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The Foreign Trade of Bangladesh: Its Composition, Performance, Trend, and Policy

Mohammad Mafizur Rahman

Abstract

Despite structural limitations in the Bangladesh economy, the export sector performed well throughout the 1990s. The export growth rate of Bangladesh was higher than that of the world and the SAARC countries. However, the balance of trade of Bangladesh was always in deficit and the trade deficit with India is huge. The export share of primary commodities has decreased while that of manufactured commodities has increased over the years. The growth rate of manufactured commodities is better than that of primary commodities. The import share of principal primary commodities has declined while that of principal industrial and capital goods has slightly increased over the past years. The striking features of Bangladesh's exports are commodity and market concentration. To overcome the problem, there is no alternative but to diversify exports and improve quality. To improve the country's overall trade balance, especially trade balance with India, some policy recommendations are offered in this paper.

Introduction

Trade is an integral part of the total developmental effort and national growth of all economies including Bangladesh. It particularly plays a central role in the development plan of Bangladesh where foreign exchange scarcity constitutes a critical bottleneck. Export trade can largely meet 'foreign exchange gap', and export growth would increase the import capacity of the country that, in turn, would increase industrialization, as well as overall economic activities.

Bangladesh's import needs are substantial; hence the need to rapidly increase exports is immediate. In order to finance the imports and also to reduce the country's dependence on foreign aid, the Government of Bangladesh has been trying to enhance foreign exchange earnings through planned and increased exports. However, the global trade scenario has exposed structural limitations of the Bangladesh economy, posing a variety of challenges for the country that has underdeveloped technology and a low capital base.

In this paper we discuss the composition, performance and trends of foreign trade of Bangladesh. In the process, we examine Bangladesh's export and import performance compared to those of various countries, regions and the world over the years. We also discuss the sources of Bangladesh's imports and directions of Bangladesh's exports and the dynamic changes over the years, and highlight the trends of export and import shares to GDP and trade balance positions with different countries, regions as well as the world. Trade policy reforms of Bangladesh and major

issues, challenges and policy options are also discussed briefly.

Composition and Performance of Exports of Bangladesh

Export Earnings and Export Growth

The export sector performed rather well throughout the 1990s. This sector achieved a growth rate of 37.04% in the FY 1994-95. During the twelve years, 1991-92 to 2002-2003, Bangladesh experienced negative export growth (-7.44%) only in FY 2001-2002. The terrorist incident of September 11, 2001 in USA and subsequent events may be blamed for this unexpected suffering of the export sector in the particular fiscal year. However, the export sector achieved a 9.39% growth rate, an increase of US\$ 562.35 million, during 2002-2003, with total export earnings amounting to US\$ 6,548.44 million compared to US\$ 5,986.09 million in 2001-2002. Charts 1 and 2 provide comparative year-wise export earnings and export growth rates for twelve years.

Export Earnings and Export Growth by Commodities

Readymade garments and knitwear are the main contributors to the export earnings of Bangladesh. Their contributions are, respectively, 52.20% and 24.37% of total export earnings in FY 2001-2002 and 49.75% and 25.26% in FY 2002-2003. The contribution of frozen foods, jute goods and leather in FY 2002-2003 are 4.91%, 3.93% and 2.92% of total export earnings respectively. The statistics reveal that tea, leather and handicraft experienced negative growth in FY 2002-2003. In terms of positive growth, engineering products topped the list

(842.34%), followed by petroleum by products (215.45%), chemical products (50.95%), raw jute (34.89%), other products (20.77%), frozen food (16.55%), knitwear (13.34%), agricultural products (12.96%), jute goods (5.61%) and readymade garments (4.28%) (EPB, 2004).

Exports of Primary and Manufacturing Commodities

EPB (2004) reports that out of the total export earnings of US\$ 6548.44 million during the FY 2002-2003 the share of primary goods stood at US\$ 462.59 million and that of manufactured goods at US\$ 6085.85 million i.e. 7.06% and 92.94% respectively as against US\$ 390.30 million and US\$ 5595.79 million i.e. 6.52% and 93.48% respectively during the FY 2001-2002. Another noteworthy feature of the export sector is that the share of primary commodities in total exports is gradually decreasing, whereas the corresponding share of manufacturing commodities is gradually increasing over the years. This change in export composition indicates a good sign for the economy, as the price of primary commodities is comparatively uncertain in the international market. In the fiscal year 1982-83, the shares of primary and manufactured commodities were 35.42% and 64.58% respectively. These shares stood at 7.06% and 92.94% in 2002-2003 representing 80.06% decrease for primary commodities and 43.91% increase for manufacturing commodities.

