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**EMBARGO:**

NOT FOR PUBLICATION BEFORE 1300 HOURS GMT WEDNESDAY 10 JUNE 1992

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GATT/1544  
1 June 1992

**MORE SYMPATHETIC ENVIRONMENT NEEDED, BUT TRADE AND INDUSTRIAL POLICY REFORM IS EXPECTED TO CONTINUE - SAYS GATT'S REPORT ON BANGLADESH'S TRADE POLICIES**

A striking change has occurred in the composition of Bangladesh's trade since the early 1980s, says the GATT Secretariat's report on the country's trade policies and practices. Non-traditional exports like ready-made garments and frozen fish have grown rapidly, while traditional exports like jute, leather and tea have virtually stagnated. According to the report, these developments are, in part, attributable to changes in the pattern of comparative advantage, but a significant rôle has also been played by Government policy and developments in the international trading environment. The export base, however, remains narrow with the five product categories mentioned above responsible for over 90 per cent of total export earnings.

Since the launch of a trade reform programme by the Government in 1985, an import substitution strategy, based on State control and ownership, has gradually given way to a greater degree of market-directed, export-oriented industrialization, reliant on private enterprise. The reform programme's objective continues to be to streamline procedures, rationalize and reduce import taxes, and to gradually eliminate import prohibitions and quantitative restrictions. At the same time, incentives have been introduced to encourage exports and to diversify the export base.

Both the import liberalization and the export promotion programmes have met with some success, and, despite inadequacies in the institutional framework which have led to gaps in operational content and implementation of policy, the trade and industrial policy reform is expected to continue.

"However," cautions the report, "since factors of production are not perfectly mobile, a movement to more efficient methods of production may lead to temporary unemployment of resources in certain sectors, and could involve significant short-term social and economic costs. The elimination of barriers in key export markets would help to reduce the scale of balance-of-payments and unemployment difficulties which may initially be associated with liberalization. Encouragement of Bangladesh's export potential through a more sympathetic external environment is likely to facilitate the transition to a more liberal economic régime and to support the pace of reform."

The GATT Secretariat's report, together with a report prepared by the Government of Bangladesh, will be discussed under the Trade Policy Review Mechanism, by the GATT Council on 9-10 June 1992. The Mechanism, launched in December 1989, enables a regular collective evaluation by the Council of trade-related policies applied by individual GATT members.

The reports, as well as examining in detail the trade measures in place and the main sectors of the economy affected by these arrangements, cover all aspects of Bangladesh's trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic and development needs.

Attached are summary extracts from the reports. Journalists may request full reports from the GATT Secretariat.

Publications containing the complete trade policy review of Bangladesh, including both reports together with a record of the Council's discussions and of the Chairman's summing-up, will be published in September 1992 by the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Canada (1990), Chile (1991), Colombia (1990), the European Communities (1991), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Singapore (1992), Sweden (1990), Switzerland (1991), Thailand (1991), and the United States (1989 and 1992).

TRADE POLICY REVIEW  
BANGLADESH

Report by the GATT Secretariat - Summary Observations

In Bangladesh, one of the least-developed countries, a fundamental shift in policy has taken place over the last decade. An import substituting strategy, 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 nominal protection for domestic industry; easier access to imports of industrial raw materials, especially for exporters; privatization of State-owned enterprises; encouragement of foreign direct investment; reduced State intervention in the market for agricultural outputs and inputs; and a greater rôle for the market in determining key economic variables, including interest rates and the exchange rate.

However, the transition to a more liberal economic régime has been only partially accomplished. Levels of protection offered to domestic industry through both tariffs and quantitative restrictions continue to be high and variable. Export promotion measures have so far benefitted only a few selected sectors and have not fully offset the disincentives to export created by high levels of protection. Restrictions on certain exports of primary and intermediate goods, perceived as necessary to bring a shift into higher value added products, have instead led to a net decline in export earnings from the affected product categories.

Resources continue to be diverted to loss-making public enterprises, primarily through the provision by nationalized commercial banks of concessional credit which is often not repaid. The performance of privatized industry has not been significantly better than that of the public sector since it still operates in a fairly restrictive environment. While the entry conditions have been eased, exit is encumbered by Government policy that protects existing employment and does little to encourage factor mobility between industries. Foreign direct investment has not yet begun to respond in significant measure to recently offered incentives such as tax exemptions and facilities for profit repatriation.

Scarcity of domestic savings and foreign exchange remain the fundamental bottlenecks to Bangladesh's development. Low per capita income, reflecting low levels of productivity, limits the scope for domestic saving. The ability to earn foreign exchange is constrained by a narrow resource base, which sustains local production of only a limited range of goods. Consequently, export revenues depend almost entirely on a few products, most of which are subject to both domestic supply shocks and fluctuations in international prices; concurrently, the country imports a wide range of products, including food, manufactured goods and fuel.

Foreign aid has helped both to supplement domestic savings and to facilitate the transformation of savings into investment by the import of capital goods. However, Government revenue has consistently fallen short

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of its expenditure. The reduction of fiscal deficits under stabilization programmes has led to cuts in development rather than current expenditure. On the other hand, inability to raise significant revenue through either direct taxes or the profitable operation of public enterprises, has led to an overwhelming dependence on customs duties. Thus the fiscal constraint has been seen by the authorities as limiting the scope for achieving greater allocative efficiency through trade liberalization.

However, in the last few years, there has been a strong revenue mobilization effort complemented by efforts to control current expenditure. The Government has enacted major tax reforms, including the introduction of a value added tax to replace most sales tax and excise duty collections. Tight control on current expenditure has taken the form of controls on wage increases and reduced subsidies.

#### Bangladesh in World Trade

Since the 1980s, Bangladesh has witnessed a striking change in the composition of its trade. Non-traditional exports like ready-made garments and frozen fish have grown rapidly while traditional exports like jute, leather and tea have virtually stagnated. These developments are, in part, attributable to changes in the pattern of comparative advantage, but a significant rôle has also been played by Government policy and certain developments in the international trading environment. The export base, however, remains narrow with the above five product categories responsible for over 90 per cent of total export earnings.

Bangladesh has emerged as a major garment exporter in the last decade. Between 1982-83 and 1989-90, exports rose from US\$7 million to US\$620 million and in the latter year accounted for 40 per cent of export earnings. Some 55 per cent of garment exports go to the United States, 35 per cent to Europe and the rest mainly to Canada, Sweden and Norway. By quantity, Bangladesh was the tenth largest supplier of garments to the European Communities and to Canada, and the seventh largest to the United States.

Both the success of the garment sector and the present limitations imposed on its growth are attributable in large part to the Arrangement Regarding International Trade in Textiles (or the MFA). First, the Arrangement ensured market access for Bangladesh as other exporters, faced with binding quota restrictions, relocated part of their production in Bangladesh. The industrial technology required for entry into the trade was simple and labour-intensive, and therefore well suited to Bangladesh's endowments. But the possibilities of continued growth in certain categories was subsequently curtailed when Bangladesh itself became subject to quotas under the Arrangement.

Government policy has been important in creating an environment in which garment exporters could take advantage of the available opportunities without being fettered by import restrictions or taxes. Facilities provided included bonded warehouses, back-to-back letters of credit for raw

material imports, access to subsidized credit and, until recently, export performance benefit entitlements.

In sharp contrast to the garment industry, the textile industry continues to be heavily protected and is not internationally competitive in either price or quality. Consequently, the domestic value added in garment exports has been low and imports of garment-related raw materials and capital goods account for almost three-quarters of gross export earnings. Efforts are now being made to change the enclave-like structure of garment production and develop backward linkages with domestic textile producers, to ensure continued competitiveness in the post-MFA era.

