CHAPTER 6
EXTERNAL SECTOR

[International trade was in turmoil due to global economic recession in 2008 and 2009. During this period the growth rate of international trade was far squeezed to world GDP growth rate, though it made a turnaround in 2010. Besides this, the political crisis in North Africa and the Middle East aggravated the situation. This crisis had an impact on the economy of Bangladesh. Import expenditure and export earning both plummeted during the first six months of FY 2011-12. Investment in the power sector and the oil price-hike in the international market created pressure on the foreign exchange reserve of Bangladesh which resulted in depreciation of Taka against Dollar and the current account fell under pressure. However, in FY 2010-11 and FY 2011-12 export earnings and import expenditure increased by 29.31 and 5.66 percent and 41.8 and 5.5 percent respectively. Current account balance of FY 2010-11 and FY2011-12 stood at US$ 995 and US$ 1630 million respectively. Foreign exchange reserve as on 30 June, 2012 was US$10.364 billion External sector of Bangladesh showed its resilence against the crisis at the beginning of 2012 of the previous fiscal year.]

Global Trade Situation

According to IMF World Economic Outlook, October, 2012, the growth rate of global trade is 5.8 percent in 2011 which was 12.9 percent in 2010. The outlook forecasts that the growth rate of global trade may decline to 3.2 percent in 2012. But the world trade situation may turn around in 2013. The growth during this period has been estimated at 4.5 percent. According to the Outlook, the growth of import and export in advanced economies has reduced from 11.4 percent to 4.4 percent and from 12.0 percent to 5.3 percent in 2011. On the other hand, the growth of import and export in emerging markets and developing economies reduced from 14.9 percent to 8.8 percent and from 13.7 percent to 6.5 percent. The forecast says that the growth of import and export in advanced economies will reduce to 1.7 percent and 2.2 percent respectively in 2012. Meanwhile, the growth of import and export in emerging markets and developing economies will reduce to 7.0 percent and 4.0 percent.

The trend of growth of world trade volume is shown in the following table:

Table-6.1: World Trade Volume

(Percentage change)

	Actual		Projections	
	2010	**2011**	**2012**	**2013**
World Trade (Goods & Services)	12.6	5.8	3.2	4.5
Imports				
Advanced Economies	11.4	4.4	1.7	3.3
Emerging & Developing Economies	14.9	8.8	7.0	6.6
Exports				
Advanced Economies	12.0	5.3	2.2	3.6
Emerging & Developing Economies	13.7	6.5	4.0	5.7

Source: World Economic Outlook, October 2012, IMF.

Balance of Payment

The trade balance recorded a deficit which increased by 3.2 percent as compared to the deficit of US$7744 million during FY 2010-11 and stood at US$7995 million in FY 2011-12. The current account balance recorded a surplus of US$1630 million in FY 2011-12 as compared to the surplus of US$885 million in FY 2010-11. In spite of increase in the deficit recorded in the income account at 3.7 percent, the deficit in service accounts increased by 8.3 percent and the same in trade account by 3.2 percent. The current transfer account increased substantially to US$13699 million in FY 2011-12 compared to US$12452 million in FY 2010-11. The deficit recorded in the overall balance of payment stood at US$494 million in FY 2011-12, which was US$656 million in FY 2010-11. Trade balance and current account balance situation is shown in Graph 6.1 from FY 2001-02 to FY 2011-12 and the overall balance of payments position from FY 2005-06 to FY 2011-12 is shown in Table 6.2.

Table-6.2: Balance of Payments

(In Million US$)

Particulars	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12*
Trade balance	**-3297**	**-2889**	**-3458**	**-5330**	**-4710**	**-5155**	**-7744**	**-7995**
Exports f.o.b. (including EPZ)	8573	10412	12053	14151	15581	16233	22592	23992
Import, f.o.b. (including EPZ)	-11870	-13301	-15511	-19481	-20291	-21388	-30336	-31987
Services	**-870**	**-1023**	**-1255**	**-1525**	**-1616**	**-1233**	**-2369**	**-2566**
Receipts	1177	1340	1484	1891	1832	2478	2573	2684
Payments	-2047	-2363	-2739	-3416	-3448	-3711	-4942	-5250
Income	**-680**	**-702**	**-905**	**-994**	**-1484**	**-1484**	**-1454**	**-1508**
Receipts	116	136	244	217	95	52	124	195
Payments	-796	-838	-1149	-1211	-1579	-1536	-1578	-1703
of which official interest payment	-203	-204	-212	-234	-238	-215	-345	-373
Current transfers	**4290**	**5438**	**6554**	**8529**	**10226**	**11596**	**12452**	**13699**
Official	37	125	97	127	72	127	103	105
Private	4253	5313	6457	8402	10154	11469	12349	13594
of which workers' remittances	3848	4802	5979	7915	9689	10987	11650	12843
Current account balance	**-557**	**824**	**936**	**680**	**2416**	**3724**	**885**	**1630**

