

Globalization and the Anti-Globalization Lobby:
Investigating Two Sides of One Veracity

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Globalization and the Anti-Globalization Lobby:

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1. Introduction

Once again, for the n^{th} time, the members of the anti-globalization lobby went into rampage. This time it was in Santiago, Chile. The occasion was the annual meeting of the APEC Forum, held in mid-November 2004. Over 60,000 protesters were hurling Molotov cocktails and stones at police who retaliated with tear gas and water cannons. Arrest of 500 demonstrators made little difference in the determination and the ferocity of the rally against globalization and free trade. Granted that globalization is an emotive issue. Granted also that globalization has had its winners and losers. If the members of this group take a good look at the two sides of the coin in an objective and unprejudiced manner, they are sure to see the folly of their ways. A great deal of evidence is available to show that on balance, globalization has had enormous beneficial effect and has improved the plight of the poor in the global economy. It also shows promise to do more of the same in the future.

A conspicuous and much-extolled achievement of globalization is rapid economic growth during the last quarter of the last century in several—mostly middle-income—developing economies that came to be better integrated with the global economy. This process led average global per capita income to more than triple in the latter half of the twentieth century. There is no gainsaying the fact that there are both winners and losers from globalization. This statement is true both at micro- and macro-economic levels. The issues of the impact of globalization on poverty alleviation, domestic income distribution and global income disparities have received a great deal of attention from policy mandarins and academics alike (Das, 2004a). Commitment to eradicating poverty was renewed in the Millennium Development Goals (MDGs). The first one of these goals “calls for reducing the proportion of people living on less than \$1 a day to half the 1990 level by 2015—from 27.9 percent of all people in low and middle income economies to 14.0 percent. The Goals also call for halving the proportion of people who suffer from hunger between 1990 and 2015.”¹

There is a flip side of this coin. Notwithstanding the favorable impact, there are distinct possibilities of globalization hurting the poor. It has been observed that the lower the skill level of the people, the greater is the probability of getting adversely affected by the onward march of globalization. Globalization causing

¹ United Nations. 2000. “United Nations Millennium Declaration”. Declaration made during the Millennium Summit held in New York during 6-7 September.

closure of businesses and raising rates of unemployment aroused strong upsetting emotional responses in many societies. But these are essentially short-term and exclusive phenomena. This paper provides a dispassionate and objective analysis of favorable and unfavorable impact of globalization over global poverty and concludes that, all things considered, globalization has not hurt the poor segments of populations. On an average the incidence of poverty in the world has declined. Furthermore, expanding globalization is more likely to assist in achieving the first MDG than not and the large anti-globalization lobby needs to thoughtfully restrain itself.

2. Globalization: Vintage 21st Century

During the last quarter century, the concept of globalization acquired a good deal of currency as well as involvement from various stakeholders. Its relevance and significance extends well beyond economists, to policy makers, politicians and to general public at large. Therefore, it came to acquire considerable emotive meaning and force. The concept lacked *one* crisp, widely accepted definition. If anything, the term globalization is used as a portmanteau. It has become a cliché, a trite, and a stereotype expression that has lost its ingenuity by long overuse.

The multidisciplinary and multifaceted nature of globalization is obvious from its economic, financial, business, political, technological, environmental, cultural, educational, international relations and national and international security related dimensions. They may frequently be mutually reinforcing but they are diverse in their origins. Therefore, it has become an area of intense academic curiosity. From an economic point of view, globalization represents a process of increasing international division of labor and growing integration of national economies through trade in goods and services, cross-border corporate investment, capital flows and migration of human resources. Like economic growth, it is a complex meta-process. Globalization is known to influence factor prices. As the integrated world markets expand economic freedom and spur competition, globalization raises productivity in economies that open themselves to the global marketplace (Das, 2004b).

Those who use the term globalization disagree about its consequences. The concept has both fervent supporters and trenchant critics, although most economists fall in the former category. Its supporters believe that it has lifted or can potentially lift millions out of poverty. Conversely, its critics believe that it has pushed millions into deeper poverty. There are some academic analysts who straddle both the beliefs.² While admitting the welfare effects of globalization, this group of analysts contends that the power structure of national and supranational institutions is such that potential benefits of globalization cannot be realized. It is because of this limitation that globalization has turned into “a perverse malign force hurting millions”.

