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FEATURE ARTICLES AND HIGHLIGHTS

The Triple Crisis: What Development Prospects for Africa?
Alain de Janvry and Elisabeth Sadoulet. *Full article.*

The Poor under Globalization in Asia, Latin America and Africa
Machiko Nissanke and Erik Thorbecke. *Full article.*

FORTHCOMING EVENTS

Global Crises and Entrepreneurial Incentives with Wim Naudé. New York, USA
24 June 2010

RECENT EVENTS

Nordic Conference in Development Economics (NCDE), Helsinki, Finland
18-19 June 2010

The (Evolving) Role of Agriculture in Poverty Reduction: An Empirical Perspective, with Luc Christiaensen. New York, USA
2 June 2010

ANNOUNCEMENTS

Visiting scholars and PhD internship programme. Application closing date *30 September 2010*.

For more information on how to apply, see *Opportunities.*

PUBLICATIONS

Books and Journals

Urbanization and Development: Multidisciplinary Perspectives
(forthcoming)
Edited by Jo Beall, Basudeb Guha-Khasnobis, and Ravi Kanbur

Rise of China and India
(forthcoming)
Edited by Amelia U. Santos-Paulino and Guanghua Wan

UNU-WIDER Special Issue on Fragility and Development in Small Island Developing States
Edited by Amelia U. Santos-Paulino, Mark McGillivray and Wim Naudé

The Poor Under Globalization in Asia, Latin America and Africa
Edited by Machiko Nissanke and Erik Thorbecke

Southern Engines of Global Growth
Edited by Amelia U. Santos-Paulino and Guanghua Wan

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WIDER Working Papers

Highlights:

UNU-WIDER marked its **25th anniversary** with a conference of leading academics and policymakers from across the world for comprehensive discussions on the topics of finance, food and climate change. The Conference was held at the Marina Congress Center, Helsinki, Finland from 13-15 May 2010. Read more...

News:

Web Based Forum on Innovation, Technological Diffusion and Growth. Department for International Development (DFID), UK
3-30 June 2010

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EVENTS

PUBLICATIONS

Misuse of Institutions: Lessons from Transition
Leonid Polishchuk *WP2010/75*

Poverty and Time
Walter Bossert, Satya R. Chakravarty, Conchita d'Ambrosio *WP2010/74*

Empirical Issues in Lifetime Poverty Measurement
Michael Hoy, Brennan Scott Thompson, and Buhong Zheng *WP2010/73*

Measuring the Effect of Spell Recurrence on Poverty Dynamics
José Maria Arranz, and Olga Cantó *WP2010/72*

Globalization and Exclusionary Urban Growth in Asian Countries
Amitabh Kundu and Debolina Kundu *WP2010/70*

How Production Firms Adapt to War: The Case of Liberia
Topher L. McDougal *WP2010/69*

Entrepreneurship and Human Development: A Capability Approach
Thomas Gries and Wim Naudé *WP2010/68*

Globalizing Households and Multi-ethnic Community Building in Japan
Chihiro Ishii *WP2010/67*

Health and the Urban Transition: Effects of Household Perceptions, Illness, and Environmental Pollution on Clean Water Investment
James H. Spencer *WP2010/66*

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The Triple Crisis: What Development Prospects for Africa?

Alain de Janvry and Elisabeth Sadoulet

On May 13 and 14, 2010, UNU-WIDER invited around 200 development economists from all over the world to Helsinki to celebrate WIDER's 25th anniversary, assess the implications of the unfolding triple crisis—Food, Finance, and Climate Change—and correspondingly map its future role in development economics. This was an appropriate time as the crises and the responses to the crises are major turning points, contributing to the emergence of a new order for international economic development. This new order needs to be clearly understood by UNU-WIDER and the development economics profession if they are to effectively assist international economic development in the years to come.

What the anniversary presentations and discussions confirmed is that development economics—at least as represented by participants to the event—has importantly changed its focus away from the macro-market-public goods perspective that emerged in response to the debt crisis of 1985 toward giving greater attention to the structural transformation of the developing economies with a strong role for state guidance, regulation, and public-private partnerships. With the greatest development challenge today found in Africa, the main question discussed was how will countries in that continent diversify their economies away from agriculture and achieve sustainable industrialization?