Bangladesh accounts for as much as 80 per cent of the world production of jute and 45-50 per cent of the exports of jute manufactures, including sacking, hessian, twine and carpet backing cloth. Improved competitiveness of the Indian jute industry has recently added to the threat posed by synthetic substitutes to the continued viability of the sector as a principal export earner. Efforts in Bangladesh focus on improving quality, with a view to diversifying into other textiles and manufactures based on jute, including paper and carpet backing. Exports of jute manufactures declined from about 540,000 tons in 1981-82 to less than 500,000 tons in 1988-89 but are estimated to have increased slightly in recent years. The share of jute in total export earnings has declined from three-quarters to one-quarter over the past decade.

Bangladesh has a long coastline suitable for fish cultivation; the exports of shrimps and edible frogs have grown rapidly in the 1980s. Compared with other producers, such as Malaysia and Thailand, Bangladesh achieves only low yields in this activity. In the face of stiff international competition, exports of shrimps declined in relative importance in 1989-90 to 8 per cent of total export earnings compared to 11 per cent in the previous year.

#### Institutional Framework

Bangladesh returned to democratic Government in December 1990, after military rule for much of its 20 years of Statehood. Executive power is vested in the Prime Minister, who heads the Cabinet and is responsible to a unicameral Parliament, that holds legislative power. Legislative power resides in a unicameral Parliament. The Ministries concerned most closely with the formulation of trade policy are those of Commerce, Finance, Planning, Agriculture, Industry, Textiles and Jute.

The Ministry of Commerce (MoC) is entrusted with the task of formulating and overseeing the implementation of trade policies. It does this mainly through the office of the Chief Controller of Import and Exports (CCIE) and the Export Promotion Bureau (EPB). While the CCIE is a regulatory agency for foreign trade, the EPB, a semi-autonomous statutory body, is a promotional organization responsible for assisting exports. The responsibility for helping the MoC formulate the Import Policy Order and the Export Policy has devolved to the CCIE and the EPB.

The tariff formulating body is the National Board of Revenue (NER) in the Ministry of Finance; the tariff implementing bodies are the Collectorates of Customs and Excise, while the tariff advisory bodies are the Tariff Commission and the Board of Investment. The Tariff Commission is increasingly entrusted with the task of rationalizing the existing tariff structure.

Within the private sector, there are organizations representing the interests of the jute, readymade garments, leather, frozen foods and other manufacturers and exporters in the private sector. But even the more important organizations, like the Federation of Bangladesh Chambers of Commerce and Industry (FBCII), the apex body representing private sector trade, industry and commerce at the national level, appear to have little formal influence on Government policy.

Despite the clear shift which has occurred in Bangladesh's trade policies, inadequacies in the institutional framework have led to gaps in both the operational content and the implementation of policy. The difficulties of transition are reflected in the relative status of three crucial policy documents: the Import Policy Order (IPO), made under the authority of the Imports and Exports (Control) Act, 1950, has legal status, while the Export Policy Order (EPO) and the Industrial Policy are statements of intent without legal status. While the first contains details of the restrictions on imports, the latter two contain broader policy statements regarding the promotion of exports and industrialization. Therefore, while the IPO has effectively restricted industrial enterprise, the EPO has only begun to ease the restrictions, with support from the industrial policy.

### Trade Policy Features and Trends

#### Evolution of trade policies and instruments

The Government of Bangladesh launched a trade reform programme in 1985 with the objective of streamlining procedures, rationalizing and reducing tariffs and import taxes, and gradually eliminating import prohibitions and quantitative restrictions. At the same time, incentives were introduced to encourage exports and diversify the export base.

Both the import liberalization programme and the export promotion programme have met with some success. Import procedures have been simplified with the increasing replacement of administrative approval by credit authorization. But importers still face a cumbersome process. For instance, to obtain access to foreign exchange an industrial consumer requires, among other things, a trade licence from the local authority, a pass-book and import registration certificate from the Chief Controller of Imports and Exports, permission to import specific items from the sponsoring authority (e.g. the Board of Investment), and a completed letter of credit authorization form.

Further, though it is now easier to import many commodities, at least 16 per cent of the 4-digit HS categories are still affected by bans and

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restrictions. These include many items which compete with domestic production, such as tobacco products, sanitary ware, newsprint, stationery, carpets and floor coverings. There are also quantitative restrictions on the import of several industrial inputs and commercial items.

Tariffs have been reduced and made more uniform but the average operative rate of tariff is still as high as 70 per cent. Duties range from free access for products like cereals to 350 per cent on motor cars. However, the existence of a variety of tariff exemptions reduces the applied rate significantly. For example, special exemptions on the import of certain capital goods reduce the applicable rates on the relevant items to a uniform 10 per cent from average levels of operative duty of over 65 per cent. Such exemptions have the effect of increasing the effective rates of protection granted to various industrial sectors.

The creation of a virtually tax-free environment for exporters through the remittance of duties on imports of inputs and capital goods has contributed to an expansion in the size and the share of non-traditional products but has failed either to stimulate traditional exports or to increase significantly the domestic value added of exports. Exporters have benefitted from duty exemptions on imported and locally supplied inputs provided through schemes like bonded warehouses, a duty drawback system and compensating cash subsidies. Exporters are also assisted by permission to import banned or restricted items if deemed necessary, access to concessional finance and rebates of income tax. The export insurance and guarantee schemes, free trade zones and other export promotion measures like the Export Development Fund are yet to realise their full potential.

Several measures are likely to have had a negative impact on export performance. One is the attempt to impose minimum prices on exports of both raw jute and jute products, ostensibly to take advantage of Bangladesh's market power for this commodity. In the private sector, the restriction has often been circumvented by over-invoicing, while in the public sector it has frequently led to the accumulation of stocks and the under-utilization of capacity, further undermining the sectors' financial viability. The export bans on wet-blue leather and, in 1984, on raw jute, have restrained earnings but done little to further the objective of increasing the production and export of higher value-added products. Similarly, the imposition of a 30 per cent local-content requirement on the exports of garments may prevent the diversification of this industry into higher quality products, and also not maximize absolute foreign exchange earnings.

#### Exchange rate policies

Bangladesh has allowed market forces a progressively greater rôle in determining the exchange rate. Exchange rates were unified at the beginning of 1992.

The real effective exchange rate of the taka has fluctuated significantly over the 1980s. A significant depreciation in its nominal exchange rate does not seem to have offset the difference in inflation

rates between Bangladesh and its trading partners. In particular, the significant relative depreciation in the currencies of countries like India, Pakistan, Thailand and China, has probably adversely affected the competitiveness of Bangladesh's exports of jute, leather and frozen fish.

Changes in the REER are likely to have affected traditional and non-traditional exports differently. Non-traditional exports, in particular garments, have a high importable input component (as much as 75 per cent in recent years), while traditional exports like jute and unprocessed leather rely on very few imported inputs. An appreciation in the exchange rate, by affecting the input and output prices of non-traditional exports in equal measure, may have done little to affect their competitiveness, but is likely to have had a negative effect on the competitiveness of traditional exports.

### Sectoral policies

#### Agriculture

It is estimated that 85 per cent of the population of Bangladesh depends, directly or indirectly, on agriculture for its livelihood. Apart from its direct contribution to GDP, the processing of agricultural raw materials, particularly jute, but also of sugar, cotton, hides, tea and fisheries products, constitutes the core of industrial activity. The attainment of "self-sufficiency in foodgrain production" is stated to be a major objective in The Fourth Five-Year Plan. But, it has been argued, as in the Task Force Report on Agriculture, 1991, that "too much of a fetish" should not be made of this objective, since the implementation of a successful industrial strategy would make possible the export of industrial products and the import of food.

