CHAPTER 6

EXTERNAL SECTOR

The prime objective of the trade policy of Bangladesh is to ensure rapid economic development through maintaining a favourable balance between exports and imports. Bangladesh has been pursuing a liberal trade policy since its transition to free market economy. The Government has issued an Import Policy Order (2006-2009) in line with the agreements signed with WTO and also in conformity with the policies and objectives of market economy. Import policy has been framed pursuing a moderate protective policy only in consideration of certain sensitive areas like public health, security, environment, social and religious bindings.

Import Policy

The import policy currently being pursued is fairly easy and simple. The important objectives of present import policy are as follows:

- To make the import policy compatible with the changes in the world market that have occurred as a result of the introduction of market economy and signing of the GATT Agreement;
- To simplify the procedures for import of capital machinery and industrial raw materials with a view to promoting export and enhancing competitiveness and skills;
- To provide facilities for introducing technological innovation to cope with widely expanding modern technology;
- To make a strong base of indigenous exports by facilitating backward linkages for export-oriented local industries;
- To ensure supply of qualitative and hygienic commodities to the consumers at right prices;
- To allow import of essential commodities on emergency basis for ensuring the supply of essential commodities in national interest.

Consistent with the principles of the open market economy and the trade liberalisation process, import restrictions have been imposed on a few commodities on religious, environmental, health and security grounds. Initially, 60 items were included in the import restriction list under the import policy order (2003-2006). Later on, restriction list has been reduced gradually and currently, there are only 24 items in the list. According to new Import Policy Order (2006-2009), the following goods are not be importable:

- Maps, charts and geographical globes which do not indicate the territory of Bangladesh in accordance with the maps published by the Department of Survey, Government of the People's Republic of Bangladesh;
- Horror comics, obscene and subversive literature including such pamphlets, posters, newspapers, periodicals, photographs, films, gramophone records and audio and video cassette tapes etc;
- Books, newspapers, periodicals, documents and other papers, posters photographs, films, gramophone records, audio and video cassettes, tapes etc. containing matters likely to outrage the religious feelings and beliefs of any class of the citizens of Bangladesh.
- Unless otherwise specified in this order, old, second-hand and reconditioned goods, factory rejects and goods of job-lot/stock-lot or secondary/sub-standard quality;
- Reconditioned office equipment, photocopier, type-writer machine, telex, phone, fax;
- Unless or otherwise specified in this order, all kinds of waste;
- Goods (including their containers) bearing any words or inscriptions of a religious connotation the use or disposal of which may injure the religious feelings and beliefs of any class of the citizens of Bangladesh;
- Goods (including their containers) bearing any obscene picture, writing inscription or visible representation.
- Import of live Swine and any item prepared from swine is banned; and
- Import of all kinds of Eggs is banned.

Substantial changes have been made in the new Import Policy Order, 2006-09 to promote foreign investment, ensure availability of quality goods to consumers at reasonable prices, develop human resources and create employment opportunities. Included among the significant changes are:

- Provision has been made to import commodities by recognised industries for the advantage of rapid import of capital machineries, parts and raw materials worth of US$ 35 thousand without LC instead of US$ 25 thousand;
- Provisions have been made to increase fees relating to import registration certificate (commercial and industry), export registration certificate and initial registration fee of indenting registration certificates and annual registration renewal fees;
- Recognised steel and re-rolling mills will import iron and steel scrap (H.S. heading no. 72.04 and all H.S. Code classifiable under it). The item will not be importable on commercial basis irrespective of the sources of finance;
- Facilities have been provided to import capital machinery and basic spares as capital of a foreign partner of new industry established or to be established under joint venture;

- Recognised readymade garment industries operating under the bonded warehouse system shall be permitted to import raw and packing materials (including banned & restricted items), the approved quantity as per Utilization Declaration (U.D) issued by the Bangladesh Garments Manufacturers and Exporters Association (BGMEA) in accordance with the policy formulated by the National Board of Revenue on the basis of confirmed and irrevocable letter of credit for export of readymade garments against back to back letter of credit;
- Import of Sodium Cyclamate is banned;
- In the case of import of canned fish, the date of manufacture, the date of expiry and net weight shall be clearly embossed or computer printed in permanent ink in Bangla or in English on its container. Printed label shall not be pasted on the container separately;
- In the case of import of fish, a certificate issued by the Government/Government recognized concerned authority of the exporting country to the effect that the fish is free from formalin, to be submitted to the customs authority. It is to be examined by the government recognized agency at the port of entry that no formalin is used in the imported fish and it will be released subject to certification that there is no formalin in it;
- In the case of import of beef, mutton or chicken or other consumable meat of animal, the date of manufacture and date of expiry of the exporting country is to be embossed /printed on the container. Preservation process is to be mentioned on it. Separately printed label shall not be pasted on the container. A certificate from the competent authority of the exporting country to the effect that the imported goods are free from Bovine Spongiform Encephalopathy (BSE) and Avian Influenza is required. Besides, in the case of import of meat from the countries under European Union, a certificate issued by the competent authority of the exporting country to the effect that the meat is free from 'mad cow disease', to be submitted to the customs authority;
- In the case of import of live chicks, hens and birds, a certificate issued by the government/government recognized concerned authority of the exporting country to the effect that these are free from Avian Influenza, to be submitted to the customs authority;
- In the case of import of wood packing materials, wood and wooden materials are to be disinfected heat treatment by the concerned Government Agency of the exporting country by following International Plant Protection Convention (IPPC) rules, a phytosanitary certificate of it is to be submitted to the customs authority by the importer along with other export documents;
- A report of Bangladesh standard of 35 commodities determined by BSTI to prevent the import of sub-standard quality instead of 12 commodities pursued in the last Import Policy Order will be submitted to the customs authority to import these commodities;
- Provisions have been made not to allow import of computer older than Pentium 3 model;
- Old Computer parts along with Old UPS will not be importable;

- The word CPT is mentioned along with C&F, CFR and FOB as it is used internationally;
- Expatriate Bangladeshis can import capital machinery and raw materials in any quantity while foreign investors, as part of their equity share, can import the same on c.i.f. basis;
- Withdrawal of bindings of country of origin for importing industrial raw materials, and import of raw materials has been made easier for 100 percent export-oriented industries for expansion of export industries;
- Only 24 H.S heading are included in the present controlled list of commodities instead of 60 H.S heading as a result of including some more commodities importable under Import Policy Order 2006-09.

