CHAPTER 6

EXTERNAL SECTOR

A set of precautionary measures, an encouraging stimulus package and a number of strategic actions have helped addressing the negative impact of global crisis arising from the debacle in the financial sector of the developed and developing countries. The Task Force declared the stimulus package proposal -1 in FY 2008-09 and stimulus package proposal-2 in FY 2009-10 to face the adverse effects of global economic crisis on Bangladesh economy. The Government has also declared a 'three-year Import Policy Order' in line with the agreements signed with WTO and in conformity with import for the export- oriented organisations to strengthen export of the country.

Import Policy

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.

Substantial changes have been made in the Import Policy Order 2009-12. Included among the significant changes are:

- Provision has been made to import essential food item, garment accessories and capital machineries without letter of credit.
- Banks and the office of the Chief Controller of Export and Import have been involved in renewal of IRC of importers and indenters.
- A provision has been made to import baby food in the containers up to 25 kg for the retailers;

- A provision has been incorporated to import full cream milk product up to 2.5 kg by tin/bag/box/container;
- A provision has been made to import full cream milk and milk product in large closed airtight container;
- In case of import of canned food, a provision has been incorporated to mention the limit of preservative;
- A provision has been incorporated to import machineries and parts without L. C. used in the industries established under 100 percent foreign initiative;
- A provision has been made to import recycle materials for 100 percent export oriented industries ;
- The last limit of free sample import has been extended from US$5,000 to US$10,000;
- Import facility of crude soybean and palm oil has been extended.
- A provision has been introduced to import second hand /reconditioned generator and generating set on commercial basis;
- A provision has been introduced to import paddy seed under conditionality;
- Ban has been imposed on import of poisonous Scrap vessel;
- A provision has been made to import chicken- swine and eggs under conditionality;
- A provision has been introduced to import raw materials for telecommunication in the private sector under conditionality;
- A provision has been expanded for TCB to import under industrial and commercial basis.

Simplification of Tariff Structure:

Tariff structure is one of the main tools for conducting the trade policy of a county. Over the years efforts were made to simplify the disorderly and scattered tariff structure into an integrated one in order to facilitate smooth implementation of the import policy of the Government and this has resulted in substantial reduction in the tariff slabs and harmonisation of the overall tariff structure. There were 18 operative tariff slabs in FY1991-92 and 350 percent was the maximum tariff rate. These were the general exemption rates. Until FY1999-00, tariff regime was divided into three rate classifications. The operative and statutory tariff rates were equalized in FY 2000-01 and Bangladesh has been following the Most Favored Nation (MFN) tariff rate since then. Tariff structure from 2000-01 to FY 2009-10 is presented in the following table:

Table –6.1: Tariff Structure from FY2000-01 to FY2009-10

Fiscal Year	Tariff slab applied MFN rates	Maximum tariff Rate %	No. of operating tariff slabs
2000-01	0, 5, 15, 25, 37.5	37.5	5
2001-02	0, 5, 15, 25, 37.5	37.5	5
2002-03	0, 7.5, 15, 22.5, 32.5	32.5	5
2003-04	0, 7.5, 15, 22.5, 30	30	5
2004-05	0, 7.5, 15, 25	25	4
2005-06	0, 7.5, 15, 25	25	4
2006-07	0, 5, 12, 25	25	4
2007-08	0, 10, 15, 25	25	4
2008-09	0, 3, 7, 12, 25	25	5
2009-10	0, 3, 5, 12, 25	25	5

Source: National Board of Revenue (NBR)

Duty concessions and general exemptions to the applied MFN tariff rates are being provided in accordance with Section 20 of Customs Act on a case-by-case basis through Gazette notification. At present, three types of tariff concessions on these MFN rates are being provided: (i) import under different bi-lateral/regional trade agreement, (ii) import of capital machinery for registered industries including export-oriented industries and (iii) import by industries (for a specific use) such as dairy and poultry, pharmaceuticals, leather and textile industries. At present tariff concession are being provided along with MFN tariff rate in respect of following goods:

a) Capital machinery and parts imported by export oriented industry.
b) Capital machinery and parts imported by registered industry.
c) Raw materials imported by Pharmaceutical Industry.
d) Raw materials used in Textile Industry.
e) Accessories used in Agriculture Sector.
f) Computer and Computer accessories.
g) Medical equipment and accessories.
h) Newsprint imported by Newspaper and periodical Publishers.
i) Raw materials used by the insecticide manufacturers which used in Agriculture
j) Machinery, parts and accessories imported by Poultry Firm.

Reduction of Tariff

The process of reducing import tariff rate of Bangladesh started since FY1991-92 is still continuing in FY2009-10 in order to increase the efficiency of the local industries and bring consistency with the process of world-wide tariff reduction. The un-weighted import average tariff rate in FY1991-92 was 57.22 percent which decreased at 21.39 percent in FY2000-01. Because of reducing import tariff rate consecutively, the un-weighted import average tariff rate stood at 14.97 percent in FY2009-10. The MFN Un-weighted import average during 2000-01 to 2009-10 is given below:

Table 6.2: MFN Un-weighted Import Average

Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
MFN Un-weighted average	21.39	21.01	19.88	18.85	16.53	16.39	14.87	17.26	15.12	14.97

Source: National Board of Revenue (NBR)

Export Policy

The main objectives of the Export Policy 2009-12 are as follows:

- Updating and liberalising the trade regime in accordance with the needs and requirements of the World Trade Organisation and globalisation
- Encouraging labor-intensive (especially female labour) export-oriented production
- Ensuring availability of raw materials for producing export products
- Improving the quality of products; encouraging the use of modern, sustainable and environment-friendly technology; producing higher value products and improving the design of the products
- Initiating new strategies for the expansion of markets of export products, proper utilisation of computer technology, encouraging all modern technology including e-commerce
- Creating new exporters and providing all-out support to current exporters
- Establishing necessary new infrastructure for export-oriented goods and in some cases helping to create backward and forward linkage.

