Globalisation, Trade and Poverty

Hossein Jalilian
Director of Research, CDRI
hossein@cdri.forum.org.kh

ARTNet Capacity Building Workshop for Trade Research
Phnom Penh, Cambodia
2-6 June 2008
Structure of the paper

• Dimensions of Globalisation
• Potential Negatives of Globalisation
• Methodology
• Sources of data
• Data Analysis
• Results
Dimensions of Globalisation

- Knowledge
- Trade
- Labour Market
- Short Term Capital Flow
Dimensions of Globalisation

• Knowledge
  – Technology
  – Institutions

• Trade
  – Increase openness
  – Reduced Transaction costs
  – Link with growth
  – Better resource allocation
  – Input acquisition
  – Transmission of Improved Technology
Dimensions of Globalisation

• Labour
  – Migration

• Short Term Capital flow
  – Risk diversification
  – Banking efficiency
  – Capital Market Liberalization
Potential Negatives of Globalisation

• Trade
  – Reduced demand for unskilled labour
    • Reduced cost of capital
    • Least skilled
    • Labour market distortions
  – Increased competitive pressure
    • Non-dynamic sectors
  – Lower real wage in short run
    • Increased inequality
  – Restriction on LDC trade
    • Agriculture
Potential Negatives of Globalisation

• **Labour Market**
  – Restriction on Migration
  – Brain drain

• **Capital Market**
  – Increased volatility
    • Higher Interest Rate
    • Financial crisis
      – Quality of Institutions
  – Asymmetric and pro-cyclical access to finance
  – Penetration of Foreign banks
    • Increased transaction cost for small borrowers
  – **Human Capital effect**
Methodology

• Capturing direct and indirect effect
Methodology

• Capturing direct and indirect effect
  – Indirect effects:
    • Growth V Globalisation
    • Inequality V Globalisation
  – Direct effect:
    • Poverty V Globalisation
  – Modelling total effects:
    • Reduced form
    • System of equations
Methodology

– Ad-hock modelling:
  • Dollar and Kraay
  • Agenor

– $Pov = \alpha G + \beta X + \gamma Y + \chi Z$

  • $G =$ Globalisation Proxy
  • $X =$ Vector of development indicators
  • $Y =$ Vector of Macro stability
  • $Z =$ Vector of control and fixed variables
Sources of data

• General macroeconomic variables:
  – WDI

• Poverty Indicators:
  – HQK
    • Absolute Poverty ($1 and $2 a day poverty line)
  – DK
    • Relative poverty (income of the poor)

• Gini coefficients:
  – DK

• Globalisation Proxies:
  – Trade Ratio (PPP-Adjusted)
    • PWT 6.1
  – Index

• Data sets
  – Unbalanced Panel
  – Average data
Data Analysis

• Descriptive Statistics
• Poverty head-counts
• Poverty and globalisation
RELATIONSHIP BETWEEN OPENNESS AND POVERTY

PERCENTAGE BELOW $1 A DAY POVERTY LINE

OPENNESS
Data Analysis

• Regression Analysis:
  – Structural Adjusted Trade Ratio
    • Pritchett (1996) and Lockwood (2002)
  – Estimation Technique
    • Fixed-effect Panel

• Results: