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Comment on Sixth Five Year Plan on Trade Issues

SELIM RAIHAN[1]

Abstract

This article evaluates the trade issues as discussed in the Sixth Five Year (SFYP) Plan of Bangladesh. SFYP outlined several strategies and polices related to the external sector in Bangladesh. The article provides a summary of these strategies and policies, documented in different chapters of SFYP and a critical analysis on these strategies and policies. The article suggests that in future Bangladesh may opt for an analytical approach to tariff liberalisation. Under this approach there may be scopes to devise the tariff structure in such a way so that it has limited effects on the revenue position of the government, but contributes to lowering high rates of effective protection enjoyed by a number of sectors.

Sixth Five Year Plan (SFYP) outlined several strategies and polices related to the external sector in Bangladesh. A summary of these strategies and policies, documented in different chapters of SFYP, is presented below. A critical analysis on these strategies and policies is provided towards the end of this report.

A. Proposed Trade Strategies & Policies In The Sixth Plan

Part I: Chapter 1: Development Context, Sixth Plan Targets And Strategy

Overall Strategy

"The dynamism in manufacturing sector will benefit from greater outward orientation. To increase the export potential as well as to diversify the export base,

1 Associate Professor, Department of Economics, Dhaka University.

the Sixth Plan will seek to further reduce trade barriers within the context of the World Trade Organization (WTO) framework as well as seek more active cooperation with neighbors. Bangladesh will actively participate in concerned international and regional/sub-regional fora aimed at increasing Bangladesh's access to international export markets, easing and eventually eliminating any non-trade barriers to Bangladeshi exports, encourage investments, increase trade in services including energy, promote regional connectivity, and establish best possible economic relations with all strategic countries including neighbors."

Part I: Chapter 2: Growth And Employment Strategies

Emphasis on Comparative Advantage

"Bangladesh can concentrate its development efforts on promoting labor intensive manufacturing exports based on the rationale that it has a relatively abundant labor endowment that gives it a cost advantage in labor intensive products. The experience with the ready-made-garments (RMG) sector seems to support both points."

Market access

"..trade policies of partner countries can reduce access to Bangladeshi exports. These constraints to market access will be analyzed and resolved through proper dialogue with the authorities of concerned countries at multilateral, regional and bilateral levels. However, much of the policy attention will focus on production incentives, quality and cost competitiveness, and diversification of our export basket."

Trade Policy Reform

"While trade protection has come down sharply from its very high levels in the early 1990s, Bangladesh remains amongst the most heavily protected countries in the world. Trade reform has also stagnated over the past few years. A rapidly expanding and diversified export-oriented manufacturing sector requires a much faster pace of trade liberalization and commensurate measures to minimize if not eliminate anti-export bias of the existing trade regime."

"Bangladesh made significant progress in reforming the foreign trade regime and reducing protection since the early 1990s. This is reflected in the simplification of trade licensing, removal of quantitative restrictions, reduction in custom duties, and the implementation of a flexible exchange rate policy. As a result the trade to

GDP ratio has more than doubled since FY91, reaching 40 percent of GDP in FY10. This progress with trade liberalization has served Bangladesh well in terms of growth and poverty reduction. Nevertheless, the average tariff protection in Bangladesh is still very high as compared to most other South Asian countries, even though average protection in South Asia is higher than in other regions."

"One worrisome development in Bangladesh budgetary management is the growing importance of a range of supplementary duties (para-tarrifs) that have grown in significance and are almost inversely correlated with the reduction in custom duties. These para-tariffs have tended to offset much of the gains intended for productivity gains and export promotion through the impact of lower customs duties on protection. The large dispersion of both customs and supplementary duties tends to distort production incentives through high rates of effective protection. Importantly, the current tariff regime undermines export competitiveness and impedes growth of new exports, thus restraining export diversification."

"A part of the reason for imposing supplementary duties was to raise revenues. But research has shown that much of these duties have ended up raising protection instead. As Bangladesh moves towards a more modern tax regime with greater reliance on income and value-added taxes during the Sixth Plan period, the role of supplementary duties for protective purpose will be substantially reduced with a view to limiting them for discouraging socially undesirable consumption or for discouraging luxury items by imposing supplementary duties uniformly on imports and domestic production. To support the growth of a labor-intensive, export-oriented manufacturing sector, a review of the trade protection regime will be done with a view to lowering protection."

