Invited Speakers’ Abstracts and Curricula Vitae

Session 1

Poverty Reduction through Labor-Intensive Industrialization: The Cases of Bangladesh and Cambodia

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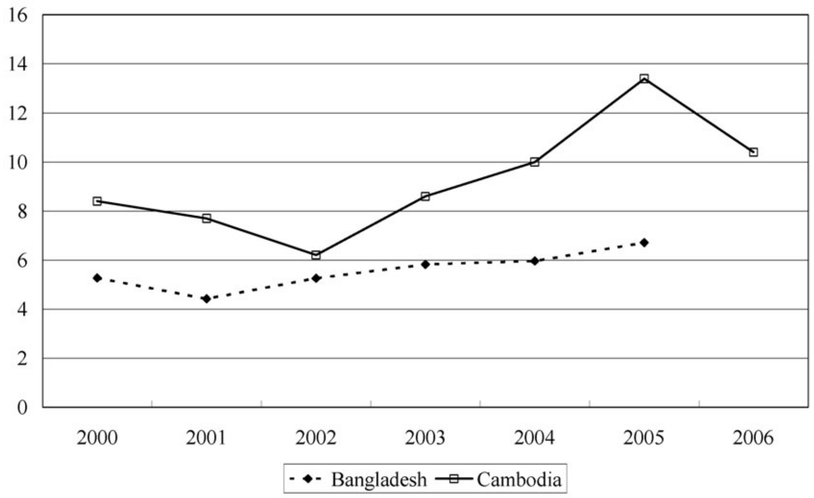
Abstract

Poverty reduction has been undertaken in various ways in world history. Jagdish Bhagwati classified the ways into two “routes” such that the direct route and the indirect route. The former approach features direct provision of goods and services to fulfill needs of the poor, while the latter is directed to poverty reduction through income generation of the poor. Shigeru Ishikawa refers to the former as “the expenditure approach” and the latter is “poverty alleviation-cum-growth” approach.

The Millennium Development Goals (MDGs), which were declared in 2000 as supreme aims of the international community, are likely to be more immediately associated with the direct route than the indirect route. There are two grounds justifying the association: First, the indirect route for poverty reduction takes time so that people can not wait for its effect to come out before evaluating it. Second, the non-poor may also benefit from the indirect approach. In short, those are what “indirectness” is all about.

However, the indirect approach is arguably as important and effective as the direct approach for poverty reduction in low income countries. In fact, all present developed countries reduced poverty through rapid economic growth in the 20th century. In addition, the indirect route of poverty reduction is important in some contemporary low-income countries, which is the main argument of this speech.

Economic Growth Rates in Bangladesh and Cambodia (%)



Note: A fiscal year of Bangladesh runs from July through June next year.
The figure for the fiscal year 2005 in Bangladesh is a predicted value.

More specifically, Bangladesh and Cambodia, which are Least Developed Countries, remarkably reduced poverty while they attained steady or accelerated economic growth as shown in the figure shown above. The two economies share a feature that their leading industry in globalization is the clothing industry. Clothing makes up three quarters of total exports in each of the two countries. The value of clothing export from Bangladesh and Cambodia has grown by higher than 20 percent on average since the beginning of its export-oriented business.

The clothing industry in Bangladesh and Cambodia survived worldwide liberalization of trade in textiles and clothing which took place in the beginning of 2005. A majority of critics claimed that small exporters depending on clothing as a staple would be seriously damaged due to a flood of Chinese clothing triggered by the liberalization. However, it was not the case for Bangladesh and Cambodia. Even after the liberalization the clothing industry in the two countries keeps great momentum for competition in world market.

The industry leads poverty reduction, too. According to the field surveys conducted in the two countries in 2003 by the author and associates, the clothing industry offers higher earnings than local poverty lines to the entry-level workers, in particular female workers. Moreover, the wage rate is higher than those offered for some of alternative employment opportunities. An important fact is that a high level of education is not required for the main workforce in the industry. According to the surveys the average level of education of operators of sewing machines was as low as primary school. Even illiterate workers were employed on a large scale in the industry. Thus, undereducated female workers are employed with moderately high (but low enough from the international standard) wage rates. To sum up, the clothing industry contributes to poverty reduction of its workers and their families in Bangladesh and Cambodia.

What is the source of the competitiveness of the clothing industry in Bangladesh and Cambodia? It seems to be only low wage labor. Physical, human and institutional infrastructure is far from sufficient. There was no strong industrial promotion policy for the clothing industry in its initial phase of development. The classical argument of comparative advantage such that a labor-abundant country has an advantage in production and export of labor-intensive commodities, appears to work in these countries.

When the pro-poor growth is discussed, agriculture and/or agro-industry are examined more intensively, and the role of labor-intensive industry tends to be downplayed. Some critics argue that the specialization in labor-intensive industry implies the country participates in the race to the bottom, and that it is a dead-end of industrialization, because the value added per unit does not seem high. However, the above case study refutes the doom of the industry. A scenario hereafter is that the two countries expand the range of export commodities from clothing to other labor-intensive industries which are followed by capital and technology intensive industries as middle-income Southeast Asian countries did. A policy implication for low-income countries is that when a poverty reduction strategy is formulated in low-income countries, the promise of labor-intensive industry in terms of employment, income generation, and acquisition of foreign currency should be taken into account well. At least the development of labor-intensive industry should not be discouraged.

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