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Trade, Growth, and Poverty

DAVID DOLLAR with Aart Kraay

Abstract

A key issue today is the effect of globalization on inequality and poverty. The paper identifies a group of developing countries that are participating more in globalization, at least partly because of their more open policies. Post-1980 globalizers differ from the rest of the developing world in tariff cutting, increased trade volume, and foreign investment. Growth rates of the globalizers accelerated from the 1970s through the 1990s. The rest of the developing world followed the same pattern as developed countries: growth decelerated from the 1970s through the 1990s. In the 1990s, globalizing developing countries grew at 5.2 percent per capita, developed countries at 1.9 percent, and non-globalizing developing countries at –0.2 percent. Within country variation shows a positive relationship between trade volumes and growth rates. Trade volume has no systematic link to inequalities in household income. Accelerated growth rates, with expanded trade, generally yield proportionate increases in income for the poor. Absolute poverty in globalizing developing economies fell sharply in the past 20 years. Countries can adopt several measures to ensure that globalization benefits the poor.

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