CHAPTER 6

EXTERNAL SECTOR

The prime objective of the trade policy of Bangladesh is to strengthen the economy of the country while sustaining the shocks of rapid changes in global trade regimes, trade liberalisation and export-based development strategy. Consistent with the emerging trends of the market economy, Bangladesh has been pursuing a liberal trade policy. Starting from 1980s, Bangladesh has been pursuing liberal trade policy that opened the economy to a great extent. Extensive reform programmes have been implemented in trade regimes during the last two decades. Reforms have been initiated to dismantle both tariff and non-tariff barriers. With regards to steps towards trade liberalisation government has been pursuing a moderate protective policy only in consideration of certain sensitive areas like public health, security and religious bindings. Simultaneously, more liberal import and export policies and programmes have been adopted including reduction in tariff slabs.

Bangladesh pursued one-year export and import policies in the first half of eighties and two-year policies in the last half of eighties and the first half of nineties. Since then, five-year export and import policies (1997-2002) were formulated and implemented. After the termination of tenure of these time bound policies, the government has announced three-year export import policies (2003-2006). These policies are consistent with the agreement under Uruguay Round Accord, WTO and the principles of market economy on the one hand and maintaining favourable balance between exports and imports of the country on the other.

Import Policy and Programme

The Import Policy (2003-2006) has been adopted to face the emerging challenges arising from rapid changes and expansion of world trade and free access of commodities in accord with WTO rules. The import policy had been made consistent with the industrial policy. As a result, administrative complexities for obtaining prior approval from different ministries, a requirement for establishing industries, has largely been reduced. In the import policy, quality control mechanism of imported goods has also been strengthened. In order to ensure availability of industrial inputs further and thus to enhance efficiency and competitiveness, restrictions on import of commodities have been gradually withdrawn. With a view to promote and accelerate export, liberalised import facilities for the export-oriented industries are in place. Import Policy Order has been pursuing a moderate protective policy only in consideration of certain sensitive areas like public health, security and religious bindings.

It is expected that the implementation of the current import policy would accelerate industrialisation process and will help boost up the overall development of the economy. Phenomenal changes and amendments have been incorporated in the Import Policy to promote foreign investment, ensure availability of quality goods to the consumers at reasonable prices, develop human resources and create employment opportunities. Under the import policy, expatriate Bangladeshis can import capital machinery and raw materials in any quantity while the foreign investors, as part of their equity share, can import the same on cost, insurance and freight (c.i.f.) basis. In case of importing industrial raw materials, the bindings of country of origin has been withdrawn. Raw materials import has been made easier for 100 percent export oriented industries that will accelerate expansion of export. A sizable number of commodities have been made exportable in the Export Policy Order and that has reduced the number of 60 H.S. heading restricted commodities to 24 H.S. heading commodities.

Simplification of Tariff Regime

Tariff regime has been simplified by equalising operative tariff rate with statutory tariff rate and also by reducing tariff barriers and tariff slabs. In FY 1993-94, the number of tariff slabs was 12. Currently the number of tariff slabs is 4. The maximum import duty was 300 percent in FY 1993-94, and this has been reduced to 25 percent since FY 2004-05. To simplify the tariff structure, operative and statutory tariff rate has been made equal since FY 2001-02 which is shown in Table 6.1:

Table 6.1: Tariff Structure from FY 1993-04 to FY 2005-06

Fiscal Year	Operative Tariff Rate (%)	Maximum Tariff	Statutory Tariff Rate (%)	Tariff Slub
1993-94	0, 3.75, 7.5, 15, 30, 45, 60, 75, 100, 125, 150, 300	300	0, 30, 60, 100, 150, 300	12
1994-95	0, 5, 7.5, 15, 30, 45, 60	60	15, 30, 60, 100, 150, 300	7
1995-96	0, 5, 7.5, 15, 22.5, 30, 45, 50	50	15, 30, 60, 100, 150, 300	8
1996-97	0, 2.5, 7.5, 15, 22.5, 30, 45	45	15, 30, 60, 100, 150, 300	7
1997-98	0, 2.5, 5, 7.5, 15, 22.5, 30, 42.5	42.5	15, 30, 60, 100, 150, 300	8
1998-99	0, 5, 7.5, 15, 25, 30, 40	40	15, 30, 60, 100, 150, 300	7
1999-00	0, 5, 15, 25, 37.5	37.5	15, 30, 60, 100, 150, 300	5
2000-01	0, 5, 15, 25, 37.5	37.5	0, 5, 15, 25, 37.5	5
2001-02	0, 5, 15, 25, 37.5	37.5	0, 5, 15, 25, 37.5	5
2002-03	0, 7.5, 15, 22.5, 32.5	32.5	0, 7.5, 15, 22.5, 32.5	5
2003-04	0, 7.5, 15, 22.5, 30	30	0, 7.5, 15, 22.5, 30	5
2004-05	0, 7.5, 15, 25	25	0, 7.5, 15, 25	4
2005-06	0, 6, 13, 25	25	0, 6, 13, 25	4

Source: National Board of Revenue (NBR)

Tariff Reduction

The unweighted average rate of protection was 36.0 percent in 1993-94, which was reduced to 12.51 percent in 2005-06. The weighted average rate of protection was 24.1 percent in 1993-94, which was reduced to 10.29 percent in 2005-06. The unweighted and weighted rates of customs duty have been presented in Table 6.2 and 6.3 respectively.

