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THE IMPACTS OF GLOBALIZATION IN BUSINESS SECTORS IN BANGLADESH

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ABSTRACT


The term Globalization implies Free-flow of goods, services and information. Its basic idea was that to come with an economic sustainable solution where everybody gets equal opportunities to perform their desired task without any obstacle. Turn the economy from inequality position to equality position, where effective and efficient allocation of resources will be done. In broad term, globalization describes a process of increasing interdependence in the building of networks between individuals, firms, countries or regions. The emergence of these networks is evident in the economic field through the increased movement of goods, services, knowledge, ideas, finance and people, in the political field, through various State-sponsored forms of integration; and in the cultural field, through increased communications and opportunities to travel. The principal driving forces behind this current phase of globalization are lower barriers to trade and investment, lower transport costs, lower information technology costs and the increasingly important role of the Internet.

Keywords: Globalization, Barriers to trade, Information technology

INTRODUCTION

The contemporary global debate on globalization and its multi-pronged impact has had a strong echo in the academic and political discussions in Bangladesh as well. After a hesitant start in the mid-1980s, Bangladesh moved decisively to embrace the wave of globalization in the 1990s. Ever since, the impact of globalization on the economy of Bangladesh and, more pointedly, on the lives of its people, has become a hotly debated issue. This paper attempts to take an in-depth look at the impact of globalization on the business sector of Bangladesh. The purpose of this study was to find out the impact of globalization on business sector of Bangladesh, to know about the impact of globalization on different micro and macro environmental elements of business sectors.

METHODS

This paper extensively uses the secondary data available in different books, publications, press releases and internet etc. Some information is very important to know.

RESULT AND DISCUSSION

Globalization Impact on Micro and Macro Environmental Elements of Business Sectors in Bangladesh

Domestic governance structure is increasingly affected by accelerating globalization bringing about major changes in the national socio-political institutions. Many pre-existing old institutions are either abolished or significantly altered. Altering or abolition of existing institutions has put serious pressures on domestic governance in Bangladesh, because it is defined as the ‘processes and institutions, both formal and informal, which guide and restrain the collective activities of a group (Robert 2002). Hence, it is systematically related to the institutional characteristics of the state. In addition, the pursuit of hasty transnational integration generates mismatch even within the economic institutions, needless to say about political or societal realms. New issues such as child labor, trafficking of child and women, trade unionism in the Export Processing Zone, and environmental standards are coming to the surface in the economic governance of Bangladesh, though its export market is concentrated on few items, such as ready-made garments and shrimps, which are susceptible to these constraints. Under these new pressures distinct national regimes of extensive labor rights and social protection have become almost obsolete. Nation-states, as perceived by the proponents of extreme globalization like have become the local authorities of the global system. The spread of powerful international and regional actors in national politics and accommodation of national politics enmeshed within regionalization and/or internationalization has transformed the tools of national governance. Bangladesh national markets in capital, products and labor are more sensitive to the movements and crises of other markets. To put it quite bluntly, Bangladesh experienced a phase of hegemony of the World Bank and IMF, the chaos of privatization and liberalization and the demise of the sovereignty of the state (Borhanuddin 2000). As the process of globalization accelerates, government experiences greater difficulties in trying to control events within the national borders. Those difficulties, summarized by the term diminished autonomy, show why tensions arise from the competition between political sovereignty and economic integration (Stephan 1995). While governments in the developing world are constrained to challenge these pressures as they did in the 1950s and 1960s, tensions are evident at

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societal level. In 1991 Haggard observes this incongruence in a limited sense. He mainly indicates the political impact of economic liberalization as he points out; cross-border economic integration and national political sovereignty have increasingly come into conflict, leading to a growing mismatch between political structures of the world. In short, the accelerating effects of globalization changed the pattern of interactions among different forms of collective action organizations that provide a variety of governance services to diverse groups. It raises a critical question: to what extent has globalization produced integrative effects within Bangladeshi society? This requires dealing with the implications of these changes induced by globalization from two dimensions: rule-changing capacity and end results. Because it is often argued that the process of globalization would bring convergence in socio-economic and political practices and increase allocative efficiency by moving toward free market and 'getting the prices right'. It is against this background, the paper is basically an institutional analysis of the impact of globalization based on empirical evidence.

