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Market-oriented Reforms in Bangladesh And their Impact on Poverty

ABSTRACT

After providing some general background on developments in Bangladesh's economy, the article indicates the nature of international political pressures, as represented by the Washington consensus, put on Bangladesh to adopt market-oriented reforms. The sequencing and pattern of Bangladesh's market reforms and their consequences for its external balance are then examined. Particular attention is given to the fact that its macroeconomic reforms preceded its microeconomic ones. The impacts of Bangladesh's market reforms on the incidence of poverty can be seen as part of the general question of the effects of these reforms on social welfare. The Human Development Index (HDI) for Bangladesh is considered in this context. Poverty may be measured in different ways. Here, the Human Poverty Index (HPI) and the incidence of poverty (based on Bangladesh's official poverty line) are considered as indicators of the extent of poverty in Bangladesh, and these measures are qualified. The relationships of HDI, of HPI and of the incidence of poverty in rural and urban areas to the progress of Bangladesh's market reforms (as measured by the openness of its economy) is examined. No strong evidence is found to indicate that the market reforms have reduced the incidence of poverty in Bangladesh.

Market-oriented Reforms in Bangladesh

And their Impact on Poverty

1. Introduction

Bangladesh has experienced rising per capita income and increasing GDP since the 1960s and the direction of this growth has been sustained since it commenced its market-oriented reforms in the early 1980s. For the first time in its history Bangladesh has achieved foodgrain sufficiency. It is important to remember that this is a significant achievement against the background of the fact that the goal of foodgrain self-sufficiency *albeit* in a narrow sense has eluded Bangladesh for nearly three decades. In the second half the 1990s the annual growth rate in GDP has consistently topped the 5 per cent level and has broken the 4 per cent syndrome that has epitomized Bangladesh's growth in the preceding twenty five years. Bangladesh has significantly reduced the rate of population growth to about 1.5 per cent, about half the rate thirty years ago and that of contemporary Pakistan. This is the second lowest in South Asia after Sri Lanka. Literacy rate has more than doubled over the last three decades. Bangladesh has made very slow but steady progress in addressing gender issues. Bangladesh has also come out the shadow of famine and proved capable of managing crises like the flood of 1998, the most devastating in living memory (Alauddin and Hossain, 2001; Alauddin and Tisdell, 1998).

Significant changes have taken place in the occupational structure and composition of the labour force with an increasing number of women being employed in the formal sector, notably the readymade garments industry. The sectoral composition of GDP has undergone significant changes. The contribution of agriculture to GDP has declined from more than 50 per cent in the late 1970s to around 30 per cent in the late 1990s while at the same time the contribution of the industrial sector to GDP has shown very little increase. One noteworthy feature of the sectoral composition GDP is that the share of the manufacturing sector has changed very little during the last two decades hovering about the 10-11 per cent mark. The services sector enjoys a disproportionately high importance accounting for more than 50 per cent of GDP (Tisdell, 1999).

There have been noticeable changes in the structure of foreign trade with a discernible trend away from Bangladesh's traditional dependence on jute-based items. Readymade garments constitute the single-most important foreign exchange earner. Despite a momentous decline

in the share of primary exports, there has been a substantial growth of processed primary goods through the exports of frozen fish and shrimps and leather products especially footwear. However, there does not seem to have been any significant diversification in Bangladesh's foreign trade in that a few commodities dominate it. For example, only four commodities account for nearly 80 per cent of export earnings (Alauddin, 1999). The Gini-Hirschman (G-H) indices for Bangladesh's exports in terms of both its commodity composition as well as market destination show a trend toward increasing degree of concentration over time. Based on IMF International Trade Statistics Yearbook, Hossain and Alauddin (2002) report that the value of the G-H index has increased from 0.65 in 1975 to 0.76 in 1998. A characteristic feature of the time path of the G-H index is that it shows a U-shaped pattern, dropping over time to 0.45 in 1985 before increasing to 0.49 in 1990 and to 0.60 in 1995. Hossain and Alauddin (2002) further report that the four-country market concentration index has increased consistently from 0.17 in 1975 to 0.29 in 1998.

