CHAPTER : 7

EXPORT POLICY

7.1 INTRODUCTION

As a part of the government's effort to rationalize trade and industrial policies one area of vital importance deserving close prior attention is the export regime. For a good number of reasons export development is crucial to enhancing the objectives of industrial, agricultural and above all economic development of Bangladesh. Exports have lagged considerably behind imports. In a nut shell it may be said that Bangladesh needs to boost up her exports. And in this regards a comprehensive export policy is very much instrumental.

In compliance of the importance, the present Chapter of the study is planned to evaluate the export policy of the country. It will also give a bird's eye view on findings of different studies on exploration of export markets conducted by the Governments to see possibilities of future prospects.

7.2 EXISTING EXPORT INCENTIVES

With a view to help the exporters to overcome the difficulties arising out of relatively narrow export base and make their products competitive incentives are usually provided to exporters. The country has sought to promote export growth by using a combination of policy measures and over time increased the incentives for exporting by improving or extending the scope of the incentives and sometimes by adding new ones to the list. The following incentives are usually provided to exporters:

1. Export Finance

(a) The concessional interest rate of export credit for nontraditional items is 9 percent in general and 7 percent for selected non-traditional items such as light engineering and electrical goods, handicrafts and handloom products. The concessional interest rate of export credit for traditional items (jute, jute goods excluding carpets and loose tea) is 12 percent.

(b) Incremented incentives on interest:

Exporters of non-traditional items that exceed the export earnings of the previous year by more than the anticipated increase in the target set for the sector are eligible for a further reduced rate of interest of 7 percent on exports so exceeded.

(c) Extent of Export credit:

Commercial banks provide export credit to the extent of 90 percent of the value of confirmed and irrevocable L/C (letter of credit) or of the firms sale contract.

(d) Credit to first time applicants:

Commercial banks will not refuse any application for export credit received for the first time.

(e) Back to Back L/C (Letter of Credit):

All authorized dealers (commercial banks) can establish letter of credit (L/C) on a back-to-back basis for the importation of new materials and other accessories from abroad without the prior permission of the Bangladesh Bank for ready-made garments, specialised textiles, household linen and hosiery products. Under this facility, the exporting firm can open an import L/C to the extent of 75% of the net FOB value of export L/C (net of freight, insurance and commission on shipping) covering a use of period of 120 to 180 days. This order to import against an export order provides the exporter in the process an offset to some disadvantage he would suffer if he has to buy the foreign exchange in the Wage Earner Scheme (WES) market to do the importing. The exporter gets in effect a foreign credit for the interregnum between the time he opens the import L/C and the time he can pay the supplier from the proceeds on his export.

(f) Inland back-to-back L/C:

Authorised dealers may also establish an inland back-to-back L/C in favour of suppliers of locally produced materials on the strength of the original L/C opened by the foreign buyer favouring the exporter.

2. Export Performance Benefit (XPB)

Exporters are entitled to receive their proceeds at a rate calculated by adding to the official rate of exchange a premium represented by the proportioned difference between the secondary and official exchange rates as indicated by the percentage of their respective slabs, directly from the commercial banks at the time of negotiating their export documents.

This current export performance Benefit (XPB) system is a modified variant of the earlier Export Performance Licence (XPL) - cum - Import Entitlement Certificates (IEC) system. This had three entitlement rates for product groups : 100%, 70%, and 40% of the FOB value of exports. The maximum XPB entitlement is introduced from 1984 at the rate of 100% of the FOB value of exports to only four product groups, leather goods, finished leather, carpets and packet tea with tea bags. There are 50 product groups including some primary goods which are eligible for XPB entitlement at the rate of 80%, 36 items eligible for a 60% XPB entitlement and all unspecified items including raw jute, jute goods (except carpet, twine, yarn and webbing) and loose tea are eligible for a 40% XPB. This XPB system has been modified later on and three entitlement rates are introduced.

3. Duty drawback schemes

An exporter of manufactured products is entitled to draw back the value of the custom duties, sale tax etc., already paid on the importation of raw materials used in the production or manufacture of the export products. Currently there are three methods, e.g. drawback at actuals, national payment of duty and drawback at flat rate for realizing drawbacks. Payments of drawbakk at the flat rate is made through the exporter's bank in the form of a 100 percent interest-free advance of the eligible amount of drawback. For realizing the duty drawback benefits, exporters are advised to consult the drawback for manufactured Export Rules 1970 and the National payment of drawback of customs duty and sales tax rules 1983.

The main problem with the existing drawback system currently (1986) in force is that it is administratively burdensome. It is especially hard to administer when applied to indirect exporters supplying their products to direct export units. As drawback privileges are obtained only if materials are actually imported, the system is also biased against backward integration.

4. Export Credit Guarantee Scheme (ECGS)

The export credit guarantee wing of the Sadharan Bima Corporation (SBC) provides guarantee to bankers and exporters against possible losses resulting from the advances given and against the overseas commercial and political risks, respectively. Currently three types of guarantee e.g. the export finance guarantee (pre-shipment), the export finance guarantee (post-shipment) and the comprehensive guarantee are available. While the first two types of guarantee are extended to the bankers, the third one is extended directly to the exporters.

5. Concessional Rate of Import Duty

(a) Capital Machinery:

Currently, capital machinery for export-oriented industries is allowed to be imported at a concessional rate of 2.5 percent import duty.

(b) Spare parts:

Drawback of imports duties and sale tax paid in excess of 2.5 percent on the importation of spare parts is granted to actual export-oriented industries, provided that such spare parts are not produced within the country.

6. Income Tax Rebate

Exporters of various categories are entitled to an income tax rebate varying in percentage, depending on their export performance as fixed by the NBR from time to time. The export rebate is varied according to the proportion of the exporter's total output which is actually exported and ranges between a minimum of 30% and a maximum of 60% of the tax payable, the minimum being applied when export sales exceed 10% but do not exceed 20% of total sales of the exporting firm. The benefit the exporter receives on account of the income tax rebate depends on several factors: profit on export, the rate of the rebate he is entitled to, the effective rate of income tax he is otherwise liable to pay corresponding to the taxable income he has, etc.

7. Rebate on Insurance Premium

Special rebates are allowed to export-oriented industries (non-traditional items) in respect of their premium payments for fire and marine insurance and to the exporters of such products against goods shipped for exports.

8. Freight Rebate

Special inducement and promotional freight rates are provided to exporters by the Bangladesh Biman Airlines and the

Bangladesh shipping corporation.

9. Export Incentives for Deemed Exporters

Locally produced materials used as direct inputs for the manufacture of export products or for products supplied against international tenders for local product procurement in foreign currency are regarded as "deemed exports" and qualify for all the export incentives and facilities such as duty drawback, XPB etc. that are extended to direct exporters.

10. Secondary Exchange Rates for Export of Services

Remittances against the export of services in the form of technical advice, consultancy, construction work etc. undertaken by Bangladesh companies/firms abroad are paid at the secondary exchange rate.

