Trade Liberalisation and the Poverty of Nations
A.P. Thirlwall and Penélope Pacheco-López (Edward Elgar, 2008)

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As it says in the ***Preface***, the purpose of the book ***Trade Liberalisation and the Poverty of Nations*** is to argue that trade liberalisation is not in the interest of poor developing countries at the present stage of their economic and social development. The authors claim that history, economic theory and contemporary statistical evidence do not support the view prevailing in developed countries and international organizations that trade liberalization leads to a reduction of poverty, growth of living standards or more equal distribution of income between countries in the world or between people within countries.

This book is the last in a trilogy which aims to provide a different approach to trade and growth theory necessary for understanding the growth and development process, especially in the poor developing countries. In third book authors continue to question if trade liberalization will enable poor developing countries to achieve higher growth rates with balance of payments equilibrium. They argue that current developments, in an era of unprecedented trade liberalisation, validate more closely the predictions of non-orthodox models of growth and development.

There is no doubt that there are real gains from trade as shown in the classic theories of international trade and accepted by the policy makers in developed countries and international organizations. But, in the same time, there is nothing in the doctrine of free trade, or in the practice of liberalising trade, to guarantee an equal distribution of the gains from trade among countries, or between individuals within countries. The authors legitimately state that there is a crucial link between the structure of production and trade and the economic performance that can be expected from trade liberalisation, which the orthodoxy ignores. Very often trade liberalisation may not be optimal for developing countries without the implementation of complementary measures. The statement that trade liberalisation is a necessary condition for development and poverty reduction is not matched by the reality. They realise that the choice is not between autarchy and free trade, but it is a sensible management of the trade. As they

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point out '*this is the way rich countries developed historically and it is the way that poor developing countries today should be allowed to develop*'.

In ***Chapter 1*** (*The theory and measurement of trade liberalisation*) the authors highlight that the key issue from the development perspective is whether trade liberalisation reduces poverty and not whether it improves the growth performance of a country, the latter being also important. Analyzing the well known conclusions of classical and neoclassical theories of international trade they show us that, although those theories, based on the doctrine of comparative advantage, appeal and sound plausible, some of the basic underlying assumptions are week and the empirical evidence does not support them. 'Modern era' of free trade is characteristic of the last 30 years when all countries, regardless of the stage of their development, have made efforts to liberalise international trade under pressures, the major being institutional pressures from international organizations. They analyze Washington Consensus as a model for the developing world embodied in the thinking of the World Bank and IMF and show that it is the rout down for most developing countries which have to follow it. The authors state that the premise of poor economic performance of the developing countries under protective regimes, as a motive for liberalization, is not accurate. They show, exemplified by Japan, South Korea, and modern China, that some forms of interventionism can be justified.

After critical insight in the arguments for free trade, authors analyze economic arguments for protection. They talk about classical arguments, but in a modern way. The part of chapter I is devoted to the polemic with Bhagwati's "*bemoans of the lack of economists willing to put the argument for free trade*". Authors point out that the developed countries and international institutions preach free trade to developing countries although they have never practiced it themselves. They proved it by analyzing protection in historical perspective. The last part of this chapter is dedicated to the problems facing the measurement of the degree and process of trade liberalization.

In this chapter authors talk about a lot of well known facts about liberalism versus protectionism, but in a modern way illustrating them with many contemporary examples. They conclude that historical evidence shows a positive relation between trade restrictions and economic growth.

