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TRADE POLICY REVIEW MECHANISM

BANGLADESH

MINUTES OF MEETING

Chairman: Mr B.K. Zutshi (India)

92-1157

I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman noted that Bangladesh was the first of the least developed countries to be subject to the Trade Policy Review. The reports prepared by the Government of Bangladesh (document C/RM/G/24) and the Secretariat (documents C/RM/S/24A and 24B) would be the basis for the Review. The Government report had followed the outline format for least developed countries agreed by the Council in July 1989 (document BISD 37S/263). The Secretariat had sought clarification from Bangladesh on factual information contained in the Secretariat's report.

2. Participants were invited to take up two main themes during the review: first, the general objectives of Bangladesh's economic and trade policies, including economic reforms pursued and the constraints imposed by the availability of resources and the external environment; and, second, Bangladesh's major trade policy instruments, including the reforms undertaken and the use of various instruments to achieve industrial policy objectives.

3. Australia had given advance notice of questions they wished to raise during the meeting, but these points would not in any way limit the scope of the discussion.

4. He invited the representative of Bangladesh to make his introductory statement followed by the two discussants, Ambassador Alastair Bisley and Mr J. Antonio S. Buencamino.

II. INTRODUCTORY STATEMENT BY THE REPRESENTATIVE OF BANGLADESH

5. The representative of Bangladesh welcomed the opportunity for a collective review of Bangladesh's trade policy and expressed his sincere appreciation to the two discussants, and to the GATT Secretariat for its Reports (C/RM/S/24A and C/RM/S/24B). He was of the view that, together with the Report of the Government of Bangladesh, these Reports would enable other contracting parties to have a clear appreciation and understanding of the context of Bangladesh trade policies and practices.

6. Bangladesh was one of the countries categorised as least-developed. Common features of the economies and societies in these countries were that they were still traditional, with a very high proportion of resources derived from and devoted to agriculture; levels of technology were such that fruits of modern science and technology could not be reaped; productivity of factors of production remained low and a ceiling existed on the level of output per head. The per capita annual income in Bangladesh was about $170, i.e. less than 50 cents per day. The consequent low standard of living of the people was reflected in all socio-economic indices, such as life span, infant mortality, health and nutrition standards, literacy rate, level of unemployment and under-employment, and endemic poverty. Bangladesh was the eight most populous country in the world; with a population of about 108 million in an area of a mere 144,000 square kilometres, it had the highest population density in the World.

7. Bangladesh was also a resource poor country. Barring 22 million acres of arable land and a proven reserve of 12.82 TCF of natural gas, the country had no other significant natural resources. Its terrain and climate were such that it faced both droughts and heavy flooding, which frequently disrupted the predominantly agrarian economy. To compound her misery and misfortune further, the country was cursed with periodic visits by cyclones and tidal bores: most recently the disastrous floods of 1987 and 1988, and the devastating cyclone and tidal bores of 29 April 1991, the worst in the living memory. The aftermath of the Gulf crisis and the evolving external economic and trade environment, particularly that obtaining in the major trading partners of Bangladesh, also had their share of effects on economic and trade performance.

8. About 85 per cent of Bangladesh's population depended directly or indirectly on agriculture for their livelihood. The agricultural sector accounted for 39 per cent of the GDP, while industrial sector contributed hardly 7.8 per cent. The share of foreign trade in GDP was about 23 per cent. Bangladesh was not yet self-sufficient in food and had to import rice and wheat to supplement domestic production. Other major imports consisted of capital goods, chemicals, intermediate products, raw materials and consumables for agricultural, industrial, utilities and

infrastructural development. Exports covered only 40 per cent of imports, and the ratio of exports to GDP was only 7 per cent. Against this background, the basic objective of Government policy was to improve the living conditions of the vast majority of the population by increasing agricultural production and income, ensuring far and equitable distribution of food and increasing productive off-farm employment through promotion and development of industries.

9. At its independence Bangladesh followed an import substitution growth path, based on public ownership and control. However, following the change of Government in the later half of 1975, fundamental qualitative changes in economic policy were set in motion. The enactment of the Foreign Private Investment (Promotion and Protection) Act of 1980 and the promulgation of the New Industrial Policy of 1982 had set the stage for large scale privatization of the economy. Since 1985, the Government's strategies and policies for market-based and outward oriented development gathered greater momentum. In 1985, Bangladesh launched a trade reform programme with the objective of streamlining procedures, rationalizing and reducing tariffs and import taxes and gradually eliminating import prohibitions and quantitative restrictions. At the same time, incentives were introduced to encourage exports and diversify the export base. The Revised Import Policy of 1986 further strengthened the liberalization measures. The 1991 Industrial Policy continued on the same path. It had four four major objectives: first to reduce the regulation of the private sector; second, to limit the rôle of the public sector, third to encourage foreign direct investment and fourth, to provide special incentives to export-oriented enterprises.

