

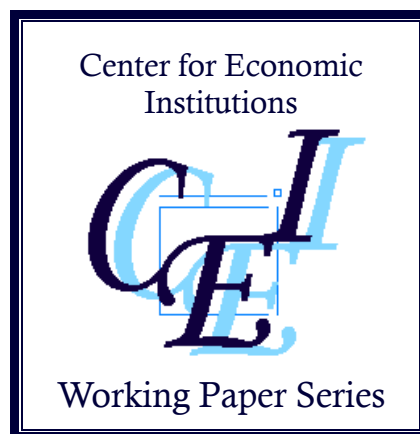
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**“International and Institutional Traps in
Sub-Saharan Africa under Globalisation: A
Comparative Perspective”**

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**International and Institutional Traps in Sub-Saharan Africa under
Globalisation: A Comparative Perspective**

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Abstract

After presenting a brief summary finding of the experiences of the SSA region with the globalisation-growth -poverty relationships in a comparative perspective with other developing regions, in particular, with countries in East Asia, the paper discusses some of specific conditions prevailed internationally and domestically in SSA over the last three decades, which could explain the disappointing experiences of the SSA region in harnessing the benefits of globalisation for the poor. The paper argues that these conditions -coined here as *international* and *institutional* traps – are closely interrelated through feed-back mechanisms that have created an institutional configuration that is detrimental to shared growth and inclusive development through a loop of negative private-public interfaces for economic development. From this particular perspective, the paper discusses the way forward towards inclusive economic development in SSA in terms of general development policies and future research agenda.

1. Introduction

As the process of global economic integration has intensified since the early 1990s, the question of how globalization affects the world's poor has become one of the central issues in international political economy and international relations. Many of the current issues and problems facing the global community is increasingly related to the question over how the international economic and political system is perceived to be fair and just *vis-à-vis* the poor in developing countries. Indeed, the contemporary debate on globalisation is often overwhelmed by the fears and anxieties that the poor could be actually hurt in the globalisation process.

Despite the potential of globalisation in accelerating economic growth and development through greater economic integration, in particular, through the spread and transfer of technology and the transmission of knowledge and information, the impact of the on-going process of globalisation on poverty reduction has been uneven and often marginal. According to the estimate by Chen and Ravallion (2008), the share of the population of the developing countries living below US\$1 per day declined from 42 per cent to 16 per cent between 1981 and 2005, but this was mainly achieved by the substantial reduction of the poor in Asia, in particular in China. Chen and Ravallion (2007: 2) show that 'when China is excluded, the number of people living on less than US\$1 a day is fairly static with no clear trend'. Furthermore, the total number of people living under US\$2 per day actually has increased worldwide over the period 1981–2005 by about 56 million to 2.6 billion in 2005, while the share of the world's population receiving less than US\$2 per day fell from 69 per cent in 1981 to 48 per cent in 2005.

There is a clear disparity in the regional trends in poverty reduction. While East Asia and the Pacific experienced the sharpest reduction in the number of poor living below US\$1 per day, poverty has increased significantly in rural areas of sub-Saharan Africa in terms of poverty incidence as well as the depth of poverty. In much of sub-Saharan Africa (SSA), in particular in rural areas both the prevalence and depth of poverty remains unacceptably high.¹

The fear that the poor have been bypassed, or actually hurt, by globalization is also highlighted by the findings from empirical studies that suggest a continuing prevalence of high inequality in world income distribution and the sharply skewed pattern of income convergence among participating national economies and across region.² Though any

¹ See Wade (2002) and Deaton (2001, 2002) for critical discussions of the World Bank's estimates of global poverty and inequality used in these studies. Kanbur (2008) also discuss a number of drawbacks in official statistics on poverty trends.

² See Nissanke and Thorbecke (2006b) for a review of literature and more detailed discussion on the concepts used for analysing the trends in world inequality and empirical evidence, since the trends in world (global) income inequality depend on which concept of inequality is used. According to the estimates by Milanovic (2005a), the 'between country' inequality weighted by population but ignoring 'within-country' inequality shows a declining trend largely driven by the China factor, while all other estimates show that the world inequality has been increasing.

trend in poverty and income inequality observed cannot be exclusively or even mainly attributed to the ‘globalisation’ effect as such, numerous empirical evidences pointing to the increasing inequality under globalisation reviewed below cannot dismiss the concerns raised that the globalisation process, as it has proceeded so far, have had adverse effects on poverty and income distribution. Indeed, globalisation has created winners and losers at numerous levels throughout the modern history.³ The losers include many of the poor who have actively participated in the process of globalisation.⁴ These concerns have generated a passionate debate on the effects of globalization on assets and income distribution and the vulnerable poor worldwide.

The extent of controversy surrounding this debate reflects the fact that globalization is not a process proceeding neutrally in a policy vacuum, but it is a policy induced condition.⁵ Globalization is not purely driven by new technological innovations and progress or by ‘neutral’ market forces and other inescapable sociopolitical forces, as often depicted in popular writings.⁶ In particular, the current phase of globalization is also an outcome emerging from the global consolidation and diffusion of the economic policy paradigm, in the 1980s and 1990s that emphasised benefits and positive features of the liberalised policy regime. Therefore, it is not surprising that the globalisation debate takes place from the two opposing positions, as Kozul-Write and Rayment (2007) summarise:

“On the one hand, many proponents and supporters of globalisation insist that their agenda for liberalization on a global scale is the only way to eliminate poverty and ensure a prosperous economic future for rich and poor alike - identifying globalisation as a “win-win” process. At the other end of the scale are various groups from both developed and developing countries who see globalisation as a western corporate conspiracy against the poor and who see market-friendly policies simply as a means of perpetuating privilege - identifying globalisation as “winner takes all” process (Kozul-Wright and Rayment, 2007: x)”.

These polarised positions are frequently expressed without much references to supporting rigorous analyses or solid empirical evidences. In reality, as discussed in Nissanke and Thorbecke 2006a&b, 2010b), the globalisation-poverty relationship is much more complex and heterogeneous, involving multifaceted channels. It is non-linear in many

3 See Williamson (2002), among others, for winners and losers from globalisation in modern history

4. See Aggrawal (2008) for the case cotton farmers in India.

5 See Kozul-Wright and Rayment (2004 and 2007) for an extensive discussion on this policy-induced condition.

6 Helleiner (2001) emphasises the need to distinguish two different phenomena associated with the term ‘globalisation’: the technology driven aspects and that is associated with policy choices for external liberalisation. For discussion on the effects of technological progress on the shrinkage in space and time, see Cairncross (1997), Bairoch and Kozul-Wright (1996).

aspects with several thresholds effects. Because these multifaceted channels interact dynamically over space and time, the net effects of globalization on the poor can only be judged and asserted on the basis of ‘context-specific’ empirical studies. Cross-country regression studies, requiring precise measurements and definition of the two key multifaceted concepts—globalisation and poverty—in a composite index, tend to fail to give robust insight into this critical nexus.

With this background and building on the results of my previous research projects, the primary objectives of this paper are twofold: i) to review the experiences of the SSA region with the globalisation-growth-poverty relationships in a comparative perspective with other developing regions, in particular, with countries in East Asia⁷; ii) to discuss some specific conditions prevailed internationally and domestically in SSA, which could explain the disappointing experiences of the SSA region in harnessing the benefits of globalisation for the poor. The paper argues that these conditions -coined here as *international* and *institutional* traps – are closely interrelated through feed-back mechanisms that have created an institutional configuration that is detrimental to broad-based shared growth through a loop of negative private-public interfaces for economic development. From this particular perspective, the paper discusses the way forward towards an inclusive economic development in SSA.

The paper is structured as follows: Section 2 presents a brief summary of channels and transmission mechanisms through which the process of globalisation affects poverty dynamics in the developing world. Section 3 discusses in a comparative perspective with other developing regions, salient features of the globalisation-growth-inequality-poverty nexus in Sub-Saharan Africa over the recent decades. Section 4 discusses possible feedback mechanisms of the international and institutional traps as possible thesis behind Africa’s disappointing experiences with globalisation. Section 5 offers concluding remarks with discussion of implications of our analysis for development strategies as well as future research agenda.

2. The Transmission Mechanisms in the Globalisation-Growth-Poverty nexus

Economic manifestation of globalisation filters through greater integration via numerous transmission mechanisms such as trade and investment liberalization; movements of capital, labour migration across borders and within countries; the nature of technological change and diffusion of knowledge and technology; the worldwide information flows; and institutional environments. As explored in detail in Nissanke and Thorbecke (2006 a & b and 2010a&b), various transmission mechanisms are in operation to form the *globalisation (openness)-growth-income distribution-poverty nexus*, as globalisation affect poverty through two different paths: first, through their contributions to the growth channel and, secondly, through their impact on distribution since globaliation is also

⁷. This part presents a brief summary of the findings of the UNU/WIDER study co-directed by Erik Thorbecke and myself (see Nissanke and Thorbecke, 2006a and b, 2008, and 2010b for further details. Please note out UNU/WIDER project study focused on the predominantly economic manifestations of globalization, hence, it did not attempt to provide a fully comprehensive and multidisciplinary treatment of the impact of globalization on poverty.

known to accentuate vertical and horizontal inequalities and produce a sharp configuration of winners and losers. Thus, globalisation works through: from openness to growth; from openness to income distribution (inequality); from growth to income distribution and vice versa; from growth to poverty, and from income distribution to poverty, respectively. In short, the two main channels of globalization- the “growth” and “distribution” channels - further interact dynamically over time to produce a growth-inequality-poverty triangular relationship (see Figure 1).

---- Insert Figure 1 here----

At an analytical level, each subset of links embedded in the *globalisation (openness)-growth-income distribution-poverty nexus* can be contentious and controversial. For example, the direction of causality in the first link, i.e. the openness-growth link is still being debated as well as how trade and capital flows could be interlinked into a virtuous circle. In this context, we suggest that the positive openness-growth link is neither automatically guaranteed nor universally observable, as the growth-enhancing effects of trade openness depend critically on the way and extent to which a country is integrated into the global economy, as discussed in Section 3. Furthermore, a greater integration/openness does not necessarily ensure uninterrupted growth spells. For example, the global financial crisis of 2008-9, originated in the US sub-prime mortgage debacle has spread and engulfed all economies in the developing world (even those who have not opened up capital markets and hence had limited financial market linkages). Clearly in this case, globalisation, or more precisely the way globalisation has proceeded so far, is responsible for the scale and depth of the global recession of 2008-10, which hit all developing countries hard through financial and trade linkages. Thus, the greater integration does also entail accepting great downside risks of contagion effects of crises (Nissanke 2009b).

The second link in the causal chain from openness to poverty through the growth effect is the interrelationship between growth and inequality. First, relating the causal chain from income- and wealth-inequality to growth (the ‘inequality-growth’ link) in the interrelationship between growth and inequality, there are two conflicting theoretical strands: the traditional (classical) approach and the ‘new’ political economy of development theories (modern). Whilst the former emphasizes the growth-enhancing effects of income and wealth inequality, the latter links greater inequality to reduced growth through various conditions such as the diffusion of political and social instability leading to greater uncertainty and lower investment; unproductive rent-seeking activities, high transaction costs, and increased insecurity of property rights⁸.

