8.1 Globalised India

India opened up the economy in the early nineties following a major crisis that led by a foreign exchange critical situation that dragged the economy close to defaulting on loans. The response was a slew of domestic and external sector policy measures partly prompted by the immediate needs and partly by the demand of the multilateral organisations. The new policy regime radically pushed forward in favour of a more open and market oriented economy.

Major measures initiated as a part of the liberalisation and globalisation strategy in the early nineties included scrapping of the industrial licensing regime, reduction in the number of areas reserved for the public sector, amendment of the monopolies and the restrictive trade practices act, start of the privatisation programme, reduction in tariff rates and change over to market determined exchange rates.

Over the years there has been a steady liberalisation of the current account transactions, more and more sectors opened up for foreign direct investments and portfolio investments facilitating entry of foreign investors in telecom, roads, ports, airports, insurance and other major sectors.

The Indian tariff rates reduced sharply over the decade from a weighted average of 72.5% in 1991-92 to 24.6 in 1996-97. Though tariff rates went up slowly in the late nineties it touched 35.1% in 2001-02. India is committed to reduced tariff rates. Peak tariff rates are to be reduced to be reduced to the minimum with a peak rate of 20%, in another 2 years most non-tariff barriers have been dismantled by March 2002, including almost all quantitative restrictions.

India is Global

The liberalisation of the domestic economy and the increasing integration of India with the global economy have helped step up GDP growth rates, which picked up from 5.6% in 1990-91 to a peak level of 7.78% in 1996-97. Growth rates have slowed down since the country has still been able to achieve 5-6% growth rate in three of the last six years. Though growth rates has slumped to the lowest level 4.3% in 2002-03 mainly because of the worst droughts in two decades the growth rates are expected to
go up close to 70% in 2003-04. A Global comparison shows that India is now the fastest growing economy just after China.

This is major improvement given that India is growth rate in the 1970's was very low at 3% and GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Though India's average annual growth rate almost doubled in the eighties to 5.9% it was still lower than the growth rate in China, Korea and Indonesia. The pickup in GDP growth has helped improve India's global position. Consequently India's position in the global economy has improved from the 8th position in 1991 to 4th place in 2000 (When GDP is calculated on a purchasing power parity basis).

Globalisation in the form of increased integration though trade and investment is an important reason why much progress has been made in reducing poverty and global inequality over recent decades. But it is not the only reason for this often unrecognised progress, good national polices, sound institutions and domestic political stability also matter.

Despite this progress, poverty remains one of the most serious international challenges we face up to 1.2 billion of the developing world 4.8 billion people still live in extreme poverty. But the proportion of the world population living in poverty has been steadily declining and since 1980 the absolute number of poor people has stopped rising and appears to have fallen in recent years despite strong population growth in poor countries. If the proportion living in poverty had not fallen since 1987 alone a further 215 million people would be living in extreme poverty today.

India has to concentrate on five important areas or things to follow to achieve this goal. The areas like technological entrepreneurship, new business openings for small and medium enterprises, importance of quality management, new prospects in rural areas and privatisation of financial institutions. The manufacturing of technology and management of technology are two different significant areas in the country.

There will be new prospects in rural India. The growth of Indian economy very much depends upon rural participation in the global race. After implementing the new economic policy the role of villages got its own significance because of its unique outlook and branding methods. For example food processing and packaging are the one of the area where new entrepreneurs can enter into a big way. It may be organised in a collective way with the help of co-operatives to meet the global demand.
Understanding the current status of globalisation is necessary for setting course for future. For all nations to reap the full benefits of globalisation it is essential to create a level playing field. President Bush's recent proposal to eliminate all tariffs on all manufactured goods by 2015 will do it. In fact it may make worse the common inequalities. According to this proposal, tariffs of 5% or less on all manufactured goods will be eliminated by 2005 and higher than 5% will be lowered to 8%. Starting 2010 the 8% tariffs will be lowered each year until they are eliminated by 2015.

**GDP Growth rate**

The Indian economy is passing through a difficult phase caused by several unfavourable domestic and external developments; Domestic output and Demand conditions were unfavourably affected by poor performance in agriculture in the past two years. The global economy experienced an overall deceleration and recorded an output growth of 2.4% during the past year growth in real GDP in 2001-02 was 5.4% as per the Economic Survey in 2000-01. The performance in the first quarter of the financial year is 5.8% and second quarter is 6.1%.

