



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

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Development Strategies for Poverty Reduction

■ Development Strategy

- Aid, investment, industrialization, export, education, population.
- No panacea anyway (Easterly [2001]). Out of date? Nobody talks about it now.

■ What is talked about is the Poverty Reduction Strategy.

- A typical “Poverty Reduction Strategy” is nothing but a short-run plan to reduce poverty to a certain target for 3-5 years.
- Results (=poverty reduction) are emphasized more than causes and processes (=strategies) to attain them.
- At the same time, everybody knows that without taking care of causes and processes, the results are borne only momentarily.

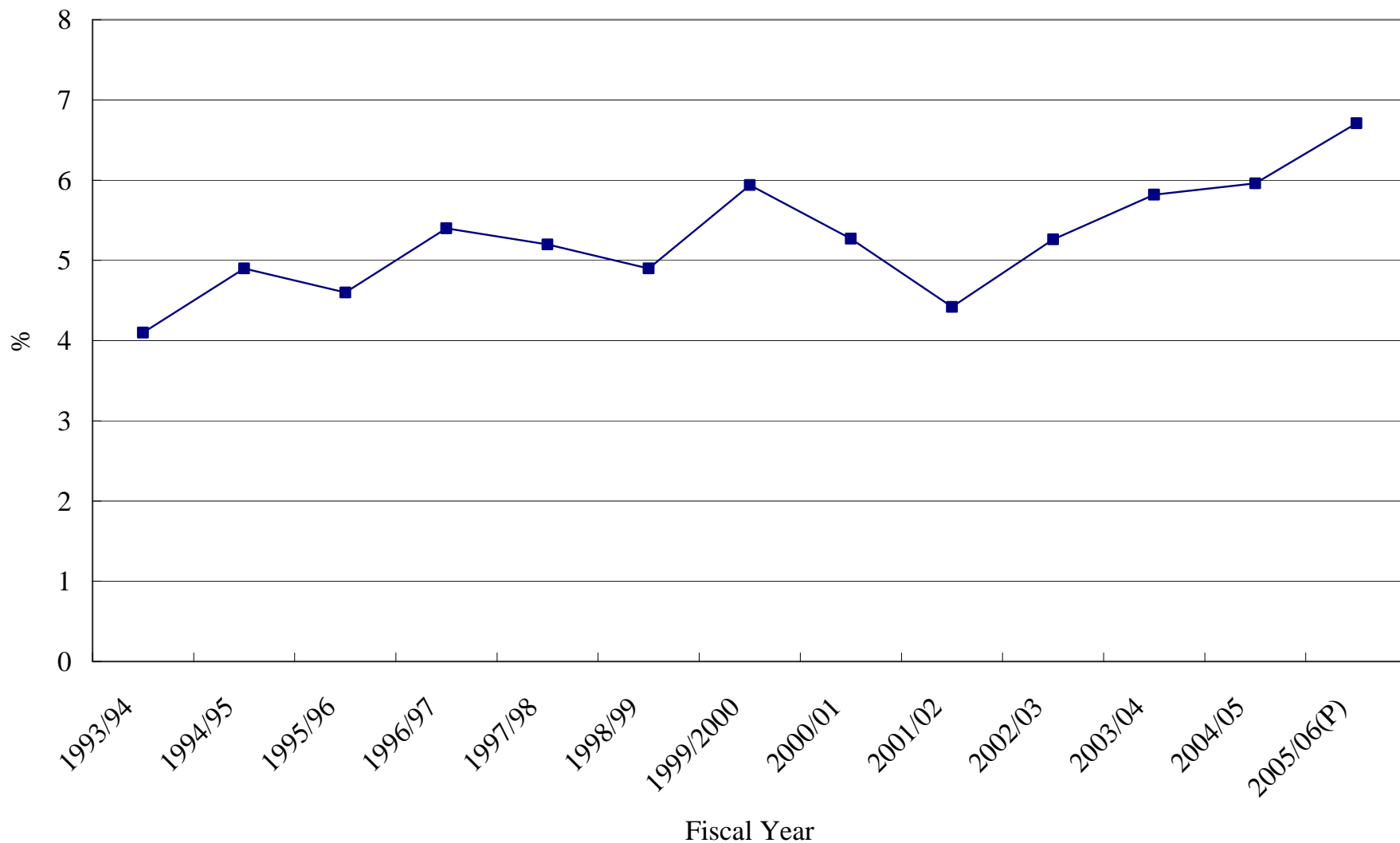
Development Strategies for Poverty Reduction (continued)