The Kuznets hypothesis of the inverted U-shaped relationship between growth and inequality that examines the opposite causal flow in the link, i.e. the ‘growth-inequality’ causal link is also examined and challenged by a number of recent theoretical and empirical studies. Many earlier development economists note that economic growth, if left to market forces alone, tends to be accompanied by more inequality. Growth is

⁸ See Thorbecke and Charumilind (2002).

inherently inequalising.⁹ In this regards, the new political economy of development approach suggests that with two causal chains combined, growth patterns yielding more inequality would, in turn, engender lower future growth paths resulting in less of a growth-induced poverty reduction.

Thus, a critical question in understanding *the growth-inequality-poverty interrelationship* is whether or not inequality is an impediment to poverty-reducing growth, in other words, whether high inequality attenuates the growth elasticity of poverty. Several empirical studies confirm that the elasticity of poverty with respect to growth is found to decline with the extent of inequality.¹⁰

We argue that while globalisation-induced growth may benefit the poor, the ultimate poverty-reduction effects will depend also on how the growth pattern under globalisation affects income distribution, since inequality is the *filter* between growth and poverty reduction. That is, the pattern of growth with respect to income distribution does matters for poverty reduction as much as the growth rate. If growth leads to an increase in income inequality the poor may benefit less or, in some instances, actually be hurt by the globalization-induced economic growth. Thus, the *pattern* of economic growth and development, not just the rate of growth *per se*, have significant effects on a country's income distribution and poverty profile, as growth can be pro-poor, distribution neutral or even poverty-increasing. Indeed, the recent debate on the meaning of *pro-poor growth* is related to the complex triangular relationships among poverty, growth and inequality. Clearly, poverty reduction would require some combination of higher growth and a more pro-poor distribution of the gains from growth. In our view, growth is considered truly pro-poor if in addition to reducing poverty, it also decreases inequality.

In this context, it can be argued that the distribution effects directly stemming from globalisation require separate discussion from the growth effects, since several specific features associated with the current phase of globalization have contributed to producing amplified adverse effects on the poor through the combined effects of the growth and distribution channels. These include: a) the nature of technical changes, the asymmetrical access to new technology and knowledge, and the uneven process of technology diffusion; b) the differential treatment of international migration between skilled and unskilled workers, which produces a greater migration of skilled labor from developing countries to developed countries, while unskilled labor migration tends to be strictly controlled; c) the perverse movement of capital in the form of capital flight from developing or emerging market economies or *diversification* finance characterizing portfolio capital flows conducted through asset swapping for risk hedging and shedding, which results in global macro imbalances and periodical financial crises; d) uneven, skewed FDI flows, which have not necessarily guaranteed host developing countries access to potential benefits of management and knowledge transfer.¹¹

⁹ For example, Myrdal (1957), Rosenstein-Rodan (1943) or Hirschman (1958) as noted in Milanovic (2005b).

¹⁰ For example, see Ravalion (2002)

¹¹ . See Nissanke and Thorbecke (2006a and b) for detailed discussion on these mechanisms.

These features have affected globally the functional income distribution between labor and capital decisively against the former. This has led the anti-globalization movement observed world-wide to regard globalization as driven by the interests of big Transnational Corporations (TNCs) or large financial institutions. Under corporate-led globalization as known by many, globalisation has resulted in the erosion of the capacity of governments to raise revenues for redistributive purposes or to enact regulations to protect and enhance labor rights or protect local environments, in fear of driving away TNCs or capital flight and asset mobility. Further, the poor and unskilled are most adversely affected by asymmetries in market power and access to information, technology and marketing as well as TNCs activities and the dominance of TNCs in commodity value chain.

Further, in discussing the impact of globalisation on the poor, concerns are particularly strong about the increased vulnerability of the poor to globalization forces that generate greater fluctuations in income and expenditure caused by global shocks, such as the various financial crises that have hit many emerging economies in Latin America and Asia in the last two decades or the recent global financial and economic crisis or food crisis hurting disproportionately the poor.

All in all, while globalization can be a major engine for growth in aggregate, it is critical to put in place strong institutions that mediate negative distributional effects of various channels and mechanisms through which the globalization process influences poverty. Indeed, institutions act as a filter intensifying or hindering the positive and negative pass-through between globalization and poverty and can help explain the diversity, heterogeneity, and non-linearity in the globalisation-inequality-poverty nexus observed in different regions, to which we shall now turn¹²

3. The Globalisation-Growth-Inequality-Poverty nexus in Sub-Saharan Africa in a comparative perspective

3.1 Income Divergence in the South

Because of the complex and heterogeneous relationships in the globalisation-poverty nexus discussed above, it is not straightforward to establish, in the absence of a counterfactual scenario, systematic hard empirical evidences to substantiate the claim that globalisation has given rise to an increase in poverty globally or otherwise. However, as discussed above, it is possible to point to the transmission mechanisms whereby the forces shaping the current process of globalization may be at least partially responsible for the recent enormous increases in world income disparity between the rich and the poor.

¹². See also Sindzingre for discussions on possibilities how institutions act as one of critical channels through which globalisation affects poverty outcomes in a national economy (2006).

At minimum, the observed ‘big time divergence’ in inter-country income levels (when each country is weighted equally) brings into question the validity of the openness induced income *convergence* thesis, advanced by Sachs and Warner (1995a) and others. Whilst Pritchett (1997) documents the historical trends towards income divergence, Quah (1996) discusses the twin peaks in world distribution dynamics, which are characterized by the tendency for stratification and polarisation. Basu (2006) points to the staggering degree of global inequality today and how rapidly the inequality has risen in recent times. Milanovic (2005a and b) also demonstrates how ‘global’ income inequality has been all the time increasing to an unacceptably high level.

Yet, economic theories are often bluntly used as a most powerful intellectual case for free, liberal trade and investment regimes, which are supposed to be capable of *trickling-down* of benefits from economic growth to the poor under globalisation. The reality is that the mere adoption of open trade and investment regimes does not guarantee, or promote, developing countries’ entry into the “income convergence club”. Indeed, many poor countries in Africa that have opened their economies since the 1980s have fallen behind, not having succeeded in reaching the take-off point, necessary for benefiting from positive forces of globalization.¹³ Many more countries that have seen a substantial increase in their trade/GDP ratios have experienced a rapid increase in income- and asset-inequality.

Indeed, the conundrum of the persistent ‘non-convergence’ of world per capita income should be explicitly addressed in terms of structural features of the global economic relationships as they evolved over time and institutional and socio-political conditions found in participating countries. The income convergence trend among nation states, to the extent that it has been observed historically, is likely to be explained more effectively by the specific nature of the integration and specialization process followed by sub-groups of countries, rather than by the degree of openness of the trade and investment regimes *per se*, as often claimed.

Clearly, countries need to have reached the take-off point before they can take advantage of the potential benefits of openness and globalisation. One of the critical reasons why globalisation may not be working for low-income developing countries lies in the fact that the effects of international trade on growth are critically dependent on the pattern of specialisation and integration. By treating two sectors symmetrically, the conventional Heckscher-Ohlin trade model (consisting of two countries, two sectors and two factors) shows that two countries equally reap aggregate gains from trade through efficiency gains.¹⁴ In reality, however, the pattern of specialisation does matter for welfare implications of a trade-induced growth path on at least two accounts.

¹³ For example, Dowrick and DeLong (2001) suggest that many poor countries after adopting liberalisation measures have fallen behind, not just relatively but absolutely in terms of both income levels and structural development.

¹⁴ This two-sector model of international trade can be easily extended to N-sector models (for example, see Dornbusch, Fisher and Samuelson 1977).

Two sectors need not be symmetrical, first, through the well-known immiserizing effect of trade *à la* Bhagwati, i.e. the terms-of-trade (TOT) effects. Though many dismiss the likelihood of such an effect in a small economy, low-income countries dependent on the exports of a limited range of primary commodities face a deterioration of TOT through the ‘fallacy composition effect’. In the 1980s and 1990s, many primary commodity exporting countries in sub-Saharan Africa, which implemented structural adjustment programmes, underwent simultaneous export drives, leading to depressed prices in many export commodities.¹⁵

Furthermore, two sectors are not necessarily symmetrical because of the possible differential impacts of dynamic scale economies- that is dynamic externalities through technological spill-overs and the accumulation of knowledge capital. As the endogenous growth theory emphasizes, it is the difference in the scope for scale economies that largely accounts for diverging growth rates among countries in the current phase of globalisation. A country specialising in an industry endowed with a larger positive externality would experience a faster growth rate compared with the trading partner that specialises in an industry with a weaker externality. Thus, the growth rates of the two trading countries could differ considerably, depending on the pattern of specialization.

If a country follows the Rybczinski line dictated by static comparative advantage with given relative resource endowments, the country with an initial comparative advantage in ‘non-dynamic’ sectors may end up in a low equilibrium trap through the evolving patterns of production and trade. Similarly, the effects of FDI on host economies diverge enormously, depending on the sectors into which TNCs are attracted to move in and invest. Low-income developing countries tend to attract natural resource based FDI in extracting mineral resources or FDI geared towards the lower end of TNCs’ vertical integrated global operations such as simple assembly line operations. These sectors and activities are characterised by very little dynamic externalities and knowledge and skill spill-overs.

Seen from this perspective, openness *per se* through trade and investment liberalisation is not sufficient to ensure that development will follow. Referring to as one of the fundamental differences between the two waves of globalisation, Baldwin and Martin (1999) note that in contrast to the experiences under the late 19th-century globalisation wave, when an enormous North-South income divergence was produced as result of industrialisation of the North at the expense of deindustrialisation of the South, the current wave of globalisation has industrialised the South whilst the North experiencing deindustrialisation.

In reality, however, the globalization experiences in the South tend to be very heterogeneous as sharp divergences have emerged in the development paths followed by

¹⁵ See Maizels (1992). In this context, Birdsall (2002) also draws attention to the fact that measured by the trade-GDP ratio or tariff rates, most commodity-dependent countries have not been more reticent than less commodity-dependent countries about participating in international trade, but the former group has failed to grow (especially after 1980), as they have remained dependent on exports of primary commodities.

different countries in the South over the recent decades. As shown in Table 1, all developing regions have accelerated the pace of integration into the global economy, as measured by their trade intensity ratios (exports + imports divided by GDP) since 1980s.¹⁶

----- Insert Table 1 here -----

Yet, Table 2 shows that growth rates diverge widely across developing regions. Some countries in the South were able to benefit from *virtuous* cycles of globalization-induced growth, while others were left behind in *vicious* cycles of globalization-induced decline.

-----Insert Table 2 here -----

Further, there appears to have emerged a marked difference in the extent to which and ways benefits of economic growth trickled down to the poor as these developing economies were integrating into the global economy. The income poverty trends, as indicated by head-count ratios for \$1 a day and \$2 a day in Table 3a & b respectively show the regional differences on this account.

----- Insert Table 3a and Table 3b-----

In our view, these divergences can be explained by the distinct internal patterns of economic growth and the forms of integration adopted. In order to discern and highlight the differential impact of the forces of globalisation on the poor in the developing world, in the next sub-section we present salient features and key differences in the globalisation-poverty relationships found in Sub-Saharan Africa and Asia, which will be followed by a brief synthesis of our comparative analysis of the integration experiences in SSA, Asia and Latin America.¹⁷

3. 2. Comparative analysis of the experiences in the Globalisation-Growth-Inequality-Poverty nexus

¹⁶ . While an increase in trade intensity ration (TIR) is usually interpreted as an indicator of globalisation in economic literature, the trade intensity ratio is an imperfect measure for the degree of economic globalisation. First, it reflects a degree of integration only through trade, though the concept of globalisation embraces a much wider set of integration indicators. Besides, it has a number of technical drawbacks as indicator, such as not corrected for the size of an economy or for the endogeneity problem (Round 2010 and Thorbecke and Nissanke 2009). Though these shortcomings are duly acknowledged, the trade intensity ratio is used here for its simplicity for obtaining a broad picture across the regions. See Round, (2010) for discussion on various composite indices constructed so far for measuring globalisation.

