The Impact of Globalization and Trade Liberalization on the Lives of the Poor in Sub-Saharan Africa

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1. INTRODUCTION

This article discusses the changing development context in which trade takes place and the impact of both trade and globalization on all segments of society, especially the poor. It discusses some key aspects of globalization, of the multilateral trade negotiation systems dominated by the World Trade Organization and the liberalization of national economies. Among other points, the article highlights the need for developing countries to enhance their capacity to negotiate.

After the Introduction, Section II looks at important features of globalization and trade liberalization. Section III considers globalization's inherent structural weaknesses, while Sections IV and V look at specific issues with regard to trade and investment and unemployment, respectively. In this regard, the article attempts to capture country-based lessons of experience. The article ends with a discussion of the possible options for the future and a conclusion.

Africa has been grappling with the forces of globalization, economic and political reform, trade and financial liberalization and the impact that such trends are having on society as a whole and the poor in particular. This has followed rapid and far-reaching changes in the functioning of national economies since the collapse of communism and the socialist internationale. The ensuing political, economic, social, environmental and technological changes have transformed the context of economic management and operation both within countries and on the entire global scene. This has created an entirely new context for the economies of Kenya, Uganda and Tanzania and prospects for their integration.1

Trade liberalization and the opening up of individual national economies to, and their integration with, the global economy are almost universally seen as pre-conditions for economic growth and aggregate economic well being (Winters, 2001) and as being

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1 Kenya, Uganda and Tanzania are Members of the East African Community (EAC), hereby referred to as EAC States.
central to the remarkable growth of the 20th century (Krueger, 2004). This has triggered confidence that openness and trade liberalization, more specifically in the context of the WTO trade regime, will spur economic growth and reduce general poverty levels in less developed countries (LDCs).

In the last two decades, we have witnessed progressive liberalization of trade in goods and services both within and between countries. The international economic and financial system, especially the Breton Woods Institutions (Bwis) and the WTO have backed these trends through conditionalities entailing reducing tariffs, opening up domestic markets, privatization and the removal of anti-export bias—the transition to free exchange rate mechanisms and relaxation of capital controls.

In the past, for various reasons and to varying degrees, governments of all political persuasions intervened in the economy through actual takeover or by lesser forms of control such as influencing the pricing system, at least for public utilities such as water and electricity. Though most countries of Sub-Saharan Africa (SsA) inherited “free market” economies, many of them quickly opted for “African socialism” associated with central planning and a predominance of parastatals. Private companies were usually judged as unethical, exploitative and incapable of upholding “corporate conscience” and putting societal concerns, including morals and environment, ahead of the pursuit of their own selfish interests. As the Chicago University Nobel laureate for economics, Milton Friedman, argued, “there is one and only one social responsibility of business, to use its resources and engage in activities designed to increase its profits” (Friedman, 1962).

The outcomes of socialist approaches and public-sector-led development were poor or, at best, mixed. By the mid-1970s, signs of economic decline in SsA were evident. By and large, the parastatals drained budgetary resources to remain afloat until, in the end, not even State-owned banks, such as the Uganda Commercial Bank or Tanzania’s National Bank of Commerce, were willing to bail them out. Although the basic needs of the poor were addressed through egalitarian policies, especially increased social-sector spending, the approach was not sustainable given low economic growth rates.

However, there is general consensus that if regulated, the private sector can be an “engine of growth and development”. Despite past reservations about transnational corporations (TNCS), improvements in corporate governance and strong regulation can improve their performance for corporate and societal benefits. Consequently, the last twenty-five years have seen a lot of efforts aimed at reversing public-sector dominance and giving more economic power to actors in the private sector, either on their own or through public-private partnerships.

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2 The expansion of the public sector was not limited to SsA. For example, the ratio of public expenditure to gross domestic product (GDP) in the United Kingdom rose from 12.7 percent in 1913 to 40.2 percent in 1998.

3 With the largest TNCS having annual revenues of US$ 220 billion, or 25 times Tanzania’s GDP, their successful regulation is dependent on strong global corporate governance.