

Comment on “Trade, Growth, and Poverty--A Selective Survey,” by Andrew Berg and Anne Krueger, and “Doha and the World Poverty Targets,” by L. Alan Winters

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Although the articles commented on here address the links between trade and poverty from different perspectives, they both arrive at a similar conclusion--namely that policy reforms moving economies toward free trade and worldwide integration are poverty reducing. In light of the increasing criticisms by antiglobalizers, these findings are of great importance.

Andrew Berg and Anne Krueger present a review of an abundant literature, showing that there is a link between trade liberalization and poverty reduction that works mainly through the growth-inducing effects of trade. The existence of this link, therefore, becomes an important argument for unilateral reforms of developing and industrial countries. Based in part on the literature reviewed by Berg and Krueger, Alan Winters develops the liberalization elements that the Doha Development Round should achieve if it is to reduce poverty. Therefore, in contrast to the article by Berg and Krueger, the emphasis in the discussion offered by Winters is on multilateral trade liberalization.

<A>Comments on “Trade, Growth, and Poverty”

In a review of more than 100 studies, most of them published during the last 10 years, Andrew Berg and Anne Krueger arrive at three main propositions: (1) average per capita growth is the major determinant of poverty reduction, (2) trade openness is an important determinant of growth, and (3) the growth that is associated with trade is as pro-poor as growth in general. The authors present convincing evidence that the three propositions are supported by the literature that they have surveyed. I will present brief comments on each of these three propositions.

Growth and Poverty

The evidence in favor of the first proposition is taken mostly from recent work by Dollar and Kraay (2001). In a cross-country study those authors regressed the average annual change in log of per capita income of the lowest quintile on the average annual change in the log of per capita income finding a regression coefficient that is close to 1. Although statistically significant, the R^2 of this regression is 0.49, which indicates that there have been cases in which negative per capita growth of the lowest quintile has occurred in countries experiencing positive per capita growth. Those are countries in which growth has hurt the poor, and that appears to have occurred several times. In which countries has that happened? Are there some common characteristics to explain why it has occurred? We have to pay particular attention to those cases because they are most likely to discredit the globalization process.

Questions like those indicate that cross-country econometrics can take us only so far; after that we have to go into in-depth country studies. In the case of Argentina, for example, although in 1998 the incidence of poverty (measured by the percentage of the population with incomes below the poverty line) was only slightly below the figure recorded for 1989, the per capita income level was 26 percent higher. That failure of growth to be associated with poverty reduction has been used by part of the domestic political system to discredit the whole program of reforms implemented in Argentina in the early 1990s. While the political system was failing to focus on those elements that prevented a faster reduction of poverty, an increasing proportion of the population has ceased to believe in the efficacy of market-based policies--although it is clear that for the first time in decades these are the policies that proved capable of accelerating the growth performance of the economy.¹ One lesson from Argentina's experience is that the multilateral system and the reforming countries themselves have to remain alert to any signals that accelerating growth following the implementation of reforms is not showing poverty reduction effects.

Trade and Growth

Regarding the effects of trade, Berg and Krueger argue that openness fosters growth through a number of channels, including improved resource allocation, higher degree of competition, more rapid acquisition of knowledge and innovations, and lower levels of rent-seeking and corruption.

The driving question is whether increased levels of openness actually have accelerated growth. Essentially two types of econometric approaches have been used to address that question: cross-country analysis explaining growth with several variables, including measures of openness, and studies of the convergence properties in regions of individual countries such as the United States or in regions that are quite integrated, like parts of Europe. According to Berg and Krueger, this second type of analysis shows a clear convergence of the poorer regions to the income levels of the richer regions. Although these studies are comforting in their suggestion that full integration of economic policies and institutions is a powerful force for convergence, most developing countries are still far from such integration. When integration is not full, the crucial question for econometric testing is how to measure differential degrees of openness. There have been two approaches for measuring this variable: policy-based indicators and results-based indicators. Berg and Krueger conclude that although the second type of variables has been criticized by Rodriguez and Rodrik (2001), **[AU: please see my query in your reference section about using a more recent publication of this source. I agree]** numerous studies using both approaches show sufficient evidence to conclude that there is a positive association between openness and growth.