Particulars	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12*
Capital account	**163**	**375**	**490**	**576**	**451**	**512**	**642**	**469**
Capital transfers	163	375	490	576	451	512	642	469
Financial account	**760**	**-141**	**762**	**-457**	**-825**	**-746**	**-1920**	**-955**
(i) Foreign Direct Investment (net)	776	743	793	748	961	818	775	995
(ii) Portfolio investment	0	32	106	47	-159	-117	-28	198
(iii) Other investment	-16	-916	-137	-1252	-1627	-1447	-2667	-2148
Medium and Long term loans (MLT)	940	1023	1037	1338	1204	1589	1032	1460
MLT amortization payments	-449	-488	-525	-580	-641	-687	-739	-789
Other long-term loans (net)	-46	-37	-24	-6	-70	-151	-101	-57
Other short-term loans (net)	241	-256	493	-160	-169	62	531	242
Other assets	-182	-495	-535	-603	-650	-902	-661	-1606
Trade credit (net)	-320	-898	-481	-1108	-1277	-1043	-2569	-1450
Commercial Bank	-200	235	-102	-133	-24	-315	-160	52
Assets	-91	31	-86	-146	-129	-410	452	443
Liabilities	-109	204	-16	13	105	95	292	495
Errors and omission	**-323**	**-720**	**-695**	**-468**	**16**	**-625**	**-263**	**-650**
Overall balance	**67**	**338**	**1493**	**331**	**2058**	**2865**	**-656**	**494**
Reserve assets	**-67**	**-338**	**-1493**	**-331**	**-2058**	**-2865**	**656**	**-494**
Bangladesh Bank	-67	-338	-1493	-331	-2058	-2865	656	-494
Assets	-225	-554	-1593	-799	-1883	-3616	-481	293
Liabilities	158	216	100	468	-175	751	175	-201

Source: Bangladesh Bank. *= Provisional.

Export Position and Composition of Export Commodities

The export earnings of Bangladesh stood at US$24288 million in FY2011-12, which was 5.9 percent higher than the export earnings (US$22928 million) of FY2010-11. An analysis of composition of exports in FY2011-12 by major categories reveals that the export earnings over the last fiscal year increased mainly for footwear (30.1 percent), engineering products (21.1 percent), woven garments (13.9 percent) and leather (10.8 percent). On the other hand, export earnings decreased in respect of raw jute (25.4 percent), ceramic product (10.2 percent) and jute goods (7.5 percent). Export growth and composition by commodities from FY2009-10 to FY2011-12 are shown in Table 6.3.

Table 6.3: Export Earnings Composition and Growth of Export Income

Commodity classification	Total export earnings (Million US $)			% of total export earnings			Growth rate (%)		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
1) Primary Products	884	1316.0	1267.0	5.5	5.7	5.2	1.6	48.9	-3.7
a)Frozen Food	445	625	598.4	2.75	2.73	2.5	-2.2	40.4	-4.3
b) Agricultural Product	184	262	304	1.1	1.1	1.3	25.2	42.4	16.0
2) Industrial Products	15321	21612	23021	94.6	94.3	94.8	4.3	41	6.5
a) Woven Garments	6013	8432	9603.3	37.11	36.78	39.5	1.6	40.2	13.9
b) Knitwear	6483	9482	9486.4	45.60	47.44	39.1	0.8	46.3	0.0
c) Leather	226	298	330.2	1.39	1.30	1.4	27.7	31.9	10.8
d) Jute Goods	540	758	701.1	3.33	3.31	2.9	100.7	40.4	-7.5
e) Fertilizer & Chemical products	103	105	103	0.64	0.46	0.4	-63.2	1.9	-1.9
f) Footwear	204	298	336	1.26	1.30	1.4	9.1	46.1	30.1
g) Ceramic Products	30.78	37.58	33.8	0.19	0.16	0.1	-2.9	22.1	-10.2
h) Engineering products	311	310	376	1.92	1.35	1.5	64.6	-0.3	21.3
i) Petroleum by Product	301	261	275	1.86	1.14	1.1	112.0	-13.4	5.5
j) Handicrafts	4	4	5	0.02	0.02	0.0	-40.8	18.7	25.0
k) Others	1105.28	1666.4	1772.0	6.8	7.1	7.3	3.8	46.8	6.2
Total	16205	22928	24288	100	100	100	4.1	41.5	5.9

Source: Export Promotion Bureau, Ministry of Commerce.

Country-wise Export Earnings

Analysis of country-wise export shows that USA is the main destination of our export. It appears from Table 6.4 that in FY 2011-12, USA secured the top position in respect of importing commodities from Bangladesh. During the period under report, the export earnings from USA was US$5100.9 million, which is 21percent of country's total export earnings. The principal commodities exported to USA are woven garments, knitwear, frozen food, cap, home textile etc. The other Bangladeshi export destinations like Germany (15.2 percent), UK (10.1 percent) and France (5.7 percent). have their respective positions. The country-wise export earnings are shown in Table 6.4.

