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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1992 CONSULTATION WITH BANGLADESH (SIMPLIFIED PROCEDURE)

Background Paper by the Secretariat[1]

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205) to assist the Committee in taking the decision referred to in paragraph 8 of that Declaration. It updates the paper prepared for the 1990 consultation (BOP/W/134).

I. Previous consultations with Bangladesh

2. Bangladesh has held nine simplified consultations in the Committee (1973, 1976, 1978, 1980, 1982, 1984, 1986, 1988 and 1990). No full consultations have been held.

II. Recent changes in Trade Policy[2]

3. In Bangladesh, there has been a shift in policy in recent years. Import-substituting industrialization, based on state control and ownership has gradually given way to a greater degree of market-directed, export oriented industrialization, reliant on private enterprise. This has meant reduced levels of protection for domestic industry; easier access to imports of industrial raw materials, especially for exporters; privatization of State-owned enterprises; reduced State intervention in the market for agricultural outputs and inputs; and a greater rôle for the

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[1]This consultation with Bangladesh is being held in conjunction with the Trade Policy Review in the GATT Council. In accordance with the decision of the Committee (BOP/R/199), in such cases the Secretariat prepares only a short factual background paper containing aspects relevant to the work of the Committee. In trade policy related questions, this paper draws on the TPRM report prepared by the GATT Secretariat (C/RM/S/24A and B).

[2]For detailed information regarding recent trade policy changes in Bangladesh see document C/RM/S/24A, especially chapters I, II, IV and V.

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market in determining key economic variables, including interest rates and the exchange rate.

4. The conditions for import into Bangladesh depend on the nature of the importer, the commodity being imported and the source of financing. The Import Policy Order for 1991-93 (IPO) divides importers into the following six categories: industrial consumer; commercial importer; actual user; public sector importer; importer for lease financing and indentors.[3] Financing can be by (i) cash, (ii) external economic aid (commodity aid, loan, credit or grant), or (iii) commodity exchange, divided into (a) barter, and (b) special trading arrangement (STA).

5. Commodities are divided into the following two categories:

A. The Control List is the list of items, import of which is banned or restricted; unless otherwise specified, items listed as banned on this list are not importable, while others on the List are importable only on the fulfilment of specific conditions.[4]

B. Freely Importable Items: unless otherwise specified an item which does not appear on the Control List is freely importable.

6. The Control List of the Import Policy Order of 1991-93 (IPO), specifies 193 items, i.e. 16 per cent of the total four-digit HS categories, which are explicitly subject to restrictions.[5] The Control List includes both banned and restricted items.

7. Items which run counter to the religious and social mores of the people of Bangladesh, for instance, alcohol, pork products, certain maps, and obscene published materials, may generally not be imported. Items banned on grounds of public health and security include certain medication, drugs, radioactive materials, all types of wastes, arms ammunition and explosives. Substandard or rejected goods are not allowed to be imported. Imports from South Africa and Israel and goods carried on the flag vessels of these countries are prohibited.

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[3]Paragraph 132, C/RM/S/24A. Import procedures and restrictions applied in respect of these importers are described in paragraphs 134-149.

[4]This list is presented in Table IV.2 in document C/RM//S/24B.

[5]Tables IV.2 and IV.3 in document C/RM/S/24B.

8. A significant number of commodities are subject [illegible] import ban to protect local industries. These include tobacco p[illegible] [illegible]hes, sanitary ware, newsprint, stationery, carpets and floor cove[illegible]

9. Restricted items may be imported only on the fulfilment of specified conditions. The IPO stipulates, however, that the ban or restriction on an item may be revoked if the quality of the domestic product deteriorates or if production levels fall.[6]

10. In 1991, 59 items were removed from the controlled list under the 1991-93 Import Policy Order. These included vegetable products, yarns, fibres and threads, fabrics, fertilizer, certain petroleum products, consumer items and machinery items. In addition "right-of-refusal" provisions were withdrawn from 47 import items, leaving only 4 items now subject to such provisions. (Under "right-of-refusal" provisions, imports can be limited at the request of public enterprises that produce substitutable products).

11. It is intended that by 1994, all remaining restrictions will be eliminated, except for about 80 items which will remain restricted for health, social, religious or security reasons, and about 7 items which are regarded as sensitive.

