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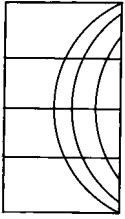
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**Ray Kiely**

# Globalization and Poverty, and the Poverty of Globalization Theory

## Introduction

Globalization has become a key concept in the social sciences in recent years. Much of the literature on globalization has, however, suffered from a lack of clarity over the precise meaning of the term. This article does not provide a survey of the debates over the meaning of globalization. Rather, its aim is more modest. It attempts to illustrate how this lack of clarity has close parallels within two important areas of the globalization debate: first, that of the narrow area of trade, investment and financial liberalization, and whether these practices are good for growth and poverty reduction; and second, and far more widely, the debate over the explanatory power of the idea of globalization itself, and particularly whether this is so great that it can be considered the basis for a new social theory. The former is therefore based on a quite narrow, largely economic debate; the latter goes to the heart of social theory and the status of globalization's utility in explaining important social change. My argument in the article is that despite their very different concerns, both debates suffer from a similar weakness, which is the tendency to give causal significance to globalization where none exists. Both debates have their particular focus and both use the concept of globalization in different ways, as we will see, but both are also guilty of conflating causality and outcome. The article illustrates this in the case of both debates, but equally it shows how the two debates are not so far removed from each other as one may initially assume. Indeed, I argue that the main sociological advocate of 'globalization theory', Anthony Giddens, explicitly repeats the fallacies concerning growth and poverty reduction that are rejected in the first two sections of the article. The link between the two debates is established by briefly re-examining older development debates from the 1970s, and particularly focusing on the idea of core and periphery in the world order, and how

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these arguments remain relevant for understanding the current era of globalization. This discussion is used to illustrate the links between the neoliberal advocacy of globalization (first section) and modernization theory (second section), by suggesting that globalization theory constitutes a neoliberal version of modernization theory (third section).

## Globalization and Poverty

This section examines the claim that in recent years there has been a reduction in poverty in the global order, and that this development is a product of nation-states adopting good, 'globalization friendly' policies (DFID, 2000; World Bank, 2002a, 2002b). I briefly question these claims on the grounds that the methods used to measure poverty are questionable, and indeed show a bias towards a downward trend over time. But more important for the purposes of this article, I go on to argue that even if there has been a reduction in poverty, this has not been caused by 'pro-globalization' policies.

The World Bank (2002a: 30) has argued that poverty and income inequality have fallen in the last 20 years. In 1980, there were 1.4 billion people living in absolute poverty,<sup>1</sup> and by 1998 this had fallen to 1.2 billion. The Bank has also argued that while the number of people living in absolute poverty remained constant from 1987 to 1998, taking into account population increases, this amounts to a fall from 28 percent to 24 percent of the world's population (World Bank, 2001: 3). According to this argument, then, global poverty has been reduced, and this is due to greater economic integration in the world economy. This 'globalization' constitutes a 'stepping stone from poverty', above all for developing countries (Wolf, 2001).

In these accounts, extreme poverty is measured by counting people living on an income of \$1 a day. Rather than a US dollar, this 'dollar' is actually based on purchasing power parity (PPP) exchange rates, which are adjusted to take account of the fact that the cost of living tends to be lower in poorer countries than richer ones. This PPP dollar is in principle a good idea as it attempts to account for differences in local purchasing power across countries. However, the aforementioned claims for poverty reduction are actually based on two different comparative indices. The Bank initially drew on the Penn World Tables in 1985, which quantified international price comparisons, in order to make its calculations. However, in 1993, a new International Comparisons Project was made, and from 2000/1 this was used as the basic measurement of extreme poverty. Thus, the favourable comparison between 1988 and the late 1990s is based on two different measurements, so there can hardly be a case made for an unambiguously clear decline in the amount of people living in extreme poverty (see Deaton, 2001; Wade, 2002). This shift from the 1985 count to the 1993 count had the effect of lowering

the poverty line in 77 of the 92 countries for which data were available, and these countries contained 82 percent of the total population of the 92 countries (Pogge and Reddy, 2002: 7).<sup>2</sup>

Moreover, it is not just a problem of changing methods of counting the poor, as both new and old methods are highly problematic. The basket of goods that makes up PPP is not appropriate for measuring poverty. If poverty is to be properly measured, then the equivalent purchasing power of *which* commodities is a crucial question. But in identifying cost of living adjustments made across countries, the Bank relies on data about all commodities, many of which are not consumed by the poor (Pogge and Reddy, 2002; see also Reddy and Pogge, 2002). The use of general consumption PPP is quite irrelevant as a measurement of poverty as the poor do not consume cars, air travel, most electrical goods and so on. This measure is likely to underestimate the poor, as food and shelter – the main consumption goods of the poor – are relatively expensive, when measured as a proportion of the poor's income. Thus, Pogge and Reddy use the example of basic foodstuffs. These may cost around 30 times as much in rupees in India as they do in dollars in the US. On the other hand, services such as drivers and manicurists cost three times as much in rupees as they do in US dollars. This has the effect of underestimating the price discrepancy between rupees and dollars and therefore PPP dollars, because the (relatively) cheaper services are counted as part of PPP even though they are generally not consumed by the poor.