² Nobel Prize winning economist and former Senior Vice President of the World Bank, Professor Joseph E. Stiglitz, is one such famous academic analyst.

A conspicuous and much-extolled achievement of globalization was rapid economic growth during the last quarter of the last century in twenty-plus developing economies that came to be better integrated with the global economy. This set of developing economies earned the name of emerging-market economies (EMEs). “This process led average global per capita income to more than triple in the second half of the last century.”³ There is serendipity in globalization and several emerging market economies benefited from it during the preceding quarter century. Frequently given examples of globalization include: emergence of China⁴ as a potential economic power, alleviation of abject poverty in three large and populous developing economies (for instance, China, India and Indonesia) and a small number of other developing countries, integration of financial markets, recurring financial and economic crises, and accelerated migration of populations to centers of economic activity.

Those who contend that globalization has exacerbated poverty around the world are wrong (See Sections 7 below). A large proportion of world’s poor live in the rural areas of China and India. After globalization in these two economies began, the poor people in these two economies discernibly benefited. China recorded an average GDP growth of 10 percent in real terms during the decades of the 1980s and 1990s, and the proportion of poor fell from 31 percent in 1987 to 4 percent in 2000. Similarly, India also experienced acceleration in real GDP growth rate to close to 6 percent per year since economic liberalization began. The average GDP growth rate for three decades before liberalization began was 3.25 percent in India.⁵ The proportion of the poor in population dropped from an average of 50 percent during the 1950-80 period to an average of 25 percent in 2000 (Srinivasan, 2002).

Besides, there exists a country group that failed to benefit from globalization. Majority of the members of this group are located in sub-Saharan Africa. Not only poverty did not decline in these countries, but also in many cases it increased. The causes include their inability to liberalize their domestic economic structures and integrate with the global economy. Additionally, these countries suffered from deeper problems of political strife, social tensions, ethnic conflicts, and poor governance.

³ Horst Kohler, Managing Director, International Monetary Fund, *Strengthening the Framework for the Global Economy*, a speech given on the occasion of the Award Ceremony of the Konrad Adenauer Foundation, Berlin, November 15, 2002. Available on the Internet at <http://www.imf.org/external/np/speeches/2002/111502.htm>.

⁴ Until 1980, the People’s Republic of China was grouped with the poorest countries in the world. It recorded double digit growth over the 1980-2000 period, doubling its per capital income every decade. In 2002, a lean year for the global economy, real GDP in China grew by 8 percent.

⁵ The People’s Republic of China adopted the Deng doctrine or “Open Door” policy in December 1978 while India started its first major economic liberalization program in July 1991. India had earlier tried to unsuccessfully launch liberalization programs in 1984 and 1988 also.

There are both winners and losers from globalization. The benefits of globalization and heightened competition are limited only to those economies that participate in the ongoing globalization process. Protected sectors of the economy—and firms and workers in them—stand to lose from globalization. Countries and regions that did not participate in the ongoing globalization of the last quarter century have lagged behind. Some of them were unable to do so because they had failed to improve their investment climate and had problems with protection of property rights. Myanmar, Nigeria, and Pakistan are the cases in point.

3. Benevolent versus Malevolent Debate

We have noted above that globalization has spawned both winner and loser economies. Vociferous debate over whether globalization is a benevolent force or a malevolent one has been on for a while now—sometimes accompanied with motley street theatre, other times in a violent manner. A degree of globalphobia exists among the average citizenry, although average economists are unconcerned. The international backlash against globalization is strong. One of the favorite arguments of the opponents of globalization is that globalization is a “destroyer of cultures” and that it is bringing about a global cultural homogenization. However, if you look beneath the surface and ask people in different countries where their loyalties lie, how they regard their families, and how they react to authority, there will be enormous differences. When these people examine a culture, their vision is limited to aspects like the kinds of consumer goods that people buy, which is the most superficial aspect of culture. A culture really consists of deeper moral norms and social mores that affect how people link, live and work with each other. Thus, this argument of uniformity in consumer culture leading to cultural homogenization is exceedingly superficial and weak.