- It is necessary to pursue **development strategies** for low-income people to increase standard of living continuously **without assistance** from outside.
 - Let us call it “pro-poor growth strategies.”
 - On the other hand, assistances in the context of education, training, gender, health, and environment to people in need should be continued.

An Example of Pro-Poor Growth: The Case of Bangladesh and Cambodia

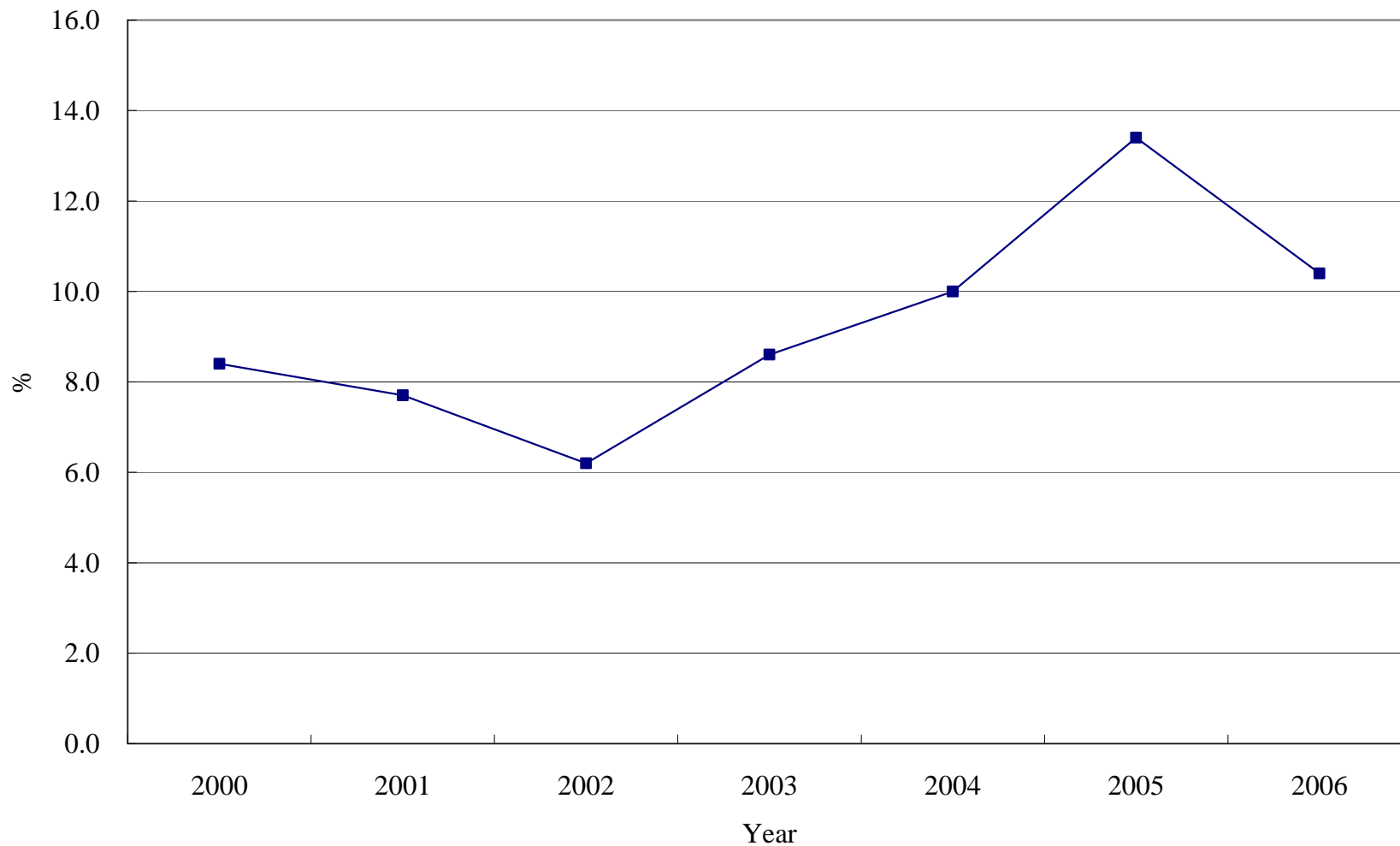
- Strategy (ex post): Low wage as only competitive edge for global competition.
- Leading sector: The clothing industry (Yamagata [2006a]).
- Consequences
 - Expansion in employment of female and low-income workers, contributing to poverty reduction.
 - Export growth led by clothing, which makes up $\frac{3}{4}$ of total exports.
 - High/moderately high macroeconomic growth.
 - Cambodia: Double digit growth rates for 2004-2006, consecutively.
 - Bangladesh: 5-6% growth for these 10 and more years.

