Poverty and Inequality in the New World: Moving forward or backward?

A Critique of 'Globalization, Poverty and Inequality since 1980' by David Dollar

by

Ranja Sengupta

David Dollar, along with his colleague Art Kraay has been a strong advocate of the policies of globalization, and has argued time and again that poverty has decreased and inequality has declined, if modestly, in a globalized world. In particular, openness has not had any significant negative impact on inequality. The recent paper by David Dollar is in a way the aggregation of what he and Art Kraay have said in the past. It does not really move the argument forward except perhaps to say it more vociferously and apparently more systematically, putting several lines of argument together to argue the overall case for globalization.

The first part of the paper puts together some results on poverty and inequality in the globalized world in the form of five trends. As expected, four of the five trends describe the beneficial effects of globalization. The last trend, on increasing wage inequality, is the only one which can arguably show some negative impact of globalization but the author is quick to point out that wage inequality has only a limited impact on household income inequalities.

- Trend 1: Poor country growth rates have accelerated and are higher than rich country growth rates for the first time in modern history.
- Trend 2: The number of extreme poor in the world has declined significantly and the decline in the share of the developing world in the world's poor (living on less that 1 $ per day) was cut in half since 1981 though the decline in those living below 2$ a day was less dramatic.
- Trend 3: Global inequality (among citizens of the world) has declined – modestly – reversing a 200 year trend towards higher inequality.
- Trend 4: There is no general trend towards higher inequality within countries though inequality has risen in several very populous countries (China, India and the US).
- Trend 5: Wage inequality is rising worldwide, but there is no simple link between wage inequality and household income inequality.

In the latter part of his paper, he takes up the case studies of four countries, namely, China, India, Vietnam and Uganda to argue that Globalization has indeed worked for the poor primarily because it has led to higher growth in globalizing developing countries. He also argues, that globalization has also been associated with more poverty alleviation programmes compared to countries which have not globalized so much. Therefore, Dollar ends his paper by reiterating that

‘the trends for faster growth and poverty reduction are strongest in developing countries in which there has been the most rapid integration with the global economy, supporting the view that integration has been a positive force for improving peoples lives in the developing world’ (P.).

To his credit, Dollar does recognize that a part of why globalization has not worked for part of the poor, is that the developed countries have not kept their end of the deal. He argues for more access to developed country markets for the developing countries. Dollar argues for a specific reversal of the increasingly protectionist stance taken by the developed countries. This, of course stems from the belief that globalization can absolutely do good for all, especially for developing countries. Dollar argues for more globalization and less protection for the developed as well as the developing countries.

Inequality in a Globalized World

The most interesting aspect, and arguably the biggest weakness, of this paper is the apparent oblivion to all criticism that has been advanced against most of the trends that have been described. There is a large and growing literature by noted economists that clearly contradict Dollar’s trends 3 and 4. These critiques have been widely discussed from the time Sala-i-Martin’s first paper (on which Dollar relies heavily) on global inequalities came into the public arena and Dollar and Kraay’s papers ‘Trade, Growth and Poverty’ and ‘Growth is Good for the Poor’ were published as World bank research papers in 1992 and 2000. The last two papers are also ones that are drawn upon for describing the beneficial connection between globalization and poverty (through growth) in the last section. Instead of addressing those criticisms, Dollar takes the easy option of ignoring them. This article, therefore, brings attention back to those criticisms which clearly show that the issue is not as clearly resolved as Dollar implies, nor are his results the universal truth. In fact, there are major indications to the contrary.

The first issue is of ***world inequality***. Dollar argues that global inequality has declined slightly since 1980. Now, world inequality is measured by both the between country component (international), which is the difference between average per capita income across countries, and the within country component of inequality. These two combined gives an estimate of the inequality between citizens of the world. Sala-i-Martin and Dollar point out that the between country component is found to have a much stronger impact than within country component in measuring overall inequality. This has also been found by Milanovic (2000). In that case, as Dollar points out, world inequality is *shown* to be declining since differences between average per capita incomes have actually been coming down. However, this result holds *only if weighted by population* (as Sala-i-Martin does). The reason obviously is that big populous countries like China

and India[1] which have experienced high rates of growth over this period are dominating the result. When China is dropped from the sample, Sala-i-Martin's mean logarithmic deviation index shows a relatively flat pattern with no consistent increase but no clear decline either. In Milanovic's analysis, dropping China and India seem to re-establish the rising inequality scenario. If between-country inequality is measured by average per capita incomes *not weighted by population*, there is a clear increase in inequality (Mukand and Rodrik, 2002, see also Maddison 2001).

It seems an irony that while average country per capita incomes has been going up in these two countries, thus affecting the world inequality results positively, their citizens are moving further away from earning the average per capita income as ***within country inequality*** in these two countries have been going up. Even the US, which is another very large country, has seen declining growth rates which is strengthening the tendency for a decline in between-country inequality, but again, the US has witnessed high within country inequality. So it is crucial that within country inequality is included in the calculation of world inequalities. Now apparently it *is* included in the calculation of world inequalities by Sala-i-Martin and others, but as a more detailed look reveals, this is not really so.