A Turkana pastoralist in northwestern Kenya. Photo: Anthony Morland - IRIN Photo

This is, to a significant extent, the same fundamental question that was asked in the 1960s and 1970s by the pioneers in development economics such as Hirschman, Kuznets, and Chenery before the debt crisis led development economists to address questions of stabilization and adjustment under the guidance of the

Washington Consensus. Structural transformation—the process through which countries transform from poor agrarian to wealthy industrial economies—calls upon recognizing that markets are essential for growth but have many failures, and that the state has a key role to play in complementing and guiding markets, though it may also fail in fulfilling this function. But how will this be done in the context of the triple crisis, and what is the likelihood of success for Africa? These were major questions debated in Helsinki, with answers that are still controversial and incomplete but that helped better understand where UNU-WIDER and the development profession should now be headed.

What is clear from the current situation is that the large emerging economies—mainly China, India, and Brazil—were the least affected by the crises and the first to recover. The main, and still incompletely recognized, consequence of this is that it accelerated the rise in importance of these countries as the locus of future dynamic growth and technological innovations for the world as a whole. Still mired in recession, high fiscal deficits, and record high unemployment, the OECD countries, and especially the US and the EU, are unlikely to once again be the main sources of effective demand for world manufactured exports, able to propel export-led growth in the emerging economies without a corresponding development of their internal markets. Due to both the crises and domestic social pressures, China, India, and Brazil are increasingly seeking to sustain growth by turning toward their own large domestic markets, with rising wages for at least part of their populations fueling effective demand. While rapid growth in these countries implies strong import demand for energy and mining products, benefiting Africa and helping it emerge surprisingly unscarred from recession, they will not become major sources of demand for industrial imports from the rest of the world, and thus will not assume the role of demand engine formerly played by the US and the EU. What does this mean for structural transformation in Africa? Will it be able to diversify and industrialize under these conditions?

Demand for energy and mining products by the emerging countries is a source of growth and rents for Africa, but it is unlikely to be a driver of industrialization. This is because energy and mineral exports are highly capital intensive, with few linkage multipliers and learning externalities with the rest of the economy. Southern foreign aid, a new phenomenon, coming from the emerging economies is largely motivated by investment in infrastructure to facilitate resource extraction for export, or by land acquisition to produce food for export, likely under capital intensive conditions. It is not oriented at promoting the emergence of domestic industrial entrepreneurs.

It is important to recall how the emerging economies of Asia and Latin America achieved their own industrialization. None of them has done it without using either trade protection, following import substitution industrialization policies, or targeted subsidies to potential winner firms, following export-led industrialization policies. The problem for Africa in following these approaches is that price policy instruments have largely been lost to adjustment policies. Trade protection is no longer an option, and depreciated real exchange rates, as pursued by China, cannot be applied by all countries at the same time without creating a massive disequilibrium on the international capital market. Picking the winners—be they firms, sectors, or locations—to target subsidies requires fiscal and ODA resources that are in scarce supply, particularly as the OECD countries struggle with high fiscal deficits. Besides, how will the rents from energy and mineral exports be allocated to supporting potential winners and social expenditures without a strong civil society able to put checks on state temptations to capture rents? There is a risk of the resource curse in development being unleashed by the current energy and mining export booms if it is not accompanied by progress in civil society empowerment and greater accountability of elected governments, a progress that is clearly lagging behind the booms.

In the context of the triple crisis, there is an emerging dimension of social policy that needs to be recognized. During the last 25 years, governments and international development agencies have done a relatively good job at identifying and managing chronic poverty and chronic food insecurity, but they have gained little experience in dealing with transitory poverty and food insecurity: how to recognize the 'new poor' and the 'new food insecure' for social assistance, and how to help them bounce back from poverty rather than join the ranks of the chronic poor? In the context of crises, vulnerability to uninsured shocks and the associated risks of irreversibilities—due to loss of productive assets, deterioration of maternal and child health, and children dropping out of school to save on costs or provide child labour—must be addressed by a pro-active state to avoid poverty traps. Dealing with transitory poverty and transitory food insecurity urgently needs to be learned to cope with the negative productive and social consequences of the crises.

