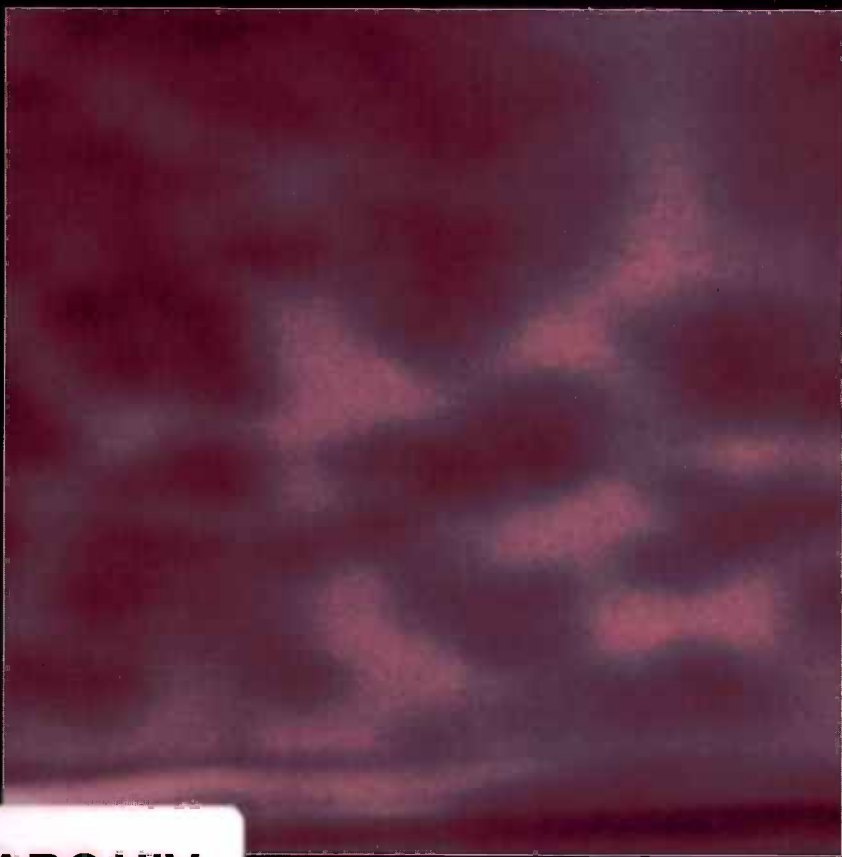


Edited by
A. S. Bhalla

GLOBALIZATION, GROWTH AND MARGINALIZATION



ARC HIV
108238

GLOBALIZATION, GROWTH AND MARGINALIZATION
Edited by A. S. Bhalla

ORC



CANADA



108238

GLOBALIZATION, GROWTH AND MARGINALIZATION

Also by A. S. Bhalla

BLENDING OF NEW AND TRADITIONAL TECHNOLOGIES
(*co-editor*)

ECONOMIC TRANSITION IN HUNAN AND SOUTHERN CHINA
ENVIRONMENT, EMPLOYMENT AND DEVELOPMENT (*editor*)

FACING THE TECHNOLOGICAL CHALLENGE

NEW TECHNOLOGIES AND DEVELOPMENT (*co-editor*)

REGIONAL BLOCS: Building Blocks or Stumbling Blocks?

SMALL AND MEDIUM ENTERPRISES: Technology Policies and
Options (*editor*)

TECHNOLOGICAL TRANSFORMATION OF RURAL INDIA
(*co-editor*)

TECHNOLOGY AND EMPLOYMENT IN INDUSTRY (*editor*)

TOWARDS GLOBAL ACTION FOR APPROPRIATE TECHNOLOGY
(*editor*)

UNEVEN DEVELOPMENT IN THE THIRD WORLD

Globalization, Growth and Marginalization

Edited by

A. S. Bhalla

David Thomson Senior Research Fellow

Sidney Sussex College

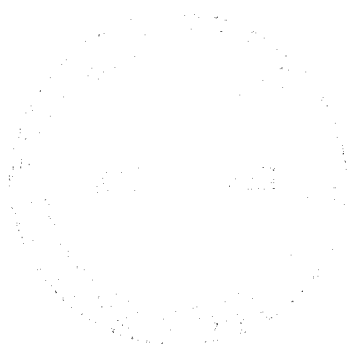
University of Cambridge

and

formerly Special Adviser to the President of the

International Development Research Centre

Ottawa



ARCHIV
330.1
B 52



First published in Great Britain 1998 by
MACMILLAN PRESS LTD
 Houndmills, Basingstoke, Hampshire RG21 6XS and London
 Companies and representatives throughout the world

A catalogue record for this book is available from the British Library.

ISBN 0-333-72814-9 (hardcover)



First published in the United States of America 1998 by
ST. MARTIN'S PRESS, INC.,
 Scholarly and Reference Division,
 175 Fifth Avenue, New York, N.Y. 10010

ISBN 0-312-21278-X (clothbound)

Library of Congress Cataloging-in-Publication Data
 Globalization, growth and marginalization / edited by A.S. Bhalla.
 p. cm.

Includes bibliographical references (p.) and index.

ISBN 0-312-21278-X (cloth)

1. Income distribution—Developing countries. 2. Developing countries—Economic conditions—Regional disparities.
 3. Competition, International. 4. International economic relations.
 I. Bhalla, A. S.

HC59.72.I5G55 1998

338.9'009172'4—dc21

97-41070

CIP



First published in Canada 1998 by
INTERNATIONAL DEVELOPMENT RESEARCH CENTRE
 PO Box 8500, Ottawa, ON
 Canada K1G 3H9

Canadian Cataloguing in Publication Data

Globalization, growth and marginalization
 Includes bibliographical references and index.

ISBN 0-88936-839-2 (paperback)

ISBN 0-88936-850-3 (hardback)

1. Income distribution—Developing countries.
 2. Developing countries—Economic conditions—Regional disparities.
 3. Competition, International.
 4. International economic relations.

I. Bhalla, A. S.

II. International Development Research Centre (Canada)

HC59.72.I5G55 1998

338.9'009172'4

C98-980009-1

© International Development Research Centre 1998

Paperback edition available in Canada only

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, 90 Tottenham Court Road, London W1P 9HE.

Any person who does any unauthorised act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified as the authors of this work in accordance with the Copyright, Designs and Patents Act 1988.