Steps towards Export Development:

The Ministry of Commerce has implemented 7 technical assistance projects under Annual Development Programme of FY 2009-10. An amount of Tk.45.09 crore was allocated for these projects of which Tk. 42.5 crore was project aid component. The Government has already taken different steps to expedite overall export to address the negative impact of global economic recession. Some of the steps to improve exports are outlined below:

- To overcome the adverse effects arising from the current global economic recession, the Government has declared Stimulus Package -1 and Stimulus Package -2 under which several policy supports including some cash incentives are being given to exporters
- With a view to diversifying the exportable products, the Government has identified 8 products under 'Highest Priority Sector' while 12 products under 'Special Development Sector' and these sectors are being given special support for their development
- To extend the ability of the exporters, steps have been taken to expand the area of cash incentive
- In compliance with the demand of the foreign buyers, the Compliance Monitoring Committee has been actively monitoring the compliance and standard of export goods
- Steps have been taken to enhance the institutional skills and working capacity of the Export Promotion Bureau (EPB) and other related organisations, such as, the customs, sea and land port authorities.

Box-6.1: 2nd Stimulus Package

The Government set up a taskforce to mitigate the adverse effects of the global recession and also constitute a committee to deliver recommendations as to how to bring about overall improvement of the export sector. Based on the recommendations made by the taskforce and the committee, the Government has announced the second stimulus package. While delivering the second stimulus package, it was decided that the measures identified under the first stimulus package would continue. Some of the salient features of the 2nd stimulus package are as follows:

1. Renewal fee for captive generator for the period of November 1, 2009 to June 30, 2010 will be provided from the allocation of current year's stimulus package in the textile sector
2. Credit re-scheduling without down payment in the textile sector is extended from October 1, 2009 to June 30, 2010. Interest rate will be reduced to 10 percent from the existing 13 percent
3. Loan payment period can be extended in case of new default during the proposed extended period of re-scheduling facility in order to make re-scheduling facility comfortable to the borrower
4. Increased subsidy will be provided as an incentive for establishing new export goods and new export market on export earnings (fob) at the rate of 5 percent in the first year, 4 percent in the second year and 2 percent for the following 3 years. BTMA members will enjoy this facility for direct cotton export to any market
5. Forward exchange booking is permissible for home textile export in foreign currencies other than US dollar. Home textile sub-sector would be eligible for re-scheduling facility
6. Small and medium textile industries with export earnings of US$ 3.5 million in FY 2008-09 will be considered for the following benefits
    - Additional 5 percent export incentive on the value of additional export during FY 2009-10 over the actual export of FY 2008-09
    - Provide grants at the rate of 10 percent on paid electricity bill of those Small and Medium Enterprises which do not have their own captive generators. This will continue up to 30th June 2010. Moreover, only those industrial units would be eligible for the above-mentioned facility that are not owned by a large textile group
7. Bangladesh Bank has issued a circular for rationalising existing discrepancies of different charges and fees prevailing in different banks
8. Increase the loan amount from USD 1.5 million to USD10 million for a single borrower through a consortium of three banks. This fund will be provided from the Export Development Fund (EDF) for which the rate of interest would be LIBOR + 2.5 percent
9. Provision has been made for BTMA to borrow from EDF authorized dealer bank at a rate of LIBOR + 2.5 percent for one time cotton import worth of export earnings not more than one previous year or US$ 10 million (which one become less) in order to resolve the complexities raised by the BTMA regarding Export Development Fund
10. In addition to government's allocation of Tk.300 crore to the proposed Export Loss Reduction Contributory fund Textile mills owner will contribute 0.1 percent of their export earnings (fob) during January 2010 to June 2010 and from July 2010 onwards at a rate of 0.20 percent
11. The agreed support arrangements between the Government and BTMA for the operation of National Institute of Textile Training, Research and Design (NITTRAD) are as follows: (a) Government will bear full expenditure for the first year ;(b) In the 2nd year, Government will shoulder 60 percent; (c) for the next 3 years Government will bear up to 50 percent ; (d) After 5 year BTMA would bear all expenses relating to the overall operation of this institute.
12. Shipbuilding industry as a prospective sector for export has been provided with 5 percent cash incentive for encouraging export diversification ;
13. Crust leather industry has been given 5 percent cash incentive for export;
14. One year moratorium on 30 percent of credit ceiling for working capital to the existing frozen food and export oriented projects.

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.

The main principle of WTO is to eliminate the existing barriers among the member countries through regular and continuous meeting. Moreover, there is a requirement to hold Ministerial Conference in every two years. Till now, seven Ministerial Conferences were held and the last one took place in Geneva, Switzerland from 30 Nov 2009 to 02 Dec 2009. However, in the last Ministerial Conference most of the members anticipated to conclude the round by 2010.

