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STRUCTURAL ADJUSTMENT POLICIES IN BANGLADESH : AN ANALYSIS OF TRADE REGIME

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ABSTRACT

This paper outlines the experiences of Structural Adjustment Reforms measures in trade sector. Export-Import structure, reform of administrative procedures and institutional support for export, analysis of import and trade liberalization measures will constitute the core area. Secondary data are used for analysis. Relevant documents on import and export are consulted. The study attempts to incorporate both numerical and analytical tools to study the liberalization impact for successive tariff reduction and the role of exchange rate in trade regime.

The study explores two fundamental areas in the trade regime :

(i) An overview of Trade Regime : Historical evolution of Trade Regime, the structure of import and export Trade. Trend analysis addresses both aggregate and commodity specific pattern.

(ii) Correspondence between exchange rate alignment and Trade response. This section links the devaluation episode and the movement of the real effective exchange rate. The study also explores the potentialities as well as challenges of the Bangladesh Economy in the face of integration of the World Economy.

There were several import liberalization measures. The nominal tariff rate which declined from 89% in 1990/91 to 26% in 1994/95 continued to decline, falling to 23% in 1995/96. Thus the nominal protection level ranks among the lowest om South Asia. It is observed that import-weighted tariffs have in fact declined for all categories of import but not in a uniform way. Compared to 1994/95, imports of zero-rated commodities increased by 82% compared to 16% for commodities with zero-plus import duties. Another

important steps under structural adjustment is the gradual elimination of quantitative restrictions. In 1990, one fourth of all items under 4 digit classifications were subjected to QRs. In 1996, QRs were retained on only 119 items constituting only 2% of total imports.

The export structure mainfested a topsy-turvy syndrome over the adjustment period. Both in nominal and real terms, the export earning registered monotonic increase. The proportion of earnings from non-traditional exports rose from about one-third of total exports in 1983 to two-thirds during the 1980's and to a significantly higher level of over fourth-fifths during the last couple of years. The share of non-traditional items to the total export earnings could be as high as 87% during the current financial year. Most important policy interventions included : constitution of export related national committee with Hon'ble Prime Minister as the chairperson, incentives scheme, incentives for industries exporting 80% of their products in sectors other than leather and installation of separate line for export of software.

Surprisingly for few years, the achievement in export growth always exceeded the target. But the dilemma lies with an increase in trade deficit from 1980-1996. It appears the import liberalization measures outpaced the export promotion measures. The export of Bangladesh undergone a radical transformation in structure as well as in value term. Jute and jute goods no more constitute major export items and is substituted by Garments/frozen fish and other non-traditional items. This is a good sign for the economy showing flexibility in terms of product diversification and in terms of resource and endowment. But the Bangladesh economy is yet to exploit the potential of the economic resources to meet the growing world demand in frozen and garments and other non-traditional items.

The ingenious import and export policy of the government of Bangladesh for a period of five years (1997-2000) is a novel venture which, no doubt will provide importers and exporters with adequate plan provision. There are still some areas, where government initiatives and drives is required to invigorate the trade regime. The enhanced structural adjustment policy is instrumental in charting the desired direction. Yet due to global competitiveness and aftermath of the WTO, certain steps are desirable in the trade sectors.

1. The government must carefully monitor the speed of import liberalization measures. The export augmentation requires adequate physical infrastructure, Banking and Finance services and services related to trade and industry, congenial environment ensuring foreign investment, transfer of technologies and development of value added industries.

2. The year 2005 will witness the elimination Multi Fibre Arrangement (MFA). MFA Guarantees certain types of concessions to a category of exporters from the developing countries. The abolition of the MFA will generate considerable benefit not just to exporting countries but also to importing countries. This will require an orderly restructuring of certain sectors of the economy into more specialized entities for productive factors to final alternative uses. For South Asia, abolition implies a very substantial expansion in the output of textiles and an increase in apparel output of more than 200%. Effecting such on expansion will require policy reform and infrastructure support to realize the full potential of these labour - intensive industries.

"The growth rates of the heavy machinery and transport equipment sectors in South Asia will slow as resources find more profitable outlets in textiles and clothings, but the sector will nevertheless remain substantial at 6% and 5% a year, respectively". Similar patterns of output adjustment are observed in other developing country/region undertaking liberalization. This episode will expose the Bangladesh economy to a very competitive position. The Garments sectors will servive only if adequate backward linkage enhanced the value added of the garments sector. Through productivity improvement and domestic supply and essential imports, the value added of RMG sector may be augmented two to three folds from the current value addition of less than 20%. The free trade regime invites opportunities as well as challenges to Bangladesh Economy. The government policy packages must focus adequate incentives in the establishment of backward linkage industries. These can be attained through restoring macroeconomic stability and ensuring discipline in banking sector. Investment in the backward linkage industries is in the offing. But the government must carefully exercise this option over the medium run because the domestic import cost structure may not be affordable in the very short run.

CHAPTER-I

Introduction

Structural adjustment presupposes some inherent weaknesses in the management of the economy. The weaknesses are embodied in the slow response of the economy in the face of changing market conditions, inefficiency in the economic management and also low productivity in the production process. The inefficiency generates mismanagement both in the domestic as well as in the external sector. Domestic sector mismanagement is reflected in the budget deficit and in consequent inflationary pressure whereas the external sector mismanagement is translated into continuous balance of payments deficit. Thus structural policies is designed to raise the productive capacity or augment the ability of the economy to respond to external shocks and changing market conditions. Structural adjustment policies encapsulates both the micro and the macro environment. The "microeconomic" policies are designed to improve efficiency by reducing or removing market distortions in specific sectors of the economy. Sector specific performance improvement exerts significant effects on macroeconomics variables such as budgetary balance, interest rate, exchange rate and over all balance of payments situation.