**Export and Import**

India’s Export and Import in the year 2001-02 was to the extent of 32, 572 and 38, 362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18% of total annual of annual export of the country. In 2000-01 agricultural products valued at more than US$ 6 million were exported from the country 23% of which was contributed by the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export from the country accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oil seeds, tea and coffee are the other prominent products each of which accounts from nearly 5 to 10% of the country total agricultural exports.

8.1.1 Where does India stand in terms of Global Integration?

- India clearly lags in globalisation. Number of countries has a clear lead among them China, large part of east and far east Asia and Eastern Europe. Let’s look at a few indicators how much we lag.

- Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China 5.5% for Brazil. Whereas FDI inflows into China now exceeds US $ 50 billion annually. It is only US $ 4 billion in the case of India.
Consider global trade - India's share of world merchandise exports increased from .05% to .07% over the past 20 years. Over the same period China's share has tripled to almost 4%.

- India's share of global trade is similar to that of the Philippines and economy 6 times smaller according to IMF estimates. India under trades by 70-80% given its size, proximity to markets and labour cost advantages.

- It is interesting to note the remark made last year by Mr. Bimal Jalan, Governor of RBI. Despite all the talk, we are now where ever close being globalised in terms of any commonly used indicator of globalisation. In fact we are one of the least globalised among the major countries - however we look at it.

- As Amartya Sen and many other have pointed out that India, as a geographical, politico-cultural body has been interacting with the outside world throughout history and still continue to do so. It has to adapt, assimilate and contribute. This goes without saying even as we move into what is called a globalised world which is distinguished from previous eras from by faster travel and communication, greater trade linkages, denting of political and economic sovereignty and greater acceptance of democracy as a way of life.

### 8.2 Societies and Economies around the World

Societies and Economies around the World are becoming more integrated. Integration is the result of reduced costs of transport, lower trade barriers, faster communication of ideas, rising capital flows, and increasing pressure for migration. Integration—or “globalisation” has generated anxieties about rising inequality, shifting power, and cultural uniformity. This is assesses its impact and examines these anxieties. Global integration is already a powerful force for poverty reduction, but it could be even more effective. Some, but not all, of the anxieties are well-founded. Both global opportunities and global risks have outpaced global policy. We propose an agenda for action, both to enhance the potential of globalisation to provide opportunities for poor people and to reduce and mitigate the risks it generates. Globalisation generally reduces poverty because more integrated economies tend to grow faster and this growth is usually widely diffused.

As low-income countries break into global markets for manufactures and services, poor people can move from the vulnerability of grinding rural poverty to better jobs, often in towns or cities. In addition to this structural relocation, integration raises productivity job by job. Workers with the same skills—be they farmers, factory workers, or pharmacists—are less productive and earn less in developing economies than in advanced ones. Integration reduces these gaps. Rich countries maintain
significant barriers against the products of poor countries, inhibiting this poverty-reducing integration. A "development round" of trade negotiations could do much to help poor countries better integrate with the global economy and is part of our agenda for action.

Globalisation also produces winners and losers, both between countries and within them. Between countries, globalisation is now mostly coordinated.

Globalisation poses cultural challenges there is often greater diversity as foreign cultures and peoples are introduced. Sometimes foreign culture, or simply the complete pace of economic change, threatens to displace local culture and societies can legitimately look for to protect it. Global growth also threatens the environment. Some pollution issues require local regulation. Governments may potentially compete to weaken regulations in a so-called race to the bottom. However, the evidence suggests that this is not happening in key areas environmental standards are actually raising. Other issues, such as global warming, require a global response. That capacity has so far been lacking. But for the first time in history a global civil society has emerged—“globalisation from below.” This can become a powerful impetus to global collective action, both for improving the environment and for reducing poverty.

