CHAPTER 6

EXTERNAL SECTOR

[*International trade was in turmoil due to global economic recession in 2008 and 2009. During this period the growth rate of international trade was far squeezed to world GDP growth rate, though it made a turnaround in 2010.This crisis had an impact on the import and export sector of Bangladesh from the third quarter of FY2008-09 which existed up to the second quarter of FY 2009-10 though there was no negative impact on the economy of Bangladesh at the beginning of the crisis. Clear and precise idea about the impact of the global economic crisis on the economy of Bangladesh and certain precautionary measures together with the stimulus packages saved Bangladesh from the onslaught of the crisis. The export growth rates of Bangladesh were 10.31 percent and 4.11 percent in FY2008-09 and FY2009-10 respectively. These growth rates were satisfactory in the context of the negative growth rate of international trade. In this period, the current account surplus increased and reached to US$3,734 million. The foreign exchange reserve crossed US$10 billion mark. The growth of the country's international trade increased with the global international trade in the post-crisis period and the import and export growth rate increased by 41.74percent and 41.84 percent respectively in FY2010-11. But the surplus of the current account balance and balance of payment are deteriorating as the investment in power sector increased and the price of fuel and food price surged in the international market. However, this situation is transitory and the favorable situation in balance of international trade can be restored through proper implementation of the development of investment situation, diversification of export-oriented commodities, search of new export destination and overseas employment generation.****]***

Global Trade Situation

According to IMF World Economic Outlook, September, 2011, the global trade reduced by 22.18 percent from US$15.9 trillion to US$12.3 trillion in 2008. The international trade started recovering from 2010 and reached US$15 trillion at 21.43 percent. The outlook forecasts the global trade volume US$17.7 trillion (Growth: 18.18%) and US$19 trillion (Growth: 7.36%) in 2011 and 2012 respectively. The volume of the world trade decreased drastically and the rate of shrinkage was far more than the rate of the world GDP growth rate. The total international trade (goods and services) decreased by 10.7 percent (Table- 6.1). In this period, imports and exports of the advanced economies decreased by 12.4 percent and 11.9 percent respectively. On the other hand, imports and exports of the emerging and developing economies decreased by 8.0 percent and 7.7 percent respectively. In 2010, the world trade increased to 12.8 percent, where the growth of the imports and exports of the advanced economies stood at 11.7 percent and 12.3 percent respectively. The growth of the imports and exports of the emerging and developing economies stood at 14.9 percent and 13.6 percent respectively. IMF forecasts that, growth of the world trade will be 7.5 percent in 2011 and will be reduced to 5.8 percent in 2012.

Table-6.1: World Trade Volume

(Percentage change)

	Actual		Projections	
	2009	**2010**	**2011**	**2012**
World Trade (Goods & Services)	-10.7	12.8	7.5	5.8
Imports				
Advanced Economies	-12.4	11.7	5.9	4.0
Emerging & Developing Economies	-8.0	14.9	11.1	8.1
Exports				
Advanced Economies	-11.9	12.3	6.2	5.2
Emerging & Developing Economies	-7.7	13.6	9.4	7.8

Source: World Economic Outlook, September 2011, IMF.

Balance of Payment

Trade balance recorded a deficit of US$ 7328 million in FY2010-11 as compared to the deficit of US$ 5155 million in FY2009-10. In this period, growth rates of exports and imports were 41.74 percent and 41.84 percent respectively, but the trade deficit increased due to larger base of imports though the growth rates are very proximate. The current account balance stands at US$ 995 million while it was US$ 3724 million in the previous fiscal year. Services, trade faced set back during this period as deficits increased 94.48 percent, 42.15 percent and the deficit of income decreased 9 percent while the growth of current transfers was 4.13 percent . As a result, current account surplus shrank drastically. During this period, the overall balance had a deficit of US$ 635 million whereas there was surplus of US$ 2865 million in the last fiscal year. Balance of payments of the fiscal years between 2004 and 2011 is shown in the Table6.2 :