Again, as revealed in the studies on linkages between growth and poverty, those studies that have analyzed the relationship between openness and growth have shown high residual variability. On that point Berg and Krueger assert, “We recognize that there is substantial uncertainty surrounding these estimates. In some specifications openness is not robust, for example, and frequently related variables of interest are too correlated for the data to tell which matters most.”

Trade and Poverty

Berg and Krueger conclude, “On the question of whether the poor benefit more or less than others do, no clear pattern emerged from the numerous studies of individual liberalization episodes.” I was a little surprised with the conclusion that growth fostered by trade liberalization has been as pro-poor as growth in general. Theory and empirical evidence suggest that trade liberalization in labor-abundant countries is pro-unskilled employment and, therefore, should be more pro-poor than trade liberalization in countries with relatively higher relative **[AU: can you revise this sentence to eliminate the double use of “relative”? I don’t understand]** capital to labor endowments. I believe we have to look more closely at this outcome because econometric analysis may not be the most suitable approach for reaching clear conclusions on this linkage.

For example, factor markets distortion is one possible explanation for why trade liberalization in Argentina was not as pro-poor as expected.. Other explanations include the pattern of trade liberalization and protectionism, including more rapid opening to labor-intensive than to capital-intensive imports. One underlying force that helps explain why strong growth had only marginal positive effects on poverty is that the growth created relatively few employment opportunities.² As a consequence, the open unemployment rate rose and has remained very high. Although in 1991 unemployment was 6.6 percent, it jumped to 20.2 percent in 1995 and strong growth in the next three years could reduce it only to an average of 16 percent. The core questions are why did unemployment grow so strongly until 1995, and why did the strongly growing economy not create enough jobs when it emerged from the 1995 tequila recession?

Some analysts argue that distortions in factor markets played a central role in impeding job creation and increasing unemployment. For example, with the aim of modernizing the economy, during most of the 1990s a consistent policy goal was to reduce as much as possible the price of capital goods that carried the lowest possible tariff, often 0 percent. Furthermore, imports benefited from an overvalued exchange rate. During these years, the very high taxes on wages and other distortions were only partially reformed and that generally prevented the economy from being flexible enough to adjust to significant business cycles that were associated in part with contagion effects. Clearly, the reform program appears to have reduced too deeply the relative price of capital to wages. As Anne Krueger has put it very clearly in many of her past studies, analysis of factor markets is a key to understanding whether shifting to openness will lead to a more or less labor-intensive growth path (Krueger 1983) and whether those distortions can be so serious as to prompt backsliding of trade liberalization as appears to have occurred in some countries.

Conclusion

A powerful observation by Berg and Krueger is that in the experience of the last 20 years, “there are no examples of recent-takeoff countries that have not opened to an important extent as part of the reform process.” But we know that experiences vary greatly, and there is evidence of marginalization-- some countries have implemented some trade liberalization but apparently failed to grow and to reduce poverty. Those cases fall within the range of variability of the econometric studies, but the multilateral system has to remain vigilant for reforming countries that fail to grow because that failure may reveal some development traps. In making this comment I am aware that some of the countries that have been classified as strong globalizers, such as the South Korea, have developed from a situation of extreme poverty similar to the one that characterizes many developing countries today. But many things have changed since Korea’s economy took off and they may have increased the possibility of development traps in very poor countries.

Finally, if the Doha Development Round fails to arrive at important trade liberalization, particularly in agriculture (which as I indicate below is likely to happen), then the case for regional integration with a rich country such as the United States is strengthened. This comes from the conclusion by Berg and Krueger that the “evidence does not speak to whether trade liberalization itself is sufficient to permit poor countries to grow fast, but it does suggest that if a poor region adopts enough common institutions and liberalizes enough (*and if its partners liberalize fully*), then relatively fast growth will ensue.”³

<A>Comment on “Doha and the World Poverty Targets”

As I’ve indicated, the essential link between trade and poverty is growth. Winters’s analysis is framed in a normative dimension as he selects some of the items in the Doha Development Round agenda (DDA) that promise to deliver the most significant welfare gains to the world economy. He also discusses others elements of the agenda that may thwart achievement of liberalization goals. In the first group he puts agriculture and the movement of natural persons, and in the second group he puts the Singapore issues and preferences.