Table 6.4: 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	10526.2
FY07	3441.02	1955.38	1174.0	731.76	435.82	515.66	459.01	457.21	147.47	2860.58	12177.9
FY08	3590.56	2174.81	1373.95	953.13	488.39	579.23	653.88	532.90	172.56	3591.31	14110.8
FY09	4052.00	2269.70	1501.20	1031.1	409.80	615.51	970.80	663.20	202.60	3849.33	15565.2
FY10	3950.47	2187.35	1508.54	1025.9	390.54	623.92	1016.88	648.19	330.55	4522.33	16204.7
FY11	5107.52	3438.70	2065.38	1538.0	666.24	866.42	1107.13	944.67	434.12	6756.22	22924.4
FY12	5100.90	3689.00	2444.60	1380.40	742.00	977.40	691.30	993.70	600.50	7668.00	24287.7

Source: Export Promotion Bureau.

Export target and performance of Bangladesh during FY 2001-02 to FY 2010-11 are shown in Table 6.5.

Table 6.5: Export performance during FY 2000-01 to 2011-12

(In Million US$)

Fiscal Year	Export Target	Actual Export
2001-02	5,940	5,986.09
2002-03	6,405	6,548.44
2003-04	7,439	7,602.99

Fiscal Year	Export Target	Actual Export
2004-05	8,565	8,654.52
2005-06	10,159	10,526.16
2006-07	12,500	12,177.86
2007-08	14,500	14,110.80
2008-09	16,298	15,565.19
2009-10	17,600	16,204.65
2010-11	18,500	22,924.38
2011-12	26,500	24,301.90

Source: Export Promotion Bureau

It is evident from the above table that despite global recession, export target in the last two fiscal years were almost achieved.

Export from Bangladesh to SAARC member countries is shown below:

Table 6.6: 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	2010-11	2011-12
Afghanistan	6.07	0.51	0.88	0.75	2.77	3.68	2.74	3.53	3.59
Bhutan	3.99	3.35	1.65	1.40	1.35	0.61	2.24	3.12	9.13
India	101.16	186.95	279.14	289.41	358.08	276.58	304.63	512.51	498.42
Maldives	-	0.48	0.26	0.27	0.08	0.14	0.74	0.93	1.78
Nepal	1.27	0.47	0.83	0.85	6.71	8.06	8.79	10.84	41.58
Pakistan	34.78	84.14	50.26	61.06	71.01	76.22	77.67	86.79	73.21
Sri Lanka	10.15	12.16	14.39	14.82	19.32	18.67	23.74	34.73	42.59
Total	**157.42**	**288.06**	**347.41**	**368.56**	**459.32**	**383.96**	**420.55**	**652.45**	**670.30**

Source: Export Promotion Bureau

The above table shows that in terms of export to the SAARC countries from Bangladesh, India secured the top position and in FY 2011-12 its quantity among the SAARC countries is about 79 percent. It is to be noted that export in the SAARC countries in FY 2011-12 compared to the total export of Bangladesh is only about 4 percent.

Import Status and Composition of Import Commodities

The total import payments (C&F) stood at US$35516 million during FY 2011-12, which was 5.5 percent higher than the import payments of US$33657 million of the preceding year. Table 6.6 shows the overall import situation of the country.

Table 6.7: Comparative Situation of Commodity-wise Import Payment

(In Million US$)

Commodity	FY06	FY07	FY08	FY09	FY10	FY11	FY12
a) Major Primary Commodities	**1854**	**2069**	**3455**	**2916**	**2940**	**5591**	**4149**
Rice	117	180	874	239	75	830	288
Wheat	301	401	537	643	761	1081	613
Oilseeds	90	106	136	159	130	103	177
Crude petroleum	604	524	695	584	535	888	987
Cotton	742	858	1213	1291	1439	2689	2084
b) Major industrial Commodities	**3002**	**3568**	**4844**	**5035**	**4957**	**7546**	**9263**
Edible oil	473	583	1006	865	1050	1067	1644
Petroleum products	1400	1709	2058	1997	2021	3221	3922
Fertilizer	342	357	632	955	717	1241	1381
Clinker	210	240	347	314	333	446	504
Staple fiber	76	97	110	112	118	180	428
Yarn	501	582	691	792	718	1390	1384
c) Capital Machinery	**1458**	**1929**	**1664**	**1420**	**1595**	**2324**	**2005**
d) Other Commodities (including EPZ)	**8432**	**9591**	**11666**	**13136**	**14246**	**18196**	**20099**
Grand Total	**14746**	**17157**	**21629**	**22507**	**23738**	**33657**	**35516**
% Change	**12.2**	**16.4**	**26.1**	**4.1**	**5.5**	**41.8**	**5.5**

Source: Bangladesh Bank. *% change as compared the previous year.

Country-wise Import Payments

In terms of value of total imported commodities, China secured the first position for our import in FY 2011-12. During this period, 18.17 percent of the total imported commodities came from China. India was the second largest source of import (13.39 percent) while Singapore held the third position (4.82 percent). Table 6.8 shows the country-wise import payments during FY2000-01 to FY 2011-12.

