CHAPTER 6

EXTERNAL SECTOR

The debacle in the financial sector of the developed and developing countries culminated into a global crisis. In a globalised world of today, no single economy is fully secured from the effect of current financial crisis. A high powered task force has been formed under the chairmanship of the Finance Minister to face the adverse effects of global economic crisis on Bangladesh economy. To ensure rapid economic development through a export-oriented development policy, a stimulus package proposal has been prepared. The Government has also issued an Import Policy Order (2006-2009) in line with the agreements signed with WTO and also in conformity with it's the policies and objectives.

Import Policy

The import policy currently being pursued is fairly easy and simple. By withdrawing different kinds of restrictions gradually, the import policy and the related procedures have been simplified further. 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 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 the 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 26 items in the list. According to new Import Policy Order (2006-2009), the following goods are not being importable:

- Maps, charts and - 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 pamphlets, posters, newspapers, periodicals, photographs, films, gramophone records and audio and video cassette tapes etc;
- Unless otherwise specified in this order, old, second-hand and reconditioned goods, factory wastes and goods of sub-standard quality;
- Reconditioned office equipment, photocopier, type-writer machine, telex, phone, fax;
- Goods (including their containers) bearing any words or inscriptions of a religious connotation which may hurt the religious feelings and beliefs of any class of the citizens of Bangladesh;
- Import of live swine and any pork item; and
- Import of all kinds of eggs.

Substantial changes have been made in the Import Policy Order, 2006-09. 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$ 35,000 without letter of credit (LC) instead of US$ 25,000;
- Provisions have been made to enhance preliminary registration and annual renewal fees relating to import registration certificate (commercial and industry), export registration certificate and - indenting registration certificates -;
- 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;
- Provision has been to allow recognised readymade garment industries operating under the bonded warehouse system to import raw and packing materials (including banned and restricted items), the quantity of which shall be determined as per Utilization Declaration (U.D) issued by the Bangladesh Garments Manufacturers and Exporters Association (BGMEA) rather than the customs authority 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 stating 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 stating 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;
- Provision has been made to submit a certificate from Bangladesh Standard and Testing Institution(BSTI) with regard to 35 commodities to prevent the import of sub-standard quality instead of 12 commodities pursued in the last Import Policy Order
- The word CPT is to 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;
- Following inclusion of some more commodities importable under Import Policy Order 2006-09, only 24 H.S headings are included in the present controlled list of commodities instead of 60 H.S headings.

The Government of Bangladesh has taken steps to make the import policy pragmatic to face competitions arising from the changes in the global trading system and free movement of commodities as a consequence of globalisation and evolving free market economy.

Simplification of Tariff Regime

The number of effective tariff slabs in FY 1991-92 was 18 and the highest tariff rate was 350 percent. There were the generally. Until FY 1999-00, custom tariff rate was divided into 3 categories. To simplify the tariff structure, general exemption, concessional and statutory tariff rates have been made equal in FY 2000-01. Since then, Bangladesh has been pursuing the Most Favored Nation (MFN) tariff rate. Table 6.1 below shows the tariff structure from FY 2000-01 to FY 2008-09.

Table 6.1: Tariff Structure from 2000-01 to 2008-09

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
2008-09	0,3,7,12,25	25	0,3,7,12,25	5

Source: National Board of Revenue (NBR).

Duty concessions and general exemptions from the applied MFN tariff rates are promulgated in accordance with section 20 of "Customs Act" on a case to case basis through gazette notification. There are three kinds of tariff concession under MFN rates: (1) agreements with different countries; (2) import of capital machinery for registered as well as export -oriented industries;(3) specific use or specific consumers such as dairy and poultry, pharmaceuticals, leather, textile industries etc. Table 6.2 shows the accounted H.S. Code, total tariff line and M.F.N. tariff line from FY 2000-01 to FY 2008-09.

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	6,585	9,547	6,743
2001-02	6,651	9,640	6,805
2002-03	6,789	10,290	6,934
2003-04	6,794	10,221	6,863
2004-05	6,626	10,141	6,705
2005-06	6,638	10,379	6,709
2006-07	6,653	15,348	6,697
2007-08	6,425	-------------	6,425
2008-09	6,439	------------	6,439

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 are 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.

Reduction of Tariff

The unweighted average rate of import protection was 57.22 in FY 1991-92 that has been brought down to 17.20 percent in FY2000-01. Different types of duties such as supplementary duty, VAT and license fees 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, regulatory duty and infrastructure development surcharge have been withdrawn since FY 2002-03, FY 2003-04 and FY2007-08. The slabs of supplementary duty in FY 1991-92 were 5 which increased to 33 in FY 2001-02. The slabs of supplementary duties in FY 2007-08 were reduced to 5 which were 20%, 60%, 100%, 250% and 350%. Besides, Specific Duty against different H.S. codes were 300/- 350/-,550/-, 1000/-, 1500/-, 2500/-, 3000/-, 3500/-, 4000/-, 5000/-,20000/- and 39000/-in FY 2007-08 which have been changed to 150/-, 350/-, 550/-, 1000/-, 1500/-, 2500/-, 3000/-, 3500/-, 4000/-, 7000/- in FY 2008-09. The unweighted average of the impact of Tariff Reforms on Average Rate of Customs Duty in FY2000-01 was 17.20 percent which decreased to 12.21 percent in FY 2006-07. Table 6.3 and Table 6.4 below depict the impact of tariff reforms:

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
2008-09	12.27	6.89	15.12

Source: National Board of Revenue.