Moreover, this distortion is likely to get worse with each successive PPP exercise, which leads to the Bank making unjustified assertions about long-term trends in the poverty count. This is because the Bank makes periodic adjustments from the base year based on new data on economic growth. However, this has the effect of underestimating poverty as consumption patterns shift over time from higher price food to lower price commodities such as services. The fact that there is a growing *general* shift from higher to lower price goods does not, however, tell us anything about what is being consumed by the poor, who, given that they are poor, are likely to still be consuming relatively higher priced goods. So, with rising general affluence in both the US and India, there will be a growing general shift in consumption patterns towards services. The effect of this shift is that prices of services will have a greater significance in the second year of comparison than in the first, and so the effect will be to lower the new general-consumption PPP, and thus lower the number of poor in India, even though price ratios for goods consumed by the poor remain unchanged. In this case, then, there is a downward bias in measuring poverty due to unwarranted assumptions about general consumption patterns, both constantly and over a period of time.

Moreover, much of the 'evidence' for falling poverty is a result of important changes in India and China. However, China declined to participate in

either the 1985 or 1993 international price benchmarking exercises, and the PPP exchange rate was calculated from estimates of a few price surveys in big cities together with some adjustment for regional price disparities. India did not participate in the 1993 exercise and its PPP figures are based on the 1985 figures plus a few further surveys after this date (Reddy and Pogge, 2002).

For all these reasons, then, there are strong grounds for questioning upbeat assessments of global poverty reduction. But even more important, the Bank also argues that not only is poverty falling, but that this fall is due to good policies, which have promoted economic growth. Above all, these policies are said to be 'globalization friendly' and open to market forces. Thus, 'Globalization generally reduces poverty because more integrated economies tend to grow faster and this growth is usually widely diffused'. This is because '(a) reduction in world barriers to trade could accelerate growth, provide stimulus to new forms of productivity-enhancing specialization, and lead to a more rapid pace of job creation and poverty around the world' (World Bank, 2002a: 1, xi; see also IMF, 1997: 72).

This claim is explicitly made by the World Bank (2002b) in *Globalization, Growth and Poverty: Building an Inclusive World Economy*, which is the latest of numerous attempts to establish a causal relationship between globalization-friendly policies (including structural adjustment), and economic growth and poverty reduction.<sup>3</sup> Given that world poverty may not have been falling (see earlier) as globalization has increased, there is good reason for immediately questioning this contention, but again the Bank attempts to establish a causal relationship for specific, 'more globalized' countries. This differentiation between more and less globalized countries is based on measuring changes in the ratio of trade to GDP between 1977 and 1997. The top third of countries are designated as more globalized, and the bottom two-thirds as less globalized. The more globalized are said to have had faster economic growth and poverty reduction than the less globalized.

However, measuring *changes* in the trade/GDP ratio is not a very useful way of measuring trade openness. The list of more globalized countries includes China and India, which are actually less open than many of the less globalized countries. The most globalized countries tend to be ones that initially had a low trade/GDP ratio in 1977. They may still have lower trade/GDP ratios in 1997 than many of the less globalized countries, as the measurement is not the amount of openness but its rate of increase (Rodrik, 2000). This again betrays a statistical bias, as it excludes countries with high but not rising trade/GDP ratios from the category of more globalized. This includes a large number of very poor countries dependent on the export of a few primary commodities, and which have had very low and sometimes negative rates of growth (UNCTAD, 2002a: Part 2, Ch. 3). The effect of excluding such poor, low-growth countries with high but constant

trade/GDP ratios from the category of more globalized countries is to underestimate the category of high globalizers with low economic growth.

An exaggeration of the relationship between high growth and growing openness also occurs when one critically examines the evidence for China and India. Contrary to the World Bank's assumption of a causal relationship between trade openness and economic growth, the rapid economic growth of these two countries predates their growing openness. Moreover, despite liberalization, such as the lifting of some restrictions on foreign capital investment, they remain far from open economies. Like the first-tier East Asian newly industrializing countries (NICs), capital controls remain strong, subsidies still exist and there are still relatively high tariffs on selected imports. Average tariff rates in India did decline from 91 percent in the 1980s to 50.5 percent in the 1990s, while China's declined from 42.4 percent to 31.2 percent in the same period (Rodrik, 2000: Table 1). However, these remain far higher than average tariff rates in developing countries, and therefore it is simply an article of faith to claim that this reduction was the *cause* of the economic growth, as such rates remain extremely high and do not remotely conform to any recognized policy of trade liberalization along neoliberal lines. Economic growth preceded liberalization and is in part the product of state policies that allowed for the development of industries protected from import competition from established overseas producers. Moreover, trade/GDP ratios do not necessarily measure the amount of openness to trade in a given country, as it is quite possible to have a high ratio of exports to GDP but still have various degrees of import restrictions, as in the cases of China and India, and before them, South Korea and Taiwan (Amsden, 1989; Wade, 1990). Essentially, then, the Bank's argument 'assumes that fast trade growth is the major cause of good economic performance. It does not examine the reverse causation, from fast economic growth to fast trade growth' (Wade, 2004a: 580). This conflation of outcome and causality is the basic weakness of the optimistic assumptions concerning the links between trade liberalization, growth and poverty reduction. The evidence is further examined in the following section.

