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## Conference Paper

# Globalization, growth and inclusiveness

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## Growth: Benefiting from Globalization

# Globalization, Growth and Inclusiveness

### Summary

Globalization has been the engine of growth and economic prosperity in many countries in the past 30 years. Yet, some of the poorest countries in the world by the late 70s have made little progress or even experienced economic decline. The majority of these countries is located on the African continent.

However, even within many successful countries the gains from increased integration have not been shared equally. Almost universally, the process of globalization has led to increasing inequalities within both rich and poor economies.

Entire countries as well as certain socio-economic groups within countries have been excluded from the benefits of globalization. Apparently, inclusion is not an inherent feature of the current wave of globalization. Deliberate action from both the private as well as the public sector is hence desirable and needed to make globalization work for the marginalized.

What can be done to help excluded countries to integrate into the global system? How can the benefits from globalization be shared more equally within countries? In sum, how to make (global) growth more inclusive?



### Proposed Solutions

#### **Expert Opinion**

The first step to make growth more inclusive is to identify marginalized excluded groups and the mechanisms of exclusion in order to design appropriate actions that enable the excluded to reap the benefits of globalization.

#### ***Poor Countries and Groups Excluded by Misguided Rich-country Trade Policies***

Most of the poorest countries are agricultural producers and the long established trade barriers for protecting European/North American producers has led to immense global trade asymmetries. While abolishing and reducing the barriers is essential, with regard to the distribution of benefits within the developing world it has been pointed out that especially the rich agricultural exporters would gain while small farmers in the African context might not



benefit. Nevertheless, studies indicate that the benefits of increased export prices might outweigh the increased food import costs even in the African context.

- Reduce non-tariff barriers for imports from low income countries in OECD countries.

### ***Small-scale Farmers and Urban Slum Dwellers Have Gained Little from Globalization-induced Growth***

Smallholders' responses to the opportunities created by global markets have been disappointing – particularly in Sub-Saharan Africa. The search for better living conditions and opportunities in urban agglomerations therefore continues leading to high unemployment, crime and violence rates, as well as impoverishment and sanitation problems.

- Identify a balanced approach between slum upgrading and rural development.
- Engage in a concerted effort to scale-up slum upgrading programs.
- Improve rural infrastructure and address the land rights question.
- Public-private partnerships can play a key role in both slum upgrading as well as rural development programs.

### ***Exclusion from Public Services, in Particular Education and Health***

Education has proved to be a key asset in a globalizing world. More generally, the provision of adequate government services, in particular access to infrastructure, rural extension services, is an essential condition to actively participate in the globalized economy. Government should therefore try to augment equitable access to health, sanitation, education facilities and opportunities.

- Achieve universal secondary education.
- Scale up public expenditure into social sectors and put the quality of service delivery at the centre of attention.

### ***No Tax Basis for Redistributive Measures***

Although recognized as a problem, the low tax base in many poor economies is taken for granted by both local authorities and the donor community with the latter filling up budgetary gaps with aid. With growing inequality and soaring income growth of the richer parts of the population there might however be some scope for introducing progressive tax and transfer

systems. Furthermore, strengthening economic elites' contribution to public spending may have positive effects on government accountability.

- Revive the idea of progressive taxation in developing countries. Of course, such tax systems would need to be adapted to the context in question.

## **Strategy Perspectives**

### ***Globalization, Growth and Inclusiveness***

Danny Leipziger

*Vice President, Poverty Reduction and Economic Management Network, The World Bank*

With the failure of the Doha Round, faith in the global system has been shaken. Economic nationalism is on the rise. Job losses are conveniently blamed on globalization, spurring calls



for protection. What is missing from this discourse is the rising income inequality in the world's most open market (the U.S.) as well as rising income disparities among developing countries. Both trends should worry potential globalizers.

What should be done about these threats to an open trade and investment regime? At the national level, there are best practice public policies aimed at protecting people and not their jobs. This can be done in a way that incentivizes effort but does not create unfairness so dramatic that public support for globalization erodes. Dramatic inequality is politically inconsistent with openness. At the same time, NGOs should publicize anti-competitive actions taken in the name of narrow national economic interests. In parallel, countries that have benefitted from manufactures export access need to refrain from erecting new barriers in services. What is called for is a new global compact with more equitable rules. **The net benefits of globalization are positive for most countries; however, domestic policies need to handle negative distributional effects if these global gains are to materialize.**

### ***Solutions for Globalization, Growth, and Inclusiveness***

Arun Maira

*Senior Advisor, Boston Consulting Group India*

My view is that as much as macro economic policy changes, changes at the 'micro' level of business institutions are also essential for inclusion of the poor in the process of growth. The poor can participate in economic activity within institutions that are designed to include them as earners and owners, not only as customers. Therefore the development of business models and governance structures that enable the poor to be included are keys to accelerate the inclusion of the poor in economic growth. Attachment 1 is the key note address I gave in July 2008 at the release of the UNDP's report, "Creating Value for All: Strategies for Doing Business with the Poor" which explains this solution.

Established big businesses must change their ways too. Business managers need new concepts and tools to make their businesses more inclusive and sustainable. Business management schools have an important role to provide the solutions. Attachment 2 is the Convocation Address I gave at the Indian Institute of Management (Calcutta) in April 2008 on 'Transforming Capitalism: Business Leadership to Improve the World for Everyone'. It sets out the case for redesigning concepts of business management with suggestions about what the changes should be.

Another change necessary is in the way we think. Underlying 'theories-in-use', that we hardly ever examine, guide our prevalent approaches to economics and management. Some of these must change. Attachment 3 is the chapter, 'Changing Mindsets for Inclusive Growth', from my book "Transforming Capitalism: Business Leadership to Improve the World for Everyone", in which these are explained.