Under these circumstances, Bangladesh government has taken steps to make the import policy pragmatic to face the global trade competition due to massive change in the global trade and free movement of commodities which is the result of globalisation and evolving free market economy. According to the trends of global market economy and obligations of WTO, Bangladesh has been pursuing the system of an easier trade policy.

Simplification of Tariff Regime

The number of effective tariff slabs in FY1991-92 was 18 and the highest tariff rate was 350 percent. The number of slabs was reduced to 7 in FY1998-99. Besides, the highest tariff rate was also slashed to 40 percent. Both 'operative' and 'statutory' tariff rates were effective up to FY1999-00. To simplify the tariff structure, operative and statutory tariff rates have been made equal since FY 2000-01. Currently, the number of tariff slabs is four including zero. The maximum import duty has been reduced gradually and stands at 25 percent. Table 6.1 below depicts the tariff structure from FY2000-01 to FY2007-08:

Table 6.1: Tariff Structure from 2000-01 to 2007-08

FY	Operative Tariff Rate (%)	Maximum Tariff	Statutory Tariff Rate (%)	Operative Tariff Slab
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
2006-07	0, 5, 12, 25	25	0, 5, 12, 25	4
2007-08*	0, 10, 15, 25	25	0, 10, 15, 25	4

Source: National Board of Revenue (NBR), * Up to November 2007.

The aforementioned 'operative' tariff slabs may be treated as "Most Favoured Nation" i.e. M.F.N tariff rate. Beyond this, there are many tariff rates which are generally given concessions under the trade agreements with different countries. Under this, tariff line can be accounted including all

tariff rates and only on the basis of M.F.N. tariff rates. Table 6.2 shows the accounted H.S. Code, total tariff line and M.F.N. tariff line from FY2000-01 to FY2007-08.

Table 6.2: Accounted H.S.Code, Total Tariff Line and M.F.N. Tariff Line

FY	H.S. Code	Total Tariff Line	M.F.N. Tariff Line
2000-01	6585	9547	6743
2001-02	6651	9640	6805
2002-03	6789	10290	6934
2003-04	6794	10221	6863
2004-05	6626	10141	6705
2005-06	6638	10379	6709
2006-07	6653	15348	6697
2007-08	6425	----------	6425

Source: National Board of Revenue (NBR).

It is observed from the above table that the number of total tariff lines is more than the number of M.F.N tariff lines. According to WTO definition, each country will get the same M.F.N. facilities. So, the facilities only provided to the country with whom an agreement has been signed and included in the additional number of M.F.N tariff and added to the total tariff line.

Tariff Reduction

The unweighted average rate of import protection was 17.20 in FY2000-01 that has been brought down to 13.44 percent in FY2007-08. Different types of duties such as supplementary duty, VAT and license fee are imposed on the imported commodities. Total rate of duty is calculated including these rates of duties at the time of import of commodities. Besides these, infrastructure development surcharge and regulatory duties are imposed. License fee from FY2002-03, regulatory duty from FY2003-04 and infrastructure development surcharge from FY2007-08 have been withdrawn. The steps of supplementary duty in FY1991-92 were 5 which increased to 33 in FY2001-02. The steps of supplementary duties in FY2007-08 were 5 such as 20%, 60%, 100%, 250% and 350%. The unweighted average in FY2000-01 was 17.20 percent which decreased to 12.21 percent in FY2006-07. The unweighted and weighted averages from FY2000-01 to FY2007-08 are given in Table 6.3 and Table 6.4.

Table 6.3: Impact of Tariff Reforms on Average Rate of Customs Duty

Fiscal Year	Unweighted Average (%)	Weighted Average (%)	M.F.N Unweighted Average (%)
2000-01	17.20	12.29	21.39
2001-02	17.13	9.73	21.01
2002-03	16.50	12.42	19.88
2003-04	15.69	9.84	18.85
2004-05	13.54	9.59	16.53
2005-06	13.41	8.44	16.39
2006-07	12.21	6.95	14.87
2007-08*	13.44	7.59	17.26

Source: National Board of Revenue. *Up to November 2007.

Table 6.4: Impact of Tariff Reforms on Average Rate of Custom Duty by Type of Commodities

Fiscal year / Classification	2002-03		2003-04		2004-05		2005-06		2006-07		2007-08 (July-Nov.)	
	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	20.98	11.92	19.90	11.28	17.61	8.99	17.83	6.93	16.58	4.36	17.72	3.59
Intermediate goods	14.89	15.86	14.44	15.12	12.46	12.72	12.24	9.33	10.55	8.55	12.23	8.85
Capital goods	8.03	7.97	7.85	6.42	7.28	5.22	7.45	5.16	6.21	4.48	7.72	7.33
Final consumer goods	22.94	11.72	21.27	10.68	18.22	15.08	18.13	13.44	17.20	12.80	17.78	13.95

Source: National Board of Revenue.

Trade Openness

Trade openness in FY1998-99 was 29.16 percent which increased to 42.22 percent in FY2006-07. Table 6.5 shows the trade openness figures from FY2000-01 to FY2006-07. The external trade of Bangladesh has recently increased in comparison with last few years due to liberalization of import policy and promoting the strategy of export expansion.

Table 6.5: Trade Openness of different Fiscal Years

FY	GDP at current price	Foreign Trade			Trade Openness
		Export	Import	Total	%
2000-01	253546	34895	50371	85266	33.63
2001-02	273201	34380	49049	83430	30.54
2002-03	300580	37915	55920	93835	31.22
2003-04	332973	44809	64257	109066	32.76
2004-05	370707	53136	80715	133851	36.11
2005-06	415728	62608	99130	161738	38.90
2006-07	467497	78918	118478	197396	42.22

Source: Bangladesh Bank and Ministry of Commerce.