The first question I pose in commenting on Winters’s article is: Will the DDA be seriously supportive of liberalizing trade in agricultural goods and of the movement of natural persons? Given available information, my answer is that most likely the outcome of the DDA will not be seriously trade-liberalizing. I base this forecast on evidence indicating that important liberalization of agriculture and the movement of natural persons is unlikely. After arguing that, I will present some comments on the Singapore issues.

Agriculture

Winters notes that agriculture is the key sector for most poverty alleviation because nearly three-quarters of poor people in the less developed countries and half in the developing countries work in that sector. Agriculture is also the sector expected to deliver the most significant gains from liberalizing trade in goods (World Bank 2002). So what is the starting point of the DDA? From the analysis of many authors searching for the trade liberalization effects of the Uruguay Round Agreement on Agriculture (URAA), the conclusion is that we have to look through a magnifying lens to find some evidence of its existence and even then, we are likely to find nasty surprises. For example, in an analysis comparing the average import to domestic consumption ratios of several agricultural products of the Organisation for Economic Co-operation and Development (OECD) countries during the periods 1989–94 and 1995–2000, Diakosavvas (2001) found a statistical significant increase only for wheat.⁴ He concluded that the results “provide support to the argument that for a number of agricultural commodities in [AU: “the” in original? I cannot find the original paper and the Bank’s website from where I downloaded this paper has been discontinued . Perhaps you can locate it in the Bank] OECD area, *market openness in the post-URAA era is not discernibly different from that of the pre-URAA.*”[AU: original page number(s) for that quote? I cannot find the original paper] Not only has access to OECD markets remained relatively unchanged since the conclusion of the UR, but also some import policies (for example, reference prices and export subsidies) have continued destabilizing and distorting world agricultural markets (as recently emphasized by the World Bank [2002]).

Why did such a disappointing UR outcome occur? A brief recounting of the round will illustrate some disturbing factors. First, the most significant obligations that industrial countries undertook in the URAA was the tariffication [AU: tariffication is not a standard English word and your meaning here is uncertain. Please redraft this sentence to state your point more clearly. Nevertheless it is used in othe WB publications as in other organizations like the OECD] of many of their nontariff barriers (NTBs) into ad-valorem tariffs, and their reduction by 36 percent over a period of six years that concluded in 2000. What degree of liberalization was accomplished with the implementation of these tariffs? The selection of a particular base period (1986-1988) characterized by low international prices, for estimating equivalent ad valorem tariffs already biased the tariffication exercise [AU: what do you mean by “tariffication exercise”? It is the estimation of the equivalent ad-valorem tariff of NTBs] towards high ad valorem tariffs. To make things much worse, the evidence indicates that for many products in many countries, the tariff equivalents of the NTBs notified to the World Trade Organization (WTO) as part of the country schedules often were appreciably higher than the true tariff equivalents prevailing in the base period. Those inflated tariffs have been called dirty tariffs and, as the last column in Table 1 shows, in some cases the reported tariff exceed the tariff equivalent by 50 percent or even 100 percent.

[COMP: insert table 1 close to here.]

For some products, the situation is so bad that even under a significant trade liberalization outcome of the DDA, resulting protection levels could be higher than before the UR, which indicates that two multilateral trade rounds will have not reduced protection at all. Agricultural markets in industrial countries remain highly distorted not only as a consequence of dirty tariffs but also by tariff quotas, with many very high if not prohibitive out-of-quota rates, tariff peaks, and tariff escalation, and with specific tariffs for some products like fresh fruits that vary by period of the year and by the level of import prices.