11. Monitoring of Export Credit

A special credit cell has been created in the Bangladesh Bank to monitor and supervise the operation of export financing on a continuing basis. A special unit has also been set up in each commercial bank to deal with export credit needs.

All the export incentives measures discussed above were in existence during financial year 1985-86. The policies continues in 1986-87 with some modification. During pre-independence time the government of Pakistan used to provide the following incentive measures for export sectors:
(1) Export bonus scheme, (2) rebate of import duties on raw materials used in export industries, (3) rebate of direct taxes in export industries, (4) exemption of exported goods

from domestic sales and excise taxes and (5) the use of special permission to import by exporting firms. The objectives of those export incentive measures was to help the industrialisation of West Pakistan and to use Bangladesh as market of industrial goods of West Pakistan.

After independence the government of Bangladesh has radically changed the export incentive measures used during pre-independence period. Efforts have been made to widen the scope of export incentive measures and to make their impact effective to accelerate export-oriented industrialization in the economy. Our foregoing discussion presumes that the quantative aspects of the export incentive measures used in the country quite comprehensive. But how far they are sound from qualitative point of view that is to be judged in succeeding analysis.

7.3 EXPORT POLICY OF BANGLADESH : 1986-1987

The following objectives of Bangladesh export policy were prescribed by the Ministry of Commerce, Government of the People's Republic of Bangladesh for financial year 1986-1987.

1. To increase the total export earnings to contribute effectively to the balance of payment support in conformity with the Third Five Year Plan objectives;
2. To strengthen the product base of exportable commodities in order to generate sufficient surplus for exports;
3. To raise the value added component in exports by promoting backward linkage of finished products with domestic inputs;

4. To ensure closer co-ordination with industrial and credit policies in order to provide an integrated and more effective incentives system for exports;
5. To improve the share of non-jute, non-traditional and manufactured items in total export efforts;
6. To assist the traditional sector particularly jute goods to overcome the crisis presently being faced by the industry;
7. To simplify the export procedures and further rationalise and improve the administration of export incentives.

To achieve the aforesaid export objectives it has been decided by the Government that not only the existing incentives, unless modified, will continue but also some more export incentives as detailed below will be available to the exporters:

(a) Export Finance:

(1) <u>Normal credit flow to the export sector</u>:

In the interest of unhindered growth of export the Bangladesh Bank will ensure that the normal flow of export credit is maintained and no credit squeeze is applied in the export sector. The cash credit (C.C.) limit in the import sector will be determined absolutely on the basis of the export performance of the concerned exporter during the proceeding year and will not be subject to any general credit restrictive measures.

(2) <u>Working capital to leather and leather goods industries</u>:

To simplify and streamline the operational procedures of the delivery of working capital at concessionary rate of interest and also to give impetus to the faster growth of the sector. Bangladesh Bank will examine the possibility of providing working capital to the finished leather and the leather goods industries at 9% interest straight away, instead of the present practice of providing the same at 14% interest initially subject to refund of 5% on completion of export.

(3) Working capital to export processing zone (EPZ) Industries:

The facility of providing working capital at 9% rate of interest to some industries within the country will also be available to some industries in EPZ with 100% Bangladeshi ownership.

(4) Overdue Interest:

To protect the interest of the exporters and also to save them from financial loss, Bangladesh Banks will issue clear instruction to the effect that no overdue interest shall be charged by any commercial bank, if the export is affected under irrevocable and confirm L/C on the basis of sight payment. This will not however apply if the repatriation of sale proceeds is delayed on account of the failure of the exporter to submit export documents to the bank in proper form and in time.

(5) Monitoring of Export Credit:

To help streamline the problem and bottlenecks on the way of smooth flow of export credit a high level committee with Governor, Bangladesh Bank as Chairman; Secretary, Ministry of Commerce; Secretary, Finance Division; President, Federation of Bangladesh Chambers of Commerce and Industry and Vice-Chairman Export Promotion Bureau as members will be constituted to identify the export credit requirements, review and monitor the flow of export credits and suggest appropriate measures so that the exporters can obtain adequate credit in time. The Committee will meet at least once in every three months.

(b) In matters of providing investment loans the Department of Finance and Investiment (DFI) will assign the highest priority to the export sector and at least 80% of their investible fund shall be earmarked for new as well as BMRE projects for sustained growth of export oriented industries in the country.

(c) Foreign Exchange for Business Trips abroad:

In view of the manifold increase in the overseas living expenses the entitlement rates of foreign exchanges allocation for undertaking business trips aborad will be revised to the advantage of exporters as follows:

(i) for new comers at a rate of $ 90 per day subject to a maximum of $ 3000 per annum.

(ii) for exports upto TK. 2.5 million during the proceding financial year an amount not exceeding $ 4500 per annum.

(iii) for exports exceeding TK. 2.5 million but within TK. 50 million @ 1% of f.o.b. value of exports subject to a minimum of $ 4500 and maximum of $ 11,000 per annum.

(iv) for exports exceeding TK. 50 million but within TK. 100 million @ 1% of f.o.b. value of export subject to a minimum of $ 18000 per annum.

(v) for export exceeding TK. 100 million a fixed amount of $ 25000 per annum.

The foreign exchange for undertaking business trips abroad as per rules mentioned above will henceforth be available under wage earner scheme (W.E.S.) only.

(d) Export Performance Benefits (XPB):

The XPB scheme will continue with the existing three entitlement rates of 100%, 70% and 40% subject to the following changes:

(i) Inclusion of new items:

On the basis of value addition and to make the product base wider, some new non-traditional items like cutflower, green plants, flower broom sticks, furforal iron scale ash, vitrified clay pipe, coffee, tea, waste and nylon waste have been brought under 100% XPB entitlement.

(ii) Upgradation of selected items:

The XPB entitlement rates of tobacco and jute yarn and twine have been enhanced from 70% to 100% and that of hessian and sacking from 40% to 100% in order to make their products competitive in the international markets.

(iii) Higher XPB for use of local fabrics:

To encourage backward integration and discourage the use of imported materials the XPB entitlement rates for readymade garments/hosiery and knitwear/silk products/specialised textiles and household linen have been enhanced to 100% in the case of the use of local fabrics and reduced to 40% in case of the use of imported fabrics.

(iv) XPB for units producing both raw materials and export products under the same management:

A unit producing intermediary goods and supplying the same to itself or to its sister concern under the same management for manufacturing exports products will also be entitled to the XPB benefit considering such supply as deemed export. The XPB for finished export products will be provided separately. This will apply in the sectors of readymade garments, including handgloves, knitwear, hosiery goods, silk products, specialised textile and household linen as well as leather goods.

(e) Duty drawback:

To streamline the payment of drawback to the exporters National Board of Revenue (NBR) will ensure:

(i) prompt updating the existing drawback rates

(ii) speedy introduction of new rates for new items of exports

(iii) further simplification of the drawback payment procedures.

