

Impact of globalization on economic growth and poverty reduction: a case study of Bangladesh during 1990s

Abstract

Globalization is a recent issue which has its pros and cons. In a developing economy like Bangladesh the impact of globalization is diverse and complex. In the last three decades Bangladesh has been showing steady economic growth rate. One of the reasons for this economic growth is globalization. This paper will try to look at the impact of globalization on poverty situation in Bangladesh in the 1990s. It also portrays a brief idea how globalization could play an important role in the poverty situation in a developing economy. This paper has concluded that, globalization mostly had positive impact to poverty reduction in Bangladesh especially in the rural areas during 1990s; but it is also reality that, the inequality between the rich and poor broadens within this period of time in Bangladesh. This article argues that the public policy should go beyond the pursuit of globalization and create adequate opportunity for the vulnerable group of people and make them capable to take better advantage put forth by the globalization.

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Introduction

Bangladesh for the last three decades the economy of Bangladesh keeps a constant positive growth. In the last one decade Bangladesh have experienced GDP Growth rate 5% or above.¹ Although Bangladesh have been making significant progress in eradicating poverty over the last two decades. Poverty has reduced from 56.6 percent in 1991-92 to 31.5 percent in 2010.² In the 1990s GDP grew at the annual average rate of 4.8 per cent in the 1990s compared to 3.7 per cent in the 1980s.³ One of the reasons for this economic growth is globalization process in Bangladesh.

In simple words globalization is the '*compression of the world*' with '*the intensification of the consciousness of the world as a whole*'.⁴ In Giddens word:

"Globalization is political, technical and cultural, as well as economic. It is 'new' and 'revolutionary' and is mainly due to the 'massive increase' in financial foreign exchange transactions. This has been facilitated by dramatic improvement in communications technology, especially electronic interchange facilitated by personal computers".⁵

In the Neoliberal point of view globalization process have the potentials to help the world as a whole by ensuring economic growth with "*deregulation, liberalization, privatization- which are to roll back government and reduce market-distorting interventions and in effect 'annual development'*".⁶ But the critique against globalization point out that, it may increase the inequality between rich and poor as the people having more access to resources, better economy, and enhanced communication technologies will have the upper hand over the others. In the earlier 1980s the world economy shifted to take the neoliberal policies like SAP (Structural Reform Program) with emphasizing free trade, privatization and export oriented production. The World Bank, Asian Development Bank, International Monetary Fund and the most of the world economic actors promote SAP with preconditioning of investment. However, after the liberation in December, 1971,

Bangladesh struggle with its internal affairs, political turmoil and poverty situation. Then in the mid 1980s especially inspired by the international economic actors Bangladesh took SAP which eventually starts the globalization process in Bangladesh. Starting from the 1980s, within 1990s Bangladesh move towards globalization process more rapidly. In the 1990s the effect of globalization on the economy and lives of the people of Bangladesh has become a hotly debated issue.^{7,8} Now a day, it is a common debate regarding globalization and its impact on the socio-economic processes.

Problem statement

This paper will try to look at the impact of globalization on poverty situation in Bangladesh in the 1990s. The assignment will also try to describe how globalization affects the socio-economic aspects of the people again considering the economy of Bangladesh in 1990s mostly.

Research objectives and expected outcome

The study will explore the globalization process, the impact it had on the economy and also focus on how it helps to eradicate poverty as a whole in Bangladesh in 1990s. The detailed objectives are-

- Explore the globalization process of Bangladesh in 1990s.
- Understand how globalization processes have its impact on the economy of Bangladesh and its role in eradicating poverty.

The study expected to give some insight about the primary impact of the globalization process in a developing economy like Bangladesh. It also expected to give a brief idea how globalization could play an important role in the poverty situation.

Scope of the study

The study considers only the economy of Bangladesh in 1990s and it will focus mostly on the impact of globalization in the economy considering certain criteria. Though the study will discuss the role of globalization in regard with the poverty situation, it will not cover

the poverty situation as a whole. Thus the study may give a brief idea how a growing predominantly agro-based economy respond towards globalization process.

