

COMMENT ON DR. SURJIT S. BHALLA'S PAPER, 'TRADE, GROWTH AND POVERTY: RE-EXAMINING THE LINKAGES' *

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1. This paper is the reference paper for Session C: Trade and Poverty, Subsection 2: Effects of Trade on Poverty Reduction. As the topic of this session is very wide, it is expected that the author will have a very large leeway in which to select a particular aspect of trade and poverty reduction to be the main focus of the paper. The author has decided to focus on the methodological issues concerning the relationship between trade and growth, and growth and poverty reduction. As there is no single way in which this topic can be analysed and discussed, what I propose to do in my comment on Dr. Bhalla's paper are will consist of two parts, one is to comment on what Dr. Bhalla has done (or said), and the other is to comment on what Dr. Bhalla could have done (or said).
2. First, on what Dr. Bhalla has said, it was very obvious from the beginning that Dr. Bhalla is an enthusiastic proponent of the important role of growth on poverty reduction. At the end he would dismiss those sceptics who doubt the power of growth in reducing poverty in any nation. However, those who are familiar with the previous major work of Dr. Bhalla, his book published by the Institute of International Economics (IIE) in 2001 called, *Imagine There's No Country: Poverty, Inequality and Growth in the Era of Globalisation*, may notice that the strength with which Dr. Bhalla had attached to the force or power of growth in poverty reduction has become less in this paper than in his book. He became more cautious while talking about growth, often emphasising the variability and quality of growth more than just growth per se. This is good, and this practice should continue to be pursued.
3. Dr. Bhalla wants to establish relationships or linkages between trade and growth, and growth and poverty. To do so, he employed econometric techniques where growth is explained by various measures of trade using cross-sectional, multi-country data. These are fashionable techniques where organisations such as the World Bank have spent million of dollars supporting (and some of the works have become well known such as the studies by David Dollar and Aart Kraay on 'Growth is Good for the Poor', and 'Trade, Growth and Poverty'). While this type of study has its own merits, and can be useful as a general guideline on the importance of certain policy instruments, the actual usefulness of this study in a specific economy or country may not be so obvious. Moreover, there can never be a complete agreement of a given technique, or a given functional form, or a given model specification. Someone, somewhere, can always find faults with any

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given models and the use of multi-country regression data. Noted economists such as Srinivasan and Bhagwati had said in their 1999 paper called 'Outward-Orientation and Development: Are Revisionists Right?' that we will ultimately not be able to find "scientific proof" of the effects of trade on growth using cross-country regressions. And despite their strong messages, Dollar and Kraay were cautious to point out problems associated with their techniques which include measurement errors, omitted variables, and the problems of endogeneity or reverse causation (for example, growth affects trade more than the other way around).

4. As a result of these problems of cross-country regression studies, it is doubtful to accept certain findings as immutable. For example, Dr. Bhalla has used as one of his reasons to undertake this study to prove that the World Bank's finding that 24 per cent increase in per capita consumption has led to only 5 per cent fall in poverty was wrong. But one should not take this World Bank's finding very seriously in the first place. Other findings can also be questioned. The finding that, one average, with no change in income distribution, a 10 per cent increase in average incomes can be expected to lead to a decline of between 5 and 6 percentage points in the head count ratio of poverty can be far too large. In some countries (such as in Thailand), the effect can be only one-tenths of that. This is why it is so dangerous for an outside expert who knows little about local situation or country specificity to go into a specific country and offer recommendations based on these cross-country generalisations.
5. Still on the issue of methodology, Dr. Bhalla has suggested that rapid growth in East Asian economies could be due to their policy of exchange-rate under-valuation. This is an interesting conjecture but not very convincing. The effects of exchange-rate variations can be haphazard and unpredictable. Under-valuation can be both the cause of economic growth and recession, and so can over-valuation.
6. Perhaps it is more useful to use case studies approach to investigate the relationships or linkages between trade and growth, and growth and poverty reduction, as Srinivasan and Bhagwati had suggested. The full understanding of the political economy of trade, development and poverty policies are probably more important than cross-sectional, multi-country studies. Moreover, it is possible to tackle the bilateral relationship between trade and growth and poverty reduction directly. Imagine a triangle where the top corner is poverty reduction, the left corner is trade, and the right corner is growth, we can have a triangular relation, between these three concepts, policies, or phenomena, that is to say, trade and growth along the bottom of the triangle, and growth and poverty reduction, and trade and poverty reduction along the two sides of the triangle. Dr. Bhalla is an experienced development economist who could make a great intellectual contributions by tackling the above triangular relation directly.
7. An example of the above type of study could be found in the paper by L. Alan Winters called 'Trade, Trade Policy and Poverty: What are the Links?' In this paper, Winters has constructed an analytical scheme whereby the effects of trade policy are transmitted to the change in poverty through four channels namely individuals and households, enterprises, government, and the distribution

mechanisms as a result of price changes. Although in this paper Winters only talked about conceptual issues concerning the linkages between trade and poverty but without going into empirical issues or findings in any countries, it is very useful in helping one to understand how to go about studying the relationship between trade and poverty reduction. Dr. Bhalla with his extensive knowledge of trade and growth policies in India and other developing countries could do the same, and could also offer important and useful guidance to the study of the relationship between trade and poverty reduction.

8. There are at least two issues that are left out entirely from the discussion which could be of great importance in the relationship or linkage between trade and poverty reduction. One is the importance of growth and inequality trade-off on poverty and the other is the governance issues concerning the poor and the people and the environment around them. Many scholars and researchers have now begun to study how inequality has impacted upon poverty (such as how much growth is needed in order to offset the adverse impact of an increase in inequality on poverty). For some countries (such as Thailand), this growth-inequality trade-off can be very large, and has substantial effects on the success and failure of poverty reduction policies. Indeed, in the case of Thailand, it could be argued that the failure to have a faster reduction in poverty (and/or more sustainable poverty-reduction efforts and less vulnerability of the poor) could be attributable to the persistent and deep-rooted inequity in the Thai economic and social systems.
9. On the governance issues, it is now very apparent that poverty is brought on by the lack of transparency and proper targeting in the ways the government carries out its duties. The ADB itself has this included in its poverty reduction strategies. Therefore, in any future discussion on poverty reduction, governance issues should be discussed more thoroughly.
10. Amartya Sen once said that poverty occurred because people lack capability to trade. This shows how important trade is to poverty reduction. If globalisation is closely associated with growing trade, then we should expect world poverty to decline with increased trade through globalisation.