¹⁷ With the space constraints, we omit here discussion on the Latin American experiences. The detailed discussion on the Latin American cases, see Nissanke and Thorbecke (2010 a&b) and Thorbecke and Nissanke (2009).

Integration Experiences in Sub-Saharan Africa

Since gaining political independence, the majority of SSA countries failed to take advantage of the potential provided by the dynamic growth spurt through active integration into the world economy. The region was largely marginalized and experienced slow growth and stagnation. With growing recognition of their disadvantageous position, most SSA countries over the past two decades have searched for ways to accelerate their participation in the global economy. Indeed, most economies in SSA significantly liberalized their trade and investment policy regimes as part of SAPs since the mid 1980s.

Today, SSA is not behind other developing regions in terms of their trade intensity ratios (Table 1).¹⁸ In spite of the increase in trade intensity, however, Africa's share of total world trade has fallen over the last two decades. Similarly, many countries in SSA have intensified their efforts to attract FDI with the help of various fiscal and other incentive measures. Yet, FDI flows to the region so far have been largely limited to extraction of oil and other natural resources.¹⁹ More recently, a rapid increase in FDI to Sub-Saharan Africa from China, India and other emerging economies has been observed. While a large proportion of their FDI is known to be in extractive sectors, services and some manufacturing sectors have started attracting investment from these Asian drivers.²⁰ Further, though there has also been FDI into low-skill manufacturing sectors in response to some preferential trade agreements such as AGOA (Africa Growth Opportunity Act), many of these investments are foot-loose and fragile in their nature with little long-term commitment. They are mostly in the garment industry with little potential of marked knowledge and technology transfer.²¹

Hence, so far, SSA presents a clear example in support of the argument that the shift to an open policy regime alone is not sufficient to bring about economic growth and consequent poverty reduction. After two decades of reforms dominated by liberalization, privatization and deregulation, the economies of SSA have not yet been able to escape from the 'growth tragedy' syndrome—the term popularly used in characterizing the region's dismal economic performance in the comparative growth literature.²²

18 . In fact, measured by the trade intensity ration, Sub-Saharan Africa has been one of the regions characterised by trade openness. This itself shows that the use of the trade intensity ratio in many cross-country regressions conducted by economists reviewed and summarised in World Bank (2002) is questionable for understanding how trade contribute to economic growth.

19 See Round (2010) for data in FDI flows to Sub-Saharan Africa compared to other developing regions.

20 See, for example, Broadman (2007). We shall discuss investment flows from emerging market economies in Asia and Latin America as well as from the Middle East again in Section 4 below.

21 See Fukunishi (2009).

22 See O'Connell and Ndulu (2000) and Ndulu (2006) for an updated literature review and their analysis on Africa's growth tragedy.

The upturn in economic growth over the past decade recorded in many natural resource-rich economies in SSA, as shown in Table 2 is closely associated with the price hike of oil and mineral commodities in world markets since 2002. The sustainability of these high growth rates is very much dependent on a continuation of favourable exogenous factors unless the windfalls from commodity booms are used purposely to help diversify and transform the existing economic and trade structures. Highly competent macroeconomic management over the commodity price cycle is required to avoid the ‘Dutch disease’ often associated with commodity booms.²³ Otherwise, the foundation for long term economic development of these natural resource-rich economies would remain fragile. Critically, distribution of resource rents should take with a view to ensure a inclusive growth pattern to emerge, so that benefits are shared widely by the poor.

Indeed, the precipitous fall of many commodity prices observed in the second half of 2008 associated with the sharp global economic slow down triggered by the deepening of the financial crisis demonstrates the high vulnerability and fragility of these commodity dependent economies. The commodity market linkage is one of most powerful mechanisms through which the global financial crisis of 2007-9 had initially transmitted to countries in SSA, even though their banking institutions and financial markets are less exposed to global financial markets.²⁴

The failure of SSA economies to diversify and undergo structural transformation, and hence, to benefit from the technology driven, highly dynamic aspects of the on-going globalization process has led to major drawbacks in terms of low economic growth and persistent poverty (see Table 3a and b)²⁵ The ratio of headcount for US\$1 a day in SSA to the average in the developing world increased from 1.05 to 2.27 over the period of 1981-2004. As Ali and Thorbecke (2000) notes, poverty in SSA is both most prevalent and severe in rural areas.

Furthermore, countries in SSA display a high intra-country inequality. This can be seen as a puzzle as Africa should be a low inequality continent according to the Kuznets hypothesis because ‘African countries are poor and agriculture based, and also because the main productive asset—agricultural land—is relatively evenly distributed in most of SSA (except the region of Southern Africa) in part thanks to the tradition of communal land holding’. (Milanovic 2003: 2). The degree of income inequality in Africa has increased sharply over the recent decades.²⁶ In this context, it can be argued that Africa’s growth has been distinctly against the poor not only in terms of its inability to deliver the required growth rate to ensure that the poor could be an eventual beneficiary

²³ See Nissanke (2003 and 2009c&d).

²⁴ See Nissanke (2011 and 2012) for detailed discussion on sources and development impacts of *excess* price volatility in world commodity markets.

²⁵ . According to the revised estimates on poverty (Chen and Ravallion, 2008), the number of poor below the US\$1.25 a day increased from about 212 million in 1981 to 388 million in 2005 in SSA. The poverty incidence fell marginally during this same period from about 53 per cent to 51 per cent.

²⁶ See Round (2010).

from economic growth, but also in terms of its ‘inequality-increasing’ pattern. Little progress in poverty reduction in SSA is the outcome resulting from the combined effects of low growth and rising inequality. Economic growth in SSA, where it has occurred, has not been translated into significant poverty reduction. Critically, the nature and pattern of integration of the SSA economies into the global economy, the slow rate of structural transformation and the neglect of the agricultural sector all combined have not been conducive to generating *virtuous* cycles of globalization- induced growth and poverty reduction.

Integration Experiences in Asia

Asia is the region widely regarded as having benefited most from the dynamic *growth* effect of the recent wave of globalization, which has also resulted in a very substantial reduction of abject poverty in many economies. Income poverty based on the headcount ratio of US\$1 a day in the East Asia and Pacific region and in China fell from 58 per cent and 64 per cent in 1981 to 9 percent and 10 per cent in 2004 respectively (Table 3a). Though the poverty trend in the region is dominated by the two populous countries of China and India, it is clear that extreme poverty has been steadily declining over the last three decades across most of Asian countries.

There is very little disagreement over the powerful growth-enhancing effects of openness through trade and FDI in the case of most Asian countries. Following aggressively an ‘outward oriented development strategy’, most *East Asian* economies had not only managed the process of integration into the world economy much earlier than other developing countries but also upgraded their form of linkages to the global economy in the years of their rapid economic growth through the process of diversification and structural transformation. A number of earlier studies (World Bank 1993; Ahuja et al. 1997; Campos and Root 1996) described the growth pattern of *East Asian* countries in the 1960s and 1970s as highly inclusive and viewed as a model of ‘shared growth’. These studies attributed their successful growth performance to an appropriate set of economic policies and institutions well suited to the conditions prevailing in East Asia during that period. The relatively quick turnaround of many emerging economies in East Asia in the years following the severe crisis of 1997–98 is often attributed to their strong export performance and renewed adaptability and flexibility in responding swiftly to new opportunities offered by globalisation.

Critically, the structural transformation of most economies in East Asia has been facilitated considerably by the integration/globalization process. The catch-up process and associated growth dynamism in Asia, as a whole, has been popularly examined in terms of the ‘Flying Geese Paradigm’, wherein a sequence of staggered catch-up growth has successively taken place in the region since the end of the Second World War.²⁷ Importantly, as Ozawa (2009) observes, poverty alleviation has been occurring, in flying-geese style (i.e., in tandem with growth) among these rapidly catching-up Asian

²⁷ See Ozawa (2010) for the detailed analysis of this process and further references on the Flying-Geese Hypothesis.

economies as well. Hence, Ozawa argues that the growth performance—accompanied by a substantial reduction of abject poverty—in East Asia can be explained in terms of the region wide *comparative advantage recycling* in production and export of labour intensive goods.

The process involves a strong demand for unskilled and semi-skilled labour, driven by exporting labour intensive goods and attracting pro-trade FDI, bringing about effective technology, knowledge and skill transfer. In short, most of the East and South-East Asian economies have successfully gone through the structural transformation of their production and trade structures with continuous upgrading of their human skill endowments and technology/knowledge base. By relying on their fast evolving dynamic comparative advantages these countries were able to maximize the benefits from dynamic externalities. Their increasing specialization in sectors with large spill-overs and dynamic externalities was conducive to engendering a pattern of equalizing growth.

However, Asia is no exception to the rapid increase in ‘within country’ income inequality observed globally over the recent decades under globalization, (Milanovic 2005a). While the growth pattern of many East Asian economies in the early decade was equated with that of *shared* growth, the growing inequality in East Asia was already evident before the financial crisis of 1997–98, and the rising spatial disparity in growth performance was seen as a characteristic phenomenon (Ahuja et al. 1997). The financial crisis of 1997-8 did exacerbate this trend in the region.

In both China and India, income inequality among provinces and states as well as interpersonal inequality has been rising in recent decades particularly after a decisive step was taken towards opening the respective economies (Nissanke and Thorbecke 2008a). There is growing evidence that ‘within country’ inequality has been rising at an accelerated pace across most developing economies in Asia in the 1990s.²⁸ The rising inequality could put a brake on economic growth as it tears apart social cohesion required for economic development in the region. The poor in Asia, as elsewhere, have been particularly subject to increased vulnerability from globalized market forces.²⁹

Thus, it can be argued that economic growth over the recent decades in Asia has so far produced a marked reduction in poverty *despite* the adverse distributional changes against the poor.³⁰ That is, growth produced the adverse distribution effect, but the former was so vigorous that it more than compensated for the latter (ADB 2004): the process of integration of many Asian economies into the global economy has generated such a strong growth impact that the poor were not left out from its beneficiary effects.³¹

²⁸ See Cook (2006).

²⁹ Aggarwal (2008).

³⁰ Kanbur (2008) also notes “in countries where there has been high growth it has been accompanied by inequality increase, but the growth effect has been sufficiently strong that poverty has fallen” (2008:2).

³¹ See Nissanke and Thorbecke (2008a) for detailed case studies that examine the effects of different aspects of globalization on inequality and poverty in Asia.

However, poverty still remains high in many developing countries in Asia, if it is measured on the basis of the US\$2 a day poverty line (Table 3b). In East Asia and Pacific Region, the headcount ratio for \$2 dollar per day is 37 % in 2004, a fall from 85 % in 1981, while that in South Asia is still 77 % in 2004, a decline from 88 % in 1981. Though these are dominated by China and India in each sub-region, poverty is widespread in Asia as a whole, and the challenge facing policymakers in the region in attacking poverty of this magnitude is non-trivial.

Synthesis of comparative analysis of the integration experiences by the developing regions

In Nissanke and Thorbecke (2006 a& b and 2010b) we argue that the effects of globalization on poverty are diverse and context specific³², conforming to the view that ‘the forces of globalization as such are not *inherently* beneficial or deleterious for development prospects’ (Sanchez 2003: 1978). At the same time, we showed, through our comparative analysis of the globalization experiences across the three developing regions, globalization works best for the poor through the ‘growth’ channel when globalization induced economic growth generates secure employment opportunities continuously at a steady rate for a growing population and labour force. On the whole, the employment creating effect of growth is pronounced in East Asia, where globalization has brought about a substantial poverty reduction due to vigorous growth despite the increasing inequality.

