SUMMARY

1. The Bangladesh economy emerged relatively unscathed from the global economic crisis though the country remains vulnerable because its exports are not diversified and it depends heavily on migrant workers' remittances. Although the economy has become increasingly open in recent years, total merchandise exports have remained limited, averaging 18% of GDP since 2006. Exports remain highly concentrated both in terms of products and destinations, which carries some risk, with readymade-garment (RMG) exports to the EU and the U.S. the current mainstay. However, as a reputable low-cost producer of garments, Bangladesh has gained global market share in recent years. This trend is expected to continue over the medium term, which could partially mitigate the impact of slow growth in advanced economies.

(1) ECONOMIC DEVELOPMENTS

2. The average annual real GDP growth of the Bangladesh economy during the last six years was over 6%, aided by conducive macroeconomic policies, strong export growth and favourable weather. GDP growth was broad based with agriculture, industry and service sectors performing well. According to preliminary estimates, GDP growth in FY2012[1], although still estimated to be over 6%, has slowed slightly. The performance of exports, a key growth driver, has declined as the year has progressed, largely due to weaknesses in Bangladesh's key market, the EU.

3. The overall balance of payments remained in surplus during most of the review period, enabling the country to continue accumulating international reserves. However, this turned into deficit in FY2011, for the first time in a decade, because of the combined impact of rising imports of food, fuel and capital goods, and weak growth of workers' remittances and aid inflows. Even though its exports have increased significantly, Bangladesh still suffers from a chronically weak foreign trade account because of its dependence on imports of most essential goods, including fuel. A further slowdown in the global economy may worsen the balance of payments by negatively affecting exports, remittances and FDI inflows. Substantial inflows of remittances are crucial to Bangladesh's macroeconomic stability, as they offset to a large extent the trade, services and income deficits.

4. Bangladesh has outlined a vision of becoming a middle-income country by 2021. This would require it to grow by at least 8% per year, compared to the current 6%-7%, driven by accelerated growth in the industrial and services sectors, diversification of export markets and higher foreign exchange earnings from the export of semi-skilled and skilled labour. Bangladesh needs to improve the investment climate and continue to carry out trade-related reforms to increase domestic and foreign investment for more rapid and inclusive trade-enhancing growth. The Government needs to focus its trade reform efforts on reducing trade distortions, minimizing anti-export bias through further tariff reforms and ensuring greater integration into the multilateral trading system. Low tax collections remain a major constraint since they affect the Government's capacity to increase public investment in energy and other infrastructure sectors.

5. Bangladesh remains vulnerable to climate change and natural calamities such as cyclones and floods, causing substantial economic losses, reduced economic growth and halting progress in poverty reduction. Nevertheless Bangladesh has made impressive economic and social progress in the past decade despite frequent natural disasters. Poverty declined from 57% of the population in 1990 to an estimated 31.5% in 2010, ensuring that Bangladesh is on track to meet the Millennium Development Goal of halving extreme poverty by 2015. According to OECD data, between 2002

[1] Covers the period 1 July 2011 to 30 June 2012

and 2009, Bangladesh was the second largest recipient of aid for trade among LDCs with the focus on meeting broad infrastructure needs, enhancing competitiveness and institutional capacity building.

(2) TRADE POLICY FRAMEWORK

6. Bangladesh, an original Member of the WTO, grants at least MFN treatment to all its trading partners and receives the special and differential treatment provided for in the WTO Agreements. It continued to participate actively in the work of the WTO, serving twice as the coordinator of the LDC Group in Geneva in 2007 and 2011, and advocating issues of interest to LDCs, including greater market access, increased flexibility in the development of multilateral trade rules as well as targeted assistance to trade infrastructure.

7. The principal responsibility for making trade policy is shared between the Ministry of Commerce and the Ministry of Finance, although a large number of other ministries and agencies are involved in the formulation and implementation of trade and investment policies. The Government is looking at ways to better coordinate policy on trade and investment-related matters between ministries and departments, and between them and the private sector within the framework of developing a comprehensive trade policy for the next five years.