Export Value, Volume and Unit Price Index

The export growth of Bangladesh has occurred due to both price and volume increases over the years. Compared to FY 2001-2002, overall export during FY 2002-2003 increased, in dollar terms, by about 9.39%. Export price index during this period increased by 2.31%. This indicates that export volume increased by 7.08% in FY 2002-2003.

Exports in the primary commodities sector increased by 18.52%, in terms of US dollars, in FY 2002-2003 as against the increase in price index by 26.18%. Thus the primary commodities sector registered a decrease of 7.66%, in volume terms, in FY 2002-2003.

However, both export volume and export price in the manufactured commodities sector increased during FY 2002-2003 as compared to the preceding fiscal year. Export value in terms of US dollar reported an increase of 8.76% during this fiscal year, but the unit

price index in this sector increased by 0.36% indicating a volume wise increase of 8.40% (EPB 2004).

Exports Performance Compared to Imports

The export earnings also continuously increased over the years with increased import payments. Though import payments are always higher than the export earnings in absolute terms, the percentage of Bangladesh's export to imports is improving gradually and in recent years has been quite impressive. In FY 1983-84 the value of Bangladesh's exports was US\$ 811 million and the corresponding figure for Bangladesh's imports was US\$ 2073 million that represents export/import ratio of 39.12%. The export-import ratio increased to 70.09% and 67.80%, respectively, in FY2001-02 and FY 2002-03 (EPB 2004).

Composition and Performance of Imports of Bangladesh

Import Composition and Growth

To analyze the import composition of Bangladesh it is observed that the import share of principal primary commodities (in total imports) showed a declining trend in recent years. On the other hand, the shares of principal industrial goods and capital goods reported a slight increase. The import payments for principal primary commodities, in FY 1998-99, were US\$ 1,448 million representing 18.06% of total import payments. These figures decreased to US\$ 980 million and \$ 1,098 million (11.66% and 11.73% of total import payments) in FY 1999-2000 and 2000-01 respectively. The import shares of principal industrial goods increased to 14.58% and 15.34% in FY 1999-2000 and FY 2000-01 from 13.77% in FY 1998-99. The share of import payments for capital goods in total imports increased to 25.63% in FY 2000-01 from 24.56% in FY 1998-99. Import payments for rice and wheat significantly decreased in FY 1999-2000 and FY 2000-01 compared to FY 1998-99, which implies that the country is making progress in food production. The share of import payments for petroleum products increased significantly in FY 2000-01 compared to FY 1998-99. Total import payments stepped up to US\$ 9363 million in FY 2000-01 from US\$ 8403 million in FY 1999-2000 recording an increase by 11.42% (GOB 2002; Bangladesh Bank 2002-03).

GOB (2002) also reports that against the total import growth rate of 4.80%, the import growth rates for primary, industrial and capital goods were -32.32%,

10.96% and 8.33% respectively in FY 1999-2000. The import growth rates for all categories have increased in FY 2000-01, where the figures were 12.04% for primary goods, 17.22% for industrial goods and 12.52% for capital goods. Among the primary products, crude petroleum and cotton recorded the higher import growth, 96.62% and 18.88% in FY 1999-2000 and 17.67% and 35.38% in FY 2000-01 respectively. The import growth rates of petroleum product were 50.37% and 41.63% in FY 1999-2000 and 2000-2001 respectively.

Import Shares of Consumer and Capital Goods

The variations in the share of consumer and capital goods are not notable for the period 1995/96-1998/99 except for consumer goods in FY 1996-97, when the share dropped to 28% from 39% in FY 1995-96. The shares of consumer goods dominate throughout the period recording 38% to 39% of total import payments. Capital goods, on the other hand, registered 13% to 16% of total import payments during this time. The share for combination of consumer goods and materials represented 63% to 68% of total import payments, whereas the same for capital goods and materials together was 32% to 37% during the stated period (BBS 2000: 251).

Comparative Performance of Bangladesh's Export and Import Sectors

Comparative Performance of Bangladesh's Exports

The performance of Bangladesh's export sector in recent years is quite impressive especially in the 1990s when we compare it with that of world and SAARC¹ countries. The average annual growth rate of Bangladesh export (11.91%) is higher than those of the world (9.48%) and SAARC countries (10.69%) during 1990-2003. Because of the lower export performance in the 1980s, annual average growth rate of this sector during 1980-2003 is not as impressive compared to other Asian countries and the world, though this sector shows competitiveness compared to other SAARC countries (IMF various years).

