2． 英文報告書（Annex7 及び 14 以外の同報告書添付資料は省略）

NEEDS ASSESSMENT
OF TRADE AND TRADE-RELATED ASSISTANCE
FOR BANGLADESH

Final Report

February 27 - April 17, 2005

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CONTENTS

LIST OF ACRONYMS

ADB	Asian Development Bank
API	Active Pharmaceutical Ingredients
ASYCUDA	Automated System for Customs Data
ATDP	Agrobased Industries Technology Project (USAID)
BEPZA	Bangladesh Export Processing Zone Authority
BFTI	Bangladesh Foreign Trade Institute
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BIDS	Bangladesh Institute for Development Studies
BIMAN	Bangladesh Airlines
BOI	Board of Investment
BRAC	Bangladesh Rural Advancement Committee
BSTI	Bangladesh Standards and Testing Institute
BTC	Bangladesh Tariff Commission
BTRC	Bangladesh Telephone Regulatory Commission
BTTB	The Bangladesh Telephone and Telegraph Board
CCI&E	Chief Controller of Imports and Exports
CIDA	Canadian International Development Agency
CSR	Corporate Social Responsibility
DCCI	Dhaka Chamber of Commerce and Industry
DEDO	Duty Exemption and Drawback Office
DESCO	Dhaka Electricity Supply Company
DFID	Department for International Development (UK)
EBA	Everything but Arms
EC	European Commission
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ERD	Economic Research Division of MoC
EU	European Union
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GoB	Government of Bangladesh
GSP	Generalized System of Preference
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit
HACCP	Hazard Analysis and Critical Control Point
HGV	Heavy Goods Vehicle
ICT	Information and Communications Technology
IDA	International Development Association
IIFC	Investment Infrastructure Facilitation Centre
ILO	International Labour Organization
IMF	International Monetary Fund
IPO	Import Policy Order
IPR	Intellectual Property Rights
ISAC	Industry Sector Adjustment Credit
ISO	International Organization for Standardization
IT	Information Technology
ITC	International Trade Centre
JICA	Japan International Cooperation Agency
JOBS	Job Opportunities and Business Support Project (USAID)
LC	Letter of Credit
LDC	Least Developed Country
LDP	Landed, Duty Paid
MFA	Multifibre Arrangement
MoC	Ministry of Commerce
MoF	Ministry of Finance

MT	Metric Tons
NAM	Needs Assessment Mission
NAP	National Agricultural Policy
NBR	National Board of Revenue
NGO	Non-Governmental Organization
NORAD	Norwegian Agency for Development Cooperation
PGCB	Power Generating Company of Bangladesh
PRSP	National Strategy for Accelerated Poverty Reduction
PSDSP	Private Sector Development Support Project
NTB	Non Tariff Barriers
PDB	Power Development Board
PRISM	Private Sector Regulations Implementation and Support Mechanism
R&D	Research and Development
QR	Quantitative Restrictions
RISE	Regulatory and Investment Systems for Enterprise Growth
RMG	Ready Made Garments
RO/RO	Roll On/Roll Off
SAARC	South Asian Association for Regional Cooperation
SBC	Sadharan Bima Corporation
SEDF	South Asia Enterprise Development Facility
SME	Small and Medium Scale Enterprise
SOE	State-Owned Enterprise
SPS	Sanitary and Phytosanitary Measures
TCA	Textile and Clothing Agreement
TEU	Ton Equivalent Units
TBT	Technical Barriers to Trade
TOR	Terms of Reference
TRACE	Trade Cooperation and Economic Policy Reform
TRIPS	Trade Related Aspects of Intellectual Property Rights
TVET	Technical and Vocational Education and Training
UN	United Nations
UNIDO	United Nations Industrial Development Organization
US	United States
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