A widespread anxiety is that growing integration is leading to heightened inequalities within countries. Usually, this is not the case. Most of the globalising developing countries have seen only small changes in household inequality, and inequality has declined in such countries as the Philippines and Malaysia. However, there are some important examples that go the other way. In Latin America, due to prior extreme inequalities in educational achievement, global integration has further widened wage inequalities. In China inequality has also risen, but the rise in Chinese inequality is far less problematic. Initially, China was both extremely equal and extremely poor. Domestic liberalisation had first unleashed rapid growth in rural areas. Since the mid-1980s there has also been rapid growth in urban agglomerations; this has increased inequality as the gap between rural and urban areas has widened.

The number of rural poor in the country declined from 250 million in 1978 to just 34 million in 1999. The potential for global integration to reduce poverty is well illustrated by the cases of China, India, Uganda, and Vietnam. As Vietnam has integrated it has had a large increase in per capita income and no significant change in inequality. Thus, the income of the poor has risen dramatically and the level of absolute poverty has been cut in half in 10 years. Among the very poorest households, survey evidence shows that 98 percent became better off during the 1990s. This improved well-being is not just a matter of income. Child labour has
declined and school enrolment has increased. Vietnam’s exports directly provided income-earning opportunities for poor people. Exports included labour-intensive products such as footwear and rice, which is produced by most low-income farmers. India and Uganda also had rapid poverty reduction as they integrated with the global economy. While some aspects of the data are controversial, the evidence for substantial poverty reduction in India in the 1990s is strong. In Uganda poverty fell by about 40 percent during the 1990s and school enrolments doubled. Globalisation clearly can be a powerful force for poverty reduction.

The reduction in average tariffs is particularly striking in South Asia, from 65 percent in the early 1980s to about 30 percent today. In Latin America and East Asia, average rates fell from 30 percent to about 10 percent. On average, liberalisation efforts in Sub-Saharan Africa and in the Middle East and North Africa have been more limited, though there are individual countries such as Ethiopia and Uganda that have liberalised trade significantly and pursued other reforms. Most of these moves have been unilateral rather than under the sponsorship of multilateral negotiations through the GATT or its successor organisation, the World Trade Organisation (WTO). As countries such as China, India, and Mexico have opened up, their exports have shifted into manufactured products so that they are competing head-to-head with many of the products made in rich countries. In 1980 manufactured products comprised only 25 percent of developing country exports; by 1998 that figure had reached more than 80 percent. While many developing countries have chosen to become more open economically, they continue to confront protectionism in the rich [Source: Bourguignon and Morrison (2001); Chen and Ravelling (2001).]

8.3 Suggestions

Integration is not primarily the result of Trade policy. It is also affected by a host of other institutions and policies. Countries such as China, India, and Mexico have taken different approaches to integration. There are common issues that must be addressed, but different institutional arrangements and policies for tackling them. Two of the important issues that need to be faced are the investment climate and social protection for workers. Firms in open economies face more competition. Competition brings many good effects, but there is more entry and exit of firms—“churning”—than in relatively closed economies. Studies of Chile, Colombia, and Morocco after liberalisation found that one-quarter to one-third of manufacturing firms turned over in a typical four-year period. Recent evidence from surveys of firms shows that it is unusual for manufacturing plants to shift from domestic production to exporting. For example, three quarters of exporting plants in Morocco had exported from their first
year of operation. Thus, the process of integrating into world markets is likely to require the opening of new plants and the closure of others.

Individual cases and firm-level studies reveal that developing country firms can be competitive. However, they are often hampered by a poor investment climate—including inefficient regulation, corruption, infrastructure weaknesses, and poor financial services. A recent study of India concludes that it is possible to measure the quality of the investment climate through firm surveys and that this climate is important. With the same trade and macro policies (which are national level), Indian states are getting widely different results from liberalisation. “Good climate” states have more efficient regulation and better infrastructure (the typical small enterprise is using the Internet to do business), while “poor climate” states lag behind. Not surprisingly, the states with good climates are getting both more domestic and more foreign investment. Thus, locations within the developing world that are benefiting strongly from globalisation have created a reasonably good investment climate in which firms can start up and prosper (and exit if they are not successful). Coastal China and northern Mexico are other examples, and here too poverty reduction is quite strong. Small and medium-sized firms suffer from a poor investment climate even more than the bigger firms. Further, we should emphasise that a good investment climate is crucial for the development of rural as well as urban areas. Off-farm employment is a crucial element in raising rural incomes, and farming suffers just as much from a weak investment climate as other productive activities.