Over the period of 1980-2003 Bangladesh's exports as a percentage of the world's exports remain around 0.11% to 0.12% with the exception of 1984, when it was 0.14%, and 1990-1994, when the ratio was around 0.09%. Bangladesh's exports as a percentage of SAARC countries' exports show slightly increased trend especially in 2000 and 2001. For these two years Bangladesh's exports are 11% and 12% of the SAARC countries' exports respectively. Bangladesh's share of SAARC countries' exports was

the lowest, 7.72%, in 1983. Bangladesh's exports share in the Asian developing countries, however, shows a decreasing trend in the 1990s compared to the 1980s though the ratio is slightly higher in 1998 and 1999 compared to immediate earlier years. The ratio dropped to 0.59% in 2003 from 1.46% in 1980 though it was 0.75% in 2001 (IMF various years).

Comparative Performance of Bangladesh's Imports

A healthy performance of Bangladesh's import compared to the world and the SAARC countries is to be noted. Although Bangladesh's import performance is behind that of the Asian developing countries, the average annual import growth rates of Bangladesh are much higher than those of the world during 1980-90, 1990-2003 and 1980-2003. These growth rates are also higher than those of the SAARC countries over the specified period. When average annual growth rates of the world and SAARC countries are 12.92% and 22.42% respectively, that of Bangladesh is 31.79% during 1980-2003. Even the average growth rate of imports is higher for Bangladesh (22.59%) than that of the Asian developing countries (21.25%) during 1990-2003.

Bangladesh's imports as a percentage of world and SAARC countries' imports have also been increasing over the years, though this ratio varies with the Asian developing countries. While the ratio of Bangladesh's imports to world imports was 0.04% in 1980, it reached around 0.1% in 2001, 2002 and 2003. The ratio of Bangladesh's imports to SAARC countries' imports reached 9.3% in 2001 from 4.7% in 1982 and 5% in 1983 (IMF various years).

Export and Import Shares to GDP

The contribution of the export sector to Bangladesh's GDP has been gradually increasing over the years. While export share in GDP was 4.52% in 1980, this share has reached to 13.45% in 1999, reflecting 197.56% increase in GDP contribution in nineteen years (World Bank 2004). This ratio further increased in 2000, 2001 and 2002. The ratio was 15.38% in 2001.

The imports-GDP ratio of Bangladesh has also been increasing every year with a few exceptions. During 1980-2002 the ratio was the lowest; 9.09% in 1986; and the highest 21.50% in 2001.

The trade openness (trade/GDP ratio) was around 14% to 16% till 1989. After that the ratio increased to 28% in 1995. In 2001 the ratio has increased to 36.88% which implies that trade has been liberalized

in Bangladesh to a great extent since 1980. Over the years trade deficits ranged from 2.23% to 7.37% of GDP (World Bank 2004).

Bangladesh's exports share progressed convincingly compared to other SAARC countries during 1980-2002. Bangladesh's exports share in GDP was the lowest, 4.52%, in 1980, but in 2002 this figure stood at 14.28%. This is the highest export growth rate (215.93%) among the SAARC countries. The import share was also the lowest, 11.89%, in 1980, but it became the second highest, 19.05%, in 2002 among the SAARC countries. Sri Lanka's imports share in GDP was the highest (42.87%). The total trade share in GDP, the openness, was the lowest, 16.41%, for Bangladesh in 1980, but this ratio increased to 33.33% in 2002 which is higher than India's ratio, 30.28% (World Bank 2001, 2004).

Balance of Trade of Bangladesh

The trade balance of Bangladesh is of great concern. It has always been in deficit over the decades. Recent statistics show that the trade deficit of the country was US\$ 3,109.56 million in FY 2002-03, while it was US\$ 1,262.08 million in FY 1983-84 (EPB 2004). Based on the data of Export Promotion Bureau, Chart 3 shows the balance of trade position for 20 years (1983/84- 2002/03), which is quite unsatisfactory. The trade deficit has been increasing over the years.

Bangladesh's trade balance with India is also disappointing and was US\$ 81.3 million in 1988; that became US\$ 974.3 million in 1999, reflecting an increase of trade deficit by 1,098% during 1988-99. The trade deficit with Pakistan increased by 107.90% during the same period. Bangladesh had trade surplus with Nepal in 1988, but the surplus has turned into deficits in 1999 by 180.44%. Bangladesh also had a trade surplus with Sri Lanka in 1988, but the country experienced trade deficit in 1999, reflecting a decrease in trade surplus by 106.86% (IMF various years).

Directions of Bangladesh's Exports and Imports

Country-wise Exports of Bangladesh

The destination wise export figures reveal that the United States is the most prominent buyer of Bangladesh's products. Germany and UK occupied the second and third positions respectively. These three countries accounted for 57.33% of Bangladesh's total exports in FY 2002-03. The increasing importance of USA and some European

countries as the major export destination over the past years indicates market concentration for Bangladesh's exports along with commodity concentration. The exports to USA, Germany, UK, France, Belgium, Spain and Canada have continued to increase in recent years with a few exceptions.