Table-6.2: Impact of Tariff Reforms on Average Rate of Customs Duty

Financial Year	Unweighted Average (%)	Import Weighted Average (%)
1993-94	36.0	24.1
1994-95	25.9	20.8
1995-96	22.3	17.0
1996-97	21.5	18.0
1997-98	20.7	16.0
1998-99	20.3	14.1
1999-00	19.5	13.8
2000-01	18.6	15.1
2001-02	17.13	9.73
2002-03	16.51	12.45
2003-04	15.62	11.48
2004-05	13.54	9.59
2005-06	12.51	10.29

Source: National Board of Revenue.

Table 6.3: Impact of Tariff Reforms on Average Rate of Custom Duty by Type of Commodities.

Financial year / Classification	2000-01		2001-02		2002-03		2003-04		2004-05		2005-06	
	UW AV	W. AV	UW AV	W. AV	UW AV	W. AV	UW AV	W. AV	UW AV	W. AV	UW AV	W. AV
Primary goods	15.7	14.9	20.10	9.43	20.98	11.92	19.90	11.28	17.61	8.99	17.29	5.79
Intermediate goods	17.7	15.0	15.61	16.18	14.89	15.86	14.44	15.12	12.46	12.72	10.95	10.37
Capital goods	11.3	10.4	6.97	3.26	8.03	7.97	7.85	6.42	7.28	5.22	6.45	4.80
Final consumer goods	29.6	20.3	26.00	13.96	22.94	11.72	21.27	10.68	18.22	15.08	17.66	20.11

Source: National Board of Revenue.

Export Policy and Programmes Implemented

Expanding global market economy and agreement with the WTO have opened up a wide range of opportunities for exports, on the one hand, and has posed a great challenge for a poor country like Bangladesh with underdeveloped technology and low capital base on the other. In the case of import, following gradual reduction of duty rates, domestic import-substitute industries have been increasingly facing tough competition. Export industries on the other hand have to survive and expand by competing with other countries. Bearing in mind this unfavourable situation, the Export Policy, 2003-2006 has been formulated. A strategy of export development instead of export promotion has been adopted in the Export Policy.

In the Export Policy, export targets for FY 2003-04, 2004-05 and 2005-06 have been fixed at US$ 7,439.00 million, US$ 8,565.78 million and US$ 9,599.00 million respectively. But against the aforesaid export targets, the real export earnings during FY 2003-04 and FY 2004-05 amounted to US$ 7,602.99 million and US$ 8,654.52 million respectively. Considering export target and real export earnings for both the year, the export target for FY 2005-06 has been re-fixed at US$ 10,159.20 million. It is heartening that the export earnings for FY 2005-06 has exceeded the re-fixed target by 3.61 percent. Given that the measures prescribed in the export policy are implemented properly, exports will substantially increase despite all possible constraints.

Projects for Export Development

The Ministry of Commerce has been endeavoring to facilitate technical assistance to improve the quality of products, explore markets, create demand of new products as required in international markets, which is complementary to export expansion policy and strategy and export diversification. The Ministry of Commerce has been implementing 5 technical assistance projects under ADP for FY 2005-06. Total ADP allocation for these projects in FY 2005-06 was Tk. 68.35 crore.

Among the ongoing projects, activities are underway in sectors like handicrafts, leather, silk and RMG under the project 'Business Development Services for Private Sector Promotion. Initiatives have been taken to provide quality business support services to SMEs and to innovate ways to remain competitive and efficient in the agro-products, plastic, furniture and IT sector by 'Developing Business Services Markets Programme in Bangladesh' project. Among the other three projects, one is doing the computerization of the office of Joint Stock Companies and Farms that will create online facilities for registering farms and companies. It is expected that, this project will take up the role of developing business environment in Bangladesh. Besides, under 'Small Project Facilities', programmes have been chosen to augment production, develop management and markets of several non-traditional sub-sectors such as shrimp culture and marketing development; development of fair trade and handicraft entrepreneurship; coir processing as a diversified export commodity and bee management and production. These programmes are expected to play a positive role for export development of Bangladesh. Activities are underway for human development in trade related aspects under 'Bangladesh Trade Support Programme'.

Activities Related to RMG Sector

Trade on textile and clothing was being conducted under the Multi-Fiber Arrangement (MFA) system which has been abolished since 1 January 2005. The RMG sector has passed one and a half year after quota phase-out. No negative impact has been felt in the sector during this period despite the predictions made by donor agencies and other organisations and also no worker has lost his or her job. Instead, export has increased in the post-MFA period due to adoption of proper strategies adopted by the exporters and timely steps taken by the government. Export data for FY 2005-06 reveals that, during the period export of knitwear and woven garments registered a growth 35.38 percent and 13.50 percent respectively compared to the previous fiscal year.

Since the major share of export earnings is achieved through the RMG, the government has undertaken various steps for the development of RMG sector considering its contribution to the national income and employment generation. Some of the important steps are:

- **Simplification of commodities clearance procedures:** Various measures have been taken for simplification of 'export-import clearance procedure' through computerization and others steps in the ports and custom stations in the country. For example, to meet the space constraints in the Chittagong Port, the New Mooring Container Terminal is being built and necessary container handling equipment including adequate number of gantry cranes have been procured.
- **Reduction of VAT on utility bill:** 80 percent VAT on gas bills, 60 percent on water and electricity bill and 100 percent on clearing and forwarding, insurance and shipping bills for export-oriented garments industries have been exempted.
- **Reduction of insurance premium:** About 10 percent to 30 percent of insurance premiums have been reduced from the applicable rates for the export-oriented readymade garment industries.
- **Loan rescheduling facility:** Loan rescheduling facility without any down payment has been allowed for export-oriented garment industries in stock lot cases provided the money received from selling of stock lot goods be deposited to the concerned loan account.
- **Duty free import facility:** Import of capital machinery for textile and export-oriented RMG sector has been exempted from custom duty. Besides, all kinds of raw materials to be used for export purposes are being allowed to be imported without any duty.
- **Continuation of cash incentives:** The provision of allowing 5 percent cash incentives against export earnings of goods produced from the use of locally made fabrics is also continuing in the current fiscal year.
- **Alternative employment generation:** Tk.20 crore has been allocated in the budget of FY 2005-06 for the purpose of creating employment through alternative training in different areas if workers lose their jobs due to negative impact in the quota-free regime.

