Ensuring the Benefits of Globalization Reach the Poor

Assessment prepared for USAID/PPC/CDIE/POA

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Table of Contents

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Salinger and Stryker recently completed an assessment for USAID/PPC/CDIE/POA comparing the sustainable development approach of USAID with the evolving poverty reduction paradigm espoused by other bi- and multilateral donor agencies (Salinger and Stryker 2001).

Ensuring the Benefits of Globalization Reach the Poor

Executive Summary

Introduction

One of the major issues in international development is how to assure that the benefits of globalization reach the poor. There is fear that efforts to promote openness to trade, investment, and information flows not only will not benefit the poor in developing countries but also may further marginalize them. One reason is the quickening pace of change. Rapidly accelerating improvements in information and communications technology, access to knowledge, and financial innovation have, in a very short period of time, vastly increased the extent to which most of the world has become part of one global community. Whether that community is to include the poor is the question in hand.

The objective of this paper is to take a fresh look at the phenomenon of globalization, the implications it may have for well-being of the poor, and what actions can be taken to ensure that the poor are its beneficiaries and not its victims. The paper examines the experience of two sub-Saharan African countries in which USAID has championed openness to trade, investment, and information flows -- Ghana and Uganda – and identifies specific actions which have been or can be taken to increase access by the poor to the benefits of greater openness and to lessen or mitigate any adverse consequences that globalization might have on the poor.

Three Waves of Globalization

The term “globalization” has come to symbolize many different aspects of world integration resulting from reduced costs of transport, lower trade barriers, faster communication of ideas, rising capital flows, and intensifying pressure for migration. It can be divided roughly into three waves. The first occurred from 1870 to 1914 and was characterized by reduced import tariffs and declining costs of overland and maritime transportation, which opened up vast areas of land and other natural resources, in turn stimulating massive migration and large flows of capital. This all came to an end with World War I and the retreat to nationalism and protective trade and exchange rate barriers, which characterized the period 1914-45. The second phase of globalization took place from 1945 until about 1980 and was made possible by the multilateral dismantling of barriers to trade and capital flows. However, the resulting restoration of the pre-1914 pattern of trade between North and South, whereby the South exported land-intensive primary commodities in exchange for manufactured goods from the North, was not accompanied by similar labor and capital flows. Furthermore, the pattern of trade among developed countries was not based so much on traditional concepts of comparative advantage as it depended on exploitation of economies of agglomeration and scale. This made it particularly difficult for developing countries to break into trade in manufactures. Those that were successful, especially in Asia, depended on low labor costs to offset the advantages of agglomeration and scale that had already been largely achieved by the industrial nations.

The world is currently in a third wave of globalization, a wave in which some developing nations are participating very actively and others almost not at all. This wave began about 1980 as a number of developing nations began to dismantle the protective tariffs, import quotas, and exchange controls that surrounded them. It soon became apparent that a more open trade and exchange rate policy environment was perhaps a necessary, but certainly not a sufficient, condition for a country to benefit from globalization. Policy reform in the developing countries was coupled with progress in reducing trade barriers in the industrial nations, although substantial discrimination against imports from developing countries still remained. Distance remained important because of innovations such as "just-in-time" delivery, which meant that economies of agglomeration continued to be critical. By the end of the millennium, in fact, economic activity was more geographically concentrated that ever, largely in areas with good access to the sea.

The more successful developing countries not only undertook major policy reforms but also invested in the complementary infrastructure, skills, and institutions that modern production and trade requires. In many other countries, these positive benefits did not occur. Many reasons were cited for this poor performance, including the failure of reforms to be fully implemented or sustained, poor geographical location, lack of physical infrastructure, weak educational systems, inadequate legal and regulatory systems, weak financial and marketing structures, excessive administrative controls, oppressive tax systems, and absence of fiscal discipline. As a result, by the end of the millennium, these "least-developed countries" (LDC) risked being seriously marginalized within the global economy.

The situation is aggravated by some of the characteristics of the third wave of globalization that make it unique. One is the enormously rapid pace of change in information and communications technology (ICT). The importance of new ICT technology has put a premium on education and training, in which many of the LDCs have a disadvantage. Rapidly evolving ICT technology, together with innovations in Internet software and liberalization of the ICT industry, have in many countries resulted in a remarkable "democratization of information". This raises people's expectations based on how they see others living elsewhere in the world. It makes markets more competitive. However, it also places a premium on being integrated into the Internet culture, and rewards those who can take the abundance of information that is available and tailor it for individual clients -- not skills in which the LDCs are well endowed. Nor are their cultures easily adapted for this purpose. Yet another characteristic of the third wave of globalization results from elimination or reduction of controls on capital flows, more liberal investment regimes, and a number of risk-reducing financial innovations. The LDCs were largely bypassed by these developments. In fact, they actually lost because of the decline in official flows, the fact that capital outflows were facilitated by liberalization of capital markets, and the tendency for foreign direct investment (FDI), their most important source of foreign capital, increasingly to be directed elsewhere. At the same time, pressure for low-skilled worker migration continued to build as wage differentials widened and knowledge of opportunities increased. The least developed countries also suffered because the rules of the global economy continued to be rigged against them.

What has been the effect of reform on the poor within the developing countries? Empirical research in Africa has demonstrated that (1) structural reforms that reduce anti-agricultural and anti-export biases have aided the poor; (2) lack of market access means that the poor have often not been very much affected by tariff, trade, and exchange rate reform; and (3) the poorest households have been relatively unaffected by declines in public sector expenditures for social services because they have had only limited access to these services in the first place.

In other areas where the poor are not so cut off from markets and social services, such as Latin America, structural adjustment has had a detrimental short-run impact. In addition, there have also been longer term, indirect effects on poverty, which have depended on (1) access by the poor to basic resources such as land, labor, and human and nonhuman capital; (2) the geographical and sectoral composition of economic growth; and (3) the degree to which technology uses intensively the resources over which the poor have greatest control, e.g.,. labor.

One of the reasons why poverty has been reduced in the countries that have managed to develop exports of labor-intensive products is that the major resource used to produce these goods is the labor of the poor. Large-scale migration out of rural areas not only has given the poor access to better market opportunities but also it has enabled these countries to benefit from economies of agglomeration and scale.

Is the avenue of expanding exports of labor-intensive products still available to the LDCs now that the more rapidly growing developing countries have already gained a head start? A related question is whether the characteristics of the third wave of globalization are such that this avenue to growth and poverty reduction has become much more difficult for the LDCs.

Another feature of poverty reduction associated with globalization has been a push for participation, democracy, and good governance in developing countries. In recent years, political entities around the world have been encouraged to:

- strengthen the rule of law and respect for human rights,
- implement credible and competitive political processes,
- promote the development of politically active civil society, and
- work toward more transparent and accountable government institutions.

Important in this respect have been the debt relief programs implemented under the Highly Indebted Poor Countries (HIPC) Initiative and the World Bank's Comprehensive Development Framework (CDF) approach to development. One result of these programs is freer circulation of information. Another result is that civil society organizations are energized to participate in local decision-making. The upside is that as democracy connects increasing numbers of groups within and across countries and exposes them to the possibilities for freedom and civil liberties, it becomes harder for them to accept oppression and corruption in their home countries. The downside is that unless meaningful improvements are made in the lives of those who heretofore have been disenfranchised, their discontent may lead to greater civil unrest and instability.

The third wave of globalization has been accompanied by a widening per capita income gap between the industrial nations and developing countries that have been able to break into the export of manufactured goods and services ("globalized" developing countries), on one hand, and the least developed countries, on the other. Inequality has also increased within developed and globalized developing countries. The major reason is because technological change offers increasing rewards to those with better education and management skills. Within the least developed countries, not only have their growth rates slowed but also there has been increasing divergence among these countries, resulting in a substantial increase in the absolute number of poor and sometimes even in the incidence of poverty. One way in which globalization has contributed to this decline is in the effects that it has had on armed conflict and civil strife though growth of small arms trade and the increased value attached to natural resources used to finance rebel activities.

Many of the factors that cause poor nations to be marginalized also result in marginalization of the poor within nations. Bad location, inadequate infrastructure, low levels of education, weak institutions, lack of connection with the modern world, and absence of a level playing field are all major reasons why the poor remain poor even if the countries in which they live manage to strengthen their ties with the global economy. The solution is to overcome these barriers at both the national and sub-national levels. Within countries this may require greater empowerment of the poor through democratic process, just as internationally there is a need to empower the least developed nations of the world within such organizations as the WTO.

Multi-Disciplinary Framework Assessing the Impact of Globalization on the Poor

In order to disentangle the effects of increased openness to trade, investment, and information flows on the poor, use is made of a multi-disciplinary framework, which can disaggregate households into region, rural/urban milieu, sectors of activity, and various socio-demographic variables such as education. One can then proceed to trace the effects of globalization on the poorest households via (1) **structural changes in the economy** that affect prices, public expenditures, capital flows, and access to information; (2) **social and political changes** that affect cultural value systems, social roles, and cohesion of society; and (3) **environmental effects** of industrialization, agricultural commercialization, and growing population pressure.

The most immediate result of globalization comes about because of a decrease in prices of industrial goods due to a reduction in tariffs and quantitative restrictions on imports of these goods at the same time that depreciation of the exchange rate raises the prices of exports, food, and other essential goods. The distributional impact of an increase in tradable activities in turn depends on policy incentives in the local economy, policy incentives overseas, workforce development and training, degree of initial inequality in resource ownership, and mechanisms to avoid the worst effects of risks.

Economic stabilization has an adverse impact on poverty if the cuts are made in areas such as health and education, and if this results in a reduction in the availability of these services to the poor. Often this is not the case because the poor do not have access to these services in the first place, foreign assistance is used to avoid penalizing the poor, or economic growth enhances the capacity of government to provide these services.

Countries that have undertaken extensive programs of trade policy reform often become eligible for additional foreign assistance and may also attract an increased supply of private foreign capital into the local economy. If foreign capital inflows are allocated to investments in local labor-intensive activities, the ensuing job creation will benefit the poor, but otherwise it is less likely that the poor will benefit directly from increased capitalization of local bank and non-bank financial institutions. In addition, increased capital flows also come with risks. Globalization also means increased access to information, knowledge, and technology. Ensuring that the poor have equal access to information is critical for ensuring equitable outcomes.

In addition to its economic effects, globalization also has important social, cultural, and political effects on the poor. For example, increased flows of people across borders may involve high social and cultural costs as well as benefits. Social fragmentation along the lines of ideas, beliefs, and value systems may be seen as a by-product of globalization. However, globalization may also enhance the worth of local cultural traditions, as their unique characteristics are evaluated and transacted on the global market. Adoption of values from the more secular, global capitalist society into which the local society is integrating can also lead to resentment from conservative or fundamentalist groups who dissociate between modern economic and local cultural/spiritual values. Yet alternative examples of traditional societies peacefully coexisting with modernity also exist.

Changes in the structure of the local labor market often are accompanied by an increased supply of women to the urban, formal workplace. This can result in important shifts in gender roles and expectations and increased instability of local social norms. In addition, women are sometimes slotted for menial, dead-end jobs that are ill-paid, repetitive, have poor career prospects, and are unstable. When societies have long been driven by self-sufficiency or import substitution mentalities, their integration into the world marketplace may require a dramatic shift in individuals' mental paradigm, with greater emphasis on individual entrepreneurship, hard work, and corporate structures while relying on social institutions broader than the extended family for safety nets. Increased flows of information across borders also bring greater worldwide exposure to ideas from abroad. As expectations of the poor and others are raised through these efforts, there is the risk of increased civil unrest in countries resistant to democratization pressures. Finally, globalization and the economic growth that accompanies it, if channeled equitably across income groups in the society, can result in improved "quality of life", as more households with access to enhanced wage labor and product markets can afford better education, housing, healthcare, security, and other attributes of improved living.

The poor are particularly vulnerable to the environmental effects of globalization. They tend to live in areas where industrial pollution and pesticide runoff are not regulated and controlled. They depend for their livelihoods on renewable natural resources that are easily degraded under population pressure. And they have few resources to protect themselves.

USAID Trade Promotion Projects in Ghana and Uganda

The case studies of Ghana and Uganda provide interesting insights into the experience of two African countries committed to both openness and poverty reduction. In each country, the opening up process had a strongly positive impact on economic growth over a period of at least a decade or so. Some of this may have been a "bounce-back" from the earlier situation in which there were major problems of economic mismanagement. But in each case much of the immediate gain appears to have been because of the rise in prices of export crops that resulted from a reduction in trade barriers and devaluation of the local currency. This was translated into increased incomes of those who raised these crops, an expansion in their production, and a reduction in poverty in the regions in which the crops were produced.

Food crop farmers did not fare as well. One reason is that policy reform had less of a clear impact on food crop prices. Another may be that more of these farmers are subsistence food producers who are not linked very well to markets in the first place. In any event, there was less poverty reduction in regions where food crop production is more important than that of cash crops. On the other hand, the failure of food prices to rise benefited the poor who have to purchase some or all of their food.

Despite the early success, both Ghana and Uganda experienced subsequent difficulties. In Ghana, for a variety of reasons, the Government began to run fiscal deficits around 1992, which resulted in inflation, high interest rates, crowding out of private capital, rapid but unsteady depreciation, occasional overvaluation of the cedi, and considerable uncertainty on the part of investors. In Uganda, exports faltered, partly because of steeply declining world coffee prices. In addition, nontraditional exports in both Ghana and Uganda lost much of their momentum. One reason for this, especially in Uganda, was the overvaluation of the currency that resulted from large inflows of foreign assistance.

The anticipated adverse effects of macroeconomic stabilization on public expenditures for health and education largely failed to materialize. In Ghana the Government did not seriously reduce public expenditures, and in Uganda inflows of foreign assistance largely made up the difference. Then, too, the poverty reduction programs established in both countries put a lot of emphasis on expenditures for health and education.

We know relatively little about the incidence of increased investment on the poor. Investment did increase in both countries, but much of it was financed by foreign donors as part of their overall assistance programs. There was relatively little growth in financing out of domestic savings. One area about which little is known is investment that may have been financed out of remittances from abroad, which were quite important in both countries.

Both Ghana and Uganda have made a significant commitment to information and communications technology. This is already having a major impact on information flows. It appears likely that the poor have not been bypassed, judging from the widespread use of local call stations even in remote villages. There are important positive externalities associated with increased use of information technology. Information is very valuable and yet the marginal cost of acquiring it is very low. As an example, use of e-mail and the Web can contribute in an important way to bringing businesses into the global economy with respect to markets, product specifications, quality standards, global and regional trade agreements, and a host of other areas vital to trade capacity building. E-Business could be an important labor-intensive export, especially for landlocked countries with their high transportation cost. It is essential, therefore, that the users of ICT gain access at prices that are as low as possible.

USAID’s efforts to promote openness in Ghana and Uganda were quite successful, at least for a time. Nontraditional exports rose substantially in both countries during the period 1992 -98. Thereafter, however, the record was much less spectacular. Because of major macroeconomic problems in Ghana, which resulted in substantial inflation, high and variable interest rates, and substantial and fluctuating depreciation of the local currency, investor confidence was shaken and exports stagnated. In Uganda, exports remained flat after 1998 because of declining world market prices for coffee and because massive inflows of foreign assistance led to overvaluation of the Ugandan shilling. Although USAID assisted firms did somewhat better than the average, they too also suffered from the adverse economic environment.

The impact of USAID's program on poverty reduction Ghana is not at all clear. Although a baseline survey was undertaken in 1993, which suggests that the TIP program to encourage expansion of nontraditional exports had a sizeable impact on incomes and employment, no follow-up survey was conducted to verify the validity of this conjecture. In Uganda, the monitoring and evaluation situation was somewhat better, though in neither country was there an effort not only to measure the effects of interventions on income and employment but also to identify the extent to which the poor were the beneficiaries of these interventions.

USAID missions in both countries focused on natural resource-based and labor-intensive activities. Given lack of specific information on the poverty profile of the beneficiaries of these activities, this made a lot of sense. On the other hand, it was difficult to focus these activities on poorer regions in each country. This, plus the more global trends discussed above, suggest that there may have to be some emphasis on facilitating out-migration. This will require the creation of jobs in more favored areas – a fact that has been explicitly recognized by the USAID mission in Uganda.

Social, Cultural, Political, and Environmental Impacts

Openness and economic growth are essential elements in the poverty reduction equation. However, these may give rise to social, cultural, political, and environmental effects that are not very well understood. Although it is difficult to analyze these effects as systematically as has been done for the economic effects, it is possible to make a few preliminary observations, as well as to recognize that much more work in this area needs to be done.

