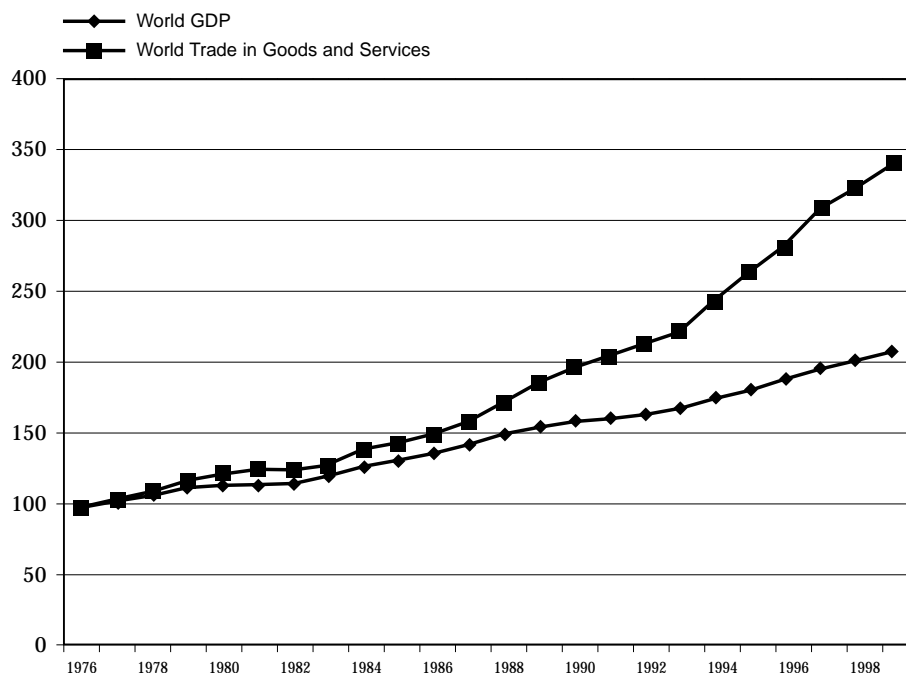


Figure 1. World Trade and GDP, 1976-1999 (1976=100)

Table 1. MANUFACTURES AS % OF MERCHANDISE EXPORTS, 1997  
SELECTED DEVELOPING COUNTRIES AND TRANSITION ECONOMIES

	%	<b>Index (1985=100)</b>
Republic of Korea	92 <sup>a</sup>	106 <sup>a</sup>
Czech Republic	85	--
Argentina	34	160
Poland	73	116
Costa Rica	26 <sup>a</sup>	113 <sup>a</sup>
Mexico	81	298
Malaysia	76 <sup>a</sup>	279 <sup>a</sup>
Colombia	31	182
Thailand	71	188
Ecuador	9	1128
Brazil	54	123
Jamaica	69 <sup>a</sup>	130 <sup>a</sup>
Turkey	75	123
China	85	--
Albania	65	--
South Africa	55	--
Tunisia	78	175
Indonesia	42	325
El Salvador	39	151
Bolivia	16	4,219
Honduras	27	739
Guatemala	30	147
Egypt	40	400
Nicaragua	25	389
India	72 <sup>a</sup>	125 <sup>a</sup>
Pakistan	86	139
Nepal	95	161
Bangladesh	87 <sup>a</sup>	133 <sup>a</sup>

*a. Data refers to 1996*

*Source: UNDP, 1999*

1975 to 1994 (Milberg, 1998), during those years some regions increased tremendously their market shares, especially in manufactured goods. Countries like Botswana, China, the Dominican Republic and the Republic of Korea enjoyed average annual rates of growth in their exports of more than 10% (UNDP, 1999). In fact, export specialisation in primary goods is no longer a defining characteristic of many developing countries (see table 1). Some developing countries have indeed been able to penetrate the highly competitive OECD markets: the New Industrialized Economies of Asia (Korea, Taiwan, province of China, Hong-Kong, Singapore, Malaysia, Indonesia, Thailand) plus China increased their import penetration in OECD manufactures from a level of 0.4% in 1975 to almost 2.6% in 1992 (Milberg, 1999).

b) *Increases in FDI flows*

FDI also increased substantially in the last two decades, reaching \$400 billion in 1997, seven times the 1970s level in real terms (UNDP, 1999). As a result, between the early 1980s and the early 1990s the share of FDI in the aggregate gross capital formation rose by 66% for the world as a whole, by 75% for developing countries (Milberg, 1998).

One of the positive characteristics of FDI expansion has been the increasing participation of developing countries. Their share in net FDI flows rose from an annual average of 17% in the period 1987-1992 to 24% in 1998 (see figure 2). As will be discussed in the next section, this increase was very unevenly distributed among countries: 85% of the direct investment that went to developing countries in 1998 was concentrated in only twenty countries, most of which enjoyed very high average annual rates of FDI inflows between 1985 and 1997 (see table 2).

c) *Increases in other financial flows*

A plethora of examples can illustrate the acceleration in the number and volume of exchanges of all kinds of financial assets:

In 1973, the volume of foreign exchange traded daily in the world market ranged between \$10 and \$20 billion, while the ratio of foreign-exchange trading to world trade did not exceed 2/1 in any single day. By 1980, however, these numbers had increased to \$80 billion and a ratio of 10/1 respectively. By 1992, daily trading averaged \$880 billion (ratio to world trade of 50/1) and by 1995 it had reached \$1,269 billion – an amount equal to seventy times the value of world trade or to the entire world's official gold and foreign exchange reserves (Eatwell and Taylor, 2000).

Between 1983 and 1993, annual sales and purchases of US Treasury bonds in the world market increased from \$30 billion to \$500 billion (Eatwell and Taylor, 2000). In the United States alone, the total volume of financial transactions between residents and non-residents was \$66 billion in 1975, \$251 billion in 1980 and almost \$5,500 billion in 1989 – more than fifty times the net FDI to the United States in that same year (Milberg, 1999).

International bank lending grew from \$265 billion in 1975 to \$4.2 trillion nineteen years later (UNDP, 1999).

The expansion of financial operations has coincided with the introduction of new financial instruments such as note-issuance facilities, swaps, options and forward rate agreements. The outstanding contracts in exchange financial derivatives (including both interest rate and currency futures and options) reached about US\$ 5,000 billion during the early 1990s.

Developing countries have been active participants in the expansion of world international financial operations. Net portfolio capital inflows to developing countries increased at an annual average rate of 40% between 1990 and 1998, constituting nearly 70% of the world's net portfolio capital inflows in the latter year (UNDP, 2000). As with FDI, however, such an increase has been concentrated in a very small number of countries; for example, in 1997 twenty developing countries received 94% of the financial flows (UNDP, 1999).

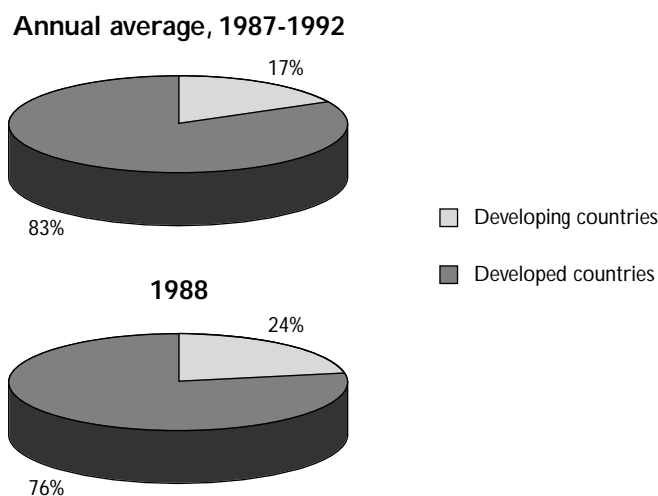


Figure 2. Net foreign direct investment, 1987-1992 and 1998 (US\$ million). *Source: UNDP, 1999.*

Table 2. NET FOREIGN DIRECT INVESTMENT (\$ millions), 1985-1997  
SELECTED DEVELOPING COUNTRIES AND TRANSITION ECONOMIES

	1985	1997	annual av. growth rate
China	1,659	453,000	59.60
Brazil	1,441	16,330	22.42
Mexico	1,984	12,101	16.26
Singapore	1,047	10,000	20.69
Argentina	919	6,327	17.44
Russian Federation	--	6,241	--
Chile	144	5,417	35.30
Indonesia	310	5,350	26.79
Poland	15	5,000	62.27
Venezuela	68	4,893	42.81
Malaysia	695	3,754	15.09
Thailand	163	3,600	29.42
Hong Kong (China)	-140	2,600	--
Colombia	1,023	2,447	7.54
Korea, Rep. Of	234	2,341	21.16
Taiwan, prov. of China	--	2,248	--
Hungary	--	2,085	--
Peru	1	2,000	88.40
Kazakhstan	--	1,320	--

These countries together constitute 85% of FDI to developing countries

Source: UNDP, 1999

### 1.3 *The new actors of the global world*

The *Bretton Woods institutions* strongly shaped the new global economic order through their liberal-oriented policies. Alongside them, new actors like the *World Trade Organisation* (WTO) have emerged. WTO's authority over governments and multinational corporations is not questionable; in addition, it has been a key factor in the multiplication of multilateral agreements on trade, intellectual property and services.

*At the regional and sub-regional levels, new blocks have formed*, with the dual aims of fostering regional integration and of building solid regional blocks – solid enough to stand up to the challenge of globalisation as well as to promote common policies. This has been the case in Africa with the Economic Community of West African States (ECOWAS) or the Southern Africa Development Community (SADC), in Europe with the European Union (EU), and in Asia with the Association of South-East Asian Nations (ASEAN), to name but a few. More importantly, globalisation has graduated from a single phenomenon that one describes to a sort of ideology that one prescribes. Countries are urged to embrace globalisation, to become more market-oriented, to open their economies and to compete on the world markets – all on the argument that this is the only strategy that can help foster economic growth and reduce poverty. One area where such a prescription has yielded impressive results is that of the removal of tariff barriers. In India, between 1990 and 1997, the average rate of import tax dropped from 82% to 30%. In Brazil, over the same period, it fell from 25% to 12%, while in China it went from 43% to 18%. In 1991, 35 countries had modified their regulatory frameworks to make them more in line with the prescriptions of the new policy. In 1995, G8 countries introduced similar changes.

The '*global ideology*' brought in by globalisation is also remarkable in that the quasi-consensus on many issues it has led to has resulted in the adoption of action plans and common goals on the occasion of global summits.

Last, and certainly not least, *civil society* has emerged as a stronger force than at any point in the past, determined but also able to make the voice of the have-nots heard loud and clear. In Seattle, Prague or Washington, D.C., the global networks of NGOs or human-rights activists have ensured that no stone stayed unturned to show to the world that globalisation needs a human face.

Globalisation is not just an economic phenomenon. It is transforming many other dimensions of people's lives. The expansion of telecommunication technologies is multiplying the contacts between different cultures, as a result making people much more aware of other ideas, value systems and ways of life. To illustrate the scope of this expansion, the number of televisions per thousand people nearly doubled between 1980 (126) and 1995 (204), with a higher annual rate of growth in developing countries than in developed ones (Arizpe and Alonso, 1999). Meanwhile, between 1980 and 1991 the world trade in 'cultural goods' (printed material, literature, music, radio and television equipment, etc.) almost tripled, going from \$67 to \$200 (UNDP, 1999).



