

## CHAPTER SIX

### EXTERNAL SECTOR

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*While global economy was recovering from the after-effects of the Covid 19 pandemic, start of Russia-Ukraine war gave a blow to it. Therefore, during this year global economy observed effects of sanctions, supply chain disruptions, rise of energy and food price, inflation, exchange rate depreciation, interest rate hikes, threats of new variants coming out and the actions taken to address those issues through several fiscal and monetary measures. Further to this, IMF World Economic Outlook, April 2023 found rise of geo-economic disintegration and investment is moving around ideologically similar economies. Bangladesh experiences all facets of shocks due to having her exposure to the external world. This chapter deals with external sector of Bangladesh with particular focus on balance of payment and its components, exchange rate and reserve position, net International Investment Position, initiatives taken by the Bangladesh Bank and the activities of the Ministry of Commerce and its attached offices in promoting trade. The overall balance in the balance of payment shows a deficit of US\$ 7,949 million in FY 2022-23 (July-February) compared to US\$ 2,222 million deficit in the same period of previous fiscal year. Due to the deficit of the overall balance, the foreign exchange reserve has been decreased. The gross foreign exchange reserves of Bangladesh Bank decreased to US\$ 3,2267 million at the end of February 2023, as compared to US\$ 45,948 million at the end of February 2022, which is indeed sufficient for 4.9 months of import coverage. At this time, the exchange rate of Taka depreciated by 12.07 percent against US dollar. Bangladesh's net international investment position (IIP) position and external asset-liability ratio are declining implying debtor position upgrade for Bangladesh. Bangladesh Bank has brought several changes to foreign exchange regulation to improve the external challenges, as well as government has shown relentless effort and proactiveness for enhancing trade through signing Free Trade Agreement, Comprehensive Economic Partnership Agreements, Regional Integration Agreement and WTO rule compliance. Bangladesh Bank's initiatives were more related to short term adjustment whereas, Ministry of Commerce initiatives were more focused on long-term perspective, particularly maintaining sustained upward growth trend after LDC graduation in 2026.*

#### Global Trade and Investment Scenario

Recent global trade scenario is driven by rise of protectionism, geo-politics, pandemic, technological advancements particularly e-commerce, logistics and digital technologies and focus on sustainability and social responsibility. During this year, many countries have implemented protectionist policies, including higher tariff and trade barriers to protect their domestic industries and jobs. Geo-political aspects including Brexit, the US-China trade war, war in Ukraine created tension among the nations. Pandemic has left its footprint with significant damage in the economy. Whereas green and sustainable business practices are becoming

important to the policy makers and businesses day by day. These factors indeed, disrupted global supply chains, increased uncertainty, and negatively affected global trade. Whereas, digital technologies, AI, block chain reduced business cost, increased efficiency and helped market expansion. Though it has at the same time cybersecurity risks, data privacy concerns and possibility of creation of digital divides. Overall, the FY 2022-23 was turbulent for global trade scenario, some countries passed this turbulence marginally, some countries have been affected severely. According to the forecast of the IMF World Economic Outlook January 2023, world trade volume of goods and services is projected to

slow down from estimated 5.4 percent in 2022 to 2.4 percent in 2023 before rising to 3.4 percent in 2024. In case of advanced economies, this trade volume is expected to fall from estimated 6.6 percent in 2022 to 2.3 percent in 2023 before rising to 2.7 percent in 2024. For emerging markets and developing economies, this trade volume is expected to fall from estimated 3.4 percent in 2022 to 2.6 percent in 2023 before rising to 4.6 percent in 2024. Brexit, trade tensions between the US and China, and Russia-Ukraine war pose a challenge to international relations and could lead to policy-driven reversal of global economic integration, a process referred to as geo-economic fragmentation. This fragmentation could intensify with more restrictions on cross-border movements of capital, workers, and international payments and could hamper multilateral cooperation on providing global public goods. World Economic

Outlook, April 2023 highlighted that firms and policy makers are increasingly looking at strategies for moving production process to trusted countries with aligned political preferences to make supply chains less vulnerable to geopolitical tensions. The recent slowdown in FDI has been characterized by divergent pattern across host countries, with flows increasingly concentrated among geopolitically aligned countries, particularly in the strategic sectors. Therefore, based on IMF WEO, April 2023, in more fragmented world, countries could reduce their vulnerability by promoting private sector development as well as could take advantage of the diversion of investment flows to attract new FDI by undertaking structural reforms and improving infrastructure. World Trade Volume has been shown in Table 6.1.

**Table 6.1: World Trade Volume**

	(Percent Change)			
	Estimate		Projections	
	2021	2022	2023	2024
<b>World Trade Volume (Goods and Services)</b>	10.4	5.2	2.4	3.4
Advanced Economies	9.4	6.6	2.3	2.7
Emerging and Developing Economies	12.1	3.4	2.6	4.6

Source: World Economic Outlook, January 2023, IMF

## **Balance of Payments (BOP) and its Components**

### **Commodity-wise Export Earnings**

Country's export earnings stood at US\$ 37,078 million during July-February of FY2022-23, which is 9.56 percent higher than the export earnings (US\$ 33,843 million) in the same period of FY2021-22. The significant contribution of knitwear and woven garments played the vital role to increase the export earnings during FY2022-23.

During this period knitwear products and woven continued to occupy about 84.58 percent share of total export earnings. Moreover, export earnings from shoe (8.28%) and other mfg. products (4.16 %) have increased compared to the same period of last fiscal year. But, export earnings from most of the exporting products have decreased during the period under report. Commodity-wise share of export earnings in total export earnings and export growth from FY2021-22 to FY2022-23 (up to February) are shown in Table 6.2.

**Table 6.2: Commodity-wise share of Export Earnings and Growth of Export Earnings**

(Million US Dollar)

Commodities	Export earnings				Percentage of Total Export		Growth (%)
	2020-21	2021-22	2021-22*	2022-23*	2021-22*	2022-23*	
A) Primary Commodities:	1643	1911	1407	1072	4.16	2.89	-23.81
1. Raw Jute	138	216	146	130	0.43	0.35	-10.96
2. Tea	4	2	2	1	0.01	0.00	-50.00
3. Frozen Food	477	533	407	319	1.20	0.86	-21.62
4. Agricultural Products	532	502	349	341	1.03	0.92	-2.29
5. Other Primary Commodities	492	658	503	281	1.49	0.76	-44.14
B) Manufactured Goods:	37115	50172	32436	36006	95.84	97.11	11.01
6. Jute Goods	1023	911	654	480	1.93	1.29	-26.61
7. Leather	119	151	100	86	0.30	0.23	-14.00
8. Petroleum bi Products	23	34	19	12	0.06	0.03	-36.84
9. Woven Garments	14497	19399	12427	14302	36.72	38.57	15.09
10. Knitwear	16960	23214	15070	17060	44.53	46.01	13.21
11. Chemical Products	281	364	257	202	0.76	0.54	-21.40
12. Shoe	344	449	290	314	0.86	0.85	8.28
13. Handicrafts	34	43	30	19	0.09	0.05	-36.67
14. Engineering Products	529	796	534	349	1.58	0.94	-34.64
15. Other mfg. Products	3305	4811	3055	3182	9.03	8.58	4.16
Grand Total (A+B)	38758	52083	33843	37078	100	100	9.56

Note: Based on Custom Records. Export Growth is calculated from FY 2021-22 to FY 2022-23.

Source: Compiled by Bangladesh Bank using data of Export Promotion Bureau. # Customs based \* July- February.

**Country-wise Export Earnings**

Country-wise export data showed that USA and Germany secured the top position in respect of importing commodities from Bangladesh for FY 2022-23 (July-February). During the time, export earnings from USA and Germany stood at US\$ 6,439.77 million and US\$ 4,906.13 million respectively, which were 17.37 percent and 13.23

percent respectively of the country's total export earnings. The major commodities exported to these two countries were woven garments, knitwear, frozen shrimp, crabs, home textile, etc. The other major destinations of our exports were UK (9.57%) and France (5.68%). The country-wise export earnings have been shown in Table 6.3.