The process of poverty reduction in the Asia and Pacific region has closely followed the waves of employment creations for unskilled labour and the poor in tandem with the evolution and shifts of comparative advantages within the region in the ever accelerating integration process. In contrast, such a poverty reduction process through globalization could not be achieved in SSA and ECLAC regions, where liberalization of trade and investment regimes failed to produce either strong or significant employment creating growth. Instead it has resulted in ‘jobless’ growth, casualization of employment and informalization of their economies, as Latin American case studies most vividly illustrated.³³ This observation leads us to argue that the employment creation effect achieved through globalization-induced economic growth is a most direct and powerful channel through which globalization can make a noticeable dent on poverty.

However, even in East Asia where the employment creating effects of globalisation-induced growth has been most pronounced, there is mounting evidence that the

³² See also Ravallion (2006) and Bardhan (2006) for the detailed discussion on the tenuous but complex nature of the openness-poverty relationships. Winters et al. (2004) also present a careful examination of multiple mechanisms found in the link between trade liberalization and poverty.

³³ .Countries in the ECLAC region have experienced weak growth and rising inequality since 1980s, where globalization had produced an essentially “jobless” pattern of growth with little impact on poverty reduction (Nissanke and Thorbecke, 2010a and Thorbecke and Nissanke, 2009).

distribution effect engendered by the globalization process is generally not in favour of the poor, and that growth has been increasingly disequalizing over time. The pattern of growth in Asia has been pro-poor only according to the weak definition but not according to the strong definition of pro-poor growth (that is, the poor benefit proportionately more than the non-poor). Hence we argued (Nissanke and Thorbecke 2008 a), the ‘inequality increasing’ effect of globalization should be attenuated by public policy measures to ensure that benefits from globalization-induced growth are shared more equally and equitably. Sustaining the shared growth process is hence critical for ensuring economic growth to continue under globalization, as growing inequalities could easily weaken social cohesion and risk reducing the momentum for economic growth and integration everywhere, including countries in Asia.

4. International and Institutional Traps in SSA under Globalisation

4.1. International Trap of commodity-dependent economies in the Sub-Saharan Africa

International Trap of commodity dependence: Regional Dimension and Definition

Today, several decades after gaining political independence, the persistence of high primary commodity dependence remains one of the most conspicuous characteristics of the trade linkage of countries in SSA with the rest of the world under globalisation. According to UNCTAD (2007, 2008), in Africa, 34 countries are dependent on three or less primary commodities, and 23 countries are dependent on a single commodity for more than 50 % of total export earnings. Most of African countries, classified as Least Developed countries -LDCs (and previously as Highly Indebted Poor Countries – HIPC), have higher dependency ratio of 80 % for their export earnings. Thus, the high commodity export dependence has a very specific regional dimension - a particular feature of many LDCs in sub-Saharan Africa. Fig.2 shows that among developing countries, Africa, Latin America and Caribbean (LAC), and Middle East and North Africa (MENA) have much higher dependence ratios, compared to South Asia, East Asia and Europe and Central Asia.

--- Insert Figure 2 here----

Commodity-dependent, resource-rich economies in Sub-Saharan Africa and smaller countries in the ECLAC region have been systematically underperforming in economic growth and poverty reduction compared to those of newly industrialising developing economies in the South, mostly in Asia, under globalisation. Yet, it is also true that some middle-income, resource-rich countries such as Brazil, Argentina, Malaysia and Thailand have recently benefited from increased demand for their agricultural and resource-based products and that they could be seen as newly emerging ‘commodity developers’, while managing at the same time to become less commodity dependent. Vietnam, though still a low income country, has fast approaching the status of ‘commodity-developer’ through its rapid growth of rice and coffee, while also diversifying into manufacturing and other industrial activities.

Hence, the persistent ‘commodity dependence’ is clearly a severe impediment to economic development for low income countries in SSA or small countries in the Central America, classified as Least Developed countries (LDCs) than for natural-resource based middle-income countries in Latin America or newly emerging economies in Asia. The former group of countries is often classified as Commodity Dependent Developing Countries(CDDCs). Certainly, mineral and oil rich countries in SSA benefited from the recent commodity boom since 2002 in terms of their growth rates. However, it is uncertain whether their future economic development can be assured on a long term sustainable basis with extremely high volatility export prices of these commodities. Most CDDCs have failed to diversify their production and trade structures into higher value commodities or manufacturing. Furthermore, many countries dependent on agricultural commodities in SSA have lost their market share in world markets since 1980.

In the recent mainstream literature, the under-performance of commodity-dependent and natural resource rich economies is discussed in relation to the two distinct *domestic* conditions which are identified as characterizing these economies: i) the natural resource curse - a domestic political economy structures which encourage rent-seeking, corruption from resource rents or outright resource looting³⁴; or ii) the difficulties with macroeconomic management over commodity price cycles, in particular, due to the Dutch Disease Syndrome during the commodity boom.³⁵

In contrast, in the *International Poverty Trap* thesis advanced by UNCTAD (2002), the cause for the underperformance of commodity export dependent low-income countries, in particular those classified as LDC or CDDC, is attributed more to the failure of the prevailing international economic system to resolve the outstanding commodity-related problems. The thesis argues that under the prevailing international system, many CDDCs could be locked into an *international poverty trap* through integration into the global economy. In the thesis, international environments and domestic conditions are not independent from each other, but rather feed into each other to reinforce mechanisms of underdevelopment. Similarly, in discussing the economic performances of countries in the ECLAC region, Ocampo and Parra (2006) attributes the cycles of growth spurts and collapses of many developing economies depended on primary commodity exports since 1950s to their susceptibility to external shocks originating from the global economy, and accordingly identify a ‘global development cycle’ that circumscribes the growth possibilities of these economies on a sustainable basis. In particular, they also suggest that under this international environment, the course of macroeconomic adjustments necessitated from, and the institutional effects of, the massive shocks coming from global commodity markets tend to exacerbate considerably the distributional conflicts inherent to the economies with high commodity dependence.

Mechanisms of International Trap through the Debt Crisis Management

³⁴ See for example Collier (2007), Auty (2001), Sachs and Warner (1997)

³⁵ For the classical literature on the main mechanisms of engendering a Dutch Disease syndrome, see Corden and Neary (1982), Corden (1984), Neary and van Wijnbergen (1986) and Edward (1989).

Indeed, clear evidence of the presence of the international poverty trap for many CDDCs can be found in their early devastating experience in the 1980s, when real commodity prices collapsed, amidst the sharp recession of the world economy following contractionary macroeconomic adjustments to major industrial economies in the late 1970s and the early 1980s (see Figure 3). The price collapse at the time followed after the commodity boom triggered by the oil price shock of 1973-4 and the subsequent period of very high price volatility.

----- Insert Figure 3 here -----

Drawing a parallel between the depth of the crisis faced by a large number of commodity dependent low-income countries in the 1980s and that in the Great Depression of the 1930s, Maizels (1992) demonstrated the severity of the ‘commodity’ crisis of the 1980s and convincingly exposed how the beginning of the debt crisis of commodity-dependent poor countries in the early 1980s happened to coincide exactly with that of the ‘conveniently forgotten’ commodity crisis. The collapse of commodity prices in the 1980s amounted to a loss of real purchasing power of 40-60 % for many CDDCs - a deeper crisis than that faced during the Great Depression in the 1930s. Unfortunately, his in-depth and comprehensive analysis of commodity issues and his call for formulating correct international policy responses to the debt crisis, which would have led to an early resolution of the protracted debt overhang condition in low-income countries has been largely ignored by the International Financial Institutions (IFIs).

The persistent reluctance on the part of the IFIs and major donor countries belonging to the Paris Club in the 1980s and 1990s to acknowledge commodity-related developmental issues as one of the main causes for CDDCs’ debt crisis, and the resultant failure to deal with them effectively in a timely fashion has been extremely costly in terms of forgone development opportunities of HIPCs in SSA. All debt relief mechanisms employed since the outbreak of the debt crisis, including the HIPC initiatives established in the late 1990s, failed to pay sufficient attention to the problem arising out of the commodity export dependence with the loss of their purchasing power in international economic transactions at times of dwindling real commodity prices, and with it, the capacity to service external debt.

The absence of an effective and flexible facility of *contingency financing* for low income CDDCs to deal with external shocks on an *ex-ante* basis should be noted in this context. Krugman (1988) shows that in order to avoid a debt overhang conditions developing, it is critical to establish genuinely flexible, *state-contingent* debt relief mechanisms, which can make a distinction between the consequence of a debtor’s own efforts and events outside its control. With this property, in properly structured state-contingent aid or debt contracts, incentive structures for contract parties are aligned better. Now, drawing an efficient, state contingent debt contract can be technically possible for sovereign debt if some operational details are worked out specifically for an individual contract.³⁶ However, the political will and commitment to realise this possibility is absent. Instead,

³⁶ See Nissanke (2010d) for further technical features of this facility.

official creditors have kept applying *ex-post* debt relief mechanisms with policy conditionality attached in response to recurrent liquidity crises and the ensued ‘debt overhang’ condition. A real resolution of the protracted debt crisis had to wait for a comprehensive debt cancellation embedded in the Multilateral Debt Relief Initiative (MDRI) in 2005 (Nissanke 2010 a&d).

The debt crisis management by the international donor community in this manner has resulted in further aggravating the *commodity-dependence trap* inherited historically from the colonial era. Economic policies recommended by the IFI, in the semblance of both Washington and Post-Washington consensus, are proved to be not particularly effective in facilitating the process of structural transformation and diversification of their economies through rigorous productive and social investment. At the macroeconomic stabilization front, the demand management of commodity-dependent economies governed by external shocks should be *counter-cyclical to commodity price movements*. Yet, at the time of an externally induced balance-of payment crisis accompanied by a sharp drop in domestic demand, these countries have been forced, in the absence of alternative financial facilities, to adopt the IMF sponsored *pro-cyclical* stabilization programme that aims at a further contraction in aggregate domestic demand.³⁷

The low-equilibrium trap of high debt and low growth was particularly evident in CDDCs in SSA throughout the 1980s and 1990s.³⁸ With the advent of the debt crisis in the 1980s, a repeated dose of large scale fiscal retrenchment, which was a part of policy conditionality with Structural Adjustment Loans in the first decade of their debt crisis, reduced spending on public goods provision. Governments were generally left with little capacity and dwindling resources to implement development-oriented policies domestically and, in particular, to undertake public investment on a sustained basis. Typically, it is large-scale infrastructure projects that get first axed in fiscal expenditure allocations at times of crises. In reality, the fiscal retrenchment at the height of the debt crisis in the 1980s was so deep that essential public goods provision in social infrastructure such as basic education and health expenditure were also axed and it was assumed that these services could be provided on a fee-paying basis. This has often resulted in a fragile state with a seriously depleted and impaired institutional capability to deliver social services and to build physical and social infrastructure. Under these conditions, the scope and quality of public social services and infrastructure provision was progressively deteriorated.³⁹

³⁷ See Nissanke (1993 and 2010c) for a critical review of macroeconomic adjustment policies over the commodity price cycles in mineral-based developing countries.