While cultural integration can be very enriching, its current pattern of organisation (flow of culture and values from rich to poor countries) is disquieting for a majority of people in the developing world. Moreover, the high level of marketization of culture carries the risk of '*reducing cultural concerns to protecting what can be bought and sold, neglecting community, customs and traditions*' (UNDP, 1999, p. 33).

#### 1.4 *The new means of communication*

The invention of the Internet in the early 1990s opened a new chapter in the history of communications and established new bases on which human beings and organisations could be linked. The notions of time, space and distance have been revolutionised. Sending a 40-page document from Madagascar to Abidjan by air would cost an average of US\$ 75 (plus a five-day delay). By fax, the same communication would cost US\$ 45 (plus a 30-minute delay). By email, however, it would only cost 20 US cents, with a one- to two-minute delay. Similarly, while a three-minute telephone call from New York to London would have cost US\$ 245 in 1930, it only cost US\$ 50 in 1960, US\$ 3 in 1990 and less than US cents 50 today.

#### 1.5 *The potential benefits of globalisation for developing countries*

The process of globalisation opens new and exciting opportunities for developing countries. First, the increasing exchange of goods, services and financial resources between developed and developing countries is expected to lead to a *more efficient allocation of world resources* as well as to higher rates of economic growth in all countries. The expansion of exports from developing countries constitutes a powerful new source of effective demand and *job creation*. Meanwhile FDI also has potential positive effects such as expanding technology transfers, increasing production efficiency through the generation of a more competitive environment and rising foreign exchange helping to close the balance of payments gap (South Center, 1997).

Second, the new commercial strategy of TNCs can also work to the advantage of some developing countries (Evans, 1998). The organisation of production in geographically dispersed stages gives rise to the *relocation of some industries* to developing countries and increases developing countries' opportunity to export manufactured goods to the developed world for the first time in history.

Finally, technological innovations in communications and transport make it possible to bring critical *knowledge* to developing countries faster and cheaper than ever before. Information technology can also increase the voice of NGOs and other social groups and thus empower the poor. New technologies make official censorship much harder and improve the productivity and employment opportunities of unskilled labour (UNDP, 1999).

Nevertheless, many of these potential benefits have not materialised so far. While some countries and some segments of the world's population have enjoyed increases in their standard of living, a majority of the developing world has not experienced a significant rise in their levels of human development. The negative effects of globalisation and the policy responses required to eradicate poverty are the issues studied in the rest of this paper.

## 2 IMPACT OF GLOBALIZATION ON POVERTY AND INEQUALITY

### 2.1 *Toward a more encompassing definition of poverty*

Poverty is a multidimensional notion. In order to capture the multidimensionality of poverty, UNDP introduced the concept of human poverty in the *1997 Human Development Report*. Human poverty is defined as 'the denial of choices and opportunities most basic to human development – to live a long, healthy and creative life and to enjoy a decent standard of living, freedom, dignity and the respect of other' (UNDP, 1997).

A key dimension of human poverty is what UNDP calls human security. This concept, introduced in the *1994 Human Development Report*, means that people can exercise their choices safely and freely, confident that they will not lose in the future the opportunities that they have today. Human security has two main aspects: safety from such chronic threats as hunger, disease and repression, and protection from sudden and hurtful shocks in the patterns of their daily life (UNDP, 1994).

The concept of human poverty allows us to reconcile the notions of absolute and relative poverty, to incorporate the notion of vulnerability and to better identify the real impact of poverty on vulnerable groups such as women. It has also been used to construct a new measure of poverty, the Human Poverty Index (HPI), also introduced in the *1997 Human Development Report* (see Box 1.1).

**Box 1.1****UNDP's Human Poverty Index**

The HPI tries to incorporate in a composite index the most relevant dimensions of deprivation in the quality of life: longevity, knowledge and a decent standard of living and participation. For developing countries, longevity is measured by the percentage of people expected to die before age 40 and knowledge by the percentage of adults who are illiterate. A decent standard of living is represented by a composite of three variables: the percentages of people without access to health services and without access to safe water, and the percentage of malnourished children under five. Participation is not measured due to a lack of data. See UNDP (1997).

While the selection of these dimensions and of the corresponding quantitative indicators is a little arbitrary, it is consistent with the definition of the Human Development Index and reflects some of the major concerns of the poor. In various participatory studies done in Asia and Sub-Saharan Africa, the poor included the following criteria for defining poverty and ill-being: being disabled, lacking economic assets, being unable to decently bury their dead, having bad housing, being unable to send their children to school, having food security for only a few months each year, lacking able-bodied family members who can feed their families in a crisis, etc. See, UNDP (1996, box 2.1).

## *2.2 Human poverty in the world during the current stage of globalisation*

Human poverty has been dramatically reduced in the second half of the twentieth century. This reduction has been particularly impressive in many countries of the developing world. For instance, in the last thirty years adult illiteracy has decreased by nearly half and infant mortality by nearly 60% (UNDP, 1997). Since 1965, infant mortality has decreased by half while life expectancy has increased by at least a decade. These trends are reflected in changes in the HPI between 1970 and 1990 (see Table 3).

The reduction in human poverty has also been accompanied by a *decrease in income poverty*. In the developing world, against a background of rapid population growth, the percentage of people that live with less than \$1 a day declined from 34% to 32% between 1987 and 1993, with a particular positive performance in some Asian countries (UNDP, 1997).

Despite the success achieved in terms of overall averages, progress was distributed unevenly throughout the regions of the world in the period between 1970 and 1990. According to the Human Development Report 1997, during the last three decades Sub-Saharan Africa, China, Latin America and Caribbean, and Eastern Europe and the CIS experienced major setbacks in terms of reducing income poverty.

Table 3. TRENDS IN THE HPI, 1970-1990 – SELECTED DEVELOPING COUNTRIES

	HPI, 1970	HPI, 1990	annual av. growth rate
Trinidad	8.9	4.1	-3.8
Chile	13.2	5.4	-4.4
Costa Rica	15.0	6.6	-4.0
Argentina	16.7	...	...
Panama	17.4	11.1	-2.2
Mauritius	19.4	12.5	-2.2
Peru	28.0	22.8	-1.0
Mexico	29.5	10.9	-4.9
Kuwait	32.0	...	...
Thailand	34.3	11.7	-5.2
Sri Lanka	35.3	20.7	-2.6

Source: Rao, 1999a (original source Human Development Report Office, UNDP).

The situation therefore remains very distressing (all the following examples come from UNDP, 1997 and 2000).

Although the number of people living with less than \$1 a day fell as a percentage of the total population between 1987 and 1993, it increased in absolute numbers by 100 million (from 1.2 billion to 1.3 billion). Against what is maybe a more meaningful income poverty line in today's world, half of the world's population lives on under \$2 a day.

In 1997, more than 800 million people did not get enough to eat, more than 500 million were *chronically malnourished* and a billion lived without adequate *shelter* or in inadequate housing;

In 1998, nearly 15% of people in the developing world did not expect to survive the age of 40, 27.6% of adults (those 15 years and older) were illiterate, 56% did not have *access to sanitation* and 31% of the children under five were *underweight*.

In 1997, 800 million people did not have *access to health services* and 1,200 million did not *access to safe water*. There were still 40 million

Table 4. TRENDS IN INCOME INEQUALITY, 1980-1995 – SELECTED DEVELOPING COUNTRIES

	Period	Gini coefficient annual change over the period
<b>Sub-Saharan Africa</b>		
Ghana .....	1988-92	-1.42
Nigeria .....	1986-93	0.17
Tanzania .....	1977-93	-0.90
Uganda .....	1989-92	7.31
Zambia .....	1976-91	-1.05
Zambia .....	1991-95	4.76
Leshoto .....	1987-93	0.29
Mauritius .....	1980-91	-1.98
<b>Asia</b>		
Bangladesh .....	1983-92	-2.65
China .....	1982-90	2.32
India .....	1972-77	0.18
India .....	1977-92	-0.02
Pakistan .....	1979-85	0.06
Pakistan .....	1985-91	-0.67
Sri Lanka .....	1979-87	1.02
Indonesia .....	1978-90	-1.27
Malaysia .....	1970-89	-0.18
Philippines .....	1985-91	-0.39
Thailand .....	1981-90	1.39
<b>Latin America and Caribbean</b>		
Honduras .....	1987-93	-0.25
Brazil .....	1981-89	0.91
Chile .....	1971-89	1.28
Chile .....	1989-94	0.48
Colombia .....	1978-91	-0.46
Costa Rica .....	1979-86	-0.98
Costa Rica .....	1986-89	1.03
Dominican Rep. ....	1984-92	1.56
Guatemala .....	1979-87	2.00
Jamaica .....	1988-90	-1.60
Jamaica .....	1990-93	-3.19
Mexico .....	1984-89	1.68
Panama .....	1979-89	1.48
Peru .....	1986-94	0.60
Puerto Rico .....	1979-89	0.14
Trinidad and Tob. ....	1971-81	2.03
Venezuela .....	1981-90	2.58
<b>Other middle income countries</b>		
Egypt .....	1975-91	-1.07
Greece .....	1981-88	0.80
Hungary .....	1978-87	1.15
Hungary .....	1987-93	2.46
Jordan .....	1987-91	3.02
Morocco .....	1984-91	0.00
Poland .....	1980-90	0.54
Poland .....	1990-93	8.00
Rumania .....	1989-94	4.16
Tunisia .....	1980-90	-0.66
Turkey .....	1973-87	-1.03

Source: Rao, 1999a.

*refugees and internally-displaced people* and 25% of the world population did not live under *pluralistic and democratic regimes*.

Along with income poverty, the evolution of *income inequality* has been much worse and the world today is significantly more unequal than three decades ago. On the one hand, global inequality between citizens of different countries has increased substantially: the income gap between the 20% of the world's population living in the richest countries and the 20% living in the poorest was 30 to 1 in 1960, 60 to 1 in 1990 and 74 to 1 in 1997 (UNDP, 1999). On the other, between 1989 and 1996 the number of billionaires increased from 157 to 447; in the latter year the 10 richest people in the world had a net wealth of \$133 billion, more than 1.5 times the total GDP of all the least-developed countries (UNDP, 1996).

Although many argue that inequality has been reduced in the period between the 1970s and the 1990s, a comparison of the lowest and highest percentiles reveals that income inequality within many developing countries has also risen. Table 4 presents the evolution of the Gini coefficient for a selected group of developing countries. Although many countries are missing from the data and the periods analysed vary, the table clearly signals that inequality has not been substantially reduced anywhere in the world. In only two countries (Bangladesh and Jamaica) did the Gini coefficient decline by more than 2% a year in the periods studied, and in 27 of the 47 observations inequality increased. This increase was particularly large in Uganda, Zambia (in the period 91-95) and Poland (in the period 90-93), countries where the Gini coefficient grew at an average of more than 4% a year.