Table 6.8: Country-wise Import Payments

(In Million US$)

Fiscal Year	China	India	Singapore	Malaysia	Japan	South Korea	Hong Kong	Taiwan	USA	Others	Total
2000-01	709	1184	824	148	846	411	478	412	248	4075	9335
2000-02	878	1019	871	145	655	346	441	312	261	3612	8540
2002-03	938	1358	1000	169	605	333	433	328	223	4271	9658
2003-04	1198	1602	911	255	552	420	433	377	226	4929	10903
2004-05	1642	2030	888	276	559	426	565	439	329	5993	13147
2005-06	2079	1868	849	302	651	489	626	473	345	7064	14746
2006-07	2571	2268	1035	334	690	553	747	473	380	8106	17157
2007-08	3137	3393	1273	451	832	620	821	478	490	10134	21629
2008-09	3452	2868	1768	703	1015	864	851	498	461	10027	22507
2009-10	3819	3214	1550	1232	1046	839	788	542	469	10239	23738
2010-11	5918	4569	1294	1760	1308	1124	777	731	677	15500	33658
2011-12	6455	4755	1711	1407	1456	1551	704	793	710	15974	35516

Source: Bangladesh Bank.

The following steps were taken to encourage export trade of the country during 2011-2012:

- To encourage export trade of the country, cash incentive on some selected products were continued and cash incentive on leather products was enhanced from 12.5 percent to 15 percent.
- A decision was taken for the payment of cash incentive against export proceeds by documentary collection and TT for export of ship, shrimps and fishes as well as RMG export to new market and marketing new product.
- A decision has been taken to provide 5 percent additional cash incentive to RMG exporters who use local fabrics as raw materials.
- The sovereign credit rating of Bangladesh (BB and Ba3 respectively) have been successfully performed to attract investment from external source by issuing government and non-government corporate sector bonds in the international market by two renowned international sovereign credit rating agencies (Standard's and Poor's and Moody's), which will contribute to collect fund from external sources with favourable evaluation of investment risks in Bangladesh in case of foreign investment.
- Necessary permission has been given to use online payment gateway service for remittance of foreign currency against service export from Bangladesh (ICT service: data entry, data processing, software, outsourcing etc.).

- Rate of interest has been increased to 6 percent for the late payment of import bill to the supplier which will be applicable for foreign supplier and short term loan borrowed from bank and financial institution.
- Direction has been given to the approved dealers / commercial banks for keeping 50 percent of remitted fund as retention quota to the account of exporters against service export (business process outsourcing , ICT, consultancy research),of which , the fund can be spent by the exporters as foreign currency to meet their expenses abroad for business expansion.
- Decision has been taken to continue cash incentive on export of the following sectors for FY2011-2012 as last year to face world recession and promote our export: RMG of Local Fabrics 5 percent; Product made of hoogla, straw, coir of sugar cane (if local raw materials is used more than -80 percent, if local raw materials is used more than 50 percent -15-20 percent); agriculture and agro-processed products including vegetables and fruits -20 percent; bicycle export -15 percent; crushed bone -15 percent; paultry industry hatching egg and chick -15 percent; light engineering products -10 percent; liquid glucose (only for Iswardi EPZ area) -20 percent; halal meat -20 percent; frozen shrimp and other fish -10 percent; leather goods -15 percent; shipbuilding -5 percent; finessed leather -4 percent; crust leather -3 percent; potato -20 percent; pet bottle flakes -10 percent; jute Products -10 percent; additional benefit for small and medium industry's textile products -5 percent; new Products and new market for readymade garments (Except USA, EU & Canada) -2 percent.

Exchange Rate Policy

Since the adoption of market based exchange rate system with effect from 31 May, 2003, exchange rate is being determined on the basis of demand and supply of the respective currencies. All scheduled banks are now free to set their own rates for interbank and customer transactions. However, in order to maintain organised market condition, Bangladesh Bank remains vigilant over the developments in the foreign exchange market. Bangladesh witnessed overall 9.28 percent depreciation against US dollar in FY 2011-12 due to higher import demand for enhanced domestic investment activities (caused huge foreign exchange demand for import of capital goods) and increase in fuel price. The weighted average interbank rate stood at Tk. 81.87 per US dollar in June, 2012 against 74.23 as on 30 June 2011. Bangladesh Taka remained almost stable in first, third and fourth quarter of FY 2011-12. Bangladesh experienced 8.16 percent depreciation of Taka against US dollar in the second quarter of this fiscal year. But at the third and fourth quarter of this fiscal year, Taka regained its strength and appreciated due to adoption of prudent monetary policy and it remained more or less stable at the end of June 2012. Strong growth of remittance from wage earners abroad (10.24 percent) and flow of foreign aid with rationalization of import payments and moderate growth of export (5.9 percent) helped keeping Bangladesh Taka competitive in this fiscal year. Bangladesh Bank remained vigilant in

the foreign exchange market in line with its monetary policy goal to ensure stability in the foreign exchange market. Taka-Dollar exchange rates during FY 2011-12 (monthly) are shown in Table 6.9.

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

Year	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY10	FY11	FY12
Average Exchange Rate	57.90	58.94	61.39	67.08	69.03	68.60	68.80	69.18	71.17	79.09

Source: Bangladesh Bank

Foreign Exchange Reserve

Bangladesh Bank managed to keep stable theforeign exchange reserve position. The gross foreign exchange reserve of Bangladesh Bank reached US$ 10364.43 million at the end of FY2011-12 which is 5.02 percent lower than US$10912 million as compared to the end of FY2010-11. In order to maitain the long term stability of the country's reserves and diversifying the external asset portfolio, BB invested in sovereign/supranational/ highly reputed corporate bonds, Treasury Bills of US Government and in short term deposit with highly reputed commercial banks. Table 6.9 and Figure 6.4 show the foreign exchange reserve position at the end of June 2000 to the end of June 2012.