GDP Growth Rates: Bangladesh



Source: (1993/94-1998/99) Ministry of Finance, *Bangladesh Economic Review 2005*, MOF, 2005, p. 249; (1999/2000-2005/06) Bangladesh Bureau of Statistics, *Monthly Statistical Bulletin - Bangladesh*, July 2006, p. 146.

GDP Growth Rates: Cambodia



Why they were downplayed.

1. **Controlled trade in textiles and clothing by 2005**

- Quantitative restrictions had been the norm since the 1950s.
- WTO decided the regime under the Multi-Fiber Arrangement (MFA) to phase out by 2005 (Nordås [2004]).
- Low-income exporters such as Bangladesh and Cambodia were predicted to lose against China.

2. **Low-wage-dependent industrialization**

- Low educational attainment on average.
- Slow formulation of physical and institutional infrastructure.
- Little supports by the governments in the initial phase.
- This type of industrialization was considered as the “race to the bottom.”

Clothing Exports to the United States

Rank	Country	Amount (Million USD)			Growth Rate (%)	
		2004	2005	2006	2005/04	2006/05
	World	66,875	70,811	73,393	5.89	3.65
1	China	10,723	16,810	19,868	56.77	18.19
2	Mexico	6,845	6,230	5,448	-8.99	-12.55
3	Indonesia	2,402	2,882	3,675	19.99	27.50
4	India	2,277	3,059	3,242	34.31	6.00
5	Vietnam	2,506	2,665	3,158	6.37	18.49
6	Hong Kong	3,878	3,524	2,817	-9.13	-20.08
7	Bangladesh	1,872	2,268	2,809	21.17	23.85
8	Honduras	2,742	2,685	2,518	-2.09	-6.24
9	Cambodia	1,418	1,703	2,131	20.08	25.17
10	Philippines	1,765	1,822	1,999	3.21	9.70

Note: "Clothing" is defined as commodities of the HS codes of 61 and 62.

Source: U.S. Dept. of Commerce, Bureau of Census.

Clothing Exports to the EU

Rank	Country	Amount (Million USD)			Growth Rate (%)	
		2004	2005	2006	2005/04	2006/05
	World	65,552	69,864	78,124	6.58	11.82
1	China	13,714	20,361	23,048	48.47	13.20
2	Turkey	9,348	9,776	10,022	4.58	2.52
3	Bangladesh	4,578	4,356	5,679	-4.85	30.37
4	India	3,020	3,992	4,690	32.18	17.48
5	Romania	4,572	4,287	4,203	-6.22	-1.97
6	Hong Kong	2,394	2,056	3,094	-14.15	50.53
7	Tunisia	3,215	3,059	3,075	-4.85	0.53
8	Morocco	3,004	2,814	2,964	-6.33	5.33
9	Indonesia	1,637	1,468	1,771	-10.33	20.61
10	Bulgaria	1,300	1,331	1,488	2.38	11.80
18	Cambodia	643	587	692	-8.71	17.81

Note: "Clothing" is defined as commodities of the HS codes of 61 and 62.