Export Policy

The export quota system under Multi-Fiber Arrangement (MFA) on textile and clothing has been abolished since 1 January 2005. As a result, Bangladesh is facing steep competition in RMG export. The situation is further compounded by liberalisation of imports and reduction of tariff slabs at a lower level. In order to retain the current growth of export, productivity and quality control capacity of local export-oriented industries have to be enhanced. Increased attention needs to be given on labour compliance issues, and efforts have be redoubled for diversifying our export basket as well as establishing new markets for export. In order to achieving these objectives, what is important is to turn comparative advantage into competitive advantage by using our human resources.

The objectives and implementation strategies of Export Policy (2006-2009) have been determined after weighing all these elements. In order to promote exports, all incentives including financial and general ones have been provided to the stakeholders to enhance their competitive edge and to successfully meet the challenges of the post-MFA world. Besides, steps are being taken for making the existing tariff structure time befitting and realistic.

Projects for Export Development

The Ministry of Commerce has been implementing 10 technical assistance projects under RADP for FY2007-08. Total RADP allocation of Tk.75.10 crore was provided in FY 2007-08 for implementation of those projects. Of which GoB contribution was Tk.1.35 crore while Tk.73.75 crore was provided under project aid. The entire amount was utilized by June 2008.

The on-going projects promote the sectors like handicrafts, leather, silk and RMG through providing technical assistance under the project 'Business Development Services for Private Sector Promotion. Steps have been taken under a project initiative titled “Business Services Markets Programme in Bangladesh” to provide quality business support services to SMEs and encouraging innovation to remain competitive and efficient in agro-products, plastic, furniture and IT sectors. Under another project titled “Computerisation of the office of the Registrar of Joint Stock Companies and Firms”, the Registrar of Joint Stock Companies and Firms will be computerised to create online facilities for registering firms and companies.

Although there is no adverse impact of phasing-out of the quota system in the RMG export of Bangladesh is noticeable yet the prices of RMG products have fallen in the global market place. On the other hand, compliance related issues have been brought to forefront by the civil societies, buyers, consumers, workers unions and by different government agencies domestically and internationally. As a result, RMG exporters are facing severe challenges to survive and excel in much more competitive environment. In spite of these challenges, our RMG export is expected to thrive mainly to the resiliency of our Entrepreneurs and timely measures undertaken by the Government as well as by our exporters.

Activities Related to RMG Sector

Readymade Garment (RMG) industry still remains the main source of export earning for Bangladesh. About 76 percent of total export earnings of Bangladesh come from this sector. Export earnings from the RMG sector in the last few years are shown in table 6.6:

Table 6.6: Export Earning from RMG from 2002-03 to 2007-08

FY	Export (Million US$)	Growth (%)	Comments
2002-03	4912.10	7.16	Most of the products are being exported to EU and USA.
2003-04	5686.06	15.76	Do
2004-05	6417.67	12.87	Do
2005-06	7900.80	23.11	Do
2006-07	9211.23	16.58	Do
2007-08	10699.80	16.16	Do

Source: Export Promotion Bureau (EPB).

In consideration of the significance of the sector in the national income and employment, the government has taken various steps for development of the RMG sector. Some of the important steps are as follows:

- Allocation of fund for skill development of the RMG workers: After Quota phase-out in January 1, 2005 it was apprehended that a huge numbers of workers would lose their job and Bangladesh would face an economic upheaval. In an attempt to face possible retrenchment of the RMG workers in the post quota regime, a special fund of Tk.20 crore was created in the budget of FY2004-05 and FY2005-06 for rehabilitating the retrenched workers. However, the fund remained unutilized as retrenchment of workers by the industry was not required in the backdrop of increased orders received by the industry. Finance Division was requested to reallocate the same amount in the budget of FY2007-08 for skill development of the workers of the RMG sector. Finance Division obliged. For utilization of this fund, a Work Plan on skill development of garment workers has been approved by Finance Division and TK.20 crore has been released under the action plan. The fund has been placed on fixed deposit and training programme will be carried out with the fund to be available from the interest generated from fixed deposit. Apprentice, Supervisors, Managers, Commercial Officers, and Executives will be given training according to the need of the industry on Merchandizing, Marketing, Customs Procedures, Quality Control & Management, Production Planning & Management and Compliance Norms etc. by prominent and experienced local institutions.
- Simplification of clearance procedures: Various measures have been taken for further simplification of import and export clearance procedures of RMG related products at the Customs points and Ports of the country. For example, in Chittagong Port, construction of New Mooring Container Terminal is nearing completion and Container handling equipments including adequate number of Gantry Cranes have been procured to facilitate quick unloading of containers and reduce the storage constraints there.
- Exemption of VAT on Utility bills : 80 percent of payable VAT on gas bill usage charges , 60 percent of payable VAT on water and electricity charges and 100 percent of payable VAT on the charges of port usage, freight forward, clearing and forwarding agent, insurance companies and shipping agents have been exempted for the export-oriented RMG industry.