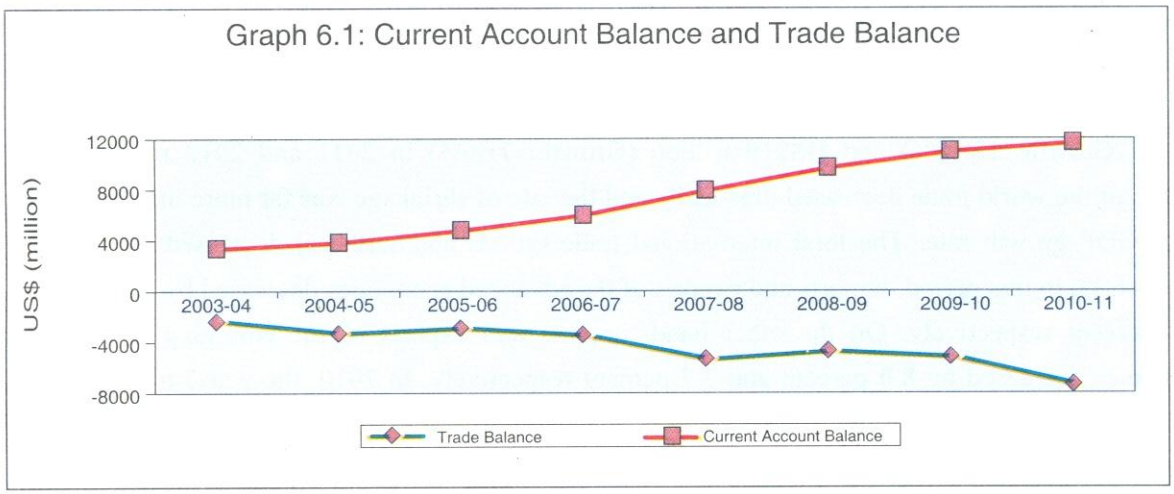


Table-6.2: Balance of Payments

(In Million US$)

Particulars	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11*
Trade balance	**-2319**	**-3297**	**-2889**	**-3458**	**-5330**	**-4710**	**-5155**	**-7328**
Exports f.o.b. (including EPZ)	7521	8573	10412	12053	14151	15581	16233	23008
Import, f.o.b. (including EPZ)	-9840	-11870	-13301	-15511	-19481	-20291	-21388	-30336
Services	**-874**	**-870**	**-1023**	**-1255**	**-1525**	**-1616**	**-1233**	**-2398**
Receipts	924	1177	1340	1484	1891	1832	2478	2570
Payments	-1798	-2047	-2363	-2739	-3416	-3448	-3711	-4968
Income	**-374**	**-680**	**-702**	**-905**	**-994**	**-1484**	**-1484**	**-1354**
Receipts	63	116	136	244	217	95	52	119
Payments	-437	-796	-838	-1149	-1211	-1579	-1539	-1473
of which official interest payment	-175	-203	-204	-212	-234	-238	-215	-220
Current transfers	**3743**	**4290**	**5438**	**6554**	**8529**	**10226**	**11596**	**12075**
Official	61	37	125	97	127	72	127	127
Private	3682	4253	5313	6457	8402	10154	11469	11948
of which workers' remittances	3372	3848	4802	5979	7915	9689	10987	11650
Current account balance	**176**	**-557**	**824**	**936**	**680**	**2416**	**3734**	**995**
Capital account	**196**	**163**	**375**	**490**	**576**	**451**	**512**	**600**
Capital transfers	196	163	375	490	576	451	442	600
Financial account	**78**	**760**	**-141**	**762**	**-457**	**-825**	**-746**	**-1584**
(i) Direct foreign investment (net)	385	776	743	793	748	961	818	768
(ii) Portfolio investment	6	0	32	106	47	-159	-117	-28
(iii) Other investment	-313	-16	-916	-137	-1252	-1627	-1447	-2324
Medium and Long term loans	544	940	1023	1037	1338	1204	1589	1051
MLT amortization payments	-397	-449	-488	-525	-580	-641	-687	-739
Other long-term loans (net)	-41	-46	-37	-24	-6	-70	-151	-101
Other short-term loans (net)	13	241	-256	493	-160	-169	62	531
Other assets	-125	-182	-495	-535	-603	-650	-902	-1011
Trade credit (net)	-321	-320	-898	-481	-1108	-1277	-1043	-1895
Commercial Bank	14	-200	235	-102	-133	-24	-315	-160
Assets	86	-91	31	-86	-146	-129	-410	-452
Liabilities	-72	-109	204	-16	13	105	95	292
Errors and omission	**-170**	**-323**	**-720**	**-695**	**-468**	**16**	**-625**	**-646**
Overall balance	**171**	**67**	**338**	**1493**	**331**	**2058**	**2865**	**-635**
Reserve assets	**-171**	**-67**	**-338**	**-1493**	**-331**	**-2058**	**-2865**	**635**
Bangladesh Bank	-171	-67	-338	-1493	-331	-2058	-2865	635
Assets	-235	-225	-554	-1593	-799	-1883	-3616	481
Liabilities	64	158	216	100	468	-175	751	154

Source: Bangladesh Bank. * = Provisional.

