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Poverty reduction through liberalisation? Neoliberalism and the myth of global convergence

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Abstract. This article critically examines the question of whether poverty has been reduced in recent years, and if so, whether this is a result of neoliberal and/or globalisation friendly policies. The first section problematises at least some claims made for poverty reduction and the second section questions any causal link between 'pro-globalisation' policies and poverty reduction. The third and final section considers in detail the nature of the contemporary global economy, and in examining the evidence concerning capital flows shows how, contrary to the claims made by neoliberals and some globalisation theorists, capital is not dispersing throughout the world. Moreover, even when the 'correct policies' are adopted, this is unlikely to happen. I then conclude by suggesting why 'actually existing globalidation' does not alleviate, and may indeed intensify, global inequalities.

Poverty reduction?

In recent years, there have been a number of upbeat assessments which claim that global poverty has declined in recent years, and that the reason for this decline is the adoption of market-friendly policies by an increasing number of nation-states. These claims rest on three arguments: first, that poverty (and perhaps inequality) has been reduced; second that this is due to market-friendly policies; and third, that these favourable outcomes show that the world economy presents opportunities for developing countries, which can be embraced through these correct policies. This section focuses on the first of these contentions.

The World Bank has argued that poverty and income inequality have fallen in the last twenty years. In 1980, there were 1.4 bn people living in absolute poverty, and by 1998 this had fallen to 1.2 bn.[1] Bank researchers have since revised this figure upward, and suggested that the number of people living in absolute poverty has fallen by 400 million.[2] Elsewhere, it suggests that the proportion of the world's population living in absolute poverty has fallen from 28 per cent to 24 per cent of the world's population.[3] Some researchers, often former Bank employees, are even more upbeat,

[1] World Bank, *Global Economic Prospects and Developing Countries – Making Trade Work for the Poor* (Washington: World Bank, 2002), p. 30.
[2] Shaohua Chen and Martin Ravallion, 'How Have the World's Poorest Fared since the Early 1980s', World Bank Policy Research Working Paper, no.3341 (2004), at: ⟨http.econ.worldbank.org⟩.
[3] World Bank, *World Development Report 2000/01* (Oxford: Oxford University Press, 2000).

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suggesting that the proportion of people living in absolute poverty has fallen from 46 per cent in 1980 to 29 per cent in 1990 and 18 per cent in 2000, and the latter figure may even be as low as 13 per cent. This amounts to a fall in total numbers (based on the 18 per cent estimate) from 1.58 bn in 1980, to 1.2 bn in 1990, and 899 million in 2000.[4] If these latter assessments are correct, then the most prominent Millennium Development Goal – to reduce the proportion of the world's population living in absolute poverty by 50 per cent[5] – is close to being, or has actually been, fulfilled.

Two questions arise from these figures, namely are they accurate, and on what basis are they calculated?[6] Absolute or extreme poverty is defined as those people living on an income of less than (approximately) $1 a day. This figure does not refer to a US dollar as such, but is instead based on Purchasing Power Parity (PPP) exchange rates. PPP is based on adjustments that attempt to take account of the fact that the cost of living tends to be lower in poorer countries than in richer ones. As a starting point, the Bank's chosen benchmark figure was US $1 a day in 1985, which was then changed to $32.74 per person a month in the US in 1993. From these two starting points, the Bank then calculates equivalent amounts in currencies of other countries based on purchasing power parity. The Bank then moves from a country's base year and estimates equivalents for other years based on a country's Consumer Price Index (CPI). Through these methods, a national currency poverty line for a country and for a particular year is developed, and the proportion of households living below the poverty line is measured.

This method is the basis for the upbeat arguments cited above, which all suggest that the number of people living below an international poverty line (IPL) of approximately $1 a day has fallen.[7] But there are problems with this method of calculation, not only because the figures are in some respects arbitrary and not necessarily accurate, but also because they are biased towards presenting an optimistic assessment of the extent of poverty reduction. Sanjay Reddy and Thomas Pogge[8]

[4] Surjit Bhalla, *Imagine There's No Country* (Washington: Institute of International Economics, 2002); Xavier Sala-i-Martin, 'The World Distribution of Income (Estimated from Individual Country Contributions)', *NBER Working Papers* no.8933 (Cambridge, MA: National Bureau of Economic Research, 2002).

[5] See: ⟨www.un.org/millenniumgoals⟩. The proposed reduction has been backdated, so that it starts from 1990, and not when the goals were adopted in 2000.

[6] A third, and wider question also arises, which is the extent to which income itself is a useful measure of poverty. This is an important debate, but is not the main concern of this article. Briefly, it is fair to say that income is not a sufficient measure, but it remains a central factor in any adequate measurement of poverty and inequality, and there is some correlation between economic growth and wider social development indicators, even if this is not as straightforward as neoliberals claim. Also, the principal focus on income measurements in this article is justified by the fact that it takes issue with neoliberal claims about poverty and inequality *on their terms*. Moreover, one of the ironies of using the less economistic human development index is that this is bound to show considerable evidence of convergence, and therefore could be used to support the neoliberal case. This is because two of the components of the HDI (education and life expectancy, the other is PPP *per capita* income) are bound to slow down the higher the gain in education and life expectancy. For example, one cannot have a literacy rate beyond 100 per cent, and gains in life expectancy are bound to be slower once the average reaches a level above 70, at least compared to countries where life expectancy may only be in the forties. Any gains made by poorer countries therefore register as a movement towards convergence.

[7] The precise figure is $1.08 a day, based on PPP, but the $1 a day figure is still drawn on as a headline number.

[8] Sanjay Reddy and Thomas Pogge, 'How *Not* to Count the Poor' (2003); and T. Thomas Pogge (2004), 'The First UN Millennium Development Goal: A Cause for Celebration?' (2004), both at: ⟨www.socialanalysis.org⟩.

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have presented a particularly powerful critique of the optimistic scenario. The first point they make is that the initial benchmark figure chosen by the Bank – $1 a day in the US – is too low. According to the US Department of Agriculture, the least cost of home-cooking that could meet adequate calorie (and some nutrient) requirements was $5,134 for a family of four in 1999. However, the Bank's international poverty line stood at $1,812 in 1999 (based on the 1985 figure updated through CPI changes) and $2,057 in 2004 (based on the 1993 figure). Thus, the source of the IPL underestimates total food requirements for the poor in the US, let alone for the rest of the world.

The second point relates to the process by which the Bank measures purchasing power parities. Rather than simply focus on market exchange rates, PPPs attempt to reflect the fact that there are significant price variations in different localities. Price ratios across rich and poor countries tend to be broadly similar for tradable goods, and quite dissimilar for non-tradables. The World Bank averages out these price ratios in order to get a more accurate picture of consumption in particular places. As a measure of the consumption of the wealthy in poor countries, this is a reasonable approximation. However, it is not an accurate measure of what the poor consume in a poor country. If we assume a PPP differential of say, 10, then the Bank will assume that the annual income of a household in a poor country will be 10 times that of a poor household in the US, measured through PPP exchange rates. This differential will lead to similar levels of consumption by both poor households. But the problem is that this average is not calculated by comparing the consumption patterns of the poor in the two countries. Instead, consumption patterns are *averaged* out. This is not a good measure of the consumption of the poor, because the averaging out is based on the consumption patterns of everyone in the poor country, and not just the poor. A likely scenario then is that the PPP differential of 10 will not generate sufficient buying power that compares with the poor in the US, but this is 'compensated' (in the PPP calculation) by the fact that the differential of 10 will buy more services in the poor country than in the rich one. This is because services are cheaper in the poor country. But the problem is that services are unlikely to be consumed by the poor. Based on a sample of 56 countries for benchmark year of 1985 and 78 countries for 1993, Reddy and Pogge suggest that the prices of all foods and of bread and cereals were higher than general consumption purchasing power parity. For low income countries (15 of the total in both samples), the price of food was 67 per cent (40 per cent population weighted) higher and bread and cereals 111 per cent (34 per cent population weighted) higher based on the 1985 benchmark year, and 27 per cent (31 per cent) and 51 per cent (40 per cent) higher for the 1993 benchmark.[9]

This problem of inappropriate measurements is further exacerbated by the fact that these are biased towards showing a downward trend over time. This is because the purchase of food constitutes a falling share in international consumption spending, while services constitute a rising share. Thus, as average incomes rise, so the proportion spent on food declines. In terms of PPP, the result is that the price of food has a diminishing influence on the calculation of PPPs, while services have an increasing influence. The assumption made is that the income of everyone in a country rises equally, which is highly unlikely, as wealthier households are likely to enjoy greater increases in consumption than poorer ones. Moreover, as we have seen,

[9] Reddy and Pogge, 'How *Not* to Count the Poor', pp. 27, 46–7.