Region-wise Exports of Bangladesh

European Union dominates over any other regions for Bangladesh's exports. Bangladesh exported more than 50 percent of its total exports to EU in 2002-03 and this region's imports from Bangladesh have been continuously increasing over the years. The American region, Asian region and the Middle East occupy the second, third and fourth positions respectively for the direction of Bangladesh's exports. These regions covered 36.02%, 7.31% and 2.35% of the country's total exports in FY 2002-03.

Bangladesh's export to SAARC countries during FY 2002-03 was US\$ 120.84 million as against US dollar 83.18 million in FY 2001-02 and US\$ 100.88 million in FY 2000-01. During FY 2002-03, Bangladesh's export share to the SAARC countries was 1.85% of total exports. The shares of India, Pakistan, Sri Lanka, Bhutan and Nepal were 69.19%, 26.09%, 3.11%, 1.30% and 0.31% respectively of total Bangladesh's export to SAARC countries (EPB 2004).

Exports of Bangladesh to Industrial and Developing Countries

While developing countries were the major destinations during the 1970s and early 1980s, this direction reversed from the middle of 1980s and the trend continued throughout the 1990s and thereafter. Now industrial countries are the main destinations of Bangladesh's exports. The industrial countries used to represent 41.4% share of Bangladesh exports in 1978 and developing countries used to represent 45.8%. In 2002 these figures stood at 88.3% and 11.7% respectively for industrial and developing countries. Among the developing countries, the Asian countries import more than others from Bangladesh.

It is also observed that the annual growth rate of Bangladesh's exports to the world is positive since the 1990s; it is found very impressive in 1990 and 1994 being 28.1% and 16.3% respectively. However, the corresponding figures are better for industrial countries: 40.6% and 18.7%. The export growth rate to developing countries in 1998 and 2002 are negative, -15.9% and -2.9% respectively though these rates were positive in 1990 and 1994.

Bangladesh's exports also experienced negative growth for industrial countries as well as for the world in 2002 due to the terrorist incident of September 11, 2001 in the USA (IMF various years).

The direction of Bangladesh exports to developing countries has also been changing over time. Pakistan was the major partner for Bangladesh's exports in 1978 (20.4%). In 2002 Hong Kong followed by India became the major partners of Bangladesh's exports. Hong Kong, India and Pakistan's shares for Bangladesh's exports are 19.2%, 7.4% and 5.1% respectively in 2002. Other major developing countries for Bangladesh's exports are Thailand, UAE, Singapore, Sudan, etc. (IMF various years).

Sources of Bangladesh's Imports by Region, and Import Growth

The noteworthy feature of the Bangladesh import trade is that the country's imports increased from US\$ 160.2 million in 1988 to US\$ 1,125.3 million in 1999 reflecting 602.43% increase of imports in 11 years from the SAARC countries. ASEAN represents the second highest growth for Bangladesh's imports, 275.62%, during the specified time. Contrary to export growth with EU and NAFTA countries, Bangladesh's import growth from these two regions is low, 106.52% and 87.51% respectively during 1988-1999 (IMF various years).

Imports of Bangladesh from Industrial and Developing Countries

There is a reverse trend of the Bangladesh's imports with regard to the sources over time. While industrial countries were the major source for Bangladesh's imports during the 1970s, these countries became a minor source for Bangladesh's imports during 1980s and 1990s. Instead, developing countries are now a major source for Bangladesh's imports. While industrial countries constitute 51.4% of Bangladesh's total imports in 1978, their share in 2002 was only 25.4%. On the other hand, developing countries' contribution to Bangladesh's imports increased to 63.2% in 2002 from 27.3% in 1978. Asian developing countries dominate as sources for Bangladesh's imports, raising its share from 14.6% in 1978 to 55.1% in 2002. Annual growth rates of Bangladesh's imports, in 1998 and 2002, are 3.4% and -12.9% from the world, -6.2% and -12.8% from industrial countries, 6.7% and -7.7% from developing countries, and 8.7% and -7.4 % from Asian developing countries.

Among the industrial countries, Japan and the United States are the leading countries for Bangladesh's imports. These two countries used to supply more than 50% of Bangladesh's imports in 1978. In 2002 their joint contribution was about 41% of Bangladesh's imports from the industrial countries. Other major sources for Bangladesh's imports are the United Kingdom, Australia, Germany, France and Canada (IMF various years).