Methodology

The study will be mostly Qualitative¹ in nature rather than Quantitative.² Bangladesh is taken as the study area. The economy of Bangladesh in 1990s will be the main focus of the study. The study depends on the secondary sources of data. Government policies documents, legislative documents, national survey results along with related books article, Journal papers have been consulted to satisfy the information need to achieve the objectives. As the study depends on

the secondary data, it is hard to ensure the complete reliability, though the sources were chosen with care.

Growth trend and poverty situation in Bangladesh

As exclaimed in the earlier section, In the 1990s Bangladesh shows faster growth and poverty reduction in comparing to the 1980s. Within this period the income inequality is also widening. GDP grew at the annual average rate of 4.8 per cent in the 1990s compared to 3.7 per cent in the 1980s.³ Income had grown by about one-third over the decade as a whole which shows sharp increase over the previous decade when per capita income grew by only one-sixth (Table 1).

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- 1999/2000	1980/81- 1989/90	1990/91- 1999/2000
GDP	3.72	3.74	4.4	5.21	3.73	4.81
Population	2.13	2.19	1.98	1.6	2.16	1.79
Per capita GDP	1.59	1.55	2.41	3.61	1.57	3.01

Source: BBS²⁰ sited from Osmani.⁹

While there was growth of income, income inequality was widening for the intense. It was more visible in the 1990s. Nevertheless, poverty turns down in the 1990s more than the previous decades.⁹ within 1991 to 2011 the percentage of population under poverty reduces from 56.6 percent to 31.5 percent.²

Cause of rapid economic growth

In 1990s the Bangladesh observes rapid economic growth with significant improvement in the poverty situation. Because of the nature of growth acceleration poverty declined at a faster pace.

As it can be seen in the Table 2 industries and services sector, by having the share about 41 percent each contributed the most to the incremental growth in the 1990s. Agriculture has a relatively small

contribution of 17 percent.

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 2). This is because of the enhanced demand stimulus which is derived mainly from three major sources:

- A hefty jump in crop production that occurred in the late 1980s;
- Rapid growth in the flow of income generated by the ready-made garments industry; and
- Accelerated flow of workers' remittance from abroad.¹¹

All the three sources were supported vastly with the globalization process starting from mid 1980s.

Table 2 Sector specific contribution to growth acceleration between 1980s and 1990s

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
Industry	102.36	222.33	119.97	41.86
Services	174.05	292.33	118.28	41.28
Total GDP	341.77	628.33	286.56	100

Source: Osmani et al.¹¹

Many studies show that ready-made garments (RMG) industry experience an exceptional growth after starting from mid 1980s. Within 1990s this sector becomes leading industrial sector and the leading export item for Bangladesh. *'By the mid-1990s, it was² 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'*.¹² 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 added economic benefit put forth by the rapid RMG development leads to a significant demand boost to services and other non-tradable sectors. Remittance flow coming from the Bangladeshi Worker who works abroad is another significant cause of demand acceleration. *Within 1980s and 1990s the Remittance sent by the emigrant Bangladeshi workers has grown at the rate of 8.5 per cent per annum in real terms.³ 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.*¹³

The Agricultural production also plays as a stimulus for the economic growth throughout 1990s. This is mostly because of

¹*Qualitative research* provides detailed description and analysis of the quality, or the substance, of the human experience.¹⁰

²*Quantitative research* involves the use of methodological techniques that represent the human experience in numerical categories, sometimes referred to as statistics.¹⁰

the production of rice, the most important crop of Bangladesh. In comparing with the 1980s the rice production increases significantly in the 1990s.¹¹

Thus from the above it is obvious that within the 1990s three economic groups contribute to the economy most: Firstly, the farmers, with their increased production; secondly the garment workers along with their families and; at last the families that are benefited by the remittance flow. These all three group helps the accelerated growth of non-tradable growth. However these three groups experience the positive impact of the globalization throughout that time. Global free market helps the garment sector to boost up. On the other hand more people are going to abroad though globalization process and contribute a significant amount of remittances in the Bangladesh economy. Ease in the import regulation through free market helps the agro-sector to import fertilizer, technology to the local primitive cultivation system which boost helps to boost up the agro production system. Thus Globalization plays a key role in this regard.