While those economists convinced of the virtues of free market systems might be inclined to attribute Bangladesh's economic growth in the second half of the 20th century to its market reforms, its 'take-off' into economic growth (Rostow, 1960) seems to be mostly attributable to its adoption of Green Revolution technologies commencing in the second half of the 1960s and accelerating in the 1970s (Alauddin and Tisdell, 1991). Its market-oriented reform began in the early 1980s, and proceeded fairly slowly and did not become relatively far reaching until the early 1990s.

International political pressure was placed on Bangladesh via the Washington consensus to commence and accelerate its market-oriented reforms. Arguably without such reforms, its economic growth would have suffered. But as is well known, growth in GDP per capita can be a poor indicator of human welfare. It may, for example, be associated with an increasing incidence of poverty or other indicators of declining well-being overall.

In this chapter, the nature of the international political pressures on Bangladesh to undertake market reforms are briefly outlined and the pattern of Bangladesh's pro-market reforms and their balance of payments consequences are considered. This is followed by a general discussion of the impacts of Bangladesh's economic reform on welfare in Bangladesh, using various welfare indicators and paying some attention to income distribution considerations.

This leads on to specific examination of Bangladesh's market reforms on the incidence of poverty and to a general discussion and conclusions.

2. International Political Pressures on Bangladesh to Adopt Market-Oriented Reforms

Like most developing countries, Bangladesh was placed under increasing international political pressure beginning in the 1970s to adopt market-oriented reforms and undertake structural adjustment policies to reduce the size of its public sector and make its economy more open by lowering trade protection for its domestic industries and by reducing restrictions on foreign direct investment. In Bangladesh like its South Asian neighbours attempts at reform began in the 1970s and 1980s but were piecemeal and had little impact as elsewhere in the region, except in India in the 1980s when the average growth rate rose above 5 per cent. Sri Lanka, however, is the exception in the group which went into reform mode as early as 1977 (Shand, 1999). Nonetheless, it has been claimed that Bangladesh started earlier than most South Asian countries in integrating its economy into the global one and had, in fact, gone further than most of these nations in dismantling its import-substitution and protectionist trade regime by the end of the 20th century. For example, India, despite opening up to the outside world, is still characterised by a more protectionist trade policy regime than Bangladesh which is constantly struggling to gain access to the Indian market. In the late 1990s Bangladesh's official exports to India represent less than 0.10 per cent of India's total official imports. During the same period Bangladesh's official imports from India represent around 3 per cent of India's total official exports (Alauddin, 1999, p.138). Bangladesh's official trade does not, however, reflect the true state of the of the Indo-Bangladesh bilateral trade. Hossain et al (1997, p.178) suggest that unofficial exports account for nearly 90 per cent of the legal trade. If these were taken into account Indian exports to Bangladesh could contribute nearly a quarter of Bangladesh's total imports (Hossain and Rashid, 1998).

Bodies such as the IMF and World Bank appear to have become convinced, possibly as early as the 1960s, on the basis of neoclassical theory, of the economic virtues of free markets and trade. Since the headquarters of these organizations were in Washington the general type of policies that they recommended were dubbed the Washington consensus. This consensus was further endorsed and reinforced by GATT, and subsequently WTO, as well as many other international aid and economic policy bodies.

The main points of the Washington consensus are summarised in Table 1. As a result of structural adjustments made to accommodate the Washington consensus, the World Bank (2000, p.61) suggests that the following have occurred in many developing countries: “Government involvement in economic activity has been scaled back. Domestic markets are more open to international trade and capital flows. Revised tax codes are in place and generally, markets not government, determine prices, output, and the allocation of resources”.