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the poor are far less likely to consume services, but the contribution of services to PPP measures will be enhanced as *general* consumption increases. PPP calculations therefore not only assume a one to one increase in consumption for all households, but they also show a bias towards measuring the consumption patterns of households that are not poor.

The even more optimistic accounts of Bhalla and Sala-i-Martin replicate and exacerbate these errors. The Bank relies on household surveys in order to calculate poverty, whereas Bhalla and Sala-i-Martin rely on a hybrid mix of household surveys and national income accounts. The latter are the main basis on which they make their calculations, while household surveys are used only to estimate the proportional distribution of each national income total. The problem is that national accounts data usually support higher estimates of aggregate private consumption, which includes the value of housing consumed by owner-occupiers, consumption derived from credit cards and mortgages, and even government spending on military and infrastructural projects that are unlikely to have any impact on the lives of the poor, but which are counted as consumption by the poor. Moreover, both Bhalla and Sala-i-Martin adjust the findings of household surveys to match national accounts data and therefore assume that the poor under-report their consumption as much as richer people in their country. For all these reasons, their wild optimism concerning poverty reduction reflects their fallacious starting point, which is that the poor are not really poor at all.[10] The Bank is not as guilty in this respect, but their methodology still betrays similar fallacious assumptions.

These points become even clearer when we examine the impact of the shift from two different base years. The switch in 2000 from the 1985 to the 1993 base year was particularly significant in generating more optimistic accounts of poverty reduction. Thus, using the 1985 base year, poverty rates in 1993 in sub-Saharan Africa stood at 39 per cent, while for Latin America they were 23 per cent. With the switch to the 1993 base year in 2000, poverty in 1993 in sub-Saharan Africa was calculated as being 49 per cent, while in Latin America, it was 15 per cent. Thus, poverty rates increased from 39 to 49 per cent and decreased from 23 per cent to 15 per cent, *as measured for the same year*. It was thus not good or bad policies that led to 'poverty reduction', but simply *a change in the way that extreme poverty was calculated*. The World Bank's *World Development Report* on 1999/2000 was thus far more pessimistic than the optimistic assertions cited above, as it used the 1985 base year calculations to argue that absolute poverty had increased from 1.2 bn in 1987 to 1.5 bn in 1999.[11] The shift from the 1985 count to the 1993 count had the effect of lowering the poverty line in 77 out of 92 countries for which data were available, and these countries contained 82 per cent of the total population of the 92 countries.[12]

Finally, even if we ignore the problems of counting the poor, and instead accept the Bank's figures, there remains the question of the arbitrary $1.08 headcount. This is all the more problematic given that the 1985 and 1993 base years under-estimate the income needed to purchase food in the US (see above). Thus, even if we accept the Bank's own data, with all its problems, and lift the poverty count to those living on less than $2 a day, the numbers and proportion of people in this category *increased*

[10] Branko Milanovic, The Ricardian Vice: Why Sala-i-Martin's Calculations of World Income Inequality are Wrong, (2002) at: ⟨http://ideas.repec.org⟩.

[11] World Bank, *World Development Report* 1999/2000 (Oxford: Oxford University Press, 1999), p. 25.

[12] Reddy and Pogge, 'How *Not* to Count the Poor', p. 42.

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from 1981 to 2001, from 2.45 to 2.74 bn, a 12 per cent increase.[13] Indeed, given that the US Department of Agriculture argues that the one dollar a day starting point is inadequate (see above), then there are strong grounds for using the $2 benchmark. Moreover, on the one dollar count poverty numbers have risen by about one-third in Latin America, and one-half in sub-Saharan Africa, even as most countries have liberalised their economies.[14]

The question of whether world inequality has declined is even more complex. Income distribution can be measured in a variety of ways. Relevant variables include: (1) the use of market or PPP exchange rates; (2) distribution between countries and within countries; (3) distribution weighted by population; (4) distribution measured as an average across the population (such as the Gini coefficient), or the ratio of the top to the bottom (say, 20 or 10 per cent).[15] The neoliberal case is based on measuring PPP incomes, average GDP, population weighting, and average distribution, and the conclusion is that world income inequality fell in the years 1980–2000.[16] But there are problems with this contention. If China and India are taken out of the equation then the picture is negative. Whether or not they should be taken out is an issue I return to below. But leaving this debate aside for the moment, there are further problems. First, it leaves out the question of income distribution *within* countries. Second, the proportion of the richest to the poorest people is undoubtedly increasing, so inequality as measured by *polarisation* is undoubtedly increasing. Third, neoliberals only focus on relative inequality between countries, while absolute inequality is still increasing. Thus, a growth rate of 10 per cent a year in a country where *per capita* income is only $500 a year means a closing of the relative gap with a country that has an annual growth rate of 2 per cent a year with a *per capita* income of $10,000 a year. But the absolute gap continues to rise as 2 per cent of 10,000 is higher than 10 per cent of 500. The neoliberal objection to this argument is that this increase in absolute inequality is bound to occur, and can only change over a long period of time. The related argument is then made that growth itself is bound to be uneven and unequal, and that to regret that is to regret growth itself and endorse a situation in which everyone is equally poor.[17]

However, this argument is spurious for two reasons. First, it ignores the fact that redistribution can both have positive effects on the consumption of the poor (whose extra dollar is far more significant to him or her than the lost dollar of the rich person), and is not necessarily incompatible with growth. Second, it ignores the fact that the exercise of market friendly policies is supposed to lead to the alleviation of both relative and *absolute* inequality as each country exercises its comparative advantage in the world economy. The final problem with the wider neoliberal case for reduced inequality relates to the issue of PPP versus market exchange rates. As we have seen, PPP rates are important because they attempt to account for local variations in purchasing power. But we can turn the neoliberal case for globalisation on its head and actually make a (limited) case for using market exchange rates, and

[13] See: ⟨www.worldbank.org/research/povmonitor⟩.
[14] Andrew Sumner, 'Epistemology and ''Evidence'' in Development Studies: A Review of Dollar and Kraay', *Third World Quarterly*, 25:6 (2004), p. 1169.
[15] Robert Wade, 'On the Causes of Increasing World Poverty and Inequality, or Why the Matthew Effect Prevails', *New Political Economy*, 9:2 (2004), pp. 163–88.
[16] See the debate between Robert Wade and Martin Wolf, 'Are Global Poverty and Inequality Getting Worse?', *Prospect*, March (2002), pp. 16–21.
[17] Ibid.