(f) Duty and Taxes:

(i) Refund of excise duty on packaging materials:

To encourage the exporters to use local packaging materials and also to make their products price competitive, excise duty paid on hessian cloth and jute bag used as packaging materials for the export goods will be refunded.

(ii) Duty free import of samples by garment industries:

To help develop and diversify export items in the garment sector, duty free import of at least two samples will be allowed per design, per year per exporter subject to a minimum of 30 designs and on condition that the same will be defaced and cut at the customs entry point.

(g) Alternative Incentives:

(i) Cash assistance to garment industries:

To encourage the exporters further to use local fabric and also to simplify the existing incentives realisation procedure cash assistance of 15% of the f.o.b. value of export will be provided to those garment industries which will not avail of bonded warehouse/duty drawback facility. Such industries will however be eligible for all other incentives including XPB.

The new incentives will be available side by side with existing package of incentives and the exporters will be free to opt for either of the two alternatives.

Bangladesh Bank will work out the detailed modalities of the new incentives.

(ii) Incentives on net foreign exchange earnings:

As another alternatives to the existing incentives system and to provide sufficient encouragement for backward integration in different export sectors appropriate incentive scheme will be introduced on the basis of net foreign exchange earnings in lieu of all other export incentives except bonded warehouse/duty drawback facilities. Sectors to be covered by this alternative export incentives scheme will be indentified in phases and modalities including calculating the net exchange earnings will be worked out by Bangladesh Bank in consultation with Ministry of Commerce, National Board of Revenue (NBR), and Export Promotion Bureau (EPB) in due course.

Non-Financial Measures

(i) Quota guarantee for Readymade garments made of local fabrics:

As a measure of additional encouragement and for facilitating the use of local fabrics cent percent quota shall be guaranteed for export of readymade garments made out of local fabrics.

(ii) Import of banned item by export sectors:

To facilitate the export production the export oriented industries will be allowed to import raw materials under banned/negative list against export order and under bank guarantee. Such importation will be allowed by Chief Controller of Imports and Exports (CCI and E) on recommendation from Export Promotion Bureau (EPB).

(iii) Customs clearance at Dhaka Foreign Post Office:

To help promote the export of books and periodicals the facility of observance of customs formalities at Dhaka Foreign Post Office will be restored.

(iv) Thrust Sector:

In order to introduce dynamism in the implementation of Export policy it has been decided that from now on one/two sectors be identified for accelerated development and all out efforts be made for harnessing the potentials of the concerned sector(s) to the fullest extent through concentrated and co-ordinated attention. The frozen food sector has been earmarked as the thrust sector for 1986-1987 and the following special measures will be taken for the fullest exploitation of the potentials of this sector:

(a) High Level Monitoring Committee:

A high level committee with Minister for Commerce as its

Chairman will be constituted to assess the development requirements of the sector to arrange for necessary inputs for increased production, ensure implementation of various hatchery/culture projects, look into the problems faced by the sector, take measures for their removal and monitor the export marketing on a regular basis.

(b) Shrimp culture Insurance:

Shrimp culture insurance will be introduced like other insurance to reduce risk of investment.

(c) Frog culture:

Immediate steps will be taken for scientific culture of frogs to augment frog production for export of frog legs.

(d) Setting up a quality control and testing laboratories:

Establishment of quality control and testing laboratories at Chittagong and Khulna with all the modern facilities will be expedited.

(e) Facility for Import of Essential Spares:

Essential spares under this Sector will be allowed to be imported by the producer exporter himself as accompanied baggage through pass book entry subject to a maximum value of $ 1000 per year and on payment of usual duty without undergoing the normal import formalities.

(f) Facility for Import of Reefer Van:

Each processing plant will be allowed to import a Reefer Van upto 5 tons capacity at a reduced rate of import duty of 30 percent only.

(v) Export House:

Export houses have emerged in the recent years in many of the developing countries as positive mechanism to boost up the export trade of the country. In Bangladesh however no firm has yet been formally recognised by the government as export house although Trading Corporation of Bangladesh (TCB) in the public sector and some big firms in the private sector have assumed the role of Export Houses. Considering the pioneering role being played by Export House in other developing countries it has been decided that Export Houses be established in both the public and the private sectors and a package of incentives be devised for these houses for encouraging them to play an effective role in furthering the export growth of the country.

With this end in view a high level committee with the Governor, Bangladesh Bank as Chairman and Secretary, Ministry of Commerce, Chairman, National Board of Revenue (NBR), Vice-Chairman, Export Promotion Bureau (EPB) and Chairman, Federation of Bangladesh Chambers of Commerce and Industries as members has been constituted to identify the firms to be designated as Export Houses and devise the package of incentives to be provided to these houses.

From the export policy 1986-1987 it seems that the same incentives already existent have been modified and some new incentive measures have been adopted during the said year. Still they are not sufficient to provide adequate incentives to export production. World Development Report 1987 stated that Bangladesh followed most inward oriented trade strategy.

7.4 PRODUCT SPECIFIC DECISIONS

a. Jute Goods:

(i) Long term Jute Policy:

A long term jute policy covering production, pricing, marketing etc., will be formulated for ensuring stability in the export of jute sector.

(ii) Extension of time limit for Export Registration Form (ERF) and sales proposal:

Bangladesh Bank will enhance the existing time limit for submission of Export Registration Form (ERF) and sales proposal from 30 days to 60 days and 48 hours to 72 hours respectively to provide reasonable time for facilitating the negotiation of export contract.

b. Tea:

The main objectives of tea policy were:

(1) To increase production to provide for more exportable surplus.

(2) To maintain quality of tea and improve it further

(3) To explore new markets with a view to boost up exports.

Measures for Export Promotion of Tea

To further encourage export of tea the following decisions have been taken:

(a) Financial Incentives:

(i) Withdrawal of export duty on tea:

Export duty on tea at TK 3.00 per kg. has been abolished to make Bangladeshi tea more competitive in the world market.

(ii) Packet Tea:

In order to impart sharper competitive edge to the item XPB entitlement has been raised from 80% to 100% for packet tea. The XPB entitlement for tea bags in packet will continue at 100%.

(iii) Experimental consignment of Packet Tea:

To help exporterns explore newer markets experimental consignments of packet tea of value not exceeding $250 FOB at a time may be sent without opening L/C.

b. Non-Financial Measures

(i) Market development:

To help introduce and popularise Bangladeshi tea in the hitherto unexplored market, delegations, composed of representatives of the Trade as well as the Government will be sent abroad and week-long Bangladeshi tea festival will be held in at least two prospective markets.

(ii) Quality improvements:

To ensure the maintenance of quality of tea and its further improvement Bangladesh Tea Board will see to it that the guidelines prescribed in the policy measures are strictly observed by all concerned.

c. (Measures to Enhance Production:

(i) Long term lease:

To encourage further investiment in the gardens, the existing decision to grant lease for 35 years should be implemented expeditiously and was to be completed by 31st January, 1986.

