

Poverty Reduction: Openness and Governance

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World Poverty Trajectory

Goal 1

Eradicate extreme poverty and hunger

Target 1

Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day

Indicator 1

Population living below \$1 (PPP) per day

Percentage of population below \$1 purchasing power parity (PPP) per day ^{1/, 2/}			
	1990	1999	2004
Developing Regions	31.6	23.4	19.2
Northern Africa	2.6	2.0	1.4
Sub-Saharan Africa	46.8	45.9	41.1
Latin America and the Caribbean	10.3	9.6	8.7
Eastern Asia	33.0	17.8	9.9
Southern Asia	41.1	33.4	29.5
South-Eastern Asia	20.8	8.9	6.8
Western Asia	1.6	2.5	3.8
Commonwealth of Independent States	0.5	5.5	0.6
Transition countries of South-Eastern Europe	<0.1	1.3	0.7

^{1/} High-income economies, as defined by the World Bank, are excluded.

^{2/} Estimates by the World Bank, April 2007.

Openness and Poverty: The Debate

The Nay-sayers: “lop-sided gain sharing” results in a rise in poverty incidence (the “*trickle down myth*” thesis)

The Aye-sayers: “gains from trade and factor mobility” stimulate economic growth, which in turn reduces poverty incidence (the “*pull-up effect*”)

Openness and Poverty: The Debate

Where lies the truth?

**What if openness also raises
income inequality?**

Poverty-Openness Nexus

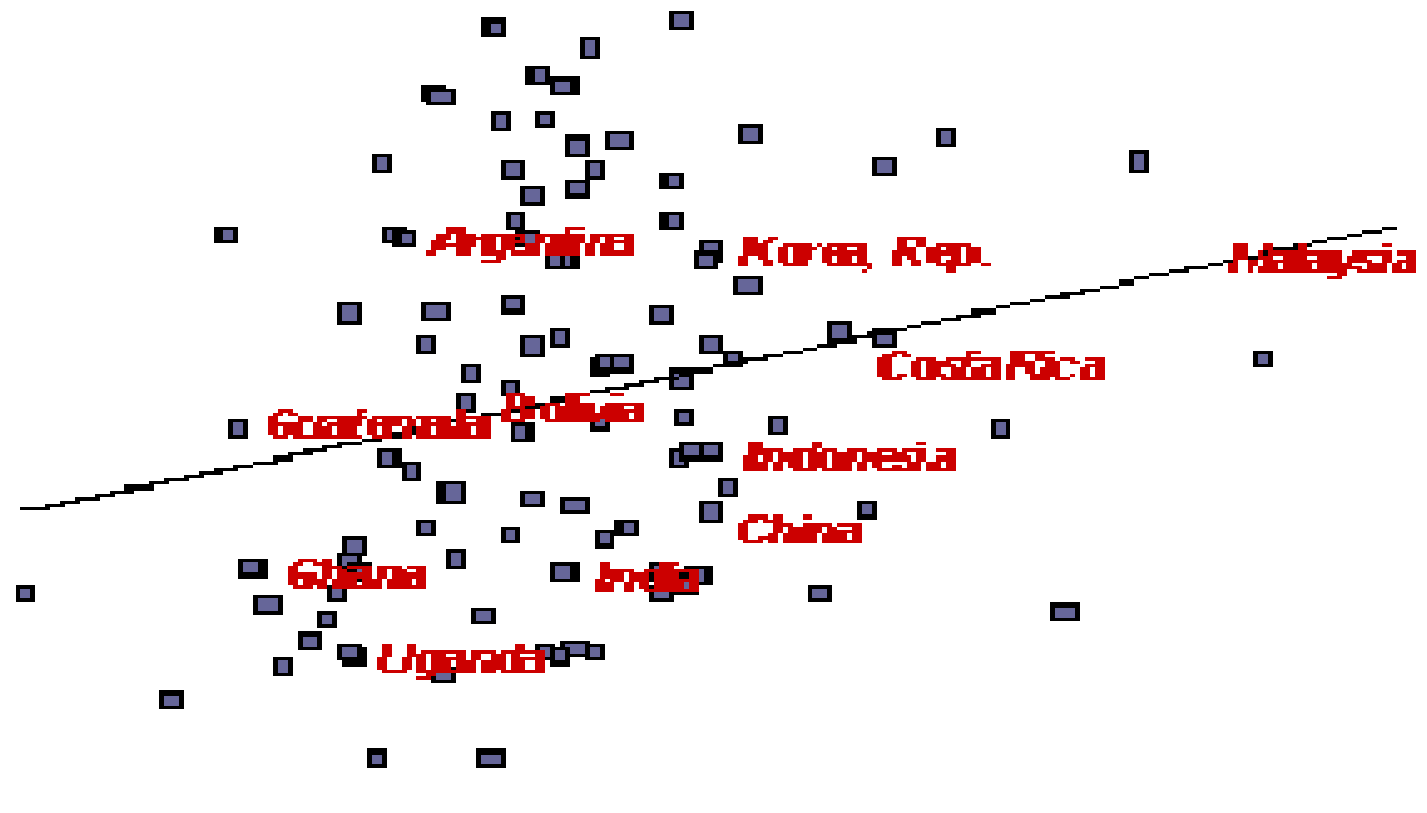
- a. Not an “if and only if” affair**
- b. Multiple pathways of causality and feedback**
- c. Theory is ambiguous; let the evidence decide**

