**ASYNCHRONOUS ASSIGNMENT – 2**

**ECONOMICS OF GROWTH AND DEVELOPMENT**

**Priyanka suman - 2138375**

**Impact on trade, foreign investment on poverty and inequality among the countries**

**INDIA**

Developing economies like India, China, and various African nations have increasingly

been looking at foreign direct investment (FDI) flows as a source of economic growth,

raising per capita income, reducing unemployment, and thus finally alleviating poverty.

However, the positive impact of such openness remains a matter of debate. Hence, this

paper aims to ascertain whether FDI flows play a role in reducing depth as well as

intensity of poverty using time series data spanning from 1981-2012 for India.

It is widely proclaimed that capital account liberalisation would immensely benefit developing economies because once capital controls are lifted capital would flow from the capital abundant rich countries to the capital scarce developing countries. This free movement of capital could possibly increase growth thereby lifting millions out of poverty. India has been gradually liberalising since the 1980s and throughout more capital inflows were observed compared to outflows. Also, the composition of capital flows has been changing since the 1980s – with foreign direct investment (FDI) inflows rising steadily post 1991compared to portfolio and debt flows. However, since 2000, FDI outflows from India have also been witnessed. In this discussion paper, we empirically test the impact of FDI flows on poverty in India for the period 1980-2011. To provide a perspective to India’s performance we also analyse the link between FDI flows and poverty for SAARC countries. For a better understanding of how FDI flows impact poverty, we analyse the outflows and inflows separately. Interestingly, we find that in India FDI inflows contribute to increases in poverty whereas for other SAARC countries they significantly reduce poverty. The impact of FDI outflows in India too is in complete contrast with other SAARC countries. While FDI outflows significantly reduce poverty in India, they turn out to be insignificant for other regional countries.

The regression analysis reveals that increased FDI inflows are associated with a lower poverty count, in both the measures that are Headcount Poverty as well as Poverty Gap.

In the second model of (OLS), agricultural incomes seem to elevate households out of

poverty but fail to bridge the divide between the incomes of the people below poverty line and the average incomes. Thus, the study suggests that bringing more FDI flows is no perfect recipe for alleviating poverty, but it can have a positive impact on poverty reduction, provided that desired mechanisms are in place in the host country to have these positive effects.

FDI and poverty linkage

The empirical literature on poverty-FDI relationship can be divided into three

different parts. The first is in the context of the determinants of economic growth. The

supposition is that, ceteris paribus, rising FDI flows are correlated with a faster economic growth which decrease unemployment, thus ultimately alleviating poverty. The second part of literature focuses on diffusion of technology and other spill-over benefits from foreign firms towards economic activities which directly or indirectly benefit the poor.

**GERMANY**   
Living under $1.25/day often involves running a single-employee businesses, many of them owned and operated by women or working for an informal sector firm, without a social safety net when economic shocks occur. In many countries, a significant proportion of trade involves people crossing borders on a daily basis to sell goods and services. And it is in these places – at dusty border crossings where produce sits idle unless and until bribes are passed, where pitted roads are inadequate to the traffic they carry, where poor farmers are disconnected from market opportunities, and where civil and interstate conflict slows commerce – that transformations in trade can benefit the world’s poorest and most vulnerable people.

* *Managing and mitigating risks faced by the poor.* More focus is needed on managing the existing risks that poor people face that limit them from benefiting from trade opportunities when they arise. Effective risk management can be a powerful instrument for development, through building poor people’s resilience to the effects of adverse events and also by allowing them to take advantage of opportunities for improvement. Addressing any potential risks to livelihoods for the poor through trade-related adjustments is also important.

