

# Industrialization cum Poverty Reduction: The Cases of Bangladesh and Cambodia

Tatsufumi Yamagata  
Institute of Developing Economies  
Japan External Trade Organization  
(IDE-JETRO)

# Motivations

- To introduce interesting cases of low-income countries which have made a good progress in poverty reduction.
- To derive a lesson from the case studies on further poverty reduction through international cooperation.

# Outline

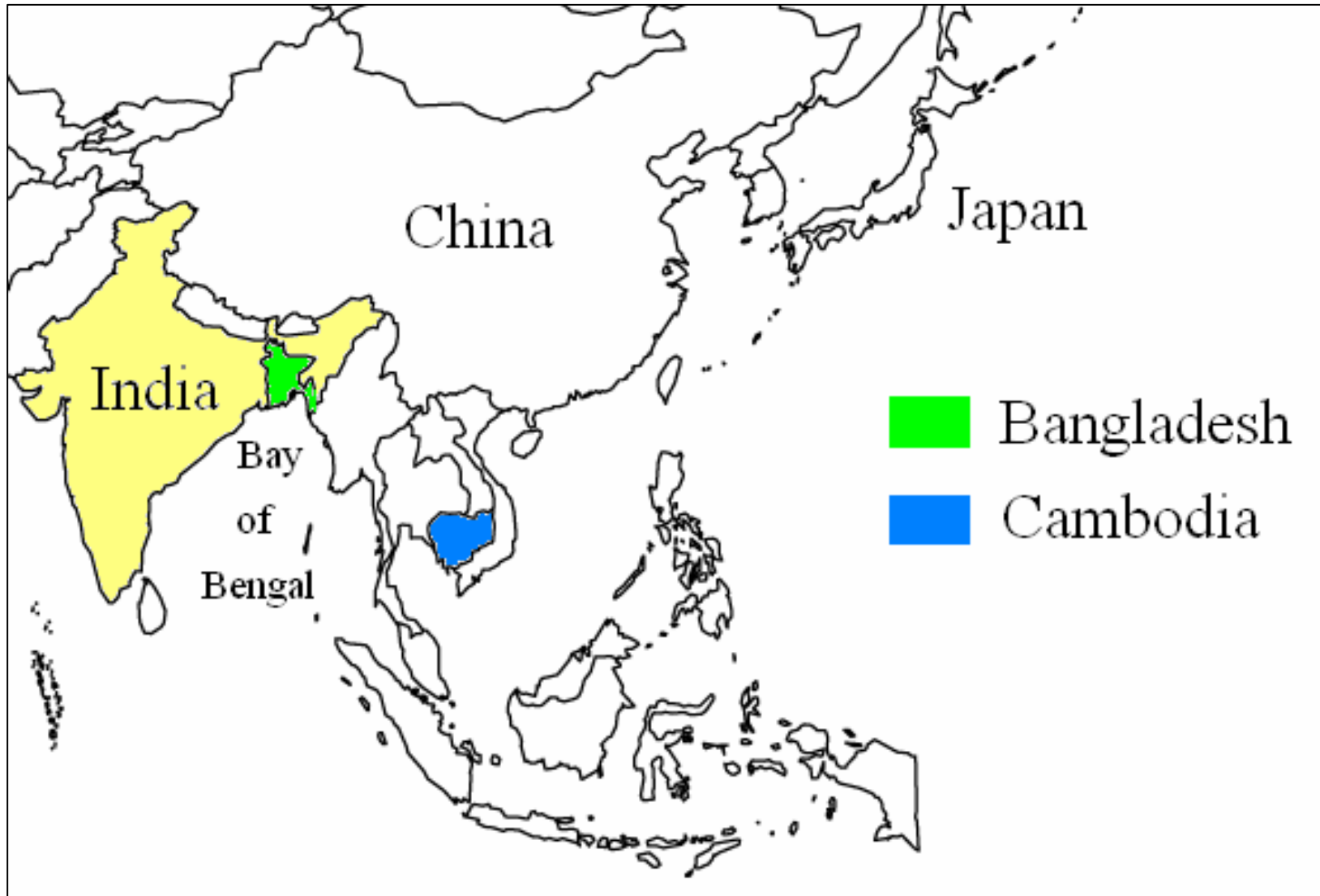
1. Poverty reduction, growth and industrialization in Bangladesh and Cambodia
2. A claim on a principle of the current modes of international development derived from the case studies

