CHAPTER 6

EXTERNAL SECTOR

Consistent with the emerging trends of the market economy, Uruguay Round Accord and Agreement with World Trade Organisation (WTO) Bangladesh has been pursuing a liberal trade policy since early 1990's. Massive trade liberalisation and reform programmes have been implemented in trade areas during this period. Reforms have been initiated to dismantle both tariff and non-tariff barriers. With regards to steps towards trade liberalisation government has been pursuing a moderate protective policy only in consideration of certain sensitive areas like public health, security and religious bindings. Simultaneously, more liberal import and export policies and programmes have been adopted including reduction in tariff slabs. Bangladesh pursued one-year export and import policies in the first half of eighties and two-year policies in the last half of eighties and the first half of nineties. Since then, five-year export and import policies (1997-2002) were formulated and implemented. After the termination of tenure of these time bound policies, the government has announced three-year export import policies (2003-2006). These policies are consistent with the agreement under Uruguay Round Accord, WTO and the principles of market economy on one hand and maintaining favourable balance between exports and imports of the country on the other. The prime objective of the trade policy of Bangladesh is to strengthen the economy of the country while sustaining the shocks of rapid changes in global trade regimes, trade liberalisation and export-based development strategy.

Import Policy and Programme

The Import Policy (2003-2006) has been adopted to face the emerging challenges arising from rapid changes and expansion of world trade and free access of commodities in accord with WTO rules. The import policy had been made consistent with the industrial policy. As a result, administrative complexities for obtaining prior approval from different ministries, a requirement for establishing industries, has largely been reduced. In the import policy, quality control mechanism of imported goods has also been strengthened. In order to ensure availability of industrial inputs further and thereby enhance efficiency and competitiveness, restrictions on import of commodities have been gradually withdrawn. With a view to promote and accelerate export, liberalised import facilities for the export-oriented industries have been in place. Some of the important objectives of the import policy are:

- Import policy will be further consolidated in the light of the changes due to globalisation and gradual development of free market economy under WTO;
- Facilities will be provided to import technology for the widespread dissemination of modern technology;

- By providing simplified import facilities for the export-oriented industries, a strong export base will be built up. For this reasons, import policy will be integrated with industrial policy, export policy and other development activities; and
- Gradual withdrawal of import protection for making available of the industrial raw materials and thus enhance competitiveness, competency and efficiency.

It is expected that the implementation of the current import policy would accelerate industrialisation process and will help boost up the overall development of the economy. Phenomenal changes and amendments have been incorporated in the Import Policy to promote foreign investment, ensure availability of quality goods to the consumers at reasonable prices, develop human resources and create employment opportunities. Included among the significant changes are:

- To establish new industry, provision has been made to open LC without Import Registration Certificate (IRC) for import of capital machinery and primary or basic spares;
- Make industrial raw materials like aluminum scrap, iron and steel scrap, paper waste and brake acrylic importable so that finished products are available at affordable prices;
- Facilities has been created to import liquefied propane and butanes, lubricating oil, grease and transformer oil by private sector importers;
- Various types of fabrics have been made importable on commercial basis irrespective of price/quantity.

Under the import policy, expatriate Bangladeshis can import capital machinery and raw materials in any quantity while the foreign investors, as part of their equity share, can import the same on cost, insurance and freight (c.i.f.) basis. In case of importing industrial raw materials the bindings of country of origin has been withdrawn. Raw materials import has been made easier for 100 percent export oriented industries that will accelerate expansion of export industries.

Simplification of Tariff Regime

Tariff regime has been simplified by equalising operative tariff rate with statutory tariff rate and also by reducing tariff barriers and tariff slabs. In FY 1992-93, the number of tariff slab was 15. Currently the number of tariff slabs is 4 (0%, 7.5%, 15% and 22.5%). The maximum import duty was 300 percent in FY 1992-93, and this has been reduced to 25 percent in FY2004-05. To simplify the tariff structure operative and statutory tariff rate has been made equal since FY 2001-02.

Tariff Reduction

The unweighted average rate of protection was 47.4 percent in 1992-93, which was reduced to 13.54 percent in 2004-05. The weighted average rate of protection was 23.06 percent in 1992-93, which was reduced to 9.59 percent in 2004-05. The unweighted and weighted rates of customs duty have been presented in Table 6.1 and 6.2 respectively.

Table-6.1: Impact of Tariff Reforms on Average Rate of Customs Duty

Financial Year	Unweighted Average (%)	Import Weighted Average (%)
1992-93	47.4	23.6
1993-94	36.0	24.1
1994-95	25.9	20.8
1995-96	22.3	17.0
1996-97	21.5	18.0
1997-98	20.7	16.0
1998-99	20.3	14.1
1999-00	19.5	13.8
2000-01	18.6	15.1
2001-02	17.13	9.73
2002-03	16.51	12.45
2003-04	15.62	11.48
2004-05	13.54	9.59

Source: National Board of Revenue.