10. In pursuing the reform and rationalization of her tariff structure and in order to maintain the productive efficiency and competitiveness of both export oriented and import substituting industries the Government of Bangladesh had brought down substantially both statutory and applied tariffs from their 1985 levels, particularly on capital machinery and equipment as well as raw materials, intermediates and consumables required by industry. The average statutory tariff was now about 70 per cent, while the weighted average applied tariffs was only around 20 per cent. Specific industries in a country like Bangladesh, because of inherent institutional and infrastructural weaknesses, might require higher protection than that accorded to industries in developed countries, if they were to grow in an adverse competitive environment and become competitive in the long run.

11. Since 1985, Bangladesh had been replacing statutory bans and restriction with appropriate tariffs. The number of items in the Control List was being reduced by 20 per cent a year: priority was given to remaining bans on steel, chemicals, textiles and light engineering products. Currently, only 191 tariff headings, at four-digit level of HS

Code, remained in the Control List (CL). Of these, 85 had been identified as sensitive on the grounds of security, health, social, environmental and religious reasons and, therefore, would remain banned or restricted. The bans and restrictions on the remaining 106 headings, which were maintained on fiscal and balance of payments grounds, would be progressively replaced by tariffs. The Government's medium-term economic strategy was documented in the Fourth Five-year Plan, July 1990 - June 1995. Its main theme was poverty alleviation, with emphasis on employment and income generation, skill formation, reduction of population growth and creation of the technological base necessary for long-term structural change.

12. In evaluating progress made by Bangladesh, account had to be taken of the structural weaknesses and the basic constraints from which the economy suffered. The country had a very narrow production and export base and its export earnings covered only about 40 per cent of her import bills. The bulk of the gap was met by loans and grants from partners. One of Bangladesh's major policy objectives was to contain the export-import gap from widening beyond the level of foreseeable external assistance. The strategy pursued in this regard placed considerable emphasis on the development of export oriented industries and on increasing export earnings through exports of higher value-added products. This needed to be backed up by access to adequate investible resources, required technology and unrestrained market access. Even if there were no protectionist practices, selling in foreign markets would require expertise and technical knowledge which most of the traders in least-developed countries lack. In addition, demand for some traditional exports might decline as a result of technological changes, development of synthetically or bio-technologically produced substitutes or because of changes in standards followed by users for technical or environmental reasons. Bangladesh already faced a serious problem because of the gradual decline in overall demand for jute and jute goods as a result of the inroads of synthetic substitutes. Government policies to promote efficient import-substituting industries would, therefore, merit consideration in this context.

13. For a least-developed country like Bangladesh to succeed on the path of export-led growth and development, its measures and actions had to be supported by the international community. This should include unhindered market access, free of all tariff and non-tariff barriers. The representative of Bangladesh recalled that Bangladesh, on behalf of the least-developed countries, had tabled far-reaching proposals before various Negotiating Groups, in particular relating to market access for products of export interest to the least-developed countries. The least-developed countries sought advance, unstaged implementation of all tariff and non-tariff concessions; further improvements in GSP schemes, including exemption of least-developed countries from any quotas, safeguards, or other conditions more favourable and flexible rules of origin; assistance

to least-developed countries to optimise the benefits from GSP schemes and liberalized access to markets; as well as a regular review of measures taken in favour of least-developed countries. They also sought immediate elimination of restriction on imports of textiles and clothing and their exemption from the application of the transitional safeguard régime envisaged under the Agreement on Textiles and Clothing; exemption from obligations to eliminate trade-related investment measures; exemption from initial commitments in the General Agreement on Trade in Services; and special considerations in the Agreement on Safeguards. He requested Council members to earnestly consider the proposals tabled by Bangladesh and to accord, in concrete and meaningful terms, special treatment to the least-developed countries, in line with the commitments in the Punta del Este Declaration.

III. STATEMENT BY THE FIRST DISCUSSANT

14. The first discussant (Ambassador Bisley) noted that this review was special in that it was the first TPRM of a least developed country. Policy makers in a least developed country may feel that they have particularly narrow room for manoeuvre because the consequences of the dislocations which accompany structural adjustment can be severe. Redundancies, which may be inevitable as the Government restructures industry, were likely to fall particularly hard in a country where the per capita annual income was below $200. But at the same time, precisely because it was a least-developed country, Bangladesh could ill afford the economic costs and distortions which result from inappropriate or protective trade policies.

15. Like a number of other countries, Bangladesh had attempted for many years to follow an import-substitution path to development. Over the last decade, however, a fundamental shift in policy had been taking place with the emphasis now on a greater degree of market-directed, export-oriented industrialization, more reliant on private enterprise. The Government of Bangladesh was to be congratulated for this courageous change of direction but the transition to a more liberal economic régime had only been partially accomplished.