### *2.3 Links between poverty, inequality and globalisation*

While an adequately-managed process of globalisation is likely to have a positive impact on the poor, the features of the current process partly explain some of the negative trends in poverty and inequality just described. So far, globalisation has been a market-driven process. While it has generously rewarded those with the necessary financial and human-capital resources, it has harmed many others in at least three different ways. First, globalisation has been an uneven process. Second, it has increased human insecurity in several spheres. Third, globalisation has imposed a fiscal squeeze on the state and as a result has limited its fiscal autonomy.

a) *Uneven features of the process of globalisation*

In a market economy, the final distribution of income is determined by several factors (Figure 3). First, the initial *distribution of assets* influences opportunities, whether we are talking of an individual in a society or of a country in the world economy. If assets (land, labour including human capital, physical capital and technology) are very unevenly distributed, the poor will find it very difficult to make even a subsistence income. Second, the *market structure* in terms of supply and demand and also of its institutional features brings about the distribution of income between wages and profits. Finally, state intervention through taxes and especially through social policy modifies the primary distribution of income.

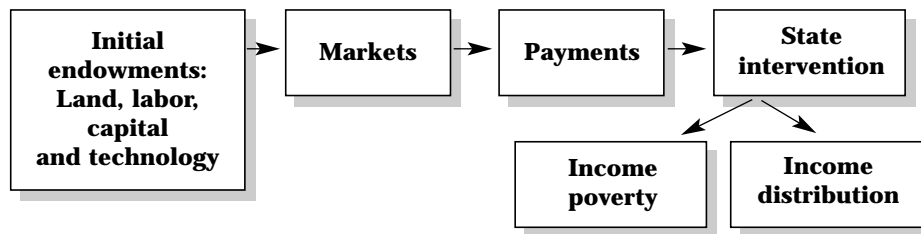


Figure 3. Distribution of income in a market economy

Globalisation has influenced this process in three different ways. First, it has led to a *worsening in the distribution of initial endowments* (particularly physical and human capital and technology) due to its uneven characteristics (data from UNDP, 1999):

In 1997, 58% of FDI went to developed countries, 37% to developing countries and only 5% to the transition economics of Eastern Europe and the Commonwealth of Independent States (CIS). More than 80% of all the FDI that went to developing countries during the 1990s went to just 20 countries, most of it to China.

In 1996, around 94% of the portfolio and other short-term *capital flows* to the developing world went to just 20 countries. As late as 1999, only 25 developing countries had access to private markets for bonds, commercial bank loans and portfolio equity.

Globalisation does not extend to unskilled *labour*. Legislation on migration is currently much stricter than at the start of the twentieth century and as a result migration flows are smaller. On the other hand, the mobility of skilled

labour has increased and developing countries, despite their lack of human capital, have become exporters of highly-skilled workers (Woodward, 1998).

By the late 1990s, the 20% of the world's population that lived in the richest countries had 74% of the world's telephone lines, while the bottom 20% of the world's population had only 1.5%.

*Technological innovation* is also highly concentrated. In 1993, 10 countries incurred 84% of the world's spending in research and development. More than 80% of the patents granted in developing countries belong to citizens of the developed world. The share of research and development done in developing countries fell from 6% of the world's total in the mid-1980s to only 4% in the mid-1990s.

*Internet*, probably the most important technology of the twenty-first century, is highly concentrated between and within countries – what is often referred to as the widening 'digital divide': 91% of the world's Internet users live in the OECD. Within each country, Internet is primarily used by upper-income, educated, English-speaking groups.

Second, the *terms of trade* have moved against developing countries and real wages for unskilled labour have remained stagnant. As a result, the primary distribution of income is still highly unequal both at the national and international levels. Some data is very useful to illustrate these three trends:

In 1992, 56% of world trade took place between developed countries and 77% of developed countries' imports came from other developed countries (Milberg, 1998). UNCTAD data shows that Africa's *share of global trade* has fallen from 3.22% in 1950 to only 0.95%.

The terms of trade of non-fuel commodities with respect to manufactures fell from 147 in 1980 to 100 in 1985, 80 in 1990 and 71 in 1992. The decline was even larger in the late 1990s: according to UNCTAD, from the end of 1996 to February 1998 oil commodity prices fell by 16.4% while non-oil ones fell by 33.8% (cited in Chord, 1999). This negative evolution of the terms of trade is caused by a conjunction of factors: low income-elasticity of demand for exports from developing countries, the undifferentiated nature of those goods and their high level of substitution, etc. The problem for developing countries is that many of the manufactures in which they have a comparative advantage share some of the characteristics of primary goods (Woodward, 1998).

Almost all countries that implemented liberalisation policies experienced an increase in *raw labour earning inequalities* in the late 1980s and 1990s. Only a few countries (Malaysia, Indonesia) were able to compensate this trend with a shift in the employment structure in favour of high-wage



skilled jobs and as a result did not witness an overall increase in inequality (Galbraith, Darity and Jiaquing, 1998).

Third, during the last two decades *participation in the global markets* has been restricted to a limited number of countries. The resulting governance asymmetry has also contributed to increased human poverty. Poor and vulnerable groups and countries have been further marginalized because of non-participatory and non-democratic practices in global governance. Non-participatory mechanisms in the global governance of trade, for example, led to agreements such as the TRIPS and the TRIMS that work to the disadvantage of the poor in developing countries.

b) *Globalisation increases human insecurity*

The effects of globalisation on poor countries and poor people go beyond the reduction in their opportunities in the market. Equally or even more important for human poverty has been globalisation's impact on human security. The 1999 *Human Development Report* argues that globalisation has increased the level of human insecurity in several spheres:

*Job and income insecurity.* The liberalisation of the current and capital accounts and the deregulation of the labour market have led to corporate restructuring, heavy job losses and a deterioration of working conditions in many countries. The increasing expansion of new technologies has also rendered many people's skills obsolete.

In Latin America, for example, the share of workers without contracts or with less secure contracts reached 30% in Chile, 36% in Argentina, 39% in Columbia and 41% in Peru by 1996. Similarly, informal employment expanded in the 1990s from 52% to 58%. 85% of the new jobs created in the subcontinent were informal (UNDP, 1999).

*Financial volatility and crisis.* The elimination of most restrictions on short-term financial flows in the world economy has greatly increased both the likelihood of financial crisis and the contagion effect from one set of countries to the rest of the world.

The last round of financial crisis that started in Southeast Asia and extended later to Brazil, Russia and other developing countries demonstrated the volatility of short-term capital flows and the potentially destabilising economic and social effects of financial liberalisation. The aftermath of the crisis also showed the high human costs of financial shocks, especially for the poor (UNDP, 1999):

Bankruptcies multiplied, especially among small businesses;

Poverty and unemployment rose. Poverty increased in Korea and

Taiwan. In Indonesia, an additional 40 million people (20% of the population) fell into poverty. Unemployment rose by 0.3 million in Malaysia, 0.5 million in Thailand, 1 million in Indonesia and 1.5 million in Korea.

Schooling fell. In Thailand, for example, it is estimated that 100,000 children are not pursuing either primary or secondary school because of the crisis.

The reduction in public services and the increase in social distress and fragmentation have worsened the human conditions of low-income groups.

The negative effects of economic shocks on the poor have not been experienced only by Asian countries. During periods of economic crisis in Latin America in the last two decades, Altimir (1998, p. 155) argues that 'increasing inequality [was] associated with deep falls of real wages and staggering increases in the under-utilization of the urban labour force'. During subsequent recoveries 'neither the previous level of real wage nor the degree of productive (i.e. formal) employment was completely restored'.

*Personal insecurity.* In the last few years, crime has grown and become global. There are currently 200 million drug users in the world, the traffic of illegal weapons is increasing, about half a million women and girls from developing countries are forcefully and illegally taken to Western Europe, etc. The organised crime syndicates that are behind most of these operations disturb the lives of millions of people in both developed and developing countries. They have also become a major economic power in the world economy with revenues of around \$1.5 trillion a year (UNDP, 1999).

*Health insecurity.* Spreading dramatically fast, AIDS affects an increasing number of poor people. In 1998, of the more than 33 million people infected by HIV, 95% lived in the developing world. The consequences of HIV/AIDS for some countries are terrible: for example, ten African countries project a loss of 17 years in life expectancy by 2010 as a result of the growing presence of the virus (UNDP, 1999).

*Environmental insecurity.* Export-led growth in developing countries and the increasing transport of goods around the world have increased pollution and put great pressure on natural resources. Environmental degradation has a disproportionately negative impact on the poor. In 1997 and 1998, the storms El Niño and La Niña, which many scientists believe are caused by global warming, left 22,000 people dead, injured 118 million people, displaced nearly 5 million and caused world-wide costs estimated at \$33 billion.

*Political and community insecurity.* Civil conflicts have become the dominant type of war in the last few decades. Of the 61 armed struggles

that the world witnessed between 1989 and 1998, only three were between different countries (UNDP, 1999). Civil wars affect poor people because they leave a high number of civilian casualties and generate a very large number of displaced citizens. In 1995, for example, there were 46 million displaced people. Only 6 million of them lived in developed or transition economies (UNDP, 1997).

Current armed conflicts benefit business interests. Private companies such as Executive Outcomes, Sandline International and Military Professional Resources Incorporated offer military and training services to many countries, particularly in Africa (UNDP, 1999). These businesses, very difficult to regulate, have clearly benefited from the process of globalisation.

c) *Globalisation and the fiscal squeeze*

Globalisation has caused a fiscal squeeze in public budgets through both the spending and, especially, the revenue side. As a result, governments find it very difficult to dedicate enough resources to social services and anti-poverty programmes.

The reduction in government revenues during the 1980s was particularly large in low income countries, where tax revenues as percentage of GDP fell from 15.3% in the first half of the 80s to 13.3% in the first half of the 90s. Tax revenues also fell in upper-middle income countries, from 21% to 20.2% during the same period (Mohan Rao, 1999b). Four different factors, highly associated with globalisation, explain this evolution (Grunberg, 1998):

Trade liberalisation has given rise to a *fall in tax revenues from foreign trade*. Trade taxes fell from 40.8% of total tax revenues in low-income countries, 31.9% in lower-middle income countries and 20.8% in upper middle countries in the period 1970-1975 to 32.2%, 20.3% and 15.9% respectively in the early 1990s. An increase in indirect taxes only partly alleviated the income gap caused by this reduction (see table 5), and that at the cost of leading many countries to a more complex and regressive tax structure.

*Globalisation of the tax base*: the increasing weight of TNCs in the world economy has rendered many tax systems obsolete. Adapting them to the new global conditions, however, is not easy because foreign income is very difficult to track and companies can often avoid taxes through transfer pricing and other tax-planning techniques. In fact, empirical studies have shown that firms systematically post a higher rate of return on average in countries with low tax rates than in countries with high tax rates (Grunberg, 1998).

Table 5. TAX STRUCTURE IN THE WORLD

	<i>% of Total Tax Revenue</i>			
	<b>Dir Taxes</b>	<b>Soc.Secur.</b>	<b>Dom.Indir.</b>	<b>Trade</b>
<b>LOW-INCOME COUNTRIES</b>				
1970-75	26.1	2.0	29.3	40.8
1976-80	25.2	2.5	28.3	39.3
1981-85	25.5	2.4	32.0	37.0
1986-90	27.0	1.6	33.5	35.1
1991-95	25.4	1.3	37.8	32.2
<b>LOWER MIDDLE-INCOME COUNTRIES</b>				
1970-75	29.9	4.8	26.7	31.9
1976-80	30.4	7.6	24.0	30.0
1981-85	32.8	8.1	25.0	25.5
1986-90	32.0	8.4	28.6	23.3
1991-95	32.7	7.1	33.9	20.3
<b>UPPER MIDDLE-INCOME COUNTRIES</b>				
1970-75	36.7	13.7	24.5	20.8
1976-80	42.4	11.5	24.8	17.0
1981-85	36.5	14.1	30.3	15.7
1986-90	29.5	16.8	31.1	18.2
1991-95	32.4	14.8	33.8	15.9

*Source: Mohan Rao (1999b).*

Countries engage in tax competition to attract foreign capital. Many developing countries have created free trade zones. These now produce a large share of the country's manufactures but make only a marginal contribution to tax revenues.

