

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/264
7 April 1986

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original: English

1986 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH BANGLADESH

Statement submitted by Bangladesh under Simplified Procedures for Consultations¹

The objectives of the Bangladesh Import Policy are as follows:

- (A) (i) to encourage existing industrial units to maximize their capacity, increase their efficiency and improve quality of products;
- (ii) to maintain adequate supply of essential commodities with a view to making these goods available to consumers at reasonable prices;
- (iii) to further simplify import procedure so that smooth flow of import is expedited and procedural bottlenecks are minimized;
- (iv) to use import policy as a tool for export development;
- (v) to provide for acquisition of new technology;
- (vi) to harmonize the import policy with national efforts at economic development; and
- (vii) to make the import trade broader-based by providing incentive to small traders.

The import policy is formulated on an annual basis and announced at the beginning of each financial year. The policy caters to the needs of both the public and private sector industries, raw materials, spare parts and consumer goods. However, import of food grains and part requirement of edible oil are effected by Food Division. Fertilizer, capital machinery for projects etc. are outside the scope of import policy. Main sources of finance of import bill are cash reserve of foreign exchange, aid, earnings under Wage Earners' Scheme, barter and special trading arrangements.

A comparative statement showing group-wise import of commodities into Bangladesh during 1983-84 and 1984-85, is given below:

Commodity Group	(Value in million Taka) ²	
	1983-84	1984-85
1. Food and other items of food	12,410.0	17,980.0
2. Beverages and tobacco	60.0	130.0
3. Crude materials, inedible, except fuel	4,000.0	5,250.0
4. Mineral fuels and lubricants	8,860.0	9,500.0
5. Animal and vegetable oil and fats	5,290.0	6,940.0
6. Chemicals, drugs and medicines	4,560.0	6,310.0
7. Manufactured goods	11,360.0	12,470.0
8. Machinery and transport equipment	12,280.0	11,020.0
9. Miscellaneous manufactured	1,440.0	1,650.0
10. Others	1,370.0	300.0
Total	61,630.0	71,550.0

¹These procedures are set out in BISD 20S, pages 47-49.

²This includes imports made under the import policy as well as outside the import policy.

Permit fee for letters of credit of value upto 25,000/-(twenty five thousand) has been exempted. Unless otherwise exempted under the Licence and Permit Fees Order, 1985, L/C Authorisation or Permit Fee for L/C exceeding Tk.25,000/-(twenty five thousand) shall be payable at a uniform rate of 2½% (two and a half percent) at valorem of the L/C value.

(v) Provision for Financing Import:

Efforts are being made, subject to availability of funds to provide funds, as far as practicable, from one specified source for financing the entire import requirement of any particular commercial item of raw and packing materials and spares for any particular sector of industry.

It has been done with a view to keeping the price of commodities stable in the market.

(vi) Special facilities for import at official exchange rate for export oriented industrial units and for research and publication:

Special provision has been made to allocate fund at official exchange rate in favour of -

- i) Export Oriented industries for import of technology;
- ii) Scientific and Research Laboratories for import of equipment and know-how;
- iii) Established Publishers and Public Sector Agencies, such as, Bangla Academy, Islamic Foundation, Central Library, Dhaka Museum and Universities for import of reprint rights of books on outright purchase basis;
- iv) Recognised Industries with export potential for import of machinery and spares for BMRE;
- v) Industries which can ensure export of part of the finished products through the supplier of raw materials.

(vii) Import of selected items under Wage Earners' Scheme by Registered Commercial Importers:

In order to give opportunity to small importers, a number of 25 items have been made importable under Wages Earners' Scheme by the Registered Commercial Importers subject to certain conditions; and those importers who are registered only under WES are not allowed to import these items.

(viii) Pass Book for indentors:

Now the indentors are required to obtain Pass Book against their Indenting Registration Certificate.

(D) Performance during first 7 months of the Import Programme 1985-86.