³⁸ This is in noticeable contrast to the earlier resolution of the debt crisis of middle-income countries through market-based mechanisms initiated by the Brady plan. However, many of emerging economies have subsequently exposed to repeated financial crises mostly due to full-blown capital account liberalisation.

³⁹ In parallel, the donor community had steadily reduced aid to economic infrastructure projects in relative to overall aid as well as to social infrastructures in SSA in the 1980s and 1990s. For main reasons behind this trend that has resulted in a significant infrastructure deficit in the region see Nissanke (2010 a&d)

International Trap through Structural Changes in World Commodity Markets

At the same time, the landscape of world commodity markets and production has undergone substantial structural changes over the recent decades at the global level.⁴⁰ More specifically, the heightened price volatility over time has led to a rapid expansion of derivative markets across commodities, as demand for risk hedging instruments has intensified. The rapid growth of derivative markets has subsequently attracted new players to the trading floors, resulting in a radical change in the structures of trading on commodity markets. In particular, there has been a huge increase in trading in commodity derivatives associated with the launch of numerous new commodity hedge and index funds in response to keen interests from global institutional and private investors to hold a number of primary commodities as part of their asset portfolio holdings.

The rise in trading activities on derivatives markets by private agents, not engaged in the trade of physical commodities, has resulted in a financialisation of commodity markets, i.e. the growing interlinked activities between commodity and financial markets by portfolio investors. This financialisation has manifested itself in important changes in commodity price dynamics over short-run or even the medium-term. At least over the short-term, prices have become less reflective of actual supply and demand dynamics of physical commodities, and exhibited greater *excess* volatilities.⁴¹

In addition, the process of market consolidation has been intensifying along commodity supply chains over the recent decades. Today, Transnational Corporations (TNCs) can dictate significantly the patterns of international trade through intra-firm trade under their globally integrated production and marketing strategy. TNCs' activities are strategically organised and integrated either horizontally or vertically. This is reflected in their dominance in commodity value chains. In agricultural commodity production and marketing, there are considerable asymmetries in market power and access to information, technology and marketing know-how between TNCs, on the one hand, and local entrepreneurs, farmers and traders in developing countries, on the other. Ironically, for small-scale producers and their governments, commodity markets have become fragmented, as TNCs' have hastened the integration process of their operation globally.

This parallel process of fragmentation and integration has often resulted in a hugely skewed distribution of gains from commodity trade. Under the prevailing market structures, the potential benefits of productivity improvements can be largely appropriated by the TNCs and global supermarket chains, instead of going to fragmented

⁴⁰ See Nissanke (2010c and 2011) for a more detailed discussion on the new landscape of commodity markets and production under globalisation. Nissanke (2012) discuss more specifically the issue of excess price volatility.

⁴¹ Further the fundamental demand-supply relationships in commodity markets have experienced significant changes due to intensifying demand for commodities (e.g. oil and metals as well as agricultural commodities) from fast growing emerging economies such as China and India as well as changes in the relative composition between cash and food crops under the effects of climate changes. This has led to the recent world-wide increases in prices of staple foods, which has given rise to increasing fear over food security for the poor (Nissanke 2011 and 2012).

producers and farmers. The governance structures of primary commodity value chains have become increasingly buyer-driven with a shift in the distribution of value skewed in favour of consuming countries. In mineral commodities, many mineral concerns in the regions were privatized in the 1990s under the IFIs' auspices (e.g. copper mines in Zambia). Depending on how privatization was negotiated and implemented, a large part of mineral rents from the recent commodity boom may not be guaranteed to be used for economic development of producer countries.

International Trap through Aid Relationships Evolved

While the commodity issues were not featured in the early debate on the debt crisis, there is now almost unanimous agreement, including the World Bank and IMF, that vulnerability to external shocks represents a major factor behind CDDCs' debt crisis and the renewed accumulation of unsustainable external debt stocks. Yet, the donor community has persistently shown reluctance to grapple effectively with commodity issues - one of the critical factors shaping debt dynamics of these economies- at the global level. The performance-based aid allocation rule, evaluated in the 'Country Policy and Institutional Assessment (CPIA)' rating, and the debt-sustainability framework embedded in the IDA allocation procedure adopted as a part of the 'new aid architecture' does not satisfy the conditions required for making aid really effective and debt truly sustainable as well as for improving donor-recipient relationships.⁴²

As discussed in Nissanke (2010a), aid effectiveness rests critically on the nature of the recipient-donor relationships among other conditions. The donor-recipient relationships had been severely impaired by the two-decade long experiences with policy conditionality attached to Structural Adjustment Programmes, whereby a series of restrictive policy conditionality was imposed as a universally applicable basis for reforms in return for debt relief and foreign aid. While the blame for the low effectiveness has been placed too readily on recipient governments and institutions in terms of poor policy environments and their incapacity, the donor community has to take a fair share of responsibility for the poor relationships evolved. By generating a sharp configuration of winners and losers in the domestic political economy context, these reform packages were often so contentious, that donor governments themselves would have found hard to implement or to sell to their own domestic constituencies.

The new aid architecture emerged as result of the IFI-led aid effectiveness debate in the donor community since the mid 1990s is supposed to address these issues. Despite the claim that greater ownership and partnership has been achieved under the new aid architecture, the donor-recipient relationships are still built on a shaky ground, where recipient governments and donors tend to position themselves in an 'aid power' game, which could result in an inferior non-cooperative equilibrium. Unfortunately, donors tend to police over whether recipient governments adopt, and adhere to, economic policies and institutional governance structures recommended by donors.

⁴² . See Nissanke (2010d) for a critical review of the Debt Sustainability Framework used at IMF/World Bank.

The true sense of ownership and partnership is hard to emerge under such a condition. For the latter, the donors should take a much less intrusive position, focusing on providing aid for enhancing recipients' efforts in building an institutional foundation through technical cooperation as development partner so that national governments develop their own 'home-grown' strategies, policies and institutions. What is urgently required is mutual respect so that the two parties could fully and truly engage in learning from each others' development experiences, taking into account their different historical and cultural backgrounds. Recipient governments are increasingly required to be accountable to the donor community. This by itself is not a problem, but high pressures from donors on important policy matters could place recipient governments in conflict with the responsibility towards their own citizens. Such situations can easily undermine the democratic credentials of recipient governments. It is high time to depart from unproductive aid relationships and to work towards cultivating mutual trust and respect, conducive to producing positive global public goods, sustainable economic development, and enduring political stability in recipient countries.

It can be argued that the unhealthy aid relationships have dominated and shaped the way many low-income countries in Sub-Saharan Africa have integrated into the global economy for far too long. After all, the donor community has not necessarily had a credible track record in diagnosing accurately binding constraints for economic development in Sub-Saharan Africa. For example, it is only in the 2000s after the newly emerging literature on Africa's 'growth tragedy' identified the region's geographical disadvantages as one of the most binding growth constraints that the need for massive infrastructure investment is officially recognized as critical for accelerating economic and productivity growth as well as the progress in poverty reduction. As discussed in detail in Nissanke (2007), the donor community had steadily reduced aid to economic infrastructure projects in relative to overall aid as well as to social infrastructures in SSA in the 1980s and 1990s.

It is rather both surprising and disturbing that it has taken so long to reinstate the critical importance of infrastructure investment for African development. This reflects largely the unhealthy situation evolved since the early 1980s, wherein the priority of the development agenda for Africa is predominantly set by the donor community, in particular by IFIs. They themselves have to climb a rather steep learning curve over time to realize that the simple adoption of liberalisation and deregulation measures would not be sufficient to address Africa's development challenge. Along this learning curve, the aid relationship between the donor community and African countries evolved, as Adam and O'Connell (1997) note, from the "capital shortage" diagnosis in the 1960s and 1970s, to the "policy failures" diagnosis in the 1980s, and finally to the "institutional failures" diagnosis in the 1990s. Eventually, the 'infrastructure' failure has got a due attention in the 2000s.

The belated official recognition of Africa's disadvantages in infrastructure development has entailed a heavy cost in terms of forgone economic growth and poverty reduction. This is because both economic and social infrastructures are known to be 'public goods', where public financing through governments and external agencies are supposed to have an active role in their provisions at least at the early stage of economic development.

With this mind, we shall now turn to the domestic policy environments that have influenced the integration experiences by countries in SSA.

4.2. Domestic Institutional Trap in SSA under Globalisation

Cumulative Institutional Trap in the Early Post-independence Years

As Brett (1995: 203) notes, the colonial states in Africa introduced a distorted set of economic structures that blocked indigenous opportunities for autonomous growth and reinforced many of the regressive characteristics of traditional institutions. The attempts to democratise the state before independence failed because of the repression of autonomous political and social structures as a civil society throughout the colonisation period. Traditional values and structures survived at the societal level, distorted by their coexistence with the dominant modern system under a control of the colonial power. Modern political and economic institutions were based on monopolistic principles that guaranteed the power of those who controlled the state and marginalized the interests of the great majority. The conditions created during the colonial transition discouraged the development of universal value systems that would support a nationally oriented political and economic order.

Thus, the institutional arrangements at independence were dominated by dualism and monopoly. At independence, the state was structured around the top political leaders in the executive branch who could act as benevolent social guardians (Teranishi, 1996). It should be noted that the development goals at independence of such countries as Ghana, Tanzania, Côte d'Ivoire, Kenya, Zambia and many others were indeed motivated by a high sense of the need to improve the living conditions of the people. Economic policies adopted by the autocratic regimes emerged were also informed by the intellectual debate on development at the time, which emphasised the role of governments and the need for rapid industrialisation but was ambiguous on the ownership of the investment capital (Lewis, 1964). In practice, there was a huge gap between the high vision for socio-economic development and the institutional capacity for implementation on ground in many newly independent developing countries.

In Africa, in order to achieve their vision, the autocratic governance structures were often favoured and justified on the basis of the ethno-linguistically complexity within a 'nation-state', a boundary of which tends to reflect just a colonial legacy than anything else. Furthermore, the prominent leaders at independence with the vision to build nation states were soon replaced by authoritarian and highly centralized governments, often led by military officers. Governance structures were subsequently evolved in such a manner that the state in Africa has become typically portrayed as autocratic: "authoritarian in its character with enormous power often concentrated in the person of the President, and yet weak in institutional and administrative capacity, with limited material means (indebted) and little control over peripheral regions in some cases".⁴³

On one hand, more often than not, private agents/institutions were viewed as nascent, fragile, technologically backward, incapable of creating the dynamism needed for autonomous

⁴³ This is an extract from Buijtenhuis and Rijinierse, *Democratisation in sub-Saharan Africa, 1989–92*, African Studies Centre Research Report 52, 1993:19.

development. The state was therefore assumed to play a central role in economic development. Economic policies often embedded a strong bias against the private sector and rural farmers. They usually included expropriation of private property; the favoured direct allocations of foreign exchange, trade licenses and subsidized credit to parastatals and rent-seekers; and the very high taxation of the traditional export sector.

On the other hand, the centralised, authoritarian governments rapidly became overextended in the light of their limited administrative capacity, with its dysfunctional judicial and regulatory systems. Government offices, including many oversight (monitoring and regulatory) agencies for public sector institutions such as parastatals, have been made ineffective due to political appointments, politically controlled funding, multiple and conflicting objectives, or low morale with few incentive schemes in place. The transparency and accountability of these public institutions and government offices were said to be minimal, resulting in the lack of effective agencies of restraint on government policies and actions. Under such conditions, governments tend to get engaged in fiscal profligacy, as the politically-connected poorly-organized private sector forged a “covenant” with the state to promote the interests of particular factions such as military cliques and ethnic groups (Aron, 1996, 1997). The intensity of controls increased the opportunities for corruption. Clientelism based on the patron-client relationships are reported to be pervasive and decentralised in almost every form of public sector institutions.

