

COMMENTS ON L. ALAN WINTERS,
‘TRADE LIBERALISATION,
ECONOMIC GROWTH AND POVERTY’

JUAN J. LLACH

The two main purposes of Professor L. Alan Winters rich contribution are to review the literature and, on the other hand, to give additional evidence to support three relationships that are crucial for the understanding of modern economic development. The first one is the relation between trade liberalisation or trade openness and economic growth. The second is the effect of economic growth on poverty and the third one is the direct effect of trade openness or policies on alleviating poverty.

1. Trade Liberalisation and Openness Effects on Economic Growth

In the first part of the paper we find a critical review of the literature devoted to analysing whether trade liberalisation and, more frequently, trade openness have a clear effect on economic growth or not. Most of that literature is based on econometrics and cross-country regressions. However, after reviewing the literature and its soft results, some doubts arise about the adequacy of this research strategy by itself. As Winters quotes, these doubts were timely pointed out by Pritchett and Bhagwati and Srinivassan who suggested the necessity of the complementary approach of case studies and, I would add, in comparative historical perspective.

The author’s review is very precise and allows us to assess not only the influence of trade but of other independent variables as well. They can be as influential as trade variables in the explanation of economic growth. At the same time, they could contribute to explain why the econometric relationships between trade, growth and poverty look weak and sometimes controversial. The same can be said of different, broad-

er approaches to the conceptualisation and measurement of openness. In the following paragraphs I will mention some of these complementary approaches.

a) *Geography and institutions*. Professor Winters rightly emphasises their importance and I would add only a couple of examples. Until the Second World War to be developed was equal to be Western European – including the Anglo Saxon Offshoots (as in Maddison, 2001). Later on, during the last forty years or so, some East Asian countries, but only them (and Chile), have either entered this category or converged towards the level of GDP p.c. of developed countries (Llach and Roldán, 2002). Early institutional developments, interacting with geographical spillovers, appear to be the main determinants of this concentration of economic development.¹ Needless to say, trade seems to have played an important role too but as I shall argue below, interacting with geography and institutions in such a way that it is very difficult to isolate its effects.

b) *World market structures*. Another possible explanation of the weak relationship between trade liberalisation and growth could be found in the international market structures prevailing at different historical times. Early developed countries emerged as world industrial producers with few established competitors and, in some cases, in a non-protectionist context. On the contrary, most developing countries have typically faced more crowded and, at the same time, monopolistic² world markets with different doses of protectionism. As a result, it has been more difficult for them to compete in industrial markets and to reveal their potential comparative or competitive advantages in that field.

c) *Alternative trade policies*. Winter's analysis concentrates the attention basically on one kind of trade policy, i.e., liberalisation. Since it is very difficult to deal econometrically with it, his analysis tends to replace it with an outcome, the openness measured as usual by exports or imports proportions of GDP. The author rightly points out, however, that both things are different, and I would add very different. Openness is an outcome that can be reached through very different trade policies, including the coexistence of low tariffs with high non-tariff barriers like quotas

¹ In addition to proximity, other geographical dimensions, like size, are very relevant as determinants of openness or closeness.

² Monopolistic structures do not imply monopolies, but mainly advantages of technology and product differentiation.

or health, environmental or social regulations.³ All of them could contribute to weaken the econometric relation between trade and growth. Some examples of alternative ways of integration in the world markets are the following.

c.1) *Simulation of trade liberalisation*. Some of the fast growing Asian countries adopted a very gradual programme of trade liberalisation, particularly regarding imports. In the meantime, they implemented efficient socio-political agreements of income policy, successfully simulating market conditions. Japan is the outstanding example of this policy, whose success seems to have lasted until the late eighties.⁴

c.2) *Export-led growth*. Combined or not with simulation of market conditions, most Asian countries adopted an *export-led growth strategy*. Through a paraphernalia of export promotion policies – frequently compatible with industrial protection – they avoided the disasters of the protectionist import-substitution strategies typical of most Latin American countries from the Second World War until the eighties.⁵

c.3) *Free trade or custom union agreements*. As previously mentioned, most developed countries, openness was in part sheltered under the umbrella of a continental union, like the European Union or the deep integration between Canada and the United States, now extended to Mexico in the NAFTA. An important proportion of the openness of these countries comes from intra-union trade. On the contrary, regional trade blocks used to be less common, until recently, in many developing countries. A logical result of all this could be a positive association between trade and growth in developed countries, a weak one in many developing countries and a blurred one in the aggregate.

d) *Agricultural and food protectionism*. Most developed countries have decided to maintain high protection and subsidies to agriculture and food, buying perhaps some social cohesion through this device. The fact is that this protectionism has limited very clearly the openness and growth of

³ An interesting example of these non-tariff barriers can be found in recent statements by Robert Zoellick, the United States Trade Representative, saying that his country will not allow the participation of foreign capital in 'critical' sectors like energy generation or water supply. This statement was presented to the World Trade Organisation in April 2003.

⁴ The exhaustion and obsolescence of this policy could be one of the causes of the structural stagnation that began in Japan in the early nineties.