Part I: Chapter 3: Medium Term Macroeconomic Framework

Maintaining a Stable Balance of Payment

"A comfortable balance of payments (BOP) situation, ensuring comfortable external reserve position and buoyant growth in import payments and export receipts, is a precondition for the success of the Plan."

"Based on the recent performance, export sector under the Plan is projected to grow by 19.4% per annum in US dollar terms, which is higher than usual because of the sharp increase in exports recorded in FY11. Excluding the strong performance of FY11, export growth during the remainder of the Plan is projected to be about the same as in recent pre-global crisis years. The projection entails an increase in the share of exports in relation to GDP to rise by 7.7 percentage points to 23.9% of GDP by the end of the SFYP reflecting a leading role that export sector is envisaged to play in increasing domestic activity."

"Import payments are also likely to grow at a buoyant pace of 20.4% on average during the Plan period on account of an unusually strong growth in the first year of the Plan. Imports are however projected to come down to a more sustainable pace of 14.3% over the rest of the Plan period. The projected high import growth will address critical capacity constraints in the power and other infrastructure sectors along with capital machineries and raw materials for the industrial sector expansion."

"Trade account deficit will increase significantly due to higher imports associated with increased domestic and export activity. Services and income account deficits are also projected to grow wider over the years in line with their recent trends. The widening of the trade account deficit is not a matter of concern since this is associated with increased demand for imports related to the targeted increase in investment and exports and will be largely financed through growing inflows of export earnings and remittances. The external current account deficits hovering at less than one percent of GDP would be sustainable and justifiable for a developing country like Bangladesh given the growing import demand associated with the higher real economic growth objectives."

Part II: Chapter 2: Diversifying Exports And Developing A Dynamic Manufacturing Sector

Need for Diversification of Exports

"Manufacturing industries such as jute goods, leather and frozen foods, engineering products and pharmaceuticals have strong export potentials for driving the industry towards higher growth. But, unlike RMG, these industries are yet to become major contributors to the economy as can be seen from their export performance (Table 2.2). Thus export concentration in a single product group – RMG – infuses an element of vulnerability to our export performance.

To promote export diversification, the Government in its export policy has adopted a strategy of according the highest priority to several emerging exports that demonstrate high potential:

Agro-products and agro-processing products;

Light engineering products (including auto-parts and bicycles);

Footwear and leather products;

Pharmaceutical products;
Software and ICT products;
Home textile;
Ocean-going Ship Building Industries; and
Toiletry Products."

"In addition, the Government is selectively according bonded import facilities to more emerging exports (e.g. agro-processing, ship building). In future, this facility may not be limited to 100% export-oriented industries only but extended to industries producing for both domestic and export markets. Further, the Duty Drawback Scheme will be revamped to ensure world-priced inputs to exporting firms without long lags and high transaction costs for reimbursements."

Trade liberalization and Manufacturing Efficiency and Competitiveness

"Since much of the impetus to trade liberalization came in the early 1990s, it is possibly most appropriate to compare the performance of the manufacturing sector in phase II and phase III, with the caveat that even phase 2 benefited from significant deregulation and the rapid expansion of the export-oriented garment sector based on establishment of the free trade zones. Nevertheless, it is accepted that tariff reductions and QR removal introduced a substantial degree of import competition in the local manufacturing sector, forcing enterprises to restructure and raise productive efficiency. Many did, such as ceramics, textiles (new spinning capacities), RMG accessories, electrical goods, etc. Those that failed to adjust including many public and private firms had to close down and lay off workers. In this group there were a large number of SOE`s involved in jute and cotton textile mills. Private enterprises which were beneficiaries of high protection for long but failed to adjust following liberalization had no other option but to close down.