However, this is where the paucity of data creates the problem and it is this lacuna which allows wildly contrasting results to flourish and renders the debate so inconclusive. Given the absence of the desired level of detailed household level survey data (required for calculating within country inequalities) for at least 90 percent of the countries, different kinds of approximations have been tried. The much used data set by Deininger-Squire which has been resorted to by most of the inequality studies till date (including Sala-i-Martin) remains incomplete[2], but it has been used in various ways, with most studies imposing a kind of distribution.[3] Sala-i-Martin has provided the epitome of such approximation.

An eye-opening critique of Sala-i-Martin's methodology can be found in Milanovic (2002). To discuss in brief, Sala-i-Martin has used a non-parametric (kernel) estimate of each distribution based on quintile shares obtained from the Deininger-Squire (DS) data base. Sala-i-Martin's analysis however suffers from major problems. "*The first problem has to do with very few data (quintiles) available to derive a distribution. We call this fragmentary data. The second problem has to do with the absence of even such fragmentary data for most of the years. These missed data then have to be filled in by extrapolations. We call this the problem of sparse data"*

[1] China and India together account for over a third of world population.
[2] For a critique of this data set, see for example, Galbraith and Kum (2002)
[3] Chotikapanich, D., Valenzuela, R. and Rao, D.S.P. (1997). Quah, Danny (1999)

(Milanovic 2002, Pp. 8). There are 68 countries in group A which has a time series of income shares by quintile though Milanovic shows that there is only 1 country which has income shares for all years and most have very few time cross sections of this data. For group B countries (29 countries) income shares are assumed constant for the entire period. For group C of 28 countries, all citizens are supposed to have GDP per capita of the country, which means within country inequality is nil, and only inter-national inequality is used. In addition, there are interesting omissions of all soviet republics (including Russia), Bulgaria and former Yugoslavia which together accounted for 6% of world population and 10% of world PPP income in the late 1980s. All these countries together have accounted for half of the 2.8 Gini point increase of "true" (Concept 3) world inequality between 1988 and 1993 according to Milanovic's calculations (2000).

Milanovic therefore argues that Sala-i-Martin has *ended up by producing a population weighted inter-national (between-country) distribution of income augmented by a constant shift parameter and not a distribution of income among world citizens*[4]. This obviously substantially undermines the effect of within country inequalities in the calculation of world inequality since *actual changes* in within country inequalities are not really included in the analysis. This explanation seems more plausible since it is difficult to explain how in a world of rising within country inequalities in the giant countries, global inequality is declining if population weights are used for both between-country component and within country components. For the result (of declining world inequality) to be more plausible, it must be argued that there is no *general trend of increasing within country inequalities* so that the impact of rising within country inequalities in big countries is largely countered. And this is precisely what Dollar does in trend 4 (though he does point out that it has increased in populous countries like China, US and *possibly India*[5]*).* But the literature is not so decisive about trend 4 being the actual pattern of within country inequalities.

Many scholars have argued that there has been a clear general increase in within-country inequalities. Cornia and Kiiski (2001) found that over the last two decades, inequality has risen in 48 out of the 73 countries that they found high-quality data for. These countries accounted for 73

[4] This could also perhaps partially explain why between-country differences in incomes come out to be the more important determinant of world inequality. In effect, the within country inequality component has been made to be almost unchanging over time by the constant shift parameter.

[5] The Indian result is now better established. Several studies earlier showed that rural inequality has declined in India between 1993-94 and 1999-00 (Bhalla, 2003, Singh et al 2003), urban inequality has declined but to a lesser extent and increased in some states. However, it is now more or less established that India has experienced increasing within country inequalities (Sen and Himanshu 2004b, Deaton and Dreze 2002, Sundaram and Tendulkar 2003b) between 1993-94 and 1999-00, when the National Sample Survey (India's household level survey) data is adjusted for comparability with previous rounds of survey. Interestingly, rural inequality has gone up by 3 Gini points rather than declined by 2 Gini points as was earlier calculated.

per cent of the total GDP and 59 per cent of the total population of the 73 countries put together. Of the rest, 16 countries experienced constant and 9, decreasing inequality. At a regional level, the African economies faced rising inequalities, Latin America saw declining inequalities of the 1970s reverse into a rise, while Russia and the Eastern European transition economies experienced a collapse of the middle class that made inequality soar. China experienced rising inequality, especially between its urban coastal areas and the rural interiors. Even the developed countries experienced rising inequality as a result of 'greater disparities in market income', the effect of which has been compounded recently by changes in the tax system, public services and income transfers.

Galbraith et al., (1998), also found that: "… the predominant recent trend in inequality [since the 1980s] has been decisively upwards. … ". They also remarked that for many countries overall trends conceal important short-term swings in inequality, these swings most pronounced for countries whose integration into the world economy had increased. In fact, even Sala-i-Martin (2002) argues that within-country inequalities have increased.

Dollar goes onto argue, as in his earlier papers, that globalization has had no significant impact on inequality. That means opening up has not led to a specific worsening of income inequality. Now, the literature on this issue gives such diverse and conflicting results that it is outside the scope of this analysis. However, to mention just some studies that oppose Dollar's results, Lundberg and Squire (1999) found that openness is positively associated with growth, but negatively related to equality i.e. inequality is increased by openness. Many studies have found, including Milanovic (2003), that globalization adversely affects income distribution for poorer countries. It seems that openness makes income distribution worse and that the effect of openness on income distribution depends on country's average income level. Clearly, the study of openness and its impact on inequality needs a more disaggregated and nuanced approach as cross country comparisons are riddled with technical problems, comparability of data being the primary one.