8. Reforms of the legal and regulatory framework have become essential in certain areas for facilitating economic growth and social development. Since the previous Review, in addition to the regular import and export policy guidelines, important new legislation has been passed in trade-related areas including: standards and accreditation, SPS, government procurement, intellectual property rights, economic zones, money laundering, insurance, tourism, telecommunications and competition.

9. Bangladesh's involvement in and commitment to regional integration initiatives has deepened during the review period with the progressive development of a South Asian Free Trade Area (SAFTA) and a Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMST-EC) Free Trade Area as well as the expansion of product coverage under the Asia Pacific Trade Agreement (APTA), also known as the Bangkok Agreement. Exports to SAFTA and BIMSTEC partner countries have remained limited, accounting for only 3% of total exports in each case. Bangladesh, a beneficiary under various GSP schemes and an active participant in the Global System of Trade Preferences among Developing Countries (GSTP), is pursuing efforts to obtain duty-free access to the United States market for its textiles and clothing, although exports to the U.S. under preferences remain insignificant.

(3) TRADE POLICY DEVELOPMENTS

10. The customs tariff is Bangladesh's main trade policy instrument as well as a significant although declining source of government revenue (on average 18.1% of total tax revenue during the review period). Almost all tariff rates are *ad valorem*, thus ensuring a high degree of transparency. The duties on basic raw materials, capital machinery and parts, intermediate goods and finished products are 5%, 3%, 12% and 25% respectively; the zero per cent rate on commodities like rice, wheat, onions, pulses, edible oils, seeds, fertilizers, medicines and cotton has been kept unchanged. The average applied MFN tariff (exclusive of specific duties and other charges) fell slightly from 15.5% in 2005/06 to 14.9% in 2011/12. The average customs duty on agricultural products (19.4%) remains higher than for industrial goods (14.3%). There is a concentration of tariff lines at the three higher customs duty rates, and a pronounced escalation in several areas (including textiles and leather), seemingly in line with national policy priorities.

11. Bangladesh has bound 17.8% of all tariff lines. For agricultural tariff lines, 100% of are bound; this is the case for only 2.7% of industrial tariff lines. The non-agricultural bound lines are at several rates ranging from zero to 200%, with a marked concentration at 20'%, 30% and 40%. As a consequence, market-access conditions for manufactured items are subject to some uncertainty; the absence of bindings for most tariff lines and the current gap of 157 percentage points between the average bound and applied MFN tariff rates provides considerable scope for the authorities to raise applied rates.

12. Additional protection has been maintained through other charges and internal taxes, notably regulatory duties and supplementary duties (SDs). SDs, which apply to nearly 20% of tariff lines, are aimed at discouraging the import of luxury goods and the supply of goods or services considered undesirable on social, moral, religious or health grounds. Maximum protection rates with SDs of 250% or more apply to alcoholic beverages, cigarettes and luxury cars. While SDs are like excise taxes and are, in principle, trade neutral (i.e. the same rates apply to imports and similar domestically produced goods), this may not always be the case in practice. SDs constitute a tool for levying additional tariffs on any imported goods, as and when deemed appropriate by the authorities, with essential and non-luxury goods, including raw materials and intermediates, also subject to supplementary duty. Levied on the landed value of goods plus customs duty, but excluding VAT, supplementary duties have a cascading effect as protection rates rise further with higher customs duty rates.

13. Significant customs modernization is under way to facilitate speedy customs clearance through automation and to improve transparency in the customs clearance process. Import clearance and export procedures have been further simplified by reducing the number of signatures needed for clearance of consignments and the frequency of inspection of goods. The port of Chittagong, which handles over 90% of the country's import/export trade, has significantly improved its competitiveness and efficiency relative to other ports in the region in terms of costs, vessel turn-around time and container handling productivity. Preshipment inspection (PSI) has begun to be phased out to allow customs officials to gradually assume greater responsibility before the PSI system is due to be removed completely at the end of 2012 after the expiry of existing contracts with the PSI agencies.