The primary emphasis of development efforts has been to replace traditional, unstable agriculture, characterized by primitive technology and overwhelming dependence on weather, by modern agriculture capable of sustained growth. Government interventions influence the relative prices facing both producers and consumers, by setting procurement prices for rice, wheat, sugarcane, tobacco and cotton; and issue (i.e. ration) prices for rice, wheat, white sugar and edible oil distributed under the Public Food Distribution System (PFDS). The insulation of domestic foodgrain prices from international prices is made possible by the existence of a State monopoly over their import, while other foodstuffs, such as sugar, tobacco products and fish, are subject to import restrictions, high tariffs, or both. The Government also sets the prices of inputs like certified seeds distributed by the Bangladesh Agricultural Development Corporation (BADC), and the ex-factory and wholesale prices of fertilizer. Procurement and input prices are directed at providing incentives for output expansion and supporting farm incomes, while issue prices are set to help achieve the objectives of food security and price stabilization. The Government also runs agricultural research and development institutions.

However, in recent years, agricultural marketing and purchasing activities have been increasingly shifted from the public to the private

sector. The rôle of the BADC in the distribution of inputs has been progressively reduced. The levels of taxes and subsidies implicit in administered prices have also declined significantly in recent years and prices are now closer to international levels.

### Industry

The relative importance of the industrial sector has changed only marginally since independence in 1971; its share of GDP has remained slightly below 10 per cent. In the period 1981-90, the average annual growth rate of the sector has been only about 3 per cent. There is some evidence that resources have shifted from manufacturing to trading and other activities. For instance, the Report of the Task Force on Industry, 1991, states that "smuggling has become more rewarding than trading and trading more rewarding than manufacturing."

Initially, industrial development was based on import substitution, with almost complete State ownership of large and medium industries and restricted scope for both domestic and foreign private investment. But these restrictions were gradually reduced. The New Industrial Policy (NIP) of 1982 simplified the procedures for obtaining permission to invest and to import, and also initiated large scale privatization. These measures were further strengthened in the Revised Industrial Policy of 1986, when trade policy reforms reduced levels of protection and provided easier access to imported inputs. The Board of Investment, created in 1989, was given wide-ranging powers to facilitate the new projects and provide support services for existing firms.

The 1991 industrial policy continues the move away from import substituting industrialization, based on State control and ownership, towards market directed, export-oriented industrialization reliant on private enterprise. It has four major aims: first, to reduce the regulation of the private sector; secondly to limit the rôle of the public sector, in some cases by the privatization of public enterprises; thirdly, to encourage foreign direct investment; and, finally, to provide special incentives to export-oriented enterprises.

In general, the level of Government intervention and subsidization declined during the 1980s, but continues to be high and variable. The range of effective rates of assistance is largely due to the disparate tariff structure, the uneven incidence of quantitative restrictions, selective eligibility for investment or export incentives and import through extra-legal channels. In general, it seems that the import substituting industries have received higher rates of assistance than export-oriented industries.

The public sector owns fewer national assets than it did a decade ago. But public enterprises still have virtual production monopolies in cement, fertilizer, paper and sugar. The Government's stake in the large-scale manufacturing sector declined from 85 per cent in 1979 to a little over 40 per cent in 1988. Further disinvestments are planned in the steel and engineering, chemical, sugar, and chemicals industries.

The privatization programme has not been without cost. Of the 497 units which have been privatized, only about 44 per cent continue to be in production. Further, in general the divested units did not display clearly superior performances to State-owned enterprises. This is probably because the divested units inherited the disadvantages of the public sector and continued to operate in a restrictive policy environment.

In both the public and private sectors, as many as 50 per cent of firms are reported to be "sick". Reasons include technological backwardness, overcrowding of investors in the same line of production and overexpansion of capacity made possible by previous easy access to credit. Instead of shutting down, these enterprises are being kept alive by continued access to loans on highly concessional terms, which are easily rescheduled and often converted into equity contributions. The repetition of such practices implies that investment funds can effectively be treated as grants.

The process of trade and industrial policy reform in Bangladesh is expected to continue. However, since factors of production are not perfectly mobile, a movement to more efficient methods of production may lead to temporary unemployment of resources in certain sectors. Given the high level of unemployment and underemployment, this could involve significant short-term social and economic costs. Already, labour unrest is reported to have gathered momentum with strikes over threatened redundancies in the State-owned jute and textile industries where the Government is seeking to reduce overmanning prior to privatization. Similarly, Government efforts to increase the efficiency of the banking sector by increasing levels of debt recovery have been frustrated by industrial lobbies.

The Government's commitment to reform is more likely to survive these pressures if supported by a more favourable external economic environment. The elimination of barriers in key export markets would help to reduce the scale of balance of payments and unemployment difficulties which may initially be associated with liberalization. Accordingly, in the Uruguay Round, Bangladesh has stressed the objective of improving market access for the exports of least developed countries. In particular, it has sought the immediate elimination of restrictions on imports of textiles and clothing from the least developed countries and their exemption from the application of the transitional safeguard mechanism. Encouragement of Bangladesh's export potential through a more sympathetic external environment is likely to facilitate the transition to a more liberal economic régime and to support the pace of reform.

TRADE POLICY REVIEWReport by Bangladesh - Summary ExtractsExecutive Summary

The primary objective of trade policies in Bangladesh is to create a conducive and stable environment where a private sector-led export growth-path for the economy can be pursued vigorously. The other important objectives are to maximize creation of productive employment for its teeming millions to alleviate poverty and to secure higher rate of growth for the economy.

Bangladesh is the eighth most populous (107.99 million as per 1991 preliminary census result) country in the world. It has the highest population density (782 per square kilometre) except for some city states. The population is growing at the rate of 2.17 per cent annually. Per capita income (US\$170) wise, it is one of the poorest countries in the world. Bangladesh is also a resource-poor country. Barring 22 million acres of arable land and a proven reserve of 12.82 TCF of natural gas (in 1988-89), Bangladesh does not have any other significant natural resource. The technological base of the agriculture sector is also low and as such productivity is also poor. 57.2 per cent of the country's labour force (1985-86) are engaged in this sector and produce 39 per cent of GDP (1990-91). The industrial sector's contribution to GDP is 7.8 per cent (1990-91) and employs 9.9 per cent of the labour force. The share of foreign trade in the GDP is 22.78 per cent.

Bangladesh's economy also suffers from two major structural constraints:

- (i) only about 56 per cent of total government expenditure is met from revenue and,
- (ii) export earnings cover only about 40 per cent of import bills.

Unfortunately, Bangladesh also has to face, quite frequently, natural disasters of great magnitude. Being located at the mouth of the Ganges and the Brahmaputra delta, Bangladesh often gets submerged by abnormal floods during July-September and severe tropical cyclones accompanied by tidal waves during October to mid-December and during the April-May period causing very heavy loss of human lives, physical infrastructure and production, both in agricultural and industrial sectors. The last big cyclone of 29 April 1991 caused a loss of life of over 150,000 and damage of about 10 per cent of GDP in infrastructural and production losses.

Bangladesh is also greatly affected by the evolving external economic and trade environment, especially conditions in the countries which are its major import sources and export destinations.

All these elements and compulsions contribute to the shaping of trade policy objectives which seek to channel investment into the sectors which

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will maximise the rate of growth of the economy. Bangladesh's previous reliance on public sector-led import substituting production has given way to private sector-led production for export and efficient import substitution. The Government has significantly rolled back its regulatory functions and is concentrating on providing supportive service. Private sector investment is actively sought by the Government and to this end attracting foreign private investment has been one of the Government's priority activities. Investment laws provide for equal treatment for both local and foreign investments. New public investments have been drastically reduced and only a few areas have been reserved for the public sector. Along with this, the private sector investment and import régime has been made almost free. Tariff rates have also been rationalized to create a competitive environment which will force national industries to become more efficient. All other trade related laws are also being reviewed and amended to achieve the end of making Bangladeshi goods and services more competitive and to facilitate private sector led production for export.

As a result of this orientation, the economy has grown at the rate of 3.81 per cent during the last five-year period despite the time and effort taken for transition to this new régime, the deterioration of the international economic environment, shocks like the Gulf crisis and the devastating cyclone of April 1991.