- Reduction of insurance premium: Insurance premiums for the export-oriented RMG industry have been reduced from 10 percent to 30 percent to make the sector more competitive.
- Loan Rescheduling Facility: Loan rescheduling facility without any down payment for the bad debt arising out of stock-lot has been allowed. But in such case, sale proceeds of stock-lot goods will have to be deposited to the concerned loan accounts.
- Cash incentives: The provision of allowing 5 percent cash incentive against exports made from Bangladeshi fabrics is still in existence.
- Addressing compliance issues: For improving working environment, ensuring safety and legitimate rights of workers as well as to see that the Bangladeshi RMG suppliers become increasingly socially compliant, a high powered `Social Compliance Forum has been formed for RMG' sector. Eight meetings of the Forum were held so far and decisions are being implemented by the two taskforces constituted for the purpose. Taskforces - one on Occupational Safety in RMG and the other on Labour Welfare in RMG are looking into these issues. In addition, a Compliance Monitoring Cell (CMC) under the Export Promotion Bureau has been established to provide secretarial support services to the Forum.
- A tripartite Memorandum of Understanding (MOU) has been signed by the owners, workers and the government on 12 June, 2006 in order to ensure rights of the workers in the garment sector and its 10 points MOU are under implementation. 15 teams formed by the Ministry of Labor and Employment and 13 teams formed by BGMEA are working to oversee the implementation process.
- Export Monitoring Committee: `An Export Monitoring Committee' has been formed with Secretary, Ministry of Commerce as head with representatives from Ministry of Shipping, Ministry of Forest and Environment, Finance Division, National Board of Revenue, Export Promotion Bureau, etc. in 2006 to resolve the existing problems being faced by the RMG sector. This committee has undertaken various measures to remove the existing obstacles of the sector especially on extension of the bond tenure, rehabilitation of the sick industries, rationalisation of demands by the Customs Authorities, solution of liquidity crisis of garment owners. This committee is still playing a special role to solve the existing problems of the RMG sector on urgent basis.
- Duty free access of RMG to US market: An attempt has been made to pass a bill in the US Congress titled Tariff Relief Assistance for Developing Economies (TRADE) Act of 2007 for duty free access to US market. Lobbying under the initiative of BGMEA is going on to pass the bill. Later on, a new bill titled “New Partnership for Development Act 2007 (NPDA)” has been introduced in the US Congress on 18 October, 2007. Diplomatic effort has been strengthened in order to pass the NPDA bill. A taskforce under the leadership of Secretary, Ministry of Commerce and a technical committee are working to review the status of the bill and to monitor development.

Besides the aforementioned initiatives, some other steps have been undertaken for the development of the RMG, as for example:

- Continuation of the facilities given by the Government to reduce the manufacturing cost in the RMG sector ;
- Continuation of the facilities (such as reducing interest rates on export credits and charges on Chittagong Port usages, etc.) for reducing the cost of doing business for the RMG sector ;
- Permission of establishment of RMG factory by 100% foreign investment in the Export Processing Zone (EPZ) area ;
- Provision of `one stop service' by the Board of Investment (BOI) to attract Foreign Direct Investment (FDI) ;
- Continuation of the government efforts for addressing compliance issues in the RMG sector ;
- Export enhancement through participation in 23 foreign trade fairs (single & jointly) in FY2007-08 organised by the Export Promotion Bureau (EPB);
- Resumption importation of yarn through the land ports;
- Continuation of efforts for addressing the existing problems in the RMG sector as early as possible;
- Persistent endeavor for achieving the export target fixed for the commercial wings of Bangladesh missions abroad;
- Continuation of efforts for getting preferential market access in the countries where duty free market access of Bangladeshi products is yet to b***e*** received;
- Necessary steps to reduce the overhead cost in case of production and export of RMG products;
- Enhancement of facilities for establishment of backward and forward linkage industries by the local and foreign investment, etc.

WTO and Bangladesh

After the successful trade negotiations of Uruguay Round, World Trade Organisation (WTO) was established on 1 January, 1995. Main objectives of WTO are to remove tariff and non-tariff barriers in international trade, to uplift the standard of living, to ensure of full employment, to expand the trade of commodities and services and to ensure the legitimate claim and interests of LDCs in an extremely competitive global trading environment. Currently, there are 153 members of WTO of which LDCs are 32. Bangladesh is a founder member of WTO.

According to WTO agreement, conference at commerce minister's level is being held at least once at every two year. The main discussion points of last ministerial conference held in Hong Kong on 13-18 December 2005 were agriculture, non-agricultural market access (NAMA), service sector, WTO rules, trade facilitation, aid for trade and specific development issues for LDCs. The main demand of the LDCs received attention of the member countries i.e. duty free

and quota free access for LDCs exports to the developed and developing countries market. Increasing market share was important for the LDCs including Bangladesh. Bangladesh's achievements in the 6th WTO Ministerial Conference held in Hong Kong were:

- Binding commitment has been made fixing the time limit to provide duty free and quota free facilities to the LDCs ;
- Commitment has been made by the developed and developing countries which are declared capable of providing facilities to the others for duty free and quota free market access for at least 97 percent commodities of LDCs;
- All LDCs along with Bangladesh have been waived from the commitment of duty reduction in this round; The duration of transition period for the LDCs has been extended up to 1st July 2013 in complying trade marks, copy rights, patents and Intellectual Property Rights (IPR) of other matters. It may be mentioned that the period for these obligations in case of pharmaceutical products has been extended up to 1st January 2016 at 4th ministerial conference held in Doha, the capital of Qatar in 2001. This is particularly facilitating our export of pharmaceutical products. It is noted that currently Bangladesh is exporting medicine to more than 50 countries including USA, UK and Germany;
- Necessary technical and financial assistance will be provided to the LDCs under Integrated Framework, Technical Co-operation and Aid for Trade.

Regional Trade Agreement

1. Asia Pacific Trade Agreement (APTA)

Seven countries of Asia Pacific region (Bangladesh, India, Sri Lanka, Philipine, the Republic of Korea, Lao People's Democratic Republic and Thailand) *sat* together in Bangkok on July 1975 and came to a consensus for extending mutual tariff facilities. As a result, 1st trade agreement was signed among these 'ESCAP' members which was known as 'the Bangkok Agreement'. This agreement was ratified by five member countries excepting Thailand and Philipine. The agreement was revised after China joined in 2001 and renamed as the Asia Pacific Trade Agreement (APTA). The participating countries of this agreement have concluded four 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 Commerce Ministers at the 1st Ministerial Meeting of APTA held in November 2005 signed and ratified the agreement. The tariff concession was effective from 1 September 2006 under this agreement. It may be mentioned here that Bangladesh a member of the LDC group is getting special benefits under the agreement. The 2nd Ministerial Meeting was held on 26 October 2007 at Guoa of India. The 4th round negotiations started while this meeting was going on. This negotiation was to complete by October 2009. The matters included in the agenda of 4th round negotiations are to make more expansion and deeper duty cut, to reduce non-duty tariffs, to enhance trade facilities and to increase investment in service sector. Bangladesh is getting special industrial benefits for 587 commodities as the only LDC country which signed the agreement after the 3rd round of negotiations.