(ii) Less Developed Gardens:

To make less developed gardens viable and increase their per hectare yield, the feasibility study to bring those estates under Bangladesh Tea Rehabilitation Project (BTRP) will be continued. Along with it, Bangladesh Tea Board will ensure that deserving gardens are able to utilize the credit facilities made available by all nationalised commerical banks and Bangladesh Krishi Bank.

(iii) Establishment of new Gardens:

It has been decided in principle to encourage the setting up of small and family size gardens in the prospective areas of Chittagong Hill Tracts region.

(iv) Experimental Gardens:

In order to establish the viability of tea plantations in new areas 2 experimental gardens each of 10 hectares, will be set up at Tetulia in Penchagar District and Garo Hills area in greater Mymensingh District under the Supervision of Bangladesh Tea Board and it will also bear the necessary expenditure in this connection.

(v) Survey at Nilphamari Border:

As a part of the extention scheme, feasibility study will be undertaken by the Bangladesh Tea Board in the northern part of Nilphamari district to assess the suitability of tea plantation in the area.

(vi) Supply of Gas to Tea Garden:

In addition to gas connection already made to 20 gardens action is underway to supply gas to 57 more gardens in the second phase. Steps should also be taken to expeditiously supply gas to the rest of the gardens in Sylhet and Chittagong area.

(vii) Supply of Fertiliser:

Since the annual requirement of 18 thousand metric tons of fertilisers cannot be met by the Fenchugong Fertilizer Factory, Bangladesh Cha Sangshad will be allowed to import upto 9 thousand metric tons under Wage Earners scheme with clearance from the Bangladesh Tea Board.

e. Leather: More Fund for BMRE Projects:

The DFIs will make more funds available for BMRE projects under this sector for faciliting speedy switch over from wet-blue to crust/finished leather processing.

d. Readymade Garments:

(i) Establishment of aceessory Industries:

Serious efforts will be made to establish complementary accessory processing industries to help increase value added components in the garment sector.

(ii) Alternative mechanism for Import of Fabrics:

A suitable mechanism will be devised for import of fabrics for production of readymade garments for export where the use of back to back L/C is not applicable.

e. Handicraft and Handloom:

(i) Income Tax Exemption:

All income arising from export of handicrafts shall be exempted from income tax.

(ii) Duty free import of Samples:

Recognised manufactures/exporter under this sector will be allowed to import duty free samples upto $ 300 per year for facilitating the development and adoptation of export products.

(iii) Export of Samples:

Exprcters of this sector will be allowed to send samples to overseas buyers valueing upto TK 1000 without any official recommendation. Samples valueing between TK 1001 and TK 2000 may be sent under certification from Export Promotion Bureau (EPB), beyond which the permission of Chief Controller of Import and Export (CCI & E) and Bangladesh Bank will be required.

(F) Infrastructure Support Services:

(i) Infrastructure:

Uninterrupted power supply to export industries: The existing policy decision regarding uninterrupted and regular power supply to export oriented industries will be strictly adhered to for purposes of ensuring unhindered production of export and maintaining delivery schedule.

(ii) Support Services:

(a) Increasing sailing to important destinations:

Bangladesh Shipping Corporation will take measures for increasing the frequency of sailings to important export destinations.

(b) Improvement of port facilities:

The port authorities will provide improved port facilities for purposes of cargo handling for exports.

7.5 EXPORT POLICY UNDER THIRD FIVE YEAR PLAN

To promote exports and to achieve desired diversification the second five year plan 1980-1985 pursued a flexible exchange rate policy. In general the exchange rate policy was directed to encourage a shift of resources more into the sectors which produce traded goods in order to achieve a structural adjustment in the external sector.

The second plan formulated a more liberal import policy to gear up the export oriented manufacture sector as compared to the one followed during first plan.

The third plan 1985-1990 formulated import-export policy to reflect national development programme and priorities and encourage more efficient use of limited resources. It was expected that both these objectives would be better served through pursuing a liberal import policy which would allow market to allocate scarce foreign exchange resources. This was also consistent with the policy for development of the private sector. During the second plan considerable progress was made in this direction and liberalization is being continued. Within this broad principle import as well as export problems would have to be managed with the ultimate objective of redemption of balance of payment crisis and addressed through exchange rate and tariffs so that unnecessary imports were discouraged and exports were encouraged. In this regard the aid was to be directed to ensure supply of those new materials which are not locally available so as to make fuller use of existing industrial capacities, to eliminate unfair competition between local products and imports, to avoid protection of inefficiency in the industrial sector and above all to improve the condition which will make the export markets as attractive to local products as the domestic markets so that export import gap is contained within the limit of available aid. To this end such policies as protection, tariffs, export performance benefits, duty drawback, concessional rates of interest for export and exchange rate will need to be closely followed and evaluated in terms oftheir impact on balance of payments situation. Since exports will continue largely to depend on primary commodities and goods processed there of, it was to recognise that the balance of payments would be crucially dependent on the management of foreign exchange reserve of the country in relation to fluctuation in export earnings. It focussed on satisfying critical level of import need of the economy rather than allowing import to fluctuate with export and thereby transmitting such fluctuations to other sectors of the economy.

7.6 ASSESSMENT AND REVIEW OF OVERALL ASISTANCE TO EXPORT DEVELOPMENT:

Government assistance to exports can be assessed in the same way as assistance to import substitution by measuring the effective rate of protection (ERP) the exporting activity receives. The ERP is a measure of the additional income that asistance policies enable an activity to pay to factors of production (value added) compared to what it could pay without any assistance. In an unassisted situation an activity is assumed to be able to buy inputs and sell outputs at border prices at the official exchange rate. Taxes on inputs and outputs represent negative assistance whereas export incentives provide positive assistance. Trade and Industrial Policy (TIP) studies of the Government show that current policies add up to a range of less than zero to 28 percent effective protection on assistance for export activities.

In a few product specific cases such as readymade garments, specialized textiles and hosiery products ERP ranges between 10 and 28 percent. In such cases, non-trade assistance measures such as credit subsidy, income tax rebate and reduced tariff on machinery imports can boost - overall level of effective assistance to between 17 and 40 percent.

This relative higher range of assistance is enjoyed by a few export activities with low levels of domestic content which enjoy bonded warehouse privileges in conjunction with export benefits. Most export activities receive much less assistance for the following reasons (TIP paper, 1986):

"(a) Measures other than the bonded warehouse system such as duty drawbacks work imperfectly and do not provide full offset on the taxes paid on imported inputs,

(b) Most export activities do not have full access to foreign exchange at the official exchange rate and

(c) Few if any export activities have unrestricted access to importable materials due to control on imports".