So, how will Africa industrialize under these conditions? Experience has shown that there are huge economies of scale in industry, with required lumpy investments on products (even if they are only task components of a final product to be assembled elsewhere), on locations (to benefit from spillovers in clusters of complementary economic activities), and in time (following the 'big push' approaches advocated by the pioneers in development). For this, foreign direct investment (FDI) and foreign know-how are needed, requiring a strategy of open-economy industrialization. Will mainland Africa make itself attractive to FDI, as did the island of Mauritius (thus showing that it can indeed be done in Africa)? This is unlikely without several preconditions: infrastructure to reduce transactions costs, a semi-skilled labor force endowed with more than primary education (as opposed to the prescriptions of the second Millennium Development Goals calling for universal primary education, perhaps at the cost of postponing higher education), and the rule of law for contracting and managing conflicts. It can happen, but it is unlikely to be massive enough with weak OECD import demand, insufficient demand for manufactured goods imports from the inward-looking emerging economies, and lack of foreign aid to build these conditions beyond what it takes for Southern donors to secure the primary exports that are so much in demand to fuel growth in their own economies. In spite of offering the chance of technological leapfrogging, the status of second-generation latecomer does not help attract FDI in a crowded world of well established first-generation latecomers (the now emerging economies) and with limited effective demand for manufactured goods in the world market.

Is there room for optimism? Yes, but neither through the road of mineral export-led industrialization nor through that of large scale open economy industrialization. What is needed is a return to the basics of structural transformation: a productive agriculture that can generate savings and foreign exchange earnings for investment in industry, and where labor-intensive agricultural produce feeds into agro-industry and agro-exports for regional and international markets. Industrializing through agricultural high value chains and agro-processing may be the most credible path to move up the ladder of successful industrialization and travel the course of structural transformation. For this, investing more and better in agriculture must be given priority, and adding value to agricultural goods through product transformation must be used as a stepping stone toward gradually more sophisticated and diversified industrialization. Back to structural economics, as discussed in Helsinki, is thus also back to the pioneers in development for whom agricultural revolutions were recognized as the mother of industrial revolutions, a lesson from history that continuously needs to be recalled and is too often forgotten by development economists.

UNU-WIDER, in its wisdom, must indeed recognize the major turning points implied by the triple crisis, and the new economic order and constraints on production—none the least incurring the huge costs of adaptation to climate change—that are emerging from responses to these crises. The road to structural transformation for Africa is not hopeless. It can be done. But it will require more than the expectation that industry can simply be driven by energy and mineral exports or parachuted from outside under open-economy industrialization strategies. Back to the future from the pioneers is also back to agriculture as an instrument for industrialization, building selectively on the economic sectors and regions with competitive advantages, and supported by social safety nets capable of dealing with vulnerability to the shocks of the triple crisis.

About the authors

Alain de Janvry and Elisabeth Sadoulet are at the University of California at Berkeley and *Fondation pour les Etudes et Recherches sur le Développement International* (FERDI). Elisabeth Sadoulet also serves on the board of UNU-WIDER. They took part in UNU-WIDER's 25th Anniversary Conference, held in Helsinki, 13-15 May 2010.


Alain de Janvry


Elisabeth Sadoulet

Further Reading

- The Triple Crisis: Finance, Food and Climate Change
  by Tony Addison and Finn Tarp
- Are African Countries Paying Too Much Attention To Agriculture?
  by Luc Christiansen and Lionel Demery
- Reflecting on Africa's Resilience During the Recent Global Financial Crisis
  by Wim Naudé
- Is Manufacturing Still the Main Engine of Growth in Developing Countries?
  by Adam Szirmai

- Entrepreneurship and Structural Economic Transformation
  by Thomas Gries and Wim Naudé

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The Poor under Globalization in Asia, Latin America and Africa

Machiko Nissanke and Erik Thorbecke

Despite the enormous potential of globalization in accelerating economic growth and development through integration into the world economy, the transfer of technology, and the transmission of knowledge, the impact of globalization on poverty reduction has been uneven and even marginal in some regions, such as in much of sub-Saharan Africa (SSA). As the process of economic integration has intensified since the 1990s, concerns have been raised as to why globalization, as it has proceeded so far, has not contributed more to poverty reduction.

The globalization–poverty relationship is non-linear and heterogeneous, involving multifaceted channels. Besides the positive 'growth' effects of globalization on poverty, the integration process creates winners and losers directly through other channels, affecting both vertical and horizontal inequalities. The recent UNU-WIDER publication, 'The Poor under Globalization in Asia, Latin America and Africa' (Machiko Nissanke and Erik Thorbecke, editors) presents a comparative analysis of how the economic forces of globalization affected the lives of poor people around the developing world based on 12 case studies covering the spectrum from broad macroeconomic regional and country analyses to micro-oriented village studies on each of the three continents. This article draws on some of key findings from our comparative analysis of the regional experiences with the globalization-poverty relationships.

