

## ■ BANGLADESH

# Inequality on the rise



Economic globalization is severely damaging economic and social rights. GDP growth has been accompanied by increasing inequality, mounting food insecurity and constraints on “positive” human rights (as defined in the International Covenant on Economic, Social and Cultural Rights). Trade liberalization has provoked a decline in agriculture as well as in food security.

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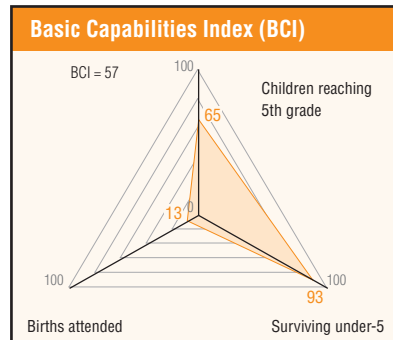
Accelerating economic growth has been touted as a major benefit of globalization in Bangladesh. However, this increase has been accompanied by sharply widening inequality. For a majority of the population, the advantages of a higher gross domestic product (GDP) have been hard to discern. The rate of poverty reduction has been slower than the population growth rate, indicating that the absolute number of poor people has been rising.

These trends have a direct impact on human rights, particularly the “positive” ones enumerated in the International Covenant on Economic, Social and Cultural Rights (ICESCR). The ICESCR does not condemn countries where the poor lack many of these positive rights, but it does require that every State use “all appropriate means” (including international cooperation) “to the maximum of its available resources, with a view to achieving progressively [their] full realization”. In a country where the absolute number of poor people is increasing, the State is not respecting their rights or the ICESCR.

While the GDP has been climbing at a healthy rate since the early 1990s (an average of 5% annually), most of this new wealth has flowed to those who need it the least (Osmani 2004). The gap between rich and poor has widened considerably, as shown in Chart 1. The share of the bottom 5% households in the national income plunged from 1.03% to 0.77%, while the share of the top 5% soared from 18.85% to 26.93%. This growing imbalance is reflected in the rising Gini coefficient, the measure of inequality used worldwide, which jumped from 0.39 to 0.47.

### Opening up the economy

After gaining its independence from Pakistan, Bangladesh, like many other developing countries in that era, was strongly influenced by the political and economic philosophy of the Socialist Bloc. The State quickly nationalized 92% of total fixed assets, which had been abandoned by Pakistani entrepreneurs (Rahman 1994). For many years, domestic industries were protected by selectively high tariffs, which were also a major source of State revenue (CPD 1997). In 1978 the country had 36 different rates, ranging from 0% to 400%.

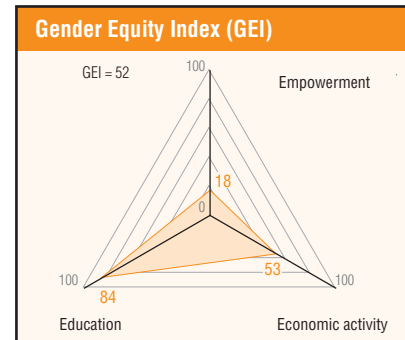


During the early 1990s, the State executed a 180-degree turn. Reforms in the financial sector were among the most rapid in the world. The Trade and Industrial Policy Reform programme simplified tariffs, phased out of quantitative restrictions on imports, and slashed the nominal rates of protection (Rahman 2008).

The pace of liberalization has not let up. Since the mid-1980s successive governments, supported by the World Bank, have steadily reduced the number of products subject to quantitative restrictions, from 574 in 1985-1986 to 124 in 1998-1999. The average tariff dropped from 89% in 1990-1991 to 28% in 1998-1999, and the maximum rate was slashed from 350% in 1993 to 32.5% in 2003. During the same period, the number of tariff rates dropped from 8 to 5 (Rahman 2008).

Radical as these changes are, the World Bank complains they are insufficient: “While trade liberalization occurred in fits and starts in Bangladesh, stronger and more decisive commitment to trade liberalization was seen in the majority of the rest of the world. As a result, Bangladesh lags behind on most measures of trade openness. Even after the reduction in nominal protection in the FY07 budget, Bangladesh has the highest level of trade protection in the region, which itself is the most trade restrictive region in the world.” (World Bank 2007).

Other critics think the country’s high-speed demolition of barriers has been a mistake. They point to industries that have been destroyed or are on the verge of destruction as their protection has disappeared. The jute industry once provided most of the world’s jute exports. It is virtually gone. Although this collapse has generally been blamed on poor management, the industry’s sudden exposure to international competition without much prepara-



tion certainly played a role. The sugarcane industry is suffering a similar fate, due to competition from neighbouring countries that provide more support. Some of the tottering industries had huge potential. Poultry, for example, was booming, but has been recently crippled by a series of crises, including avian flu and a sharp rise in the price of feed (Rahman 2008). The blows to these and other agricultural industries have contributed to growing inequality in rural areas (Rahman 2007).

### Liberalization of the agricultural sector and growing food insecurity

As a founding member of the World Trade Organization, Bangladesh has been obligated to agricultural protection. Historically, the agricultural sector was sheltered in both developed and developing economies. Bangladesh was no exception; the barriers to competition were even higher than in other sectors. Much of this protection has been whittled away since the early 1980s by market reform and trade liberalization. However few of the promised benefits have materialized. For example, yield per hectare remains lower than in other Asian countries with comparable conditions. In 2001, average rice paddy production per hectare was 6,062 kg in China, 4,515 kg in Indonesia, 3,129 kg in Malaysia, 2,856 kg in the Philippines, 2,811 kg in India and 2,792 kg in Bangladesh (FAO 2001).

Weakness in agriculture has major repercussions for the population. It remains the most important sector of the national economy, responsible for 21% of the GDP; 77% of the population live in rural areas; 63% of the labour force are employed in agriculture, forestry and fisheries (BBS 2007).

Trade liberalization has hit agriculture indirectly as well as directly. Sugar imports destabilize domestic

CHART 1. Trends in household income distribution				
Income group	Proportion of per capita income (all income groups = 100)			
	1991-1992	1995-1996	2000	2005
Bottom 5%	1.03	0.88	0.93	0.77
Top 5%	18.85	23.62	28.34	26.93
<b>Gini Coefficient</b>	<b>0.39</b>	<b>0.43</b>	<b>0.45</b>	<b>0.47</b>

Source: Zaman (2006)

sugarcane prices. Growing imports of fertilizer and seeds expose farmers to the vagaries of the marketplace, such as sharp increases in fertilizer prices and unavailability of seeds, at the same time that they have contributed to increasing the agricultural production of major crops, particularly rice.

Overall, liberalization has resulted in a significant decline in food security. Succumbing to pressure from donors, who insisted that in a globalized economy any shortage of food grains could be made up on the international market, Bangladesh ended its policy of building up large stockpiles. This year the bill came due. Floods and cyclones caused significant crop losses and Bangladesh had to buy rice on the international market at a time when supplies were down and prices had soared. ■

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