"The changes in trade regime and opportunities created in the world market as part of these developments have been possible also because of the dynamism of the entrepreneurs who could exploit the opportunities in the international market and deal with the risks. The trade regime of Bangladesh has also contributed greatly towards efficient operation of the industry. Manufacturing growth averaged 8.2 percent per annum (only 4.3 percent for non-RMG) in the first half of the 1990s during the peak of the liberalizing period, but tapered off to an average of 5.6 percent in the latter half, to end the decade with an average of 6.9 percent growth, compared to 5 percent in the 1980s. These averages mask the fact that it was the RMG enterprises (in the medium and large scale group) that grew by over 20 percent and drove manufacturing growth, while there was stagnation and even decline in some import-substituting. Import liberalization and the abolition of import licensing improved access of small enterprises to capital machinery, raw materials and implements that could now be purchased readily and at low cost."

"An important feature of the export basket has been its concentration on a few commodities. Jute and jute goods, tea, leather and leather products, and frozen foods were the major exports up to late eighties. Since FY88 woven and knit garments, frozen foods, leather and leather products and jute and jute goods have been the major exports. The most remarkable feature of the export basket is the emergence of readymade garment (RMG) in the late 70s as export and its increasing dominance in the basket over the years. Readymade garment has replaced jute and jute goods in importance. Thus while the contribution of jute and jute goods declined from about 69 percent in FY81 to about 3 percent in FY09, readymade garment constitutes more than 75 percent of total exports in recent years. Equally striking is the fact that by the turn of the century, manufactured goods made up over 90% of our exports."

Anti-export Bias of the Trade Regime

"Reforms allowed the export sector to flourish, however the success of the export sector is largely attributed to the RMG sector. All other non-RMG major export items have had only a modest growth since the late 1980s. Though some new items have been added to the export basket the country's export base remains narrow and undiversified. Without export diversification Bangladesh may be exposed to negative export shocks. Therefore the existing policy anomalies have to be removed and supportive steps for diversification of exports will be undertaken during the Sixth Plan period.

"Despite the measures for export promotion and tariff rationalization, a measure of anti-export bias still prevails. The structure of incentives created by the trade policy regime still favors the production of domestic import substitutes and creates barriers for emergence of new export industries and expansion of export industries not benefitting from special measures. Given that SFYP puts a lot of emphasis on export of manufactures, concerted efforts will be made to remove the remaining anti-export bias to create a neutral policy regime between import substitution and export promotion in order to focus both on manufactures that have export potential and industries which already export but whose potentials are not fully realized."

“Diversification of the manufacturing base will be promoted by keeping import channels open and facilitating Bangladeshi firms to vertically integrate within the global production chains. ‘Machinery’ and ‘other-industries’ sectors are also projected to become more buoyant due to the expansion of the economy and gradual diversification of exports. One of the thrusts of the industrial policy during SYFP will be to create scope for emergence of new activities (in exports or domestic production) and expansion of SMEs to take advantage of scale economies. However, due to paucity of gas supplies as well as uncertainty with regard to the use of coal, the growth performance of ‘chemical-fertilizer’ and ‘petroleum’ sub-sectors would likely remain moderate. Removal of critical infrastructure bottlenecks in power and transport sectors through massive new investments will be critical for planned acceleration of manufacturing sector growth. “

Exports – the Driver of Manufacturing Growth

“The main driver of manufacturing growth will be the export markets, although growing domestic demand from higher income generation will also provide impetus to import substitute production. The case for exports is very clear. In spite of a burgeoning domestic market, its size is limited when it comes to the need for creating over a million additional jobs every year with decent wages. The export market is vast allowing industries to take advantage of economies of scale and the scope for creating jobs and income is unlimited. Already manufacturing exports make up more than 90% of our export basket. High manufacturing growth over the next decade will hinge on continuation and improvement on the superb export performance of the past 15 years. The key is to produce competitively products in which Bangladesh has comparative advantage and formulate strategies to open export markets. Based on the recent performance, export sector under the Plan period is projected to grow by 16% per annum in US dollar terms, which is about the same rate as in recent pre-global crisis years. The projection entails an increase in the share of exports in relation to GDP to rise by at least 5 percentage points to 22% of GDP by the end of the SFYP reflecting a leading role that export sector is envisaged to play in the SFYP. While RMG exports would continue to dominate the export outlook, some important non-traditional exports like footwear and leather products, light engineering products (bicycle and electronics), pharmaceuticals, ceramics, jute goods, ocean-going ships, and some labor-intensive products not yet on the export radar, are likely to grow at a much faster rate. This diversification is a key objective underlying the strategy for manufacturing growth.”