12. Bangladesh has been engaged in a major exercise to restructure its tariff for the last several years, which includes the reduction of maximum tariff rates as well as other border taxes.[7]

13. In 1991, the Government made a significant move towards greater transparency and simplicity in the tariff structure. The development surcharge, regulatory duty and sales tax were abolished in July 1991. Imports are now subject only to customs duty, a value added tax and supplementary excises on selected luxuries. Bangladesh is now undergoing a major tariff reform which is likely to imply a narrowing of the dispersion of tariffs and a reduction in peaks. The authorities state that the maximum tariffs on all items will be reduced to 100 per cent in the near future; thereafter maximum rates would be reduced to 75 per cent selectively.

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[6] See also C/RM/S/24A, 198 and 199.

[7] The country's tariff system is described in C/RM/S/24A, Chapter IV.

14. The simple average statutory rate of duty in 1992 is 119.9 per cent while the simple average operative rate of duty is 70.8 per cent. The highest average statutory rates of tariff are on textiles and clothing (246 per cent), beverages and spirits (193 per cent), and on musical instruments and sound recording apparatus (192 per cent). The lowest average statutory tariffs are on foodgrains (16 per cent) and other agricultural products of vegetable origin (45 per cent). The highest average operative rates of tariff are on beverages and spirits (138 per cent) and precious stones and precious metals (119 per cent), while the lowest are on foodgrains (8 per cent) and other agricultural products of vegetable origin (28 per cent). Bangladesh is currently renegotiating its GATT Schedule of Concessions under the HS Conversion. At present, no bindings are in effect in Bangladesh.

15. From mid-February 1990, a 100 per cent advance deposit requirement for commercial imports under the Secondary Exchange Market (SEM) was introduced. In late February, this margin was reduced to 50 per cent and a similar margin introduced for industrial imports. The margin on industrial imports was reduced to 25 per cent in March 1990 and then eliminated in November 1990. The margin for commercial imports was reduced to 25 per cent in February 1991 and further to 20 per cent in April 1991. Compulsory margins were abolished at the end of 1991.

16. Exporters must be registered with the Chief Controller of Imports and Exports. Both the initial registration fee and the annual renewal fee are currently Tk 1,000.[8]

17. Minimum export prices exist now only for raw jute. Minimum export prices used also to be applied to jute products but according to the Bangladesh authorities these have been discontinued. The Export Policy Order (EPO) for 1991-93 provides for the following implicit subsidies to export-oriented industries (however, these have not yet been introduced):

- the peak hour rate charges for electricity consumption are lower, provided two or more shifts are run;

- rebates are given on premium payments for fire and marine insurance (to exporters of non-traditional items);

- special inducement freight rates are provided by Bangladesh Biman Airlines and the Bangladesh Shipping Corporation.

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[8] For measures directly affecting exports, see C/RM/S/24A, Chapter IV.

Before the unification of the exchange rate on 1 January 1992, an implicit subsidy was provided through the Export Performance Benefit (XPB) Scheme whereby exporters received an exchange rate premium set to equal a percentage, based on the domestic content of the export item, of the difference between the SEM rate and the official rate. Each eligible item received a coefficient of 40, 70 or 100 per cent of XPB, depending on the item's domestic value added and the priority the Government placed on encouraging its export.

18. Until January 1992, multiple exchange rates arose from the operation of the SEM, which comprised the Wage Earners' Scheme (WES), and the Export Performance Benefit Scheme (XPB).[9] Under the WES, foreign exchange earnings remitted by workers abroad, tourist receipts, and most service receipts were sold at a rate determined by a committee of authorized foreign exchange dealers (mainly banks) constituted by Bangladesh Bank. Under the XPB scheme, exporters and certain indirect exporters of non-traditional items were eligible to receive an exchange rate premium, which was set equal to the difference between the WES rate (in taka per US dollar) and the official rate. The reduction in margins between the official and the secondary market exchange rates (from 25 per cent in 1979-80 to 5 per cent in 1987-88 and down to less than 1 per cent in 1989), and their eventual unification in January 1992, eroded the incentives afforded to exporters through the export promotion benefit scheme.

19. The Ministry of Finance prepares a foreign exchange budget for each financial year. This involves an assessment of the existing resources and projections of expected foreign exchange earnings from exports, remittances, aid and various capital inflows. On the basis of the allocations made in the budget, import policies are framed each year by the Ministry of Commerce. All imports are subject to licences or letter of credit authorizations except goods directly purchased by the Government departments. Release of foreign exchange is automatic on the production of Letter of Credit Authorizations (LCAs) or licences. Advance payment is not generally permitted except in special cases.