Established Consensus: Cross-Country Evidence

Openness stimulates economic growth in LDCs

Fig 1. Trade Raises Incomes

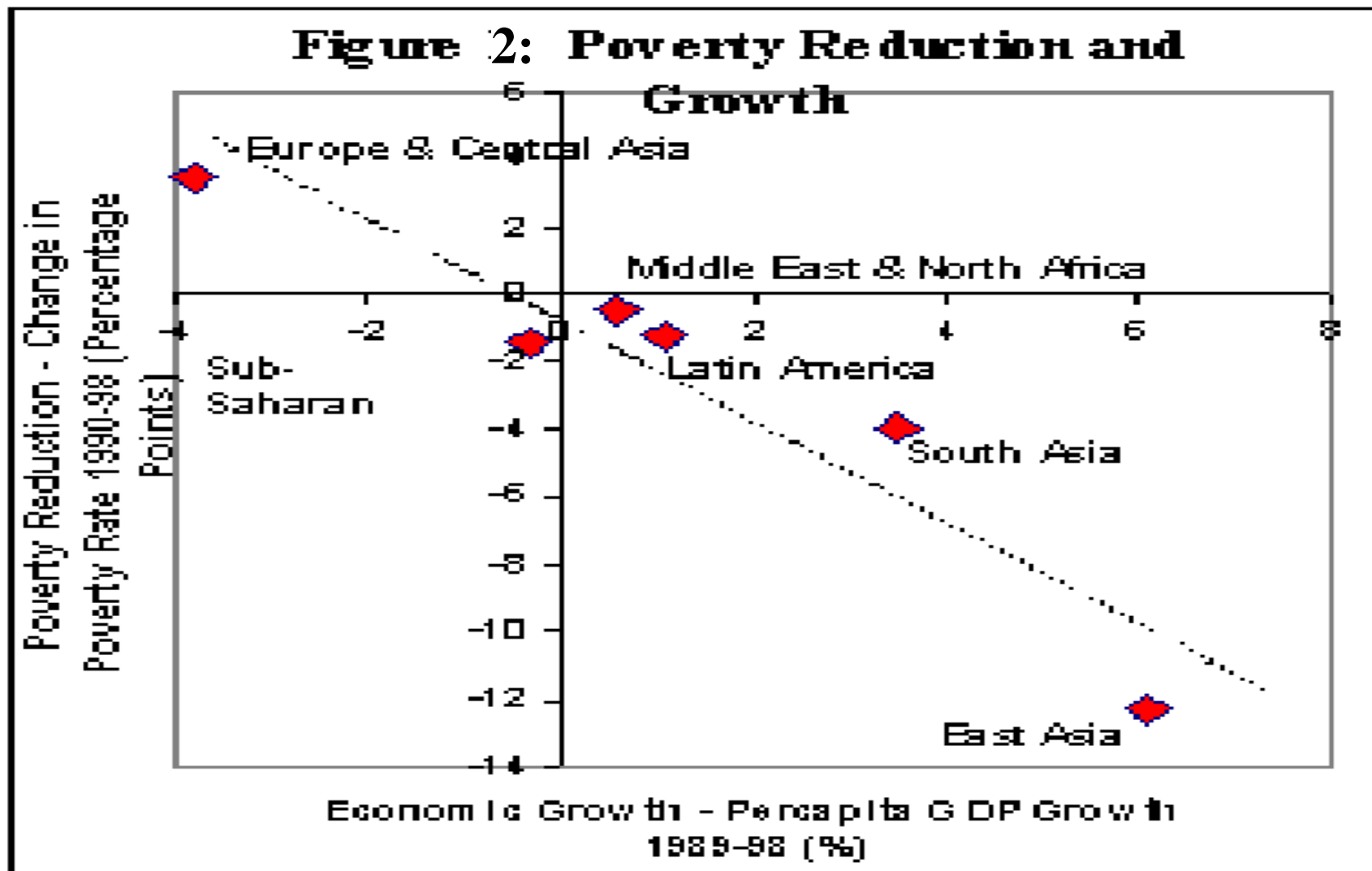
Per capita incomes



Trade openness

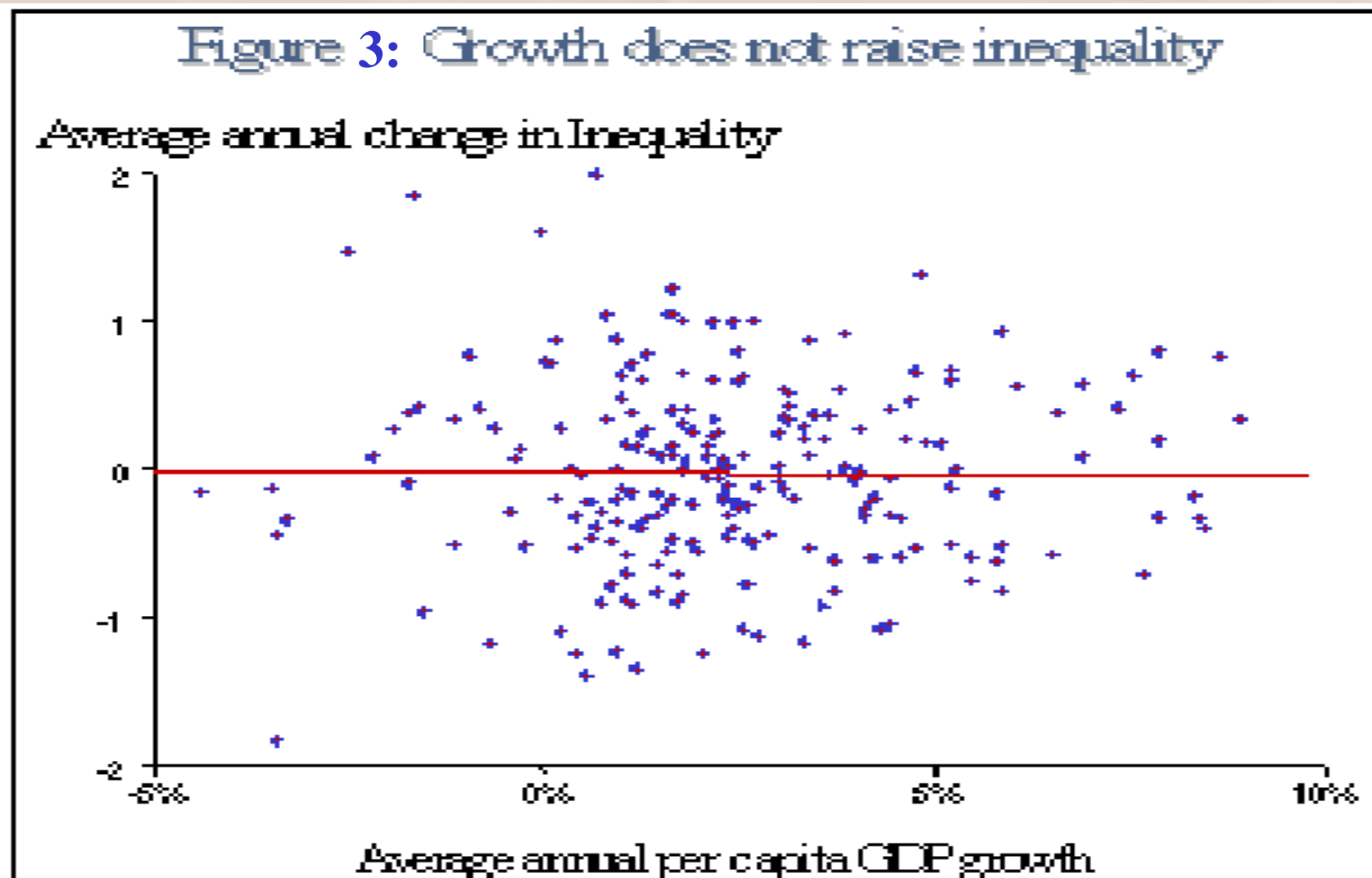
Established Consensus: Cross-Country Evidence

Per capita income growth speeds up poverty reduction



Established Consensus: Cross-Country Evidence

Inequality does not rise with rise in economic growth.



Openness-Inequality Nexus

- a. Evidence that openness causes income inequality to rise is weak**
- b. There is evidence that income inequality has risen in China & India**
- c. The Dollar-Kraay “syllogistic approach” not conclusive**
- d. Need for direct test**

The Puzzle

Why do some countries benefit from Openness (East Asia), while others do not (Sub-Saharan Africa)?

Results of Our Analysis

Table 2. Poverty Reduction Responses (Only Statistically Significant Variables)

Factors	Response
A. Controls	
<i>a. Initial Variables</i>	
Per Capita Income	Positive
Gini Coefficient	Negative
<i>b. Macroeconomic Variables</i>	
Government Spending / GDP	Negative
<i>c. Governance Variables</i>	
Regulatory Quality	Positive
Voice and Accountability	Negative
B. Openness	
(Export & Import / GDP)	Positive
C. Interaction	
Voice & Accountability X Openness	Positive

The Un-Puzzle?

**Why do some countries benefit from
Openness while others do not?**

**The role of the quality of
governance:**

**A market economy requires a modicum
of peace and order, contract
enforcement, and property rights
protection.**

The Un-Puzzle?

Without those, uncertainty is very high, the investment horizon very short, and only foreign and local carpetbaggers invest.

A Final Word

Openness is a promising window of opportunity. To exploit that opportunity, we must put our own house in order.

A Final Word

**This is the great
challenge of our time.**



Thank You