Finally, a word on wage inequalities as described in the paper. Dollar argues that wage inequalities have increased round the world, and this is largely because, though it has led to general increases in wage levels, globalization has favoured skill based sectors. This is especially true in developing countries where the differences in skill have been more widespread and therefore, crucial. But then he makes a significant erroneous observation that increasing wage inequality has not translated into income inequalities because there is weak linkage. But if we accept that within country inequalities have increased in most developing countries and so have wage inequalities, there is evidently a clear relation. Education has been found to be a major

determinant of income inequalities in developing countries, and it obviously works through wage inequalities. Latin America and East Asia have been clear examples of this phenomenon. Khan, Griffin, and Riskin (1999) estimated from survey data that between 1988 and 1995, wage inequality accounted for about half of the overall income inequality in China. In India, stagnant real wages in the agricultural sector compared to the other sectors, partly explains the increased rural-urban inequality of the 1990s in India (Deaton and Dreze, 2002). And in developed countries, high wage inequalities as a cause of rising income inequalities is so taken for granted that they are used almost synonymously. This is especially true of the US (See for example Katz and Autor, 1999). In several publications of the University of Texas Inequality Project on inequality (UTIP), it is pointed out how manufacturing pay inequality can be used as measures, ihn other words, as a proxy for household income inequality (Galbraith and Kum, 2002). So Dollar's assertion that wage inequalities have not really impacted income inequalities is not either credible, or really robust.

In addition, the author argues that if countries, especially developing countries, can increase the access to education and skill development then wage inequality will be reduced. However, trends in many developing countries show increased inequality in access to education. In China and India, while literacy rates have been going up, inequality in access to education, especially among the rural population and backward regions, has been high in absolute terms and has also been increasing in China[6] (See Kanbur and Zhang 2003 and Riskin et al 2003). In India, there is significant disparity in even literacy rates, leave alone higher education, across regions and sectors[7]. This picture is quite consistent with the current pattern of economic reforms since there is a pressure on government budgets, and it is not difficult to see why there has been an increasing tendency on the part of most governments around the world to cut expenditure on education (along with health).

Given this situation, it is possible to argue that not only are there serious indications that globalization is having an adverse impact on inequality in general, the currents trends towards greater inequality in education actually point towards an even more unequal world in the future.

---

[6] Kanbur and Zhang (2003) show an increase in national Gini in illiteracy rates from 23.1 in 1981 to 30.8 in 1995 and in the GE index from 8.1 to 17. The within rural-urban GE increased from 6.9 to 13.3, while between rural-urban GE increased from 1.6 to 3.6. Within rural areas, GE index increased from 5.9 in 1981 to 14.2 in 1995 though in urban areas it declined. In absolute terms rural illiteracy rates were much higher than urban ones, and rural/urban ratio increased over the nineties. In an additional analysis for long run trends using provincial data, they also find that the Gini index of rural illiteracy has increased from 14.5% to 32.4% between 1978 and 1998, an increase more rapid than in the income inequality Gini over this period. The regional coefficient of variation increased from 44.5% in 1980 to 49.2% in 1990, and then to a phenomenal 67% in 1999 (Pal, Sengupta and Ghosh 2004). There is also large regional disparity in higher education (Riskin 2003).

[7] In India, literacy rates vary from 90.92% in the state of Kerala to 47.53% in Bihar. In urban areas literacy rates were 80.30% while in rural areas it was 59.40% in 2001(National Human Development Report, Government of India, 2001 and Pal, Sengupta and Ghosh 2004).

Poverty in a Globalized world

It is also quite interesting to see the way the paper has projected some trends as indicating much more than they actually do. Trend 2 on poverty for example says, “poverty in the developing world has been halved”. This sounds really good. But as the author points out in a small paragraph at the end of this discussion, Sub-Saharan Africa actually saw increased poverty between 1981 and 2001. And one-third of the world’s poor live in Africa. The main contributor of the decline in poverty numbers in the developing world seems to be China and India but a more detailed look at the poverty scenario, which the paper does not offer, shows many undercurrents and probably dispels some of the myth.

While it is undeniable that China has witnessed major declines in poverty reduction, it is widely argued that China’s official estimates grossly overstate the decline in poverty. The World Bank estimates at the rate of a dollar a day poverty line, shows a much less dramatic decline. In addition, according to World Bank reports, the decline in rural poverty from 30% in 1980 to 11.5% in 1998 was commendable, but much of it came in the early eighties when China had followed some trade reform but had not really opened up significantly. Between 1980 and 1985, China’s rural poverty rate as percentage of rural population came down from 30% to 15% (Chen and Wang, World Bank, 2001). This happened because of the rural economic reforms pursued during this period. On the other hand, urban poverty has increased at a tremendous rate in the early nineties. Though this happened largely because of rural-urban migration in this period, this section of the population failed to benefit at all from integration because of the lack of skill/ education. In China, clearly poverty has been partially shifted from rural to urban areas and the actual incidence of poverty among the migrants to urban areas is unknown. Some estimates put it at around 50% among rural migrants (Riskin et al, 2003). As a result of absence of any official surveys of the migrant community, a large part of urban poverty in China is actually un-estimated which seriously biases the results downwards.