#### THE ECONOMIC ENVIRONMENT

##### Major features of the Bangladeshi economy

Bangladesh is still basically an agricultural country. Agriculture is the main occupation of the people, employing 57.2 per cent of the labour force in 1985-86 (compared to 61 per cent in 1981). This sector provided an estimated 39 per cent of the gross domestic product (GDP) of Bangladesh in 1990-91 (compared to 41.4 per cent in 1985-86).

Forestry accounts for 4 per cent of GDP. In 1987-88, forests covered an area of 19,218 square kilometres (13.35 per cent of the total land area). Principal forest products are timber, firewood, golpata, bamboo, sungrass, honey, fish, wax, and cane and rattan.

The fisheries sector provides 3 per cent of GDP. Fish is produced in 4.2 million hectares of inland water bodies and is also caught in about 48,000 square nautical miles of the Bay of Bengal adjacent to Bangladesh. In 1988-89 the amount of fish production was 930,000 MT (down from 83,700 MT in 1987-88), of which 72 per cent was from inland water bodies.

The livestock sector contributes 3 per cent to GDP. According to the agricultural census of 1983-84, there were 21.50 million cattle (up from 20.50 million in 1977); 0.57 million buffaloes (up from 0.47 million in 1977); 13.56 million goats (up from 8.44 million in 1977); and 0.67 million sheep (up from 0.51 million in 1977) in Bangladesh.

Although Bangladesh is predominantly an agricultural country, a large number of industries based on both indigenous and imported raw materials have been set up which provide employment to 9.9 per cent of the labour force and contributed 7.8 per cent to the GDP in 1990-91 (up from 7.5 per cent in 1989-90). This sector is dominated by jute processing, cotton textiles, and cigarettes. Other notable industries include paper and newsprint, engineering and shipbuilding, sugar, iron and steel, cement, oil refinery chemicals, paints, colours and varnishes, fertilizers, electric and wires, tannery, electrical goods and accessories, etc.

Bangladesh has few proven mineral resources. In 1988, Bangladesh had 12.82 TCF of recoverable deposits of natural gas. The methane content of Bangladeshi gas is very high - varying from 92.69 per cent in the Beanibazar field to 99.60 per cent in the Rashidpur field. So far 14 gas fields have been discovered and the total gas production in 1988-89 stood at 0.153 TCF (up from 0.147 TCF in 1987-88). Of total gas production, 88 per cent is supplied to industrial consumers (42 per cent for electricity generation; 35 per cent for fertilizer production and 11 per cent for other industries); 3 per cent to commercial consumers and 9 per cent to domestic consumers. A little more than 1 per cent of the gas reserve is being consumed annually at present. Deposits of high quality coal have been found in the north-western part of the country, and efforts are underway for their mining with international assistance. Other minerals found include limestone, hard rock, lignite, silica sand, white clay, etc. It is possible that commercially viable oil deposits will be found.

Bangladesh is one of the most densely populated countries in the world. According to the preliminary results of the 1991 census, the total population of Bangladesh is 107.99 million (up from 89.91 million in 1981) of which 55.58 million are male and 52.41 million are female. There are 19.75 million households in the country (up from 14.79 million in 1981), the average size of which is 5.21 persons (down from 5.78 persons in 1981). The annual rate of population growth is 2.17 per cent (down from 2.32 per cent in 1981). Population density is 782 persons per square kilometre (up from 624 persons per km<sup>2</sup> in 1981). The rate of literacy is 24.82 per cent (up from 19.7 per cent in 1981) and the percentage of population living in municipalities is 9.95 per cent (up from 9.23 per cent in 1981). Bangladesh is situated between 20'34" and 26'38" North latitude and between 88'01" and 92'41" East longitude covering an area of 143,998 km<sup>2</sup>.

#### Recent economic performance

The Government's medium-term economic strategy is incorporated in the Fourth Five-Year Plan (FFYP), which covers the period from July 1990 to June 1995. The FFYP objectives emphasize human development both as an end in itself and as a strategy for achieving goals. The Plan's main theme is poverty alleviation and its emphasis is on employment, skill formation and technology. A real growth rate of 5.0 per cent is targeted by the Plan which envisages a substantial increase in productive employment opportunities and an improvement of the quality (knowledge and skills) of

human resources. Other major objectives of the FFYP are to achieve self-sufficiency in food; reduce population growth; develop human resources; create the technological base necessary for long-term structural change; promote self-reliance; and satisfy basic needs.

It must be remembered that Bangladesh is particularly vulnerable to exogenous shocks that have interfered with the pursuit of long-term development goals. The most recent of these have included the disastrous floods of 1987 and 1988, the Gulf crisis of 1990 and the worst cyclone in history that struck the Bangladesh coast in April 1991. Successful economic management in the face of these shocks is a sine qua non for progress towards growth and poverty alleviation. It has been estimated that poverty alleviation would require increasing economic growth from the average of 4 per cent achieved during the past decade to about 5.5 per cent over the medium to long-term and generating employment in excess of one million persons per year compared to about 600,000 persons per year created during the past decade. Growth alone is, however, not sufficient and must be complemented by well-targeted interventions in areas such as population control and human resources development as well as expansion of targeted assistance directed towards the poor.

During the first half of the 1980s Bangladesh implemented a stabilization programme in response to the destabilizing effect of the second oil shock of 1979-80. The stabilization of the economy achieved in the first half of the 1980s held out prospects for more rapid economic growth and a tangible impact on poverty in the second half of the 1980s. By the beginning of 1987-88, four years of stabilization efforts had been successful in adapting the Bangladesh economy to a less-favourable external environment and resource position. A good start had been made on reforms in the industrial, energy, and financial sectors. Various indices indicated that a modest improvement had occurred in the widespread poverty situation due to increases in rural wages, a broadening of targeted field distribution programmes, and redirection of government expenditures into rural health and family planning programmes and primary education. While many problems remained to be resolved, Bangladesh enjoyed widespread international support for its development efforts, and prospects looked bright for a significant improvement in growth. In contrast, the period from 1987-88 to 1989-90 has been characterized by limited and very mixed progress in addressing long-term development problems. This was due, in part, to factors beyond the control of the Government, especially the floods in 1988; an equally important factor was a deterioration in macroeconomic management. Except in the agricultural sector, where policy reforms contributed to major improvements in production and allowed the country to approach self-sufficiency in food, weak political commitment of the then Government to policy reforms undercut momentum in many areas of the economy which could have contributed to higher growth.

Significant policy changes in the agriculture sector in recent years include:

- (a) the abolition of the monopoly on the import and distribution of irrigation equipment by the Bangladesh Agricultural Development Corporation (BADC);
- (b) deregulation of minor irrigation through the abolition of standardization requirement for imported engines and elimination of siting restrictions on installation of tubewells;
- (c) abolition of import duties on small diesel engines and spare parts;
- (d) abolition of standardization restrictions on imported power tillers and removal of import duties;
- (e) providing direct access to fertilizers by private dealers from BCIC plants and from ports, as well as import of fertilizers by the private sector; and,
- (f) elimination of subsidies on nitrogenous fertilizers and the reduction of subsidies on phosphate fertilizers.

The FFYP sets down the following objectives in the industries sector:

- (a) to raise the rate of growth in the industries sector to 9.1 per cent per year;
- (b) to increase employment in the industries sector to the maximum possible level;
- (c) to improve the trade balance with a view to achieving self-reliance; and,
- (d) to lay a sound technological base through research and development.

The Government has given importance to expanding the small industrial base and to make it a growing base for value-added export products through successive improvements in its industrial policy. The new Industrial Policy of 1991 aims at reviving the manufacturing sector, liberalizing the investment régime, reducing the rôle of public enterprises through denationalization, and increasing the efficiency of the enterprises that were retained. The Industrial Policy restricts public investment in manufacturing to heavy and strategic industries while the number of industrial sectors classified as free sectors have been significantly expanded.