16. The Government of Bangladesh had identified two major perceived constraints to trade liberalisation. One was fiscal; the ratio of tax revenue (including tariffs) to GDP was one of the lowest among developing countries. The factors contributing to this small share of direct taxes included the virtual exclusion of agriculture from direct taxation, the widespread use of tax holidays to encourage investment, and the pervasive evasion of personal income taxation. This had led to an overwhelming dependence on customs duties which, together with other import related taxes, contributed more than 40 per cent of total revenue.

17. There were several options open to the Bangladesh authorities to alleviate the fiscal constraint and improve the scope for trade liberalization. In addition to widening the tax base, there might be scope for a revenue-increasing cut in rates of direct taxation and customs duties, if such cuts induced a positive production response and reduced the incentives for smuggling. On the expenditure side, the existence of a large and unprofitable public sector acted as a drain on finances. Privatization, which had been pursued to some extent, would reduce the fiscal burden of the public sector as well as provide efficiency gains.

18. In addition to the fiscal constraint, Bangladesh suffered from a shortage of domestically generated foreign exchange. Receipts from exports covered less than half the cost of imports. Past efforts to overcome this had included restrictions on imports, exchange control and administrative

measures designed to stimulate exports. All these remained to a greater or lesser extent. The extent of import restrictions had been reduced and the exchange rate had been unified, although exchange rate policy remained very much hands-on. Given the evidence noted in the Secretariat's report that the real exchange rate had appreciated relative to regional trading competitors, there seemed to be scope for simultaneously achieving a number of these objectives through a more liberal market based exchange rate policy.

19. The reform programme launched in 1985 had begun to streamline procedures, rationalize and reduce tariffs and import taxes, and gradually eliminate import prohibitions and quantitative restrictions. Export incentives had also been introduced to encourage exports and widen the export base. In each case, the policies had had some success although the resultant régime was not yet simple and transparent. With average tariffs still around 70 per cent and restrictions or bans still operative for some 16 per cent of 4-digit HS categories, there was ample scope for further liberalization.

20. The relative effectiveness of three crucial policy documents - the Import Policy Order (IPO), which had legal status, and the Export Policy Order (EPO) and the Industrial Policy, which were statements of intent without legal status - might also be relevant.

21. Non-traditional exports, particularly ready-made garments and frozen fish, had enjoyed rapid growth. In the case of ready-made garments, the existence of the Multifibre Arrangement (MFA) had acted both as a spur and as a constraint to the development of the sector. A main determinant of the rapid growth of the industry, however, seemed to be the special exempting of operators from the constraints of Government policies to which other sectors were subject and which might otherwise have hampered growth.

22. In contrast to non-traditional activities, traditional exports had either stagnated or gone backwards. In some cases this might reflect change in comparative advantage. In others, however, it perhaps resulted more from the effects of Government policies designed to stimulate the establishment or expansion of downstream or upstream industries in the absence of appropriate economic signals. Two cases in point were the minimum export prices on jute and the export ban on wet-blue leather. These seemed to have retarded industry development and enhanced the market share of competing producers. Further liberalization of trade policy and of the exchange rate would be more successful in achieving the Government's stated objectives. Greater allowance for exit would also improve the competitiveness and eventual growth prospects of processing industries.

23. In common with many developing countries, Bangladesh seemed to have maintained negative effective rates of assistance for much of agricultural production. The progressive move to international prices for both inputs and outputs would enhance the economic contribution of the sector. There was also a need to improve the efficiency of the services sector, both because of its direct contribution to GDP and because services like banking, insurance and transport were important inputs into other sectors.

24. A reform programme necessarily entailed adjustment costs but these could be mitigated to some extent if the external environment was favourable. The international community had a rôle to play in facilitating and supporting reform in countries such as Bangladesh through provision of adequate aid financing in response to appropriate domestic policies and through improved access to markets.

IV. STATEMENT BY THE SECOND DISCUSSANT

25. The second discussant (Mr. Buencamino) noted that Bangladesh had become independent under adverse initial conditions. It had to support a large population with limited resources in an unfavourable natural and international economic environment. While these problems did not absolve Bangladesh from any shortcomings in its macroeconomic and trade policies, they implied that Bangladesh would not be able to continue pursuing economic reform and achieve sustained growth without the concerted assistance of the international trading community.