14. Regarding import restrictions, Bangladesh has maintained the limited product coverage of the control list containing import prohibitions and restrictions in force. No contingency measures have been taken during the period under review.

15. Currently, it is estimated that annual expenditure on procurement of goods, works and services in the public sector of Bangladesh accounts for 20%-24% of the annual national budget. The 2008 Public Procurement Act and Public Procurement Rules contain most features of good international public procurement practices and the new framework establishes *inter alia* a domestic preference of 15% of the delivered price for goods and 7.5% of the contract price for works. A new legal framework for competition is now in place. Widespread state involvement in the economy persists with state-owned enterprises largely engaged in commercial activities and exercising a dominant influence in many key industries including jute, textiles, steel, chemical/fertilizer production, sugar, utilities and transport.

16. Export prohibitions are maintained mainly for reasons of health, ecological balance, security, archaeological value, or maintenance of adequate domestic supply. Export permits/authorizations are required for a few items. Exports of urea fertilizer (produced at the state-owned KAFCO plant) remain restricted. Assistance for domestic production and exports (export-oriented firms, "deemed exporters", and firms operating in export processing zones) varies by type of activity to, inter alia, encourage use of domestic technology, import substitution, adjustment and/or boost export

performance, as well as to offset the adverse effects of tariffs and other border taxes. Such assistance is available in the form of tax and non-tax incentives. The former include: indirect tax measures such as concessionary duty rates on imports of capital machinery and spare parts, duty drawback for exports, special bonded warehouses for inputs used in the manufacture of finished products, and VAT rebates on certain export-related services; and direct tax measures, like rebates on taxable income generated from any export business or exemption from income tax.

17. Other forms of support consist of cash grants for exports, accelerated depreciation, and various types of loans at concessional interest rates (for exports, agricultural production, small and cottage industries) determined by the Bangladesh Bank.

18. While economic processing zones have had some success in attracting investment and in contributing to exports, their impact remains limited in the amount and type of exports, investments, and employment. The Bangladesh Economic Zone Act 2010 will facilitate establishing up to 20 economic zones, which are expected to generate 1.5 million new jobs when in operation, and around 85% of the country's exports by 2021.

19. Bangladesh is upgrading its quality and standards infrastructure towards international levels by collaborative efforts with the newly operational Bangladesh Accreditation Board, established under the Bangladesh Accreditation Act (2006). SPS matters are handled by the Ministries of Agriculture, Health and Fisheries and Livestock within a regulatory framework of numerous legal instruments. Bangladesh has faced, and overcome, critical challenges in meeting export standards, in particular to the EU market which is the largest importer of Bangladesh frozen shrimps.

20. Bangladesh continues to bring its IP laws in line with the TRIPs Agreement and other international commitments within national economic and social development strategies. As an LDC, Bangladesh has been given an extended time limit until July 2013 for the full implementation of the provisions of the TRIPS Agreement, other than those relating to national treatment and most-favoured nation treatment. Bangladesh is also a beneficiary of the TRIPS Council decision extending until 2016 the transition period during which LDCs do not have to protect or enforce patents and undisclosed information relating to pharmaceuticals. Bangladesh recognizes that enforcement of IPRs is important for encouraging innovation and creation although it admits that enforcement falls short of the desired level.

(4) SECTORAL POLICY DEVELOPMENTS

21. Raising productivity in the labour-intensive agriculture sector continues to be a concern in Bangladesh, which is prone to natural disasters. Rice production is the most important economic activity in rural Bangladesh, with rice constituting 90% of total food grains produced annually. Tariff and non-tariff protection has been reduced. To cut production costs and face competition from neighbouring countries, support to domestic production has been strengthened through the subsidization of agricultural inputs (i.e. seeds, fertilizer, irrigation, capital, through concessional interest rates, and electricity) and public procurement practices. Trade policy with respect to importable food staples (rice and wheat) is characterized by interventions based on food security concerns and variable in terms of levels of protection and support. Bangladesh has maintained a direct cash subsidy of up to 20% for certain agricultural and fisheries exports (i.e. frozen shrimp and fish, fruits, vegetables, agro-processed products) during the review period.