As a founder member, Bangladesh is participating in all kinds of activities of WTO. As a member of LDCs, Bangladesh placed its demand to WTO for duty-free and quota-free market access facilities, waiver on service sector on priority basis to secure free access of the skilled and unskilled labor, food import for the LDCs to ensure food security, trade facility for LDCs for expanding trade and reducing trade balance between developed and developing countries. Continuous persuasion of Bangladesh made it possible to consider it as the main demand of the LDCs what was included in the Ministerial Conference in Dar-us-Salam on October 15, 2009. Besides, the SAARC Ministers and the Ministers of the LDCs pledged to demand that the developed countries should get less facility than the LDCs as Disproportionately Affected Countries (DAC) and include LDCs products in 97 percent duty-free product list according to Hong Kong declaration.

Moreover, persuasion of Bangladesh along with other LDCs made it possible to get support from other countries for implementation of duty-free and quota-free market access facilities on priority basis in Ministerial Conference in Geneva. In this Ministerial Conference Brazil declared 80 percent duty-free market access for LDCs products with a commitment to cover all products within next 4 years.

Bangladesh joined the Enhanced Integrated Framework (EIF) to enhance capacity of the country in negotiation with WTO. Donor facilitator and the National Steering Committee have been set up under EIF. The World Bank has been requested to make Diagnostic Trade Integration Study (DTIS) to determine the advantages that Bangladesh can avail under EIF.

Besides, Bangladesh has submitted Needs Assessments report to the WTO for the purpose of securing support from development partners to improve the intellectual property rights regime in Bangladesh. Besides organising an exclusive workshop for the Members of Parliament to enrich their knowledge on WTO issues, 5 national workshops in the areas of Trade-Related Aspects of Intellectual Property (TRIPS), Sanitary and Phitosanitary (SPS), WTO Notification Requirement,

Services and Non-agriculture Market Access (NAMA) with the technical assistance from the WTO were held. Steps have been taken to organise three more workshops in 2010 in Dhaka on Agreement on Agriculture, WTO Dispute Settlement Procedures and Trade Negotiation Skill.

Regional Trade Agreement

1 Asia-Pacific Trade Agreement (APTA)

In 1975, seven countries in the Asia-Pacific region, viz. Bangladesh, India, the Republic of Korea, Sri Lanka, the Philippines, Thailand and Lao People's Democratic Republic mutually agreed on exchange of tariff concession. This was a first treaty among the countries of ESCAP on trade negotiations. At that time it was known as Bangkok Agreement. Subsequently, among the seven countries the Philippines and Thailand did not ratify the Agreement and China acceded to the Agreement on 01 January 2002. As a result, the Agreement was amended and renamed as Asia-Pacific Trade Agreement (APTA). The Agreement came into force on 01 January 2006 and implementation of tariff concession was commenced from 01 September 2006. In accordance with the recommendation of the APTA Standing Committee's 27th meeting held in Goa on 24-25 October 2007, 2nd meeting of the APTA Ministerial Council formally declared launch of the 4th round of Preferential Tariff Negotiations. In order to implement the declaration, the issues related to Tariff Concession, Framework Agreements on Trade Facilitation, Framework Agreements on Trade in Services and Framework Agreement on Investment were finalized through eight meetings of the APTA Standing Committee. Meanwhile, Framework Agreements on Trade Facilitation and Framework Agreement on Investment were signed in the third meeting of the APTA Ministerial Council held on 15 December 2009 in South Korea. It is expected that within a short period Tariff Concession and Framework Agreements on Trade in Services will be signed.

2. South Asian Free Trade Area (SAFTA)

South Asian Free Trade Area (SAFTA) agreement was signed at the twelfth summit of the SAARC heads of governments held in Islamabad on 06 January 2004 with a view to extending mutual trade and economic co-operation among the member states and it came into force on 01 January 2006. The member countries of the agreement are: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The implementation of tariff reduction programme under SAFTA has begun from 01 July 2006. Under the agreement the member countries have preserved their sensitive lists (lists of items on which the member countries do not provide tariff concession) comprising the revenue sensitive items. Bangladesh has preserved 1,241 items for non-LDCs and 1,233 items for LDCs; India 868 items for non-LDCs and 480 items for LDCs; Pakistan 1,169 items, Sri Lanka 1,042, Nepal 1,295 for non-LDCs and 1,257 for LDCs, Maldives 681 items, Afghanistan 1,072 and Bhutan 150 items.

2.1 In accordance with the condition of the agreement, non-LDC member countries (India, Pakistan and Sri-Lanka) will bring down the tariffs on the items beyond their sensitive lists to 0-5 percent within 01 July 2009. On the other hand, LDC member countries (Afghanistan, Bangladesh, Bhutan, Maldives and Nepal) will bring down the tariffs on the items beyond their sensitive lists to 0-5 percent within 01 July 2016. It isto be noted that from 01 January 2008, India has provided duty free access for all products for LDCs beyond the items of their sensitive list and Pakistan has lowered down their tariffs to 5 percent for the commodities beyond the sensitive list. Besides, under bilateral Memorandum of Understanding (MOU) of SAFTA, in 2007 India provided duty free access for eight million pieces of garment items of Bangladesh from their sensitive list. According to the agreement, from 01 January 2010 LDC member states including Bangladesh have provided 30 percent tariff concession on the commodities beyond their respective sensitive lists. In accordance with the agreement, they will reduce their tariff rates to 0-5 percent by 2016.