Table 6.10: Foreign Exchange Reserve

(In million US$)

Date	Amount (In million US Dollar)
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
30.03.2009	7471
30.06.2010	10750
30.06.2011	10912
30.06.2012	10364

Source: Bangladesh Bank

Trade Policy

The Government has introduced a new export and import policy (2009-2012) to mitigate the impacts of global economic recession. This has kept the negative impacts under control and resulted in a substantial growth in foreign trade as the international trade made a turnaround in the post-recession period.

The highlights of the current export policy:

- To ensure a modern and liberal trade regime consistent with World Trade Organization (WTO) regime and globalisation.
- To encourage the production of labor-intensive (especially female labor) exportable goods.
- To make available the raw material for exportable products.
- To diversify exportable products and increase productivity.
- To enhance the quality of product, encourage the use of sustainable and environment-friendly technology, production of highly value added goods and improvement of the quality of design.
- To follow "up-to-the-minute" tactics for the expansion of new export destination, and ensure the best utilisation of computer technology and e-commerce.
- To promote the infrastructural facilities, especially backward and forward linkages for the exportable products.
- To aid the current exporters and to create a critical mass of new exporters.

Measures Taken to Boost up Exports

The Government of Bangladesh declared the first stimulus package in FY 2008-09 and the second in FY 2009-10 especially for the export sector to curb the negative impacts of the global economic recession and to foster the growth of exports. Tenure of some facilities under these stimulus packages were completed in FY 2008-09 and FY 2009-10 and some are still continuing. Cash incentives and many other facilities were provided to the exporters. The salient features of steps taken to boost up exports are as follows:

- The size of Export Development Fund (EDF) has been increased from US$300 million to US$400 million to assist the export sector of the country.
- Extended subsidy under the stimulus package on export earnings (FoB) will be provided at the rate 5 percent in the first year, 4 percent in the second year and 3 percent in the

third year for new exportable items and also for new export destination. Bangladesh Textile Mills Association (BTMA) will enjoy the facility for any market to export yarn.

- Bangladesh Bank has issued a circular for rationalising existing discrepancies of different charges and fees prevailing in different banks.
- The loan amount has been increased from US$1.5 million to US$10 million for a single borrower through a consortium of three banks. This loan will be provided from the Export Development Fund (EDF) for which the rate of interest would be LIBOR + 2.5 percent.
- Provision has been made for BTMA to draw EDF loan from authorised dealer banks at the rate of LIBOR + 2.5 percent for one time yarn import worth of the value of indirect exports which is not more than one preceding year or US$10 million (whichever becomes less) in order to resolve the issues raised by the BTMA regarding Export Development Fund.
- The agreed support arrangements between the Government and BTMA for the operation of National Institute of Textile Training, Research and Design (NITTRAD) include the following: (a) Government will bear full expenditure for the first year;(b) In the 2nd year, Government will bear 60 percent; (c) for the next 3 years Government will bear up to 50 percent; (d) BTMA will operate the institute afterwards.
- Shipbuilding industry as a prospective sector for export has been provided with 5 percent cash incentive for encouraging export diversification.
- Crust leather industry has been given 5 percent cash incentive for export.
- One year moratorium on 30 percent of credit ceiling for working capital to the existing frozen food and export oriented projects.
- The small and medium garment manufacturers will get a special facility at the rate of 2 percent (25% of FoB value) of local value addition on shipment under the special facility given by the Government in FY 2010-11.
- Subsidy will not be provided if customs bond/ duty draw-back facility is initiated for production or processing of goods.
- Subsidy will be provided under certain conditions against the advance by telegraphic transfer as well as negotiation/collection of export bills to the public and private jute mills for exporting the jute goods.
- The authorised dealers of IT/software firms will be allowed to repatriate up to US$10,000 from the exporters' retention quota to reimburse the fees without prior approval of Bangladesh Bank

Import Policy

The salient features of present import policy are as follows:

- To make the import policy compatible with the changes in the world market which have taken place following the introduction of market economy and globalization under WTO.
- 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 commodities fit for human consumption 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.

Tariff Regime:

Bangladesh has been following the Most Favored Nation (MFN) tariff rate since FY 2000-01 in order to facilitate smooth implementation of the import policy of the Government. Tariff structure from FY 2000-01 to FY 2011-12 has been presented in the table below:

Table –6.11: Tariff Structure from FY 2000-01 to FY 2011-12

Fiscal Year	Operative Tariff (%)	Maximum Tariff Rate (%)	Number of Operative 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
2010-11	0, 3, 5, 12, 25	25	5
2011-12	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 bilateral/regional trade agreements, (ii) imports of capital machinery and spare/parts by registered industrial consumers including export-oriented industries and (iii) import of raw material for a specific use or user (i.e. end use provisions) such as dairy and poultry, pharmaceuticals, leather and textile industries. At present tariff concessions are being provided along with MFN tariff rate in respect of the following goods:

a) Capital machinery and parts imported by export oriented industries.

b) Capital machinery and parts by registered industries.

c) Raw materials imported by pharmaceutical industry.

d) Raw materials used in textile industry.

e) Accessories used in agriculture sector.

f) Computers 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 are used in agriculture

j) Machinery, parts and accessories imported by poultry irms.