The modest effective protection received by typical export production activities contrasts with a much higher average effective rate of protection (ERP) received by import substitution industries. The average ERP of export sectors is estimated at around 11% whereas for import substitution sector it is over 134% (TIP Paper, Year 1985). If the export assistance is judged in the light of the fact that the general system of protection keeps the real exchange rate lower than it would otherwise be, it can be said that current policies actually discourage most potential exports. Furthermore since export incentives are generally granted on a case by case or firm by firm basis potential exporters have no assurance of receiving even existing benefits.

The effects of direct export incentives can be incorporated into real effective exchange rate (REER) which shows how much a representative exporter actually receives in taka from a dollar's worth of exports.

In calculating the REER the nominal exchange rate is adjusted for the rate of domestic inflation relative to that in Bangladesh's trading partner countries and for changes in the relative values of these countries currencies. The resulting real trade weighted exchange rate is then converted into REER by including the effects of export subsidies and taxes (if any). The REER for imports can be calculated in a similar way to show what a representative import actually pays in taka for a dollar's worth of imports. Comparison of REER for exporters with the REER for imports shows how much nominal protection or assistance an average exporter receives relatively to what a typical import substituting activity receives (See Table : 7.1).

The most striking revelation in the table is that real trade weighted exchange rates for both imports and exports were about the same in 1984-1985 as they were in 1976-1977. despite the major depreciation of the nominal taka/dollar exchange rate during this period. The main reason is that the rate of inflation in Bangladesh exceeded that in trading partner countries by a wide margin eroding the value of the taka in international trade. The REER for non-traditional exports has done some what better than the real trade - weighted exchange rate (RTWER) since introduction of the XPL scheme in 1979-1980. The percentage difference between the REER and the RTWER, which showed the impact of direct export incentives has also been rather unstable, largely because of fluctuations in the premium of the WES over the official rate of exchange.

Table : 7.1

Real Effective Exchange Rates for imports and non-traditional Exports:

Taka per U.S. dollar

Year	Import Exchange Rate			Non-traditional Export Exchange rates		
	Real trade weighted RTWER	REER	Percentage difference	RTWER	REER	Percentage difference
1973-74	7.97	9.72	22.0	7.97	7.97	0.0
1974-75	7.41	8.69	17.0	7.45	7.45	0.0
1975-76	[illegible]	15.22	19.3	12.90	12.90	0.0
1976-77	13.97	18.23	30.5	14.07	14.07	0.0
1977-78	13.69	17.79	30.0	13.74	13.74	0.0
1978-79	13.62	18.07	32.7	13.68	13.68	0.0
1979-80	13.49	17.11	26.8	13.71	14.36	4.7
1980-81	13.40	17.35	29.3	13.63	14.08	3.3
1981-82	14.90	18.55	23.7	14.88	15.53	4.4
1982-83	16.22	19.88	22.6	15.72	15.85	0.8
1983-84	15.34	19.13	24.7	14.94	15.82	5.9
1984-85	13.07	16.42	25.6	12.68	13.73	8.3

Source: TIP paper, "Foreign Exchange Regimes and Industrial growth in Bangladesh" Doc. TIP_MU_H.1 Table 3, 5 and 8. (Bangladesh Planning Commission).

Comparison of the REER for non-traditional exports with that for imports shows that government trade policy is heavily biased in favour of import substitution. In 1984-85 the difference between the REER and RTWER for imports which reflects the average rate of nominal protection on assistance that import substituting activities receive 25.6% compared to a difference of only 8.3% for non-traditional exports. The bias infavour of import substitution has diminished since the mid 1970s especially if account were taken of the probable decline in scarcity premia following relaxation of quantitative import restrictions. It was not possible however to include scarcity premia in the calculation of the REER for imports. If their impacts were included in the REER for imports, there would be an even larger gap between the level of assistance given to import substitution and exports in 1984-1985 than shown in table 7.1. Besides this fundamental inadequacy other short comings of the existing export policies are: (a) They not only provide too little assistance to backward integration but they have built-in biases against it;
(b) They provide inadequate assistance to sales in foreign exchange under international tender;
(c) The overall level of assistance is unstable due to fluctuations in the premium of the WES exchange rate over the official exchange rate; (d) Effective implementation of some of the measure is unsatisfactory and (e) Institutional support for promoting foreign investment, joint-venture projects, market development and other related matters is weak.

7.7 REVIEW OF DIFFERENT EXPORT PROMOTION MEASURES

The current incentives have been aimed at especially increasing non-traditional exports. Besides the XPB other important measures used to include provisions of (i) access to tax free imports of intermediate inputs used in export production by a variety of measures; (ii) an easier access to imported inputs for some special products, (iii) a more liberal and subsidised access to credit, (iv) reduced taxes on machinery imports and (v) special income tax concession. In addition a somewhat flexible exchange rate policy is being followed. The overall effect of the current measures for various types of export production can be measured by employing the concept of effective rate of subsidy (ERS) which is broader in its coverage of incentives than the effective rate of protection (ERP). Effective rate of protection (ERP) covers only trade assistance whereas effective rate of subsidy (ERS) include in additon non-trade assistance.

A brief note of the individual incentives and their quantitative implications for assistance effects are presented below:

<u>Bonded Warehouse facility</u>: Export units which can receive this facility can import their input requirements (with a few exceptions) tax free. Since this facility is liable to abuse in the form of illegal leakage into the domestic market it can confer some additional benefit on the user in addition to the tax offset. It is notable that absence of full tax offset on inputs results in a negative effective assistance to the export unit and full tax offset in zero assistance. In this sense the benefit produced by bonded warehouse system is something positive which is indicated by 0+. The bonded facility is or can

be available to only a few export products which include ready-made garments, specialised textiles and knitwear and from 1985-1986 leather goods.

<u>Duty Drawback</u>: Export units not being able to avail themselves of the bonded warehouse facility are entitled to some variant of a duty drawback or import taxes exemption or refund system. For many reasons this system has not worked very well (TIP paper 1984), and because of the less than full tax offset export units receive under this system, the quantative measure of this effective assistance is less than zero (0^-).

<u>XPB</u>:

The benefit on this account depends on the export performance benefit (XPB) entitlement rate and difference between the official or primary exchange rate and the wage Earner Scheme (WES) or secondary exchange rate. Currently, the difference between the official and WES exchange rates is 11.6 percent. Estimation of the benefit is done on the basis 100% XPB (on gross exports) produces a benefit equivalent to some 10% of the FOB value of exports and a 70% XPB produces a benefit equivalent to 7% of the value of exports. In terms of value added effective assistance would depend on the value added to output ratio. With a 30% value added to output ratio 100% XPB results in a 33.3% effective assistance and 70% XPB in 23.3% effective assistance.