Table 6.2: Impact of Tariff Reforms on Average Rate of Custom Duty by Type of Commodities.

Financial year / Classification	1999-00		2000-01		2001-02		2002-03		2003-04		2004-05	
	UW AV	W. AV	UW AV	W. AV	UW AV	W. AV	UW AV	W. AV	UW AV	W. AV	UW AV	W. AV
Primary goods	15.6	13.6	15.7	14.9	20.10	9.43	20.98	11.92	19.90	11.28	17.61	8.99
Intermediate goods	17.1	15.1	17.7	15.0	15.61	16.18	14.89	15.86	14.44	15.12	12.46	12.72
Capital goods	16.1	9.9	11.3	10.4	6.97	3.26	8.03	7.97	7.85	6.42	7.28	5.22
Final consumer goods	31.0	16.5	29.6	20.3	26.00	13.96	22.94	11.72	21.27	10.68	18.22	15.08

Source: National Board of Revenue.

Trade Openness

It appears from a comparison between fiscal year 1993-94 and 2004-05 that the trade openness gradually increased during this period.

Table 6.3: Trade Openness for Several Years

(In million US$)

Fiscal Year	GDP at Current Price	Foreign Trade			Trade Openness (%)
		Export	Import	Total	
1993-94	33852	2534	4191	6725	19.87
1994-95	37939	3473	5834	9307	24.53
1995-96	40729	3884	6947	10831	26.59
1996-97	42318	4427	7152	11579	27.36
1997-98	44037	5172	7520	12692	28.82
1998-99	45709	5324	8006	13330	29.16
1999-00	47124	5752	8374	14126	29.98
2000-01	46989	6467	9335	15802	33.63
2001-02	47567	5986	8540	14526	30.54
2002-03	51914	6548	9658	16206	31.22
2003-04	56429	7603	10903	18506	32.76
2004-05	60018p	8655	13147p	21802	36.33

Source: Bangladesh Bank, EPB, BBS. P= Provisional

Export Policy and Programmes Implemented

Expanding global market economy and agreement with the WTO have opened up a wide range of opportunities for exports, on the one hand, and has posed a great challenge for a poor country like Bangladesh with underdeveloped technology and low capital base on the other. In the case of import, following gradual reduction of duty rates, domestic import-substitute industries have been increasingly facing tough competition. Export industries on the other hand have to survive and expand by competing with other countries. Bearing in mind this unfavourable situation the Export Policy, 2003-2006 has been formulated. In the Export Policy, export targets for FY 2003-04, 2004-05 and 2005-06 have been fixed at US$ 7,628 million, US$ 8,566 million and US$ 9,599 million respectively. Given that the measures prescribed in the export policy are implemented properly, exports will substantially increase despite all possible constraints.

Box 6.1: Objectives and Strategies of the Export Policy

Objectives of the Export Policy

- Restructuring of EPB for development of institutional capacity and capacity building of the trade bodies including Customs Department, Sea and Land Port Authority, Directorate of Fisheries, BSTI, Tea Board etc.;
- Diversification of products;
- Quality development of products and improvement in design and production of high priced goods;
- Adoptation of new strategy to extend markets of exportable items through computerisation, use of modern technology including e-commerce;
- Structural development for optimum production of exportable items and establishment of backward and forward linkages;
- Providing assistance to the existing exporters and creating business-friendly atmosphere to help emerge new exporters;
- Building up skilled manpower in the trade sector;
- Familiarising the trade bodies, business communities and enterpreneurs with the policies of the international trade.

Strategies of the Export Policy

- Provide assistance to increase production of exportable commodities by constituting the required number of Product Development Councils;
- Provide assistance to the manufacturers and exporters on market intelligence to assess the demand of commodities abroad and for higher price of exported commodities;
- Promote export development by broadening the institutional facilities including trading house and export house;
- Extend co-operation to set up Seal of Quality Organisation or similar organisation to ensure the quality of products, if needed;
- Provide co-operation to set up ‘Bangladesh International Arbitration Centre’ or similar type of organisation to settle the trade disputes quickly;
- Provide assistance to the manufacturers for using modern technology in design and production;
- Provide assistance to the exporters to have exposure on the methodologies of work of the countries that achieved remarkable success in export trade; and
- Provide assistance for holding solo fair for Bangladeshi commodities in different countries and for participating in international trade fair to introduce them as well as their marketing.