2. South Asian Free Trade Area (SAFTA)

At the 12th SAARC Summit held in Islamabad on 4-6 January 2004, member states signed an agreement on South Asian Free Trade Area (SAFTA) to promote as well as enhance mutual trade and economic co-operation. The agreement came into force on January 1, 2006 with the ratification by all member countries. The agreement covers only trade in goods. In the agreement, provisions have been made for the sensitive list of the products outside tariff reduction, trade liberalisation programme, dispute settlement procedures, rules of origin, institutional arrangements, safeguard measures, areas for technical assistance for LDC member states and mechanism for compensation of revenue loss of LDC member countries for tariff reduction. Tariff reduction under SAFTA has commenced from 1 July 2006. Under the agreement, developing member states (India, Pakistan and Sri Lanka) will reduce tariffs to 0-5 percent for commodities excluding the items of respective sensitive lists for LDC member states by 2009. On the other hand, Bangladesh and other LDC member states will reduce tariffs to 0-5 percent of commodities excluding the items of respective sensitive lists by 2016.

All the SAARC member states have issued necessary notifications to come into force the tariff concessions as per the commitment made by SAFTA Agreement. As of March 2007, Bangladesh has given 5 percent tariff preferences to the all SAARC countries reduction facilities, which will be increased to 10 percent on 1 January 2008. On the other hand, Pakistan and Sri Lanka will provide tariff preference at 70 percent to LDCs member states. India is providing tariff free access facilities. India and Pakistan will reduce tariffs to 0-5 percent of commodities excluding the items of respective sensitive lists by 1st January 2009. Furthermore, a Non-tariff Measures (NTM) sub-group has been formed to remove the para-tariff and non-tariff barriers among the SAARC countries.

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

The BIMSTEC, a regional economic cooperation block, was formed on 6 June 1997 in Bangkok, which included Bangladesh, India, Sri Lanka, and Thailand. Later on, Myanmar was included into this block and the name of this block changed to BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Cooperation) at a Special Ministerial Meeting held in Bangkok on 22 December 1997. This block included Nepal and Bhutan as ***its*** members in 2004 and the full name of this block has been changed to 'the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation' keeping unchanged BIMSTEC as the concise name during the 1st Summit in Bangkok on 31 July 2004.

The BIMSTEC cooperation agreement started with six sectors primarily. The sectors are: 1. Trade and Investment, 2. Technology, 3.Transport and Communication, 4. Energy, 5. Tourism and 6. Fisheries.

Later on, Framework Agreement was signed on 8 February 2004 in order to form a BIMSTEC Free Trade Area (FTA). Trade in goods, trade in services and investment have been incorporated

in the Framework Agreement. A Trade Negotiating Committee (TNC) has been constituted to conduct negotiations. The Committee has already held fifteen meetings.

Under the BIMSTEC, two approaches; namely First Track and Normal Track will be adopted to implement the tariff reduction process. Under the First Track products, non-LDCs (India, Sri Lanka and Thailand) will complete tariff reduction process for LDCs (Bangladesh, Myanmar, Bhutan and Nepal) on the selected items in one year and LDCs will do the same for non-LDCs in three years. On the other hand, LDCs will complete tariff reduction process on the First Track products in five years for non-LDCs and in three years for LDCs. For Normal Track products, non-LDCs will complete tariff reduction process for LDCs in three years and for non-LDCs in five years. On the other hand, LDCs will complete tariff reduction process for non-LDCs on Normal Track products in ten years and for LDCs in six years. The BIMSTEC FTA on trade in goods was scheduled to come into force from 1 July 2006. However, as the negotiations are yet to be completed, the agreement has not taken effect.

4. Trade Preferential System among OIC Countries (TPS-OIC)

In order to expand preferential trade within OIC countries, a Framework Agreement was signed in 1991. 26 countries have already signed and 18 countries has ratified this agreement. Bangladesh has signed this agreement in 1997 and ratified it in 2004. In the mean time, Trade Negotiating Committee (TNC) formed under the TPS-OIC has concluded the first round of trade negotiations. In this round of negotiations, member countries have finalised the 'Protocol on the Preferential Tariff Scheme for the TPS-OIC (PRETAS). Nine countries including Bangladesh have signed the Protocol.

For implementing the tariff reduction under the Protocol, each member country has to bring 7 percent products of total tariff lines under the tariff reduction programme. However, if base tariff rates are between 0 percent and 10 percent of 90 percent products or above of any member state, this country will bring only 1 percent products of total tariff lines under this tariff reduction commitment. As per tariff reduction programme, (a) tariffs above 25 percent shall be reduced to 25 percent; (b) tariffs above 15 percent and up to 25 percent shall be reduced to 15 percent; and (c) tariffs above 10 percent and up to 15 percent shall be reduced to 10 percent. This tariff reduction process has to be completed in six years by LDCs and in four years by other countries beginning from the date of enforcement of the PRETAS.

5. Preferential Trade Agreement among Developing Eight Countries (D-8)

D-8 Group was formed on 15 June 1997 by Istanbul Conference of Turkey in order to increase economic and trade cooperation among eight developing Muslim Countries of OIC namely Bangladesh, Pakistan, Malaysia, Egypt, Iran, Indonesia, Nigeria and Turkey. The D-8 Trade Agreement was signed on last 10-13 May 2006 in Indonesia. Each country within the agreement will bring 8 percent commodities of the total tariff line under the tariff reduction process where

the tariff rate will be more than 10 percent of the total tariff line in order to make effective the tariff reduction process in D-8. In this tariff reduction process (a) tariffs above 25 percent shall be reduced to 25 percent; (b) tariffs above 15 percent and up to 25 percent shall be reduced to 15 percent; and (c) tariffs above 10 percent and up to 15 percent shall be reduced to 10 percent. This tariff reduction process has to be completed by the developing countries through 8 annual installments and by LDCs through 4 annual installments. Under this agreement, negotiation for finalisation of rules of origin is going on for determining the criteria of duty facility process. This duty reduction process will be effective once the negotiation is done.