Table 1
Main Policies Recommended and Supported by the Washington Consensus

1. Exert fiscal and monetary discipline to limit or stop inflation
2. Reduce public expenditure and tax rates
3. Broaden the tax base and cut marginal tax rates
4. Ensure that interest rates are market determined
5. Adopt floating exchange regimes and let exchange rates be competitively determined
6. Liberalize international trade
7. Open the nation to foreign direct investment
8. Privatisise state enterprises
9. Deregulate markets except where compelling grounds exist for market intervention to ensure safety, protection of the environment or consumers or to ensure prudential supervision of financial institutions
10. Ensure legal security for property rights

Source: Based on World Bank (2000, p.63, Box 41)

However, the speed of adoption of such reforms has varied widely. While Bangladesh, for example, has instituted most of the types of reform listed in Table 1, it has been slow in privatising public enterprises including its financial intermediaries. However, it moved quite quickly to adopt the macroeconomic stability policies recommended in the Washington consensus (cf. Hossain and Chowdhury, 1999).

In many cases, developing countries have had little alternative but to adopt structural adjustment policies. In general, foreign and concessional loans to developing countries were reduced during the last two decades of the 20th century. Increasingly, aid and concessional loans have been made conditional on the adoption of structural adjustment policies by the recipients. Furthermore, the economic failure of centrally planned economics became quite

evident by the end of the 1980s and seemed to clinch the argument in favour of *laissez-faire* type market economies.

The World Bank (2000, p.64) appears to reaffirm its original position, but with greater qualification than originally, in the following terms:

In summary, market-oriented reforms have been widespread but uneven through the developing world. On average, they have delivered lower inflation and higher growth, both powerful forces for reducing income poverty. But reforms can also go awry, with painful consequences for poor people. Lack of supporting institutions, mistakes in sequencing reforms, or the capture of the reform process by powerful individuals or groups lie at the bottom of most failed reforms.

3. The Sequencing and Pattern of Bangladesh's Market Reforms and Consequences for its External Balance

Bangladesh commenced its economic reforms in around 1983. It concentrated initially on the imposition of macroeconomic discipline (fiscal and monetary restraint) and there was some corporatisation of public enterprises in the 1980s but little privatisation of these. Macroeconomic reforms were followed by international trade reforms (liberalisation of international trade and currency exchange) and this gained momentum in the 1990s and was accompanied by price reforms in the 1990s. Despite the privatisation of some government-owned financial institutions and industrial enterprises, the Government of Bangladesh reported that by the beginning of the 21st century that a large number of government-owned enterprises remained and their losses continue to burden government finance (Government of Bangladesh, 2001). While, by the end of the 1980s, little microeconomic reform (but significant macroeconomic reform) had occurred by the end of the 1990s substantial microeconomic reform was evident. By then, possibly Bangladesh had done more than any other South Asian nation to liberalise its economy and integrate it with the global economy (cf. Khan, 2001).

Protection of both agricultural and non-agricultural industry declined significantly in the 1990s. For example, the Government of Bangladesh (2001, p.11) reports that "Under donor persuasion and the dictates of the Structural Adjustment Program, Bangladesh has brought down its level of public support to agriculture to an absolute minimum. Recent estimates of Aggregate Measure of Support (AMS) to agriculture put this at around one per cent of

agricultural output although the permissible level of such support under the Agreement on Agriculture of the WTO is ten per cent. Furthermore, tariff protection fell in the 1990s from an average nominal rate of protection of 89 per cent in 1900-91 to 25 per cent in 1995-96. In addition, Bangladesh moved ahead with full exchange convertibility in the 1990s and with measures to encourage foreign direct investment. Consequently, despite its tardiness in the privatisation of a significant proportion of its public enterprises, Bangladesh had gone far by the beginning of the 21st century in implementing the policy recommendation of the Washington consensus (see Table 1).

There are at least three queries raised by the process of Bangladesh's market-oriented reforms. These are: was their timing and sequencing appropriate? How should one measure the extent of such reforms? What has been the impact of Bangladesh's economic growth, on economic welfare and poverty?