- In many countries, inequality in incomes and access to assets tends to undermine the pace and quality of growth, as well as the effect of growth on poverty reduction. When inequality gives rise to conflict and violence, it can have disastrous human and economic consequences.
- Openness and growth have resulted in substantial flows of people both across borders and within nations. This has increased economic opportunities, but it has also disrupted lives and left migrant workers vulnerable to exploitation and the possibility of expulsion.
- Although globalization can lead towards cultural homogenization, it can also increase the value placed on cultural diversity.
- It is well recognized that women in Africa carry much of the brunt of expanded employment in the sense that their outside activities increase while their household responsibilities remain largely the same. As the role of women in Africa's trade expands, however, they are becoming increasingly vocal regarding their need for greater empowerment.

Incorporating Poverty Reduction as an Explicit Goal

In reviewing trade promotion projects from Ghana and Uganda, it is important to bear in mind that these were never designed with poverty reduction explicitly in mind. Nevertheless, poverty reduction has now been accepted by both USAD missions as an explicit goal, which means that performance will have to be monitored in terms of that goal. This will require that poverty profiles be integrated into program design, that follow-up visits to sample households be undertaken to monitor the extent to which these households are being impacted by the interventions of the program, and that an evaluation be conducted of the impact of these interventions on poverty reduction.

It will also be very useful if data can be gathered to estimate the linkage effects of program interventions. This will require interviewing employees, upstream suppliers, downstream processors, and those who may have invested in or expanded their production because of an increase in demand resulting from the intervention. Analysis of these linkage effects should show whether strengthening the value chain is likely to have an important impact on poverty.

More difficult is estimating the indirect effects on poverty reduction of policy reform, investing in infrastructure, or establishing an institutional structure conducive to private sector investment and expansion, including an appropriate legal, regulatory, and judicial environment. However, a number of observations in this respect are pertinent. One is that non-project assistance can play a very influential role in inducing policy reform that benefits the poor. Another is that reforms that encourage labor-intensive production or access by the poor to capital, land, and natural resources are likely to have a big impact on poverty reduction. A third observation is that improvements in education, training, and information flows are vital to the poor participating in the benefits from globalization. Yet another observation is that investments in infrastructure that lower costs and increase access by poor people to public utilities and other services are likely to have an important effect on poverty reduction.

Ensuring the Benefits of Globalization Reach the Poor

Introduction

One of the major issues in international development is how to assure that the benefits of globalization reach the poor. There is fear that efforts to promote openness to trade, investment, and information flows not only will not benefit the poor in developing countries but also may further marginalize them. Although an improved policy environment, investment in human capital, and other accompanying measures enhance the capacity of countries to benefit from increased openness, this does not necessarily mean that the poor will be able to participate in these benefits. There may be a need to take special measures involving compensatory expenditures, regulation of the private sector, and active promotion of competitive markets to assure that the poor are beneficiaries (Stiglitz, 1998).

The Department for International Development of the U.K. notes that "within developing countries, barriers to participation, low skills and inequalities of opportunity may prevent the poor from contributing to trade-led growth and may make it harder for them to adjust to the changing economic environment" (UK DFID, 2000a, p. 21). The UNDP is even more skeptical regarding the ability of openness to reduce poverty without strong accompanying measures. These measures include social policies regarding labor markets, greater transparency and accountability to avoid monopolization of the benefits of liberalization, better macroeconomic management to lower social costs, opening markets in industrial countries, and increasing technological capacity in the developing countries (UNDP, 1999, pp. 9-13; UNDP, 2001, pp. 95-97).

One reason why these actions may be required is the quickening pace of change. Globalization is a complex process which has been underway for many years. Structural adjustment reforms introduced in the 1980s and early 1990s accelerated that process. At the same time, progress in furthering democracy and governance decreased barriers to acquiring knowledge, technology, and the ability to participate in development decision-making, which helped to speed up the spread of globalization. Most important, however, rapidly accelerating improvements in information and communications technology, access to knowledge, and financial innovation have, in a very short period of time, vastly increased the extent to which most of the world has become part of one global community. Whether that community is to include the poor is the question in hand.

While some voices expressed concerns in the 1980s that economic adjustment was implemented in ways that hurt the poor (Jolly, 1985), more detailed empirical work carried out over a longer period has dispelled some, though not all, of those earlier concerns (World Bank, 2001a). This subsequent work has identified an agenda for action based on enhanced opportunity, empowerment, and security for the poor in order to assure that poverty is reduced in all of its dimensions as globalization proceeds.

The objective of this paper is to take a fresh look at the phenomenon of globalization, the implications it may have for the well-being of the poor, and what actions can be taken to ensure that the poor are beneficiaries and not victims of this process. After a discussion of three historical waves of globalization and the ways in which it has impacted the poor, the paper examines the experience of two sub-Saharan African countries in which USAID has championed both poverty reduction and openness to trade, investment, and information flows. One is Ghana, where USAID has supported increased openness since the early 1990s through a series of trade and investment promotion programs (the Trade and Investment Program, 1993-1998, and its successor, the Trade and Investment Reform Program, 1998-present). The other is Uganda, where USAID's program has focused on openness, economic growth, and promotion of the private sector. Using the evaluation framework outlined in this paper, we assess how increased openness in Ghana and Uganda has or has not contributed to improved living standards for the poor in terms of their income, health, education, vulnerability, and other key variables. The paper also identifies specific actions which have been or can be taken to increase access by the poor to the benefits of greater openness and to lessen or mitigate any adverse consequences that globalization might have on the poor.

Three Waves of Globalization

The term "globalization" has come to symbolize many different aspects of world integration resulting from "reduced costs of transport, lower trade barriers, faster communication of ideas, rising capital flows, and intensifying pressure for migration (World Bank, 2002, p. 1). It has also been referred to as a "new kind of corporate colonialism", whereby the peoples of the world are subject to "the inexorable integration of markets, nation-states and technologies" (Friedman 2000).[1] Although a useful depiction of the current situation, this description could also be used to characterize several waves of globalization since about 1870. The description does not distinguish what is unique about globalization in the last twenty years, and what this implies for the linkage between globalization and poverty reduction.

Globalization from 1870 to 1980

Globalization can be divided roughly into three waves. The first occurred from 1870 to 1914 and was characterized by reduced import tariffs and declining costs of overland and maritime transportation, which opened up vast areas of land and other natural resources, in turn stimulating massive migration. Improvements in financial market institutions coupled with the development of telegraph communication also facilitated large flows of capital, which meant that living standards in the regions of new settlement tended to rise, as did those in the regions of emigration because of reduced pressure on their resource base. Within countries, however, income inequality generally increased because of differential access to land and other resources. Nevertheless, despite growing income inequality within countries, rapid rates of economic growth led to substantial reductions in the incidence of poverty. This all came to an end with World War I and the retreat to nationalism and protective trade and exchange rate barriers, which characterized the period 1914-45 (World Bank, 2002, pp. 24-28).

The second phase of globalization took place from 1945 until about 1980. This wave was made possible because of cooperation among nations in establishing international institutions such as the General Agreement on Tariffs and Trade and the International Monetary Fund, which led to the multilateral reduction of barriers to trade and capital flows. The lowering of these barriers was selective, however, in that it took place more among developed countries of the North than among developing nations of the South or between the North and the South. The reduction of barriers to trade and capital flows was accompanied by a further decline in the cost of transportation. However, the resulting restoration of the pre-1914 pattern of trade between North and South, whereby the South exported land-intensive primary commodities in exchange for manufactured goods from the North, was not accompanied by similar labor and capital flows. Furthermore, the pattern of trade among developed countries was not based so much on traditional concepts of comparative advantage as it depended on exploitation of economies of agglomeration and scale, which were almost accidental in their origin (World Bank, 2002, pp. 28-29).

These economies of agglomeration and scale, which formed the primary basis for trade in manufactured goods during the second wave of globalization and remain important even today, resulted from the creation of clusters of manufacturing firms, skills markets, input suppliers, and

[1] http://www.oneworld.org/guides/globalisation/index.html

supporting activities in such areas as finance, advertising, marketing, and research and development. The particular product produced by each cluster might be a historical accident, but once the cluster was formed, it was able to retain its advantages over potential competitors. This made it particularly difficult for developing countries to break into trade in manufactures. Those that were successful, especially in Asia, depended on low labor costs to offset the advantages of agglomeration and scale that had already been achieved by the industrial nations. This success then enabled these developing nations, in turn, to benefit from the same economies as clusters of labor-intensive, export-oriented firms began to form.

The second phase of globalization was one in which lower income countries within the developed world tended to catch up with their richer trading partners. There was also a decline in inequality within these countries, which may have been due primarily to the establishment of national policies to promote redistribution and social protection. On the other hand, the disparity in per capita income between rich and poor countries widened substantially, while inequality within the poorer countries remained about the same (World Bank, 2002, pp. 30-31).

Third Wave of Globalization and Its Impact on Developing Countries

The world is currently in a third wave of globalization, a wave in which some developing nations are participating very actively and others almost not at all. This wave began about 1980 as a number of developing nations began to dismantle the protective tariffs, import quotas, and exchange controls that surrounded them. The timing of this dismantlement varied substantially across countries. In some Asian countries, it occurred relatively early, enabling them to get a substantial head start on export growth.[2] In Latin American, policy reform was at least partly a response to the debt crisis of the 1970s and early 1980s. In Africa, countries in the 1980s and early 1990s simply ran out of the resources required by governments under highly protective but unproductive trade regimes. They had to reform in order to be eligible for financial assistance.

It soon became apparent that a more open trade and exchange rate policy environment was perhaps a necessary, but certainly not a sufficient, condition for a country to benefit from globalization. The ways in which openness might positively influence economic growth and poverty reduction were several.

> The reforms have been designed to induce growth through the reallocation of resources away from inefficient production of import-competing goods and nontradables and towards the production of goods for export. This should lead to static economic gains resulting from exploitation of comparative advantage and economies of scale. There are also a number of dynamic ways in which trade contributes to economic growth. These include having trade and associated investment serve as a conduit for technological transfer, increasing the efficiency of enterprises forced to compete to a greater extent in foreign and domestic markets, expanding the commercial and managerial competence of entrepreneurs, augmenting the skills of the work force, creating a market for labor in the face of growing population pressure, and increasing foreign exchange earnings that can be used to import technology and capital equipment. In addition, openness to trade may increase the potential

[2] Although a number of Asian countries continued to maintain a moderate degree of tariff protection for their industrial sectors even as they expanded exports, they avoided the large distortions found elsewhere in the developing world because of fiscal deficits, rising inflation, imposition of import and exchange controls, and overvaluation of the local currency (World Bank, 1993).

> for learning and technological spillovers across firms (Romer, 1986). Finally, the reforms may impact growth directly by reducing the importance of rent-seeking and lowering the cost of domestic marketing. (Stryker, 1997, p. 3)

A number of countries, especially in East and Southeast Asia, benefited very much from greater openness, which enabled them to take advantage of their low labor costs and to expand their exports of manufactured goods, and ultimately even services. For example, the share of manufactures in merchandise exports of all developing countries rose from 25 percent in 1980 to 80 percent by 1998, though much of this growth was concentrated in a relatively few countries (World Bank, 2002, p. 32). Policy reform in the developing countries was coupled with progress in reducing tariffs in the industrial nations, although substantial discrimination against imports from developing countries still remained. Trade was also facilitated by continuing progress in transport and communication, which made it possible to manage geographically dispersed supply chains. However, distance remained important because of innovations such as "just-in-time" delivery, which meant that economies of agglomeration continued to be critical. By the end of the millennium, in fact, economic activity was more geographically concentrated that ever, largely in areas with good access to the sea. This meant that populations had to be willing to migrate to where the jobs are if their incomes were to rise (World Bank, 2002, pp. 31-33).

The more successful developing countries not only undertook major policy reforms but also invested in the complementary infrastructure, skills, and institutions that modern production and trade requires. They constructed transportation and communications networks, educated their populations, liberalized their investment regimes, stabilized their macro economies, and modernized their legal, regulatory, and judicial systems. The result was rapid acceleration of economic growth in these countries from the 1970s through most of the 1990s (World Bank, 2002, pp. 34-36).

In many other countries, these positive benefits did not occur. For example, despite substantial policy reform in many African countries during the late 1980s, output per capita fell by 0.6 percent from 1987 to 1994. This was virtually the same performance that had been achieved during the previous ten years when the policy environment had been highly distorted (Sachs, 1996). Many reasons were cited for this poor performance, including the failure of reforms to be fully implemented or sustained, poor geographical location, lack of physical infrastructure, weak educational systems, inadequate legal and regulatory systems, weak financial and marketing structures, excessive administrative controls, oppressive tax systems, and absence of fiscal discipline (Stryker, 1997). As a result, by the end of the millennium, these "least-developed countries" (LDCs), with a total population of about 2 billion people, mostly in Africa and the former Soviet Union, risked being seriously marginalized within the global economy. Indeed, given the importance of economies of agglomeration, the question arose as to whether these economies would ever be able to catch up.

The situation has been aggravated by some of the characteristics of the third wave of globalization that make it unique. One is the enormously rapid pace of change in information and communications technology (ICT), which has enabled more and more people "to reach farther and farther, into more and more countries, faster and faster, deeper and deeper, cheaper and cheaper than ever before in history." (Friedman, 2000, p. 47) This has tended to give many countries the opportunity to participate as producers of goods and services at some stage in the value chain for various products because of the ability of suppliers to control, manage, and communicate across links in the chain. Nevertheless, transportation costs have remained critical. Countries with poor location, inadequate infrastructure, and weak institutions such as transport and communications regulatory regimes have been severely disadvantaged. Furthermore, the importance of new ICT technology has put a premium on education and training, in which many of the LDCs are relatively weak.

Rapidly evolving ICT technology together with innovations in Internet software and liberalization of the ICT industry have in many countries resulted in a remarkable "democratization of information" (Friedman, 2000, pp. 60-72). No longer are governments, corporations, and other large organizations able to maintain a monopoly on information. This has enormous implications for economic development. For one thing, it raises expectations of people based on how they see others living elsewhere in the world. For another, it makes it much easier to acquire data on prices, product characteristics, and other information, which makes markets much more competitive. However, it also places a premium on speaking the language of the Internet --on being integrated into the Internet culture -- and it rewards those who can take the abundance of information that is available and tailor it for individual clients. These are not skills in which the LDCs are well endowed. Nor are their cultures easily adapted for this purpose.

Another characteristic of the third wave of globalization results from changes in capital flows. Since 1980 there has been substantial liberalization of international capital markets resulting from elimination or reduction of controls on capital flows, more liberal investment regimes, and a number of risk-reducing financial innovations. Total capital flows to developing countries increased from $28 billion in the 1970s to $306 billion in 1997. The composition of these flows also changed in that the importance of official flows more than halved whereas that of private capital flows increased dramatically. Within the latter category, bank lending declined while portfolio investment and foreign direct investment increased (World Bank, 2002, p. 42). This was facilitated by the establishment of a number of international mutual and pension funds and by the development of various instruments for reducing risk to lenders and making this risk more marketable. This included the development of the junk bond market, the creation of Brady bonds which permitted developing country debt to bought and sold on secondary markets, and the issuing by developing country governments of bonds denominated in U.S. dollars and other major currencies (Friedman, 2000, pp. 53-60). The LDCs were largely bypassed by these developments. In fact, they actually lost because of the decline in official flows, the fact that capital outflows were facilitated by liberalization of capital markets, and the tendency for foreign direct investment (FDI), their most important source of foreign capital, increasingly to be directed elsewhere. This was all the more serious because FDI brings with it not only capital but also advanced technology and access to international markets (World Bank, 2002. p. 43).

What did not change very much during the third wave of globalization was restrictions on flows of low-skilled labor to the advanced countries, whereas skilled labor tended to flow relatively easily, contributing to the "brain drain" syndrome. Nevertheless, pressure for low-skilled worker migration continued to build as wage differentials widened and knowledge of opportunities increased. The result was a substantial growth of both legal and illegal migration from the LDCs to the advanced nations. Not only did this take some of the pressure off wages in the poor countries but also it contributed to reverse flows of remittances, investment, and even technology transfer back home (World Bank, 2000, p. 43-46).

The least developed countries have been constrained from participating in the global economy because of their lack of infrastructure, education, and supporting institutions; because of their disadvantageous position vis-à-vis the early starters; and because of the very nature of the third wave of globalization. But they have also suffered because the rules of the global economy are rigged against them. There are many ways in which this is true. Tariff peaks and tariff escalation in the industrial countries discriminate against developing country exports. Agricultural subsidies lower prices on world markets, hurting developing country farmers. Intellectual property rights are protected for rich country enterprises in ways that injure the developing world. These and may other sources of discrimination are discussed in the OECD's *DAC Guidelines on Poverty Reduction* in the chapter on policy coherence, which discusses ways in which the national policies and international negotiating positions of the OECD countries do not cohere with their ostensible goal of poverty reduction (OECD, 2001, chapter IV). They are also the subject of a recent treatise by Oxfam International (Oxfam International, 2002).