Export Standings and Composition of Export Commodities

The export sector of Bangladesh has strengthened its position as the world is recovering from the recession. The export earnings of Bangladesh stood at US$22,924 million in FY 2010-11, which was 41.47 percent higher than the export earnings (US$16,204 million) of FY2009-2010. The growth of export earnings is mainly attributable to the increases of export of knitwear, woven garments, frozen foods, agricultural products, leather, raw jute and jute goods during the year under report. An analysis of composition of exports of FY 2010-11 by major categories reveals that the export earnings over the last fiscal year increased mainly for increases of raw jute (82.14%), knitwear (46.26%), footwear (46.08%), agricultural products (42.39%), frozen food (40.45%), jute goods (40.37%), woven garments (40.23%) and leather (31.86%). On the other hand, export earnings decreased in tea (50.00%) and naphtha, furnace oil and bitumen (13.29%). Table 6.3 shows the export growth and composition by commodities:

Table 6.3: Export Earnings, Composition and Growth of Export Earnings

Commodity classification	Total export earnings (Million US$)			% of total export earnings			Growth rate (%)	
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11	2009-10	2010-11
1) Primary commodities	693.79	687.53	958.98	4.46	4.24	4.18	(.90)	39.48
a) Frozen food	464.79	445.18	625.04	2.99	2.75	2.73	(4.22)	40.40
b) Agricultural products	228.97	242.35	333.94	1.47	1.50	1.46	5.84	37.79
2) Industrial commodities	14871.40	15517.12	21965.40	95.54	95.76	95.82	4.34	41.56
a) Woven garments	5918.97	6013.43	8432.40	38.03	37.11	36.78	1.60	40.23
b) Knitwear	6427.29	6483.29	9482.06	41.29	40.01	41.36	0.87	46.25
c) Chemical products	195.43	102.87	104.76	1.26	0.63	0.46	(47.36)	1.84
d) Plastic products	52.39	50.63	68.76	0.34	0.31	0.30	(3.36)	35.81
e) Leather	172.20	226.10	297.83	1.14	1.40	1.30	26.88	31.72
f) Leather goods	18.78	29.06	55.42	0.12	0.18	0.24	54.74	90.71
g) Handicrafts	4.11	3.79	4.47	0.03	0.02	0.02	(7.79)	17.94
h) Jute goods	524.18	787.99	1114.93	3.37	4.86	4.86	50.33	41.49
i) Teri towel	117.66	157.07	120.13	0.76	0.97	0.52	33.49	(23.52)
j) Home textile	418.41	402.49	788.76	2.69	2.48	3.44	(3.80)	95.97
k) Footwear	182.92	204.09	297.80	1.18	1.26	1.30	11.57	45.92
l) Ceramic products	31.17	30.78	37.58	0.20	0.19	0.16	(1.25)	22.09
m) Engineering goods	201.24	311.09	309.55	1.29	1.92	1.35	54.59	(0.50)
n) Vessels	12.72	9.34	40.44	0.08	0.06	0.18	(26.57)	332.98
o) Other industrial goods	43.53	54.57	69.42	0.28	0.34	0.30	25.36	27.21
p) Others	544.40	650.53	741.09	3.50	4.01	3.23	19.49	13.92
Total exports	**15565.19**	**16204.65**	**22924.38**	**100.00**	**100.00**	**100.00**	**4.11**	**41.47**

Source: Export Promotion Bureau, Ministry of Commerce.

Country-wise Export Earnings

An analysis of country-wise export earnings shows that USA is the main destination of our export. Table 6.4 shows that USA secured the top position in respect of importing commodities from Bangladesh in FY2010-11 followed by Germany (15.00%), UK (9.01 %) and France (6.71 %). During the period under report, goods valued at US$ 5107.52 million were exported to USA, which was 22.28 percent of the total export earnings of the country. The major commodities exported to USA are woven garments, knitwear, frozen food, cap, home textile etc. The country-wise export earnings are shown in Table 6.4.

Table 6.4: Country-wise Export Income

(In Million US$)

Fiscal Year	USA	Germany	UK	France	Belgium	Italy	Nether lands	Canada	Japan	Others	Total
FY01	2500.42	789.88	598.18	365.99	253.91	295.73	327.96	125.66	107.58	1101.69	6467.00
FY02	2218.79	681.44	647.96	413.69	211.39	262.31	283.36	109.85	96.13	1061.08	5986.00
FY03	2155.00	820.72	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1270.81	6548.00
FY04	1966.58	1298.54	898.21	552.96	326.95	315.93	290.44	284.33	118.16	1550.90	7603.00
FY05	2412.05	1353.80	943.17	626.17	325.43	369.18	291.94	335.25	122.41	1875.12	8654.52
FY06	3030.20	1764.11	1048.62	677.50	359.20	425.75	327.40	406.15	137.78	2349.45	10526.16
FY07	3441.02	1955.38	1173.95	731.76	435.82	515.66	459.01	457.21	147.47	2860.58	12177.86
FY08	3590.56	2174.81	1374.03	953.13	488.39	579.23	653.88	532.90	172.56	3591.31	14110.80
FY09	4052.00	2269.70	1501.20	1031.05	409.80	615.51	970.80	663.20	202.60	3849.33	15565.19
FY10	3950.47	2187.35	1508.54	1025.88	390.54	623.92	1016.88	648.19	330.55	4522.33	16204.65
FY11	5107.52	3438.70	2065.38	1537.98	666.24	866.42	1107.13	944.67	434.12	6756.22	22924.38

Source: Export Promotion Bureau.