<u>Other Incentives</u>:

A back-to-back L/C in its absence a full cash import license enables producers to import their requirements at less cost than if they have to import under WES. Full absence or partial lack of this facility provides some disincentives or negative assistance. The back-to-back L/C system is being used by the garments exporters. This facility can also be enjoyed by the leather products manufacturer. Other producers are mostly unable to avail of this facility as this depends on the availability of foreign credit which is available only for duration which is generally too short for most production processes from export order to export delivery. They also hardly receive full cash import license for all their imports requirements. Other benefits include availability of bank credit at lower interest rates and income tax concessions on export sales. However, one enquiry with manufacturers seems to suggest that they are not either very familier with or cannot fully avail of this officially available benefits (Siddiqui H.G.A., EPB undated). Another benefit is the concessional duty at which export units can import their machinery. Here the benefit is estimated by regarding the absence of the investment incentive as a negative assistance. The investment incentive is measured as a differential incentive export producers receive compared to the treatment received by the producers of imports/competing goods.

A quantitative evaluation of all the export incentives has been done in Table 7.2 for readymade garments, specialised textiles and hosiery products.

Table 7.3 gives some idea of the overall assistance received by industries in general. As can be seen from Table 7.2 current export promotion measures provide an overall effective assistance of some 40% to readymade garments, about 28% to hosiery products and some 17% to specialised textiles. Readymade garments receive a fairly high effective assistance due to a low value added to output ratio. The effective assistance to other products in general is considerably lower.

In Table 7.3 we look at the level of effective assistance which is generally available to exporters who have not yet received any bonded warehouse arrangements, who cannot avail of the special back-to-back L/C arrangement or do not get the compensating full import license benefit and who can be assumed as not benefiting from the investment incentives. The orders of magnitude of effective assistance to export industries in general barring a few of them as depicted in Table 7.3 present a general picture of rather too light an assistance being received by export industries from the existing policies. The average level of effective assitance seems to lie somewhere around 15%, while the lowest level appears to be near zero or even negative.

The implicit disadvantage due to the probable exchange rate distortion appears either to offset or outweigh the effect of the current export promotion measures as can be seen in Table 7.4. This table also illustrates that activities using domestic inputs are seriously disadvantaged.

The review of effective assistance to export production in Bangladesh leads to some major remarks.

1. The upshot of the discussion is that even though a wide array of incentives are being used, the export sector in the country is not being adequately encouraged. The current export incentives confer some sizeable benefits on only a few industrial activities such as readymade garments, finished leather and leather goods, some specialised textiles etc., which have been able to take advantage of such benefits as bonded warehouse facility, back-to-

Table : 7.2

Assistance received by Readymade garments, specialised textile (including household lenin and hosiery products) in %

Types of Incentives	Readymade Garments NRS on output	NRS on input	ERS	Specialised Textile NRS on output	NRS on input	ERS	Hosiery Products NRS on output	NRS on input	ERS
Bonded ware House	-	0^-	0^+	-	0^-	0^+	-	0^-	0^+
XPB	7	-	28	7	-	17.5	7	-	20.0
Back-to-Back LC or Cash Licence	-	0	0	-	5	-7.5	-	0	0
Credti subsidey	(1.17)	-	4.7	(1.17)	-	2.9	(1.17)	-0	3.3
Income tax rebate	(1.8)	-	(7.2)	(1.8)	-	4.5	(1.8)	-	5.1
Investment Incentives	0	-	0	0	0	0	0	0-	0
Total			39.97			17.4+			28.4+

Source : TIP paper, "Export performance and prospects and government policy to promote exports in Bangladesh" Bangladesh Planning Commission, July, 1985.

Note : Value added proportion in readymade garments using imported materials is taken at 25% as accepted by the authorities. For specialised textiles it is some 40% which for hosiery it is assumed at 35%. Specialised textiles are assumed as unable to avail of the benefit of back-to-back LC, but considered as receiving 50% cash import license. XPB entitlement rate of readymade garments and hosiery products using imported fabrics is 70% while for specialised textiles it is higher at 100%. XPB rates have been introduced for readymade garments and hosiery products which use local fabrics, but this higher rate would compensate for part of the higher cost of local fabrics due to taxes on its inputs.

Table : 7.3

Effective Assistance of Exports in the general category:

ERS in %

	100% XPB		70% XPB		40% XPB	
	VA 35%	VA 30%	VA 30%	VA 25%	VA 25%	VA 20%
Duty draw back	0-	0-	0-	0-	0-	0-
XPB	28.6	33.3	23.3	28	16	20
Cash Import License	-9.3	-11.7	-11.7	-15	-15	-20
ERP	19.3	21.6	11.6	13.0	1.0	0
Credit subsidey	3.3	3.9	3.9	4.7	4.7	5.9
Income tax rebate	5.1	6.0	6.0	7.2	7.2	9.0
Investment Incentives	-9.1	-10.7	-10.7	-12.8	-12.8	-16
Total	18.6	20.8	10.8	12.1	0.1	-1.1

Source: TIP paper, "Export performance and prospets and government policy to promote exports in Bangladesh" (DOC TIP_MU_G.4). Bangladesh Planning Commission. July 1985.

Table : 7.4

Effective Assistance to Export Production with connection for Exchange Rate Distortion

	Existing situation		Shadow price of FE=1.20	
	Situation:1	Situation:2	Situation:1	Situation:2
Out of value	100	100	120	120
unassisted XPB	7	10	-	-
(70% or 100%)	107	110	120	120
Input costs traded (at official exchange rate) Tariff included	95	51	114	61
Input costs traded domestically purchased	-	44	-	53
Add.Import cost with no licence benefit	6.5	3.5	-	-
Input costs non-traded	5	5	5	5
Duty drawback	-30	-16	-56	-19
Licence benefit	-3.3	-1.7	-	-
Total input cost assisted	73.2	85.8	83	100
Assisted value added	33.8	24.2	37	20
Unassisted VA	30	30	37	37
ERP unadjusted	12.7%	-19.3%	23%	-33%
ERP adjusted	-8.6%	-34.6%	0%	-46%
Credit subsidey	1.17	1.17	1.4	1.4
Income tax rebate	1.8	1.8	2.0	1.1
Investment incentives	-3.2	-3.2	-3.8	-3.8
Assisted VA+ Returns	33.57	23.97	36.6	18.7
ERS unadjusted	11.9%	-20.1%	22%	-37.7%
ERS adjusted or net	-9.3%	-35.2%	-1.1%	-49.5%

Source : An table : 7.3

back L/C facility, investment incentives etc.. But most other activities do not benefit from these incentives and hence export production in general is being very inadequately assisted relatively to the average level of assistance being received by import substitution activities.

2. The export units which have to use higher cost domestically produced inputs in their production without being compensated for the additional cost are seriously disadvantaged. The current export promotion measures do not do enough to minimise this disadvantage. The government needs to consider introducing an appropriate mechanism such as a tax exemption certificate system as proposed by TIP (1985) to compensate the export unit for additional cost they incur upto a certain level when they use domestic inputs.