In the phase of a persistent imbalance in both the external and internal front corrective measures work as an antidote in containing further disruptive behaviour of the economy. The macroeconomic adjustment programme dovetail the supply and demand imbalance in a programmed way. The most important policy packages include demand management policies, structural policies, exchange rate policies and external financing policies. Demand management and structural policies meet the need of domestic fronts whereas, exchange rate policies and external financing policies are designed to reduce the gap in the external front.

Structural adjustment thus connotes to better national economic management. The economic management includes institutional, infrastructural and human capital development. The Policy options encompass myriad of sectors such as agriculture, industrial and trade, resource mobilization, public enterprise management, external sector reform and financial sector reform.

The agricultural policy emphasizes maintenance of an adequate price structure, elimination of subsidy and promotional measures such as crop diversification programme, integrated pest management and integrated Jute Production and Marketing Programme. Industrial and Trade Policy reform contains activities such as simplification of investment regulations, elimination of quantitative restrictions on imports to facilitate industrial development, rationalize and eliminate ambiguities in the tariff structure and removal of export subsidies. Designing of a broad-based, elastic and progressive tax structure is *sine qua non* of an effective structural adjustment policy. The experience of value added tax in augmenting resources proved to be an important instrument in many developing countries. The introduction of value added tax with phasewise netting of commodities is considered as an important addition in the adjustment measure. The other important measures include reform of personal and company direct taxes and improvement in the collection of indirect taxes. The programme also endorse adjustments in price and tariff on public goods to reflect cost and improvement in the collection performance.

Background

The governments of Bangladesh adopted the comprehensive adjustments program from 1982-83 covering macro-economic and sectoral policies. The package included also institutional reform as well. The adjustment program was supported by policy based investment credits from the International Development Association. The governments entered into an arrangement with the International Monetary Fund in April 1987 for Structural Adjustment Facility(SAF) for the period 1986-87 to 1989-90. Enhanced Structural Adjustment Facility of 345 million SDR was approved on August 1990 to institute some institutional as well as sectoral reform to meet the changing needs of the market economy. The Policy Framework Paper (PFP) designed for this purpose includes goods and services market such as telecommunication, transportation and privatization of State owned enterprises, financial market reform and tax reform measures.

The 1991/92-1992/93 economic programme aimed at average rate of growth of 4.7%, trim the budget deficit to contain the rate of inflation, accelerated progress towards external payment position and poverty alleviation. The programme included an extensive drive for revenue mobilization and restrain on current expenditure. Concessional aid would work as a conduit to meet the gap in revenue earning and revenue expenditure.

The Annual Development Program (ADP), the instrument of planned development in Bangladesh would gave priority to national important project and public sector corporation would be more productive and would follow the norms of market pricing and improve operating efficiency in revenue earnings and expenditure. The programme also covered areas on the development of market and ensuring viability of financial institutions, the exchange rate liberalization and the trade reform programme would continue over the programme period.

The adjustment program had many facets. The program emphasized the following broad and interrelated areas.

(a) Domestic resource mobilization through fiscal consolidation and pursuance of non-inflationary monetary and credit policies. The measures include rationalization of tax measures for enhanced revenue and measures to control or reduce expenditures.

(b) Improving the efficiency of resource allocation and encouraging participation of the private sector in development activities.

Rationalization of public sector expenditure program and strengthening the efficiency and accountability of the public sector is one of the major goals of reform program. Privatization of state owned enterprises incurring continuous losses considered to be another important goal.

Institutional Reform emphasize reorientation or restructuring of institutions whose performance is critical to the success of reform program.

The policy caveat of adjustment generally includes several options :

(i) Extent to which external shocks, such as a decline in export demand or rise in oil prices are accommodated by borrowing from international institution such as IMF through different facilities or a combination of export promotion and import substitution measures. This strategy of financing will be considered rational only if the shock seems temporary and may regress within a short period of time. The deficit is generally financed by accumulated reserves. This implies a loss of foreign assets of the central bank and in turn, lower domestic money supply.

(ii) Expenditure reducing policies imply correction in the domestic front. This include cuts in government expenditure, increased taxation and credit contraction. Cut in government expenditures reduce aggregate effective demand and discourage import. Expenditure-reducing policies seeks to improve the trade volume by shifting demand from tradable to non-tradable.

(iii) Pursuance of realistic exchange rate policy. The exchange rate realignment is referred in literature as expenditure switching policy. This is operationalized either through devaluation or through various commercial policies, such as export subsidies, import rationing or through exchange control.

Scope, Objective and Plan of Presentation

The reform measures are thus comprehensive in nature covering many sectors and institutional aspects. However, this study will be sector specific. The experiences of reform program with trade regimes is the main focus of analysis. Export - Import structure, reform of administrative procedures and institutional support for export, analysis of import and trade liberalization measures will constitute the core area. The study further explores the implication of exchange rate regime on trade liberalization measure.

The impact of trade liberalization measures are reflected in the structure and value composition of different exportables and importables. Across the board tariff reduction and subsidy withdrawal from exportables may have an implied effect in the effective exchange rate. The effect of change in quota restrictions and the specific tariff cuts reorient domestic prices of import and thus wedge changes in the import demand reflected through the demand elasticity of the commodity in question. One should not lose sight on the indirect effect on trade liberalization, import and export. It is true that the domestic economy will be more competitive and there must be a binding on the domestic producer for productivity improvement.

The trade liberalization policies may result in the shift of resources towards export and away from import substitute. The tariff reduction episode unveil the scarcity value of the commodities by reducing distortions in the relative prices. However, a gamut of policies must trail parallel to the trade liberalization policies. The exchange rate is the most obvious candidate. At a constant nominal rate, a country adjusting to a major trade liberalization needs to reduce its domestic prices. Alternatively, it may chose to devaluate the exchange rate sufficiently to offset the effects of trade liberalization on the general level of domestic prices. A range of policy options need to be considered with trade liberalization measures, fiscal and monetary policies, wage policies and credit policy need a balancing twist.

