



CDRI – Cambodia's Leading Independent Development Policy Research Institute

Globalisation, Trade and Poverty

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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**

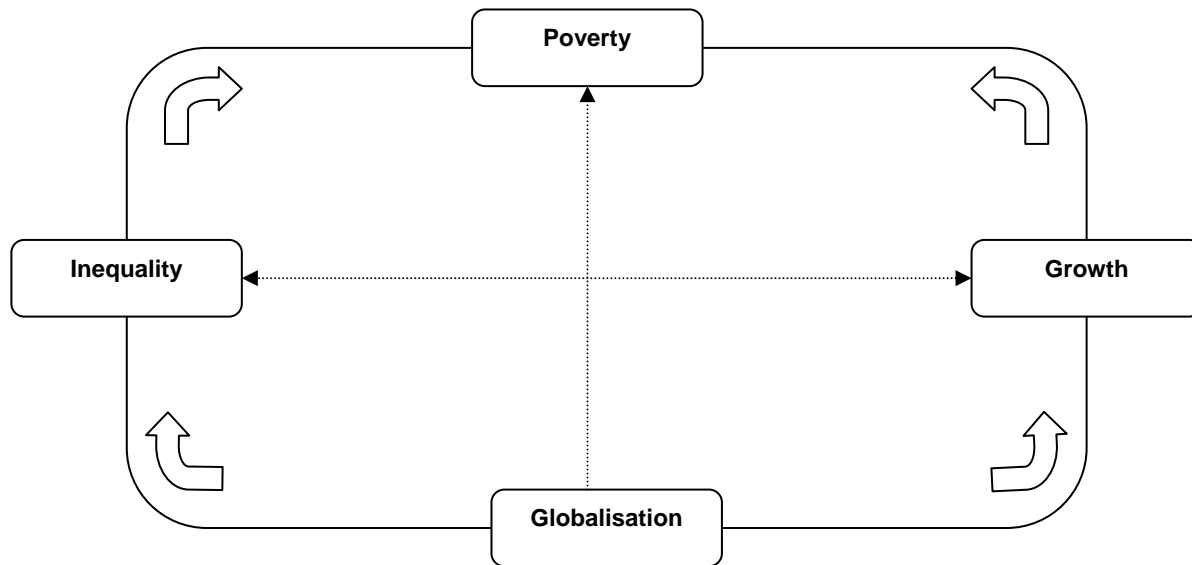
- Reduced demand for unskilled labour
 - Reduced cost of capital
 - Least skilled
 - Labour market distortions
- Increased competitive pressure
 - Non-dynamic sectors
- Lower real wage in short run
 - Increased inequality
- Restriction on LDC trade
 - Agriculture

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

$$- \mathbf{Pov} = \alpha \mathbf{G} + \beta \mathbf{X} + \gamma \mathbf{Y} + \chi \mathbf{Z}$$

- \mathbf{G} = Globalisation Proxy
- \mathbf{X} = Vector of development indicators
- \mathbf{Y} = Vector of Macro stability
- \mathbf{Z} = Vector of control and fixed variables