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

Fiscal year / Classification	2004-05		2005-06		2006-07		2007-08		2008-09	
	W. AV	UW AV	W. AV	UW AV	UW AV	W. AV	W. AV	UW AV	W. AV	UW AV
Primary goods	8.99	17.83	6.93	17.83	16.58	4.36	3.11	12.72	4.72	10.09
Intermediate goods	12.72	12.46	9.33	12.24	10.55	8.55	10.40	12.23	7.2	11.01
Capital goods	5.22	7.45	5.16	7.45	6.21	4.48	4.72	7.72	5.2	5.85
Final consumer goods	15.08	18.22	13.44	18.13	17.20	12.80	20.31	17.78	9.57	18.43

Source: National Board of Revenue

Trade Openness

Trade openness in FY 2000-01 was 33.63 percent which increased to 41.02 percent in FY 2008-09. Table 6.5 shows the pattern of trade openness from FY 2000-01 to FY 2008-09. The external trade of Bangladesh has recently increased in comparison with the last few years following liberalisation of import policy and promoting the strategy of export expansion.

Table 6.5: Trade Openness of different Fiscal Years

(Tk. in Crore)

Fiscal year	GDP at current price	Foreign Trade			Trade Openness
		Export	Import	Total	%
2000-01	2,53,546	34,895	50,371	85,266	33.63
2001-02	2,73,201	34,380	49,049	83,430	30.54
2002-03	3,00,580	37,915	55,920	93,835	31.22
2003-04	3,32,973	44,809	64,257	1,09,066	32.76
2004-05	3,70,707	53,136	80,715	1,33,851	36.11
2005-06	4,15,728	62,608	99,130	1,61,738	38.90
2006-07	4,67,497	78,918	1,18,478	1,97,396	42.22
2007-08	5,41,919	86,283	1,48,370	2,34,653	43.30
2008-09	6,14,943	97,445	1,54,821	2,52,266	41.02

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 January 01, 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 been 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.

Box No-6.1: Stimulus Package to Expedite Export.

***Fiscal Package in 2008-09 for immediate action:**

The Government has taken the following decisions to implement the package in April- June quarter:

- Increasing cash incentive from 7.5 percent to 10 percent for jute goods;
- Increasing cash incentive from 15 percent to 17.5 percent for finished leather and leather goods;
- Increasing cash incentive from 10 percent to 12.5 percent for frozen foods and other exportable fishes. Besides, incentives for other exportable items remain the same; such as indigenous cloth, agricultural and agro processing goods; potato, bi-cycle, smashed bone, hatching egg, chickens of one day, engineering goods, liquid glucose and 100 percent halal meat.

***Policy Support in 2008-09**

Export Sector

- Streamlining the cash incentive fund release procedures to ensure immediate disbursement of 70 percent of this incentive;
- The time for making down payment in respect of repayment of bank loans for exporters and yarn producers has been extended up to September 2009. Rescheduling facilities are to be extended on a case to case basis;
- Bangladesh Bank will take necessary steps for rescheduling export credit to the scheduled banks;
- The size of Export Development Fund has been increased and an individual borrower's limit also been increased to US$ 1.5 million from US$ 1 million. Credit facility will be enhanced for financing the import of machinery for plants engaged in manufacturing of exportable items.
- Extension of reduced rate of interest (7 percent) to all exportable goods and time limit for repayment has been extended to 120 days;
- Steps has been taken for rationalizing the renewal fees for captive generation of electricity;

Extra surcharge has been imposed on Biman Bangladesh Airlines for transporting fruits and vegetables for price hike of fuel all over the world. Ministry of Civil Aviation has been told to request the concerned authority to reduce the rate as the price has already gone down.

- Subsidized price rice distribution program has started among the garments workers'.
- Steps have been taken to increase productivity of the frozen food sector by adopting EU acceptable standards and applying intensive cultivation technology.
- Steps have been taken to sort out the reasons for non-achieving export targets in pharmaceuticals and ceramics sector.

The initiatives that Bangladesh Bank is pursuing and will pursue in financial sector are as follows:

- Proper attention on exchange rate in order to maintain export competitiveness of the exporters particularly to maintain a reasonable spread between REER and NEER.
- Re-fixing the rate of repo and reverse repo, SLR etc. in order to lower the interest rate imposing on advance.