Source: Eurostat.

The Clothing Industry in Bangladesh





The Cambodia Garment Training Center



Data Sets Used for Analyses

1. Garment Producing Firms Survey : Bangladesh in 2003
 - In cooperation with the University of Dhaka and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA)
 - Sample size : 222.
2. Garment Producing Firms Survey : Cambodia in 2003
 - In cooperation with the LIDEE Khmer and the Garment Manufacturers Association in Cambodia (GMAC)
 - Sample size: 164.
- Supplement: Knitwear Producing Firms Survey : Bangladesh in 2001
 - In cooperation with the Bangladesh Institute of Development Studies (BIDS) and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA)
 - Sample size: 232.

Average monthly earnings of garment workers in Bangladesh and Cambodia (2003; US\$)

Position	Experience	Bangladesh		Cambodia	
		Male	Female	Male	Female
Operator	< 1 year	35	34	54	51
	All	38	38	59	57
Helper	< 1 year	21	21	45	46
	All	23	23	51	50

Note: The food poverty line and the overall poverty line in Bangladesh and Cambodia are about US\$ 12-14 and US\$ 17-19, respectively.

Source: Fukunishi et al. [2006] and Yamagata [2006b].

Average Level of Educational Attainment (Perception of Employer: %)

		Elementary	Lower Secondary	Higher
Bangladesh	Operator	44.3	55.2	0.0
	Helper	96.2	3.8	0.0
Cambodia	Operator	80.4	17.2	2.5
	Helper	87.9	10.8	1.3

Source: Fukunishi et al. [2006] and Yamagata [2006b].

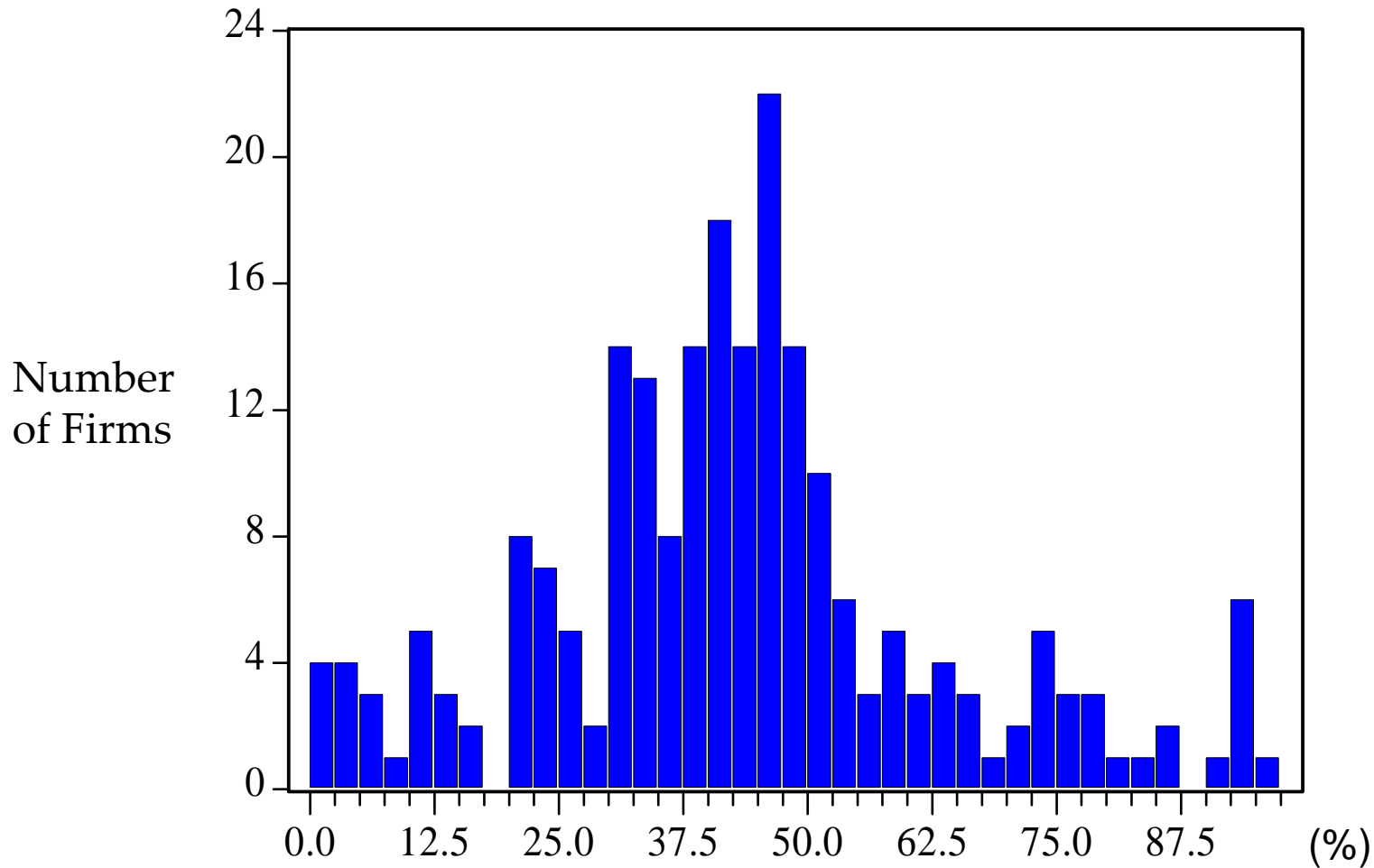
Female Ratios of Workers in the Sewing Section (%)