26. The fundamental problems for Bangladesh were the scarcity of domestic savings and foreign exchange. Productivity in both the agriculture and industrial sectors was low by international standards. This meant low incomes and limited the scope for capital formation. Bangladesh's ability to earn foreign exchange was constrained by its over-dependence on a narrow base of exportable products. The MFA restrained the growth potential for garments; levels of productivity in frozen fish production were low compared to those of competitors; and income elasticities for jute, leather and tea were low. These products, in the case of Bangladesh, also had low value-added. Import expenditure, primarily on capital goods, textiles, petroleum products and foodgrains, had been almost double export revenues, leading to yearly deficits in the current account balance.

27. The fiscal balance also presented a challenge, with expenditures outpacing revenues. Remedial measures could include increased efficiency in tax collection, a widened tax base and reduced support for inefficient enterprises. An implication of the fiscal deficits had been a diversion of financial resources from development to current expenditures.

28. However, Bangladesh had acted responsibly in recent years to protect its external and fiscal position, as for instance, in its response to the Middle East crisis. The exchange rate system had also progressively moved towards greater market orientation with the unification of the exchange rate.

29. Bangladesh had embarked on reforms in trade policy since 1985, but more had to be done. Tariff rates were still high, non-tariff measures were still present and importers still faced a cumbersome process for their import applications despite recent efforts to streamline the process. The need to directly address the situation was emphasized.

30. While a number of measures to support the export sector had been instituted, including the right to import inputs duty-free, export insurance and free-trade zones, there remained certain institutional inadequacies. There were also self-inflicted restraints on exports.

Minimum prices required on jute exports did not take into account the fact that Bangladesh, though the largest producer of jute, did not have similar power in the aggregate fibre industry. The bans on the export of wet-blue leather and raw jute, and the 30 per cent value added requirement on garment exports may have in practice only unduly restrained much needed export revenues.

31. Several questions were posed to Bangladesh. On its trade régime, what further liberalization measures did Bangladesh intend to take and would it be able to provide a timeframe for such liberalization? What steps did Bangladesh intend to take in order to alleviate its fiscal constraints, and hence facilitate further trade liberalization? What measures were envisaged to alleviate the initial social cost of transition to a more liberal economic régime? What measures were being taken in order to promote a widening of the export base, to end export restraints and to strengthen the efficacy of the Export Policy Order and the Industrial Policy?

32. The rôle of the international community in assisting the reform process was emphasized. This would include liberalizing trade in textiles and garments, and providing both financial aid and technical assistance for industry, infrastructure and flood control.

V. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

33. The members of the Council commended Bangladesh for its willingness to undergo the rigorous TPRM process. It was recognized that progress had been made in the reform of trade policies despite severe economic and social difficulties. However, several barriers to trade still remained and Bangladesh was encouraged to continue the liberalization process. The need for the international community to support the process of reform was emphasized. Bangladesh's active participation in the Uruguay Round on behalf of the least developed countries was appreciated.

34. The delegation of the United States noted that the Government's new policy of seeking economic growth through emphasis on the private sector and a more open economy marked a welcome change from its earlier policy of state-led industrialization and extreme protectionism. Elimination of barriers to exports in key markets, including those of neighbouring countries, was essential for the reforms to survive. Bangladesh had made progress in rationalizing tariffs and reducing quantitative restrictions, but there was scope for further liberalization. The issue of foreign currency restrictions, which had led to capital flight, would be discussed during the balance of payments consultations. The United States assured Bangladesh of strong support as it undertook reforms negotiated with the World Bank.

35. The representative of the European Communities noted that this was the first review of a least-developed country. He remarked on the restraint with which Bangladesh had approached the review. This was reflected in the composition of the delegation of Bangladesh. In reviewing Bangladesh, there was need for Council members to show equal restraint and emphasized the need for sensitivity. He welcomed the move in Bangladesh towards greater reliance on market forces and private enterprise, even though the process was not yet complete. There remained problems like large budget deficits, high and variable tariffs, bans and restrictions on imports, minimum export prices and other institutional inadequacies like complex licensing procedures. These needed to be addressed to remedy problems like industrial sickness. There had been a significant increase in exports of sectors like frozen food and garments. But in the latter case, the domestic value added was low because of the lack of competitiveness of the upstream textile industry, which was heavily protected. The MFA had played a rôle in the development of the industry, and the transitional period proposed in the Uruguay Round would provide time for adjustment in Bangladesh. It was essential to improve the international trading environment, perhaps by granting differential access to developing countries like Bangladesh in an intermediate phase. The European Communities had made Bangladesh a beneficiary of their large assistance programme.

36. The representative of Australia welcomed the reform of trade and agricultural policies, and the reduction in Government intervention and subsidization. Further progress needed to be made in the privatization of unprofitable state enterprises and in removing trade and regulatory restraints. The following specific questions were raised: did Bangladesh intend to simplify its import procedures and, if so, within what timeframe? Had maximum tariffs been reduced to 100 per cent, and what were plans regarding further tariff rationalization and reduction? Did Bangladesh still impose minimum prices on exports of raw jute and jute products, a ban on the export of wet-blue leather, and local content requirements on the export of garments? If so, were these policies under review?