Besides, several additional steps have been taken for the development of RMG sector. Included among them are:

- The facilities given by the government to continue to reduce the manufacturing cost;
- Provide certain facilities (such as reduction in interest rates on export credits, reduction on Chittagong Port usage charges etc.) for reducing the 'cost of doing business' in the RMG sector;
- Allow 100 percent foreign investment for establishing readymade garment industries at Export Processing Zone (EPZ) area;
- Provide 'one stop service' by the Board of Investment to encourage Foreign Direct Investment (FDI);
- Continue the government efforts for addressing compliance issues in the RMG sector;

- Continue lobbying for passing the 'Tariff Relief Assistance for Developing Economies (TRADE) Act of 2005', in the US Congress in connection with duty-free market of LDC products in USA.
- Organise 19 trade fairs (single and jointly) abroad in FY 2005-06 under the initiatives of Export Promotion Bureau (EPB) for increasing export;
- Resume yarn import through the land ports;
- Keep on putting unrelenting efforts for solving the existing problems of RMG sector;
- Try to achieve the export targets through the commercial wings of Bangladesh Missions abroad;
- Continue the government efforts for the inclusion of readymade garments in the list of 97 percent products declared in Hong Kong WTO ministerial, 2005 for allowing duty-free market access of LDCs;
- Make efforts for having exports at concessionary duty rates in the countries where duty-free market access is not yet received;
- Increase the facilities for local and foreign investors for establishing forward and backward linkages industries.

Despite no significant negative impacts experienced in the RMG exports of Bangladesh in the post-quota period, apparel prices have gone downward in the international markets. So, the RMG producers are facing big challenges. In spite of those, the present growth is hopped to be continued in future by the use of appropriate steps taken by the government and long experiences of entrepreneurs along with their competitive business attitude.

South Asian Preferential Trade Agreement (SAPTA)

South Asian Preferential Trade Agreement (SAPTA) came into effect on December 7, 1995. Under this agreement, prescribed Rules of Origin of the signatory countries have been relaxed. Four rounds of negotiation have been held so far under SAPTA. These negotiation rounds considered the coverage of different commodities and also the issue of reduction of duties. Meanwhile, concessionary duties ranging between 7.5 percent and 100 percent for 3,813 commodities on the basis of 6 digit Harmonized System (HS) Code have been exchanged. The local value added rate has been refixed at 30 percent in place of 40 percent. Negotiation is underway to sign an ‘Agreement on Promotion and Protection of Investment’ with a view to expanding trade and investment among SAARC countries.

South Asian Free Trade Area (SAFTA)

At the twelfth SAARC Summit, held in Islamabad between 4-6 January 2004, the member states signed an agreement on South Asian Free Trade Area (SAFTA) to promote and enhance mutual trade and economic co-operation. The agreement will come into force on January 1, 2006 on completion of formalities, including ratification by all member states and issuance of a notification thereof by the SAARC Secretariat. The SAFTA Agreement covers only trade in goods. The agreement will be implemented through a number of instruments, including a trade liberalisation programme, institutional arrangement, consultation and dispute settlement procedures, safeguard measures and any other instruments that may be agreed by member states.

Under the agreement, the developing member states would reduce tariffs to 0-5 percent for the commodities of LDC contracting states within a 3-year time frame from the date on which the agreement comes into force. On the other hand, the LDC contracting states would reduce tariffs to 0-5 percent within 10-year time frame. The tariff concession will come into force from 1 July 2006. A total of 1,254 commodities have been included in the Bangladesh's sensitive list in view of protecting the country's agriculture and industries and also in the context of revenue earnings. On the other hand, 763 commodities have been included in the sensitive list of India, 1,183 commodities in Pakistan's list, 1,065 commodities in Sri Lankan list, 157 commodities in Bhutan's list, 671 commodities in Maldives's list and 1,299 commodities in the Nepalese sensitive list. Bangladesh can export commodities other than restricted commodities under the free market arrangement to the markets of member countries.

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

On 6 June 1997, a regional economic cooperation group was formed in Bangkok incorporating Bangladesh, India, Sri Lanka and Thailand and given the name BISTEC (Bangladesh, India, Sri Lanka and Thailand Economic Cooperation). However, on Myanmar's joining the organisation the name of the group was changed to BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation). In 2003, membership was granted to Nepal and Bhutan and during the First Summit in Bangkok on 30-31 July 2004, the group name was eventually changed to "The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation", or BIMSTEC.

Initially BIMSTEC began extending co-operation in six areas such as trade and investment, technology, transport and communication, energy, tourism and fisheries. After that, these sectors and sub-sectors were regrouping on the basis of the existing trade patterns of the member countries and the global trade patterns. A Framework Agreement on BIMSTEC Free Trade area (BIMSTEC- FTA) was concluded on 8 February 2004. Parties to the Framework Agreement are required to negotiate and conclude three Agreements. These are (i) Agreement on Trade in Goods (ii) Agreement on Trade in Services and (iii) Agreement on Investment. A Trade Negotiating Committee (TNC) was set up incorporating members of contracting states to conduct negotiations. The TNC has already met in 11 meetings. The Agreement on trade in goods comes into force from 1 July 2006 after successful negotiations.