***Fiscal Package in FY 2009-10**

In order to tackle the adverse impact of global economic recession, the steps that the Government has already been taken will continue in the next year and the allocation will be ensured on the basis of regular monitoring. This allocation will be reflected in the budget of the next fiscal year on the basis of realities on the ground and recommendation of the Taskforce.

***Policy Support in FY 2009-10**

Export Sector

- Steps will be taken to impose or withdraw VAT over export.
- The Textile Institutes, Bangladesh Institute of Fashion Training and the Department of Youth will be directed and allocated money to arrange special training programs for the garments workers' required for their service in the garments factories.

Projects for Export Development

The Ministry of Commerce has been implementing 7 projects under Annual Development Programme for FY 2008-09 and Tk.46.87 crore was provided for implementation of those projects.

Activities Related to RMG Sector

Readymade Garment (RMG) industry still remains the mainstay of export earnings for Bangladesh. About 76 percent of total export earnings of Bangladesh come from this sector. Export statistics from RMG sector in the last five years were US$ 5,686.06 million in FY 2003-04, US$ 6,417.67.67 million in FY 2004-05, US$ 7900.80 million in FY 2005-06, US$ 9,211.23 million in FY 2006-07, US$ 10,699.80 million in FY 2007-08 and US$ 12.35 billion in FY 2008-09. In consideration of the significance of the sector in the economy and, the government has taken various steps for development of this sector. Some of the important steps are as follows:

- **Allocation of fund for skill development of the RMG workers:** A special fund amounting Tk.20 crore has been allocated for the skill development programme of the workers' of the RMG sector in FY 2007-08.
- **Simplification of clearance procedures: Various measures have** been taken for simplification of import and export clearance procedures of RMG products at the Customs check posts and Ports of the country. For example, to minimize space constraints in the Chittagong Port, New Mooring Container Terminal has been constructed and to ease up import and export clearance, container handling equipment including Gantry Cranes have been procured. Ship jam in the port has been largely minimized.
- **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 debts arising out of stock-lot has been allowed. However, in such cases, sale proceeds of stock-lot goods will have to be deposited against the concerned loan accounts. Bangladesh Bank has taken necessary steps to implement this decision.
- **Cash incentives:** The provision of allowing 5 percent cash incentive against exports made from Bangladeshi fabrics is still in existence.

- **Addressing compliance issues:** To improve working environment, ensure 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' and two taskforces (Taskforce on Occupational Safety in RMG and Taskforce on Labour Welfare in RMG) have been formed for RMG' sector. In addition, a Compliance Monitoring Cell (CMC) under the Export Promotion Bureau has been established to provide secretarial support services to the Forum. Eleven meetings of the Forum have been held by this time.
- 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 of the MoU.

World Trade Organisation (WTO) and Bangladesh

After the successful trade negotiations of Uruguay Round, WTO was established on January 01, 1995. The main objectives of WTO are to remove tariff and non-tariff barriers in international trade, uplift the standard of living and ensure full employment, expand the trade of commodities and services and ensure the legitimate claim and interests of LDCs in an extremely competitive global trading environment. Currently, there are 153 members of WTO where the number of LDC is 32. Bangladesh is a founder member of WTO.

According to WTO agreement, conference at commerce minister's level is being held at least once in every two years. 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 market of developed and developing countries. 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 with regard to 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 the case of pharmaceutical products has been extended up to 1st January 2016 at 4th ministerial conference held in Doha, in 2001. This is particularly facilitating our export of pharmaceutical products. It is to be 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)

The member countries of Asia Pacific region are Bangladesh, India, Sri Lanka, the Republic of Korea, Lao People's Democratic Republic and China. The trade agreement which was signed among these 'ESCAP' members was known as 'the Bangkok Agreement'. This agreement was ratified by five member countries excepting Thailand and Philippines. The agreement was revised after China joined in 2002 and renamed as the Asia Pacific Trade Agreement (APTA). The participating countries of this agreement have concluded three rounds of trade negotiations. 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 as a member of the LDC group is getting special benefits under the agreement. The 2nd Ministerial Meeting was held on 26 October 2007 in GAO of India. Under the 4th round of preferential tariff negotiations, four meetings were held viz, 28th Session of Asia Pacific Trade Agreement was held in Colombo on 12-13 March 2008, 29th Session of APTA was held in Thailand on 29-30 May 2008, 30th Session of APTA Standing Committee meeting was held in Sanghai on 9-11 September 2008, 31st Session of APTA Standing Committee meeting was held in Bangkok on 25-26 February 2009 and 32nd Session of APTA Standing Committee meeting was held in Bangkok on 27-29 May 2009.

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.

2.1. Meanwhile, India has provided duty free access for all products from LDCs beyond the items included in their sensitive list. Besides, as per declaration of the Indian Prime Minister, India has issued customs notification to reduce around 264 products from its sensitive list on 6th October, 2008.

2.2. In addition, a Non Tariff Measures (NTM) sub group is formed to remove the para-tariff and non- tariff measures among the SAARC countries and the group is working on it. Member countries also have taken a plan of action under SAARC agreement for standard harmonization of different products. Although, goods are only included at the initial stage, service and investment sectors have also been covered in SAFTA afterwards. It may be mentioned that Afganistan has been included in SAFTA in 2008.