Among the developing countries, India has now become the principal source of Bangladesh's imports. India alone supplied 30.5% of Bangladesh's total imports from developing countries in 1998 though the figure was only 10.5% in 1978. The second largest supplier is China from which Bangladesh imported 18.4%, in 2002, of its total imports from the developing countries. Singapore and Hong Kong are also key countries for Bangladesh's imports. Hong Kong's contribution ranged from 10% - 15% of Bangladesh's imports during the 1990s. Singapore was the main source for Bangladesh's imports in the year 1990 (25%). Other major import sources are Korea, Indonesia, Thailand, the United Arab Emirates, Saudi Arabia, Pakistan and Malaysia (IMF various years).

Trade Policy Reforms

During the past three decades, Bangladesh carried out extensive trade policy reforms. In particular, the country has been pursuing a liberal trade policy since the beginning of the 1990s, which is consistent with the trends in the global market economy, Uruguay Round Accord and agreement with the World Trade Organization. The government formulated a five-year export policy along with a more liberal five-year import policy in 1997/98 with the objective of attaining a favorable trade balance and gradual improvement in the foreign exchange reserve situation (GOB 2002). The governments in 1990s really wanted to promote rapid export growth by reducing and eliminating the anti-export bias prevalent in the economy.

Keeping this goal in mind, the government has been pursuing a limited protective policy only in consideration of several important issues like public health, security and religious restrictions. Also, the government has been adopting more liberal import and export policies and programs including reduction and harmonization in tariff rates, and elimination of many quantitative restrictions on imports (GOB 2002, CSB 2003).

Import Policy and Reform Program

The trade regime has been rationalized and simplified through lowering the tariff rates, phasing out quantitative restrictions, streamlining import procedures and introducing tax reforms. The overall tariff structure has been changed by these reforms. A summary of these reforms is briefly provided below.

- In the new policy, industrial and import policies have been integrated in order to reduce the administrative complexities for obtaining prior approval from different Ministries, a requirement for industrialization and commercialization. The condition for declaration about the country of origin for import of raw materials has been lifted for export-oriented industries enjoying a bonded warehouse facility (GOB 2002). Import licensing is no longer required for any import into Bangladesh. The role of the Trading Corporation of Bangladesh (TCB), the state trading body, in import and export has been reduced (CSB 2003, GOB 2001). In the import policy, quality control of imported goods has also been strengthened.
- Bangladesh has reduced average tariff rates significantly. The mean tariffs on all products were reduced from 114 percent in 1989 to 22 percent in 1999; and the weighted mean tariff declined from 114 percent to 19 percent over the same period.
- Import taxes, for example development surcharges, regulatory duties and sales taxes, were abolished in 1991 (Mujeri and Khondker 2002; World Bank 1999, 2000).

Tariff Rationalization

During the 1990s, Bangladesh not only significantly reduced its tariff rates but also rationalized the tariff structure. The country progressively moved towards obtaining the goal of simplicity and transparency of customs tariffs. The top custom duty rate came down to 32.5 percent in FY 2003 from 350 percent in FY 1992. The average (unweighted) customs duty (CD) decreased from 57 percent in FY 1992 to 16.5 percent in FY 2003. The average protective tax also declined to 22 percent in FY 2003 compared to 61 percent in FY 1992. Bangladesh progressed a lot towards achieving a degree of uniformity and removing some tariff anomalies that existed due to

higher tariffs on intermediate products compared to final products (Ahmed and Sattar 2004).

It may be noted that Bangladesh's nominal import protection level is now the lowest in South Asia and tariff reduction in the country during the early 1990s is ranked as one of the fastest amongst the reforming countries (Mujeri and Khondker 2002, quoted from CPD 1997). Both nominal and effective protection rates have also declined over the years due to changes in the tariff structure. The effective protection rate declined to 26.8 percent in 1998/99 compared to 33.0 percent in 1995/96 and 75.7 percent in 1992/93 (Mujeri 2000).

Tariff regime has also been simplified. The applied MFN tariff (i.e. general exemption rate) of 2005/06 contains four tariff bands (zero, 6% (basic raw materials), 13% (intermediate goods), 25% (finished goods)) as compared to five tariff bands (zero, 5%, 15%, 25%, 37.5%) in 1999/2000 (GOB 2006).

Export Policy and Reform Programme

With underdeveloped technology and a low capital base, Bangladesh faces great challenges for its exports as the export industries have to compete with those of other countries in the expanding global market. Domestic import-substitute industries are also facing increasing competition as a result of gradual reduction of import duty rates (GOB 2002). So the export industries must survive and expand in order to accelerate growth by generating employment, savings and investment. With this in view, Bangladesh adopted a three-year (2003-2006) Export Policy to achieve certain objectives.