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

10 9 8 7 6 5 4 3 2 1
 07 06 05 04 03 02 01 00 99 98

Printed and bound in Great Britain by Antony Rowe Ltd, Chippenham, Wiltshire

Contents

<i>List of Tables and Figures</i>	viii
<i>Preface</i>	xi
<i>Acknowledgements</i>	xiii
<i>List of Abbreviations</i>	xiv
<i>Notes on the Contributors</i>	xvi
Introduction	1
<i>A.S. Bhalla</i>	
Key features of globalization	1
What drives globalization?	8
The impact of globalization	9
The studies in the volume	10
1 Globalization: Threat or Salvation?	13
<i>Paul Streeten</i>	
Integration and interdependence	14
Uneven benefits and costs of globalization	22
Government and open economies	41
The case for a quieter life	42
Conclusions	44
2 Information Technology, Globalization and Marginalization	48
<i>Jeffrey James</i>	
Patterns of global integration	48
The influence of information technology on patterns of global integration	50
Implications for research and policy formulation	65
3 The Impact of Globalization and Information Technology on Latin America	70
<i>Albert Berry</i>	
Definitions, approaches and background	71
The effects of globalization and information technology	77

Some empirical evidence	87
Policy issues and recommendations	93
4 The Impact of Globalization on South Asia	103
<i>Azizur Rahman Khan</i>	
South Asia's integration into the global economy	105
Growth and poverty	111
Conclusions	121
5 Growth and Poverty in East and South-East Asia in the Era of Globalization	125
<i>Azizur Rahman Khan</i>	
The ESEA performance record	127
Growth and integration during the 1980s and 1990s	131
Trends in poverty	139
Conclusions	145
6 The Impact of Globalization on Africa	149
<i>S.M. Wangwe and Flora Musonda</i>	
Liberalization and structural adjustment	149
The marginalization of Africa	151
Factors influencing Africa's integration	161
Globalization's effects on growth, income and employment	161
Conclusions	165
7 Regional Perspectives: An Overview	168
<i>A. S. Bhalla and Albert Berry</i>	
Regional diversity in global integration	169
The impact of globalization	174
The impact of technology	182
Concluding remarks	186
8 Directions for Future Research	190
<i>A.S. Bhalla</i>	
Globalization, growth and productivity	191
Globalization and inequality	193
Globalization and employment	195
Globalization and small enterprises	196
Globalization and technology	197
Globalization and government policy	198

Contents

vii

Bibliography

201

Author Index

215

Subject Index

217

List of Tables and Figures

Tables

1.1	Long-term financial flows to developing countries	19
1.2	Balance sheet of globalization	23
1.3	Global distribution of wealth, 1960–94	24
1.4	Growth rate of per capita GDP compared with the 1960–71 average	26
2.1	Uneven integration of developing countries into the global economy	49
2.2	Extent of adoption of electronic switching in developing countries, 1987	52
2.3	Developing-country exports of selected electronics, 1993	56
2.4	Research and development expenditure of US majority-owned affiliates as a percentage of sales, by developing regions and countries	59
2.5	International distribution of strategic technology alliances in information technology, 1980–9	61
2.6	Summary of trade and foreign-investment-induced mechanisms of technological influence on globalization	64
3.1	Relative shares of the components of GDP and gross national income: Latin America and the Caribbean	72
3.2	Exports of manufactured products from Latin America, by country	73
3.3	Direction and composition of trade of Latin American countries	74
3.4	Net capital inflows and resource transfers: Latin America and the Caribbean	75
3.5	Sources of external financing: Latin America and the Caribbean	76
3.6	GDP growth rates for Latin American countries	88
3.7	Urban unemployment rates for Latin America, by country	89
4.1	Indicators of export growth of South Asian countries	107
4.2	Trade among South Asian countries	108
4.3	Private foreign investment in South Asia	109
4.4	Indicators of communications technology in South Asia	110
4.5	GDP growth rates for South Asian countries	111
4.6	Indicators of human development and infrastructure	115
4.7	Percentage of population in poverty in India	118

4.8	Percentage of population in poverty in Pakistan	118
5.1	GDP growth rates for East and South-East Asian countries	127
5.2	Domestic investment and saving rates for East and South-East Asia	128
5.3	Current account deficit before official transfer for East and South-East Asia	129
5.4	Growth and composition of exports from East and South-East Asia	132
5.5	Direction of trade of East and South-East Asia	133
5.6	Indices of real effective exchange rates in East and South-East Asia	133
5.7	Foreign direct investment as proportion of investment in East and South-East Asia	134
5.8	Annual rates of increase in the consumer price index in East and South-East Asia	135
5.9	Indicators of information technology for East and South-East Asia, 1989	138
5.10	Trend in poverty incidence in Indonesia	140
5.11	Trend in poverty incidence in Malaysia	141
5.12	Trend in poverty incidence in Thailand	141
5.13	Trend in poverty incidence in China	142
5.14	Trend in poverty incidence in the Philippines	145
6.1	Indicators of export growth for selected African countries	152
6.2	Diversification and product concentration indices for the exports of selected African countries, 1970 and 1990	153
6.3	Public and private investment in Sub-Saharan Africa	155
6.4	Net foreign direct investment in Africa	156
6.5	Comparison of South Africa's telecommunications infrastructure with the rest of Africa, 1995	157
6.6	GDP growth rates for African countries	162
6.7	Real GDP annual growth rate by African sub-regions at constant prices and exchange rates	163
6.8	Trends in income distribution in selected African countries	164
6.9	General employment levels in selected African countries	165
7.1	Exports of goods and non-factor services as a percentage of GDP	170
7.2	Manufactured exports as share of total exports, by region	171
7.3	Share of machinery exports in total exports, by region	172
7.4	GDP-weighted index of inward and outward FDI flows, by region	173
7.5	GDP growth rates, by region	175

7.6	Ratio of share of world income to share of world population, by region	176
7.7	Human development index, by region	177
7.8	Productivity growth in OECD countries	183
7.9	Research and development expenditure as a share of GNP, by region	185
7.10	Use of communications technology, by region	186

Figures

2.1	Adoption of new technology and product competitiveness	54
7.1	FDI inflows as a percentage of the total for developing countries	172
7.2	FDI inflows as a percentage of the total for all countries	173

4 The Impact of Globalization on South Asia

Azizur Rahman Khan

The purpose of this chapter is to analyse the impact that the increasing globalization of the world economy is having on South Asia. The analysis focuses on five major countries – Bangladesh, India, Nepal, Pakistan and Sri Lanka – which account for an overwhelming proportion of the population of South Asia.¹ In 1994, these five countries together had a population of 1.2 billion, 21 per cent of world population and 38 per cent of the population of the low-income countries, a category to which they all belong.² By any absolute standard of poverty these five South Asian countries account for close to half of the world's poor.³

In this chapter, the term globalization refers to the trend reduction in barriers to the international movement of goods, services, capital and technology. The world economy has gradually been moving in this direction for a long time, but the process accelerated during the 1980s. Two events that provided a qualitative boost to this trend were (1) the gradual rejection of trade restrictions nurtured by the strategy of import-substituting industrialization (ISI) that an overwhelming majority of less developed countries (LDCs) had adopted in the post-Second World-War period, and (2) the demise of the socialist system that had insulated its members, now classified as LDCs, from the world economy, and indeed from each other. The first of these phenomena spread in the wake of the debt crisis and the subsequent adjustments that the developing countries adopted, often at the behest of the multilateral development agencies, from the beginning of the 1980s. The second phenomenon began at about the same time, with the launching of post-Mao reforms in China, but came to encompass the entire socialist world in the late 1980s. While the earlier trend towards the liberalization of world trade was led by the advanced industrial countries, the major impetus towards the globalization of the world economy in its current phase thus derived from the actions of the developing countries.