Effects of the Third Wave on Poverty within Countries

What of the effects of the third wave of globalization on the poor within developing countries, assuming that those countries have been able to participate in the global economy? Even where outward-looking, market-oriented policy reforms have succeeded in stimulating economic growth, some have argued that they have had an adverse impact on the poor (Jolly, 1985). There has been particular concern that too rapid opening of a developing country to global trade could increase unemployment and have devastating effects on the poor, at least during a transitional period (Oxfam International, 2002, pp. 12-13). Others have feared that the actions undertaken – reductions in public sector workforce, cutbacks in public sector expenditures for health and education, elimination of price subsidies for key agricultural inputs and foodstuffs, reduction in trade protection, devaluation of local currencies – would result in worsened economic and social conditions faced by the poor. A chorus of voices has pressed for the need for "adjustment with a human face" (Cornia et al. 1987).

In order to address these questions, and with support from USAID's Africa Bureau, the Cornell Food and Nutrition Policy Program (CFNPP) undertook a detailed analysis of the impact of structural adjustment on the poor in Africa (summarized in Sahn *et al*, 1999). An evaluation of this research highlighted several important insights from the ten country case studies undertaken by CFNPP between 1988 and 1992 (Stryker and Rogers, 1992). These refuted many of the pre-existing conventional wisdoms about structural adjustment, *inter alia*:

- Because the poor tended to be concentrated in rural areas, structural reforms which reduced anti-agricultural and anti-export biases aided the poor.
- Since the poor tended to consume mostly own-produced foodstuffs and other nontradable goods and services, they were less affected by adjustment actions such as tariff, trade, and exchange rate reform.
- Under structural adjustment, the poorest households were relatively unaffected by declines in public sector expenditures for social services because they had only limited access to these services in the first place.

Nevertheless, there was also evidence that structural adjustment in some areas of Latin America was having a detrimental short-run impact on the poor, especially in the cities where they tend to be more closely integrated into the market economy and have better access to public services than in Africa (Sahn, 1992).

Poverty is primarily a rural phenomenon in most developing countries. While rural households do not derive all of their income from agricultural activities, the sale of crops and livestock generally supply a considerable share of total income for the poor. Even where the poor are not heavily involved in rural product markets, they sell their labor services to those who are. Thus when governments effectively taxed the agricultural sector in order to pay for import-substitution industrialization – as was the case in the period 1964-1980 (Schiff and Valdés 1992), it taxed poor people. In some cases taxes were explicit, but more often they took the form of high tariffs and quantitative restrictions on industrial imports, which resulted in overvaluation of the local currency, heavily penalizing agricultural exports and domestic food production in competition with cheap imported food. When lack of fiscal discipline led to high rates of domestic inflation coupled with severe import and exchange controls, the rural-urban terms of trade were also adversely affected, which in turn threatened the purchasing power of the rural poor.[3]

By the mid-1980s, the International Monetary Fund and the World Bank had begun their stabilization/structural adjustment efforts. By lowering tariffs and eliminating import quotas on industrial products and by devaluing the currency and maintaining more realistic exchange rates, policy reform raised the relative prices of agricultural exports and food production for the domestic market. This clearly benefited the rural poor to the extent that they were linked in any way to product and labor markets in the countryside. Although it may also have injured the poor in urban areas, this was not where most of the poor were concentrated in 1980, especially outside of Latin America. Furthermore, in addition to the short-term impact effects of structural adjustment on the poor, there were also longer term, indirect effects on poverty (Pinstrup-Anderson 1990). These depended on (1) access by the poor to basic resources such as land, labor, and human and nonhuman capital; (2) the geographical and sectoral composition of economic growth; and (3) the degree to which technology uses intensively the resources over which the poor have greatest control, e.g.,. labor.[4]

The impact of globalization on the poor is thus likely to vary depending on initial conditions of where the poor are located, what they produce and sell, what kind of access they have to markets, and what their situation is regarding resource ownership. If openness leads to increased demand for goods and services produced by the poor, and they own or control the resources used to produce these goods and services, they are likely to benefit. Often, however, this is not the case, which is why primary product exports have not always benefited the poor in countries where the land and other natural resources are owned or controlled by the rich. On the other hand, if there is a decline in demand for goods and services produced by the poor, for example if traditional

[3] Dollar and Kraay (2001, p. 5) cite a "growing body of evidence that inflation is disproportionately hard on the poor."

[4] To the extent to which these three conditions favor the poor, economic growth is said to be "pro-poor" (Salinger and Stryker, 2001, p. 11).

production of cloth is replaced by imports of cheap second-hand clothing, the poor will lose regardless of the resources they own. However, if they are largely outside the market economy, as in some areas of Africa, both gains and losses will be minimal. A similar argument may be made with respect to their access to public services if these are reduced because of fiscal restrictions.

One of the reasons why poverty has been reduced in the countries that have managed to develop exports of labor-intensive products is that the major resource used to produce these goods is the labor of the poor. Exploitation of comparative advantage in the production and export of labor-intensive products through expanded trade creates more demand for labor, absorbing some of the unemployed and underemployed, and perhaps increasing wages. In the absence of slavery, the poor are able to capture these gains. Even if they do not have access to product markets, they can access labor markets – through migration if necessary. The experience of East and Southeast Asia has been one of large-scale migration out of rural areas, where most of the poor had been concentrated, into the towns and cities, where the jobs are. This not only has given the poor access to better market opportunities but also it has enabled these countries to benefit from economies of agglomeration and scale.

Is the avenue of expanding exports of labor-intensive products still available to the LDCs now that the more rapidly growing developing countries have already gained a head start? Even if they acquire the infrastructure, educational systems, and institutional structures that are required, are economies of agglomeration and scale such that the LDCs, which have not yet been able to exploit these economies, remain at a strong competitive disadvantage? A related question is whether the characteristics of the third wave of globalization are also such that this avenue to growth and poverty reduction has become much more difficult for the LDCs. For example, improvements in transportation and communications place a premium on location, infrastructure, and supporting institutions, all areas in which the LDCs suffer – as, for example, when they have difficulty in making just-in-time delivery. The third wave also increases the importance of education, training, and cultural adaptation, in which most LDCs are seriously deficient. Even trends in financial and labor markets have not favored LDC investment in labor-intensive exports. Foreign capital is more difficult to acquire, and domestic labor is increasing tempted to emigrate rather than wait for jobs to be created at home.

Another feature of poverty reduction associated with globalization has been a push for participation, democracy, and good governance in developing countries. Kim (2000) explores three different perspectives on the impact of the globalization on democracy. One view sees democracy as the inevitable political expression of economically developed societies (Huntington). Another believes that domestic political institutions are determined according to whether a country is part of the core or periphery of global capitalism (Wallerstein). A third "functional" approach sees trade liberalization as loosening the hold of the state and special interest groups on access to local rents. On the other hand, Kim acknowledges that a diminishing of state power or centrist control, especially if imposed as a result of an externally driven structural adjustment program, may not always lead a polity toward greater democracy. In fact, just the opposite can result, pushing a country toward increased dissatisfaction and even anarchy (Kim 2000, pp. 121-123). "On the one hand, openness promotes economic growth, which is favorable to the development and consolidation of democratic institutions. Yet on the other hand, globalization can also promote economic disruption, income inequality, and job insecurity" (Kapstein and Landa, 2000, p. 133).

In recent years, political entities around the world have been encouraged to:[5]

- strengthen the rule of law and respect for human rights,
- implement credible and competitive political processes,
- promote the development of a politically active civil society, and
- work toward more transparent and accountable government institutions.

In addition to bilateral donor agency efforts in this area, increased participation by civil society representatives in the formulation of development strategies is a hallmark of two international financial institution (IFI) efforts. The first is the debt relief program implemented under the Highly Indebted Poor Countries (HIPC) Initiative. In 1999 the IMF and World Bank committed resources to HIPC, making debt relief contingent on the development of a poverty reduction plan. HIPC-eligible countries are required to submit to the IFIs a Poverty Reduction Strategic Plan (PRSP) in the drafting of which both government and civil society stakeholders are to take part. The second initiative featuring civil society involvement is the World Bank's Comprehensive Development Framework (CDF) approach to development. This is the Bank's new "way of doing business" which involves the drawing up of a long-term, holistic development plan by a diverse range of local stakeholders to ensure a high degree of local ownership of the plan. CDF also emphasizes that the plan must contain a results framework to enhance the accountability of the program. The community of CDF countries includes, but is not limited to, HIPC countries.

As noted by Gariyo (2001) with respect to preparation of Uganda's Poverty Eradication Action Plan, this commitment by the Bank and Fund to civil society participation in poverty reduction strategies is laudable. However, he notes that true participation can be threatened if the local government itself is reluctant to embrace civil society involvement. He also notes that most non-governmental organizations lack the capacity to participate actively with the Bank and Fund, and with local government authorities in these areas.

One result of these social and political liberalization efforts is freer circulation of information. As news and knowledge from abroad become steadily easier to access in developing countries, an increasing number of their citizens, especially the poor who have previously been cut off from international information flows, are becoming sensitized to disparities in world income distribution and cross-country differences in quality of life. Thus, globalization can result in the ironic outcome of decreasing world income inequality, yet at the same time increasing dissatisfaction with the level of inequality that still remains.

Another result is that more civil society organizations are energized to participate in local decision-making. Expectations are raised, and sometimes frustration levels as well, as new players become involved in the heady tasks of defining development policy, and interacting with

[5] These represent the four objectives in USAID's Democracy and Governance strategic objective area (USAID, 2000).

civil society, government, and IFI representatives from around the world. The upside is that as democracy efforts connect increasing numbers of groups within and across countries and expose them to the possibilities for freedom and civil liberties, it becomes harder for them to accept oppression and corruption in their home countries. The downside is that unless meaningful improvements are made in the lives of those who heretofore have been disenfranchised, their discontent may lead to greater civil unrest and instability.

Assessment of Impact on Inequality and Poverty Reduction

What is the empirical record regarding inequality and poverty reduction during the third wave of globalization? The answer, as might be expected, is mixed. One trend is very clear. It is the widening per capita income gap between, on one hand, the industrial nations and developing countries that have been able to break into the export of manufactured goods and services ("globalized" developing countries) and, on the other hand, the least developed countries. Not only have the LDCs not been able to participate in the most rapidly growing segment of world trade but also they have suffered declining terms of trade for their primary product exports. This has resulted in a slowing of their rate of growth during the third wave of globalization in comparison with growth during the second wave (World Bank, 2002, p. 41).

Among developed and globalized developing countries, the convergence of per capita incomes that characterized the first and second waves of globalization has continued. Unlike the earlier waves, however, inequality within these countries has increased considerably. Part of the reason in the industrial countries may have been that people at the lower end of the income scale have been increasingly competing through trade and immigration with low-wage labor in developing countries. It may also have been because of changes in taxation and social policy unrelated to globalization (World Bank, 2002, pp. 47-48). However, the most important reason for growing inequality appears to have been because technological change offers increasing rewards to those with better education and management skills. What is really valued in modern economies is the skill base that permits the creation at lowest cost of a seamless web of invention, design, production, sales, logistics, and services – in short, "brainpower-based" process technologies (Thurow, 1996, pp. 63-79).

Within the globalized developing countries, most of the rise in inequality has occurred in China. Outside of China there is substantial variation in experience with inequality. Among this group of countries as a whole, there is no correlation on average between openness and trends in inequality, although there is a tendency for openness to be associated with growing inequality among the lower income countries within this group. Most important, however, is the combination of rapid growth of average income and lack of any clear trend in inequality, which has resulted in substantial reductions in the incidence of poverty (World Bank, 2002, pp. 47-48).

The situation is very different in the least developed countries. Not only have their growth rates slowed but also there has been increasing divergence among these countries (World Bank, 2002, p.50). The result has been a substantial increase in the absolute number of poor and sometimes even in the incidence of poverty. One way in which globalization has contributed to this decline is in its effects on armed conflict and civil strife. First, there has been an explosion in the growth of small arms trade, which has increased the level of violence associated with these conflicts (Boutwell and Klare, 2000). Second, conflict is also related to the increased value that trade imparts to natural resources such as diamonds, which can be used to finance rebel activities (World Bank, 2002, p. 41)

Summary of the Impact of Globalization on the Poor

It is useful at this point to summarize the situation regarding how the poor are currently being impacted by the third wave of globalization. To a considerable extent this has to do with why the least developed countries are having a hard time becoming integrated into the global economy, but it also is related to why the poor may be left out of, or even negatively affected by, global integration when it does occur at the national level.

There are a number of reasons that have been advanced why some countries are finding it difficult to become integrated into the global economy on terms that are beneficial to them. One is poor location, which cannot be changed. Coupled with weak transportation infrastructure and other problems in the transport sector, this implies high transport costs, which narrows the range of products over which the country may have a competitive advantage. Interestingly, the third wave of globalization may also provide a partial solution to this problem. With rapidly declining costs of information and communications technology, countries with a locational disadvantage may be able to export services that use this technology intensively, such as data entry and call center services.

Another set of problems for the LDCs relates to their lack of infrastructure, education, and institutional support. This can be changed, but it takes time and substantial investment. Furthermore, there is no guarantee that by the time these changes have been made the head start other countries have experienced in exploiting economies of agglomeration and scale will not have place them even farther ahead on the competitive ladder. The answer to this problem would seem to lie in identifying potential exports of goods and services for which these economies are less important and where there are advantages associated with low population density and smaller scale. Obvious examples include agriculture, mining, and tourism. This does not mean, however, that these goods and services have to be exported in raw form. There is plenty of room for adding value through processing whenever there are significant advantages to being close to the sources of supply, as for example when there is significant weight loss associated with processing. Even tourism can add value almost limitlessly by providing better facilities and readier access.

The third wave of globalization places a premium above all on developing a skilled and educated work force that is fully conversant with the latest in ICT technology, is able to make use of that technology to access and process information, and has the capability to successfully manage brainpower-based process technologies. Although this may seem a tall order for the least developed countries, it should be recognized that in each of these countries there are individuals who have these capabilities. What is needed is to create the conditions that foster further development of this capacity – not an impossible task relative to that of overcoming other barriers to entry such as those involving substantial capital investment. Given investment in basic ICT infrastructure and given a legal and regulatory environment in the industry that encourages innovation and competition, barriers to entry are minimum and there is an enormous potential for filling all kinds of market niches, especially given the cultural diversity that exists among the developing nations of the world.[6]

The last major barrier preventing the LDCs from participating more fully in the third wave of globalization lies in the numerous policies and international agreements that rig the global economy against the interests of the LDCs in ways that are incoherent with the professed goal on the part of the OECD countries of reducing poverty. The Doha round of trade negotiations may make some progress in overcoming these barriers, but there is much more that needs to be done unilaterally by the industrial nations to level the playing field.

With respect to reduction of inequality and poverty within the developing countries, many of the factors that cause nations to be marginalized also result in marginalization of the poor within nations. Poor location, inadequate infrastructure, low levels of education, weak institutions, lack of connection with the modern world, and absence of a level playing field are all major reasons why the poor remain poor even if the countries in which they live manage to strengthen their ties to the global economy. The solution is to overcome these barriers at both the national and sub-national levels. Within countries this may require greater empowerment of the poor through democratic process, just as internationally there is a need to empower the least developed nations of the world within such organizations as the WTO.

The rest of this paper looks at ways in which globalization is influencing poverty in two countries – Ghana and Uganda – and how the USAID program in each of these countries is working to make this influence a positive one. For this purpose, a Multi-Disciplinary Framework Assessing the Impact of Globalization on the Poor is first laid out and then is applied to the experience of each country.

[6] For some examples of how opening up of the ICT industry to competition in Uganda has contributed to entrepreneurship, see Stryker and Nash (2003). Cultural diversity and uniqueness as a source of comparative advantage is explored later in this paper.

Multi-Disciplinary Framework Assessing the Impact of Globalization on the Poor

In order to disentangle the effects of increased openness to trade, investment, and information flows on the poor, use is made of a multi-disciplinary framework, which can disaggregate households by region, rural/urban milieu, sector of activity, and various socio-demographic variables.[7] A stylized depiction of how to disaggregate households is offered in Box 1, which suggests a breakdown of average income (as measured by expenditure) for households disaggregated by rural/urban milieu, regional location, main sector of economic activity, and level of education of the household head.

