The impact of globalization on poverty in Bangladesh

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Preface

Dr. S. R. Osmani prepared this working paper to serve as basis for policy dialogue and for the formulation of action under the Bangladesh Decent Work Pilot Programme.

Bangladesh was one of eight countries that participated in the Decent Work Pilot Programme (2002-2005). The thematic focus of the national pilot programme, which was identified after several rounds of consultations between the social partners and the ILO, was globalisation and decent work – i.e., how could globalisation be better managed and harnessed by the country in order to maximise benefits and promote decent work, and minimize social and economic costs? National policy reforms and developments in the last decade have increased the openness and global integration of the Bangladesh economy, which have brought opportunities for growth and employment creation, perhaps best exemplified by the phenomenal rise of the export-oriented garment. At the same time, the global environment carries with it uncertainties and risks, and vulnerability to external downturns and changes.

Among the questions that the social partners wanted to address was how and to what extent the benefits of globalization and economic growth have reached the population living in poverty. Dr. Osmani's paper describes the growth-poverty nexus through which the forces of globalisation have affected poverty, and focuses on the impact of globalisation on employment.

Dr. Osmani presented the highlights of his paper at the National Policy Dialogue on Globalisation and Decent Work, held in Dhaka, April 2004, which aimed to initiate a broad-based dialogue on key issues among social partners and other major national stakeholders, elicit ideas on ways to address the issues, and consolidate support for the decent work pilot programme for action.

This paper is being made available for wider circulation because it is relevant to the broader international debate on the social dimension of globalisation and provides valuable empirical insights into similar challenges faced by other developing countries.

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1. Introduction

The contemporary global debate on globalization and its multi-pronged impact has had a strong echo in the academic and political discussions in Bangladesh as well. After a hesitant start in the mid-1980s, Bangladesh moved decisively to embrace the wave of globalization in the 1990s. Ever since, the impact of globalization on the economy of Bangladesh and, more pointedly, on the lives of its people, has become a hotly debated issue.[1] This paper attempts to take a fresh look at the impact of globalization on the evolving poverty situation in Bangladesh, and to draw some policy conclusions.

For the purposes of present analysis, globalization is viewed purely in its economic dimensions – defined as increasing integration of a national economy with the world economy through exchange of goods and services, capital flows, technology, information, and labour migration. Not all of these exchanges, however, figure equally prominently in the case of Bangladesh. The least advance has been made in respect of capital flow. By the year 2000, foreign direct investment (FDI) amounted to just 0.4 per cent of gross domestic product (GDP), which was low even by the standards of low-income countries (average 0.9 per cent). But significant advances have been made in some of the other spheres – especially, exchange of commodities and labour. Aided by trade liberalization and export incentives of various kinds, the economy has become much more open in the last decade or so. During the 1980s, the shares of both imports and exports in GDP had remained virtually stagnant. By contrast, between 1989-90 and 1999-2000, the share of imports in GDP went up from 13.5 per cent to 20.0 per cent, and the share of exports went up from 5.7 per cent to nearly 13.4 per cent. The flow of labour migration and the concomitant inflow of migrants' remittances have also gathered pace. The foreign exchange earnings from remittances now amount to nearly three-fourths of net export earnings. This paper will focus specifically on the consequences of these two dimensions of globalization – viz. trade openness and workers' remittances.

The paper is structured as follows. Section II provides an overview of growth and poverty in Bangladesh in the last two decades and presents an analysis of the growth-poverty nexus, i.e. the mechanisms through which growth impacted on poverty. Section III then describes the mechanisms through which the forces of globalization affected poverty through the growth-poverty nexus described in the preceding section. In this context, special attention is given to the impact of globalization on the employment opportunities for the poor. Section IV examines the question of whether globalization is undermining the ability of the Government of Bangladesh (GOB) to conduct pro-poor public policy by constraining its revenue-raising powers. Finally, section V offers some brief concluding observations.

[1] For a sample of serious academic discussion on these issues, see, among others, Paratian and Torres (1999), Mujeri (2001), Mujeri and Khandkar (2002), Muqtada et al. (2002), and Ahmed and Sattar (2003).

2. The nexus between growth and poverty in Bangladesh

2.1 Trends in growth, distribution and poverty, 1980-2000

Compared to the 1980s, the decade of the 1990s witnessed accelerated growth and faster reduction of poverty, but also a widening of income inequality. GDP grew at the annual average rate of 4.8 per cent in the 1990s compared to 3.7 per cent in the 1980s. At the same time, an unexpectedly early demographic transition brought population growth down from 2.4 per cent to 1.8 per cent. As a result, the growth in per capita income saw an even faster acceleration compared to overall GDP – from 1.6 per cent per annum in the 1980s, it went up to 3.0 per cent in the 1990s (table 1). For an average Bangladeshi, income had grown by about one-third over the decade as a whole. This was not nearly as spectacular a growth of income as observed in many other parts of Asia, but at least it represented a significant advance over the previous decade when per capita income grew by only one-sixth.

Table 1. Annual average growth rates of the Bangladesh economy, 1980/81 to 1999/2000

Sector	Five-year average				Decadal average	
	1980/81-1984/85	1985/86-1988/89	1990/91-1994/95	1995/96-199920/00	1980/81-1989/90	1990/91-1999/2000
GDP	3.72	3.74	4.40	5.21	3.73	4.81
Population	2.13	2.19	1.98	1.60	2.16	1.79
Per capita GDP	1.59	1.55	2.41	3.61	1.57	3.01

Source: Computed from BBS (2000, annex table 8) and BBS (2001a, annex table 8).

Faster growth of income was accompanied by some widening of income inequality, in both urban and rural areas. Inequality had also widened in the earlier decade, but it did so much more sharply in the 1990s. Thus, the Gini coefficient of consumption expenditure for urban areas had gone up from 0.30 in 1983-84 to just 0.32 in 1991-92, but then rose sharply to 0.38 by 2000. Rural areas also experienced a similar trend. After remaining roughly constant around 0.25 during the 1980s, the rural Gini rose steeply to 0.30 by 2000.

Despite the worsening of income distribution, however, poverty declined in the 1990s, and what is more, it declined faster than in the preceding decade. In the 1980s, the extent of poverty was virtually static – from 52 per cent in 1983-84, the proportion of people in poverty fell to just 50 per cent by 1991-92. But the rate of poverty reduction accelerated in the 1990s, and by 2000 the proportion had fallen to 40 per cent. As in the case of growth, the acceleration in the pace of poverty reduction was nowhere as spectacular as in much of East and South-East Asia, but it did mark a significant improvement over the 1980s. Not just the proportion of poor people, also the depth and severity of poverty declined faster in the 1990s, indicating that even the poorest of the people enjoyed a slightly accelerated rate of poverty reduction in this decade (table 2).

Table 2. Trends in poverty (based on consumption expenditure data)

		1983/84	1988/89	1991/92	2000
Rural	H	53.8	49.7	52.9	43.6
	P (1)	15.0	13.1	14.6	11.3
	P (2)	5.9	4.8	5.6	4.0
Urban	P (1)	11.4	8.7	8.4	6.7
	P (2)	4.4	2.8	2.8	2.3
National	H	52.3	47.8	49.7	39.8
	P (1)	14.5	12.5	13.6	10.3
	P (2)	5.7	4.6	5.1	3.6
	H	40.9	35.9	33.6	26.4

Notes: (1) National poverty estimates are population-weighted poverty measures obtained separately for rural and urban sectors. The rural population shares are 88.7% (1983/84), 86.6% (1988/89), 83.4% (1991/92), and 78% (2000). (2) H stands for head count ratio, P1 for poverty gap index and P2 for squared poverty gap index.

Source: Osmani et al. (2003).

Both urban and rural areas enjoyed reduced poverty in the 1990s, but the acceleration in poverty reduction was observed mainly in rural areas. Urban poverty maintained a steady decline in the last two decades – falling from 41 per cent in 1983-84 to 34 per cent in 1991-92 and then further to 26 per cent by 2000.[2] By contrast, rural poverty changed very little in the 1980s – the proportion of people in poverty was 54 per cent in 1983-84 and 53 per cent in 1991-92. But by 2000, it had fallen to 44 per cent. Thus, the acceleration in the rate of poverty reduction that was observed in the 1990s was essentially a rural phenomenon.