**Table 6.3: Country-wise Export Earnings**

(In million US\$)

Fiscal Year	USA	UK	Germany	France	Belgium	Italy	Netherland	Canada	Japan	Others	Total
2012-13	5419.60	2764.90	3962.60	1513.89	730.81	1036.60	712.47	1090.02	750.26	9046.21	27027.36
2013-14	5583.62	2917.73	4720.49	1677.67	970.53	1332.38	858.13	1099.63	862.07	10164.37	30186.62
2014-15	5783.43	3205.45	4705.36	1743.54	975.13	1382.35	840.34	1029.13	915.22	10628.99	31208.94
2015-16	6220.65	3809.70	4988.08	1852.16	1015.33	1385.67	845.92	1112.88	1079.55	11947.24	34257.18
2016-17	5846.64	3569.26	5475.73	1892.55	918.85	1462.95	1045.69	1079.19	1012.98	12352.06	34655.90
2017-18	5983.31	3989.12	5890.72	2004.97	877.90	1559.92	1205.37	1118.72	1131.90	12906.24	36668.17
2018-19	6876.29	4169.31	6173.16	2217.56	946.93	1643.12	1278.69	1339.80	1365.74	14524.44	40535.04
2019-20	5832.39	3453.88	5099.19	1703.58	723.43	1282.81	1098.68	1000.49	1200.78	12278.86	33674.09
2020-21	6974.01	3751.27	5953.51	1962.14	704.98	1308.62	1277.44	1164.01	1183.64	14478.69	38758.31
2021-22	10417.7	4828.08	7590.97	2711.06	900.03	1702.29	1775.01	1522.96	1353.85	19280.69	52082.66
2021-22*	6665.18	3154.94	4954.78	1676.49	601.95	1058.58	1163.56	939.20	895.03	12733.74	33843.45
2022-23*	6439.77	3547.55	4906.13	2107.64	644.08	1627.79	1421.81	1101.56	1285.71	13995.64	37077.68
% Share in total export earnings in FY2022-23*	17.37	9.57	13.23	5.68	1.74	4.39	3.83	2.97	3.47	37.75	100.00

Source: Export Promotion Bureau, Ministry of Commerce \* July- February

### Commodity-wise Import Payments

Country's total import payments stood at US\$ 52,713.1 million in FY 2022-23 (July-February), which was significantly (10.3%) lower than the import payments of US\$ 58,774 million in the same period of the preceding year. Commodity-wise import payments from FY2018-19 to FY 2022-23 (July-February) have been shown in Table 6.4.

### Country-wise Import Payments

Country-wise import payments data shows that in

terms of value of total imported commodities, China secured the first position for our import up to February of FY 2022-23. During this period 27.28 percent of the total imported commodities came from China. India was the second largest source of import (12.48%) while Japan held the third position (3.52%). Country-wise import payments (from FY 2012-13 to February FY 2022-23) have been shown in Table 6.5. Overall trade balance from FY 2015-16 to FY 2022-23 (up to February) is shown in Figure-6.1.

**Table 6.4: Commodity-wise Import Payments**

(In million US\$)						
Commodity	FY2018-19	FY2019-20	FY2020-21	FY2021-22	FY2021-22*	FY2022-23*
<b>A. Major Primary Commodities</b>	5846	6548	9889	9695	6447	6476
Rice	115	22	851	427	415	537
Wheat	1437	1651	1830	2135	1527	1239
Oil Seeds	796	1183	1406	1758	1035	829
Crude Petroleum	416	731	2616	936	574	677
Cotton	3082	2961	3186	4439	2896	3194
<b>B. Major Industrial Commodities</b>	12185	11145	14179	22378	14660	13643
Edible Oil	1656	1617	1926	2893	1831	2056
Petroleum Products	4562	4627	6369	7057	4405	3748
Fertilizer	1301	1035	1360	4391	3119	4189
Clinker	993	879	1048	1223	754	772
Staple Fiber	1228	1086	1040	1569	1040	1009
Yarn	2445	1901	2436	5245	3511	1869
<b>C. Capital Machinery</b>	5413	3581	3825	5463	3773	3365
<b>D. Others Commodities (including EPZ)</b>	36471	33511	37702	51626	33894	29229.1
<b>Total (1+2+3+4)</b>	59915	54785	65595	89162.3	58774	52713.1
<b>% Change (over the corresponding year)</b>	1.8	-8.6	19.7	35.9	46.7	-10.3

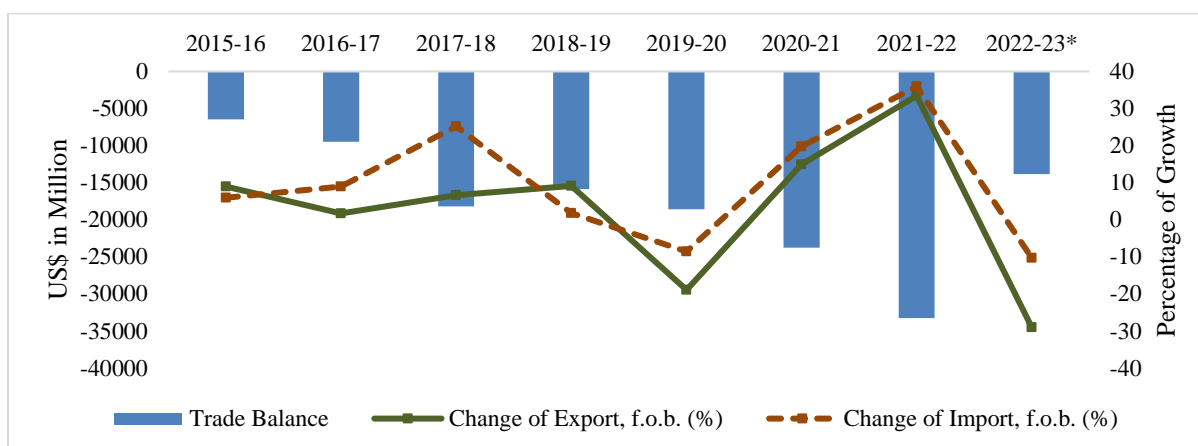
Source: Compiled by Bangladesh Bank using data from NBR \* July-February period

**Table 6.5: Country-wise Import Payments**

In million US\$)											
Fiscal Year	India	China	Singapore	Japan	Hong Kong	Taiwan	South Korea	USA	Malaysia	Others	Total
FY2012-13	4777	6328	1422	1180	612	733	1296	538	1903	15295	34084
FY2013-14	5985	7550	2407	1291	762	897	1182	792	2084	17782	40732
FY2014-15	5588	11268	2894	1816	881	1060	1417	880	1361	13539	40704
FY2015-16	5722	12582	1203	2075	827	1004	1417	1134	1184	15974	43122
FY2016-17	6336	13292	2113	2031	726	990	1483	1358	1040	17636	47005
FY2017-18	8941	15937	2255	2422	676	1129	1907	2160	1342	22096	58865
FY2018-19	8242	17265	2274	2254	614	1175	1618	2370	1520	22583	59915
FY2019-20	6663	14360	1883	2092	382	1084	1525	2839	1623	22334	54785
FY2020-21	10334	16974	2436	2468	275	971	1436	2398	1801	26502	65595
FY2021-22	15179	24255	3066	3402	334	1466	2006	3193	2966	33295	89162
FY2021-22*	10026	16139	1940	2386	229	943	1343	2152	1614	22002	58774
FY2022-23*	6576	14381	1623	1858	187	861	1054	1753	1693	22727	52713
Share (%)*	12.48	27.28	3.08	3.52	0.35	1.63	2.00	3.33	3.21	43.11	100

Source: Bangladesh Bank and National Board of Revenue (NBR), \*July-February

Note: Data from FY 2012-13 to FY 2013-14 is based on banking records and data from FY 2014-15 is based on custom records.

**Figure 6.1: Trade Balance**

Source: Bangladesh Bank \*July-February

**Trade in Services**

During FY 2022-23, the net deficit on the services account increased by US\$ 130 million and deficit stood at US\$ 2,557 million. However, over the previous years, there was gradual enhancement of credit in the services related to transportation, telecommunication and ICT and other business

services. Whereas there was also gradual increase of debit in the services related to transportation, travel, other business services which contributed a large share in making the account deficit. Performance of Trade in Services has been shown in Table 6.6.

**Table 6.6: Performance of Trade in Services**

(In million US\$)								
Items	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2021-22*	2022-23*
<b>Services (Net)</b>	<b>-3288</b>	<b>-4201</b>	<b>-3176</b>	<b>-2578</b>	<b>-3020</b>	<b>-3955</b>	<b>-2427</b>	<b>-2557</b>
<b>Receipts</b>	<b>3621</b>	<b>4540</b>	<b>7154</b>	<b>6716</b>	<b>7439</b>	<b>9925</b>	<b>6344</b>	<b>5838</b>
1. Transportation	436	589	663	573	853	1753	1196	736
2. Travel	293	351	368	320	219	356	223	294
3. Telecommunications & ICT	569	538	557	465	437	755	500	455
4. Other business services	503	594	984	884	923	1131	702	791
5. Government services	1519	1996	2817	2889	2674	2635	1631	1428
6. Others n.i.e.	301	472	1765	1585	2333	3295	2092	2134
<b>Payments</b>	<b>6909</b>	<b>8741</b>	<b>10330</b>	<b>9294</b>	<b>10459</b>	<b>13880</b>	<b>8771</b>	<b>8395</b>
1. Transportation	4505	5529	5638	5287	6364	8629	5555	5005
2. Travel	513	815	823	700	423	1018	530	934
3. Telecommunications & ICT	108	78	92	105	104	124	65	92
4. Other business services	466	995	847	728	641	821	579	441
5. Government services	236	321	217	225	524	382	167	195
6. Others n.i.e.	1081	1003	2713	2249	2403	2906	1875	1728

Source: Statistics Department, Bangladesh Bank, \* July-February

Over the past years, the average deficit (due to higher amount of payment for import of services than receiving from export of services) is observed. The deficit gap was started to reduce during FY 2018-19 and FY 2019-20. However, pandemic may have a stake in increasing gap in the subsequent years, e.g., FY 2020-21 and FY 2021-22. Considering the service export potentials, skill development particularly in IT & software services, reduction of regulatory barriers to trade, improvement of quality of business services and promotion of tourism are expected to reduce the deficit.