Reduction of Tariff

The process of reducing import tariff rate in Bangladesh started since FY 1991-92 and is still continuing in FY 2011-12 in order to facilitate the indigenous industries and make it consistent with the world-wide tariff rate. The unweighted average import tariff rate in FY 1991-92 was 57.22% which has been reduced to 14.83% in FY 2011-12. At present, ad-valorem duties are being imposed on 99.50% tariff line. Specific duty are in existence at different rates on some products such as sugar, cement clinker, bitumen, gold, steel products-scraped ship against only 25 tariff lines. Value added tax, regulatory duty, supplementary duty, advance income tax and advanced trade VAT are imposed on importable goods in addition to customs duty. The slab of supplementary duty was 20 percent, 30 percent, 45 percent, 60 percent, 100 percent, 250 percent, 350 percent and 500 percent in FY 2011-12. Advanced trade VAT has been increased to 4 percent from 3 percent. In addition, 5 percent regulatory duty has been imposed on the products, which should be included at 25percent custom duty slab during this fiscal year as it was in FY2010-11). The MFN unweighted import average is shown in the table below:

Table 6.12: MFN Unweighted Import Average

Fiscal Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
MFN un-weighted average	19.88	18.85	16.53	16.39	14.87	17.26	15.12	14.97	14.85	14.83

Source: National Board of Revenue (NBR)

Regional and International Trade Cooperation

WTO and Bangladesh

The WTO Cell, established under the Ministry of Commerce of Bangladesh, has been tasked to deal with all activities meant to address the WTO issues. Important ones include *interalia*: to assist in promoting international trade in compliance with WTO rules and regulations; to work for enhancing overall capacity to deal with WTO issues; to work towards achieving better market access in addition to safeguard interests of the country in the multilateral trading system; to take part in the negotiations by formulating country positions on various issues; and to exchange views with the stakeholders on various issues. Important activities carried out by the WTO Cell in the last three years are as follows:

- A Bangladesh Delegation attended the 7th WTO Ministerial Conference held in Geneva between 30 November to 2 December 2009. Before the Ministerial Conference, Bangladesh also attended LDC Trade Ministers' Conference held in Dar Es Salaam, Tanzania between 14-16 October 2009 to formulate common positions on various negotiating issues of LDCs. In the 7th Ministerial Conference, Bangladesh Delegation put in efforts to achieve duty-free and quota-free market access in developed country markets and market access opportunity for Bangladeshi manpower under Mode-4 in services sector.
- Bangladesh joined the Enhanced Integrated Framework (EIF) process jointly established by six international organisations, namely, WTO, UNCTAD, UNDP, World Bank, IMF and ITC, with a view to enhancing trade-related capacity of LDCs. In order to enhance trade-related capacity of Bangladesh under this process, the World Bank has already been nominated to conduct Diagnostic Trade Integration Study (DTIS).
- In order to identify the need for technical and financial assistance to protect intellectual property rights, Bangladesh has conducted a needs assessment study and submitted a report to the WTO. A workshop on this issue was also held in Dhaka in July 2010 with participants from the Asia-Pacific Region.
- Workshops on TRIPS, SPS, Notification, Trade in Services, Non-Agricultural Market Access (NAMA), EIF process were held under the technical assistance programme of the

WTO. In addition, a two-day workshop was held for the Members of Parliaments (MPs), which was attended by 30 MPs.

- In order to achieve duty-free and quota-free (DFQF) market access for RMG products of Bangladesh in the US market, Bangladesh has been trying to include Bangladesh in the Bill titled **New Partnership for Trade and Development (NPTDA). 2009 placed before the US Congress**
- In order to ensure and maintain fair competition in the market by controlling anti-competitive activities, a competition law, titled as "Competition Act 2012" was formulated and passed by the Parliament.
- In consultation with the stakeholders, it was decided in principle to start Better Work Programme in order to develop country branding by improving quality of RMG products and complying with labour issues related to RMG industries, like working environment, security and wages of labourers. Besides, in order to increase exports to the US market, a booklet was published with information on measures taken by various organisations to ensure labour rights and social compliance in export-oriented RMG industries, Exports Processing Zones and shrimp sector.
- The WTO Cell has been working to achieve DFQF market access in the international market. Such access has already been provided by the European Union, Canada, Australia, New Zealand, Norway and Switzerland. Besides, India, South Korea, Brazil and China have provided DFQF market access for 85 percent, 80 percent, 80 percent, and 90 percent products of LDCs respectively. It may be mentioned that in the light of the Doha Declaration, it was decided in Hong Kong Ministerial Conference that the developed and developing countries shall provide DFQF market access to at least 97 percent of LDC products. The list of such products would be expanded gradually.