Strategies and Export Promotion Measures

Some strategies have been incorporated in the new Export Policy to achieve the objectives. Some useful export promotion measures have also been undertaken. These are briefly highlighted.

- Use of foreign currency

The exporters can deposit a certain amount of their export earning in foreign currency under a retention quota in their foreign currency account in the form of US dollar, pound sterling, Japanese yen or euro. The amount of the retention (in terms of percentage) will be fixed by the government/ Bangladesh Bank. This foreign currency can be used to fulfil real business needs like business trips abroad, participation in export fairs or seminars in foreign countries, import

of raw materials and spare parts, and setting up of offices abroad (GOB 2003).

- **Export Fund**

Interest free loans will be provided under duty-draw-back credit scheme for 180 days and 100 percent of the loan amount will be provided in advance; import process of raw materials and related products will be made easier under the export promotion fund (EPF); facilities will be provided to open back-to-back LCs for all exportables; and the proposals for importing capital machineries with soft term loan with lower interest rate may be considered for export promotion.

- **Export Loan**

The exporters can get 90 percent of the LC amount from commercial banks under irrevocable letter of credit or confirmed contract. The commercial banks will consider such cases on priority basis; Bangladesh Bank will take steps to continue normal flow of loans in the export sector; the cash credit limit of the exporters will be fixed in view of their success in the previous year; and Bangladesh Bank will launch an export credit cell while commercial banks will set up special units to provide funds for exports.

- **Other facilities**

Among these facilities, exemption of insurance premium, incentives for non-traditional industrial products, bond facilities for export oriented industries, facilities for duty free import of capital machineries for export-oriented industries, tax holiday, duty drawback scheme, easing VAT return on export supplementary services, permission for selling rejected products of export industries, strengthening export related training, setting up of world trade centres, country fair with international standard, relaxing restrictions on importing raw materials for export products, etc. are notable (GOB 2003).

Major Issues, Challenges and Policy Options

Despite the striking export growth rate, 13.83% in FY 2004-05 (GOB 2006), the commodity-concentration and market-concentration of exports have emerged as matters of concern. This excessive dependence on a few export items and markets reflects the vulnerability of Bangladesh's external sector. So export diversification and market diversification continue to remain major challenges.

Domestic supply side constraints are major reasons for a narrow export base. To realize Bangladesh's potential export opportunities, supply-side constraints need to be addressed immediately. Supply-side bottlenecks relate to infrastructure, communications, ports, capacity in implementing export incentive regime, functioning of export-related institutions, and proper governance.

Other reasons for a narrow export base might be the role of real exchange rate and Dutch disease type problems caused by a surge of garment exports and remittances. For example, between 1991 and 1998, the real effective exchange rate in Bangladesh depreciated by a mere 5 percent while depreciation was much faster in some of the competitor neighboring countries; remittances increased to US\$ 1949 million in 1999 from US\$ 764 million in 1991 (Islam, 2003). The nation's major investment efforts were diverted to readymade garment industries and manpower exports especially since the 1980s which seriously hampered the export opportunity of other sectors.

Competitive devaluation of Bangladesh's currency can help increase the export base while tax concession to other potential export sectors can mitigate the Dutch disease-type problem.

The reasons for market concentration of Bangladesh trade is not easy to explain with a particular model such as the gravity model. The basic gravity model explains that trade between two nations is positively related to their income and negatively related to distance between them. Bangladesh's recent import trade especially with India can be analysed from the distance point of view of the gravity model, but not from the income point of view. On the other hand, export trade cannot be analysed from the distance point of view, but may be analysed from the income point of view of the gravity model. A Heckcher – Ohlin type model may also be useful to explain Bangladesh's trade though detailed study and application of these models is beyond the scope of this paper.

Chronic trade deficit is also of great concern. Bangladesh has to take bold steps to improve the situation. Specifically, the huge trade deficit with India is a sensitive issue with a great proportion of the population. To meet these challenges, Bangladesh must adopt appropriate policies. The overall policy framework may be as follows.

- i) An open international trading system must be ensured which would offer fullest access of

Bangladesh exports to international markets. The government should play a major role through dialogue with foreign trading partners.