Trade Scenario

Balance of Payments

Trade balance recorded a deficit of US$ 5,541 million in FY2007-08 compared to the deficit of US$ 3,458 million in FY2006-07. Despite large service deficit, the current account balance recorded a surplus of US$ 672 million during FY2007-08 against the deficit of US$ 936 million ago. This was happened due to larger current transfers of US$ 8,743 million during the reporting period. For the decrease in the financial account of US$ 431 million, the overall balance recorded a surplus of US$ 604 million during FY2007-08 against the surplus of US$ 1,493 million in FY2006-07. This was mainly due to an increase in current account balance of US$ 672 million as well as capital account of US$ 576 million. The balance of payments from FY2002-03 to FY2007-08 and trade balance and current account balance are shown in Table 6.7 and Graph 6.1 respectively.

Table-6.7: Balance of Payments

(In million US$)

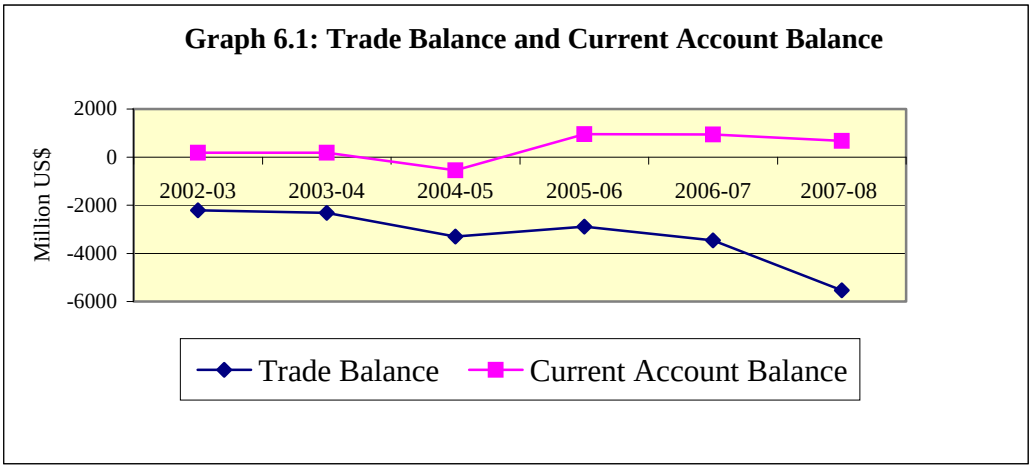
Particulars	2003-04R	2004-05R	2005-06	2006-07R	2007-08P
Trade balance	**-2319**	**-3297**	**-2889**	**-3458**	**-5541**
Exports f.o.b. (including EPZ)[1/]	7521	8573	10412	12053	13945
Import, c.i.f. (including EPZ)	-9840	-11870	-13301	-15511	-19486
Services	**-874**	**-870**	**-1023**	**-1255**	**-1525**
Receipts	924	1177	1340	1484	1879
Payments	-1798	-2047	-2363	-2739	-3404
Income	**-374**	**-680**	**-702**	**-905**	**-1005**
Receipts	63	116	136	244	221
Payments	-437	-796	-838	-1149	-1226
of which official interest payment	-175	-203	-204	-212	-234
Current transfers	**3743**	**4290**	**5438**	**6554**	**8743**
Official	61	37	125	97	127
Private	3682	4253	5313	6457	8616
of which workers' remittances	3372	3848	4802	5979	7915
Current account balance	**176**	**-557**	**824**	**936**	**672**
Capital account	**196**	**163**	**375**	**490**	**576**
Capital transfers	196	163	375	490	576
Financial account	**-31**	**784**	**-141**	**762**	**-431**
(i) Direct investment (net)*	276	800	743	793	650
(ii) Portfolio investment	6	0	32	106	48
(iii) Other investment	-313	-16	-916	-137	-1129
MLT loans [2/]	544	940	1023	1037	1338
MLT amortization payments	-397	-449	-488	-525	-580
Other long-term loans (net)	-41	-46	-37	-24	-3
Other short-term loans (net)	13	241	-256	493	-160
Other assets	-125	-182	-495	-535	-581
Trade credit (net)	-321	-320	-898	-481	-1010
Commercial Bank	14	-200	235	-102	-133
Assets	86	-91	31	-86	-146
Liabilities	-72	-109	204	-16	13
Errors and omission	**-170**	**-323**	**-720**	**-695**	**-213**
Overall balance	**171**	**67**	**338**	**1493**	**604**
Reserve assets	**-171**	**-67**	**-338**	**-1493**	**-604**
Bangladesh Bank	-171	-67	-338	-1493	-604
Assets	-235	-225	-554	-1593	-1072
Liabilities	64	158	216	100	468

Source: Statistics Department, Bangladesh Bank.

1/ Excludes local sales reported by EPB. Some adjustments necessitated by BOP considerations have been made.

2/ Excluding supplier's credit, reclassified as trade credit below.

P Provisional, R Revised; * Estimated for the current year



Export Position and Composition of Export Commodities

The export earnings of Bangladesh stood at US$14110.80 million in FY2007-08, which was 15.87 percent higher than the export earnings (US$12,177.86 million) of FY2006-07. Analysis of composition of exports of FY 2007-08 by major categories reveals that the export earnings on a point-to-point basis over the last fiscal year increased mainly for petroleum by-products (120.63%), tea (114.55%), agricultural products (36.79%), ceramic products (27.98%), footwear (24.76%), knitwear (21.50%), woven garments (10.94%), leather (6.89%), and frozen food (3.64%). On the other hand, export earnings decreased in respect of handicrafts (32.72%), engineering products (7.27%), and jute goods (0.76%). Table 6.8 shows the export growth and composition by commodities.