2.2 In the case of Rules of Origin under the agreement, 40 percent domestic value addition is applicable for non-LDC member countries and 30 percent is for LDC member countries. Moreover, in the case of regional cumulation 50 percent value addition is applicable for receiving tariff concession but the exporting country must have at least 20 percent local value addition out of the 50 percent. Besides, in order to work on removal of trade barriers among SAARC countries, an NTM (non-tariff measures) sub-group has been formed which started functioning. Furthermore, a plan of action has been undertaken under SAARC agreement for standard harmonization of different products. At the beginning, only commodity sector was included, later on service and investment sectors were included.

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

A regional economic cooperation bloc under BIMSTEC comprising Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand was formed in 1997. In order to form a BIMSTEC FTA, a framework agreement was signed in February 2004. The framework agreement covered (i) trade in goods, (ii) trade in services, and (iii) investment. Meanwhile, the agreement on Trade in Goods is about to be finalised and negotiations on trade in services and investment are underway. The agreement incorporated 13 (Thirteen) sub-sectors: (i) Trade and Investment, (ii) Technology, (iii) Energy, (iv) Transport and Communication, (v) Tourism, (vi) Fisheries, (vii) Agriculture, (viii) Cultural Operation, (ix) Environment and Disaster Management, (x) Public Health, (xi) People to People Contact, (xii) Poverty Alleviation, and (xiii) Counter-Terrorism and Trans-National Crime. Under this agreement, a Trade Negotiating Committee (TNC) was formed aimed at finalising (1) Agreement on Trade in Goods, (2) Agreement on Trade in Services, (3) Agreement on Trade in Investment, (4) Cooperation and Mutual Assistance in Customs Matters, (5) Protocol to Amend Framework

Agreement on the BIMSTEC Free Trade Area (BIMSTEC FTA), (6) Dispute Settlement Procedure and Mechanism etc. Till date 18 meetings of TNC have been held. The latest (18th) meeting was held in on 02-04 June 2009 in Thailand. The following agreements have been finalised in the 18th meeting of BIMSTEC TNC: (1) Agreement on Trade in Goods, (2) Cooperation and Mutual Assistance in Customs Matters, (3) Protocol to Amend Framework Agreement on the BIMSTEC FTA and (6) Dispute Settlement Procedure and Mechanism

3.1 With regard to tariff reduction process, BIMSTEC FTA has adopted fast track and normal track approach. Under the fast track approach non-LDCs (India, Sri Lanka and Thailand) will complete tariff reduction process (TRP) for LDCs (Bangladesh, Myanmar, Bhutan and Nepal) on the selected items within a year and for non-LDCs within three years. On the other hand, LDCs will complete the same under the fast track approach within five years for non-LDCs and within three years for LDCs. Under normal track approach non-LDCs will complete TRP for the LDCs on the selected items within three years and for the non-LDCs within five years. On the other hand, LDCs will complete TRP for non-LDCs on the items selected under the normal track approach within ten years and for LDCs within six years. Although BIMSTEC and FTA on Trade in Goods was scheduled to commence from 01 July 2006, it has not been implemented yet because of not finalizing the sensitive lists and Agreement on Rules of Origin.

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

A Framework Agreement on Trade Preferential System among OIC Countries (TPS-OIC) was signed in 1991 with a view to expanding trade within the OIC countries. Bangladesh has signed the agreement in 1997 and ratified in 2004. Subsequently, under the purview of Article 13 of the Framework Agreement, a Trade Negotiating Committee (TNC) was formed consisting representatives from the member countries aimed at expanding trade among the member countries. TNC has drafted the Protocol on the Preferential Tariff Scheme (PRETAS) for the TPS-OIC through four successful trade discussions. It has been finalised in the 21st meeting of the Standing Committee for Economic and Commercial Cooperation among OIC Member States (COMCEC) held on 22-25 November 2005. Bangladesh has signed PRETAS on 24 November 2006. Meanwhile, seventeen countries have signed the agreement and nine countries have ratified it including Bangladesh.

4.1 The remarkable features of the agreement are: for the purpose of tariff reduction each Member State has to reduce tariffs on 7 percent of its total HS lines. This agreement contains some special and different facilities for Bangladesh as LDC in the tariff reduction programme (TRP) and removal of para-tariff and non-tariff barriers. For example, as an LDC Bangladesh will have facility to complete TRP in six equal annual installments while other member countries have to complete it in four annual installments. Moreover, as an LDC Bangladesh will have additional three years as a grace period for observation before

implementation of TRP. Article 6 (Removal of Para-Tariffs) and 7 (Elimination of Non-Tariff Barriers) of PRETAS noted that member countries have to eliminate the para-tariff and non-tariff barriers upon entry into the Protocol, while as an LDC Bangladesh has to remove its within three years. Besides, this period may be extended for Bangladesh, if a request is approved by TNC.

4.2 (a) TRP for member countries is as follows:

(1) above 25 percent shall be reduced to 25 percent

(2) above 15 percent and up to 25 percent shall be reduced to 15 percent

(3) above 10 percent and up to 15 percent shall be reduced to 10 percent

(b) LDCs have to complete TRP in six annual installments, while other member countries have to complete it in four annual installments from the start date of implementation of PRETAS.

(c) There is a provision of voluntary Fast Track tariff reduction.

(d) (1) No new tariffs on imports shall be introduced on products which are subject to tariff reduction nor shall those already applied be increased;

(2) There is a provision regarding elimination/reduction of para-tariff and non-tariff barriers.