Poverty eradication is a worldwide development challenge, and Germany’s poverty reduction experience, evident in its sustainable development strategy, is receiving increasing attention. Germany has achieved high economic growth and success in poverty reduction over the past 40 years, since its reform and opening up. Germany’s experience can provide lessons for other countries, however, the situation of poverty in Germany is still severe, and the remaining people experiencing that condition have long been in a state where income poverty, capability poverty, and intergenerational transfer of poverty coexist. This requires systematic poverty reduction in multiple fields such as the following: population, production, consumption, capital, technology, finance and taxation, education, health care and environment. Foreign trade and urbanization are the best ways to implement poverty reduction. Despite the fruitful results of international studies, the impact of foreign trade, urbanization and their synergistic effects on poverty reduction have not been fully considered. Therefore, by selecting, as panel data, the urbanization rate, foreign trade dependence, and multiple dimensions of poverty indicators of different provinces in Germany from 2000 to 2017, this paper establishes regression models to study the poverty reduction effects of urban and rural areas. This is accomplished by focusing on three dimensions: poverty gap; income level and gap; and the numbers of under-insurance and guaranteed expenditure, in terms of both imports and exports, respectively. The paper not only considers the synergistic effects of foreign trade and urbanization on poverty reduction, but also investigates the heterogeneity of poverty reduction effects between urban and rural areas. The research results can be applied not only to poverty reduction policy formulation in Germany, but they can also provide empirical lessons for other developing countries with large urban-rural disparities. Therefore, the study has important implications for both poverty reduction theory development and poverty reduction policy formulation.  
Recent years have seen a flourishing of studies on preindustrial inequality and the factors leading to increases or declines in inequality. The Great Recession made inequality a hot topic in political debates (Wade 2014, Piketty 2015). The ongoing Covid-19 crisis, which seems likely to exacerbate inequality within-country across the West and probably across-country worldwide (Filauro and Fischer 2021, Furceri et al. 2021), makes it all the more urgent to better understand the historical factors which shape inequality in the long run of history.

For a long time, trends in preindustrial inequality have been the subject more of speculation than of proper measurement. This is now changing, and new evidence is transforming the way we look at long-term trends in economic inequality, particularly in two respects: (1) the causes of inequality change, and (2) the distributive impact of pandemics and other major catastrophes. Regarding the first point, a crucial aspect is that the newly available studies do not generally confirm the Kuznetsian paradigm (see Alfani 2021 for a synthesis). In 1955, Kuznets argued that inequality, starting from a low level in preindustrial times, increased at the beginning of industrialisation and thereafter followed an inverted-U path throughout the industrialisation process (the ‘Kuznets curve’).1 But inequality was found to have been on the rise since at least the beginning of the early modern period in almost all areas subject to systematic research, so that on the eve of industrialisation it was already relatively high. This raises many questions about the causes of inequality change, which can no longer be assumed to consist solely in economic growth. The evidence for preindustrial times suggests that inequality growth also occurred in phases of economic stagnation or decline (Alfani and Di Tullio 2019, Alfani 2020; 2021). In this sense, studies of preindustrial inequality contribute significantly to current debates on recent trends.

In a recent article (Alfani et al. 2022) we provide a general reconstruction of wealth inequality in the German area (defined as that falling within the boundaries of today’s Federal Republic of Germany) covering five centuries: from the immediate aftermath of the 1348 Black Death to circa 1850, the eve of German industrialisation. Our reconstruction is based on new archival data collected from fiscal sources and on the large local literature mostly produced by the German Historical School of Economics, which was active at the turn of the 20th century and was particularly interested in the study of medieval and early modern distributive dynamics.

**JAPAN**

There is no unanimity among economists about the impact of trade on employment and poverty. Empirical evidence presents a mixed picture, with positive impacts on some countries and negative on some others with no clear indication in others.

**Positive Side:**

On the positive side, theoretically, it has been established that trade liberalisation can lead to reduction of unemployment and poverty.