The principal elements of the process need to be clearly identified. First, there is an increased flow of goods and services among nations due to a reduction of protection of all forms: quantitative trade restrictions, tariff and non-tariff barriers. Second, there is an increased international mobility of capital due to a lowering of obstacles to its movement. It should be noted,

however, that there has not been a corresponding increase in the mobility of labour, especially of the unskilled variety with which the LDCs are relatively abundantly endowed. A third element of globalization consists of the flow of technology. Increased trade and capital flows have, by and large, meant an increased flow of technology among nations, although not all aspects of globalization have been unambiguously favourable to it. Under the rules of globalization, individual nations have been committed to a greater respect for intellectual property rights, which may have increased the cost of technology for many LDCs. Finally, the era of globalization has coincided with the revolution in information technology (IT), which has sharply reduced the cost of international information flow and thus facilitated trade and capital flows. This has also vastly improved the ease of cultural exchange among nations, with far-reaching social and political consequences.

Individual countries or groups of countries have the option of becoming integrated into the globalizing world economy or remaining insulated from it. But they do not have the option of stopping the process of globalization itself in so far as much of the world has become part of it. Individual countries must now compete more fiercely than in the past for a share of the widening world market in goods and services because many more countries have abandoned the inward-looking ISI strategy of the past. Similarly they must compete more vigorously than in the past for a share of international capital flows because many more countries have drastically reduced obstacles to capital movement. In this sense, individual LDCs do not have the choice of ignoring the process of globalization. They must find a way of coping with it.

Of course individual developing countries can opt not to integrate into the globalizing world economy by perpetuating some variant of the ISI regime and/or by maintaining obstacles to capital flows. It is easy to imagine that large social groups in many countries nurtured in an environment of comparative autarky in the past, would suffer adverse consequences, at least during the transition from the existing production structure to the more efficient production structure that would emerge after successful integration. Whether or not these countries wish to become integrated depends on their relative valuation of the possible loss due to the disruption of the existing structure of production and the potential gain to be derived from integration.

Once a country decides to become integrated into the global economy, success is not guaranteed. It must embark on a programme of economic reform that will make integration possible, that is, increase its external trade as a proportion of GDP and gain access to increased inflows of foreign capital and technology. Furthermore, successful integration into the global economy, according to the above indicators, does not guarantee the achievement of the economic and social goals that provide the impetus for integration. It is possible that the original estimates of potential gains and losses of integration will turn out to be false. Even if the original estimates prove to be valid, the

accelerated growth in overall GDP may result in a distribution of incremental output that is inconsistent with the country's social goals.

The following section briefly surveys the reform programmes implemented by the South Asian countries to facilitate their integration into the global economy and analyzes their success in attaining this objective. The next section considers the growth and distributional consequences of the process of integration. The final section summarizes the main findings concerning the successes and failures of South Asia's quest for greater integration into the globalizing world economy.

SOUTH ASIA'S INTEGRATION INTO THE GLOBAL ECONOMY

The countries of South Asia followed similar strategies of development in the post-colonial era, adhering to an ISI strategy that varied among countries, not in terms of essence, but in the extent of successful industrialization. India achieved ISI on the broadest front, followed by Pakistan and Sri Lanka, with Bangladesh and Nepal lagging considerably behind. In terms of growth in GDP, only Pakistan exceeded an average annual rate of 5 per cent during the 1965–80 period. Sri Lanka and India averaged growth rates of 4 per cent or just under, while Bangladesh and Nepal averaged less than 2.5 per cent.⁴

Unlike much of the rest of the developing world, South Asia was not, however, severely hit by the debt crisis in the beginning of the 1980s. Bangladesh was the only country to have a debt-service ratio (DSR) of more than 25 per cent, with Pakistan coming second at 18 per cent. The other three countries had a very manageable burden of external debt service.

However it became clear that these countries' growth rates were far lower than what was needed to address their urgent problem of poverty reduction and social development. Some countries began to realize the limitations of the inward-looking development as fostered by the ISI strategy during the 1970s. But it was during the 1980s that *all* the South Asian countries gradually came to espouse a more outward-looking development strategy, emphasizing export growth, openness to foreign capital and technology and generally greater integration into the global economy.⁵

Policies for Greater Openness

To bring about the desired reorientation of development strategy, extensive policy and institutional changes were made in these countries. The first, and obviously the most important, area of reform was the trade regime. All these countries gradually moved away from an overvalued exchange rate regime towards a more market-determined, external valuation of their currencies. This was combined with a sharp reduction in quantitative restrictions on

imports and a reduction in the tariff rates. There was also a move towards reduction of the variable tariffs on different kinds of imports. The general effect was to reduce discrimination against exports and to open up domestic industries to greater competition with producers abroad.

These countries also adopted extensive measures to attract foreign direct investment. Restrictions in the form of minimum domestic equity participation were eased, provisions for profit repatriation and tax concessions were made more generous, and export-processing zones were created. Domestic stock markets were opened up to foreign investors at the same time that measures were adopted for the expansion of these markets.

Industrial regulations were greatly reduced. There was a drastic reduction in the number of industries earmarked as public monopolies, and regulations were eased on the foreign exchange needed for the acquisition of raw materials, equipment and spares. In varying degrees these countries encouraged the privatization of nationalized industries and widened the area of operation of private enterprises, both domestic and foreign.

Deregulation also extended to the factor market. Market forces were allowed a greater role in the determination of prices and the allocation of credit. Attempts were also made to increase the flexibility of the labour market, although this had generally limited success.

Since the economies pursued greater openness within the broader objective of transition to a more market-oriented system, the above reforms were complemented with extensive price, distribution and macroeconomic policy reforms. Subsidies on agricultural inputs and utilities were reduced or abolished. Public procurement and distribution of food and other goods were drastically curtailed. There was a general emphasis on macroeconomic stabilization through reduction of the fiscal deficit and control of monetary expansion, with varying degrees of success.

The reforms did not progress at the same rate in all the countries. Nor did they proceed at a steady rate everywhere. But the system of controls and incentives were fundamentally altered everywhere between the late 1970s and the early 1990s with the following features: (1) the domestic currencies of these countries very nearly achieved current account convertibility; (2) quantitative restrictions on imports were drastically reduced in comparison with the past and the rate of tariff protection was brought down sharply, thereby substantially opening up the domestic market to imports from the rest of the world; (3) incentives (disincentives) to exports were improved (reduced) very substantially; and (4) it became possible for private foreign investors to operate in much wider area of these economies under more attractive terms than before.⁶

It is difficult to carry out a rigorous analysis of the effectiveness of the outward-looking reforms undertaken in the individual countries due to the difficulty of precisely dating their implementation. Sri Lanka and Bangladesh

started in the late 1970s. In Pakistan reforms were begun in the early 1980s but intensified in 1987–88. The Indian reforms got under way in the early 1980s but were greatly intensified in 1991. Nepal began its reforms in the mid 1980s. It is likely that the reforms started to produce results some time in the second half of the 1980s, with more clearly discernible results coming later in India's case. As Tables 4.1, 4.2 and 4.3 show, the South Asian countries have achieved considerable success according to several indicators of integration, but they have not performed particularly well against other indicators.

Export Growth

All the South Asian countries were substantially more export-oriented in 1994 than in 1980. The growth rate of exports was particularly rapid during the early 1990s. Not only did exports rise as a proportion of GDP and as a proportion of world exports, the composition of exports also changed sharply in favour of manufactured goods and away from primary goods (Table 4.1).