Strategic Policies for Manufacturing Exports in the Sixth Plan

“In order to get the maximum leverage out of manufacturing sector and its competitiveness in the global marketplace, the Sixth Plan would focus on four strategic approaches.

Export diversification. “..in the context of the Sixth Plan, the strategy of export diversification will not be limited to product diversification in the export basket. Rather, the strategy will embrace many different facets, each of which addresses the vulnerability aspect of export concentration, as summarized below:

Product diversification – introducing range of new products in the export basket.

Geographical diversification – widening the range of destination markets for exports.

Quality diversification – upgrading the value of existing products, i.e. moving up market from low end to high end products (described as moving up the value chain).

Goods-to-services diversification – seeking opportunities to expand non-merchandise exports.

Intermediate goods diversification – product diversification need not imply adding only final consumer goods in the export basket – as is popularly understood in Bangladesh. There are global opportunities for plugging into the supply chain of export powerhouses like China, something that East Asian economies have done successfully. That requires Bangladesh to diversify its manufacturing base into backward linkage industries producing a wide range of intermediate goods for exports within the globalized production chain.”

> “Finally, it is critical that the trade policy regime is geared to ensure export competitiveness in general while facilitating emergence and expansion of new export products. Bangladesh’s labor cost advantage remains strong though productivity is a question mark. Yet this advantage, properly harnessed, could yield surprising rewards within the current scheme of globalized production and supply chains, provided the trade regime is right. The success of RMG is clear evidence of this phenomenon.”

“If export diversification is to be the cornerstone of an export strategy, at least three aspects of the trade policy regime will deserve close attention during the Sixth Plan:

Ensuring export competitiveness in general – by addressing border barriers (e.g. tariffs) and beyond-the border constraints (e.g. trade infrastructure, energy and telecommunications, regulations, finance).

Reducing anti-export bias of the trade regime – several researches provided ample evidence of anti-export bias of the current import, tariff and subsidy regime that favors import-substituting production over exports. The duty-drawback scheme to provide world-priced inputs for export production has proved inadequate. Eliminating or reducing the built-in anti-export bias that still remain will be key to switching the incentive regime in favor of exports.

Reducing anti-diversification bias – because of the stellar success of RMG exports, trade policy and incentive regime have a clear focus on this sector which is provided a free trade channel plus logistic support (duty free import of inputs, bonded warehousing facilities, back-to-back LC, rapid custom clearance). While such a policy is appropriate for making RMG exports competitive on a global scale, attention needs to be focused on similar policy environment for emerging and potential exports without which they face formidable barriers in the context of a high-tariff and restrictive import regime in Bangladesh. This particular feature of anti-diversification bias could be unique to Bangladesh and will be addressed during the Sixth Plan. "

The China opportunity: "A window of opportunity that beckons Bangladesh has its roots in what is going on in China known to the world as the export powerhouse, as the biggest source of cheap exports of all manner of goods, from clothing and toys to consumer electronics and durable goods like air conditioners and refrigerators. Abundant, cheap, and productive labor was the primary source of China's global competitive advantage. As a natural phenomenon of industrial success, that advantage is fast eroding. Wages are rising in China, where factory workers are paid three to four times the wages of Bangladeshi workers. In addition, acute labor shortages have appeared in key economic zones. Wage-push inflation in China means that competitive advantage is no longer assured, at least not for the labor intensive commodities whose fabrication is less complex and demands relatively low-skilled workers. Examples of these Chinese products include readymade garments, shoes, electrical goods, car parts, toys, kitchenware, and multifarious consumer goods. In these sorts of products, China's competitive edge stemming from low labor costs is fast eroding.

> "That is not all. Pressure is mounting on China to revalue the Yuan – a measure that will make its exports dearer and therefore less competitive. Though China has not wilted under this pressure, analysts believe gradual

Yuan appreciation in the months ahead is a very real possibility. This adds the third element in the erosion of Chinese cost competitiveness, apart from rising wages and labor shortages. In the current scheme of global competition, the loss in competitive advantage for one country becomes a gain for one or more countries. Those ready to gain from China's falling competitive edge in labor-intensive products are countries like Bangladesh, Vietnam, Cambodia, Indonesia, Philippines, and even India.