Bangladesh's reforms were evolutionary in character. This and the nature of their sequencing appears to have been politically desirable. There is generally less political opposition to macroeconomic reforms than to microeconomic because the latter often reduce the economic rents of cohesive interest groups. Therefore, progress with a structural adjustment program is liable to be politically derailed if microeconomic reform is introduced early and on a wide front. Furthermore, from a political point of view, there can also be something to be said for delaying privatisation of public enterprises, as Bangladesh has done. Although these enterprises are often inefficient, in some developing countries, they play an important income support role for needy families.

It is difficult to obtain a precise measure of Bangladesh's progress with its market-oriented reforms. However, indicators of its trade openness constitute one such measure. However, whether Bangladesh's volume of exports plus its volume of imports as a percentage of its GDP constitutes the best measure is unclear. This measure has trended upwards with fluctuations from around 22 per cent in the period 1979-1982 to around 26 per cent in the period 1996-98. This indicates a rise in openness but not an extraordinary one after the reforms. However, Bangladesh's trade deficits were quite unsustainable in the period leading up to 1983. In 1982 for example, Bangladesh's imports were almost three times the value of its exports. However, with some lag, the ratio began to decline. By 1990 this ratio was about 2:1 and by 1997 about 1.4:1. Whereas Bangladesh's trade deficit was 10.71 per cent of its

GDP in 1982, this had fallen to 8.06 per cent by 1990 and to 4.34 per cent in 1998. Given the initial disequilibrium in Bangladesh's balance of trade it may be appropriate to use its value of exports as a percentage of its GDP as an indicator of its openness and the progress of its economic reforms. Using this indicator, "openness" increased slowly from 1983 onwards in the 1980s (from 1983, 6.74 per cent, to 7.15 per cent in 1989) but accelerated in the 1990s going from 7.72 per cent in 1990 to 111.18 per cent in 1998.

Bangladesh has been able to maintain a growth rate of GDP broadly in the range of 4-5 per cent since 1973 (cf. Shand and Alauddin, p.5; Government of Bangladesh, 2001, p.2). There was not any significant increase in this growth rate in the early reform years. In fact, it seems likely that Bangladesh's economic growth in the period 1973-80 averaged 4.9 per cent per annum but was slower in the 1980s and early 1990s but still in excess of 4 per cent on average. However, in the second half of the 1990s, Bangladesh's average rate of growth of GDP was slightly in excess of 5 per cent per annum. By this time, its economic reforms were widely established. Furthermore, as time passed, its growth rate became more sustainable in view of its declining relative trade deficit.

4. Social Welfare Consequences of Bangladesh's Market Reforms – General Aspects

The social welfare consequences of economic change are often difficult to determine. This is partly so for philosophical reasons and because statistical information is often inadequate, especially in developing countries. In particular, increases in per capita income can be an inadequate indicator of increased social welfare. Such increases may be associated with rising income inequality or a growing incidence of poverty such that for some Bergson-type social welfare functions (Burk [Bergson] 1938), social welfare declines. This decline can be very marked if Rawls's principle of distributive justice is applied (Rawls, 1971).

It might be thought that the Human Development Index (HDI) would provide a satisfactory measure of human welfare. HDI is calculated by placing a one-third weight on an income index plus a longevity index plus an education index. But it fails to take adequate account within a country of inequality in income, and inequalities in longevity and access to education (Hicks, 1997; Neumayer, 2001). It is also subject to several other inadequacies as a social welfare indicator (Neumayer, 2001; Sager and Najam, 1998, Doessel and Gounder, 1994), as are UNDPs gender inequality indices (Tisdell et al., 2001).

There is clear evidence that personal income inequality in Bangladesh has increased during the market reform period. While very recent evidence is not yet available, between 1991/92 and 1995-96 household expenditure surveys indicate rising income inequality. This is attributed to a large extent to rising differences between urban and rural incomes (Khan and Sen, 2001). Khan and Sen (2001) also found that income inequality is much greater in urban areas than in rural areas and that urban incomes and consumption have shown a greater rate of increase in inequality during Bangladesh's market reform period. Given this urban-rural difference, urban migration (as has been occurring in Bangladesh) might be expected to add to overall income inequality. This trend contrasts with that in the mid-1970s to the early 1980s as far as income inequality is concerned. Rahman and Haque (1988) found that, in this period, growing per capita income was accompanied by a relatively stable distribution of income and consequently a declining incidence of poverty (cf. Wodon, 1995). However, in the reform period, income inequality has risen and there are "mixed" consequences for the incidence of poverty, as outlined below.