The speed of liberalization programme is an important factor in weighing the impact of liberalization. The speed of liberalization must keep pace with export augmentation, otherwise the economy may not sustain a continuous balance of payments deficit.

Secondary data are used for analysis. Relevant documents on import and export are consulted. The study attempts to incorporate both numerical and analytical tools to study the liberalization impact for successive tariff reduction, the role of exchange rate in trade regime and the consequence of globalization in the trade regime of Bangladesh Economy.

The study explores two fundamental areas in the trade regime :

(i) An overview of Trade Regime. Historical evolution of Trade Regime; the structure of import and export Trade. Trend analysis addresses both aggregate and commodity specific pattern.

(ii) Correspondence between exchange rate alignment and Trade response. This section links the devaluation episode and the movement of the real effective exchange rate. The study also explores the potentialities as well as challenges of the Bangladesh Economy in the face of integration of the World Economy.

CHAPTER-II

Overview of Trade Regime

Bangladesh is one of the few countries of the world which witnessed a peculiar trade regime in her 28 years of existence. Independence of the country with Socialism as the basic pillar asserted a regulated trade regime at the very inception of the statehood. The establishment of State Trading Corporation (TCB) for the purpose of meeting the emerging needs of the young economy warranted the adoption of the policy of nationalization of bulk of the country's foreign trade. TCB acted purely as an import feeder till 1975. During this period, entrusted with the responsibility to import different consumer items ; TCB enjoyed monopoly power in several commodities. However, TCB's share in the country's import trade came down to the level of 0.25% in 1990-91 and the share is plummeting. The role of TCB in import is now limited in certain emergency procurement of essentials, for example; pulses, food.

The process of liberalization was however, incremental, post 1975 successive government's endeavour towards a market oriented strategy was phasewise in the liberalization process. The process of liberalization started in late 70's; 80's observed a phenomenal upsurge in liberalization measures with the advent of two Industrial Policies : The New Industrial Policy (NIP) of 1982 and the Revised Industrial Policy of 1986. The most pro-active phases of trade liberalization was adopted in 1992. These phases were pronounced in policy measures related to export diversification to augment share of exports to GDP, substitution of "positive list" to few "negative items" with the abolition of import licenses. The successive reduction in Quantitative Restrictions (QRs) and tariff cuts raised the share of free import items to 94% of all HS-8 line items and only 0.4% remained banned. Import weighted tariffs which come down from 42% in 1990/91 to 21% in 1994/95, further decelerating to 17% in 1995/95. Table-1 depicts the tariff revision scenario from 1991/92 to 1991/96.

Table-1 : Dynamics of Import Tariff Rates in the 1990s

	1991-92	1992-93	1993-94	1994-95	1995-96
Import wtd. average	24.14	23.56	24.09	20.88	16.69
Unweighted average	57.30	47.37	36.02	25.92	22.32
Highest tariff rates	350	300	300	60	50%
Coefficient of variation	73	65	67	74	74

Notes : 1. Standard deviation of tariff rates have been declining secularly.
3. Between FY 1995 and FY 1996 imports under zero rate increased by 81.59% while those with duties more than 0% increased only by 16.31%.

The nominal tariff rate which declined from 89% in 1990/91 to 26% in 1994/95 continued to decline, falling to 23% in 1995/96. Thus the nominal protection level ranks among the lowest in South Asia. The highest tariff slab which was 50% in 1995/96 brought down to 45% in 1996/97. The analysis in terms of classification of the importables into primary, intermediate, capital and consumer items reflects the highest reduction of import-weighted tariffs for capital goods sector, the tariff reduction were 31 percent. It is observed that import-weighted tariffs have in fact declined for all categories of import but not in a uniform way. Compared to 1994/95, imports of zero-rated commodities increased by 82% compared to 16% for commodities with zero-plus import duties. Table-2 shows the dynamics of tariff reductions upto 1995/96.

Table-2 : Dynamics of Import-Weighted Tariff Rates by Major Categories

Category of Imports	1991/92		1992/93		1993/94		1994/95		1995/96	
	CD	TD	CD	TD	CD	TD	CD	TD	CD	TD
Primary Commodity	23.4	31.4%	23.2%	33.5	27.2	37.9	17.3	25.1	13.2	19.5
Intermediate Inputs	24.1	39.3%	23.6	40.9	22.9	41.1	26.3	45.3	23.1	44.2
Capital goods	18.7	27.4%	18.4	29.3	16.1	27.3	12.5	23.1	8.6	16.3
Final Consumer goods	47.3	67.1	36.5	54.3	36.7	55.6	26.4	45.3	23.5	41.3
All Imports	24.1	36.3	23.6	37.6	24.1	39.1	20.8	34.7	16.7	30.0

Notes : 1. C.D. indicates that only customs duties are considered.

2. T.D. indicates total duties that include VAT and supplementary duties in addition to the customs duties.

Source : Computed from Unpublished NBR data.

Another important steps under structural adjustment is the gradual elimination of quantitative restrictions. In 1990, one fourth of all items under 4 digit classifications were subjected to QRs. In 1996, QRs were retained on only 119 items constituting only 2% of total imports. The number of 4 digit headings subject to QRs for trade reasons were further reduced from 40 to 23 as per the import policy of 1996/97. Table-3 depicts the phased removal of subjectwise quantitative restrictions. It is observed that QRs registered a slight increase from 109 to 114 in 1996.

Table-3 : Phased Removal of Quantitative Restriction

Removed of QRs	1998-90	1990-91	1993-94	1994-95
Total	315	239	109	114
Trade Reasons	253	179	40	23
a. Banned	135	93	7	5
b. Restricted	66	47	19	6
c. Mixed	52	39	14	12
Non-Trade Reasons	62	60	69	92

Source : Memorandum for the Bangladesh Aid Group 1996-97.