The improved trade performance of the South Asian countries during the period of globalization should, however, be put in perspective. First, it should be noted that the weighted export/GDP ratio of these countries in 1994 (13.4 per cent) was well below the export/GDP ratio of the 51 low-income LDCs (19 per cent).⁷ These countries have indeed increased their share of world exports during the era of globalization, but their combined exports only increased from 0.66 per cent of world exports in 1980 to 0.89 per cent in 1994.⁸

Second, the hope that increased diversification into manufactured exports would protect these countries from a decline in the terms of trade was not borne out in many cases: with the exception of India, all these countries have

Table 4.1 Indicators of export growth of South Asian countries

	<i>Exports as % of GDP</i>		<i>Growth rate of exports (% per year)</i>			<i>Manufactured exports as % of total exports</i>	
	1980	1994	1970–80	1980–90	1990–94	1986	1993
Bangladesh	6	12	3.8	7.5	12.7	73	81
India	7	12	4.3	6.3	7.0	62	75
Nepal	12	24	10.9	7.8	22.1	68	84
Pakistan	12	16	0.7	9.5	8.8	68	85
Sri Lanka	32	34	2.0	6.3	17.0	41	71

Note: The first two columns refer to exports of goods and non-factor services. All other columns refer to merchandise exports.

Sources: World Bank (1988, 1993a, 1995a, 1996a).

experienced a significant deterioration of their terms of trade during the period of globalization.⁹

Third, there has been little increase in trade *among* the South Asian countries. It is paradoxical that these countries, because of the large-scale, actual and potential complementarities that exist among their economies, should undertake an export-led development strategy while remaining virtually autarkic with respect to each other. As Table 4.2 shows, trade among these countries is extremely low. In recent years, shares of exports to other South Asian countries have fallen for Bangladesh, Pakistan and Sri Lanka and increased marginally for Nepal. Only India has registered a significant increase in exports to its South Asian neighbours; but nonetheless the share remains pitifully low. The time period covered by Table 4.2 is admittedly short, but information about the share of intraregional trade for the region as a whole is available over a longer period and it does not indicate a pattern of dynamic growth. Together the five South Asian countries sent 3.3 per cent of their aggregate exports to other South Asian countries in 1980. In 1994 the proportion rose to 4.1 per cent. Admittedly there is an unquantified flow of illegal trade between Bangladesh and India, between Pakistan and India, and between India and Nepal, but the very fact that trade among these countries has been partly driven underground is a testimony to the hostility

Table 4.2 Trade among South Asian countries (per cent of total exports of countries of origin)

	<i>Destination</i>					<i>Total South Asia</i>
	<i>Bangladesh</i>	<i>India</i>	<i>Nepal</i>	<i>Pakistan</i>	<i>Sri Lanka</i>	
<i>Origin:</i>						
Bangladesh						
1990	–	1.3	0.7	1.3	0.1	3.4
1993	–	0.4	0.2	1.3	0.6	2.5
India						
1990	1.7	–	0.3	0.2	0.7	2.9
1994	2.5	–	0.5	0.2	1.4	4.6
Nepal						
1990	1.6	12.2	–	–	–	13.8
1993	0.3	9.9	–	0.2	4.5	14.9
Pakistan						
1990	1.8	0.9	–	–	1.2	3.9
1994	1.6	0.6	–	–	0.9	3.1
Sri Lanka						
1990	0.5	1.1	0.1	1.7	–	3.4
1994	0.2	0.7	–	1.3	–	2.2

Source: United Nations (1995).

of public policy to integration among them, which is ironic in view of their membership of the South Asian Association for Regional Cooperation (SAARC).

Capital Flows

Table 4.3 shows the trend in private capital flows – foreign direct investment (FDI) and net portfolio equity investment (PEI) – in South Asia during the era of globalization.¹⁰ Both these types of foreign capital, especially PEI, have increased in absolute magnitude in recent years. But South Asia's share of aggregate FDI flows into LDCs – the most dynamic component of foreign resources – representing a combination of capital, technology, management and international marketing – has actually declined over time. In recent years there has been a sharp rise in PEI due largely to the privatization programmes under which parts or all of the equity of state-owned enterprises were offered for sale, often to non-resident nationals.

Information Technology

Although little is known precisely about the development of information technology (IT) in South Asia during the period of globalization, two distinct aspects are apparent. The first of these is the development of the industry for domestic use and export. The importance of this lies in the fact that the world demand for this industry's products is rising faster than for most other products. A share in this rapidly expanding market provides assurance of rapid export growth. There are instances of LDCs setting up industries in microelectronics, semiconductors and software by attracting FDI and investing in physical and human capital. Korea, Taiwan and Singapore

Table 4.3 Private foreign investment in South Asia (value is in US\$ billion, share represents percentage of total for all LDCs)

	<i>Foreign direct investment</i>		<i>Portfolio equity investment</i>	
	<i>Value</i>	<i>Share</i>	<i>Value</i>	<i>Share</i>
1980	0.2	3.6	0.0	n.a.
1985	0.3	2.3	0.0	n.a.
1990	0.5	1.9	0.1	2.7
1991	0.5	1.3	0.0	n.a.
1992	0.6	1.3	0.4	2.8
1993	0.8	1.2	2.0	4.4
1994	1.2	1.6	6.2	17.8

Source: World Bank (1996c), pp. 134–6.

have already emerged as major IT traders, after the United States, Japan, the European Union, and Canada. Malaysia, Indonesia, Thailand and China are rapidly emerging as second-tier international IT traders.¹¹

Quantitative knowledge about the extent to which the South Asian countries have succeeded in this kind of enterprise is virtually non-existent. It is, however, well known that India has made a successful venture into software, for which the prospects look bright. Until recently Western companies recruited large numbers of computer programmers from Bangalore at low wages (by Western standards), but many of those programmers have returned to Bangalore to launch their own software firms and have emerged as significant exporters to the industrial countries.¹² This clearly indicates that India (and some of the other South Asian countries) has the distinct possibility of becoming a significant producer and exporter of certain components of IT technology once the remuneration paid to trained personnel, in which the region is well endowed, is adequate and sufficient investment is forthcoming.

The second aspect of the development of IT is the improvement of IT infrastructure in order to improve the efficiency and productivity of the industrial and service sectors. It has been argued that an improved IT infrastructure reduces the cost of communications and increases productivity, especially of scarce skilled labour. Furthermore it has been suggested that IT improves the relative advantage of small-scale enterprises because of the relative efficiency with which it can be used even when the scale of operation is small.¹³ Once again information on the spread of IT infrastructure is very limited, although it is known that several South Asian countries, notably India, have made significant strides in promoting IT at the firm level.

Table 4.4 shows South Asia's endowment in some of the more traditional components of IT. The region clearly lags far behind the average developing countries, although the better endowed of the South Asian countries are on a

Table 4.4 Indicators of communications technology in South Asia (per thousand persons in the early 1990s)

	<i>Telephone</i>	<i>Radio</i>	<i>Television</i>
Bangladesh	2	44	5
India	7	80	37
Nepal	3	34	2
Pakistan	9	91	18
Sri Lanka	7	200	49
LDC average	23	176	56
China	7	182	31

Source: UNDP (1996).

par with China, a country that has achieved unprecedented growth by taking advantage of the globalization process.