Globalization and Some Major Issues in Business Sectors and its impact
There are some major issues which play a vital role in business sectors under the consideration of globalization impact on the LDC (Least Developing Country) like Bangladesh.

Privatization and Lack of Entrepreneurship
The problem of entrepreneurship continues to hinder economic development as it did in the 1970s and 1980s. What is observed is the development of trading and real estate business where rates of returns are quite high, or there was a flight of capital. Despite faster pace of economic reforms towards market economy for more than a decade, private sector has not developed in the market due to poor level of entrepreneurship that is the key to private sector development. The privatization launched through denationalization and disinvestment has not contributed much to the strengthening and widening the scope of entrepreneurship in Bangladesh. Industrial policy has been changed several times. Particularly, the industrial policies in 1991 and 1999 undertook sweeping changes towards market reforms. More importantly, the government has vigorously replaced the public sector with private one. But, in reality, the vicious cycle of low savings and low investment continue to exist due to the country's dependence on foreign aid and increasing government's lending from domestic banks. Despite undertaking considerable extent of deregulation of financial sector, medium and small size financial organizations have not been established. The contribution of manufacturing sector in GDP fluctuated between 10-12 per cent of GDP for the last 25 years (Table 1). This disappointing picture of manufacturing sector clearly reflects the poor condition of entrepreneurship in Bangladesh.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Manufacturing</td>
<td>390688</td>
</tr>
<tr>
<td>Large &amp; medium scale</td>
<td>275,723</td>
</tr>
<tr>
<td>Small scale</td>
<td>114,965</td>
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</tbody>
</table>

Source: Bangladesh Bureau of Statistics

Table 1. Manufacturing Sector's share in GDP in Bangladesh (in constant price)

Some argue that the issue of entrepreneurship is related to creativity. Bangladesh lacks the environment that stimulates creativity. The privatization, denationalization and disinvest have set the process of 'de-industrialization', instead of promoting entrepreneurship. Some point out that it is the legacy of British colonial rule for two centuries and Pakistani discrimination by concentrating industrial locations in the Western part. They further argue that the devastating War of Liberation has largely reduced the capacity. However, this historical reason for the lack of entrepreneurship does not deserve much importance after three decades of independence. The question of creativity has some merits, but it must not be blamed for such a dismal picture of entrepreneurship in Bangladesh. Though creativity largely depends on national environment, the major problem lies with the systems of governance, marked by corruption, rent seeking and patronage. Discretionary intervention through the widespread use of personal connections hinders the growth of entrepreneurship. It is clear that real entrepreneurs don't get opportunities as provided by the government through its policy reforms. In disburse loans, personal contact and influence played a big role. Entrepreneurial capability was overlooked. The persistence of a 'predatory state' syndrome has created a nouveau riche class in society. Changes of organizations and policies under the conditions of globalization are not resulting in building a good class of entrepreneurs. This phenomenon is largely because of the continuity of traditional institutions that discourage the local entrepreneurs. Embracing globalization before changing the existing values and norms in society creates the problem of incompatibility in adapting to the process of globalization.
Problem of Market Accessibility (Counting Trade Deficit)