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

The BIMSTEC, a regional economic cooperation block, was formed comprising Bangladesh, India, Sri Lanka, Thailand, Myanmar, Nepal and Bhutan. Trade in goods, trade in services and investment have been incorporated in the Framework Agreement. The Agreement in Trade in goods is at the final satge. Negotiations have been going on Trade in services and investment. The Agreement incorporated 13 sub-sectors: namely 1. Trade and Investment, 2. Technology, 3.Transport and Communication, 4. Energy, 5. Tourism 6. Fisheries, 7. Agriculture, 8. Cultural activity, 9.Environment and disaster management, 10. Public health, 11.People to people Contact, 12. Poverty alleviation and 13. Counter- terrorism and trans-national Crime. Eighteen meetings of Trade Negotiating Committee (TNC) constituted by the member countries to conduct negotiations have been held. Under the BIMSTEC, First Track approach and Normal Track approach has been 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) for the selected items in one year and 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. Under this approach, LDCs will complete tariff reduction process for non-LDCs on Normal Track products in ten years and for LDCs in six years. The BIMSTEC Free Trade Agreement on trade in goods was scheduled to come into force from 1st 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 have 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). Eleven countries including Bangladesh have signed the Protocol. As per protocol, the tariff reduction program (TRP) is as follows:

- 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, it will be allowed to bring only 1 percent products of total tariff lines under this tariff reduction commitment.
- Tariff reduction process of member countries will be as follows; 1. tariffs above 25 percent shall be reduced to 25 percent; 2. tariffs above 15 percent and up to 25 percent shall be reduced to 15 percent; and 3. 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.
- There is a provision of voluntary fast track tariff reduction.

  No new tariff can be imposed;

  There are provisions of removal/ reduction of PTBs and NTBs.
- TPR will begin on the date of enforcement of the PRETAS and the ratification process of the PRETAS is in progress.

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

D-8 Group was formed on 15 June 1997 by Istambul 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. As per protocol, the Tariff Reduction Program (TRP) will be implemented according to the following process:

- 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 this tariff reduction process the member countries will reduce tariff in the following way: 1. Tariffs above 25 percent shall be reduced to 25 percent; 2. Tariffs above 15

percent and up to 25 percent shall be reduced to 15 percent; and 3. 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.
- Tariff rate can not be increased of the products brought under the agreement without approval of the supervisory committee;
- There are provisions of removal/ reduction in this agreement.

Trade Scenario

Balance of Payments

Trade balance recorded a deficit of US$ 4,708[P] million in FY 2008-09 as compared to the deficit of US$ 5,330 million in FY 2007-08. The current account balance recorded a surplus of US$ 2,536 million during FY2008-09 as compared to the surplus of US$ 680 million in the preceding year. In spite of the increase in the deficit recorded in the income and service accounts by 36.92 percent and 6.3 percent respectively and the increase in the flow of remittance by 19.10 percent in FY 2008-09, the surplus recorded the current account balance increased by 272.90 percent as compared to the previous year. The surplus recorded in the overall balance of payment stood at US$ 2,058 million during FY2008-09. It was US$ 331 million in FY 2007-08. The balance of payments from FY2002-03 to FY2008-09 and trade balance and current account balance are shown in Table 6.6 and Graph 6.1 respectively.

Table-6.6: Balance of Payments

(In million US$)