Relating growth and poverty reduction

The accelerated growth in non-tradable has an effect on the wage and employment system of the poor; specially the poor residing in the rural areas. As *the acceleration in the rate of poverty reduction that was observed in the 1990s was essentially a rural phenomenon.*¹¹

One effect of enhanced stimulus of demand was the growth over the average size of the farms. *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.*¹⁴

The transformation of non-farm enterprises in the rural areas due to growth acceleration has profound effect in the income and wage of the rural poor. Traditionally in 1980s the rural poor landless laborers shifted to agricultural sector to alternative employment in rural non-farm sector. With smaller size and less demand non-farm sector does not profitable much. But in 1990s the situation changed when the average size of the small enterprise increases in a level that it demands more wage labor with more productive attitude. Thus the poor rural workers found an increasing opportunity to secure wage employment in the 1990s. *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.*¹⁵ Therefore, the relative increase of non-farm enterprises open the opportunity for more inclusion of labor into remunerated employment which is one of the main causes of poverty reduction in 1990s.

The following is the overall process how accelerated growth resulted poverty reduction in 1990s (Figure 1).

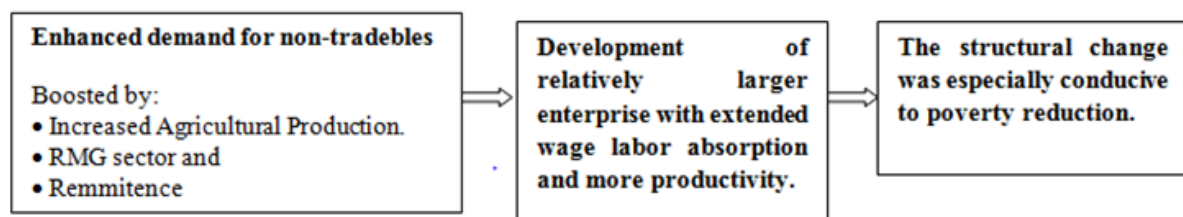


Figure 1 Poverty reduction and growth nexus in 1990s.

The impact of globalization on the poverty reduction

“Globalization” is one of the most effective instruments for global trade with an open, integrated, and borderless international economy having transnational capital movement, information, ideas and technology transfer and migration. Globalization can be put forth by the technological advancement with lower cost in communication, transportation, data processing and storage. Another actor of globalization is the neoliberal policies which reduce trade protection and facilitate more liberal world trading system. It also opens the organizations for wide-ranging horizons which eventually empower the local managers with the advancement in communications. Globalization also opens up the competition on a global basis. With the fare Globalization has led to growing competition on a global basis. Increasing competition can increase production and efficiency with specialization and division of labor.

As seen in the previous section, growth acceleration in 1990s eventually converted to the faster rate of poverty reduction and the growth acceleration was put forth mostly by the increased agricultural production, RMG sector enrichment and foreign remittances. Though there was no direct connection between the globalization process in Bangladesh and poverty reduction but there is significant evidence that support that globalization process helps to reduce the poverty situation during 1990s.

Non-tradable, which plays the central role in poverty reduction in

1990s, though produced for the domestic market, but they are prone to a variety of transmission mechanisms which may are governed by the globalization process. Thus globalization has the potential to influence the productivity of non-tradable. The way globalization help the accelerated growth of non-tradable can be seen as twofold: increasing the demand for the non-tradable and by reducing the cost of production. In the case of 1990s globalization helps the faster reduction of poverty.

In case of RMG sector

Globalization process helps all the proximate sources which increase the demand for non-tradable goods and services in 1990s. In the case of the RMG sector and the foreign remittance the effect of globalization is obvious. As RMG industry in Bangladesh was mostly export oriented and globalization policies affect the import- export the most. On the other hand, increased remittances were actually the direct effect of globalization process.