Trade openness is a critical factor for accelerating the benefits of globalization. Various studies particularly sponsored by the Breton-Woods Institutions demonstrate there are a number of beneficial effects of trade both at South-South and North-South levels. Traditionally, the GDP growth is the driving cause, but there are other benefits too. It is argued that trade liberalization may promote efficiency in resource allocation, increase competitive capability by acquiring global standards of efficiency, broaden options for consumers, and can make use of international capital markets to increase private investment, and may result in familiarization with new ideas, technology and products. All these benefits largely depend on the capacity to develop dynamic export sector and external markets for exports. The reality is, however, somewhat different in Bangladesh's case. The integration of Bangladesh economy into the world economy against the backdrop of recent policy reforms has not enabled the state to exploit its comparative advantage in world trade. The export-led strategy has faltered due to dwindling global market for its export items. Instead of expanding its export base through diversification of products and increasing the volume of existing items, the country faces the prospect of losing its traditional markets for ready-made garments and knitwear (around 80 per cent of total exports) in near future. Furthermore, the conditions of labor and environmental standards in exporting goods and services appear to be a serious blow for its search for external markets. These are new barriers of 'neo-protectionism' for a developing country like Bangladesh. More so, the trade liberalization has facilitated more imports that results in huge trade deficit every year. Trade deficit is higher during 1990-2000 period compared to the previous era. At most, the dismal scenario with the trade deficit continues irrespective of following export led strategy. In this situation, some argue that the success of East Asian exported policies cannot be replicated in Bangladesh context. In East Asia it was high domestic savings and modest consumption and a lack of large domestic markets pushed those countries to follow export-led strategies. The economists in Bangladesh argue that the explosive growth of trade deficit is a direct impact of our ill-timed import liberalization. Bangladesh's soaring trade deficit with India in the early 1990s is an example (Table 2). The reason behind this situation is that the country has not developed an efficient and dynamic manufacturing sector. Industrial activism is minimal, if not stagnant. Consequently, private investors within the domestic industrial sector lack the capacity to compete with imports, which results in a huge trade deficit every year.

Table 2. Annual External Indebtedness of Bangladesh (in total outstanding and disbursed debt)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total External debt (USD millions)</th>
<th>Long-term debt (USD millions)</th>
<th>Use of IMF credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>2439</td>
<td>17037</td>
<td>626</td>
</tr>
<tr>
<td></td>
<td>2002</td>
<td>2002</td>
<td>1990</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>2002</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank, 2000

This situation might be worse in the coming years given the constraints of market access for Bangladesh's export items. Here we observe a clear discrepancy in terms of the economic effect of globalization policies initiated by the governments.

Financial Volatility

Contrary to highly liberal policy regime for private foreign investment in Bangladesh, there was a frustrating amount of Foreign Direct Investment (FDI) in Bangladesh in the last decade (Anonymous, 1998).

All the incentives for privatization and liberalization have not been able to attract a minimum degree of private foreign investment in Bangladesh. Table 3 shows that the FDI net inflows continue to be nil in Bangladesh until 1986 when it was only 0.01 per cent of GDP.

Table 3. Net FDI Inflows into Bangladesh (% of GDP)

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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.0</td>
<td>0.3</td>
<td>1.3</td>
<td>1.9</td>
<td>1.7</td>
<td>2.8</td>
<td>0.7</td>
<td>.52</td>
<td>.26</td>
<td>.46</td>
</tr>
</tbody>
</table>


Surprisingly it remained around 0.01 per cent until 1995. Later it increased to 0.72 per cent in 1998. On the other hand, Malaysia, Thailand and Sri Lanka received FDI at 6.9, 6.23 and 1.23 per cent of their GDP in 1998, respectively. While looking into the disinterest shown by the foreign investors to invest in Bangladesh, it is almost universally recognized that domestic socio-political institutions which are marked by bureaucratization, rent seeking and corruption and political instability are the major bottlenecks. This clearly indicates that FDI as a driving force of globalization as well as economic growth cannot be increased without improving governance in the country. The so-called liberal investment policy regime has simply faltered demonstrating another source of divergence between the rules and norms of globalization and domestic governance as well as in terms of actual outcome of liberalization in the country.
Another example case is of capital market performance in Bangladesh. The recently instituted capital market to boost portfolio investment and domestic private capital flows is not functioning properly. This is illustrated by the 1996 capital market crisis in Bangladesh. Capital market was reorganized in 1993 as a direct outcome of the market-based liberalization program of the government. The individual investors demonstrated much enthusiasm about this market. In a short time, the country’s stock market experienced a crash in 1996 winter that resulted in huge losses to medium and small investors (Rahman 2001). The sudden rise of stock price encouraged thousands of investors who lost out in an abrupt and dramatic down-surge.