Many of the regions that did not participate strongly in the global economy in the 1990s had problems with property rights and overall investment climate. Burma, Nigeria, Pakistan, the Russian Federation, and the Indian state of Uttar Pradesh are examples. These locations could use the international market for services (such as banking, telecommunications, and power) to improve their investment climates. The successful locations have devised their own solutions. China, India, and Mexico have all taken different approaches to opening up, suited to their own circumstances. This diversity of experience among successful globalises is one reason why any efforts to promote institutional harmonization should take careful account of differing circumstances. They should not be linked to trade agreements in any mechanical or formulaic way. Together with greater "churning" of firms comes higher labour market turnover, which can be one of the most disruptive aspects of global economic integration. In the long run workers gain from integration. Wages have grown twice as fast in the more globalised developing countries than in the less globalised ones and faster than in rich countries as well. The short-run effects, however, can be quite different. There is evidence that the wages of formal sector workers are reduced by trade openness and increased by direct foreign investment. Thus, in an economy that
liberalises trade and gets little foreign investment (either because the investment climate is weak or simply because there is a lagged response of investors), opening up can lead to temporary declines in formal sector wages.

There is also evidence that openness—especially to FDI—increases the return to education and raises the skill premium (The extra pay that skilled workers get relative to unskilled workers). Case studies of transition economies and Latin America have found that skill premiums increase after liberalisation. Trade liberalisation in Costa Rica led to higher demand and higher wages for more skilled workers. After liberalisation in Brazil there was a higher return to workers with a college education and a decreased return to those with intermediate levels of education. These findings highlight the importance of complementary policies both for social protection (to help with temporary unemployment) and for education. An increased skill premium can be a good thing because it encourages more investment in education. However, if the education system is not serving all levels of society well, then wages could become even more unequal. Some of the important losers from globalisation will be formal sector workers in protected industries. The adjustment is likely to be especially tough for older workers. Government social protection and labour market policies are very important both for the immediate welfare of affected workers and for the longer-term welfare of all workers. To get reforms underway may require one-time compensation schemes for workers who would otherwise suffer large losses. Well-designed unemployment insurance and unemployment pay systems can provide protection to formal sector workers in an environment that will now have more entry and exit of firms. The poorest people cannot be reached by such systems, but there is huge potential to reduce their vulnerability to shocks through self-targeting programs such as food-for-work schemes. Social protection can be a dynamic force for growth and innovation beyond the gaining of acceptance for change—it can be crucial to the ability of poor people to take the risks involved in entrepreneurship. Finally, the combination of openness and a well-educated labour force produces especially good results for poverty reduction and human welfare. Hence, a good education system that provides opportunities for all is critical for success in this globalising world.

8.3.1 Power, culture, ecological and the environment

A diverse developing society such as ours provides numerous challenges in economic, social, political, cultural, and environmental arenas. All of these come together in the dominant imperative of alleviation of mass poverty, reckoned in the multiple dimensions of livelihood security, health care, and education, empowerment of disadvantage and elimination of gender disparities. The present day agreement reflect three fundamental aspirations First, those human beings should be able to
enjoy a polite quality of life; second, that humanity should become capable of respecting the finiteness of the biosphere; and third, neither the aspiration for the good life, nor the recognition of biophysical limits should prevent the search for greater justice in the world. India also plays an important environment. It is party to the key multilateral agreement, and recognises the interdependencies among.

The dominant theme of this policy is that while conservation of environmental resources is necessary to secure livelihood and well being of all, the most secure basis for conservation is to ensure that people dependent on particular resources obtain better livelihood from the fact of conservation, than from degradation of the resource.