Industrial Policy 1991 has amongst its basic objectives the acceleration of the growth of export-oriented industries through an appropriately designed export strategy; attracting foreign investment by removing all barriers and offering positive encouragement to both new and existing foreign investors; putting greater emphasis on the development of the private sector; and improving the efficiency and competitive ability

of the industrial sector by improvement of technology. It is expected that the new Industrial Policy 1991 will arrest the decline in investment and create an impetus for investment in and development of the industrial sector through its emphasis on the rapid expansion of the private sector; reduction in regulatory complications and controls; gradual disinvestment of public sector enterprises; end discrimination between public and private sector enterprises and foreign investors (for the first time since independence, industries with 100 per cent foreign ownership may be set up anywhere in the country); simplification of procedures for foreign investment-based industries and ensuring availability of infrastructural facilities; special financial, economic and infrastructural facilities for the establishment of export-oriented and export-linkage industries; and special encouragement of industries with potential for high value addition and high foreign exchange earnings.

#### TRADE POLICIES AND PRACTICES

##### Trade policy objectives

In the initial years after independence, Bangladesh placed considerable reliance on direct statutory controls as an instrument for controlling the balance-of-payments (BOP) situation and providing protection for local industries. Since 1976, Bangladesh has been moving away from a system of rigid import controls. As a result, the import control régime of Bangladesh has been becoming more liberal with the passing of each year. In this liberalization process, July 1985 marks a significant watershed: for it was then that the list of items that were permitted to be imported (i.e. the positive list) was converted into a negative list and a restricted list with the implication that any item not on these lists could be imported either freely or by fulfilling specified conditions.

Most imports into Bangladesh are governed by the Import Policy Order (IPO) which used to be issued at the start of each financial year in July until 1989-90. Since 1989-90, IPOs are being issued for a two-year period. The IPO consists of a nested series of regulations which outline (i) general conditions governing importation of goods into Bangladesh; (ii) conditions governing importation by various types of importers (e.g. industrial consumers, commercial importers, public sector importers, actual users etc.); and (iii) conditions pertaining to the import of specified goods. Prior to IPO 1989-91, all IPOs published the negative and restricted lists as separate lists and remained in effect for one year. The IPO 1989-91 (a) combined these into one (called the Control List); so resulting in significant simplification; and (b) extended the duration of the IPO to two years thus providing a more stable environment for the importers to plan their activities.

Since 1985-86, Bangladesh has been following a policy of replacing statutory bans and restrictions with tariffs. It is hoped that this will make the import régime more transparent and equitable. In order to phase out the non-tariff restrictions, Bangladesh has sought to reduce the number of items in the Control List (CL) by 20 per cent per year with priority

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being given to removing bans in the steel, chemical, textile and light engineering sectors. At present, items remaining in the CL include mainly those products which compete with domestic production (in addition to those which may be restricted for special reasons e.g. health, security, religion etc); and the former group will be opened up for imports over time, in order to provide competition for and ensure efficiency of domestic production.

Bangladesh has been pursuing a very liberal export policy since the early 1980s with a view to narrowing down the existing trade gap. The Export Policy of the Government sets out the export objectives and targets for the period under its purview, and the strategies to be followed for achieving those objectives and targets. This Policy used to be formulated on a yearly basis. But starting with financial year 1989-90, the Export Policy is being formulated on a biennial basis with a view to bringing greater predictability to export trade.

In recent years, the Government has undertaken a series of trade policy measures designed to improve the efficiency of the trade régime. Along with complementary reforms to the regulatory framework, public enterprises and the financial sector, the trade policy reforms aimed at boosting production and employment in the medium term while increasing exports and reducing Bangladesh's dependence on foreign aid. In addition, the level of international reserves was to be maintained at above two and a half months of imports. There are two main facets of the trade policy reforms; improving export policy administration, mainly by generalizing the processes and institutional mechanisms which have been successful in promoting strong growth in the garments sector; and rationalizing the import régime through the removal of import bans and quantitative restrictions and the restructuring of tariffs. The export policy reforms included (a) maintenance of a flexible exchange rate policy to avoid appreciation of the official effective rate of exchange; (b) establishment of a Duty Exemption and Drawback Office (DEDO) to ensure duty and tax free status for imported inputs used for production of export goods; (c) rationalizing and streamlining the incentives for indirect exporters and export financing; and (d) further strengthening of the Export Credit Guarantee Scheme (ECGS). The programme to rationalize the import system involved (i) reducing the number of HS headings in negative and restricted lists by 20 per cent each year; (ii) combining the two lists into one control list; (iii) lowering the maximum import tariff to 100 per cent (with the exception of a few specified luxury items); and (iv) restructuring import duties in the textiles, steel and light engineering sectors.

The major balance-of-payments (BOP) objective of the FFYP is to restrain the export-import gap from widening beyond the level of foreseeable external assistance. The major FFYP strategies in the BOP area will consist of accelerating the pace of growth of exports, substituting imports on a competitive basis, containing import of non-essentials, and encouraging overseas employment and home remittances. While a programme of export development and diversification will be undertaken during the Plan period, efforts will also be made to utilize the existing potential of both

traditional and non-traditional items. In this context, sustaining the growth of exports especially of non-traditional items, both as a source of foreign exchange earnings and as a vehicle for the creation of additional employment opportunities for the growing population assumes critical importance, due to the uncertainty in foreign exchange receipts from other sources and the anticipated decrease in international demand and prices of Bangladesh's traditional exports. In such a scenario, the FFYP seeks to improve the BOP position by increasing the share of imports financed through exports to 46.6 per cent in 1994-95 compared to 40.8 per cent in 1989-90. Export growth is targeted at 8.0 per cent per annum in nominal terms, while import growth is targeted at 5.2 per cent per annum.

The Government has taken a number of measures to demonstrate the high priority and strong commitment it attaches to early development of a broader export base and a bigger presence in the international market. It has given importance to expanding the small industrial base to make it a growing base for value added export products through successive improvements in its industrial policy. The Industrial Policy of 1991 has amongst its basic objectives (i) acceleration of the growth of export industries through an appropriately designed export strategy, which will help reduce trade imbalances and create a large source of employment; (ii) attraction of foreign investment by removing all barriers and offering positive encouragement to both new and existing foreign investors; (iii) putting emphasis on the development of the private sector; and (iv) improving the efficiency and competitive ability of the industrial sector by improvement in the existing production technology.

The export policy for 1991-93 was announced in July 1991. Major objectives of the export policy are:

- (a) to reduce the existing trade gap between export earnings and import expenditure through increase of export earnings at a rate higher than expenditure;
- (b) to improve the quality of export products and expand the share of higher value added products in total export earnings;
- (c) to fetch better prices for existing exportables through diversification and adaptation (for particular markets);
- (d) to create a suitable environment for the establishment of export-oriented and backward linkage industries;
- (e) to make export-related activities more attractive than import trade or establishment of import substitute industries by rationalizing the existing export incentives;
- (f) to consolidate existing markets and enter new markets;
- (g) to create avenues for the employment of educated unemployed by strengthening and intensifying efforts at producing and marketing more and more exportable items.

Description of the import and export systems

Import Policy 1991-93

The principal objectives of the IPO 1991-93 are as follows:

- (i) to build up a strong economic infrastructure aimed at industrialization and overall economic development;
- (ii) to attract local and foreign investment to those industrial sectors which are perceived to have comparative advantage;
- (iii) to provide necessary assistance towards implementation of the Government's new industrial policy;
- (iv) to provide greater incentives for setting up export-oriented industries instead of import substitution industries;
- (v) to provide affirmative and supportive measures for the implementation of the aims and objectives of the export policy;
- (vi) to simplify procedures for the importation of necessary raw materials and other imported inputs required by export-oriented industries;
- (vii) to ensure adequate supply of agricultural inputs, equipment, fertilizer and pesticides;
- (viii) to encourage setting up of agro-based industries especially those with export potential;
- (xi) to simplify the import procedure in general;
- (x) to identify and remove the existing anomalies in import regulations and the tariff structure;
- (xi) to provide employment to the educated unemployed in the field of foreign trade;
- (xii) to ensure the supply of essential items at a reasonable price;
- (xiii) to stabilize the price of consumer goods;
- (xiv) to bring discipline in the field of foreign trade by upholding the national interest; and
- (xv) to provide assistance in maintaining public health and the preservation of the environmental and ecological balance.