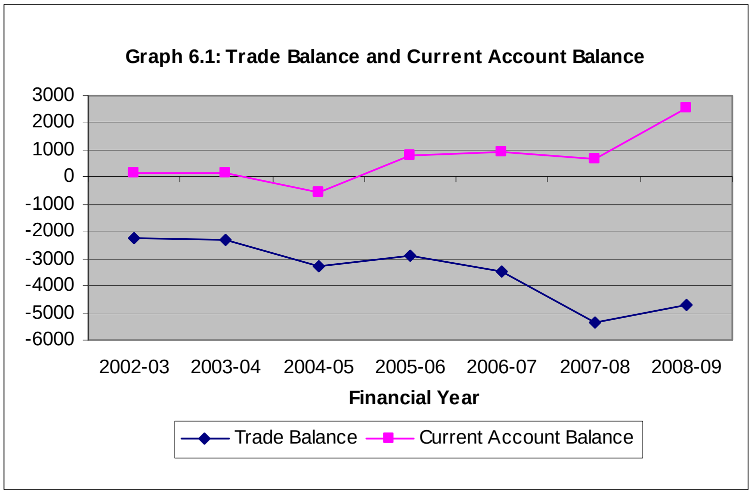
Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09[P]
Trade balance	**-2,215**	**-2,319**	**-3,297**	**-2,889**	**-3,458**	**-5,330**	**-4,708**
Exports f.o.b. (including EPZ)[1/]	6,492	7,521	8,573	10,412	12,053	14,151	15,583
Import, c.i.f. (including EPZ)	-8,707	-9,840	-1,1870	-13,301	-15,511	-19,481	-20,291
Services	**-691**	**-874**	**-870**	**-1,023**	**-1255**	**-1,525**	**-1,621**
Receipts	887	924	1,177	1,340	1,484	1,891	1,832
Payments	-1,578	-1,798	-2,047	-2,363	-2,739	-3,416	-3,453
Income	**-358**	**-374**	**-680**	**-702**	**-905**	**-994**	**-1,361**
Receipts	64	63	116	136	244	217	95
Payments	-422	-437	-796	-838	-1,149	-1,211	-1,456
of which official interest payment	-167	-175	-203	-204	-212	-234	-238
Current transfers	**3,440**	**3,743**	**4,290**	**5,438**	**6,554**	**8,529**	**10,226**
Official	82	61	37	125	97	127	72
Private	3,358	3,682	4,253	5,313	6,457	8,402	10,154
of which workers' remittances	3,062	3,372	3,848	4,802	5,979	7,915	9,689
Current account balance	**176**	**176**	**-557**	**824**	**936**	**680**	**2,536**
Capital account	**428**	**196**	**163**	**375**	**490**	**576**	**451**
Capital transfers	428	196	163	375	490	576	451
Financial account	**413**	**78**	**760**	**-141**	**762**	**-457**	**-808**
(i) Direct investment (net)*	376	385	776	743	793	748	941
(ii) Portfolio investment	2	6	0	32	106	47	-159
(iii) Other investment	35	-313	-16	-916	-137	-1252	-1590
MLT loans [2/]							
MLT amortization payments	918	544	940	1023	1037	1338	1204
Other long-term loans (net)	-452	-397	-449	-488	-525	-580	-641
Other short-term loans (net)	-20	-41	-46	-37	-24	-6	-70
Other assets	142	13	241	-256	493	-160	-169
Trade credit (net)	-125	-125	-182	-495	-535	-603	-660
Commercial Bank	-499	-321	-320	-898	-481	-1108	-1280
Assets	71	14	-200	235	-102	-133	26
Liabilities	217	86	-91	31	-86	-146	77
	-146	-72	-109	204	-16	13	103
Errors and omission	**-202**	**-170**	**-323**	**-720**	**-695**	**-468**	**121**
Overall balance	**815**	**171**	**67**	**338**	**1493**	**331**	**2058**
Reserve assets	**-815**	**-171**	**-67**	**-338**	**-1493**	**-331**	**2058**
Bangladesh Bank	-815	-171	-67	-338	-1493	-331	2058
Assets	-887	-235	-225	-554	-1593	-799	-1883
Liabilities	72	64	158	216	100	468	175

Source: Statistics Department, Bangladesh Bank.

/ 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$15, 5,65.19 million in FY 2008-09, which was 10.31 percent higher than the export earnings (US$14,1,10.78 million) of FY 2007-08. Export earnings increased due mainly to increases of knitwear (16.21%) and woven garments (14.54%) export during the year under report. Analysis of composition of exports of FY09 by major categories reveals that the export earnings over the last fiscal year increased mainly for chemical products (29.55%), handicrafts (17.30%), knitwear (16.21%), woven garments (14.54%), footwear (10.22%) and agricultural products (1.80%). On the other hand, export earnings decreased in respect of leather (37.65%), petroleum by-products (23.27%), tea (17.46%), ceramic products (17.30%), jute goods (15.42%), frozen food (14.89%), engineering products (13.75%) and raw jute (10.23%). Export growth and composition by commodities are shown in Table 6.7.

Table 6.7: Export Growth and Composition

Commodity classification	Total export (Million US$)			% of total export			Growth rate (%)		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
Primary commodities, of which	**832.27**	**987.56**	**87,011**	**6.83**	**7.00**	**5.59**	**7.72**	**18.66**	**(11.89)**
a) Frozen food	515.32	534.07	454.53	4.23	3.78	2.92	12.24	3.64	(14.89)
b) Tea	6.94	14.89	12.29	0.06	0.11	0.08	(41.63)	114.55	(17.46)
c) Agricultural products	87.82	120.13	122.29	0.72	0.85	0.79	(7.04)	36.79	1.80
d) Raw jute	147.15	165.06	148.17	1.21	1.17	0.95	(0.76)	12.17	(10.23)
e) Others	75.04	153.41	132.83	0.62	1.09	0.85	27.51	104.44	(13.42)
2. Industrial goods, of which	**11,345.59**	**13,123.24**	**14,695.08**	**93.17**	**93.00**	**94.41**	**16.32**	**15.67**	**11.98**
a) Woven garments	4,657.63	5,167.28	5,918.51	38.25	36.62	38.02	14.05	10.94	14.54
b) Knitwear	4,553.60	5,532.52	6,429.26	37.39	39.21	41.31	19.30	21.50	16.21
c) Leather	266.08	284.41	177.32	2.18	2.02	1.14	3.42	6.89	(37.65)
d) Jute goods	320.78	318.34	269.25	2.63	2.26	1.73	(11.15)	(0.76)	(15.42)
e) Fertilizer & chemical products	215.24	215.78	279.55	1.77	1.53	1.80	3.31	0.25	29.55
f) Footwear	135.94	169.60	186.93	1.12	1.20	1.20	42.44	24.76	10.22
g) Ceramic products	29.95	38.33	31.70	0.25	0.27	0.20	8.71	27.98	(17.30)
h) Engineering products	236.91	219.68	189.48	1.95	1.56	1.22	18.95	(7.27)	(13.75)
i) Petroleum by products	83.90	185.11	142.03	0.69	1.31	0.91	(5.12)	120.63	(23.27)
j) Handicrafts	8.16	5.49	6.44	0.07	0.04	0.04	89.77	(32.72)	17.30
k) Others	837.40	1,203.41	1,126.12	6.88	6.99	6.84	37.00	17.83	7..90
Total export	**12,177.86**	**14,110.80**	**15,565.19**	**100.00**	**100.00**	**100.00**	**15.69**	**15.87**	**10.31**