GROWTH AND POVERTY

The argument that integration into the globalizing world economy enhances growth, improves the distribution of income and helps reduce poverty is based on the standard theory of trade. Integration leads to an allocation of resources that is consistent with comparative advantage, which represents greater efficiency and higher output. The end of ISI means that industries are no longer insulated from international competition or condemned to the limited scale dictated by the domestic market. These changes enhance efficiency and ensure higher productivity. A greater inflow of foreign capital and technology further contributes to growth. Adherence to comparative advantage leads to a concentration of labour-intensive industries, the abundant factor of production in the LDCs. This leads to a faster increase in employment and wages, which improves the distribution of income and reduces poverty. To what extent have these expectations been realized in South Asia in the decade of increased integration into the world economy?

Globalization and Economic Growth

Table 4.5 shows the South Asian countries' rates of growth from 1970–95. Most of these countries achieved higher growth during the 1980s than during the 1970s. Several of them, however, failed to maintain this higher growth in the early 1990s. It is difficult to determine how much of the acceleration of the growth rate in the 1980s compared with the 1970s was due to greater integration into the world economy because in most cases this took place during the

Table 4.5 GDP growth rates for South Asian countries
(per cent per year)

	1970–80	1980–90	1990–94	1995
Bangladesh	2.4*	4.3	4.2	4.4
India	3.4	5.8	3.8	6.2
Nepal	2.0	4.6	4.9	5.8
Pakistan	4.9	6.3	4.6	5.3
Sri Lanka	4.1	4.2	5.4	5.5

* 4.2 per cent between 1975 and 1980.

Sources: World Bank (1995a, 1996a); Bangladesh Bureau of Statistics (1996); International Monetary Fund (1996).

decade itself, and generally quite late. A country by country analysis of periodic changes in the rate of growth illustrates the dilemma more clearly.

In Bangladesh, the annual average growth rate during the 1970s was biased downwards due to the dislocations of the war of independence. If the first few years of dislocation after independence are excluded, there has been no change in the periodic growth rates since 1975. Extensive reform of economic policies and institutions, leading to a far greater external orientation than in the past, has not led to any perceptible acceleration of growth in GDP.

In Pakistan, economic growth appears to have been a matter of political cycles.¹⁴ Indeed the highest rate of growth was achieved during the 1960s (6.8 per cent per year) using an ISI strategy, supported by large capital inflow and under an authoritarian regime. Under the democratically elected regime the growth rate fell to 4.8 per cent per year between 1970 and 1977. Between 1977 and 1988, again under an authoritarian regime, the growth rate accelerated to 6.7 per cent per year. Economic reforms began with deregulation and privatization during this period, when a spectacular rise in remittances by migrants provided a major impetus to growth. From 1988, after the restoration of democracy and the acceleration of reforms aimed at greater integration into the world economy, the rate of growth fell below 5 per cent per year, on average.

In India, the rate of growth accelerated significantly during the 1980s and it has been claimed that this was, at least partly, due to the beginning of reforms in the early to mid 1980s. The strongly externally oriented and accelerated reforms from 1991, however, were accompanied by a fall in the growth rate, which was at least partly attributable to a weather-induced slowdown in agricultural growth in the early 1990s. In India the impact of globalization has been far weaker than in, say, China, where the sharp slowdown of agriculture after the mid 1980s was easily outweighed by the extraordinary surge of the non-agricultural economy under China's rapid integration policy.

In Nepal, the higher growth rate in the 1980s predated the beginning of reforms by at least half a decade. Sri Lanka's reform began in the late 1970s, but periodic interruptions to the reform programme and the serious ethnic conflict make it very difficult to judge its effects on growth, which was about the same in the 1980s as in the 1970s. Growth accelerated in the early 1990s and credit for this has been attributed to the country's increased commitment to reforms since 1989.

The growth performance of South Asia during the era of globalization has thus been mixed. Either there is no evidence of a rise in the trend rate of growth (Bangladesh and Pakistan), or the rise clearly predates the beginning of global integration (Nepal) or the increase in growth has been relatively modest (India and Sri Lanka) and not robust enough to prevent periodic lapses into low growth (India). The point is not that increased integration into

the global economy has not resulted in further growth, but rather that the added impulse has not been strong enough to outweigh structural and cyclical shocks to the economy (for example bad weather and political cycles).

One popular explanation of the weakness of the growth impulse that should result from globalization is that the economic reform programme has not gone far enough. This view, which is dominant among the multilateral development agencies, is unconvincing though extremely difficult to refute. It is difficult to refute because it is always possible to show that the incentive system contains substantial irrationalities. However, it is obvious that the reforms have radically transformed the incentive systems of the South Asian countries. While it is difficult to compare levels of reform and incentive systems across countries, it could be argued that reform of the trade regime and the incentive system in general has been more extensive in South Asia than in China. The success of reforms has clearly been enormously greater in China than in South Asia (notably India).

The alternative explanation of the inadequate growth performance in post-reform South Asia is that successful integration into the world economy requires more measures than just reform of the trade regime and other incentives for greater allocative efficiency. Without additional measures the growth impulse is weakened or even rendered ineffective. The additional measures required vary from one country to another and their identification is too big a task to be tackled in the present study. There are, however, three common missing elements that stand out in the case of the countries of South Asia.

The first relates to the inadequate political structure within which South Asia has been pursuing its development goals. This has two distinct dimensions: regional and national. Regionally, South Asia consists of a group of countries with serious bilateral hostilities and tensions that are an impediment to their development. Quite apart from the commitment of intolerably large volumes of resources to defence, these hostilities and tensions have prevented the growth of trade among these countries, a phenomenon that was discussed in the previous section. Elsewhere – for example East Asia (see Chapter 5) – opening up to the world economy began with a sharp increase in trade with regional neighbours. When trade with neighbours is blocked by artificial barriers, much of the potential incremental effect on exports is lost. There are additional costs of such ‘regional autarky’, for example FDI would have been far greater had the state of autarky not existed among the SAARC neighbours.

Another political dimension inhibiting growth benefits from integration is that all the South Asian countries have had serious problems of governance. In Sri Lanka this has taken the form of open ethnic warfare. In Bangladesh and Pakistan there has been an endless quest for a non-dictatorial regime that is able to govern effectively. In India there has been a gradual erosion

of the authority of the central government and a failure to create a system of governance that takes account of the great regional diversity of the country.

The second element is lack of an incentive system to compensate for the abolition of the incentive system under ISI. Whatever its inefficiencies, the ISI strategy provided a strong incentive to invest. Once the system was scrapped, an alternative incentive system should have been created to maintain the incentive to invest. This is especially important in view of the 'generalized infancy' suffered by industries in South Asia due to inadequate infrastructure and skills, as well as administrative overheads and institutional preconditions. It is well documented that a crucial element of success in East Asian development was targeted public support of potentially worthwhile industries.¹⁵ That dismantling an ISI regime without creating an alternative incentive system can adversely affect the incentive to invest is most graphically demonstrated by Bangladesh, where the rate of investment fell from its peak of 16 per cent of GDP in 1980–81 to less than 12 per cent in the early 1990s.¹⁶ This prolonged decline in the rate of investment is the central explanation of Bangladesh's stagnant growth rate. Similarly, in Bangladesh and elsewhere, agricultural production was adversely affected by the market reforms: the reduction or abolition of input subsidies and other forms of support were not compensated for by alternative incentives to produce. Without targeted support it is hard to see how these countries could establish industries such as IT even if they do have potential comparative advantage in them.

