Book Review

Globalization for Development
By Ian Goldin and Kenneth Reinert

Views about the impact of globalization on poverty and development are mixed. Globalization can be seen as either a cause or a cure for poverty. Ian Goldin and Kenneth Reinert in their new book seek to shed more light on the contrasting views of the relation between globalization and global poverty. The thrust of their argument suggests that it is not globalization but rather policies, national and global, that matter most.

The book’s organizational structure is straightforward. The first two chapters set the background and brief summary of what follows. The next five chapters – the mainstay of the book – are concerned with five economic dimensions that “characterize globalization”: trade, finance, aid, migration, and ideas. From these economic perspectives, Goldin and Reinert expound the impact of globalization on global poverty. They wrap up the book with a policy agenda offering policy suggestions aimed at making globalization work for the poor.

Straight-forward as it is, the structure is far from perfect. The second chapter reiterates what is said in the first chapter with figures and graphs. Chapter 2’s Poverty could be well integrated into Chapter 1’s Dimensions of Poverty. Likewise, Capital, Aid, and Remittance Flows in Chapter 2 could be incorporated nicely into Chapter 1’s Finance, Aid, and Migration respectively. Readers might feel at a loss why in Chapter 5, The Importance of Public Policy comes before, instead of within, Improving the Effectiveness of Aid.

Goldin and Reinert hold that trade has a positive multi-faceted impact on global poverty by expanding poor countries’ markets, promoting their competition and productivity, and providing them with new ideas and technologies. However, developing countries are now facing at least five hurdles in gaining access to foreign markets: tariffs, subsidies, quotas,

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standards and regulations, and security checks. The authors’ line of argument is consistent with one of the most oft-cited complaints against globalization—"Hypocrisy of the rich."1

The authors also maintain that trade helps mitigate, if not eradicate, monopoly and monopsony, which enables poor consumers to make purchases at lower prices and sales at higher prices. Trade liberalization boosts productivity through technological upgrading, which in turn, depends on a country’s learning process. The process that begins with basic learning and then moves into deeper learning coincides with the expansion of exported manufactures. Trade-induced greater market access for developing countries’ exports would help little unless they could minimize capacity constraints in infrastructure, market information, skills and credit. Trade in arms, hazardous waste, and environmentally-damaging production processes may compromise the health and safety of the poor. However, Goldin and Reinert do not discuss the favorable impact of trade in, say, green technology on poor people’s health.

Of the four complementary types of global capital flows, foreign direct investment (FDI) and equity portfolio investment have the greatest potential contribution to poverty alleviation. Since 2000, developing countries, mostly in East Asia and the Middle East, have become net exporters of capital to the developed world. In addition to such factors inhibiting capital flows from developed to developing countries as political and default risk, discrepancies in human capital, technology, and institutional quality, the reverse capital flows result from developing countries’ dwindled need for external capital with their greater development and increased domestic savings. One of the causes of financial market failures is, as Goldin and Reinert point out, a lack of fully-functioning credit rating systems. The authors’ argument is quite consistent with major efforts developing countries have been putting in to correct this deficiency. The People’s Bank of China established a nationwide banking credit registration and consulting system in 1997; the credit rating system for individuals was first piloted in Shanghai in 1999. Vietnam’s first independent credit rating agency was established in June, 2005.

Aid alone, as Goldin and Reinert put it, does not ensure poverty alleviation. What matters most is the quality of a recipient country’s policies and institutions. The country should devise its public policies and approaches to institutional development depending on its own circumstances and goals. Otherwise, ineffective aid will increase debt to unsustainable

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levels. Since the late 1980s, several debt reduction programs, especially the Heavily Indebted Poor Countries (HIPC) debt relief initiative, have contributed to diminishing debt overhang among developing countries.

It is intriguing to learn how strong an effect migration - "a central and underappreciated feature of economic globalization" - can exert on poverty alleviation. In some instances, remittances can be larger than both FDI and official development assistance. The authors ascribe a sudden surge in official remittance flows in recent years to switching from informal to formal channels since the 9/11 event. I predict that given present tight immigration controls imposed by high-income countries, future remittance flows will probably not experience such an abrupt rise. Also, a change in the nature of remittances is taking place. Of US$3 billion in remittances in 2004, US$ 540 million was sent back to Vietnam for investment rather than helping local families make ends meet.

Examining the impact of brain drain on capacity, FDI, and training, Goldin and Reinert cite India as an example where an exodus of skilled workers made investors confident about India’s skill base, leading to a large investment inflow. It should be noted that ‘brainy’ migrants can also ease the source country’s efforts to improve its educational quality especially in higher education. More often than not, many expatriate professors work as a bridge to help students and professors find scholarships or fellowships in advanced countries. The authors could have noted how the future return of expatriate high-skilled workers could boost their home developing countries’ economic development. Taiwan is a case in point.\(^2\)

Of the five economic dimensions of globalization, an often-neglected dimension of ideas is claimed to be the most important by Goldin and Reinert. The power of ideas is now gaining currency among economists. What developing countries need most is the capacity to evaluate and either adapt or reject ideas available to them. In response to the idea that nothing can be done to the crowding out of local ideas and culture by global brands but to stop globalization, Goldin and Reinert insist that poor people be empowered enough to make their own decisions about cultural issues. Rather, I think that the protection of local ideas and culture rests with not just poor but rich people too, because human beings, be they rich or poor, benefit from a wide diversity of ideas and cultures. Such diversity has been a major driving force of the world’s development. As the authors claim, development is about the contesting and evolution of ideas. Indeed, but for local ideas, how would ideas have evolved?

The last chapter of the book provides a policy agenda to make the most of globalization in poverty alleviation. Suggested policies can be enacted at four highly interactive levels: global, regional, national, and local or community. The concern, however, is that no enforcement mechanism for the agenda is in place. For instance, the authors propose that developed countries should increase market access for goods and services from developing countries by reducing agricultural subsidies. Doing so will help poor countries mitigate their dependence on primary products. Readers might be wondering why that is not the case. Agricultural subsidies are still rife because of huge political pressure from farmers in developed countries. Reduction in the subsidies is anything but automatic.

The book would be more complete if it covered “such vital dimensions of globalization as peace and security, human rights, culture and the environment.” The authors claim that the book is all about economic dimensions of globalization. The missing dimensions are not without economic implications. The consequences of the 9/11 event are so economically severe as to remain to be felt today. A lively debate is still going on about whether globalization has hurt, or helped, the environment - and thus the long-term sustainable economic development - of the world in general and developing countries in particular. Given a lack of the comprehensive coverage of the missing dimensions in other books on globalization, could the authors have reserved the dimensions for another book about globalization?

For all its minor imperfections, the book is a fine reference book to “inform the wider public … on globalization and poverty.” The arguments Goldin and Reinert advance are well supported by a voluminous body of literature, together with neat easy-to-grasp graphs and tables. Overall, readers are likely to reflect on the book as both highly entertaining and intellectually intriguing.

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