For the moment, it needs emphasizing, once more, that it is actually only an assumption that trade openness leads to economic growth. There is a failure to specify the precise relationship between trade and growth, it says nothing about the types of goods being traded, and it ignores the impact of liberalized trade on countries at different stages of development, based on different structures of production (UNCTAD, 2002a: 102). In 1997–8, the trade/GDP ratio for 39 of the poorest, least developed countries (LDCs) averaged 43 percent, and for 22 of these 39 countries (based on data availability) – around the same as the world average (UNCTAD, 2002a: 103). In the period from 1980 to 1999, the share of these LDCs in world exports declined by 47 percent, to a total of only 0.42 percent of world exports in the latter year (UNCTAD, 2002a: 112). For the World Bank and IMF to establish a causal connection

between global integration and slowing economic growth, it would have to be the case that these countries were employing policies that restricted openness. But this is clearly not the case, and, indeed, LDCs have actually gone further than other developing countries in dismantling trade barriers (UNCTAD, 2002a: 114). It is thus not the case that market-restricting policies have led to declining global market shares for most of the LDCs. Without denying that 'internal' factors such as political instability may be important factors (discussed later), it is also clearly the case that demand for the products of LDCs is (relatively) limited, and therefore the prices paid for these products is low. This is particularly the case for primary producers. Based on 1985 PPP dollars and population weighted, the average income gap between the 20 richest countries and 31 least developed countries has increased from 11:1 in 1960 to 19:1 in 1999. The income gap for those LDCs that diversified into manufacturing and services increased from 8:1 to 12:1, but for those countries still most dependent on (non-oil) primary commodities, the increase was from 16:1 to 35:1 (UNCTAD, 2002a: 122). This differentiation is a product of volatile commodity prices and unsustainable foreign debt payments (UNCTAD, 2002a: 148–53).

The relationship between global integration and poverty reduction is also far from straightforward. The Bank argues that trade liberalization will reduce poverty, as it will increase demand for unskilled labour, and increase growth and therefore government revenue. In fact, tariff reduction deprives developing countries of a major source of revenue, particularly as tariffs are far easier to collect than other taxes in cases where public administration is relatively underdeveloped. In India, for example, in 1990 it provided as much as 25 percent of government revenue (Weisbrot et al., 2002a: 17). Moreover, the evidence suggests that trade liberalization does not have the outcomes that the Bank expects, and that poverty has actually increased among LDCs with the most open trade regimes. However, it has also increased by about the same amount for those with the most closed trade regimes, which undermines any simplistic claims made against trade and for autarchy. Between these two extremes are the moderate liberalizers and the more advanced liberalizers, and here the evidence suggests that it is the former that have a better record (see UNCTAD, 2002a: 115–17, esp. Chart 33). No straightforward conclusions can therefore be made, beyond the negative ones that trade liberalization or 'globalization' neither unambiguously causes an increase or a decline in poverty. Based on the UNCTAD data, the incidence of poverty fell in 16 LDCs from 1987 to 1999, and only four of these saw a decline in their export/GDP ratio. On the other hand, among LDCs in which export orientation increased, there was no general experience of a reduction in poverty – this occurred in 10 out of the 22 countries from 1987 to 1999 (UNCTAD, 2002a: 119). Clearly, then, there are no clear correlations between openness and poverty reduction, let alone causal connections. The

same report does establish a link between economic growth and poverty reduction, especially for the poorest countries (though I again stress *not for trade openness and growth*), but even in this case, substantial qualifications must be made. Economic growth alone does not guarantee that income will trickle down to the poorest, and the last 30 years have seen a general increase in inequality within countries. The most effective strategy remains the promotion of economic growth, alongside some proposals for reducing inequality, and neoliberalism fails on both these counts. Hanmer et al. (2000: 2; see also UNDP, 2002: Ch. 1) argue that in order to meet the 2015 Millennium Targets for reducing poverty, countries with high inequality will need growth rates twice as high as those with low inequality. This argument is based on a survey of comparative economic growth from 1985 to 1990, where countries with 10 percent economic growth and low inequality saw a fall in poverty of 9 percent, while those with high inequality and similar growth rates saw a fall of only 3 percent.