EXECUTIVE SUMMARY

1. Bangladesh has enjoyed substantial growth in exports since 1990. During that period the Government put in place a series of supportive measures that enabled the readymade garment industry to avail itself of the advantages offered by a quota system that allowed it to increase exports to North America and Europe to $5.68 billion in 2004. The quota system ended on January 1, 2005, and Bangladesh now faces numerous challenges in competing in a world where guaranteed markets are no longer available, where competition, especially from other low-cost producers, particularly China, is severe, and where access to some major markets, particularly the US, has to contend with high tariffs on clothing imports. Other exports from Bangladesh that have increased include frozen shrimps, jute goods and leather, but these are far less successful than the readymade garment sector, which accounts for over 70% of total exports. Against this background, the task of the Needs Assessment Mission was to identify all the constraints that Bangladesh faces in further integrating into the world trading system, proposing a strategy that has the objective of overcoming these constraints while taking account of the Bangladesh poverty reduction strategy, and developing a set of recommendations on how to integrate these into the national development strategy.

2. There is no real culture of exports as a driving force behind economic development in Bangladesh as there has been - and continues to be - in very successful exporting countries such as China or Vietnam, where exports are driven by satisfying customer demands and promoting foreign direct investment as engines for growth. Instead, there is an import-driven culture in Bangladesh that seeks to protect domestic producers – even those whose methods of operation include the utilization of low-cost labour, including child labour, and the poorest of working conditions to produce goods for the domestic market that could more economically be satisfied by higher-quality and more cost-competitive imports. The Government of Bangladesh – despite the export success of the readymade garments– has not yet put in place the same conditions for all industries as it has extended to the readymade garment sector.

3. There are multiple constraints to developing exports from Bangladesh. The anti-export bias in the economy is chiefly expressed by high effective tariffs. Bangladesh has made good progress over the years in reducing tariff levels – the highest tariff is now 25% as opposed to 300% ten years ago – and the number of bands has also been reduced. Further reductions are expected, but the effective tariff rate is severely impacted by the number of taxes that are imposed at the point of importation. Apart from Customs Duty, Advance Income Tax, VAT, and supplementary duties are applied at the point of importation, which raises the effective tariff rate close to 30%. The Government, under IMF pressure, plans to reduce the effective rate to 20% in due course. The high effective rate hurts potential exporters, who are often unable to avail themselves of incentives that are available to the readymade garment sector. In particular, garment manufacturers can avail themselves of a duty drawback system, bonded warehousing, subsidies to refund the additional cost involved in purchasing locally-produced raw materials, and an export retention scheme. It is, furthermore, no encouragement to potential exporters who could derive value from these incentives that many of them do not work well. For example, the Duty Drawback system can take up to a year to refund duties on imported raw materials – long after the goods produced from that raw material have been processed and re-exported. A further deficiency is the lack of central bonded warehouses, which can be used by multiple small exporters.

4. Customs operations and procedures are the subject of severe complaints. The private sector's view of Customs is that it is inefficient in its operating systems, is procedurally bankrupt, and is deficient in its ethical behaviour towards its customers. There are no instructions for importers on how to negotiate their way through Customs, Customs officers have difficulties in deciding which tariff rates to apply, and dispute settlements are long and contentious.

5. But the most significant constraints relate to infrastructure. The power sector is so deficient in capacity that provision for blackouts and brownouts must be built into a company's production cost structure by purchasing standby generators. Several new generating facilities are planned, but have been delayed by Government procurement problems. Although self-sufficient in supplies of gas no system exists yet for extending this throughout the country. Telecommunications are insufficient for demand – there are only 7.5 telephones per 100 of the population, a very low rate by international standards and of rather low quality.

6. Road and rail transport are not geared to carrying cargo, especially container cargo. The roads are too narrow, and there are no highways between important centres of industrial activity and Chittagong Port. The railway also has an extensive need for rehabilitation, including new rail systems and new rolling stock, before it can contribute to export development. The inland waterway system likewise is deficient in terms of access for container-bearing vessels. Bangladesh BIMAN suffers from cargo limitations. Significant investment also needs to be made in inland container terminals and in cold storage facilities to handle exports of perishable produce.