Further, research is needed to determine trends in inequality in access to education in Bangladesh and in longevity. Nevertheless, bearing in mind that there are serious limitations to HDI as an indicator of social welfare, how has it altered as Bangladesh's market reforms have progressed and its economy has become more open?

As can be seen from Table 2, by the end of the 1990s, Bangladesh's HDI was on average only a little higher than in 1990, even though it was considerably higher than in 1992. If, however, Bangladesh's imports as a percentage of its GDP are used as an indicator of its degree of openness and the extent of its market-based reforms, the relationship between the two variables does not appear to be highly significant. Of course, it might have been that Bangladesh's HDI would have been lower if Bangladesh had not proceeded with its market reforms. However, testing this hypothesis may be impossible.

Table 2
 Bangladesh's Human Development Index (HDI) in Comparison to Openness (Exports as a Percentage of its GDP) in the 1990s

Year	HDI	Openness
1990	0.412	7.72
1991	0.364	8.94
1992	0.309	7.04
1993	0.365	7.29
1994	0.368	8.98
1995	0.371	8.68
1997	0.400	11.46
1998	0.461	11.18
1999	0.440	18.20

The ordinary least squares regression line for the data shown in Table 2 is

$$\text{HDI} = 0.3008 + 0.0037\text{OPENNESS} \quad (1)$$

(2.3344)

$$R^2 = 0.4377, \text{ adjusted } R^2 = 0.3574$$

The figure in the parenthesis is the t-ratio.

Where OPENNESS is Bangladesh's exports as a percentage of its GDP. This reveals that the relationship is not statistically significant at the 5 per cent level. Moreover, the absolute value of the slope is very small implying that a one per cent increase in the degree of openness would increase the value of the HDI by a negligible 0.0037. Thus there is insufficient evidence to prove that Bangladesh's market reforms and the increasing openness of its economy were significant and major factors in raising its HDI in the 1990s. Nevertheless, for most of the period there was a slight upward trend in its HDI.

5. Trends in the Occurrence of Poverty and Bangladesh's Market-Oriented Reforms

There are many different ways to measure the occurrence of poverty and several different conceptions of poverty itself. Furthermore, it is being increasingly stressed that poverty is best assessed as a phenomenon involving multiple attributes (World Bank, 2000). While there is much to be said for that point of view conceptually, it does add to the difficulty of assessing the occurrence of poverty, which in many cases has both a physical or biological

dimension as well as a social dimension. Because of the social dimension (which in most cases reflects deprivation in well-being of individuals based on their resource-endowments relative to other members of society), poverty lines and the nationally perceived incidence of poverty are likely to vary from country to country.

Rather than, however, engaging in extensive discussion about appropriate ways to measure poverty, trends in two measurements will be considered here, namely the Human Poverty Index (HPI) for Bangladesh and its national poverty lines as applied to urban and rural areas.

Whereas HPI measures average achievements in terms of life expectancy, educational attainment and adjusted GDP per capita, HPI is a measure of *average* human deprivation in relation to selected attributes. These attributes are the average probability at birth of not surviving to 40, the adult illiteracy rate and a third component. This third component is the unweighted average of the population not using improved water resources, the percentage of children under five who are underweight plus (where available) a measure of average access to health services. In some ways, however, HPI is quite deceptive as an indicator of the extent of deprivation. For example, it does not take account of the extent and distribution of deprivation below its thresholds. For example, of all children who are underweight, most may be just below the cut-off point for being underweight or considerably below it or distributed in a way that creates extra concern about the deprivation. It is necessary, therefore, to be aware of such issues when using HPI as a poverty indicator.

