

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/211

9 October 1980

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original: English

1980 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH PEOPLE'S REPUBLIC OF BANGLADESH

Statement by Bangladesh under the Simplified Procedure for Consultation¹

1. The Government of the People's Republic of Bangladesh has prepared the following report in fulfilment of the consultations required under Article XVIII:B on the General Agreement on Tariffs and Trade.
2. The consultations are prompted by trade readjustment measures adopted by Bangladesh Government with a view to coping with its balance-of-payments situation while maintaining the rate of development of the economy of the country.
3. These measures, although designed to achieve the purposes indicated above, nevertheless left provision for a substantial increase in imports of capital goods. The Bangladesh Government has thus sought expansion in its external trade in line with the country's development needs keeping in view the principles of the GATT.
4. It would appear from the import programme of Bangladesh as stated below that the imports of Bangladesh are non-discriminatory and the measures are short term subject to review at regular intervals.

Economic Situation during 1979-80

The overall economic situation in the country was satisfactory during 1979-80. According to the preliminary estimate, the gross domestic product at constant factor cost of 1972-73 is expected to rise by 6.1 per cent compared to 4.0 per cent achieved during 1978-79. During the year under review the agricultural sector is expected to contribute about 54.58 per cent of gross domestic product. Growth of agricultural output may be around 4.2 per cent during 1979-80 compared with an increase of only 1.5 per cent during 1978-79. Industrial output is expected to rise by 9.3 per cent compared to an increase of 8.7 per cent during 1978-79. The highest growth rate of 20.5 per cent is expected to be in the power and gas sector followed by construction at 18.0 per cent, public administration at 9.0 per cent, banking and insurance at 8.0 per cent and services at 6.03 per cent. Per capita income is expected to increase by 3.2 per cent compared with an increase of only 1.1 per cent achieved during 1978-79.

¹L/3772/Rev.1.

The production of food grains during 1979-80 has been estimated at 13.35 million tons compared to the actual production of 12.98 million tons during 1978-79. Of the total estimated production of food grains in the current year, 12.15 million tons is for rice and the balance of 1.2 million tons for wheat. Of the total (actual) production of 12.98 million tons of food grains during 1978-79, 12.50 million tons was for rice and the balance .48 million tons for wheat. During 1979-80, 2.91 million tons of food grains is estimated to be imported from abroad. During 1978-79, the import of food grains stood at 1.16 million tons. The government stock of food grains increased during the year due to larger import of food grains and, as a result, it was possible to release a larger quantity of food grains through the public distribution system.

The target of distribution of chemical fertilizer in the Annual Development Programme for 1979-80 was fixed at 1 million tons, out of which the total distribution of fertilizer during July-March of the current year stood at .67 million tons. It has been estimated that during the remaining three months (April-June) an additional quantity of .22 million tons of fertilizer will be distributed. During 1979-80 37,768 low-lift pumps were fielded up to March 1980. Besides 745 power pumps were supplied under the special canal digging programme during the current year. During the previous year the number of power pumps fielded stood at 35,895.

During 1979-80 industrial production is expected to have risen by 9.3 per cent compared to 1978-79. In the industrial sector emphasis was given to fuller utilization of existing capacities through adequate supply of imported raw materials and spare parts and increasing the supply of domestic inputs. As a result, it was possible to increase efficiency in both old and new industrial enterprises through a greater use of the productive capacity. During the year under review (July-March actual and April-June estimated) production of the following items increased compared to the last year: jute goods by 6.18 per cent, yarn by 2.62 per cent, cloth by 9.37 per cent, matches by 8.19 per cent, cement by 4.33 per cent, newspring by 8.10 per cent, caustic soda by 7.86 per cent, bus, truck and car by 31.92 per cent, motorcycles by 54.70 per cent, TSP by 8.06 per cent, urea by 19.66 per cent, ammonium sulphate by 100 per cent, radios by 29.53 per cent, diesel engines by 11.00 per cent, soap by 7.00 per cent and steel ingots by 18.85 per cent. On the other hand, the production of sugar, paper, cycle and frozen shrimps and froglegs fell during the year.