The Bangkok Agreement

In 1975, seven countries of Asia Pacific region e.g. Bangladesh, India, Sri Lanka, Thailand, Philippines, the Republic of Korea and Laos People's Democratic Republic came to a consensus to set up a preferential trading arrangement on a commodity list. As a result, the developing countries of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) signed first agreement on trade negotiation, which is known as Bangkok Agreement. After that, the Agreement was signed by the 5 members out of 7 countries (except Philippine and Thailand). China was included in this agreement in 2001. Therefore, the Agreement is being revised and also changing its name to Asia Pacific Trade Agreement (APTA).

The participating countries of this Agreement have concluded three rounds of trade negotiations. The first round of trade negotiations was concluded in 1980 and the second round in 1990. The third round of trade negotiations was launched in 2001 and completed in 2004.

The First Ministerial Council Meeting was held at November 2005. At this meeting, the Trade Ministers of the participating countries signed the revised agreement. Under this agreement tariff concession will come into force from 1 July 2006. It may be mention here that, as a member of LDCs, Bangladesh will receive special facilities in terms of tariff concession.

World Trade Organisation (WTO) and Bangladesh

Since the establishment of WTO on 1 January 1995, Bangladesh has been playing an active role in the ongoing WTO negotiations with a view to protecting the legitimate claim and interests of LDCs in an extremely competitive global trading environment. Bangladesh also attaches equal emphasis on its bilateral and regional trade.

To protect the interests of LDCs, Bangladesh has been strongly pleading for duty-free and quota-free market access for all products originating from LDCs, exploring employment opportunities for the semi-skilled labour force abroad, enhancing market share for LDCs in the global trade, meaningful and effective trade related technical assistance, exemption of LDCs products from any anti-dumping, countervailing and safeguard measures, implementation of all special and differential (S&D) treatment provisions for LDCs, continuation of domestic support for low-income and resource- poor farmers and subsidy for internal and international transport and freight charges with a view to reducing marketing cost, and developing trade remedial measures and compensatory mechanism to address the erosion of trade preferences etc.

Along with other WTO members, Bangladesh has been playing an important role to bring WTO negotiations back on track after the Cancun setback in September 2003. The Sixth WTO Ministerial Conference was held in Hong Kong from 13-18, December, 2005. The major negotiating issues were, Agriculture, NAMA (Non-Agriculture Market Access), Services, WTO

Rules, Trade Facilitation, Aid for Trade and specific development issues for LDCs. The main demand of LDCs was to get duty-free and quota-free market access to developed and developing countries declaring themselves in a position to do so. The issue was particularly important for LDCs including Bangladesh to raise their market share in the global trade. At present, LDCs' market share in the world export trade is about 0.6 percent.

In the Hong Kong Declaration, a time-bound commitment has been made for the first time for duty-free and quota-free market access for products originating from LDCs. The major achievement for the LDCs in the Hong Kong Ministerial Conference is the commitment of duty-free and quota-free market access for at least 97 percent of products originating from LDCs to the developed countries and the developing countries declaring themselves in a position to do so. The duty-free list will be expanded gradually. The modalities in this regards will be worked out by 2006. However, the impact on other developing countries for according duty-free and quota-free market access to all products originating from LDCs will also be taken account. All LDCs including Bangladesh have been exempted from tariff reduction commitments. Besides, some other achievements of LDCs including Bangladesh are as follows:

- Rules of Origin will be simplified so that LDCs can avail of the market access facilities;
- LDCs have been given an extension of the transition period until 1 July, 2013 to provide protection for trade marks, copy rights, patents and other intellectual property under the TRIPS (Trade Related Aspects of Intellectual Property Rights) Agreement. Earlier, an extension of the transition period for pharmaceuticals products was granted for LDCs until 1 January 2016. This has been extremely helpful for the expansion of exports;
- LDCs will not be required to make commitments particularly under Trade Facilitation to the extent consistent with their individual capacities;
- LDCs including Bangladesh have been allowed to maintain 'Temporary Investment Measures' up to 2020, if needed. In that case there will no obligations under the TRIMs (Trade Related Investment Measures) Agreement;
- LDCs will be given technical and financial support under the Integrated Framework, Technical Co-operation and Aid for Trade Package;

Meanwhile, the government has already spelt out its 'market access strategy' with a view to reaping the meaningful benefit from the Hong Kong Declaration.

Trade Scenario

Export Position and Composition of Export Commodities

The export earnings of Bangladesh were US$ 8,654.52 million in FY 2004-05, which was 13.83 percent higher than the export earnings (US$ 7,602.99 million) of FY 2003-04. Export earnings in FY 2005-06 stood at US$ 10,526.16 million which is 21.63 percent higher than the previous year. Analysis of composition of exports by major categories reveals that export earnings increased compared with the same period of previous fiscal year mainly in respect of woven garments (13.50%), knitwear (35.38%), agricultural products (27.80%), frozen food (9.12%), tea (24.98%), raw jute (54.14%), leather (16.45%), jute goods (17.42%), engineering products (30.58%) and petroleum by products (152.08%) etc. On the other hand, export earnings decreased for ceramic products (4.17%) and handicrafts (16.02%) etc. Table 6.4 shows the export growth and composition by commodities.