Globalisation has been accompanied by an expansion of the informal economy. India's underground economy is estimated at 20% of GDP, comparable in size to the national economies of Chile, Colombia, Nigeria and Kenya (UNDP, 1999). At the same time, a 1980 study of Indonesia estimat-

ed tax evasion at 84-94% of income tax and 76-93% of corporate tax (Grunberg, 1998).

This revenue squeeze has coincided with increasing pressures on the spending side of the budget. The expansion of unemployment due to structural change, the need for a more educated labour force, the competition for foreign capital through investment incentives, the need to support national firms through subsidies and transfers, and the cost of sterilising capital inflows have all dramatically increased the demand for state intervention.

The result of this evolution is that 'the fiscal basis of constructive state action to promote human development and resolve the distributive conflict is now more limited than ever before' (Mohan Rao, 1999b, p. 357). Creating a broader and more efficient tax system and more efficiently allocating public resources have thus become urgent tasks if countries are to overcome the fiscal squeeze and manage globalisation in favour of the poor.

#### *2.4 The impact of globalisation on vulnerable groups: gender and human poverty.*

Globalisation has had a particularly profound impact on the most vulnerable groups in society, children and women. Both groups suffer more from the uneven character of the process of globalisation. In fact, globalisation has been accompanied by a growing 'feminisation of poverty'. The number of rural women living in poverty, for example, has risen by nearly 50% in the last two decades (UNDP, 1995).

Women have consistently been ignored by the expansion of credit and technological innovations brought about by globalisation. In India, only 11% of borrowers in the major banks are women. In Latin America and the Caribbean, they constitute only 7 to 11% of the beneficiaries of credit programs. The situation is even more sombre in the rural sector. In many African countries, women produce around 80% of the food but receive less than 10% of the credit to small farmers and 1% of the total credit to agriculture (UNDP, 1995). At the same time, women also have a limited access to new technologies. They account for only 25% of Internet users in Brazil, 17% in South Africa, 16% in Russia, 7% in China and 4% in the Arab states (UNDP, 1999).

Financial crises and economic shocks also tend to affect women and young people disproportionately. In Korea, between April 1997 and April 1998, employment declined by 7.1% for women compared with only 3.8% for men. The number of unemployed among those aged 15 to 29 doubled from 0.3 to 0.6 million (UNDP, 1999). In Latin America, the World Bank found out

that 'in adjustment episodes the hourly earnings of women declined even more dramatically than those of men, partly because women were concentrated in hard-hit low-paying sectors such as apparel' (cited in Çagatay, 1998).

Globalisation, however, has also had some positive effects on women, especially in terms of their *access to formal labour markets*. A study of 165 countries for the years 1985 and 1990 by Çagatay and Özler (1995) finds that trade liberalisation has led to an expansion of the female share of employment. Two other studies by Özler at plant-level in Turkey and Colombia show that industries with a high ratio of exports to output employ a larger fraction of women than other industries (cited in Özler, 1999).

In principle, the feminisation of the labour force allows women greater *control over income within the household* and as a result increases their bargaining power (Çagatay, 1998). Unfortunately, formal employment has often not been accompanied by a reduction in the *number of hours women spend in unpaid jobs*. In Bulgaria, for example, men's share of household work actually decreased from 52% of that of women in 1977 to 48% in 1988. In Bangladesh, women currently work an average of 87 hours per week (31 of which in the household) against 67 for men (of which 14 in the household) (UNDP, 1999). This does not only deteriorate women's living conditions but also reduces their ability to provide care services within the family.

A second problem with the role of women in the labour market is that they still suffer substantial *discrimination* in terms of wages and job security. In developing countries, female wages average only 75% of men's, and a substantial number of women remain in the informal sector (e.g. 43% of women workers in Korea and 71% in Indonesia) (UNDP, 2000b). In fact, the gender gap has been a key component of the growth strategy of many countries, especially in Asia. Women's low wages have 'stimulated export sales, providing the foreign exchange necessary for these economies to pursue their import-substitution and modernisation programs' (Seguino, 2000, p. 51). In a cross-country study of twenty semi-industrialised export-oriented countries, Seguino (2000b) demonstrates that GDP growth is positively correlated with the gender wage gap.

These recent negative trends adding to their secular backwardness, women remain in a *precarious situation* with respect to men. This is especially clear when the problem is analysed from a human-poverty perspective instead of using only income-based indicators. As Table 6 clearly shows, the adult literacy rate for men in developing countries is still more than 25% higher than for women and men's average income is twice that of women's. Moreover, women have fewer opportunities to improve their

Table 6. SOME GENDER COMPARISONS, 1998

	Life expectancy at birth (years)		Adult literacy rate <sup>1</sup>		Tertiary gross enrolment ratio (%) <sup>2</sup>		GDP per capita (PPPs)		GDP per capita (PPPs)	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
<b>All developing countries</b>	<b>66.4</b>	<b>63.2</b>	<b>64.5</b>	<b>80.3</b>	<b>55.0</b>	<b>63.0</b>	<b>2,169.00</b>	<b>4,334.00</b>	<b>2.00</b>	<b>2.00</b>
Least developed countries	52.9	51.2	41.0	61.4	32.0	42.0	771.00	1,356.00	1.76	1.76
Arab States	67.5	64.6	47.3	71.5	54.0	65.0	1,837.00	6,341.00	3.45	3.45
East Asia	72.5	68.2	75.5	91.1	67.0	71.0	2,788.00	4,297.00	1.54	1.54
East Asia (excluding China)	76.4	69.7	95.1	98.6	81.0	88.0	9,414.00	17,744.00	1.88	1.88
Latin America and the Caribbean	73.2	66.7	86.7	88.7	73.0	72.0	3,640.00	9,428.00	2.59	2.59
South Asia	63.6	62.6	42.3	65.7	44.0	59.0	1,147.00	3,021.00	2.63	2.63
South Asia (excluding India)	64.2	62.7	38.8	61.7	38.0	55.0	1,263.00	3,108.00	2.46	2.46
South-East Asia and the Pacific	58.3	64.2	85.0	92.4	63.0	66.0	2,316.00	4,154.00	1.79	1.79
Sub-Saharan Africa	50.3	47.6	51.6	68.0	37.0	46.0	1,142.00	2,079.00	1.82	1.82
<b>Eastern Europe and CIS</b>	<b>73.8</b>	<b>64.1</b>	<b>98.2</b>	<b>99.1</b>	<b>78.0</b>	<b>74.0</b>	<b>4,807.00</b>	<b>7,726.00</b>	<b>1.61</b>	<b>1.61</b>
<b>OECD</b>	<b>79.6</b>	<b>73.2</b>	<b>96.7</b>	<b>98.2</b>	<b>86.0</b>	<b>86.0</b>	<b>14,165.00</b>	<b>26,743.00</b>	<b>1.89</b>	<b>1.89</b>
<b>World</b>	<b>69.1</b>	<b>64.9</b>	<b>73.1</b>	<b>84.6</b>	<b>60.0</b>	<b>67.0</b>	<b>4,435.00</b>	<b>8,587.00</b>	<b>1.94</b>	<b>1.94</b>

<sup>1</sup> % of people 15 and above<sup>2</sup> Data for 1997

Source: UNDP, 2000.

human capital or to participate in the political process. In fact, in only five developing countries do women occupy more than 30% of the parliamentary seats, and in 31 they occupy less than 5%.

Gender inequality is more than a very serious problem in itself because it is a central cause of human poverty. As the 1997 Human Development Report shows, gender inequality in both economic and political terms is strongly correlated with human poverty. In fact, norms about child marriage of girls, gender bias in education and geographical mobility, wage inequality between men and women, etc. constitute a powerful barrier in the effort to prevent the transmission of human deprivation from one generation to the next (Çagatay, 1998).

## *2.5 The special case of Africa*

Africa faces multiple challenges with respect to globalisation. These challenges are first and foremost economic and commercial, related to Africa's place in the commercial and investment flows. These challenges are also technological. If the explosion of technological solutions is often presented as both the decisive factor and the defining symbol of globalisation, the analysis reveals that Africa is way behind other regions of the world on both counts. These challenges are often political and cultural, deriving from the new configuration of the world for which it is clear Africa has not been well prepared. Finally, thanks to globalisation, Africa has seen appear or spread new threats such as the AIDS epidemic, organised crime or environmental degradation.

### *a) Economic and commercial challenges (growth, trade, investment)*

In general, the 1990s have not granted Africa an equal share in the benefits of global economic expansion. Despite improved performance, annual GDP *growth* rates in African countries as a whole rarely exceeded 3% between 1990 and 1997. Because of *demographic expansion*, the growth rate for per capita GDP was negative over the period.

Admittedly, this overall evaluation hides diverse results, some encouraging, some less. In 11 countries, growth reached or exceeded the 6% target of the UN's New Agenda for Africa's Development. A number of countries, including Mauritius, Kenya, Senegal, Cameroon and South Africa have initiated a process of export diversification, while others, such as Cape Verde, Seychelles, Lesotho or Mozambique have increased their income from private transfers and the exportation of services.



Nonetheless, it remains that, over the last decade, the growth of GDP across sub-Saharan Africa did not reach sufficient levels to reverse the trends of poverty. What is more, Africa increasingly appears as the continent where poverty in all its guises, be it financial or human, is here to stay.

In parallel to this weak economic performance, Africa did not improve its participation in *world trade*. In 1997, Africa's share of world trade remained below 2%, confirming an age-old decline. Between 1990 and 1998, world exports as a percentage of world GDP increased 21% as against 0.4% for Africa's exports. The proportion is reversed for imports: over the same period, world imports as a proportion of world GDP increased 15% while Africa's increased 24%. If Africa's international trade figures indicate a high level of integration into the world economy – almost equal to that of Latin America – that integration takes a very passive form, led by imports.

Comparing the economic performance of Asia and Africa, particularly sub-Saharan Africa shows how, as early as the late 1970s, their *external performance* constituted the main element of differentiation. During the first two decades after independence, and following – already – the prescriptions of 'experts', African countries believed they could industrialise 'by the bootstraps' through substituting imports costly in foreign exchange by a national production subsidised and protected, and by exporting only raw agricultural and mineral products.

The disastrous outcome of these policies is a matter of record, illustrated by the performance of a few African countries. Between 1965 and 1995, the average annual rate of export growth was 5% in Côte d'Ivoire, 2.5% in Kenya, 2% in Nigeria, minus 1.5% in Ghana, minus 4% in Zimbabwe and minus 5% in South Africa, while it reached 16% in South Korea, 11% in Malaysia and 8% in Indonesia. The performance lag was even more pronounced after the start of the 1980s. Between 1980 and 1990, the average annual growth rate in the export of goods and services by sub-Saharan Africa was 2%, reaching 2.5% between 1985 and 1990 – as against 8.5% and 13.5% respectively for south-east Asia.