These critical comments are not meant to imply support for a blanket reversal of trade liberalization, and still less a policy of autarchy, the latter of which is largely a straw-man utilized by pro-globalizers to caricature the proposals of anti-globalizers (see, for instance, Desai, 2000). What should, however, be clear by now is that the global economy is not a completely benign force, and that the claims made for pro-globalization policies do not stand up to critical scrutiny. This is not to say that no progress can be made, but it is to say that much of the progress that has been made is despite, and not because, of 'pro-globalization' policies, and that progress is slower and more unequal than it was previously. All agree that, some exceptions notwithstanding, the general trend over the last 20 years has been towards greater global integration. Comparing this period from 1980 to 2000 with the previous 20-year period (which includes the particularly unstable 1970s), and based on a comparison of growth rates for five categories of countries (based on per capita income), rates of economic growth have fallen for each set of countries. For the poorest quintile, growth averaged 1.9 percent a year in 1960–80, but averaged –0.5 percent from 1980 to 2000; for the next poorest quintile, the figures were down from a 2 percent annual average to 0.75 percent; for the middle quintile, the corresponding figures were 3.5 percent and 0.9 percent; for the second richest, they were 3.4 percent and 1.1 percent; and the final grouping saw a decline of 2.5 percent to 1.75 percent. Improvements in social development indicators – such as life expectancy, infant mortality, literacy and so on – continued in most cases, but the *rate of improvement* slowed down in the globalizing years (Weisbrot et al., 2002b). Moreover, country mobility in terms of quintile ranking based on per capita income is highly immobile (Korzeniewicz and Moran, 1997, 2000). Based on a study of 100 countries from 1960 to 1999, and a three-tier division into core, periphery and semi-periphery, Babones (cited in Wade,



2004b: 167–8) argued that 72 of the 100 failed to move tiers, and the remaining 28 moved only one zone. Almost as many moved down as up, and there was no significant correlation between such movement and policies related to trade openness.

Finally, to return to the question of globalization, one final point needs to be made, and that is that if poverty has been reduced in the world (and this is seriously open to doubt), then this is largely because of growth in China and India. It is basically their growth records that are the reason for all the optimism about growth, poverty and inequality in recent years. However, like the East Asian miracle economies before them, these countries have not embraced unambiguously market-friendly policies. It should be clear then that assigning *any* causality to globalization is problematic. I return to this issue in the third section.

### Revisiting Modernization and Underdevelopment

This section suggests that the assumptions behind the arguments outlined in the preceding section in some respects echo the concerns of the earlier ‘grand theories’ of development, modernization and underdevelopment theory (Rostow, 1960; Frank, 1969). The broad details of these theories are well known, and both have been convincingly criticized by a vast literature, and this article has no intention of repeating those arguments.<sup>4</sup> Nevertheless, in order to draw out the parallels with the discussion in the first section, and to link these to the argument made in the following section, a brief outline is necessary. Modernization theory essentially regarded development as a linear process in which societies (which were assumed to be nation-states) pass through similar stages of development in the process of achieving modernity. In this theory, the relationship between the ‘advanced’ West and ‘backward’ Rest was regarded as either irrelevant or benign. ‘Backward’ societies either developed in isolation from ‘the West’ (and more specifically the western-led international economy), or contact with the latter was assumed to aid the development of the former. Underdevelopment theory, on the other hand, was far more critical of such contact. It argued that the development of the West rested on the exploitation, or underdevelopment of the Rest. Third World contact with the West was therefore not conducive to development, which could only take place through delinking from the western-led world economy (Frank, 1974; Caldwell, 1977; Amin, 1990). The contrast between modernization theory and underdevelopment theory was therefore sharp – the former saw contact with the West as desirable, the latter as something to be avoided at all costs.

There is, of course, one crucial difference between the earlier development debate and the current globalization and poverty debate, which is that

the latter takes place in the context of the dominance of neoliberal ideas concerning the efficiency of the market as opposed to the developmental state. This has not precluded some focus on the appropriate role that institutions, including the state, play in promoting 'development', but ideas around 'good governance', 'social capital', 'market-friendly intervention' and even 'poverty reduction' and 'democratization' tend to be assessed according to their appropriateness as vehicles for the promotion of market forces.<sup>5</sup> But clearly, there is also some considerable overlap in the two debates. Modernization theory essentially regarded contact with the West as desirable, and neoliberalism argues that this takes the current form of promoting 'market forces'. Underdevelopment theory regarded contact with the West as undesirable, and while few would now advocate complete delinking, critics of neoliberalism suggest that total integration into the western-dominated world economy is not necessarily conducive to development. This may not be for the reasons suggested by underdevelopment theory, which failed to convincingly explain both the origins and mechanisms of alleged underdevelopment. Certainly, if this was supposed to be a product of western investment or trade with the West, then it was an unconvincing explanation, as most trade and investment in the world economy took place *between* the core countries. On the other hand, *it is precisely for this reason* that despite the paucity of explanation, underdevelopment theory's idea that the world can be divided into core and periphery retains some validity, *and this has enormous implications for understanding contemporary globalization*. This can be seen if we examine evidence concerning world trade and investment shares. The share of Africa and Latin America in world trade has fallen in the years of globalization: Africa's share declined from 4.1 percent in 1970 to 1.5 percent in 1995, and Latin America's from 5.5 percent to 4.4 percent over the same period (UNCTAD, 1998: 183). The share increased for Asia, from 8.5 percent to 21.4 percent, but the earlier comments on openness suggest that this increase was not the product of unambiguously pro-globalization policies. Of course, the actual amount of trade has not fallen, but rather Africa and Latin America's share is rising less quickly than other regions. But trade liberalization and pro-globalization advocates assume that once the correct policies are put in place, both the amount and the share of world trade should increase for the 'backward' areas. The type of goods exported from the developing world has changed substantially, and manufacturing now accounts for the majority of developing world exports, but this increase is mainly in low-value, labour-intensive goods, such as clothing and footwear, where there is a significant 'mark up' at the marketing rather than the production stage of the commodity chain.