### **Primary Income Accounts**

There was net deficit on the primary income account throughout the previous periods. In the FY 2022-23 (July-February), deficit increased by US\$ 482 million and reached to US\$ 2,451 million from a deficit of US\$ 1,969 million in the same period of FY 2021-22. Major portion of the deficits was deriving from interest payment, reliance on foreign investment and the repatriation of profits by the foreign companies.

### **Secondary Income Accounts**

Secondary Income includes official grants in food and commodity for immediate consumption and technical assistance. Secondary Income also includes workers' remittances, other gifts and donations. During the period of FY 2022-23 (July-February), net transfer has been increased by US\$ 586 million and reached to US\$ 14,449 million from US\$ 13,863 million of the same period of FY 2021-22. Indeed, secondary income account was dominated by remittance from expatriates working abroad, which also contribute significantly country's foreign exchange earnings.

### **Current Account Balance**

Since FY 2015-16 Bangladesh's current account balance started to move within the deficit range. Even then, in the FY 2021-22, current account balance remarkably turned to higher deficit than the previous year. However, during FY 2022-23,

current account balance deficit reduced to US\$ 4,387 million. This reduction has been derived from higher export income and lower import payment. At the same time, due to having positive remittance flow, the current account deficit has been reduced.

### **Capital Account and Financial Account Balance**

Capital account includes the acquisition and disposal of non-produced, non-financial assets between residents and non-residents and capital transfers receivable and payable between residents and non-residents. In Bangladesh, size of the capital account is very small, which mainly cover some capital transfer in the form of official project grants (excluding technical assistance). A net capital account inflow of US\$ 203 million was recorded during FY 2022-23 (July-February) against US\$ 143 million at the same period of the previous year.

On the other hand, in the FY 2022-23 (July-February) financial account balance shows a net negative of US\$ 1,537 million whereas it was net US\$ 11,905 million at same period of the previous year. Net direct investment recorded an increase from the previous year. Foreign portfolio investment remains volatile over the years with slight improvement in the FY 2021-22 and FY 2022-23, mainly in the form of equity investment in the stock market.

### **Balance of Payment**

Balance of Payment (BoP) reflects a country's transactions with the rest of the world. Summarizing the components of BoP shows the followings. The deficit of trade balance narrowed and stood at US\$ 13,828 million in FY 2022-23 (July-February) which was US\$ 22,431 million in FY 2021-22 (July-February). A deficit trend in the current account balance has been continued during the last five years which was also unstoppable at the FY 2022-23. During the time, current account balance deficit reduced at US\$ 4,387 million due

to decrease of trade deficit and expansion of workers' remittances. The primary income account has been decreased but the secondary income account has been increased during that period. At the same time, the surplus of capital account balance increased and financial account balance experienced a deficit. The net outcome of

all these made the overall balance a deficit of US\$ 7,949 million in FY 2022-23 (July-February) compared to US\$ 2,222 million deficit in the same period of the previous fiscal year. The overall balance of payments position from FY 2016-17 to FY 2022-23 has been shown in Table 6.7.

**Table 6.7: Balance of Payments**

(In million US\$)

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2021-22*	2022-23*
<b>Trade balance</b>	<b>-9472</b>	<b>-18178</b>	<b>-15835</b>	<b>-18569</b>	<b>-23778</b>	<b>-33250</b>	<b>-22431</b>	<b>-13828</b>
Exports, f.o.b. (including EPZ)	34019	36285	39604	32121	36903	49245	31946	34966
Imports, f.o.b. (including EPZ)	43491	54463	55439	50690	60681	82495	54377	48794
<b>Services (net)</b>	<b>-3288</b>	<b>-4201</b>	<b>-3176</b>	<b>-2578</b>	<b>-3002</b>	<b>-3955</b>	<b>-2427</b>	<b>-2557</b>
<b>Primary income (net)</b>	<b>-1870</b>	<b>-2641</b>	<b>-2382</b>	<b>-3070</b>	<b>-3172</b>	<b>-3152</b>	<b>-1969</b>	<b>-2451</b>
Of which Govt. interest payments	384	597	758	960	909	942	606	855
<b>Secondary income (net)</b>	<b>13299</b>	<b>15453</b>	<b>16903</b>	<b>18782</b>	<b>25377</b>	<b>21718</b>	<b>13863</b>	<b>14449</b>
of which workers' remittances	13240	15402	16862	18205	24778	21032	13439	14013
<b>Current account balance</b>	<b>-1331</b>	<b>-9567</b>	<b>-4490</b>	<b>-5435</b>	<b>-4575</b>	<b>-18639</b>	<b>-12964</b>	<b>-4387</b>
<b>Capital account</b>	<b>400</b>	<b>331</b>	<b>239</b>	<b>256</b>	<b>221</b>	<b>181</b>	<b>143</b>	<b>203</b>
<b>Financial account</b>	<b>4247</b>	<b>9011</b>	<b>5130</b>	<b>8654</b>	<b>14067</b>	<b>13775</b>	<b>11905</b>	<b>-1537</b>
Of which FDI (net)	3038	3290	4946	3233	3387	4636	3131	3504
Portfolio investment (net)	457	365	224	44	-269	-158	-92	-43
Other investment (net)	2137	7128	3108	7339	12007	12106	10535	-3029
Errors and omission	-147	-632	-700	-306	535	-697	-1306	-2228
<b>Overall balance</b>	<b>3169</b>	<b>-857</b>	<b>179</b>	<b>3169</b>	<b>9274</b>	<b>-5380</b>	<b>-2222</b>	<b>-7949</b>

Source: Bangladesh Bank \* July-February

### Foreign Exchange Reserve

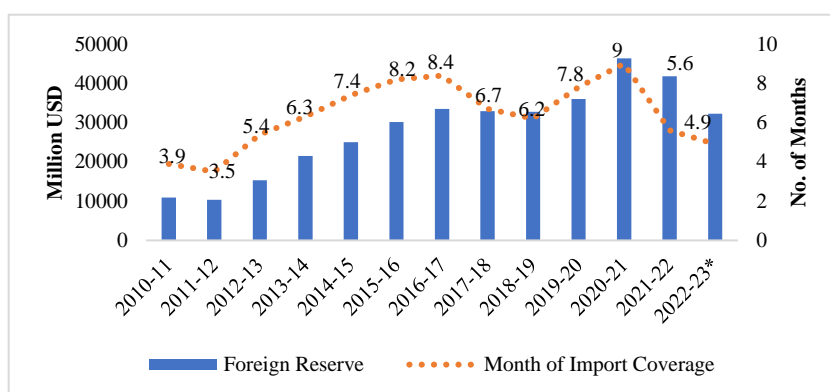
The deficit of the Balance of Payment has been reflected in the foreign exchange reserve. Bangladesh Bank has pursued different initiatives for retaining foreign exchange reserves. The gross foreign exchange reserves of Bangladesh Bank

decreased to US\$ 32,267 million at the end of February 2023, as compared to US\$ 45,948 million at the end of February 2022. This amount of reserve can cover only 4.9 months of import payment. Table 6.8 and Figure 6.2 show the trend of foreign exchange reserve position and import coverage.