"What is notable is that developments in China have set in motion some dynamic adjustments around the globe. Investors are scurrying for the next best location for manufacturing clothing, shoes, toys and other labor-intensive manufactures. Why not Bangladesh? Labor costs, investment climate, and trade policy will be the critical factors determining location and success of the next export powerhouses.

"During the Sixth Plan period, Bangladesh will position itself comprehensively – with supportive incentive schemes, investment incentives, and liberal import regime – for a solid berth in the new alignment of exporters. In terms of attractive trade and investment policies, Bangladesh will match countries like Vietnam and Indonesia which are vying to take a bigger chunk of the Chinese pie which is up for grabs. This once-in-a-lifetime window of opportunity may not last for long. Success in this effort will ensure Bangladesh's claim for middle income status within a decade.

Export restructuring in a globalized economy: "Global production sharing has been a striking feature of world trade in recent years. It generally entails the breaking up of the production process into vertically separate stages carried out in more than one country, involving both backward and forward linkages from the production stage in the commodity chain. Analysts have pointed out that the superior export performance of East Asian countries can be partly attributed to their strategic use of cross-national production networks within a globalized production system. Bangladesh manufacturing exports could also get a strong boost if it positions itself suitably within the global production and supply chain.

Two types of commodity chains have been identified:

Producer-driven commodity chains (PDCC): "PDCC tends to be characterized in capital and technology intensive industries (e.g. automobiles, computers, semiconductors, and heavy machinery). Transnational corporations play a central role in coordinating production networks. International sub-contracting of components is common for most labor-intensive production processes. The main barrier to entry for this type of production network is capital and propriety know-how. Moreover out sourced production is controlled by TNC mainly through equity investment.

Buyer-driven commodity chains (BDCC): "These types of chains are most prevalent in industries which are characterized by large retailers, branded marketers and trading companies. These businesses usually set up decentralized production networks in a variety of exporting countries, moreover the branded companies usually provide the design and order the goods and supply the specification. This pattern is common in labor-intensive consumer goods such as garments, toys, footwear etc. The main barriers to entry are product development, advertising etc. Control of production takes place through non-equity arrangements with local firms through sub contracting. In essence the Wal Marts and Nikes do not manufacture the products; they just design and sell. In the BDCC system there is a physical separation of production activity from the design and marketing stages.

"Indeed the new aspect of globalization is the ability of producers to slice up the value chain by breaking up the production process into many geographically separated steps such that a good is produced in a number of stages in a variety of locations, adding value at each stage. The assembly stage is a labor intensive activity using unskilled labor in which countries like Bangladesh have a comparative advantage. In readymade garment exports, Bangladesh has already taken advantage of the BDCC system, but could reap similar benefits in other products such as toys, footwear, auto parts, TV parts and components. Trade in parts and components in the machinery sector are the fastest growing segment of world trade. The rise of China as a low cost assembly hub has boosted component production and assembly in other countries. During 2005-06 components manufacturing trade in Asia were above the world average by 15 percent and made up almost 75% of East Asian trade. During the Sixth Plan period Bangladesh will have to position itself as a player in the global production chain based on its comparative advantage within a market niche. Its long experience with garment production chain gives it a competitive edge over newcomers.

Working on market access issues: "Producing products of export interest and in accordance with Bangladesh's comparative advantage based on its factor endowments is only the first albeit the key step for export growth. Yet being competitive in exports is only a necessary condition for export success. Global trade is subject to various tariff and non-tariff measures that serve as barriers to market access, particularly for an LDC like Bangladesh seeking new export destinations and trying to open existing markets wider. For export success to be ensured on a sustainable basis, the government will be playing a proactive role in continuing efforts under the bilateral and multilateral umbrella to obtain Bangladesh's rightful claim to market access for diversified products and destinations.