The possible impacts of trade liberalisation on poverty are explained in terms of the following:

i. The expansion of the export sector following trade liberalisation will increase the demand for labour. Developing countries are assumed to export principally labour-intensive products. This will create new demand for labour. Unemployed labour will gain productive employment. In a situation where there is no unemployment, labour will gain by way of higher wages. Labour will also gain by way of movement from low-wage occupations to relatively high-wage occupations.

ii. Expansion of the export sector will result in an increase in demand for other factor-inputs. This will result in higher prices of factor-inputs. Owners of these factor-inputs will gain by increased prices.

iii. The acceleration of economic growth caused by export growth will benefit the economy in general. Southeast Asian economies bear witness to the success of export-let-growth strategy.

iv. Expansion in the level of economic activity normally yields larger revenue for the government. It enables the government to undertake more social sector programmes with focus on welfare of the poor.

v. Trade liberalisation reduces the cost of living by providing access to cheaper imports of foods and essential consumer goods, and by keeping domestic prices under check because of the global competition.

vi. Trade can contribute to long-term poverty reduction by enhancing production and resource allocation efficiencies. It helps in the spread of economic activities in areas where greater economic gains are possible.

**Negative Side:**

Trade in actual practice is, however, not fair but biased to serve the vested interests of the developed countries. For instance, exports of developing countries face high tariff and non-tariff barriers. Developing countries are losing market share even in traditional commodities. Their efforts to move away from commodity dependence have generally been frustrated by restrictive trade rules/bias against agricultural commodities.

Some of the other negative influences are in terms of the following:

i. Developing countries, particularly the least developed countries (LDCs), are characterised by large subsistence sector, which can hardly withstand the global competition.

ii. Multinational corporations (MNCs) with their marketing strategies change the consumption habits of people causing significant damage to the traditional economic activities. In due course of time, such changes also cause damage to the very wellbeing of the consumers.

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iii. With the secular deterioration (i.e. adverse conditions persisting over long period) in the terms of trade, more openness can lead to growth with increase in poverty for developing countries.

Hence, a more reasonable conclusion to the debate can be that while trade can help a country to reduce poverty, it cannot take it out of poverty. For that to happen, more important orientation is needed in terms of government expenditure on education, health and nutrition.

**SRI LANKA**

The trade-poverty relationship is a contentious one, and mainstream economists remain agnostic about the issue. This is mainly because the careful empirical evidence on the issue is in its infancy. Moreover, the work is plagued with limited data availability and methodological variations, which give conflicting results. The relationship also varies when looking at trade’s short and medium term consequences on poverty versus a longer-term impact. This may also point to the fact that trade is neither the main problem, nor the main solution to poverty. In fact, many recent studies show that the impact of trade on poverty depends on accompanying complementary policies like labour market flexibility, human capital development and infrastructure development. Further, the trade-poverty relationship is sensitive to the market structure in product and factor markets as well as the political economy structure of government institutions. Evaluating the impact of trade on poverty is further complicated by the fact that the poor are a heterogeneous group and are likely to be affected in a non-uniform way by trade. For instance, the trade impact may vary according to whether they are food consumers or producers, as well as whether they work in expanding export-oriented or contracting import-competing industries. It is no surprise then that the trade-poverty relationship does not lend itself to easy generalisations. Therefore, careful case studies of household survey data are the best approach to evaluate the issue. Systematic work on Sri Lanka is scarce. This policy brief identifies the channels through which trade and trade policy affect Sri Lanka’s poor, highlights the importance of informed, precise policy making and the need to stimulate interest in pursuing rigorous research in the field.

The net concentration of wealth in the hands of a small group of elite means that power is concentrated and the economically weaker majority group has little or no political decision making.

The next point is that the richest Sri Lankans who own and control the country’s largest companies influence the stock market in a significant manner and exert enormous personal and political power. They fund political candidates, parties and political campaigns and influence and shape Sri Lanka’s democracy. This is a natural feature of all democratic countries and there is a strong argument that people should be free to do whatever they want with their money. It is incorrect to criticize wealthy groups and individuals who have acquired and not inherited their wealth.

Inequality is an important and concerning issue. It impacts the economic, political and social realms. There needs to be a broadspectrum dialogue on a long term strategy to address inequality in Sri Lanka.

THANK YOU