Few observations are available for HPI for Bangladesh. As can be seen from Table 3, it was, on average, lower in 1997 and 1998 than in 1994 and 1995 and during that time exports as a percentage of GDP also rose in Bangladesh. However, the number of observations are very few and while some positive association may exist between falling HPI and rising openness in Bangladesh's case, there is no indication that it is a causal relationship. In any case, if there is a causal mechanism, it would need to be explained. While there could conceivably be some influence of openness on some components of HDI, such as life expectancy, if nutrition improves, impacts on adult illiteracy would be long-term and may not be closely related to openness.

Table 3
Bangladesh's Human Poverty Index (HPI) for Available Years in the 1990s compared with Openness

Year	Poverty (HPI)	Openness
1994	48.3	8.98
1995	46.5	8.68
1997	44.4	11.46
1998	43.6	11.18

In Bangladesh, the incidence of poverty (using official poverty lines) is much higher in rural areas than in urban areas. As can be seen from Table 4, the incidence of poverty in rural areas in Bangladesh was almost double that in rural areas in 1995-96. Furthermore, as can be observed from Table 3, there has not been a significant downward trend in the incidence of poverty in rural Bangladesh. Furthermore, the incidence of poverty in rural areas *relative* to that in urban areas was at a higher level in 1995-96 compared to earlier years in the table. This suggests that as far as poverty reduction is concerned. An urban-bias has arisen from Bangladesh's market reforms and increased openness to international trade. However, the urban-bias in overall income growth resulting from the market reforms may be even stronger.

Table 4
Percentage of Rural and Urban Population in Poverty in Bangladesh According to Official Statistics for Available Years Compared with Openness

Year	Rural	Urban	Openness
1973-74	47.7	32.3	4.26
1976-77	62.3	37.4	5.96
1983-84	53.8	40.9	6.74
1985-86	45.9	30.8	5.52
1988-89	49.7	35.9	6.69
1991-92	52.9	33.6	8.94
1995-96	51.1	26.3	8.69

The number of observations on the incidence of poverty in Table 4 are relatively small. Great caution is required in drawing inferences from so few observations. While the incidence of

rural poverty has shown no persistent downward trend during Bangladesh's reform period, arguably, the incidence of urban poverty does fall even though the significance of the relationship is open to question. This is particularly so because there is now some indications that the incidence of urban poverty has begun to rise since 1995-96 (Personal communication, Rehman Sobhan, February 2002).

Fitting ordinary least squares regression lines to the data in Table 4, the following linear relationships emerge:

$$\text{RURAL POVERTY} = 47.801 + 0.615\text{OPENNESS} \quad (2)$$

(0.439)

$$R^2 = 0.0371, \text{ adjusted } R^2 = -0.1554$$

The figure in the parenthesis is the t-ratio

$$\text{URBAN POVERTY} = 38.072 - 0.626\text{OPENNESS} \quad (3)$$

(-0.507)

$$R^2 = 0.0489, \text{ adjusted } R^2 = -0.1413$$

The figure in the parenthesis is the t-ratio. In both equations, the coefficients are not statistically significant.

It is also pertinent to note that in rural areas the incidence of poverty is positively associated with the degree to which rural residents have a limited amount of land. As can be seen from Table 5, the incidence of poverty is highest amongst the rural ladders and, in general, the smaller the landholding of rural dwellers, the higher is their likelihood of being in poverty.

Table 5
Percentage Share of Population Below Poverty Line by Size of Owned Land (Acres)
in Rural Bangladesh

Size of owned land in acres	Absolute poverty (2122 k.cal/day/person)		Hard core poverty (1805 k.cal/day/person)	
	1995-96	1991-92	1995-96	1991-92
Landless	66.0	69.7	44.3	54.5
0.01 - 0.49	58.0	59.4	32.2	36.8
0.50 - 1.49	40.8	43.6	20.4	23.9
1.50 - 2.49	33.7	37.4	14.9	19.0
2.50 - 7.49	32.1	33.0	113.2	17.7
7.50 +	20.5	19.5	7.1	9.7
All groups	47.1	47.6	24.6	28.3

Source: BBS (1998)