The most important items in the list under bans is now limited to only 27 items. Most of the commodities are in the textile sector. There are also few products in pharmaceuticals, sugar and salt. The reason for temporary bans is to provide leeway to this sector to meet growing demand in the garment sector, to help stabilized an effective backward linkage for this sector. Bangladesh must develop backward linkage industries for RMG Sector to maintain competitiveness in the World Market after elimination of preferential access in 2005. Through productivity improvement and domestic supply of essential inputs, the value added in RMG sector may be augmented two to three folds from the current value addition of less than 20 percent. The free trade regime invites opportunities as well as challenges for the Bangladesh Economy. The government policy packages must focus adequate incentives in the establishment of backward linkage industries. This can be attained through restoring macro-economic stability and ensuring discipline in banking sector. Investment in the Backward linkage industries is in offing. But the government must carefully exercise this option over the medium run because the domestic input cost structure may not be affordable in the very short run.

It is to be noted that unofficial imports constitute a growing source of Bangladesh's total imports and government must exercise enough caution in containing the unofficial imports. Customs duties in the past constituted bulk of revenue earnings. However with liberalization, the growth in revenue collections may dwindle and government must resort to other avenues for augmentation of revenue. Earnings from customs and other duties increased by 23 percent and 27 percent respectively in 1994/95 due to growth in imports by 38 percent. The liberalisation of tariff rates scaled down revenue growth to 4 percent and 12 percent during 1995/96 inspite of an import growth rate of about 25 percent. Thus the growth in import may not corresponds to the growth in revenue earnings in the near future. Table-4 depicts growth in revenue collections from import duties.

Table-4 : Growth in Revenue Collections from Import Duties

(in percentage)

Duties	1992-93	1993-94	1994-95	1995-96
Customs Duties	3.8	7.4	23.4	3.9
All Duties	10.3	9.2	27.2	11.7

Source : Computed from NBR data.

The import liberalization measures get translated through several policies:

a) Issuance of import policy order with a reasonable time dimension to plan ahead future imperatives for a prospective importer. Import policy order of six month was the practice till July, 1978. The six months options provided limited flexibility for importers to plan a comprehensive package for the distant future. Six months IPO was substituted by an IPO of one year. Later one year IPO was substituted by two year. The latest IPO designed for a period of five year (1997-2002) with adequate flexibility to allow for necessary changes.

b) Shift from positive list to negative and restricted lists and subsequent reduction of the coverage of control list. Import policy order 1997-2002 list the major negative items under heading of (i) negative items (ii) importables with conditions. Annexure-I of IPO 1997-2002 gives comprehensive account of all the items as per the HS Code.

c) Removal of Import permit requirement and pass books for import of goods less than Tk. One lakh. Registered commercial importers and industrial consumers have been classified into four categories on the basis of their value ceiling of overall annual import for the year 1997/98 to 2001/02. Their Registration (IRC) and renewal fees have been refixed as under :-

Category	Value Ceiling of annual import	Initial Registration	Annual renewal fees
(a)	Tk. 5.00 (five) lakh	Tk. 500.00	Tk. 500.00
(b)	Tk. 15.00 (fifteen) lakh	Tk. 1,500.00	Tk. 1,500.00
©	Tk. 50.00 (fifty) lakh	Tk. 3,000.00	Tk. 3,000.00
(d)	Above Tk. 50.00 (fifty) lakh	Tk. 5,000.00	Tk. 5,000.00

(d) Import by Actual User : Individuals or institutions not being registered importers, may import permissible items valued up to US $ 2,000.00 (US) Dollar two thousand) for their own use under cash foreign exchange without any permission from the Import Control Authority.

(e) Import by Bangladeshi professionals abroad : Bangladesh professionals living abroad (Doctors, Engineers, Scientists etc.) may import their own professional and scientific equipment's out of their own foreign exchange earnings abroad without any value ceiling. In such cases, permission or permit from Import control Authority shall not be required.

(f) Import of Samples, Advertising Materials and Gifts : Bonafide items of gift, advertising materials and samples may be imported free of charge without any prior permission from the Chief Controller and without Permit, in the following cases during each financial year.

Types of Importers	Items	Quantity/C&F value of the item up to which import will be allowed without Import Permit/prior permission
Indentors/Agents and Importers of allopathic medicine.	Drugs & medicines (allopathic)	Tk. 50,000,00 (fifty thousand) only
All Importers, Indentors and Agent	Other samples and advertising materials	Tk. 50,000,00 (fifty thousand) only
Agents of foreign manufacturer, appointed in Bangladesh	New band of item for sale with a view to introducing them to the consumers	Tk. 50,000,00 (fifty thousand) only
Individuals/organisations	Bonafide items of gifts	Tk. 15,000.00 (fifteen thousand) only

Advertising materials shall include, among others diaries, broachure, posters, calendars, pamphlets and technical literature related to the trade of the concerned importers as well as ball-point pen, key ring and lighters with company-name engraved/printed thereon. With a view to facilitating manufacture of produces of new design(s) for the purpose of export or production of goods locally according to the choice of the foreign buyers(s) the following samples may be imported by the concerned exporters without any prior permission from the Chief Controller and without any permit during each financial year :

Sl.No.	Types of exporters	Yearly value ceiling/maximum numbers of samples to be imported	Remarks
1.	Export oriented ready-made garments industry	Maximum 100 (one hundred) numbers of samples with not more than 20 (twenty) in each category	
2.	Export Oriented mechanised shoe industry	Maximum 100 (one hundred) pairs of sample	
3	Export Oriented tannery industry	Maximum 100 (one hundred) pairs of tanned leather sample	
4.	Other Exporters/Manufacturers	US $ 1000.00 (one thousand only)	Subject to the production of necessary recommendation /certificate from Export Promotion Bureau

The pace of liberalization in the import of intermediate and capital goods imports moved much faster than for consumer goods. During 1987-1994, the share of intermediate and capital goods increased from 76% to 97% and 73% to 93% respectively. For consumer goods, the share of freely importable rose form 43% to 80% during the same period of time.