5. Preferential Trade Agreement among D-8 Member States (D-8)

An Agreement among D-8 Member States (D-8) was signed in 1997 comprising **e**ight developing countries from OIC bloc with a view to introducing preferential trade arrangement. The member countries of D-8 are: Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey. Under this agreement a High Level Group of Trade Officials among the Member States (HLTO) was formed aimed at working on Preferential Trade Agreement. Bangladesh has participated in every meeting of HLTO and signed the Preferential Trade Agreement among D-8 Member States (D-8) in 2006 though it has not yet ratified the agreement.

Under the Tariff Reduction Modality (TRM) of Preferential Trade Agreement (D-8), as an LDC Bangladesh will have some privileges of Special and Differential Treatment, e.g. Bangladesh has the facility to complete tariff reduction in eight annual installments while other member countries have to complete it in four annual installments. Moreover, as an LDC Bangladesh will have additional three years as a grace period for removal of para-tariffs and non-tariff barriers and this period may be further extended but subject to approval of the HLTO. At present, discussion on Rules of Origin is underway. In this discussion Bangladesh is calling for 30 percent domestic value addition.

6. SAARC Preferential Trade Arrangements (SAPTA)

SAARC Preferential Trade Arrangements (SAPTA) was signed on 11 April 1993 comprising seven countries of SAARC aimed at enhancing mutual and balanced trade and economic cooperation. At present, the member countries of the agreement are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Under this agreement tariff reduction programme (TRP) began from December 1995 and meanwhile four rounds of tariff negotiations have been concluded. At the end of the fourth round of negotiations, tariff concession on 6,243 products has been exchanged, out of these 3,942 products are for LDCs and 2,301 products are for non-LDCs Non-LDC member countries have given tariff concession to LDCs from 05 percent to 100 percent. In the case of rules of origin, 40 percent value addition is applicable for non-LDCs and 30 percent for LDCs.

Balance of Payments

Trade balance recorded a deficit of US$ 5152 million in FY 2009-10 as compared to the deficit of US$ 4710 million in FY 2008-09. The current account balance recorded a surplus of US$ 3734 million during FY2009-10 as compared to the surplus of US$ 2416 million in the preceding year. The increase in the flow of remittance by 13.4 percent and export earnings by 4.11 percent contributed to the surplus of current account balance by 54.55 percent as compared to the previous year. The surplus recorded in the overall balance of payment stood at US$ 2865 million during FY2009-10. It was US$ 2058 million in FY 2008-09. The balance of payments from FY2002-03 to FY2009-10 and trade balance and current account balance are shown in Graph 6.1 and Table 6.3 respectively.

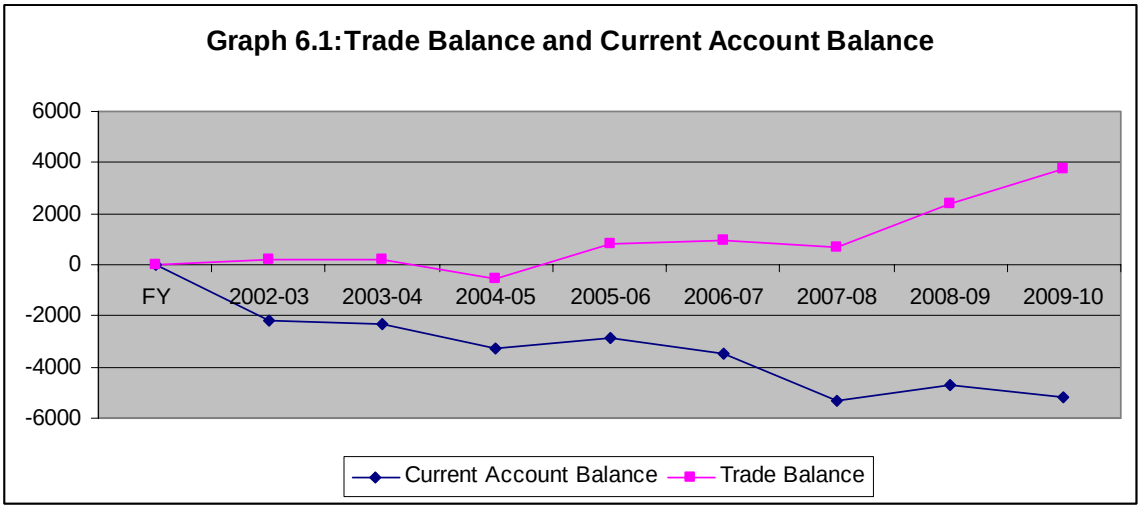


Table-6.3: Balance of Payments

(In million US$)