*Africa also failed to graduate* from the export of primary products to that of manufactured products – the only recognised way to offer durable protection on the world markets. Asia is the case study of success in this transformation. In 1965, the share of manufactured products in the exports of Indonesia, Malaysia and Thailand was below 6%. In 1992, it reached 41%, 61% and 77% respectively. Nonetheless, the relative share of the primary sector in African exports remains very high, almost 68% on average over the period 1988-1995, indicating the difficulty African countries face when

trying to diversify their exports so as to position themselves against sectors promising more profitable terms of trade.

Even the traditional sector of *primary agricultural products* is not Africa's strong point anymore. Africa's competitive positions have progressively eroded in such markets as cocoa, coffee, rubber, spices or vegetable oils – to the benefit of countries such as, again, Malaysia, Thailand or Indonesia.

Africa's position is as weak on the private international investment market as it is in the international trade market. The flows of *Foreign Direct Investment* (FDI) to Africa remain limited compared to those reaching other parts of the world, even if they are relatively high (around 19%) in relation to Africa's GDP. The total FDI to Africa amounted to US\$ 5.4 billion in 1998 – less than one percent of what irrigated the world economy – and this share remained practically constant throughout the decade. In addition, FDI in Africa is concentrated in the mining and oil sectors, and benefits primarily a handful of countries such as Nigeria, Egypt, Morocco, Angola, Tunisia, Ghana and South Africa.

The result has been *increased poverty* in Africa. First, and according to UNCTAD's *Trade and Development Report 2000*, economic performance in the second half of the 1990s was very poor across most of the continent, especially in the last 3 years of the decade. Overall, output growth in Africa was less than 3% per year over the period. Between 1985 and 1998, average per capita income in sub-Saharan Africa declined by 0.15% per year (HDR 1999), with the decline reaching 0.4% between 1990 and 1998. Since income inequality, measured by Gini coefficients increased during the same period in most Sub-Saharan African countries, this means an absolute increase in income poverty.

Indeed, income poverty numbers show a similar trend. The percentage of people living below \$1.00 a day in sub-Saharan Africa (SSA) increased from 47.67 in 1987 to 48.53 in 1996 (1993 Purchasing Power Parity). In absolute numbers, the number of people living below the same poverty line in SSA increased from 217 millions in 1987 to 290 millions in 1998. As of 1993, the SSA region had the world's highest ratio of people living in poverty. On average, during the 1990s, almost 76% of SSA's population lived on less than \$2 a day.

According to the *Human Development Report 1997*, sub-Saharan Africa was the only region in the world where many components of human poverty increased during the 1990s. For example, the number of people not expected to survive to the age of 40 increased by 30% in that period. During 1991-95, SSA was the only region of the world to register a decline in its real

consumption growth rate, -1.3% during the period, with the annual average growth rate of consumption not expected to exceed 0.1% during 1997-2000.

The World Bank's *Trends in Poverty* report states that primary school enrolment rates in SSA remained stagnant between 1982 and 1994, while other regions experienced improvements. Similarly, while infant mortality rates improved modestly, continuing poor health conditions and the large numbers of people living with HIV/AIDS (23 millions) were reflected in health indicators: of the eight countries in the world which recorded declines in life expectancy of more than three years, six were in Africa.

*b) The technological challenges*

Africa has long been known for lagging behind in the acquisition and mastery of modern technology. This distance has been growing and now takes on crisis proportions in the face of globalisation, because Africa had only just started getting used to traditional technologies when it had to face the jump to the new ones.

Despite considerable progress these last few years, *basic communications equipment* are still missing in Africa. While Canada boasts of 600 phone lines per 1000 inhabitants and France of 560, Togo only has 6, Mauritania 4, Niger 2 and Mozambique 3. Thailand has more cell phones than all of Africa, while at the rate it is developing its own phone system, Côte d'Ivoire will not reach Germany's present equipment level before 2050.

The same picture applies to *television*. In 1997, while the US had 800 TV sets for every 1000 inhabitants, Italy and Austria had 500, the Central African Republic had 6, Guinea 8 and Uganda 26. The same picture again for personal computers or fax machines.

Where the gap becomes terrifying is with regard to the *Internet*. Less than 0.2% of Africans use the net, as against 30% of Americans, 20% of Singaporeans and 40% of Icelanders. Bulgaria alone has more Internet 'surfers' than the whole of sub-Saharan Africa! One reason is that the cost of access to the net is 10 times greater for an African than for an American. Admittedly, all LDCs are falling behind in investment: today, 55 countries account for as much as 99% of the entire world's expenditure on information technology. However, Africa's real problem is that the challenge of modern technologies is more than a matter of acquisition cost. It derives from the difficulty of preparing the average African to take advantage of the technology. In Africa, illiteracy and the uneven distribution of technical resources – telephones exist primarily in the cities and using a computer

requires the ability to read and write – effectively limit the distribution possibilities.

These numbers well illustrate the technological handicap that the African continent must overcome to partake of globalisation. On top of it, Africa faces political and cultural obstacles that are no less daunting.

c) *The political and cultural challenges*

For Africa, globalisation means a *new world political order* where the traditional network of relations based on ideological proximity within an East-West conflict has been superseded by a new international distribution mechanism based on new criteria. In addition, the new international space that is shaping up carries risks to which Africa is particularly vulnerable. These risks are tied to the new cultural vulnerability of the continent, to its powerlessness in the face of scourges such as AIDS or the new forms of criminality.

i) *A new world political order*

The comfort of the East-West confrontation has been replaced by a unipolar world. As a result, the ideological considerations that offered so many African countries a perfect sinecure and the cover for all blunders do not apply anymore. Suddenly, all traditional geopolitical markers have vanished.

International development co-operation is one of the areas in which this transformation has been most obvious. The opening of Eastern Europe has created a new competitive environment for the resources of official development assistance (ODA) where the allocation criteria have become management excellence and adhesion to the new dogma. As a result, the flows of ODA to Africa decreased in the course of the 1990s from US\$ 16 billion in 1992 to US\$ 12.5 billion in 1998 or, in dollar per capita terms, from US\$ 36.4 in 1992 to US\$ 21.4 in 1998.

At the same time, the concepts of democracy and good governance, long held hostage to the East-West confrontation, have suddenly come of age, to the extent that they now dominate the international political discourse. In practical terms, they have become additional conditionalities for ODA, defining the criteria on the basis of which international sympathy can now be secured. Behind this evolution lies the emergence of a finely-honed civil society, connected to an aggressive global network and whose irruption on the political scene has occasionally upset the balance of already weakened societies.

Since the La Baule summit, francophone African countries have been subject to multiple pressures: invited without preparation to free their political spaces, resume universal suffrage, and enforce a state of law against historical, social or cultural backgrounds resistant to rapid transformations. To make matters worse, these transformations are eagerly awaited at the very moment when the difficult economic reforms imposed from outside call for sacrifices the populations are reluctant to accept.

These are the political circumstances of Africa's globalisation. One must rejoice that, despite this initial lack of preparation, African countries have accepted democratisation. Ghana most recently added to the constantly-growing list of countries going through a peaceful transformation. Let us not underestimate, however, how much this wind of change will require in terms of time, energy and experimentation – not to mention a solid dose of errors – before it fully takes hold. Africa will need this breathing space all the more because, beside a number of positive changes, new political shoals are emerging across the continent, often rooted in the difficulty of reaching a peaceful sharing of power.

*Civil wars* are one such example. In a way, from Sierra Leone to Angola, from Guinea-Bissau to the two Congos, Africa's people are paying the price of the difficulties of imposing the principles of democratic governance in environments where mindsets have been slow to evolve. Unfortunately, globalisation has given these conflicts a new flavour.

In the first place, nowadays, interests at stake and actors involved both often reach beyond the strict limits of the national borders. Foreign hands – states, multinational corporations, businessmen – increasingly derive income from national tragedies, whether they aim for political hegemony or for the lucrative control of natural resources such as diamonds. In addition, more and more 'war professionals' willingly get paid to become actors in conflicts, whether they are mercenaries from the former Soviet empire left unemployed by the fall of the Berlin wall or former quasi-official services such as South Africa's Executive Outcomes looking for a new line of business.

While overcoming the political shock has become vital for Africa, doing so without compromising its cultural identity has also become a major challenge faced by the continent because of globalisation.

ii) *A new culture shock*

The explosion in the number of means of communication and information has created a 'global village' where the welding of ideas and culture is a dominant characteristic. However, far from the hoped-for mutual

enrichment, there has emerged a new cultural imperialism, propagated by the audio-visual industry and in which northern lifestyles and behaviour become the norm.

*Culture has become an economic and commercial good* that can be exported, and as for all other exportable goods, market shares are not equitably shared. Hollywood produces fewer movies than India's 'Bollywood', but it still controls 70% of the European movie market, 83% of Latin America's and half that of Japan.

As in other competitions, Africa finds itself in a position of inferiority. African cultures, already weakened by centuries of colonisation, are hard put to resist the pressures of fashions and behaviours that are dominant in other regions. Young people from poor African countries discover shoe brands like Nike or Adidas before they discover those manufactured locally. They end up knowing their way around California's suburbs before they finish visiting their own country. What is worse, lifestyles idolised by overseas series propagate behaviours that are foreign to the local culture or give birth to needs or dreams that cannot be satisfied locally – all sources of frustration and copycat violence.

This pressure on African cultures is evolving in the broader context of the advance of many new threats that it is difficult not to associate with globalisation. Among these are diseases like AIDS, developments like organised crime or money laundering, or the various scourges destroying the environment.

### iii) *The shock of new threats*

Whether simple coincidence or an actual causality link, globalisation also means for Africa the emergence and spread of new *diseases* like AIDS. If the origins of the disease cannot be linked to the economic phenomenon called globalisation, it cannot be denied that its rapid spread has been facilitated by the integration of nations, in particular the cross-border movement of people.

Every minute, 11 people contract the virus that causes AIDS. In the space of a few years, Africa has become the continent with the largest number of AIDS victims. Today, 23 of the 33 million people living with AIDS live in Africa. As it decimates the most active age groups, AIDS has also become a development tragedy that seriously mortgages the chances of economic take-off for many African countries. The nine African countries where the seroprevalence rate is above 10% (Botswana, Kenya, Malawi, Mozambique, Namibia, Rwanda, South Africa, Zambia and Zimbabwe) have already lost all the life expectancy gains realised since 1960.

Globalisation also presents a fertile ground for *organised crime*. Better than anyone, organised crime understood the benefits it could derive from globalisation. Deregulation in the capital markets, breakthroughs in information and communications technologies, a greater freedom of movements for goods and people mean an environment more favourable than ever for the movement of illegal drugs, sex workers and arms and ammunition, as well as for money laundering.

Let us admit it: Africa is particularly vulnerable to these threats. Bank supervision is weak and, with transparency rare in the capital markets, money laundering is taking on worrying proportions. Africa's borders are porous and the human and capital resources needed to control them are scarce. Africa's judiciaries and polices lack the means of investigation necessary for effective repression – when they do not suffer from widespread corruption. Young Africans, teenage girls in particular, tortured by poverty and lack of prospects, become easy prey for all kinds of criminals eager to make them fall into drugs and prostitution. Africa's capitals become favoured destinations for cars stolen in Europe or in America, or for arms and ammunition feeding sub-regional conflicts.