Many developing economies have not integrated with the global economy and have been left out of the burgeoning trade and financial flows. They turned out to be the losers of globalization. Instead of merely denying the failings of globalization, one needs to set them in some sort of context. One needs to attempt to work out what governments and people on the comfortable side of the “red-lacquered gate” can do to solve them (Micklethwait and Wooldridge, 2000). The principal reason this debate has continued to be so frustrating is that supporters and opponents of globalization rarely listen to each other. There is so much evidence available that each side can go on *ad infinitum* without even bothering to acknowledge the other.

Some observers of the globalization process opine that it is ruled by the laws of the market applied to suite the well-managed market economies, which happen to be geopolitically powerful nations. Concerns regarding the negative influences have been expressed by a diverse range of individuals, ranging from Pope John Paul II to George Soros. Various global issues have huge political and cultural dimensions, and economics and the law of market often seem out of synch with

them, leading to negative consequences for several economies (Micklethwait and Wooldridge, 2000).

To leftist mythology and to diverse citizens' groups, globalization and multilateral institutions, particularly the Bretton Woods twins and the WTO, seem to represent a sinister conspiracy against all that is good. These groups range from environmental groups, to labor unions, to human rights activists, to development lobbyists, all with different penchants and agendas. They have learned the use of media masterfully and have become increasingly powerful at corporate, national, and global levels. On several occasions they succeeded in arousing enough public interest as well as public pressure. They had succeeded during the Earth Summit in Rio de Janeiro in 1992 in pushing through an agreement on controlling green house gases, during the World Bank's anniversary meeting in 1994 in forcing a rethink of the Bank's goals and in sinking the Multilateral Agreement on Investment (MAI) in 1998. The MAI was a draft treaty to harmonize the rules of foreign investment; the OECD economies and Secretariat had devoted a great deal of time and efforts to the MAI.

The maxim that globalization is a benign force is one of the principal strands of liberalism in the classical sense. In free global markets, firms would maximize profits and people would choose the best options from a much wider range. This in turn would lead to socially optimum outcomes and maximize global welfare. However, the liberal tenet presupposed an important, if not adequately forceful, institutional role. That is, national governments and supranational institutions were to ensure provision of public goods, in that they were required to ensure legal and contractual environment for the efficient functioning of competitive markets. They were also expected to address the issues of externalities and anti-competitive tendencies. The moot question is whether these abstract assumptions are fulfilled in a real life situation. If they are, the following question is to what extent they are fulfilled.

Antagonists have put forth several arguments. For one, trade in real world is not free, as the protagonists of globalizations assume. Trade barriers and NTBs against the product range of interest to the developing economies in the industrial economies are high. Farmers and dairy product producers in the industrial economies are highly subsidized, thereby driving the poor unsubsidized producers from the developing economies out of the global markets in these products. Voting in the international financial institutions (IFIs) is weighted, which gives large industrial economies, like the US, virtual veto power in the governing boards of the IFIs. Although the WTO members have voting rights, members seldom vote except when they ratify the entry of a new WTO member. Traditionally the WTO decisions are consensus-based. More often than not, interests of the developing countries do not prevail in the consensus-based decision making mechanism. Therefore, one can say that globalization is unfettered capitalism, which serves the rich countries in making them richer. These arguments are superficial and seem convincing on their face value.

However, close scrutiny easily reveals that that while some are highly exaggerated, others are erroneous. The ones that are valid, can easily be rectified.

Economists believe that at an aggregate level globalization is a substantial boon. If one sheds polemics and looks at globalization in a pragmatic manner, one finds that it is essentially a benevolent force that creates opportunities for rapid growth and faster poverty alleviation *in the economies that are ready for it*. That is, in those economies in which domestic economic, social and political environment is conducive to underpinning the process of globalization. Many developing economies with endemic corruption, ineffective legal system, and poor property rights, do not provide supportive ambiance for globalization to set in motion the virtuous circle or the growth spiral. In such economies, many economic and non-economic barriers to globalization exist. For instance, financial system discourages risk taking. Other major economic barriers are discussed below in Section 4. Conflicts with neighbors and civil and sectarian strife do not allow globalization to lay down its roots. Therefore, the primary challenge for these developing economies that are being passed by globalization is to transform their domestic environment and strengthen their institutional framework in such a manner that they become conducive to globalization (Srinivasan, 2002).

