Global Trade and Globalising Society

Challenges for Governance and Sustainability: the Role of the EU

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Globalisation and developing countries: diversity of causalities, performances, and policies

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1. Variability of outcomes and poverty traps

Globalisation is not a new phenomenon but it has new dimensions, especially technical, financial and informational. Its measures are varied, and relate to foreign trade and financial flows, but also communications and information technology. One important point is that the evolution of countries in terms of growth and participation in global trade is characterised by heterogeneity and variations, on the one side, and the existence of a group of poor countries lagging behind and seemingly caught in poverty traps, on the other. Developing countries are not alike, and during the period 1960-90, countries showed distinct patterns of growth, with a significant instability and volatility of growth rates, this instability being greater in developing than in industrial countries.

There is now a consensus on the rise of inequality within, and above all, between countries. The convergence of growth between countries and the process of catching up by the poorest countries, predicted by theory, have not been empirically observed. Rather, there has been a divergence between countries since the 1960s, with a decline in the share of world income of the poorest countries, and the constitution of different groups (or “convergence clubs”). Besides emerging countries, countries split up between two poles - the poorest countries, with many of them in Sub-Saharan Africa, and the richer ones - manifest a great variability in terms of growth. But recent global crises have shown that in the case of emerging countries, positions are never definitively acquired, and the risk of regression towards poverty is always present.

Variations and dispersion of performances

The meaning of globalisation differs depending on the developing countries under consideration. Developing countries differ enormously according to their GDP, in level and growth, their poverty rate and its evolution, the elasticity of this rate vis-à-vis the GDP, their human development (health, education), the relationship between human development indicators and their GDP, and between human development indicators and poverty rates.

Developing countries also differ in terms of market structure. Emerging countries export commodities and consumer goods to rich countries, and they have financial markets; this has been a cause of their exposure and vulnerability to global financial movements. Least developed countries, for example in Sub-Saharan Africa, export essentially primary commodities, and have extremely small financial sectors. Because of their low level of integration in world capital markets, they are less affected by globalisation, and by the potential contagion of financial crises which is one of its characteristics. However, the poorest countries are obviously vulnerable to global forces as they exhibit a high degree of openness (in terms of import and export/GDP). Almost all their wealth is based on commodities marketed in dollars, with the result that they are rarely in a position of being price-makers, and are heavily dependent on the fluctuations of their prices. In consequence, African economies have been affected by the Asian crisis not through financial channels but because of the declining prices of primary products that it triggered off. Developing countries also differ in terms of tax structure. Sub-

1 For instance, according to the Globalization Index made by Foreign Policy, Singapore is the world’s most « globalised » country, followed by the Netherlands, Sweden, Switzerland and Finland.
Saharan African countries are still deeply constrained by their colonial legacy: collection of revenue has a narrow tax base, and is grounded on taxation of external trade, which in turn obviously makes trade liberalisation difficult, linking it to simultaneous diversification of revenue source and tax reform.

Developing countries differ widely in terms of their external financing, with the importance of aid characterising the poorest countries, which receive almost no private flows. The reverse situation applies to emerging countries: while the poorest depend on the hazards of aid, the emerging ones depend on the erratic reaction of international markets. Countries also differ in terms of their participation in global trade and the evolution of their market shares. The growth of the market shares of developing countries is concentrated in a few emerging economies (e.g. Asian countries, especially China), while least developed countries have become even more marginalised. The 48 LDCs constitute less than 0.5% of global exports and Sub-Saharan Africa represents around 2% of global trade, an even lower percentage compared to 3% in the 60s. It attracted 1.5% of the total cumulated FDI in 1995-98 (5.4% in 1975-79): for instance, in 1998, it attracted the tiny amount of 5 billion US dollars in FDI (compared with 70 billion for Latin America).

They differ also in terms of education and, consequently, the supply of human capital and skills. Education was a priority for countries in East Asia at an early stage in their development. This contrasts with Africa, where the level of education is very low, and has sometimes even fallen. Globalisation, in its dimension of technological change, has had the effect of increasing the price of skills for which there is a global demand – educated, technically trained, and mobile individuals. While it explains part of the global inequality, this process has questioned the validity of the conventional trade theory that considers cheap labour as a comparative advantage of poor countries, and that its price should rise with openness.

There is also a dynamic dimension in this difference, in this “tectonic” type of growth. There is a regional effect of growth, as shown by the intra-regional trade between ASEAN countries. The benefits of trade and openness with neighbouring countries are minor when the latter are caught in civil wars or are very poor. Moreover, increasing competition to sell goods and attract global flows now makes it even more difficult for poorer countries to catch up.

