

Session-3: Enhancing Competitiveness for promoting trade, investment and private sector development

Topic 4 (Reserve)

"Improved Trade Policy to ensure pro-poor growth and RMG exports"

Note: To be triggered if sufficient time exists only.

Draft intervention by Christine Wallich, Bangladesh Country Director, World Bank

1. Since the mid-1990s, progress on trade liberalization has been modest, compared to the decisive moves in the early 1990s to open up the economy. Progress on trade openness stalled since about 1995/96 as significant resistance emerged in response to the general perception that the economy had moved "too much too fast" on liberalizing trade and dismantling protective tariffs. Liberalizing policies resumed with the launch of the World Bank's DSC in FY02-03 and supporting policies pursued under IMF's PRGF. In January 2005, the Government finally removed all but three trade-related bans/QRs signaling a major step in import liberalization.
2. Accelerating economic growth and poverty reduction has been one of the key thrusts of Bangladesh's poverty reduction strategy. ***Bangladesh's NSAPR emphasizes globally competitive industrialization based on the country's dynamic comparative advantage***, with the expectation that industrialization paves the way for greater export diversification and competitiveness.
3. ***However, not much progress has been achieved in recent years in terms of aligning Bangladesh's trade policy with the high growth objective. The NSAPR falls short of mainstreaming trade policy reforms as the centerpiece in a PSD-driven export-led growth strategy.*** True, anti-export bias has come down, along with the reduction of tariffs over the past several years. Yet it is also a fact that trade liberalization has stagnated – even modestly reversed -- since about 1997 as contingent protection through the instrument of para-tariffs (e.g. supplementary duties) overtook the reduction of customs duties. Protectionism is not the way to achieve accelerated growth. Yet, this is what we see the NSAPR espousing, as it says nothing about bringing down the level of protection over the medium-term. Neither competitiveness of exports nor export diversification can be assured with a cumbersome import regime that results from high tariff protection and a complex tariff structure that includes a plethora of para-tariffs.
3. ***The NSAPR does raise the issue of post-MFA challenges facing the RMG industry but does not attempt to resolve the major policy constraints.*** It stops short of stating why the main recommendations of the national Coordination Council have not been acted upon. The PMAP, which gets more attention, does not come to grips with the underlying policy distortions that under-cut the competitiveness of the RMG sector (e.g. not allowing establishment of CBW, banning imports of yarn/textiles over land border, endorsing EU offer of regional cumulation).
4. ***Recommendations for the future unilateral trade liberalization program:*** (a) further simplification of the import regime; (b) reduction in the dispersion and average level of nominal (and thus effective) protection, preferably through a pre-announced medium- and long-term schedule of tariff reductions (as done recently by India).

5. Regarding the role of 'regionalism' to strengthen regional integration, Bangladesh needs to pay attention to the costs of PTAs/FTAs. Given Bangladesh's high protection, it faces considerable risks of adverse 'trade diversion' effects from regional FTA agreements. This is because such (multilateral and bilateral) preferential trading arrangements may lead to shifting of the source of imports away from least cost/most efficient third countries to higher cost member countries. It is therefore critical that Bangladesh continues to reduce the high protection levels with unilateral trade policy reforms. ***Bangladesh's unilateral trade liberalization since the early 1990s has yielded positive dividends in terms of better economic performance.*** This needs to be continued since this strategy will also enable Bangladesh to better manage her 'regional integration' objectives/initiatives by helping to minimize the likely adverse 'trade diversion' effects of the existing and new regional FTAs.