3. When proper allowance is made for the distortion in the existing exchange rate, the typical export activities can be seen as being negatively assisted which means that the export incentives as can be generally availed of do not even compensate the activities for the discouragement they receive from the exchange rate side. This suggests that the exchange rate may and in this case does exert a greater influence than other export promotion measures. An exchange reform would seem to be in order if the export sector in the country is to be more effectively assisted.

Note:

1. Acronyms:

   NRS : Nominal Rate of subsidy

   ERS : Effective Rate of subsidy

   VA : Value added

2. Methods of Estimation:

NRS on output = Output assisted/unassisted output value

NRS on Inputs = Input assisted/unassisted input value

ERS = NRS on output/unassisted VA to output ratio - NRS on Input/unassisted VA to Inpur Ratio + Assistance to VA/VA.

3. Under situation 1 it is assumed that the manufacturers are ablo to import all traded inputs, while under situation 2, they can import only a part of such inputs. It is assumed that they are not getting any offset for the protection deomestically produced goods are receiving.

Under shadow-priced situations as taken neither the XPB nor the import license benefit mean anything as the existing difference between the official and XPB/WES rates of exchange would wither away. Also it is notable that no stipulation is done in change in non-traded input cost under adjusted exchange rate situation.

From Table 7.3:

Effective rate of protection as combined effects of duty drawback XPB and cash import license varies from 21.6% to zero percent depending on value added percentage. Here the ERS ranges between 20.8% and -1.1%.

From Table 7.2:

Effective rate of subsidy (ERS) received by readymade garments is 39.9% while it was 17.4% for specialised textiles and 28.4% for hosiery products. That is ERS received by ready-made garments was the highest.

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7.8 EXPORT PROCESSING ZONE : BANGLADESH

In early 1979 as many as 52 zones started operating successfully in 28 developing countries. Before 1966 there were only two: Kandala in India and Maya Guaz in Porto Rico. From 1966-1970 the following zones took off: Kaohsuing in Taiwan, Bataan in the Philippines, La Rommana in the Dominican Republic the bord zone of Mexico, the Colon zone in Panama. 23 zones booked out from 1971-1975 in the 11 countries of Asia and in 1976-1978, 21 zones were set up in 14 countries outside Asia.

There are six different countries in Asia having zones in full operation, India, South Korea, Malaysia, the Philippines, Sri Lanka and Taiwan. Three more countries Bangladesh, Indonesia and Pakistan joined the group late.

In Bangladesh private capital is scarce and technical know-how is limited. Because of this there is ample scope for and indeed a necessity to encourage investment from abroad. The government is conscious of the need to step up production and therefore policies have been adopted to stimulate industrial development by assisting local and foreign entrepreneurs. A plan for setting up export processing zones in the port cities of Chittagong and Khulna and an airbased zone adjacent to the Zia International Airport, Dhaka has been put into effect by the Government.

The Chittagong Export Processing Zone (CEPZ) has been established in the picturesque surroundings of Patenga in the port city of Chittagong with objectives to (a) foster and generate economic development of Bangladesh by encouraging and promoting foreign investment in a zone and (b) diversity the sources of foreign exchange earnings by increasing export through the zone.

The Chittagong Export Processing Zone, the first project became operative in mid 1984. 34 industries have been sanctioned by the Bangladesh EPZ authority with total inevestment of US $ 26.17 million (TK 80.16 crores) till 1985-86. Of the total plots fully developed with infrastructural facilities 60 percent have been alloted to the industries sanctioned and 40% leased out. The annual export of these sanctioned industries have been projected to be worth US $ 61.9 million (TK 190 crores). On implementation these units will employ 6396 Bangladeshi personnel and generate economic benefit of US $ 4.95 million (TK 15.17 crores) per annum for the country.

Sectorwise the units include garments, jute and specialised textiles, electronics, engineering, chemicals, leather products and service industries. 16 industries have already gone into commercial production with an investment of US $ 16.4 million (TK 50.2 crores) with annual projected exports of US $ 28.4 million and employed about 3035 Bangladeshis. As a result the country has been getting economic benefit of US $ 1.84 million (TK 5.62 crores) per annum. Besides this another 5 units were in the process of implementation and expected to go into operation by December 1987. These 5 units involved investment of US $ 1.45 million (TK 4.4 crores) with projected employment of 512 persons and export of US $ 8.5.6 million (TK 17.3 crores). Thus a total of US $ 17.8 million (TK 54.67 crores) was to be invested in the CEPZ by December 1987.

These 21 units will employ 4567 persons and will lead to annual export worth US $ 34 million (TK 104.3 crores) and generate economic benefit of US $ 3.068 million (TK 9.4)crores) annually from January 1987. Out of the 21 units which were expected to go into production by December 1987, 5 units were 100% foreign owned 8 units were joint-venture projects involving Bangladeshi investments and entrepreneurs from USA, Japan, Hongkong, Singapore and Pakistan and 8 units were fully owned by Bangladeshis.

The export earnings of the CEPZ increased from US $ 164 thousand in 1983-84 to US $ 16474 thousand in 1986-87 (See Table 7.5). An amount of US $ 22 million export earnings has been projected for exports in 1987-88.

Table : 7.5

Yearwise Export Earnings of Chittagong Export Processing zone of Bangladesh

Year	Nos. of units operating	Annual Export earnings (000 US $)
1983-84	2	164
1984-85	5	4450
1985-86	8	7400
1986-87	12	16474

Source : Bangladesh Export Processing Zone Authority, Dhaka

The progress of the CEPZ is slow. It has been estimated that about 6426 people will get employment in the projects after full swing operation of the projects takes place. If public infrastructure investment is considered then it may turn out that the significant benefits for the country through employment and foreign exchange earnings are outweiged by the heavy public infrastructure investment. From 1986-87 government have taken decision to provide working capital to 100% Bangladeshi owned industries in EPZ at 9% interest rate. This may further reduce social benefit by shifting capital from other desirable sectors of the economy.

Similar are the findings of Peter G. Warr (1987) for the Bataan EPZ in the Philippines. Bataan EPZ give significant benefits to the country through employment and foreign exchange earnings. But this was outweighed by heavy public infrastructure investment necessiated by the choice of location. Moreover, although firms occupying the zone were predominantly foreign over 90% of their investment was financed by Government guaranteed borrowings at controlled interest rates from within the Philippines. Whether the same will be true in case of Bangladesh only time will tell in future. Because Bangladesh's EPZ is too infant for thread-bare analysis at present. However we can consider the step as a positive one.

7.9 "POTENTIAL EXPORT LINES OF BANGLADESH"

Venturing predictions about potential export lines is a highly complex undertaking. Only a few years ago nobody could foresee that Bangladesh would make such a big stride in readymade garments and shrimps exports.