	Bangladesh	Cambodia
Operator	55	90
Helper	58	84

Note: The figures are simple means of female worker ratio in the sewing section across sample firms.

Sources: Fukunishi et al. [2006] and Yamagata [2006b].

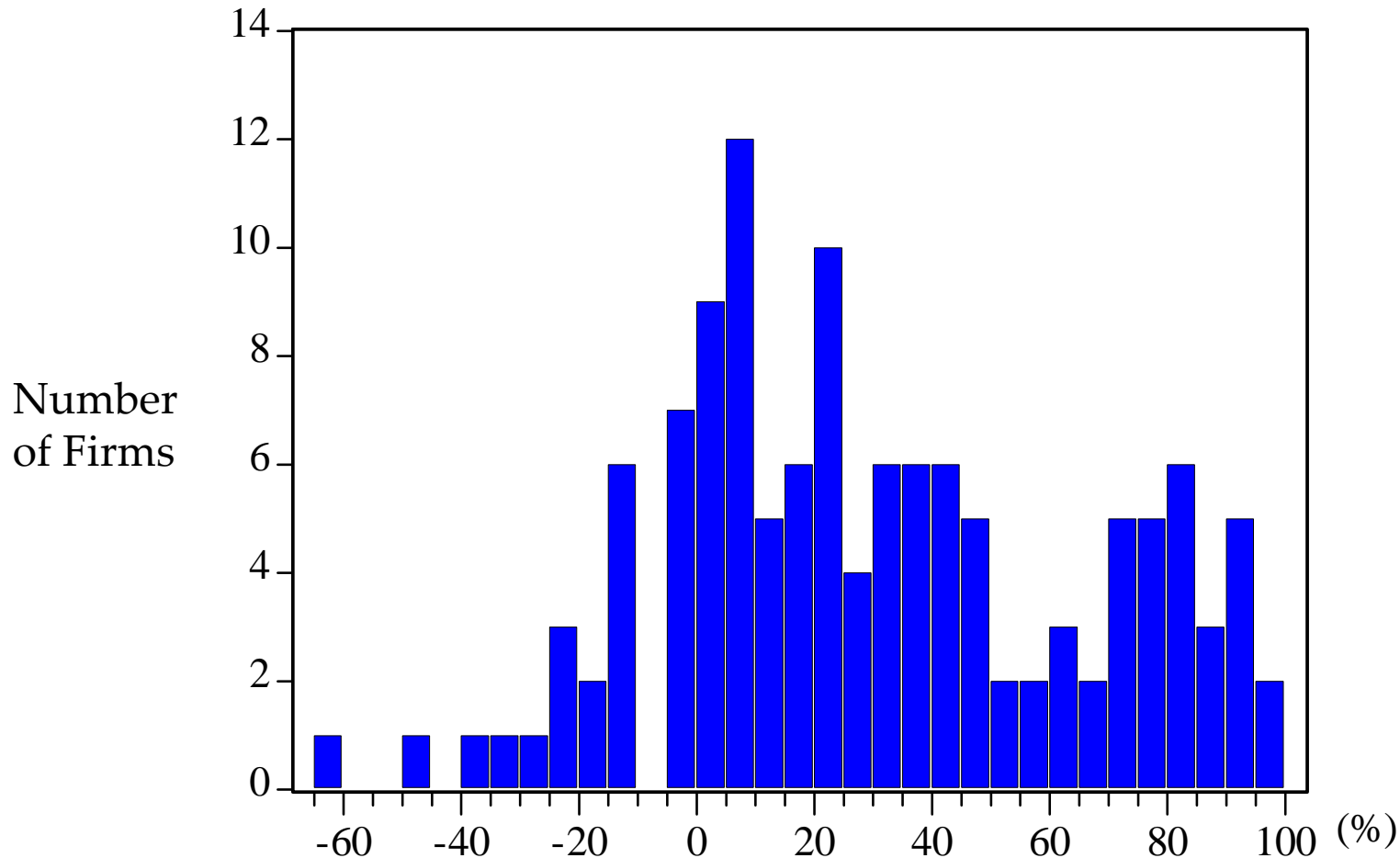
Histogram of Sample Firms in Profit-to-Sales Ratio: Bangladesh