Projects for Export Development

The Ministry of Commerce has been endeavoring to facilitate technical assistance to improve the quality of products, explore markets, create demand of new products as required in international markets, which is complementary to export expansion policy and strategy and export diversification. The Ministry of Commerce has been implementing 4 technical assistance projects under 2004-05 Annual Development Programme. The projects are:

- Developing Business Services Markets Programme in Bangladesh;
- Business Development Services for Private Sector Promotion;
- Preparatory Assistance for Trade and Human Development Employment Implication of post-MFA Phase out and Sustainable Policy Options; and
- Small Project Facilities

With the support of these projects, there have been initiatives to provide quality business support services to SMEs and to innovate ways to remain competitive and efficient. Besides, a UNDP funded project is being implemented to provide support to prepare business strategy and to identify and assess the impact of job environment and living standard of workers in the garments industry during the post MFA quota free regime.

Activities Related to RMG Sector

Mixed predictions were made in different ways about what situation Bangladesh's Ready Made Garments Industry would face in the post-quota period after 31 December 2004. Many presumed that this sector would be in serious disaster and as a result, export earnings would fall appreciably. However, there were many who indicated that there would be a possibility of enhanced exports in the sector if appropriate measures are adopted. More or less, there were wide agreements that Bangladesh's Readymade Garments Industry would face severe competition. In the Gherzi Report, which was prepared with the support from World Bank, apprehended that export earning of Bangladesh would reduce significantly in the post-quota regime. Studies conducted by IMF and WTO also sounded similar apprehension. But it is encouraging that in spite of 6 months already elapsed after quota withdrawal, nothing disastrous happened as predicted. Rather export earning has been gradually increasing. In spite of the confusions on probable situations in the long run, it is expected that Bangladesh would be able to retain her market of readymade garments by implementing appropriate and time-binding measures. In the meantime, following measures have been taken for development of the sector:

- Conducting a study by a renowned consulting firm of Switzerland "Gherzi Textile Organization" to draw appropriate strategy so that Bangladesh RMG can sustain stiff global competition during post-MFA quota-free regime and taking necessary actions to implement the recommendations of the study;

- Formation of a National Coordination Council on Readymade Garments and policy adoption to support the garment sector by all possible means, in light of the recommendations of the council;
- Approval of loan rescheduling without any down payment, on condition that export proceeds of stock-lot products be credited to the concerned loan account, for the export-oriented readymade garment factories which have been bank defaulters due to stock-lot,
- Simplification of consignment release procedures;
- Concession against utility bills for export oriented readymade garments industry;
- Reductions in fixed rates of insurance premiums for export-oriented garments factories;
- Formulation of a post-MFA Action programmed (PMAP) by the Ministry of Commerce in order to help retain the market and enhance export in the face of competition in the post-quota period.

Another special development is that the scope for making duty-free access of products to USA from Bangladesh would be created once the bill named 'Tariff Relief Assistance for Developing Economies (TRADE) Act of 2005', now under consideration of US Congress, is passed.

South Asian Preferential Trade Agreement (SAPTA)

South Asian Preferential Trade Agreement (SAPTA) came into effect on December 7, 1995. Under this agreement, prescribed Rules of Origin of the signatory countries have been relaxed. Four rounds of negotiation have been held so far under SAPTA. These negotiation rounds considered the coverage of different commodities and also the issue of reduction of duties. Meanwhile, concessionary duties ranging between 7.5 percent and 100 percent for 3,813 commodities on the basis of 6 digit Harmonized System (HS) Code have been exchanged. The local value added rate has been refixed at 30 percent in place of 40 percent. Negotiation is underway to sign an ‘Agreement on Promotion and Protection of Investment’ with a view to expanding trade and investment among SAARC countries.

South Asian Free Trade Area (SAFTA)

At the twelfth SAARC Summit, held in Islamabad between 4-6 January 2004, the member states signed an agreement on South Asian Free Trade Area (SAFTA) to promote and enhance mutual trade and economic co-operation. The agreement will come into force on January 1, 2006 on completion of formalities, including ratification by all member states and issuance of a notification thereof by the SAARC Secretariat. The SAFTA Agreement covers only trade in goods. The agreement will be implemented through a number of instruments, including a trade liberalisation programme, institutional arrangement, consultation and dispute settlement procedures, safeguard measures and any other instruments that may be agreed by member states. Under the agreement, the Least Developed Countries (LDCs) will get the following facilities:

- The developing member states would reduce tariffs to 0-5 percent for the commodities of LDC contracting states within a 3-year time frame from the date on which the agreement comes into force. On the other hand, the LDC contracting states would reduce tariffs to 0-5 percent within 10-year time frame;
- The LDC contracting states will get the opportunity to protect internal markets and industries and to obviate or overcome the adverse effect of probable revenue earnings from custom duties by formulating a big 'sensitive list';
- The LDC contracting states can seek derogation for not including into the negative list of developing countries in respect of products of their export interest;
- The LDC contracting states will seek compensation for revenue loss, if the custom duty reduce by implementing the SAFTA Agreement;
- The non-LDC contracting states will provide consultation facilities to LDC contracting states for imposing anti-dumping and/or countervailing duty;
- The non-LDC contracting states will provide technical assistance to LDC contracting states to expand trade under SAFTA Agreement.