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if these are used, then even neoliberals accept that inequalities are increasing in the world economy. Market exchange rates are unreliable measures as currency fluctuations can lead to wild discrepancies in the measurement of global poverty and inequality. But on the other hand, these wild fluctuations – and market exchange rates themselves – are not without significance, not least because *international purchasing power is a reflection of the increased global integration that neoliberals are otherwise so keen to embrace*. Thus, international purchasing power is important 'because this is more relevant than PPP for measuring relative impacts of one part of the world on others, including the ability of one set of people . . . to import, to borrow, to repay loans, and also to participate in international rule-making for a . . . Creditors have not been lining up to accept debt repayment in PPP-adjusted dollars.'[18]

There are clearly a whole set of problems with the claim that global poverty and inequality has been reduced in recent years. Nevertheless, if poverty reduction has occurred, then the reason for the downward trend in the last twenty years is the economic growth and poverty reduction in China and India. If these are excluded, then all the evidence points to an upward trend. But of course, on the face of it, there is no good reason to exclude them, especially as these two countries make up a very high proportion of the world's population.[19] On the other hand, if these two countries are the main reasons why poverty has been reduced in recent years, then we need to examine the policies adopted in these two countries, and compare them with policies adopted in other countries (a comparison which does suggest that we should abstract from population weighted figures and treat each state as one unit). This is the subject of the next section.

Market-friendly policies, growth and poverty reduction

The second argument made is that the reduction in poverty and inequality has been caused by the best policies for promoting economic growth. These policies are essentially similar to the structural adjustment policies promoted in the 1980s, and based on greater integration into the world economy through trade, investment and financial liberalisation. Alongside the work of prominent Bank economists such as David Dollar and Aart Kraay, the 2002 Bank report, *Globalization, Growth and Poverty: Building an Inclusive World Economy*,[20] attempts to establish a causal relationship between structural adjustment and globalisation-friendly policies, which are said to promote both economic growth and poverty reduction. Although at times the report does make frequent qualifications, the general conclusions and recommendations certainly make the case for causality. Based on a study of 92 countries over four decades, the report differentiates more and less globalised countries. This is measured by examining trade tariffs from 1985 to 1997 and trade volumes (based on

[18] Robert Wade, 'On the Causes of Increasing World Poverty and Inequality, or Why the Matthew Effect Prevails', pp. 166–7.
[19] Martin Wolf in Robert Wade and Martin Wolf, 'Are Global Poverty and Inequality Getting Worse', pp. 16–17.
[20] World Bank, *Globalization, Growth and Poverty* (Oxford: Oxford University Press, 2002), and David Dollar and Aart Kraay, 'Growth is Good for the Poor', *Journal of Economic Growth*, 7 (2002), pp. 195–225.

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trade/GDP ratios) from 1975–97. The top third of countries are designated as more globalised, and the bottom two-thirds as less globalised. The key argument is that the more globalised countries had higher rates of growth then the less globalised, with the former having annual average growth rates of 5 per cent and the latter rates of growth of just 1.4 per cent per year. The report therefore reaches the conclusion that growth is good for the poor, and that market-friendly, pro-globalisation policies are good for growth. This is similar to the argument of Anthony Giddens,[21] who argues that the main problems of the developing world 'don't come from the global economy itself, or from the self-seeking behaviour on the part of the richer nations. They lie mainly in the societies themselves – in authoritarian government, corruption, conflict, over-regulation and the low level of emancipation of women.'

These arguments suffer from a number of weaknesses, best illustrated by initially focusing on the contentions of the World Bank and the *Globalization, Growth and Poverty* report. This report essentially suffers from two problems. First, there is the question of how openness is measured, which relies too much on measuring trade/GDP ratios. Second, there is the question of focusing on changes in, rather than amounts of, openness. Trade/GDP ratios measure the volume of trade in a particular economy, but they do not measure trade *policy*. It is quite possible to have high trade/GDP ratios and yet still have relatively closed trade policies, as was the case for the first-tier East Asian late developers. It is therefore not clear how trade/GDP ratios are linked to policies of trade or investment liberalisation. Moreover, while there may be countries that experience high rates of economic growth and have high trade/GDP ratios, this correlation does not establish a causal link between the two. For instance, larger countries with huge domestic markets and lots of resources (such as the US) are more likely to have lower trade/GDP ratios than other countries. More relevant to the neoliberal case is the fact that some of the poorest countries in the world actually have high trade/GDP ratios. Thus, in 1997–8, the trade/GDP ratio for 39 of the poorest, least developed countries averaged 43 per cent, around the same as the world average, but their share of world exports from 1980 to 1999 declined by 47 per cent. In the period from 1999–2001, the trade/GDP ratios of the least developed countries averaged 51 per cent, which was actually higher than that in the most developed countries.[22]

If we turn to trade policy, over this same period, least developed countries actually went further than other developing countries in dismantling trade barriers,[23] a point I return to below. To an extent, poor growth records may reflect internal factors such as political instability and even civil conflict, but the extent of its generalisation across countries suggests that liberalisation does not necessarily translate into higher levels of economic growth. Indeed, if nation states are weighted on a one to one basis, then the growth rate differentials between high and low globalisers is statistically very small (1.5 per cent a year for the former, 1.4 per cent for the latter).[24] This again begs the question of whether India and China should only count as single countries, but given that liberalisation is a policy adopted by each individual state, then there should be no population weighting across nation states. Indeed:

[21] Anthony Giddens, *The Third Way and its Critics* (Cambridge: Polity, 2000).
[22] UNCTAD, *The Least Developed Countries Report 2002* (Geneva: UNCTAD, 2002), pp. 103, 112; (Geneva: UNCTAD, 2004), p. 3.
[23] UNCTAD, *The Least Developed Countries Report 2004*, p. 114.
[24] Sumner, A Review of Dollar and Kraay', p. 1174.

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Since the catch-up is defined in terms of mean *population* – weighted income of the globalisers, and since China is among these, and since China has had such a remarkable growth record over the last two decades, the authors should not have even bothered to include other countries. All that is needed to obtain the desired conclusions is that China's growth accelerates.[25]

In fact this argument can be expanded further, and it relates to the second problem with the high globaliser/low globaliser distinction. Even if we leave aside the problem of using trade/GDP ratios as a measure of trade openness, there is a further problem, which is that measuring *changes* in the trade/GDP ratio is an even less useful way of measuring trade openness. The most globalised countries tend to be ones that initially had a low trade/GDP ratio in 1977, but whose ratios have increased since that time. This measurement therefore excludes countries with high but not rising trade/GDP ratios from the category of more globalised, particularly those very poor countries dependent on the export of a few primary commodities, and which have had very low and sometimes negative rates of growth.[26] The effect of excluding such poor, low growth countries with high but constant trade/GDP ratios from the category of more globalised countries is to underestimate the category of constantly high globalisers with low economic growth.

An exaggeration of the relationship between high growth and growing openness also occurs when one critically examines the evidence for China and India, which both count as globalised countries, even though their trade and investment policies remain less open than some of the low globalising countries. This is justified by the assertion that 'as they reformed and integrated with the world market, the ''more globalized'' developing countries started to grow rapidly, accelerating steadily from 2.9 per cent in the 1970s to 5 per cent through the 1990s.'[27] But this claim does not conform to the reality of growth in China or India, which predated their growing openness, and indeed in India, there was little change in growth rates once liberalisation was implemented in the 1990s.[28] Moreover, despite liberalisation, such as the lifting of some restrictions on foreign capital investment, they remain far from open economies. Capital controls remain strong, subsidies still exist and there are still relatively high tariffs on selected imports. Average tariff rates in India did decline from 80 per cent at the start of the 1990s to 40 per cent at the end of the decade, while China's declined from 42.4 per cent to 31.2 per cent in the same period, but the latter figures remain higher than the average for developing countries.[29]

Attempts to draw general conclusions from the policies of China and India are thus misguided. Indeed, the Bank's own data suggest that if we measure openness not by trade/GDP ratios or changes in these ratios since 1975, and instead focus on trade and investment *policies* in 1997, allegedly high globalisers had higher average tariffs (35 per cent) than low globalisers (20 per cent).[30] The IMF index of trade restrictiveness measures trade policy through quantifying average tariff rates and

[25] Branko Milanovic, 'The Two Faces of Globalisation: Against Globalisation as we Know It', *World Development*, 31:4 (2003), p. 674.
[26] UNCTAD, *The Least Developed Countries Report 2002*, part 2, ch. 3.
[27] World Bank, *Globalization, Growth and Poverty*, p. 30.
[28] Dani Rodrik, *The Global Governance of Trade as if Development Really Mattered* (Geneva: United Nations Development Programme, 2001).
[29] Dani Rodrik, 'Comments on ''Trade, Growth and Poverty'' by D. Dollar and A. Kraay', (2000), Table 1, at: ⟨www.ksghome.harvard.edu⟩.
[30] Sumner, A Review of Dollar and Kraay', p. 1174.