Data: Fukunishi et al. [2006].

Profit-to-Sales Ratio

Histogram of Sample Firms in Profit-to-Sales Ratio: Cambodia



Export-Oriented Development Strategy Revisited

- In the 1970s-80s, the cause of East Asian development was hypothesized to be low wage reflecting the structure of resource endowment.
 - The strategy emphasizing this competitive edge was called the “export-oriented development strategy.”
- This fact is rarely referred to now.
 - The new growth theory says that this is the level effect, not the growth effect (Lucas [1988]).
 - Rather, the importance of human capital, infrastructure, technology, institutions, and governance is more featured in the growth theory.
 - The specialization to a “static” industry might take the economy to the dead end of industrialization (Grossman and Helpman [1995]).

Export-Oriented Development Strategy Revisited (Continued)

- The specialization to a labor-intensive industry did not take the first-tier East Asian economies to the dead end of industrialization.
 - Another labor-intensive industry such as assembling of **electric machinery** followed and the industry became an entry point to further industrialization.
- Are there any other low-income countries following them?
 - The wage rates in the manufacturing industry in some sub-Saharan African countries are unproportionally high to their per capita income (e.g. Kenya, see Fukunishi et al. [2006]).
 - **Madagascar and Nicaragua** might follow.

Clothing Export from Nicaragua and Madagascar

To USA

Rank	Country	Amount (Million USD)			Growth Rate (%)	
		2004	2005	2006	2005/04	2006/05
23	Nicaragua	595	715	879	20.26	22.91
34	Madagascar	323	277	238	-14.47	-13.83

Source of data: U.S. Dept. of Commerce, Bureau of Census.

To EU15

Rank	Country	Amount (Million USD)			Growth Rate (%)	
		2004	2005	2006	2005/04	2006/05
87	Nicaragua	2	2	3	14.01	32.67
32	Madagascar	196	222	289	13.22	30.11

Source of data: Eurostat.

Development Strategy and International Cooperation

- **The industrial sector is rarely highlighted for international cooperation.**
 - The private sector can do by their own capacity.
 - The sector suits the result-based management less because the input-outcome causality is complicated due to involvements of many actors.
- **At least, the development of labor-intensive industry should not be discouraged in the Poverty Reduction Strategy.**
 - FDI into the clothing industry was discouraged in Bangladesh before 2005.
 - The “dead-end” argument and the “race to the bottom” argument are likely to neglect the importance of the labor-intensive industry as an entry point of industrialization.

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