As a result of tariff reduction the effective rates of protection (ERP) have also come down significantly compared to those of preceding years. A study shows that average ERP of 40 sectors has come down from 75.71% in 1992/93 to 28.55% in 1997/98. The average ERP has decreased by 2.6 times during the period whereas the average tariff has been reduced by 2.3 times. This happened because the tariff rate of input and finished product had been narrowed down rapidly. The degree of protection accorded to import substituting industry has been reduced gradually and Bangladesh has been steadily moving towards outward oriented Trade Policy.

The period also observed a drastic reduction in nominal protection rates as well as average tariff on imports. The unweighted rate of nominal protection for the whole economy stood at 94% in 1989, it fell to 59% in 1992 and further to 30% in 1995. As between 1989 and 1994, the tariff rates for consumer goods were reduced from 134% to 47%, for capital goods from 73% to 17% and for intermediate goods, from 83% to 27% [Yilmiz and Varma (1994)]. Sattar (1995) also confirms the findings. Thus, reduction in the nominal protection indicates to the substantial trade reform effort made over the last decade, particularly in the nineties.

Export : Trend Analysis

The export structure manifested a topsy-turvy syndrome over the adjustment period. Both in nominal and real terms, the export earnings registered monotonic increase. The non-traditional items in value terms carries much weight in total earnings and a definite decline in the share of traditional items is discerned. Table-5 presents the composition of traditional and manufacturing exports both in share and value term.

Table - 5 : Traditional and Manufacturing Export

	Value Term (Million US $)			Share		Share	
Year	Traditional	non-traditional	Total	Traditional	Non-traditional	Primary	Manufacturing
1981	526	185	711	-	-	-	-
1982	438	189	627	-	-	-	-
1983	475	211	811	69	31	35	65
1984	543	211	934	67	33	24	76
1985	602	332	819	64	36	34	66
1986	450	369	1074	55	45	36	64
1987	436	638	1231	40	60	28	72
1988	421	810	1286	34	66	23	77
1989	417	869	1524	32	68	23	77
1990	493	982	1717	32	68	21	79
1991	494	1011	1993	25	75	18	82
1992	428	1338	2386	21	79	13	87
1993	408	1553	2534	17	83	13	87
1994	379	1945	3167	15	85	11	89
1995	398	2769	-	13	87	15	85
1996	-	-	-	-	-	-	-
1997	-	-	-	-	-	-	-

Bangladesh's total export earnings at current prices depicted a deceleration during the period 1982 and 1983. However, in the subsequent years sustained rise in export earnings could be discerned. Export earnings stood at US $ 934m during 1985 rising to 1,524m in 1990. By 1994, export earnings had risen to US $ 2,534m, a rise of 171% over the last decade. During the period 1981-1997, trend growth rates of nominal exports is estimated to be about 11.6 percent as against a real growth rate of 8.2 per annum. The non-traditional exports depicted a trend growth rate 21.6% in nominal terms and 21.4% in real terms. This compares with 0.3% and 0.4% respectively for traditional exports. The principal non-traditional items of export frozen fish and shrimps and leather/leather products. Export earnings from ready-made garments (RMG) during the last few years average more than US $ 1200m.

The proportion of earnings from non-traditional exports rose from about one-third of total exports in 1983 to two-thirds during the 1980's and to a significantly higher level of over four-fifths during the last couple of years. The share of non-traditional items to the total export earnings could be as high as 87% during the current financial year. However, an alternative estimation based on net value added instead of gross value added may not depict a rosy picture. For example in 1991, the share of non-traditional exports, on a gross basis, stood at 75% while the share was 62% on a net basis. Similarly, the share of non-traditional items to total exports for 1994 is also reduced to 75% on a net basis from 84% on a gross basis.

There is a matched shift towards exports of manufactured commodities during the period. The share of manufactured products to total export earnings rose to four-fifth during the early 1990's compared to over three-fourths in the late 1980's and about two-thirds in the early eighties. At the time of independence, primary commodities exports dominated Bangladesh's export basket, contributing about 43% of total exports.

The policy interventions which influenced the export may be broadly categorized as :

a. The constitution of export related national committee with Hon'ble Prime Minister as the chairperson and Ministers from other important Ministries such as Foreign Affairs, Finance and Commerce will help resolve many burning issues in the export sector on a priority basis. The task force which met several times during the past few years resolved some of the important issues on export promotion.

b. Incentives scheme has been designed and existing schemes have been modified to provide more leverage to the exporters.

   Some of the new incentives are worth mentioning.

   i) Recognition of leather industries exporting at least 80% of their products as 100% export-oriented industries. Thus the leather industries are in a position to exploit the facilities of a 100% export oriented industries.

   ii) Provision for incentives for industries exporting 80% of their products in sectors other than leather. These industries will be entitled to all financial incentives and facilities including bank credit as 100% export-oriented industries and will be allowed to sale 20% of their products in the local market subject to payments of normal duties and taxes. However, the customs and taxation facilities allowable to 100% export-oriented industries will not be applicable for them.

iii) Installation of separate line for export of software. The government is very soft in the opening of its software market to outside world. The seminar and symposiums has already been arranged by private initiatives and direct government collaboration. The government is actively considering the establishment of a computer village to facilitate the export of computer software and train adequate manpower to met this emerging challenge of the globalization. The following steps will be taken to facilitate the use of separate line in software and data entry sector :

a. Bangladesh T&T Board will take immediate steps for installation of adequate number of separate high speed lines for facilitating the export of software and transmission of data;

b. To facilitate "On-the real time" telecommunication, 100% export-oriented data entry/software industries in the private sector will be subsequently allowed access to international data network in consultation with T&T Board;

c. Necessary steps will be taken to facilitate software export and data transmission at competitive prices;

d. 100% export-oriented software and data entry service industries will be provided with supervised bond facility to facilitate the duty free import of computers and other accessories.

e. The copyright law will be revised to include software development to facilitate to marketing to software.

f. To develop a pool of human resources in computer operations, the universities, technical institutes, will design and develop computer modules to train personnel.