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non-tariff barriers, and there is no evidence of greater trade restrictiveness on the part of the poorest countries. Based on an analysis of 46 of the poorest least developed countries (LDCs), UNCTAD found that in 2002, average tariff rates were less than 25 per cent for 42 of these countries, less than 20 per cent for 36 of them, and less than 15 per cent for 23 of them. In 29 of the 46 countries, non-tariff barriers were absent or minor, and in 28 of the 46 countries, there were no significant non-tariff barriers and average tariff rates of less than 25 per cent. UNCTAD thus conclude that 'most of the LDCs now have more open trade regimes than other developing countries and as open trade regimes as high income OECD countries.[31]

Finally, the relationship between global integration and poverty reduction is also far from straightforward. The Bank argues that trade liberalisation will reduce poverty, as it will increase demand for unskilled labour, and increase growth and therefore government revenue. But, based on an UNCTAD study of 49 LDCs the evidence is ambiguous. It suggests that poverty has actually increased among LDCs with the most open trade regimes, but at the same time, it has also increased by about the same amount for those with the most closed trade regimes. Between these two extremes are the moderate liberalisers and the more advanced liberalisers, and here the evidence suggests that it is the former that have a better record. No straightforward conclusions can be drawn, beyond the negative ones that trade liberalisation neither unambiguously causes an increase or a decline in poverty. In the UNCTAD study, the incidence of poverty fell in 16 LDCs from 1987–99, and only 4 of these saw a decline in their export/GDP ratio. On the other hand, among LDCs in which export orientation increased, there was no general experience of a reduction in poverty – this occurred in 10 out of the 22 countries from 1987–99.[32] In other words, the effects of trade liberalisation must be contextualised, and will depend on a whole range of factors. For example, in terms of employment, relevant factors will include job losses in sectors that lose out from trade liberalisation, against employment creation in more competitive sectors.[33] What is clear however, is that even where there are positive gains in terms of employment and poverty reduction, these tend to be small and are associated with high rates of labour flexibility, long work hours and poor working conditions. These practices could be (somewhat brutally) regarded as instances of competitive advantage that characterise countries at low stages of development, to be shed once development and upgrading occur. In contrast, it will be argued below that there are good reasons to assume that these practices are set to continue for a very long time to come.

This discussion suggests that on its own, trade liberalisation is not necessarily good for growth or poverty reduction. In fairness to neoliberals, they do argue that market friendly policies need to be accompanied by institutional reforms,[34] but these reforms are essentially means to an end, promoted in order to ensure that market forces lead the process of economic growth. The assumption is therefore maintained that market friendly policies are part of the solution to the problems of economic

[31] UNCTAD, *The Least Developed Countries Report 2004*, pp. 16–17.
[32] UNCTAD, *The Least Developed Countries Report 2002*, pp. 115–19.
[33] Rhys Jenkins, 'Globalization, Production, Employment and Poverty: Debates and Evidence', *Journal of International Development*, 16:1 (2004), pp. 1–12; Rhys Jenkins, 'Globalisation of Production, Employment and Poverty: Three Macro-Meso-Micro Studies', *European Journal of Development Research*, 17:4 (2005), pp. 601–25.
[34] See, for instance, World Bank, *World Development Report 1997* (Washington: World Bank, 1997).

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growth and poverty reduction.[35] This in part is because the global economy is something that must be 'embraced' by developing countries, and in this respect, 'globalization' represents an opportunity rather than a constraint. As we have seen, this is the basis for the argument that developing countries suffer from lack of development because of bad policies and because they are insufficient globalised. But my discussion so far implicitly points in another direction, namely that:

> The policy problem for the LDCs is not the level of integration with the world economy but rather the form the form of integration. The current form of integration is not supporting sustained economic growth and poverty reduction.[36]

We therefore need to better understand the current *form* of global integration, and examine possible reasons why this is not conducive to sustained economic growth and poverty reduction. This is the task of the next section.

Neoliberalism and the myth of global convergence

The arguments that favour liberalisation as a means of promoting economic growth and poverty reduction rest on particular assumptions about the world economy. For neoliberals, growth and poverty reduction occur through specialisation in the production of goods and services in which countries are relatively most efficient – in other words, through the exercise of comparative advantage. However, such efficiency can only be discovered through a process of open competition, in which inefficient sectors are out-competed by imports from more effective sectors, and so specialisation on producing in efficient sectors will take place as labour moves from uncompetitive to competitive sectors. For this process to occur, liberalisation policies that promote competition and encourage investment must be carried out. In this sense, provided the correct, market-friendly policies are adopted, 'globalisation' represents an opportunity for developing countries. Although standard trade theory derived from Ricardo assumed that capital was not internationally mobile, the obvious fact of mobility is accommodated into orthodox theory through the argument that, provided the correct policies of openness are utilised, then capital mobility is an advantage for developing countries as they can benefit from direct foreign investment.[37]

This section will present an alternative account of the current international economy, suggesting that hierarchies in the international economy persist, based on uneven development and the increased concentration of capital which enhances accumulation in some regions, and undermines it elsewhere. I will also suggest that neoliberalism and 'actually existing globalisation' actually reinforces and intensifies these processes. This will be done by re-examining critical theories of both international trade and foreign investment, applying them to the current global economy, and then drawing out some implications for the relationship between uneven development, inequality and poverty.

[35] See the critical discussion, in K. S. Jomo and Ben Fine (eds.), *The New Development Economics* (London: Zed Books, 2006).
[36] UNCTAD, *The Least Developed Countries Report 2004*, p. 35.
[37] World Bank, *Globalization, Growth and Poverty*, p. 30.

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In contrast to orthodox theories of trade, the theory of unequal terms of trade argued that open trade policies could reinforce inequality in the international order.[38] In particular, this theory argued that primary goods producers suffered from a number of disadvantages, due to: the fact that there were many primary producers compared to relatively few manufacturers; the low income elasticity of demand for primary products; and the higher wages won by unionised workers in manufacturing intensive countries, which served to keep prices high too, at least compared to primary products.

There is an extensive debate over the terms of trade, not least over how it applies in the context of an increasingly industrialised developing world,[39] and it is this issue which requires further consideration. After 1945, developing countries increasingly saw the need to industrialise, and import substitution industrialisation became the dominant development strategy, at least until the rise of neoliberalism in the indebted 1980s. It is also true that manufacturing exports have become increasingly important to many countries of the former 'third world', with manufacturing accounting for 70 per cent of developing world exports by the late 1990s, compared to 20 per cent in the early 1980s.[40] Advocates of ISI regard the rise of manufacturing as in part the product of a new stage for industries developed in the earlier ISI period, so that the focus on the domestic market has increasingly evolved so that export markets are now as important. This scenario broadly conforms to the experience of the first-tier East Asian NICs, which combined export-oriented policies with ISI from the outset.[41] On the other hand, the neoliberal argument is that the rise of manufacturing in the developing world reflects their increasingly competitive advantage in manufacturing, reinforced by low transport costs, cheaper labour supplies, and increasingly open investment policies. In 2001 alone, 71 countries made 208 changes to their investment policies, 194 of which were more favourable to DFI, and developing countries have consistently liberalised their investment policies in recent years.[42] On the face of it, this neoliberal optimism appears to be based on important developments in the world economy. From the 1990s, there has been a large increase in

[38] Hans Singer, 'The Distribution of Gains from Trade between Investing and Borrowing Countries', *American Economic Review*, 40 (1950), pp. 473–85; Raul Prebisch, 'Commercial Policy in the Underdeveloped Countries', *American Economic Review*, 44 (1959), pp. 251–73.