**Table 6.8: Foreign Exchange Reserve**

End period	Amount (Million US\$)
30.06.2013	15315
30.06.2014	21508
30.06.2015	25025
30.06.2016	30168
30.06.2017	33493
30.06.2018	32943
30.06.2020	36037
30.06.2021	46391
30.06.2022	41827
28.02.2022	45948
28.02.2023	32267

Source: Bangladesh Bank

**Figure 6.2: Forex Reserve and Import Coverage**

### Exchange Rate Movement

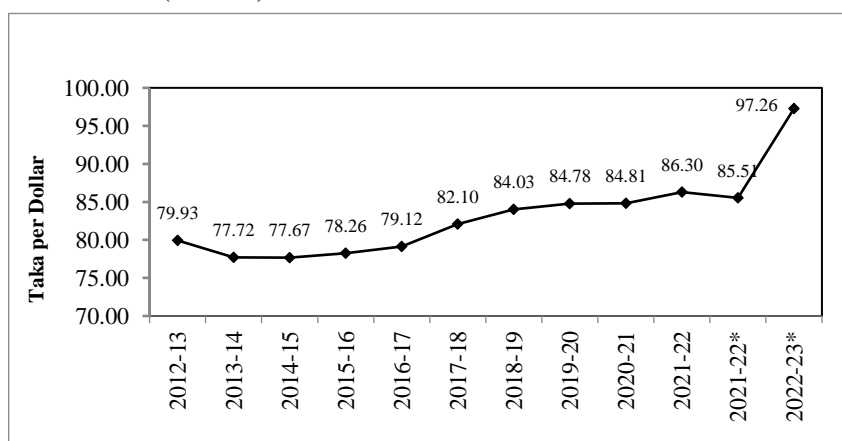
Bangladesh observed overall 1.73 percent depreciation of Taka against US dollar in FY 2021-22 compared to that of the FY 2020-21. The weighted average inter-bank rate stood at Taka 97.26 per US\$ in July-February of FY 2022-23,

reflecting 12.07 percent depreciation of Taka during the period. The weighted average of Taka-Dollar exchange rates from FY 2012-13 to FY 2022-23 (up to February) has been shown in Table 6.9 and Figure 6.3.

**Table 6.9: Weighted Average exchange Rate (Tk. per US\$)**

FY	Weighted Average exchange Rate
2012-13	79.93
2013-14	77.72
2014-15	77.67
2015-16	78.26
2016-17	79.12
2017-18	82.10
2018-19	84.03
2019-20	84.78
2020-21	84.81
2021-22	86.30
2021-22*	85.51
2022-23*	97.26

Source: Bangladesh Bank \*July- February.

**Figure 6.3: Weighted Average Exchange Rate (annual)**

The BDT exchange rate depreciation is higher than that of the most major trading partners' currencies. Consequently, the real effective exchange rate (REER) index as calculated with trade weighted 15-currency basket (base: FY 2015-16=100) was 101.51 in FY 2022-23 (February 2023), which was 111.30 in the previous FY 2021-22, indicating depreciating pressure on Taka against Bangladesh's trade partners' currencies. The recent depreciating

pressure on BDT exchange rate has been stemmed from huge current account deficit emanated from higher import payments and lower inward remittance. This has been exacerbated with the rapid rise of outward foreign travels, especially for medical, pilgrimage, education and recreation purposes. Besides, the US monetary policy tightening, which narrowed the interest rate differential between two economies, has also played a significant role for recent exchange rate

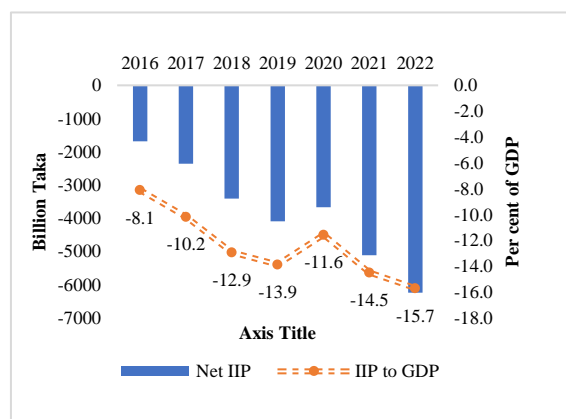


depreciation. Besides, these global economic factors there are some indicators inside the country, e.g., inflation, interest rate may have exerted influence on current exchange rate movement. To mitigate the depreciating pressure on BDT exchange rate, the government and Bangladesh Bank have taken several policy measures (Annexure-6.2).

### Net International Investment Position (Net IIP)

Net International Investment Position (Net IIP) is the difference between the value of financial assets of residents of an economy that are claims on non-residents and the liabilities of residents of an economy to non-residents at a point in time. It represents either a net claim on or a net liability to

**Figure 6.4 (a): Net IIP Position and Ratio to GDP**



Source: Bangladesh Bank

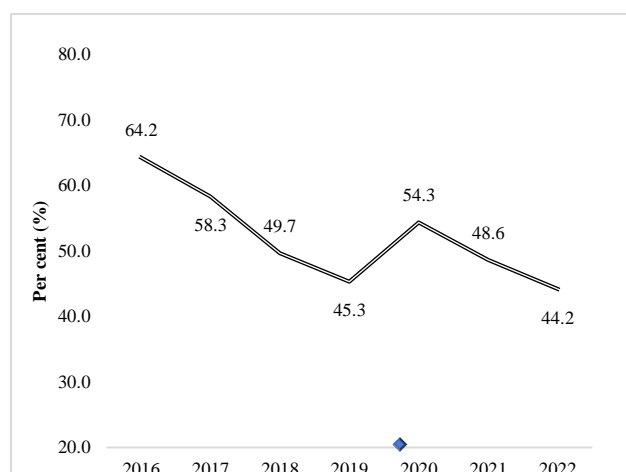
The negative Net IIP reflects that Bangladesh's external financial liabilities are greater than external financial assets. However, a negative Net

### Tariff Regime

Bangladesh has been following the Most Favoured Nation (MFN) tariff rate from FY 2000-01 in order to facilitate smooth implementation of

the rest of the world. Bangladesh's net IIP position is declining gradually except the year 2020, which is also reflected in the asset-liability ratio over the periods under study. Indeed, higher asset-liability ratio in 2020 is mainly due to having highest amount of reserve asset during that year. Later on, as reserve asset is declining which could not compensate the liabilities on account of direct investment, portfolio investment and other investment. Trend of net IIP and Asset-Liability Ratio are shown in Figure 6.4a and in 6.4b.

**Figure 6.4 (b): Asset-Liability Ratio**



to service its external debt obligations and attract FDI. Moreover, a negative Net IIP also signifies Bangladesh's incessant efforts and strategy to attract foreign investment.

the import policy of the Government. Tariff structure from FY 2000-01 to FY 2020-21 has been presented in the Table 6.10 below:

**Table 6.10: Tariff structure from FY 2000-01 To FY 2021-22**

<b>FY</b>	<b>Operative Tariff (%)</b>	<b>Maximum Tariff Rate (%)</b>	<b>Number of Operative Tariff Slabs</b>
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
2012-13	0, 3, 5, 12, 25	25	5
2013-14	0, 2, 5, 10, 25	25	5
2014-15	0, 2, 5, 10, 25	25	5
2015-16	0, 1, 2, 5, 10, 25	25	6
2016-17	0, 1, 5, 10, 15, 25	25	6
2017-18	0, 1, 5, 10, 15, 25	25	6
2018-19	0, 1, 5, 10, 15, 25	25	6
2019-20	0, 1, 5, 10, 15, 25	25	6
2020-21	0, 1, 5, 10, 15, 25	25	6
2021-22	0, 1, 5, 10, 15, 25	25	6

Source: 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 spares/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 concession are being provided along With MFN tariff in respect of following goods:

- Capital machinery and parts imported by

### Reduction of Tariff

The process of reducing import tariff rate of Bangladesh started since FY 1991-92 is still continued in FY 2021-22 in order to increase the efficiency of the indigenous industries and make