Box 1: Stylized Mapping of Household Incomes (Expenditures)

		Main sector of economic activity		
		Agriculture	**Industry**	**Services**
Rural	**Region A**		educated/ non-educated	
	Region B		educated/ non-educated	
Urban	**Region A**		educated/ non-educated	
	Region B		educated/ non-educated	

Poverty maps now exist in many developing countries which allow development planners to pinpoint many of the characteristics of the poor. These have been constructed through analysis of household surveys, conducted under the aegis of the World Bank's Living Standards Measurement Survey teams, USAID's Demographic and Health Surveys, and many other efforts. Profiles reveal who is poor, where they live, how large their households are, in which economic activities they are engaged, what level of health and education household members have attained, and other socio-economic characteristics. The World Bank has developed statistical methods to allow household survey data to be overlapped with national censuses, providing the most detailed poverty mapping ever undertaken in a sample of countries where this methodology has been employed. These poverty maps could be used together with information on which households are the subject of specific interventions to evaluate the impact of those interventions on various dimensions of poverty.

With a disaggregated model in mind, one can proceed to trace the effects of globalization on a country's poorest households via (1) **structural changes in the economy** that affect prices, public expenditures, capital flows, and access to information; (2) **social and political changes** that affect cultural value systems, social roles, and cohesion of society; and (3) **environmental effects** of industrialization, agricultural commercialization, and growing population pressure.

[7] Since income is an imperfect proxy for welfare, because of income-smoothing decisions made by households over time, it is preferable to focus on consumption of goods and services. In the absence of income or consumption data, many empirical analyses use expenditure data to rank households and define poverty lines. Additional household survey data of interest includes information on income-generating activities by members of the household, assets held by the household, gender of the household head, age-sex composition of household members, and education and health of household members.

Effects of Globalization on the Poor

This paper focuses on three main channels by which the effects of globalization are perceived in the local economy:

- **Economic effects** of relative price changes, changes in public expenditures, increased capital inflows, and better access to information.
- **Social effects** of increased flows of people and cultures across borders, a rise in secularism and materialism, increased feminization of the work force, need for greater individualism, and exposure to foreign influences.
- **Environmental effects** resulting from unregulated industrialization and development of commercial agriculture, as well as growing population pressure on limited natural resources.

As detailed in Box 2, these linkages provide a potent synthesis among essential elements of the environment for economic growth and poverty reduction. The conditions associated with assuring their positive effect on the poor are categorized according to the schema described in the next three sections.

Economic Effects of Globalization

The most immediate result of globalization is that trade (imports plus exports) represents an increased share of gross domestic product. Normally this comes about because of a decrease in prices of industrial goods due to a reduction in tariffs and quantitative restrictions on imports of these goods at the same time that depreciation of the exchange rate raises the prices of exports and of food and other essential goods, which were previously imported with low duties and few other import restrictions. To the extent that poor households are involved in tradable activities – e.g. growing crops for export or food for the domestic market, or working in export-oriented manufacturing – they are likely to benefit from increased integration. The distributional impact of an increase in tradable activities in turn depends on local factor markets. If local incentives are biased in favor of greater capital intensity – e.g., through credit subsidies – then the positive effect on trade-related employment creation may not be realized. Where appropriate policies are in place, however, the results can be startling. Dollar and Kraay (2001) cite the example of Vietnam, where poverty was cut in half in ten years as a result of globalization, which opened up export opportunities for both agricultural products such as rice and coffee and labor-intensive manufactures such as footwear and garments.

Not all relative price changes are necessarily beneficial to the poor. The decline in prices of industrial goods, which results from decreases in tariffs and other barriers to trade, is likely to benefit those who are better off more than the poor, who do not consume much of these goods. On the other hand, any increase in food prices will injure the poor, especially those who buy, rather than grow, most of their food needs. However, as we shall see in the case studies, sometimes the reduction of import barriers has lowered the prices of food as well as industrial goods. In this case, the consumption effect has been positive for the poor.

There are other factors that can prevent trade policy reform from benefiting the poor. In Sahelian West Africa, for example, where countries have long had a comparative advantage in the production of livestock for regional markets, realization of that advantage was thwarted in the

Box 2: Effects of Globalization on the Poor

Aspects of Globalization	Effects on the Poor	Conditions
Economic Effects of Globalization		
With globalization, trade represents an increased share of GDP. Reduction in trade barriers plus depreciation of the local currency raises the prices of exports, imported food, and other essentials and lowers the prices of industrial goods.	Higher prices of exports and domestic food products increase incomes and employment of the poor to the extent that they either produce and market these goods directly or render labor services in their production and marketing. Some of poor may lose, especially in urban areas, because of increases in food prices and unemployment in industries forced to compete with imports. Households with access to subsidized food and other essentials may suffer if liberalization results in elimination of these subsidies. Increased stability in food/agricultural markets via integration with world markets leads to more secure food availability. However, greater dependence on external markets can also increase risk associated with changing terms of trade.	• ***Policy incentives in local economy*** for/against use of labor versus capital: to the extent that capital is subsidized, demand for labor may actually decrease as capital-intensive methods of production are preferred over labor-intensive, and vice-versa. • ***Policy incentives in foreign economy***: Market access in developed countries may be constrained by quotas, sanitary restrictions, environmental concerns, etc. Subsidization of exports by developed countries may lower world market prices, making it harder to substitute against those imports. • ***Degree of workforce development and levels of training*** of entrepreneurs and workers determines ability to take advantage of opportunities. • ***Degree of initial inequality*** with respect to distribution of quality land, capital, education, and government services will affect the extent to which the poor benefit at least proportionally from globalization. • ***Avoidance of excessive risk*** for the poor may require development of safety net programs.
Economic stabilization programs often require cuts in government expenditures. Over longer run, increased incomes enhance the capacity of government to provide needed social services	Expenditure cuts may mean fewer social services for the poor in the short term. Enhanced capacity to provide social services benefits the poor over the longer run.	• ***Impact on the poor*** depends on degree to which they received these services in the first place. • **Social services may be protected** from budget cuts by poverty reduction programs, e.g., HIPC, PRSP.
Increased capital flows into developing countries from foreign assistance and private sources help to bridge financing gaps.	Increased access to capital by the poor. Increased capital flows can be accompanied by greater financial market and overall economic instability. The poor are generally more vulnerable to the negative effects on employment/income that can ensue from economic instability.	• ***Poor may not benefit from increased supply of capital***, to the extent that financial intermediation on behalf of small/medium enterprises and the poor is weak. • ***Extent to which safety nets are in place*** can help insulate the poor from the worst effects of such instability.
Increased access to information.	Increased opportunities for entrepreneurship, employment, and greater incomes.	• ***Physical access to information*** (telecommunications, Internet, learning) by the poor may be weak and in need of improvement. This may involve policy deregulation of telecommunications

		markets, efforts to increase the supply of information providers, or efforts to facilitate access by the poor. • The poor may need ***training and technical assistance in how to make use*** of greater access to information.
Social Effects of Globalization		***Depends on:***
Increased flows of people across borders.	Increased job opportunities for the poor. Those most likely to escape poverty are often the most mobile in response to new economic opportunities.	• ***Labor policies*** should not discriminate against migration. • ***Minimum basic rights and protection*** should be available to migrant workers.
Increased flows of media and cultural expression across borders.	May reduce value of local cultural traditions, which can make people (poor included) feel that their roots are no longer worthy. On the other hand, as cultural homogeneity predominates, we see an increased worth of local cultural identities, which offers new competitive advantage possibilities with positive economic consequences in terms of new job creation.	• ***Workforce training and development*** necessary to make sure that the poor can have the skills which will be required to work in new areas of competitive advantage.
Rise in secularism and materialism.	Can undermine cultural and social traditions, possibly leading to resentment or even conflict from conservative or fundamentalist traditional leaders, that creates instability for the poor.	• Can be countered by ***strong political role models*** in how to support modernity and at the same time remain true to traditional spiritual values.
Increased feminization of the formal workforce.	Labor-intensive manufacturing offers new, formal sector employment opportunities for women. However, there is danger of creating labor expectations in addition to household labor obligations already borne by most women. Also, women tend to be more exploited by “sweatshop”-type working conditions.	• Need to develop ***market and social institutions to help women manage household responsibilities*** (e.g., food preparation, child care, reproductive health,...) in addition to formal employment outside the home. • Need for ***labor market regulations*** to protect women, men, and children against potential abuses in the workplace (e.g., work hours, minimum wages, safety, health)
Increased need for a mental paradigm that supports individual efforts and individual success.	The subsistence mentality of the poor, relying on themselves, family, clan, or village for subsistence and protection against risk is not conducive to market-based activity which is perceived as riskier.	• Need for ***basic education and entrepreneurial training*** to give the poor basic literacy/numeracy and specific skills to be able to participate in all sectors of the economy.
Increased exposure to political opposition movements from abroad. Also, increased role of developing countries in world forums, and local	Increased awareness of the poor that they are entitled to different social/cultural/political/economic realities.	• Need for ***basic education in civics, local community organization, advocacy techniques*** to be extended to the poor to ensure that they have

stakeholders in development policy planning. Increased quality of life, including greater access to products and know-how developed in other parts of the world. Increased exposure to different tastes and preferences and cultural assets.	Increased risk of civil unrest (with certain negative effects on the poor) if rising expectations are unmet by political elites unwilling to democratize. Increased use of labor-saving devices frees up significant amounts of women's time. Greater exposure to external practices and customs permits greater variety of diet, health care options, economic opportunity, and intellectual influences. Embracing globalization, including openness to world cultural influences, can reduce the intensity of local conflicts by providing a non-partisan third culture.	the organizational and political skills necessary to participate in these debates. • Need for ***political and physical security*** so poor households can lead productive lives and accumulate assets to improve the quality of life.
Environmental Effects of Globalization Increased negative environmental effects resulting from industrial pollution, pesticide residues deforestation, overfishing, overgrazing, etc.	 Especially harmful to the poor, who may be exposed through work or in their neighborhoods to the nefarious effects of unregulated industrialization, commercial agriculture, overpopulation.	***Depends on:*** • Requires strengthened ***environmental and workplace regulations*** to ensure that the worst effects of industrialization and commercial agriculture on air, water, etc. are controlled. • Problems of deforestation, overfishing, overgrazing, etc. need to be solved by a combination of ***management and reduction in population pressure***.

1980s by the flooding of West African markets with meat imported at subsidized prices from Europe (Metzel and Cook, 1994). Following reductions in EU meat export subsidies and a substantial devaluation in 1994 of the CFA franc, Sahelian livestock exports to coastal markets boomed (Metzel, *et al*, 1998). The CFA franc devaluation in 1994 also helped to increase the competitiveness of a number of agricultural commodities whose competitiveness had floundered due to CFAF overvaluation, such as cotton and rice (Barry et al. 1998). Recently, however, Malian cotton exports have suffered because of cotton subsidies in the industrial countries.

In other examples, access to industrial country markets may be blocked by importer country regulations that are hard to meet, such as sanitary/phytosanitary codes, or persistent quotas. Producers of high-quality horticultural products, for example, need training in U.S. plant health inspection service standards and processes in order to be able to export successfully to U.S. markets. Country of origin requirements often limit the expansion of local manufacturing industries, which cannot import unlimited raw materials or inputs from abroad. Developing countries' access to industrial country markets is also still limited in many instances by quantitative restrictions. For example, it is estimated that trade in textiles (worth $155 billion in 1997) and clothing ($177 billion) would be substantially higher (+18% for textiles and +69% for clothing) in the absence of bilateral quotas (WTO, 1996). Under the WTO's Agreement on Textiles and Clothing, these quotas are to be phased out by January 2005. Some reduction in tariff barriers, such as the many tariff peaks on textile and clothing products, is also likely to come about as a result of the WTO negotiating agenda agreed upon at Doha, Qatar in November 2001.

Developing countries may find it difficult to take advantage of new trade opportunities because of their lack of business knowledge or inability to manufacture the volumes or quality of goods required in the foreign market. Even if one assumes that policy, institutional, and regulatory constraints have been minimized, it is increasingly recognized that without training in technical and business matters, many entrepreneurs used to doing business in traditional ways in closed domestic or regional markets will not be able to compete on a global scale.

For instance, the U.S. African Growth and Opportunity Act offers duty-free access to apparel exports from the poorest sub-Saharan African countries. However, many countries are unable to take advantage of such opportunities. In Mali, where the export of cotton fiber has been a hallmark of Mali's export profile since colonial days, there is no experience with manufacturing fiber into exportable quality thread, fabric, or garments (Salinger, *et al*, 1999). Even when export quality textile products are developed with artisanal textile processors, there is only limited local brokering capacity to oversee contract manufacturing and just-in-time shipping to U.S. wholesale markets (Salinger and Carpenter, 2001). In Uganda, although many garment firms are interested in entering the U.S. market, few have the technical manufacturing skills to produce to U.S. quality standards and few understand how to access or service market buyers in the U.S. (Salinger and Greenwood, 2001).

Globalization offers real potential to increase economic opportunities for poor households, raise their incomes, and improve their quality of life. However, this depends on their having access to the resources needed to take advantage of these opportunities. There is substantial evidence that economic growth leads to less poverty reduction in countries where land, capital, education, and other resources are distributed very unequally (World Bank, 2001a, p. 55-56).

Another positive aspect of increased trade integration is increased stability in local markets for food and agriculture. During the 1970s, it was sometimes argued in developing countries that food security must be equated with food self-sufficiency. A broad literature (*inter alia*, Sen, 1981; World Bank, 1986; Gittinger, *et al*, 1987; Von Braun and Kennedy, 1994) demonstrated, however, why agricultural producers and food consumers in developing countries should benefit from greater integration with world agricultural and food product markets. Access to world markets stabilizes food availability, eliminating local production variability as a famine trigger. Food prices therefore are also more stable, with foreign demand and supply helping to mitigate the peaks and troughs of fluctuations in domestic production. Both net food-consuming households and net food-producing households benefit from more stable food availability and prices. In countries with effective food subsidy programs, on the other hand, globalization could actually lead to real food price increases for consumers who had previously enjoyed access to subsidized foods. Often the very poorest households are excluded from such access, whether victims of marginalization, discrimination, or the rent-seeking accompanying domestic feeding programs. However, where the poor do depend on these sources of supply, there is a strong case for providing some kind of safety net, at least during a transitional period. The same may be said for those who may suffer from fluctuations in world market prices and declining terms of trade for their exports crops.

Economic stabilization implies the need to reduce fiscal deficits. This can be done in a number of ways. One is to decrease public expenditures. This may have an adverse impact on poverty if the cuts are made in areas such as health and education, and if this results in a reduction in the availability of these services to the poor. This depends on the degree to which the poor have access to these services in the first place, which often is not the case. In any event, in the long run, economic growth enhances the capacity of government to provide these services. Even in the short run, foreign assistance may be used to avoid penalizing the poor, as with the HIPC programs, which place substantial emphasis on maintaining or increasing expenditures on health and education for the poor.

Countries that have undertaken extensive programs of trade policy reform often become eligible for additional foreign assistance. They may also attract an increased supply of private foreign capital into the local economy. Many developing countries face significant capital shortages, and foreign investment helps to shrink this gap. This is especially important as official foreign aid flows have decreased significantly. If foreign capital inflows are allocated to direct or equity investments in local labor-intensive activities, then the ensuing job creation will be beneficial to the poor. On the other hand, it is less likely that the poor will benefit directly from increased capitalization of local bank and non-bank financial institutions, given the high transactions costs associated with micro-lending and the ensuing reluctance of most traditional financial institutions to lend to micro-borrowers.

Increased capital flows also come with risks. During the 1990s the world witnessed several periods of intense financial market instability in regions where globalization had accelerated dramatically. The immediate risks to employment and wages, and the ensuing risks to consumption and well-being, are felt particularly by poor households whose lack of savings and low incomes make them especially vulnerable during uncertain times (World Bank, 2000a). Institutional safety nets such as unemployment insurance, health insurance and health care systems, old-age pensions, and emergency food distributions systems help the poor preserve income and social security during vulnerable periods.

Globalization also means increased access to information, knowledge, and technology. With greater access to information, all factors of production can be used more efficiently. Improved access to information, and training in the use of information, also means enhanced marketing opportunities for exporters seeking to penetrate foreign markets. Ensuring that the poor have equal access to information is critical for ensuring equitable outcomes. Yet in many developing countries, access to telecommunications, the Internet, and learning more generally has been stymied by restricted availability and high user fees. This asymmetrical access helps to accentuate the lack of equality with respect to the distribution of globalization benefits.