Finally, the *environmental consequences* of globalisation are extremely damaging for the African continent. The world-wide impact of industrialisation on global warming through hothouse gasses spares no corner of the planet. Here again, however, Africa is more vulnerable than other continents to the pressure that the globalised economy imposes on the environment.

African *forests* are the least protected and the most subject to anarchic exploitation. In addition, until recently, afforestation did not rank high on national priority lists. If the wood industry, particularly that of rare species, is a great foreign-exchange earner for African countries, it also constitutes the main agent of destruction for their forests and ecosystems. Countries like Gabon or the Congo were recently obliged to take forceful measures to ensure that future generations enjoy a healthy environment still rich in forest resources, while the most optimistic assessments estimate that both countries have lost more than 40% of the forest cover they enjoyed in 1970.

Africa also falls victim to the most devastating effects of *global warming* and rising sea levels. Egypt expects to lose up to 12% of its land area to the rise in sea levels. Mozambique recently suffered two consecutive bouts of the most disastrous floods of its modern history.

When to all of this is added the wholesale rape of Africa's *fishing resources* along both its coasts, the scope of the environmental challenges faced by Africa because of the globalisation of the economy becomes all too apparent.

Long as it may be, this list does not attempt to present a comprehensive picture of the multiple challenges which globalisation is throwing at Africa. It does, however, help throw light on the urgency, for Africans as well as for the international community, of conceiving and putting into place a well-thought out strategy.

That goes beyond the special case of Africa, as it is now widely admitted that the greatest challenge the international community is facing today is to manage globalisation in favour of the poor.

### 3. MANAGING GLOBALISATION IN FAVOUR OF THE POOR

Despite some of the negative trends just described, globalisation can contribute decisively to the eradication of poverty and the construction of a more equal world. In order to do that, however, the process has to be managed correctly and the right balance between market forces and government intervention has to be reached.

Many measures will be required to eliminate the uneven character of globalisation, increase human security and improve the ability of the state to provide goods and services for the poor. This will require revisiting some of the policy prescriptions that have constituted the bulk of transformative reform these recent years. It will also require a different commitment from the international community and the multilateral development agencies.

#### 3.1 *Agenda for reform*

##### a) *Increase the benefits from trade and capital flows*

A large body of empirical evidence shows that trade liberalisation by itself does not necessarily lead to export expansion or to higher rates of economic growth. The relationship between trade openness and poverty eradication is even fuzzier. Openness should be interpreted from the point of view of human development rather than market access. In order to benefit from openness in trade in terms of SHD and sustainable poverty eradication, countries need to implement a comprehensive package, which includes sound macroeconomic management with poverty eradication and social fairness as its success indicators, good infrastructure and social services, and strong governance (both economic and political) with an appropriate institutional framework that is geared towards human development (UNDP, 1999).



The experience of the Republic of Korea in this realm is particularly illuminating. From 1960 to 1997 Korea enjoyed one of the highest rates of economic growth and improved human development simultaneously. Some of the key elements of Korea's success were a growth strategy with bold economic reforms; institutions responsive to the market but controlled by the state; land reform; implementation of labour-intensive technologies; and an active industrial policy to introduce the country in new niches in the world market. All of these policies took place within the particular structure of state-society relations that Peter Evans (1995) described with the term 'embedded autonomy'.

In order to be sustainable, experiences such as that of the Republic of Korea must be combined with the pro-poor growth strategies. This point is discussed further below.

In particular, *capital inflows have to be carefully managed*. First, countries should design comprehensive plans to attract long-term investment. Such plans should include a stable political climate, an educated labour force, active technological policies, and clear priorities on what sectors FDI should go to and incentives for domestic firms. Second, developing countries should tightly control the speculative movements of short-term capital to influence both their volume and their composition.

b) *Overcome the resource squeeze and increase the fiscal autonomy of the state through a new approach to macroeconomic policy*

While markets are a fairly efficient mechanism for resource allocation, states should also play an active role in the *promotion of growth* and in the consolidation of a more *equitable distribution of income*. These two objectives require confronting the fiscal squeeze and adopting a new approach to macroeconomic policy.

Raising increased *public revenues* is a necessary condition to overcoming the fiscal squeeze, whether through increasing direct taxes (income and property taxes) which are still extremely low in most developing countries, or through introducing a value-added tax (emphasising its progressive aspects). Simplifying the tax laws and increasing the efficiency of the tax administration should also be implemented as soon as possible.

For the state to succeed in eradicating human poverty, *macroeconomic policy* can no longer be based on the approach Amartya Sen called 'anti-deficit radicalism' that separates economic and social policies. Instead, countries need to adopt a 'transformational approach' to macroeconomics. As Çagatay

and Elson state (2000, p.1348) this approach argues that the “‘soundness’ of macroeconomic policy would be judged not on market-based criteria ‘per se’, but in terms of whether they ultimately succeed in bring societies closer to achieving social justice. Thus, desire social outcomes... become the ultimate goals of policy-making, including macroeconomic-policy making”.

From this perspective, macroeconomic policies must have a profound democratic content and be determined through an active process of participation by all social groups. A key instrument to encourage participation and channel it effectively is the people-centred budget initiatives. The main goal of such initiatives is to ‘come up with reprioritisation of both expenditures and revenue-raising methods in order to promote social justice’ (Çagatay, Keklik, Lal and Lang, 2000, p. 14).

People-centred budget initiatives can be classified into two categories: social impact analysis and audits; and the preparation of people-centred budgets. While the former are used to determine the effect of the actual budget on income and gender equality and on poverty, the latter try to substitute or complement the current allocation of public revenues and expenditures (Çagatay, Keklik, Lal and Lang, 2000, from a detailed analysis of people-centered budget experiences in India, Bangladesh, Canada and Port Alegre in Brazil).

The adoption of a people-centred budget will contribute to allocating public spending to activities that favour a majority of the population and promote participation, accountability and transparency. As a result, it will help overcome the fiscal squeeze and will increase the political power of the poor. In fact, the adoption of a model of participatory budgeting seems to be one of the main reasons for the dramatic expansion of municipal revenues in the city of Port Alegre (Brazil) (Çagatay, Keklik, Lal and Lang, 2000).

### c) *Generate pro-poor growth*

Economic growth *per se* is not sufficient to result in an expansion of human development and a substantial reduction in human poverty. Countries such as Egypt and Pakistan, for example, experienced annual rates of per capita income growth of more than 3% between 1985 and 1997 (UNDP, 1999) but did not advance significantly on the road to human development.

Developing countries need to adopt a strategy of ‘pro-poor growth’. Pro-poor growth takes place when the poor’s per capita income is growing faster than the average national income and, even better, when the absolute number of poor people is being reduced by growth (UNDP, 2000b).

As the experience of China in the early 1980s, Vietnam in the 1990s and Malaysia and Taiwan (province of China) before the financial crisis show, a pro-growth strategy should include the following measures:

Restore *full employment*, putting emphasis in the promotion of labour-intensive industries.

*Reorient social spending* especially in education, to expand the capabilities of the poor.

Promote micro-enterprises and the informal sector and increase the productivity of small-scale agriculture.

Provide the poor with means to *save*, to access to *credit* and to start a small business. Promoting micro-finance schemes has proven to be an efficient way to empower the poor and increase their ability to save and invest. Micro-finance, however, has not been as successful in helping poor people start new businesses, and additional measures are needed to promote micro-enterprises.

The reduction of human poverty in the developing world is highly improbable if the inequality in the distribution of initial assets and final income is not substantially reduced. In order to do that, countries should make an effort to make *taxation* more progressive, provide income transfers, increase spending in education and assure a democratic access to credit and other productive resources. None of these measures, however, will be effective unless there is a concurrent, dramatic restructuring of many public programmes aimed at eliminating their often regressive nature and concentrating resources on those with progressive effects (see table 7 for the case of education in some countries).

#### d) *Set targets and design programmes for poverty reduction*

Countries should follow the 1995 Social Summit's recommendations and implement 'national poverty eradication plans' to address '*the structural causes of poverty*' (cited in UNDP, 2000b, p. 32). Anti-poverty plans are needed to build a consensus for socio-economic change and determine how many resources are required to eliminate poverty and where should they come from.

On 8 September 2000, the largest gathering of Heads of State ever met in New York for the *United Nations Millennium Summit*. The Summit was the culmination of hundreds of millennium-related events on the future of the global system, involving members of civil society, religious leaders, parliamentarians, youth, the business community and scholars. Reflecting on

Table 7. INEQUALITIES IN EDUCATION, 1990s  
SELECTED DEVELOPING COUNTRIES

	<i>Percentage of total education expenditures going to</i>		<i>Percentage of expenditures for primary education going to</i>	
	Poorest 20%	Richest 20%	Poorest 20%	Richest 20%
Costa Rica	18	20	34	7
Cote d'Ivoire	13	35	19	14
Indonesia	15	29	22	14
Madagascar	8	41	17	14
South Africa	14	35	19	28
Vietnam	11	36	22	18

Source: UNDP, 2000b.

commitments made during the UN conferences in the 1990s, including the 1995 World Summit for Social Development in Copenhagen, the world leaders reaffirmed their strong convictions in the *UN Millennium Declaration* by stating.

'We will spare no effort to free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty, to which more than a billion of them are currently subjected. We are committed to making the right to development a reality for everyone and to freeing the entire human race from want. We resolve therefore to create an environment – at the national and global levels alike – which is conducive to development and to the elimination of poverty'. (United Nations, *United Nations Millennium Declaration*, A/RES/55/2, 18 September 2000, p. 4)

In the same declaration, the heads of state declared the need 'to halve, by the year 2015, the proportion of the world's people whose income is less than one dollar a day and the proportion of people who suffer from hunger and, by the same date, to halve the proportion of people who are unable to reach or to afford safe drinking water' (ibid, p. 5). Reflecting on the task of reducing human deprivation in its many dimensions, the *Millennium Declaration* also elaborates upon the other major international development goals (IDGs) of the past decade, including the need to ensure universal primary education, to reduce infant and child mortality by two-thirds, and to reduce maternal mortality by three-quarters (all by 2015) and to eliminate gender disparity in primary and secondary education (by 2005).

To meet these ambitious poverty alleviation goals, a *combination of effective domestic and international actions* are required. There is, however, no 'one size fits all' blueprint strategy for reaching these targets. In determining their own urgent priorities based on local realities, developing countries must change management processes and prepare their own mix of relevant policies to reduce poverty. The world leaders that convened in New York for the Millennium Summit recognised that 'good governance' is necessary within each country in order to achieve success in meeting the objectives outlined above – and this is an area where development agencies have experience and know-how to offer. The world leaders also acknowledged that success depends on good governance at the international level and on transparency in the financial, monetary and trading systems.

From UNDP's perspective, *poverty plans* are not simply a set of targeted interventions completely separated from other economic policies. Since poverty is a multidimensional problem, it can only be solved through an integrated, multidimensional programme that includes an estimation of the extent of domestic poverty and a set of targets.

Until now, most national poverty plans have concentrated on improving access to basic social services and creating opportunities for income and employment. Typically, they have not been very successful at setting targets: of the 140 countries that have implemented anti-poverty plans, only 31% (43) have set targets for eradicating extreme poverty (UNDP, 2000b). A few, however, have broadened their goals to include the promotion of community participation and an improvement of the environment. Mauritania's plan, for example, included strengthening development-oriented NGOs and in Jamaica the National Poverty Eradication Program pursues community-based development with a focus on human resources and social development (UNDP, 1998).