### Export Industry.

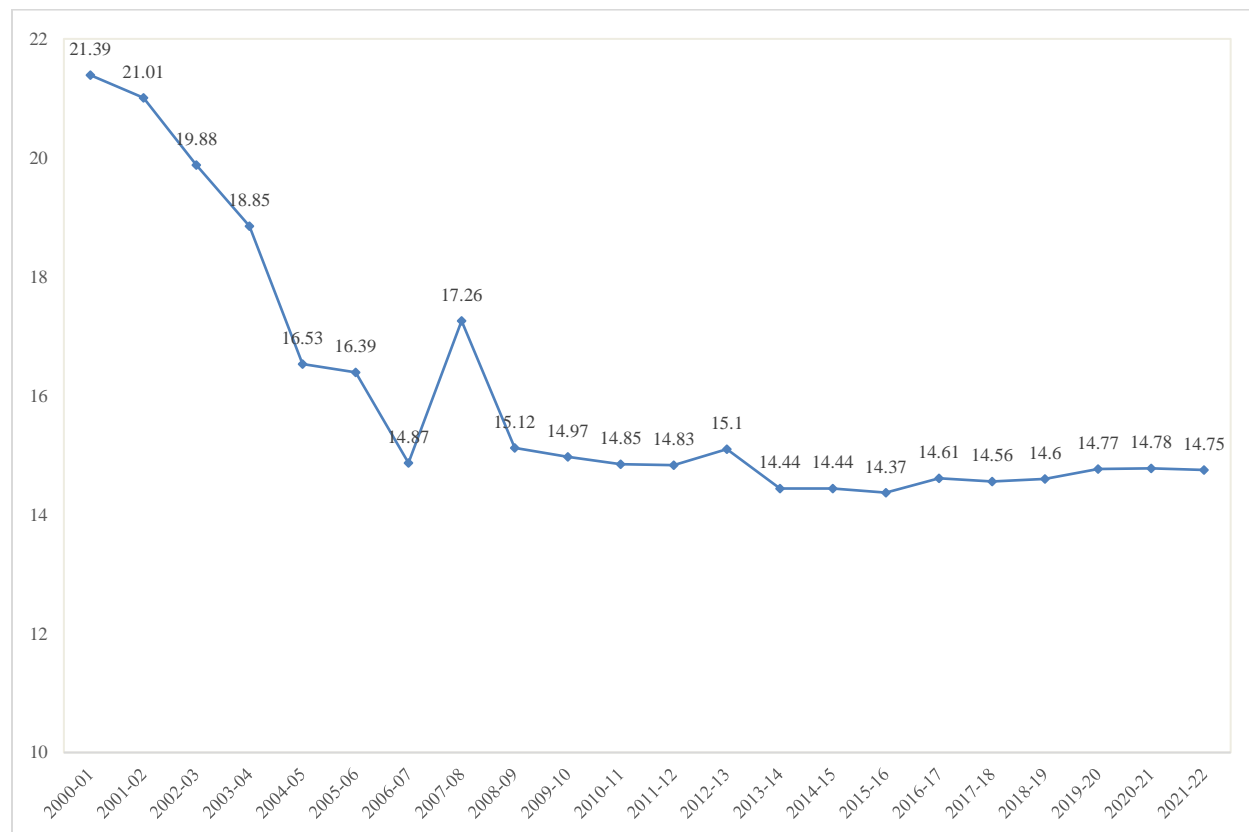
- Capital machinery and parts by registered Industry
- Raw materials imported by Pharmaceutical Industry.
- Raw materials used in Textile Industry.
- Accessories used in Agriculture Sector.
- Computer and Computer accessories.
- Medical equipment and accessories.
- Newsprint imported by newspaper and periodical publishers.
- Raw materials used by the insecticide manufacturers which used in Agriculture
- Machinery, parts and accessories imported by Poultry Fir.

consistency with the process of world-wide tariff reduction. The Un-weighted import average tariff rate in FY 1991-92 was 57.22 percent which decreased at 14.75 percent in FY 2021-22. At

present, ad-valorem duties are being imposed on 99.57 percent tariff line. Specific duties are in existence at different rate on some products such as sugar, cement clinker, bitumen, gold, steel products-scraped ship against 0.43 percent tariff line. Value Added Tax, Regulatory Duty,

Supplementary Duty, Advanced Income Tax and Advanced Trade VAT are imposed on importable goods in addition with Customs Duty. The MFN Un-weighted import average tariff rate is given in Figure 6.5 below:

**Figure 6.5: MFN Un-weighted Import Average Tariff Rate (%)**



Source: NBR

**Annexuresf: 6.1****Major Initiatives for boosting exports**

To improve export performance, the government of Bangladesh has adopted various initiatives, which are mainly the key driver of boosting exports. Some of the important initiatives are as follows:

**Cash incentive:** In order to encourage export of commodities and services, cash incentive is being provided to the exporters. Cash incentive is being provided from 2 percent to 20 percent in 43 products and services. This facility is being extended to new products as well. As a result of this program, Bangladesh has been able to continue its growth in the export of agricultural products and processed foods, frozen shrimp, potato, handicrafts, jute goods, leather goods, light engineering products and other products sector.

**Diversification of export products:** The government is taking various initiatives to diversify the export product. Out of these, significant activities are identified such as the potential products as 'highest priority sector' and 'special development sector', declaration of 'Product of the Year' and working closely with the expansion of the market of these products and giving special facilities. In 2017 'leather products including footwear, in 2018 'Medicine including raw materials' and in 2019 'Agricultural and Agricultural Processed Products', in 2020 'Light Engineering Products' in 2022 'ICT Products and Services' and in 2023 'Jute goods' has been declared as 'Product of the Year'. Besides, various activities including financial incentives for the development of these sectors are being implemented. Along with this, separate policies are being formulated in the relevant sectors to encourage sector-based exports. For example, following the Prime Minister Sheikh Hasina's declaration of Jute Products as the Product of the year 2023, initiative has been taken to form Jute products business promotion council.

**Active Pharmaceutical Ingredients:** Due to the patent waiver on pharmaceutical products for the LDCs up to December 31, 2032 under the WTO TRIPS Agreement, it has opened up opportunities for the country for enhancing production and export of pharmaceutical products. However, due to not having our own Active Pharmaceutical Ingredient (API), about 95 percent of the APIs used for therapeutic needs to be imported. Indeed, pharmaceutical industry will not be durable based on imported raw materials. Besides, there is a probability of increasing the price of medicines in the end of the waiver period. That is why it is essential to produce raw materials of the medicine industry in our country. In addition, the developed and developing countries, which have to give remediation to the rights holders to create patented medicinal molecule in their own country, they will be interested to invest in Bangladesh to take advantage of TRIPS waiver. Based on these contexts, in order to create business and investment-friendly environment to increase productivity, diversify product line and to encourage domestic and foreign investment in the pharmaceutical sector through sustainable industrialization in the API sector, the Ministry of Commerce has published 'National Active Pharmaceutical Ingredients and Laboratory Reagent Production and Export Policy'. Activities are currently being undertaken to implement the policy.

**Export Promotion Activities:** To increase exports through diversification of products as well as expansion of the market trade delegation is being sent to different countries of the world, including the participation of international trade fairs. There were such 11 participations in trade fairs in 2020-2021 and 20 participations in 2021-2022 (July - February). Secondly, in order to encourage export growth and recognize the national exporters, the government started to announce CIPs (Commercially Important Persons) (Export) in every year since 2014. So far, the government already handed over 878 CIP (Export) cards. Not only that since 2013-14, National Export Trophy has been awarded to the exporters of outstanding contribution. Since then, a total of 448 exporters have received National Export Trophy.

- **Setting up commercial wing:** At present 23 commercial wings under the Ministry of Commerce are performing in 20 countries. Official from the

Ministry of Foreign Affairs usually takes the responsibility to serve the commercial interests of Bangladesh in those missions where commercial wings are not established. With these officials, the Ministry of Commerce has continued to make intensive business efforts to further accelerate the commercial activities. Currently, an initiative has been taken to set up another commercial wing in Jakarta, Indonesia.

## Annexure: 6.2

### Major changes in foreign exchange regulations during FY 2022-23

Bangladesh Bank in its ongoing endeavor to further ease the foreign exchange regulations embarked upon the following notable changes during FY 2022-23 (up to February, 2023):

- **Import of capital machinery on usance basis:** ‘Scrutiny committee on foreign loan/supplier’s credit in private sector’ under BIDA has decided in its 166th meeting to accord general authorization for extension of usance period/refinancing for maximum 360 days from the maturity date against import of capital machinery by the industrial enterprises registered with BIDA and DOT under supplier’s/ buyer’s credit against LCs opened/to be opened or valid contracts initiated up to 31 December 2022, subject to extended period not exceeding 31 December 2024.
- **Repayment guarantees by importers against short term import finance under buyer’s credit:** Short term import finance under buyer’s credit is accessible in accordance with paragraph 33(b), chapter 7 of Guidelines for Foreign Exchange Transactions (GFET) for payments against eligible imports at the prescribed interest rate. External lenders including offshore banking operations extend buyer’s credit against usance import bills duly accepted by ADs. To facilitate short term import finance under buyer’s credit, it has been decided that importers may extend guarantees like corporate guarantee, personal guarantee, third party guarantee, etc. to foreign lenders making payments to suppliers under buyer’s credit against admissible imports on sight letters of credit.
- **Online reporting of import information to Bangladesh Bank web portal:** As a part of import monitoring, ADs are advised to submit import information to Bangladesh Bank Online Import Monitoring System (OIMS) 24 hours prior to opening letters of credit (LCs) based on proforma invoices/purchase contracts. The reporting requirement for the said transactions will be for import value of US\$ 5.00 million and above or its equivalent, excluding imports by the Government. ADs shall finalize the report on completion of opening of the relative LCs.
- **Extended limit from Export Development Fund (EDF):** EDF limit for individual member mill of BTMA and BGMEA was enhanced to US\$ 30 million from US\$ 25 million for disbursement of EDF loans till 30 June 2022. It had been decided to extend the period of same facility till 31 December 2022.
- **Settlement of loans against Export Development Fund (EDF):** Disbursement of EDF loans is required to be settled out of export proceeds/foreign currency funds held in respective pools in terms of paragraph 3 of FE Circular No. 45, dated 31 December 2017. It has been decided that those customers whose EDF liabilities have to be settled through funded facilities against disbursement from the date of this circular letter will not be accessible for further EDF loan.
- **Extension of usance period of import of industrial raw materials:** It has now been decided to extend the usance period to 360 days from 180 days effective till 31 December 2022. The extended usance period will not be applicable for imports under EDF loans.
- **Encashment of value added portion of repatriated export proceeds:** To bring flexibility in trade transactions, it has been decided that Authorized Dealers (ADs) may, on applications from exporters, retain value added portion of export proceeds in foreign exchange for a maximum period of 15 days. The fund so retained will be used through same ADs for settlement of other import obligations payable

by same exporters within this period. In case of the fund remaining unused, ADs shall encash the same compulsorily in Taka just after expiry of 15 days. However, the unused fund can, on request from exporters, be encashed before this allowable time.