Bangladesh worked as the Coordinator of the LDC Group in the WTO for 2011. As the Coordinator, Bangladesh has led the negotiations on the issues that were important for both Bangladesh and the LDC Group. The 8th Ministerial Conference of the WTO was held in Geneva on 15-16 December 2011 and it was attended by Bangladesh Delegation. In the conference, in addition to simplifying LDCs' accession process to the WTO, the following recommendations were adopted in favour of LDCs:

1) A Waiver Decision (MFN Waiver) with a view to providing preferential market access to LDCs in services trade, was adopted;
2) The issue of extending the TRIPS related exemption for LDCs beyond July 2013 will be considered on the basis of application from LDCs;
3) Requirements for access of LDCs to the WTO have been made simple and easy through specific benchmarks.

It is expected that through the Waiver Decision adopted in 8th Ministerial Conference, Bangladesh's trade in services, particularly manpower exports under Mode-4, will be enhanced. In addition, if duration of the TRIPS related exemption is extended further, domestic industries will be expanded and Bangladesh's exports will be benefited.

Regional Trade Agreements (RTAs) and Bangladesh

Asia Pacific Trade Agreement (APTA):

With the initiative of UNESCAP in 1975 the "Bangkok Agreement" was signed among seven countries –Bangladesh, India, Lao-PDR; the Republic of Korea, Sri–Lanka and the Philippines with an aim to facilitate trade and commerce within the region. Later on Thailand and the Philippines did not ratify the agreement. In 2001, China joined as a new member. In 2005 the "Bangkok Agreement" was renamed as the "Asia Pacific Trade Agreement (APTA)".

The third Round of Tariff negotiations concluded in 2006. Under this Round, Bangladesh and other LDCs got special tariff concessions on 587 items. Besides, Bangladesh was granted duty free access for 83 and 139 items by China and South Korea respectively. The fourth Round Negotiation commenced in October 2007 aiming at deepening and expanding the tariff benefits along with other issues such as Non-tariff Barriers, Trade Facilitation, Trade in Services, and Investment. The Fourth Round is yet to conclude. In the meantime, three Framework Agreements: Agreement on Trade Facilitation, Agreement on Investment and Agreement on Liberalization of Trade in Services have been signed by the member countries. Mongolia is in the process of accession to APTA as a new member.

Trade Preferential System among OIC Countries (TPS-OIC)

Framework Agreement on Trade Preferential System among OIC Countries (TPS-OIC) was signed in 1991 to expand trade on a priority basis. As many as 30 member countries have so far signed the agreement and only 25 members ratified the Agreement. The Framework Agreement came into force in 2002 following the ratification of the Agreement by 10 members. The Trade Negotiation Committee (TNC) under TPS-OIC had completed its first round negotiation and finalised the "Protocol on the Preferential Tariff Scheme" for the TPS-OIC (PRETAS). Bangladesh along with other member countries ratified the protocol. As per the protocol, the tariff liberalisation scheme will be as follows:

(a) All the contracting member countries will bring at least 7 percent of their tariff lines into tariff liberalisation process. However, countries having base tariff of 90 percent of tariff lines within 0 percent -10 percent, will bring only 1 percent of their tariff lines under trade liberalisation process.

(b) Tariff liberalisation process of the member countries are as follows:

(i) The tariff lines with tariff higher than 25 percent will be brought down to 25 percent;

(ii) The tariff lines with tariff within 15 percent to 25 percent will be brought down to 15 percent;

(iii) The tariff lines with tariff within 10 percent to 15 percent will be brought down to 10 percent;

(c) The LDC members will complete the tariff reduction process within 6 (six) years and the non-LDC members will do so within 4 (four) years.

(d) Any country can reduce its tariff on the fast track basis.

(e) (i) The Products under tariff liberalisation scheme will not be eligible for imposing new tariff or increase of tariff.

(ii) Para-tariff and non-tariff barriers will be reduced.

(f) The Tariff Reduction Process started on 5 February 2011 when the PRETAS came into force. As an LDC, Bangladesh will get the grace period of 3 (three) years and its tariff reduction will start from 1 January 2014 to be completed within 6 (six) years thenceforth.

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

D-8, also known as Developing-8, is an organisation for development cooperation among the following countries: Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey.

The establishment of D-8 was announced officially through the Istanbul Declaration of Summit of Heads of State/Government on June 15, 1997.The D-8 Preferential Trade Agreement was signed on 13 May, 2006.

The objectives of D-8 Organisation for Economic Cooperation are to improve member states' position in the global economy, diversify and create new opportunities in trade relations, enhance participation in decision-making at international level, and improve standards of living.

Under the Agreement, the tariff reduction process will be implemented as follows:

(a) 8 percent of tariff lines having tariff more than 10 percent will be brought under tariff reduction scheme.

(b) The member countries will reduce their tariff according to the following process;

(i) The tariff lines having more than 25 percent tariff will be brought down to 25 percent;

(ii) The tariff lines with tariff 15 percent – 25 percent will be brought down to 15 percent;

(iii) The tariff lines having tariff rate 10 percent - 15 percent will be brought down to 10 percent;

(c) LDC members will complete the tariff reduction process within 8 (eight) annual installments and the non-LDC members will complete the process within 4 (four) annual installments.