Export target and performance of Bangladesh during FY2001-02 to FY2010-11 are shown in Table 6.5.

Table 6.5: Export performance during FY 2000-01 to 2010-11.

(In Million US$)

Fiscal Year	Export Target	Actual Export
2001-02	5,940	5,986.09
2002-03	6,405	6,548.44
2003-04	7,439	7,602.99
2004-05	8,565	8,654.52
2005-06	10,159	10,526.16
2006-07	12,500	12,177.86
2007-08	14,500	14,110.80
2008-09	16,298	15,565.19
2009-10	17,600	16,204.65
2010-11	18,500	22924.38

Source: Export Promotion Bureau

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

Table 6.6: Export from Bangladesh to SAARC Member Countries.

(In Million US$)

Country	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Afghanistan	6.07	0.51	0.88	0.75	2.77	3.68	2.74	3.53
Bhutan	3.99	3.35	1.65	1.40	1.35	0.61	2.24	3.12
India	101.16	186.95	279.14	289.41	358.08	276.58	304.63	512.51
Maldives	-	0.48	0.26	0.27	0.08	0.14	0.74	0.93
Nepal	1.27	0.47	0.83	0.85	6.71	8.06	8.79	10.84
Pakistan	34.78	84.14	50.26	61.06	71.01	76.22	77.67	86.79
Sri Lanka	10.15	12.16	14.39	14.82	19.32	18.67	23.74	34.73
Total	**157.42**	**288.06**	**347.41**	**368.56**	**459.32**	**383.96**	**420.55**	**652.45**

Source: Export Promotion Bureau

The above table shows that in terms of export to the SAARC countries from Bangladesh, India secured the highest position and in FY 2009-10, its quantity among the SAARC countries is about 79 percent. It is to be noted that export in the SAARC countries in FY 2009-10 compared to the total export of Bangladesh is only about 4 percent.

Import Status and Composition of Import Commodities

The total import payments (cif) amounted to US$ 33658 million in FY2010-11, which is 41.79 percent higher than the import payments of US$ 23738 million in the previous year. This record import cost is owing largely to high commodity price in the international market and the higher-than-expected import of food grains. On the other hand, import of other items including petroleum products, industrial raw materials and capital machinery also increased significantly during the period under report to meet the booming domestic demand. An analysis of imports shows that, the major commodities which contributed to the overall growth of import payments in FY2010-11 are as follows: rice (1005.33%), yarn (93.59%), cotton (86.87%), fertilizer (73.08%), crude petroleum (65.98%), petroleum products (59.38%), staple fiber (52.54%), wheat (42.05%), clinker (33.93%), capital machinery (28.09%) and edible oil (1.62%). Table 6.6 shows the overall import situation of the country.

Table 6.7: Comparative Situation of Commodity-wise Import Payment

(In Million US$)

Commodity	FY05	FY06	FY07	FY08	FY09	FY10	FY11
a) Major Primary Commodities	**1676**	**1854**	**2069**	**3455**	**2916**	**2940**	**5590**
Rice	262	117	180	874	239	75	829
Wheat	312	301	401	537	643	761	1081
Oilseeds	86	90	106	136	159	130	103
Crude petroleum	350	604	524	695	584	535	888
Cotton	666	742	858	1213	1291	1439	2689
b) Major Industrial Commodities	**2662**	**3002**	**3568**	**4844**	**5035**	**4957**	**7545**
Edible oil	440	473	583	1006	865	1050	1067
Petroleum products	1252	1400	1709	2058	1997	2021	3221
Fertilizer	332	342	357	632	955	717	1241
Clinker	170	210	240	347	314	333	446
Staple fiber	75	76	97	110	112	118	180
Yarn	393	501	582	691	792	718	1390
c) Capital Machinery	**1211**	**1458**	**1929**	**1664**	**1420**	**1595**	**2043**
d) Other commodities (including EPZ)	**7598**	**8432**	**9591**	**11666**	**13136**	**14246**	**18480**
Grand Total	**13147**	**14746**	**17157**	**21629**	**22507**	**23738**	**33658**
% Change*	**20.6**	**12.2**	**16.4**	**26.1**	**4.1**	**5.5**	**41.79**

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

Country-wise Import Payments

In terms of the value of total imported commodities, China secured the top position in FY 2010-11. During this period, 17.58 percent of the total imported commodities came from China. India was the second largest source of import (13.57 percent of total import) while Malaysia, Japan and Singapore held the third, fourth and fifth position (5.23, 3.89 and 3.84 percent to total import) respectively. In FY2010-11, the total import payment rose to US$ 33,658 million from US$ 23,738 million in the previous year. Table 6.8 shows the country-wise import payments during FY 2000-01 to FY2010-11.