4. Globalization and Poverty Alleviation

The issue of the impact of globalization on (i) poverty, (ii) domestic income distribution and (iii) global income disparities has received a great deal of attention. However, the debate and coverage was somewhat biased towards how globalization is affecting the wage and income inequalities in the industrial economies.⁶

4.1. Can Globalization Hurt the Poor?

Whether globalization hurts or benefits those who are in the low-income deciles on the income distribution curve has become a contentious issue in several quarters. For the pro-globalizers, the gut reaction is: how can a phenomenon that has immensely benefited so many economies over time hurt in any manner? But even the most ardent pro-globalizers has to understand that globalization can hurt the poor in several ways in the short-term. For instance, as the reform process takes hold and trade policy reforms advance, there is a distinct possibility of a rise in the short-term unemployment rate, resulting in greater poverty for the unskilled and semiskilled labor. Developing economies are known for a high degree of labor market distortions like a low degree of wage flexibility, and imperfect labor mobility across sectors as well as geographical regions. Which makes the low-skill or unskilled labor force more vulnerable at the time of trade reforms. Economic liberalization promotes the entry of global firms and TNCs, which intensify competitive pressure on the domestic firms, throwing some of them out of business. In the short term unemployment is sure to rise because

⁶ See, for instance, Lejour and Tang (1999) and Robertson (2000).

workers cannot easily move across sectors or industries. In the developing economies, reallocation of labor from uncompetitive sectors to competitive ones and from tradables to non-tradables is either very slow or nonexistent. Also, in many developing economies there are few provisions for re-skilling of the newly unemployed workers.

The new trade theories talk of trade-growth nexus, but such a relationship exists only in the high-technology industries. Many of the developing economies are technologically not highly advanced. Exports of many of these economies, although not all, are concentrated in “non-dynamic”, low-tech sectors like textiles or raw materials. Therefore, the immediate impact of globalization and liberalization is in many cases fall in the rate of trade expansion and growth rates.

Globalization and trade liberalization may also lead to diminished demand for low- and un-skilled labor, which in turn may worsen poverty and income distribution. The experience of many emerging markets in Latin America demonstrated that during the 1980s and 1990s, globalization and trade liberalization created high demand for the skilled labor. With that the wages of skilled labor rose relative to those of the unskilled ones, skewing income distribution in favor of the former. Higher technology follows globalization and trade liberalization, which in turn requires highly skilled labor force. The relative demand for the old fashioned unskilled or semi-skilled labor force declines (Winters, 2002). Thus, there are distinct possibilities of globalization hurting the poor.

4.2 Globalization and Incidence of Poverty

The next questions are: Has globalization hurt those in the low-income deciles? Has it harmed the developing economies by causing too many business closures? An honest answer is that while there are individual instances of its “hurting” the uncompetitive sectors and firms, and the capital and labor deployed in these sectors, there is evidence to show that on the whole it has not hurt the poor segments of populations. As alluded to above (in Section 1), on an average the incidence of poverty in the world has declined. Despite the world population growing by 1 per cent a year during the 1990s, and the population of the low-income countries growing by 2 percent a year, the incidence of poverty has fallen. The number of people living in extreme poverty, or below the poverty line, had stopped rising since 1980. The internationally accepted poverty line defined as the daily income of \$1.08 or below in 1993 dollars (WB, 2001).

As the Table 1.1 shows, the proportion of people living below the poverty line has been falling globally as well as in many regions. Some regions have been particularly successful in alleviating poverty. The largest declines in absolute poverty have been recorded in East Asia and the Pacific. However, it has been virtually stationary in sub-Saharan Africa, and increased in Latin America and the Caribbean. This increase in absolute poverty was largely caused by prior

extreme inequalities in educational attainment. In addition, global integration in Latin America and Caribbean has further widened wage inequalities between the skilled and the unskilled, resulting in an increase in the number of absolute poor. A sharp rise in the number of absolute poor in Eastern Europe and Central Asia reflects the recent fundamental transformation of these economies from a centrally planned to a market economy system (Section 5).

Table 1.1
Proportion of People Living on or Below the Poverty Line

Region	1987	1998
		(in Percent)
1. East Asia and the Pacific	26.6	15.3
1.1 excluding China	23.9	11.3
2. Eastern Europe and Central Asia	0.2	5.1
3. Latin America and the Caribbean	15.3	15.6
4. Middle East and North Africa	4.3	1.9
5. South Asia	44.9	40.0
6. Sub-Saharan Africa	46.6	46.3
7. World	28.3	24.0
7.1 excluding China	28.5	26.2

Source: *World Development Report 2000/2001*. New York. Oxford University Press.