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The legal framework in the field of foreign trade is provided mainly by the following three laws and the rules, regulations, orders, etc. promulgated:

- (1) The Imports and Export (Control) Act, 1950;
- (2) The Customs Act, 1969; and
- (3) The Foreign Exchange (Regulation) Act, 1947.

The names of the above Acts are quite self-explanatory. The Imports and Exports (Control) Act 1950 empowers the Government to regulate, by law, the importation into and exportation from Bangladesh of goods and services. The primary responsibility for implementing this Act and rules, regulations, orders, etc. formed thereunder is with the Office of the CCIE. The responsibility of enforcing the provisions of the Customs Act, 1969 lies with the National Board of Revenue and the Collectorates of Customs and Excise. The central bank of the country, viz. Bangladesh Bank, implements the provisions of the Foreign Exchange (Regulation) Act 1947 which among other things, regulates the purposes for which, and the procedures through which, foreign exchange may be taken out or brought into Bangladesh. Needless to say, these three cardinal Acts in the field of foreign trade are complementary in nature and infringement of one Act may involve infringement of another Act and attract punishment under all three Acts.

#### Exchange control

The Foreign Exchange Regulations Act, 1947 as adopted in Bangladesh immediately after liberation and amended in October 1976 confers on the Bangladesh Bank the legal authority to administer exchange control in the country. The control is maintained through a series of rules and regulations and also with support from the Customs Act, 1950 and the Import and Export (Control) Act, 1950.

Exchange control in Bangladesh is meant to regulate the use of scant foreign exchange resources with a view to ensuring that foreign exchange is available for essential and productive purposes and that it is not used for wasteful and unproductive ends. Authority for administering exchange control is vested in Bangladesh Bank by the Foreign Exchange Regulation Act, 1947.

The basic approach has two aspects: (a) to impose statutory compulsion on all residents to surrender any foreign exchange that they may earn, in exchange for taka proceeds and also to offer incentives and inducements to attract foreign exchange deposits from non-residents (both Bangladeshi and foreigners) and (b) to regulate the use of foreign exchange, by budgetary control and by exchange control instructions regarding remittance of foreign exchange from Bangladesh for imports and other purposes.

### Trade policies

Prior to 1989-90, export and import policies were announced annually before the start of the new financial year. Over time it was felt that the period covered under this policy was considerably inadequate for our importers and exporters to draw up a sound programme on a long-term basis. To overcome these difficulties biennial export and import policies covering the period 1989-91 were introduced for the first time at the beginning of the financial year 1989-90. This has generated confidence and created the needed leeway amongst entrepreneurs, investors and importers in carrying out their respective programmes efficiently.

### Import liberalization

The import policy now contains only a single list called the "Control List" and all items other than those on this list are freely importable. Even some of the items of the control list can be imported by interested importers on fulfilment of certain conditions laid down against each of these items. The requirements for registration of importers, exporters and inventors have been further simplified. Moreover, the industrial consumers now get their Import Registration Certificates, Import Entitlements and Pass Books delivered from the Board of Investment, their sponsoring agency.

A policy of reducing direct controls over trade and replacing bans and restrictions by appropriate tariffs is being pursued by the Government. The process is continuing to identify areas where further action is warranted. The tariff policy that is being followed aims at concentrating the economy's scarce resources in areas which offer more value-added at the least domestic resource cost. With this end in view, the lowest import duty and sales tax is applied to primary raw materials considering the meagre resource base on which the country's industries are operating; moderate rates to intermediate products; higher rates to semi-luxurious final products and highest rates to highly luxurious goods.

In 1991-92, the Government made a significant departure from the past and adopted measures to simplify the import duty structure to ease revenue collection and make the tariff structure more transparent. Previously imports were subject to a number of different taxes such as customs duty, development surcharge, regulatory duty in some cases, and sales tax. This multiplicity of taxes not only hindered smooth revenue collection efforts but also confused the tax-payers. To put an end to this situation, the Government abolished development surcharge, regulatory duty, and sales tax. Imports are now subject only to customs duty and value-added tax.

Transparency is an essential feature of current tariff structure. With this in mind, the Government undertook compilation of all tariff laws into one single document. This document, known as the Operative Tariff and Tax Schedule (OTTS), has recently been completed and is now awaiting publication. A user will easily learn whatever he needs to about tariff laws from this document. The OTTS will list all the tariff rates - both statutory and various exemption rates.

In order to simplify assessment and clearance of imported goods and also to maintain proper documentation, the Government has recently introduced computers at all customs ports and stations. This will also eliminate confusion and harassment.

To boost our exports, the Government has simplified the system of repayment of duties paid on imported raw materials. A separate office called the Duty Exemption and Drawback Office (DEDO) has been set up to achieve this. Duties paid on industrial raw and packing materials will be repaid to the exporters upon export. The DEDO has been given absolute powers to decide the repayment claim cases within seven days from the date of filing such claims. This will increase efficiency of export-oriented industries.

### The external economic environment

#### Major trends in exports and imports

Bangladesh is heavily dependent on international trade to meet its various investment and consumption needs. The share of trade as percentage of GDP has been rising steadily during the last few years, reflecting the ever greater rôle international trade plays in the national economy. However, as in many other developing countries, so in Bangladesh too, there exists wide gaps between savings and investment on the one hand, and export earning and import expenditure on the other. The export base of Bangladesh is quite narrow and is heavily biased in favour of agricultural and other primary commodities and their manufacturers. Export earnings are also adversely affected by cyclical recessionary trends in the world economy and protectionist policies of trading partners, most of whom are developed market economies. On the import front, expenditure cannot always be kept under control because Bangladesh cannot do without importing capital machinery and raw materials necessary for industrializing the country, on the one hand, and food grains and other essential consumer items on the other. So, quite understandably, import expenditure far exceeds the export earnings. In fact, less than half of the import bill is financed by our export earnings.

The value of Bangladesh's exports in 1990-91 was US\$1,718 million, while the value of imports that year was estimated to be US\$3,600 million. Export earnings in 1990-91 were 32.97 per cent and 12.73 per cent higher (in dollar terms) than total export earnings during 1988-89 and 1989-90 respectively. On the other hand, value of imports was 6.67 per cent higher and 4.23 per cent lower than the import expenditure during 1988-89, and 1989-90 respectively.

The deficit in the balance of trade during 1990-91 would, thus, be US\$1,882 million as compared to US\$2,083 million and US\$2,235 million in 1988-89 and 1989-90 respectively. It may be noted that the deficit in the balance of trade in 1990-91 was 9.64 per cent and 15.79 per cent less than that in 1988-89 and 1989-90 respectively.

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If we review the import expenditure and export earnings of the last three years, we find that in 1988-89 export earnings could pay for only 38.28 per cent of that year's import expenditure. Comparable figures for 1989-90 and 1990-91 were 40.54 per cent and 47.72 per cent respectively (in dollar terms). The table below shows the balance of trade for the last three years.

TABLE 3.1  
Export, Import and Balance of Trade  
(US\$ million)

Year	Export earnings	Yearly growth rate %	Import payments	Yearly growth rate %	Trade balance	Yearly growth rate %
1987-88	1,231	-	2,986	-	(-) 1,755	-
1988-89	1,292	(+) 4.96	3,375	(+)13.03	(-) 2,083	(+)18.69
1989-90	1,524	(+)17.96	3,759	(+)11.38	(-) 2,235	(+) 7.30
1990-91	1,718	(+)12.73	3,600	(-) 4.23	(-) 1,882	(-)15.79

Source: Bangladesh Economic Survey, 1989-90, 1990-91.