# 1. Poverty reduction, growth and industrialization in Bangladesh and Cambodia

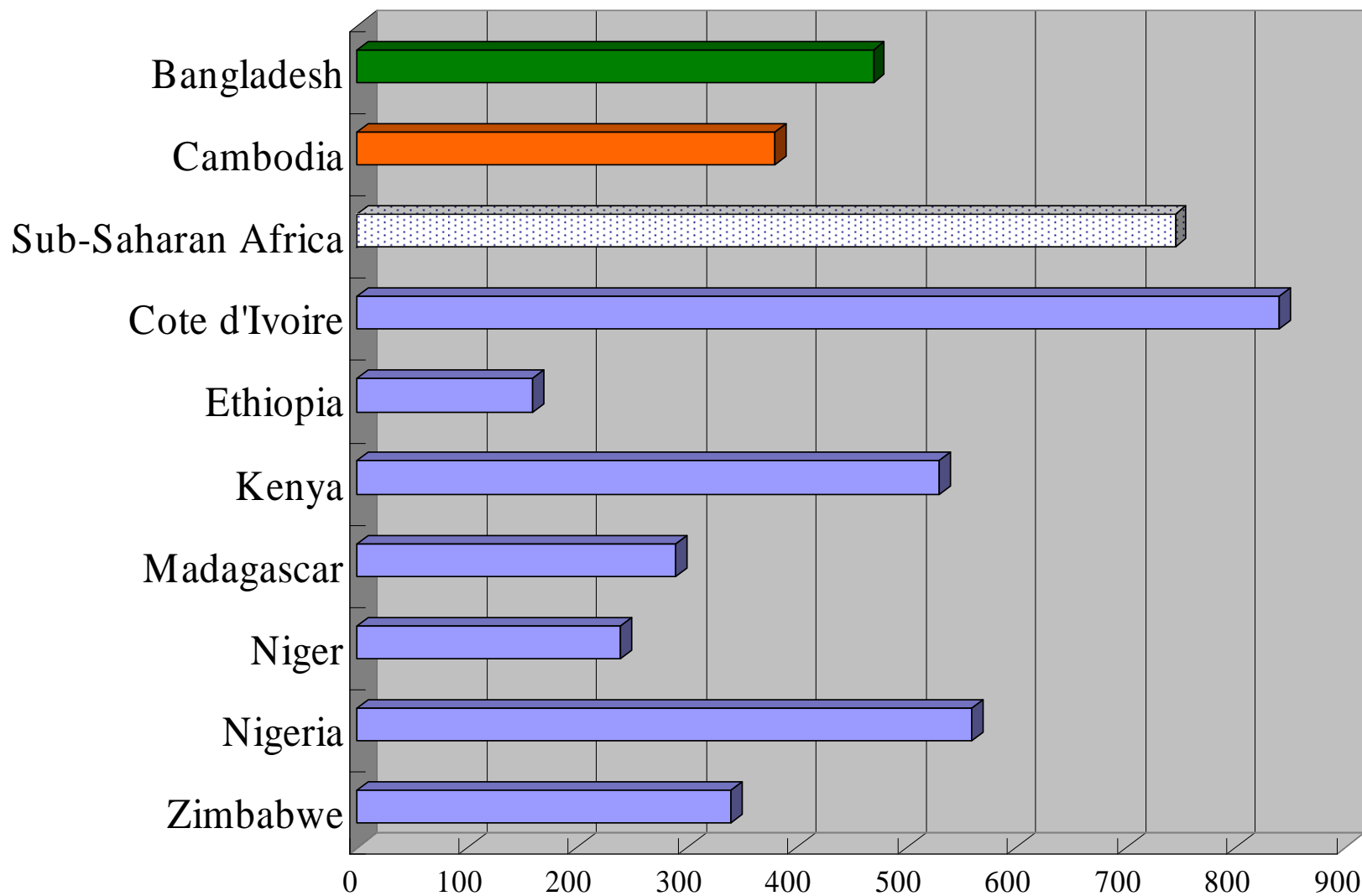
# Bangladesh and Cambodia

- Both made good progresses in **poverty reduction**.
- **Economic growth** rate is moderately high and steady in Bangladesh, while that is accelerated in Cambodia.