⁵ Through these policies Asian countries were able to avoid different problems, including the lack of imported inputs studied by Romer and quoted by Winters.

many developing countries, darkening once again the association between trade and growth.

e) *Macroeconomic policies.* Good macroeconomic policies, particularly those related to fiscal solvency and the exchange rate regime are very critical to the success of trade liberalisation. One of the most interesting comparisons regarding this point is between Chile and Argentina. Both countries decided to unilaterally open their economies, Chile in the eighties and Argentina in the nineties. While Chile enforced fiscal equilibrium, capital controls and floating exchange rates, Argentina embarked on a monetary convertibility accompanied with looser fiscal policies and no capital controls. The resulting growth rates were very high and sustainable in Chile, but high only at the beginning in Argentina, that finally collapsed. Since we can find incredibly different macroeconomic policies around the world, they could be another missing link in the relationship between trade and growth.

Finally, as the author very clearly states, causation is very difficult to establish in the relationship between trade and growth. Would France, Germany or the USA have been as industrialised as they are if they had implemented trade liberalisation at the early stages of their development process? We cannot, of course, answer this counterfactual question. But it is very important to keep it in mind in order to understand the complex relations between trade and growth.

2. *From Growth to Poverty*

My comments on this section are very brief because the relationship between economic growth and poverty is much more indisputable than that of the previous section. As Winter says,

despite the methodological challenges to the recent literature, there is little reason to challenge the traditional conclusion that growth, *on average*, benefits the poor, not to suggest that growth generated by greater openness is any worse than other growth in this respect. These observations are an important antidote to frequently voiced concerns to the contrary, and place the burden of proof on those who would argue the contrary in any specific case. It is quite clear, however, that on occasions growth has been accompanied by worsening poverty and the intellectual challenge is to identify why.

Let me add that the case of Africa, the continent with higher poverty incidence and lower secular economic growth is clear enough.

The problem of endogeneity mentioned by Winters, i.e., that income distribution (and poverty) determines growth rates and not the other way round, is a very interesting one, challenges some of the established viewpoints and deserves deeper investigation.

Finally, measurement problems of the income of the poor are very important, particularly in rural areas. This, together with agricultural protectionism and its serious damage on some of the world's poorest populations, could be one possible explanation of the weak nexus between growth and poverty in some studies.

3. *Trade Liberalisation and Poverty*

In the third section of his paper Professor Winters presents a very interesting case study of Vietnam during the nineties, trying to establish a positive nexus between trade liberalisation and poverty reduction. The evidence is very interesting and supportive of the author's hypothesis. However, there are some methodological problems that are worth mentioning. First, as the author says, the period chosen for data availability reasons, i.e., 1992-3 to 1997-8, looks too short to reach solid conclusions. Second, in the same period, trade liberalisation coincided with the continuity of the transition from socialism to capitalism and it is very difficult to separate the effects of these two deep reforms. Third, the policy package was a combination of export-led growth and regional trade association varieties of trade liberalisation. It included, among other policy tools, export promotion, export-processing zones, FDI promotion, regional trade agreements and very high import tariffs (that, by the way are not in line with those in other developing countries, from my point of view). As the author says,

both the import tariff and export tax systems are still complex and suffer from frequent changes, so that despite all the reforms, *Vietnam's trade regime must be considered to remain quite restrictive and interventionist.*

Fourth, there was important support from multilateral institutions, including loans to develop coffee production. Incidentally, they were so important that they gave place to a world excess supply of coffee which was very damaging for Latin American producers.

Going now to the findings regarding the link between trade liberalisation and poverty I must say in the first place that the research strategy is original and very promising. The results, on the other hand, clearly establish a posi-

tive association between trade variables and poverty alleviation. However, the link does not look very strong, since the inclusion of trade variables adds only 14% to our capacity to explain the ways to escape poverty. On the other hand, partly based on price effects and volatile as they are, some of the conclusions must be taken cautiously. In the case of coffee, we must take into account not only the aforementioned subsidies, but also the fact that coffee is a commodity, very volatile as they all are.

Finally, trade reform has affected individual households and taking it into account we are better able to predict which households prosper and which do not. It does not, however, tell us directly whether trade reform reduced poverty.

4. *Conclusions*

We are not 'econometrically sure' that trade liberalisation or openness explains a significant proportion of economic growth, particularly of developing countries. However, we are 'historically sure' that crude protectionism and closeness are clear enemies of economic development and that no country has got sustainable economic development closing its economy. Although Professor Winters does not explicitly mention this last point, I think it is the main message of his contribution.

As Professor Winter says, his paper

does not argue that trade liberalisation is sufficient for growth or even that it is the most important explanation of differences in growth rates across countries.

It argues,

however, that it is one of the few determinants of growth that can be relatively easily and cheaply manipulated.

Some doubts arise, however, about the optimality of a unilateral trade liberalisation in a protectionist context, at least for countries that have comparative or competitive advantages in agriculture and food. Regional blocks could be a better alternative, at least in the transition to the freer trade world that, we hope, will result from the continuity of Doha's WTO round.

Regarding poverty the author is very clear, emphasising that in the case of Vietnam 'trade variables are not the major determinants of changes in poverty status but they play a material role'. He adds that

the framework makes very clear that the direct static effects of trade liberalisation on poverty can be negative under certain circumstances. The purpose of the framework is not to promulgate univer-

sal conclusions, but precisely to aid the identification of potential poverty problems on a case-by-case basis.

The shortest way to summarise my comment is to say that Winter's paper makes an important contribution to our knowledge of these issues and to the improvement of the research strategies to deal with this difficult matter. Furthermore, he has made an uncommonly honest effort to find the truth and not to prove the truth of an a priori ideology.