[39] See among others, Prabirjit Sarkar and Hans Singer, 'Manufactured Exports of Developing countries and their Terms of Trade', *World Development*, 19:4 (1991), pp. 333–40; Prem-chandra Athukorala, 'Manufactured Exports from Developing Countries and their Terms of Trade: A Re-examination of the Sarkar-Singer Results', *World Development*, 21:10 (1993), pp. 1607–14; Prabirjit Sarkar, 'Growth and Terms of Trade: A North South Macroeconomic Framework', *Journal of Macroeconomics*, 19:1 (1997), pp. 117–33; Alfred Maizels, 'The Manufacturing Terms of Trade of Developing countries with the US, 1981–97', Working Paper no. 36 (Oxford: Queen Elizabeth House, 1999); Alfred Maizels, Theodosios Palaskas and Trevor Crowe, 'The Prebisch Singer Hypothesis Revisited', in David Sapford and John-ren Chen (eds.), *Development Economics and Policy* (Basingstoke: Palgrave Macmillan, 1998); Raphael Kaplinsky and Amelia Santos-Paulinho, 'Innovation and Competitiveness: Trends in Unit Prices in Global Trade', *Oxford Development Studies*, 33:3/4 (2005), pp. 333–55; Peter Robbins, *Stolen Fruit* (London: Zed Books, 2003).

[40] UNCTAD, *Trade and Development Report 2002* (Geneva: UNCTAD, 2002), p. 51.

[41] Gordon White (ed.), *Developmental States in East Asia* (London: Macmillan, 1988); Alice Amsden, *Asia's Next Giant* (Oxford: Oxford University Press, 1989); Robert Wade, *Governing the Market* (Princeton, NJ: Princeton University Press, 1990); Kevin Gallagher (ed.), *Putting Development First* (London: Zed Books, 2005).

[42] UNCTAD, *World Investment Report 2002* (Geneva: UNCTAD, 2002), p. 7; UNCTAD, *World Investment Report 2006* (Geneva: UNCTAD, 2006), pp. 23–7.

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foreign direct investment (FDI) by transnational companies, from $59 bn in 1982 to $1.2 trillion in 2000, and an annual average rate of growth of FDI from the mid 1980s of 23.6 per cent (1986–90), 20 per cent (1991–95), and 40.1 per cent (1996–2000).[43] In 2004, global FDI rose by 27 per cent compared to 2003, and in 2005, it rose by 29 per cent to a new high of $916 bn.[44]

However, there are strong grounds for questioning this upbeat assessment. Certainly, as we have already seen, it is not necessarily the case that the most successful developers in recent years, China and India, have liberalised as unambiguously as neoliberals contend. Certainly they have liberalised in terms of foreign investment policy, but their successful growth can in part be traced back to protectionism and ISI, which in some respects persists to this day. But perhaps more important, this section will suggest that the undoubted expansion of manufacturing exports from the developing world in recent years does not necessarily give reason for the optimistic picture painted by neoliberals and 'pro-globalisation' theorists. This in turn can be linked to the theory of unequal terms of trade, albeit in new ways not fully developed by Prebisch or Singer. Moreover, I will suggest below that this discussion has implications for understanding continued inequality in the international order, and this in turn can be linked to the question of poverty reduction.

Economic globalisation has been linked to the idea that there are now networks of production or commodity chains, which enables companies to source from a wide variety of locations throughout the world.[45] While advocates regard this practice as an opportunity for developing countries, critics suggest that it has actually led to new hierarchies, and new forms of uneven development. Although the distinction is perhaps too rigidly made, Gereffi distinguishes between two kinds of commodity chains: those that are producer-driven and those that are buyer-driven.[46] In the case of the former, rents are still generated by economies of scale (and associated high start-up costs), and control over backward and forward linkages such as supplies and retailing. In the case of buyer-driven chains, barriers to entry are generated at more intangible levels, such as marketing and design. Crucially however, those production processes that are contracted out and/or relocated to parts of the periphery tend to be concentrated in low-cost and lower value production, so that the core recovers most of the value-added at the higher value end of production, distribution and marketing processes, where rents are generated. Therefore, even though these processes encourage the expansion of manufacturing into the periphery, this will still be associated with lower value production. Rents are important because 'the levels of income arising to any producer or country operating in the global economy will depend on the extent of rents which they command. The lower the barriers to entry and the easier it is to copy a particular activity, the lower the associated rents and

[43] UNCTAD, *World Investment Report 2004* (Geneva: UNCTAD, 2004), p. 4.

[44] UNCTAD, *World Investment Report 2006* (Geneva: UNCTAD, 2006), p. 3.

[45] See among others, Gary Gereffi and Miguel Korzeniewicz (eds.), *Commodity Chains and Global Capitalism* (Westport: Praeger, 1994); Peter Dicken, *Global Shift*, 3rd edn. (London: Sage, 2003); Peter Dicken, Philip Kelly, Kris Olds and Henry Wai-Cheung Yeng, 'Chains and Networks, Territories and Scales: Towards a Relational Framework for Analysing the World Economy', *Global Networks*, 1:2 (2001), pp. 89–112; Peter Gibbon and Stefano Ponte, *Trading Down* (Philadelphia, PA: Temple University Press, 2005).

[46] Gary Gereffi, 'Capitalism, Development and Global Commodity Chains', in Leslie Sklair (ed.), *Capitalism and Development* (London: Routledge, 1994), pp. 211–31.

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incomes which are provided.'[47] It remains the case that not only in primary products, but increasingly in the manufacturing sector too, production in developing countries is disproportionately concentrated in sectors where barriers to entry are low and therefore rents are far less likely to be generated. This in turn reinforces hierarchical relationships between core firms and suppliers – for example, in recent years there has been a significant concentration of market share in retailing, which has increased buying power for these companies against suppliers. The United Kingdom Competition Commission in 2000[48] reported the squeezing of suppliers, not only through the market power of the few retailers forcing down prices to the many suppliers,[49] but through practices that included charging suppliers for supermarket shelf space, compensation paid by suppliers when profits were less than expected, and suppliers part financing visits by buyers. Similar practices occur in relations between suppliers and final producers in manufacturing, and indeed, this analysis may even apply to supposed success stories such as the Indian software industry, which accounted for as much as 16 per cent of total exports and almost 3 per cent of GDP in 2001–2.[50] However, it is also heavily concentrated in the lower end, labour-intensive sectors of the industry, leaving higher value production to the more developed countries, which reflects the importance of skills, knowledge and infrastructure the further up the production chain.