- ii) Appropriate macroeconomic policies including price stability and an appropriate exchange rate must be ensured. Bangladesh Bank, the central bank of Bangladesh, must take appropriate steps independently in this regard. The government must also contribute by playing a helping role to maintain the price stability. Prudent fiscal policy, for example, would be helpful in this regard.
- iii) Hassle-free regulatory framework in terms of transparent business regulations and simplified export and import procedures must be determined.
- iv) Adequate infrastructure must be built to facilitate the country's exports. Sufficient investments, both from internal and external sources, are vital to improve the existing infrastructure facilities. Foreign direct investment can play a contributory role in this regard. The government must create a favourable investment environment by improving law and order situation and controlling corruption.
- v) Proper quality of exportable items must be maintained to meet foreign demand. Better education and training to the workers and managers in the export industries, establishment of more technical schools and colleges, import of improved technology for export industries, and closed and regular product supervision can ensure the quality of exportable items.
- vi) Government backed trade related services, such as export financing scheme, marketing and distribution services and trade promotion activities are essential. The government must be more supportive of these efforts.
- vii) Close partnership between the Government and the business community is crucial. Honest businessmen, who are really contributing to the economy, deserve all kinds of cooperation from the government. A clear and constructive understanding between these two groups can undoubtedly improve the country's export performance.
- viii) Effective negotiations must be undertaken to have zero-tariff market access with the three developing countries of the SAARC, especially with India. Bangladesh can persuade India by

raising the point that Bangladesh is a big market for Indian commodities. India is the largest import trading partner of Bangladesh. So the import capacity of Bangladesh must be increased for more trade with India.. Easy access of Bangladesh's exportable items to the Indian market will increase Bangladesh's export earnings and enhance import capacity, which will be beneficial for the Indian economy, as Bangladesh can use these earnings for increased imports from India.

- ix) Policy must be pursued for removal of all non-tariff barriers with respect to trade amongst countries of South Asia.
- x) The government and the business community must work hard for export and market diversification. Efforts must be made to increase the export of traditional items. Frequent export fairs through the foreign missions can be helpful to introduce new exportable items to foreign buyers. The search for new markets for Bangladesh's exports should be a continuous task for both the government and businessmen.

Summary and Conclusion

Despite the structural limitations of the Bangladesh economy, the export sector performed well throughout the 1990s. The export growth rate of Bangladesh was higher than the export growth rate of the world and the SAARC countries. The import growth rate of Bangladesh was also higher than that of the world and the SAARC countries during the 1980s and 1990s. Bangladesh's import share as percentage of world and SAARC countries' imports has also increased over the years.

The export-GDP ratio, import –GDP ratio and trade-GDP ratio have increased over the years. The growth rate of export- GDP ratio of Bangladesh was the highest during 1980-2002 among the SAARC countries. However, the balance of trade of Bangladesh remained in deficit. The country also had trade deficits with all SAARC countries while the trade deficit with India is huge.

The export composition of Bangladesh has been changing over the years. The share of primary commodities has decreased, and that of manufactured commodities has increased over the years. In terms of growth rate the performance of manufactured commodities is better than that of primary commodities.

The analysis of import composition revealed that import share of principal primary commodities has declined while that of principal industrial and capital goods has slightly increased over the past years. The import growth rate for principal industrial goods is the highest, followed by capital goods and principal primary goods in FY 1999-2000 and 2001-01. The import share of consumer goods and materials is around two-thirds of total imports and that of capital goods and materials is around one-third of total import over the years. Though import payments also increased with export earnings, the import growth was not as robust as export growth.

The striking features for the Bangladesh's exports are commodity and market concentration. This is the main concern. To address it, there is no alternative but to initiate diversification and quality improvements. New markets for the country's exports must also be explored to secure more stability in the export sector. To reduce the dependence on imported inputs for the readymade garments and knitwear industries, Bangladesh must make massive investments in both yarn and fabric manufactures. This would create forward and backward linkages; and current trade deficit would improve. Furthermore, openness of Bangladesh and its trading partners, infrastructural development, adequate trade related services, appropriate macroeconomic policy and close partnership between the government and the business community are crucial to improve the country's overall trade balance. To improve the trade balance with the SAARC countries, especially with India, further currency devaluation, measures to stop border smuggling, removal of tariff and non-tariff barriers on Bangladesh's exports, arrangement for more Indian investment in Bangladesh and political harmony in the region are vital. A customs union within the SAARC region is likely to offset many of the existing trade related problems.

Endnote

1. SAARC: South Asian Association for Regional Cooperation; member countries are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