Trade and Industrial Policy (TIP) reform Programme of the

Government of Bangladesh suggests that there is a wide range of product lines with prospects for significant export development. Readymade garments hold promise for further rapid growth through upgrading of unit values of the quota constraint items, product diversification, market expansion and improvement of domestic value added through backward integration. Bangladesh currently faces quotes from four countries on mainly two categories of garments shirts and jackets in which past export growth has been concentrated. However, the penetration of Bangladesh in large export markets in terms of proportions of the overall imports of such products in these countries has been quite small. Product diversification, horizontal market expansion and upgrading of export unit values are three important ways on which future export possibilities of readymade garments depend. Footwear is another export commodity with growth potential. Bangladesh enjoys comparative advantage in this industry but is yet to make an entry into the export market even though OECD countries imports of footwear were valued at some $ 8 billion in 1981. The decision in 1985-86 to permit the industry to use bonded warehouses to import finished leather is major step toward fealising this potential. Similarly provided a proper policy environment is created electronic goods such as assembled components, TV and radio sets etc., could also become a major export product line as suggested by the TIP report (1985).

Even though Bangladesh has achieved a very impressive growth in shrimp export possibilities for further multifold expansion have not been exhausted.

Capital and engineering goods including some electrical items in production of which Bangladesh seems to have a comparative advantage could be another significant export items. These items include eletrical wires, transformers, electric motors, diesel engines, power pumps for tube-well irrigation, PVC and G.I. pipes telephone cables, electric fans and metal products such as steel cutlery.

Bangladesh's prospects for making an export breakthrough in textile fabrics are real, but so far very little has ben realised. A key requirement for making the fabric manufacturing industry export-oriented would be a reorientation of current policy environment. Other preconditions necessary for realizing the industry's export potential such as improving the finishing quality of textiles to international standards acquiring market access through aggressive salesmanship, association of some established fabric suppliers in the international markets. Only a small fraction of the existing jute carpet making capacity is currently utilised because at existing prices Bangladeshi carpet face a very limited demand in the world market. Scope exists for considerable reduction in costs which combined with an improvement in export assistance could lead to a substantial expansion of carpet exports.

Hosiery products are being exported on a very limited scale at present. Investment in new modern plants and modernization of existing units could considerably expand their exporting capacity. Bangladesh has comparative advantage in the production of processed food (fruits, vegetables, spices etc.). Current exports on a very limited scale could be substantially expanded through greater marketing effort.

Production of ceramic tableware is also a low cost activity and its export possibility also looks promising. Different TIP studies identify the following export potential product lines:

Table : 7.6

Potential Export product lines identified in TIP studies

Readymade garments wool and acrylic sweaters and other Knitwear	Tip study Reference DOC. TIP-11PU_B.2 DOC. TIP_EPSU_B.7
Specialised textiles and textile fabric	DOC_TIP_IIPU_B.6
Footwear	DOC.TIP_DPEPL_E.10
Leather and Leather product	DOC_TIP_DPEPL.C.19 DOC.TIP MU_C.7
Electronic	DOC.TIP_EPSU.G.7
Other Engineering and Electrical goods	DOC.TIP.MU_A DOC.TIP_PPIU_A.16
Ceramic tableware	DOC.TIP_EPSU_D.11
Shrimps	DOC.TIP_DPEPL_G.6
Processed fruits, vegetable and spice	DOC_TIP_DPEPL_C.17
Processed fish	DOC_TIP.DPEPL_C.16

Two important studies were conducted by Export Promotion Bureau Bangladesh for exploration of markets for Bangladesh exports. The study report titled, "Markets in Middle East and Gulf states (1982)" mentioned that Bangladesh has good prospects to expand her exports in the markets of Iran, Iraq, Turkey, Jordan, Saudi Arabia, Syria, Behrain, Oman, Qatar, UAE and Kuwait. The report mentioned that there is a possibility of exporting new items as well as of increasing export of existing items.

Similarly the report titled "Markets in EEC countries shows that Bangladesh possesses enough scope to expand her exports to Belgium and Luxembourg, Denmark, Federal Republic of Germany, France, Ireland, Italy, Netherlands and United Kingdom by enhancing exports of some existing export items and exporting new items.

7.10 SUMMARY AND CONCLUSION

Bangladesh Trade policy is heavily biased in favour of import substitution. The difference between the REER and RTWER for imports which reflects the average rate of nominal protection on assistance that import substituting activities receive was 25.6% compared to a difference of only 8.3% for non-traditional exports in 1984-85.

Little assistance to backward integration, inadequate assistance to sales in foreign exchange under international tender, instability in overall assistance level due to fluctuations in the WES premium, ineffective implementation of measures and weak institutional support are the major loopholes in existing export policy.

The main policy instruments used, the bonded warehouse system, duty drawback and XPB on gross exports are all biased against backward integration. That is because the exporter receive the full tax offset on bonded warehouse imports on duty drawback only when he imports and not when he uses local inputs and because XPB on gross export basis provides no incentive to reduce the import content in such export products. Thus effective encouragement to backward integration of export industries to increase domestic value added and net foreign exchange earning is almost absent.

Another important issue resulting from current (1986-87) policies is that sale of local products under international tender to government procurement for various projects is also not receiving enough encouragement. Such sales also earn foreign exchange and hence should not be ignored. XPB has two drawbacks: Firstly the benefit it confers is dependent on the premium of the WES exchange rate over the official rate and given the current premium, the level of the XPB entitlement needs to be considerably larger if it is to serve as an instrument for providing adequate assistance. Secondly, it is not fully reliable instrument as the premium that the WES exchange rate fetches is not stable. Moreover, the intended purpose of the net XPB system may be foiled if exporters purchase locally what has been imported by others.

A major loophole in the bonded warehouse system is that it is liable to gross misuse. The main difficulties with the duty drawback system are the lengthy procedures for verifying the legetimacy of claims and the administrative discretion it gives to officials for such vertification. The drawback system extended to domestic suppliers of inputs to export units is also inherently defective since it encourages these suppliers to import their own inputs to avail themselves of drawback privileges. Thus the drawback system can not serve as an ideal instrument to encourage backward integration.

To overcome shortcomings of the existing export policy TIP has proposed introducing a new instrument Tax Exemption certificate (TEC) system as effective alternative to XPB and duty drawback. TEC is similar to the cash compensation subsidy used in India and the tax credit certificate in colombia and other schemes successfully utilised by developing countries.

The performance of Bangladesh EPZ is very poor and slow. The significant benefits of the country through employment and foreign exchange earnings would be either minimised or outweighed by heavy public infrastructure investment.

Bangladesh has export potentials in readymade garments, wool and acrylic weaters and other knitwears, specialised textiles, footwear and other leather products, electronics, engineering and electrical goods, ceramic tableware, jute and woolen carpets, processed fish and processed fruits.

The export policy July 1986-June 1987 declared by Government of Bangladesh has advocated some new steps with respect to modification of existing ones along with some new policy steps. The government has been alert to increase value added of the export items whose import content is more by backward integration. It seems from the prescription of export policy 1986-87 that the steps that are supposed to be taken will have some positive implications. But yet they will not be sufficient to help the export sector adequately.