Table-6.4: Export Growth and Composition

Commodity classification	Total export (Million US$)			% of total export			Growth rate (%)		
	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06
1. Primary commodities, of which	**553.36**	**648.29**	**772.70**	**7.28**	**7.49**	**7.34**	**19.62**	**17.16**	**19.19**
a) Frozen food	390.25	420.74	459.11	5.13	4.86	4.36	21.27	7.81	9.12
b) Tea	15.81	15.84	11.89	0.21	0.18	0.11	2.20	0.19	24.98
c) Agricultural products	41.11	82.47	105.40	0.54	0.95	1.00	61.53	100.61	27.80
d) Raw jute	79.70	96.19	148.27	1.05	1.11	1.41	(3.35)	20.69	54.14
e) Others	26.49	33.05	48.03	0.35	0.39	0.46	52.24	24.76	45.33
2. Industrial goods, of which	**7049.63**	**8006.23**	**9753.46**	**92.72**	**92.51**	**92.66**	**15.84**	**13.57**	21.82
a) Woven garments	3538.07	3598.20	4083.82	46.54	41.58	38.80	8.59	1.70	13.50
b) Knitwear	2148.02	2819.47	3816.98	28.25	32.58	36.26	29.88	31.26	35.38
c) Leather	211.41	220.93	257.27	2.78	2.55	2.44	10.55	4.50	16.45
d) Jute goods	246.45	307.48	361.03	3.24	3.55	3.43	(4.17)	24.76	17.42
e) Fertilizer & chemical products	121.46	197.18	205.58	1.60	2.28	1.95	20.87	62.34	4.26
f) Footwear	68.30	87.55	95.44	0.90	1.01	0.91	46.57	28.18	9.01
g) Ceramic products	24.07	28.75	27.55	0.32	0.33	0.26	27.90	19.44	(4.17)
h) Engineering products	41.87	85.02	111.02	0.55	0.98	1.05	224.32	103.06	30.58
i) Petroleum by products	37.02	35.08	88.43	0.49	0.41	0.84	18.54	(5.24)	152.08
j) Handicrafts	4.20	5.12	4.30	0.06	0.06	0.04	(29.41)	21.90	(16.02)
k) Others	608.76	621.45	702.04	8.00	7.18	6.67	19.52	2.08	12.97
Total export	**7602.99**	**8654.52**	**10526.16**	**100.00**	**100.00**	**100.00**	**16.10**	**13.83**	**21.63**

Source: Export Promotion Bureau, Ministry of Commerce.

* Figure in the parenthesis indicates negative number.

Country wise Export

Analysis of country wise export shows that USA is the main destination of our export commodities. It appears from table 6.5 that, in FY2005-06, the USA secured the top position in respect of importing Bangladeshi commodities. During this period, goods worth US$ 3,030.20 million were exported to the USA, which was 28.79 percent of the total export of the country. The principal commodities exported to USA are woven garments, knitwear, frozen food and home textile etc. During FY 2005-06, Bangladesh, of her total exports, exported 49.29 percent of woven garments, 16.20 percent of knitwear and 39.67 percent of shrimps to the USA. The country wise export is shown in table 6.5 below.

Table 6.5: Country wise Export

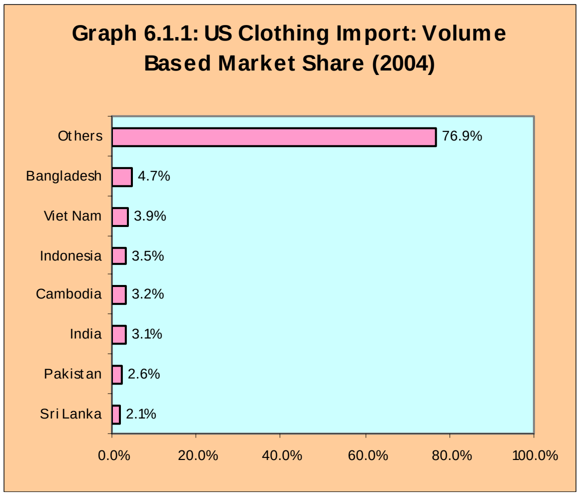
(In million US$)

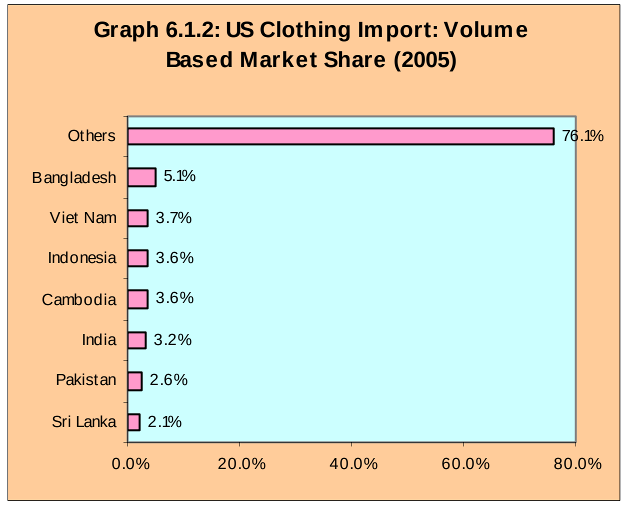
Fiscal Year	USA	Germany	UK	French	Belgium	Italy	Nether lands	Canada	Japan	Others	Total
1999-00	2273.76	658.71	499.99	367.37	225.89	248.28	282.77	110.63	97.64	987.16	5752.20
2000-01	2500.42	789.88	594.18	365.99	253.91	295.73	327.96	125.66	107.58	1105.99	6467.30
2001-02	2218.79	681.44	647.96	413.69	211.39	262.31	283.36	109.85	96.13	1061.17	5986.09
2002-03	2155.45	820.72	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1270.80	6548.44
2003-04	1966.58	1298.54	898.21	552.96	326.95	315.93	290.44	284.33	118.16	1550.89	7602.99
2004-05	2418.67	1351.06	944.18	625.51	327.80	369.78	290.92	335.25	122.53	1868.82	8654.52
2005-06	3030.20	1764.11	1048.62	677.50	359.20	425.75	327.40	421.46	137.78	2334.14	10526.16

Source: Export Promotion Bureau

During FY 2005-06, the second highest export earnings came from Germany which constituted 16.76 percent of total export earnings while the third highest export earnings came from UK (9.96 percent). The principal commodities exported to Germany are knitwear, woven garments and frozen food. During this period, Bangladesh exported 26.03 percent of Knitwear, 17.06 percent of woven garments and 4.73 percent of shrimps of her total export to Germany. The principal commodities exported to UK are woven garments, knitwear, home textile, frozen food and bicycle etc. During this period, exports in UK registered a growth of 10.24 percent compared to the previous year.