Table 6.8: Country-wise Import Payments

(In Million US$)

Fiscal Year	China	India	Singapore	Japan	Hong Kong	Taiwan	South Korea	USA	Malaysia	Others	Total
2000-01	709	1184	824	846	478	412	411	248	148	4075	9335
2001-02	878	1019	871	655	441	312	346	261	145	3612	8540
2002-03	938	1358	1000	605	433	328	333	223	169	4271	9658
2003-04	1198	1602	911	552	433	377	420	226	255	4929	10903
2004-05	1642	2030	888	559	565	439	426	329	276	5993	13147
2005-06	2079	1868	849	651	626	473	489	345	302	7064	14746
2006-07	2571	2268	1035	690	747	473	553	380	334	8106	17157
2007-08	3137	3393	1273	832	821	478	620	490	451	10134	21629
2008-09	3452	2864	1768	1015	851	498	864	461	703	10031	22507
2009-10	3819	3214	1550	1046	788	542	839	469	1232	10239	23738
2010-11	5918	4569	1294	1308	777	731	1124	677	1760	15500	33658

Source: Bangladesh Bank**.**

Exchange Rate Policy

The import payments as well as the export earnings slightly decreased due to global recession in the first quarter of FY 2009-10 but the foreign exchange reserve remained adequate because of remittance sent by the expatriate Bangladeshis. Besides, the growth- oriented policies, efficient management of the monetary policy tools (repo, reverse repo etc.) by the government and timely interference in the money market by Bangladesh Bank made the exchange rate clam. In FY2010-11, the demand for foreign currency increased due to decline in the remittance inflow and growing import payments which resulted in slight depreciation of taka against dollar.

The weighted average exchange rate stood at Taka 73.88 per Dollar in FY2010-11, which was Taka 69.43 per Dollar in FY2009-10. The weighted average exchange rate during FY2001-02 to FY2010-11 is shown in Table 6.8 below.

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

Year	FY02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY10	FY11
Average Exchange Rate	57.43	57.90	58.94	61.39	67.08	69.03	68.60	68.80	69.43	73.88

Source: Bangladesh Bank

Foreign Exchange Reserve

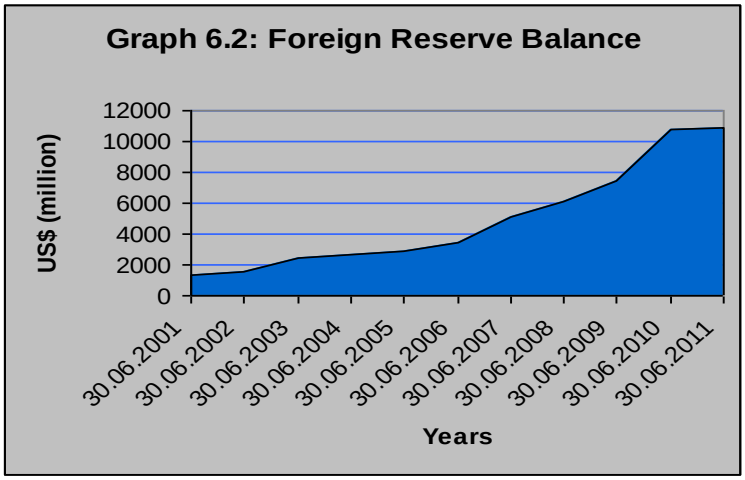
Remittance of export earnings and remittance sent by the expatriate Bangladeshis living abroad helped the foreign exchange reserve of Bangladesh to cross the US$ 10 billion mark for the first time in November, 2009. After that period the foreign exchange reserve remained stable and it stood at US$ 10,912 million as on June 30, 2011. Table 6.10 and Graph 6.2 show the foreign exchange reserve position during June 30, 2000 to June 30, 2011.

Table 6.10: Foreign Exchange Reserve

(In Million US$)

Date	Amount
30.06.2000	1602
30.06.2001	1307
30.06.2002	1583
30.06.2003	2470
30.06.2004	2705
30.06.2005	2930
30.06.2006	3484
30.06.2007	5077
30.06.2008	6149
30.06.2009	7471
30.06.2010	10750
30.06.2011	10,912

Source: Bangladesh Bank



Trade Policy

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

The highlights of the current export policy:

- To ensure a modern and liberal trade regime consistent with World Trade Organization (WTO) regime and globalization.
- To encourage the production of labor-intensive (especially female labor) exportable goods.
- To make available the raw material for exportable products.
- To diversify exportable products and increase productivity.

- To enhance the quality of product, encourage the use of sustainable and environment-friendly technology, production of highly value added goods and improvement of the quality of design.
- To follow "up-to-the-minute" tactics for the expansion of new export destination, and ensure the best utilization of computer technology and e-commerce.
- To promote the infrastructural facilities, especially backward and forward linkages for the exportable products.
- To aid the current exporters and encourage to create a critical mass of new exporters.