2.2 Sources of growth acceleration

The simultaneous acceleration that was observed in the 1990s in growth and poverty reduction was not a matter of mere coincidence. In-depth probes into the sources of growth on the one hand and the sources of poverty reduction on the other reveal a distinct causal connection between the two. Poverty declined at a faster pace precisely because the nature of growth acceleration was conducive for that to happen.

Analysis of the proximate sources growth shows that industry and services contributed almost equally to the incremental growth in the 1990s, each with a share of about 41 per cent, with agriculture making a relatively small contribution of 17 per cent. Within the broad group of industry, the manufacturing sub-sector contributed 28 per cent, out of

[2] The view of a steady decline in urban poverty is apparently at odds with the evidence of the *Household Income and Expenditure Survey* data for 1995-96, which, when combined with data for 1991/92 and 1999/2000, show urban poverty to have increased in the second half of the 1990s after falling sharply in the first half. However, neither the sharp fall in poverty in the first half of the decade nor the increase in the second half is consistent with other evidence on what had been happening to the urban economy. Analysts have argued that the Survey data for 1995-96 grossly overestimate urban income and consumption for that year, which is why poverty appears to have fallen so sharply in the first half of the decade and risen in the second. On this, see Khan and Sen (2001), World Bank (2002) and GOB (2003).

which some 20 per cent came from large and medium industries, and the rest from small-scale industries. In agriculture, fisheries made an overwhelmingly large contribution, accounting for 15 out of the 17 per cent contribution that came from all of agriculture. It is important to note that at least two-thirds to three-quarters of the incremental growth in the 1990s originated from the non-tradable sectors – mainly, services, construction and small-scale industry (table 3).

What are the underlying causes of the increasing dominance of non-tradable sectors? In theory it is possible that they enjoyed a kind of endogenous growth arising from autonomous productivity improvement within the sector, but there is no empirical basis for supporting this view. A more likely possibility is that the sector has benefited from a strong demand stimulus – arising from outside the sector. The existence of widespread underemployment in the informal sector – estimated at around 43 per cent in 1991 – makes the non-tradables (which reside mostly in the informal sector) especially responsive to demand stimulus. It is, therefore, reasonable to advance the hypothesis that growth acceleration of the 1990s originated from an enhanced dose of demand stimulus enjoyed by the non-tradable sectors in the 1990s.

Table 3. Sectoral contribution to growth acceleration between 1980s and 1990s (in 1995/96 prices)

Sector	GDP growth over the 1980s (billion taka)	GDP growth over the 1990s (billion taka)	Incremental GDP growth from 1980s to 1990s (billion taka)	Sector share in incremental GDP growth (%)
Agriculture	65.36	113.67	48.31	16.86
Crop production	40.51	38.42	-1.73	-0.60
Fisheries	11.36	54.57	43.21	15.08
Others	13.49	20.68	7.19	2.51
Industry	102.36	222.33	119.97	41.86
Manufacturing	56.22	135.73	79.51	27.75
Large & medium	39.66	97.72	58.12	20.28
Small scale	16.58	37.99	21.41	7.47
Construction	29.26	68.68	39.42	13.76
Others	16.88	17.92	1.04	0.36
Services	174.05	292.33	118.28	41.28
Total GDP	341.77	628.33	286.56	100.00

Source: Osmani et al. (2003).

Evidence suggests that the enhanced demand stimulus came from three major sources: (1) a quantum jump in crop production that occurred in the late 1980s; (2) rapid growth in the flow of income generated by the ready-made garments industry; and (3) accelerated flow of workers' remittance from abroad (Osmani et al., 2003).

The ready-made garment (RMG) industry has registered phenomenal growth in recent years. Starting from a low base in the mid-1980s, it has by now become both the leading industry and the leading export item of Bangladesh. By the mid-1990s, it was contributing somewhere between 20 and 25 per cent of total value-added and employing between 40 and 50 per cent of the workforce engaged in large and medium-scale manufacturing.[3] Its share in total export has risen from barely 4 per cent in 1983-84 to over 75 per cent by the year 2000. The growth of RMG was especially rapid in the 1990s. The number of manufacturing units in this sector increased from fewer than 1,000 in 1990-91 to nearly 3,000 by the end of the decade, and the aggregate value added created by the sector jumped from less than takas 10 billion in 1988-89 to over takas 35 billion in 1997-98.[4]

During the same period, RMG share in total manufacturing value-added increased from under 10 per cent to over 20 per cent. It is also worth noting that because of higher than average labour-intensity, RMG is characterized by a much higher share of workers' wage bill in total value added compared to the rest of the industries. Thus, the data from the *Census of Manufacturing Industries* of 1995-96 and 1997-98 show that the wage bill of production workers accounted for about 35 per cent of value added in RMG as compared with 13 per cent for the rest of large and medium-scale manufacturing. An overwhelming proportion of these workers are females, and the vast majority of them come from rural areas from all over the country.[5]

These figures suggest that the additional income generated by the exceptionally rapid growth of RMG in the 1990s must have led to a significant demand boost to services and other non-tradables as the workers engaged in this sector, and the rural recipients of remittances sent by them, spent their hugely increased purchasing power. Since garment workers happen to be some of the poorest among manufacturing workers,[6] their spending pattern must have been skewed towards the inferior quality goods and services produced in the informal non-tradable sector. This must have provided a significant demand boost to the production of non-tradables.

Remittance from emigrant Bangladeshi workers is yet another area of rapid growth in Bangladesh. In the two decades since 1980, the volume of remittance sent by Bangladeshi workers working abroad has grown at the rate of 8.5 per cent per annum in real terms. By the end of the 1990s, the annual receipts had amounted to roughly 30 per cent of export earnings and over 4 per cent of GDP. As in the case of RMG, remittances experienced a particularly accelerated growth in the 1990s. In constant 1995-96 prices, the volume of annual remittance increased by an average of takas 17 billion in the decade of the 1980s, but in the next decade it rose by nearly takas 50 billion. As a result of this accelerated growth, the size of remittance as a proportion of GDP went up from 2.5 per cent in 1990-91 to 4.1 per cent in 1999-2000.

[3] For a detailed account of the growth and characteristics of RMG in Bangladesh, see Khundker (2002). See also Dowlah (1999), Bakht (2001), Zohir and Paul-Majumder (1996), and Zohir (2001).

[4] Both years' figures are in constant 1995-96 prices. The current price figures are from the *Census of Manufacturing Industries* of the respective years. These were converted into constant prices by using the implicit sectoral GDP deflators for the large and medium-scale manufacturing sector.

[5] Two surveys conducted by the Bangladesh Institute of Development Studies in 1990 and 1997 show that some 70 per cent of workers in the garment factories were migrants from rural areas, who maintained strong links with their homes and sent remittances to family members. See Zohir and Paul-Majumder (1996), and Zohir (2001).

[6] According to the *Census of Manufacturing Industries* data for 1997-98, the cost per employee in the garment sector was nearly half of that in the rest of the manufacturing sector.

The importance of remittance can also be gauged from the fact that the purchasing power generated by workers' remittance is far above the value added created by RMG. Thus in 1997-98, the latest year for which survey data on industries is available, RMG created value added of takas 35 billion, while remittance brought in takas 64 billion worth of purchasing power.[7] The bulk of this purchasing power went into the rural economy.[8] The enhanced purchasing power of the recipients of remittance income must have acted as a powerful boost to the demand for the non-tradables produced by the rural non-farm sector – more so in the 1990s than in the preceding decade.

The third source of stimulus came from agriculture, especially rice production – the single most important crop in Bangladesh agriculture. It is a characteristic of the historical pattern of rice production in Bangladesh that instead of growing steadily around a rising trend, it grows in discrete jumps at irregular intervals. One of the biggest of these jumps occurred in the late 1980s. After hovering around a total of 14 to 15 million metric tonnes almost throughout the 1980s, the production of rice jumped to close to 18 million in 1989-90 and stayed there for most of the 1990s until it jumped again towards the end of the decade. This jump of nearly 20 per cent in the production of the biggest crop of Bangladesh agriculture was a major source of enhanced demand stimulus for the rural non-farm sector.[9]

These observations suggest that the source of enhanced demand stimulus enjoyed by the non-farm non-tradable sector in the 1990s, compared to the 1980s, lay in the considerably higher level of spending by three groups of people – farmers who enjoyed a higher level of income owing to a sharp improvement in crop production, garment workers (and their rural families) whose earnings increased sharply in this decade, and all those who benefited from the greater inflow of foreign remittance. It is this three-pronged stimulus of enhanced demand that seems the most likely explanation of acceleration in the growth of non-tradables, which in turn explains the major part of the acceleration of overall GDP growth in the 1990s.