During the 1990s Bangladesh became more flexible towards globalization process. Thus outward oriented economic event increase with trade and exchange rate policies, and reduced bias towards inward-oriented production of import. *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.*^{14,9} The removal of Quantitative restrictions in imports along with reduced import tariffs support export orientation.

Thus, in the 1990s due to trade liberalization government reduced the incentive for import substitutes and also raised the incentives for both exportable and non-tradable. As a joint result of these actions, the incentive structure prefers exportable in the 1990s which is relative to both importable and non-tradable. These structures eventually help the RMG sector to boost up during the 1990s. In case of Bangladesh, the ready-made garment (RMG) industry has the globalization profit on its side having a unique growth in recent years. Starting from the early 80s, it has by now become both the lead in industry and the leading export item of Bangladesh. With the help of the liberal policies toward the globalization, the number of the RMG grows very rapid. Some external benefit like the Multi-Fibre Agreement (MFA) of U.S.A and European Union's Generalized System of Preferences (GSP), played an important part in the rapid expansion of Bangladesh's garment industry in the 1990s.

A report published in the "*The New York Times*"¹⁵ have showed the effect of the RMG sector in the social life of the Bangladesh. According to the report there are three million worker in the RMG sector in which about 80 percents are female. These female workers with employment have changed their view about life. It gives her the basis to choose her own employment. It provides the women with livelihood, which has changed the conservative Muslim country's society in immeasurable ways. The report also shows that the presence of apparel jobs appears to bolster school enrollments of girls as well. It also found that "*girls who live in villages with garment factories tend to marry later and have children later than the girls who grow up in villages without factories.*"¹⁵

In case of overseas employment

Yet government was active to hunt for the overseas employment opportunities. On the other hand demand for the cheap labor in the middle-east attracts many Bangladeshis to other countries and their remittance flow towards Bangladesh increased during the 1990s.

In case of rice production

The quantum jump in rice production that occurred in the late 1980s which plays as the third stimuli for growth and poverty reduction in 1990s is mostly due to the incentive offer by trade liberalization throughout the input market. In the late 1980s government liberalize the markets for agricultural inputs, particularly by eliminating non-tariff barriers to the importation of cheap irrigation equipment. In the case of shallow tub-wells after the trade liberalization in late 1980s *the price of it came down so much that the market price turned out to be almost 40 per below even the subsidized price of pre-liberalization era.*⁹ This fall in input price eventually help to expand the productive land area. In the period of 1986 and 1996 the irrigated area extended twice as fast as between 1978 and 1986. From an average of 2.3 million acres in 1984-85 total irrigated area jumped to an average of 3.5 million within 1986-87, which is nearly 50 per cent increase.¹⁶ On the other hand, *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.*¹⁷

The extended irrigated area eventually leads to increase in the fertilizer use as there is a common belief that productivity can be increased substantially with fertilizer and controlled irrigation system. From an average of 1.2 million metric tons during 1984-85-1986-87 the use of fertilizer went up to an average of 1.7 million metric tons in the next three years – representing once again nearly 50 percent increase as in the case of irrigated area.¹⁶

Thus in the agricultural sector of 1990s the irrigated area boosted by liberalized import of irrigation equipment which leads to much

greater use of irrigation and fertilizer and eventually it leads to the jump in rice production. Ahmed¹⁸ 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.

Thus globalization played an important role to increase the demand stimuli which eventually leads to faster reduction of poverty in the 1990s in Bangladesh.

On the other hand in the supply side, globalization had its impact too. Liberalization helped to ease the supply bottlenecks in the input market which is one of the reason for which enterprises cope with the increased demand easily. According to Bakht¹⁹ small industries seem to have benefited from the liberalization of import of capital machinery and raw materials in the form of liberalized structure of tariffs.

Therefore, this is how globalization plays an important role in the 1990s to reduce poverty in Bangladesh.