Jute and non-jute goods accounted for 23 per cent and 77 per cent respectively of Bangladesh's total export earnings in 1990-91 as against 30 per cent and 70 per cent respectively in 1989-90. Traditional and non-traditional goods contributed 25 per cent and 75 per cent respectively of Bangladesh's total export earnings in 1990-91 compared to 32 per cent and 68 per cent respectively in 1989-90. Bangladesh derived 18 per cent and 82 per cent of her export earnings in 1990-91 from primary and manufactured commodities respectively as against 21 per cent and 79 per cent respectively in 1989-90. It is thus evident that over the years Bangladesh's export sector has undergone significant structural change as a result of which now non-traditional, non-jute and manufactured goods have become the mainstay of its export earnings.

During 1990-91 only five items, namely raw jute, jute goods (except carpet), leather, shrimps and ready-made garments (including hosiery goods) contributed 88.39 per cent of Bangladesh's total export earnings. During 1989-90 this share was 90.66 per cent. Another five items, namely tea, fish, naphtha, furnace oil and chemical fertilizer accounted for 7.2 per cent of export earnings in 1990-91 and 5.34 per cent in 1989-90. The remaining 4.41 per cent of export earnings in 1990-91 (and 4 per cent in 1989-90) was derived from another 100-odd items.

The region-wise analysis of exports shows that the EEC region was the largest buyer of Bangladeshi export goods in 1990-91 (buying 39.04 per cent of our exports in 1990-91 compared to 32.38 per cent in 1989-90). The other important buyer regions were the Americas region (32.68 per cent in 1990-91 as against 32.3 per cent in 1989-90); the Asian region excluding the Middle East (13.26 per cent in 1990-91 compared to 13.49 per cent in

1989-90); the Middle Eastern region (4.37 per cent in 1990-91 as against 6.55 per cent in 1989-90); the African region (3.74 per cent in 1990-91 compared to 3.86 per cent in 1989-90); and the East European region (3.1 per cent in 1990-91 as against 7.21 per cent in 1989-90). It would appear that Bangladesh has been selling more and more to the EEC at the expense of its trading partners elsewhere in the world.

The region-wise analysis of imports shows that the Asian region (excluding the Middle East) was the largest supplier of Bangladeshi imports in 1990-91 (supplying 45.07 per cent of all imports compared to 49.35 per cent in 1989-90). The other important supplier regions were the Americas region (17.5 per cent against 10.31 per cent in 1989-90); the Middle Eastern region (15.04 per cent against 17.87 per cent in 1989-90); the EEC region (14.74 per cent against 14.92 per cent in 1989-90); the East European region (2.69 per cent against 1.97 per cent in 1989-90); and the Oceanic region (2.76 per cent against 2.89 per cent in 1989-90). It would appear that Bangladesh has been importing more and more from the Americas at the expense of its trading partners elsewhere in the world.

#### Development in the terms of trade and commodity prices

While analysing the foreign trade situation, it has been observed that the import price indices of Bangladesh have been steadily increasing since 1987-88. The import price index of Bangladesh stood at 91.4 in 1987-88. In 1988-89 the index stood at 97.2 by recording a rise of 6.3 during the year. The import prices recorded a further rise of 6 per cent and stood at 103 in 1989-90. During 1990-91 the import price indices reached 108.8, reflecting an increase of 5.6 per cent over the previous year. On the other hand, export price indices recorded declines of 3.2 per cent in 1988-89 and increases of 3.2 per cent and 6.6 per cent during 1989-90 and 1990-91 respectively. The terms of trade have been declining since 1988-89 and stood at 95.3 in 1988-89 by decreasing 9.1 per cent from 104.7 during 1987-88. It recorded a further fall of 2.6 per cent in 1989-90 and stood at 92.8 in 1989-90. This happened despite a rise in export price indices by 3.2 per cent as a consequence of a larger increase in import volume and prices compared to export prices. During 1990-91 the terms of trade are expected to rise by 0.97 per cent and reach 93.7. The import and export price indices along with the terms of trade from 1987-88 to 1990-91 are shown below:

TABLE 3.6

Terms of Trade  
(1979-80 = 100)

Year	Import price indices	Export price indices	Terms of trade
1987-88	91.4 (+1.7)	95.7 (+17.0)	104.7 (+15.1)
1988-89	97.2 (6.3)	92.6 (-3.2)	95.3 (-9.1)
1989-90	103 (+6.0)	95.6 (+3.2)	92.8 (-2.6)
1990-91 (estimated)	108.8 (+5.6)	101.9 (+6.6)	93.7 (+0.97)

Note: 1. Figures in parenthesis indicate percentage change.  
2. The weights used in estimating aggregate price indices are the respective year's values in current prices.

Source: Bangladesh Economic Survey, 1990-91.

Balance of payments

Total merchandise export earnings during 1990-91 has been estimated to be US\$1,718 million implying an increase of 12.73 per cent over the last year's level of US\$1,524 million. On the other hand, the merchandise import payments has been estimated to be US\$3,600 million implying a decrease of 4.22 per cent over the last year's (1989-90) level of US\$3,759 million.

The balance of trade of the country recorded improvement during 1990-91. There would be a trade deficit of US\$1,882 million implying a decrease of 15.79 per cent over the last year's trade deficit level of US\$2,235 million.

There is a continued deficit in the service account which is estimated to rise from US\$108 million in 1989-90 to US\$160 million in 1990-91. Relatively lower earnings from travel and higher payments as freight charges and interest are the main causes for increases in the deficit on service accounts.

With a view to allocating resources more efficiently through interest rates that reflect maturity, risk and administrative costs more adequately, allow for flexibility in meeting changing conditions and to encourage price

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competition, a market-oriented flexible interest rate policy has been introduced by the Government of Bangladesh with effect from 1 January 1990. Under this, a zone of interests defined by a floor and ceiling within which the banks have the freedom to adjust their savings and term deposit structures has been established. The floor of the term deposit rate is adjusted half yearly so that it remains positive in real terms, while the floor of the savings deposit rate is set at about 1 per cent below the expected rate of inflation. The ceilings are set at 3 to 4 per cent above the floor rates. It is expected that the flexible interest rate policy will encourage competition among banks and will enable the banks to mobilize deposits at rates of interest appropriate for them.

The rates of interest on lending have also been rationalized and simplified. An interest rate matrix of twelve categories has been introduced, which is being revised and other lending costs will be made accordingly. These rates are, in fact, based on shadow market rates calculated on the basis of the average cost of funds, administrative expenses, a portion of the cost provision against classified loans and allowance for profit margin. Banks are free to publish lending rates of their choosing within the band but do not have any scope to change rates for individual borrowers and implement new rates for several lending categories. To introduce more flexibility in the determination of the interest rate, banks have been given the freedom to fix rates of interest within the bands once a month.

#### International macroeconomic situation affecting the external sector of Bangladesh

The structural problems facing the long-range economic and social development of Bangladesh are deep-rooted as well as challenging. Moreover, the economy is vulnerable to natural disasters and to changes in the global financial and trading environment. The development process in Bangladesh so far has not been able to tackle these problems. Evolution of an unfavourable trade and aid environment in the beginning of the 1980s, and repeated natural disasters have dealt a severe setback to the implementation of national development plans. During the 1980s, the world economy faced the severe gloom of the longest and all pervasive recession since the great depression of the 1930s. The process of recovery started since the middle of 1983 in the United States and a few other industrialized countries, but there were considerable doubts whether the growth impulses could be transmitted fully to the developing countries. The crisis has left Bangladesh in a far worse situation than it was at the beginning of the 1980s. Sharply falling commodity prices, severe deterioration in the terms of trade, intensification of protectionist measures, high real interest rates, a volatile exchange régime and debt burden have had devastating effects on the growth and welfare of the developing countries including Bangladesh. Many of these countries have as a result, lost their development momentum. In the area of trade, depressed demand, together with sharply falling commodity prices and intensified protectionist measures, have had a telling impact on exports. Faced with export shortfalls and grossly inadequate flows of concessional assistance, Bangladesh has had to cut back its import programmes.