Source: Export Promotion Bureau, Ministry of Commerce.

- Figure in the parenthesis indicates negative number.

Country wise Export

Analysis of country wise export shows that the USA is the main destination of our export. It appears from Table 6.8 that in FY 2008-09, the USA secured the top position in respect of importing commodities from Bangladesh followed by UK (14.58%), Germany (9.64%) and France (6.62%). During the period under report, goods worth US$4,052.00 million were exported to the USA, which was 26.03 percent of the total export of the country. The principal commodities exported to USA are woven garments, knitwear, frozen food, cap, home textile etc. The country-wise export is shown in Table 6.8.

Table 6.8: Country-wise Export Income

(In million US$)

Fiscal Year	USA	Germany	UK	France	Belgium	Italy	Nether lands	Canada	Japan	Others	Total
2000-01	2,500.42	789.88	598.18	365.99	253.91	295.73	327.96	125.66	107.58	1,105.99	6,471.30
2001-02	2,218.79	681.44	647.96	413.69	211.39	262.31	283.36	109.85	96.13	1,061.17	5,986.09
2002-03	2,155.00	820.72	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1,271.21	6,548.40
2003-04	1966.58	1298.54	898.21	552.96	326.95	315.93	290.44	284.33	118.16	1,550.89	7,603.00
2004-05	2,412.05	1353.80	943.17	626.17	325.43	369.18	291.94	335.25	122.43	1,875.12	8,654.52
2005-06	3,039.77	1763.38	1053.74	678.94	359.33	427.89	327.20	406.97	138.45	2,330.49	10,526.16
2006-07	3,441.02	1955.38	1173.95	731.76	435.82	515.66	459.01	457.21	147.47	2,860.58	12,177.86
2007-08	3,590.56	2174.74	1374.03	953.13	488.39	579.23	653.88	532.90	172.56	3,591.38	14,110.80
2008-09	4,052.00	1501.20	2269.70	1031.05	409.80	615.51	970.80	663.20	202.60	3,849.33	15,565.19

Source: Export Promotion Bureau

Export target and performance of Bangladesh during FY 2002-03 to 2008-09 are shown in Table 6.9.

Table 6.9: Export target and performance during FY 2002-03 to 2008-09.

(In million US$)

Fiscal Year	Export Target	Actual Export
2002-03	6,405.00	6,548.44
2003-04	7,439.00	7,602.99
2004-05	8,565.78	8,654.52
2005-06	10,159.20	10,526.16
2006-07	12,500.00	12,177.86
2007-08	14,500.00	14,110.80
2008-09	16,298.43	15,565.19

Source: Export Promotion Bureau

Export from Bangladesh to SAARC member countries is shown below.

Table 6.10: Export from Bangladesh to SAARC member countries.

(In million US$)

Country	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Afghanistan	2.92	6.07	0.51	0.88	0.75	2.77	3.68
Bhutan	1.55	3.99	3.35	1.65	1.40	1.35	0.61
India	99.36	101.16	186.95	279.14	289.41	358.08	276.58
Maldives	-	-	0.48	0.26	0.27	0.08	0.14
Nepal	0.30	1.27	0.47	0.83	0.85	6.71	8.06
Pakistan	38.22	34.78	84.14	50.26	61.06	71.01	76.22
Sri Lanka	7.06	10.15	12.16	14.39	14.82	19.32	18.67

Source: Export Promotion Bureau

Import Status and Composition of Imported Commodities

The total import payments (cif) amounted to US$22,507 million in FY 2008-09, which is 4.1 percent higher than the import payments of US$21,629 million in the previous year. Analysis of imports reveals that in FY 2008-09, the following commodities contributed to the overall growth of import payments: fertiliser (51.11%), wheat (19.74%), oil seeds (16.91%), yarn (14.62%), cotton (6.43%) and Staple fiber (1.82%). The overall import situation of the country is shown in Table 6.11.