Thus, some countries, especially in Sub-Saharan Africa, seem to be caught in poverty traps and lag behind the others, even after two decades of adjustment programmes and aid from the donor community. Many indicators show a gloomy picture, e.g. demography, health (AIDS), etc. In almost all countries of Sub-Saharan Africa, the majority of the population is below the international poverty line. Understanding the causes and solutions is a difficult challenge and a moral obligation. The last decade has witnessed a growing literature on various determinants of economic growth, and some scholars have evoked a possible “African dummy”, some specific African feature that could explain this stagnation. Yet it is not conclusive, and policy or other characteristics seem to be more relevant. Performances of African countries correspond to the - low - level of their endowments and capacities, and trade policy operates as it does elsewhere, being handicapped by low levels of human resources, infrastructure, macroeconomic stability and the rule of law.

The political economy dimension

The political economy of developing countries is, equally, very diverse. Firstly, they differ in terms of external and international political economy, and geopolitical weight, which has been strategic for aid flows and the treatment of crises by the international community. This has been the case of non-

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5 Kubota (2000).
7 World Bank, World Development Indicators 2000, fig. 5.1.
8 Wood (1994).
9 Discussed in Englebert (2000).
10 As shown by Rodrik (1998).
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communist Asian countries where the cold war justified the strategy adopted by western powers, aimed at their development and enrichment11, and the rise of so-called “developmental states”12.

Secondly, they differ in terms of internal political economy. Poor countries, especially in Sub-Saharan Africa, are plagued by predatory and anti-development regimes, which largely explains their poor economic and social indicators13. Marginalised by the poverty trap built by political instability, poverty and the low level of education and wealth, these countries are, in a way, barely concerned by globalisation.

On a cross-country basis, the relationship between economic performance and particular political regimes is not fully conclusive and continues to be the object of intense debate. However, it is possible to distinguish two groups, with threshold effects. Lack of democracy and political instability are harmful for poorer countries14. Stable democracy is associated with richer countries15. The variability found in the domain of income per capita applies to institutions, as well as the two-way relationship. Richer economies can afford better institutions, and the quality of institutions has an impact on economic performance. Historical legacy, for instance the type of colonialism, also has a determining influence16. The diversity of initial conditions, and even geographic location, can be added to the political economy dimension; for instance, Sub-Saharan Africa did not inherit a favourable position, which may be partly the reason for its poor economic outcomes.

Also, on a case study basis, the link (sometimes being accepted by the academic community) between authoritarian regimes and easier implementation of reform no longer holds, as shown by the aspirations of a majority of Asian countries, intensified by the crisis of 1997-98. At the same time, undemocratic political regimes and, more generally, serious problems of governance are one of the main factors accounting for low levels of development in Sub-Saharan Africa and elsewhere (Myanmar, for example). These problems include lack of legitimacy, low credibility of policies, corruption, civil strife and social fragmentation, among others. In sub-Saharan Africa, low credibility of policies, e.g. liberalisation, recurrent policy reversal and priority of political motives have induced a perception of high risk, together with a “wait and see” and speculative behaviour17. Depending on the country under consideration, the trust of economic agents in government policies is thus very variable, as expressed in capital flight. The Middle East and Sub-Saharan Africa exhibited devastating ratios of capital flight on wealth during the period 1970-90 (0,39) while being poorer, compared to other developing countries (e.g. 0,06 in East Asia)18.

2. Different meanings and instruments of global governance

In this context, the notion of governance, whether global or local, needs to be adapted to the variability of trajectories and situations. Previous attempts and institutional arrangements to enhance the global integration of poorer countries have failed. It is a well-known fact that the economic impact of the Lomé Convention and its preferential schemes for ACP countries has been weak. There is an equal failure in the impact of aid, especially in Sub-Saharan Africa.

The lack of coherence of rich countries is still a major problem: protectionism of developed countries, agricultural policies and subsidies that destroy economies, which are at the same time recipients of international aid19. A reduction in trade barriers, associated with a 50% cut in tariffs by both developed and developing countries, would induce gains of 150 billion for developing countries.

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12 A synthesis of debates is in Woo-Cumings (1999).
16 Acemoglu et al. (2000).
17 Bevan et al. (2000).
18 With the same procedure of calculation; see Collier et al. (1999).
around three times more than aid flows. This aid also produced negative effects of dependence, as countries have no control on its variability and the “fatigue” on the donor side. The current practice of separating trade and aid, and of abandoning the poorest countries to development assistance and NGOs, is a short-term solution.

**The role of multilateral entities**

One issue is to rethink the role of the international community, and the adjustment of existing multilateral institutions to the variability of situations and the specific problems of the poorest countries caught in economic and political poverty traps. The uniform policy package and macroeconomic measures of the “Washington consensus” have not been appropriate everywhere. The protectionism of developed countries and the differential treatment recommended by multilateral institutions, depending on the geopolitical bargaining power of a given country, have eroded the credibility of these multilateral entities. This has caused misunderstandings among activist groups throughout the world, while in developing countries the perception of an implicit foreign policy of rich country has induced populist, nationalist or religious reactions.