The third element is related to the issue just discussed. Compared with successful developing countries in East Asia, South Asia's infrastructure and human capital are relatively underdeveloped (Sri Lanka being an exception in the case of the latter).

Table 4.6 shows some of the readily available indicators for South Asia, developing East Asia and South-East Asia and the Pacific. South Asia's disadvantage relative to the rest of developing Asia is all-embracing but is particularly acute in basic human capital and the human capital endowment of women (reflected in the very low index for gender-related development). As human capital is a principal determinant of labour productivity, South Asia's international competitiveness in the globalizing world economy is seriously handicapped.

What about the argument that the gains from globalization will be greater in the future as a result of the reforms agreed during the Uruguay Round of GATT? OECD tariff and non-tariff barriers often constitute greater protection against exports from LDCs – particularly the South Asian countries – than from the industrialized countries.¹⁷ Once the OECD countries fully implement the Uruguay Round reforms – including the tariff reduction for manufactured products, tariffication of non-tariff barriers in agriculture,

Table 4.6 Indicators of human development and infrastructure
(reference year 1993)

	<i>South Asia</i>	<i>East Asia</i>	<i>South-East Asia & Pacific</i>
Life expectancy (years)	60.3	68.8	63.7
Adult literacy (per cent)	48.8	81.0	86.0
Combined enrolment rate at all levels of education	52	58	59
Human Development Index	0.444	0.633	0.646
Gender-Related Development Index	0.410	0.610	0.621
Radios per thousand persons	87	212	153
Televisions per thousand persons	33	38	60
Commercial energy per capita (kg of oil equivalent)	267	711	380

Source: UNDP (1996), which explains both concept and measurement of the human development index and the gender-related development index.

reduction of export and production subsidies in agriculture, and elimination of the Multifibre Arrangement – there should be substantial gains for the LDCs, including the South Asian countries. Detailed numerical exercises have been carried out to estimate these gains. The model with the most detailed regional estimates shows that the total direct (that is, short-term) gains for South Asia from all these reforms will amount to 1 per cent of its GDP, and that when all indirect benefits are accounted for these gains will amount to 2 per cent of GDP.¹⁸ Two points need to be noted. First, these gains, though significant, are not very high. Indeed South Asia will appropriate less than 4 per cent of the global benefits of Uruguay Round liberalization according to the model just cited. Second, these numerical estimates are based on continuation of the market shares of the individual countries concerned. There is nothing immutable about these market shares in a globalizing world economy. Rather the actual outcome will be determined by the international competitiveness of countries and regions.

Poverty Trends during the Era of Globalization

Reasonably good estimates of long-term trends in the incidence of absolute poverty – per cent of population below a defined, constant, real per capita income or expenditure, usually anchored to a minimum level of nutrition in a benchmark year with allowance for minimum non-food expenditure, and updated by increases in the cost of living – are available for Bangladesh, India and Pakistan. Some rudimentary estimates are available for Nepal, but estimates of poverty trends in Sri Lanka are not available.

Poverty Trends in Bangladesh

According to available estimates the incidence of absolute poverty in Bangladesh declined significantly between the mid 1970s and the mid 1980s, but since then the incidence of poverty appears to have increased. Evidence for this is available from several sources.¹⁹

Estimates of the incidence of poverty have been made by using data from the Household Expenditure Surveys (HES) of the Bangladesh Bureau of Statistics (BBS) for different years. According to the BBS estimates, the proportion of the population in extreme poverty, those with a per capita food energy consumption of less than 1805 kilocalories per day, increased from 22 per cent in 1985–86 to 28 per cent in 1991–92 (quoted in World Bank, 1995c). Alternative estimates of poverty have been made by Ravallion and Sen (1994) by applying a constant real income poverty threshold to the HES data. All three indices of poverty – the headcount ratio, the poverty gap index and the squared poverty gap index – used by Ravallion and Sen reveal a steady rise between 1985–86 and 1991–92.²⁰

Unfortunately HES data are not available after 1991–92. Conflicting evidence from several alternative sources, each documenting change over short periods on the basis of relatively small samples of data, are often cited in support of divergent claims about trends in the incidence of poverty since 1991–92. The next HES data (for the year 1995–96) have not yet been released, so we shall take the trend in real wages of agricultural workers as an indicator of the living standard of the masses. In the past this index moved consistently with the trend in the incidence of poverty estimated from the HES. It is highly implausible that the living standard of the masses in Bangladesh's overwhelmingly dominant rural society would improve (deteriorate) while the index of real wages fell (rose) significantly. After rising steadily during the first half of the 1980s the real wages of agricultural workers declined by as much as 20.1 per cent – that is, 2.5 per cent per year – between 1985–86 and 1994–95.²¹ It is true that wages are just one source of rural income, accounting for about two fifths of the income of poor rural households. It is, however, highly unlikely that the kind of decline in the supply price of agricultural labourers indicated by the above trend in real wages would be consistent with a non-diminishing real income of the households supplying agricultural workers. It, therefore, seems highly likely that in the early 1990s there was a further increase in the incidence of poverty in rural Bangladesh, the overwhelmingly dominant part of the country.

Another strong indicator of a fall in the real income of the poor is the decline in the real price of basic food (grain and rice) in spite of a fall in the per capita consumption of rice and cereals over the last two decades (this issue is dealt with in detail in Khan, 1990). More recently, between 1989–90 and 1995–96 there was a 7 per cent decline in the per capita consumption of cereals

but a steady rise in per capita income. That this happened without a rise in the real price of rice – indeed the price fell – points to a negative income elasticity of demand for cereals, which is highly implausible given the low average level of food energy consumption in Bangladesh. The only way to make sense of the evidence is to assume that there has been a fall in the real income of the poorer population groups, who have a higher income elasticity for cereals than do the richer groups of people, so that the weighted average income elasticity of demand turned out to be negative.²²

The rate of growth in per capita income was higher in the decade after 1985 than in the previous decade due to a decline in the rate of population growth. And yet the incidence of poverty declined significantly in the decade before 1985 while it appears to have increased in the subsequent decade. This asymmetrical performance needs careful analysis. Two possible reasons for the increase in poverty since the mid 1980s suggest themselves. The first is the decline in the growth of agriculture in this period, especially since the late 1980s, which must have been the main reason for the decline in real wages in agriculture. It has been alleged that the decline in agricultural growth was at least partly due to the withdrawal of subsidies on inputs, which was an integral part of the overall reform programme aimed at integration into the global economy. The second possible explanation is the gradual elimination of consumer subsidies and special programmes, which might have increased the cost of living and reduced the real incomes of the poorer segments of the population relative to others. This too was a part of the reforms to promote global economic integration.