37. The representative of Egypt expressed appreciation of the effort made by Bangladesh to implement its Fourth Five-Year Plan and offered his country's support. He stressed the importance of providing preferential access for Bangladesh's exports and of encouraging foreign direct investment in Bangladesh to expand and diversify the export base.

38. The representative of Canada reiterated his country's commitment to economic and social progress in Bangladesh, which was the largest recipient of Canada's bilateral aid. The process of reform was welcomed, in the areas of both fiscal and trade policy, in particular the move from a positive to a negative import control list, and the abolition of the development surcharge, regulatory duty, sales tax on imported goods, and the compulsory import margins. However, the high and variable tariffs, and considerable uncertainty due to a lack of bindings, along with the import bans and complex import procedures, served to severely distort price signals and discourage production for export. These were the reasons why a decade of commendable adjustment had yet to result in strong, sustained economic growth. It was noted that the the fiscal constraint should not prevent rationalization of the tariff to ensure its neutrality among different sectors and industries. The following specific questions were posed: what plans did the Government have to reduce the tariff peaks and the wide dispersion of tariff rates, to modify the complex import procedure and to adopt the customs valuation code? An anomaly in the tariff structure which concerned the Canadian authorities was the high tariffs imposed on edible oils and oil seeds. such as canola and mustard, while lower tariffs were applied to similar products such as soybeans.

39. The representative of Sweden, speaking on behalf of the Nordic countries, expressed his high estimation of the changes in Bangladesh's trade policy, but noted that the transition to a fully market oriented trade regime had not yet been fully accomplished. He noted with satisfaction the initial successes of the reform programme and welcomed Bangladesh's further integration into the multilateral trading system. Specifically, the Nordic countries asked the following questions: could

Bangladesh specify the timeframe in which the remaining bans and restrictions on imports would be eliminated? Did Bangladesh plan to adhere to the Tokyo Round Agreements, and if it did, when was this likely to happen?

40. The representative of Brazil praised Bangladesh's commitment to reform and its efforts to diversify its export base, which was essential to reduce vulnerability to volatile commodity markets. Bangladesh, as an exporter of raw materials and processed agricultural products, was particularly affected by protectionism in world markets. Trading partners needed to reduce tariffs and eliminate other trade barriers to support Bangladesh's trade reforms. The Government had a particularly important rôle to play in formulating economic policy and creating favourable economic conditions. This was demonstrated by the recent success of non-traditional exports like ready-made garments and frozen fish. The need to adapt economic reforms to specific situations was revealed by the fact that only about 44 per cent of the privatized units continued to be in production. This meant that diminishing protection would not by itself lead to efficiency. Interest was expressed in the future course of privatization.

41. The representative of India expressed his country's appreciation of the policies being pursued by Bangladesh. He noted that the transition to a more outward oriented trade regime had been particularly painful for Bangladesh because of the scarcity of both domestic savings and foreign exchange. The dependence of Government on customs duties for revenue was a reason for the high average level of tariffs. The limitations on imports through quantitative restrictions and licensing requirements were necessary to ensure that scarce foreign exchange was used for development needs. The responsiveness of the international community to Bangladesh's need for market access was reflected in the duty free access its exports enjoyed in major markets. The GATT contracting parties had also been sensitive to the demands of least developed countries that they be required to undertake only those commitments which were commensurate with their respective stages of development. However, there still remained scope for improving market access for Bangladesh's exports, in particular, those of textiles and clothing.

42. The representative of Mexico congratulated Bangladesh on its policy reforms designed to encourage market-directed and export oriented growth based on private ownership. However, there was scope for further liberalization since the domestic market continued to be protected both by import restrictions and high tariffs. While the success of the garment sector was a positive development, there was a need to further widen the export base. External assistance was essential to encourage growth and support policy changes and could take the form of technical assistance,

financial aid, foreign direct investment, improved market access and special programmes for export promotion.

43. The representative of Japan welcomed the promotion of structural adjustment policies in Bangladesh. The outward oriented policies would lead to both a widening of the export base and an increase in productivity. The fact that non-traditional exports had increased their share to almost half of total exports was evidence of the success of these policies. The basic objectives of the new industrial policy, i.e. deregulation of the private sector, privatization of state enterprises, and promotion of foreign direct investment and export-oriented industries, held good prospects for economic reform. In particular, the acceleration of foreign investment was indispensable for Bangladesh which was suffering from scarcity of domestic savings and persistent budget deficits. Foreign investment could be encouraged by granting expeditious permission to investors and providing adequate infrastructural facilities such as electricity, water and transport. The experience of the neighbouring ASEAN countries may be relevant, even though their economic situations were different from Bangladesh's. It was to be hoped that, despite its difficulties, Bangladesh would pursue development policy with consistency.