Socio-cultural-political Effects of Globalization on the Poor

In addition to its economic effects, globalization also has important social, cultural, and political effects on the poor. For example, increased flows of people across borders, either as migrant workers or as economic or political refugees, can mean increased employment opportunities available to those who are mobile However, at the same time, there are social costs associated with the uprooting of families or family members, their sudden need to integrate into a different community, and the risks associated with the ever-present possibility of expulsion due to sudden changes in social, political, or economic factors in the host country. Because increased cross-border labor mobility is generally an important livelihood strategy for the poor, policy makers need to insure that existing policies do not thwart such mobility. Moreover, it is important that protocols exist to guarantee guest workers some minimum of basic rights and protection under local laws.

With increased integration of markets and other forms of communication, the flows of media and cultural expression increase across borders. One commonly-expressed fear of globalization among many around the world is that local culture and traditions will be lost in the face of a homogenizing “McWorld” where capitalism’s icons replace all things local (Barber, 1992). On the other hand, it is important to bear in mind that world integration is a dialectic process between the local and the external. Social fragmentation along the lines of ideas, beliefs, and value systems may also be seen as a by-product of globalization (Guéhenno, 2000, p. 20; Huntington 1996). In fact, we may be witnessing a new synthesis in the dialectical process. In the face of an increasing cultural homogeneity, globalization may actually enhance the worth of local cultural traditions, as their unique characteristics are evaluated and transacted on the global market. Porter (2000, pp. 27-28) asserts: “An important role for culture in economic prosperity will remain, but it may well be a more positive one. Those unique aspects of a society that give rise to unusual needs, skills, values, and modes of work will become the distinctive aspects of economic culture.” Porter cites Costa Rica’s passion for ecology, America’s obsession with convenience, and Japan’s passion for games and cartoons as hard-to-imitate competitive advantage, since innovators in each of these countries are best-placed to understand what will sell. Another example is in Mali, where unique aesthetic attributes in the area of film, music, and textile arts could also form a core of competitive cultural advantage with the potential to attract followers worldwide to a merchandised group of products that are "*Mali nafolo*" (Made in Mali).

One risk stemming from globalization is that cultural attributes can sometimes be mass produced outside the home market for world trade (e.g., Kenya's sisal handbags were eventually manufactured *en masse* in China for western markets). Global customers can be educated to these differences so that they are willing to pay a premium for original handwork or cultural/eco-tourism experiences, which are often produced or worked on by the poor. More and more, the concept of *traceability* is a requirement of international marketing in all sectors.

Adoption of values from the more secular, global capitalist society into which the local society is integrating can result in an increase in secularism and materialism in the local society. This in turn can lead to resentment from conservative or fundamentalist groups who dissociate between modern economic and local cultural/spiritual values. Yet alternative examples of traditional societies peacefully coexisting with modernity also exist. King Mohammed VI of Morocco noted in October 2001, "We are Muslims, completely, loyal to all its obligations, proud of our spirituality and our convictions, yet at the same time we are completely committed to the universal values of humanism and modernism which are shared by most people in the world." [8]

Changes in the structure of the local labor market often are accompanied by an increased supply of women to the urban, formal workplace (such as labor-intensive manufacturing jobs). In East and Southeast Asia, for example, female laborers are four times as likely as men to work in export-oriented manufacturing (ILO, 1998). This can result in important shifts in gender roles and expectations and an increased instability of local social norms as women become wage laborers.[9] In Bangladesh, for example, the lure of garment jobs in the two main cities induced many young women to leave their villages for factory work. This troubled many local, traditional leaders in the rural villages whence they came, introducing new social tensions.[10] Increased feminization of the workforce has generated unprecedented employment opportunities for women, giving them access to independent incomes, enabling them to contribute significantly to family incomes, and helping to enhance their status and value within the family, but there are also drawbacks. Jobs available to women in the manufacturing sector have been confined to a limited range of industries, within which women are slotted for menial, dead-end jobs that are ill-paid, repetitive, have poor career prospects, and are unstable in variable economic environments. Such jobs often expose workers to poor and sometimes exploitative working conditions and occupational safety and health problems, leading globalization critics to decry the potential for increases in "sweatshop" worker conditions, if labor market regulations are not in place and enforced.[11]

[8] http://www.parismatch.com/affiche_or.php?id_or=354

[9] For review of the effects of integration of women into textiles and garments manufacture around the world, see Bonacich, *et al* (1994).

[10] The same tensions undoubtedly accompanied the "mill girls" of Lowell, Massachusetts, and elsewhere. See Joanne Weisman Deitch, *The Lowell Mill Girls : Life in the Factory.*

[11] These problems include the fast pace and intensity of repetitive and monotonous work; production or assembly line work carried out standing for long periods or sitting on stools without back support; tension-filled working conditions related to pressure to upgrade productivity or meet production quotas; exposure to toxic substances; excessive noise, uncomfortable heat or cold, vibration, poor lighting and ventilation, slippery floors, especially in

When societies have long been driven by self-sufficiency or import substitution mentalities, their integration into the world marketplace may require a dramatic shift in individuals' mental paradigm. In these societies, individuals accustomed to relying on themselves, their family, or their clan or village for subsistence and protection against risk must seek to benefit from individual entrepreneurship, hard work, and corporate structures while relying on social institutions broader than the extended family for safety nets. Of course, if those broader social institutions do not exist or are unreliable, then potentially entrepreneurial individuals may be understandably reticent to pursue a risky, unknown alternative which may require greater cash investment.[12] Primary education and workforce training are important strategies for helping the poor through these hurdles (Payne, 1998).

Increased flows of information across borders also bring greater worldwide exposure to political ideas and influences from abroad, including local opposition groups who can communicate and organize from overseas. In countries where local expression of political opposition has been stifled, this can have an important impact on the poor, who now have access to alternative models that can offer new social, cultural, political, and economic opportunities. More broadly, the poor begin to realize that globalization brings about an increased role for developing countries in global forums such as the WTO. This, in turn, increases the responsibility of local stakeholders to become educated about the role that international organizations play in regulating local economic life. While it may seem a huge leap for the poor in villages to debate global issues, local-level, political capacity-building provides the essential framework for the success of donors' democracy and governance programs. As expectations of the poor and others are raised through these efforts, there is the risk of increased civil unrest in countries resistant to democratization pressures. Such civil unrest may be expressed in local-level politics, or there may be international-level reactions by extremist groups. In order to ensure that increased exposure to external political and economic forces can be productively used by the poor, basic education in civics, local community organization, and advocacy techniques is required to ensure that the poor can participate equitably in these debates.

Finally, globalization and the economic growth that accompanies it, if channeled equitably across income groups in the society, can result in improved "quality of life", as more households with access to enhanced wage labor and product markets, and thus increased household incomes, can afford better education, housing, healthcare, security, and other attributes of improved living. Living standard measurement or household surveys can determine the share of the population with access to electricity and different electrical amenities (radio, fan, television, refrigerator), which most agree enhance the quality of life. It is also possible to gauge the effect of openness on different countries via other "quality of life" variables tracked by the World Bank: growth of private consumption per capita, prevalence of child malnutrition, under-5 mortality rate, life

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smaller establishments; rotating shift work and very long hours of work; vulnerability to sexual harassment, especially because low job security increases women's vulnerability; poor living accommodation, precluding rest or relaxation after work; and financial worries due to low wages. Source: ILO (1998).

[12] These aspects of the investment-productivity-competitiveness equation are discussed in L. Salinger, "Productivity, Comparative Advantage, and Competitiveness in Africa," downloadable from www.eagerproject.com/discussion34pdf.shtml.

expectancy at birth, adult illiteracy rate, share of the population in urban areas, and access to sanitation in urban areas.

Environmental Effects of Globalization on the Poor

The poor are particularly vulnerable to the environmental effects of globalization. They tend to live in areas where industrial pollution and pesticide runoff are not regulated and controlled. They depend for their livelihoods on renewable natural resources that are easily degraded under constant population pressure. And they have few resources to protect themselves from the harm done to them.

Many of these problems were also experienced by the industrial countries at early stages of their development. But with rising incomes came the opportunity to deal with these problems in order to improve the quality of life. There is nothing preventing the developing countries from doing the same thing. To argue that it is globalization that is responsible for adverse environmental impacts is erroneous. Rather it is the failure to enact and enforce the legislation and regulations that are required to control these problems that is the culprit. At the same time, steps must be taken to introduce family planning and other interventions capable of slowing the rate of population growth, which is placing enormous pressure on the resource base in many developing countries.

USAID Trade Promotion Projects in Ghana and Uganda

USAID has been actively implementing trade and investment programs in a number of countries over many years. More recently, a number of USAID missions have integrated their assistance programs into the poverty reduction efforts being undertaken in many developing countries, especially the least developed countries eligible for HIPC. Given the concern of these missions (1) to assist countries to become integrated into the global economy, and (2) to aid them in their efforts to reduce poverty, it is important to ask to what extent these two goals are compatible within the third wave of globalization. To shed light on the answers to this question, USAID country programs were analyzed in Ghana and Uganda. This analysis was based on extensive interaction by AIRD with the USAID mission in each country over several years, which permitted the interviewing of USAID staff, government officials, and private business leaders, as well as the consultation of a considerable amount of documentation that had been collected.

The analytical framework sketched out above was used as the broad structure for this analysis. In particular, we ask what has been happening in each country regarding the process of opening up to the global economy and how this may have impacted poverty. We also focus on how USAID has facilitated this process, and, in particular, how its actions have enhanced the capacity of globalization to reduce poverty. Most of this analysis concentrates on the economic impact of globalization on the poor. We also recognize the importance of the social and environmental effects, but there is much less information available on these.

USAID's Trade Promotion Programs in Ghana

Record of Openness and Economic Growth

Ghana has been involved in a process of opening up its economy over the past two decades. In 1983, the country began to introduce a series of macroeconomic and structural adjustment measures, which restored fiscal balance, reduced tariffs on imports, eliminated quantitative restrictions, freed up the exchange rate, deregulated markets, reformed the banking sector, privatized a number of state-owned enterprises, and created an environment more favorable to private sector investment. The result was a substantial expansion of trade, investment, and economic growth during the period from 1984 to 1991. Following this period, however, the situation change markedly. Instead of accelerating, the rate of growth declined. Fiscal deficits increased, inflation soared as high as 60% in 1995, and the balance of payments deteriorated (Jebuni, Stryker, and Pandofi, 2001, p. 10).

There were several reasons for Ghana's inability to sustain the rate of growth and development that had been achieved from 1984 to 1991. Part of that growth was simply the result of shifts from the parallel market to formal trade channels. The changing macroeconomic picture also contributed to the slowdown, as fiscal deficits rose from 1.1% to 8.3% of GDP and remained in excess of 5% thereafter. The supply of money and credit expanded rapidly. Interest rates on Treasury bills rose to as high as 45% and the cedi depreciated rapidly, though at times not enough to avoid overvaluation, which hurt exports. The government's fiscal policy both crowded out private investment through very high rates of interest on government securities and contributed to uncertainty through inflation. The result was a continued dependence on external assistance for investment, a failure to raise the ratio of domestic savings to GDP above 10%, and declining productivity of investment (Jebuni, Stryker, and Pandofi, 2001, pp. 11-16).

What was even more troubling was what appeared to be the lack of readiness of Ghana to enter the global marketplace.

> A survey of five industries -- textiles, garments, food processing, woodworking, and metal working -- concluded that the general level of technical capacity (TC) in Ghana is very low by the standards not only of developed countries but also of industrializing countries in Asia and Latin America (Lall, *et al*, 1994). Furthermore, it was observed that Ghana is not in a position to launch broad-based export growth in response to the new incentive regime unless additional technical capacity is introduced. In textiles, garments, woodworking, and metal working, the study observed that the TC of Ghanaian industry, as measured by its use of engineering and technical personnel, is very weak. Part of the reason for the technological problems of industry is lack of the relevant human capital. (Jebuni, Stryker, and Pandofi, 2001, p. 12)

This is a daunting challenge given the characteristics of the third wave of globalization, which emphasize the need for education and training.

Impact of Openness and Economic Growth on Poverty Reduction

Policy reform in Ghana raised prices to rural producers of cocoa and other exports. The effects on food prices were more mixed since import restrictions and exchange controls had been so severe that they caused the prices of food and other essentials to be relatively high, along with those of industrial products, before the reform. When these restrictions and controls were removed, these prices tended to fall. On the other hand, the freeing of markets and improvements in rural infrastructure helped to raise producer prices in rural areas even as consumer prices fell (Stryker, 1990).

The effects of reform on government expenditures were relatively modest. This was because the government was determined to avoid a decline in levels of expenditures, but to maintain macroeconomic stability by increasing revenues (Jebuni, Stryker, and Pandofi, 2001, p. 8). Thus the population did not suffer from a drop in expenditures on health and education. In any event, the poor had had very little access to these services before the reforms .

Because of the influx of foreign assistance, levels of investment rose markedly to about 23% of GDP during 1997-2000. However, the benefits from of this investment were less than they might have been because of a decline in its productivity. Most of the investment was concentrated in the public sector and was financed by foreign assistance, though there was some private investment in gold mining and in smaller scale enterprises. We know relatively little about how this investment impacted the poor.

The ICT revolution has come to Ghana. The country has full connectivity with the Internet, and there are a number of internet service providers. Internet service is currently being extended to the regional urban centers. As of April 2003, there were over 500,000 cellular telephones in Ghana, serviced by four different companies. The are owned or used by people of all social and income classes.

The impact of these changes on poverty reduction can be inferred partially from available data. Ghana has undertaken four rounds of its Ghana Living Standards Survey (GLSS). These took place in 1987/88, 1988/89, 1991/92, and 1998/99. The poverty line in Ghana is estimated from the GLSS data as a function of nutritional requirements. Individuals falling below the lower of the two poverty lines cannot meet their minimum nutrition requirements. The upper poverty line also incorporates essential non-food needs.

Poverty is essentially a rural phenomenon in Ghana, with the poorest found in the northern Savannah region of the country (Table 1). Between 1991/92 and 1998/99, the incidence of poverty decreased in all regions of the country, except in the urban Savannah zone, from a national average of 50.8 percent to 42.6 percent. The largest decrease was in the rural forest area, where cocoa is grown. This is consistent with the rise of cocoa prices that occurred with the reforms. Despite the progress that has been achieved, substantial poverty remains, especially in the north.

Table 1: Poverty Incidence by Location (percent)

	GLSS-3 1991/92	GLSS-4 1998/99
Accra	22.4	4.7
Urban Coastal	28.3	26.8
Urban Forest	25.8	24.8
Urban Savannah	37.9	42.2
Rural Coastal	49.7	46.3
Rural Forest	60.8	41.4
Rural Savannah	72.1	70.5
Urban	27.5	22.8
Rural	62.4	51.6
All Ghana	**50.8**	**42.6**

Sources: GLSS3 and GLSS4; reported in Ghana (2000)

The GLSS-4 reports that mean annual nominal per capita expenditure in rural areas is just over half (54 percent) of mean annual per capita expenditure in urban areas, while expenditure in the poorest rural area, the Savannah (northernmost region) is just two-thirds (68 percent) of the rural national average (Table 2). Nearly half of rural households in Ghana classify their primary

Table 2: Mean Annual Per Capita Expenditure in Ghana, by Region

(current ‘000 cedis)

	GLSS-1	GLSS-2	GLSS-3	GLSS-4
Urban			205	1435
Rural			148	769
Rural, Savannah			126	521
Ratios				
Rural/Urban			0.72	0.54
Rural, Savannah/Rural			0.85	0.68

Source: GSS, Ghana Living Standards Survey results *(various)*

occupation as self-employment in agriculture, and an additional 20 percent are unpaid family workers in agriculture. Only 20 percent of urban households classify themselves similarly. At the national level, almost 58 percent of those identified as poor are from households for which food crop cultivation is the main activity. This large group was not very effectively reached by the policy reforms of the past

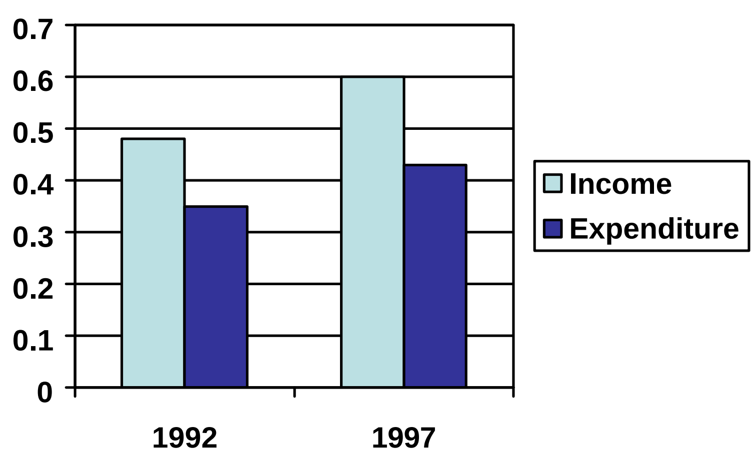
One measure of comparing expenditure data from GLSS-1 and GLSS-4 is the evolution of the ratio of the wealthiest to the poorest expenditure quintile (Table 3). By this measure, inequality narrowed by about 8 percent over the period of "openness" in Ghana. In the late 1980s, mean annual per capita expenditure for the highest quintile was 8.59 times greater than that for the lowest quintile, while in the late 1990s that ratio was 8.16 (Boateng et al. 1989, p.13; GLSS-4, p.83). This suggests that some pro-poor growth was occurring, though the change may not be statistically significant. However, even in the later period the lowest quintile had only a 5.7 percent share of total expenditure, while the highest had 46 percent.