2.3 The growth-poverty nexus

To see how this acceleration in growth led to faster rate of poverty reduction, it is necessary to understand how the accelerated growth of non-tradables affected employment and wages for the poor. We explore this growth-poverty nexus below specifically in the context of rural areas, since, as observed earlier, it was mainly in the rural areas that poverty declined faster in the 1990s compared to the 1980s (while urban poverty declined in a steady manner).

[7] Both figures are in constant 1995-96 prices. Strictly speaking, the comparison should be made with the overall contribution of the RMG sector including the value added created in the earlier stages of production. But since the industry is highly import-intensive with very weak domestic backward linkages (until recently), the comparison should stand the test of a more refined analysis.

[8] The *Household Income and Expenditure Survey* of 2000 shows that remittance income from abroad accounted for 7.5 per cent of total rural expenditure and 4 per cent of urban expenditure. These figures imply that roughly four-fifths of all foreign remittances went to the rural economy.

[9] In relative terms, crop production played by far the major role, surpassing even the combined stimulus from the other two sources. As the decade progressed, ready-made garments and remittance began to assume greater importance. But even towards the end of the decade crop production remained the single most important source of enhanced demand (Osmani et al., 2003).

As the enhanced stimulus of demand enabled non-farm non-tradable activities such as services, construction and small-scale industries to grow more rapidly in the 1990s compared to the preceding decade, one of the effects was reflected in growing average size of firms engaged in these sectors. These firms were still small in the national context, but they were large enough to require wage labour in addition to any family labour being used. Although there are no systematic surveys of this sector to confirm exactly how its structure has changed over time, this inference can be made by piecing together a number of different kinds of evidence, drawn from labour force surveys, household expenditure surveys, agricultural censuses, and so on (Mahmud, 2004).

This change in the structure of non-farm enterprises has profound implications for employment and income of the rural poor. Throughout the last two decades, poor landless labourers have shifted out of agriculture to find alternative livelihood in the rural non-farm sector. But the nature, and consequences, of this shift was very different in the 1990s as compared with the 1980s, and this had a lot to do with the changing structure of non-farm enterprises.

The 1980s were characterized by a rapid shift of labour force into rural non-farm activities, but the predominant nature of the shift was absorption into self-employment at the lower end of the productivity scale. By contrast, the 1990s witnessed a less rapid shift of labour force into the rural non-farm sector, but one that was characterized by faster growth of relatively larger scale enterprises that were more productive and employed more wage labour. The poor rural workers thus found an increasing opportunity to secure wage employment in the 1990s instead of overcrowding into petty small-employed activities.

This transformation in the dynamics of rural labour force has important implications for the dynamics of poverty in rural Bangladesh. Analysis of the *Household Expenditure Survey* of 2000 shows that salaried employment in the rural non-farm sector was much more rewarding for the poor than any other mode of employment. For example, the extremely poor working in the rural non-farm sector earned on average takas 56 per day from salaried employment as compared with takas 38 from self-employed activities (Osmani et al., 2003). Thus the relative expansion of larger non-farm enterprises, allowing for greater absorption of labour into salaried employment, has played a key role in bringing poverty down in the 1990s.

The nature of the growth-poverty nexus that operated in the 1990s can now be summarized as follows. The non-tradable non-farm sector experienced accelerated growth in the 1990s boosted by enhanced demand – emanating initially from the crop sector and increasingly also from ready-made garments and workers' remittances. Faster growth enabled the non-farm enterprises to increase their scale of operation, thus tilting the structure of this sector more towards the relatively larger enterprises. This structural change in turn brought about a change in the nature of labour absorption in this sector, as salaried wage employment became more plentiful with the emergence of larger enterprises. Whereas in the 1980s most of the surplus labour that got absorbed in the non-farm sector found its way into petty self-employment, in the 1990s the absorption occurred more into salaried employment in the relatively larger and more productive enterprises. Since salaried employment was far more rewarding for the poor than the shift into self-employment that occurred in the 1980s, the structural change engendered by the growth process of the 1990s was especially conducive to poverty reduction.

3. The impact of globalization on poverty

How did globalization impact on the growth-poverty nexus described above? We attempt to answer this question in two parts: first, by examining the mechanisms through which globalization might have affected the growth process; and, second, by identifying its impact on the employment opportunities of the poor.

3.1 The impact of globalization on the growth process

The preceding section has argued that the modest growth acceleration that occurred in the 1990s was led by small and medium enterprises in the non-farm non-tradable sectors. Furthermore, as these enterprises created new opportunities for wage employment, the rural poor benefited more than before since wage employment is more rewarding for them than the petty self-employment in which they have traditionally been engaged when looking for alternative employment opportunities outside agriculture. As a result, growth acceleration translated into a faster rate of poverty reduction as well.

At the first sight, globalization would seem to have little to do with this process, since globalization has to do with a country's relationship with the external world, whereas production of non-tradables is by definition geared towards the domestic market. But this view is too simplistic. Non-tradables may be produced for the domestic market, but they are not insulated from the country's interactions with the outside world. Through a variety of transmission mechanisms, the parameters of globalization may deeply influence, for better or worse, the incentives for and the profitability of producing non-tradables.

There are reasons to believe that Bangladesh's engagement with globalization – i.e. her increasing integration with the world economy – has helped the accelerated growth of non-tradables in two ways – from the demand side, by boosting the demand for non-tradables, and from the supply side, by reducing their cost of production. In so doing, globalization has contributed positively towards engendering the growth process that led to faster reduction of poverty in the 1990s.

It was noted in the preceding section that there were three proximate sources of enhanced demand for non-farm non-tradable goods and services in the 1990s – viz., rapid expansion of the ready-made garments sector, increased flow of remittances from abroad, and a quantum jump in rice production in the late 1980s. Globalization has lent a helping hand to each of these proximate sources.

The link of the first two sources with globalization is obvious enough. Since the ready-made garments industry is almost wholly export-oriented, its expansion indicates increasing integration with the world economy in the goods market. On the other hand, increased remittances sent by Bangladeshi workers working abroad stems from increasing integration in the factor market.

To some extent, these processes of globalization were helped by conscious policy decisions to impart a greater degree of outward orientation to the Bangladesh economy. In particular, trade and exchange rate policies played an enabling role in this regard, by reducing the bias towards inward-oriented production of import. After a hesitant start in the early 1980s, this process took off in earnest later in the decade with the removal of quantitative restrictions on imports, which resulted in the elimination of very high *scarcity premiums* that import substitutes used to enjoy. New rounds of trade reforms undertaken in the early 1990s took this process further by reducing import tariffs to significantly lower and uniform levels. According to one calculation, the weighted average rate of nominal

protection offered through import duties came down from 42 per cent in 1990-91 to 20 per cent 1999-2000 (Mahmud, 2004).[10] The combined effects of removal of quantitative restrictions on imports and reduction of import tariffs went a long way towards encouraging export orientation by reducing the bias towards import substitutes.

Export orientation received further impetus through a variety of other measures of support offered by the government to the export-oriented firms. These measures included concessional credit, tax exemptions, duty drawback on imported raw materials, and provision of infrastructural facilities on preferential terms (for example, through the creation of export processing zones). All this was helped further by adopting a flexible exchange rate policy that prevented the incentive-dampening effect of overvaluation of the currency. In fact, for most of the 1990s, the real effective exchange rate experienced a modest depreciation, thereby raising the profitability of exports.[11]

Thus, on the one hand, trade liberalization reduced the incentive for import substitutes, and thereby raised the incentives for both exportables and non-tradables. On the other hand, direct measures of support for export-oriented firms as well as exchange rate policy encouraged exportables vis-à-vis non-tradables. As a combined result of all these policy actions, the incentive structure moved decisively in favour of exportables in the 1990s relative to both importables and non-tradables.[12]

Policy-induced incentives were, however, not the only factor behind the success of ready-made garments. A big role was played by external factors – in particular, the Multi-Fibre Agreement (MFA) that had governed international trade in textiles since 1974. While restricting the overall flow of imports of cheap textiles from the developing to the developed world, the MFA did allow a number of LDCs (least developed countries) quota-based access to the large North American markets, especially for low value-added products. Bangladesh was one of the beneficiaries of this system; as much as 70 per cent of Bangladesh's garment exports gained access to the large US market through this process. This, along with the privileges granted by the European Union's Generalised System of Preferences (GSP), played an important part in the rapid expansion of Bangladesh's garment industry in the 1990s.