44. The representative of Peru recognized Bangladesh's special situation and noted with concern the large size of the budget and trade deficits, as well as the huge burdens of external debt and debt service. The change in economic and trade policies was welcomed. The present trend would lead to increased exports and increased diversification of the export base, as the experience with clothing and frozen fish revealed. The reduction in tariffs and import restrictions and the steps towards privatization were other positive developments. However, it was essential for the successful implementation of policy reform that a favourable external environment be created. This would involve not only increased financial and technical assistance, but the opening up of markets to Bangladesh's exports. The removal of quantitative restrictions on its exports of textiles and garments was particularly important.

45. The representative of Switzerland noted that though Bangladesh was not yet in a position to implement all the rules and procedures of the GATT, this could easily be explained by the difficulties that the country faced. The changes in Bangladesh's trade policies were welcomed as were the encouraging developments in the textile sector. The number of products subject to restrictions had been reduced and the tariff had been simplified, even though it was still quite high on average and had several peaks. However, the opening of markets could only take place at a pace which took into account the interest of national industries. Cautious optimism was expressed that the continuation of the reform process would

lead to sustained growth by making the country more open to international trade.

46. The representative of Turkey congratulated Bangladesh on the shift in the direction of its policies. However, the scarcity of domestic savings and foreign exchange limited the scope for liberalizing the economic regime, making it imperative to create a favourable external and multilateral trade environment. Bangladesh deserved not only encouragement but also special treatment to make possible high growth and the transition to a more liberal economic regime.

47. The representative of Tanzania noted that despite the significant structural reforms undertaken in Bangladesh and other least developed countries, their economies remained marginalized in the framework of global economic and trade relations. Their difficulties included an increased debt burden, worsening terms of trade and declining income per capita. There was an urgent need for the international community, especially the developed countries, to address these problems both by providing increased aid and by liberalizing their markets. Bangladesh had been prevented from taking full advantage of its competitive edge in sectors like textiles by the existence of non-tariff barriers. The GATT was obliged to ensure that the concerns of the least developed countries were taken into account and that their exports were not constrained. The existing compensatory financing schemes, such as that of the International Monetary Fund (IMF), were inadequate to meet the development needs of the least developed countries.

48. The representative of Sri Lanka noted that the significant steps Bangladesh had taken in reforming its trade policies should be viewed in the context of both the world and regional trading situation. The external environment had been unfavourable in the past two decades. Declining unit prices of primary commodities had led to slow growth of earnings from exports despite increases in export volumes. The resultant balance of payments difficulties had limited the scope for reform. It was thus important for the least developed countries that a favourable external environment be created and that they be net beneficiaries of the Uruguay Round.

49. The representative of Madagascar welcomed the efforts made by Bangladesh to improve its policies despite the adverse economic situation and its vulnerability to external shocks. Bangladesh was encouraged to continue its liberalization programme which would contribute to an improved multilateral trading system. An appeal was made to the international community to provide technical, financial and any other form of assistance that may be required to assist the integration of Bangladesh and other least developed countries into the multilateral trading system.

50. The representative of Poland was pleasantly surprised to see certain positive aspects in Bangladesh's recent economic performance. There had been positive growth in per capita gross domestic product and the structure of exports had changed towards more processed products, presumably as a result of Government policy. In particular the share of clothing exports had increased while that of textiles had declined. Many barriers to imports remained and import procedures were complex. Bangladesh was encouraged to simplify procedures and make them more transparent. The unification of the exchange rate was a positive development. However, there might be scope for greater activism in the use of the exchange rate as an instrument to increase the competitiveness of exports.

51. The representative of Hungary said that his Government was sympathetic to the process of economic transformation in Bangladesh. He described elements of both the import liberalization and the export promotion programmes and noted that the process of reform was still perceived to be incomplete. However, he doubted the appropriateness of applying identical standards when assessing the economic and trade policies of different countries, irrespective of their level of economic development and their different social and economic problems. Continuation of the reform programme would strengthen the efficiency and the competitiveness of Bangladesh's economy. A more favourable external environment, particularly the elimination of barriers in key export markets, was needed to support the pace of reform and facilitate the transition to a more liberal economic regime. A successful completion of the Uruguay Round, by providing secure and stable export markets, would assist Bangladesh's efforts in achieving its full export potential.

VI. RESPONSE BY THE REPRESENTATIVE OF BANGLADESH

52. In reply, the representative of Bangladesh thanked the other delegations and said that his authorities would be encouraged by the positive response of Council members to his country's trade reforms. Bangladesh fully intended to continue in its current policy direction.