Table 3: Quintile Expenditure Ratios in Ghana

Quintile Group	Mean per capita household expenditure (nominal cedis per annum)	Ratio (Highest/Lowest)
1987/88		
Highest	186,092	8.59
Lowest	21,008	
1998/99		
Highest	2,293,000	8.16
Lowest	281,000	

When the entire distribution of income and expenditure is considered, income inequality appears to have increased, at least during the 1990s. Figure 2 shows that, using GLSS-3 data, the Gini

Figure 2: Gini Coefficients in Ghana



Source: Ghana Statistical Services

coefficient[13] for income was 0.48 and for expenditure was 0.35 (GLSS-3, p.64). Calculated with GLSS-4 data, the Gini coefficient for income was 0.60, while that for expenditure was 0.43 (GLSS-4, p.106). This is a very large increase in the Gini coefficient, which tends to be quite insensitive to changes in the distribution. It suggests a substantial increase in inequality, perhaps because in the pre-reform period conditions were so bad that nearly everyone was poor.

USAID/Ghana Assistance Related to Openness

The Government of Ghana has been committed to openness as the path not only to economic growth but also to poverty reduction. Ghana's Interim Poverty Reduction Strategy Paper (2000), prepared by the Ministry of Finance, cites the country's Vision 2020 goals:

> ...by the year 2020, Ghana will have achieved a balanced economy and a middle-income country status and standard of living. ***This will be realized by creating an open and liberal market economy*** founded on competition, initiative and creativity, that employs science and technology in deriving maximum productivity from the use of all our human and natural resources and in optimizing the rate of economic and social development, with due regard to the protection of the environment and to equity in the distribution of the benefits of development. *(Republic of Ghana 2000, p. 1;* ***bolded italics added*** *)*

Openness is thus clearly an important element in the country's poverty reduction strategy. In order to encourage openness, successive governments and aid donors have promoted nontraditional export sectors in Ghana. An array of public institutions to promote exports has been developed, often with donor assistance. For nearly a decade, the main USAID interventions promoting economic growth in Ghana have focused on openness via trade promotion activities. Starting in 1993, USAID/Ghana's Trade and Investment Program (TIP) undertook to address the policy, technical, and institutional constraints that limit private-sector investment and exports. The project identified firms with the potential for success in export markets and provided them the necessary assistance to achieve it. Efforts also focused on strengthening the major public-sector institutions involved in investment and export promotion and assisting private-sector associations and firms to increase their capacity to export and to obtain export financing.

In the early 1990s, USAID conducted a baseline study on employment and real income per capita of nontraditional export workers (USAID 1993). Four priority sectors were targeted: horticultural products, wood products, textiles/garments, and handicrafts. Data were collected from 266 firms on employment and income distribution by gender, product, firm size, and type of employee. The lowest per-capita incomes per worker were recorded for small-scale firms and for firms in the handicrafts and textiles/garments sector.[14] A major problem facing all exporters was finance, which over 80% of respondents considered inadequate. However, by the end of the TIP project in 1998, food growers and manufacturers of wood and textile products had dramatically increased their exports, establishing solid positions in European and North American markets.[15]

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[13] The Gini coefficient ranges from 0 for complete equality to 1.00 for complete inequality.

[14] These were also the smallest firms, only employing an average of 5 or 6 workers per firm, respectively, compared with 18 workers per firm in horticulture and 164 workers per firm in the wood products sector.

[15] As reported by one of the TIP contractors, AMEX International (http://www.amexdc.com/GhTIPpg.en.html).

In July 1998, the Government of Ghana and USAID began implementing a new Trade and Investment Reform Program (currently $74 million) which supports USAID's Strategic Objective No. 1: Increasing Private Sector Growth. The Project Assistance portion of TIRP ($60 million) seeks to address technical and training needs of both the Government and the private sector related to increasing productivity, marketing, and investment. A $14 million companion Non-Project Assistance (NPA) portion of the Program supports Government efforts to remove policy impediments to increased trade, investment, and macroeconomic stability.

TIRP builds upon the success of its predecessor, the Trade and Investment Program (TIP), by emphasizing nontraditional exports, a substantial portion of which are agriculturally based, because of the importance of these goods and services as a catalyst for accelerated, broad-based growth. One part of TIRP supports key macroeconomic and sectoral policy reforms to improve the business environment, focusing on modifying or eliminating those policies that adversely impact Ghana's international competitiveness and impede investment, trade, and growth. Another, the Increased Private Enterprise Performance (IPEP) component (www.ghanatrade.org), provides technical assistance and training to improve the technical/managerial skills of Ghanaian enterprises. This assistance includes business planning, investment planning, production support, technology support, quality control programs, product development, access to finance, and market development. It is concentrated in either natural resource based industries, such as wood products and agro-industry, or in labor-intensive activities, such as clothing and handicrafts. There is also a micro-enterprise component concentrated on agricultural marketing. At the same time, TIRP is being complemented by some of USAID's other activities to help to preserve the environment and improve food security in impoverished areas, primarily through PL 480 Title II resources, while contributing to the diversification of Ghana's foreign exchange earnings through activities such as tourism.

TIRP also promotes openness within the West African region through its support for development of the West African Gas Pipeline (WAGP). Stretching 400 miles mainly offshore from Nigeria’s Escravos fields to Ghana and perhaps beyond, the pipeline is expected to fuel economic growth in Ghana and elsewhere in the region with delivery of a low-cost energy source. USAID’s support of analysis and negotiations among the four countries involved in the regional gas pipeline has proved vital in keeping this growth-promoting infrastructure program on target. A related project run from USAID’s West African Regional Program promotes trade in electricity among the fifteen members of the Economic Community of West African States (ECOWAS). This activity does not specifically target poverty, but given that the poor are those with most limited access to electricity under present conditions, it is expected that they have the most to gain when low-cost sources become available.

Other economic growth activities underway in Ghana include support for women entrepreneurs and support for export-oriented training in the area of grades and standards. USAID/Ghana has funded the participation of members of the Ghana Association of Women Entrepreneurs (GAWK) in enterprise training, strengthening small and medium-sized women-owned businesses. In 1993, a group of Ghanaian women recognized the need for women entrepreneurs to become more actively involved in international markets and to advocate for more liberalized policies on trade and investment. Today, the Association’s 150 member companies actively export such items as African garments and apparel, processed foods, seafood, and handicrafts. To the extent that women-run firms tend to be more disadvantaged in their access to government support, capital, and trade opportunities (Phillips and Kearns 2001), this kind of program addresses the problems of the more disadvantaged.

In order to address the non-tariff market access issues, which can confound export development, USAID and the United States Department of Agriculture (USDA) launched a grades and standards activity aimed at assisting Ghanaian enterprises engaged in agricultural production, processing, and distribution. This trained Ghanaian exporters how to comply with U.S. and European phytosanitary, biosafety, and related health and product quality standards. This is important for aiding the poor because these activities tend to be quite intensive in the use of labor and in participation by women.

Impact on the Poor of USAID Assistance Related to Openness

Except for its 1993 USAID baseline survey of employment in the nontraditional export sector, USAID/Ghana has not gathered the data that would enable us to assess directly the impact of TIRP and its other assistance programs related to openness on the poor. However, it is possible to make some qualitative judgments based on (1) the effectiveness of its program in promoting trade and growth, and (2) the ways in which the program has been designed and implemented relative to the framework sketched out earlier showing how increased openness can influence the poor.

In the 1993 survey, over eighty-five percent of respondents judged Ghana's trade liberalization policy as having had a positive impact on the country's export trade. Those disagreeing cited as a negative effect that trading firms were perceived to have gained at the expense of those on the manufacturing side of the equation (USAID 1993, p.9). The critique was that openness in Ghana may have reinforced the role of the middleman, at least in sectors with a high number of non-exporting firms. Such a reaction reflects a lack of understanding of the market intermediation (volume aggregation; assurance of quality, sanitary, and packaging standards; financing) required to enter into export markets. While the rising importance of market middlemen, which results from increased integration with global markets, may indeed reflect a reduction in the relative market power of smaller firms, without the middlemen there might not be any viable export activity. Furthermore, the expansion of information networks associated with the third wave of globalization is making it increasingly difficult for middlemen to withhold information on prices and other market characteristics.

The direct impact of USAID trade promotion projects on the poor would undoubtedly most strongly be felt by those involved in the economic sectors targeted for assistance. With USAID assistance, Ghana has expanded its exports beyond its traditional base into nontraditional exports, including Afro-centric garments and handicrafts, selected fresh and dried vegetables, selected fresh fruits, medicinal plants/essential oils, nut and nut products, fish and seafood, and wood/wood products. This expansion earned Ghana an estimated $400 million in 1999 (compared with $124 million in such earnings at the beginning of the TIP program, see Table 4) and resulted in the creation of over 45,000 new full-time equivalent jobs. The 1993 survey estimated that on average $6,000 in export earnings corresponded to one full-time worker in the non-traditional export sector (Morris, 1996). Thus, the number of workers employed in the sector in 1999 was 67,200. According to the World Bank (2001, p. 14), this would represent an annual growth of employment in the nontraditional export sector of 19 percent. Although not large compared with a total economically active population of over 11 million, this nevertheless demonstrates what can be done when conditions are right.

Table 4: Evolution of Ghana's Non-Traditional Exports (million U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999
Agro-processed [a]	80.3	112.1	156.6	185.4	234.9	261.5	220.9
Agricultural [b]	26.1	39.1	27.4	50.3	57.3	77.8	84.5
Other processed [c]	15.3	22.1	34.3	35.2	37.9	57.5	91.1
Handicrafts	2.6	2.3	2.1	2.9	4.7	6.4	6.7
Total, non-traditional	124.3	175.6	220.4	273.8	334.8	403.2	403.2
Total exports, FOB [d]	1,064	1,227	1,431	1,810	1,810	2,091	2,189
% NTE/Total exports	11.7%	14.3%	15.4%	15.1%	18.5%	19.3%	18.4%

Source: World Bank (2001), Tables 4 and 5

[a] Includes canned tuna, palm oil, wood products, cocoa products

[b] Includes coffee, shea nuts, cotton, and horticulture products

[c] Includes light manufactures, e.g., aluminum and plastic products, foam mattresses, cotton fabrics, hair products

[d] The report authors are being contacted to verify the 1996 and 1997 figures.

The IPEP component of the TIRP project found that there had been a "quiet revolution" in Ghana's garment manufacturing sector, with markedly improved acquisition of skills and production capability by those in the labor-intensive sector.[16] In the agriculture sector, non-traditional products currently being exported include pineapples, papayas, bananas, mangoes, chilies, *tinda, karela, tindori,* marrow, and many other items. Most of these are quite labor-intensive.

Ghana has also succeeded in increasing tourism revenue at sites where USAID has been involved. Income from tourism at those sites receiving USAID assistance rose from $15,760 in 1994 to $217,500 in 1998. In the Central Region Project (located on the coast, to the west of Accra), the sites provided with USAID assistance – the Castles and Kakum National Park – received a major international tourism award from British Airways, winning out over several other, currently better-known sites. This increased their visibility considerably in the travel industry and their potential as catalysts of growth for Ghana's nascent tourism industry. To the extent that the development of tourism, a labor-intensive service sector, can be guided into rural regions, this industry could provide an employment boost in the poorest regions of the country. To date, however, there remains little tourism infrastructure in the northern Savannah region, where the poorest in the country could benefit from international visitors.

Of all of USAID's initiatives in Ghana, the gas pipeline project may end up having the largest, albeit indirect, effect on the poor. GLSS-4 revealed that only 17 percent of rural households in Ghana have access to electricity, compared with 75 percent of urban households. The energy sector impacts directly on Ghana's potential for growth, and current resources are inadequate,

[16] http://www.ghanatrade.org/textiles.htm.

unreliable, and high-cost. The availability of low-cost electricity will place a fundamental tool for improving well-being within reach of the poor. Especially important will be rural electrification for increasing income earning opportunities in the countryside. Expanding access to electricity will also have significant positive effects on education and permit a wider variety of economic opportunities for the poor.

Despite their success during the 1990s, nontraditional exports remained stagnant from 1998 to 2002. There were many factors responsible for this stagnation. One was the price decline on the world market associated first with the global financial crisis and then world recession. This led not only to a direct loss of export value but also to an indirect loss associated with the resulting disincentive effect. Second, there were severe problems at home in terms of macroeconomic instability: fiscal deficits, inflation, and highly volatile interest and exchange rates. Finally, it is clear that Ghana still faces many problems in its effort to be competitive on global markets (World Bank, 2001). Thus the TIRP program has faced very significant challenges not only in its implementation but also in trying to demonstrate a positive impact on the Strategic Objective, given the many other negative influences at work (Stryker, *et al*, 2003).

In order to adequately gauge the effects on the poor of USAID's nearly decade-long activities in the area of trade promotion, a follow-up survey should collect data on the employment levels and real per capita income of workers in the nontraditional export sector for comparison with the 1993 TIP baseline study. Very little ex-post impact analysis has been undertaken by the USAID mission, so it is difficult to know (1) what the effect of the project has been on trade, investment, and growth, and (2) how this has affected the poor. To the extent that the nontraditional products focused on by TIP/TIRP are grown or manufactured primarily in the forest and coastal regions of the country, the immediate poverty remediation effect may be less widespread than if the poorest areas, such as the Savannah region, were more involved. More disaggregated analysis is necessary before one can state definitively who has really benefited. Nevertheless, as it is much easier to reduce poverty in the southern part of Ghana, policy makers may need to encourage emigration from the north of the country.

Early on in the TIP, the gender dimensions of the program were evaluated, emphasizing the participation rates of female and male-owned firms, employment and income of women and men, size of participating firms, and geographic location of direct beneficiaries (Morris, 1994). Women owned 24 percent of the firms in Ghana producing nontraditional exports, concentrated in handicrafts, processed foods, and garments. The report found that women exporters were more involved in cross-border trade with Ghana's neighboring countries than in overseas shipping through ports. Therefore, efforts to streamline cross-border trade procedures and improve access roads between border towns would have a more positive impact on women than changes in the procedures for exporting overseas.

According to the Mid-Term Evaluation Report on the TIP, the project component of TIP, e.g. the nontraditional export programs described above, represented $20 million out of the total TIP envelope of $80 million. The remainder of the TIP money was designated to go for non-project assistance (NPA), providing a cash grant to the government of up to $60 million, subject to specific conditionality requirements (Eriksen, *et al*, 1995). Although the proportions were reversed under TIRP, NPA continued to be an important element of the program, normally in support of its attempts to influence policy. Non-project assistance and policy advocacy and technical support have important indirect effects on trade and growth, as well as on poverty reduction, but these are not easily quantified. The Mid-Term Evaluation noted that TIP had created a core of export businesses with prospects for rapid growth and expansion. Further, “it is expected that successful pioneering firms will set examples for others to follow, by making them aware of NTE opportunities and showing them ways to earn a profit” (Eriksen, *et al*, 1995). The Mid-Term Evaluation recommended that there be a study to capture and quantify the multiplier effects of TIP assistance to the NTE sector, but this has not been undertaken. The evaluation of the TIRP program reemphasized the importance of policy work and NPA, as well as the need to assess its impact on SO performance indicators (Stryker, *et al*, 2003).

In Ghana, the Ghana Export Promotion Council and the IPEP project, among others, maintain trade information databases and documentation centers, but the cost and unreliability of Internet service in Ghana still limits the usefulness of these resources for Ghanaian exporters. IPEP has found that regional offices are needed in order to provide more direct access to services and information for exporters. The GEPC opens its library and databases to all users, but better Internet access would make these resources more easily available to Ghanaian exporters.
The situation is improving, however, and the expectation is that Internet and the Web will be much more widely available in the near future. Already, the rapid expansion in the number of cellular phones, to more that 500,000 in April 2003, has vastly improved telecommunications in Ghana and, in particular, linked the poor to this network. Even though the poor cannot often afford the service themselves, they are able to buy time from those that can.