Measures Taken to Boost up Exports:

The Government of Bangladesh declared the first stimulus package in FY2008-09 and the second in FY2009-10 especially for the export sector to curb the negative impacts of the global economic recession and to foster the growth of exports. Tenure of some facilities under these stimulus packages were completed in FY2008-09 and FY2009-10 and some are still continuing. Cash incentives and many other facilities were provided to the exporters. The salient features of steps taken to boost up exports are as follows:

- The size of Export Development Fund (EDF) has been increased from US$300 million to US$400 million to assist the export sector of the country.
- Extended subsidy under the stimulus package on export earnings (FoB) will be provided at the rate 5 percent in the first year, 4 percent in the second year and 3 percent in the third year to establish new exportable items and new export destination. BTMA will enjoy the facility for any market to export yarn.
- Bangladesh Bank has issued a circular for rationalizing existing discrepancies of different charges and fees prevailing in different banks.
- Increase the loan amount from US$1.5 million to US$10 million for a single borrower through a consortium of three banks. This fund will be provided from the Export Development Fund (EDF) for which the rate of interest would be LIBOR + 2.5 percent.
- Provision has been made for BTMA to draw EDF loan from authorised dealer banks at a rate of LIBOR + 2.5 percent for one time yarn import worth of the value of indirect exports is not more than one precedence year or US$10 million (whichever becomes less) in order to resolve the issues raised by the BTMA regarding Export Development Fund.
- The agreed support arrangements between the Government and BTMA for the operation of National Institute of Textile Training, Research and Design (NITTRAD) that include the following: (a) Government will bear full expenditure for the first year;(b) In the 2nd year, Government will bear 60 percent; (c) for the next 3 years Government will bear up to 50 percent; (d) BTMA will operate the institute afterwards.
- Shipbuilding industry as a prospective sector for export has been provided with 5 percent cash incentive for encouraging export diversification.

- Crust leather industry has been given 5 percent cash incentive for export.
- One year moratorium on 30 percent of credit ceiling for working capital to the existing frozen food and export oriented projects.
- The small and medium garment manufacturers will get a special facility at the rate of 2 percent (25% of FoB value) of local value addition on shipment under the special facility given by the Government in FY2010-11.
- Subsidy will not be provided if customs bond/ duty draw-back facility is initiated for production or processing of goods.
- Subsidy will be provided under certain conditions against the advance by telegraphic transfer as well as negotiation/collection of export bills to the public and private jute mills for exporting the jute goods.
- The authorized dealers of IT/software firms will be allowed to repatriate up to US$10,000 from the exporters retention quota to reimburse the fees without prior approval of Bangladesh Bank

Import Policy

The salient features of present import policy are as follows:

- To make the import policy compatible with the changes in the world market which have taken place as a result of the introduction of market economy and globalization under WTO.
- To simplify the procedures for import of capital machinery and industrial raw materials with a view to promoting export and enhancing competitiveness and skills;
- To provide facilities for introducing technological innovation to cope with expanding modern technology;
- To make a strong base of indigenous exports by facilitating backward linkages for export-oriented local industries;
- To ensure supply of commodities fit for human consumption to the consumers at right prices;
- To allow import of essential commodities on emergency basis for ensuring the supply of essential commodities in the national interest.

Tariff Regime:

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

Most Favored Nation (MFN) tariff rate since then. Tariff structure from FY 2000-01 to FY 2009-10 is presented in the following table:

Table –6.11: Tariff Structure from FY 2000-01 to FY 2009-10

Fiscal Year	Tariff slab applied MFN rates	Maximum tariff Rate %	No. of operating tariff slabs
2000-01	0, 5, 15, 25, 37.5	37.5	5
2001-02	0, 5, 15, 25, 37.5	37.5	5
2002-03	0, 7.5, 15, 22.5, 32.5	32.5	5
2003-04	0, 7.5, 15, 22.5, 30	30	5
2004-05	0, 7.5, 15, 25	25	4
2005-06	0, 7.5, 15, 25	25	4
2006-07	0, 5, 12, 25	25	4
2007-08	0, 10, 15, 25	25	4
2008-09	0, 3, 7, 12, 25	25	5
2009-10	0, 3, 5, 12, 25	25	5
2010-11	0, 3, 5, 12, 25	25	5

Source: National Board of Revenue (NBR)

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

a) Capital machinery and parts imported by export-oriented industry.
b) Capital machinery and parts imported by registered industry.
c) Raw materials imported by pharmaceutical industries.
d) Raw materials used in textile industries.
e) Accessories used in agriculture sector.
f) Computer and Computer accessories.
g) Medical equipment and accessories.
h) Newsprint imported by newspaper and periodical publishers.
i) Raw materials used by the insecticide manufacturers which are used in agriculture
j) Machinery, parts and accessories imported by poultry farms.