These observations are confirmed if we look closely at data related to international trade and capital flows.[51] The share of Africa and Latin America in world trade has fallen in the era of contemporary globalisation: in 1960, Africa's share of total merchandise exports was 5.6 per cent, and Latin America's 7.5 per cent; by 2002, Africa's share had declined to 2.1 per cent and Latin America's to 5.4 per cent. These falls have taken place in the era of liberalisation and the globalisation of production. The share of the developing world in global manufacturing exports has increased substantially, from 4.4 per cent in 1965, to 30.1 per cent in 2003. But at the same time, while the value of manufacturing imports from the developing world to the 'advanced' capitalist countries as a percentage of the latter's total 'consumption' of manufactured goods has increased substantially, it remains surprisingly low. For instance, China's share of manufactured imports into the US was 15.9 per cent in 2003, but only 4.7 per cent in the European Union.[52] Growing international competition has undoubtedly increased in recent years, although it should be pointed out that this predates the rise of neoliberal globalisation in the 1980s and 1990s, and indeed can be traced back to the postwar boom from the 1950s, particularly for Europe. One measure of increasing competition is the growth of import penetration of domestic markets for manufactured goods, which has increased in the US and

[47] Raphael Kaplinsky, *Globalization, Poverty and Inequality* (Cambridge: Polity, 2005), p. 64.

[48] While this report did not find supermarkets guilty of abusing their market position, the findings are more interesting than the final report. Moreover, the chair of the report, John Bridgeman, has since said that there is a need for another report as market share becomes ever more concentrated in the retail sector. See Felicity Lawrence 'Former OFT chief urges inquiry into "abuse" of market position by supermarkets', *The Guardian*, 10 November 2005. In early 2006, a new inquiry was announced by the Competition Commission.

[49] Out of 2,600 suppliers, Tesco had only eight whose share of total intake exceeded 1 per cent and only 230 with a share higher than 0.1 per cent. See Gibbon and Ponte, *Trading Down*, p. 20.

[50] Anthony D' Costa, 'Uneven and Combined Development: Understanding India's Software Exports', *World Development*, 31:1 (2002), pp. 211–26.

[51] UNCTAD, *Trade and Development Report 2002* (Geneva: UNCTAD, 2002), p. 51.

[52] Andrew Glyn, *Capitalism Unleashed* (Oxford: Oxford University Press, 2006), p. 91.

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Europe in particular since the 1950s. For the US, it increased from 2 per cent in 1950, to 6 per cent in 1974, to 14 per cent in 1991, and 21 per cent by 2001. Competition from the developing world manufacturing accounted for 10 per cent of manufactured goods in 2001. In Europe, import penetration increased from 6 per cent in 1950, to 17 per cent in 1974, to 28 per cent in 1991, to 39 per cent in 2001, but the 'South' accounted for only 8 per cent of this manufacturing competition.[53]

In terms of foreign investment, we have already seen that it increased substantially from the early 1990s, including to parts of the developing world. But this investment also remains very concentrated. Throughout the 1990s, the developed countries received around two-thirds of total FDI, while the capital-scarce developing countries (including East Asia) received one-third. The global FDI share of developing countries for the period from 2003–05, was still approximately 35 per cent, with Asia and Oceania's share standing at 21 per cent and South, South-East and East Asia's share standing at 18.4 per cent, compared to Latin America and the Caribbean's 11.5 per cent and Africa's share just 3 per cent.[54] These figures suggest that investment to the developing world is itself highly concentrated, and at the turn of the century just ten countries received over 70 per cent of it.[55] Since then, the global FDI share of the top five developing countries has increased substantially, from around 11 per cent in 2000, to around 18 per cent in 2005, while the global share of the rest of the developing world fell in the same period.[56]

These figures do however distort the picture in a number of ways. First, mergers and acquisitions between companies can lead to an increase in FDI figures even though they do not involve any new investment. As most mergers and acquisitions take place between 'First World' companies, this has the effect of exaggerating the concentration of FDI in the developed countries. But FDI figures also increase when countries sell off previously state-run enterprises to foreign capital – once again, this is not new, green-field investment, but a simple takeover of existing assets. In some years, mergers and acquisitions have accounted for possibly as much as 85 per cent of new FDI, as was the case in 1997.[57] Thus, in the year 2003, a year in which mergers and acquisitions were not particularly high, FDI inflows were $560 bn. But of this amount, only $440 bn was made up of new, green-field investment. The large increases in FDI in 2004 and 2005 also largely reflected a new round of mergers and acquisitions.[58] Mergers and acquisitions are more common between developed countries, thus inflating the figures that suggest capital concentration based on DFI flows. Thus, UNCTAD's figures for the year 1999–2000 show that DFI inflows to the developed world constituted 80 per cent of total DFI, and the proportion going to developing countries constituted only 17.9 per cent, but this was a year characterised by a high degree of mergers and acquisitions among companies in the developed world.[59] However, this is a point noted by UNCTAD in its annual *World Investment*

[53] Glyn, *Capitalism Unleashed*, p. 97.
[54] UNCTAD, *World Investment Report 2006*, pp. 6–7.
[55] The top ten countries in 2000 were Hong Kong (still counted separately from China), China, Brazil, Mexico, Singapore, Argentina, Indonesia, Malaysia, Chile, and South Korea. See UNCTAD, *World Investment Report 2001* (Geneva: UNCTAD, 2001), Annex Table B3.
[56] UNCTAD, *World Investment Report 2006*, p. 4.
[57] Bill Robinson, *A Theory of Global Capitalism* (Baltimore, MD: Johns Hopkins University Press, 2004), p. 59.
[58] UNCTAD, *World Investment Report 2006*, pp. 3–4.
[59] UNCTAD, *World Investment Report 2002* (Geneva: UNCTAD, 2002), p. 5.

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Reports, and still the evidence points to capital concentration. Moreover, post-structural adjustment, there has also been a widespread takeover of locally owned assets in the developing world, especially in Latin America. According to one estimate, since the late 1980s over half of foreign investment in Latin America was actually the purchase of existing enterprises.[60] In recent years there has been a slowdown in privatisation, with the total sale of state owned assets falling from $50 bn in 2000 to less than $20 bn in 2003.[61] Second, TNCs may not directly control overseas production but enter into agreements with local capital. This would not count as direct foreign investment even though it is part and parcel of the globalisation of production. But on the other hand, the figures for manufacturing imports into the developing world that came from the developing world would in part reflect the use of such subcontracting agreements, and these remain low (see above).

Moreover, FDI figures in some respects *under-estimate* the concentration of capital flows in the contemporary world economy. The developing countries have a higher proportion of the world's population than developed countries, and so the concentration of FDI is greater than the figures cited above. For the years 1995–99, developed countries received $474 on a *per capita* basis and for 2001 the figure was $583; for developing countries as a whole, for 1995–99 the figure was $37 and for 2001 $41.[62] Second, FDI only makes up a small proportion of total global capital investment. From 1990–2003, world FDI flows accounted for only 8 per cent of the world's gross fixed capital formation. The share of FDI in the GDP of particular countries varies widely, from (using 1999 figures) 97 per cent in Singapore, 65 per cent in Malaysia, 55 per cent in Chile, 31 per cent in China, 16 per cent in Mexico, almost 8 per cent in South Korea, and 3.6 per cent in India. It then falls rapidly for poorer countries and the average percentage share for developing countries as a whole was 28 per cent in 1999, compared to 14.5 per cent for the developed countries. This is a big leap from the figure of 13.4 per cent for developing countries in 1990 (and 8.4 per cent for developed countries), which reflects the policies of investment liberalisation and privatisation carried out over that decade.[63]

Where then does this leave the neoliberal argument that the correct policies will promote development? Clearly there has been an important change in the international division of labour, and some shift in the organisation and location of manufacturing production and services. But at the same time this has both reinforced some old, and produced some new, hierarchies of international production. The higher value end of the production of goods and services is still largely concentrated in the older core countries, although the East Asian region has had some success in breaking into these areas of production, albeit less through industrial relocation and more through the role played by the state in directing capital accumulation and industrial production. This means that activities that generate high rents, such as production of (high value) final product, Research and Development, design, advertising, marketing and sales, still concentrate in core regions. Some parts of lower value added production may then be located in poorer areas – which may be within the core, but also may be in parts of the periphery, where labour and other

[60] James Petras, 'Six Myths about the Benefits of Foreign Investment', (2005), at: ⟨www.counterpunch.org/petras⟩.
[61] UNCTAD, *Development and Globalization: Facts and Figures*, p. 6.
[62] UNCTAD, *World Investment Report 2002*, p. 265.
[63] UNCTAD, *Development and Globalization: Facts and Figures*, p. 4.