- **Retention quota facilities against local delivery under back to back LCs:** According to paragraph 27(b), chapter 13 of the Guidelines for Foreign Exchange Transactions-2018, Vol.1 (GFET) regarding retention quota facilities to local manufacturer-suppliers against inland back to back letters of credit (BBLCs). While retaining foreign currency, Authorized Dealers (ADs) shall be ensured that foreign currency is to be credited to retention quota accounts of eligible suppliers after settlement of the amount against BBLCs. This is to clarify that retention quota accounts can be credited up to the permissible limit in percentage of proceeds realized under inland BBLCs.
- **Settlement of import liabilities out of export proceeds:** To bring flexibility in trade transactions, it has been decided to increase the retention time to 30 days from 15 days for utilization of the fund to settle import liabilities of relevant exporters. The fund may also be transferable to other ADs, within this prescribed time of 30 days, for settlement of import payments and/or EDF liabilities against admissible bulk imports of relevant exporters. As usual, transferable funds need to be unencumbered. Before transferring funds, ADs need to satisfy themselves of payment obligations by documentary evidences. ADs transferring the fund will make foreign exchange available to relevant ADs through foreign currency clearing accounts maintained with Bangladesh Bank.
- **Partial repayment of loans against Export Development Fund (EDF):** This is to clarify that repayment against EDF loans can be made partially for maximum two times and the remainder, if any, needs to be settled at one-go within the remaining admissible tenure.
- **All-in-cost ceiling for short term permissible trade finance in foreign exchange:** Considering the global market trends, it has been decided to set all-in-cost ceiling per annum at SOFR + 3.50 percent for short term trade finance in foreign exchange.
- **Payments through Asian Clearing Union (ACU):** In response to the self-motivated decision by the Central Bank of Sri Lanka (CBSL) to remain temporarily suspended from ACU mechanism with effect from October 14, 2022; all Authorized Dealers (ADs) are advised not to do any trade and trade related transactions with Sri Lanka through ACU mechanism.
- **Long Term Financing Facility (LTFF) under the Financial Sector Support Project (FSSP):** Revision of the interest rate has been made on the Long Term Financing Facility (LTFF) under Financial Sector Support Project (FSSP). An indicative pricing range of 3.00 ~ 4.00 percent would be applicable to the PFIs based on their CAMELS rating and the tenor.
- **Interest rate on borrowing from Export Development Fund (EDF):** It has been decided that interest rate on EDF loans to ADs will be charged by Bangladesh Bank at 3.00 percent pa, while ADs will charge interest to manufacturer-exporters at 4.50 percent per annum. Previously, ADs were charged by Bangladesh Bank at 2.50 percent per annum and manufacturer-exporters were charged at 4.00 percent per annum by the ADs under the same arrangement.
- **Repayment of loans availed from Export Development Fund (EDF):** Penal interest (compensation in case of Shariah based Islamic Banking) will be charged by Bangladesh Bank to ADs at 4.00 percent per annum above the prevailing interest rate on overdue amount of EDF loans for the delayed period.

### **Annexures 6.3**

#### **Bilateral Trade Agreement**

To enhance bilateral trade, contain the opportunities of trade and investment and to overcome the trade related challenges, Ministry of Commerce has signed 45 Bilateral Trade Agreements with different countries. To explore new market and export diversified products, Bangladesh has formed Joint Working Group (JWG) on Trade and Investment with United Kingdom, Canada, Russia, Uzbekistan, Belarus, Thailand, Indonesia and Malaysia. In parallel, to overcome the challenges of LDC graduation, Ministry of Commerce has initiated rigorous activities to sign CEPA, RTA, PTA and FTA with important countries. A brief of those agreements is presented below:

##### **A. Bilateral Preferential/Free Trade Agreement (PTA/FTA)**

Bangladesh will lose duty-free access to developed and developing countries as a result of graduation from the Least Developed Country Group to Developing Country Group. To address these challenges, Ministry of Commerce has adopted steps to develop trade relation with different countries. As part of these, initiatives have been taken to conclude Preferential Trade Agreement (PTA) and Free Trade Agreement (FTA) with countries of commercial importance to Bangladesh. For that purpose, Regional Trade Agreement (RTA) Policy, 2022 has been formulated with the aim of negotiating, signing and implementing trade treaties to encourage free movement of goods and services. The Ministry of Commerce has already completed feasibility study for signing PTA/FTA with 26 countries/blocs including Malaysia, South Korea, Japan, Singapore, USA, Thailand, Lebanon, Morocco, Canada, and Association of Southeast Asian Nations (ASEAN). Notable progress has been made in signing the Preferential Trade Agreement (PTA) with Nepal, Sri Lanka and Indonesia. Bangladesh and Japan initiated Joint Feasibility Study of the proposed Bangladesh-Japan FTA/EPA. Moreover, Bangladesh and Japan have been finalized a Memorandum of Cooperation (MoC) titled 'Bangladesh-Japan Industrial Upgradation Partnership' with the intention of boosting the productivity of domestically designated industries and promoting product diversification in the context of FTA implementation. The Ministry of Commerce signed a Memorandum of Cooperation with the Singaporean Ministry of Trade and Industry for boosting trade and investment between Bangladesh and Singapore and there are expectations of starting CEPA negotiation with India, FTA negotiation with the Eurasian Economic Union (EAEU) soon. In addition to those, the Ministry of Commerce has taken initiatives for conducting feasibility studies to sign FTA/PTA with the potential African countries such as South Africa, Morocco, Nigeria, Kenya, Sierra Leone, Senegal and Mauritius.

##### **B. Preferential Trade Agreement (PTA) between Bangladesh and Bhutan**

Bhutan is the first country to recognize Bangladesh as an independent and sovereign country. Bhutan thus bears special significance to Bangladesh. Since 2010, duty-free trade facilities are being provided to 18 Bhutanese products in Bangladesh and 90 Bangladeshi products in Bhutan under special arrangements. During the visit of Honorable Prime Minister of Bhutan H.E. Dr. Lotay Tshering's at the invitation of Hon'ble Prime Minister of Bangladesh H.E. Sheikh Hasina during 12-15 April, 2019, both the Prime Ministers agreed to provide duty-free trade facilities for additional 16 items proposed by Bhutan and additional 10 items proposed by Bangladesh. After several meetings of the Trade Negotiating Committee (TNC), finally, the Preferential Trade Agreement (PTA) between the People's Republic of Bangladesh and The Royal Government of Bhutan was signed on December 6, 2020 in presence of the Honorable Prime Ministers of both countries. An SRO has been issued on 28th July 2022 to execute the agreement. Bilateral trade between Bangladesh and Bhutan is increasing steadily. Bangladesh mainly imports boulder stone from

Bhutan which plays an important role in the infrastructure construction of this country. Other major import items are fruits, raw materials for cement industry and vegetables. On the other hand, major export items of Bangladesh to Bhutan are Knit and Woven garments, juice, plywood, melamine products, dry food, beverages and pharmaceuticals.

### **C. Comprehensive Economic Partnership Agreement (CEPA) with India**

Bangladesh and India signed bilateral trade agreement in 1972 which was later renewed in 2015 with some amendments/modification. But this agreement is only facilitative in nature. However, being member of SAFTA (South Asia Free Trade Agreement) and Asia Pacific Trade Agreement (APTA) Bangladesh is enjoying duty benefits for trade in goods in India. During the Commerce Secretary level meeting held in Dhaka in February 2018 both the countries agreed to explore the possibility of entering into a Comprehensive Economic Partnership Agreement (CEPA) covering various aspects of trade such as trade in goods, trade in services, investment, e-commerce, standardization etc. This issue was further discussed during the Hon'ble Prime Minister's visit to India in October 2019. Accordingly, both the parties have submitted report after conducting a Joint Feasibility Study. In light of the recommendations of the report, the decision to initiate CEPA Negotiation was taken in Bangladesh-India Highest Level Meeting held on 6 September, 2022. The issue was later discussed at the Commerce Minister Level Meeting on 22 December, 2022. According to directives of these meetings, CEPA Negotiation is expected to be initiated very soon.