Due to compulsory utilization of Barter source before other sources, late availability of cash resource, non-availability of anticipated allocation under Commodity Aid and higher cost of import under WES, the performance during the first 7 months of the current Annual Import Programme has not been very satisfactory. In this connection, it may be pertinent to mention that allocation under Commodity Aid plays a very important role in financing import since bulk of the cash fund is spent for financing import of POL. It is, therefore, felt that allocation under commodity aid merits to be substantially increased during 1986-87.

The comparative performance -sector/source-wise under the Import Policy for the years 1984-85 and 1985-86 is given below:

	1984-85			1985-86	
	Allocation	Utilization	%	Allocation	Utilization upto Jan.'86
<u>Sector - wise</u>					
i) Private Sector Industries.	1949.61	1399.00	72	2385.92	633.86
ii) Public Sector Industries.	796.34	552.00	69	831.71	221.75
iii) Private Sector Commercial.	671.58	1120.00	167	408.37	485.20
iv) Public Sector Commercial.	52.60	56.00	106	-	-
v) POL	1030.87	1050.00	102	994.00	555.77
Total:	<u>4501.00</u>	<u>4177.00</u>	<u>93</u>	<u>4620.00</u>	<u>1896.58</u>
<u>Source - wise</u>					
i) Cash	1275.00	1194.00	94	1038.80	626.33
ii) Commodity Aid	676.00	690.00	102	938.00	239.49
iii) Barter/STA	200.00	128.00	64	182.00	63.51
iv) W E S	1800.00	1645.00	91	2461.20	967.25
v) POL	550.00	520.00	95	-	-
Total:	<u>4501.00</u>	<u>4177.00</u>	<u>93</u>	<u>4620.00</u>	<u>1896.58</u>

(E) Projection for 1986-87:

<u>Sl.No.</u>	<u>Nature of allocation</u>	<u>Amount in crore Taka.</u>
1.	Cash	1500
2.	Commodity Aid	1400
3.	Barter/STA	250
4.	W E S	2850
	TOTAL:	<u>6000</u>

The objectives of the Bangladesh Export Policy are as follows:

- i) To continue with existing policy of placing premium on the export of non-jute, non-traditional and manufactured goods with a view to consolidating gains made so far.
- ii) To improve the share of traditional products in our export make-up in order to remedy the situation created by their significant loss of volume in 1984-85.
- iii) To maximize export earnings to meet one of our most important needs i.e. to generate more exportable surplus.

The export policy comes into force from July and continues to next June. The objectives of the policy is to increase export earnings with a view to improving balance-of-payments position, diversify export products and markets. Government is constantly trying to simplify and in some cases extend facilities to traders for boosting export (Annex-A).

Bangladesh's export earnings are not enough even to meet 30 percent of the import bill. Falling prices of primary commodities, protectionism in importing countries and declining aid disbursements have exacerbated adjustment problem in the external sector. The economy of the country continues to remain victim of chronic and increasing current account deficit. These odds are adding to the problem.

Despite increase in volume of export, in many cases the earnings have neither gone up proportionately nor in real terms. Great importance is attached to the development of export in the country's overall economic development programme and Government has offered a package of incentives to the export trade. These measures, it is believed, will increase the earning from exports and narrow the import-export gap and help attaining the goal of self-sustaining economic growth. The strategies undertaken for development of foreign trade are expanding production of commodities of high demand in the world market, improving salesmanship, strengthening management, improving quality control procedures and timely fulfilment of contracts.

Government persistently has been following policies designed to increase production and create exportable surplus. While such policies would have to be further strengthened and vigorously pursued, the international economic situation has to be kept in mind in fixing export targets on a realistic basis. A number of factors have been standing in the way of sharp rise in the growth rate of our exports. Supply constraints, narrow and

undiversified export base combined with high cost of production in the case of non-traditional manufactured goods limit both our competitiveness and total export earnings. Inadequate development of infrastructure, insufficient availability of support services and difficulties caused by management's apathy and other factors encountered by exporters in fully taking advantage of the facilities and incentives extended by the Government further limit our ability to export.