Table 6.11: Comparative Situation of Commodity-wise Import Payment

(In million US dollar)

Commodity	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Principal primary commodities	**1,133**	**1,339**	**1,676**	**1,854**	**2,069**	**3,455**	**2,916**
Rice	211	144	262	117	180	874	239
Wheat	198	287	312	301	401	537	643
Oilseeds	64	73	86	90	106	136	159
Crude petroleum	267	252	350	604	524	695	584
Cotton	393	583	666	742	858	1,213	1,291
Principal industrial goods	**1,548**	**1,910**	**2,662**	**3,002**	**3,568**	**4,844**	**5,035**
Edible oil	364	471	440	473	583	1006	865
Petroleum products	620	770	1252	1400	1709	2058	1997
Fertiliser	109	150	332	342	357	632	955
Clinker	144	139	170	210	240	347	314
Staple fiber	41	57	75	76	97	110	112
Yarn	270	323	393	501	582	691	792
Capital machinery	**568**	**786**	**1,211**	**1,458**	**1,929**	**1,664**	**1,420**
d) Other commodities (including EPZ)	**6,409**	**6,868**	**7,598**	**8,432**	**9,591**	**11,666**	**13,136**
Grand Total	**9,658**	**10,903**	**13,147**	**14,746**	**17,157**	**21,629**	**22,507**
% Change**	**13.1**	**12.9**	**20.6**	**12.2**	**16.4**	**26.1**	**4.1**

Source: Bangladesh Bank. ** % change compared to same time of previous fiscal year.

Country-wise Import Payments

In terms of the value of total imported commodities, China secured the first position in FY 2008-09. During this period 15.34 percent of the total imported commodities came from China. India was the second largest source of import (12.74 percent of total import) while Singapore held third position (7.86 percent to total import). In FY 2008-09, total import payment rose to US$ 22,507 million from US$ 21,629 in the previous year. The country-wise import payments during FY 2000-01 to FY 2008-09 is shown in Table 6.12.

Table 6.12: Country-wise Import Payments

(In million US$)

Fiscal Year	China	India	Singa pore	Japan	Hong Kong	Taiwan	`South Korea	USA	Malaysia	Others	Total
2000-01	709	1,184	824	846	478	412	411	248	148	4,075	9,335
2000-02	878	1,019	871	655	441	312	346	261	145	3,612	8,540
2002-03	938	1,358	1,000	605	433	328	333	223	169	4,271	9,658
2003-04	1,198	1,602	911	552	433	377	420	226	255	4,929	10,903
2004-05	1,642	2,030	888	559	565	439	426	329	276	5,993	13,147
2005-06	2,079	1,868	849	651	626	473	489	345	302	7,064	14,746
2006-07	2,571	2,268	1,035	690	747	473	553	380	334	8,106	17,157
2007-08	3,137	3,393	1,273	832	821	478	620	490	451	10,134	21,629
2008-09	3,452	2,868	1,768	1,015	851	498	864	461	703	10,027	22,507

Source: Bangladesh Bank.

The government has taken various steps for development of export sector during FY2008-09. Some of the important steps are as follows:

- The credit facility under Export Development Fund (EDF) increased from US$ 100 million to US$ 150 million to expand and facilitate the export oriented industries and a single borrower's exposure limit was also increased up to US$ 1.5 million from US$ 1 million.
- General permission has been accorded to reconvert the unspent Bangladesh Taka equivalent to maximum US$ 100 in respect of foreign tourists of short duration (excluding foreign nationals who come to Bangladesh for employment) at the bank booth situated at the departure lounge of international airport.
- Re-fixing of the highest margin of release of foreign exchange in the form of cash favouring passengers proceeding abroad from US$ 1,000 or equivalent other currency to US$ 1500 or equivalent other currency .
- It has been decided that authorized dealers can release foreign exchange favouring persons proceeding abroad for valid job or migration against one-way ticket (However, amount of such release of foreign exchange will not exceed the half of the un-utilized travel quota entitlement of the concerned person in the related calendar year).
- It has been decided that the essential commodities will be bought in the pre-fixed/advanced price for hedging risk of unusual price change.(However, any kind of speculation in this line is unacceptable);
- Decision of Asian Clearing Union (ACU) Board for ACU transaction through Euro from January 01, 2009.
- Entrusting more responsibilities on Approved Dealer (AD) banks for decreasing the bottlenecks of import and export trade and conducting export import activities maintaining consistency with current rules and regulations of international trade.
- Decision of sending advance of US$ 5000 from Retention Quota account by exporters without approval of Bangladesh Bank in the case of commodity price payment in international trade under advance payment system to resist delay in case of necessity of importing raw materials and anything on emergency basis from August 12, 2008.
- Decision of continuing direct aid payment on net FOB prices of export commodities such as shipping domestic garments(5%);frozen shrimp and another fishes(10%); leather products(15%); mat, stalk, sugarcane fibre; handicrafts(15-20%); potato (10%); bicycle (15%); bone powder (15%); jute products (7.5%); etc.
- Decision of continuing subsidies on net F.O.B prices of export commodities such as hatching egg of poultry industry and chicken (15%) and light industrial products (10%) etc.
- Decision of continuing subsidies for liquid glucose export sector and 100% halal meat export sector (20%) to attract investment in agriculture industry.
- Decision of continuing export subsidies at the rate of 20% against net F.O.B prices of exporting agro-products (vegetables/fruits) and processed agro-products (agro-processing) .
- Decision of international transaction payments through debit / credit cards to liberalise international payment; etc.