As per the decision of the Agreement the Committee of Experts (COE) on the South Asian Free Trade Area (SAFTA) has been continuing negotiations on the following four outstanding issues:

- SAFTA Rules of Origin;
- Sensitive List;
- Technical Assistance to the Least Developed Contracting States and
- Mechanism for compensation of Revenue loss for the Least Developed Contracting States.

After signing the SAFTA Agreement, the Committee of Experts held six meetings so far. The COE will complete the negotiations on four outstanding issues before the SAFTA Agreement comes into force on January 1, 2006. The outcome of the discussion on four outstanding issues will be considered as an integral part of SAFTA Agreement. It is hoped that the full implementation of the SAFTA Agreement will significantly promote trade among member states.

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

On 6 June 1997, a regional economic cooperation group was formed in Bangkok and given the name BIST-EC (Bangladesh, India, Sri Lanka and Thailand Economic Cooperation). Later on Myanmar joined the organisation at a Special Ministerial Meeting held in Bangkok, upon which the name of the group was changed to BIMST-EC. Subsequently, full membership has been granted to Nepal and Bhutan in 2003. During the First Summit in Bangkok on 30-31 July 2004,

the group name was eventually changed to "The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation", or BIMSTEC.

Initially BIMSTEC began extending co-operation in six areas such as trade and investment, technology, transport and communication, energy, tourism and fisheries. These sectors were divided into sub sectors having a chair country responsible for co-coordinating activities at regular intervals. The Trade Ministers' meeting of BIMSTEC held in Thailand on 7 February 2004 decided to review the existing sectors and sub-sectors of economic cooperation among BIMSTEC countries. With this end in view, the Ministerial Meeting set up a Task Force with representatives from both public and private sectors of the member countries. The Task Force held four meetings suggesting regrouping of various sectors and sub-sectors on the basis of existing trade patterns within BIMSTEC countries as well as global trade patterns. The report of the Task Force will be submitted before the upcoming BIMSTEC Senior Trade Economic Officials Meeting.

A Framework Agreement on BIMSTEC Free Trade area (BIMSTEC- FTA) was concluded on 8 February 2004. Bangladesh signed the Agreement as a founding member on 25 June 2004. Parties to the Framework Agreement are required to negotiate and conclude three Agreements. These are (i) Agreement on Trade in Goods (ii) Agreement on Trade in Services and (iii) Agreement on Investment.

The BIMSTEC Trade/Economic Ministerial Meeting held in Thailand in February 2004 set up a Trade Negotiating Committee (TNC) to conduct negotiations on trade in goods, trade in services and investment. The TNC has already begun negotiations on trade in goods, which are expected to be completed by December 2005. The Agreement on trade in goods comes into force from 1 July 2006. Negotiations on trade in services and investment are scheduled to be completed by 2007.

The Bangkok Agreement

In 1975, seven countries of Asia Pacific region e.g. Bangladesh, India, Sri Lanka, Thailand, Philippines, the Republic of Korea and Laos People's Democratic Republic came to a consensus to set up a preferential trading arrangement on a commodity list. As a result, the developing countries of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) signed first agreement on trade negotiation, which is known as Bangkok Agreement. After that, the Agreement was signed by the 5 members out of 7 countries (except Philippine and Thailand). China was included in this agreement in 2002. With the accession of China to the group, prospects of strengthening the group have become brighter. Measures have been taken to revitalise the Agreement by way of expanding its scope and membership. As part of the revitalisation programme, the Agreement is being revised and also changing its name to Asia Pacific Trade Agreement (APTA).

The participating countries of this Agreement have concluded three rounds of trade negotiations. The first round of trade negotiations was concluded in 1980 and the second round in 1990. The third round of trade negotiations was launched in 2001 and completed in 2004.

The First Ministerial Council Meeting is expected to be held by the end of 2005. At this meeting, the Trade Ministers of the participating countries will formally announce the new name of this regional group, and sign the revised Agreement along with consolidated lists of tariff concessions and Rules of Origin.

World Trade Organisation (WTO) and Bangladesh.

Since the establishment of WTO on 1 January 1995 Bangladesh has been playing an active role in the ongoing WTO negotiations with a view to protecting the legitimate claim and interests of LDCs in an extremely competitive global trading environment. Bangladesh also attaches equal emphasis on its bilateral and regional trade.