It was reported that after an unprecedented bull run lasting some five months at the Dhaka Stock Exchange, the DSE All Share Price Index, having reached the unsustainable level of 3627 points on November 16 1996, came crashing down, amidst widespread panic in the kerb market (Chaudhury 1995). The crash in capital market is followed by widespread agitation by the middle class investors. Subsequently, all share price index has been plummeting. Still the capital market is in shambles with a crisis of public confidence on this institution. It is widely held that a few sponsored directors of private companies artificially created the crisis. These companies were assisted by the corrupt members of the Stock Exchange. The consistent downward trend in 1999 not only curtailed the profits of market players but also kept capital investments low (Table 4). Given the volatile nature of capital flows, this crisis raises some crucial questions. First, is Bangladesh prepared for instituting such a fluid market device? What institutional mechanisms Bangladesh need to establish before opening capital market? Although the crisis and the subsequent behavior of the share market show that Bangladesh was not ready for instituting the capital market as such, the adequate institutional mechanisms could reduce the risks of the investors, mostly lower and middle class people.

Table 4. Annual GNP Per Capita in Bangladesh

<table>
<thead>
<tr>
<th>Year</th>
<th>Total GNP (US$ Million)</th>
<th>Per Capita GNP (US$)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>41651</td>
<td>44090</td>
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</tbody>
</table>

Source: World Development Indicators 2000

**Competition and Competitiveness**

Competition is another cardinal norm of globalization. Traditionally, it is closely related to the growth of entrepreneurship in a society that is considerably lacking in Bangladesh. In addition, because of market and information imperfections, there is a general tendency for market failure even in the ideal neo-liberal market-based system. In Bangladesh, imperfections have intensified because social conditions are marked by economic backwardness, lack of access to information technology, widespread illiteracy and government control over media. Thus, competition has not improved efficiency. It was expected that privatization would decrease rent-seeking conditions in the country; but it has not occurred. Who will compete in the market, if there are not enough number of actors and proper infrastructure? Apart from market and information imperfection, there is one critical factor behind the absence of competition i.e., lack of capability. If a country lacks appropriate technological development and sound infrastructure, it is impossible for private investors to flourish and compete with domestic and international firms. Technology is both a public and private good. It is impossible for a poor nation like Bangladesh to develop basic technological capability through the private sector. There is a necessity of considerable state support to improve national capacity in technological and infrastructural capacity.

There is a necessity of considerable state support to improve national capacity in technological and infrastructural capacity. Another factor is the social environment which is marked by rent seeking, patronage and corruption mainly sponsored by the state. Use of physical force is widespread from tender snatching to political nomination. In both cases, government has a critical role to play, but here again the dilemma is that if government continues to play a key role in developing markets and infrastructure then it may provide an environment for continued rent seeking behavior and ineffective allocation of resources and resulting in continued lack of capability. So in what way should the country acquire local capability to generate competition in the market? It depends on the capacity of the government as well as private sector. Both have to work hand in hand to develop national capability. Ironically, the rules and norms of globalization pathologically discourage governmental support for local capability entrepreneurship. This shows another disparity between domestic reality and globalization.

There have been mixed outcomes of globalization in Bangladesh. Neither the positive end results in terms of developmental effects nor institutional convergence take place in a substantive way. At the heart of continuing poor performance of the state and market organizations and failure of policy reforms are the disintegrative effects of globalization. It manifests in the mismatch between the rules and norms of globalization and the pre-
existing governance mechanisms and institutional pattern at the domestic level. This divergence is most evident in political and societal governance mechanisms. This creates further pressure on domestic governance. As we observed that the process of globalization has contributed to the precedence of some international set of values and practices over the preferences or policies of Bangladesh state. Extreme globalizes and the international donors’ community emphatically argues that domestic governance, for that matter, 'good' governance plays a crucial role for adapting to the process of globalization. The empirical evidence suggests that globalization itself hinders this adjustment process as it transforms the domestic norms and rules in a standardized way and creates incompatibility in rules and norms of governance. To put it differently, the agenda of globalization in Bangladesh has not addressed the domestic realities in terms of addressing the institutional settings and business sector’s impact in the country. Consequently, the process of linking global neo-liberal values and domestic norms and practices is generating an inevitable clash that Bangladesh is experiencing more profoundly in the last decade.

REFERENCES