Given the degrees of freedom that remain in the URAA for providing protection and subsidies, it is not surprising that as a result of declining world agricultural prices in recent years, the total support

to agriculture by OECD countries increased massively between 1997 and 1999 without violating the URAA. For some products the distortions are so significant that some countries that are natural net importers of agricultural products have become net exporters.⁵

The highly distorted OECD agricultural markets have serious negative consequences for efficient producers. In addition to the uncertainty coming from high international price variability,⁶ negative effects could occur through financial channels when foregone exports attributed to agricultural protection worsen the solvency indicators of efficient producers (Nogués 2001).⁷

What are the odds for agricultural liberalization in the DDA? It is risky to make a forecast but on the basis of the previous discussion I suggest that the prospect for such an outcome could be much higher than what it is today. First, there is no substantive difference between the language of the Doha Ministerial Declaration and that of the declaration that launched the UR. Both promise a reduction of import protection and both promise a tightening of subsidies and domestic support policies. If promises were not kept in the UR, why should we expect something different this time? Second, as Winters recalls, in a Doha ministerial meeting the European Union (EU) was successful in deleting from the declaration the Cairns group and the United States request that negotiations should seek the elimination of export subsidies. Third, several OECD countries have made it clear that in the area of sanitary and phytosanitary standards they intend to continue pressing for increasingly demanding food safety levels with potentially negative effects on trade (World Bank 2002). Fourth, the EU reluctance to liberalize trade takes place in spite of very high welfare gains that it would obtain from such a policy, and that suggests that a very powerful lobby is at work. Fifth, the concept of multifunctionality has now been institutionalized and unless it is carefully crafted, it will most likely be used to *provide* protection rather than to dismantle it. Sixth, the approval of a record subsidy-granting farm bill by the U.S. Congress will become another source of trade tensions in the North Atlantic region and will add to the negative effects on efficient producers like some countries in the Cairns group. Finally, as discussed above, there are so many dirty tariffs that even if an important liberalization is agreed to, trade barriers for some products at the conclusion of the DDA might remain higher than in the pre-URAA.

My comments offer no basis for suggesting that the DDA will seriously liberalize agricultural trade.

Movement of Natural Persons

Winters writes that according to his estimates, if a successful negotiation on the movement of natural persons (meaning relatively unskilled workers) is concluded, the gains for developing countries could be more than twice as important as the gains from liberalizing trade in goods. What are the prospects of liberalizing this type of trade in services? Again, I believe the possibilities are low. First, Srinivasan (2002) has reminded us that the UR established a negotiating group on the movement of natural persons with a mandate to complete negotiations by mid-1995 but “negotiations are still to be concluded” (p. 16).

Second, both the United States in the Free Trade Agreement of the Americas (FTAA) negotiations and the EU in its negotiations with the Mercado Común del Sur (MERCOSUR) have made it clear that they do not want this subject on the table. For example, the United States has indicated that it “excludes immigration policy and access to employment markets from the scope of the services chapter of the FTAA agreement”⁹ [AU: page number(s) for that quote? The FTAA is extensive and I hope to have clarified more in the revised footnote 9] If industrial countries take this position in the regional negotiations, why should we expect them to take a more liberal position in the DDA?¹⁰

Singapore Issues and Intellectual Property

I have no doubt that all of the Singapore issues (trade and investment, trade and competition, government procurement, and trade facilitation) have a role to play at some point in the development process. Winters questions (a) whether the WTO is the right place to discuss them, (b) how possible multilateral rules could affect development, and (c) whether developing countries have the resources to run the institutions that likely will be created and how efficiently they will perform that job. A parallel with the intellectual property negotiations of the Uruguay Round that resulted in the TRIPS Agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights) helps to illustrate some of the delicate issues at stake. The TRIPS agreement was reached against the will of many developing countries that did not see clear benefits to strengthening their intellectual property laws--at least not in the way that the WTO agreement mandates (Finger and Nogués 2002). To my knowledge, during the UR negotiations there never was a clear assessment of TRIPS's likely consequences on different developing countries and therefore, they can be characterized as lacking transparency.