Table 6.8: Export Growth and Composition

Commodity classification	Total export (Million US$)			% of total export			Growth rate (%)		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
1. Primary commodities, of which	**772.59**	**832.27**	**987.56**	**7.34**	**6.83**	**7.00**	**19.17**	**7.72**	**18.66**
a) Frozen food	459.11	515.32	534.07	4.36	4.23	3.78	9.12	12.24	3.64
b) Tea	11.89	6.94	14.89	0.11	0.06	0.11	(24.94)	(41.63)	114.55
c) Agricultural products	94.47	87.82	120.13	0.90	0.72	0.85	14.55	(7.04)	36.79
d) Raw jute	148.27	147.15	165.06	1.41	1.21	1.17	54.14	(0.76)	12.17
e) Others	58.85	75.04	153.41	0.56	0.62	1.09	78.06	27.51	104.44
2. Industrial goods, of which	**9753.57**	**11345.59**	**13123.24**	**92.66**	**93.17**	**93.00**	**21.82**	**16.32**	**15.67**
a) Woven garments	4083.82	4657.63	5167.28	38.80	38.25	36.62	13.50	14.05	10.94
b) Knitwear	3816.98	4553.60	5532.52	36.26	37.39	39.21	35.38	19.30	21.50
c) Leather	257.27	266.08	284.41	2.44	2.18	2.02	16.45	3.42	6.89
d) Jute goods	361.03	320.78	318.34	3.43	2.63	2.26	17.42	(11.15)	(0.76)
e) Fertilizer & chemical products	208.34	215.24	215.78	1.98	1.77	1.53	5.66	3.31	0.25
f) Footwear	95.44	135.94	169.60	0.91	1.12	1.20	9.01	42.44	24.76
g) Ceramic products	27.55	29.95	38.33	0.26	0.25	0.27	(4.17)	8.71	27.98
h) Engineering products	199.17	236.91	219.68	1.89	1.95	1.56	134.26	18.95	(7.27)
i) Petroleum by products	88.43	83.90	185.11	0.84	0.69	1.31	152.08	(5.12)	120.63
j) Handicrafts	4.30	8.16	5.49	0.04	0.07	0.04	(16.02)	89.77	(32.72)
k) Others	611.24	837.40	986.70	5.81	6.88	6.99	(1.64)	37.00	17.83
Total export	**10526.16**	**12177.86**	**14110.80**	**100.00**	**100.00**	**100.00**	**21.63**	**15.69**	**15.87**

Source: Export Promotion Bureau, Ministry of Commerce.
* Figure in the parenthesis indicates negative number.

Countrywise Export

Analysis of country wise export shows that USA is the main destination of our export. It appears from Table 6.9 that in FY2007-08 USA secured the top position in respect of importing commodities from Bangladesh followed by Germany (15.41%), UK (9.74%), and France (6.75%). During this period, goods worth US$3,590.56 million were exported to USA, which was 25.45 percent of the total export of the country. The principal commodities exported to USA are woven garments, knitwear, frozen food, home textile etc. Of her total exports, Bangladesh during FY2007-08 exported 49.06 percent of woven garments, 38.36 percent of frozen shrimps and 16.74 percent of knitwear to USA. The countrywise export is shown in Table 6.9.

Table 6.9: Countrywise Export

(In million US$)

Fiscal Year	USA	Germany	UK	France	Belgium	Italy	Nether lands	Canada	Japan	Others	Total
2000-01	2500.42	789.88	598.18	365.99	253.91	295.73	327.96	125.66	107.58	1105.99	6471.30
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	2155.00	820.72	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1271.21	6548.40
2003-04	1966.58	1298.54	898.21	552.96	326.95	315.93	290.44	284.33	118.16	1550.89	7603.00
2004-05	2412.05	1353.80	943.17	626.17	325.43	369.18	291.94	335.25	122.43	1875.12	8654.52
2005-06	3039.77	1763.38	1053.74	678.94	359.33	427.89	327.20	406.97	138.45	2330.49	10526.16
2006-07	3441.02	1955.38	1173.95	731.76	435.82	515.66	459.01	457.21	147.47	2860.58	12177.86
2007-08	3590.56	2174.74	1374.03	953.13	488.39	579.23	653.88	532.90	172.56	3591.38	14110.80

Source: Export Promotion Bureau

Import Status and Composition of Imported Commodities

The total import payments (cif) amounted to US$20372.60 million in FY2007-08, which is 27.56 percent higher than the import payments of US$15971.35 in the previous year. Analysis of imports reveals that in FY2007-08, the following commodities contributed to the overall growth of import payments: rice (397.09%), fertiliser (99.17%), edible oil (74.06%), oil seeds (70.32%), crude petroleum (55.64%), cotton (36.61%), wheat (35.13%), clinker (34.46%), and yarn (22.7%). Table 6.10 shows the overall import situation of the country.

Table 6.10: Import Growth and Composition

(In million US dollar)

Commodity	2003-04	2004-05	2005-06	2006-07	2007-08
a) Principal primary commodities	**1339**	**1676**	**1854**	**1957.04**	**3407.32**
Rice	144	262	117	172.90	859.47
Wheat	287	312	301	408.86	552.49
Oilseeds	73	86	90	76.95	131.06
Crude petroleum	252	350	604	476.32	741.34
Cotton	583	666	742	822.01	1122.96
b) Principal industrial goods	**1910**	**2662**	**3001**	**3055.36**	**3968.70**
Edible oil	471	440	473	563.76	981.31
Petroleum products	770	1252	1400	1557.03	1548.69
Fertiliser	150	332	342	358.47	713.96
Clinker	139	170	210	175.09	235.43
Staple fiber	57	75	76	45.18	52.71
Yarn	323	393	510	355.83	436.60
c) Capital machinery	**786**	**1211**	**1539**	**1544.50**	**1415.06**
d) Other commodities (including EPZ)	**6868**	**7598**	**8351**	**9414.45**	**11581.52**
Grand Total	**10903**	**13147**	**14746**	**15971.35**	**20372.60**
% Change	**12.9**	**20.6**	**12.2**	**8.31**	**27.56**

Source: Bangladesh Bank.

Country wise Import Payments

In terms of the value of total imported commodities, India secured the first position in FY2006-07. During this period 16.61 percent of the total imported commodities came from India. China was the second largest source of import (15.24 percent of total import) while Singapore held third position (6.24 percent to total import). In FY2007-08, total import payment rose to US$ 20,373 million from US$ 15,971 in the previous year. Table 6.11 shows the country-wise import payments during FY 2000-01 to FY2007-08.