Thus, the failure of many development plans was the result of placing some well-intentioned policies in the “wrong” institutions. The development policies were not in tandem with available resources and existing societal norms and capabilities, above all, the institutional governance structures prevailed. In many countries, the state overestimated its ability to implement development plans with the human capital available. The overstretched public institutions could not appropriately develop a framework for attracting investment capital and distributing the benefits from early investments. The resulting chaos is characterized by massive corruption and inept public institutions. Africa, probably more than any region, failed to adapt policies to locally prevailing conditions at any given time. Consequently, it is entrapped in a vicious circle of *institutional trap*, which has further intensified the failure of the state.

Turning attention specifically to the interface between the public sector/government apparatus and private agents, Bates (1981 and 1983 and Terabnishi (1996) suggest that autocratic regimes in charge of post-independent economic policies in Africa were known to have used more extensively divisive fiscal instruments such as subsidies or preferential credits than other regions as the favoured mechanisms to buy political support or to appease various interest groups. Bates (1991) explains this condition in Africa, arguing that a system of discretionary taxes or selective subsidization can be highly rationalised at the political level if not at the economic level, as it emerges from the need of governments to buy support, as observed typically in predatory states. In contrast to developmental states, predatory states are usually characterized by the rationing of *divisible benefits* on the basis of favouritism to buy political support or to appease various interest groups. Such patron–client relationships are more likely to result in much unproductive rent-seeking activity.

In the process, however, governments could become hostage to their narrow political support base often in urban areas. While divisible benefits distributed to finance various political costs could constitute an increasing burden on public finance, with their urban bias in their expenditures, governments in Africa tended to ignore their agricultural sectors and often failed to undertake pro-poor public investment in rural areas. In fact, the political justification favouring a particular group of urban supporters could make the majority, especially in rural areas, de facto disenfranchised from the developing process. Private agents and rural farmers are likely to be refrained from making forward looking productive investments under such a condition.

This is in a sharp contrast to the earlier experiences in East Asia, where the observed poverty-reducing effect of globalisation and integration was not purely a manifestation of market driven growth effects. As Ozawa (2010) suggests, in most of East Asia, the pro-poor pattern of public expenditure in favour of the rural poor at early stages of development produced and sustained the ‘shared’ growth process for some time. There were concerted efforts on the part of governments to facilitate building primary assets of the poor through such measures as an equitable distribution of land (through appropriate land reforms); extensive public provision of free and universal primary education; promotion of small scale enterprises and development of rural infrastructure—roads, irrigation, schools, agricultural support outposts, health stations, and irrigation systems.

Admittedly, it is naïve to explain the differences in patterns of fiscal expenditures simply in terms of ‘developmental’ vs ‘predatory’ states to characterise the autocratic regimes in Southeast Asia and in SSA respectively. However, we cannot help but notice that the conditions of *institutional trap* in SSA as discussed above appears to be close to characteristics of predatory states found in the literature of comparative institutional analyses.⁴⁴

For example, viewing government as a strategic agent maximizing fiscal revenue, Aoki et al. (1996: 17) note that “whether government chooses to act as a predator or to promote the private sector depends critically on the quality of its tax apparatus.... A revenue-maximising government with a poor tax apparatus will always choose to act as a predator”. Thus, he suggests that in order to restrain government from acting as a predator on the private sector, it should be equipped with a high-quality tax collection apparatus and an information-processing capability. Otherwise, with their weak tax base, predatory states has a tendency to hold up private agents, i.e., to extract extra income as much as possible from them. Responding to such government behaviour, the private agents refrain from making risky, forward-looking investments. Private firms and rural households had little incentive to carry out investments of their own unless such investments are supported by the government and they are assured that they can keep a substantial portion of returns from undertaking risky investments.

⁴⁴ . There are always exceptions to all these general statements. Botswana, for example, is known to avoid the institutional trap discussed in this section

While it would be too sweeping generalisation to view African states indiscriminately as predatory, given these earlier experiences with political impediments to development, one of the primary causes for Africa's development tragedy is often attributed to the absence of robust, morally-anchored public institutions, or "cumulative institutional impoverishment" as reflecting the path dependent natures of institutions (Aron, 1996). The IFI-sponsored economic reform programmes were supposed to address such institutional conditions.

Institutional Trap under the IFI-sponsored Reform Process

Diagnosing the developmental trap in Sub-Saharan Africa in the early years resulting from large-scale pervasive *government failure*, the solutions recommended by the IFIs at the time was an adoption of policies of economic liberalisation and deregulation and keeping the size of governments to minimum in exchange for aid and debt restructuring. As discussed above, in practice, with the advent of the debt crisis in the early 1980s, and severe fiscal retrenchment (hence reduced spending on rural infrastructure) imposed and ensued in the reform process, governments were generally left with little capacity and resources to undertake public investment on a sustained basis, and hence the ability to crowd-in private investment. In the absence of reliable public goods provisions, transaction costs to engage in productive activities remained prohibitively high. Economic transactions were conducted in highly uncertain and risky environments, which engendered eminently volatile returns to investment and income streams.

The high degree of uncertainty and instability is also known to have a powerful deterrent effect not only on the rate of private investment and economic growth but also on the *composition* of investment in favour of reversible and safe investments that have a self-insurance character. Thus, under such circumstances, safe and liquid assets are systematically chosen over less liquid but high-yielding assets. While wealthy segments of population may chose to invest abroad, resulting in substantial capital flights, other private investors chose to put their capital in short-term assets in sectors with relatively lower sunk costs and shorter turnover periods, such as trading, rather than in long-term physical investments (Aryeetey 1994). The resulting low level of both public and private investment combined had severe negative consequences for economic growth and development in SSA.

In particular, the prevailed political and economic environments in the 1980s and 1990s have kept the economic activities of a significant proportion of private agents away from the "official" economy. Then, the so-called *informal* economy has become an important source of employment and income for the majority of urban and rural households. In the absence of functioning formal institutions, economic activities tend to be restricted to small-scale production and local trade to obviate the contract enforcement problem through repeated dealing and cultural and social homogeneity within a confined geographical area. The majority of the poor, particularly the rural poor have been left behind. At the same time, a largely informal economy leading to a weak and narrow tax base reinforces the fiscal fragility.

The transition from systems of personal or authoritarian rule—characterized by infrequent but often violent turnover of incumbents—to democratic regimes with a multi-party system since the turn of the 1990s was naturally a welcoming change, which could potentially lay a basis for creating governments committed to broad-based, equitable economic development. Yet, in practice, the continued situation with the poor public goods provision and the fragile fiscal condition developed its own loop of vicious circle for condemning an economy to a low equilibrium, leading to a fragile state with a reduced institutional capability to function: the scope and quality of public social services and infrastructure provision had rather progressively deteriorated in many countries throughout in the 1990s. Thus, without attending the institutional trap historically developed, little progress could be made in a nation-state building through mobilising energy and resources of people for commonly shared developmental objectives. Rather, more often than not, fiscal fragility and retrenchment could aggravate distributional tensions and conflicts in an ethno-linguistically fractured society. These factors together have acted as a serious impediment to structural transformation of the economies in SSA.

Emerging conditions in the New Millennium

The international conditions for Africa economies have been undergoing radical changes over the last decade on several fronts. First, the need for massive infrastructure investment was officially recognized as critical for accelerating economic and productivity growth as well as for poverty reduction. While the belated official recognition of Africa's disadvantages in infrastructure development has entailed a heavy cost in terms of the delay in overcoming the institutional trap, the vital role of economic infrastructure for development is now widely acknowledged as evident in the Commission Africa Report (2005), which reckoned about a half of ODA to be spent in infrastructure building. Second, the doubling official aid flows to Africa was pledged at the same time when the eventual resolution of the debt crisis of the HIPIC was achieved through the MDRI in 2005.

It is at this particular historical juncture that China, along many other emerging economies such as Brazil, India and Malaysia and other non-traditional Arab donors, has increased aid and investment in Africa, offering a new kind of development partnership, without *policy* conditionality attached, on the basis of a “coalition” engagement, i.e. a collaborative state-business approach through aid-trade-investment as a package. So far, one of main focuses of China's aid has been exactly on economic infrastructure building, which is now universally seen as critical for Africa's future.⁴⁵

As Chinese aid for infrastructure projects to Africa under the “resources for infrastructure” format, known as the “Angola mode”, is provided in preferential loans, a fear has been raised over the debt sustainability arising out of Africa's new debt

⁴⁵ . See Nissanke and Soderberg (2011) for more detail discussions of China's drive in Africa including such questions as: China's domestic imperatives for its drive in Africa; its adoption of the economic cooperation model practiced by Japanese government in Asia as China's chosen aid modality with some notable variations; and its impacts on African development, which have raised both hopes and fears in the region.

obligations to China and other non-DAC members. Some concerns are also expressed, almost accusing China and other new lenders for essentially free-riding on the debt cancellation of US\$43 billion granted to the HIPC countries through the MDRI in 2005 (World Bank 2006). However, China has been granting debt relief to African countries on its own loans rather readily so far. Therefore, these concerns may prove to be exaggerated or misplaced, if new lending from these emerging creditors could produce higher growth dividends, than from loans by traditional aid providers, by concentrating on investment in critical bottlenecks for development in Africa, such as in infrastructure and agriculture.

Indeed, the surge in interests in resource rich Africa from China, India and other emerging creditors has also had other tangible spillovers, unforeseen hitherto in Africa. For the first time, private investors have increasingly started taking Africa seriously as one of key destinations of their direct and portfolio investment. Accordingly, debt dynamics in Africa have been changing dramatically with these private capital flows over recent years. Their absorptive capacity of aid and debt carrying capacity may be increasing gradually with these investment activities. After all, whether a potential *virtuous* cycle of growth-cum-debt could be finally established in Africa would depend critically on productivity of investment made with new capital and economy-wide rates of social returns from investment. The availability of new technology such as mobile connections has been also changing the nature of the growth constraint in terms of access to information and remote locations. However, appropriate, invaluable lessons should be drawn from historical experiences to understand under which conditions debt cannot be growth-enhancing, and what should be done to avoid the repeat of the low equilibrium of low growth with high debt, historically observed in Africa.

Critically, it should not be forgotten that the recent upturn in the growth rates in natural resource-rich countries in SSA is closely associated with the commodity price hike in world markets since 2002. Many economies remain fragile economically and politically, as 'resource curse' from commodity dependent structures exacerbates civil strife and conflicts, which could result in failed states in extreme cases as we have witnessed in the past. Future resource flows into Africa would also undoubtedly depend on investors' expectation regarding commodity prices, which remain highly volatile and so much contingent upon on the growth prospect of the rest of the world, in particular increasingly that of emerging economies.

While there was an increase in the aggregate rate of growth and investment over the recent years, the majority of the poor, particularly the rural poor have been left behind. Today, many parts of SSA remain isolated from urban centres, global markets and the global community. The most recent improvement in growth performances has not been translated into structural transformation of these economies yet. Clearly, African economies should confront urgently the issue of overcoming the institutional trap that has kept the poor from benefiting from economic growth. This is applicable also to the need for improving institutional conditions facing producers in the commodity sector. In this context, it should be noted that the waves of domestic market and trade liberalisation/deregulation transformed arrangements in production and marketing of

agricultural commodities, including cash crops such as cotton and coffee. Most of state-run marketing boards were dismantled or downsized and price stabilisation funds or mechanisms ceased to exist. Domestic commodity traders and producers are now exposed to greater price risks as highly volatile prices are transmitted from the downstream commodity chain through the international marketing system to small traders and producers operating in upstream chain.