- A leading industry is (female) labor-intensive and export-oriented: **Clothing industry**.
- The cases of the two countries have been downplayed for a long time.

# Bangladesh and Cambodia



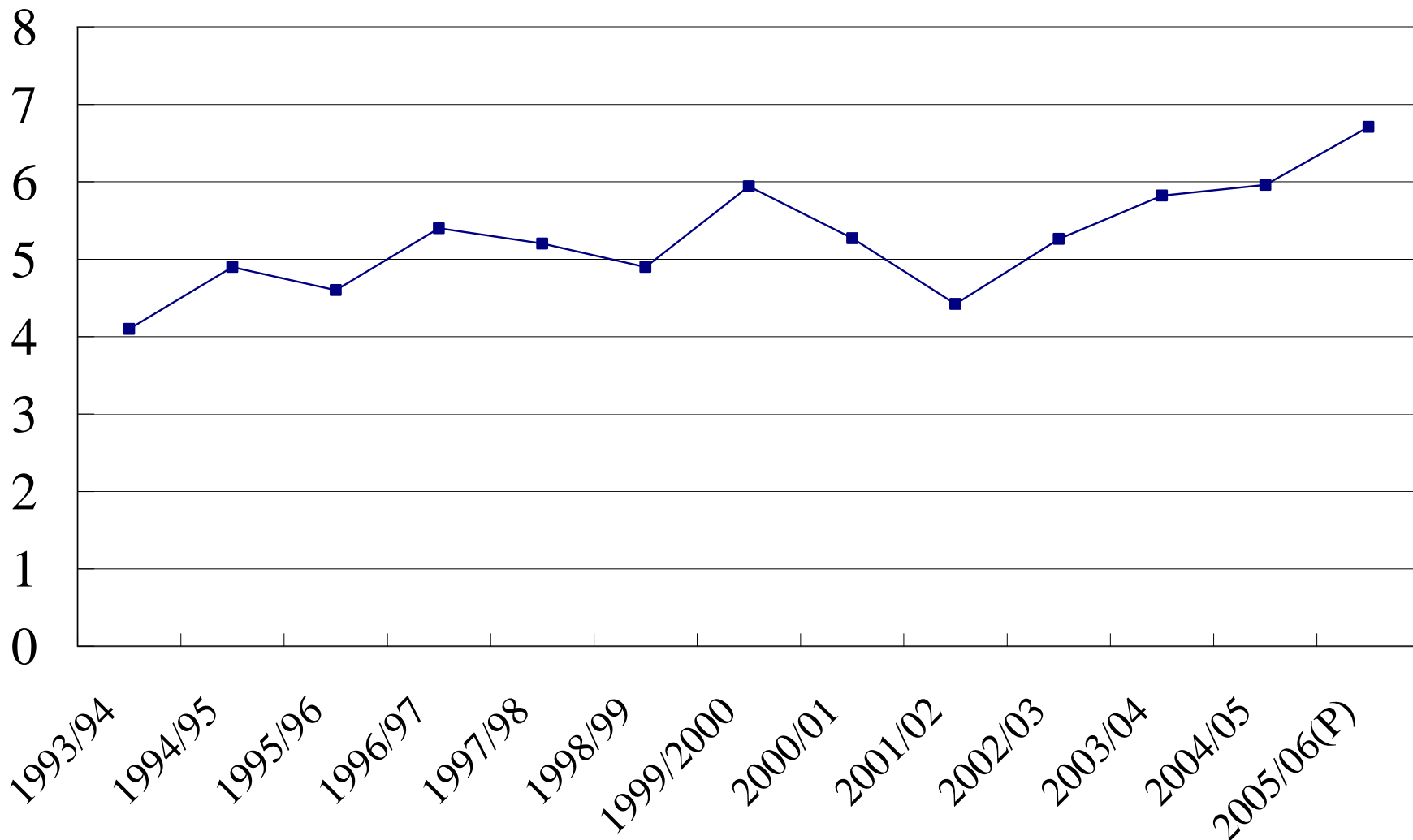
# Per Capita Income (2005, US dollar)