Since the late 1960s, a large part of the population of the developing world has experienced faster real income growth than the population in the matured industrial economies, albeit there are disparities in this regard. During the contemporary phase of globalization, cross-country income inequality has not been rising. In a small way, the differences have begun to be narrowed (CIE, 2001).

4.3. Globalization and Quality of Life

Among the trenchant critics of globalization there is an articulate “can-you-eat-GDP?” group, which argues that human well-being is not synonymous with growth. While GDP and per capital income are perhaps the best measures of material well-being, they are important because they help provide nations, societies and individuals the means to improve the other measures of human well-being. According to Goklany (2002) these measures include freedom from hunger, health, mortality rates, child labor, educational levels, access to safe water and sanitation, and life expectancy. With the rise in GDP and per capita income, this set of indicators improves, but there is no linear relationship between the two. At low levels of per capital incomes the improvements are

rapid, but they slow down as per capita incomes rise. Improvements in these indicators stop as they reach their practical limits, notwithstanding the rising per capita incomes.

In a comprehensive study, Goklany (2002) examined five indicators that measure distinct, although related, aspects of human well-being. Three of the measures were the measures of human misery (namely, (i) availability of food supply, (ii) infant mortality, and (iii) prevalence of child labor). These three reflect negative well-being. The fourth measure was life expectancy at birth, which is a positive measure and perhaps the most important indicator of human well-being. The fifth is the human development index (HDI) computed annually by the United Nations Development Program (UNDP). In response to the recognition of the fact that there is more to development than GDP, the HDI was developed by the UNDP. With the onward march of globalization, Goklany (2002) found that these indicators of human well being improved as per capital incomes rose. The rate of improvements was higher at the lowest levels of per capital incomes. Greater wealth means more resource allocation, both directly and indirectly, to education, health and other human welfare related areas. Better literacy levels and improved education translates into greater technological innovation and diffusion of technology. A well-off society is better able to use existing technology for improving child welfare (including reducing infant mortality) and life expectancy. The latter can be improved by treating water supply, improving sanitation and basic hygiene. It can also be improved by providing vaccinations, antibiotics, insect and vector control, and pasteurization. Over the last half century, the well-being of a large majority of global population has discernibly improved. The average person lives better and longer now than half a century ago. The average person is also less hungry, healthier, more educated, and is more likely have children in class rooms than in a shoddy workplace.

Several other indicators are available to show that the quality of life around the globe has been improving, although a great deal is yet to be done. Interestingly, the improvement in the quality of life in the developing world are taking place with a faster pace than in the past and faster than in the industrial economies (CIE, 2001). GDP and per capita incomes and quality of life are directly related. Statistics compiled by Sab and Smith (2001) demonstrate that convergence in human capital is presently afoot.

4.4. Globalization and Poverty Alleviation: A Nonlinear Relationship?

We also need to answer how the domestic—or within country—income distribution is influenced by globalization. It is possible that a linear relationship does not exist between globalization and domestic income distribution. Using the newly developed database created in the context of the work on world income distribution and using household survey data, Milanovic (2002) attempted to answer this query. The first advantage of the new database is that it is entirely based on national household surveys around two benchmark years (1982 and 1997), which made income inequalities statistics fully and mutually comparable.

The second advantage is that we do not have to deal with one or two income inequality measures like Gini coefficient or Theil index but the actual data on income levels across ten deciles of income distribution are available for providing comprehensive results.

Milanovic (2002) attempted to gauge the effects of globalization on how the overall shape of income distribution changes, that is, the income distribution at decile levels. This exercise concluded that when an economy is at a low income level, it is the rich, or population in the higher deciles, that benefit from globalization. When the per capita income rises and reaches the levels of countries like Colombia, Chile and the Czech Republic, the situation changes and the relative income of the poor (bottom deciles) and middle-income (intermediate deciles) people rises more compared to those of the rich. Thus, globalization makes within country income distribution worse before making it better. Put differently, the effect of globalization “on country’s income distribution depends upon country’s initial income level”.