So far, we have focused on income, income distribution, and poverty. But much of the anxiety surrounding globalisation concerns issues of power, culture, and the environment. A recent poll of 20,000 people in 20 countries found that by a margin of two to one people thought globalisation would significantly benefit their families (Environics 2001). (The survey included developing countries such as Brazil, China, India, and Nigeria.) But while people expect the kind of material benefits that we have documented in our report, they also express serious concerns and even fears. More than half of those polled were convinced that globalisation threatens their country’s unique culture. Citizens also observe a lack of global governance in important areas. About four in ten respondents named human rights as the area most in need of stronger international control, while three in ten said that global environmental action was the highest priority. One in ten thought that international action on workers’ rights was a priority. The United States is the largest and in some respects the most successful economy on earth, giving millions of poor people, many of them immigrants from developing countries, an opportunity to rise to prosperity. But it is not the only model of success. Several economies match or exceed the American level of income per capita while having radically different policies and more equal social outcomes. For example, Austria, Belgium, Denmark, Japan, and Norway are open economies. All have far less inequality than the United States with similar average income. By combining prosperity with equity they are the closest the world has yet come to eradicating poverty. Voters in the United States and these five countries have chosen substantially different models, all of which work given their respective histories. Not only is there no ultimate model of success, there is any fixed formula for reaching success. China, India, and Mexico all globalised during the 1990s as a result of far-reaching reform programs, but the content of these programs has differed.

In most developing countries the state is smaller relative to national income than in either the United States or the five high-income, high equity countries noted
Successful globalisation on any of these models usually enlarges the state, both absolutely and relatively. However, globalisation weakens some aspects of government, making some policy instruments ineffective. Globalisation will usually weaken monopolies. As countries open their markets, national monopoly producers face competition from foreign firms. However, one firm will occasionally get a sufficiently large global technological advantage that it acquires a temporary global monopoly, and more commonly oligopolies apply global market power. Such cases pose severe challenges to national anti-trust regulators. Further, there are charges that in developing countries some foreign firms may lobby or bribe to gain special human rights, for example, in telecommunications or minerals. As global trade becomes more firmly based upon a legal framework, this potentially enhances the power of the developing countries the weak need rules more than the strong. However, there is a danger that the rules come to favour the strong. For example, rich and poor countries have somewhat different interests regarding intellectual property and global warming. Developing countries want to keep some knowledge as a public good, while industrial countries prefer to turn it into a private good in order to reward innovation. Developing countries will suffer most from global warming, while rich countries are generating most of the carbon dioxide (CO₂) that is causing the problem. In bargaining to achieve fair rules on such issues, poor countries are handicapped by both their poverty and their disintegration.

Globalisation does not have to weaken national and local environmental standards through a so-called race to the bottom. Despite widespread fears, there is no evidence of a decline in environmental standards. In fact, a recent study of air quality in major industrial centres of the new globalises found that it had improved significantly in all of them. A positive side of globalisation is that communities can learn from each other about successful strategies to control pollution. Developing countries usually have serious problems enforcing regulations in the face of powerful vested interests. Indonesia improved compliance dramatically through a program in which environmentally dangerous factories were publicly identified, leading communities to organise against these polluters. Other communities have learned from this example and are introducing similar programs.

As with core labour standards, some groups in the rich countries are proposing that environmental regulations be policed through WTO sanctions. There are better ways to empower local communities. WTO sanctions would carry the risk of being hijacked by protectionist lobbies in rich countries and end up by restricting the opportunities of poor ones. Some environmental issues, such as global warming, are basically global. They require international cooperation, and the habit of such cooperation is easier in an integrated world. There is broad agreement among
scientists that human activity has led to global warming and that much greater climate change is in store unless collective, corrective actions are taken. Where the problem comes from is clear. Seven economies (the so-called E-7) account for 70 percent of CO₂ emissions. The United States, with only 4 percent of the world’s population, emits nearly 25 percent of greenhouse gases. China is the second largest emitter, followed by the EU, the Russian Federation, Japan, India, and Brazil. In per capita terms, the United States (with 20 metric tons per capita) is far ahead of other economies in terms of CO₂ emissions. It is important for the world that the major emitting countries agree on a way to reduce greenhouse gases. This is a classic collective action problem in which each country is unwilling to move on its own because much of the benefit of its reduction in greenhouse gases will accrue to others. The Kyoto protocol is an important step forward in collaborative action to address global warming.