To protect the interests of LDCs, Bangladesh has been strongly pleading for duty-free and quota-free market access for all products originating from LDCs, exploring employment opportunities for the semi-skilled labour force abroad, enhancing market share for LDCs in the global trade, meaningful and effective trade related technical assistance, exemption of LDCs products from any anti-dumping, countervailing and safeguard measures, implementation of all special and differential (S&D) treatment provisions for LDCs, continuation of domestic support for low-income and resource- poor farmers and subsidy for internal and international transport and freight charges with a view to reducing marketing cost, and developing trade remedial measures and compensatory mechanism to address the erosion of trade preferences etc.

Along with other WTO members, Bangladesh has been playing an important role to bring WTO negotiations back on track after the Cancun setback. As a consequence, the General Council of WTO adopted a framework agreement on 1 August 2005, which would be the basis for negotiations for the Sixth WTO Ministerial Conference to be held in Hong Kong in December 2005. The role played by Bangladesh in the informal mini-ministerial meeting held in Mombassa, Kenya during 2-4 March 2005 has been appreciated. This meeting was designed in a manner keeping in view the upcoming Hong Kong Ministerial Conference.

The above framework agreement includes provisions like exemption from giving commitment to reduce tariff on agricultural and non-agricultural products and providing continued support to marginal and small farmers. This has been made possible because of the active and boisterous role played by Bangladesh in WTO negotiation. The framework has also included the provisions for duty free and quota free market access for products originating from LDCs and movement of less-skilled and semi-skilled workers from these poor countries. For trade facilitation, besides this, it has been recognised that LDCs will only be required to undertake commitment to an extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities. They would also be provided with required support and assistance for

infrastructure development to facilitate their trade. Bangladesh has almost completed its preparation for participating effectively in the upcoming Hong Kong Ministerial Conference.

Foreign Trade Situation

Export Position and Composition of Export Commodities

The export earnings of Bangladesh were US$ 7,602.99 million in FY 2003-04, which was 16.10 percent higher than the export earnings (US$ 6,548.44 million) of FY 2002-03. Export earnings in FY 2004-05 stood at 8,654.82 million US$ which is 13.83 percent higher than the previous year. Analysis of composition of exports by major categories reveals that export earnings increased compared with the same period of previous fiscal year in respect of woven garments (1.70%), knitwear (31.26%), agricultural products (100.61%), fertilizer and chemical products (62.34%), frozen food (7.81%), raw jute (20.69%), jute goods (24.76%), tea (0.19%), leather (4.50%) ceramic products (19.44%), engineering products (103.06%) and footwear (28.18%) etc. On the other hand, export earnings decreased only for petroleum by products (5.24%) etc. Table 6.4 shows the export growth and composition by commodities.

Table-6.4: Export Growth and Composition

Commodity classification	Total export (Million US$)			% of total export			Growth rate (%)		
	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05	2002-03	2003-04	2004-05
1. Primary commodities, of which	**462.59**	**553.36**	**648.29**	**7.06**	**7.28**	**7.49**	**15.52**	**19.62**	**17.16**
a) Frozen food	321.81	390.25	420.74	4.91	5.13	4.86	16.55	21.27	7.81
b) Tea	15.47	15.81	15.84	0.24	0.21	0.18	(10.99)	2.20	0.19
c) Agricultural products	25.45	41.11	82.47	0.39	0.54	0.95	12.96	61.53	100.61
d) Raw jute	82.46	79.70	96.19	1.26	1.05	1.11	34.89	(3.35)	20.69
e) Others	17.40	26.49	33.05	0.26	0.35	0.39	37.22	52.24	24.76
2. Industrial goods, of which	**6085.85**	**7049.63**	**8006.23**	**92.94**	**92.72**	**92.51**	**8.76**	**15.84**	**13.57**
a) Woven garments	3258.27	3538.07	3598.20	49.76	46.54	41.58	8.28	8.59	1.70
b) Knitwear	1653.83	2148.02	2819.47	25.26	28.25	32.58	13.34	29.88	31.26
c) Leather	191.23	211.41	220.93	2.92	2.78	2.55	(7.77)	10.55	4.50
d) Jute goods	257.18	246.45	307.48	3.39	3.24	3.55	5.61	(4.17)	24.76
e) Fertilizer & chemical products	100.49	121.46	197.18	1.53	1.60	2.28	50.95	20.87	62.34
f) Footwear	46.60	68.30	87.55	0.71	0.90	1.01	(3.90)	46.57	28.18
g) Ceramic products	18.82	24.07	28.75	0.29	0.32	0.33	7.54	27.90	19.44
h) Engineering goods	12.91	41.87	85.02	0.19	0.55	0.98	842.34	224.32	103.06
i) Petroleum by products	31.23	37.02	35.08	0.48	0.49	0.41	215.45	18.54	(5.24)
j) Handicrafts	5.95	4.20	5.12	0.09	0.06	0.06	(2.78)	(29.41)	21.90
k) Others	509.34	608.76	621.45	7.78	8.00	7.18	23.84	19.52	2.08
Total export	**6548.44**	**7602.99**	**8654.52**	**100.00**	**100.00**	**100.00**	**9.39**	**16.10**	**13.83**

Source: Export Promotion Bureau, Ministry of Commerce.