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[9] Trade related aspects of the foreign exchange régime of Bangladesh are presented in C/RM/S/24A, Chapter III.

Macroeconomic and trade developments

I. Overview of the balance of payments situation

20. Bangladesh is among the least developed and poorest countries in the world. It has few natural resources and the economy is vulnerable to external shocks and natural disasters.

21. Although merchandise import growth was less rapid than the growth of the buoyant export sector, the merchandise trade deficit widened in 1989/90 (Table 1). Stabilisation measures taken in March 1990 helped contain the increase in the current account deficit to about US$1500 million (6.8 per cent of GDP; see Chart 1). At the end of June 1990, the level of gross international reserves had dropped to about US$520 million equivalent to 1.7 months of merchandise imports (Chart 2).

Table 1
Bangladesh - Balance of payments, 1989/90-1991/92
(Million US dollars)

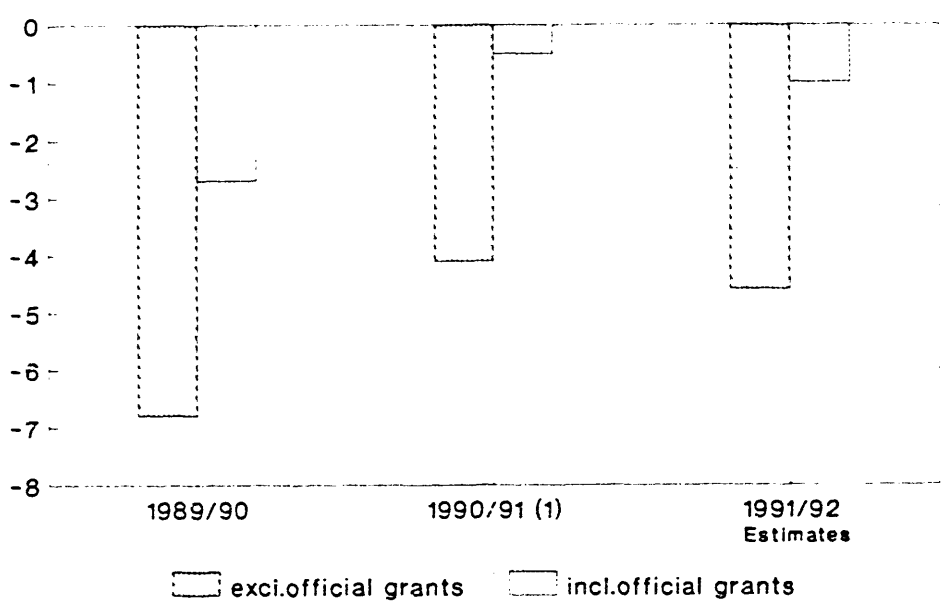
	1989/90	1990/91	1991/92*
Trade balance	-2 235	-1 752	-1 898
Merchandise exports	1 524	1 718	1 850
Merchandise imports	-3 759	-3 470	-3 748
Services, net	-108	-26	-29
Private transfers	802	846	882
of which:			
Workers' remittances	761	764	800
Current account balance[1]	-1 541	-932	-1 046
Capital account	1 431	1 288	1 346
Aid disbursements[2]	1 810	1 731	1 749
Medium- and long-term amortization payments	-176	-197	-212
Short- and medium-term loans	-122	-127	-116
Foreign direct investment	3	2	5
Errors and omissions[3]	-84	-120	-80
OVERALL BALANCE	-110	356	300

*Estimates.
1Excluding official grants.
2Including official grants.
3Includes counterpart valuation changes.

Source: IMF.

22. During the fiscal year ending in June 1991, Bangladesh was adversely affected by the Gulf Crisis. With the balance of payments position threatened by a higher oil imports bill and reduced workers' remittances, the authorities adopted monetary and fiscal stabilization measures. As the economy began its recovery, the external position again came under pressure in April 1991 as a result of the cyclone that struck the country. Despite these external shocks, the current account deficit contracted to 4.1 per cent of GDP (before official transfers) as the demand for imports was dampened due to the tight financial policies followed by the authorities, the depreciation of the real exchange rate of the taka, and the negative impact of the real shocks on private sector economic activity. Despite the Gulf Crisis, workers' remittances rose marginally in 1990/91. Increases in food and commodity aid disbursements, together with additional IMF refinancing, increased official reserves at the end of the fiscal year to nearly 3 months of imports.