The 1990s did see a massive increase in foreign investment, from US\$59 billion in 1982 to US\$1.2 trillion in the year 2000 (although it has fallen substantially since then). This included substantial increases in the

developing world, particularly Latin America and East Asia. But this investment remains highly concentrated. Throughout the 1990s, the developed countries received around two-thirds of total direct foreign investment (DFI), while the capital-scarce developing countries (including East Asia) received one-third (UNCTAD, 2002b: 5). Moreover, the investment that goes to the developing world is itself highly concentrated, with 10 countries receiving 75 percent (UNCTAD, 2002b: 9). Furthermore, DFI levels fell in the years 2001 and 2002. Total DFI for 2001 was US\$823 billion, of which developed countries received US\$589 billion, and developing countries US\$209 billion. In 2002, total DFI was US\$651 billion, with developed countries receiving US\$460 billion and developing countries US\$162 billion. Asia and the Pacific received US\$95 billion, Latin America and the Caribbean US\$56 billion and Africa just US\$11 billion (UNCTAD, 2003: 7).

DFI figures do not tell the whole story, and they may underestimate flows to the developing world in two ways. First, mergers and acquisitions between companies can lead to an increase in DFI figures even though they do not involve any new investment. As most mergers and acquisitions take place between 'First World' companies, this has the effect of exaggerating the concentration of DFI in the developed countries. Second, transnational companies may not engage in direct investment but actually engage in subcontracting activity with local companies. But these two qualifications do not alter the fact of concentration. In terms of the first point, DFI figures also increase when countries sell off previously state-run enterprises to foreign capital – once again, this is not new, greenfield investment, but a simple takeover of existing assets. This process has occurred on a massive scale, post structural adjustment, in the developing world, especially in Latin America. For instance, Brazil experienced high rates of DFI in the 1990s, but averaged *lower* rates of fixed capital investment than in the disastrous 1980s (Rocha, 2002: 20). In terms of the second point, the practice of subcontracting has not been sufficient to undermine the competitiveness of established producers (plus some East Asian economies) in the global order. This can be demonstrated by examining the value of manufacturing imports from the developing world (including East Asia) to the 'advanced' capitalist countries as a percentage of the latter's total 'consumption' of manufactured goods. For the United States in 1995, the figure was 7 percent, a strong increase from just 2.5 percent in 1980, but still low; for the European Union, the figure was 4.5 percent in 1995 (and 2.5 percent in 1980); and for Japan, the figure was 3.3 percent in 1995 and 2 per cent in 1980 (UNCTAD, 1999). These figures suggest that while developing countries have broken into manufacturing exports, these are concentrated in a few countries or they are essentially in low valued added sectors.

Moreover, given that the developing world has a higher proportion of the world's population than the developed world, the concentration of DFI is greater than the figures cited earlier (UNCTAD, 2002b: 265). Furthermore,

DFI only makes up a small proportion of total global capital investment. In 1995, it contributed only about 5.2 percent of the world's capital investment, and the stock of inward DFI represented just 10.1 percent of world GDP (Thompson, 2000: 109).

Why then does such concentration occur? The response of earlier modernization theory and contemporary neoliberalism is that the problem is internal to the developing countries. Some countries have not adopted sufficiently market-friendly policies that can tap into the benefits of the world economy. What is needed then is the adoption of the pro-globalization policies advocated by the World Bank, including good governance, rolling back the state and the promotion of market forces (see first section). This conforms to the aforementioned claims made by the Bank and IMF, but also to what has been proposed by some sociologists of globalization theory. Giddens (2000: 129), for instance, argues that the problems of underdevelopment:

don't come from the global economy itself, or from the self-seeking behaviour on the part of the richer nations. They lie mainly in the societies themselves – in authoritarian government, corruption, conflict, over-regulation and the low level of emancipation of women.