Exchange Rate Policy

At present, exchange rate is determined by the demand and supply of the currency under the market-based floating exchange rate. However, in order to stabilize the exchange rate of US Dollar in the inter-bank market, Bangladesh Bank has been buying/selling foreign currency (in US$) directly. After the implementation of market-based floating exchange rate, no unusual swing was noticed in the value of local currency.

A bit pressure was observed in the taka- dollar exchange rate in FY 2007-08 for the excess demand of foreign exchange due to increased import payment of agricultural inputs due to massive damage in agricultural sector caused by two consecutive floods and cyclone Sidr in the southern region and price hike of food grain and petroleum commodities in international market. From the 2nd quarter of FY 2007-08 taka started to appreciate against dollar and which was sustainable until the end of fiscal year because of growth supportive monetary policy and other measures along with adequate foreign currency receipts from export earnings and workers' remittance. In order to protect the competitiveness of export market Bangladesh Bank maintains the stability of exchange rate by purchasing foreign exchange at the market price from time to time with a view to mitigating the pressure of appreciation of taka on foreign exchange rate due to the increase in remittance sent by Bangladeshi expatriates and export along with sluggish import payment in the first half of the FY 2008-09. It is expected that the exchange rate will be stable in the near future without adverse impact on foreign inward remittance from the recent global financial crisis and the persistence of normal trend in the demand for foreign exchange. Taka-Dollar weighted average exchange rate stood at Tk. 68.8012 at the end of FY 2008-09 as compared to Tk.68.6019 at the end of FY 2007-08 is shown below.

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

Fiscal Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Average Exchange Rate	57.4347	57.9000	58.9353	61.3939	67.0797	69.0318	68.6019	68.8012

Source: Bangladesh Bank

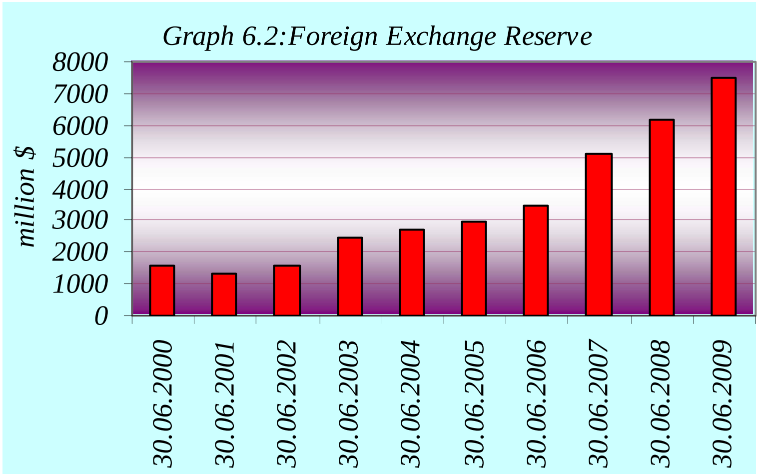
Foreign Exchange Reserve

Supported by increased export earnings and significant rise in remittance flows, foreign exchange reserve stood at US$ 5,077 million at the end of June 2007 reflecting a growth of 42.27 percent as compared to US$ 3,484 million at the end of the same period of the preceding year. Foreign exchange reserve stood at US$ 6,149 million as on June 30, 2008, which was 21.11 percent higher than the amount as on June 30, 2007. The foreign exchange reserve stood at US$ 7,471 million as on June 30, 2009 which was 21.52 percent higher than the amount as on June 30, 2008. The foreign exchange reserve during 2000 to 2009 is shown in Table 6.14 and Graph 6.2.

Table 6.14: Foreign Exchange Reserve

(In million US$)

Date	Amount
30.06.2000	1,602
30.06.2001	1,307
30.06.2002	1,583
30.06.2003	2,470
30.06.2004	2,705
30.06.2005	2,930
30.06.2006	3,484
30.06.2007	5,077
30.06.2008	6,149
30.06.2009	7,471



Source: Bangladesh Bank

The world economy came under a severe threat due to lower production of food grains in 2007 throughout the world and unprecedented price hike of crude oil and other commodity prices.

Despite the current global economic downturn began with the sub-prime mortgage crisis in the USA, foreign trade of Bangladesh remains at a satisfactory level. The remarkable growth of import-export trade, current account surplus and surge in the flow of remittance kept the external sector stable in the current fiscal year.