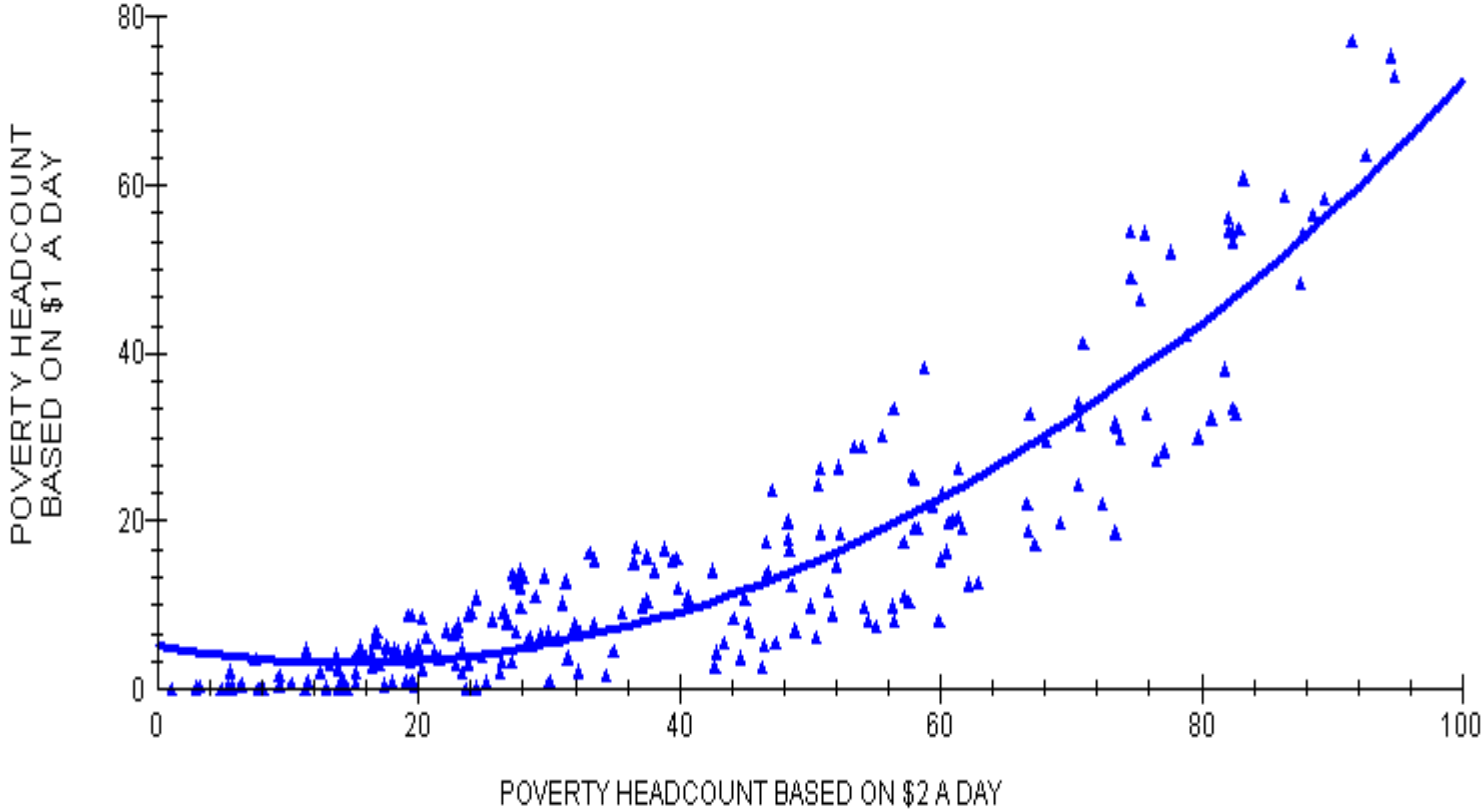
Sources of data

- 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

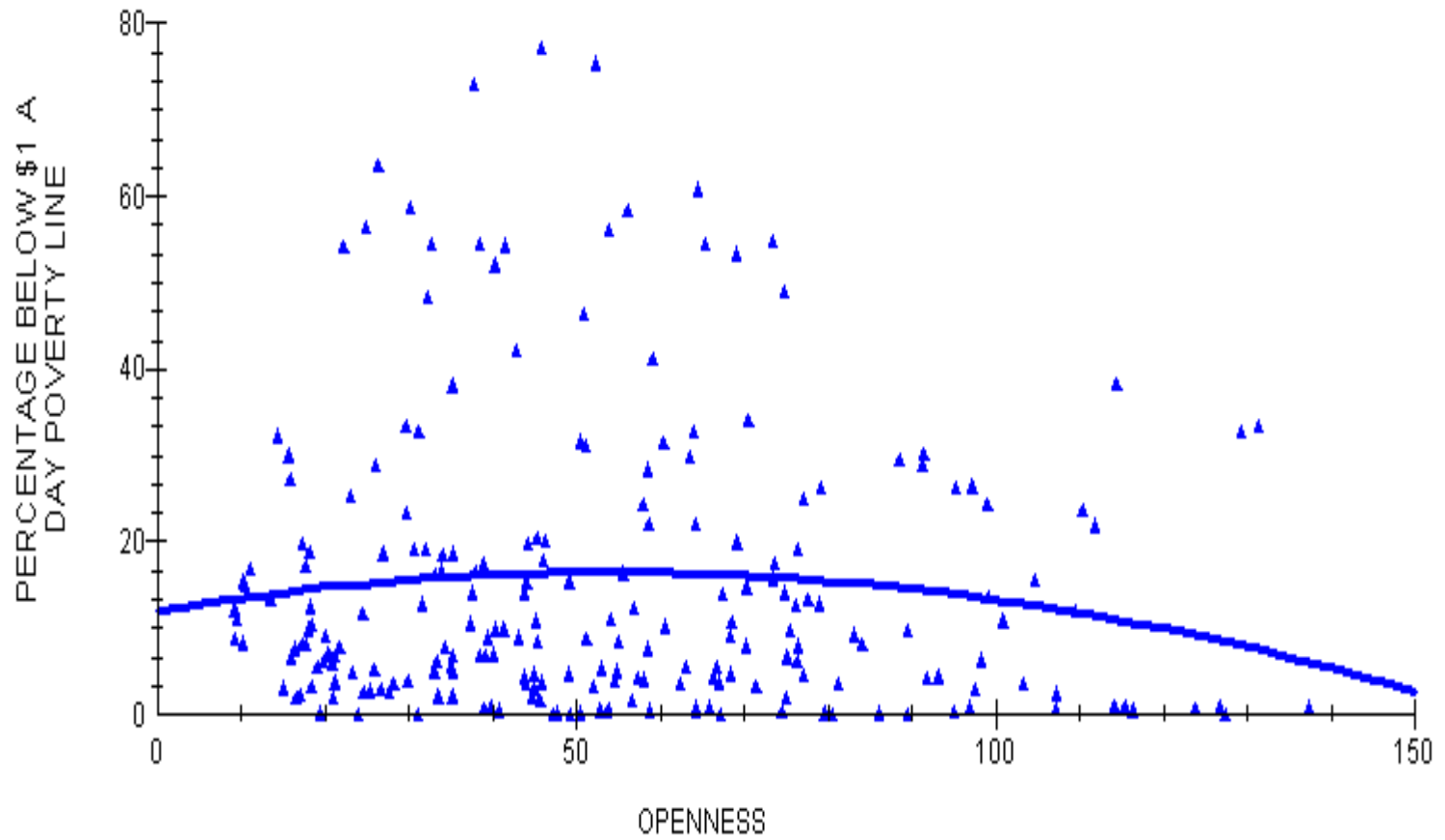
Data Analysis

- Descriptive Statistics
- Poverty head-counts
- Poverty and globalisation