(iv) Export Credit Guarantee Scheme. The four types of guarantees extended e.g. the Export Finance Guarantee (pre-shipment), the Export Finance Guarantee (post-shipment), the Comprehensive Guarantee and the Whole turn over pre-shipment finance are regarded as the critical element in trade augmentation. But there are certain loopholes and administrative difficulties in realizing the benefit of export credit guarantee scheme. The government is also considering means to ease the administrative procedure so that it works as in incentives for exporters. While the first two types of guarantees are extended to the bankers, the third one is extended directly to the exporters.

(v) Taka convertibility. Taka has been made convertible to facilitate the liberal market economy policy through the adoption of export-led development strategy of the Government. As a result, the earnings in the trade account will be freely convertible to foreign exchange for import of goods (excepting certain banned items). Under this system, the exporters will be eligible for retaining their foreign exchange earnings in their own foreign exchange accounts gradually at an increased rate.

(vi) Opportunity for use of foreign exchange by the exporters. The new export policy entitles exporters to retain 40% of the export earnings and 75% of earnings from legal advice, consultancy and professional service. When the export value in foreign exchange is repatriated, the concerned bank will credit the exporter account in foreign exchange according to their entitlements. These foreign exchange may be used in business related foreign travel, participation in international trade fairs and seminars, import of raw materials, and even setting up of overseas offices.

(vii) Creation of Export Promotion Fund. The new export policy, 1997-2000 will continue to provide support to the producer and exporters of new and non-traditional items to augment export earnings by product development, diversification and marketing. Moreover, continuation of tax holiday and enlargement of the crash programme items augur a healthy environment in export promotion.

(viii) Participation in overseas International Trade Fairs, Single country Exhibitions and other market development programmes. With a view to expanding the export activities, participation in overseas international trade fairs, single country exhibitions and other market development programmes, at both private and public levels, is organised on a regular basis and private sector institutions and agencies are being provided with various inducements to participate in such export-oriented programmes. Efforts to organise single country exhibitions in different countries in co-ordination with the government and private sector will continue. The establishment of World Trade Centre adjacent to Hotel Sonargaon and International Trade Centre in Chittagong will be considered as stepping stone in bridging the global trade culture in the Bangladesh Perspective.

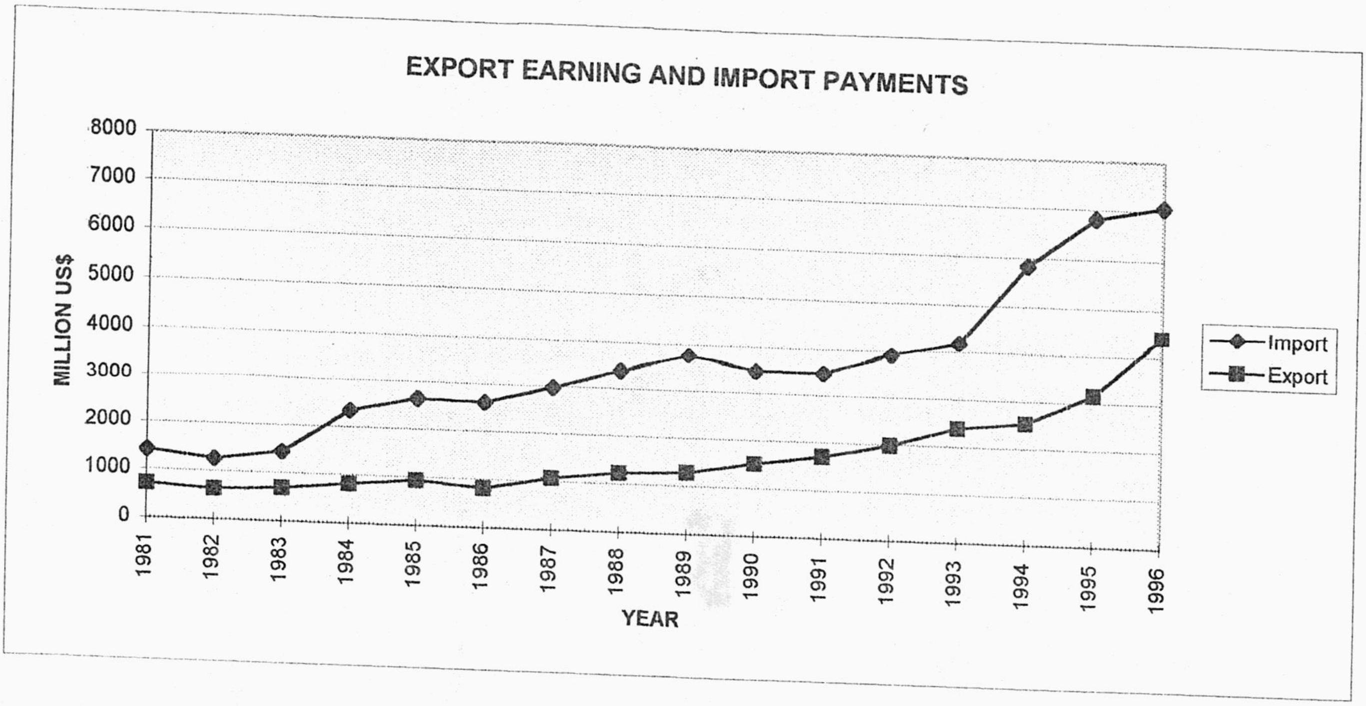
(ix) The export financing through the introduction of credit card will facilitate trips of prospective exporters risk free. Besides, export credit to the extent of 90% of the value of Irrevocable Letter of Credit or Confirmed Contract and credit to first time applicant will work as an incentive for new incumbent in the export market.