The recent and decisive literature on poverty in India (Sen and Himanshu, 2004 a, b) shows that once comparability problems between earlier rounds of the National Sample Survey (household consumption survey) and the latest 55th rounds were taken care of, and other anomalies including exclusion of critical components of expenditure were dealt with, the decline in poverty is much less spectacular that reported by earlier studies (Sundaram and Tendulker 2003a). The poverty ratio fell at most by 3 percentage points between 1993-94 and 1999-2000, and it is likely that the number of poor increased over this period. The decline in poverty, by this estimate, is more than halved compared to that shown by earlier estimates. According to this study, “*the number of poor*

increased in urban areas of more NSS regions than rural despite much faster growth of urban MPCE, and that almost every state had both regions where poverty increased and others where it declined. Poverty numbers were found sensitive to patterns of inequality increase and demographic change, muting the link between growth and poverty reduction. Apart from low growth in many already poor rural regions and limited mobility from these, the other disturbing feature is that although urban growth was much higher than in the past, not only was this associated with increased within-urban inequality but also many urban areas failed to offer either linkage to their rural hinterlands or escape for the rural poor." (Sen and Himanshu, 2004b, pp. 4371)

Even in Bangladesh, the picture of poverty reduction is not as decisively positive as a part of the growing literature on poverty and inequality shows. As is generally known, the rate of poverty reduction was relatively high after the mid 1970s. Many reports, among them the UNDP report on Asian poverty (2003), show that poverty in Bangladesh has declined steadily in the nineties. However, many argue that in the decade since mid 1980, the poverty reduction effect of growth became much weaker, despite an increase in growth rates of per capita income. 'One of the more reliable estimate of poverty shows that there was a significant rise in rural poverty and only a modest decline in urban poverty between 1985/86 and 1995/96' (Khan 2003). This is also supported by the household expenditure survey conducted by the Asian Development Bank (ADB, 2003).

Trade, Growth and Poverty: Who are the 'globalizers'?

At this juncture, let us look at Dollar's final conclusions which have significant implications for the current poverty scenario. He argues that growth has been higher among the globalizing developing countries and that has resulted in the largest decline in the number of the poor in this group of countries[8]. These assertions have been made several times in the past in his papers[9].

At the beginning of the paper, he argues that average tariff levels have declined the most in the Asian economies, notably South Asia followed by Latin America, and East Asia (Fig. 3, page 9). Among the non globalizers are Sub Saharan Africa and the Middle East. It is then indicated, according to his analyses, that the latter group has not witnessed significant growth or reduction

[8] Interestingly, Dollar is not specifically arguing that globalization has directly impacted *inequality*, except to mention trends 3 and 4, perhaps because his earlier papers found no clear link. He is more concerned with the effects on poverty. The literature has diverse results on this link between globalization and inequality, but most find at least a short term negative impact on within country inequalities.

[9] 'Trade, Growth and Poverty' by David Dollar and Art Kraay (2004)(originally released as World Bank Research Paper, …. And 'Growth is Good for the Poor' by David Dollar and Art Kraay (2002)(originally released as World Bank Research Paper, March, 2000.

in poverty while the Asian economies have witnessed major declines in poverty. He argues that while the globalizers have witnessed growth rates of 5% in GDP per capita in the 1990s, the rich countries grew by 2% while the non-globalizers grew at -1% (Dollar and Kraay 2004, 2002). So globalization leads to growth and growth leads to poverty reduction.

The first part of the argument is the link between globalization and growth, and is easily the most contentious part. It is obvious why Dollar and Kraay's list of globalizers, which include India and China, do so well. These papers use population weighted growth rates and since between China and India, 1/3rd of the world population is accounted for, it is no wonder 'globalizer' growth rates are so high. However, as has been argued before, most notably by Rodrik (2000), Dollar's definitions of successful globalizers and non-globalizers suffer from major problems and remain the principal weakness of his analysis. But we will come to that later. Even if we use Dollar's own evidence, major problems crop up.

First, if we look at Sub Saharan Africa's tariff levels, these, even in the earliest period of 1980-85 seem to be lower than what South Asia has moved down to even in the latest period (1996-98). Dollar conveniently bases his argument in terms of *changes* in tariff levels or protection levels, but the fact remains that in absolute terms, Sub Saharan Africa has been more open than South Asia and for a much longer period of time. But it clearly has not benefited from it.

Second, it is widely known and even clear from the graph quoted by Dollar (Fig. 3, page 9) that the average import tariff levels in South Asia are still highest among all countries by far. They are, in absolute terms, much less integrated than most other economies in the world. So their so called reduction in poverty, notably in Bangladesh and India (the successful high growth countries singled out by Dollar) could not be because they are more open. In fact, South Asia is also well known for high non-tariff barriers. India still is much more protected than many economies in Sub Saharan Africa (see for example Rodrik 2000).