Poverty plans can also contribute to two additional objectives. First, they are supposed to encourage active *participation of the poor* in their formulation and as a result should help to build a stronger civil society. Second, they are likely to lead to a rise in *accountability and transparency*, the two building stones of effective governance.

In the new global economy, however, isolated efforts from individual countries will not be enough to control the process of globalisation and limit its negative effects. Profound transformations at the international level are needed, a new coalition between developing countries has to be built and nurtured and developing countries must collaborate more closely with each other. This will require a final and radical solution to the debt burden of

many developing countries, a dramatic increase in development aid, the elimination of protectionist trading practices in OECD countries and a much greater concern for global economic equity.

*e) Reduce human insecurities*

As we have seen, globalisation has increased human insecurity in several spheres such as the labour market, crime and violence, and financial instability. In order to reduce human poverty, states need to stop these negative trends with measures such as:

Constantly improving workers' skills, establishing a minimum wage, protecting labour standards and rights, and increasing the productivity of the informal sector. The reduction of wages or labour rights and the worsening of working conditions do not constitute an effective development strategy in the long run.

Creating poverty relief programmes in times of financial crisis (including expanding social spending) and avoiding solutions based on excessive fiscal restraint;

Promoting international co-operation against international crime, especially in law enforcement and surveillance, and strengthening judicial co-operation. Countries should also develop witness protection programmes and actively prosecute money laundering.

*f) Address the debt crisis and the need for greater equity in the international system*

Human poverty could well increase with the expansion of foreign investment and trade associated with globalisation, especially if the growth in these areas continues to be concentrated in the industrial countries. For one-third of developing countries, the ratio of foreign direct investment to GDP has actually fallen over the past decade. This has serious implications for the transfer of technology and know-how, which is heavily biased towards those countries receiving the most foreign direct investment.

Poor countries must also contend with unfavourable terms of trade and finance. Particularly in areas of comparative advantage such as textiles and agriculture, developing countries as a whole must contend with tariffs 10% higher than the international average – the corresponding figure for least developed countries is 30%. Further, the opening of financial markets has constrained the ability of developing country governments to employ

deficit financing, resulting in significant reductions in spending on health, education and food subsidies.

These issues pose serious challenges for international, regional and national governance, in terms of the development of better macro-economic policy environments for poverty eradication at all levels, a fairer institutional environment for global trade, better access to finance for poor countries, and accelerated debt relief. The heads of state attending the Millennium Summit committed themselves to 'an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system' (Ibid, p. 4), but further steps are still needed to enable low-income countries to fully participate in the fast globalizing economy. Some recommended steps to equip developing countries to seize opportunities in the international system while protecting their people's interests are introduced in box 1.2.

#### **Box 1.2**

##### **Strengthening the bargaining position of poor countries – Four Proposed Actions**

Poor countries and poor people have little voice or influence in today's global policy-making forums. The most important and influential actor is the G-7, whose members control the Bretton Woods institutions through voting rights, and the United Nations Security Council by occupying three of the five permanent seats. There is no developing country equivalent to the G-7 or OECD – with similar resources, consultation and policy co-ordination. But there have been many efforts to develop collective third world positions through such bodies as the G-15, the G-24 and the G-77.

UNDP's *Human Development Report 1999* proposed four actions that could be rapidly set in motion to strengthen the bargaining position of poor countries:

- *Provide legal aid.* WTO dispute settlement mechanisms can be fair only when all the parties to a dispute have access to expert services to argue their case. An independent legal aid centre is needed to assist poor countries. This has now become a reality, announced at the WTO meeting in Seattle in late 1999.
- *Appoint an ombudsman* to respond to grievances and investigate injustices.
- *Support policy research.* OECD countries arrive at multilateral forums with a battery of policy research to formulate and defend their positions.
- *Rely more on regional solidarity and regional institutions.* Poor countries can make their own resources go further by developing common positions in negotiations and developing mutual financial support in crises (UNDP, *Human Development Report 1999*, pp. 108-110).

### *3.2 The role of international development assistance*

A growing number of development partners now agree that the ultimate goal of development is to build human capabilities and enlarge human choices. Advancing human development, in turn, requires a safe and secure environment where citizens can live with dignity and equality. In this age of advanced globalisation, where the forces of change and integration have markedly intensified, nations require *new tools, targeted resources* and *first-class policy advice* to prevent setbacks in their democratic progress and the economic and social wellbeing of their people. It is through this set of issues that international development assistance can have the greatest impact in overcoming poverty and in strengthening the position of developing countries vis-à-vis powerful international actors.

#### *a) The World Bank, the International Monetary Fund and the Poverty Reduction Strategy Papers*

In an effort to catalyse more poverty reduction in the developing world, the World Bank and International Monetary Fund – alongside a range of development partners in government, the UN system, academia, NGOs and private sector organisations – have begun spearheading innovative country-led poverty reduction strategies that are to be summarised in Poverty Reduction Strategy Papers (PRSPs). This initiative grew out of the 1999 Annual Meetings of the Bank and the Fund, when poverty-reduction concerns were linked to debt-relief issues for highly-indebted poor countries (HIPC). Finance Ministers participating in the meetings stressed that for each country under consideration by the HIPC initiative, a 'poverty reduction strategy should be in place by the time of the HIPC decision point' (The World Bank Group Operations Policy and Strategy, 'Poverty Reduction Strategy Papers', Internal Guidance Note, January 21, 2000, p. 1). They concluded that poverty reduction strategies should eventually underpin all International Development Association (IDA)- and Enhanced Structural Adjustment Facility (ESAF)-supported programs.

Most countries that the World Bank and IMF work with maintain some type of strategy for poverty reduction. However, the strategies have been found to vary significantly in scope, depth and participatory thrust. According to the World Bank, past poverty reduction plans have not always focused on monitoring results, they often fail to make clear the causal links between public action and poverty reduction, and they may not reflect a



participatory approach (*ibid.*, p. 1). A central purpose then of the PRSP program is to help countries fill these gaps and to improve the design and implementation of their poverty reduction strategies.

Poor performance in reducing poverty has multiple causes, and consequently, most development analysts and practitioners believe that action is needed on both the domestic policy and external assistance fronts. This, in turn, raises two sets of issues:

How to identify effective strategies to reduce poverty; and

How to modify external partnerships and assistance to reduce poverty more effectively.

National poverty reduction strategies are then seen as helping to improve the poverty impact of expenditures financed by external partners and the effectiveness of technical advice by increasing country ownership and shifting policy to a more results-oriented approach (World Bank, *Poverty Reduction Strategy Sourcebook*, [Washington, DC: World Bank, 2000], p. 1).

Recent Poverty Reduction Strategy Papers presented to the Executive Boards of the World Bank and IMF proposed an enhanced framework for poverty reduction in low-income countries. The Interim and Development Committees of these international financial institutions have strongly endorsed this approach, which encourages low-income countries to fight poverty by focusing on a renewed growth-oriented strategy. Another outcome of the PRSP process has been to enhance Bank/Fund collaboration, so as to better assist low-income countries in attacking poverty. The more immediate objective of this close collaboration is to 'help the country authorities to produce a poverty reduction strategy that appropriately balances financial/macro-economic and structural/social considerations' (The World Bank Group Operations Policy and Strategy, "Poverty Reduction Strategy Papers", p. 3).

#### b) *The experience of the UNDP*

Until recently, the critical links between governance and human development were not sufficiently understood. It is now a widely shared belief that the main reasons for continued human deprivation are not just economic. These problems go hand in hand with political and social factors rooted in poor governance. In recognition of the close relationship between the quality of a nation's governance and whether it succeeds or fails to reduce poverty, governance for human development – or humane governance – is a chief priority for the UN Development Programme.

The UNDP's approach to governance is unequivocal about placing individuals and their choices at the centre of the development process and embraces the principles of empowerment, participation, equity and sustainability. Governance must be rooted in these principles to move a society toward greater human development, including poverty eradication, environmental protection and regeneration, gender equality and sustainable livelihoods.

Governance was explicitly confirmed as a programming objective within the UNDP with the publication in January 1997 of the UNDP's Governance Policy, though the UNDP had previously supported governance programmes at various levels. When the UNDP was first established in 1965, its mandate gave it the status of a fund management agency, not a development organisation. Technical assistance for development financed by the UNDP was contracted from the UN Specialised Agencies who assisted governments in managing specific state functions. Throughout the 1970s and early 1980s, UNDP introduced participatory approaches to development, expanded its work with NGOs, and incorporated private-sector approaches to public-sector management.

By the late 1980s, structural adjustment policies placed the performance of the public sector high on the political agenda, and the role of the state, its size, cost and productivity came into question. Pressures to reform the public administration to address these new relationships and to encompass an increased role for local authorities and the private sector encouraged the UNDP to set up in 1988 one of its most successful global programmes, the Management Development Programme (MDP). The primary objective of the programme was to help countries undertake system-wide changes in response to transitions to a new economy, institutional reforms, and administrative improvement.

By 1993, the MDP's considerable range of experience led to the conclusion that for governments to be effective and responsive in the pursuit of national development, the state could not be the sole responsible actor. 'Government' did not equate with the evolving concept of 'governance', and the UNDP's mandate suddenly broadened beyond its formerly exclusive work with government itself. Between 1992 and 1998, 50% (or \$5 billion) of all the UNDP's resources was allocated to programmes promoting political, economic and social governance. Of this, 53% went to six areas of humane governance: strengthening governing institutions (legislative, judicial, electoral and human rights); supporting decentralisation and local governance; promoting public sector reform; assisting governance in crisis and post-conflict situations; and enhancing democratisation and political empowerment of the poor through strengthening civil society organisations.

Today, while UNDP assistance for public sector management programmes still features prominently in the UNDP country and regional programmes in the area of governance, the following is projected:

- activities focusing on the private sector feature in around 55% of future programming;

- activities supporting civil society organisations are incorporated in 65% of future programmes; and,

- 62% of the expected programmes will direct assistance to governing institutions.

This represents a significant shift from a traditional UNDP focus on public sector management and financial and economic management.

The UNDP works with its partners in the South to help them respond to a world of limited public flows. As detailed earlier, since the fall of the Berlin Wall, private as well as public flows have been attracted to those countries with good policy and institutional frameworks – and not because of mere political alliances. The UNDP helps prepare its clients for a world where technology and information are powerful agents of change compared to the old-fashioned hardware of economics. For instance, it was allegedly two UNDP consultants who, many years ago, persuaded the authorities of Singapore that there was a gap between when the London stock markets opened and the Japanese markets were up and running. Out of their simple study of the clock emerged one of Singapore's future competitive advantages.

Whether the entry point for the UNDP is *electoral assistance*, such as the \$80 million in donor funds it co-ordinated for Indonesia's national elections in 1999, or an anti-corruption programme such as that recently established in Nigeria, the future will involve comprehensive governance programme where the UNDP works out with governments and civil society how a country is going to take advantage of globalisation's opportunities. The future of the UNDP, therefore, rests in its ability to deliver the right kind of *strategic advice* at the right time, and through its vast network of 135 country offices, on the ground in the right place.