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costs are low. This will of course vary from sector to sector, and it would be a mistake to divide the world into the skilled/high wage core and unskilled/low age periphery, as in fact much of the expansion of jobs in the core is in low wage (non-tradable) services. But it is true that skilled jobs are overwhelmingly concentrated in the core, while the periphery serves the world market in manufactures (and some services) largely through producing low-cost, labour-intensive goods. This is reflected in the non-correspondence between the South's share of world manufacturing exports, and their share of manufacturing value-added. Thus, from 1980 to 1997, Mexico's share of manufactured exports rose ten-fold, but its share in world manufacturing value-added actually fell by around one-third.[64]

Indeed, we can go further and suggest that rather than representing a model or an unambiguous opportunity for other developing countries, the rise of China has in some respects actually exacerbated these problems. This is because it has led to a massive increase in a 'global reserve army of labour', falling prices and falling barter terms of trade for low value manufactures, and therefore stagnant real wages and little growth in employment. The result is an exacerbation of this Catch 22 situation, in which many poor countries cannot find markets for their products, or if they do, they tend to be at the cost of significant reductions in the prices of their products. Indeed, based on wide-ranging studies for the years from 1988–2001, using disaggregated data for around 10, 000 imports into the European Union, and focusing on products where developing world exporters were most prominent, Kaplinsky claims that in almost one third of these sectors the price of Chinese origin products fell and for other low income countries, the price fell in one-quarter of the cases. Moreover, the higher the *per capita* of a country, the less likely unit prices were to fall.[65] Although this applied only to European Union imports, given the wide range of products involved, similar patterns were likely to exist in terms of US and Japanese imports as well. Indeed, since 1990, the growth of China's exports in absolute amounts has exceeded that of the rest of the top 10 leading manufacturing exporters from the developing world, and since 2000, the latter nine countries' combined export share has fallen whilst China's has risen.[66] China's economic growth miracle should therefore not be regarded as a model for others to follow, not only because its own growth bears little resemblance to the claims made by neoliberals, but also because its miracle has some negative implications for other developing countries.

Certainly China's production has increasingly relied on increased imports of inputs, and in 2004 Latin American exports expanded by 37 per cent, much of which was accounted for by rising demand in East Asia, especially China.[67] The value of iron and steel, ores and minerals and non-ferrous metals increased by between 30 to 45 per cent in 2004, which reflected rising demand from China, which is now the leading importer of many commodities.[68] Some African countries, particularly Sudan and Congo, have also benefited from expansion into the Chinese market. This global commodities boom fuelled by rising demand in China is significant, but it should be seen in the context of the longer term tendency for primary commodity prices to fall.

[64] UNCTAD, *World Investment Report 2002*, pp. 80–1.
[65] Kaplinsky, *Globalization, Poverty and Inequality*, ch. 7.
[66] Barry Eichengreen, Yeongseop Rhee and Hui Tong (2004) 'The Impact of China on the Exports of Other Asian Countries'. Working Paper no.10768, NBER.
[67] World Trade Organisation, *International Trade Statistics 2005* (Geneva: WTO), p. 11.
[68] Ibid., pp. 1–2.

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Moreover, prices are likely to fall in the future if there is a slowdown in the world economy, likely in the event of adjustments made to redress trade imbalances, particularly between the US and China. Furthermore, increased production in response to increased demand will also mean longer term price falls, exacerbated by speculators rapidly withdrawing investments in once-booming commodities. At the very least, this boom is only an opportunity for developing countries if they successfully diversify their economies in new directions, but it will be suggested below that trade liberalisation undermines the prospects of this occurring.

The concentration of (productive) capital flows applies equally to financial flows. Neoliberals argue that the free movement of money allows poorer parts of the world to draw on global savings, and therefore promote economic growth. As well as a substantial increase in direct foreign investment, developing countries did see a substantial increase in flows from international capital markets in the 1990s, particularly in the emerging markets in Latin America and East Asia. This increased from $43.9 bn in 1990 to $299 bn in 1997, falling back to $227 bn in 1998 because of the withdrawal of funds from East Asia.[69] However, portfolio investment to developing countries is still proportionately small – the developing world received 9.7 per cent of total global flows in 1991, 9 per cent in 1994, 6.2 per cent in 1998, and 5.5 per cent in 2000 – and is concentrated in the richer developing countries.[70] Most financial flows, however, concentrate in the developed world, not least the US where it has financed the trade deficit under Clinton and the budget and trade deficits under Bush junior. Moreover, the argument that these flows are necessary to facilitate trade and investment ignores their actual effect on Latin America in the 1990s. In the context of trade liberalisation and financial flows into Latin America (which led to over-valued exchange rates, sometimes formalised by currency pegs to the dollar), cheap imports flooded the market, which in turn led to a decline in manufacturing value added. The basic rationale for financial liberalisation is to draw on both domestic and foreign savings and thus increase investment rates, but both actually fell in the 1990s: savings, from 22 per cent to 17 per cent of GDP in Argentina from 1989 to 1999, from 28 per cent in 1985 to 20 per cent of GDP in Brazil from 1985 to 2001, and from 30 per cent to 18 per cent of GDP in Mexico from the early 1980s to 2001 in Mexico; investment, from 27 per cent to 20 per cent of GDP in Argentina from the mid 1980s to late 1990s; from 25 per cent to 20 per cent of GDP in Brazil from 1989 to 2001, and from 26 per cent to 21 per cent of GDP in Mexico from 1981 to 2001.[71] The combination of high interest rates and exchange rates, which served to encourage capital inflows, also encouraged cheap imports and undermined both investment and exports. Instead, this combination fuelled consumer-led booms, which were bound to end when deficits became unsustainable and foreign investors were no longer so willing to hold national currencies. This led to financial crashes in Mexico in 1994, Brazil in 1999 and Argentina in 2001. The neoliberal charge that 'too much government' leads to unproductive rent-seeking thus too easily ignores the

[69] World Bank, *Global Economic Prospects and the Developing Countries* (Washington: World Bank, 1999), p. 24.

[70] Ilene Grabel, 'International Private Capital Flows and Developing Countries', in Ha Joon Chang (ed.), *Rethinking Development Economics* (London: Anthem, 2003), p. 327.

[71] Alfredo Saad-Filho, 'The Political Economy of Neoliberalism in Latin America', in Alfredo Saad-Filho and Deborah Johnston (eds.), *Neoliberalism: A Critical Reader* (London: Pluto, 2005), p. 226.

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ways in which deregulated capital can itself be unproductive and costly in the form of its destructive impact on productive investment.