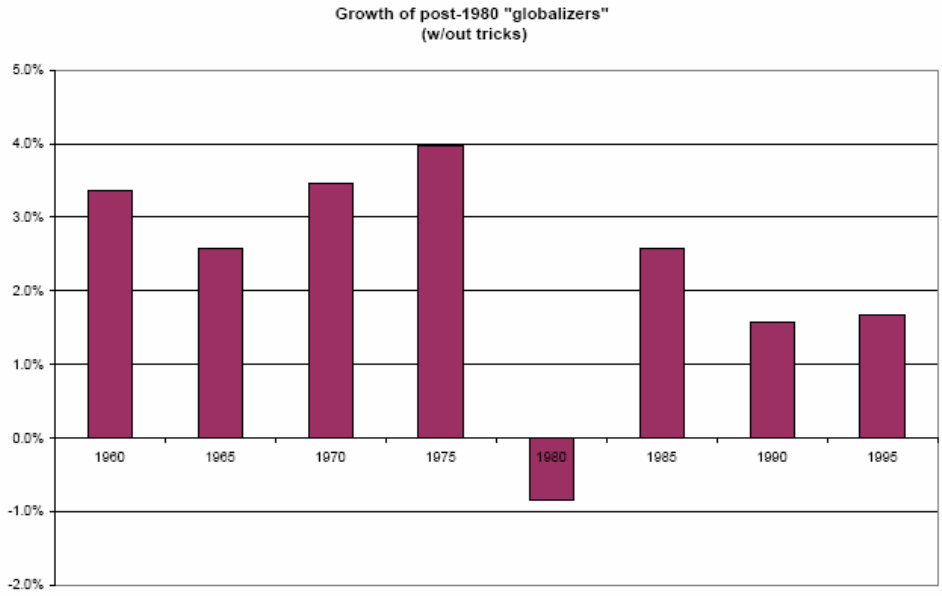
The paper always focuses on *changes in trade openness* (see Fig. 1 and Fig.3) and not *absolute* levels of openness. By that measure, China is obviously on top because China effectively started from a closed economy. But even at the end of the nineties, China is still not one of the most liberal trade regimes in the developing world[10]. The paper under review (Dollar, 2005) and the literature he has cited, notably Sala-i-Martin, and Dollar and Kraay (2002, 2004), really depend on China and India for their results, whereas these are not the most successful examples of globalization. In fact, as Rodrik (2000) points out, the growth sequence in these two countries

[10] This analysis excludes the most recent period where China has really increased its trade in the world, and for which we do not have corresponding growth or poverty figures. This period is not included in the current paper being discussed or any of the literature cited.

started before they opened up in any major way and not after. So looking at their openness at the end of the nineties should not explain their growth pattern over the nineties. In fact, a large section of the literature points out that these two countries could be witnessing such high growth rates because *they were slow to open up and not because they were fast in doing so.* The same holds for Vietnam.

In addition, Rodrik (2000) points out many other problems with the Dollar and Kraay list of globalizers. There are interesting inclusions and exclusions which create serious doubts regarding the reliability of the results. In fact, Rodrik draws up two lists of countries which could be called leading globalizers. The first, among countries that are in the top 40 in terms of largest proportionate reduction in tariffs and largest proportionate increase in imports/GDP over the period 1980-84 to 1995-97, those that make it to both lists are selected. These are Argentina, Brazil, Colombia, Haiti, Hungary, Jamaica, Korea, Morocco, Mexico, Mauritius, Malaysia, Nepal, Philippines, Paraguay, Sierra Leone, Thailand, Uruguay and as seen in Chart 1 the growth scenario of these is not encouraging. In fact, this set of globalizers are found to be "growing on average at a significantly lower pace than in the 1960s and 1970s" (See Chart 1)(Rodrik, 2000).

Chart 1

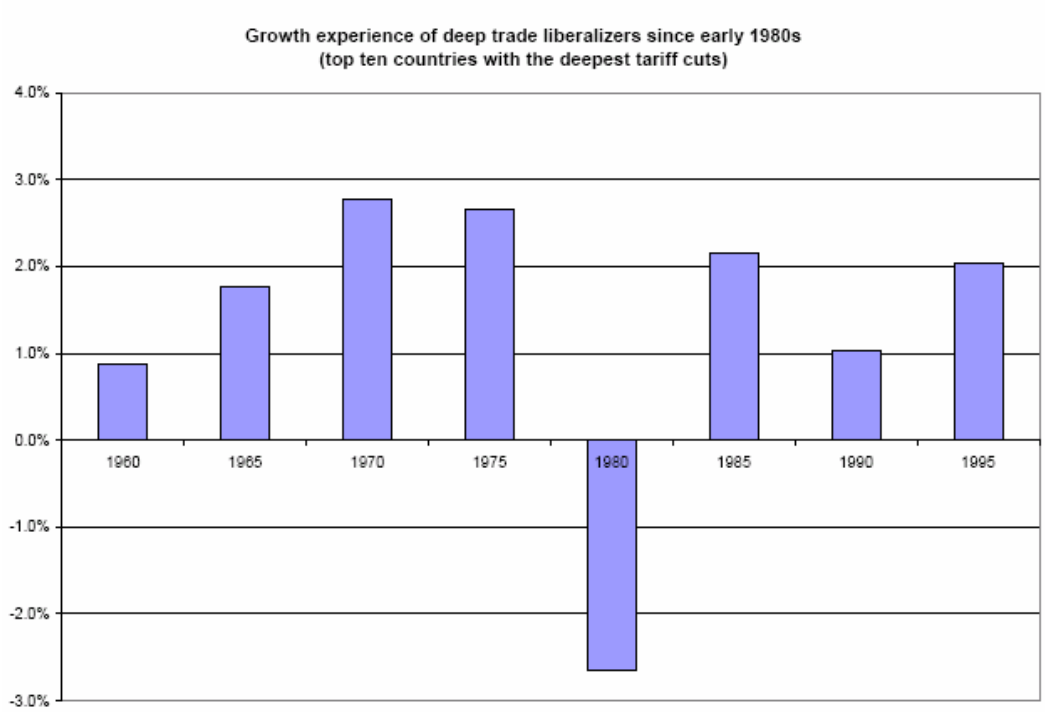


Source: Reproduced from Rodrik (2000)