53. On specific points he said:

- it was true that average tariffs were relatively high, but peaks were few. The budget was still very dependent on tariff revenue since the scope for direct taxation was limited by the low per capita income and administrative difficulties. Tariffs also remained necessary to safeguard certain industries in which there was scope for cost reduction and eventual international competitiveness;

- Import procedures were still not fully simplified, but the foreign exchange constraint made controls necessary to ensure that external resources were used in priority areas;

- the minimum export prices for jute and jute goods were not meant to take advantage of market power but sought to prevent price undercutting by jute exporters and to ensure a reasonable return for jute growers;

- the ban on wet-blue leather had been introduced to encourage higher value added in production. There would be a time lag before the measure could be expected to result in higher export earnings. Moreover, the introduction of the policy had coincided with the 1991 cyclone, which had destroyed livestock and hence weakened the base for a larger processing sector;

- attempts to achieve higher value added in clothing were motivated in part by the fact that GSP benefits on clothing, where available, required fairly high value added content;

- tax reform was being pursued but was made difficult by the small size of the organized sector. Scope for agricultural taxation was limited by the low size of holdings and the dominance of subsistence farming. Lowering the average tariff rate might yield higher revenues, but the prospects were uncertain;

- both the Export and Import Policy Orders and the Industrial Policy identified areas in which the export base might be widened. However, success required increased investment and

support from foreign sources. Since 1980, foreign and domestic investors were treated equally, the repatriation of profits and capital were guaranteed, and the employment of foreign workers was allowed. Bangladesh's efforts to improve export earnings would also benefit from an improved external environment, particularly through enhanced market access for its products;

- regarding the institutional framework, the exercise of control over imports required legislative authority, but the promotion of exports and industry did not. The Head of the Government was the Chairman of a special committee concerned with implementing the export policy, and there were several other institutions entrusted with similar objectives;

- the exchange rate was set according to a basket of currencies of Bangladesh's main trading partners. While more active management might increase the volume of traditional exports, the high import content of non-traditional exports, like garments, clouded the link between the exchange rate and export volume movements; and

- countries like Bangladesh need unhindered market access for their exports so that they succeed in their efforts towards export-led development.

VII. OTHER STATEMENTS

54. The first discussant noted the convergence of views that had been expressed. He did not underestimate the difficulties but encouraged Bangladesh to continue along the path of reform.

55. The second discussant felt that the minimum export prices for jute would not be necessary if there was free movement of resources into and out of the industry. He hoped that that the substance of the discussion would be communicated to the Bangladesh Government by their representative and would be taken into account in the formulation of future policy. The Council members should take steps to concretize their proposals for assisting Bangladesh, especially by removing barriers to its exports of textiles and clothing.

The representative of Bangladesh made the following further points:

- high unemployment rates and the absence of a social safety net implied the need for caution in implementing rationalization programmes for "sick" industries;

- privatization was made difficult by the scarcity of domestic investment financing; and

- increased efficiency in the services sector required modern technology and skilled manpower; a large part of the services sector was not in the organized sector and therefore modernization was difficult.

VIII. CONCLUDING REMARKS BY THE CHAIRMAN

56. The Council has conducted the first review of the trade policies and practices of Bangladesh. These remarks, made on my own responsibility, summarize the salient points emerging from the review. They are not intended to substitute for the full discussion and assessment by the Council: this will be reflected in the minutes of the meeting.

57. In his introductory statement, the representative of Bangladesh highlighted the extreme economic and social difficulties faced by Bangladesh, as a least-developed country. Population density was among the highest in the world, leading to severe strains on land and other resources, and the country possessed few natural resources. Natural disasters - such as the 1991 cyclone - were frequent. Exogenous shocks - such as the Gulf crisis - bore heavily on the economy. With low levels of technological development and factor productivity, per capita income was less than US$200 per annum.

58. Despite these difficulties, since 1985 successive Governments had embarked on a process of reform, with a gradual shift away from import substitution, based on public ownership, towards an outward-orientated development strategy relying primarily on private enterprise. There had been significant reductions in tariffs: the weighted average tariff was now about 20 per cent. The scope of import restrictions had been reduced and procedures simplified. Restrictions on investment had been virtually eliminated: domestic and foreign investors were treated on an equal footing.

59. The pace of reform was limited, however, by the structural constraints inherent in the Bangladesh economy. Owing to the narrow production and export base, export earnings financed only 40 per cent of the total import bill. The trade gap thus had to be contained within the limits of foreseeable external assistance. To this end, the Government continued to assist efficient import substitution in certain industries. A least developed country like Bangladesh could not rely solely on export-led growth, because of the lack of technical and marketing expertise and the declining demand for its traditional export products. In this context, the importance of favourable external conditions was also emphasised. Bangladesh had made far-reaching proposals in the Uruguay Round for improved market access for least developed countries.