> "It is well known that the Uruguay Round of trade negotiations opened global trade and reduced overall tariffs, but left the peak tariffs on products of export interest to LDCs like Bangladesh (e.g. tariff peaks on textiles and clothing). Although this has been partly compensated by various preferential schemes offered by OECD countries, such as GSP and EU's EBA, there are formidable challenges to be faced in reducing tariffs on Bangladesh's major export product (RMG) and emerging products that might be subject to WTO-compliant rules under SPS and TBT. A two-track initiative is visualized: (a) the government in partnership with chambers and think tanks will vigorously pursue the LDC option for S&D preferential market access under WTO's Doha Development Round; (b) on a bilateral basis, the government will continue to work on obtaining duty-free access for Bangladesh exports into developed markets such as USA, Japan, and Australia, while pursuing low-tariff market access options via reaching free trade agreements with individual emerging market countries or groups.
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> "Furthermore, Bangladesh will also pursue the regional option to open markets and expand trade with neighboring countries in South and East Asia, under various regional or bilateral trading arrangements (e.g. through SAFTA, BIMSTEC or potential bilateral FTAs). Given Bangladesh's current tariff regime, most research indicate high cost of trade diversion from these initiatives, thus requiring further rationalization of tariffs so that benefits of trade creation offset trade diversion costs from regional FTAs. To gain market access through RTAs Bangladesh will have to reduce tariffs further, without which it would be difficult to forge regional trade alliances."

B. Some Critical Observations on The Proposed Strategies & Policies

The main problem with further tariff rationalisation is concern about the potential revenue shortfalls of the Government. Although the loss in revenue could arguably be made up either by expanding the domestic tax base or by increasing the VAT net or a combination of both, the tax administration in an LDC like Bangladesh is not as flexible as in developed countries for undertaking an increased revenue mobilisation effort within a short period of time. Also, increasing the rates of revenue generating tax measures such as VAT may be difficult given the poverty situation of the country. An alternative might be to readjust the tariffs so that the highest duty rate is reduced, but on the whole the tariff structure remains revenue-neutral. In this case, however, the average nominal protection given to the domestic import-substituting activities will not decline.

Since Bangladesh embarked on a tariff reform programme at a very fast pace, it may not be possible to carry on further liberalisation with a similar pace. Nevertheless, it would be unwise to reverse the process of liberalisation and thus the progress achieved in the previous decade. The use of para-tariffs in recent years has increased the total protection rates, which appears to be incompatible with the liberalisation measures that Bangladesh undertook earlier. It is, therefore, important to ensure the neutrality of supplementary duty and VAT by applying them to the domestic industries in a non-discriminatory fashion, which could contribute to increased government revenue on the one hand, and reduced anti-export bias on the other.

In future Bangladesh may opt for an analytical approach to tariff liberalisation. Under this approach there may be scopes to devise the tariff structure in such a way so that it has limited effects on the revenue position of the government, but contributes to lowering high rates of effective protection enjoyed by a number of sectors. Although the outcome may be diminished or unchanged nominal protection for the whole economy, the efficiency gains achieved through reduction in effective protection can be beneficial to resource allocation.

The existing practice of tariff liberalisation programme has wrongly concentrated on the nominal protection rate and the revenue implications. This is reflected in the higher import-weighted tariff rate for intermediate goods than that for final consumers' goods. Therefore, a more realistic tariff rationalisation programme can substantially benefit the domestic industry relying on imported intermediate goods. This apparent unrealistic duty structure underlines the need for using an analytical approach to tariff liberalisation measures.

However, across the board tariff reduction may not be desirable not only because of the revenue concern of the government but also because of the need for providing some support to domestic industries with significant growth and poverty alleviation effects. By adopting pro-active and analytical policy regime effective support to the growth of small and informal sector activities with significant poverty alleviation effects can be provided. In fact, policies should be devised in such a way so that trade can act as a tool for development.

Bangladesh has liberalised its economy quite considerably now and particularly in the 1990s the pace of liberalisation had been very rapid. The liberalisation measured contributed to reducing the policy induced anti-export bias at some moderate level. More liberalisation and rationalisation of the tariff regime could be another way of reducing the anti-export bias further. However, the evidence provided in this chapter calls for undertaking much more careful approach to future liberalisation.