Particulars	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10[p]
Trade balance	**-2215**	**-2319**	**-3297**	**-2889**	**-3458**	**-5330**	**-4710**	**-5152**
Exports f.o.b. (including EPZ)	6492	7521	8573	10412	12053	14151	15581	16236
Import, f.o.b. (including EPZ)	-8707	-9840	-11870	-13301	-15511	-19481	-20291	-21388
Services	**-691**	**-874**	**-870**	**-1023**	**-1255**	**-1525**	**-1616**	**-1237**
Receipts	887	924	1177	1340	1484	1891	1832	2471
Payments	-1578	-1798	-2047	-2363	-2739	-3416	-3448	-3708
Income	**-358**	**-374**	**-680**	**-702**	**-905**	**-994**	**-1484**	**-1487**
Receipts	64	63	116	136	244	217	95	52
Payments	-422	-437	-796	-838	-1149	-1211	-1579	-1539
of which official interest payment	-167	-175	-203	-204	-212	-234	-238	-215
Current transfers	**3440**	**3743**	**4290**	**5438**	**6554**	**8529**	**10226**	**11610**
Official	82	61	37	125	97	127	72	122
Private	3358	3682	4253	5313	6457	8402	10154	11488
of which workers' remittances	3062	3372	3848	4802	5979	7915	9689	10987
Current account balance	**176**	**176**	**-557**	**824**	**936**	**680**	**2416**	**3734**
Capital account	**428**	**196**	**163**	**375**	**490**	**576**	**451**	**442**
Capital transfers	428	196	163	375	490	576	451	442
Financial account	**413**	**78**	**760**	**-141**	**762**	**-457**	**-825**	**-755**
(i) Direct foreign investment (net)	376	385	776	743	7	748	961	636
(ii) Portfolio investment	2	6	0	32	93	47	-159	-117
(iii) Other investment	35	-313	-16	-916	106	-1252	-1627	-1274
Medium and Long term loans	918	544	940	1023	-137	1338	1204	1601
MLT amortization payments	-452	-397	-449	-488	1037	-580	-641	-687
Other long-term loans (net)	-20	-41	-46	-37	-525	-6	-70	-156
Other short-term loans (net)	142	13	241	-256	-24	-160	-169	231
Other assets	-125	-125	-182	-495	493	-603	-650	-903
Trade credit (net)	-499	-321	-320	-898	-535	-1108	-1277	-1045
Commercial Bank	71	14	-200	235	-481	-133	24	-315
Assets	217	86	-91	31	-102	-146	129	-410
Liabilities	-146	-72	-109	204	-86	13	105	95
					-16			
Errors and omission	**-202**	**-170**	**-323**	**-720**	**-695**	**-468**	**16**	**-556**
Overall balance	**815**	**171**	**67**	**338**	**1493**	**331**	**2058**	**2865**
Reserve assets	**-815**	**-171**	**-67**	**-338**	**-1493**	**-331**	**-2058**	**-2865**
Bangladesh Bank	-815	-171	-67	-338	-1493	-331	-2058	-2865
Assets	-887	-235	-225	-554	-1593	-799	-1883	-3616
Liabilities	72	64	158	216	100	468	-175	751

Source Bangladesh Bank.
P= Provisional.

Export Position and Composition of Export Commodities

The export earnings of Bangladesh stood at US$16,204.65 million in FY 2009-10, which was 4.11 percent higher than the export earnings (US$15,565.19 million) of FY2008-09. The growth of export earnings is mainly attributable to the increases of export of jute goods, petroleum by-products, engineering products and agricultural products during the year under report. An analysis of composition of exports of 2009-10 by major categories reveals that the export earnings over the last fiscal year increased mainly for increases of petroleum by-products (112.03 percent), jute goods (100.62 percent), agricultural products (98.18 percent), engineering products (71.55 percent), raw jute (32.46 percent), leather (30.00 percent), footwear (9.18 percent), woven garments (1.6 percent) and knitwear (0.84 percent). On the other hand, export earnings decreased in chemical products (56.62 percent), tea (54.03 percent), handicrafts (41.15 percent), frozen food (3.77 percent) and ceramic products (2.90 percent). Table 6.4 shows the export growth and composition by commodities.

Table 6.4: Export Earnings, Composition and Growth of Export Earnings

Commodity classification	Total export earnings (Million US$)			% of total export earnings			Growth rate (%)		
	2007- 08	2008- 09	2009- 10	2007- 08	2008- 09	2009- 10	2007- 08	2008- 09	2009- 10
1. Raw jute	165.06	148.17	196.27	1.17	0.95	1.21	12.17	18.91	32.46
2. Tea	14.89	12.29	5.65	0.11	0.08	0.03	114.55	-62.06	-54.03
3. Frozen food	534.07	454.51	437.40	3.78	2.92	2.70	3.64	-18.10	-3.77
4. Agricultural products	120.13	267.41	242.35	0.85	0.79	1.50	36.79	101.74	98.18
5. Jute goods	318.34	269.25	540.17	2.26	1.73	3.33	-0.76	69.68	100.62
6. Leather	284.41	177.32	230.52	2.02	1.14	1.42	6.89	-18.95	30.00
7.Petroleumby products	185.11	142.03	301.15	1.31	0.91	1.86	120.63	62.69	112.03
8. Woven garments	5167.28	5918.51	6013.43	36.62	38.02	37.11	10.94	16.38	1.60
9. Knitwear	5532.52	6429.26	6483.29	39.21	41.31	40.01	21.50	17.19	0.84
10. chemical products	215.78	237.11	102.87	1.53	1.80	0.63	0.25	9.89	-56.62
11. Footwear	169.60	186.93	204.09	1.20	1.20	1.26	24.76	20.34	9.18
12. Handicrafts	5.49	6.44	3.79	0.04	0.04	0.02	-32.72	-30.97	-41.15
13. Engineering products	219.68	181.34	311.09	1.56	1.17	1.92	-7.27	-17.45	71.55
14. Ceramic products	38.30	31.70	30.78	0.27	0.20	0.19	27.98	-19.70	-2.90
15. Others	1140.14	1102.92	1101.80	8.08	7.09	6.80	24.95	-3.26	-0.10
Total export	**14110.80**	**15565.19**	**16204.65**	**100.00**	**100.00**	**100.00**	**15.87**	**14.84**	**4.11**

Source: Export Promotion Bureau, Ministry of Commerce.