60. Participants recognised the severe economic and social problems faced by Bangladesh. Its vulnerability to external shocks was exacerbated by the narrow export base. Traditional exports faced depressed markets and strong competition. At the same time, domestic poverty, combined with a low level of foreign exchange resources, placed severe constraints on potential

investment. Bangladesh was dependent on substantial foreign aid for financing its import bill.

61. Bangladesh also faced a formidable fiscal challenge. The tax base was narrow and direct tax collection efficiency was low: some one-third of the Government revenue came from import duties. The overall deficit was some 7 per cent of GDP.

62. Welcome export diversification had taken place, but remained limited. The garment and sea food industries had broadened the export base somewhat from the traditional areas of jute and tea. Growth had also occurred in exports of leather products, with some improvement in value added. However, potential for garment exports remained restricted by MFA restraints; productivity in seafood was low by international standards and the sector had been severely affected by the 1991 cyclone; and income and price elasticities for Bangladesh's traditional exports remained low.

63. Participants welcomed the market-oriented reforms introduced since 1985, including:-

- reform of import policy, particularly the lowering of tariffs, reduction of import restrictions and simplification of import procedures;

- a greater rôle for the market in the determination of the exchange rate;

- promotion of conditions favouring the expansion of non-traditional export industries;

- privatization of a number of State-owned industries;

- the introduction of new incentives for foreign direct investment.

64. However, participants also called attention to domestic policies which, in their view, constrained Bangladesh's trade and development:-

- tariffs remained high overall, with considerable peaks;

- import procedures appeared still to be somewhat cumbersome;

- minimum export price requirements for jute and value-added requirements for garment exports remained in force;

- exports of wet-blue leather remained banned;

- "sick" industries were heavily supported through easy access to credit and direct Government funding which could better be devoted to more productive activities;

- the institutional base for the implementation of policy reforms required further development, including easier entry and exit conditions for industries;

- exchange rate policy appeared insufficiently flexible to encourage competitiveness in export-oriented sectors.

65. It was emphasised that an improved external trading environment could provide significant support for the reforms being undertaken in Bangladesh. The urgent need was stressed for trade liberalization in areas of export interest to Bangladesh, including textiles and clothing, where existing quotas were substantially filled. This should be complemented by increased financial assistance, as well as technical cooperation in areas such as flood control and the development of infrastructure.

66. In reply, the representative of Bangladesh said that his authorities would be encouraged by the positive response of Council members to his country's trade reforms. Bangladesh fully intended to continue in its current policy direction.

67. On specific points he said:

- it was true that average tariffs were relatively high, but peaks were few. The budget was still very dependent on tariff revenue and tariffs remained necessary to safeguard certain infant industries;

- tax reform was being pursued but was made difficult by the small size of the organized sector. Lowering the average tariff rate might yield higher revenues, but the prospects were uncertain.

- Import procedures were still not fully simplified, but the foreign exchange constraint made it necessary to monitor use of external resources carefully;

- the minimum price for jute and jute goods sought to ensure a reasonable return for jute growers;

- the ban on wet-blue leather had been introduced to encourage higher value added in production. There would be a time lag before the measure could be expected to result in higher export earnings. Moreover, the introduction of the policy had coincided

with the 1991 cyclone, which had destroyed livestock and hence weakened the base for a larger processing sector;

- attempts to achieve higher value added in clothing were motivated in part by the fact that GSP benefits on clothing, where available, required fairly high value added content;

- both the Export and Import Policy Orders identified areas in which the export base might be widened. However, success required increased investment and support from foreign sources. Bangladesh's efforts to improve export earnings would also benefit from an improved external environment, particularly through enhanced market access for its products;

- privatization was made difficult by the scarcity of domestic investment financing;

- high unemployment rates and the absence of a social safety net implied the need for caution in implementing rationalization programmes for "sick" industries; and the exchange rate was set according to a basket of currencies of Bangladesh's main trading partners. While more active management might increase the volume of traditional exports, the high import content of non-traditional exports, like garments, clouded the link between the exchange rate and export volume movements.

68. In conclusion, the Council encouraged the Bangladesh authorities to continue the process of trade policy reform. It welcomed the measures taken to reduce administrative barriers to imports and to reform the tariff structure. At the same time, it recognized that inefficiencies in resource allocation were fostered by assistance to uncompetitive firms. The Council stressed that Bangladesh, as a least developed country, faced severe domestic and external constraints. Improved access to markets for Bangladesh's exports including in the context of the Uruguay Round, would support the reforms and facilitate the development of a more efficient productive economy. This should be reinforced by adequate financial and technical assistance.