* Figure in the parenthesis indicates negative number.

Country wise Export

Analysis of country wise export shows that United States of America is the main destination of our export commodities. It appears from table 6.5 that, in FY2004-05, United States secured the top position in respect of importing Bangladeshi commodities. During this period, goods worth of US$ 2,412.05 million were exported to the US, which was 27.87 percent of the total export of the country. The principal commodities exported to US are frozen food, home textile, knitwear and woven garments. During FY 2004-05, Bangladesh, of her total exports, exported 45.12 percent of woven garments, 14.28 percent of knitwear and 40.79 percent of shrimps to the United States. The country wise export is shown in table 6.5 below.

Table 6.5: Country wise Export

(In million US$)

Fiscal Year	USA	Germany	UK	French	Belgium	Italy	Nether lands	Canada	Japan	Others	Total
1999-00	2273.76	658.71	499.99	367.37	225.89	248.28	282.77	110.63	97.64	987.16	5752.20
2000-01	2500.42	789.88	594.18	365.99	253.91	295.73	327.96	125.66	107.58	1105.99	6467.30
2001-02	2218.79	681.44	647.96	413.69	211.39	262.31	283.36	109.85	96.13	1061.17	5986.09
2002-03	2155.45	820.72	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1270.80	6548.44
2003-04	1966.58	1298.54	898.21	552.96	326.95	315.93	290.44	284.33	118.16	1550.89	7602.99
2004-05*	2412.05	1353.80	943.17	626.17	325.43	369.18	291.94	335.43	122.41	1874.94	8654.52

Source: Export Promotion Bureau
* Provisional

During FY 2004-05, the second highest export earnings came from Germany which constituted 15.43 percent of total export earnings while the third highest export earnings came from UK (10.90 percent).

Import Status and Composition of Imported Commodities

The total import payments (cif) amounted to US$ 9,658 million and US$ 10,903 million in FY 2002-2003 and FY 2003-04 respectively. Import payments registered an increase of 12.9 percent in FY 2003-04. Analysis of imports reveals that in FY 2003-04, the following commodities contributed to the overall growth of import payments. Included among them are cotton (48.4%), wheat (45.01%), edible oil (29.4%), petroleum products (24.2%), yarn (19.6%), oilseeds (14.1%) and capital machinery (5.1%). Import Payments in the FY 2004-05 stood at US$ 13147 million, which was 20.6 percent higher than the import payments (US$ 10,903 million) of the previous year. Table-6.6 shows the overall import situation of the country.

Table-6.6: Import Growth and Composition

(In million US dollar)

Commodity	2001-02	2002-03	2003-04	2004-05*
a) Principal primary commodities	**812**	**1133**	**1339**	**1676**
Rice	15	211	144	262
Wheat	171	198	287	312
Oilseeds	72	64	73	86
Crude petroleum	242	267	252	350
Cotton	312	393	583	666
b) Principal industrial goods	**1311**	**1548**	**1910**	**2662**
Edible oil	251	364	471	440
Petroleum products	481	620	770	1252
Fertilizer	107	109	150	332
Clinker	150	144	139	170
Staple fibre	39	41	57	75
Yarn	283	270	323	393
c) Capital machinery	**554**	**548**	**729**	**1115**
d) Other commodities (including EPZ)	**5863**	**6429**	**6925**	**7694**
Grand Total	**8540**	**9658**	**10903**	**13147**
Percentage change (%)	-8.5	13.1	12.9	20.58

Source: Bangladesh Bank.
*Provisional

Country wise Import

It appears from the country wise import analysis that in term of the value of total imported commodities India occupied the first position in FY 2003-04 where 14.69 percent of the total imported commodities came from India. China came to occupy the second position (10.99 percent of total import) while Singapore held to third position (8.36 percent to total import). In FY 2004-05, 15.44 percent of total import came from India, 12.49 percent from China and 6.75 percent from Singapore. Table 6.7 shows the country wise import payments during FY 1999-00 to FY 2004-05.

Table 6.7 Country wise Import Payments.

