Kaplinsky, Raphael (2005)
Globalization, Poverty and Inequality: Between a Rock and A Hard Place

Reviewed by Su-ming Khoo

This book provides a detailed and balanced explanation of the relationship between globalization processes and the global trends of poverty and inequality. A growing pile of recent literature suggests that poverty and inequality are at the centre of the most contentious and unresolved debates about globalization. The policy debate has been heated, involving contradictory evidence and interpretations – has global poverty increased or decreased? Is there more inequality and does that matter? Is globalization the cause of poverty and inequality or is poverty due to insufficient globalization? Kaplinsky’s book is an excellent addition to this current debate.

The book begins with a clear overview of the main debates. The author focuses on economic globalization, defined as “the global spread of labour, capital, technology and products and the reduction of barriers to international trade” (pp12-13). It briefly surveys the history of globalization, comparing the earlier phase of globalization in the nineteenth century and the current phase of globalization, characterized by trade in similar and competing products and markedly less mobility of people and capital. He reminds us that current globalization policies were initially forced upon indebted countries and over time, unrestricted trade has become the accepted policy orthodoxy.

Poverty is quite a difficult concept to get our minds around as different and competing concepts and definitions of poverty can cause confusion. Chapter 2 provides a compact explanation of poverty, contrasting relative (or relational) and residual concepts of poverty. The residual and relational views represent two differing policy orientations and prescriptions for poverty and globalization. The residual view understands poverty as result of a failure to engage with globalization. It is a positive evaluation of globalization and suggests that more globalization is the answer to poverty. The relational view of poverty links poverty and inequality with uneven globalization. This suggests that a level of caution is needed when engaging with globalization as it creates both winners and losers.

This book provides a detailed examination of the mechanisms and processes that determine income distribution and how these are connected to the globalization of production and trade. The author notes the dualistic levels and trends of income distribution, and explains persistent poverty and rising inequality as the result of divergence between the winners and losers in globalization processes. His reasoning and evidence lead him to reject the residual view of poverty as he takes us through win-win and win-lose scenarios. These scenarios are examined using broad and deep data for three key sectors - textiles and clothing, furniture and autos and components, building up a highly credible account of what is actually happening in globalization.
This is also a superb text for explaining the relevance of processes of innovation, and the impacts of the globalization of manufacturing and trade. The key explanations hinge on the basic economic theory of rent. “Winning” depends on capturing rents and the key to increasing income is improving the ability of producers to generate and appropriate rents. Win-win scenarios result from the application of the right policies to manage innovation and thus capture rents. Win-lose scenarios are ones where some successes lead to others losing out. As it turns out, the theory cannot work for everyone because of what economists call “the fallacy of composition”. In essence, this means that what follows from one country’s success does not follow if every country does the same thing. For export-oriented manufacturing, the macro-story does not add up. Increasing global production capabilities and intensified global buying have led to a price squeeze and falling prices for manufactured goods.

Deepening globalization increases pressures on producers and pushes down producers incomes by pushing down prices. Kaplinsky uses global price data to show which is more likely to result - win-lose or win-win. Prices for some 2000 products show that low income countries are most vulnerable to negative price trends. Low-income exporters experienced a one-third drop in their terms of trade between 1975 and 1995. China, (and to a lesser extent the other Asian economies) is the big factor. Since China’s serious entry into the global market in the mid-1980s, it has engineered phenomenal export growth based on a combination of rock-bottom labour costs and excellent production and product quality (p192). At the same time, terms of trade have declined by 21% (p188). The ‘rock’ and the ‘hard place’ of the subtitle are growing productive capacity and concentrated buying (p180). What happens between the rock and the hard place is a price squeeze, as his use of delightfully ordinary and personal examples illustrates.

In totality, the global economy is beset by growing structural surplus capacity in production, and by a large surplus of increasingly educated labour. His pessimistic conclusion is that for many players, a win-lose outcome is probable. This is due, in part, to the very large reserve army of labour in the Asian countries, especially China which contributes to structural under-employment on a global scale. There are some 100 to 150 million people in China alone who are under-employed and need more productive jobs – a number equivalent to a quarter or the workforce in all high income economies. Work is not available for all in the global labour force. There is also the related question of demand, given overproduction scenario. To what extent can globalization provide the employment and incomes to support the ever-increasing surfeit of production?

Excess capacity and structural unemployment mean that some countries like China may succeed in export-oriented manufacturing, but their success will leave little space for less efficient producers – notably those in Africa and large parts of Latin America” (p231). The scenario is particularly tough for the poorest, predominantly agricultural African countries. Their problem is that global competition is now so ferocious that they are excluded from even entering into competition. In the case of more developed Latin American countries like Brazil, all wage sectors except the most educated and highest paid have experienced a decline in real incomes as globalization has deepened.
Historically built-up industrial competences (for example the shoe industry) have been eroded and destroyed as they have got squeezed between the low-income, low cost competitors (largely China) and high-income, technologically superior competitors.

Globalization might have a positive effect on some actors, but it is unlikely to work in favour of many others, leading to polarization and a race to the bottom. The opening chapter provides a wonderful parable of globalization in the form a vignette from Lewis Carroll’s Alice Through the Looking Glass: “In the case of Alice, it didn’t matter how fast she ran, the frontier still seemed an insuperable distance away” (7).

Heterodox evidence calls for heterodox policies and the author concludes with a plea to reverse the one-size-fits all policy adopted by Washington Consensus neoliberals. Given the impossibility of withdrawing from globalization, what options are open to developing countries? Kaplinsky has spent the last two decades examining the options, researching the determinants of successful innovation management and coming up with policies to actively assist local firms. He concludes that many countries will need to retain policies that interfere in markets, to support knowledge based investments and outward orientation. Governments must create better and more balanced growth that develops regional markets and regional cooperation. Policy-wise this means a measured rejection of neoliberal rules such as currency devaluation, if the gains from devaluation are appropriated by buyers, not manufacturers and declining prices become the norm in the global value chain.