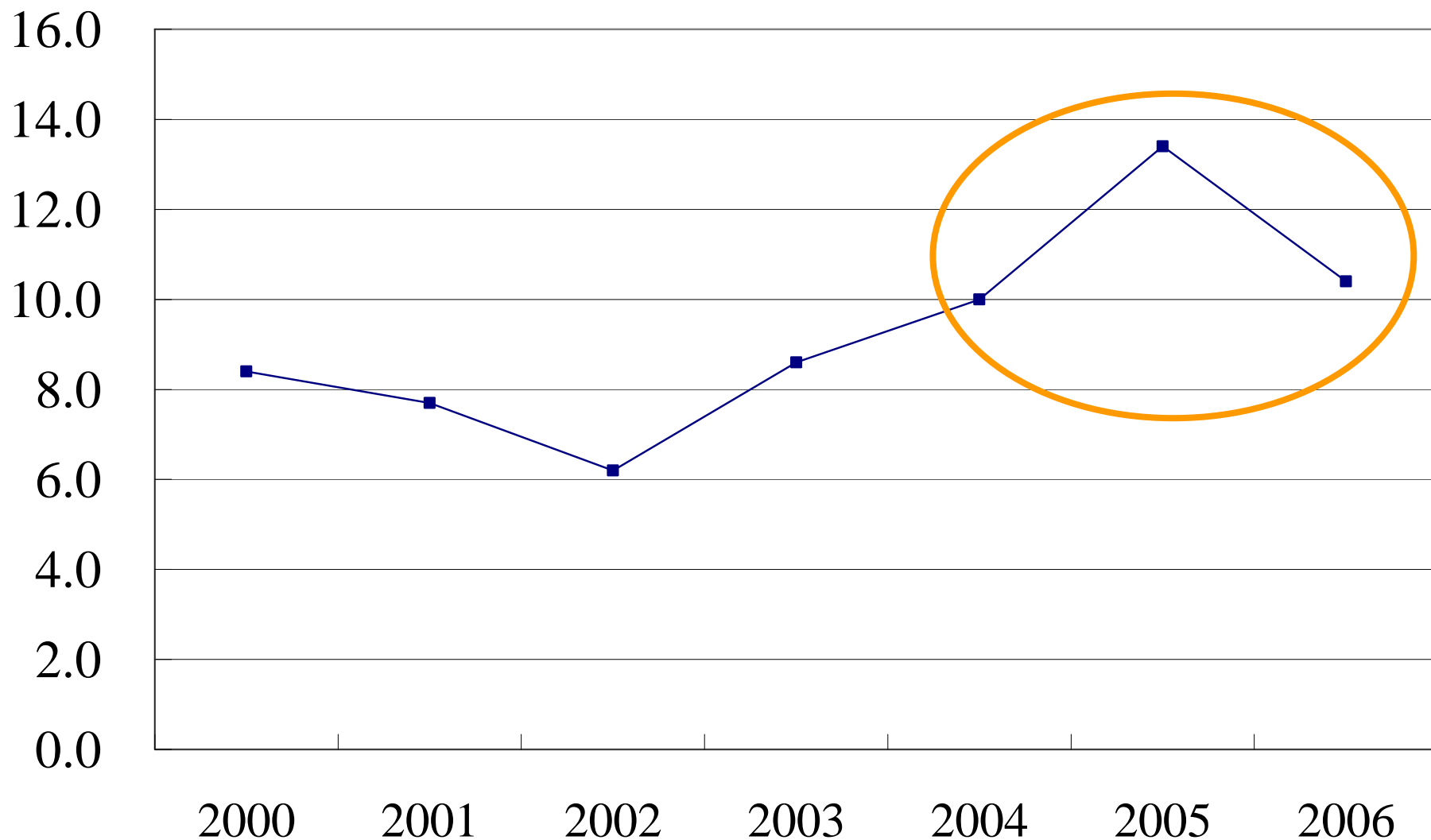
# Progress in Poverty Reduction

Year	Head Count Ratio (%)
Bangladesh	
1995/96	47.5
2000	44.3
2005	40.4
Cambodia	
1993/94	39.0
2004	28.0