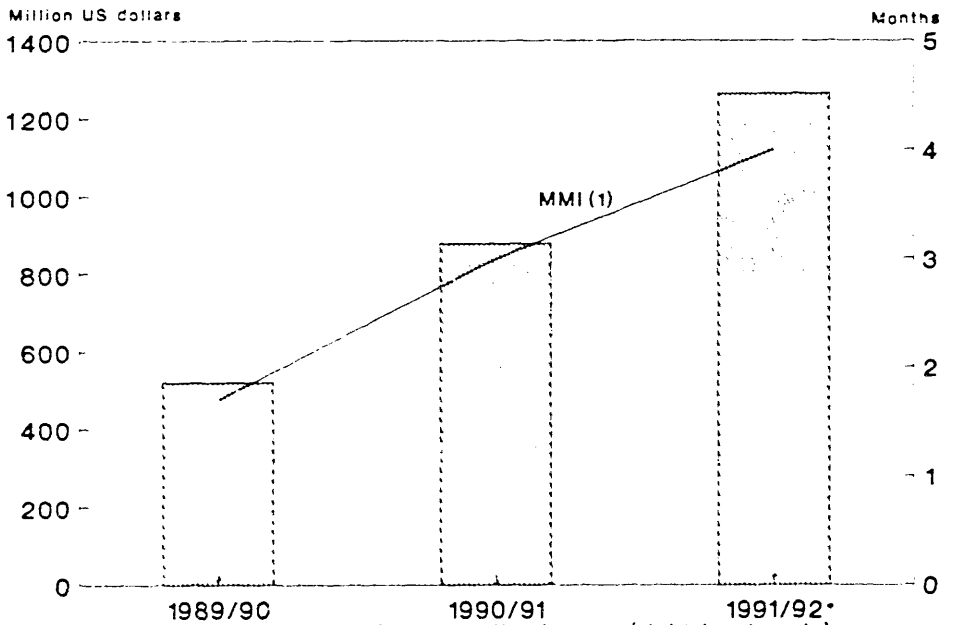
Chart 1 - Bangladesh
Current account balance
(Percentage of GDP)



(1) As percentage of old series of GDP.

Source: IMF.

Chart 2 - Bangladesh -
Gross international reserves and
months of merchandise imports



(1) MMI refers to equivalent months of merchandise imports (right-hand scale).
*Merchandise imports are estimated. Source: IMF.

23. In the fiscal year that will end in June 1992, it is anticipated that the external position of Bangladesh will deteriorate somewhat as domestic demand and the growth of import volume recover. According to the IMF the current account deficit for 1991/92 is expected to increase to about US$1 billion, equivalent to 4.6 per cent of GDP. However, as the overall balance of payments is expected to be substantially positive the level of gross international reserves is likely to increase to four months of imports.

II. The nature of the balance of payments difficulties and prospects

(1) Policy developments in 1989/90

24. In the first eight months of 1989/90, the central government's fiscal situation deteriorated because of poor revenue performance and higher current expenditure (mostly on pay and allowances and on public works).[10] In

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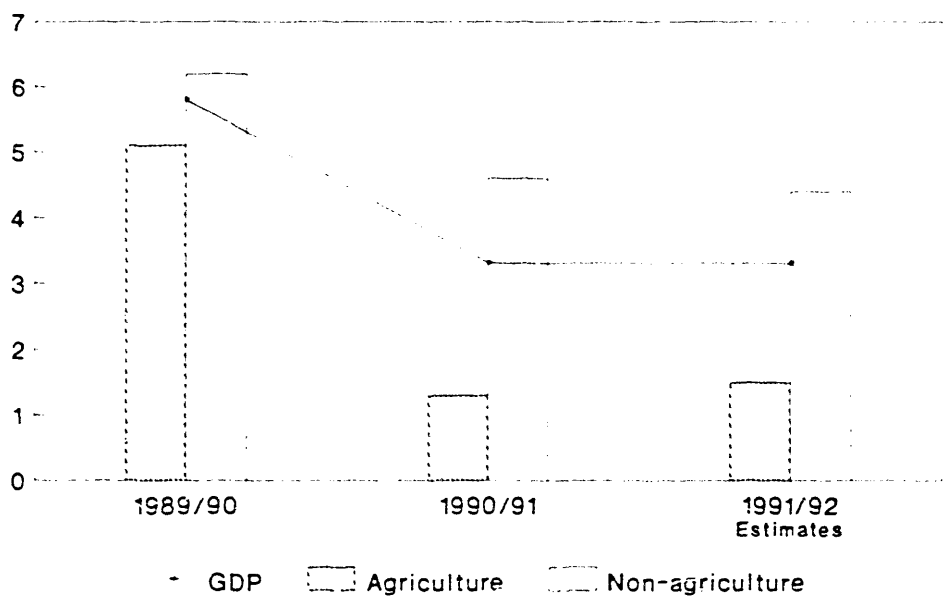
[10] The consolidated central government budget comprises the current budget, the food account, the Annual Development Programme (ADP) and other capital expenditures. The central (Footnote Continued)

