

## **WHEN GLOBALIZATION SUFFERS, THE POOR TAKE THE HEAT**

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The war on terrorism -- and the rupture in the Western alliance produced by the Iraqi war -- might sharply slow down the international movement of capital and people for an extended period. This will please the more extreme critics of globalization and immigration, but it will greatly reduce the opportunities for poor nations to grow out of poverty.

The expansion in trade and the movements of people among nations was unusually rapid during the past half-century. World trade in goods and services grew by over 5% per year, the international flow of capital also accelerated, and the number of students from poor nations studying in the U.S., Europe, and Japan grew remarkably.

As a result of this movement toward an integrated world economy, global income grew at its fastest rate in recorded history. World population more than doubled from 1950 to the end of the 20th century. Yet real per capita income grew, on average, by about 2% per year around the world.

Not all poor nations had much growth over this 50-year period; many of the African nations, the ex-communist bloc, and some Asian nations lagged far behind. But on the whole, the per capita gross domestic product of poorer nations grew about as fast as that of richer nations, while populations in the less developed world grew much more rapidly.

Economist Xavier Sala-i-Martin of Columbia University has shown that inequality in world incomes declined sharply since the mid-1970s. The decline in income inequality among individuals was much faster than among countries, in part because China and, to a lesser extent, India -- two nations with about a third of the world's population -- grew very rapidly. But there was also a narrowing of world inequality beyond the impressive performances of these huge nations.

Without carefully examining the statistics, some critics of the effects of globalization on the world's poor claim that the number of families living on less than \$1 or \$2 a day basically remained the same during the past 50 years. Yet it is harder than often recognized to measure the well-being of the world's poorest, since most of them live on farms and get much of their incomes from the food they grow, the clothing they make, and the houses they build themselves. Still, using official data from the World Bank and the U.N., Sala-i-Martin's study shows that the fraction of the world's population living at less than \$2 a day fell by about 20 percentage points during the past three decades.

Income measures do not do full justice to the extent of the improvement in the world's poor, for they take no account of advances in life expectancy and general health. Populations in the less developed world grew fast mainly because they used knowledge gained from the West to produce rapid declines in mortality. As a consequence, the world gap in life expectancy narrowed considerably, despite the raging AIDS epidemic in

Africa. My study with two colleagues shows that world inequality declined even more rapidly after national income accounts are adjusted for the greater declines in mortality rates in poorer nations.

It is telling evidence of the benefits of globalization that not a single poorer nation that was isolated from the global economic community, including the Soviet Union and China while they had rigid communist regimes, raised their per capita incomes very much during that time. The poor nations that benefited from the world division of labor initially concentrated production on a few simple goods, which they traded for the high-quality goods that are produced by advanced nations.

These undeveloped nations also imported large amounts of capital to help their agriculture and their expansion of industrial production. Many of these nations also sent large numbers of students to the U.S. and elsewhere to study science, engineering, medicine, and other technical subjects. Some of these students stayed abroad to work and often to prosper, but many came back with the knowledge they gained in the advanced nations.

It is the international movement of people and of capital that is put in greatest jeopardy by events of the past few years. Owners of capital are reluctant to invest in developing nations when there is great uncertainty caused by war and terrorism. Rich countries are less willing to admit young male students and immigrants to study and work, especially those from Muslim nations or other countries with known hostility and resentment toward the U.S. and other Western nations.

The antiglobalization movement may get its wish for a breakdown in the world economic order because of sharp reductions in the international movement of capital and people due to terrorism and a more divided West. But the biggest losers will be not the relatively rich members of the G7 countries but rather the nations that want to extricate the mass of their populations from extreme poverty and disease.