*Poverty Trends in India*²³

Headcount indices of poverty for selected years for India are shown in Table 4.7. Between 1969–70 and 1989–90 ten observations of poverty incidence are available (the intermediate ones have not been shown in the table) and they reveal a steady decline in the incidence of poverty, with only very minor exceptions. The first major break in trend occurred in the early 1990s with the intensification of outward-looking reform, when the incidence of poverty increased. By 1993–94 the incidence of poverty in rural India had once again begun to decline; but even so the incidence of poverty in rural India, where most people live, was higher than in the period before the accelerated reforms.²⁴

The time series in the post-reform period is too short and erratic to permit unambiguous conclusions. It is, however, clear that during the period of accelerated reforms aimed at integration into the global economy, India experienced some of its nastiest poverty shocks in recent times and the steady trend of declining poverty over the preceding two decades was broken. The most obvious explanation of the rise in the incidence of poverty in the early

Table 4.7 Percentage of population in poverty in India

	<i>Rural</i>	<i>Urban</i>
1969-70	41.7	48.1
1989-90	19.8	32.3
1990-91	20.1	32.4
1992	28.7	33.9
1993	25.6	38.9
1993-94	21.1	31.0

Source: Tendulkar *et al.* (1996). Of the two sets of estimates made by the authors, the one pertaining to the lower poverty threshold (that is, showing lower incidence of poverty) has been quoted in the table.

1990s was the rise in the relative price of food, due largely to liberalization of the trade regime which reduced the wedge between the domestic and external prices of food that obtained in the years before reform. As the majority of the poor in India are net buyers of food, this rise in the relative price of food damaged the welfare of the poor.²⁵ This effect might have been mitigated if increased globalization had led to higher growth in per capita income. As already noted, the rate of growth in output actually declined in the early 1990s. The period of globalization also witnessed a sharp reduction in the rate of employment growth in India, an issue that is discussed below.

*Poverty Trends in Pakistan*²⁶

Table 4.8 summarizes the trend in poverty incidence in Pakistan during recent decades. There was a steady decline in the incidence of poverty during the two decades leading up to 1987-88, when the reforms aimed at opening up the economy began. Thereafter Pakistan experienced an increase in the incidence of poverty.

Table 4.8 Percentage of population in poverty in Pakistan

	<i>Rural</i>	<i>Urban</i>
1969-70	49.1	38.8
1984-85	25.9	21.2
1987-88	18.3	15.0
1990-91	23.6	18.6
1992-93	23.4	15.5

Source: Amjad and Kemal (1996).

Amjad and Kemal (1996) identify a number of explanations for the rise in the incidence of poverty after the acceleration of outward-looking reforms. Some of these explanations are directly linked to the reforms, others are structural. The rate of growth of the economy, as noted before, fell while inequality in the distribution of income increased (as documented by the falling share of income of the poorest quarter of the population). Increased inequality was due partly to the reform process itself, for example a reform of the tax structure made it more regressive, and there was a reduction of the subsidies and public expenditure that had benefited the poor. The reduction in agricultural subsidies adversely affected the poor in two distinct ways: the productivity of subsistence farmers fell due to the partial withdrawal of modern inputs; and a large proportion of the poor, who were net buyers of food, were hurt by the rise in the price of food that resulted from the compensatory policy of increasing agricultural purchase prices. Growth in employment declined sharply from 2.5 per cent per year in the period preceding 1987–88 to just 1 per cent per year in the period after 1987–88. This was partly due to the fall in public employment that occurred as a result of the reform programme's emphasis on reducing public expenditure. Remittances from migrants – which in the past had helped the poor both directly by augmenting their incomes and by expanding employment through the increased investment that it financed – fell sharply. There was also increased concentration of agricultural landholdings among fewer hands.

Poverty Trends in Nepal

The evidence for Nepal, although far less convincing than the evidence for the countries discussed above, also suggests a rise in the incidence of poverty between 1985 and 1992.²⁷ This change is not easy to explain in view of the steady rise in per capita income over the period and the absence of convincing documentation that the distribution of income sharply deteriorated. One adverse change for the poor was the rise in the relative price of food. This was due to the reform of the trade regime, food being a net import. Most of the poor being net buyers of food, the rise in the relative price of food contributed to an increase in the incidence of poverty.

To summarize, South Asia's steady progress towards a reduction of the incidence of absolute poverty appears to have slowed down, halted or reversed in the wake of reforms in the period of globalization. This was partly due to disequalizing forces inherent in the reform programmes. Greater integration into the world economy meant a rise in the relative price of food

that was imported/traded internationally. In India, Pakistan and Nepal there is evidence that this particularly affected the poor, the majority of whom were net buyers of food. The reforms often involved the removal of agricultural subsidies, causing a reduction in the growth of agriculture, the principal source of income for the majority of the population.

Globalization and Employment

Contrary to the expectation that greater integration into the world economy would lead to growth in employment, there appears to have been a sharp reduction. In Pakistan, annual growth in employment in manufacturing in the three years after the acceleration of reforms (that is, between 1987–88 and 1990–91) was -0.2 per cent while manufacturing output grew at an annual average rate of 5.3 per cent, yielding an output elasticity of employment of -0.04 .²⁸ In Bangladesh, employment in most major manufacturing industries, including jute textiles, cotton textiles, paper and steel, declined absolutely in the early 1990s.²⁹ In India the output elasticity of employment in manufacturing industries during the period 1987–92 was 0.23.³⁰

That this represents an extraordinarily low degree of labour intensity in industrial growth can be gauged by comparing it with the output elasticities of employment in manufacturing in Korea:³¹ during 1970–80, 0.67; during 1980–90, 0.45. By the 1980s Korea had been transformed into a high-wage economy by LDC standards. It is appropriate to consider its elasticity in the 1970s when comparing Korea with contemporary India. Employment elasticity in Indian manufacturing, on this basis, was only one third of that of Korea!

This phenomenon of sharply reduced labour intensity in industrial growth during the period of globalization needs careful analysis, but in the absence of suitable studies one can only surmise what its cause might have been. Integration into the global economy has created tremendous pressure for improved international competitiveness, that is, reduced unit labour costs. Many of the industries developed under the previous ISI regime incorporated concealed unemployed labour, especially in public-sector enterprises. Faced with the pressure to reduce their unit labour costs, these industries, often privatized, did all they could to reduce their concealed unemployment. Thus the headcount rate of employment growth became very slow even though labour absorption at constant intensity of employment may have increased at a reasonable rate. Once concealed unemployment is eliminated, the headcount rate of employment growth will be higher. Industries will have become more efficient by the end of the transition, but the transition has been marked by increased unemployment.

These countries should have exercised better management of the transition process. It was certainly efficient to improve the effectiveness of employment

in industries, but the incrementally unemployed workers should have been protected either by public works programmes or by some form of unemployment insurance. It was certainly efficient to end the discrimination against producers of food and agricultural goods in the form of artificially depressed prices that was fostered under the ISI trade regime, but the adverse effect this had on the living standard of the poor should have been mitigated by carefully designed programmes: for example targeted income subsidies and targeted public distribution and public works programmes to supplement the earnings of poor households. Substantial public resources should have been committed to such programmes and policies, but the contractionary macro-economic policy that was a part of the reform programme during the era of globalization ruled this out.