The export target for 1985-86 has been set at Tk.26550.00 million (US\$965.45 million). The contribution of Jute sector to the target has been estimated to US\$520 million (53.86%) and that of non-jute sector US\$445.45 million (46.14%). The traditional sector is expected to contribute US\$566.18 million (58.64%), while the non-traditional sector is expected to contribute US\$399.27 million (41.36%). The contributions of primary and manufactured sectors are likely to be US\$298.91 million (30.96%) and US\$666.54 million (69.04%) respectively.

Balance of Trade

As in the past, the international trade in 1984-85 was also adverse. This has become a regular feature of the international trade of the country. Though volume of export is increasing the increased prices of import, inflation, devaluation and increased import of foodgrains are the main causes of trade deficit.

Below is given the balance of trade for the last five years:

<u>Year</u>	<u>Export</u>	<u>Import</u>	<u>Value in million Taka</u>	
			(-)	<u>Deficit</u>
1980-81	11,599.0	32,368.7	(-)	20,769.7
1981-82	12,555.4	34,543.5	(-)	21,988.1
1982-83	16,162.4	54,885.6	(-)	38,723.2
1983-84	20,250.0	61,630.0	(-)	41,380.0
1984-85	24,154.9	71,550.0	(-)	47,395.1

Rate of exchange

\$ 1	= Tk 16.00 in 1980-81
\$ 1	= Tk 19.50 in 1981-82
\$ 1	= Tk 23.76 in 1982-83
\$ 1	= Tk 24.98 in 1983-84
\$ 1	= Tk 26.50 in 1984-85

Balance of Payments

The balance of payments of Bangladesh recorded a substantial deficit of \$ 99 million in 1984-85 in sharp contrast to a surplus of \$ 234 million in

1983-84 and of \$ 295 million in 1982-83. The marked deterioration in the payments position as compared to the preceding year was due to a substantial increase in import payments, a marked decline in private transfers consisting mainly of remittances by workers abroad, a significant increase in debt repayment, some increase in the deficit on services account and an almost stagnant level of aid and loan disbursement.

Imports worth \$2647 million during 1984-85 were about 12.5 percent higher than in the preceding year. Against these increase in imports there was a marked improvement in export receipts during the year. These receipts at \$ 971 million during 1984-85 represented an increase of \$149 million or 18 percent over the preceding year.

The deficit on services account increased from \$ 33 million during 1983-84 to \$ 36 million during 1984-85. While repayment in respect of medium and long-term loans increased notably from \$80 million in 1983-84 to \$ 123 million in 1984-85, receipts under private transfer declined to \$ 398 million during the year from \$ 552 million in the preceding year.

Below is given the balance of payments situation for the last two financial years:

Transaction	Value in million US Dollars	
	1983-84 (Actual)	1984-85 (Actual)
1. Merchandise Imports (c & f)1/	- 2353	- 2647
2. Merchandise Exports (f.o.b.)	822	977
3. Trade Balance	- <u>1531</u>	- <u>1676</u>
4. Services	- 33	- 36
a) Payments	- 312	- 337
b) Receipts	279	301
5. Private Transfers 2/	<u>552</u>	<u>398</u>
6. Balance on Current A/C	- 1012	- 1314
7. Cap. A/C & other Loans/Grants	<u>1273</u>	<u>1270</u>
a) Food	277	244
b) Commodity	444*	435*
c) Project	552	581
8. Dept Repayment (medium & longterm loan)	- 80	- 123
9. Food Credits (Net)	- 9	- 91
a) Borrowings	51	190
b) Repayments	- 60	- 99
10. Short-term borrowings (Net)	- 10	- 35
11. Other Capital	18	7
12. Aircraft Loan	54	5
13. Overall Balance	234	- 99

(Value in million US Dollars)

Transaction	1983-84 (Actual)	1984-85 (Actual)
14. Change in Reserve-(Increase)	- 226	95
(a) Bangladesh Bank	- 223	118
(i) Foreign Exchange	- 189	149
(ii) Liabilities	- 34	- 31
of which Fund Credit	19	- 7
(b) Commercial Banks	- 3	- 23
(i) Assets	- 16	- 2
(ii) Liabilities	13	- 21
15. Balancing Items	- 8	4
16. Reserve at the end June	516	373

1/ Local currency cost re-imburement of project and of \$ 116 million in 83-84 and \$172 million in 1984-85 as also re-imburement of \$ 101 million in 1984-85 against IDA OECF loans adjusted.