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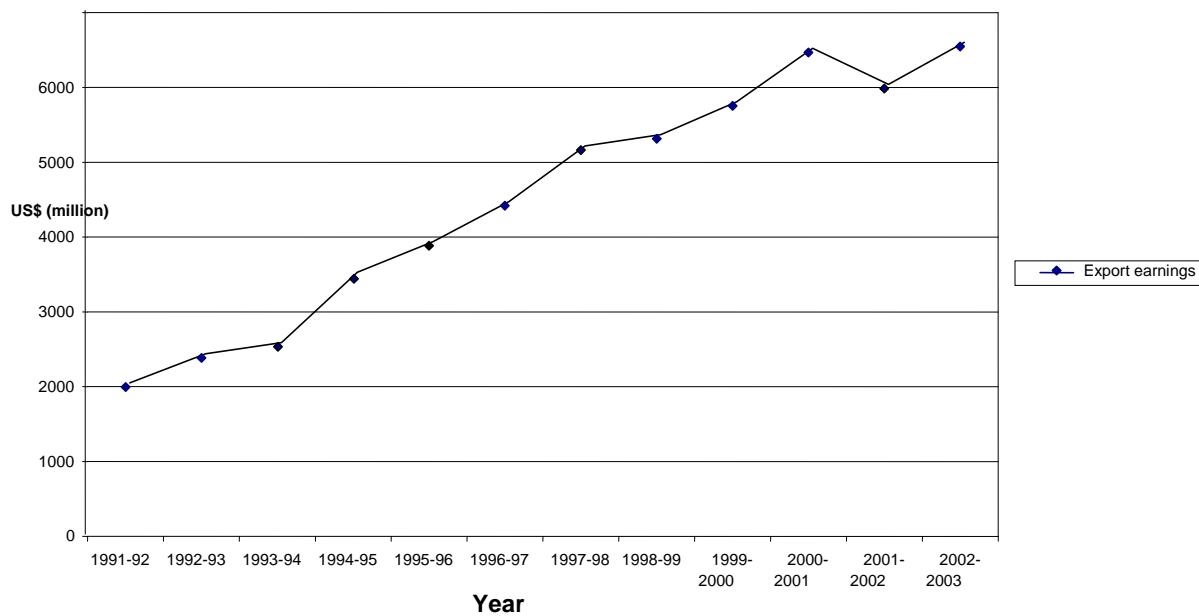
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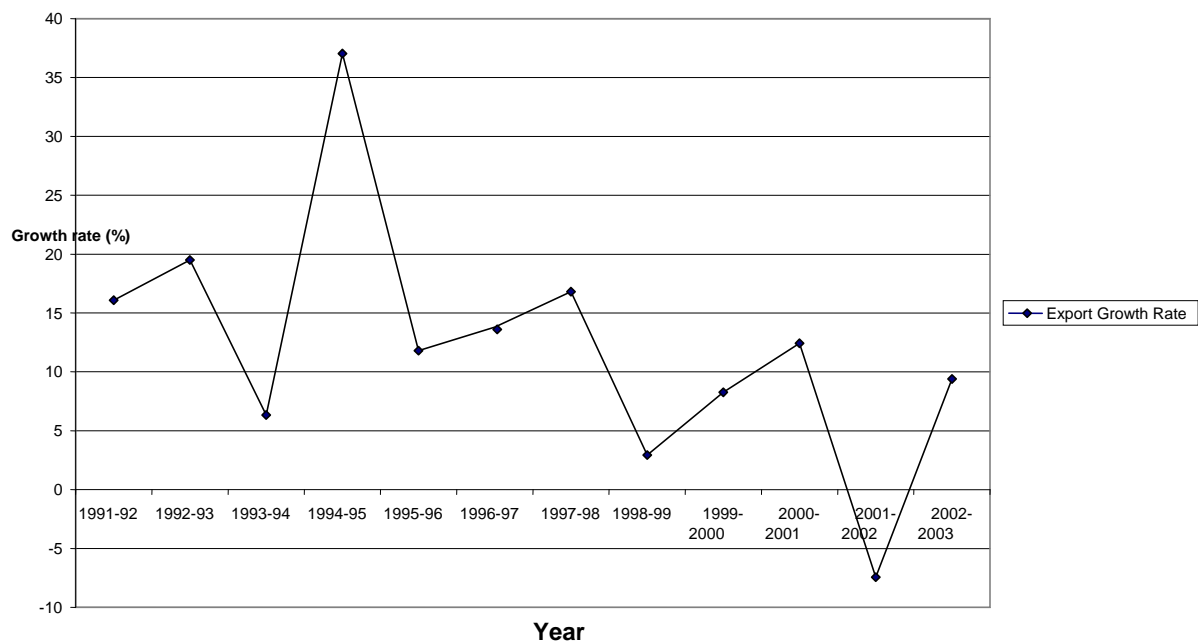
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Chart 1: Export Earnings of Bangladesh: 1991/1992- 2002/2003



Source: Export Promotion Bureau, 2004

Chart 2: Export Growth of Bangladesh: 1991/92-2002/03



Source: Export Promotion Bureau, 2004

Chart 3: Balance of Trade of Bangladesh



Source: Export Promotion Bureau 2004;
Website: [www.epbbd.com / ExportStat.html](http://www.epbbd.com/ExportStat.html)

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