The basic argument then is that insofar as the world is still divided into core and periphery, this has little to do with the world economy and much to do with the bad policies of peripheral states. The hierarchical core-periphery divide can therefore be overcome through embracing the world economy and market forces, an argument identical to the claims for global poverty reduction outlined and rejected in the first section of this article, and a neoliberal version of modernization theory.

There are two problems with this argument. First, there has been a generalized pattern of trade, financial and investment liberalization in the developing world in the last 10–20 years. For instance, for every year from 1991 to 2002, around 90–98 percent of national regulations covering foreign investment have involved greater liberalization (UNCTAD, 2003: 21). In other words, and as the discussion earlier on trade openness also confirms, many countries have adopted pro-globalization policies and liberalized their economies, but have not benefited from the opportunities presented by the world economy. The argument that they are poor because they are 'insufficiently globalised' (Giddens, 2002: 73) is therefore problematic, because it discounts from the outset the idea that 'actually existing globalization' is intrinsically hierarchical, leading to concentration in some areas and marginalization elsewhere. This does not of course mean that there are not 'internal factors' that undermine the development of parts of the developing world, and this relates to my second point. Certainly, it is true that authoritarian government *may* not be conducive to development (though clearly it was in East Asia). But to suggest that this can be overcome through a technical package of policies,

based on the promotion of liberal democracy, free markets and human rights is simply wishful thinking. One may not expect much else from the World Bank, whose approach to history and sociology is ultimately rooted in neoclassical economics (Fine, 2001; Cramer, 2002). But one does expect more from a respected sociologist like Giddens, who has indeed written at least one important book on the historical sociology of state formation (Giddens, 1985). To suggest that liberal democracy, the free market and good human rights can simply come as a prepackaged model ignores the complex realities of state formation, not least in the western world (see Tilly, 1992; Mann, 2004; Bilgin and Morton, 2004).

Moreover, the argument that free markets and limited government are a necessary part of this package simply ignores the ways in which all 'developed' countries have protected themselves from foreign competition (Chang, 2002). This is not surprising, and it is this point that lies at the heart of the critique of neoliberalism and 'pro-globalization' policies. Capital does not necessarily move from capital-abundant to capital-scarce areas, but instead concentrates in established areas of accumulation. Initial rounds of investment may lead to higher land and labour costs, but these may be more than offset by the locational advantages of access to local suppliers, markets, skills, infrastructure and credit, and the development of new technologies and therefore tacit knowledge, skills and higher productivity. Development through a process of 'cumulative causation' (Myrdal, 1968) thus provides us with an explanation for why capital tends to flow to established areas of accumulation, and thus why DFI (and trade) flows are so concentrated. Rather than the development of underdevelopment, this concentration of capital in selected locations is the basic reason for the division of the world into multiple cores and peripheries. Thus, rather than exploitation, the problem faced by developing countries is very often *marginalization*. This is not (or not only) because of 'bad policies' by developing states, but is also a product of the way the 'world market' (or 'actually existing globalization') operates.

Of course, export pessimism is not the same as an advocacy of delinking, and all countries can raise their income through successfully exporting some goods. But the problem is that the established producers in developed countries can export many goods, while developing countries are often dependent on the export revenue of just one or two. This static comparative advantage is not sufficient for 'development' or poverty reduction to occur, but it is precisely this strategy that is promoted by neoliberalism. This can only occur through the development of new competitive sectors, but in the context of open competition with established overseas producers, *and therefore cheap imports into developing countries*, this is unlikely to occur. By undermining the previous protectionist strategies of 'developmental states' and simply emphasizing the opportunities of globalization, neoliberalism undermines the 'space' for development, and ignores the ways in which earlier developers actually developed – and indeed the continued role of the

Chinese and Indian states in the current period. This has been reinforced by structural adjustment and the selective free trade policies advocated by the World Trade Organization (WTO) (Kiely, 1998; Chang, 2002; Wade, 2003).<sup>6</sup> Indeed, there is much concern in China about the long-term effects of WTO rules on some sectors of Chinese industry (Nolan, 2004).

These points are all the more powerful in an era of liberalized financial flows. Neoliberals argue that the free movement of money allows poorer parts of the world to draw on global savings, and therefore promote economic growth. As well as a substantial increase in DFI, developing countries did see a substantial increase in flows from international capital markets in the 1990s, particularly in the emerging markets in Latin America and East Asia. This increased from US\$43.9 billion in 1990 to US\$299 billion in 1997, falling back to US\$227 billion in 1998 because of the withdrawal of funds from East Asia (World Bank, 1999: 24).