USAID’s Trade Promotion Programs in Uganda

Record of Openness and Economic Growth

Uganda’s record of openness and economic growth over the past decade has been very impressive. Yet there are signs that the situation is beginning to change, just as it did in Ghana a decade after reforms were first initiated. Uganda achieved a major turnaround in the 1990s, following sweeping economic and institutional reforms undertaken after 1987 to revitalize its economy. Macroeconomic stability was achieved and maintained with annual inflation rates below 5 percent per year for most of the second half of the 1990s. Average real income per capita rose from US$200 in 1990 to US$330 in 2000, a 65 percent increase. There was a significant reduction in the incidence of poverty from 56 percent of the total population in the 1992 to 35 percent in 2000. Economic growth averaged 6.8 percent per year during 1992-1998. In response to its reforms and solid performance, foreign aid was plentiful, amounting in 2000 to some 53 percent of the total Government budget, or 13 percent of GDP (Stryker, Nash, and Tsakok, 2002).

Much of this success was due to policies that promoted macroeconomic stability and removed the serious price distortions that had led to a severe misallocation of resources, resulting in a substantial “bounce-back” effect as the economy recovered from its previous lows (Jebuni, Musinguzi, and Stryker, 2001). The gains recorded during this period can also be attributed to the wide range of economic and structural reforms that were implemented by the Government. These reforms involved finance, marketing, taxation, restructuring of Government ministries and parastatals, decentralization, rehabilitation of infrastructure, and re-establishment of security of person and property and the rule of law. Most important, however, was the opening of Uganda's economy to unrestricted trade and capital flows.

Despite these solid achievements, Uganda's more recent growth performance raises serious concerns about the country's ability to engineer export-led growth for poverty reduction. Growth of real GDP slowed to less than 5 percent per year during 1999-2000. Export earnings from goods and non-factor services peaked in 1996, aided by the coffee boom years of 1994-1996, but declined thereafter. Exports as a percentage of total GDP decreased from 11.3% in 1996 to 7.7% in 2000 (Imani Development Ltd., 2001, Background Paper I, p. 5, Tab 2, 3).

The composition of recent export performance, as shown in Table 5, highlights the lack of competitiveness and diversification in the export sector. Earnings from the main traditional exports of coffee, cotton, and tea rose from US$107 in 1992 to a high of US$414 million in 1996, before falling to US$172 in 2000. These three commodities still account for over 50 percent of total export earnings, although their share has decreased from 80 percent in 1994 (Imani Development Limited, 2001, Table 3). Since these commodities are major generators of income and employment for smallholders, who include many of the rural poor, there is a serious danger that the gains achieved in poverty reduction will be short-lived. Other export sub-sectors, such as tobacco, fish and fish products, hides and skins, and horticulture, have performed somewhat better, but this has not been sufficient to offset the decline in traditional exports. Thus erratic, and recently negative, growth of export earnings is a major concern.

Table 5: Major Exports, 1992-2002

(million US $)							
Year	**Coffee**	**Cotton**	**Tea**	**Tobacco**	**Fish & Prods**	**Hides&Skins**	**Horticulture**
1992	95.0	7.2	4.7	4.1	4.6	3.4	0.0
1993	95.2	4.3	8.1	7.4	7.9	5.7	0.0
1994	343.3	2.3	9.0	6.9	15.4	9.2	2.7
1995	382.9	3.6	8.0	9.5	24.2	9.0	2.7
1996	396.1	7.5	10.6	4.9	45.9	8.4	7.2
1997	309.7	30.2	12.9	12.8	30.0	9.6	10.1
1998	295.2	7.7	28.2	22.5	39.4	6.6	12.8
1999	275.3	17.8	21.5	14.7	25.0	4.3	11.9
2000	125.4	19.0	27.5	24.9	22.6	13.6	13.5
2001	223.4	1.6	14.6	11.1	54.4	11.9	NA
2002	249.9	1.6	14.1	16.1	60.1	3.9	NA

Source: Bank of Uganda, *Quarterly Economic Reports*.

With the decline in protection of the pre-1987 regime, and continued high levels of foreign aid, imports soared from 21.5 percent of GDP in 1992 to 34.4 percent of GDP in 2000 (World Bank, 2001c, Table 2). As a result of rising imports and stagnant exports, the deficit on the current account continued to grow, as seen in Table 6. This deficit has been financed largely out of

Table 6: Major Items in the Balance of Payments 1993-2000

(million US $)					
Year	Exports	Imports	Balance on Goods & Svcs	Foreign Aid	Private Transfers
1993	294	756	-462	502	94
1994	527	1168	-641	539	258
1995	660	1516	-856	586	340
1996	786	1730	-944	493	421
1997	757	1823	-1066	678	345
1998	686	1972	-1286	766	456
1999	682	1858	-1176	676	401
2000	596	2022	-1426	768	500

Source: Bank of Uganda, *Quarterly Economic Report*, September 2001.

private transfers and foreign assistance. Although private transfers may be reaching something of a ceiling, there is every indication that foreign assistance is continuing to grow. How sustainable this is over the longer run is another question.

Impact of Openness and Economic Growth on Poverty Reduction

As in Ghana, policy reform in Uganda had the effect of lowering the prices of industrial goods and raising the prices of agricultural and other exports. The effects on food prices were mixed for reasons similar to those in Ghana. Food had been scarce prior to reform, because of war and civil disruption, so that under conditions of improved military security, production increased, lowering prices to consumers. Producers also benefited from decreased costs of marketing and transportation. Overall, one would have expected poverty reduction to be most important in the areas devoted to export crops, especially coffee, which also experienced a boom on the world market during the mid-1990s.

Unlike Ghana, which suffered from fiscal deficits and inflation, Uganda maintained very tight fiscal policy. This would have resulted in a decline in expenditures on health and education except for two critical factors. First, the effects of fiscal stabilization were eased by massive inflows of foreign assistance, much of it ultimately going for government budget support under the Medium-Term Expenditure Framework. Second, Uganda embarked very early on its poverty eradication program, and this placed major emphasis on improved health and education. As a result, the poor did not suffer from decreased expenditures on social services.

The pattern of investment, especially that from official financing, has been directed very much towards the poor in the form of health, education, access to clean water and sanitation, and rural access roads. This has been a key element of Uganda's poverty reduction program. Private investment has gone into industry and agro-industry, with some beneficial effects on employment and the poor. For example, the flower industry for export to Europe has been a big success and it is very labor-intensive.

Uganda promoted competition in its telecommunications industry by issuing two licenses for general telecommunications services. This has had the advantage of expanding cellular service very rapidly to over 350,000 units by the beginning of 2002. The recommendation that comes out of this experience is that it is important to expand mobile service as rapidly as possible through the issuance of several licenses, consistent with available frequency spectrums. The experience in Uganda also suggests that cost can be covered more easily by expanding demand, which is quite elastic with respect to price, than by charging high prices in order to cover costs on limited volume (Stryker and Nash, 2003, p. 26).

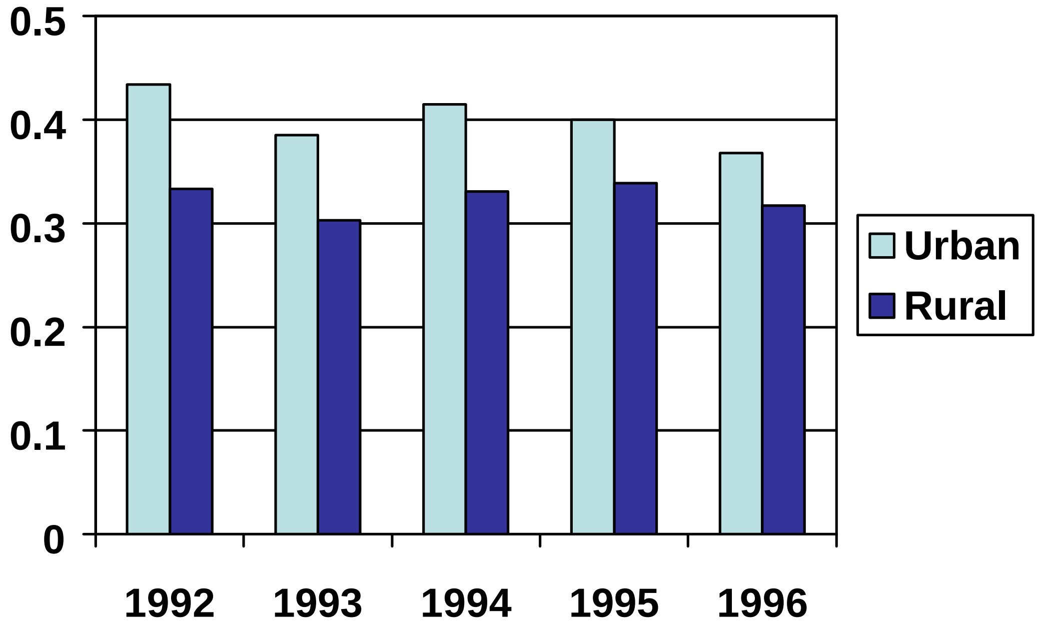
Until recently, most of the telecommunications backbone in Uganda consisted of microwave transmission. This had the advantage of comparatively low fixed cost, which meant that there was not too much duplication on the part of the two network operators. However, the existence of two firms, which have not been able to work together on a common investment program, may have delayed investment in fiber-optic cable, which has the advantage of much greater bandwidth. This is especially important for data transmission and linking Internet users throughout the country (Stryker and Nash, 2003, p. 26).

A major question is how to deal with the issue of externalities and the social objective of providing universal service. The solution may involve a combination of encouraging competition and selective subsidization using a fund such as Uganda's Rural Telecommunications Development Fund (RCDF). One way to avoid slow growth of demand is to concentrate more on public access facilities such as pay phones, telecenters, and cyber cafés, as is being done in Uganda. The RCDF could be used in part to assist in supporting the establishment of locally owned telecenters and cyber cafés in rural areas

The first efforts made by the Ugandan government to monitor living standards through household surveys began with the 1992 Integrated Household Survey (IHS) of 10,000 households. At least four subsequent annual Monitoring Surveys (MS) on a 5,000 household sample provide a timeline on household consumption trends. The proportion of the population living in absolute poverty fell from 56 percent in the 1991/92 IHS to 35 percent in MS-5 in 2000 (Republic of Uganda, 2000b, p.vii; Government of Uganda, 2001, p. 3). Consumption per capita rose 15.9 percent in urban areas and 11.4 percent in rural areas between 1992 and 1997 (Appleton 1999, p. 7). Figure 3 shows that inequality decreased somewhat in both urban and rural areas, as measured by declines in the Gini coefficient.

Although all regions experienced a reduction in poverty, whether measured relative to the total poverty line or to the food poverty line, the effects were uneven across regions and sectors. The Central Region grew most strongly, while the Eastern Region lagged behind. Living standards rose more in urban than in rural areas. Furthermore, this period of growing prosperity was closely related to higher prices for cash crops. "The improvement in the living standards of those growing cash crops accounts for over half of the fall in poverty in the country during the period." Although structural reforms were partly responsible for higher export crop prices, one also has to take into account the effects of the coffee boom (Appleton 1999, p.24). This is especially true given the dramatic fall in coffee prices that took place towards the end of the decade. Although the international financial crisis of 1997-98 and subsequent world recession were partly responsible for this crisis, there also were important structural reasons, mostly related

Figure 3: Gini Coefficients in Uganda



Source: Appleton (1999), p.39.

to Vietnam's expansion of robusta coffee production. This illustrates the downside of participating in the global economy – the potential risk that entails.

The other problem that is beginning to emerge is the regional disparity that exists in Uganda and threatens to become accentuated. Most of the cash crops are grown in the central part of the country, leaving outlying areas without significant income-earning possibilities. For example, in the southwest, population densities are high and there is much pressure on the land. In this region and in the north, civil conflict is also a source of impoverishment.

USAID/Uganda Assistance Related to Openness

Uganda's 1997 Poverty Eradication Plan (PEAP), which also serves as the basis for Uganda's Comprehensive Development Framework (CDF) with the World Bank, lays out four main pillars: creating a framework for economic growth and transformation, ensuring good governance and security, directly increasing the ability of the poor to raise their incomes, and directly increasing the quality of the life of the poor (IMF, 2000, p.2). In the Medium-term Competitiveness Strategy for the Private Sector, it is noted that "in order to have a marked impact on the standard of living (poverty reduction), it is imperative to stimulate a stronger supply response by removing constraints and distortions at the micro levels of the economy, while maintaining sound macroeconomic policies" (Republic of Uganda, 2000b, foreword). In its 2001 PRSP progress report to the IMF and World Bank, the Government of Uganda notes, "Direct efforts at assisting the poor to raise their incomes are a central component of Uganda's poverty eradication strategy. The PEAP/PRSP emphasized two strategic priorities to deal with this challenge: first, higher agricultural growth; and second, increased non-farm employment in the rural areas where most poor people live." (Government of Uganda, 2001, p. 23)

Starting in 1999, the Government of Uganda began reviewing the institutional framework for export promotion with the aim of increasing cost-effectiveness and sustainability. One of the Government's top priorities was removal of sector-specific impediments to export expansion. An important example is lack of export finance, which particularly hurts small and medium-size exporters of nontraditional products. By 2001, the Government was becoming increasingly concerned with lack of export growth. As a result, the President's office commissioned a report, which proposed a range of Government interventions to promote exports in seven agricultural sub-sectors, plus that of information and communication technology (Government of Uganda, 2001b). The donors responded with an analysis of their own, which was presented to the President of Uganda at a conference on competitiveness, organized and financed by USAID in February 2002 (Stryker, Nash, and Tsakok, 2002).

This high-level attention to the issue of export promotion reflected the concern that insufficient attention was being paid to the foundation for trade and economic growth, while much attention was being focused on poverty reduction through improved health, education, water and sanitation, and rural road access. In this respect, USAID was able to play a very significant leadership role because its program in agriculture, trade, and growth had for years concentrated on the productive sectors of the economy.

USAID's program is quite cognizant of both the need for trade and growth and the government's poverty reduction strategy. Export development is one of three tiers of USAID/Uganda's broad-based economic growth strategy; the other two are agricultural development and expansion of rural financial services. The Strategic Objective #1 program to increase rural household incomes features four trade promotion projects – IDEA, SPEED, COMPETE, and the Trade Policy Capacity Building project (of which only the first two, more important, projects are discussed here) [17].

Since 1993, the Investment in Developing Export Agriculture (IDEA) project's goal has been to improve the per capita income of rural men and women by increasing nontraditional agricultural exports.[18] IDEA established the Agribusiness Development Centre to assist agribusiness firms and associations expand production and marketing of selected agricultural crops and products for export. The project identified its intervention commodities carefully in order to avoid intervention in markets that are already functioning reasonably well. Two key selection considerations have been to identify smallholder crops that do not lend themselves to mechanization (i.e., are more labor-intensive in cultivation) and that are not under the threat of competition from estate-production (such as with tea). The chosen crops –including vanilla,

[17] The Competitive Private Enterprise and Trade Expansion (COMPETE) project begun in early 2001 helped Uganda implement an export-oriented growth strategy within the context of the Government's Medium Term Competitive Strategy for the Private Sector and the Plan for Modernization of Agriculture. The targeted sectors were coffee, cotton, fish, and information/communications. The Private Sector Foundation capacity building project reinforced institutional linkages among the principal business associations in Uganda, providing forums for policy makers, exporters, researchers, and donors to come together to discuss current challenges and find common solutions.

[18] Information on IDEA supplied via interview with Clive Drew, chief of party, at the offices of the IDEA project in Kampala on October 23, 2001.

cocoa, hot peppers, dry beans, and sesame – were also selected because they are cultivated widely across the country. Smallholders participating in IDEA agree to observe a code of practice which takes into account non-price factors such as consistency of supply, quality of the product, the integrity of the environment in which it is grown, labor conditions, and full traceability.

IDEA involves traders from the start, so they are prepared to store and handle the product at the right time. Smallholders require immediate commercial outlets for these nontraditional crops in order to be able to buy the food they need, but traders have difficulty in obtaining buyer credits due to the lack of linkages with banks. The project also fosters community-based marketing under a system called RAMS, Rural Agricultural Marketing Systems, to promote mutual trust among farmers. By working together to aggregate the size of their harvests and achieve efficiencies in transport, the project aims to sensitize smallholders about preparation techniques to achieve export quality. The more of the handling and marketing functions that smallholders can assume, the greater share of rural income that accrues to them. IDEA estimates that for most commodities in Uganda, rural producers can derive 10-15 percent higher income by engaging in value-added activities.