The empirical question of what are the relative contributions of external factors on the one hand and policy-induced changes in the incentive structure on the other towards promoting the garments industry of Bangladesh remains unresolved. There has been no quantitative study so far to separate out the two effects – even in terms of broad orders of magnitude. There is, however, a general presumption among the observers of the Bangladesh scene that the external factors might have been the dominant ones. Be that as it may, what cannot be disputed is the fact that the ready-made garment industry is the prime beneficiary of the

[10] This estimate excludes non-protective import taxes such as VAT, which are supposed to be imposed equally on both imports and domestic goods (although there is some evidence that in certain instances VAT was imposed specifically on imported goods, thereby offsetting at least in part the effect of tariff reduction.)

[11] From the late 1980s to mid-1990s, real depreciation took place to the extent of 12 to 15 per cent (Mahmud, 2001). Although the process was reversed in the latter half of the decade, it is important that exchange rate depreciated precisely at the time when the fledgling export-oriented industries were trying to get a foothold in the world market. By the time the exchange rate appreciated, the foothold was already reasonably firm.

[12] It is not being suggested that the incentive structure became biased in favour of exportables. In fact, there are indications that the structure of incentives still discriminates against exports relative to importables (Ahmed and Sattar, 2003). The point is simply that the pre-existing bias against exportables has been reduced to a considerable extent.

process of globalization of Bangladesh – even though one may not be able to judge how far this process was aided by domestic policies and how much by external factors.

A similar conclusion holds regarding remittances. Domestic policies did help to the extent that the Government has tried actively to seek overseas employment opportunities for Bangladeshis and avoided overvaluation of the currency. But it was the external factor – viz. demand for cheap labour in the oil-rich countries of the Middle-East and elsewhere – that was the driving force. Whatever the relative contributions of different factors, however, the increased flow of remittances remains a globalization-driven phenomenon, operating through the factor market, just as the growth of RMG has been a globalization-driven phenomenon operating through the product market.

This brings us to the third source of enhanced stimulus of demand in the 1990s – namely, the quantum jump in rice production that occurred in the late 1980s. One way of looking for any possible impact of globalization on this phenomenon is to judge how the process of trade liberalization might have affected the relative price structure in the product market. It is important to note in this context that although rice is in principle a tradable commodity, for all practical purposes it qualifies as a non-tradable in Bangladesh as its price tends to fall between import parity price and export parity price in normal conditions. As such, trade liberalization must have improved the relative price of rice (along with the price of all non-tradables) vis-à-vis importables by reducing the incentive bias that existed in favour of importables in the pre-liberalization era. On the other hand, the special incentives given to the export sectors as well as a slowly depreciating exchange rate must have reduced the incentive for rice production vis-à-vis exportables. The net effect on incentives in the product market is, therefore, difficult to judge.

What is much clearer, however, is the incentive provided by trade liberalization through the input market. In fact, it is arguable that the major credit for bringing about the quantum jump in crop production in the late 1980s goes mainly to liberalization of markets for agricultural inputs, especially elimination of non-tariff barriers to the importation of cheap irrigation equipment. Because of import liberalization, which took effect in 1988, the price of shallow tube-well in particular came down drastically. Until about 1986, shallow tube-wells used to be distributed by the government at a subsidised price in order to promote more extensive use of irrigation. Liberalization provided an alternative, and from the point of view of government budget a much less expensive, method of achieving the same goal. In fact, the price of shallow tube-wells came down so much that the market price turned out to be almost 40 per below even the subsidized price of pre-liberalization era. This fall in price, combined with relaxation in siting restrictions, resulted in an enormous expansion in the extent of irrigated area. Between 1986 and 1996 irrigated area expanded twice as fast as in the period between 1978 and 1986. From an average of 2.3 million acres in the three-year period 1984-85 to 1986-87, total irrigated area jumped to an average of 3.5 million in the next three years – an increase of nearly 50 per cent. It is important to note that the benefit of irrigation expansion did not remain confined to the owners of shallow tube-wells, who were typically large and middle farmers, but also reached the small and marginal farmers who had to buy water from others. This is so, because the operation of market forces ensured lower prices of water following expansion of its supply. According to one estimate, the average water charge in nominal terms declined by 4 per cent during 1987-94 while the price of rice increased by 30 per cent, indicating a substantial fall in the real price of water (Hossain, 1996). The result was a broad-based expansion of irrigation coverage.

The expansion of irrigated area brought about a correspondingly sharp increase in the use of fertilizer because of the well-known fact that the productivity of fertilizer rises significantly when applied along with controlled irrigation. From an average of 1.2 million metric tonnes during 1984-85-1986-87 the use of fertilizer went up to an average of 1.7 million metric tonnes in the next three years – representing once again nearly 50 per

cent increase as in the case of irrigated area.[13] This expansion in the use of fertilizer occurred in a context where there was no significant decline in its price but its availability had much improved by the privatization of its distribution and internal market liberalization of fertilizer trade that had occurred a few years earlier. While internal market liberalization must have created an enabling condition for the expansion of fertilizer use, the stimulus to expansion must have come from the expansion of irrigated area – itself boosted by liberalized import of irrigation equipment. The combined effect of much greater use of irrigation and fertilizer was reflected in the discrete jump in rice production that occurred in the late 1980s.

Careful econometric investigation has confirmed the predominant role played by trade liberalization of irrigation equipment in boosting rice production in the late 1980s (Ahmed, 2001).[14] As expected, the major determinant of fertilizer use was found to be irrigated rice area, and by far the most important influence on irrigated area was a dummy variable representing import liberalization around 1988-89. While the expansion of fertilizer use and irrigated area boosted rice production, this was partly offset by the loss of non-irrigated rice area. The net effect, however, was still strongly positive. Ahmed (2001) has estimated that the net effect of liberalization amounted to some 38 per cent of the incremental rice production between 1988-89 and 1996-97. Another way of looking at it is that without trade liberalization annual growth rate of rice production during this period would have been 1.4 per cent instead of the 2.5 per cent rate that was actually achieved.

The forces of globalization are thus seen to have played a critical role behind all three sources of demand stimulus that led to accelerated growth in the 1990s and in the process led to faster reduction of poverty.

There is some evidence to suggest that, in addition to acting on the demand side, globalization also helped the growth process from the supply side. The trade liberalization aspect of globalization played the critical role here. One of the reasons why the small and medium-scale enterprises in the non-farm non-tradable sector were able to respond to the stimulus of demand was that trade liberalization helped ease supply bottlenecks in the input market. Relevant data do not exist for all kinds of non-tradable activities, but available information on small-scale manufacturing is quite suggestive in this regard.

Small industries seem to have benefited from the liberalization of import of capital machinery and raw materials (Bakht, 2001). They were especially helped in this regard by a structure of tariffs that favoured raw materials and intermediate inputs more than final products. Thus, in 2001-02, average applied tariffs on raw materials and intermediate inputs were in the range of 11-12 per cent as against 26 per cent on final products (Ahmed and Sattar, 2003). While most categories of industries benefited from lower tariff on inputs and higher tariff on final products, there are reasons to believe that small industries gained more than others. In a regime of import control, small firms find it difficult to compete with larger enterprises in claiming a fair share of foreign exchange to obtain the necessary inputs. They are then forced to obtain their inputs from domestic sources, where the price is higher, quality lower and supply limited. Therefore, when the import of inputs is liberalized, small firms tend to gain proportionately more. At the same time, they are spared, relatively speaking, the rigours of liberalization-induced competition in the product market as their products happen to be only remote substitutes of imported items.

[13] These figures on the use of irrigation and fertilizer are from Abdullah et al. (1995), appendix tables 5.4A and 5.3A respectively.

[14] Further analysis of the policy reforms in agriculture and their impact can be found in Hossain (1995, 1996).