However, portfolio investment to developing countries is still proportionately small – the developing world received 9.7 percent of total global flows in 1991, 9 percent in 1994, 6.2 percent in 1998 and 5.5 percent in 2000 (Grabel, 2003: 327) – and is concentrated in the richer developing countries, not least the US where it financed the trade deficit under Clinton and the budget and trade deficits under Bush junior (and before him Reagan and Bush senior). Moreover, the argument that they are necessary to facilitate trade and investment ignores the fact that financial markets today are mainly speculative in character. Thus, in the early 1970s, on the eve of the abolition of fixed exchange rates, 90 percent of foreign exchange trading related to trade and investment in (non-financial) goods and services. In 1997, the annual value of trade in goods and services was equivalent to four days' trading on the foreign exchange markets. The effect of this domination of financial capital is that potential funds are diverted away from productive investment and into short-term speculation, which in turn can encourage higher interest rates (which further discourages productive investment). Uncertainty is also exacerbated by rapid movements in interest rates and exchange rates, which can have devastating effects for the 'real' economy. Neoliberal claims that state regulation leads to unproductive rent seeking thus ignore the ways in which deregulated capital can itself be unproductive and destructive of productive investment.

Neoliberalism is therefore an unconvincing theory in terms of its understanding of the causes of development. But I now suggest that so, too, is globalization theory.

## Globalization Theory

The purpose of this section is not to provide a wide-ranging discussion of contemporary – mainstream or critical – accounts of globalization. Rather,

the far more modest goal is to develop Rosenberg's suggestive distinction between globalization theory and theories of globalization (Rosenberg, 2000), the latter of which (correctly) explains globalizing outcomes and processes as historically determined by specific agencies. In contrast, the former attempts to utilize globalization as a determining variable, and it therefore replicates the fallacious explanations rejected in the first and second sections of this article. This section suggests that not only is globalization theory unconvincing, but also that it can lead to complicity with neoliberalism. In doing so, I suggest that globalization theory constitutes a renewed, neoliberal version of modernization theory. Space prevents a full consideration of globalization theory, and the article does not suggest that all such theorists are apologists for neoliberalism. Instead, this section suggests areas of commonality between globalization theory and neoliberalism, and shows how in one case – that of Anthony Giddens – the overlap in explanation becomes an effective apology for neoliberalism.

Giddens (1990: 64; 1999) defines globalization as 'the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa'. It is a revolutionary development as formerly locally embedded social relations break free from spatial and temporal boundaries, and abstractions such as science, markets and human rights come to replace local, traditional norms. Disembeddedness means that people no longer have their lives set out in advance, but are instead constantly faced with choices about how to live their lives. The establishment of identity therefore becomes a life project of reflexive subjects. These processes reach a climax with globalization, as nation-states lose control in the face of global communications, capital flows and shared aspirations (Giddens, 1990: 76–8).

What is not clear in Giddens's account is the precise status of the concept of globalization. Is it (1) a new theory used to explain important social changes; or (2) a concept used to understand and clarify a number of important social changes? As Rosenberg (2000: 2) argues, 'globalisation as an outcome cannot be explained by invoking globalisation as a process tending towards that outcome'. This conflation of process and outcome closely parallels the problems associated with World Bank explanations concerning poverty reduction, for *as globalization theory evades the issue of causality in terms of globalization, so too does the World Bank in terms of the relationship between trade openness, growth and poverty reduction*. As we saw, it is far more likely that openness is a *reflection* of high rates of growth and competitiveness, rather than its cause. Similarly, the growth of interconnectedness through global flows is not a causal explanation in itself, but rather reflects the outcome of decisions, actions and conflicts which involve real social agents, not least nation-states and international institutions promoting neoliberal policies.

Why then does globalization theory confuse globalization as outcome and process with globalization as explanation? The essential reason, as Rosenberg (2000) has convincingly argued, is that it substitutes social for spatial explanation. For example, closely following the logic of globalization theory, Kaldor et al. (2003) place much emphasis on the development of a global civil society beyond the narrow confines of national politics. This argument, however, closely parallels the logic of neoliberalism in its treatment of globalization. Just as neoliberals talk of 'market imperfections' as being caused by 'external' (state) interventions, so globalists point to 'global imperfections' caused by similar (state) interventions. The implicit assumption is the market or the global could be effective in the absence of such interventions. The most serious intervention is the action of states that do not play by the rules of the game. Indeed, Kaldor (2003: 138) even repeats the assumptions of the World Bank when she claims that multilateral states in the global order are precisely those that are most globalized – as measured by trade, investment and so on. This argument again conflates causality and outcome, and ignores the uneven development of global capitalism, and the intensified inequality associated with neoliberalism.