While the use of hedging instruments such as futures and options has been encouraged as an effective price risk management instruments for traders and farmers in producing countries by international financial institutions, these market-based instruments are not perfect in reducing and hedging price risks. In addition, issues such as the prohibitive financial cost and skewed access to information and high technical barriers for small actors as well as creating an adequate regulatory oversight agency required for liquid, functioning markets would make it hard to popularize these risk hedging mechanisms as universally applicable instruments.⁴⁶

Further, with the withdrawal of institutional support from governments, stable and guaranteed access to provision of necessary inputs such as seeds or fertiliser and new technology are no longer available to farmers. The institutional vacuum thus created is supposed to be filled by private agents and traders. This has often resulted in geographical fragmentation of marketing activities, and placed small-holders in a weaker position in relation to private traders in both inputs provisions and marketing of their produce in upstream commodity chains. For example, in Tanzania, many poor cotton and coffee growers are left with very little institutional support in all vital areas of service provisions, including marketing and processing arrangements; input provisions; information and extension services and access to new technology and dissemination of R&D activities by local institutions. Producers have become spatially fragmented and isolated both between and within villages. Therefore, it is no surprise that production of both cotton and coffee had declined considerably. While producers have been increasingly exposed to vagaries of the international market (i.e. price volatility transmitted from international markets), they are not adequately equipped to deal with price risks and other marketing risks.

Similarly, we tend to observe a considerably weakening position of governments after privatisation programmes of mineral concerns were implemented in a number of sub-Saharan African economies. Under the prevailing ownership structure of mineral concerns dominated by TNCs, the policy space for autonomous fiscal and monetary management economies in bringing about short-run stabilisation as well as long-run economic development is substantially reduced in these countries. Due to the differences in the privatisation programmes negotiated with TNC conglomerates, for example, Zambia found itself, compared to Chile, in a much less favourable position in distribution of mineral rents as well as in use of rents for macroeconomic management and the long-term prospect of economic development.

⁴⁶. See Nissanke (2011) for detailed evaluation of risk management mechanisms recommended in the face of high price volatility.

There is no doubt that an eventual transformation into more diversified economic structures is the real solution to the problems associated with the “commodity- dependence trap”, which was manifested as the two conditions discussed in this section. i.e. the international trap and institutional trap. Thus, developmental problems of these countries could be overcome only through rigorous investments in production capacity and physical and social infrastructures, leading to transformation of their trade and production structures. In the transition period, however, countries are required to develop a strong capacity in managing the commodity sector, where the process of active learning-by-doing experiences and accumulation can be facilitated. Yet, the new landscape of commodity marketing and production under globalisation tend to discourage the process of learning and accumulation which is of critical importance for economic development in SSA. On the contrary, the institutional environments facing commodity producers both at the global and domestic levels have considerably weakened the capacity and resiliency of small holders and mining industries. As countries in SSA have failed to take a required strategic position to these fundamental changes, they have been losing their market shares in a number of world commodity markets and trade since the 1980s.

5. Concluding Remarks: Policy Implications and Future Research Agenda

Our comparative analysis, in particular, the dynamic integration experiences in Asia point to the need for policies of *strategic integration*, not policy of *passive integration or de-linking* from the global economy. Such a strategic position should, first of all, aim at facilitating the transformation of production and trade structures from the narrowly based commodity dependence that is bound to expose economies to external shocks. In terms of sustained economic growth, developing countries that have successfully diversified their exports structures into manufactured goods, in particular, increasingly into medium and high technology sectors, have systematically outperformed those dependent on primary commodities, and natural resource based processing goods.⁴⁷ Thus, whether global market forces establish a virtuous circle or vicious circle depend not only on the initial conditions at the time of exposure but also importantly on the effective design and implementation of policies to manage the integration process. As Kaplinsky (2000) notes, ‘the issue confronting policymakers is not *whether* to integrate into the global economy but *how* to integrate so as to have a stable foundation for sustainable and equitable growth’.

A strategic position towards globalization cannot be equated with a mere adoption of liberal policy regimes, or a simple fine-tuning of the pace and sequence of liberalization measures. Instead, national integration strategy should be designed in the light of the skewed nature of the on-going process of globalization. First, dynamic externalities and rent-rich activities are increasingly concentrated in high skill, knowledge intensive sectors. In short, the skill and technology related divide has become wider over recent decades. This trend is clearly reflected in the continuously declining terms of trade of less skill intensive manufactured goods relative to high skill and technology intensive goods

⁴⁷ Ocampo and Perra (2006: tables 2 and 3, and figure 9).

over recent decades. The markets for many labour intensive products have come to resemble those for primary products.⁴⁸ The entry of China and India into global markets for these products has depressed and will continue to depress real wages and returns in these low technology and low skill sectors. On the other hand, it is difficult to sustain economic growth that is capable of creating job opportunities for growing labour force, exclusively on the basis of the primary commodity boom, as commodity prices are inherently highly volatile. Broad based development of these economies would require a strategy of using resource rents and windfalls for economic diversification.⁴⁹

Second, intra-firm trade in parts, components and other intermediate goods and intra-industry trade with highly differentiated products command a predominant share of contemporary global trade. In particular, international trade is less and less conducted in arm's length relationships between firms. Rather a growing share of world trade is accounted for by intra-firm trade undertaken by TNCs, which command a lion share of global production and marketing networks. Under globalisation, there has been a tremendous growth in offshore outsourcing and global division of labour, dictated by TNCs' globally integrated production and marketing strategy. TNCs' activities are strategically organized and integrated either horizontally or vertically. In particular, with a sharp decline in transport and communication cost over the recent decades, TNCs have been aggressively organizing their operations vertically by slicing up the production process finely into numerous separate operations and locating them in different parts of the world according to cost advantages of each location.⁵⁰ Consequently, intra-firm trade within TNCs and intra-industry trade with highly differentiated products command a predominant share of global trade.

Generally, in the light of these specific features of contemporary globalisation, developing countries need a long term vision for upgrading their comparative advantages towards high value added activities by climbing the technology ladder step-by-step through learning and adaptation. To succeed, developing country governments should consciously engage in building institutional capacities for integration, including a capable nation state that is ready to take on the enormous challenges posed by globalization. The positive benefits from globalization are neither automatic nor guaranteed, whilst passive liberalization would risk perpetual marginalization.

Furthermore, since openness could potentially benefit the poor in countries which have already reached the take-off stage, it is very critical that in addition to a long term vision for strategic integration, low income countries should embark on the path towards *structural transformation* of their agrarian economies, as a necessary condition for successful integration. The importance of this critical step in relation to the globalization–poverty nexus is underscored by the fact that there are critical *thresholds* that need to be reached before the positive effects of globalization on poverty reduction can be realized

⁴⁸ Maizels (1998).

⁴⁹ See Nissanke (2010c and 2011).

⁵⁰ Krugman (1995) and Kaplinsky (2000).

as discussed above. The non-linear Laffer-type relationship between globalization and poverty shows that openness helps those with basic and higher education, but reduces the income share of those with no or little education and it is only when basic education becomes the norm for the poor that openness may exert an income equalizing effect.⁵¹

Hence, sizable public investment in skill upgrading, as a specific pro-poor measure, is the key for ensuring positive benefits from globalisation for the poor. In conjunction with building assets of the poor in their human capital base, there is a need to invest in rural physical and social infrastructures, so that the poor can be connected and networked beyond isolated communities and villages. In terms of inter-sectoral flows, a continuing *gross* flow of resources should be provided to agriculture – irrigation, inputs, research and credit – to increase this sector’s productivity and potential capacity of contributing an even larger flow to the rest of the economy and hence a *net* surplus to finance the subsequent development of the rest of the economy.

Further, there is a clear need for instituting safety nets and appropriate regulations to protect the poor from large downside risks associated with globalization. Globalization has significantly increased the vulnerability of the poor through channels such as: (i) the increased scale and frequency of macroeconomic shocks; (ii) larger exposure to changes in the ecosystem or new unknown technology with often uncertain pay-offs; and (iii) their deteriorating working conditions and weakening bargaining powers in global value chains.⁵² Thus, governments should take a pro-active and pro-poor stance in enhancing access to information, technology and knowledge, standing firm for negotiating good deals and protecting workers’ rights as well as instituting various schemes of public transfers and safety nets to shelter the poor from these adverse conditions.⁵³ Mitigating the negative effects of globalization on inequality and the poor is of particular importance in developing countries, where there is today widespread dissatisfaction with the social injustice associated with high poverty and rising inequality, which is widely viewed as a result of globalisation.

Indeed, there is not much disagreement over the need for instituting a programme of safety nets to protect the poor at times of financial crisis. However, it should be recognised that financial resources required for such a programme through a fiscal transfer mechanism is generally scarce at the national level when fragile economies are in a crisis situation. Indeed, the current global economic crisis has placed globalisation at a crossroad. The nature and course of the contemporary globalisation is now seriously challenged. We have now an overwhelming case for initiating fundamental changes into the way the globalisation process is governed at the global level.⁵⁴

⁵¹ Milanovic (2002), and Agenor (2002)

⁵² See various case studies included in Nissanke and Thorbecke (2006d, 2006e, 2008b, 2008d).

⁵³ See Kakwani and Son (2008) and Kakwani et al. (2008), among other project case studies.

⁵⁴ See Nissanke and Thorbecke (2006c), Nissanke (2006)) for discussion on how to make globalisation pro-poor.

Meanwhile, governments of developing countries need to pursue both strategic integration and an active domestic development agenda to ensure that the poor benefit from globalization, while they are adequately protected from negative impacts. Our research definitely suggests that sustained poverty reduction could be achieved only if the pattern of growth is pro-poor, since inequality acts as *the filter* between growth and poverty in growth-inequality-poverty triangles a la Bourguignon (2003). That is, poverty reduction would require some combination of higher growth and a more pro-poor distribution of the gains from growth, and, hence, at minimum inequality should not be exacerbated in the growth process (Nissanke and Thorbecke 2010b). In reality, we have observed rising inequality in income and assets with extreme polarisation worldwide under globalisation. Consequently, social cohesion is now threatened in many parts of the world, and social tension has been further rising through the recent global financial and economic crises with highly volatile prices in basic wage goods such as foods. This is visibly evident in both Africa and Asia.

Hence, our intellectual quest for shared growth and inclusive development. We need to see the capacity of nation states strengthened rather than weakened in terms of building appropriate institutional configurations conducive to delivering a more inclusive development path, in which fruits from economic growth is widely shared. Therefore, aiming at understanding institutional foundation for shared growth, a strong case can be made for us to conduct detailed empirical analyses into how to attain inclusive development with the equity objective at its centre. We argue here that the short run *trade-off* between efficiency gains and ethical-equity concern is over-emphasised in economic literature, and there exist important complement between the two policy objectives in long run⁵⁵.

Now, there is a wide recognition that institutional environments exert significant influence on economic growth across countries (Acemoglu et.al, 2002, Rodrik et al 2002). In parallel, literatures have emerged to explain differences in development paths across countries using a comparative institutional analysis from a historical perspective (Grief2006, and Aoki 2001). Hence future research agenda can be built to examine the development paths in Africa and Asia under globalization- both divergence and similarities-using the comparative institutional analysis as an analytical framework. We assess this analytical framework is suitable for understanding how institutions and their configuration have influenced the pattern of economic growth in terms of efficiency gains as well as distributional outcomes, so that we can gain a deeper understanding into conditions under which institutions and their configuration could become conducive or harmful to inclusive development.