Agenor (2002 and 2003) reached similar, if not the same, conclusions.⁷ His conclusions were based on linear cross-country regressions linking various measures of real and financial integration to poverty. Using data for the 1980s and the 1990s, regression analysis was performed over a group of 11 low- and middle-income economies. The regressions were controlled for changes and income per capita and output growth rates as well as various other macroeconomic and structural variables. Based on principle components of analysis, Agenor (2003) also derived a globalization index and tested it for linear and nonlinear effects. His results indicated that there appears to be a robust, non-monotonic, Laffer-type relationship between domestic income distribution and globalization. He concluded that at a low degree of globalization, globalization does hurt the poor. But at higher levels, globalization leads to a decline in poverty and the poor sections of the population benefit from it. Both of these studies stressed the nonlinearity involved in the advancing globalization on the one hand and domestic poverty and income distribution on the other.

4.5 Globalization and Inequality: The Case of China

China is the largest developing economy that embarked on economic liberalization and openness to trade and financial flows a quarter century ago. The economic reform and liberalization program, which was launched in 1978, not only stayed the course but also broadened its scope in the subsequent two decades. It led to double digit GDP growth in real terms in China.⁸ Its liberalization program helped in globalizing the economy. This benefited large sections of the population and the number of people living below the poverty line, as noted earlier, declined markedly. China has a middle-class whose size was

⁷ Permission to cite from Agenor (2003), an unpublished paper, was received on 10 January 2003.

⁸ Refer to footnote 4.

estimated at 18 per cent of the population (or approximately 200 million) in 2001 by the Chinese Academy of Social Sciences (FT, 2002).⁹

Rapid growth and globalization has had a definite impact over income distribution and poverty in China. A case study of China to study this impact is ideal for several reasons. First, China has become one of the most important developing country *per se* during the preceding quarter century. It provides a methodological advantage relative to a typical cross-country study. Second, it is the largest developing economy that adopted economic and trade liberalization over the preceding quarter century. Starting from near autarky, its trade liberalization was nothing short of dramatic in magnitude. Third, due to unequal natural barriers to trade (for instance distance from ports), the effective increase in openness varies widely across different regions in China. Therefore, it is a better economy to be studied as an in-depth case study than many other developing economies. Fourth, as China is a geographically large country it is divided into a large numbers of regions and sub-regions, which in turn provide a large number of regional and sub-regional observations for a statistical study. Fifth, as China has restrictions over movement of population, the internal migration is much lower than that in other developing economies. Although these restrictions have been lowered over time, they made regions and sub-regions within China separate autonomous countries. Therefore, a cross-regional study done in China is akin to a cross-country study (Wei and Wu, 2002).

While the economy liberalized with a rapid rate and globalized over the last two decades, Gini coefficient estimates revealed that overall income inequality in China increased. It increased from 38.2 in 1988 to 45.2 in 1995 (Khan and Riskin, 1998 and 2001). The World Bank (1997) calculated the Gini coefficients with a different data set and methodology and found that the Gini coefficient rose from 28.8 in 1981 to 38.8 in 1995. The results of Khan and Riskin (1998) and (2001) and World Bank (1997) pointed in the same direction. The Gini coefficients calculated by Andrea and Court (2002) revealed that while the growth rate of 1978-84 was accompanied by broadly stable inequality, since 1985 and especially during the 1990s, growth became increasingly less egalitarian. It revealed that conspicuous regional disparities have developed in China. Disparities between the dynamic and prosperous coastal belts, a middle "rust belt" where a large number of obsolete stat-owned enterprises exist, and the underdeveloped and under served western and northern provinces were clearly discernible (Andrea and Court, 2002, See Table 3).¹⁰ From these aggregate statistics and results it is obvious that embracing globalization in China has contributed to increase in income inequality.

⁹ These estimates were cited in *The Financial Times*, 29 December 2002. Measuring the size of the middle-class is an inexact science. Other commentators are more conservative than the Chinese Academy of Social Sciences in their measure of Chinese middle class.

¹⁰ Using data from the State Bureau of Statistics, Government of the People's Republic of China and the World Bank, Table 3 tabulates values of several Gini coefficients for the 1953-98 periods. For instance, it includes the values of overall Gini coefficients for the economy, urban Gini coefficient, rural Gini coefficients, and measure of inter-provincial income gaps.