(In million US$)

Fiscal Year	India	China	Singapore	Japan	Hong Kong	Taiwan	South Korea	USA	Malaysia	Others	Total
1999-00	833	568	701	685	455	386	319	325	108	3994	8374
2000-01	1184	709	824	846	478	412	411	248	148	4075	9335
2000-02	1019	878	871	655	441	312	346	261	145	3612	8540
2002-03	1358	938	1000	605	433	328	333	223	169	4271	9658
2003-04	1602	1198	911	552	433	377	420	226	255	4929	10903
2004-05*	2030	1642	888	559	565	439	426	329	276	5993	13147

Source: Statistics Division, Bangladesh Bank.
* Provisional

Exchange Rate

Over a period of more than a decade Bangladesh pursued a flexible exchange rate policy. Previously, the exchange rate of Taka used to be adjusted from time to time to keep it competitive based on the rate of inflation and movement of exchange rates as well as trade weights with partner countries. Recently, the Government has taken a bold step in exchange rate management. Bangladesh stepped into introducing fully market based exchange rate since May 31, 2003. Introduction of free float exchange rate did not bring in any significant instability in the economy so far.

Although the US dollar remained stronger against Taka during late 2003 through April 2004 but the situation after that did not aggravate and Taka remained stable between May 2004 to August 2004. Since August 2004 Taka showed stability and from August 2004 to March 2005 Taka showed some resilience against US Dollar. Rapid development of private sector with concomitant increased credit flow; much higher growth in import of capital machinery and primary goods due to devastating flood and oil price hike in international market were mainly responsible for the main reason of the adverse situation of exchange rate. Due to continued monitor and supervision by the central bank and also due to injection of greenback into foreign exchange market the exchange rate turned stable. On June 30, 2004 the official and interbank market Taka-Dollar exchange rate remained stable between Taka 59.30 and Taka 61.50 respectively. Although the exchange rate was a little bit higher in open market compared to interbank market still there exists stability. On June 30, *2004* the rate was moving between Tk. 61.00 to 62.20 in this market. Exchange rates of Taka per US Dollar during the last decade is presented in Table 6.8.

Table 6.8: Average Exchange Rate (Taka per US$)

Fiscal Year	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Average Exchange Rate	42.70	45.46	48.06	50.31	53.96	57.43	57.90	58.94	61.39

Source: Bangladesh Bank

Foreign Exchange Reserve

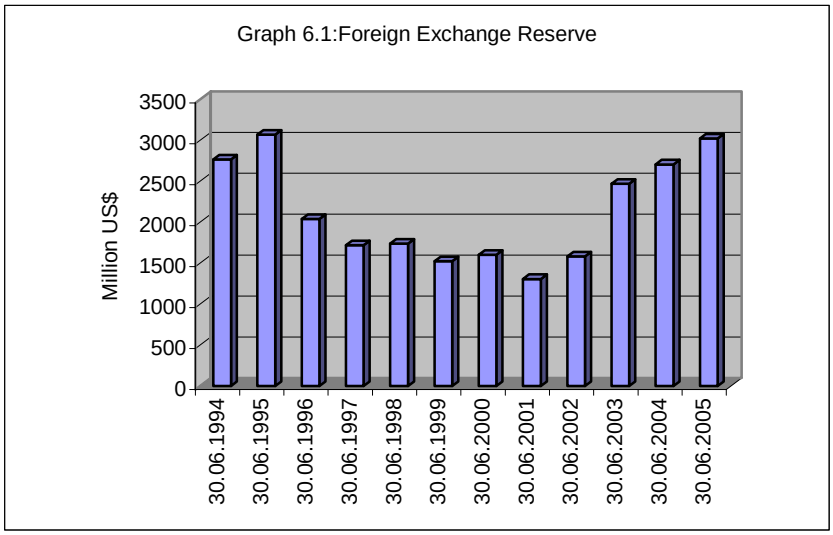
The growth of export earring and remarkable increase of remittance from expatriate Bangladeshis caused to rise foreign exchange reserve to US$ 2,705 million on June 30, 2004 which was US$ 2,470 million implying 9.51 percent growth over the same date of previous year. As of June 30, 2005 the foreign exchange reserve stood at US$ 3,024 million. Table 6.9 and graph 6.1 show the foreign exchange reserve during 1994 to 2005.