22. Manufacturing remains dependent on the labour-intensive readymade-garment (RMG) sector and large loss-making SOEs. It was feared that the phasing-out of quotas in accordance with the Agreement on Textiles and Clothing (ATC) in 2005 would adversely affect Bangladesh, but by then

the country had achieved sufficient competitiveness to survive and the garment sector has continued to achieve sufficient growth. The garment industry is expected to remain the largest contributor to growth in output for the foreseeable future, in particular since the 2011 change in EU import rules which gives Bangladesh and other LDCs duty-free access if imported components of the final product do not exceed 70% (compared to 30% previously). Government support measures include the provision of bonded warehouse facilities, technological upgrading (concessionary duty rates and tax exemptions for the import of capital machinery), cash subsidies for the use of local fabrics as inputs for exporting RMG enterprises and an export credit guarantee scheme covering risks on export credits at home, and commercial and political risks abroad.

23. Services represent half of Bangladesh's GDP and are expected to maintain their rapid growth in the coming years as the Government continues to focus on developing services trade, in particular the country's outsourcing capabilities, including call centres. In the context of privatization across all industries, which has intensified since the 1990s, liberalization measures have been taken especially in financial services, telecommunications and transport services. The mobile telecommunications sector has been opened up to competition with the participation of both domestic private and foreign capital. The entry into the market of private operators since 1998 has led to mobile-phone subscriptions increasing from a negligible number to nearly 90 million by early 2012. Measures have also been taken to allow for private participation in shipping and port services with a view to increasing efficiency and competitiveness in logistics services. While small and relatively underdeveloped, contributing less than 2% of GDP, the bank-dominated finance sector in Bangladesh is characterised by diversity and a continuing, although declining, state involvement in the sector.

24. The experience of Bangladesh shows that foreign market access for services provided through the temporary movement of workers and professionals can have significant positive effects in terms of improved availability of scarce foreign currency, improving the current account balance, financing of higher levels of imports, economic growth, employment generation and poverty reduction. The value of remittances to the Bangladesh economy is many times larger than aid or FDI. Remittances more than doubled during the review period, reaching US$12.8 billion in FY2012.

25. Bangladesh has not changed its GATS commitments since its previous Review. The activities of five star hotel and lodging services, and telecommunications services are the only commitments covered by its schedule. Bangladesh is active in the Doha Round services negotiations, especially on LDC-related matters, such as the LDC collective request on mode 4 and the LDC waiver.

(5) OUTLOOK

26. Bangladesh has enjoyed robust growth during the review period and, given its inherent strengths - especially a vibrant private sector and a large pool of inexpensive labour - the prospects for continuation of such growth are relatively good. Unit labour costs in the dominant garment industry are well below those of the nearest competitors. Foreign investors are showing interest in large-scale relocation of labour-intensive industries, particularly garments and related textile manufacturing. In addition, sectors such as shipbuilding, pharmaceuticals, ceramics, and processed and frozen foods have shown dynamism in recent years.

27. Although the outlook appears optimistic, both RMG exports and remittances are vulnerable to shocks: external demand with garments, domestic labour unrest, and changes in market access; and remittances from changes in labour regulations and policies, or shocks in Kuwait or Saudi Arabia, which absorb over half the migrant Bangladeshi population. A deterioration in the outlook for both could cause significant external pressure, particularly as FDI flows remain low by most measures,

constrained by the trade regime, poor infrastructure, governance problems and a difficult business climate. Longer-term growth prospects hinge on generating sufficient resources to relieve infrastructure bottlenecks and ensuring a competitive business environment focused on labour-intensive activities.