(d) The tariff lines under tariff reduction scheme will not be eligible for any increase in their tariffs without prior approval of the supervisory committee.

(e) Provisions for removing the non-tariff barriers and para-tariff barriers are also included in this Agreement.

The D-8 PTA came into force on 25 August 2011. It is expected to enhance trade among the member countries. Bangladesh is yet to ratify the Rules of Origin because Bangladesh's proposal to reduce the value addition criteria to 30 percent from 40 percent has not yet been approved by the member countries.

Bangladesh meanwhile signed and ratified the Agreement on Simplification of Visa Procedures for the Businessmen of D-8 Member Countries with Iran, Malaysia, Turkey and Pakistan. During 7th Ministerial Conference of D-8 on 8 July, 2010 in Abuja of Nigeria the emphasis was given on a Common Fund for Investment in the D-8 countries. Moreover, on 24 October 2011, the Multilateral Agreement among D-8 member countries on administrative assistance on customs matters was signed by Bangladesh, and it is in force now.

Free Trade Area (FTA)

South Asian Free Trade Area (SAFTA):

With a view to extending cooperation in trade and economics among the SAARC member countries the Agreement on South Asian Free Trade Area (SAFTA) was signed in 2004 in Islamabad, Pakistan. The agreement came into force on 1 January 2006. The Tariff Liberalisation Program (TLP) of first phase stared from 1 July 2006. The developing member states are supposed to reduce the tariff rates at 0%-5% for the items outside the Sensitive Lists by 2012. On the other hand, the LDC members will reduce the tariff at 0%-5% for the items outside the Sensitive Lists before 1 January 2016.

India has reduced its tariff to 0% for all the items outside their Sensitive Lists. Besides, India, on 9 November 2011, reduced its sensitive list to 25 for the LDCs member states. Pakistan set its tariff rates at 5 percent for the items beyond their Sensitive List for the LDC member countries. All the members states reduced their Sensitive Lists by 20 percent in the second phase effective

from 1 January 2012. Bhutan was exempted from reducing the Sensitive List because they had only 150 tariff lines in their Sensitive List. Sri Lanka is still in the process of reducing their Sensitive List. India also has reduced their Sensitive List for developing countries by 20 percent.

All the member states have already listed the non-tariff and para-tariff barriers they are facing while exporting to the member states. SAFTA Committee of Experts has been working on it to reduce or eliminate those barriers.

Besides trade in goods, service sectors are also included in the SAARC. An agreement on SAARC trade in Services (SATIS) was signed in 2010. All the member states have ratified the Agreement and exchanged initial Offer Lists and Request Lists with a view to finalising the Schedules of Commitments. Discussion on cooperation in investment among the SAARC countries is going on.

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

The BIMSTEC Framework Agreement was signed in June 1997 and a Framework Agreement was signed in February 2004 with a view to forming BIMSTEC Free Trade Area. Member countries are Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal and Bhutan. Negotiations are going on in trade in goods, trade in services and investment sectors under this agreement. Thirteen sectors have been identified for cooperation under the agreement. These are- (1) trade and investment, (2) technology, (3) energy, (4) transport and communication, (5) tourism, (6) fisheries, (7) agriculture, (8) cultural cooperation, (9) environment and disaster management, (10) public health, (11) people to people contact, (12) poverty alleviation (13) counter terrorism and trans national crime.

A BIMSTEC Trade Negotiating Committee (TNC) has been constituted to conduct negotiations on (1) Agreement on Trade in Goods, (2) Agreement on Trade in Services, (3) Agreement on Investment, (4) Agreement on cooperation and Mutual Assistance in Customs Matters, (5) Protocol to Amend the Framework Agreement on the BIMSTEC Free Trade Area, (6) Agreement on Dispute Settlement Procedures and Mechanism. The committee has held as many as 19 meetings so far. The 19th Meeting of the TNC was held in Thailand during 21-23 February 2011. In that meeting (1) The Agreement on Trade in Goods, (2) Agreement on Cooperation and Mutual Assistance in Customs Matters and (3) Agreement on Dispute Settlement Procedures and Mechanism were finalised.

Under the BIMSTEC Agreement tariffs will be reduced on fast track and normal track basis. In case of first track products, non-LDCs (India and Thailand) will open up their markets for the products of LDCs (Bangladesh, Mayanmar, Nepal and Bhutan) in one year and for the non-LDCs within 3 years. The LDCs will open up their markets for the LDCs within 3 years and do the same for the non-LDCs in 5 years in the fast track. On the other hand, for normal track

products, non-LDCs will open up their market for the products of LDCs in 3 years and for non-LDCs in 5 years. The LDCs will follow 10 years' schedule in order to open up their markets for the products of non-LDCs and for LDCs in 8 years. Least developed member countries of BIMSTEC FTA will enjoy special and differential treatment.

In the 19th Meeting of the TNC it was decided that 10 percent of fast track elimination, 48 percent of normal track elimination will be done on the basis of HS Code 2007. Moreover, the member countries will exchange their offer lists to reduce 19 percent of the normal track and 23 percent of negative lists. It was also decided that the negotiation on the "Agreement on Trade in Goods" would be completed within 2011.