March 1990, the authorities initiated a stabilization programme to curb expenditure and strengthen revenue collection. However, expenditure increased to nearly 17 per cent of GDP, largely due to the rise in domestic procurement following the excellent harvest (Chart 3).[11] The overall budget deficit rose to 7.6 per cent of GDP (Chart 4).

Chart 3 - Bangladesh - Real GDP
by sectoral origin
(Annual percentage change)(1)



(1) Since 1990/91, GDP data is revised and, as a result, is not strictly comparable with previous years.

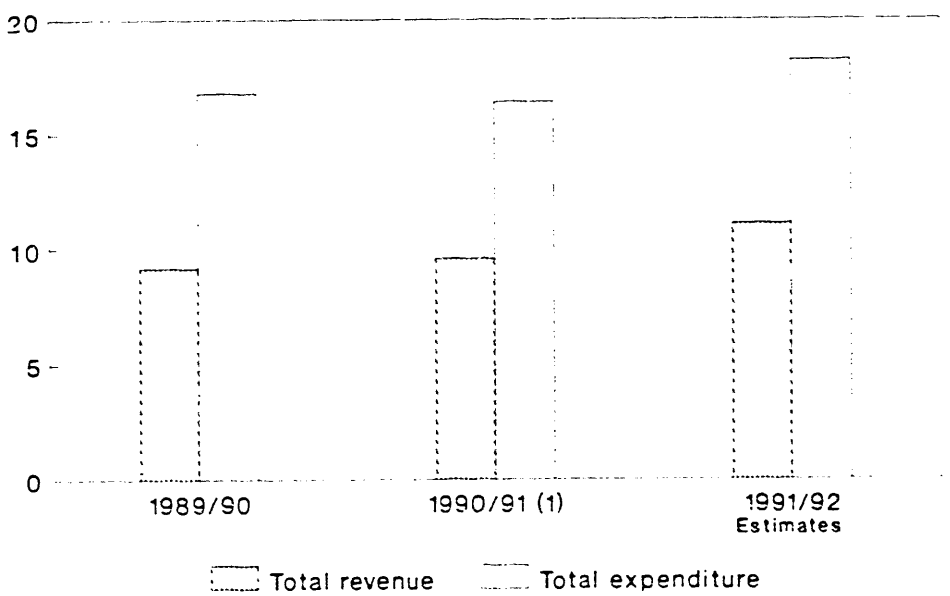
Source: IMF.

(Footnote Continued)

government also oversees the operations of 250 public enterprises as well as three major enterprises: the post office, railway, and telephone and telegraph services.

[11] Government procurement doubled the deficit in the food account to 1.2 per cent of GDP.

Chart 4 - Bangladesh - Summary of Central Government finances
(Percentage of GDP)



(1) As percentage of old series of GDP.

Source: IMF.

25. As the government recourse to foreign financing sources declined, domestic borrowing from the banking system increased, especially in the first eight months of 1989/90 (Table 2).[12] In 1989/90, the central government indebtness to the banking system rose by 0.8 per cent of GDP. Credit to the private sector was also buoyant mostly due to strong demand for imports of raw materisls and intermediate products, and credit demands from p.ivate sector jute firms. However, money supply growth was partially offset by a drop in the stock of net foreign assets of the banking system resulting from the rapid growth of credit and imports. The stabilisation programme started in April 1990 moderated credit growth. For the year as a whole, broad money grew 17 per cent.