Reduction of Tariff

The process of reducing import tariff rate of Bangladesh started since FY1991-92 and is still continuing in order to increase the efficiency of the local industries and bring consistency with the process of world-wide tariff reduction. The un-weighted import average tariff rate in FY1991-92 was 57.22 percent which

decreased at 21.39 percent in FY2000-01. Because of reduction of import tariff rate consecutively, the un-weighted import average tariff rate stood at 14.85 percent in FY2010-11. The MFN un-weighted import average during 2000-01 to 2010-10 is given below:

Table 6.12: MFN un-weighted Import Average

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

Source: National Board of Revenue (NBR)

Regional and International Trade Cooperation

WTO and Bangladesh

Bangladesh has been actively participating in the functions of WTO agenda since the very inception of the organization. Bangladesh placed its demand for the quota free access of all exportable goods, ratified the decision regarding waiver in the service sector for free movement of unskilled and semi-skilled labor, keeping the import of food items for least developed countries (LDC) open, to provide trade assistance to the least developed countries to enhance the capacity of trade and the maintain the balance between the developing and least developed countries in the context of access to the market as a representative of the least developed countries in the current Doha round. Continuous persuasion of Bangladesh made possible the inclusion of this demand as the main demand of the LDCs in the Ministerial Conference in Dar-us-Salam on October 15, 2009. Besides, the SAARC Ministers and the Ministers of the LDCs pledged to demand that the developed countries should get less facility than the LDCs as Disproportionately Affected Countries (DAC) and include LDCs products in 97 percent duty-free product list according to Hong Kong declaration.

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

Bangladesh already joined the Enhanced Integrated Framework (EIF) to enhance capacity of the country in negotiation with WTO. The Director General of the WTO Cell of Ministry of Commerce has been elected as the focal point of EIF. A National Steering Committee has been formed. Formulation of Diagnostic Trade Integration Study (DTIS) is on track under EIF with the assistance from the World Bank. A preferred “Action Matrix” would be prepared by DTIS to identify the obstacles regarding trade and commerce. Projects for improvement of trade capacity would be initiated on the basis of an action matrix. Many countries and organizations would provide fund in these projects under “Aid for Trade”. European Union is working as the “Donor Facilitator” of EIF.

Besides, Bangladesh has submitted Needs Assessments report to the WTO for the purpose of securing support from development partners to improve the intellectual property rights regime in Bangladesh. Besides organizing an exclusive workshop for the Members of Parliament to enrich their knowledge on WTO issues, 6 national workshops in the areas of Trade-Related Aspects of Intellectual Property Rights (TRIPS), Sanitary and Phytosanitary (SPS), WTO Notification Requirement, Services and Non-agriculture Market Access (NAMA) with the technical assistance from the WTO were held. Steps have been taken to organize three more workshops in 2011 in Dhaka on Agreement on Agriculture, WTO Dispute Settlement Procedures and Trade Negotiation Skill.

Regional Trade Agreement

Bangladesh has signed five regional trade area agreements of which three are Preferential Trading Arrangement (PTA) and the other two are Free Trade Area Agreement (FTA). Besides, there are several bi-lateral trading agreements with different countries. The agreements on regional trade are as follows:

Asia-Pacific Trade Agreement (APTA)

The main objective of this agreement is to enhance the regional trade by exchange of mutual tariff concession of the ESCAP member countries. The member countries have exchanged tariff concessions of a substantial number of commodities. This agreement was signed as a new agreement at the first Ministerial meeting of APTA which was held in November, 2005. The second Ministerial meeting was held at Goa of India on 26 October, 2007. Following the decision of the meeting, 4th round of negotiation among the member countries was initiated. In order to implement the declaration, the issues related to Tariff Concession, Framework Agreements on Trade Facilitation, Framework Agreements on Trade in Services and Framework Agreement on Investment were finalized. Meanwhile, Framework Agreements on Trade Facilitation and Framework Agreement on Investment were signed in the third meeting of the APTA Ministerial Council held on 15 December 2009 in South Korea. The 4th ministerial meeting of APTA is scheduled to be held in Bangladesh at the end of 2011.