Some debate on globalization

The recent globalization practice tends to increase the inequality between the rich and poor. Globalization does not consider, 'Who gains from its potential benefits' thus, inequitable distribution in the society and the actors may occur. Potential rich and poor conflicts may rise through inequality both within nationally and internationally. Through globalization several economies are becoming inter-dependent. Thus economic turmoil in one part of the world or one nation could affect the world economy more intensively having an overall multiplied global impact. Some also argue that through Globalization process limited authority of the government could also undermine the sovereignty of a nation.

The effects of the globalization over Bangladesh have been pretty obvious since the late 1970s. In the 1980s through suggested neoliberal policies like structural adjustment programs, economic liberalization, several years of tax holiday, Duty free import and the export of the machinery in the EPZ (Export processing Zone), unobstructed foreign restriction in investment, Bangladesh attempts to get the profit of globalization.

Number of people migrated to the urban areas due to natural disasters in Bangladesh where as the multinational corporations are having the benefit of it. The migrated people tend to work as cheap labor for the industrial sector of Bangladesh. By favoring the globalization process through policy reformation low cost labor force of Bangladesh is becoming attractive global investment site but the labor force remains in the low wage.

Sea food industry can be seen as an example of how globalization affect the growth in the short term economic gain but in the long run it affect the overall development of the country. Bangladesh earns a lot of foreign exchange by exporting seafood. To promote this sector the development cooperation agencies, NGOs and also national authority support results in transformation of Agricultural land to Sea food processing unit like Shrimp farm in the costal districts of Bangladesh. Many of those farms used to drain the salty waste water to the agricultural field, rivers and lakes which result increase in salinity in the land and make many agricultural land barren. The industry engages a huge labor force mostly the women who are poorly paid. Thus the aquaculture in this case though it is beneficial for the short term, but the environmental impact is enduring.

Conclusion

Through the analysis of the growth-poverty nexus in 1980s to

1990s of Bangladesh and the connection of globalization in this regard, this paper has concluded that, globalization mostly had positive impact to poverty reduction in Bangladesh especially in the rural areas within 1990s. As Globalization process help the rural poor to find employment in salaried work. The much important impact was indirect impact by enhancing the employment opportunities in the non-farm non-tradable sectors. Liberalization process put forth by the globalization helps the non-tradable sectors firstly by stimulating demand for the goods and services produced by non-tradable sectors. Again help the supply side to have better access to inputs and machinery through import liberalization. Due to those, the resulting boost to the non-tradable sector leads the poor people to find more wage employment. Thus by experiencing this, in 1990s the poverty situation have improved compared to the other earlier decades.

Yet in the neoliberals thinking process, the development is seen as the economic development though globalisation of trade and market system. Through the paper it is quite evident that within 1990s forces of globalization does help Bangladesh to reduce poverty; but it is also reality that, the inequality between the rich and poor broadens within this period of time in Bangladesh. Structural Adjustment Program usually does not consider the human development. But the economic development without considering the equitable distribution of the economic benefit enhances the gap between the rich and poor which have negative consequences in the society. The government has to consider the interest of the majority population who are poor whether they have the same accessibility to the benefit of globalization as the other group has.²⁰

Yet for a country like Bangladesh, only the globalization process is not enough to minimize the poverty situation. Thus the public policy should go beyond the pursuit of globalization and create adequate opportunity for the vulnerable group of people and make them capable to take better advantage put forth by the globalization.^{21,22}

But the fact is that, for Bangladesh the public expenditure, both overall and social sectors such as health education is low comparing even with the other developing world. With low public expenditure, the capability of the poor people could not grow more which has the risk of increasing the income inequality furthermore. On the other hand, the majority part of the country's population could not have the opportunity or will not have the capability to have the access to the benefit of the globalization. The capability of the poor must be reach up to the level so that they can build the capability to absorb the benefit of the globalization. Thus it is the quality of the government to understand their people and build the capacity of the people to give them access to the resources. *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.*⁹

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None.

Conflict of interest

Author declares there is no conflict of interest.

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