This asymmetric effect of trade liberalization on small and large enterprises has perhaps some bearing on the fact that small-scale manufacturing activities (excluding the handloom and cottage industries) have fared better than large-scale manufacturing in the post-liberalization period. According to the national income statistics, the former is estimated to have grown at 9.2 per cent annually between 1991-92 and 1999-2000, while the latter (excluding RMG) grew at only 4.3 per cent (7 per cent, including RMG). If the situation of small-scale industries is symptomatic of small-scale enterprises in general, then the supply side benefit from trade liberalization must have been considerable.

It is, therefore, reasonable to conclude that globalization has played an important role – from both demand and supply sides – to stimulate the small-scale non-farm non-tradable sector that was instrumental in accelerating both growth and poverty reduction in the 1990s. This is not to suggest, however, that globalization was the main force behind accelerated poverty reduction in the 1990s. To make any such claim would require quantitative analysis of the relative effects of various forces, including the forces unleashed by globalization, which is beyond the scope of the present paper. The only claim being made here is about direction rather than the magnitude of the impact of globalization.[15]

3.2 Globalization and employment opportunities for the poor

The growth-poverty nexus discussed earlier gives an indication of the major channel through which globalization has affected the employment opportunities for the poor. By boosting the non-farm non-tradable sector from both demand and supply sides, it has helped create new employment opportunities for the poor in this sector – in the form of both self-employment and wage-employment, which were more remunerative than the petty self-employment in which they had traditionally been involved. But doubts have been expressed in some quarters regarding the employment-generating effect of globalization in Bangladesh. These doubts have stemmed from the available statistics on employment in general and manufacturing employment in particular. Some consideration of these issues is, therefore, in order.

To start with the overall employment situation, the evidence from successive *Labour Force Surveys* shows that the pace of employment generation slowed down somewhat in the 1990s. Thus, while labour force grew at roughly the same rate in both 1980s and 1990s (about 3.4 per cent per annum), employment growth declined slightly from 2.7 per cent per annum in the first period to 2.3 per cent in the second. As a result, open unemployment has increased – from about 2.8 per cent in 1990-91 to 4.9 per cent in 1999-2000 (table 4).[16] Not

[15] In a recent study, Mujeri and Khandkar (2002) tried to assess the quantitative impact of trade liberalization on poverty using a computable general equilibrium model. They found that complete elimination of tariffs would reduce rural poverty by about 4 per cent compared to the base scenario, which amounts to a pretty marginal impact. Their model did not, however, consider the demand side effects of the kind stressed in this paper. Allowing for these effects would presumably strengthen the impact, but it is difficult to speculate by how much.

[16] Since 1989, *Labour Force Surveys* use two different definitions of the labour force. These are called the "usual" and the "extended" definitions, the difference being that many household type activities that do not count as "work" in the "usual" definition do so in the "extended" definition. Moreover, working age is defined alternatively as starting at the ages of 10 and 15 years. As a result, from 1989 onwards there are four different definitions of concepts such as labour force, participation rate, employment, unemployment, and so on. This has set a trap for researchers, and even government publications, which often mix up statistics based on different definitions. The figures quoted above are based on the "usual" definition of labour force of 10 years and above.

surprisingly, the rise of open unemployment to an unprecedented level has raised concerns that globalization may not have improved the employment prospects for the poor, and may even have worsened it (Muqtada et al., 2002). The first point to note here is that whatever has happened in the era of globalization cannot necessarily be attributed to globalization, because other things may have had an effect as well. A couple of points are worth noting in this context.

Table 4. Basic statistics on labour force in Bangladesh, 1983/84 to 1999/2000

Year	Labour force (ml)	Participation rate (%)	Employment (m)	Unemployment rate (%)
1983/84	28.5	43.9	-	-
1984/85	29.5	43.9	-	-
1985/86	30.9	46.5	30.5	1.3
1989	33.3	47.0	32.7	1.2
1990/91	35.9	48.8	34.9	2.8
1995/96	41.7	48.3	40.3	3.4
1999/2000	45.0	49.2	42.8	4.9

Notes:
All figures are based on usual definition of labour force 10 years and above.

Data for 83/84 and 84/85 are from Islam and Rahman (2003), table 3.1 (for data from 1989 onwards, this table is completely mixed up between 10+ and 15+ and between usual and extended definition).

Data for 1986 are *Statistical Yearbook* of Bangladesh 2000, table 3.01 (for data from 1989 onwards, this table is completely mixed up between 10+ and 15+ and between usual and extended definition).

Data for 1989 onward are from *Labour Force Survey* 1999/2000, appendix table.

First, unemployment has been rising even before the 1990s. Thus, the rate of unemployment rate increased from 1.3 per cent in 1985-86 to 2.8 per cent by 1990-91, and the absolute number of unemployed people actually increased faster in the earlier period – at the rate of 20 per cent per annum in the second half of the 1980s as against 10 per cent in the 1990s. Not too much should be read into these comparisons, though, because unemployment grew from a much lower base in the earlier period. But at the very least these figures confirm that rising unemployment is a continuation of an earlier trend – one that did not worsen in the 1990s.

Second, in order to see what lies behind this rising trend, it is instructive to look at the composition of the unemployed people. *Labour Force Surveys* reveal that open unemployment afflicts mainly the educated youth. Thus, in 1999-2000 the highest incidence of unemployment was found among the 20-24 age group (11.2 per cent), followed by the 25-29 age group (4.1 per cent) (LFS 2000, table 5.3). Furthermore, the rate of unemployment increased almost monotonically with the level of education until the last category (Bachelor's degree and above), when it declined somewhat. Those with no education at all had an unemployment rate of only 1.4 per cent (LFS 2000, table 5.4). Moreover, nearly 80 per cent of the unemployed persons remained unemployed for more than a year (LFS 2000, table 5.6C). In a country without social security, it is unlikely that many of these unemployed people would belong to the really poor families. Unemployment in Bangladesh would thus seem to be essentially in the nature of "search unemployment" on the part of educated young men and women belonging to mainly non-poor households.

On this interpretation, the phenomenon of rising unemployment says something about a growing mismatch between the evolving system of education and the structure of

employment opportunities. But it seems to have little to do with the impact of globalization as such, and to have little bearing on the evolving poverty situation.

More pertinent statistics to consider in the context of globalization and poverty are measures of underemployment, the structure of employment, levels of remuneration, and so on. According to the *Labour Force Surveys*, the extent of underemployment has declined from 43 per cent in 1990-91 to 35.3 per cent in 1999-2000 (Salmon 2002, table 2.1).[17] At the same time, employment status has also improved, in the sense that the proportions of both self-employed and wage-workers have gone up relative to unpaid family workers (Salmon 2002, table A6).[18]

Given the existence of massive underemployment, one would not expect real wages to respond strongly to improvement in overall employment prospects. Yet, real wages did increase in the 1990s, in all the major sectors, but especially fast in manufacturing (Islam and Rahman, 2003). The combined import of all these statistics is that aggregate demand for labour did not decline in the era of globalization – either in absolute terms or relative to earlier trend; if anything, there seems to have been an overall improvement.

3.3 The trend of manufacturing employment

In addition to considering the overall employment situation, the debate on globalization in Bangladesh has also focussed on manufacturing employment in particular. This has been inspired partly by high-profile news stories about job losses in a number of large-scale import-substituting industries, especially in the public sector. Mainly, however, the debate has been fuelled by the findings of the *Labour Force Surveys*, which show that manufacturing employment has declined in both relative and absolute terms in the 1990s. Thus, under the *usual* definition of labour force of age 10 years and above, the number of workers engaged in manufacturing seems to have declined dramatically from 7.0 million in 1989 to just 4.1 million in 1995-96. This has raised concerns that globalization may be leading to de-industrialization in Bangladesh, with all the deleterious consequences for poverty this implies.

However, careful analysis of data casts serious doubt on this pessimistic view. The first point to note is that the de-industrialization thesis rests on data that takes either 1989 or 1990-91 as the base, but the data for both these years are highly suspect. Successive *Labour Force Surveys* provide the following figures on manufacturing employment:

1983-84	2.48 million
1984-85	2.69 million
1985-86	3.02 million
1989-90	7.00 million
1990-91	5.90 million
1995-96	4.10 million
1990-2000	4.30 million

[17] Underemployment is defined here as the proportion of workers (under the "usual" definition and of 10 years and above) working less than 35 hours a week.

[18] The proportion of casual workers among wage-earners can be said to have either slightly increased or slightly decreased, depending on whether one uses the "usual" or the "extended" definition of labour force and whether one uses 1989 or 1990/91 as the benchmark for comparison with 2000. Either way, the change is marginal.