Trade Preferential System among OIC Countries (TPS-OIC)

Trade Negotiating Committee under TPS-OIC which was created to expand the preferential trade among the OIC member countries has completed the first round of trade discussions. The member countries have finalised "Protocol on the Preferential Tariff Scheme for the TPS-OIC" (PRETAS) in the first round of discussion. Already eleven countries have signed the protocol including Bangladesh. The remarkable features of the agreement are:

- For the purpose of tariff reduction each Member State has to reduce tariffs on 7 percent of its total HS lines. But if the base rate of 90 percent or more commodities of tariff line lies among 0 percent to 10 percent then 1 percent of the total commodity of the tariff line will come under tariff concession process.
- Tariff Reduction Process for member countries is as follows:

- Above 25 percent shall be reduced to 25 percent
- Above 15 percent and up to 25 percent shall be reduced to 15 percent
- Above 10 percent and up to 15 percent shall be reduced to 10 percent

- LDCs have to complete TRP in six years, while other member countries have to complete it in four years from the start date of implementation of PRETAS.
- There is a provision of voluntary fast track tariff reduction.
- No new tariffs on imports shall be introduced on products which are subject to tariff reduction nor shall those already applied be increased;
- There is a provision regarding elimination/reduction of para-tariff and non-tariff barriers.
- Tariff concession program can be initiated from the operative date of PRETAS. The tariff concession program was not effective though it was scheduled to be commenced from 1st January, 2009 the discussion is going on.

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

D-8 was formed to achieve trade and economic development for the eight OIC member countries (Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey). The processes of tariff concession under preferential trading arrangement are:

- 8 percent of the total commodities will come under tariff concession process which has the tariff rate over 10 percent.
- Tariff would be reduced according to the following process:
  - Above 25 percent shall be reduced to 25 percent
  - Above 15 percent and up to 25 percent shall be reduced to 15 percent
  - Above 10 percent and up to 15 percent shall be reduced to 10 percent
- LDCs have to complete tariff reduction process in six annual installments, while other member countries have to complete it in four annual installments.
- Tariff rates cannot be enhanced without the consent of the supervisory committee of those which are included in the tariff reduction program.
- There is a provision regarding elimination/reduction of para-tariff and non-tariff barriers.

Free Trade Area

SAARC Preferential Trade Arrangements (SAPTA)

According to the agreement signed by the members of SAFTA to enhance the cooperation in trade and economics, the developing countries (India, Pakistan and Sri Lanka) are committed to reduce the tariff rate to 0-5 percent of their respective non-sensitive products from 1st January, 2009. On the other hand, the least developed countries (LDCs) will reduce the tariff rate to 0-5 percent of their respective non-sensitive products from 1st January, 2016.

Already India has provided the tariff-free facility of the non-sensitive commodities to LDCs. Besides, India has reduced the sensitive commodity list from 744 to 480. India also gave a tariff-free facility to 8 million garment products of Bangladesh under a bilateral MoU. Bangladesh has requested India to lift the Tariff Rate Quota (TRQ). Pakistan has set a tariff of 5 percent for the non-sensitive commodities to the LDCs'. Currently the member countries are engaged in discussions to reduce 20 percent of total amount of sensitive goods of each side.

Moreover, an NTM sub-group has been formed to eliminate the non-tariff and para-tariff barriers within the SAARC countries which are still working on the issue. Besides, a work plan has been taken up under SAFTA to harmonize the standards of different commodities in the SAARC region.

At the initial stage, commodity was the only issue of concern but later service and investment sector were included in the agreement. The agreement on service sector has been finalized and signed by each country. Discussion on investment is still going on. Afghanistan was included in the agreement in 2008.

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

Fast Track and **Normal Track** Approach were initiated to stimulate the tariff concession process under BIMSTEC. In the context of Fast Track, developing countries (India, Pakistan and Sri Lanka) will reduce tariff for certain commodities within a year for the least developed countries (Bangladesh, Myanmar, Bhutan and Nepal) and three years for the developing countries. On the other side, the LDCs will complete the process of tariff reduction in five years to the developing countries and three years to the LDCs for certain commodities under Fast Track approach. In the context of Normal Track, developing countries will reduce tariff for certain commodity within three years for the least developed countries and five years for the developing countries. On the other hand, the LDCs will complete the process of tariff reduction in ten years for the developing countries and eight years for the LDCs for the certain commodities under Normal Track approach. In the 19th BIMSTEC Trade Negotiating Committee meeting the following decision was made: Tariff schedule should be amended and to be exchanged among the members as: In the context of HS 2007, Fast Track Elimination would be 10 percent, Normal Track Elimination would be 48 percent, Normal Track Reduction would be 19 percent and Negative List Reduction would be 23 percent . There was a consensus in the meeting to conclude the discussions on Agreement on Trade in Goods by 2011.

Safeguard Customs Rule

Trade remedy law is used to protect the domestic producers from the negative impacts of competitive market system due to free market economy. If the quantity of any imported product becomes so substantial that would impair the domestic product or create any possibility to harm the domestic industry, then the government can enforce the Bangladesh Customs Law, 1969 to protect the domestic industry by restricting the import of the foreign product provisionally. A set of rules captioned "Safeguard Customs Rule, 2010" under Bangladesh Customs Law, 1969 has been framed. According to rule 3 of these rules, the Chairman of Bangladesh Tariff Commission has been made the safeguard authority to conduct any inquiry and submit report on any application made under this rule.