It is also interesting to note that, while the average daily per capita calorie intake of Bangladeshis has shown a slight increase in the market reform period, protein intake has shown no such increase and indeed seems to have declined slightly (see Table 6). On average, the nutritiousness of food intake has not improved. In particular, the poor are most likely to suffer from protein deficiency and it seems possible that they are being increasingly crowded out of quality protein rich food by those on higher incomes as income inequality in Bangladesh magnifies (cf. Alam and Janssen, 2002). This view is supported by a recent study by Jahan and Hossain (1998)

Table 6
Food, Calorie and Protein Intakes of the People of Bangladesh

Types of intake	1985-86	1991-92	1995-96	2000
Per capita daily food intake (grams)		886.2	913.8	893.1
Per capita daily fish intake (grams)		34.5	43.8	38.45
Per capita daily calorie intake (k.cal)	2196	2266	2244	2240
Per capita daily protein intake (grams)	63.50	62.72	64.96	62.50

Source: BBS (1998, 2001)

Thus, it can be concluded that Bangladesh's market-oriented reforms have not been associated with a reduction in the incidence of rural poverty. At the same time, however, there may have been a reduction in the incidence of urban poverty. Nevertheless, there is really only one observation in Table 4 that provides any reasonable support for this view. If

the incidence of urban poverty has risen again as suggested by some observers (Personal communication, Rehman Sobhan, February 2002), it is possible that the market reforms have not even been very effective in reducing the incidence of urban poverty. Furthermore, even if a reduction in the incidence of urban poverty happened to be associated closely with the increasing openness of Bangladesh's economy, it would be necessary to specify the nature of the association, that is to what extent a causal relationship exists and the nature of the causal connection, if any. It cannot be emphasized too often, that association does not imply causality, although causality may be present when an association between variables exists.

6. Discussion and Conclusion

Supporters of the Washington consensus sometimes appear to promise economic miracles if their *laissez-faire* market policies are adopted, and amongst these promised claims is a significant reduction in the incidence of poverty. The basic argument runs as follows: Reforms to create free markets and international trade openness and reduce government involvement in the economy will stimulate economic growth. Economic growth will be effective in raising living standards and reducing the incidence of poverty. This thesis is essentially a revisit of the trickle-down mechanism of the 1960s and early 1970s.

Because market reforms are risky from a national political view and electors have a relatively short-term perspective, it is politically important to detect or claim significant economic benefits from such policies as quickly as possible. Arguably, the IMF and the World Bank as well as other similar institutions, have been striving to support these claims. While this is advisable in some respects, it should be kept in mind that in such circumstances political imperatives can crowd out scientific analysis, for example, favourable political conclusions may be drawn from selected samples and from an insufficient number of observations. The latter is a particular problem in developing countries because available statistical data are often limited, may be subject to significant observational errors, and only infrequently available or available with significant delay. For instance, in early 2002 the latest available comprehensive official figures on the incidence of poverty in Bangladesh were for 1995-96. This means that there is a considerable lag in knowing what the changing incidence of poverty is in Bangladesh. However, preliminary figures for 2000 became available in 2001 (BBS, 2001), so the lag is declining.

It is also pertinent to note that the effects of *laissez-faire* policies on indicators of human well-being and on poverty depend on the length of time such policies have been in operation. Changes on human capital, for instance, tend to be more of a long-term nature than a short term one, and they alter the long-term human structure of societies. These effects are not, for example, fully apparent from HDI or HPI figures considered even for a whole decade. Yet there seems to be an increasing tendency for international organizations to draw significant conclusion about human development and well-being from short time-series of data. Therefore, it difficult to escape the conclusion that “quick results” may be required for political reason. This may be to show the policy-value of the organization, or to provide support for its policy proposals or to justify funding for new research by it or for formulation of new policy proposals by it. Of necessity, international economic-policy organizations have a political agenda. Their reports, publications and pronouncements usually need to be assessed in this context.