Moreover, in the case of Giddens, one can go further. If we accept his claim that globalization is irreversible, then,

Like it or not, to accept the radical stance on globalisation as unquestioningly as Giddens does is to appeal to a set of ideas which have long been taken hostage by a distinctively neo-liberal articulation of systemic economic 'imperatives'. Moreover, so long as this continues to be understood as just 'how things are', the political space for democratising globalising tendencies and once more laying neo-liberal 'common-sense' open to question would appear to be strictly limited. (Hay and Watson, 1999: 422)

In other words, globalization theory too easily accepts the political parameters established by the victory of neoliberalism in the 1980s, which argued for the primacy of market forces, free trade, liberalized finance and open competition. These parameters can easily be accepted because globalization theory relies on spatial explanations that effectively sever the link between social actors and historical and political processes. In this way, globalization is said to be inevitable, but the 'explanation' ignores the ways in which agents of neoliberalism have promoted globalization in the first place.<sup>7</sup>

It is in this context that the so-called 'Third Way' can be located, for it can be seen as a political project that attempts to depoliticize globalization, and which therefore leaves the neoliberal policies of the 1980s largely unchallenged. Indeed, the Third Way then takes the step of moving from the assertion that globalization is inevitable to the argument that it is desirable. It is at this point that globalization theory can move in two directions. It can either step back from its spatial fetishism (Massey, 2000), reincorporate social



and political agency, but in the process abandon globalization theory, and instead provide an understanding of globalization as a set of uneven, unequal and contested processes and outcomes – in other words, it can become a theory of globalization. Or it can hold on to globalization theory and in the process champion neoliberal modernization. Most globalization theorists opt, albeit ambiguously, for the former, but Giddens tends to opt for the latter, thus taking for granted the neoliberal turn in the 1980s. Indeed, it is this choice that links his academic work of the 1990s and his political practice. Giddens then moves from asserting the *inevitability* of neoliberal globalization to championing its *desirability* when he argues that the poorest countries are poor because they are ‘insufficiently globalised’ (see earlier), an argument that repeats the contentions of the World Bank. The assumptions of modernization theory, namely that contact with the western-dominated global economy represents the only opportunity for developing countries, and that ultimately development failure is only caused by the failure to embrace this opportunity, are thus simply repeated. Moreover, the argument that globalization, and more specifically capitalist, neoliberal globalization, is intrinsically hierarchical is discounted from the outset. Giddens thus not only assigns undue causality to globalization, but his understanding of the world economy is such that he assumes that causality must be positive. In his case then, we arrive back at the claims made by the World Bank concerning poverty reduction, and a repeat of the fallacious arguments of neoliberal theory (Nederveen Pieterse, 2001: 42–5).

## Conclusion

This article has made seven key arguments. First, it has questioned the evidence that there has been poverty reduction in the era of globalization. Second, it has argued that even if we accept the argument that poverty reduction has occurred, this has been despite pro-globalization policies and not because of them. Third, this confusion reflects the conflation of some possible (though limited) correlation between trade openness, growth and poverty reduction, with the stronger and unconvincing claim that the first *causes* the second and the third. Fourth, this argument rests on the further assumption that the world economy provides only benefits and opportunities for developing countries and not constraints, provided that the correct policies are adopted. Fifth, this argument is paralleled in the claims made by globalization theory, which regards increasing global interconnectedness as a progressive development that determines social relations. Sixth, this leaves globalization theory with the choice of embracing the claims of neoliberalism, or retreating from the spatial fetishism of the theory and examining factors that cause globalization rather than vice versa. Seventh, and

finally, those that continue to advocate globalization theory essentially embrace the claims of neoliberal modernization theory as a result.

### Notes

- 1 This is defined as people living on less than \$1 a day. This 'dollar' is adjusted to account for local purchasing power, so it does not mean a US dollar but a purchasing power parity (PPP) dollar. This is further discussed in the text.
- 2 The World Bank has responded to this criticism by ensuring that all trend estimates are now based on the same PPP base year. Nevertheless, the headline figures on poverty reduction are based on the switches in base years outlined in the text.
- 3 See, for example, World Bank (1983) and (1994). For critiques see Singer (1988), Mosley et al. (1995) and Kiely (1998).
- 4 See among many others Corbridge (1986), Larrain (1989), Kiely (1995) and Preston (1996).
- 5 See World Bank (1992, 1993, 1997, 2000/01). For critiques see Kiely (1998: Ch. 8), Fine et al. (2001) and Harriss (2001).
- 6 Indeed, for all the talk about the need for free trade, there are still a great deal of double standards exercised by western governments. These have come to a head at recent WTO talks at Seattle, Doha and especially Cancun. See Henderson (2003). We should not be surprised by selective free trade because 'market actors' always seek to get the best possible deal in a competitive environment. For the most competitive, this will involve the promotion of free trade; for less competitive sectors, its restriction. Neither set of actors lies outside the 'market', which suggests that the neoliberal conception of the market – one shared by globalization theory – ignores the social relations that constitute such markets. More important for the purposes of this article, even in the absence of double standards, the crucial point is that free trade does not represent the universal interest.
- 7 This does not mean that all globalization theorists are complicit with neoliberalism. The work of many globalization theorists – Scholte, Bauman and others – provide powerful criticisms of neoliberalism. However, like Rosenberg, I would argue that they do so by breaking with their shared theoretical starting points, which wrongly assigns causality to globalization.

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