### **D. Trade and Investment Co-operation Forum Agreement (TICFA) with USA**

The Trade and Investment Co-operation Forum Agreement (TICFA) was signed between Bangladesh and the United States on 25 November 2013 to discuss bilateral trade and investment issues. The agreement came into force on 30 January 2014. The TICFA agreement has become a forum for regular discussions between the two countries. The sixth meeting of the Trade and Investment Co-operation Forum Agreement (TICFA) was held on 6 December 2022 in Washington, USA. In this meeting Bangladesh proposed to USA to provide technical assistance for implementing Trade Facilitation Agreement (TFA), provide preferential market access for Bangladeshi products and services, and increased US investment and technology transfer.

### **E. Proposed Free Trade Agreement (FTA)/ Comprehensive Economic Partnership Agreement (CEPA) with Japan**

Japan is one of the largest trading partners of Bangladesh. Our export to Japan amounted to US\$ 1,354 million during FY 2021-22 and import from Japan was US\$ 2,410 million during the same period. Japan is one of the major sources of FDI in Bangladesh. For this reason, the Ministry of Commerce has taken a policy decision to sign a Free Trade Agreement (FTA)/Economic Partnership Agreement (EPA) with Japan. Both Bangladesh and Japan jointly declared the initiation of Joint Feasibility Study of the proposed Bangladesh-Japan FTA/EPA on 12 December 2022. Bangladesh side established Core Working Group for conducting Joint Feasibility Study of the proposed Bangladesh-Japan FTA/EPA and informed Japanese side through diplomatic channel.

Bangladesh has taken initiatives to sign and activate Free Trade Agreement (FTA)/ Preferential Trade Agreement (PTA)/ Economic Partnership Agreement (EPA)/ Comprehensive Economic Partnership Agreement (CEPA) with several other countries, such as China, Singapore, Sri Lanka, Malaysia and Indonesia which are now at different stages of completion, e.g., either at feasibility study state or Trade Negotiating Committee (TNC)/ joint working group formation stage or under discussion in the Trade Negotiating Committee (TNC)/ joint working group level.



## **Annexures: 6.4**

### **Regional Trade Agreement**

#### **A. South Asian Free Trade Agreement (SAFTA)**

SAARC member countries are engaging to reduce sensitive lists and tariff reductions since July 1, 2006 under SAFTA Agreement. Member countries have reduced their sensitive list by 20 percent in the second phase effected from January 1, 2012. In addition, India has given duty-free access to all products of the SAARC Least Developed Countries, including Bangladesh, except 25 products. As a result, the trade deficit is expected to be reduced with the increase in Bangladesh's exports to SAARC countries including India. It is mentioned that at present, as per WCO HS Code-2012, the number of products in the Sensitive List of Bangladesh is 1,022 for LDCs and 1,033 for non LDCs. At a special meeting of the SAFTA Committee of Export (CoE) held in Islamabad, Pakistan on July 4, 2015, Afghanistan proposed to reduce the number of goods of the Sensitive List to 235 by 2030 in the counter proposal by Pakistan, India Bhutan and the Maldives to bring down to 100 by mid-2020. Currently, a significant reduction of the number of goods in the Sensitive List is underway among the member countries under the Phase-III program of Trade Liberalization. It is noted that in terms of trade, Bangladesh is the second largest exporter after India under SAFTA. Each of the SAARC countries has issued a notification for the purpose of removing Para-tariff barriers. In this regard, a negotiation of the committee of Exports is going on to reduce/remove of these obstacles gradually. The trade in this region will be more dynamic and implementation of Phase-III program will be prompter if these obstacles are removed through this negotiation.

#### **B. SAARC Agreement on Trade in Services (SATIS)**

The SAARC Agreement on Trade in Services (SATIS) was signed by the SAARC member countries at the 16<sup>th</sup> SAARC Summit held in Thimpu, Bhutan on April 29, 2010. Member countries including Bangladesh have exchanged their preliminary offer list and request list under this agreement. Bangladesh offered 10 service categories in telecom and tourism sectors to other member countries of SATIS. Moreover, the schedule of commitments has been submitted. Negotiation is going on to finalize the schedule of commitments of the member countries. There will be an increase investment in the service sector and trade in this sector as well once the agreement is implemented. According to the latest meeting of the 11<sup>th</sup> Export Group of SATIS held in Islamabad, Pakistan on Jul 5, 2015, all the member countries except Pakistan have sent their preliminary schedule of commitments to the SAARC Secretariat. Trade in the service sector in the SAARC region will increase if the agreement is implemented.

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

Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a regional organization comprised the countries namely Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal and Bhutan. Primarily this economic organization named as BIST-EC (Bangladesh, India, Sri Lanka and Thailand Economic Cooperation) was formed in 1997. In the same year as a result of Myanmar's joining, the alliance was renamed as BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation). As Nepal and Bhutan joined this alliance, it was renamed as BIMSTEC Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) in 2004. A Framework Agreement was signed in February 2004 with a view for forming BIMSTEC Free Trade Area. Later, the 20th meeting of Working Group on Rules of Origin was held in Dhaka of Bangladesh on 10-11 January 2022. In addition, the 5th BIMSTEC Summit was held in Colombo of Sri Lanka on 30 March 2022.

#### **D. Asia Pacific Trade Agreement (APTA)**

Under the initiatives of UNSCAP, seven countries in the Asia-Pacific region: Bangladesh, India, Laos, South Korea, Sri Lanka, the Philippines and Thailand signed the Bangkok Agreement in 1975. The main objective of the agreement is to expand inter-regional trade through mutual tariff benefits between APTA member countries. Of the seven countries mentioned the Philippines and Thailand yet to ratify the agreement. However, China's accession, to treaty in 2001 gave it a new impetus. After China's accession, the third round of negotiations began and the agreement was renamed as the Asia Pacific Trade Agreement (APTA). In these negotiations, member countries exchanged tariff concession on a significant number of products. Mongolia joined APTA on 1 January 2021. Bangladesh has given 10 to 60 percent tariff exemption (margin of preference) facility on 598 products to APATA countries and 20 to 50 percent on 4 more products to LDCs. Bangladesh will get 33 percent tariff concession of 28 percent tariff lines of APTA countries. China gave duty-free access to 8,256 Bangladeshi products on 1 July 2020.

#### **E. Framework Agreement on Trade Preferential System among the Member States of the OIC (TPS-OIC)**

Bangladesh signed and ratified Framework Agreement on Trade Preferential System among the Member States of the OIC (TPS-OIC) to increase and diversify trade amongst OIC member states. In continuation with this Framework Agreement, Bangladesh signed and ratified Rules of Origin (RoO) and submitted product list containing 478 tariff lines in the OIC secretariat. TPS-OIC came into force on 1<sup>st</sup> July, 2022 and Bangladesh implemented TPS-OIC on 21 July 2022 after circulating customs notification. At present, 13 OIC member states such as Bangladesh, Turkiye, Iran, Malaysia, Jordan, Morocco, Pakistan, Saudi Arabia, United Arab Emirates, Kuwait, Bahrain, Oman and Qatar are the participatory states of the TPS-OIC. As TPS-OIC has come into force, Bangladesh has greater access to export with 30 percent local value addition.

#### **F. Developing-8 Preferential Trade Agreement (D8 PTA)**

D-8, also known as Developing-8, is an organization for development Cooperation among eight Muslim developing nations, namely Bangladesh, Indonesia, Pakistan, Iran, Malaysia, Turkiye, Egypt and Nigeria. It was officially established by an announcement through the Istanbul Declaration of Summit of Heads of State/Government on June 15, 1997. The objectives of D-8 Organization 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.

D-8 Preferential Trade Agreement (D-8 PTA) was signed on 13 May 2006 and in continuation with D-8 PTA, Rules of Origin (RoO) was signed on 28 March 2008. Bangladesh ratified D8 PTA on 17 November, 2017 accepting 40 percent local value addition (LVA). Bangladesh implemented D-8 PTA by circulating customs notification on 21 July, 2022 and offered duty free/ lesser duty access of 356 products under this agreement. Apart from Bangladesh, Turkiye, Iran, Malaysia and Indonesia implemented D-8 PTA. As a result, Bangladesh can export its products to these four countries on duty free/lesser duty access. It should be mentioned that Hon'ble Prime Minister Sheikh Hasina is the present chair of the D-8 from April 2021.

#### **G. Trade Agreement with South American Trade Block MERCOSUR**

Southern Common Market commonly known as MERCOSUR is a South American trade bloc comprising with Argentina, Brazil, Paraguay and Uruguay established by the Treaty of Asuncion (an accord calling for the 'free movement of goods, services, and factors of production between countries') in 1991.

MERCOSUR represent a total GDP of over US\$ 1.95 trillion and a population of around 270 million with average per capita income at over US\$ 18,987. MERCOSUR Countries especially Brazil and Argentina are important trading partner of Bangladesh. Bangladesh has taken initiative to sign Preferential Trade Agreement (PTA)/ Free Trade Agreement (FTA) with MERCOSUR for enhancing trade cooperation. Feasibility study has already been completed to sign a PTA/FTA with the MERCOSUR. Honorable Commerce Minister sent DO letter to MERCOSUR Secretary General and foreign ministers of MERCOSUR countries through Ministry of Foreign Affairs to start discussion on signing PTA/FTA.