After the abolition of quota system on textile and clothing, the RMG exports of Bangladesh in the market of USA has been showing increasing trend. The March 2006 issue of 'Bangladesh Quarterly Economic Update' published by ADB Bangladesh Residence Mission, Dhaka, shows the position of clothing export in the market of USA of some countries of South and South East Asia including Bangladesh. It is evident from the report that Bangladesh's share in the US clothing imports increased to 5.1 percent in 2005 which was 4.7 percent in 2004. Graph 6.1 and Graph 6.2 show the share of clothing export in the US markets:





Import Status and Composition of Imported Commodities

The total import payments (cif) amounted to US$ 10,903.20 million and US$ 13,146.70 million in FY 2003-04 and FY 2004-05 respectively. Import payments during FY 2005-06 increased by US$ 1599.70 million or 12.17 percent to US$ 14,746.40 million compared to previous fiscal year. Analysis of imports reveals that in FY 2005-06, the following commodities contributed to the overall growth of import payments. Included among them are crude petroleum (72.7%), cotton (27.4%), petroleum products (11.8%), fertilizer (2.8%), clinker (23.7%), yarn (11.5%) and capital machinery (30.76%) etc. Table-6.6 shows the overall import situation of the country.

Table-6.6: Import Growth and Composition

(In million US dollar)

Commodity	2002-03	2003-04	2004-05	2005-06
a) Principal primary commodities	**1133**	**1339**	**1676**	**1853**
Rice	211	144	262	117
Wheat	198	287	312	300
Oilseeds	64	73	86	90
Crude petroleum	267	252	350	604
Cotton	393	583	666	742
b) Principal industrial goods	**1548**	**1910**	**2662**	**3002**
Edible oil	364	471	440	473
Petroleum products	620	770	1252	1400
Fertilizer	109	150	332	342
Clinker	144	139	170	210
Staple fibre	41	57	75	76
Yarn	270	323	393	501
c) Capital machinery	**548**	**729**	**1115**	**1458**
d) Other commodities (including EPZ)	**6429**	**6925**	**7694**	**8433**
Grand Total	**9658**	**10903**	**13147**	**14746**
Percentage change (%)	13.1	12.9	20.58	12.2

Source: Bangladesh Bank.

Latest available sector-wise comparative statement of fresh opening, settlement and outstanding of import LCs during FY 2004-05 and FY 2005-06 are shown below:

Table 6.7: Sector-wise Comparative Statement of Fresh Opening, Settlement and Outstanding of Import LCs

(In million US dollar)

Sector/ Commodities	2005-06			2004-05			Changes (+) (-)		
	Fresh LCs opening	Settlement of LCs	Outstanding LCs at the end of the period	Fresh LCs opening	Settlement of LCs	Outstanding LCs at the end of the period	Fresh LCs opening	Settlement of LCs	Outstanding LCs at the end of the period
A. Consumer Goods	1182.46	1030.02	325.61	1603.25	1274.94	315.56	-420.79	-244.93	+10.05
B. Intermediate Goods	1252.15	1188.66	209.51	1176.54	1068.95	217.05	+75.61	+119.71	-7.55
C. Industrial Raw Materials	5838.98	5310.45	2096.85	5158.31	4830.47	1780.81	+680.67	+479.98	+316.05
D. Capital Machinery	1493.56	1347.36	887.46	1508.75	1086.52	771.98	-15.18	+260.85	+115.48
E. Machinery for Misc. Industry	1134.12	1055.98	450.56	1065.44	914.14	405.39	+68.68	+141.84	+45.17
F. Petroleum & Petroleum Products	2018.84	1928.17	418.86	1530.95	1573.68	352.20	+487.89	+354.48	+66.66
G. Others	2325.23	2089.25	1131.47	2025.37	1914.54	1000.95	+299.87	+174.72	+130.52
Total	**15245.35**	**13949.9**	**5520.33**	**14068.61**	**12663.24**	**4843.94**	**+1176.74**	**+1286.66**	**+676.38**
of which back to back	2764.33	2402.89	1328.09	2311.19	2219.76	1026.15	+483.15	+183.13	+301.94

Source: Bangladesh Bank

Table 6.7 shows significant increase in the opening of import LCs for industrial raw materials, petroleum and petroleum products, machinery for miscellaneous industry and intermediate goods during FY 2005-06 compared to the same period of the previous year. On the other hand, opening of import LCs for consumer goods declined remarkably and capital machinery also declined during the reporting period.

Mode of Import Financing

The overall position of import payments according to mode of financing for the FY 2004-05 and FY 2005-06 are shown in table 6.8 below:

Table 6.8: Import by Mode of Financing

(In million US dollar)

Mode of financing	2005-06		2004-05		Changes (+) (-)
	Amount	% of Total	Amount	% of Total	
Cash	12962	87.9	11276	85.8	1686
Loans/Credits	74	0.5	88	0.7	-14
Grants	56	0.4	14	0.1	42
IDB Loan (short term)	511	3.5	721	5.5	-210
Other Unclassified Import	81	0.5	96	0.7	-15
A. Sub-total	**13684**	**92.8**	**12195**	**92.8**	**1489**
B. Imports of EPZ	1062	7.2	952	7.2	110
Total Import: (A+B)	**14746**	**100.0**	**13147**	**100.0**	**1599**

Source: Bangladesh Bank

Countrywise Import

It appears from the country wise import analysis that in term of the value of total imported commodities India occupied the first position. In FY 2004-05, 15.44 percent of the total imported commodities came from India. China came to occupy the second position (12.49 percent of total import) while Singapore held third position (6.75 percent to total import). In FY 2005-06, 14.10 percent of total imports came from India, 12.67 percent from China and 5.76 percent from Singapore. Table 6.9 shows the countrywise import payments during FY 1999-00 to FY 2005-06.