# Economic Growth Rate: Bangladesh (%)

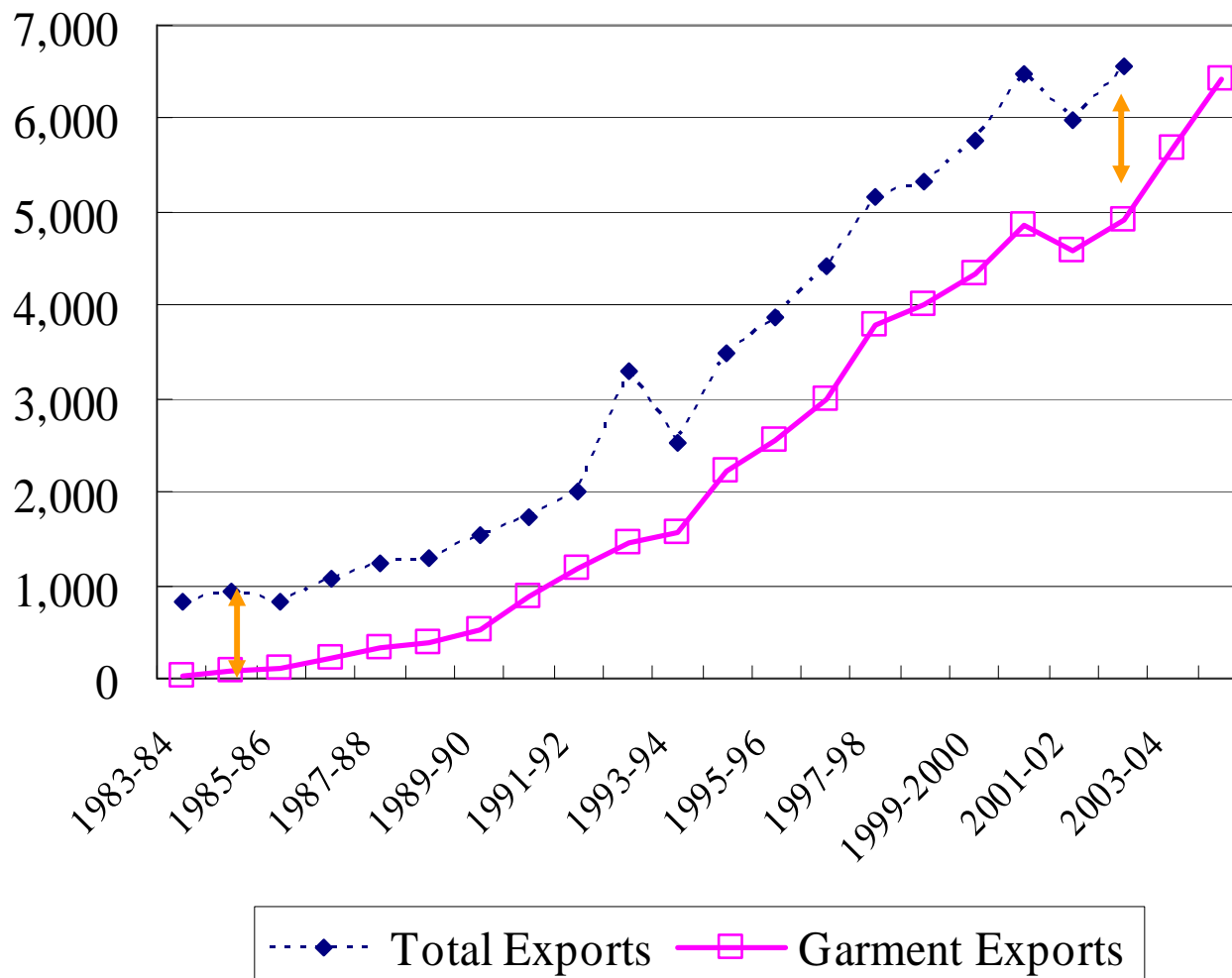


# Economic Growth Rate: Cambodia (%)



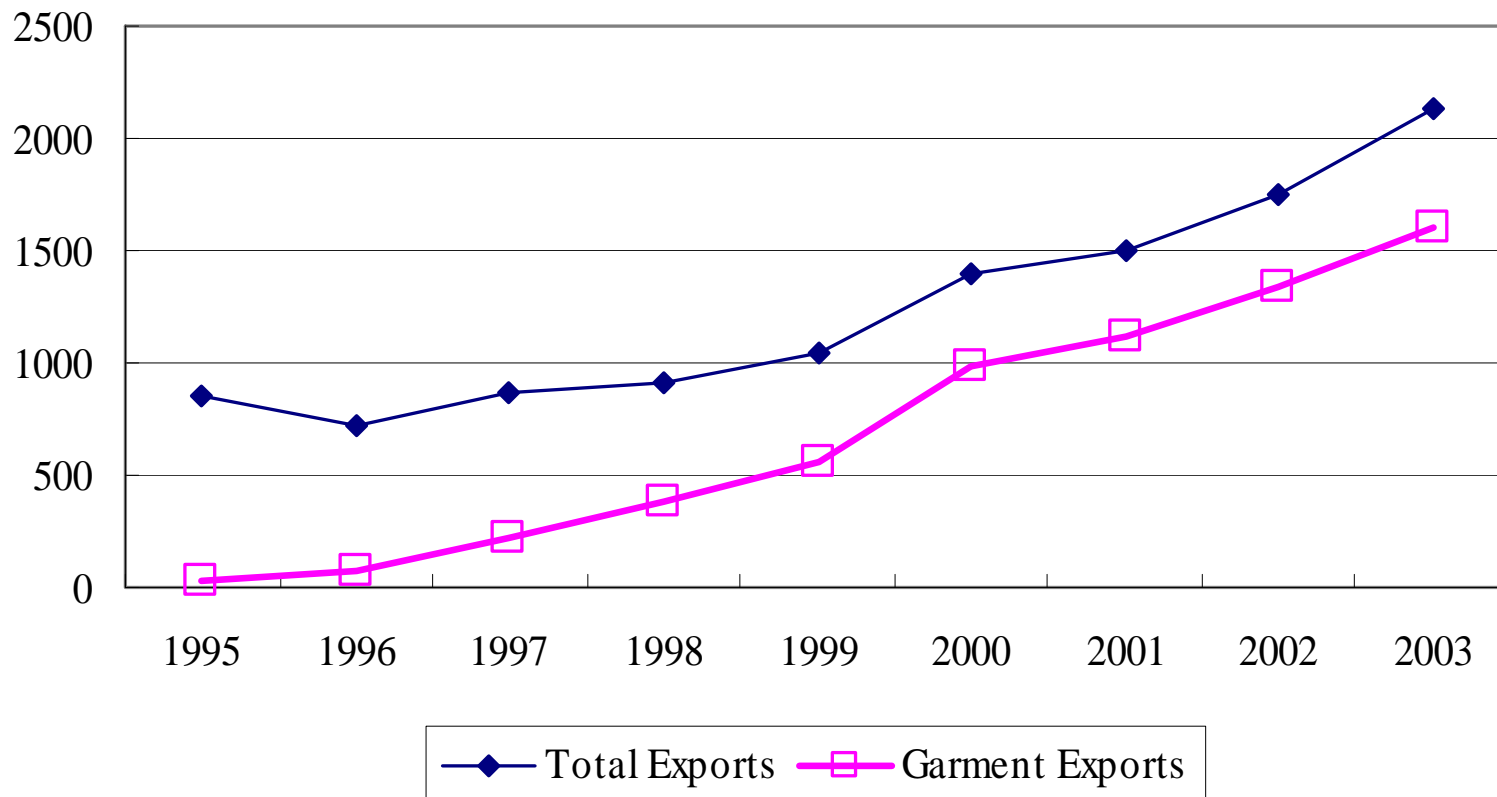
# Clothing Exports: Bangladesh

(Million US Dollars)



# Clothing Exports: Cambodia

## (Million US Dollars)



Sources: (1995-2001) Sok Hach and Sarthi Acharya, *Cambodia's Annual Economic Review - 2002*, Cambodia Development Resource Institute, 2002, Table 3.4, p. 19; (2002-2003) Oum Sothea and Sok Hach, *Cambodia Economic Watch*, Economic Institute of Cambodia, October 2004.

# The Clothing Industry: Bangladesh





# Cambodia: Garment workers before work



# Job seekers at a factory



# Sample Surveys of Clothing Firms conducted by IDE in 2003

## Bangladesh

- With the University of Dhaka and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA)
- Sample size: 222.
- Publication: Fukunishi et al. [2006].

## Cambodia

- With the LIDEE Khmer and the Garment Manufacturers Association in Cambodia (GMAC)
- Sample size: 164.
- Publication: Yamagata [2006], 山形[2004].