With a view to accelerating economic activities and industrial investment in the private sector, various fiscal and monetary incentives declared earlier have further been liberalized. Further, in order to protect the interests of the foreign investors, the Foreign Private Investment Act (Promotion and Protection) was passed by the Parliament. Steps have been taken to set up three export processing zones in Bangladesh. During July-April 1979-80, 795 industrial units were sanctioned by the Government for a total investment of Tk 3,602 million including a foreign exchange component of Tk 1,479 million. By end of the year, total units sanctioned may stand at 895 at a cost of Tk 4,052 million.

The revised estimate of revenue receipts and expenditure during 1979-80 stood at Tk 18,277 million and Tk13,419 million respectively compared with the revised revenue receipts of Tk 15,027 million and expenditure of Tk 11,290 million during 1978-79.

During the year under review, the revised development expenditure has been estimated at Tk 23,299 million, the major portion of which was financed from external sources. The contribution from domestic sources has decreased from 25.17 per cent in 1978-79 to 23.28 per cent in 1979-80.

Total estimated commitments of foreign aid during 1979-80 amounted to \$1,474.5 million compared with the actual commitment of \$1,562.2 million during 1978-79. Total estimated disbursements of foreign aid during 1979-80 amounted to \$1,405.0 million compared with \$1,013.8 million in 1978-79. Total commitments of \$7,976.2 million and disbursements of \$5,293.5 million were made from 17 December 1971 to 30 June 1979.

The debt service payments during 1978-79 amounted to \$89.0 million or 14.40 per cent of the total foreign exchange earnings of the year. In the current financial year the debt service payments have been estimated at \$109.0 million which constituted 14.48 per cent of the total export earnings of the year.

A large portion of foreign assistance is spent for importing food grains, industrial raw materials and other capital goods, and this has been causing a continued strain on the balance of payments of the country. The foreign trade of Bangladesh during 1979-80 has been under pressure due to interplay of forces beyond government control. The value of imports during 1979-80 has been estimated at Tk 39,600 million as compared to Tk 21,725 million in 1978-79 indicating an increase of 82.27 per cent. On the other hand, the value of export earnings during the year under review has been estimated at Tk 1,216 million as compared to Tk 928 million in 1978-79 showing an increase of 31.03 per cent. Of the total export earnings during the year, the share of jute goods and raw jute items was Tk 81.97 million or 67.40 per cent of the total export value. The production of raw jute during the year was of inferior quality which created disposal problems resulting in a considerable decline in its external demand and prices. On the other hand, the import prices of wheat, cotton, fertilizer, cement, industrial raw materials and other capital goods have registered sharp increases and the expansion of domestic bank credit for jute traders for buffer stocking contributed to the prevailing inflationary pressure.

During 1979-80 (up to 25 April 1980) narrow money (M1) recorded an increase of Tk 1,882.6 million or 12.43 per cent to Tk 17,033 million and broad money (M2) increased by Tk 3,820 million or 13.92 per cent to Tk 31,275 million compared with an expansion of Tk 2,089 million or 16.62 per cent in narrow money (M1) and Tk 3,883 million or 17.48 per cent in broad money (M2) during the corresponding period of the last financial year.

The increase in narrow money (M1) to the tune of Tk 1,882 million during 1979-80 (up to 25 April 1980) was brought about largely by the credit expansion of Tk 3,119 million and Tk 3,267 million in the private and public sectors respectively. These expansionary influences were partly neutralized by the accretion of Tk 1,938 million in time deposits with the scheduled banks, surplus of Tk 486 million in the government fiscal operation and deficit of Tk 100 million and Tk 1,089 million in the foreign sector and miscellaneous factors respectively. The credit policy pursued during 1979-80 continued to be aimed at channelizing the limited bank resources to productive purposes and at the same time, strictly restricting the flow of bank funds for unproductive purposes.

The general cost-of-living index increased by 15.90 per cent from an average of 478.89 for the first nine months of the financial year 1978-79 to an average of 555.03 for the corresponding period in the current financial year (July 1979 to March 1980). According to commodity groups, the price index for housing and household requisites rose by 18.02 per cent, food by 18.67 per cent, fuel and lighting by 15.64 per cent, miscellaneous by 10.55 per cent and clothing and footwear by 8.29 per cent. The factors responsible for price rise were attributable to (a) increased liquidity expansion primarily because of higher bank credit to support buffer stocking of low grade jute and POL import, (b) rise in the prices of food grains due to prolonged drought during 1978-79, (c) sharp increase in the import prices of wheat, oil, millet, fertilizer and cement and (d) upward revision in the issue prices of food grains, fertilizer, paper, newsprint, electricity, water, etc.