Table 6.11: Country-wise Import Payments

(In million US$)

Fiscal Year	China	India	Singapore	Japan	Hong Kong	Taiwan	South Korea	USA	Malaysia	Others	Total
2000-01	709	1184	824	846	478	412	411	248	148	4075	9335
2000-02	878	1019	871	655	441	312	346	261	145	3612	8540
2002-03	938	1358	1000	605	433	328	333	223	169	4271	9658
2003-04	1198	1602	911	552	433	377	420	226	255	4929	10903
2004-05	1642	2030	888	559	565	439	426	329	276	5993	13147
2005-06	2079	1868	849	651	626	473	489	345	332	7034	14746
2006-07	2537	2226	1033	682	746	473	504	377	334	7059	15971
2007-08	3104	3384	1272	827	821	477	620	488	451	8929	20373

Source: Bangladesh Bank.

Sector-wise Import

Sector-wise comparative statement of settlement and outstanding of import LCs during FY2006-07 and FY2007-08 are shown below:

Table 6.12: Sector-wise Comparative Statement of Import LCs

(In million US dollar)

Sector/ Commodities	2006-07	2007-08	Changes (%)
A. Consumer goods	1417.37	2619.91	84.84
B. Intermediate goods	1366.49	1766.71	29.29
C. Industrial raw materials	5948.24	7688.96	29.26
D. Capital machinery	1544.50	1415.06	(-) 8.38
E. Machinery for misc. industry	1158.11	1444.89	24.76
F. Petroleum & petroleum products	2033.35	2290.04	12.62
G. Others	2503.29	3147.03	25.72
Total	**15971.35**	**20372.60**	**27.56**

Source: Bangladesh Bank

Table 6.12 shows significant increase in the opening of import LCs for consumer goods, industrial raw materials, petroleum and petroleum products, machinery for miscellaneous industry and intermediate goods during FY2007-08 compared to the preceding year.

Exchange Rate

At present, exchange rate is determined by the demand and supply of the currency under the market-based floating exchange rate. Exchange rate faced upward pressure in the 1st half of FY2007-08 due to surge in international prices of the essential commodities including petroleum. Supply of US Dollars couldn't match the market demand due to higher growth of import payment against corresponding lower growth of export. So the exchanged rate of US Dollar against Taka increased exacerbating further inflationary pressure on the economy. Under this circumstance, Bangladesh Bank stabilized exchange rate of US Dollar in the interbank market by selling adequate foreign currency through depreciating local currency in an attempt to curb inflation. But Bangladesh's export rebounded in the 2nd half of the last fiscal year with corresponding surge in worker remittance. That eased out pressure on foreign currency demand by increasing supply. But Bangladesh Bank had to continue selling of Dollar in the interbank as the demand of foreign currency grew to finance larger imports payment to face the economic damage caused by cyclone Sidr in November 2007. . It may be mentioned here that Bangladesh Bank sold US$585.5 million dollars in the interbank market from 29 October 2007 to April 2008. Taka-Dollar weighted average exchange rate stood at Tk. 68.6171 in March 2008-end compare to Tk.69.0318 of June 2007 year-end, which indicates appreciation of Taka against Dollar. The average exchange rate of Taka per US Dollar during FY2001-02 to FY2007-08 is presented in Table 6.13.

Table 6.13: Average Exchange Rate (Taka per US$)

Fiscal Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Exchange Rate	57.4347	57.9000	58.9353	61.3939	67.0797	69.0318	68.5158

Source: Bangladesh Bank

Foreign Exchange Reserve

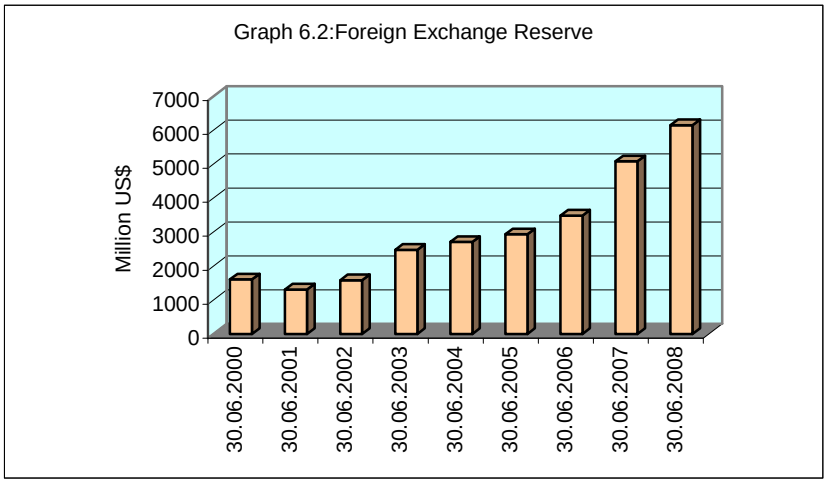
Increased export earnings and income from remittance contributed to corresponding rise in foreign exchange reserve. On June 30, 2007 foreign exchange reserve rose to US$ 5,077 million compared to US$ 3,484 million on the same date in the preceding year, reflecting a growth of 45.72 percent. As of June 30, 2008, the foreign exchange reserve shot up to US$ 6,149 million, which is 21.11 percent higher than year-end reserve of the previous year. Table 6.14 and Graph 6.2 show the foreign exchange reserve during 2000 to 2008.

Table 6.14: Foreign Exchange Reserves

(In million US$)

Date	Amount
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
30.06.2007	5077
30.06.2008	6149

Source: Bangladesh Bank



Despite the global financial crisis, stalemate in conclusion of the Doha Round negotiations, unprecedented price hike of crude oil as well as commodity prices and supply side constraint, Bangladesh's foreign trade remains at a satisfactory level. Like FY2006-07, the remarkable growth of import-export trade, current account surplus, upsurge in the flow of remittance kept the external sector stable in FY2007-08. Necessary steps have been taken to enhance our capability in foreign trade, diversification of export basket in order to keep the external sector stable and competitive.