# 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], Yamagata [2006] and 山形[2004].

# Industrialization cum Poverty Reduction

- Not-highly educated women are massively employed with the earnings exceeding the poverty lines.
- Caveats: health and human rights problems remain.
- Competitive even after the world-wide liberalization in 2005.
  - Labor-intensive nature of clothing industry: Race to the bottom? No!! Growing for 25 years.
  - Symptoms for export to Japan to increase (finally).

# 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.

2. A claim on a principle of the current modes of international development derived from the case studies

# Result-Based Management

- A core principle of operation for the Millennium Development Goals.
- Conditions:
  - Clear goals.
  - Appropriate and measurable proxies / indicators for the goals.
  - Reward a success, penalize a failure.

- A claim: The Result-Based Management may distort the selection of projects/sectors for assistance according to verifiability of success.
- An easily verifiable project/sector is more likely to be adopted irrespective of the impacts of the project/sector on poverty reduction.

# Ideal Projects/Sectors to claim a success for the Result-Based Management

1. Short gestation period.
  - Results are born in a short time.
2. Small scale projects/sectors.
  - It is easy for a government agency / donor to claim an exclusive contribution to the project / sector.

# Features of the Export-Oriented Clothing Industry

1. Long gestation period.
  - Interventions such as technical assistance may need a certain gestation period.
  - Complementary inputs such as sophisticated machinery should be jointly used.
2. Large scale production.
  - Both the labor-intensive and export-oriented natures facilitate a great scale of production.

# Concluding remarks

- Large-scale clothing production contributed to poverty reduction in Bangladesh and Cambodia.
- This success was downplayed partly because of its incompatibility with the "result-based" principle of international cooperation.
- The result-based management should be handled with care.
  - A special attention should be paid for projects/industries which are incompatible with it.