

EarthTrends Featured Topic: Poverty and Governance in a Global Frame

Source: *World Resources 2005*

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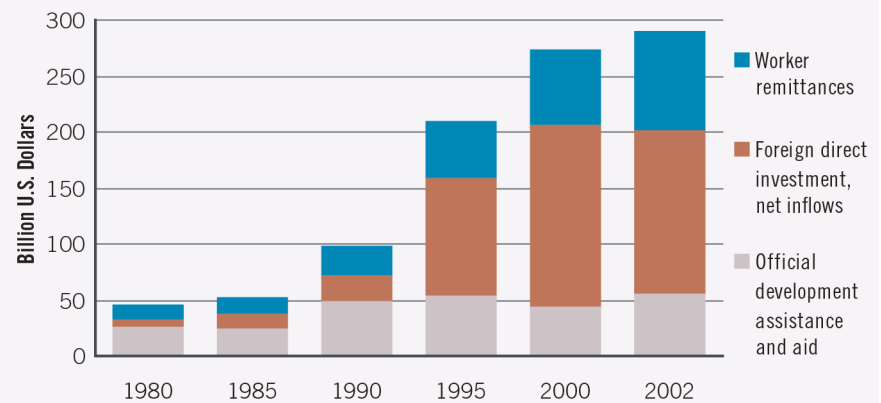
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Many of the obstacles the poor face in turning their natural assets into wealth manifest themselves at the local and national levels. But these governance and economic obstacles often have their roots in policies and practices at the global level. The arenas of international trade, development aid, and international finance and investment influence global poverty trends, in as much as they influence the broad economic and political setting that poor people find themselves in.

Over the past five years, the controversy over the benefits and dangers of globalization has highlighted the power of international policies to affect poverty. This influence can be positive: inflows of capital, goods, and services to developing countries exceeded US\$2.5 trillion in 2003 (World Bank 2005). Several East Asian countries like China, Korea, and Taiwan have used export-oriented trade to spur the economic growth that helped many of their citizens escape poverty. China has also attracted large quantities of foreign direct investment, another growth accelerant. Remittances that immigrants to industrialized countries send back home provide a vital source of funds for many developing nations. In addition, industrialized countries provide significant amounts of technical assistance and foreign aid to developing countries—more than US\$76 billion in 2003 (World Bank 2005).

But the fact remains that just as national power is generally controlled by a limited group of powerful individuals and

FINANCIAL FLOWS TO DEVELOPING COUNTRIES, 1980-2002



Capital inflows can act as a growth accelerant to developing economies. They typically take one of three forms: (1) Official aid includes grant and loans by governments and international institutions to developing countries to promote economic development and welfare; (2) Foreign direct investment (FDI) is private investment in a foreign economy to obtain an ownership interest in an enterprise; (3) Worker's remittances include the transfer of earned wages by migrant workers to their home country.

Source: World Bank 2005

companies, international economics and politics are also dominated by a limited group of wealthier countries. Even when

benefits to poor countries do occur, they tend to be restricted to a few countries with the ability to compete in the global marketplace.

RICH COUNTRIES DOMINATE GLOBAL EXPORTS



Source: World Bank 2005

In 2003 only ten percent of all exports from developing countries originated in the 61 nations classified as "Low Income" by the World Bank (World Bank 2005).

The resulting inequality in global power can exacerbate the causes of rural poverty, dampen growth in developing nation economies, or encourage models of development that may be less effective at reducing poverty. This is why decisions made in industrialized countries are the focus of so much attention in the worldwide debate over poverty reduction.

The Effects of Private Investment Are Mixed

Foreign direct investment (FDI)—the acquisition of an ownership interest in a private enterprise—became the dominant route for money flowing from rich to poor countries after the liberalization of global financial markets in the 1970s (Oxfam 2002: 11, 15). In 2002 the overseas investments of 64,000 corporations supported 53 million jobs worldwide (UNCTAD 2003: 4).

Private investment does not necessarily benefit the poor, however. In the past decade, 80 percent of the private investment in developing countries has gone to just 15 countries—and they are not the world's poorest countries (World Bank 2005). In 2003, for example, the 50 least-developed countries received only 4 percent of private investment to developing countries (UNCTAD 2004: 48; World Bank 2005). The investment environment in poor countries is often

unattractive, for they lack the economic stability, coherent legal system, and physical infrastructure that investors seek. In addition, FDI is typically channeled into infrastructure and larger-scale investments, rather than small or medium-scale

investment has increased sixfold since 1981 due to expansion in the oil, gas, timber, water, and mining sectors. However, the percentage of the population living below the poverty line has not changed significantly, and the absolute number of poor people in Latin

America actually increased from 200 million in 1990 to 225 million in 2003 (World Bank 2004; FAO 2004).

Private investment can help developing nations acquire capital to fund domestic projects, receive new technology and skills, and improve productivity. Without proper regulations, however, it can also increase economic volatility if investors lose interest and pull out. Economic volatility has historically hurt the poor. Since the 1970s, wages have declined in developing countries

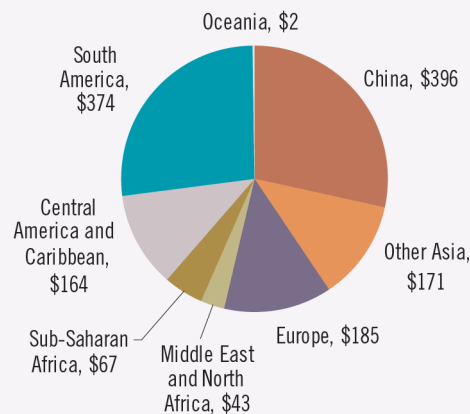
during economic contractions without expanding to previous levels during periods of growth. An analysis of 32 developing countries experiencing currency crises shows a total wage loss of \$545 billion between 1980 and 1998, subsequent recoveries only offset about one-third of this loss (Oxfam 2002: 33-36).

International Aid Can Miss Its Target

The international community plays an important role in providing technical and financial support to developing countries. From 1998 to 2003, official development assistance increased by more than one-third, to US\$76 billion (World

FOREIGN DIRECT INVESTMENT IN LOW- AND MIDDLE-INCOME COUNTRIES, 1993-2002

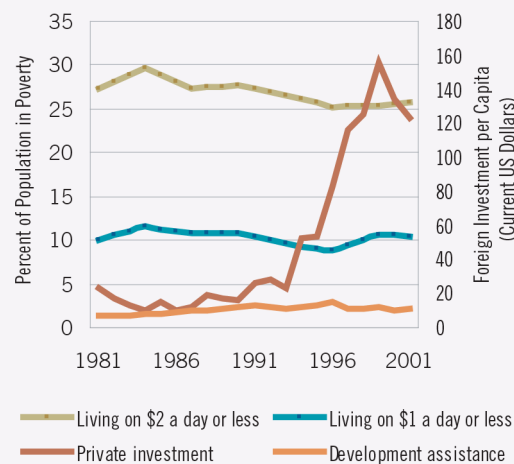
Total Investment in Billion US Dollars



Source: World Bank 2005

enterprises that might benefit the poor. Thus FDI investments may help the poor in the long term, but have not been proven to reduce poverty in the near term. In Latin America, foreign private

TRENDS IN INVESTMENT AND POVERTY RATES, LATIN AMERICA AND THE CARIBBEAN, 1981-2001



Source: World Bank 2004, 2005

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