The figures for the two years 1989-90 and 1990-91 are clearly anomalous. They represent an absurdly high rate of employment growth in the latter half of the 1980s, when manufacturing output was actually stagnating. By the same token, they represent an abnormally large decline in employment in the first half of the 1990s, when manufacturing output was expanding fast.

After a careful re-examination of the LFS data, Salmon (2002) concludes that the apparent decline in manufacturing employment in the 1990s was probably a statistical artefact created by reclassification of a certain category of female workers – namely, those involved partly in food processing and partly in agriculture. It is probable that most of these female workers were classified as unpaid family worker in manufacturing in the LFS of 1989 and 1990-91, but mainly classified as agricultural workers in the subsequent surveys.[19] This would explain at least in part the unusual inflation of manufacturing employment in the LFS of those two years.

There are also a couple of independent sets of evidence that strengthen the presumption that the LFS figures for 1989 and 1990-91 were unduly inflated. First, contrary to LFS data, the CMI data show increasing volume of employment in large and medium-scale manufacturing in the 1990s. Thus from 1.16 million in 1991-92, the figure went up to 1.71 million in 1995-96 and further to 2.1 million in 1997-98. There is no evidence here of any dramatic decline in the first half of the 1990s, as the LFS indicates, at least as far as the large and medium scale industries are concerned. Furthermore, since the output of the more labour-intensive small-scale sector grew faster than its larger counterpart during this period, there is no reason to suspect any decline in employment in this sector either, barring a dramatic reversal of factor intensity, for which it is hard to think of any plausible reason.

Second, alternative estimates of overall manufacturing employment exist for the late 1980s, which are clearly incompatible with the LFS figures for 1989-90 and 1990-91 (Bakht, 2001). Thus the *Economic Census* of 1986/87, which covered all size categories of manufacturing enterprises, gave a figure of 3.09 million, which is perfectly consistent with the LFS figures for the preceding years but not with the two later years. There is another set of estimates, for 1989, which combines data from the *Census of Manufacturing Industries* (CMI), which covers mostly large and medium-sized industries, with data from the *Handloom Census*, which covers the handloom part of the cottage industry sector, and data from the *Integrated Annual Survey of Non-Farm Economic Activities*, which covers other small and cottage industries. The combined employment figure comes to 2.89 million, which is way below the LFS figures for 1989-90 and 1990-91, but not too far out of line with the estimates for the rest of the years in the late 1980s.

These alternative estimates suggest that manufacturing employment was probably close to 3.0 million towards the end the 1980s. Taking this as the benchmark, employment is seen to have actually increased in the 1990s, rather than declined. In fact, it seems to have increased at a much faster rate than in the 1980s. During the six-year period between

[19] Salmon (2002) advanced this as a plausible hypothesis rather than as a proven explanation. The plausibility of the hypothesis, however, derives from data which shows that the vast majority of female workers who are classified under food processing in terms production category are also classified as belonging to "agriculture, fishing and forestry" in terms of occupation category – suggesting the potential for misclassification. Moreover, the number of female workers classified under "food processing" did decline drastically as between 1989 and the subsequent surveys – suggesting the possibility that misclassification was rife in 1989. Clearly, this matter needs to be investigated further by examining raw data.

1983-84 and 1989, only about 0.05 million additional jobs were created in the manufacturing sector. By contrast, in the next six years new jobs were created twice as fast – with as many as 1.1 million jobs being added between 1989 and 1995-96. The pace of job creation slowed down somewhat in the next five years, as 0.7 million new jobs were created between 1995-96 and 1990-2000 – but this was still better than the 1980s.[20]

Employment elasticity

There is another strand of argument that focuses not so much on the absolute size of manufacturing employment as on the ability of the manufacturing sector to create employment – as measured by the elasticity of employment with respect to either output or value added. For instance, Rahman and Islam (2003) have estimated that for the majority of activities covered by the *Census of Manufacturing Industries* the elasticity of employment has declined in the 1990s compared to the 1980s. Thus for activities classified at four-digit level, the average employment elasticity with respect to output has declined from 0.74 in the 1980s to 0.60 in the 1990s.

A typical conclusion drawn from such evidence is that the employment-generating capacity of the manufacturing sector has declined. If true, this would be a serious indictment of the move towards globalization that gathered pace in the 1990s. In truth, however, the evidence on employment elasticity needs to be interpreted with extreme caution, for depending on the causes underlying the decline in elasticity it may or may not indicate a reduction in the capacity to generate employment. There are a number of reasons for this.

First, when an industry is expanding, it may adopt new processes or innovate with new products that enhance the productivity of labour. In that case, elasticity would decline, but this decline would be a necessary precondition for the industry to expand and hence to generate more employment.

Second, if an expanding industry comes up against the bottleneck of a tightening labour market, it will have to pay higher wages in order to expand its scale of operation. Higher wages will, however, reduce the elasticity of employment (with a given production technology), but once again this decline would be a necessary precondition for the industry to expand and to generate more employment.

In both these cases, declining elasticity would in fact indicate enhanced rather than reduced capacity of the industry to generate employment – in the sense that, given the conditions stated, the only way the industry could generate more employment was by allowing the elasticity to fall. By the same token, unchanged elasticity would have indicated failure to expand and to create more employment. There is some evidence to suggest that something like this has probably happened in Bangladesh in the 1990s. As Islam and Rahman (2003, p. 34) have noted, the industries that experienced a decline in elasticity were also generally the ones that experienced the fastest expansion of employment and the highest increases in wage rates. In view of the many well-known deficiencies of the CMI data, one should be wary about drawing any strong conclusions from this sort of evidence, but the least one can claim is that declining elasticity in the 1990s does not necessarily indicate reduced capacity of the manufacturing sector to create employment.

If this conclusion seems counter-intuitive, the reason lies in the fact that there is a problem with the way elasticity of employment is usually measured. Strictly speaking, elasticity is a

[20] Incidentally, this was also the period when the pace of economic reform, especially the pace of trade liberalization, slowed down compared to the first half of the 1990s.

ceteris paribus concept; it is supposed to show how employment responds to output, other things remaining the same – these other things include factor prices and the available menu of technology choice. If the *ceteris paribus* elasticity declines, then it makes sense to say that the capacity to create employment has declined, holding other things constant. But in order to derive such elasticity, one will have to estimate a structural parameter, through some procedure that holds other things constant. However, the way elasticity is typically measured – by taking the ratio between observed change in employment with observed change in output (or, value added) – gives one a reduced form of estimate, where the effects of all sorts of things get confounded. There is no theoretical reason why such an estimate of elasticity should indicate what a structural parameter is meant to do.

In the absence of a proper structural estimate of elasticity, an alternative approach is to look at the manner in which the structure of production has changed, in two respects, viz.: (a) whether the proportion of more labour-intensive activities has changed relative to less labour-intensive ones, and (b) whether labour-intensity of the technique of production has changed within each type of activity. These would indicate the direction in which the capacity to create employment has changed. However, in order to assess how globalization has affected this capacity, one will have to go one step further – to see how much of the observed structural change can be attributed to globalization and how much to other factors. All this requires detailed empirical investigation of a kind that is beyond the scope of this paper.

However, some tentative observations can be made. First, the growth of labour-intensive activities such as ready-made garments and leather products suggests that the structure of production has probably moved towards more labour-intensive activities. Furthermore, since these activities also happen to be export-oriented, globalization can be given some credit for this phenomenon. Second, careful econometric investigation has shown that the activities that have a higher proportion of either export orientation or import penetration seem to employ more labour-intensive techniques of production, holding other things (such as factor prices) constant (Sen, n.d.).[21] In other words, the activities that have been exposed to globalization more have become more labour-intensive than the rest. These observations would seem to strengthen the presumption that manufacturing's capacity to generate employment has actually increased in the period of rapid globalization.

In summary, while the data on manufacturing employment is not entirely unambiguous, the balance of evidence sifted from a close examination of alternative sources of data would suggest the following conclusions. First, manufacturing employment increased in the 1990s, not declined as has sometimes been suggested. Second, the rate of increase of manufacturing employment was considerably faster in the 1990s compared to the 1980s, which is in keeping with the observed acceleration in the growth of manufacturing output. Third, manufacturing's capacity to generate employment has probably increased in the era of globalization.