Trade liberalisation, trade performance and economic growth is the title of ***Chapter 2*** of the book. The aim of the authors is to examine the empirical evidence on the impact of trade liberalisation on export performance, import growth, the balance of payments and, finally, on the economic growth of countries that have liberalised their trade. At the beginning of the chapter they analyse and criticize different arguments in favour of the importance of exports for economic development using the results of various models. They examine the direct impact of trade liberalisation on export growth. Pointing out that the presumption must be that trade liberalisation will raise the growth of export, they analyze individual country and multi-countries case studies. Their conclusion is

that for a country's overall economic performance to improve it is not enough for export growth to accelerate, it must outpace import growth.
This conclusion leads them to the next point - trade liberalisation and import growth. At the beginning they claim that very little attention has been paid to import growth as a consequence of trade liberalisation. They show the results of existing studies from which we can see that trade liberalisation increases import growth more than export growth. That brings us to the question of trade liberalisation impact on the balance of payments. After presenting the results of different studies dealing with this problem, they conclude that "*The evidence suggests that trade liberalisation in developing countries has tended to lead to a deterioration in the trade account.*"

The crucial question examined in this chapter is whether there is a conclusive evidence that trade liberalisation has significantly improved the overall economic performance of countries and lead to a substantial rise in the average standard of living. They survey a vast literature dealing with this question and conclude that studies up to now suggest that the impact of trade liberalisation on economic performance may be week. Trade liberalization has benefited exporters, but in the same time there has been an increase of import as a result of the reduction of barriers to trade, and a deterioration of the balance of trade and payments which may have constrained the growth. The authors state that there is always a (negative) trade-off between growth and the balance of payment because as growth expands more import is needed to meet increase in final and intermediate demand so the balance of payments worsens. So, the ultimate test of successful trade liberalization is whether it lifts a country on to a higher growth path consistent with a sustainable balance of payments. Their conclusion is that trade liberalization has invariably raised the growth of imports more than exports, leading to balance of payments difficulties especially for developing countries due to either constrained growth or a larger international indebtedness for financing the deficits.

Next two chapters examine if trade liberalisation has produced a fairer world economy (chapter 3) and a more equal distribution of income across people of the world (chapter 4). In ***Chapter 3*** entitled *Trade liberalisation and international inequality*, they confront the positions and conclusions of orthodox and non-orthodox theories and models of divergence. For that purpose they use the results of many empirical studies. At the beginning they show, using the World Bank's data, that the world's income is distributed extremely unequally between nations and people. The orthodox neoclassical growth theory predicts that levels of per capita income should converge across countries, and the orthodox trade theory teaches that trade should be equalising. They show that it is not documented by empirical evidence. Authors continue with a brief review of non-equilibrium models. They begin with the explanation of Gunnar Myrdal's work, continuing with Albert Hirschman, Raul Prebisch and writers in the Marxist tradition. They also mention the new economic geography of Paul Krugman, winner of the Nobel Prize for Economics in 2008. '*for his analysis of trade patterns and location of economic activity*'.

In explaining the inequality in the world economy over time, particularly in the era of liberalisation (started in developed countries in the 1950s and in the majority of developing countries in the 1980s and 1990s), they use three measures or concepts of inequality and present and explain the results of various studies dealing with that. The most commonly used integral measure of inequality in most studies is Gini ratio which they use in their book, notifying its shortcomings. The facts used in the book are the evidence of global inequality which persists despite a massive growth of world trade, and are the evidence of divergence, not convergence.

At the end of this chapter the authors conclude that there is no rigorous scientific proof that the process of trade liberalisation in the last 30 years or so has led to larger income equality across countries of the world. They also point out that poorer countries seem to have benefited less than richer countries since the process of liberalisation accelerated in the 1980s. They show, using the results of various models, that liberalisation of trade is good for rich countries, plus China and a few other 'favoured' countries, but it is unfavourable for great many poorer countries. This is in line with the prediction of the non-orthodox trade and growth theory rather than those of the orthodox models which predict convergence. Authors predict that the absolute gap in income between rich and poor countries will continue to grow for the next 40 years, and would not be eliminated in the next 150 years. This is the reality of which everybody has to be aware. This book helps us understand it.