CONCLUSIONS

The main arguments of this chapter are summarized as follows. During the 1980s the South Asian countries followed many other LDCs in gradually moving away from the ISI strategy to become better integrated into the global economy. This course of action was more than justified in view of the inefficiencies and limitations of ISI as a development strategy.

These countries implemented extensive reforms of their trade regimes and a multitude of other policies and institutions at the behest of the multilateral development agencies. They achieved significant success in increasing their trade, both as a proportion of GDP and as a proportion of world trade. Trade among themselves, however, remained very restricted due to serious bilateral hostilities and tensions. All the countries had very limited success in attracting FDI. With few exceptions, these countries have not succeeded in breaking into the IT export market; they have also lagged behind the newly industrializing East and South-East Asian countries in adopting IT technology in their own industries.

Increased integration into the global economy has brought some growth, but this has not been robust enough to outweigh the periodic effects of adverse weather and/or political cycles. That increased integration has failed to produce a more powerful growth impulse is also due to the preoccupation of the reforms with allocative efficiency and neglect of the complementary measures needed to create a broader framework for growth. Three deficiencies stand out: (1) the lack of effective governance, leading to a failure to promote regional cooperation and to a failure to build a consensus in favour of an effective development strategy; (2) the failure to replace the discarded ISI system by an alternative system of incentives to invest in potentially worthwhile activities, and (3) the failure to promote investment in infrastructure and human capital.

Globalization has not allowed South Asia's progress towards poverty reduction to continue at its previous pace. Indeed it has often slowed down or temporarily reversed. This has been due to structural inequality being aggravated by the disequalizing forces unleashed by the reform packages that were adopted in the pursuit of global integration. It might have been possible to offset the adverse effects of these forces if the integration process and growth had been more robust.

Notes

1. Although there is no unambiguous way of defining South Asia, one widely used definition is that it consists of the member countries of the South Asian Association for Regional Cooperation (SAARC): Bangladesh, India, Nepal, Pakistan, Sri Lanka, Bhutan and the Maldives. The reason for excluding Bhutan and Maldives from the present analysis is that, apart from their minuscule size (together they account for less than 0.08 per cent of the population of the SAARC countries), information on them is very limited. There is also the question of whether Myanmar should be considered a part of South Asia, but it would make little sense to include it in a study of globalization, partly because of the lack of relevant data and partly because Myanmar is only just beginning to shed the autarkic economic strategy it has followed for decades.
2. All countries in this World Bank category had a per capita income of less than \$725 in 1994, according to the World Bank's 'atlas method'. Of the 133 countries, each with at least a million people, included in World Bank (1996a), 51 belonged to this category.
3. The World Bank (1990) estimated that South Asia had 47 per cent of world's poor in 1985.
4. See Khan (1994) p. 53.
5. For an excellent account of the past development strategy in the Indian context see Bhagwati (1993).
6. The most detailed chronicles of policy reforms in individual countries are the World Bank's periodic country economic memoranda. For independent accounts of the Indian reforms from different perspectives, see Bhagwati and Srinivasan (1993) and Bhaduri and Nayyar (1996). For an independent account of the Bangladeshi reforms see Centre for Policy Dialogue (1995).
7. See World Bank (1996a).
8. These ratios are based on data in World Bank (1996b), pp. 216–17.
9. Between 1985 and 1994 the terms of trade declined by 13 per cent for Nepal, 25 per cent for Bangladesh, 10 per cent for Pakistan and 17 per cent for Sri Lanka. For India there was an improvement of about 9 per cent. See World Bank (1996a), p. 192.
10. Like most World Bank reporting of capital flows, the figures in Table 4.3 seem to refer to net flows of *capital* (that is, net of any withdrawal of past capital investment), but not net of repatriation of dividends and interest.
11. See the report entitled 'IT pact just around the corner, say US and EU' in *Asia Times*, 13, December 1996.
12. See 'Asia's Labour Pains' in *The Economist*, 26, August 1995.

13. See Lal (1996) for the sources of these arguments and for a study of the effect of IT on a sample of electrical and electronic goods manufacturing firms in India. Lal's very limited sample does not provide conclusive evidence of improved productivity through the use of IT. He attributes this to the time lag in the productivity effect of IT, whose application in the Indian industries studied by him has been recent.
14. The idea of the political cycle and the rates of growth in different periods of the cycle are from a paper by Amjad and Kemal (1996).
15. References to this topic are well known. Of particular interest is the recent paper by Wade (1996a).
16. The Bangladeshi case is perhaps extreme and is discussed in Khan (1996a).
17. See World Bank (1993c), p. 49 for details of discriminatory OECD protection against exports from LDCs, including South Asia.
18. See Harrison *et al.* (1995).
19. Evidence for the period up to the mid 1980s is analysed in Khan and Hossain (1989). For more recent periods see Ravallion and Sen (1994) and World Bank (1995c).
20. The headcount ratio simply shows the proportion of population in poverty, that is, below the poverty threshold. The poverty gap index – the ratio of the total income gap of all the poor to the total income required to provide everyone with just enough income to rise above the poverty level – is a composite measure of the number in poverty and the average extent of their poverty. The squared poverty gap also gives an indication of the distribution of income among the poor. See Ravallion and Sen (1994) for further explanation and additional references.
21. According to the data collected by the Agricultural Statistics Wing of the BBS, the average daily money wages of male agricultural labourers without food changed from Tk29.54 in 1985–86 to Tk42.25 in 1994–95. Between these two dates the rural consumer price index increased by 79.06 per cent (BBS, 1996). This means that at 1985–86 purchasing power, the daily agricultural wages in 1994–95 were Tk23.60 or 20.1 per cent lower than in 1985–86.
22. The problem of the worsening distribution of income in Bangladesh during the post-1985 period has two distinct dimensions: there was a fall in the average rural income relative to the average urban income, while intrarural inequality did not change significantly; and there was a rise in urban inequality. For evidence see the BBS estimates of rural and urban Gini ratios reported in World Bank (1995c).
23. Evidence cited here is from Tendulkar *et al.* (1996).
24. One might wonder about the impact of the earlier reforms, that of the early 1980s, on poverty. There is no evidence that the reduction in rural poverty was halted at that time, although the reduction in urban poverty was briefly halted in 1987–88 and 1988–89 (see Tendulkar *et al.*, 1996).
25. Tendulkar *et al.* (1996) carry out econometric analysis of Indian data to demonstrate the validity of the argument.
26. Evidence on poverty trends on Pakistan has been obtained from Amjad and Kemal (1996).
27. Official estimates of the headcount index are reported in Guru-Gharana (1996). The problem with the Nepalese estimates is that the poverty threshold does not appear to represent a constant standard of living, the number of observations are far too few and the assertion that poverty has been increasing does not appear fully convincing in view of the steady and significant growth in per capita

- income, without any clear evidence of a sharp rise in the inequality of income distribution.
28. These official estimates of employment and output growth in manufacturing are quoted in Amjad and Kemal (1996).
 29. See BBS (1996), p. 9.
 30. This is estimated by fitting a double-logarithmic function to data on employment and output in manufacturing reported in World Bank (1995d). The elasticity coefficient is significant at the 1 per cent level.
 31. The elasticities for the Republic of Korea are estimated in the same way as for India, based on data reported in different issues of The World Bank's *World Tables*.