The second list of countries uses only tariff data, and comprises of the ten countries with the largest proportionate cuts in tariffs since early 1980s. "These countries turn out to be the ones

that suffered much greater output collapses in the early 1980s (a collapse that is associated with the debt crisis of the period). The deeper trade reforms that these countries undertook are partly

Chart 2



Source: Reproduced from Rodrik (2000)

explained by this fact. In any case, their growth performance since then has been hardly exemplary, at least when one uses these countries' own recent history as a yardstick" (see Chart 2)(Rodrik, 2000, Pp. 2). In fact, Dollar's own analysis showed Latin America showed one of the highest reductions in average tariff levels. But many Latin American countries show a disastrous growth performance.

In a UNDP report on poverty in the Asia-Pacific region (McKinley, 2003), relevant results for important Asian countries can be found. This is relevant because most of Dollar's good cases fall in this region. The paper gives data for GDP per capita growth rates, trade in goods as a % of GDP as a measure of trade openness or dependence[11] (Table 1, UNDP, 2003), as well as poverty estimates for the nineties, one for the earliest year and one for the latest year (Table 2, UNDP, 2003) for case study countries including China, Bangladesh, Cambodia, Vietnam, Sri Lanka, Nepal, Indonesia and Mongolia. The report does show that poverty declined the most in

[11] This has been widely used as a measure of trade openness in the literature, also used by Dollar (see table 1, fig. 1, Page 5, Dollar, 2005), even in the past (Dollar and Kraay, 2004). However, criticisms remain in terms of econometric analysis, and in interpreting trade volume as a measure of trade policy (see Rodrik, 2000).

Bangladesh, China and Vietnam, generally consistent with Dollar's assertions. If we conduct some simple analysis based on these tables, some interesting results can be found.

The results are indicative and not statistically full-proof.

- The growth in per capita GDP in 2000-01 and trade as a % of GDP (2001) has a very low correlation (correlation coefficient of 0.106).
- The growth in per capita GDP over the nineties (1990-01) and trade as a % of GDP (2001) is again very weakly correlated but now the sign is negative (correlation coefficient is -0.086).
- Decline in poverty rate over the nineties is strongly correlated with growth rate in per capita GDP over the nineties (correlation coefficient is 0.77).
- Decline in poverty rates is not correlated with trade openness in 2001 and the sign is negative (-0.0026).
- If we consider *changes* in trade openness over the nineties (the differences between the 2001 and 1990 figures), and its relation with growth in GDP per capita over the nineties (1990-2001), the correlation is negative but the value is quite high (-0.609). So more opening up has been associated with a lower growth in per capita incomes over this period. If we leave out Mongolia, where trade openness increases drastically, the relation is still negative though the value declines (-0.39).
- Finally, decline in poverty rate is negatively linked with *change* in trade openness over the nineties (correlation coefficient is -0.21).

It is not difficult to see why the results emerge. The high growth countries like China[12] and Bangladesh are actually among the less open (they emerge at the beginning if ranked according to trade openness in ascending order). Vietnam is the only country which has high trade openness and has a very high rate of growth.

The above analysis is by no means perfect, but gives some interesting indications. While growth, in this instance, seems to be good for the poor, trade openness is not universally leading to higher growth. In fact, as the following section argues, growth in many of these countries has been significantly the result of internal specific conditions and not a general outcome of globalization as such. The literature on growth discusses many other prime movers, including

[12] It is true that average tariffs declined in China and FDI flow has been increasing sharply since the early nineties. These are also indications of openness apart from trade in goods. But tariff cuts must ultimately lead to higher trade incomes for opening up to effectively lead to growth, and so the goods trade income as a percentage of GDP variable remains crucial. On the other hand, FDI in China has been largely concentrated in manufacturing sector and oriented towards Exports (Riskin et al 2003). In spite of a gradual decline, the share of imports in total FIEs' trade performance also remains relatively high, close to 50%. Again trade in goods as a % of GDP remains a crucial variable.

investment rate, geography or historical endowments[13] and institutions[14] and. The theory that trade can directly induce growth has been criticized at both theoretical as well as empirical levels (See for example Rodrik and Rodriguez, NBER, 1999). In addition, some discussion, for example, by Rodrik (2000) point out that trade volume/GDP as a measure of trade policy is weak even if it shows high relation to growth unless a specific link can be shown from the trade policy content to trade volume and then to growth.

When we look at the other link in the argument, which is that growth leads to poverty reduction, emerging detailed studies show that there could again be problems. While it has been true for many countries and is upheld by the short analysis of UNDP data on Asian countries (see above), there have also been many examples to the contrary. For example both in Bangladesh and India, it has been seen that the increase in income inequality has adversely affected the decline in poverty and therefore the direct link between growth and poverty has been muted (See Sen and Himanshu, 2004b, Khan 2001). The same is true for China. *Increased growth can unequivocally lead to poverty reduction if and only if income inequality is constant or declining*. Rising income inequality, which is now clearly a general and widespread phenomenon[15], has been seen as a major deterrent to poverty reduction across the developing world.