Balance of Payments

The overall balance of payments of the country recorded a deficit of Tk 117.43 crores during the first nine months, i.e. July 1979-March 1980 in contrast to a surplus of Tk 56.39 crores in the corresponding period of 1978-79. The reversal in the payments position was attributable to marked rise in deficits under Goods and Services Account partly neutralized by increases in net inflows under Unrequited Transfers and Capital Transactions. Unrequited Transfers showed a net inflow of Tk 1,244.59 crores during July 1979-March 1980 as compared with Tk 733.03 crores during July 1978-March 1979. Of the total Unrequited Transfers, net receipts under official Transfers and Private Transfers stood at Tk 1,040.61 crores and Tk 203.98 crores respectively. Net capital inflow during the first nine months of 1979-80 stood at Tk 634.42 crores as compared with Tk 471.25 crores during the corresponding period last year. The net inflow under Capital Transactions represented inflows of Tk 632.29 crores and Tk 2.13 crores under long-term and short-term capital respectively.

The country's foreign trade sector also recorded a deficit during the first nine months of 1979-80 as compared to the same period of 1978-79. The deficit on the Merchandise Account (i.e. visible exports less visible imports) increased to Tk 1,707.16 crores during the first nine months of 1979-80 from Tk 938.09 crores during the same period last year. The deficit

on Merchandise Account widened during the period due to a much larger rise in imports than in exports. Import payments during the period July 1979-March 1980 stood at Tk 2,525.57 crores which was Tk 953.06 crores or 66.08 per cent higher than the payments made in the corresponding period of the preceding year. The table below gives the figures of import-export and balance of trade during the years 1973-74 to 1979-80.

(Value in Tk million)

Year	Import	Export	Balance of trade
1973-74	7320.00	2983.30	(-) 4336.70
1974-75	1,0842.30	3185.80	(-) 7706.50
1975-76	1,4703.20	5551.70	(-) 9151.50
1976-77	1,3992.90	6670.10	(-) 7322.80
1977-78	1,8216.20	7406.10	(-) 1,0810.10
1978-79	2,1726.60	9282.20	(-) 1,2444.40
1979-80	3,9600.00	1,2162.50	(-) 2,7437.50

Source: (a) Planning Commission (1979-80).
 (b) Bangladesh Bureau of Statistics.
 (c) Figures for 1979-80 are provisional.
 (d) Figures for different years were shown in the exchange rate as detailed below:

- (i) 1973-74 at the rate of \$1 = Tk 8.00
- (ii) 1974-75 at the rate of \$1 = Tk 8.00
- (iii) 1975-76 at the rate of \$1 = Tk 14.50
- (iv) 1976-77 at the rate of \$1 = Tk 15.50
- (v) 1977-78 at the rate of \$1 = Tk 15.00
- (vi) 1978-79 at the rate of \$1 = Tk 15.00
- (vii) 1979-80 at the rate of \$1 = Tk 15.50

The convertible foreign exchange reserves held by Bangladesh Bank stood at Tk 592.14 crores at the end of June 1979 increased to Tk 607.18 crores at the end of March 1980. However, the foreign currency reserves declined to Tk 403.19 crores at the end of June 1980 mainly due to acceleration in import payments during the last quarter of 1979-80.

The table below gives the balance-of-payments position of Bangladesh during 1978-79 and 1979-80.

(Value in Tk million)

Transaction	1978-79	1979-80*
1. Merchandise imports (C.i.f.)	(-) 2,4930	(-) 3,9600
2. Merchandise exports (F.o.b.)	9000	1,2160
3. Services:		
(a) Payments	(-) 350	(-) 620
(b) Receipts	1750	3030
4. Balance of current account	(-) 1,6280	(-) 2,8060
5. Capital transfer and other loan/grants	1,5280	2,1770
(a) Food	2790	6270
(b) Commodity	7200	7600
(c) Project	5250	7900
6. Debt repayment	(-) 440	(-) 590
7. Private transfer	1700	2510
8. IMF account	210	1250
(a) Drawings	870	2890
(b) Payments	(-) 660	(-) 660
9. Short-term loan	-	330
10. Change in net foreign exchange reserve	(-) 430	(-) 2790

*Figures are provisional.

Source: Planning Commission.