None of these conclusively proves that globalization had a positive impact on manufacturing employment because the effects of other possible influences have not been controlled for in the preceding analysis. But at least they cast serious doubt on the hypothesis of a negative impact that is frequently drawn on basis of the observed trend in manufacturing employment in Bangladesh.

[21] One limitation of this finding is that it is based on data up to 1992, which was only the beginning of the real move towards globalization in Bangladesh. There is also the problem that the unit of observation is not a firm but a four-digit level of activity, which is really an aggregate of different activities. Therefore, it is not clear whether the move towards greater labour intensity represents movement along the isoquant, as the author suggests, or a change in the composition of products towards more labour-intensive ones.

It is important to emphasize, however, that even if the overall impact on employment in general and manufacturing employment in particular has been positive, one cannot ignore the fact that particular industries have indeed suffered as a result of globalization – most notably many large firms in textile industries, which were mainly in the public sector, but some in the private sector too. A number of observations are worth making in this context.

First, since the whole idea of trade liberalization is to reallocate resources from inefficient import-substituting industries towards more efficient export-oriented ones, the loss of output and employment in some activities is inevitable – in fact it is an inseparable part of the process of improving efficiency through freer trade.

Second, the loss of employment in textile and other inefficient industries has probably been more severe than would have been the case in the normal course of reallocation of resources following trade liberalization. This is because the public sector firms had long been burdened with excess labour – more on political than on economic grounds. The resulting inefficiency would have forced these firms either to close down or shed labour in any case, sooner or later. Globalization has hastened that process, but only a part of the loss of employment can be attributed to globalization, the other part being attributable to the history of overstaffing.

Third, well-publicized cases of loss of employment in large public sector enterprises should be seen in the context of the evidence presented above, which showed that overall manufacturing employment most probably increased in the 1990s, suggesting a net positive effect of globalization. The number of job losses occurring in the large import-substituting firms in both public and private sector is actually a very small fraction of overall manufacturing employment.

Fourth, while the positive net effect implies that globalization has helped reduce poverty overall through the route of manufacturing employment, the increased poverty and suffering of those who have actually lost their jobs cannot be ignored. Public policy must address their suffering as an integral part of the policy towards globalization.[22]

4. Globalization, the fiscal powers of the State, and sustainability of poverty reduction

The preceding discussion has shown that on the whole globalization has strengthened the potential for poverty reduction in Bangladesh by creating more remunerative employment opportunities – both directly in the tradable sectors and indirectly, and perhaps more importantly, in the non-tradable sector as well. Whether this potential can be fully utilized depends, however, on public policy that goes beyond globalization. After all, while globalization may help, it cannot be the whole of pro-poor public policy. This raises the question of what effect globalization might have on the Government's ability to conduct pro-poor public policy. One strand of argument in the contemporary debate on globalization suggests that it might actually compromise the Government's ability to conduct pro-poor policy by reducing its fiscal powers. The force of this argument needs to be examined in the context of Bangladesh.

The argument that public policy needs to go beyond globalization is certainly valid. One reason emanates from the consequences of globalization itself – namely, that. globalization brings about wide-ranging structural changes within an economy, opening up new

[22] This point is discussed further in the next section.

opportunities for enhancing employment and income but also closing down, or at least diminishing, many existing means of livelihood. In general, opportunities open up in those activities in which a country has comparative advantage, and diminish in those in which it has comparative disadvantage. Job losses in many import-substituting industries in Bangladesh – principally, in the traditional textile and paper industries – even as employment has expanded rapidly in garments, leather products and frozen food sectors, bear testimony to this fact.

Economic theory suggests that generally speaking the gains will outweigh the losses, so that a nation should gain an overall increase in welfare. The problem, however, is that gains and losses may not be distributed evenly across the population. Much depends on who happens to be engaged in the expanding activities and who in the contracting ones, and who has the skills and resources to access the new opportunities that are being opened up. This is not a problem that is unique to globalization. Even without globalization, structural changes do occur in any economy except in the most moribund ones. Owing to changes in technology, tastes, demographic structure, and so on, new opportunities open up in the sphere of production and old ones close down all the time. The effects of these home grown structural changes are not qualitatively dissimilar to those induced by globalization. They too create new uncertainties and vulnerabilities along with new opportunities, and in this case too the cost of negative effects tends to fall disproportionately more on the weaker segments of the population, and for much the same reasons. If this is not seen as a reason for avoiding structural changes in general, it should not be seen as a reason for shutting the door to globalization either.

There is, however, a very good reason for being especially concerned with the possible negative effects of globalization and for trying do something about it. The problem with globalization is that, unlike home grown structural changes, which typically unfold incrementally over a long haul allowing a breathing space for necessary adjustments, globalization tends to bring about sweeping structural changes within a short period of time. The sheer pace of change can entail serious problems of adjustment. What is worse, these adjustment problems can be compounded by what can be described as the problem of shifting comparative advantage. It refers to the phenomenon that the structural changes caused by globalization may not be a once for all affair, because the nature of comparative advantage may itself undergo rapid change during the process of globalization. Comparative advantage, it must be remembered, is inherently comparative in nature, i.e. it depends not just on the characteristics of a particular country but also on those of other countries that participate in a trading network. As a result, any country that has already embraced globalization may find that its comparative advantage keeps changing as the wave of globalization brings in new countries within the trading network. Thus, Hong Kong and Taiwan (China) found out that the comparative advantage they had once enjoyed in labour-intensive garment industries for a number of years was eroded as countries such as Bangladesh and Viet Nam entered the export market with cheaper labour. Bangladesh itself faces similar prospects today as the impending expiry of the Multi-Fibre Agreement threatens the viability of its garments industry in the face of competition from new entrants, chiefly in Africa. In each case, a country that loses comparative advantage in one sphere will eventually find it elsewhere. But the problem is that shifting comparative advantage of this kind can keep the structure of an economy in a constant state of flux for a prolonged period of time. The disruptive effects of globalization may, therefore, be quite serious.[23] Public policy must address this problem – by setting up an adequate safety

[23] Further disruption can occur through erratic movement of speculative capital, as the recent spate of financial crises has amply demonstrated. So far, however, Bangladesh remains largely immune to this particular problem, as its capital account remains relatively closed and the foreign capital shies away from the country for a host of reasons.

network, by retraining displaced workers, and so on – if the potential poverty-reducing effect of globalization is to become a reality for the majority of the poor.

In addition to addressing the short-run adjustment costs, there is also a longer term concern that public policy must address. It is important to emphasize that the most globalization can do to help reduce poverty is to strengthen the potential for reducing poverty – by expanding employment opportunities for the poor. Whether this potential will translate itself into reality depends on whether a sufficiently large number of poor people will actually be able to take advantage of these opportunities. It cannot be taken for granted, however, that the poor will be able to do, since they typically face many well-known impediments in integrating themselves into mainstream economic activities.[24] The problem essentially is that there may be a mismatch between the structure of opportunities opened up by globalization and the structure of capabilities possessed by the poor. Public policy will have to play a major role here to improve and remould the structure of capabilities of the poor – for example, by providing them with education, health care, access to infrastructure and other assets, and so on. Otherwise, the poverty-reducing potential of globalization will remain largely unrealized.

In short, for globalization to be able to reduce poverty, it must be complemented by public policy that goes beyond measures designed merely to deepen the forces of globalization. In particular, public policy must address issues of social safety net to deal with the poverty-enhancing disruptions that are inherent in the process of globalization and of enhancing the capabilities of the poor so that they can take full advantage of the opportunities opened up by globalization. But public policy of this kind costs resources, which means that the size and role of public expenditure may have to rise. Yet, many have argued that globalization actually reduces government's ability to undertake necessary public expenditure. This is because the Government's ability to collect taxes is supposed to be reduced in various ways – for example, by the tax exemptions that are offered in order to lure foreign capital and by the tariff reductions that are made for promoting trade liberalization. If true, this would seriously undermine globalization's ability to reduce poverty.

Bangladesh does offer very lucrative tax exemptions for foreign capital. But the inflow of foreign capital still remains so minuscule that the overall revenue implication of this policy is yet to emerge as a major concern. A more important concern lies in the potential loss of revenue from trade liberalization, especially since Bangladesh has undertaken one of the deepest and fastest moves towards trade liberalization compared to many other developing countries. The experience of Bangladesh in this regard is quite instructive.