This discussion therefore suggests that developing countries face a problem not because they are insufficiently globalised or integrated into the world economy, but because the form that such integration takes serves to reinforce their (relatively) marginalised position. In contrast to the claims made by neoliberalism, capital is attracted to areas of established capital accumulation, where increasing returns can be derived from lower relative costs. Once established, accumulation encourages spatial agglomeration through the development of new technology and tacit knowledge, infrastructural development, local linkages and economic diversification, clusters of skilled activities, including research and development, and the development of systems of credit to finance further rounds of accumulation. This does not preclude some industrial activity in poorer regions, but it does not represent anything like convergence between capitalist countries or the end of uneven development. Indeed, even the actual investment that does go to the periphery is not necessarily as conducive to growth or poverty reduction as its neoliberal apologists suggest. For FDI to have positive effects in terms of growth it must lead to an increase in the capital and current accounts, as well as government revenue. Thus, a net transfer of income on the capital account will in part depend on whether inflows are greater than outflows in the forms of profit repatriation, royalties, intra-company loans, and tax revenue. Given the high levels of trade between subsidiaries of the same company, a common practice is for TNCs to transfer price, and thus declare profits in lower tax countries. Such practices may occur even when states have offered incentives to TNCs such as subsidies financed by national taxpayers. This can negatively impact on both the capital account and government revenue. Similarly, in terms of the current account, TNCs may export goods but this may be more then outweighed by the high import component of some companies. It is also common practice for TNCs to raise money within the recipient country, which undermines capital inflow levels. Assessing the impact of these issues is not easy, not least because they are likely to vary from sector to sector. Moreover, it is difficult to assess what would happen in the absence of foreign investment – apologists assume that no investment would occur, while critics too easily assume that local capital would behave in more 'socially responsible' ways, when in fact it too relies on imported inputs and exports capital. This suggests that the impact of FDI cannot be separated from the forms of both capital accumulation and state regulation within particular countries – in other words, the impact of such investment is in some respects locally contingent. However, what we can say with some confidence is that neoliberal forms of regulation are likely to reduce the positives and accentuate the negatives of foreign investment. In other words, capital outflows and tax breaks and avoidance are more likely to occur in neoliberal settings, as are limited positive work and environmental regulations. In this sense then, developing countries are caught in a catch 22 in which they receive limited amounts of investment, but, desperate to attract some capital flows, adopt policies which undermine the dynamic developmental potential of that same investment.[72] In other words, because it continues to be a 'leader' in terms of increasing productivity and output, manufacturing diversification remains central to

[72] Ha Joon Chang, *Globalisation and the Economic Role of the State* (London: Zed Books, 2003), ch. 7; James Crotty, Gerald Epstein and Phil Kelly, 'Multinational Corporations in the Neoliberal Regime',

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any process of dynamic development. But much of the manufacturing investment that developing countries receive is in low-value production where barriers to entry are low, rather than in the dynamic, cutting edge sectors which can generate rents. And liberal trade policies reinforce this process because they undermine the prospects for any late developers constructing efficient industries, initially through protection from imports produced by established, developed producers elsewhere.

Thus, if we examine the mobility of countries in the world economy in recent years it is clear that there has been little change. Drawing on a study of 100 countries from 1960–99, and a three-tier division into core, periphery and semi-periphery, Wade suggests that that 72 of the 100 failed to move tiers, and the remaining 28 moved only one zone. Almost as many moved down as up, and there was no significant correlation between such movement and policies related to trade openness. Based on market exchange rates, the *per capita* GNP of the periphery as a percentage of core country GNP declined from 1980 to 1999 for most regions: from 4 to 2 per cent for sub-Saharan Africa, from 18 to 12 per cent for Latin America, and from 9 to 7 per cent for West Asia and North Africa. Improvements were made in South Asia (from 8 to 13 per cent), East Asia (excluding China and Japan) from 8 to 13 per cent and China from 1 to 2 per cent.[73] But as we have seen, this is precisely the regions where, despite some liberalisation, neoliberal policies have been limited, at least until recently.

The discussion in this section has shown that there are strong grounds for questioning the neoliberal belief that globalisation can encourage convergence if the correct policies are adopted. What has been argued in this section is that actually existing globalisation is itself 'intrinsically structured by inequality.'[74] How then does this relate to the question addressed in the first two sections, namely that of poverty? For it may be the case that inequality between richest and poorest does increase in the context of global uneven development, but this does not matter so long as 'globalisation' lifts the poorest out of absolute poverty, as measured by the World Bank. However, this argument rests on a residual account of poverty which continues to suggest that it is simply a case of lifting the poorest out of poverty through 'more globalisation'. If we instead argue, not only that (existing) globalisation and inequality are intrinsically connected, but also that inequality has an influence on poverty, then we are bound to reach very different conclusions. For if contemporary globalisation is structured by unequal social relations, and its benefits tend to disproportionately favour the rich, not least by tending to locate in existing centres of capital accumulation, then it is hardly surprising that inequality is bound to generate marginalisation, and therefore absolute poverty. In this way there is a close systemic relationship between the wealth of some and the poverty of others, even if the latter does not directly cause the former. A brief example illustrates the fallacy of the argument that poverty can be resolved simply by 'more globalization'.

in Dean Baker, Gerald Epstein and Robert Pollin (eds.), *Globalization and Progressive Economic Policy* (Cambridge: Cambridge University Press, 1998), pp. 117–43.

73 Robert Wade, 'Is Globalization Reducing Poverty and Inequality?', *World Development*, 32:4, pp. 568, 579.

74 Nicola Phillips, 'Globalization Studies in International Political Economy', in N. Phillips (ed.), *Globalizing International Political Economy* (Basingstoke: Palgrave Macmillan, 2005), p. 45.

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Rowthorn[75] has usefully discussed the idea that one major developing country recipient of FDI, Malaysia, could be a 'model' for other developing countries to follow. Based on 1991–3 FDI figures, he argues that for all developing countries to receive FDI levels similar to those received by Malaysia would require a fifteen-fold increase if measured on a *per capita* basis, which amounts to 3.5 times the amount that OECD countries receive. Even if measured by FDI as a similar percentage of Malaysia's GDP, FDI would have to be 1.7 times the amount going to OECD countries. As Rowthorn suggests, this is to take the argument for globalisation promoting development to the levels of fantasy – and if we used contemporary China as a model, then the figures would be even more fantastic.

Conclusions: neoliberalism and the end of development

This article has suggested that the neoliberal idea that growth and poverty reduction will result through a deepening of global integration, which itself will arise from liberalisation policies, seriously underestimates the ease with which developing countries can break into new export markets. But the problem runs deeper than this, because liberalisation undermines the capacity of developing countries to develop dynamic comparative advantages, through for example industrial policy designed to develop industries through protectionist measures. This is reinforced through WTO rules which are (selectively) committed to the expansion of free trade. In this sense then, the policies that were once implemented by developed countries are precluded in the current neoliberal international order.[76] The double standards and protectionism of the developed world are important means by which states maintain their dominant position in the world economy, but at the same time this article has suggested that the movement in the direction of free trade does not constitute an advance for the development of the Third World. This does not mean that the South is simply doomed to stagnate in the global economy, as though the earlier claims of underdevelopment theory applied to the neoliberal era. Neither does it mean that neoliberalism is simply a 'Western' imposition on states in the developing world – indeed, global neoliberal hegemony draws on important support from 'national capital' in the developing world.[77] But equally, the dominance of neoliberalism does not mean that the claims of modernisation theory – that contact with the 'West' and the international economy – will inevitably promote catch-up and development. Rather, it suggests that neoliberalism has intensified uneven development. For there to be poverty reduction there needs to be sustained and dynamic capital accumulation – development – in the developing world, and for this to occur the state must play a role that does not conform to neoliberal prescriptions. However, given the current commitment of powerful actors to (forms of) neoliberalism, in both the developed *and developing world*, any shifts away from neoliberalism are likely to have significant domestic and international consequences.

[75] Bob Rowthorn, 'Replicating the Experience of the NIEs on a Large Scale', in K. S. Jomo and Shyamala Nagaraj (eds.), *Globalization versus Development* (Basingstoke: Palgrave Macmillan), p. 107.

[76] Ray Kiely, *Industrialization and Development* (London: UCL Press, 1998), chs.8 and 9; Ha Joon Chang, *Kicking Away the Ladder* (London: Anthem, 2002); Robert Wade, 'What strategies are viable for developing countries today? The World Trade Organization and the shrinking of ''development space'' ', *Review of International Political Economy*, 10 (2003), pp. 621–44.

[77] Ray Kiely, *The New Political Economy of Development* (London: Palgrave, 2007), chs. 8 and 9.

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