## **H. Regional Connectivity and Transit**

### **Bangladesh- Bhutan Transit**

The draft of Agreement on the Movement of Traffic-in-Transit and its Protocol between the Government of the People's Republic of Bangladesh and the Royal Government of Bhutan has been finalized by the representatives of both countries, which is currently under vetting at the Legislative and Parliamentary Affairs division.

### **Bangladesh-Bhutan-India-Nepal Motor Vehicle Agreement (BBIN-MVA)**

Bangladesh-Bhutan-India-Nepal Motor Vehicle Agreement (BBIN-MVA) is a Framework Agreement which was signed between Bangladesh, Bhutan, India and Nepal on 15 June 2015. The member states of BBIN will be immensely benefited through movement of passenger and cargo vehicles when it will be operationalized. A meeting was held on 7-8 March, 2022 in New Delhi, India where two working groups namely, Transport Working Group and Customs Working Group were formed to implement the agreement. Working groups are working for finalizing passenger and cargo protocols to implement the agreement.

## **Annexures: 6.5**

### **Bangladesh's Relation with International Organisations, UN bodies and World Trade Organisation (WTO)**

#### **A. Bangladesh-Commonwealth Relation**

A conference of the Commerce Ministers of 53 Commonwealth countries was held on 9-12 October 2019 in London, United Kingdom. Hon'ble Minister of Commerce of Bangladesh clarified Bangladesh's position and gave recommendations on digital transformation at the conference. In continuation of the meeting, the Commonwealth Head of Government meeting was held in Kigali, Rwanda in 2022. Common Value and agreed action policy to improve lives for the citizens of Commonwealth countries were reconsidered with importance in the meeting. Commonwealth Senior Trade Officials Meeting (SToM) 2023 meeting was held on 17-18 January 2023 on Online Platform. Co-operation to increase food security: the role of agricultural trade and the green economy, co-operation on the digital economy: supporting MSMEs to create digital jobs, support for the multilateral trading system, and Roadmap to the 2023 Commonwealth Trade Ministers Meeting were the important agendas for discussion in that meeting.

#### **B. Bangladesh- European Union Trade Relations**

Seven Dialogues of Bangladesh-European Union Business Climate Dialogue have been completed so far with the aim of increasing Bangladesh's trade and investment with European Union countries. The last meeting (7th session) of the Business Climate Dialogue held on 23 June 2022 was hosted by the Ministry of Commerce. Besides, the 10th meeting of the EU-Bangladesh Joint Commission was held on 20 May 2022 and the EU-BD Sub-group on Trade and Economic Cooperation meeting was held on 19 May 2022 in Brussels, Belgium.

#### **C. Bangladesh- UNESCAP Relation**

Bangladesh is actively engaged in the cross-border paperless trade, Asia-Pacific Trade Agreement, public-private partnership networking, renewable energy and other initiatives of UNESCAP. Specially, Bangladesh is one of the top five countries who signed the ESCAP Framework Agreement on Cross-border Paperless Trade in Asia and the Pacific treaty in 2017 and then ratified in 2020. The agreement has come to force from February 2021. The implementation of the agreement will reduce the time and cost of conducting inter-country trade and make trade easier and faster. Entry into force of the treaty is an outstanding achievement for our region of Asia-Pacific countries as well as it will play a vital role to construct 'Smart Bangladesh'.

#### **D. WTO and Bangladesh**

The World Trade Organization (WTO) is a rule-based non-discriminatory international organization. Specific agreements and regulations of the WTO have made international trade possible to carry out easily and efficiently in the shortest possible time. Bangladesh is a founding member of the World Trade Organization (WTO). WTO wing of the Ministry of Commerce is mandated to discharge all functions related to the WTO on behalf of Ministry of Commerce. WTO wing is regularly undertaking various activities to expand trade and facilitate trade in the country through proper utilization of the benefits of multilateral trading system. Implementing WTO rules and regulations, commenting on consistency of the newly drafted laws of Bangladesh with WTO agreements, availing of the opportunities and flexibilities under the WTO, building trade capacities and protecting interest of the country in international trade regime, *inter alia*, are some important responsibilities.

All these rules and regulations of the WTO have created a lot of opportunities; on the other hand, it has also created responsibilities for each member country. A number of ministries and agencies of public sector along with the private sector are involved in these issues. The WTO wing has been conducting activities to inform related public and private bodies about the benefits and responsibilities of the WTO system, provide feedback on various issues and make them aware of the rules and regulations of the WTO. The WTO wing conducts workshops/training programs under the Technical Assistance Program to raise public awareness and capacity in various aspects of the WTO. Workshops/trainings have already been organized on TRIPS, SPS, TBT notification, trade in services, non-agriculture market access (NAMA). In addition, the WTO cell is working to address the post-LDC graduation impact on Bangladesh and other challenges related to international trade.

As a result of the WTO decision and Bangladesh's role played in various WTO Ministerial Conferences as the LDC coordinator, all developed countries except the United States are providing almost 100 per cent Duty-Free Quota-Free (DFQF) market access to all LDCs, including Bangladesh, under the GSP and other schemes. Developing countries such as China, India, South Korea, Chile and Thailand also have endorsed DFQF facilities. Under the Everything but Arms (EBA) scheme duty free access to all Bangladeshi products (except arms and ammunition) has been given by all the EU countries. Moreover, all goods except arms and ammunition under GSP from Australia, Norway, Switzerland and New Zealand, all products except wheat, wheat flour and sugar from Chile under GSP; all goods except garments, arms and ammunition from Türkiye under GSP, except for a small number of products and arms and ammunition, Japan provides GSP to all other products to Bangladesh. Russia, Belarus, Kazakhstan, Kyrgyzstan and Armenia provide GSP to 71 products. Thailand offers duty free access to 6998 products, under 'Preferential Tariff for Least Developed Countries' South Korea provides this facility to 4802 products, China offers to 8256 new products under "Duty Free treatment granted by China", Malaysia offers to 525 products under GSP and Canada to all products except poultry, dairy, eggs, arms and ammunition under the General Preferential Tariff (GPT).

Due to the successful negotiations of the Least Developed Countries (LDCs) including Bangladesh, the existing exemption in intellectual property has been extended until 1 January 2033. As a result, the development of the Pharmaceutical Industry in Bangladesh will continue and new horizons will be opened in the export of medicines. Besides, access to medicines at an affordable price will be ensured for the all walks of people. Moreover, it has been decided that subsidy will continue for the export of agricultural products of least developed countries for market expansion, product processing and domestic and international transport till 2030.

In order to increase the trade potential of the least developed countries, WTO finances Enhanced Integrated Framework (EIF) Program. Ministry of Commerce implemented tier-1 of EIF entitled 'Strengthening Institutional Capacity and Human Resource Development for Trade Promotion project'. Under this project two studies titled 'Export Potentiality of Trade in Services of Bangladesh: Identifying Opportunities and Challenges' and 'Identification of Non-tariff Barriers Faced by Bangladeshi Products in Major Export Markets' have been conducted. Currently, 'Export Diversification and Competitiveness Development Project' is underway under EIF's Tier-2 project. This project imparts training, workshop and other activities to enhance the capacity to produce Active Pharmaceutical Ingredients. Under this project, entrepreneurs are being trained to process five fruits with an intention to diversify export products. In addition to this, to increase capacity in agro trade and agricultural negotiation, officers and personnel from both public and private entities are provided trainings. For RMG industry, an Innovation, Efficiency and Occupation, Safety

and health (OSH) center has been established, other activities for the RMG industries are also being implemented. The activities in RMG are expected add value and diversify garment products in Bangladesh.

Bangladesh signed and ratified the WTO Trade Facilitation Agreement (TFA) which came into force on 22 February, 2017. Bangladesh notified the WTO specifying the areas in which cooperation from the development partners are required for the implementation of activities under category C. With the implementation of activities related to Trade Facilitation Agreement, Bangladesh's position in Ease of Doing Business will improve further and in turn, it will contribute in achieving the relevant indicators of SDG by 2030.

The WTO wing is implementing a project titled *Diagnostic Trade Integration Study Update (DTISU) of Bangladesh: Trade Roadmap for Sustainable Graduation (TRSG)*. The main objective of this project is to identify the key trade challenges of Bangladesh in terms of sustainable transition from an LDC country. One of the main objectives of this project is to develop a specific trade roadmap to address trade related challenges in various sectors such as readymade garments, knitwear, plastic products, leather industry, shipbuilding and so on. The duration of the project is from 01 February 2022 to 1 June 2023. The project cost is one crore seventy lakh taka. The project is funded by Enhanced Integrated Framework (EIF) of WTO.