Foreign Trade

Both exports and imports of Bangladesh during 1979-80 indicated considerable increase from the level of 1978-79. Export receipts rose from Tk 634.42 crores during July 1978-March 1979 to Tk 818.41 crores during July 1979-March 1980, showing an increase of Tk 183.99 crores or 29 per cent.

This increase mainly reflected higher export prices of jute goods. The higher export earnings also resulted in part from the adjustment in the external value of the Taka. The Services Account (i.e. invisible receipts less invisible payments) denoted a larger deficit of Tk 289.28 crores during the first nine months of 1979-80 as compared to the deficit of Tk 209.80 crores during the corresponding period last year. The table below gives a picture of the commodity exports of Bangladesh during 1978-79 and 1979-80.

(Value in Tk million)

Commodities exported	1978-79	1979-80
1. Jute goods	4250.70	6029.60
2. Raw jute and mesta	2178.90	2167.50
3. Tea	620.80	545.60
4. Leather hides and skins	1147.40	1220.00
5. Fish and fish preparations	522.20	730.00
6. Naptha and furnace oil	141.90	1000.00
7. Paper and news print	108.60	180.80
8. Handicrafts	38.80	46.50
9. Spices	21.30	20.00
10. Other	251.60	243.00
Total:	9282.20	12162.50

Total imports: Imports financed by cash, barter and special trade arrangements, wage earners scheme, loans/credits and grants stood at Tk 853.42 crores (33.79 per cent), Tk 71.39 crores (2.83 per cent), Tk 153.90 crores (6.09 per cent), Tk 578.06 crores (22.89 per cent) and Tk 868.80 crores (34.40 per cent) respectively. Long-term loan/credits received from foreign Governments/Institutions etc. were utilized to the extent of Tk 102.27 crores for import, Tk 276.02 crores for non-food project import and Tk 199.77 crores for non-food non-project import, while food and non-food imports under grants stood at Tk 852.03 crores and Tk 516.77 crores respectively. The table below gives a comparative picture of the principal commodity imports into Bangladesh during 1978-79 and 1979-80.

(Value in Tk million)

Commodities imported	1978-79	1979-80
1. Wheat	1934.90	7000.00
2. Rice	122.40	2500.00
3. Other	480.00	270.00
4. Beverage and tobacco	37.80	49.20
5. Crude materials inedible oil except fuels	2946.70	3520.00
6. Mineral fuels lubricants and related materials	2282.00	6620.00
7. Animal and vegetable fats	1127.30	1550.00
8. Chemical drugs and medicine	3013.00	2900.00
9. Manufactured goods classified chiefly by materials	4219.60	4250.00
10. Machinery and transport equipment	4997.00	7980.00
11. Miscellaneous manufactured goods	491.60	500.00
12. Other	74.30	2010.80
Total	21726.60	39600.00

Programming of an adequate flow of imports remains the crucial government policy instrument to reactivate the country's productive capacity.

State trading: The Trading Corporation of Bangladesh (TCB) is the State agency which plays the rôle of the principal importer both for public and private sector requirements. Its expanded rôle in trade was partly due to the post-liberation disappearance of established importers who were of Pakistani origin. Economies of bulk purchase and shipment constituted another reason for its dominant rôle in trade; yet another reason was the business dealings with State-trading monopolies of countries with which Bangladesh has barter trade.

The present Government has decided to hand over certain nationalized enterprises to the original Bangladeshi owners. The Government has further decided to disinvest certain categories of industries to private entrepreneurs. This policy will still further reduce the rôle of public sector agencies in trade.

Barter trade: Bangladesh has balanced barter trade agreement with socialist countries having centrally-planned economies. At the moment Bangladesh has balanced barter trade agreement with Bulgaria, Czechoslovakia, Hungary, Poland, Romania, USSR and German Democratic Republic (GDR). These balanced trade deals are necessitated in the interest of diversification of Bangladesh's foreign trade, promotion of exports of manufactured goods and disposal of slow-moving commodities.

Export trade: In the spheres of export trade State participation increased especially in the jute sector after liberation. Export of raw jute and jute goods were solely vested in Export Corporation, the Jute Trading Corporation and the Jute Marketing Corporation. These three corporations are public sector enterprises. Recently the Government has allowed private sector enterprises to participate in the jute export trade. This decision has brought encouraging results.

Exploration of export markets is not only a matter of trade negotiations and establishment of a national and multi-national framework of trade. It is also, very substantially, a function of appropriate pricing and export promotion policies. In view of a rise in domestic costs, the majority of exports of Bangladesh have become non-competitive in the world market.