8.3.2 Financial and capital (Fiscal) flows cannot destabilise local economies

India’s approach to financial integration has so far been gradual and cautious. Although capital inflows have been associated with high growth rates in some developing countries, a number of them have also experienced periodic slumps in economic growth and financial crises with substantial macroeconomic and social costs. The cross-country experience suggests that while trade integration is generally beneficial, there exists a entrance in an economy’s flexibility in the context of an open capital account. At a more practical policy level, financial integration may be conducive to growth, without its attendant risks and vulnerabilities, when combined with good macroeconomic policies and good quality of domestic governance. Thus, the ability of a developing country to derive benefits from financial globalisation in the presence of volatility in international capital flows can be significantly improved by the quality of its macroeconomic framework and institutions. While a gradual approach to liberalisation of capital account in India has paid dividends so far, continuation of the gradual process may warrant that some hard and basic decisions are taken in regard to macro-economic management, in particular monetary, external and financial sector management.

8.3.3 Building and Inclusive World Economy: - An Agenda for action

Recent globalisation has been a force for poverty reduction, and has helped some large poor countries to narrow the gap with rich countries. However, some of the widespread anxieties are well founded globalisation could be much more effective for poor people, and its adverse effects could be substantially reduced. In important respects global policies are not keeping pace with global opportunities and global risks. In our report we propose an agenda for action, both global and local, that could make globalisation work better and help countries and people that have been
In part our agenda overlaps with the agenda of those who protest globalisation, but it is diametrically opposed to the nationalism, protectionism, and anti-industrial romanticism that is all too famous.

Our study highlights many actions that could help make globalisation more beneficial. Of these, we will highlight seven that we see as particularly important for making globalisation work for the poor. Participation in an expanding global market has basically been a positive force for growth and poverty reduction in developing countries, which is why so many countries have chosen to become more open to foreign trade and investment. Very significant barriers to trade still remain, however, and a first area for action is a "development round" of trade negotiations. A "development round" should focus first and foremost on market access. Rich countries maintain protections in exactly the areas where developing countries have comparative advantage, and there would be large gains to poor countries if these were reduced. Furthermore, developing countries would gain a lot from better access to each other's markets; barriers between them are still higher than those from developed countries. These improvements in access are best negotiated in a multilateral context.

Developing countries have a good argument that trade agreements should not enforce labour or environmental standards on poor countries. Communities all over the world are struggling to improve living standards and labour and environmental conditions. There are positive ways that rich countries can support this. A real and positive commitment, however, requires real resources (more below on this). Imposing trade sanctions on countries that do not meet first-world standards for labour and environmental conditions can have deeply damaging effects on the living standards of poor people and for that reason is unnecessary. Furthermore, there is all too much danger that trade sanctions to enforce these standards will become new forms of protectionism that make the poor worse off. The more general point here is that trade agreements should leave countries free to take different institutional approaches to environmental standards, social protection, cultural preservation, and other issues. Among globalised countries there is great diversity of institutions and cultures, and we see no reason why economic integration cannot respect that.

Our research shows that open trade and investment policies are not going to do much for poor countries if other policies are bad. The locations in the developing world that are prospering during this most recent wave of globalisation are ones that have created reasonably good investment climates in which firms, particularly small domestic firms, can start up, prosper, and expand. Hence, a second key area for action is improving the investment climate in developing countries. A sound investment climate is not one full of tax breaks and subsidies for firms. It is rather an
environment of good economic governance control of corruption, well-functioning bureaucracies and regulation, contract enforcement, and protection of property rights. Connectivity to other markets within a country and globally (through transport and telecommunications infrastructure) is a key part of a good investment climate. A bad investment climate hits agriculture and small firms even harder than bigger firms. Developing a sound investment climate is primarily a national and local responsibility and should focus particularly on the problems facing small firms. Employment in the small and medium-sized firms in towns and rural areas will be central to raising the living standards of the rural poor. Communities can use foreign investment and the international market for services to reinforce the investment climate. The presence of foreign banks in the local market strengthens the financial infrastructure. With the right incentives, foreign investment can efficiently provide power, ports, telecommunications, and other business services. The evidence is quite strong that integration with the global market raises the return to education in different types of countries (both rich and poor). The higher return to education can be a positive thing, as it encourages households to invest in their children. But this highlights the importance of good delivery of education and health services the third element in our agenda. If poor people have little or no access to health and education services then it is very hard for them to benefit from the growth spurred by integration. With poor social services, globalisation can easily lead to mounting inequality within a country and determination of extreme poverty. For the newly globalising developing countries as a group, there has been impressive progress in educational attainment especially for primary education and decline in infant mortality, suggesting that many locations have made the complementary investments in social services that are critical to ensure that the poor benefit from growth. The combination of strong education for poor people and a more positive investment climate is critical for empowering poor people to participate in the benefits of a more strongly expanding economy. But empowerment goes much deeper than this. It is about organising property rights and governance in a way that involves poor people in decisions that affect their lives. While integration has on average been a positive force for growth and poverty reduction in developing countries, there are inevitably specific winners and losers, especially in the short run. This is true in rich and poor countries. The firm-level evidence shows that much of the dynamic benefit of open trade and investment comes from more “churning” of plants less efficient ones die, and new ones start up and expand. With this come more labour markets churning as well probably the key reason why globalisation is so controversial. It raises wages on average in both rich and poor countries, but there are some significant losers.