In an essay addressing how global forces can exacerbate or help reduce poverty, it is crucial to also recognise the contributions that institutions of *regional and global governance* can make in improving a developing country's ability to progress. At the regional level, for example, the UNDP's Environmental Programme for the Danube River Basin helps integrate several regional players in a combined attack on the region's environmental challenges. The programme, recently extended to incorporate environmental issues related to the Black Sea Basin has been highly successful in

improving international co-operation for the sustainable management of the Danube River and the Black Sea Basins.

Concerned with the local, national and international dimensions of corruption, mismanagement, sustainability, violence, human rights, and the marginalisation of the poor, the UNDP seeks to assist governing structures in their efforts to deliver what people want and need. For democracies to flourish in an era of heightened, global interdependence, citizens must be afforded economic and social betterment and the means to exercise one's freedom to choose. This is possible only when the 'humane governance' priorities of meaningful participation, accountability, transparency, and the rule of law deliver human development. Without humane governance practices, public and donor resources are often inefficiently wasted, siphoned-off for personal gain, and fail to reach the intended beneficiary.

*The UNDP's Comparative Advantages:* To assist states with the tasks of achieving humane governance and accessing new opportunities through the key determinants of globalisation, the UNDP has many institutional strengths that, together, set it apart from other external partners concerned with governance issues:

*Impartiality* – the UNDP works as an agent for change with all actors;

*Customer orientation* – UNDP pursues its mandate within national priorities;

*Long time frame* – the UNDP views development from a long-term perspective and seeks to maintain a presence in programme countries;

*Experience* – the UNDP has 50 years of experience in capacity development;

*Trust* – the UNDP long ago won the trust of governments and other partners in programme countries; and

*Universality* – the UNDP's field presence in 137 countries ensures ongoing dialogue, learning and co-operation.

The UNDP's particular competitive edge in the fight against poverty is its governance advisory role rooted in rigorous analysis and five decades of on-the-ground experience. The UNDP is being asked by many governments to help them in difficult and sensitive areas such as judicial and civil service reform, the functioning of parliaments, and institution-building for human rights protection and women's rights. Further, the UNDP works to increase participation and strengthen civil society, a role in which the UNDP in many cases is afforded a much wider license by programme countries than an international NGO or a bilateral donor.

As examined earlier, action solely at global and regional levels will be insufficient in helping developing countries to reduce the negative effects of

globalisation, including the exacerbation of poverty levels. The front lines will always be at the national and local community levels, and the best approach to preparing a country and its people is to establish strong institutions (both state, civil society and private sector) that are participatory, accountable and help promote the rule of law. Many development organisations from diverse backgrounds are now engaged in specific activities to improve decision-making and implementation structures and processes. The following are the UNDP's key areas of intervention:

*c) The UNDP's entry points for poverty alleviation through better national and local governance*

To achieve its mandate of developing national capacities for humane governance so that countries can better cope with the exigencies of globalisation, the UNDP targets its assistance and builds core competencies in the following areas:

*Strengthening governing institutions* – legislatures (national and provincial), judiciaries and electoral bodies.

*Updating public and private sector management practices* – including leadership and management of changes, civil service reform, economic and financial management and urban management.

*Supporting decentralisation and local governance* – Decentralising government enables people to participate more directly in governance processes and can help empower people previously excluded from decision-making.

*Empowering civil society organisations* – CSOs are the wellspring of social capital – people working together for a common purpose – that is essential for humane governance. CSOs can advocate and monitor reform that fosters sustainable human development.

*Countries in special circumstances* – While humane governance programmes can reduce the risk of crisis generally, the UNDP can support specific efforts before, during and after crises.

In the design and implementation of governance programmes and projects, UNDP emphasises participation, consensus building, flexibility and a long-term view of development (see box 1.3). When building strategic, national capacities, the UNDP focuses on programmes that are sustainable and centred on people, particularly those discriminated against and the poor. Given the UNDP's proven expertise in these areas, the organisation has taken the lead on governance issues for the United Nations System-wide *Special Initiative on Africa* (box 1.4).

**Box 1.3****Reforming governance to reduce poverty in Kenya**

Launched in March 1999 with support from UNDP, Kenya's new National Poverty Eradication Plan is a 15-year programme modelled on the commitments of the World Summit for Social Development. It recognises that previous poverty reduction efforts have failed to reach the poor largely because of implementation problems and weak governance structures. The government has established the Poverty Eradication Commission, comprising a cross-section of interest groups, as an independent body to monitor implementation of the poverty plan.

A notable aspect of the plan is its *Charter for Social Integration*, which states that citizens have the right to make decisions about matters that vitally affect their material and social well being. It also identifies basic needs with individual rights. Health, literacy, food security, clean water and freedom from injustice and physical harm are among the rights it underscores. Communities, the charter states, also have rights: they should be able to organise for their development, and minority communities in particular should have the right to maintain their cultural identities.

Although the plan emphasises inclusive and participatory development, practices at the district might fall short of objectives. District staff will have to be trained in new ways of designing and implementing projects so that beneficiaries are involved every step of the way. Previous projects, such as those carried out by the District Focus for Rural Development, stressed the importance of participation but were implemented as government-engineered activities. The challenge is to find appropriate governance structures to implement the participatory principles of the poverty plan. Considerable resources and broad democratic decision-making will be needed to involve the poor in advancing their own development (UNDP, *Overcoming Poverty: Poverty Report 2000*, [New York: UNDP, 2000], p.59).

**d) The importance of partnerships**

It is fitting to conclude an essay dealing with strategies for alleviating global poverty by underscoring the significance of partnerships – however varied and asymmetrical – in achieving progress toward human development.

Civil society organisations, business groups, the media, trade unions, religious institutions, think tanks, academia, governments and international agencies (both bi- and multi-lateral in nature) all have something to contribute to the struggle for greater justice, as well as social and economic improvement (see box 1.5). Working alone in isolation of one another, each of these actors would have a limited and short-lived impact in improving the quality of life in a community. On the other hand, through a complex web of partnerships based on the principles of *respect*

**Box 1.4**

**Combating poverty at its roots:  
The UN System's *Special Initiative on Africa***

Fifty-four percent of Africa's people live in absolute poverty, and Africa is the only region in the world where poverty is projected to increase over the next decade. The annual rate of population growth for the continent is the highest in the world, and twenty-two out of twenty-five African countries appear in the UNDP Human Development Index's category of 'low human development' (with African countries also comprising thirty-three out of the forty-seven labelled as 'least developed countries'). Further, the proliferation of armed conflicts – and the accompanying massive loss of human lives, refugees and internally displaced persons – strengthens the perception of Africa as a continent in turmoil severely lacking in political stability.

Against this backdrop and recognising that Africa represents the 'foremost challenge of global development', the United Nations System-wide Special Initiative on Africa was launched on 15 March 1996, with the participation of the Presidents of Ghana and Senegal, the Vice President of Kenya and the Prime Minister of Ethiopia, in his capacity as Chairman of the Organisation of African Unity (OAU), the UN Secretary-General, the President of the World Bank, and the Heads of several UN organisations. This integrated, multi-year programme has a two-fold purpose: (1) to develop further practical initiatives to maximise the support provided by UN system to African development; and (2) to raise the priority given to Africa in the international agenda. Regarding the second point in particular, the *Special Initiative* seeks to mobilise the political support needed to ensure that timely action is taken to remove the many obstacles to African development. Over the past several years, the programme helped to establish a supportive role for donors in Africa by reinforcing that Africans, both women and men, must be at the centre of their own development. In this spirit, most of the resources of the *Special Initiative* have been firmly rooted in national programmes of action that were locally defined and managed.

For managing the programme, a Steering Committee was established, co-chaired by the Administrator of UNDP and the Executive Secretary of the UN Economic Commission for Africa, and the following five working groups were set-up:

- Water (under the chairmanship of UNEP);
- Food Security (under the chairmanship of FAO);
- Governance (under the chairmanship of UNDP);
- Social and Human Development (under the chairmanship of UNESCO);
- Resource Mobilisation (under the chairmanship of the World Bank).

While Africa continues to exist on the edge of survival with, by many accounts, discouraging prospects, efforts such as the *Special Initiative on Africa* have helped the international community to focus seriously on a few issues of high priority and to effectively mobilise and co-ordinate the efforts of African governments and Africa's development partners toward achieving their stated goals (*United Nations System-wide Special Initiative on Africa*: <http://www.undp.org/rba/special/siamain.htm>)

and *shared responsibility*, the actions and influence of individual development actors can be scaled-up, creating new opportunities for hope and change among the beneficiary groups.

**Box 1.5**

**Promoting public-private partnerships in Trinidad and Tobago**

To advance poverty reduction efforts in Trinidad and Tobago, UNDP has worked closely with the government's Change Management Unit for Poverty Eradication and Equity Building, part of the Ministry of Social and Community Development. The unit includes the Secretariat of the Ministerial Council on Social Development, with representatives from 14 government-ministries and from the Tobago House of Assembly, which spearheads the implementation of the government's commitments at the United Nations-sponsored world summits. It also has a Civic Council on Social Equity, an umbrella group of 19 civic organisations to involve representatives of poor communities in a national policy dialogue.

One of the unit's more promising initiatives is the *Adopt a Community* programme, which fosters collaboration between the private sector and local communities. In 20 communities, selected through a 1996 survey on the determinants of living conditions, corporations assist the local government for 30 months with projects in education, training, infrastructure, sports and culture. Several companies, including local banks and multinational enterprises, have volunteered to participate in the programme. UNDP has been providing technical assistance to enable the unit to monitor the projects (UNDP, *Overcoming Human Poverty*, p. 79).

The conventional model of a technocratic government supported by donors was always incomplete. More than ever, policy and aid effectiveness depend on inputs from a wide range of agents and their institutional frameworks. Further, given that several of the development actors who hold promise for doing good are also the same organisations that can hinder progress, partnerships can serve another useful purpose: to create greater transparency in society and to shame organisations that harm others and the ecosystem into changing their behaviour. This has been one of the objectives of the UN Secretary-General's *Global Compact Initiative* with the international business community. When the bonds of respect and shared responsibility are established, people listen to one another, even if the advice is at times critical and seemingly against the short-term interests of the accused organisation or individual.

In the crusade against human poverty – *in all its dimensions* – the broader international development community must encourage a range of



partnerships to innovate good policies and to help build first-rate institutions, from the global level through the regional and national to the local levels. Partnerships must be at the heart of all future negotiations and implementation programmes, including for the upcoming Third United Nations Conference on the Least Developed Countries in May and next year's UN Conference on Financing for Development. The exchange of fresh thinking that will ensue from these experiences will facilitate the search for new ways to manage globalisation and to make markets work for all people, especially children, women and the poor.

#### 4. CONCLUSION

Globalisation has dramatically altered the way the world is organised. It has brought people closer, increased wealth tremendously, democratised the access to information and raised new hopes for the future.

Many of these hopes, however, have not yet materialised for a majority of the world's people. The world is still very unequal and a majority of its occupants suffer from either poverty or increasing human insecurity. The challenge for the new century is, therefore, immense. As the 1999 *Human Development Report* clearly recognises, we need to 'find the rules and institutions for stronger governance – local, national, regional and global – to preserve the advantages of global markets and competition, but also to provide enough space for human, community and environmental resources to ensure that globalisation works for people – not just for profits' (UNDP, 1999, p. 2). In our ability to succeed, rest the chances of constructing a world in which human poverty and inequality are no longer a problem.

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