After showing in the previous chapter that distribution of gains from trade may not be equally spread between trading nations, the authors in ***Chapter 4*** *Trade liberalization, poverty and domestic inequality* analyze how the gains from trade are distributed between people within a country. For that purpose, the results of numerous case studies are used. They emphasize that economic theory does not predict that trade liberalisation alleviate the poverty, all it predicts are static gains. Analyzing the latest comprehensive studies on absolute poverty and the effects of trade on poverty, the authors show that, in the greatest era of trade liberalisation since the early 1980s, the absolute number of poor people in the world (excluding China) has actually increased. That is opposite to the claims of the liberalisation proponents.

After analyzing the impact of trade liberalisation on poverty and the conclusion, based on the available data, that expanding trade is not a powerful force for poverty reduction in developing countries, the authors turn to the issue of trade liberalisation impact on wages and income inequality within countries. It is important because poverty can fall but wages and income inequality can rise. This is due to the fact that the income going to the top income recipients rises more than the share going to the bottom group. Opposite to the predictions of the orthodox trade theory, evidence from a variety of sources demonstrates that wage inequality and the gap between skilled and unskilled wages has been widening and not reducing.

Trade liberalisation, in general, increases wage inequality and various hypotheses that have been used to explain rising wage inequality in poor countries are explained. The evidence on income inequality within countries is that it has increased in most countries in the last tree decades, compared to the relative stability, or even decrease in inequality in the 1950s, 1960s and 1970s. They insist that *"growth is good for the poor but much better for the rich"*. In the conclusion of this chapter the authors point out that trade liberalisation has made no obvious dent in world poverty, nor has it contributed to wage or income equality across the world.

In the ***last chapter*** *Trade strategy for development* the intention of the authors is to provide advice for poor countries in their struggles and negotiations with developed countries and international organizations. In this chapter, the authors criticise the opinion that greater trade openness is sufficient for a faster growth. Using the examples of various developing countries they show when the effects of trade liberalisation on development are positive, and when they are negative. For poor countries, where economy is not ready, the effects of liberalisation are negative. They also point out a very important issue of sequencing the trade reforms, making a distinction between the liberalisation of exports and the liberalisation of imports. Quick liberalisation, first of all, leads to an enormous growth of imports. One of the distinctive messages of this book is that it is important for poor countries to consider the balance of payments consequences of trade liberalisation because foreign exchange is the ultimate constraint on the growth of output and living standards in those countries.

They point out that exports need to be liberalised before imports if trade liberalisation is to be successful in promoting economic development. Also, trade liberalisation needs to be combined with an industrial strategy to foster export activities with a high growth potential in world markets. They accept the UNCTAD argument that trade policy should not be confused with development policy: trade is just one aspect of development. The opinion that poverty can be reduced through more trade rather than through more development has proved misleading. Development implies structural changes, but liberal trade by itself does not guarantee the diversification of economic activity. The authors rightly conclude that the whole of the trading system works against the majority of poor developing countries. They analyze the policy of international organizations, especially WTO, towards poor developing countries and conclude that if trade is to promote development, the WTO needs radical reform and rethinking. At the end of the book, the authors conclude that *we need to remember the economic history of the now developed countries and straightforward economic theory*. All countries, especially poor ones, should be free to choose which activities to protect and promote, and they have to be aware that only structural changes will make poor countries rich.

In the preface of the book ***Trade Liberalisation and the Poverty of Nations,*** the authors *A.P. Thirlwall and Penélope Pacheco-López* emphasize that they attempt to bring together vast literature that now exists on the theory, practice and impact of trade liberalisation. In my opinion, they have succeeded. This book is very useful for students, policymakers and all those interested in what is happening to developing countries as the world economy becomes more liberalised. It is also very intriguing for those professionally interested in international trade and its impact on development because they can find in one place a lot of pros and contras of trade liberalisation. Although some facts can be well known to them, this book presents the problem of trade liberalisation and poverty in a systematic and logical way, using a great number of authorities and results of empirical studies quoted in the bibliography at the end of the book.