As can be seen from table 5, revenue from import duties has continuously declined as a proportion of the total value of imports. This decline has been entirely due to reductions in the rates of protective duties (that is, customs duties). However, a couple of redeeming features are worth noting.

First, a great deal of tariff reforms did not lead to any effective reduction in duties, because of widespread prevalence of tariff redundancy ("water in tariff"). Second, any effect of reduced rates of duty was compensated partly by the tariffication of quotas and partly by an upsurge in the volume of imports following trade liberalization, both of which served to expand the base of revenue collection. As a result, revenue from import duties as a proportion of GDP did not decline, and even slightly increased in years of high import growth.

[24] This so-called "integrability" problem has been discussed more fully in Osmani (2003).

Table 5. Trends in import duties as percentage of imports and GDP, 1991/92 to 1995/96

	1991/92	1992/93	1993/94	1994/95	1995/96
Percent of imports [a]					
Customs duties	20.8	18.1	17.8	15.7	13.8
Other import duties [b]	9.9	11.0	10.7	10.2	10.4
Total import duties	30.7	29.1	28.5	25.9	24.2
Percent of GDP [c]					
Customs duties	2.3	2.3	2.2	2.4	2.3
Other import duties	1.1	1.4	1.3	1.6	1.7
Total import duties	3.4	3.7	3.5	4.0	4.0

Notes:
[a] Cif value of imports.
[b] Includes VAT and Supplementary Duty on imports. GDP is at market prices.
Source: Osmani et al. (2003).

It nonetheless remains true that customs duty, as a proportion of total tax revenue, has declined over time following trade liberalization. From 38 per cent in late 1980s, it declined to 34 per cent in the first half of the 1990s and further to 30 per cent in the second half (table 6).

It is important to emphasize, however, that mere evidence of a reduction in revenues from customs duties is not sufficient to conclude that trade liberalization has adversely affected the revenue effort of the government. In theory, trade liberalization does not necessarily entail loss of revenue from imports (even leaving aside the possibility of an expanding tax base following tariffication of quotas and increase in import volume). What liberalization requires is the elimination of protective duties i.e., duties that discriminate against imports. This is perfectly consistent with the imposition of a tax that is neutral between imported and domestic goods. Such a tax would continue to raise revenue from imports – as well as from domestic goods – while liberalization is undertaken. Therefore, if a government is concerned about the revenue effect of trade liberalization, it has the option of imposing such a neutral tax.

Table 6. Structure of taxes in Bangladesh, 1986/87 to 1999/2000
(as share of total tax revenue in current prices)

	1986/87 to 1989/90	1990/91 to 1994/95	1995/96 to 1999/2000
Direct taxes	16.78	17.99	15.54
Income tax	14.98	16.84	14.17
Land tax	1.80	1.14	1.39
Indirect taxes	83.22	82.01	84.46
Sales tax/VAT	11.63	31.27	46.38
Customs duties	37.98	33.68	29.67
Excise duties	27.05	10.27	1.41
Others	6.73	6.79	6.99
Total tax revenue	100.00	100.00	100.00

Source: GOB (2002), annex table 13.1, for estimates of revenue; and BBS (2000, 2001a) for GDP estimates.

Bangladesh did precisely that by introducing the value added tax (VAT) in 1992 to be applied uniformly on domestic and imported goods. On the domestic front, it replaced the old-style excise duties, and on the import front it (partly) replaced customs duties and sales tax on imports. Another potential tax instrument for sustaining revenue effort, while reducing protective tariffs, is provided by the so-called Supplementary Duty. Like the VAT, it is meant to be imposed equally on import and domestic production; and it can also be selectively imposed on relatively inessential items of consumption.

As a result of these tax reforms, the overall collection of indirect taxes did not actually suffer in Bangladesh following trade liberalization. As a proportion of GDP, total revenue from indirect taxes in fact increased from 4.6 per cent in the late 1980s to 5.6 per cent in the first half of the 1990s and further to 6.3 per cent in the second half of the decade (table 7).

Table 7. Structure of taxes in Bangladesh, 1986/87 to 1999/2000
(as percentages of GDP in current prices)

	1986/87 to 1989/90	1990/91 to 1994/95	1995/96 to 1999/2000
Direct taxes	0.92	1.22	1.15
Income tax	0.82	1.15	1.05
Land tax	0.10	0.08	0.10
Indirect taxes	4.58	5.58	6.26
Sales tax/VAT	0.64	2.20	3.44
Customs duties	2.09	2.28	2.20
Excise duties	1.49	0.64	0.10
Others	0.37	0.47	0.52
Total tax revenue	5.50	6.81	7.41
Non-tax revenue	5.62	1.64	1.82
Total revenue	6.55	8.45	9.23

Source: GOB (2002), annex table 13.1, for estimates of revenue; and BBS (2000, 2001a) for GDP estimates.

Increased revenue from indirect taxes has been supplemented by a move towards better collection of direct taxes that proved quite successful up to the mid-1990s (but tapered off since then). As a result, total revenue as a percentage of GDP went up from 6.3 per cent in the second half of the 1980s to 9.2 per cent in the second half of the 1990s. Correspondingly, public expenditure as a percentage of GDP also went up, albeit slightly, during the same period – from 12.9 per cent to 13.6 per cent, despite a secular decline in the inflow of foreign aid. Moreover, the share of public expenditure going to sectors that benefit the poor proportionately more – such as health, education, and basic infrastructure –has also increased. The combined share of health and education in total budgetary expenditure has gone up from 14 per cent in the first half of the 1980s to 23 per cent in the second half of the 1990s (Osmani et al., 2003).

There is, therefore, no reason to suspect that globalization has reduced Bangladesh's ability to undertake either a higher volume of public expenditure or to channel more of this expenditure to the sectors that benefit the poor more. It must be recognized, however, that the amount of public expenditure as share of GDP remains one the lowest in South Asia, resulting in very low absolute levels of per capita expenditure on essential services such as

education and health. The problem lies mainly in a poor revenue effort. As has been noted above, globalization cannot be held responsible for poor performance on the revenue front. But the fact remains that unless performance can be improved on this front, thereby enabling the government to undertake complementary public policy to improve the capabilities of the poor, the potential of globalization to help reduce poverty will not be fully realized.

5. Concluding observations

Through a detailed examination of the growth-poverty nexus in Bangladesh and the relationship of globalization with this nexus, this paper has concluded that the forces of globalization has contributed positively to poverty reduction in Bangladesh. It has done so by increasing the scope of remunerative employment opportunities of the poor. The net direct impact on employment opportunities in the tradable sectors has been positive, as the new opportunities have outweighed the job losses that inevitably occurred through structural changes brought about by globalization. But perhaps the more important impact was indirect – one that operated by boosting employment opportunities in the non-farm non-tradable sectors. The forces of globalization aided the non-tradable sectors primarily from the demand side – by stimulating demand for the goods and services produced by these sectors. It also helped them from the supply side, by providing them with better access to inputs and machinery through import liberalization. The resulting boost to the non-tradable sector has enabled the poor to find more wage employment, which is also more remunerative than the petty self-employment they have traditionally been engaged in. This has helped reduce poverty faster in the 1990s compared to the earlier decades.

The paper has also argued that the full benefit of globalization cannot be realized simply by pursuing policies designed to deepen the process of globalization. Public policy will have to go beyond the pursuit of globalization – to include those that ensure adequate safety nets for the workers displaced by the structural changes associated with globalization and also to enable poor people to take better advantage of new employment opportunities opened up by globalization.

These complementary policies cost resources. Therefore, a pertinent question is what impact globalization has had on the Government's ability to pursue these policies – in terms of the size of its revenue and expenditure, as well as the allocation of government expenditure on sectors such as health and education that enhance the capabilities of the poor. Evidence suggests that, despite very rapid reduction in tariff rates, the Government's ability to undertake necessary public expenditure has not been compromised in Bangladesh.

It is a worrying fact, however, that the level of public expenditure – both overall and on social sectors such as health and education – remains pitifully low in Bangladesh, even by the developing countries' standards. Unless this level can be raised much higher, the danger will remain that the capabilities of the poor will not improve enough for them to seize fully the opportunities created by globalization. As has been argued, however, globalization does not by itself prevent the Government from raising the level of expenditure or adopting other complementary policies. Therefore, the ability of globalization to reduce poverty in a sustained manner will depend in the end more on the internal political economy of resource mobilization and public expenditure than on the forces of globalization as such.

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