The international economic environment of the 1980s has particularly been detrimental to the least-developed countries including Bangladesh. The country exports a narrow range of traditional, primary commodities, for which demand is income inelastic and markets are dominated by persistent over-supply conditions. Fluctuation along with a declining trend in world prices for many raw materials have weakened its export earnings and its import and debt servicing capacity. Despite tariff preferences granted, trade barriers have in some cases affected actual and potential exports and discouraged diversification. In the absence of technological change and structural transformation, Bangladesh is risking further marginalization.

A tighter monetary control and relatively loose fiscal policy pursued by major developed market economy countries led to the reversal of the inflation rate and changes in the exchange rates, which, like most other LDCs, affected the economy of Bangladesh particularly by raising the debt burden. These policies have diverted away the world financial resources from the least-developed countries including Bangladesh which have traditionally had limited access to commercial lending. The cost of borrowing has also increased.

The issue of external assistance is relevant in this context. The level of gross aid disbursement for Bangladesh which has a direct impact on growth and imports, rose to US\$1,810 million in 1989/90 from US\$1,146 million in 1980/81, growing at an annual average rate of 5 per cent in nominal terms. Net flow of resources (gross disbursement minus interest and amortization of medium and long-term debts) has increased at a much slower pace. Further, if allowances are made for the increase in price of aid-related imports, the flow of real resources has declined in the 1980s. Moreover, the composition of aid commitments and disbursements has changed to the disadvantage of Bangladesh. This development has exacerbated the problem of aid absorption. The quality of the assistance programme has also deteriorated following a decline in the flow of concessional assistance and increased aid conditionalities. The share of grants in total aid disbursement has declined from 52 per cent to 49 per cent between 1980/81 and 1989/90. Consequently the indebtedness of Bangladesh has increased in spite of high grant elements in the borrowing and debt relief provided by bilateral donors under TDB Resolution 165(S-IX). In general, conditionalities attached to aid effectiveness have also stiffened. Cross-conditionalities have accentuated as a result of increased Bank-Fund co-ordination under the structural adjustment programme. Moreover, flexibility in the use of non-project assistance has diminished because of the donors insistence on spending the counter-fund generated from sale of food and other commodities on the projects supported by them and according to guidelines established for this purpose (for instance PL-480 and EEC food aid for Bangladesh).

#### Problems of market access

West Europeans, North Americans and Japanese owe their prosperity, to a great extent, to foreign trade. In these countries, trade grows at a faster rate than the Gross National Product (GNP). The share of developing countries in this source of prosperity has steadily shrunk over the past

half a century. Exports of industrial countries have increased four times since 1950 and earnings more than five times, whereas developing countries have been able to increase their export earnings only at the same rate as their volume of exports, that is two and a half times. This state of affairs has come about because of the continuation of the colonial pattern of trade and severe market access problems created by the developed countries on the exports of manufacturers from developing countries.

The market situation differs from one commodity to another but countries such as Bangladesh rarely find themselves in a strong position. They come up against the protected products of the industrial countries, such as cereals, meat, dairy products, sugar, vegetable oils and fats - and they have to compete against direct or indirect substitutes, as in the case of coffee, tea and cocoa, but above all rubber, jute and fibres or they are subject to fluctuations in demand and the buying policies of industrial countries.

However important commodity exports may be for the industrialization of the developing countries, the "markets of tomorrow" will be those for manufactures and semi-manufactures. But this is the very field where the trade barriers of the industrial countries are particularly steep. Whereas commodities can often be exported duty free to industrial countries, the tariff rises sharply at each level of processing. In addition more than 30 per cent of the manufactures and semi-manufactures from countries such as Bangladesh are subject to quantitative restrictions, and these goods account for three quarters of the imports from these countries, including textiles, clothing and processed agricultural products.

One of the most powerful concepts used by developed countries to close their markets to imports from developing countries is that of "market disruption". This is an old protectionist concept which says imports are disruptive for domestic industry in the domestic market and hence must be curtailed and regulated. In this sense, virtually all imports are market disrupting. Though Article XIX of GATT is designed to handle cases of "serious injury" to domestic industries, national laws on the issue in developed countries have established such ridiculously low thresholds of injury that almost anything could be said to be causing injury to domestic industry. Bangladesh discovered this when the United States imposed anti-dumping duties on imports of cotton shop towels (from Bangladesh) varying from 2.72 per cent to 42.31 per cent. On the other hand, the national executives in developed countries have often been willing to side-track GATT restrictions for seeking relief under market disruption and to invoke measures, outside the GATT framework, to regulate the flow of such imports. The most potent of such measures has been the voluntary export restraints (VERs), which have tended to proliferate in recent times. The most serious of the VERs, those on cotton textiles, have been formally signed multilaterally to continue quantitative restrictions under the MFA; and Bangladesh is the only LDC signatory to MFA.

Developed countries also use a vast array of safeguards, adjustment assistance, export controls and commodity market management for denying their markets to the developing countries. Even when we look at the GSP,

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where the developed nations have taken specific action to assist the export opportunities of the developing nations, we find that the scheme has built into it various types of special safeguards, so that for example, nations that became competitive in certain products have their products moved back into the m.f.n. category, the justification being that preferences should help the less competitive. In addition to the trigger mechanism for reconsideration, there are other complicated criteria. One of these is the degree of value-added in the developing country concerned. The United States criterion is fairly simple, but the room for administrative interpretation is considerable. In the EC case, the classification among tariff categories is highly uncertain. The Japanese system is even more administratively complicated, with even more administrative discretion. This complexity and uncertainty constitute a hostile environment for the introduction of new products. Having liberalized with one hand, the developed countries created, with the other, new deterrents that minimized the benefits.

We shall conclude our discussion with a few specific instances where Bangladesh has suffered because of the inequity of the multilateral trading system or the arbitrary actions taken by her stronger trading partners. We have already stated the case of shop towels where the United States Government imposed anti-dumping duty at a rate as high as 42.31 per cent on the import of the item from Bangladesh. Similarly, because of VERA Bangladesh cannot take full advantage of the United States and Canadian markets for exports of apparel and clothing. Because of strict GSP rules, its exports of clothing and apparel do not qualify for GSP preferences. The net result is that in one area where Bangladesh has shown great competence and promise, it is penalized in two ways - first quantitative restrictions are put on its exports; and secondly, in the absence of GSP preferences it is forced to pay duties at a high rate. On top of that, an anti-dumping duty has been imposed on one of its export products. In the EC market too, its garments do not qualify for GSP benefit, and hence are required to pay the higher m.f.n. rate of duty. However, it must be admitted that as of now there are no VERA in the EC market for Bangladeshi products, though the stiff GSP rules make it impossible for any Bangladeshi manufactures to enter that market duty-free. This seriously hampers the industrialization process. In Japan, one of the principal Bangladeshi exports, namely jute twine, was outside the scope of the GSP Scheme until the other day. There are also the strict GSP rules which virtually preclude imports of Bangladeshi manufactures unless they are made of Japanese raw materials or components. In Japan problems are also being faced by exports of leather from Bangladesh. Even though GSP benefits are supposed to be granted to developing countries on a non-reciprocal basis, the United States has been threatening to withdraw the benefit on the plea of workers' rights and the child labour situation in Bangladesh. This is in complete violation of international negotiations establishing GSP for developing countries.

Japan has also set a very high standard of hygiene in the area of jute goods purchased by them. It buys jute goods from a few pre-selected jute mills under the very strict supervision of Japanese experts. Japan would also envisage using batching oil supplied by them in the production of jute

goods. All these not only raise the cost of production of jute goods for which the price is set through stiff negotiation (and thus not remuneration) but also prevents Bangladesh (by securing away the jute mills) from securing a reasonable share of the Japanese jute goods markets. This is also an example of the problem of market access.