It is important to recall that the issue never was whether intellectual property rights (IPR) had a role to play in development because, at the time of the UR negotiations, most if not all of the WTO developing members had laws that protected those rights. The issue was then and still is whether what the industrial countries were seeking in terms of harmonizing and strengthening those rights was the appropriate policy for all developing countries. This issue is most apparent in the case of patents for pharmaceutical drugs where discussions were more influenced by powerful lobbies than by informed analysis. Winters's discussion of the Singapore issues suggests that many important questions remain unanswered. Those questions have to be addressed by developing countries and incorporated into the research programs of international development organizations.¹¹ Therefore, until developing countries conclude that any of these issues will result in clear benefits to their economies, they should not support early negotiations. Not taking a firm stand in the UR led developing countries to sign the TRIPS agreement that was and remains clearly unfavorable to them. Winters hints that if developing countries stand firm against the Singapore issues, industrial countries might retaliate with less agricultural liberalization. Perhaps that could occur, but in an open and transparent trading system it should not happen. If developing countries' rights to understand and conclude that there are clear benefits to be reaped from the Singapore issues are curtailed, then the transparency of the multilateral trading system is called into question.

Conclusion

In terms of the mercantilist yardstick with which international trade negotiations are assessed, the UR outcome was unbalanced against many developing countries. Without a significant liberalization of agriculture and the movement of natural persons, the DDA is likely to result in another unbalanced outcome, and that would support neither the interests of developing countries nor those of the trading system (Finger and Nogués 2002). Although I hope my forecast is wrong, the available information indicates that the DDA is very unlikely to result in the serious liberalization of trade in goods and services that would confer important export and development opportunities on developing countries.

So what can developing countries do to protect their interests? My bottom line is that they should stand firm when having reasonable doubts about the net benefits of possible negotiating outcomes, and request clarifications before they sign any proposed multilateral agreement. A firm stance in the DDA by developing countries will help achieve a more balanced outcome and, in doing this, those countries would be increasing the capability of the trading system to contribute to poverty reduction.

<A>Notes

1. This comment is based on factors prevailing before the recession that started in late 1998. That recession and the chaotic macroeconomic policies implemented after the devaluation in early 2002 have made things worse.
2. There also was an increase in labor supply.
3. Italics here and elsewhere in quoted materials are mine.
4. I focus on agricultural protection by developed countries, but I agree with Winters that some developing countries maintain an important anti-agriculture bias in their trade policies that should be reduced if this sector is to increase its contribution to their growth.
5. As an example, the World Bank (2002) reported that before 1992 the EU was a net wheat importer but since then, export subsidies have allowed it to become a net exporter.
6. Citing the 1986 World Development Report, Gardner (2001) recalled that “global market liberalization would reduce the volatility of all major traded commodities by one-half or more” **[AU: original page number(s) for this quote? I cannot find this report]**
7. Clearly, agricultural protectionism is a source of incoherence between the multilateral trading system and the international financial system, and its financial and debt consequences have to be studied more carefully by the Bretton Woods Institutions. The financial consequences of protectionism are discussed in greater detail in Nogués (2002). **[AU: no Nogués 2002 listed in the references; only 2001. Please correct as needed.]**
9. Taken from the United States position in the FTAA negotiating group on services as presented in www.ustr.gov . As a contrast to the position taken by the EU, Lindert and Williamson (2001) quantified the significant contribution of Argentina and other southern countries as recipients of European migration during the first wave of globalization between 1870 and 1910.
10. More research by the Bretton Woods Institutions could raise awareness on the importance of this subject.
11. For example, a great majority of developing countries do not even have a competition law. At a minimum, passing these laws and creating competition commissions should only be considered if there are good professionals to run them. Also, as Winters indicates, even if the country can ensure an adequate budget and technical expertise, this is no guarantee that these commissions would be independent of political influences. Regarding costs, it may be illustrative to mention that the annual budget of Argentina’s competition commission is approximately U.S.\$1.3 million, and those resources clearly are inadequate.

Table 1. Tariffication of NTBs by Some OECD Countries

European Union	Tariff equivalent of NTBs (1)	Tariff binding 2000 (2)	Binding 2000/ tariff equivalent (3)
Wheat	68	109	1.60
Coarse grains	89	121	1.36
Rice	103	231	2.24
Beef and veal	97	87	0.90
Other meat	27	34	1.26
Dairy products	147	205	1.39
Sugar	144	279	1.94
EU unweighted average	45	73	1.63
U.S. unweighted average	13	23	1.77

Source: Anderson (1998) based on Ingco (1995).