Sources of Growth in the leading developing countries

In section 3 of the paper, Dollar cites the cases of the top growing economies, China, India Vietnam and Uganda, and argues that growth has been the direct result of globalization. The problem is, even if we accept the first two as the perfect examples of globalizers, which they are not, the result does not hold in general. Quah (2005) finds that "over the last half-century, there have been both growth miracles and growth disasters. With some variation, growth disasters concentrate in the group of economies initially relatively poor; growth miracles, in that group initially already relatively better off". So globalization has not necessarily led to growth, and growth disasters have been concentrated in the developing countries. This contradicts Dollar's Trend 1 somewhat.

In addition, China and India grew largely because they were in many ways in a special position to reap advantages from what little and gradual globalization they embarked upon.

[13] This view, forwarded among others by Jeffrey Sachs, John Gallup, Andrew Mellinger and Jared Diamond, is that geographical and historical factors like climate, soil fertility, location, climatic environment and natural resource endowments play the determining role in deciding the level of economic development.

[14] This has gained major importance even in recent literature on growth. Among the major proponents are Douglas North (1990) and Rodrik, Subramaniam, and Trebbi (2002)

[15] See previous section sub-titled 'Inequality in a Globalized World' in this article.

Both India and China are very large countries with a huge population base, allowing them to have a much wider industrial base compared to most of their counterparts within the developing region. This wider industrial base was also possible because these economies were heavily protected for a long time (China was a closed economy till 1979) and many areas have still been widely and specifically protected until the most recent period. In Africa, and Latin America, levels of protection were lower from a longer time, restricting the diversification in many of these countries. A huge labour force has also allowed India and China to enjoy significant advantages in terms of cheap and abundant labour with historically low wage costs. Both countries have also a reserve of skilled labour which has helped China to reap advantages in manufacturing and India to enjoy tremendous advantage in services sector. In China, there was, under the communist regime, a widespread access to education, even within the rural areas, a trend which is no longer visible.

Both China and India have therefore been in rather special positions compared to most other developing countries. For other developing countries which are small, it is much tougher to survive in the longer run. For example, Bangladesh's growth has been almost completely based on the export oriented garment manufacturing industry. However, with China's WTO accession to WTO and all quotas being removed in textile and garments trade from 2005, Bangladesh will lose out to China and India because it does not have textile production units and is dependent on imports from other countries, India and china included. On the other hand, Bangladesh does not have a wide manufacturing production base. For many of the African economies again, the industrial base is very narrow.

As discussed before, the employment and wage inequalities, which are biased in favour of skill in the current world economic structure, will exacerbate income inequalities unless access to education is more equally available to all. And developing countries have not got this in order. So first of all, gains from trade in the future are not going to be shared by all, and second, it may ultimately have an adverse impact on growth itself[16].

Conclusion

In the final analysis, it seems that the debate is set to go on forever. The foremost problem is of reliable and detailed household level data for the majority of countries, especially in the developing world. However, whatever data is currently available clearly shows that the fallouts of globalization are not as universally positive as Dollar tends to argue. The interpretation of available data is also a potentially charged process. But as more and more detailed and nuanced studies emerge, the one sided view of globalization has begun to be challenged in a significant

[16] Aghion, Philippe & Caroli, Eve & Garcia-Penalosa, Cecilia. (1999), Persson, T. and G.Tabellini. (1994), Deininger, K. and L. Squire. (1998), Alesina, A. and D. Rodrik. (1994)

way. Inequality is clearly on the rise in a globalized world and poverty reduction is showing complicated patterns which a simplistic view cannot fully comprehend. And for policy makers or policy movers, who have critical decisions to make, it is absolutely crucial that they include and address these results in their visions for the future. The world is at a critical juncture, and adverse trends in inequality and non reversal of poverty may tip the balance and plunge us into a world which is not only violent, but economically poorer overall. And surprisingly, this is the potential trend not only in the developing countries which are facing increased inequality and spatial concentrations of poverty, but for the developed countries which are becoming more unequal, polarized and therefore face constant and even increasing security threats. It is high time policy makers face the reality and acknowledge that the world needs the globalization that unites people, not divides them.

References:

Aghion, Philippe & Caroli, Eve & Garcia-Penalosa, Cecilia.(1999): 'Inequality and Economic Growth: The Perspective of the New Growth Theories'

Alesina, A. and D. Rodrik. (1994). "Distributive Politics and Economic Growth," Quarterly Journal of Economics 109, 465-490.

Asian Development Bank (2003**):** 'Country Operational Strategy Study: Bangladesh'

Barro, R. (2000): 'Inequality and growth in a panel of countries,' Journal of Economic Growth 5, pp. 5-32.

Bhalla, Surjit S (2003): 'Recounting the Poor: Poverty in India, 1983-99', *Economic and Political Weekly*, January 25-31

Cornia, Giovanni Andrea and Sampsa Kiiski (2001) "Trends in Income Distribution in the Post-World War II Period: Evidence and Interpretation " WIDER Discussion Paper No..89,Helsinki: United Nations University World Institute for Development Economics Research.

Chotikapanich, D., Valenzuela, R. and Rao, D.S.P. (1997). "Global and regional inequality in the distribution of income: estimation with limited and incomplete data." *Empirical Economics*, vol. 22, pp. 533-546.