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⁵⁵ . Nissanke (2006) and Nissanke and Thorbecke (2006c).

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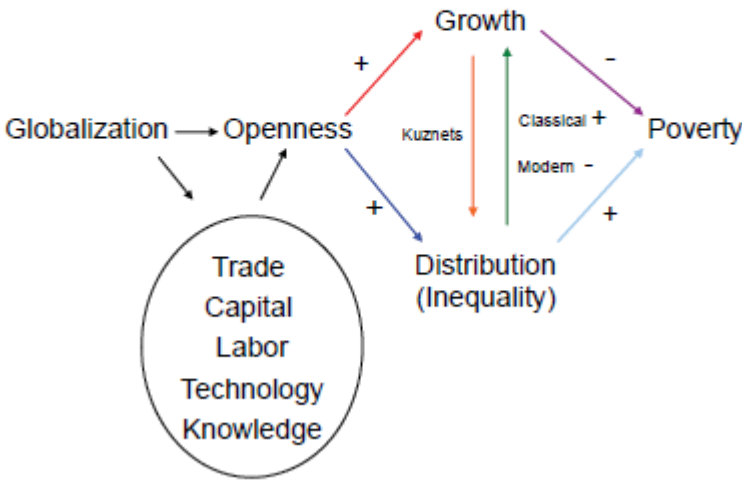
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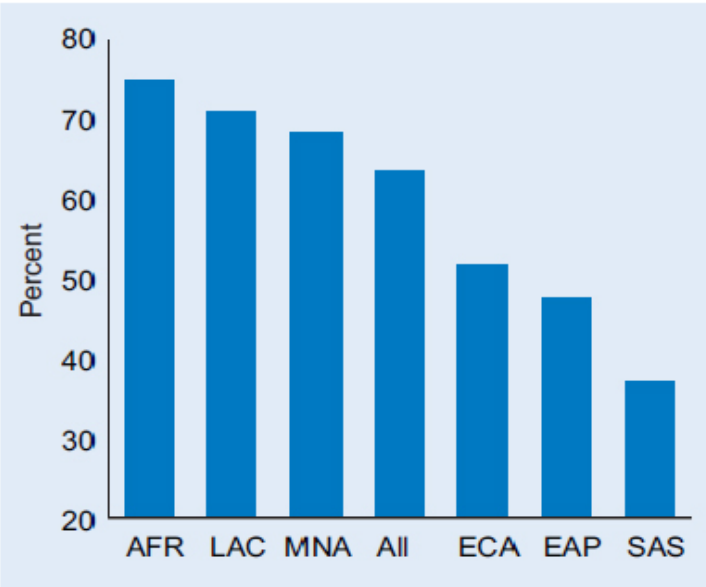
Fig. 1

Transmission Channels: The Globalization-Openness-Growth-Distribution (Inequality)-Poverty Nexus



Source: Nissanke and Thorbecke 2010, Fig.1

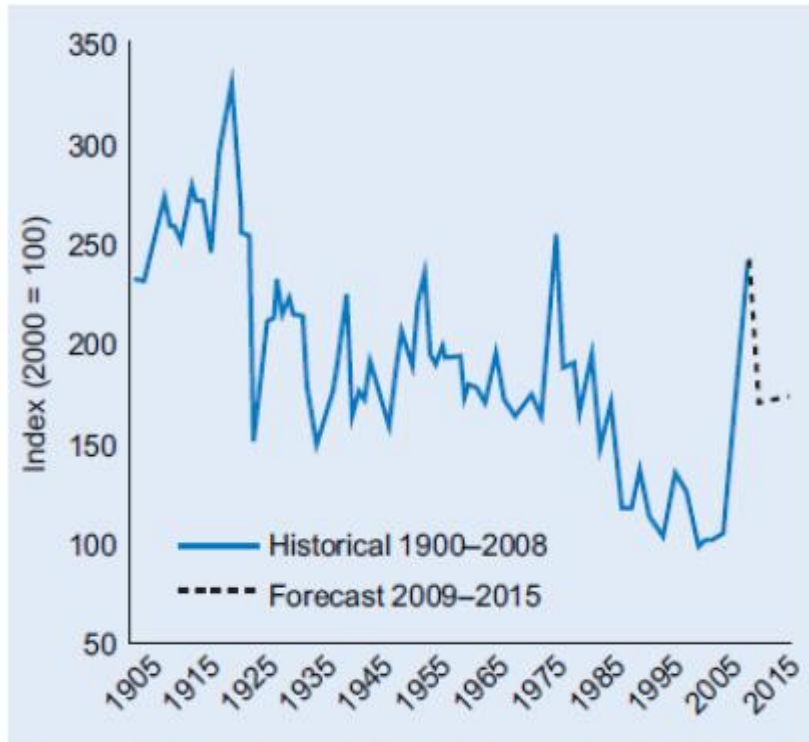
Fig.2. Share of Primary Commodities in Merchandise Exports of Developing Countries by Regions



Source: World Development Indicators, World Bank.
 *As % of merchandise exports. Simple averages for country groups.

Source: Brahmhatt and Canuto (2010)

Fig. 3. Real Non-Fuel Commodity Prices: 1900-2015



Sources: Grilli and Yang (1988); Pfaffenzeller et al. (2007).
 World Bank estimates 2004-08, forecasts 2009-15.
 * Indexes, 2000 = 100. Deflated by unit value of manufactured exports.

Source: Brahmhatt and Canuto (2010)

Table 1: Trade Intensity Ratios of Major Developing Regions, 1980-2006

	1980-84	1985-89	1990-94	1995-99	2000-4	2005-06
<i>Trade openness¹: (X+M)/GDP</i>						
East Asia	40.4	43.0	60.1	60.7	69.6	82.7
South Asia	18.5	17.3	22.7	27.5	32.8	45.5
Sub-Saharan Africa	52.5	49.7	52.3	59.4	66.3	73.5
Latin America and Caribbean	28.2	28.1	30.3	35.1	45.7	49.0
E Europe and Central Asia	57.9	62.7	76.3	77.0
Middle East and North Africa	68.3	48.2	67.7	59.0	67.8	84.6 ²

<i>World total</i>	40.57	37.7	40.3	45.1	51.0	57.52
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(.. not available)

Sources: World Development Indicators 2008

Notes: 1. World Bank *World Development Indicators*, 2008 (calculated from current US\$ estimates)

2. Only 2005

Table 2: Growth of GDP per Capita of Major Developing Regions, 1980-2006

	1980-84	1985-89	1990-94	1995-99	2000-4	2005-06
<i>Growth of GDP per capita (average annual)¹</i>						
East Asia	5.8	6.3	7.9	5.7	7.1	8.4
South Asia	3.1	3.4	2.6	4.0	3.9	7.0
Sub-Saharan Africa	-1.3	-0.3	-2.0	0.7	1.5	3.2
Latin America and Caribbean	-0.9	0.3	1.6	0.9	1.0	3.7
E Europe and Central Asia	-6.0	1.8	5.4	6.4
Middle East and North Africa	0.3	-1.6	1.6	2.3	1.9	3.0
<i>World total</i>	<i>0.5</i>	<i>2.0</i>	<i>0.7</i>	<i>1.7</i>	<i>1.6</i>	<i>2.4</i>

(....) not available

Source: World Bank *World Development Indicators*, 2008 (average annual %)

Table 3a: Global Comparisons of Income Poverty Trends for US \$1 a day: Major Developing Regions, 1981-2004

	1981	1987	1993	1996	1999	2002	2004
<i>Income poverty¹</i> <i>(headcount ratios)</i>							
Sub-Saharan Africa	42.3	47.2	45.5	47.7	45.8	42.6	41.1
Latin America and Caribbean	10.8	12.1	8.4	8.9	9.7	9.1	8.6
South Asia	49.6	45.1	36.9	36.1	34.9	33.6	30.8

East Asia and Pacific	57.7	28.2	25.2	16.1	15.5	12.3	9.1
Of which China	63.8	28.6	28.4	17.4	17.8	13.8	9.9
E Europe and Central Asia	0.7	0.4	3.6	4.4	3.8	1.3	0.9
Middle East and North Africa	5.1	3.1	1.9	1.7	2.1	1.7	1.5
World total	40.1	28.7	25.6	22.7	22.1	20.1	18.1
<i>Ratio: SSA/World</i>	1.05	1.64	1.78	2.11	2.07	2.12	2.27

Income poverty²
(numbers million)

Sub-Saharan Africa	167.5	222.8	252.6	286.2	296.1	296.1	298.3
Latin America and Caribbean	39.4	50.0	38.8	43.0	49.0	48.1	47.0
South Asia	455.2	471.1	436.7	452.9	463.4	469.6	446.2
East Asia and Pacific	796.4	428.8	420.2	279.1	276.5	226.8	169.1
Of which China	633.7	310.4	334.2	211.4	222.8	176.6	128.4
E Europe and Central Asia	3.0	1.6	16.9	20.9	17.9	6.0	4.4
Middle East and North Africa	8.8	6.4	4.5	5.4	5.7	4.9	4.4
World total	1470.28	1180.7	1170.17	1087.8	1108.6	1051.5	969.5
<i>Ratio: SSA/World</i>	0.11	0.19	0.22	0.26	0.27	0.28	0.31

Sources: Ferreira and Ravallion (2008): Table 2; based on international poverty line (\$1.08 1993 PPP)

Table 3b: Global Comparisons of Income Poverty Trends for US \$2 a day: Major Developing Regions, 1981-2004

	1981	1987	1993	1996	1999	2002	2004
<i>Income poverty¹</i> (headcount ratios)							
Sub-Saharan Africa	74.5	77.4	76.1	76.4	75.9	73.8	72.0
Latin America and Caribbean	28.5	29.6	24.1.4	25.2	25.3	24.8	22.2
South Asia	88.5	86.6	82.2	82.1	80.4	79.7	77.1

East Asia and Pacific	84.8	68.5	65.0	52.5	49.3	41.7	36.6
Of which China	88.1	68.6	68.1	53.3	50.1	40.9	34.9
E Europe and Central Asia	4.6	3.1	16.5	18.0	18.6	12.9	9.8
Middle East and North Africa	29.2	24.2	21.4	21.4	23.6	21.1	19.7
World total	67.0	60.7	59.4	55.5	54.2	50.7	47.6
<i>Ratio: SSA/World</i>	1.11	1.28	1.28	1.38	1.40	1.46	1.51

Income poverty² (numbers million)

Sub-Saharan Africa	295.5	365.0	422.1	458.4	490.6	512.6	522.3
Latin America and Caribbean	103.9	122.3	111.1	122.3	128.4	131.1	120.6
South Asia	813.0	904.2	974.0	1031.5	1067.2	1115.5	1115.8
East Asia and Pacific	1169.7	1040.7	1083.2	907.8	882.7	776.3	683.8
Of which China	875.8	744.1	802.9	649.5	627.6	524.2	452.3
E Europe and Central Asia	19.8	14.0	77.8	84.9	87.9	60.8	46.3
Middle East and North Africa	50.6	50.2	51.8	55.4	64.5	60.9	59.1
World total	2452.5	2496.5	2721.7	2665.7	2721.3	2647.2	2547.9
<i>Ratio: SSA/World</i>	0.12	0.15	0.16	0.17	0.18	0.19	0.20

Sources: Ferreira and Ravallion (2008), Table 3