2/ Includes private donation \$ 25 million in 1983-84 and \$ 33 million in 1984-85.

* Includes \$ 4 million IMF subsidy in 1983-84 and \$ 3 million IMF subsidy in 1984-85.

The balance of payments position is expected to show a substantial improvement during 1985-86 with an overall surplus of \$ 163 million as against the deficit of \$ 99 million during 1984-85. The spectacular improvement is expected to occur due mainly to the increased inflow of foreign aid and remittances.

During 1985-86 our external trade balance is expected to show a decline in deficit of \$ 1500 million as against the actual deficit of \$1676 million in the preceding year. The net balance on the services account is, however, expected to record a larger deficit of \$ 45 million during 1985-86 as compared to the deficit of \$ 36 million during 1984-85. Net inflow under the private transfer on the other hand, is likely to increase to \$ 550 million during 1985-86 from the actual of \$ 398 million during 1984-85. As a result of lower import payments and higher inward private transfers the deficit on current account would stand lower at \$ 995 million during 1985-86 as compared to the deficit of \$ 1314 million during 1984-85.

Further improvement in our overall balance of payments position would depend on widening of our export base, reduction of imports and increased inflow of foreign aid and remittances. Besides, demand for our export as well as prices in the overseas market would be important factors in this respect.

TERMS OF TRADE.

The commodity as well as the income terms of trade of the country showed improvement during 1984-85 due mainly to a rise in the prices of our exports, supported by a slight fall in import prices. Movements of the estimated terms of trade of Bangladesh in recent years are shown below:

COMMODITY AND INCOME TERMS OF TRADE OF BANGLADESH
(BASE: 1975-76 = 100)

Period	Export Price Index	Import Price Index	Commodity Terms of Trade	Export Volume Index	Income Terms of Trade.
1980-81	174.99	166.08	105.36	104.91	110.53
1981-82	167.66	194.74	86.09	115.83	99.72
1982-83	204.51	205.71	99.42	131.53	130.77
1983-84	253.27	210.82	120.14	127.66	153.37
1984-85*	326.35	202.08	161.50	114.24	184.50

* Provisional.

The export-based capacity to import i.e., income terms of trade which deteriorated during the years 1978-79 through 1981-82 showed a significant improvement during 1982-83 due mainly to a gain in commodity terms of trade although some increase in export volume also partly accounted for it. The improvement in income terms of trade during the year 1982-83 compared to the preceding year was due to increases both in commodity terms of trade and in export volume index. Despite decline in the volume of exports, the commodity as well as income terms of trade recorded substantial improvement during 1983-84 and 1984-85 as a result of continued increase in the export price index.

ANNEX - A

EXPORT INCENTIVES

The following incentives and facilities are available to the Bangladeshi exporters:

A. Financial incentives:

- i. Interest rate: Concessional interest rate of export credit for non-traditional items is 9% in general and 7% for selected non-traditional items like light engineering and electrical goods, handicrafts and handloom products. The concessional interest rate of export credit for traditional items (jute, jute goods excluding carpet export and loose tea) is 12%.
- ii. Incremental incentive on interest:
Exporters of non-traditional items who would exceed the export earnings of the previous year by more than the anticipated increase in the target set for the sector, are eligible for enjoying a further reduced rate of interest at 7% on exports so exceeded.
- iii. Extent of export credit:
Commercial banks provide export credit to the extent of 90% of the value of confirmed and irrevocable L/C or firm sale contract.
- iv. Credit to first-time applicants:
Commercial banks will not refuse any application for export credit received for the first time.
- v. Back to back L/C:
All authorised dealers (Commercial banks) can establish L/C on back - to - back basis for importation of raw materials and other accessories from abroad without prior permission of Bangladesh Bank for readymade garments, specialised textiles, household linen and hosiery products.
- vi. Inland back to back L/C:
Authorised dealers may also establish inland back-to-back L/C in favour of suppliers of locally produced materials on the strength of the original L/C opened by the foreign buyer favouring the exporters.