Table 6.9: Foreign Exchange Reserves

(In million US$)

Date	Amount
30.06.1994	2765
30.06.1995	3070
30.06.1996	2039
30.06.1997	1719
30.06.1998	1739
30.06.1999	1523
30.06.2000	1602
30.06.2001	1307
30.06.2002	1583
30.06.2003	2470
30.06.2004	2705
30.06.2005	3024

Source: Bangladesh Bank



Balance of Payments

Trade balance recorded a deficit of US$ 3,297 million during FY 2004-05 compared to the deficit of US$ 2,319 million during FY 2003-04. The current accounts balance recorded a deficit of US$ 518 million during FY2004-05 against the surplus of US$ 176 million over previous year. Despite there had been 14.61 percent increase in current transfers compared to previous year but due to 42.17 percent decrease in trade account and 71.39 percent decrease in income account, the current account balance showed a deficit. The overall balance, however, showed a surplus of US$ 161 million during FY 2004-05 compared to the surplus of US$ 171 million during FY2003-04 due to mainly to a remarkable surplus in financial accounts of US$ 744 million, particularly for MLT loans of US$ 940 million. The balance of payment from FY 2001-02 to FY 2004-05 and trade balance and current account balance are shown in table 6.10 and graph 6.2 respectively.

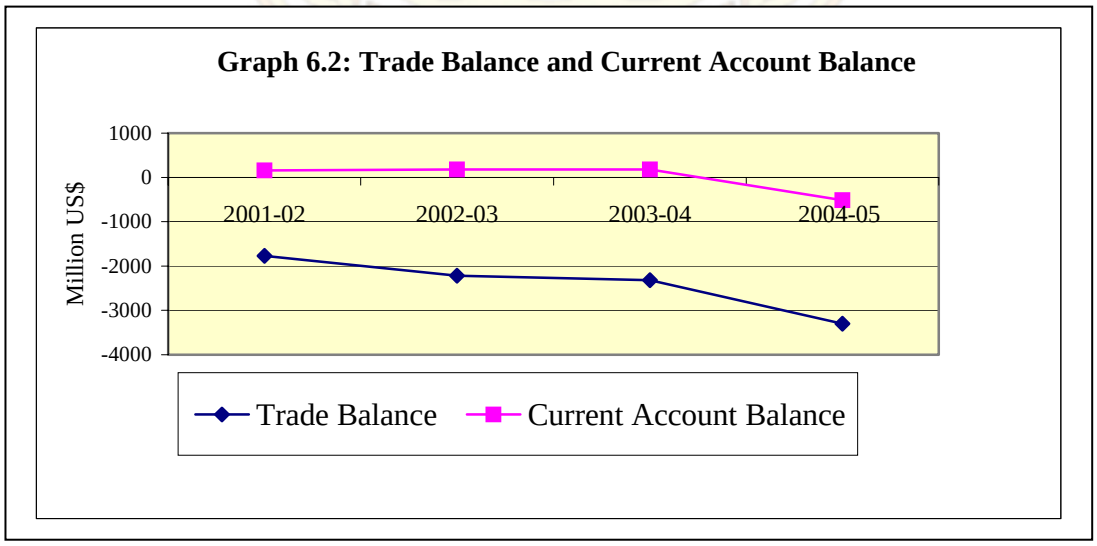


Table-6.10: Balance of Payments

(In million US$)

Particulars	2001-02	2002-03R	2003-04R	2004-05p
Trade balance	**-1768**	**-2215**	**-2319**	**-3297**
Exports f.o.b. (including EPZ)1/	5929	6492	7521	8573
Import, c.i.f. (including EPZ)	-7697	-8707	-9840	-11870
Services	**-499**	**-691**	**-874**	**-870**
Receipts	865	887	924	1177
Payments	-1364	-1578	-1798	-2047
Income	**-402**	**-358**	**-374**	**-641**
Receipts	50	64	63	115
Payments	-452	-422	-437	-756
Current transfers	**2826**	**3440**	**3743**	**4290**
Official	69	82	61	37
Private	2757	3358	3682	4253
of which workers' remittances	2501	3062	3372	3848
Current account balance	**157**	**176**	**176**	**-518**
Capital account	**410**	**428**	**196**	**163**
Capital transfers	410	428	196	163
Financial account	**391**	**413**	**78**	**744**
(i) Direct investment 1/	391	376	385	540
(ii) Portfolio investment	-6	2	6	0
(iii) Other investment	6	35	-313	204
MLT loans	733	918	544	940
MLT amortization payments	-435	-452	-397	-449
Other long-term loans (net)	-42	-20	-41	-46
Other short-term loans (net)	63	142	13	241
Other assets	-87	-125	-125	-155
Trade credit (net)	-253	-499	-321	-127
Commercial Bank	27	71	14	-200
Assets	-90	217	86	-91
Liabilities	117	-146	-72	-139
Errors and omission	**-550**	**-202**	**-279**	**-228**
Overall balance	**408**	**815**	**171**	**161**
Reserve assets	**-408**	**-815**	**-171**	**-161**
Bangladesh Bank	-408	-815	-171	-161
Assets	-276	-887	-235	-319
Liabilities	-132	72	64	158

Source: Statistics Department, Bangladesh Bank.

1/ Statistics of direct investment are based on enterprise survey.

P Provisional R Revised.