While claims are often qualified (and as is well known qualification sometimes increases support for an argument), the basic thrust of the argument of those supporting the Washington consensus that market reforms result in economic growth and this in turn translate as a rule into poverty reduction, not only of income-poverty but often also of non-income poverty. See, for example, the World Bank (2000, p.64) statement quoted earlier in this chapter.

As mentioned above, there is an increasing tendency to consider poverty as a multi-dimensional concept. As a result, attributes of poverty additional to income deprivation are considered such as lack of access to educational opportunities and to medical care. In addition, one could add to this other types of deprivation experienced by the poor such as lack of resources to take advantage of their legal and democratic rights. These features may, however, be consequences mainly of income deprivation.

In addition, poverty has a dynamic dimension that is not in itself necessarily associated closely with current income deprivation. Poverty has a much broader connotation beyond the “criterion of individual physical survival to satisfying a full social existence” than income deprivation (Bernstein, 1992, p.16; see also Sen, 2000; Chambers 1988) or the implicit acknowledgement of the notion of relative poverty or deprivation in the World Bank (1990) discussion of poverty (cf. Sen 1983). It is the risk of becoming poor or suffering a significant

reduction in economic well-being. This risk can rise in economies that become increasingly market oriented. It can create serious problems in developing countries when traditional social safety nets are eroded by growing “commodification” and market expansion and not replaced by government-supported safety nets. While the incidence of income-poverty, for example, is lower in urban than rural Bangladesh, it is possible that households in the urban areas show more variation in rising and falling above the poverty line, and that this variation will increase with market reforms. Consequently, the long-term or permanent income of the poor in urban areas could be much lower than appears to be so from an annual snapshot. The extent to which household income can be sustained and how surely it can be sustained has important implications for the occurrence and measurement of poverty. Economic insecurity can significantly reduce human well being. There is a considerable body of evidence which suggests that with rapid population growth, depletion of natural resources and greater penetration of technological and market forces, the cushioning effect of the access to natural resources especially, in adverse circumstances, on the rural poor has become more limited and their income security has been undermined (see for example, Alauddin and Tisdell, 1998; Hossain 1987). Furthermore, a seminal work on Great Bengal Famine of 1943 and Bangladesh Famine of 1974 by Sen (1981) clearly demonstrates that adequate aggregate supply of food does not necessarily avert starvation and famine.

Market-oriented economies can especially if they are very open to international trade, generate considerable income insecurity. Market-reforms tend to promote economic specialisation and this can add to economic insecurity and in some cases lack of economic sustainability (cf. Tisdell and Fairbairn, 1984). At the same time as Bangladesh’s exports have increased, it has become more specialised in the exports of garments and textiles. This makes it more vulnerable to global changes in the market for these products. This apart, shrimp farming has experienced a phenomenal growth in Bangladesh over the entire period of reforms. This is in response rising global demand for farmed shrimp. While shrimp farming has generated significant employment and foreign exchange, the process has engendered high environmental costs. The livelihoods of many could be under serious threat. Moreover, with money and muscle power being the dominant force, the social environment is highly ‘polluted’ (Alauddin and Hamid, 1999).

To conclude: Although economic growth continued in Bangladesh throughout its reform period, in the reform period of Bangladesh has been accompanied by increasing income

inequality and no apparent reduction in the incidence of rural poverty. It is even debatable whether there has been a significant reduction in the incidence of urban poverty in this period, particularly if all dimensions of poverty are taken into account. It seems that an economic miracle as a result of Bangladesh's reforms has yet to be realized. Proponents of the effectiveness of *laissez-faire* policies to reduce poverty could, however, argue that this is mainly because Bangladesh's reforms have not yet been in place for long enough or are not as yet, sufficiently far sweeping, e.g. too many state enterprises remain. Or the following counterfactual argument could also be put forward, namely that without market reforms the incidence of poverty in Bangladesh would be far higher than it is now. There are all plausible possibilities. However, without adequate proof, these views have little scientific substance. All that can be safely concluded at present is that there is insufficient proof to show that Bangladesh's market-oriented reforms have resulted in a significant lasting reduction in its incidence of poverty and a sustainable increase in the well-being of its citizens.

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