2. Duty Drawback Scheme:

An exporter of manufactured product is entitled to get back the customs duties, sales tax etc. already paid on importation of raw materials used in the production or manufacture of the export products. Currently, there are three methods, e.g. Drawback at actuals, Notional Payment of Duty and Drawback at Flat Rates for realising drawbacks.

Payment of drawback at flat rates is made through the exporters' bank in the form of 100% interest-free advance of the eligible amount of drawback.

3. Export Credit Guarantee Scheme(EGGS):

Export Credit Guarantee wing of the Shadharan Bima Corporation(SBC) provide guarantee to the bankers and the exporters against possible losses resulting from advance given and against overseas commercial and political risks respectively. Presently, there are three types of guarantees e.g. Export Finance Guarantee (Pre-shipment) Export Finance Guarantee(Post-shipment) and the Comprehensive Guarantee. While the first two types of guarantees are extended to the bankers, the third one is available to the exporters themselves.

4. Facilities for business travel:

Exporters are entitled to receive foreign exchange at official rate or exchange based on their export performance for the previous year for undertaking business trips abroad.

As per existing arrangement, the new comers are also entitled to foreign exchange allocation at the rate of US\$ 80 per day upto 30 days.

5. Concessional Rate of Import Duty:

- i. Capital Machinery: At present capital machinery for export-oriented industries is allowed to be imported at a concessional rate of 2.5% import duty.
- ii. Spares: Drawbacks on import duties and sales taxes paid in excess of 2.5% on importation of spares are available to actual export-oriented user industries, provided that such spares are not produced within the country.

6. Income Tax Rebate:

Exporters of various categories are entitled to income tax rebate varying in percentage, depending on their performance as fixed by the National Board of Revenue from time to time.

7. Rebate on Insurance Premium:

Special rebates are allowed to export-oriented industries (non-traditional items) in respect of premium for fire and marine insurance and the exporter of such products against goods shipped for export.

8. Freight Rebate:

Special inducement and promotional freight rate are provided to the exporters by Bangladesh Biman Airlines and the Bangladesh Shipping Corporation (BSC).

9. Export Incentives for "Deemed Exports":

Locally produced materials used as direct inputs for the manufacture of export products or products supplied against international tenders for local project procurement in foreign currency are regarded as "deemed exports" and qualify for all export incentives and facilities like duty drawback, XPL etc. as are available in the case of direct export.

B. Non-financial incentives:

1. President's Export Trophy:

President's Export Trophies are awarded to outstanding exporters every year.

2. Monitoring of Export Credit:

A special credit cell has been created in Bangladesh Bank to monitor and supervise the operation of financing on an ongoing basis. A special unit has also been set up in each commercial bank to attend to export credit needs.

C. Sectoral Incentives:

1. Readymade Garments:

i. Back to back L/C:

Authorised dealers provide back to back L/C facilities to this sector for importation of raw materials and other accessories for manufacture of readymade garments for export.

2. Frozen Food:

i. Interest rebate for working capital:

Interest is charged on working capital loans to fish/freezing units at a concessional rate of 9% only.

ii. Export of frozen fish through packers only:

All types of frozen fish including shrimp are necessarily to be exported by or through the packers only.

iii. Establishment of hatchery:

Two hatcheries are being established - one at Cox's Bazar and other at Satkhira to facilitate increased production of shrimp.

iv. Frog culture:

Steps are underway for scientific culture of frogs in the country to augment frog production for export.

.....