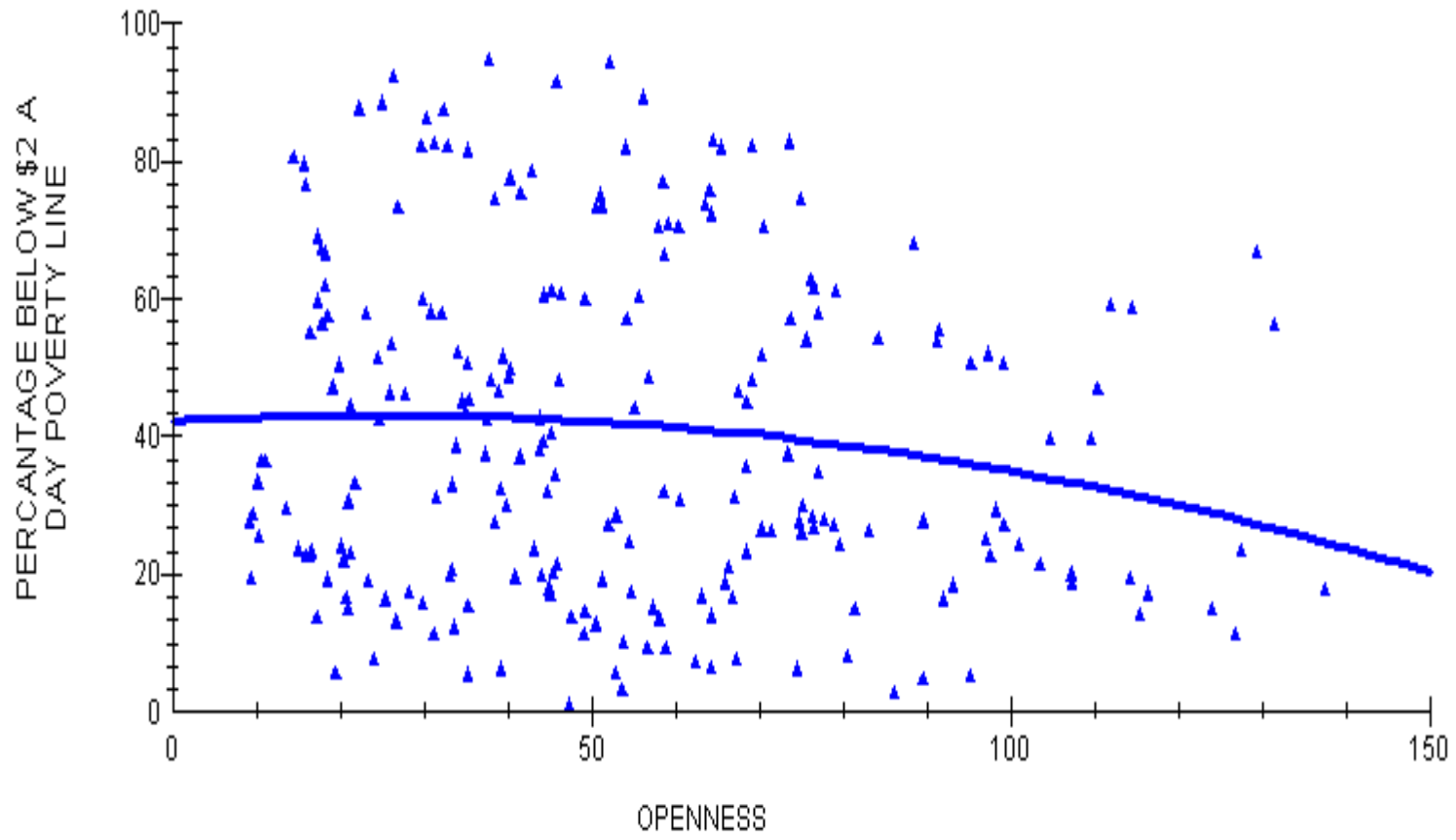
RELATIONSHIP BETWEEN POVERTY MEASURES



RELATIONSHIP BETWEEN OPENNESS AND POVERTY



RELATIONSHIP BETWEEN OPENNESS AND POVERTY



Data Analysis

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