Thus, the fourth area for action is to provide social protection modified to the more dynamic labour market in an open economy. This is important to help individual
workers who will lose in the short run from opening up, as well as to create a solid social foundation on which households—especially poor ones—feel comfortable taking risks and showing entrepreneurship. We try to document what works in a relatively rich country, and for formal sector workers, and what works in poor countries and for the large number of poor in the informal sector and rural areas. If policymakers do not put workable social protection measures into place, then many individual people will be hurt and the whole integration undertaking becomes suspect.

The fifth component of our action program is a greater volume of foreign aid, better managed. Aid should be targeted to a number of different problems. The evidence shows that, when low-income countries reform and improve the investment climate and social services, private investment both domestic and foreign responds with a lag. It is exactly in this environment that large-scale aid can have a great impact on growth and poverty reduction. Thus, while creating a sound policy environment is primarily a national and local responsibility, the world can help societies making difficult changes with financial support supporting low-income reformers both at the national level and at the local level is a key role for aid. Another important role for aid is to address some of the specific health and geographic challenges of marginalised countries and people. We have emphasised that there are locations that face difficult geographic challenges and that policy reform alone is not going to do much in these places. More aid should be targeted to research into health and agricultural technologies that could make a large difference in locations suffering from malaria and other challenges. Beyond research, there is obviously a need for assistance to deliver these health innovations to those who would benefit from them.

Our sixth area for action is debt relief. This is a kind of aid, but we do not want our recommendation here to get lost in our more general call for greater aid. Many of the marginalised countries, especially in Africa, are burdened with unsustainable debts. Reducing the debt burdens of these countries will be one factor enabling them to participate more strongly in globalisation. Debt relief is particularly powerful when combined with policy reform (improvements in the investment climate and social services). Debt relief should make a significant difference for countries that have reasonably sound policy environments for poverty reduction, as in the Heavily Indebted Poor Country (HIPC) initiative. It is important to put debt relief in the larger context of the overall foreign aid for marginalised countries. Debt relief should not come out of the existing cover for aid (in which case little of real value will result) but rather needs to be complemented with greater overall volumes of assistance. The six areas that we have highlighted for policy action on globalisation are primarily in the economic dominion and aim to raise the income and living standards of poor people. However, our report also examines a wide range of non-economic issues power,
culture, and environment and presents evidence about the effect of globalisation on these important issues. We highlight many specific actions that can mitigate the risks and costs of globalisation. Here in the action program, the seventh measure to highlight is the importance of tackling greenhouse gases and global warming. There is broad agreement among scientists that human activity is leading to climate change and that disastrous global warming is in store unless collective, corrective action is taken. This is one example of a critical area in which there a lack of effective global cooperation at this point. It is also one of the global problems that are going to particularly burden poor countries and poor people if it is not addressed.

The falling costs of communications, information, and transport that have contributed to globalisation will not be reversed, but the reduction in trade and investment barriers could be reversed by protectionism and nationalism as happened in the 1930s. However, protectionism and nationalism would be a profoundly damaging reaction to the challenges created by globalisation. The problems must be addressed, but they are manageable. The reasonable concerns about globalisation can be met without sacrificing the potential for global economic integration to dramatically benefit poor countries and poor people. Many poor people are benefiting from globalisation. The challenge is to bring more of them into this process, not to retreat to the insularity and nationalism of the 1930s.