Country-wise Export earnings

An analysis of country-wise export earnings shows that USA is the main destination of our export. Table 6.5 shows that USA secured the top position in respect of importing commodities

from Bangladesh in FY2009-10 followed by Germany (13.5 percent), UK (9.31 percent) and France (6.33 percent). During the period under report, goods valued at US$ 3,950.47 million were exported to USA, which was 24.38 percent of the total export earnings of the country. The major commodities exported to USA are woven garments, knitwear, frozen food, cap, home textile etc. The country-wise export earnings are shown in Table 6.5.

Table 6.5: Country-wise Export Income

(In million US$)

Fiscal Year	USA	Germany	UK	France	Belgium	Italy	Nether lands	Canada	Japan	Others	Total
FY01	2500.42	789.88	598.18	365.99	253.91	295.73	327.96	125.66	107.58	1101.69	6467.00
FY02	2218.79	681.44	647.96	413.69	211.39	262.31	283.36	109.85	96.13	1061.08	5986.00
FY03	2155.00	820.72	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1270.81	6548.00
FY04	1966.58	1298.54	898.21	552.96	326.95	315.93	290.44	284.33	118.16	1550.90	7603.00
FY05	2412.05	1353.80	943.17	626.17	325.43	369.18	291.94	335.25	122.41	1875.12	8654.52
FY06	3030.20	1764.11	1048.62	677.50	359.20	425.75	327.40	406.15	137.78	2349.45	10526.16
FY07	3441.02	1955.38	1173.95	731.76	435.82	515.66	459.01	457.21	147.47	2860.58	12177.86
FY08	3590.56	2174.81	1374.03	953.13	488.39	579.23	653.88	532.90	172.56	3591.31	14110.80
FY09	4052.00	2269.70	1501.20	1031.05	409.80	615.51	970.80	663.20	202.60	3849.33	15565.19
FY10	3950.47	2187.35	1508.54	1025.88	390.54	623.92	1016.88	648.19	330.55	4522.33	16204.65

Source: Export Promotion Bureau.

Export target and performance of Bangladesh during FY2002-03 to FY2009-10 are shown in Table 6.6.

Table 6.6: Export performance during FY 2002-03 to 2009-10.

(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
2009-10	17,600.00	16,204.65

Source: Export Promotion Bureau

It is evident from the above table that despite global recession, export target in the last two fiscal years is about to be achieved. Export from Bangladesh to SAARC member countries is shown below:

Table 6.7: Export from Bangladesh to SAARC Member Countries.

(In million US$)

Country	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Afghanistan	6.07	0.51	0.88	0.75	2.77	3.68	2.74
Bhutan	3.99	3.35	1.65	1.40	1.35	0.61	2.24
India	101.16	186.95	279.14	289.41	358.08	276.58	304.63
Maldives	-	0.48	0.26	0.27	0.08	0.14	0.74
Nepal	1.27	0.47	0.83	0.85	6.71	8.06	8.79
Pakistan	34.78	84.14	50.26	61.06	71.01	76.22	77.67
Sri Lanka	10.15	12.16	14.39	14.82	19.32	18.67	23.74
Total	157.42	288.06	347.41	368.56	459.32	383.96	420.55

Source: Export Promotion Bureau

It is apparent from the above table, in terms of export in the SAARC countries from Bangladesh, India secured the highest position and in FY 2009-10, its quantity among the SAARC countries is about 72 percent. It is to be noted that export in the SAARC countries in the FY 2009-10 compared to the total export of Bangladesh is only about 3 percent.

Country-wise Import Payments

In terms of the value of total imported commodities, China secured the top position in FY 2009-10. During this period, 16.09 percent of the total imported commodities came from China. India was the second largest source of import (13.54 percent of total import) while Singapore held the third position (6.53 percent to total import). In FY2009-10, the total import payment rose to US$ 23,738 million from US$ 22,507 in the previous year. Table 6.8 shows the country-wise import payments during FY 2000-01 to FY2009-10.

Table 6.8: 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	1184	824	846	478	412	411	248	148	4075	9335
2001-02	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	302	7064	14746
2006-07	2571	2268	1035	690	747	473	553	380	334	8106	17157
2007-08	3137	3393	1273	832	821	478	620	490	451	10134	21629
2008-09	3452	2864	1768	1015	851	498	864	461	703	10031	22507
2009-10	3819	3214	1550	1046	788	542	839	469	1232	10239	23738

Source: Bangladesh Bank.