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[12] Bangladesh's financial system consists of Bangladesh Bank (the central bank), deposit money banks, and non-financial insitutions. The deposit money banks comprise four nationalized commercial banks, ten private banks, seven foreign banks, and four publicly owned specialized banks.

Table 2
Bangladesh - Selected factors affecting changes in broad money (M2)[1]
(Annual percentage change)

	1989/90	1990/91	1991/92	
	June	June	Sept.	Dec.
Broad money (M2)	16.9	12.5	11.2	10.2
Selected sources of change in M2				
Net domestic assets	19.1	6.6	3.2	5.5
Domestic credit to government (net)	46.9	0.8	2.2	-11.4
Domestic credit to private sector	19.8	8.2	5.1	13.1

Memorandum items:	1989/90	1990/91	1991/92*
International reserves[2]	-46	69	44
Consumer prices (annual average)	9.3	9.0	5.1

*Estimates
1Data for June 1989 to March 1990 are at constant end-June 1989 exchange rates (Tk 32.27 = $1). Other data are at current exchange rates.
2Includes Asian Clearing Union account and foreign exchange from nonresident foreign currency deposits.

Source: IMF.

26. In 1989/90, the value of merchandise imports grew nearly 11½ per cent while the volume growth was about 7 per cent. The relaxation of financial policies during the first eight months of 1989/90, together with a reduction in the number of restricted imports and the real appreciation of the taka,[13] accelerated the growth of the volume of non-foodgrain imports. Foodgrain imports, in contrast, decreased in 1989/90 after the large imports required by the floods of 1988/89. Imports of textiles grew briskly mostly due to the rise in the exports of ready-made garments. Led by exports of ready-made garments and hosiery, the value of merchandise

[13]Between November 1988 and February 1990, the official rate of the taka remained fixed, keeping a 2 per cent spread with the commercial rate. Between March and November of 1990, both rates were devalued six times against the US dollar by a total of 11 per cent. The real effective exchange rate depreciated 8 per cent.

exports grew 18½ per cent in 1989/90, with the volume up nearly 14½ per cent.[14]

(2) Policy developments in 1990/91

27. As a result of the Gulf crisis, the government budget faced the prospect of lower revenue and additional expenditure. The policy response of the authorities was to raise domestic petroleum prices by 85 per cent, cut public expenditure, tighten monetary policy, and temporarily reduce foreign exchange travel allowances. Additional donor assistance was obtained to avoid an undue compression of imports and investment. Early in 1991, financial policies were cautiously eased. The authorities accelerated public investment and sought to promote private investment by a number of measures including a reduction in reserve requirements for commercial banks. As economic activity was recovering, a cyclone struck the country at the end of April 1991, causing severe damage. Besides the serious losses of lives, foodgrain, livestock and the economic infrastructure were significantly affected. Economic growth slowed to 3.2 per cent.

28. Despite the Middle East crisis and the cyclone, the budget deficit of the central government declined to 6.9 per cent of GDP and the rate of growth of domestic credit was cut to 10½ per cent. Revenue collection grew by nearly 0.5 per cent of GDP, due both to a series of fiscal measures which increased tax collection, and to the rise in the profits of the state petroleum company and financial public enterprises. Cyclone relief spending was offset by reductions in purchases of other goods and services.

29. In 1990/91, monetary restraint resulted in a deceleration of the growth in monetary and credit aggregates to 12½ and 10½ per cent respectively.[15] In 1990/91, the growth of credit to the private sector decelerated to just 8.2 per cent, largely as a result of the contractionary impact of weak demand, depressed private investment and the repayment of agricultural loans extended during the 1988 floods.

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[14]As a result of the government policy of denationalization of industry, private sector investment has concentrated in the production of ready-made garments. This has been the fastest growing sector and exports of nontraditional goods have recently surpassed jute in terms of export value. Despite the fact that the public sector ownership of industrial assets has dramatically fallen from 85 per cent in 1982 to about 30 per cent in 1991, the government still accounts for the majority of large-scale industries, including jute goods, textiles, fertilizers, cement, and newsprint.

[15]Monetary restraint was again facilitated by the use of the rediscount window and the progressive introduction of more market-oriented interest rates which moderated the demand for credit from public enterprises and private sector firms.