Table 6.9: Countrywise Import Payments

(In million US$)

Fiscal Year	India	China	Singa pore	Japan	Hong Kong	Taiwan	`South Korea	USA	Malaysia	Others	Total
1999-00	833	568	701	685	455	386	319	325	108	3994	8374
2000-01	1184	709	824	846	478	412	411	248	148	4075	9335
2000-02	1019	878	871	655	441	312	346	261	145	3612	8540
2002-03	1358	938	1000	605	433	328	333	223	169	4271	9658
2003-04	1602	1198	911	552	433	377	420	226	255	4929	10903
2004-05	2030	1642	888	559	565	439	426	329	276	5993	13147
2005-06	1868	2079	849	651	625	473	489	345	332	7035	14746

Source: Bangladesh Bank.

Exchange Rate

Over a period of more than a decade, Bangladesh pursued a flexible exchange rate policy. Previously, the exchange rate of Taka used to be adjusted from time to time to keep it competitive by adjusting the trade weighted Real Effective Exchange Rate (REER) with partner countries. Bangladesh stepped into fully market based exchange rate regime since May 31, 2003 where exchange is determined by the demand and supply of the currency. However, Bangladesh Bank may engage in foreign exchange trading directly to stabilise exchange rate.

After the introduction of free float exchange rate, the interbank exchange rate of Taka was almost stable against US dollar. But from the third quarter of FY 2004-05, exchange rate faced upward pressure. The oil price hike in international market and the increased import of iron, fertilizer, crude petroleum, capital machinery and intermediate goods that created the demand for foreign currency were the main reasons for the upward pressure of exchange rate. To reduce the pressure on the exchange rate, Bangladesh Bank has pursued tight monetary policy. At the same time, to reduce volatility in exchange rates and facilitate orderly adjustment of exchange rates, Bangladesh Bank sold foreign exchange in interbank foreign exchange market including OD facility to the banks. Due to persuasion of tight monetary policy and also because of the depreciation of Taka, the current account balance showed surplus at the end of December 2005. As a result, from March

2006, the supply of foreign currency has increased in the interbank foreign exchange market. On June 30, 2006 the official and interbank market Taka-Dollar exchange rate remained stable between Taka 66.49 and Taka 69.82 respectively. Exchange rates of Taka per US Dollar during FY1997-98 to FY 2005-06 is presented in Table 6.10.

Table 6.10: Average Exchange Rate (Taka per US$)

Fiscal Year	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Average Exchange Rate	45.4563	48.0644	50.3112	53.9592	57.4347	57.9000	58.9353	61.3939	67.0797

Source: Bangladesh Bank

Foreign Exchange Reserve

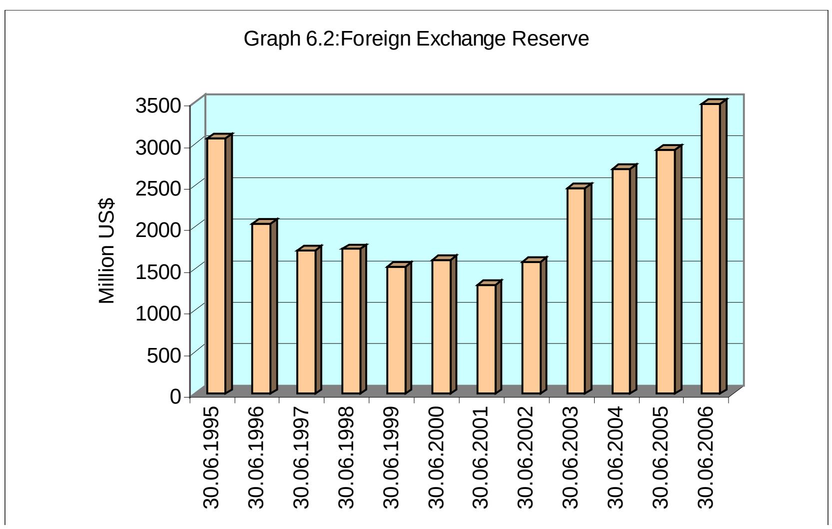
The growth of export earning and remarkable increase of remittance from expatriate Bangladeshis caused to rise foreign exchange reserve to US$ 2,299.89 million on June 30, 2005 which was US$ 2,705.02 million implying 8.31 percent growth over the same date of previous year. As of June 30, 2006 the foreign exchange reserve stood at US$ 3,483.78 million which is 18.90 percent higher than year end reserve of previous year. Table 6.11 and graph 6.2 show the foreign exchange reserve during 1995 to 2006.

Table 6.11: Foreign Exchange Reserves

(In million US$)

Date	Amount
30.06.1995	3070
30.06.1996	2039
30.06.1997	1719
30.06.1998	1739
30.06.1999	1523
30.06.2000	1602
30.06.2001	1307
30.06.2002	1583
30.06.2003	2470
30.06.2004	2705
30.06.2005	2930
30.06.2006	3484

Source: Bangladesh Bank



Foreign Aid

Total aid disbursement during FY 2005-06 stood at US$ 1241.21 million compared to US$ 1260.00 million during the same period of the preceding year. Net foreign aid during FY 2005-06 stood at US$ 752.21 million compared to US$ 811.00 million during the same period of the last year.