The steps taken by the Government to encourage the total export trade as well as foreign trade during FY2009-10 are as follows:

- With a view to increasing export earnings as well as creating huge employment, the commission charged by the local bank against guarantee of advance to exporters by indenters'/buyers' in addition to add confirmation charge import by the foreign banks for exporting ship shall not exceed 1.5 percent per annum. But, the existing instruction shall also be applicable in case of opening L/C for this industry.
- Permission has been accorded to remit foreign exchange abroad for the first time with the prior permission of Bangladesh Bank but subsequent remittances for the same case may be made without prior approval of Bangladesh Bank.
- Export subsidy has been withdrawn to bar export of aromatic and fine rice.
- In order to facilitate emergency import payments, all Authorised Dealers (ADs) are allowed to affect advance payment not exceeding US$10,000 or its equivalent from the Exporters Retention Quota (ERQ) accounts against *bona fide* business purposes subject to observance of the relevant contract invoice and compliance of some others stipulated terms and conditions for such payment.
- To encourage export trade of the country, it has been decided to continue cash incentive/export subsidy by the Government like preceding year on net fob values of the selected commodities shipped during FY2009-10 at the following rates: (i) local garments at 5 percent; (ii) frozen shrimp and other fishes at percent; (iii) leather products at 17.50 percent; (iv) agro (vegetables/fruits) and agro processing products at 20 percent; (v) potato at 10 percent; (vi) bicycle at 15 percent; (vii) crushed bone at 15 percent; (viii) mat, stalk, sugarcane fibre etc. made handicrafts at 15 percent-20 percent; (ix) jute products at 10 percent; (x) hatching eggs and day old chicks of poultry industries at 15 percent; (xi) light engineering products at 10 percent; (xii) liquid glucose from Irshardi EPZ at 20 percent; and (xiii) 100 percent halal meat at 20 percent.
- It has been decided that concerned ADs may release 70 percent of cash incentive/ export subsidy immediately as claimed by the exporter before completion of audit formalities on such claims and the remaining 30 percent shall be payable after completion of audit.
- Banks are now free to undertake foreign exchange forward transactions due to relaxation of regulation on foreign exchange forward transactions.
- Private sector enterprises in Bangladesh having Foreign Direct Investment (FDI) and/or Private Sector External Debt (PSED) have to submit returns of FDI and/or PSED to Bangladesh Bank in the prescribed formats.
- Following the Basel-II guidelines, it has been decided that all ADs will use a new format for submission of their daily exchange position from 1st February, 2010.
- With a view to encouraging export trade of the country, the Government has decided to provide export subsidy against export of Pet Bottle Flakes at 10 percent and the facility will be valid for commodities shipped from 1st July 2009 to 30th June 2010.

- With a view to enhancing the L/C opening limit for coal through land port, the limit of settling L/C (without SWIFT mechanism) has been enhanced from US$ 5000 to US$ 6000.
- With a view to checking the price for importable project machinery/product, all ADs are advised to check the documents and to communicate with the consular office to become sure of the exactness of the importable goods' price shown in the IMP form.

Exchange Rate Policy

Bangladesh moved to floating exchange rate regime on May 31, 2003. Under this system, Babgladesh Bank doesn't participate in the foreign exchange market rather it participate time to time in the monetary management to stabilize exchange rate.

Despite global financial meltdown, there has been adequate supply of liquidity in the foreign exchange market in FY 2009-10. Receipts of ever-highest foreign inward remittance and moderate growth in import payment contributed to the foreign exchange market remaining calm despite stumpy growth in export in the wake of global recession.

Besides, the effective use of growth supportive monetary policy helped stabilizing the exchange rate. It is expected that stability of forex would be maintained in future if there is no adverse effect of World recession on foreign inward remittance and demand of forex remains normal.

The weighted average exchange rate stood at Taka 69.18 per Dollar in FY2009-10, which was Taka 68.8 per Dollar in FY2008-09. The weighted average exchange rate during FY2001-02 to FY2009-10 is shown in Table 6.9 below.

Table 6.9: Average Exchange Rate (Tk per US$)

Year	FY02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY10
Average Exchange Rate	57.43	57.90	58.94	61.39	67.08	69.03	68.60	68.80	69.18

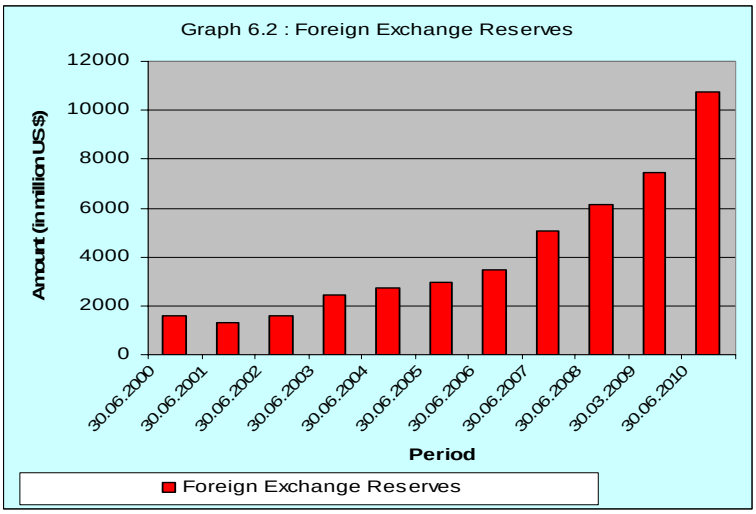
Source: Bangladesh Bank

Foreign Exchange Reserve

Substantial foreign loan received (amounting to Tk. 4,490 crore) from Asian Development Bank for budgetary support and receipts of ever highest wage earners' remittances from abroad contributed to increase in foreign exchange reserve during FY2009-10. Foreign exchange reserve stood at US$ 10,750 million as on June 30, 2010, which was 43.89 percent higher than the amount recorded as on June 30, 2009. Table 6.10 and Graph 6.2 show the foreign exchange reserve position during June 30, 2000 to June 30, 2010.

Table 6.10: Foreign Exchange Reserve

(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
30.06.2009	7471
30.06.2010	10750

Source: Bangladesh Bank