A study by Wei and Wu (2002) questioned the veracity of results arrived at with the help of Gini coefficients. Their cross-regional study pooled two unique data sets on Chinese regions or provinces to determine the impact of globalization on income disparity.¹¹ It is an intra-national study that utilized cross-regional variations within a large country in terms of openness and globalization. An important plank of their research was that openness, or increases in it, may be endogenous. Frankel and Romer (1999) pioneered the technique of using geography as an instrument of openness. According to them geography has an important influence on trade, and is arguably exogenous with respect to economic growth or income inequality. The Frankel-Romer technique was adopted for this in-depth study of China. As it is semi-land locked country, not all the regions, sub-regions or cities participate in global trade equally. Their distances from major ports vary considerably. Until recently, two major ports of Hong Kong and Shanghai handled half of China's total trade. Therefore, China was an apt case for the application of Frankel and Romer (1999) technique.

Conclusions arrived at by Wei and Wu (2002) contradict the ones that were arrived at with the help of the Gini coefficient computations. They documented three basic patterns: First, an increase in openness and globalization was found to be associated with a reduction in the urban-rural income inequality in China. Second, an increase in openness and globalization was found to be associated with a modest increase in inequality within urban areas. Third, an increase in openness and globalization was found to be associated with a decline in inequality within rural areas. Putting together these three inferences, they stated that globalization resulted in the reduction of inequality in China. This research project concluded that the results reached with the help of single measures like Gini coefficient are sometimes inadequate and unwarranted, and do not provide a complete picture.

These results are in keeping with the Heckscher-Ohlin-Samuelson theory, which stated that openness to trade, which is an important part of globalization, should raise the returns to relatively abundant factor of production relative to the returns to the scarce factors. China is a large labor abundant developing economy. The impact of openness to trade and globalization should increase the returns to labor, particularly unskilled labor, faster than that of the rest of the population. This should result in a decline in income inequality. However, an amber signal is necessary here. The Heckscher-Ohlin-Samuelson explanation is one of the many

¹¹ The first data set comprised (i) *Urban Statistical Yearbook*, various issues, published by China's State Statistical Bureau, and (ii) *Fifty Years of Cities in New China 1949-1998*, also published by China's State Statistical Bureau. The second data set was the two household surveys conducted in 1988 and 1995. They were designed by a group of international economists and the Economics Institute of the Chinese Academy of Social Sciences. They are described in Khan and Riskin (1998 and 2001). The 1988 survey covered 10,258 rural households in 28 provinces and 9,009 urban households in 10 provinces. The 1995 survey covered 7,998 rural households in 10 provinces and 6,931 households in 11 provinces.

explanations available. In a specific-factor model, the impact of openness on inequality, at least in the short run, tends to be ambiguous.

5. Conclusions and Summing-Up

The members of the anti-globalization lobby need to pause and reflect. They need to be clairvoyant and misdirect their fury towards another worthwhile cause. Globalization has had enormous beneficial effect. Per capita global income more than tripled in the second half of the last century. There is serendipity in globalization and several emerging market economies benefited from it during the preceding quarter century. However, not everybody benefits from it. Globalization has spawned both winner and loser economies. Vociferous debate over whether globalization is a benevolent force or a malevolent one has been on for a while. Economists believe that at an aggregate level globalization is a substantial boon. It is essentially a benevolent force that creates opportunities for rapid growth and faster poverty alleviation *in the economies that are ready for it*. Furthermore, if on balance globalization is a benevolent force, its expansion is more likely to assist in achieving the first MDG than not.

The issue of the impact of globalization on poverty, domestic income distribution and global income disparities has received a great deal of attention. There are distinct possibilities of globalization hurting the poor, particularly in the short-term. The lower the skill level, the greater is the probability of getting adversely affected by the onward march of globalization. On the whole it has not hurt the poor segments of populations. On an average the incidence of poverty in the world has declined.

In general, the indicators of human well being improved as per capital incomes rose. The rate of improvements was higher at the lowest levels of per capital incomes. Greater wealth means more resource allocation, both directly and indirectly, to education, health and other human welfare related areas. Globalization makes within country income distribution worse before making it better. There appears to be a robust, non-monotonic, Laffer-type relationship between domestic income distribution and globalization. At a low degree of globalization, globalization does hurt the poor. But at higher levels, globalization leads to a decline in poverty and the poor sections of the population benefit from it. Empirical studies have stressed the non-linearity involved in the advancing globalization on the one hand and domestic poverty and income distribution on the other.

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