Balance of Payments

Trade balance recorded a smaller deficit of US$ 2,879 million during FY 2005-06 compared to the deficit of US$ 3,297 million during FY 2004-05. Despite large service deficit, the current account balance recorded a surplus of US$ 572 million during FY2005-06 against the deficit of US$ 557 million over previous year. This has happened due to larger current transfers of US$ 5,347 million during the reporting period. Despite a smaller decline in financial account of US$ 24 million, the overall balance recorded a significant surplus of US$ 365 million during FY 2005-06 against the surplus of US$ 67 million during FY 2004-05. This was mainly due to a significant increase in current account balance of US$ 572 million as well as capital account of US$ 242 million. The balance of payment from FY 2002-03 to FY 2005-06 and trade balance and current account balance are shown in table 6.12 and graph 6.3 respectively.

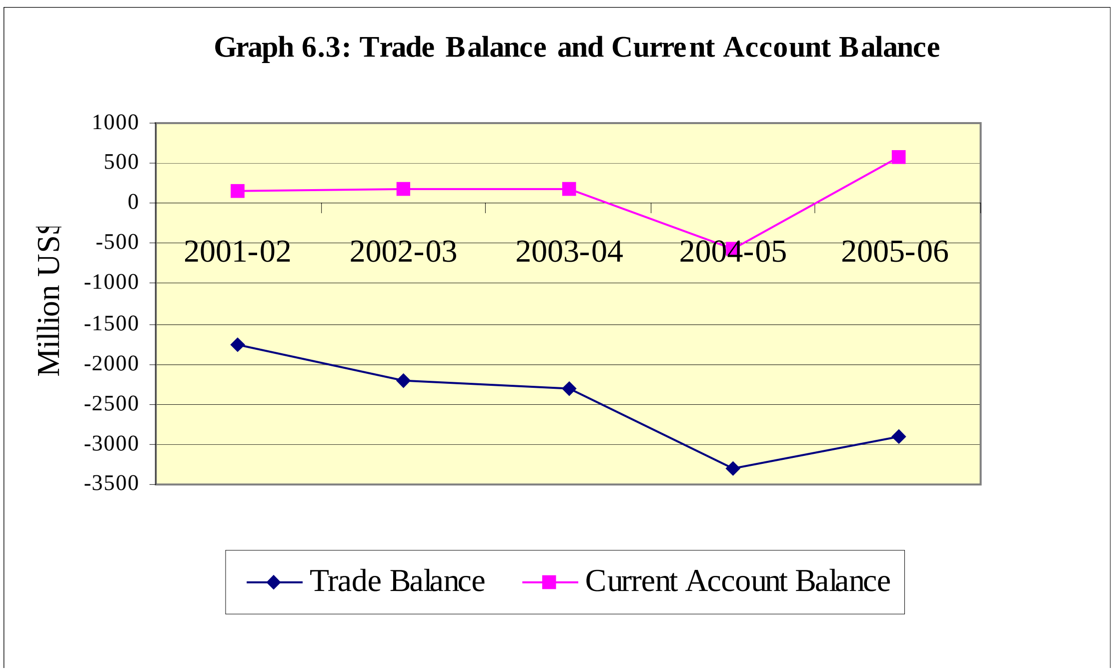


Table-6.12: Balance of Payments

(In million US$)

Particulars	2001-02	2002-03R	2003-04R	2004-05R	2005-06P
Trade balance	**-1768**	**-2215**	**-2319**	**-3297**	**-2879**
Exports f.o.b. (including EPZ)1/	5929	6492	7521	8573	10422
Import, c.i.f. (including EPZ)	-7697	-8707	-9840	-11870	-13301
Services	**-499**	**-691**	**-874**	**-870**	**-1110**
Receipts	865	887	924	1177	1296
Payments	-1364	-1578	-1798	-2047	-2406
Income	**-402**	**-358**	**-374**	**-680**	**-786**
Receipts	50	64	63	116	134
Payments	-452	-422	-437	-796	-920
of which official interest payment	-161	-167	-175	-203	-201
Current transfers	**2826**	**3440**	**3743**	**4290**	**5347**
Official	69	82	61	37	34
Private	2757	3358	3682	4253	5313
of which workers' remittances	2501	3062	3372	3848	4802
Current account balance	**157**	**176**	**176**	**-557**	**572**
Capital account	**410**	**428**	**196**	**163**	**242**
Capital transfers	410	428	196	163	242
Financial account	**391**	**413**	**-31**	**784**	**-24**
(i) Direct investment 1/	391	376	276	800	675
(ii) Portfolio investment	-6	2	6	0	32
(iii) Other investment	6	35	-313	-16	-731
MLT loans	733	918	544	940	921
MLT amortization payments	-435	-452	-397	-449	-489
Other long-term loans (net)	-42	-20	-41	-46	-58
Other short-term loans (net)	63	142	13	241	-256
Other assets	-87	-125	-125	-182	-245
Trade credit (net)	-253	-499	-321	-320	-805
Commercial Bank	27	71	14	-200	201
Assets	-90	217	86	-91	56
Liabilities	117	-146	-72	-109	145
Errors and omission	**-550**	**-202**	**-279**	**-323**	**-425**
Overall balance	**408**	**815**	**171**	**67**	**365**
Reserve assets	**-408**	**-815**	**-171**	**-67**	**-365**
Bangladesh Bank	-408	-815	-171	-67	-365
Assets	-276	-887	-235	-225	-554
Liabilities	-132	72	64	158	189

Source: Statistics Department, Bangladesh Bank.

1/ Statistics of direct investment are based on enterprise survey.
P Provisional R Revised.