(x) National Export Trophy. As a mark of national recognition in the export sector, every year National Trophies are being awarded to the outstanding exporters of the country. In recognition of their performance, they are provided, among other things, with the VIP facilities in the airport.

The impact of different incentives varies across sectors as well as between the stages of production. Whilst incentives such as the cash compensation scheme, operated by Bangladesh Bank, is targeted to enhance backward linkage and the duty-free import to machineries is intended of promote export-oriented investment, incentives in the way of the Export Credit Guarantee operated by Shadharan Bima Corporation is intended to cover the marketing risks.

Import-Export Gap : The Dilemma

Continuous trade deficit is a major concern in the management of Bangladesh economy. The trend analysis depicts that since 1981 the economy is experiencing the deficit and the gap is widening. The liberalization measures in the import sector accounts for this widening deficits. The Export Promotion Measures and the state of the economy is not poised to narrow the gap, thus acerbating the situation. Although the young economy needs importation of machineries and capital goods for graduation to an industrialized society, the current trend of the industrialization and the value added of the industrial sector is not contributing in export earnings to bridge this gap. The following graphs gives the yearwise gap in import payments and export earnings over a period of sixteen years. The gap is more pronounced in 1995. The share of capital and intermediate goods during the period 1996 was over 60% of the total import payments. Since 1996-97, the share of intermediate and capital goods has again begun to rise. The share of primary commodity and final consumers goods accounts for 34% of the total import payments. The gap widens further when there is a food deficit due to natural calamity.



The appropriate policy to bridge the gap rest in augmenting the export earnings through diversification of exportables, innovation in designing and pursuance of more aggressive trade strategies. The outward trade orientation exposes the economy to competitive situation and sustained export earnings requires foreign investment, transfer of technology and development of value added industries. Certain export sectors require effective backward linkage to augment value addition. The domestic environment must be congenial, law and order situation must improve.

Steps towards trade liberalization should take into account the progress in development of physical infrastructure, banking and other financial services and services related to trade and industry. It is therefore, essential to improve the environment in which the industries operate while carrying out the liberalization process so that industries become competitive and liberalization process may not cause them injury. The speed of liberalization thus need to be monitored in the context of emerging trade deficit. Thus the programme of action for further trade liberalization should be formulated in advanced keeping in view the absorptive capacity of the economy.

A firm acquire knowledge and learn new things in trade orientation. Sometimes information needed to augment basic capabilities come from the buyers of exports. The buyers sometimes suggest product design and offer technical assistants to improve process technology. Some part of the efficiency of export led development must therefore be attributed to externalities drives from exporting. The export trade in Bangladesh must utilize this option in augmenting export earnings.

CHAPTER-III

Correspondence between Exchange Rate alignment and Trade Response

Exchange Rate

Exchange rate is considered to be an important instrument in the trade environment. The most commonly used exchange rate i.e., the bilateral exchange rate is not the real instrument in dealing with trade regime. Multilateral donors insist on maintaining a realistic exchange rate. The structural adjustment policy encapsulates maintenance of the real effective exchange rate index at 100. The Nominal Effective Exchange Rates (NEER) is a weighted average of various bilateral exchange rates and measures the average change in the value of a country's currency against that of all other (major) partner countries. It is used as an index to show how a currency performs in foreign exchange market. A measure of competitiveness must take into account not only changes in exchange rate but also changes in the price level. So, Real Effective Exchange Rate (REER) indices are calculated taking into account the relative price changes. The REER measures the average change in a country's exchange rate against that of all other currencies, adjusted for price development. The REER index is used as an indicator of the international competitiveness of Taka and also as an indicator in determining equilibrium real exchange rate.

At present Bangladesh Bank regularly calculates and monitor the movement of the real effective exchange rate (REER) index of Taka. In case the calculated REER index is less than the base number i.e., 100 a prima facie case exists for depreciation of Taka in order to return REER index to the base level. The behaviour of the real exchange rate is important in understanding the policy on realignment of the currency. The market economy emphasizes that export markets must try to maintain a correct real exchange rate. When the currency is over valued there is possibility of loosing the export market. Thus the usefulness of using real effective exchange rate as a vehicle in trade promotion is important. There are several procedures in calculating real effective exchange rate. The usefulness of the real exchange rate in understanding this important question depends on the accuracy of measurement of real effective exchange rate.

The Table-6 depicts alternative estimation of real effective exchange rate using 1985 as base year.

Table - 6 : Nominal and Real Exchange Rates for Bangladesh - Alternative Measures, 1974-94

Year	NER	FER1	FER2	FER3	FER4	FER5	FER6
1974	7.93	102.28	52.19	57.43	63.74	70.14	77.31
1975	10.07	140.09	95.52	62.71	51.72	54.49	80.94
1976	13.68	97.68	81.90	85.94	86.84	91.11	10.292
1977	15.36	97.57	91.99	95.74	99.78	103.85	116.30
1978	15.20	101.70	96.16	98.19	93.95	95.94	113.05
1979	15.00	98.97	88.63	92.53	86.88	90.70	98.92
1980	15.49	87.82	92.44	100.73	92.04	100.29	97.65
1981	16.34	90.31	89.03	97.78	90.08	99.02	96.88
1982	20.00	92.19	89.19	93.47	91.92	96.32	90.58
1983	23.76	91.25	98.00	101.11	113.79	117.39	113.13
1984	24.98	96.72	104.25	106.55	104.59	106.90	103.14
1985	25.96	100.00	100.00	100.00	100.00	100.00	100.00
1986	29.90	89.76	103.93	100.51	104.97	101.51	91.41
1987	30.64	90.34	97.09	97.05	96.76	96.72	79.76
1988	31.25	90.04	101.22	103.74	102.50	105.05	84.24
1989	32.00	91.09	99.21	103.57	102.56	107.06	86.25
1990	33.33	86.69	105.75	112.32	112.69	119.69	91.33
1991	35.70	86.56	114.77	124.69	119.84	130.20	104.59
1992	38.14	83.71	123.49	140.74	129.05	147.09	117.49
1993	39.14	82.78	136.96	162.65	139.85	166.09	128.65
1994	40.25	75.69	141.01	184.34	145.99	190.86	144.84

Source : Growth or Stagnation ? A Review of Bangladesh Development 1996.