The pursuit of long-term relationships between growers, traders, and export buyers is critical to the sustainability of the nontraditional export sector. Rather than send rural Ugandan smallholders on study trips to Europe, the IDEA project has found it far more successful to bring international buyers to Uganda, so they can better understand the operations on the ground and develop emotional links with the country. This is effective because the most difficult part of the marketing chain is within Uganda.

The Support for Private Enterprise Expansion and Development (SPEED) project, begun in March 2001, is helping to foster an appropriate enabling environment in which the rural poor can take advantage of openness and benefit from associated increases in investment.[19] SPEED is working in three main areas: micro-finance, policy reform to boost small and medium enterprises (SMEs), and enterprise development. In the area of micro-finance, SPEED works with the nine largest micro-finance institutions in Uganda. It is helping to develop new legislation that would permit the three most successful of these institutions to become micro-deposit-taking institutions, essentially transforming them into banks. The effect would be to expand savings services to the poor, which are nearly uniformly lacking in rural areas. These micro-finance institutions provide a needed bundling function vis-à-vis the commercial banks, which effectively only operate in Kampala. Beyond micro-level financial intermediation, SPEED also intends to address the "missing middle" of micro-finance, referring to loan sizes between $1,000 and $100,000. The plan is to help micro-finance institutions grow to be able to handle up to $10,000 and to work with banks to offer down to the $10,000 level. SPEED is working to overcome banks' reluctance to lend to micro-finance institutions, in part by helping SMEs to arrive with "bankable" proposals.

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[19] Information on SPEED supplied by interview with Phil Broughton, SPEED chief of party, in Kampala on October 26, 2001.

SPEED provides training and technical assistance on both sides of an SME lending transaction. The goal is to help the small entrepreneur learn to develop a "bankable" project, including preparation of feasibility studies and business plans with financial forecasts. This training is provided on a cost-sharing basis, seen as a key element for sustainability of these efforts. SPEED is also working to secure a $25 million loan guarantee for seven commercial Ugandan banks from the U.S. Development Credit Authority (DCA) to cover 50 percent of the risk to banks from lending to SMEs.

The areas for policy reform supported by SPEED involve the commercial justice system, a land registry, company registration, and the establishment of a center for arbitration and dispute resolution. Commercial justice sector reform is one of the Ugandan government's five priority areas. Arbitration is proving effective as a quick, efficient, and relatively cheap alternative to the customarily long and arduous formal dispute resolution mechanism, which stood out as an impediment to economic growth in the design phase of SPEED.

In order to help the poor benefit from globalization, the provision of global market information to inform economic operators about the existence of opportunities and how to take advantage of them is viewed as an appropriate role for a donor-financed project. SPEED's philosophy is that investment must be made by private sector actors, who become the responsible stakeholders sharing in the risk, while the donor-financed program only provides information and facilitates transactions.

Impact on the Poor of USAID Assistance Related to Openness

The value of non-traditional exports increased from $35 million in 1990/91 to $147 million in 1997/98 (Republic of Uganda 2000b, p.vii). The total value of non-coffee exports in 2002/03 is estimated at $190 million (Bank of Uganda, 2003, p. 19). As these nontraditional exports are often smallholder crops that resist mechanization and thus employ significant numbers of additional laborers, it is safe to assume that the poor derive positive benefits from their activities associated with nontraditional exports.

USAID estimates that the IDEA project provides direct and indirect benefits to over 500,000 agricultural households and approximately 350,000 micro-enterprises, where over 70% of the owners are women. The project has provided technical assistance and capacity building to over 60 new firms in the nontraditional agricultural export sector, creating over 4,000 new off-farm jobs, with most of them filled by women (USAID, 2001). In the micro-finance area, the number of new savers in programs supported by USAID in FY2000 was 212,187, more than 60% over the target of 131,213. The number of new borrowers was 68,013, well above the target of 40,000. Despite these encouraging signs that some in the population have benefited, the overall impact on the poor of such a project is not really known.

IDEA undertakes some impact assessment along commodity lines, to the extent that it is possible to monitor export earnings. The project has identified each step in the production and marketing chain and the costs associated with them. Transaction costs and profitability per acre have been estimated for some crops. In the case of hot peppers, including the costs of production, transport, and handling, it is possible to generate an estimated 17% profit margin. It has proven more difficult to measure the effect on local employment created by the ancillary activities around exporting these nontraditional products, such as transport, packaging, and stevedoring. The original plan for developing evaluation indicators for activities under IDEA was to coordinate with the Ugandan Bureau of Statistics (UBS) in its household expenditure surveys. As there were long delays, USAID sought to fund UBS to conduct smaller surveys in certain regions where the program was active, so at least there would be a baseline at the beginning of the IDEA project. This proved to be beyond the scope of the UBS to execute reliably.

A 1997 USAID evaluation found the IDEA project to be making excellent progress, in particular by achieving intermediate results in such areas as technology packages developed, number of field demonstrations, field day attendance, seed multiplication activities, and market information dissemination (USAID, 1997, p.4). The USAID evaluators pointed out the difficulties in gauging the effect of the trade promotion project on the poor in the first of the report's recommendations, "Refocus efforts of the unit to increase linkages with and direct influence on rural incomes" (ibid, p. 17).

SPEED has been successful at linking micro-finance with the broader financial sector. Increasing competition in micro-finance in Uganda has been positive for the poor, as it has led to a reduction in interest rates. One-half of micro-finance loans in Uganda go to small and medium enterprises and 95 percent go to women.

Conclusions

There are a number of important conclusions that emerge from the analysis in this paper. Many of these relate to a rather unique set of requirements imposed by the third wave of globalization on those countries and individuals who want to participate in the global economy. Both Ghana and Uganda have made a clear commitment to joining this economy. They have also made a clear commitment to poverty reduction. It is a thesis of this paper that both are possible, but only if the requirements for joining and benefiting from the economy are respected. Furthermore, joining the global economy by meeting these requirements may also result in unanticipated social, cultural, political, and environmental consequences that should not be ignored.

Requirements of the Third Wave of Globalization

Open Policy and Regulatory Environment

The first requirement of the third wave of globalization is that countries and individuals must maintain an open policy and regulatory environment. At the national level, this means relatively low barriers to trade; exchange rates that reflect the real opportunity cost of domestic resources; free and open markets supplied with good information; well functioning legal, regulatory, and judicial systems; well developed financial and commercial institutions; adequate transportation and communications infrastructure; and a liberalized, but efficiently and transparently regulated, public utilities sector. For individuals, it requires a reasonable level of health and education services, access to safe water and sanitation, access to reliable and timely information, and the ability to engage in low-cost transactions in labor, capital, land, and product markets. The third wave of globalization is characterized above all by the swiftness with which change takes place. Adapting to this change requires the kind of flexibility described here.

Safety Nets

Given the vagaries of the global economy under the third wave of globalization, there is a need for safety nets to assure that the poor do not fall into the kind of destitution from which they are unlikely to emerge. For most people, the most important safety nets are derived from their own material and human resources. These might comprise real or financial assets, close kinship ties, or traditional coping mechanisms. Where these are inadequate, it is the responsibility of government to step in and to provide some sort of bulwark against extreme deprivation. Otherwise people will not be willing to take the risks required to benefit from rather than be marginalized by globalization.

Willingness to Move

The geographical trends under the third wave of globalization are clear. To a very considerable extent they call for concentration – largely in areas that are not far from the sea. This does not mean that there cannot be some areas in the interior that develop, especially when they are near natural resources that would be expensive to ship without some degree of processing. Furthermore, advances in ICT provide greater flexibility of location. But the economies of agglomeration and scale, as well as of ocean transport, are such that geographical concentration is likely to be the wave of the future, as it has been for much of the past. Once again, the requirement is for flexibility, but this time of a particular type. Certainly we are already seeing this today in the form of both national and international migration.

Need for a Level Playing Field

The least developed countries of the world can hardly be expected to participate fully in the global economy as long as the rules are rigged against them. There are many areas where much greater coherence is required between the avowed poverty reduction goal of the industrial nations and their national policies and international agreements in the areas of trade policy, intellectual property rights, agricultural programs, environmental regulations, labor and social policy, financial regulations, arms trade, and a host of other areas.

Democracy and Governance

There is a general presumption that participation in the third wave of globalization will not work very well unless there is at least a minimum adhesion to the principle of democracy and good governance. From the standpoint of the poor, they must be empowered to participate in the political, economic, and social process. If not, they will inevitably be marginalized. In fact, entire nations are likely to forego the benefits of globalization unless they have a reasonable degree of democracy and good governance, if for no other reason than that they are unlikely to have the flexibility and resilience that participation in today's global economy requires.

How Well Have Ghana and Uganda Done?

The case studies of Ghana and Uganda provide interesting insights into the experience of two African countries committed to both openness and poverty reduction. In each country, the opening up process had a strongly positive impact on economic growth, at least over a decade or so. Some of this may have been a "bounce-back" from the earlier situation in which there were major problems of economic mismanagement. But in each case much of the immediate gain appears to have been because of the rise in prices of export crops that resulted from a reduction in trade barriers and devaluation of the local currency. This was translated into an increase in incomes of those who raised these crops, an expansion in their production, and a reduction in poverty in the regions where the crops were produced.

On the other hand, food crop farmers did not fare as well. One reason is that policy reform had less of a clear impact on food crop prices. Another may be that more of these farmers are subsistence food producers who are not linked very well to markets in the first place. In any event, there was less poverty reduction in regions where food crop production is more important than that of cash crops.

Despite the early success, both Ghana and Uganda experienced subsequent difficulties. In Ghana, for a variety of reasons, the Government began to run fiscal deficits around 1992, which resulted in inflation, high interest rates, crowding out of private capital, rapid but unsteady depreciation, occasional overvaluation of the cedi, and considerable uncertainty on the part of investors. In Uganda, exports faltered after the mid-1990s, partly because of steeply declining world coffee prices. But, in addition, nontraditional exports in both Ghana and Uganda lost much of their earlier momentum. One reason for this, especially in Uganda, was the overvaluation of the currency that resulted from large inflows of foreign assistance.

The anticipated adverse effects of macroeconomic stabilization on public expenditures for health and education largely failed to materialize. In Ghana the Government did not seriously reduce public expenditures, and in Uganda inflows of foreign assistance largely made up the difference. Then, too, the poverty reduction programs established in both countries put heavy emphasis on expenditures for health and education.

We know relatively little about the incidence of increased investment on the poor. Investment did rise in both countries, but much of it was financed by foreign donors as part of their overall assistance programs. There was relatively little growth in financing out of domestic savings. One area about which little is known is investment that may have been financed out of remittances from abroad, which were quite important in both countries.

Both Ghana and Uganda have made a significant commitment to information and communications technology. This is already having a major impact on information flows. It appears likely that, where the sector has been liberalized, the poor have not been bypassed. This is evident the extensive use of local telecenters even in remote villages. There are important positive externalities associated with increased use of information technology. As an example, use of e-mail and the Web can contribute in an important way to bringing businesses into the global economy with respect to markets, product specifications, quality standards, global and regional trade agreements, and a host of other areas vital to trade capacity building. E-Business could be an important export, especially for landlocked countries with high transportation cost. While the benefits from acquiring information via modern ICT are very high, the marginal cost is very low. It is essential, therefore, that users of ICT gain access at a price that is close to its marginal cost rather than attempting to cover fixed costs as well on a much lower volume of activity.

USAID's efforts to promote openness in Ghana and Uganda were quite successful, at least for a time. Nontraditional exports rose substantially in both countries during the period 1992 -98.

Thereafter, however, the record was less spectacular. Because of major macroeconomic problems in Ghana, which resulted in inflation, high and variable interest rates, and substantial and fluctuating depreciation of the local currency, investor confidence was shaken and exports stagnated. In Uganda, exports remained flat after 1998 because of declining world market prices for coffee and because massive inflows of foreign assistance led to overvaluation of the Ugandan shilling.

The impact of USAID's program on poverty reduction Ghana is not at all clear. Although a baseline survey was undertaken in 1993, which suggests that the TIP program to encourage expansion of nontraditional exports had a sizeable impact on incomes and employment, no follow-up survey was conducted to verify the validity of this conjecture. In Uganda, the monitoring and evaluation situation was somewhat better, though in neither country was there an effort not only to measure the effects of interventions on income and employment but also to identify the extent to which the poor were beneficiaries of these interventions. In addition, very little is know about linkage effects – both upstream and downstream in supply and from expanded markets arising from increased income and demand.

USAID missions in both countries focused on natural resource-based and labor-intensive activities. Given lack of specific information on the poverty profile of the beneficiaries of these activities, this made a lot of sense. On the other hand, it was difficult to focus these activities on poorer regions in each country. This, plus the more global trends discussed above, suggest that there may have to be some emphasis on facilitating out-migration. This will require the creation of jobs in more favored areas – a fact that has been explicitly recognized by the USAID mission in Uganda.

Social, Cultural, Political, and Environmental Impacts

Openness and economic growth are essential elements in the poverty reduction equation. However, these may give rise to social, cultural, political, and environmental effects that are not very well understood. Although it is difficult to analyze these effects as systematically as has been done for the economic effects, it is possible to make a few preliminary observations, as well as to recognize that much more work in this area needs to be done.

As acknowledged by the OECD Development Assistance Committee's *Guidelines On Poverty Reduction*,

> Increasing economic growth rates is essential – but it is not enough. The quality of growth – its sustainability, composition and equity – is equally important. In many countries, inequalities in incomes and access to assets tend to undermine both the pace and quality of growth – and hence the effect of growth on poverty reduction. When inequality gives rise to conflict and violence, it has disastrous human and economic consequences. (OECD/DAC 2001, p. 9)

The history of Uganda is replete with examples of the destructive effects of perceived inequality.

Openness and growth have resulted in substantial flows of people both across borders and within nations. This has increased economic opportunities, but it has also disrupted lives and left migrant workers vulnerable to exploitation and the possibility of expulsion. As an example, Ghana suffered incredibly from the expulsion of its workers from Nigeria in 1983. Uganda has also suffered because of the spread across its borders of civil conflict in both the north and the southwest.

It appears that, overall, Ghana has benefited from the flow of cultural expression associated with globalization, particularly through expansion of demand for its afro-centric products. Critically important has been the training that has been undertaken, much of it financed by USAID, which has enabled producers of these products to penetrate overseas markets.

It is well recognized that women in Africa carry much of the brunt of expanded employment in the sense that their outside activities increase while their household responsibilities remain largely the same. This is true, for example, of women in Ghana who engage in cross-border trade, which is quite demanding of their labor. As the role of women in Africa’s trade expands, they are becoming increasingly vocal regarding their need for greater empowerment (Phillips and Kearns, 2001).

Incorporating Poverty Reduction as an Explicit Goal

In reviewing trade promotion projects from Ghana and Uganda, it is important to bear in mind that these were never designed with poverty reduction explicitly in mind. Nevertheless, poverty reduction has now been accepted by both USAD missions as an explicit goal, which means that performance will have to be monitored in terms of that goal. This will require that poverty profiles be integrated into program design. In other words, early in the implementation of a particular program, baseline data will have to be collected that indicate the poverty status of a representative sample of households, some of whom will be included in and some excluded from the activities of the program. Some of this information could be drawn from the national sample of households used to monitor poverty reduction, but it is likely that additional information will also be required which is related to the type of program interventions envisioned. For example, if an objective of the project is to increase the availability of finance in rural areas, information will be needed on existing access to finance.

During implementation of the program, follow-up visits to sample households should be undertaken to monitor the extent to which these households are being impacted by the interventions of the program. Then, after sufficient time has passed to allow the interventions to be effective, an evaluation of the impact of these interventions on poverty reduction should be undertaken. This will require updating the poverty profile by the national statistical office as part of its ongoing monitoring of poverty reduction and by the USAID-financed program in the specific areas in which the program has been active.

It will also be very useful if data can be gathered to estimate the linkage effects of program interventions. This will require interviewing employees, upstream suppliers, downstream processors, and those who may have invested in or expanded their production because of an increase in demand resulting from the intervention. Analysis of these linkage effects should show whether strengthening the value chain is likely to have an important impact on poverty.

More difficult is estimating the indirect effects on poverty reduction of policy reform, investing in infrastructure, or establishing an institutional structure conducive to private sector investment and expansion, including an appropriate legal, regulatory, and judicial environment. However, a number of observations in this respect are pertinent, some of which arise out of the country case studies. One is that non-project assistance can play a very influential role in inducing policy reform that benefits the poor. Another is that reforms that encourage labor-intensive production or access by the poor to capital, land, and natural resources are likely to have a big impact on poverty reduction. A third observation is that improvements in education, training, and information flows are vital to the poor participating in the benefits from globalization. Yet another observation is that investments in infrastructure that lower costs and increase access by poor people to public utilities and other services are likely to have an important effect on poverty reduction. An example is the West African gas pipeline.

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