Non-participation in globalisation or its negative effects, i.e. the lack of integration or the vulnerability of developing countries, may have economic causes. A thorough economic analysis of the real causal processes is therefore needed. These may prove to be very controversial, as shown by the ongoing disagreements over the roots of the Asian crisis, and the respective role of the States, national private sectors and multilateral institutions. This is a dimension of the “new international architecture”, which cannot remain purely financial, and of global public goods as represented by the adapted mandates of multilateral institutions. In consequence, it requires economic measures and support from the international community.

Weak global integration or vulnerability may also have political causes. These may be external, resulting from the specific interests of a bilateral State or private interest groups, or they may be internal to the countries. As mentioned above, the topic of governance must first be addressed within countries. But even in the case of openly anti-developmental and predatory governments, the capacity of the international community and external organisations to interfere in, and change, internal institutions and political regimes continues to be a delicate issue.

First of all, local institutions are endogenous processes. They are difficult to change from the outside, many unexpected side-effects may occur, and there is a permanent risk of negative reactions vis-à-vis anything that originates from rich countries, stemming from the recipient’s view that global power relations are inequitable (in other words, “hegemonic interests” are at stake). Secondly, the credibility of multilateral institutions is based on a certain degree of internal and external neutrality, as well as on apolitical mandates, which are explicit, for instance, in the case of the Bretton Woods institutions. In practice, this makes it difficult to transform national political situations and to improve local governance. It also raises the question of the nature of the instruments, especially institutional and political ones, in view of the fact that financial instruments such as aid (and even mixed ones such as technical assistance), did not produce the expected success. Their limitations are reflected in the “aid fatigue” experienced by rich countries.

The task of the EU is to think about the new global role, context and capacities. Until now, it has failed to develop an original analysis of the causes of poverty, and the reasons for the failure of past reforms and policies in the poorest countries. It has been rather timid about proposals that could be adjusted to specific situations in developing countries and regions, e.g. poverty traps. It is often paralysed by its internal divergences between member countries and private interests. In the face of greater complexity and heterogeneity, messages coming from the international community have, on the whole, been simple and uniform.

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21 Kanbur (2000).
Knowledge

Globalisation also implies globalisation of knowledge, and not only knowledge coming from a particular model (coined as the “Empire” by some). This knowledge is both knowledge on developing countries, and knowledge as a good, which may be helpful for developing countries.

With respect to the first aspect of knowledge, the EU has comparative analytical advantages in areas, such as the role of the State, social policies and standards, public services, public goods, whether global or not. These are in line with current reflections on the post-Washington consensus or the inclusion in policy reform of social issues such as poverty, inequality, labour and its status vis-à-vis capital. These issues are increasingly perceived by the various by the actors, whether multilateral, governmental or civil, as intrinsic components of development.

The second aspect of knowledge points to another issue, that of the representation and empowerment of the poorer countries in global institutions. It has been observed that many of them have a low degree of participation in the multilateral institutions of which they are members. A deficit in local “ownership” and “participation” is often recognised as one of the main factors for the weak development and global integration of poorer countries. This operates at an institutional level. Thus, their presence and weight in multilateral arenas may be very limited due to poverty, budgetary constraints, domestic priorities and poor institutional capacity, but sometimes also to the political agenda of local governments. The latter may not be oriented towards the development of their countries or the needs of their civil society, and are therefore indifferent to the possible gains from globalisation and openness – or even hostile, if it threatens their staying in power. This is an area in which the EU can deepen its analyses, and reinforce its potential role and instruments.

The deficits in participation also operate at the level of knowledge. Asymmetries of information are an important dimension of inequalities between countries, especially in the domain of trade. This may take the form of a lack of understanding, expertise or interest about the compared advantages or drawbacks of different types of economic reform. Globalisation is accompanied by increased interactions and, therefore, by complexity and technicalities. The poorest countries do not have the financial means and human resources to master the technical stakes and to maintain the relevant information networks on a global scale (for instance, in dispute settlement). Educated individuals tend to migrate to richer countries in search of better prospects, thus creating a vicious circle and perpetuating potential poverty traps at macro-level. Moreover, in the case of education, these traps have an intergenerational dimension. Multilateral institutions may, in this instance, play a role in helping to disseminate global knowledge and build up local expertise through different instruments (dissemination, education, training, and information technology). While support for the dissemination of knowledge is one of the dimensions of international public goods, it can strengthen the legitimacy of multilateral entities vis-à-vis governments of developing countries, as well as civil society in developed and developing countries.

