

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/W/85
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Limited Distribution

Committee on Balance-of-Payments Restrictions

1984 CONSULTATION WITH BANGLADESH
(SIMPLIFIED PROCEDURES)

Background Note by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205-209) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of the Declaration.

I. Bangladesh's previous consultations

2. Consultations with Bangladesh under simplified procedures have been held in 1974, 1976, 1978, 1980 and 1982. No full consultations have been held.

II. Bangladesh's trade policy and recent changes

3. The import system applied by Bangladesh for the year 1983/84 was described in Bangladesh's reply to the questionnaire on import licensing procedures (L/5622). A copy of the new import policy order for 1984/85 is available for consultation in the secretariat.

4. Importable goods in 1983/84 were classified in three lists: goods importable by commercial firms in the private sector and by the Trading Corporation of Bangladesh (List I), goods importable only under the Wage Earner Scheme (WES) or Export Performance Licensing (XPL) system, (List II) and raw materials and packing materials importable by industrial firms (List III).

5. All industrial or commercial importers must be registered. Commercial importers were permitted to import specified values of defined consumer goods and supplies in List I (reproduced as Annex A of L/5622). Foreign exchange for such imports was allocated equally among registered commercial importers: in 1983/84 all commercial importers, except those of finished drugs and medicines, were provided foreign exchange (at the official rate) equal to 50,000 Taka each (approximately US \$2,000) while importers of drugs and medicines were allocated TK 150,000 each. Most items on List I were importable only against letter of credit authorization forms: however, an important number of products (principally hardware, tools, medical equipment, crude drugs, photographic plate and scientific instruments) were

only importable under barter terms. Industrial consumers were allowed to import a certain percentage of their estimated total needs of raw materials and packing materials (List III). During 1983/84 the pharmaceutical and selected export-orientated industries (fish, tea, footwear, leather, shrimp and frog farming and jute carpet) were authorized to import 150 per cent of this basic entitlement: handloom units, 100 per cent: and certain other priority industries in the chemicals, food processing, jute leather, textile, footwear, mechanical and electrical engineering industries ("Priority List A", numbering 216 specific industries in all) 60 per cent of the basic entitlement. Imports by commercial and industrial users may be made only against letter of credit authorization forms: for industrial users, this system replaced specific licences as from 1 July 1983.

6. Imports may also be made by any person, firm or institution, under the Wage Earner's Scheme (WES). Goods imported under the scheme are paid for out of the foreign exchange remitted to Bangladesh by Bangladeshi nationals working abroad, or under Export Performance Licence (XPL). In general no value or quantitative restrictions are imposed on WES imports, nor is authorization required for the opening of letters of credit. In general, any items included in Lists I, II or III may be imported under WES or XPL: however, List II defines products which may be imported only under these schemes. Industries enumerated in "Priority List B", comprising 67 sectors including the hotel sector as well as various miscellaneous manufacturing sectors, may import raw materials and packing materials only under WES/XPL. The WES and XPL schemes permit foreign exchange remitted by workers abroad, and earned by exporters of non-traditional products, to be sold on secondary foreign exchange markets at more favorable rates than the official exchange rate.

7. The system described above is broadly to remain in force until 31 December 1984, with a number of modifications to the various lists, the net effect of which appears to be to increase the range of goods importable under WES/XPL facilities, and to decrease to 50 per cent the import entitlement for "Priority List A" industries. From 1 January 1985, Bangladesh is to adopt a "negative list" system of import control, under which any goods not included in the "Negative" or "Restricted" lists may be freely portable under the WES or XPL system. As drafted in the Import Policy Order 1984/85, the "Negative" list comprises, inter alia, certain meat and vegetable products (including fresh vegetables, tea, spices, vegetable oils and fats and oil cakes) certain chemicals, paints, soaps, waxes and some plastics, hides, skins and leather goods, certain wood processed products and manufactures, cotton (except yarn and fabrics), jute and jute yarn, carpets, twine and ropes, knitted and woven garments, accessories and made-up items, footwear, certain ceramic and glass manufactures, a number of metal products including iron and steel castings and forgings, tubes, structures and reservoirs, hand tools, certain mechanical appliances and machine tools, electric appliances, radios and furniture. The "Restricted" list (importable by certain agencies or on approval by certain agencies) covers, inter alia, grains including rice, fixed vegetable oils, refined sugar, salt, petroleum and products, certain vitamins and drugs, fertilizers, glues, explosives, rubber, cycle and motorcycle tyres, certain grades of paper and board, printed books, raw silk and yarn, man-made fibre yarns and fabrics, cotton yarn and woven fabrics, glass and glassware, certain copper and aluminium products, textile machinery, motor vehicles and ships.

III. Recent trends in Bangladesh's economy and foreign trade

8. The economy of Bangladesh is one of the least developed and the least outward oriented¹ in the world. The export sector is very small and in addition highly concentrated on raw jute and jute goods, and therefore largely dependent on weather conditions and the price of jute on international markets. As export earnings cover on average only one-third of imports, the trade deficit is offset by worker remittances and, above all, by grants and highly concessional loans. Despite the very favourable terms for its borrowing the ratio of debt service to exports of goods and services has exceeded 25 per cent in each of the last four years. The country has a high population density and the already strong population growth (2.7 per cent)² is projected to accelerate somewhat (to 2.9 per cent) up to the year 2000.³ A further obstacle to development was revealed in a recent World Bank³ Study, which pointed to a severely distorted internal pricing structure.

9. Recent economic developments have somewhat brightened the economic situation. The economy of Bangladesh grew by about 5 per cent⁴ in fiscal year 1983/84 after 3.2 per cent in 1982/83. Favourable weather conditions boosted agricultural output, which accounts for nearly 50 per cent of GDP. Consumer price inflation declined sharply to less than 10 per cent in 1982/83 and remained close to that level in 1983/84. During 1983 (calendar year) the dollar value of exports and imports contracted for the second year. Merchandise exports fell by 5½ per cent to \$724 million. Despite efforts to expand shipments of new export goods, the share of jute and jute goods increased while those of all other non-traditional goods fell further. Imports fell by 4½ per cent to \$2,308 million. A significant part of the decline of imports was due to the development of domestic natural gas production, which, led to a reduction in the volume of imported crude petroleum and petroleum products. The trade deficit declined slightly to \$1.6 billion (f.o.b.-c.i.f.). The current account deficit, which amounted to \$680 million in 1982, is estimated to have declined somewhat in 1983, due to an increase in private unrequited transfers, which consist mainly of worker remittances. The prices of jute and tea increased sharply in the first half of 1984, which should provide a boost to export earnings.

¹The ratio exports to GDP was found to be the lowest throughout the seventies in a sample of 124 market economies. UN, Compendium of Development Indicators, 1980.

²World Bank, World Development Report 1984, App. table 19.

³World Bank, Staff Working Paper, No. 575, Price distortions and growth.

⁴IMF estimate.