The techniques of marketing are also important factors to be taken into consideration. From this view point the Export Promotion Bureau which is charged with the promotional activities in the international markets has been reorganized. An Export Market Development Fund has been created to promote the participation of Bangladesh overseas trade fairs and to intensify other sales promotion activities for Bangladesh exports. Assistance has also been sought from such bodies as UNCTAD and the International Trade Centre for the identification of new market possibilities.

All imports in the country pertaining both to the private and public sectors are made in accordance with Imports and Exports (Control) Act 1950, as adopted in Bangladesh and also as per modification/amendments announced from time to time by the Ministry of Commerce.

The above procedures and steps are generally followed in the case of public sector imports also with the exception that public sector imports are made against specific allocation of the agency concerned. Public sector import requirements are scrutinized by the Ministry of Commerce in consultation with each sector Corporation and their respective Ministries before final assessment is made. The sector corporations are given bulk allocation of foreign exchange under different sources of financing for their imports of the required items subject to value ceilings in respect of individual items. The value ceiling on items of import is maintained for equitable distribution of the limited foreign exchange resources amongst the varieties of items considered for imports.

The allocation of aid/loan for the private sector is made at "flat rate basis" amongst the importers. Allocation to industrial consumers, however, differs from unit to unit. This difference is due to the entitlement fixed by the Director-General, Department of Industries, for each industrial unit. Industries are licensed at a certain percentage of their half-yearly import entitlement so fixed, according to the availability of funds.

Public sector imports under cash resources and foreign aid generally take place against competitive prices offered by bidders. To be specific, import in the public sector against cash resources is effected generally on a "global tender" basis. Therefore the length of time consumed for completion of such formalities by public sector agencies cannot be specifically identified because of many factors/elements involved viz. response of the bidders, time factor in offers and lastly the approval of the competent authority.

Liberalization of Imports

The State-trading system is gradually being reduced as can be seen from the TCB's diminished rôle in import trade as described earlier.

A. Induction of new-comer importers: Provision has been made for induction of new-comer importers from the private sectors for a number of items. The eligibility conditions for such new-comers have been so prescribed as to ensure induction of only genuine businessmen in the import trade.

B. Actual users scheme: During July-December 1975 shipping period, a scheme was introduced for import of certain items in the commercial list by the end-users. This scheme is known as "the actual users' scheme". Items covered in this scheme include particularly those required for educational and medicinal purposes. The objective of the scheme is to meet the requirements of educational institutions/students, medical practitioners and other end-users through direct imports. It will ensure supply of the items to the end-users quickly and at a more economical rate.

C. Earner scheme: The scheme allows imports by the Bangladesh nationals out of their foreign exchange earnings abroad. In order to encourage import under this scheme in respect of certain essential items normal import duty has been reduced. The range of exemption varies from 50 per cent of the normal duty.

D. Export performance licence: Up to June 1975, licences issued under the Export Performance Licence Scheme were transferable by the exporters in favour of a recognized industrial unit by way of nominating the transfers at a time of applying for the import licence, i.e. no transfer was allowed subsequently. But these licences have now been made transferable both in favour of recognized industrial units as well as registered commercial importers subsequent to the issuance of the licence.

E. Ministry of Health's clearance of import of drugs: The requirement of prior approval of the pro forma invoice by the Ministry of Health in case of imports of drugs and medicines has now been discontinued.

F. Change of items: According to import policy, option for change of item has been allowed to importers of iron and steel in favour of tools and workshop equipment. Besides, registered commercial importers hailing from outside municipal areas may opt for import of one such item which has ready market in their respective localities in lieu of their present item of entitlements.

G. Commercial importers, located within the jurisdiction of the same licensing authority are now eligible for importing their share on a joint basis under cash/EEC grant, untied credit/grant irrespective of their having same or different nominated banks subject to prescribed procedures. Industrial consumers are also eligible for importing their share under cash/untied loan/grant on joint basis. Import on joint basis both for commercial and industrial sectors in cases of barter, tied loan/grant is also allowed on merit basis.

H. Bringing goods to declared business place: The obligation of the registered commercial importer to bring the imported goods to his declared place of business has now been withdrawn except in case of items covered under the Essential Commodities Control Order, 1970.

Note: Tk 1 crore = Tk 10 million.