RERI index shows a general trend different from the other measures, RER1, RER2, RER3, RER4, RER5 and RER6. The change in trend is due to the different construction methods. More important are consideration of tradable and non-tradable, consumer price index and world price index. Series RER3 and RER5 which uses the foreign WPI as price of tradable goods while the domestic CPI as the price of the non-tradable provides a better measure. This measure represents depreciation of Take gradually during the period between 1974 and 1994 with deviations during 1979, 1981/82, 1985, and 1987. From 1989 onwards the real depreciation of the exchange rate continued unabated and at a relatively faster rate. During the period 1998 and 1994, the exchange rate depreciate by 78%. The nominal devaluation of the currency have been much lower about 26%. It appears that Bangladesh seems to be following an exchange rate policy of keeping the exchange rate undervalued as a drive for export expansion under the accelerated liberalization programme. However, it is difficult to establish any positive relationship between the exchange rate and the growth of exports by matching annual changes in this variables.

There are strong reservations in generalizing the export response to different instruments. Similar exchange rates and foreign demand conditions have led to different level of exports in different countries and different times. Empirical estimate yield varying results when export supplier response is simulated as simple functions of the real exchange rate and foreign demand. Capacity expansion, productivity growth and a benign demand elasticity of the exportables are some of the factors responsible for export boom. An uninterrupted demand for exportables is also a conditioning factor in export augmentation.

Despite the limitation of the real effective exchange rate in detailing out a relationship between export earning and exchange rate, pursuance of a realistic exchange rate is necessary for a fair export regime.

CHAPTER-IV

Policy Paradigm

Conventional literature endorses trade as an engine of growth. The emergence of the market economy and the integration of the World Economy into a single unit underscores the demise of the period of isolation. The economic structure envisages in economy of Robinsons Crusoer is a myth. The days of isolation is gone. It is now the dawn of competitiveness. The competitiveness structure in the production can only be sustainable through specialisation, translation from the norms of comparative cost advantage by David Ricardo. The establishment of World Trade Organization (WTO) and the formation of various regional blocks to fosters trade among the world economics exposes these economies towards outward oriented policies. Bangladesh is not an exception.

Bangladesh has adopted policies in imports liberalization through successive elimination of tariff and non-tariff barries. With globalization, the export earnings registered increase of severalfolds. Surprisingly for few years, the achievement in export growth always exceeded the target. But the dilemma lies with an increase in trade deficit from 1980-1996. It appears the import liberalization measures outpaced the export promotion measures. The export of Bangladesh undergone a radical transformation in structure as well as in value term. Jute and jute goods no more constitute major export items and is substituted by Garments/frozen fish and other non-traditional items. This is a good sign for the economy showing flexibility in terms of product diversification and in terms of resource and endowment. But the Bangladesh economy is yet to exploit the potential of the economic resources to meet the growing world demand in frozen and garments and other non-traditional items.

The ingenious import and export policy of the government of Bangladesh for a period of five years (1997-2000) is a novel venture which, no doubt will provide importers and exporters with adequate plan provision. There are still some areas, where government initiatives and drives are required to invigorate the trade regime. The enhanced structural adjustment policy is instrumental in charting the desired direction. Yet due to global competitiveness and aftermath of the WTO, certain steps are desirable in the trade sectors.

1. The government must carefully monitor the speed of import liberalization measures. The export augmentation requires adequate physical infrastructure, Banking and Finance services and services related to trade and industry, congenial environment ensuring foreign investment, transfer of technologies and development of value added industries.

2. The year 2005 will witness the elimination Multi Fibre Arrangement (MFA). MFA Guarantees certain types of concessions to a category of exporters from the developing countries. The abolition of the MFA will generate considerable benefit not just to exporting countries but also to importing countries. This will require an orderly restructuring of certain sectors of the economy into more specialized entities for productive factors and for final alternative uses. For South Asia, abolition implies a very substantial expansion in the output of textiles and an increase in apparel output of more than 200%. Effecting such on expansion will require policy reform and infrastructure support to realize the full potential of these labour - intensive industries.

"The growth rates of the heavy machinery and transport equipment sectors in South Asia will slow as resources find more profitable outlets in textiles and clothings, but the sector will nevertheless remain substantial at 6% and 5% a year, respectively". Similar patterns of output adjustment are observed in other developing country/region undertaking liberalization. This episode will expose the Bangladesh economy to a very competitive position. The Garments sectors will servive only if adequate backward linkage enhanced the value added of the garments sector. Through productivity improvement and domestic supply and essential imports, the value added of RMG sector may be augmented two to three folds from the current value addition of less than 20%. The free trade regime invites opportunities as well as challenges to Bangladesh Economy. The government policy packages must focus adequate incentives in the establishment of backward linkage industries. These can be attained through restoring macroeconomic stability and ensuring discipline in banking sector. Investment in the backward linkage industries is in the offing. But the government must carefully exercise this option over the medium run because the domestic import cost structure may not be affordable in the very short run.

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