Local governments, academics, experts and representatives of civil society, may have knowledge that is often insufficiently taken into account, sometimes locally by their own governments in the case of domestic experts, or in multilateral settings in the case of governments of poor countries and their civil society. In the first place, these problems of knowledge require to associate and improve the capacities of national scholars and experts, often ignored in mainstream documents or conferences. Participation is not only an institutional process but also an intellectual one. Secondly, they oblige global policymakers to carefully evaluate the local social and political costs, and the feasible time span before expected collective gains, depending on the specific history and features of the countries concerned, and the existence of effective compensation schemes and safety nets before the implementation of trade reform.

22 Dasgupta (1997).
**Winners and losers**

There is a broad consensus on the overall benefits provided by trade and openness. Yet the debates are still going on, especially with respect to the measures of openness and the choice of base years. In addition, there are deep suspicions on the part of the poorer countries on the fairness and real objectives of the proposals originating from the richer countries. These suspicions will persist as long as the latter continue to practice or recommend selective trade openness (which seems to be proportional to the geopolitical weight of developed as well as developing countries), to protect their own sensitive sectors, to subsidise their non-competitive national industries, and to oppose projects for abolishing barriers for the least developed countries (e.g. the EU proposal on LDCs imports except munitions). Moreover, fair initiatives and concessions directed at the poorest countries may imply losses for other developing countries, increased competition between them and an erosion of the preferences they may have previously enjoyed. Whatever the explanation for the Asian crisis, it is generally accepted that the strategies allowing the economy of Asian countries to take off were not primarily based on trade liberalisation and the opening of all sectors to world competition, but on successful public policy intervention (as in Korea or Taiwan).

What is more, some civil society groups may consider new initiatives officially aimed at a better integration of poor countries as illusory. A case in point is the recent US Africa Growth and Opportunity Act, which only includes “imports that are not sensitive” for American producers in its free access scheme. The new Convention covering ACP countries has also been the object of criticism, even if the failure of the previous arrangement has been admitted. The formal distinction between LDCs and non-LDCs may lead to greater complexity and new divisions. The poor countries of Sub-Saharan Africa often complain that the full implementation of adjustment programmes seems to apply exclusively to them, as they do not have any international bargaining power. For many developing countries, the Asian crisis has intensified the suspicion that globalisation is a “rich country’s game”, whose rules favour the most competitive. Poorest countries are aware that even the few commodities they export are not always competitive. Moreover, especially in Sub-Saharan Africa, the Bretton Woods institutions may have contributed to the erosion of the few comparative advantages they possess. Some standardised reforms (for instance, recommending the same commodities in many countries, like cocoa or coffee, or analogous export processing zones, etc.) ended in an intensification of competition and a depression of international prices, due to a fallacy of composition effect.

In certain countries or sectors, globalisation and liberalisation may lead to the emergence of new losers as well as winners. Although in general trade liberalisation helps to reduce poverty, it may also increase poverty in certain cases, depending on the market structure, wages, level of skills in the export sector, and so on. When surveys are available, they may show that in some countries, trade liberalisation has exacerbated inequality. Economic models and simulations of the effect of trade liberalisation on developing countries show, above all, that its impact on poverty works on a case by case basis.

A number of scholars have challenged the consensus on the positive link between growth and trade openness, as measured by lower tariffs and non-tariff barriers. The uniqueness of the standard policy package recommended by the “Washington Consensus” has been questioned: appropriate policies vary according to the countries, their stage of development and the types of global forces they face. The Asian crisis has put to the forefront the notion of a cautious opening of the capital account.

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23 Rodrik (2000b).
26 Winters (2000).
27 Trade liberalisation has thus worsened distribution for black population in South Africa; see Devarajan and van der Mensbrughe (2000).
28 Hertel et al. (2000) using the GTAP model.
30 Mosley (2000).
and the possible relevance of capital controls. Globalisation, openness and trade integration cannot replace reflections and strategies on development.

Thus, deficits of legitimacy and credibility constitute important topics for reflection: they affect not only the internal political economy of poorest countries but can also be found within multilateral institutions and more powerful member countries. The EU and the US can lead by example in setting rules aimed at equity and building consensus and, above all, in adhering to them, as this could contribute to their renewed legitimacy. As stressed by the international labour movement, although globalisation in itself is not harmful or beneficial, it is shaped by those who set the rules. Globalisation can become part of the solution, and not of the problem, for the world’s poor, provided its benefits are shared equitably by all. The EU may have a strategic role to play in linking together the dimensions of trade and development by placing at the forefront the issue of equity.

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31 Advocated in particular by Malaysia. This has been developed in several writings of Joseph Stiglitz.

32 As clearly reminded by Rodrik (2000a).

33 This is, for instance, advocated by Jeffrey Schott (The Economist, August 26, 2000).


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