Deaton, Angus and Jean Dreze (2002): 'Poverty and Inequality in India: A Re-examination', Economic and Political Weekly, September 7

Deininger, K. and L. Squire. (1998). "New Ways Looking at Old Issues: Inequality and Growth,"Journal of Development Economics 57, 259-287.

Dollar David (2005): 'Globalization, Poverty and Inequality since 1980', World Bank Research Paper

Dollar David and Art Kraay (2004): 'Growth is Good for the Poor', Journal of Economic Growth

Dollar David and Art Kraay (2002):' Growth is good for the Poor', Economic Journal

Galbraith, James K. and Hyunsub Kum (2002): 'Inequality and Economic Growth: Data Comparisons and Econometric Tests', the University of Texas Inequality Project, The University of Texas at Austin.

Galbraith, James K., William A. Darity, Jr. and Lu Jiaqing. (1998): 'Measuring the Evolution of Inequality in the Global Economy'. Working Paper Series III, No. 4, Center for Economic Policy Analysis, New School for Social Research. New York. May

Katz, L. and D. Autor, "Changes in the Wage Structure and Earnings Inequality," in O. Ashenfelter and D. Card, eds., *Handbook of Labor Economics*, vol. 3A, pp. 1463-1555, 1999.

Kanbur and Zhang (2003): 'Spatial Inequality in Education and Healthcare in China', CEPR Discussion Paper no. 4136

Khan, A.R. (2001): 'What can be Done to Contain Rising Inequality in Bangladesh?', (2003), Presented at 'Seminar on Accelerating Growth and Poverty Reduction in Bangladesh' -*June 26-27, 2003*

Khan, Azizur Rahman, Keith Griffin, Carl Riskin (1999): 'Income Distribution in Urban China During the Period of Economic Reform and Globalization', *American Economic Review* , 89(2)

Lundberg, Mattia and Lyn Squire. (1999): 'Growth and Inequality: Extracting The Lessons for Policymakers', Unpublished working paper. World Bank, Washington, D.C. June.

Maddison, Angus. (2001): 'The World Economy: A Millenial Perspective'. Paris: Organization for Economic Cooperation and Development

McKinley, Terry (2003):' The Macroeconomics of Poverty Reduction, Initial Findings of the UNDP Asia-Pacific Regional Programme', Bureau for Development Policy, UNDP, New York

Milanovic, Branko (2003): 'Can We Discern the Effect of Globalization on Income Distribution? Evidence from Household Surveys', World Bank Research Paper, September, 2003

Milanovic, Branko (2002): 'The Ricardian Vice: Why Sala-i-Martin's Calculations of World Income Inequality Cannot be Right', World Bank Research Paper, September

Milanovic, Branko (2000), "True world income distribution, 1988 and 1993: First calculation based on household surveys alone" *Economic Journal*, January 2002 (Published as World bank Research Paper in 2000).

Mukand, Sharun and Dani Rodrik (2002). "In Search of the Holy Grail: policy Convergence, Experimentation, and Economic Performance", mimeo, January 2002, can be downloaded from http://ksghome.harvard.edu/~.drodrik.academic.ksg/papers.html.

Pal Partha Pratim., Ranja Sengupta and Jayati Ghosh (2004): 'Inequality in China and South Asia: A survey of recent trends', Paper commissioned by International Forum for Social Development Equity, Inequalities and Interdependence**,** the United Nations Secretariat, DESA (Division for Social Policy and Development).

Persson, T. and G.Tabellini. (1994). "Is Inequality Harmful for Growth?," American EconomicReview 84, 600-621.

Riskin et al (2003): 'Pro-Poor Macro Policies for China', Paper Originally prepared for Regional Workshop on Macroeconomics of Poverty Reduction, Kathmandu, January 4-6, 2003

Rodrik, Danny (2000): ‘Comments on “Trade, Growth, and Poverty,” by D. Dollar and A. Kraay’, Harvard University

Rodrik, D. and Rodriguez (1999): ‘Trade Policy and Economic Growth: A Skeptic’s Guide to the Cross-National Evidence’, Working Paper 7081, NBER

Rodrik, Subramanian and Trebbi (2002): ‘Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development, Working Paper, Center for International Development, Harvard University

Sala-i-Martin (2002): ‘The Disturbing “Rise” of Global Income Inequality’, Discussion Paper, Columbia University, Department of Economics

Sen Abhijit and Himanshu (2004a): ‘Poverty and Inequality in India-I’, Economic and Political Weekly, September 18th, Pp 4247-4263

Sen Abhijit and Himanshu (2004b): ‘Poverty and Inequality in India-II: Widening Disparities during the 1990s’, Economic and Political Weekly, September 25th, Pp 4361-4375

Singh, Nirvikar, Laveesh Bhandari, Aoyu Chen and Aarti Khare (2003): ‘Regional Inequality in India: A Fresh Look’, Economic and Political Weekly, March 15

Sundaram, K and Suresh D Tendulkar (2003a): ‘Poverty *Has* Declined in the 1990s: A Resolution of Comparability Problems in NSS Consumer Expenditure Data’, *Economic and Political Weekly*, January 25-31.

Sundaram, K and Suresh D Tendulkar (2003b): ‘Poverty in India in the 1990s: Revised Results for All-India and 15 Major States for 1993-94’, Economic and Political Weekly, November 15-22

Quah, Danny (2005): ‘Growth and Distribution’, London School of Economics, Economics Department

Quah, Danny (1999), “Calculations of world income distribution”, London School of Economics

,