30. The decline in domestic demand during 1990/91, the tight financial polices adopted by the authorities, and the depreciation of the real exchange rate,[16] caused the volume and value of imports to decline by about 12 per cent and 8 per cent, respectively. Foodgrain imports increased as a result of the cyclone. (Table 3) These declines occurred despite the additional imports of medicine, food and clothing that were required to offset effects of the cyclone.

Table 3
Bangladesh - Composition of merchandise imports
(Percentage shares)

	1984/85	1990/91
Capital goods	23.3	31.6
Textiles	1.5	14.8
Foodgrains[1]	18.8	7.7
Crude petroleum	8.5	6.2
Petroleum products	5.0	5.9
Edible oil	3.9	5.0
Cement	1.0	3.0
Cotton[1]	4.0	2.9
Fertilizers[1]	5.2	2.5
Yarn	1.2	1.7
Aircraft[1]	-	0.5
Oilseeds[1]	0.2	0.4
Staple fibre	0.1	0.3
Other	27.3	17.5
Total imports	100.0	100.0

[1]Nondutiable imports.

Source: IMF.

[16]The official and secondary exchange rates were constant between November 1990 and June 1991 while the real exchange rate appreciated 3 per cent over this period.

31. The volume of merchandise exports rose 9½ per cent in 1990/91 reflecting mainly the strong performance of the ready-made garments industry. The value of exports rose nearly 13 per cent. In the latter part of the fiscal year, exports were adversely affected by the cyclone, as products in storage were destroyed and transportation interrupted. Shrimp exports were particularly affected (Table 4).

Table 4
Bangladesh - Composition of merchandise exports
(Percentage shares)

	1984/85	1990/91
Ready-made garments	12.4	42.8
Jute goods	41.8	17.1
Leather and leather products	7.5	8.2
Frozen shrimps and frogs legs	9.3	7.8
Raw jute	16.2	5.6
Tea	6.5	2.4
Naphtha and furnace oil	2.2	1.9
Other[1]	4.1	14.[illegible]
Total exports	100.0	100.0

1Includes hosiery.

Source: IMF.

(3) Policy developments in the first half of 1991/92 and prospects

32. The real growth of the Bangladesh economy is expected to remain at about 3½ per cent in 1991/92. As a result of the continuation of tight financial policies during the current fiscal year, the authorities expect that the inflation rate will be brought further down to about 5 per cent.

33. The tight monetary stance adopted by the authorities is expected to produce a deceleration of the rate of growth of broad money to about 10 per cent with respect to the same period of the previous year. Domestic credit growth is also expected to decelerate to less than 8½ per cent although the increase in credit to the private sector accelerated as consumption and investment continued their recovery. In contrast, the central government

recourse to borrowing from the banking system is projected to decline. For the year 1991/92 as a whole, it is estimated that the overall budget deficit will increase somewhat to 7.2 per cent of GDP.

34. In the current fiscal year, the government introduced a value added tax to replace most sales taxes and excise duty collections. The development surcharge was eliminated. Income and profit taxes are expected to increase due to the expansion of withholding at source and to administrative improvements in tax collection. On the expenditure side, it is expected that growth in the purchases of goods and services will be moderate, due to a modest rise in pay and allowances and a reduction in public works expenditures.

35. The government has increased the prices of natural gas and electricity, and bus, railway and ferry fares to improve the finances of state-owned enterprises. Programmes for rationalization have been started with the aid of multilateral organizations. The government is also seeking to better monitor enterprises, reduce surplus labour, increase management autonomy and link bonuses to performance. However, many state-owned enterprises still have large tax arrears and delays in the service of debt obligations.

36. In 1991/92, the value of merchandise imports is expected to grow 8 per cent as its volume increases following the recovery of domestic demand. Imports of foodgrains are expected to fall together with the bill for petroleum products and crude oil. In contrast, as a result of the growth of exports of ready-made garments, imports of textiles will continue its upward trend.

37. The value of merchandise exports is expected to grow about 7½ per cent helped by the depreciation of the taka.[17] Continuing its fast growing trend since the sector was privatized, ready-made garments will represent nearly 50 per cent of Bangladesh exports in 1991/92, up from about 12½ percent in 1984/85. While the volume of exports of raw jute and jute goods is projected to increase, price developments will limit the increase in export earnings.

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[17]The taka was depreciated in the period July 1991-January 1992 by nearly 8½ per cent.