The existence of anti-export bias attracts policy suggestions for withdrawing the remaining quantitative restrictions for trade reasons, to bring down the top customs duty rate, and to eliminate all other import taxes such as the infrastructural development surcharges and supplementary duties. However, as Bangladesh's most trade-related QRs are almost extinct now, removal of the few existing QRs do not appear to be any significant constraining factor for future openness of the trade regime.

In addition to above, available evidence seems to suggest that the growth performance of Bangladesh has not been significantly influenced by liberalisation measures. The potential growth dividend arising from further tariff cuts also appears to be very small. These findings would imply that liberalisation of the tariff regime alone is likely to be insufficient for promoting export and economic growth.

Although liberalisation should encompass many factors affecting trade and business practices, in Bangladesh an overwhelming attention has been given to trade related instruments only. In fact, policymakers are so inclined to measures related to tariffs and QRs that most of the time reform measures are used interchangeably with trade liberalisation measures. Reforms of the institutions have largely been overlooked. Embarking on such trade reforms as tariff cuts and elimination of QRs, are relatively easy. However, significant growth-enhancing effects perhaps require reforms in other difficult areas. In this regard, there are suggestions that institutional reforms should be considered as the key to Bangladesh's growth-supporting strategy.

The above arguments should not be interpreted in such a way as to indicate that there is no need for further liberalisation and thus removing anti-export bias. There can definitely be a need for such an action, but it will have to be supported by other more difficult reform measures.

It is also important to recognise the difference between trade policy and policy of trade liberalisation. The distinction is very important for protecting some policy space that is required to promote development priorities. An overall proliberalisation policy does not exclude the possibility of policy support for certain specific sectors.

Supporting the export sector by removing the anti-export bias is one of the most important reasons for undertaking liberalisation. However, it is worthwhile enquiring whether the policy induced anti-export bias is the only problem for expanding exports. While tariff rationalisation and the liberalisation of trade regime is one thing, how far this will stimulate export response, particularly of non-RMG sectors, is another thing. It may be that any significant supply-side response in these sectors can only be stimulated by addressing other demand and supply side problems.

It is also important to mention that there is an increasingly felt need for a comprehensive trade policy in view of meeting the long term needs of trade-led sustainable development of the country. The need for a comprehensive trade policy can be justified on many accounts:

(1) Medium and Long Term Policy Perspective for Development: The comprehensive trade policy would set out strategies towards attaining various targets set forth under the medium and long term development plans of the country.

(2) Debates over Policies and Operational Issues: There are strong debates over consistency between the objectives and strategies specified in the trade policy and various measures taken under government's budgetary framework. As part of supporting domestic import-substituting industries, various budgetary initiatives undertaken by the government should be devised in such a way that the country's export-led industrialisation would not be discriminated. There should be a comprehensive trade policy under which a more realistic tariff rationalisation programme could be undertaken keeping in view a long term vision regarding international trade liberalization.

(3) Inter-linkage between Various Policies: The regulatory framework directly encompassing international trade has close links with monetary, fiscal and industrial policies. Although concerned ministries/departments/agencies during the stage of policy formulation put their efforts into maintaining coherence with other policies by taking suggestions from relevant stakeholders, there is still concern regarding a lack of coherence in various policies. In view of the gradual rise of inter-linkage between trade, investment and industry, an analytical framework should be developed to ensure coherence of these policies.

(4) Interwoven Nature of Export and Import: There are overlapping interests of manufacturers, exporters and importers regarding policies related to exports and imports - as such import policies need to take note of export policies and vice versa. A lack of coherence in these policies hampers potential export earnings as well as industrialisation. Under a comprehensive trade policy, policies related to export-oriented industries need to be integrated, and the interests of import-substituting industries should be provided with adequate focus.

(5) New Issues Related to Trade: During the last one and a half decades, multilateral, bilateral and regional trade regimes have experienced a number of changes, which have had different implications on production, trade, investment and employment in Bangladesh. There is also a growing importance of services industries and services trade, including temporary movement of natural persons. A comprehensive policy for international trade will help to address these diverse sets of issues in a more meaningful way and bring larger gains from trade, while boosting industrialisation and employment.