The Comparative Globalization Experiences

The two main transmission channels of globalization—the 'growth' and 'distribution' channels—interact dynamically over time to produce a complex growth–inequality–poverty triangular relationship. Our case studies show how diverse and context specific the effects of globalization on poverty are. Distinct processes of institutional and socio-political change, as well as significant differences in initial conditions, such as natural resource endowment, the quantity and quality of human capital, institutional framework, and the quality of governance, have led to significantly different effects on the poor in and even within these three regions.

Whilst the forces of globalization as such are not *inherently* beneficial or deleterious for development prospects, our study shows that globalization is a necessary, but not sufficient, condition for convergence to sustained development and poverty reduction. Indeed, many poor countries that have opened their economies since the 1980s have fallen behind, and have not succeeded in reaching the take-off point necessary for benefiting from the positive forces of globalization. In particular, countries that went through an early structural transformation, as in most of Asia, were much more successful in generating a shared-growth process benefitting the poor than countries that delayed or failed their structural transformation process, as is typical of much of SSA.

At the same time, the effects of globalization on the poor depend critically on the nature and pattern of the economic integration process. A country specializing in an industry endowed with a larger positive externality would experience a faster growth rate, while a country with an initial comparative advantage in 'non-dynamic' sectors may end up in a low equilibrium trap. Similarly, the effects of FDI on host economies diverge enormously, depending on the sectors into which transnational corporations (TNCs) are attracted to invest. Countries that attract only natural resource-based FDI or FDI geared towards the lower end of TNCs' vertical integrated global operations such as simple assembly line operations tend to be left out because of limited dynamic externalities and knowledge and skill spillovers from these types of FDI.

In this context, we argue that developing countries have to undergo substantial changes in their production and trade structures, so as to be able to reap more benefits from the dynamic forces unleashed by globalization and experience income convergence. The sharp divergences emerging in the development paths of different countries in the South can be explained by both the distinct patterns of economic growth and forms of integration adopted: some countries in the South were able to benefit from *virtuous* cycles of globalization-induced growth, while others were left behind. Not only did growth rates diverge widely but there emerged a marked difference in the ways the benefits of economic growth trickled down to the poor.

In particular, globalization works best for the poor through the 'growth' channel when globalization–induced growth generates secure employment opportunities. On the whole, the employment creating effect of growth has been most pronounced in East Asia, where globalization has brought about a substantial reduction in poverty due to vigorous growth despite increasing inequality. The process of poverty reduction in East Asia has followed closely the waves of employment creation for unskilled labour and the poor in tandem with the evolution and shifts of comparative advantages within the region in the ever–accelerating integration process. In contrast, such a poverty reduction process could not be achieved in SSA and in many ECLAC countries, where liberalization of trade and investment regimes failed to produce strong employment creating growth. Instead, the pattern of growth in these two continents has tended to result in 'jobless' growth, 'casualization' of employment and 'informalization' of their economies. It appears that the employment creation effect is a most direct and powerful channel through which globalization can make a noticeable dent on poverty.

Policy Implications and Concluding Remarks

While the potential of substantial poverty reduction is realized only when economic growth is characterized by a high 'employment elasticity', such a growth outcome cannot be necessarily guaranteed whenever globalization/integration is embraced on its own as a passive development strategy. Instead, the dynamic integration experiences in Asia point to the need for policies of *active strategic integration,* not of *passive integration.* Such an active strategic stand should, first of all, aim at facilitating the transformation of production and trade structures from the narrowly based commodity dependence that increases the exposure of economies to external shocks. Thus, whether global market forces result in a virtuous circle or vicious circle depends not only on the initial conditions but also crucially on the effective design and implementation of policies to manage the integration process. The issue confronting policymakers is not *whether* to integrate into the global economy but *how* to integrate so as to establish a stable foundation for sustainable and equitable growth.

Governments of developing countries need to pursue both strategic integration and an active domestic development agenda to ensure that the poor benefit as much as possible from globalization while they are protected from the worst negative impacts. What is called for is that integration be accompanied by a comprehensive policy package for enhancing the capability of the poor and instituting appropriate safety nets for those poor households who could be exposed to increasing vulnerability engendered by the globalization process. Hence, in order to make globalization work for the poor, the first imperative is to strengthen the capacity of the nation states, so that an institutional environment conducive to the design and implementation of strategic integration and a pro-poor programme can be fostered. Furthermore, in addressing adverse distributional consequences of global market forces at both the national and global levels, a new system of global governance based on a concept such as a 'global social contract' should be actively considered to ensure a delivery of global public goods for the world's poor that would counteract the asymmetric risks and costs of global market failures.