7. Both export development and investment promotion are therefore a hard sell in Bangladesh, and their prospects are not improved much by the official organizations tasked with their promotion and development. While officially export development through Export Policy is proclaimed, there is, effectively, no organization sufficiently equipped to promote exports. The Export Promotion Bureau is according to its customers a weak organization because it has only the smallest of funding available to it. Its main activity revolves around organizing the Dhaka Fair, an event that does not have exports as its main focus. Many such organizations in other countries have been disbanded because they have been perceived to contribute little or nothing to their mission. The job of the Board of Investment – promotion and support for local and foreign direct investment in Bangladesh - is made extremely difficult by a lack of cooperation from other organizations within the Government. Even if power, gas and water were freely and easily available, which they are not, the BOI's one-stop-shop is ineffective in obtaining these for prospective investors. Registering a company presents a big bureaucratic challenge to investors, but one of the greatest difficulties lies in the ability to obtain a plot of land on which to build a factory. All of these constraints render Bangladesh a difficult place to do business for foreign (and local) companies. To this must be added the corruption factor, which is alleged to have reached alarming proportions in the country - Bangladesh ranks very low in the transparency league. When factors such as political uncertainties, and propensity for natural disasters are factored in, Bangladesh's poor performance in attracting foreign investors, or in boosting exports outside of a single sector, are readily understandable.

8. Governance in Bangladesh should be significantly improved as part of the PRSP. In addition to the problems with transparency, judges are not well-trained to handle a number of key trade-related laws, and both the implementation of laws by judges, and law enforcement officers, leave a lot to be desired. This is generally viewed as a serious problem.

9. If Bangladesh is to promote exports more broadly and further boost economic growth and alleviate poverty, it will need to address many critical issues on which trade and economic well-being depend. In summary, these constraints include overcoming an absence of a viable and comprehensive trade policy; a very inefficient transport system; infrastructural weaknesses, particularly in electricity generation; poor implementation and enforcement of laws; organizational and managerial inefficiencies in the relevant Ministries and agencies; regulatory and procedural weaknesses throughout the export and import institutional framework; informal payments and extortionary practices that pervade economic life; insufficient capacity to implement the liberal rules of the WTO system and to promote Bangladesh's national interests in world trade negotiating forums; and an insufficiency of policies that encourage private entrepreneurship, basic education and training, and that facilitate the role of women in the economic life of the nation.

10. It is clearly not possible for donors to address all the constraints to trade and needs of Bangladesh. Some of them – such as the climate of political uncertainty to which this report refers and natural disasters – cannot be resolved even by governments, while others (e.g., social and educational policies) cover many other issues which are not always directly relevant to the facilitation of trade. What is important, however, is to recognize that trade promotion and poverty alleviation cannot be handled by addressing just a few sectors in the export industry. A strategic approach must be taken that encompasses a number of related issues which are identified by many as being major barriers to trade and which can only be properly addressed by a combination of government policies, regulatory and structural reforms, institutional and individual capacity building, capital works and the creation of effective partnerships between the public and private sectors to develop Bangladesh's economic potential and alleviate poverty. The preparation of the multi-donor PSDSP (Private Sector Development Support Programme) shows that donors and the Government have realized the

importance of the investment climate and crucial infrastructure needs and that they are working jointly together to overcome the key constraints first.

11. Prioritised Recommendations The Needs Assessment Mission has listed, in Chapter 3, a number of interventions, which donors might consider to address the constraints to trade identified in Chapter 2. In Chapter 4, it identifies five criteria to prioritise these interventions. Using these criteria it recommends that priority should be given (in order of importance) to the following:

- **Trade development.** This covers the related issues of policy formulation, customer-oriented trade promotion and investment promotion, trade diversification, international competitiveness and management development;
- **Good governance**, including capacity building in arbitration and alternative dispute settlement, the establishment of a commercial court, better law enforcement, and supporting NGOs to play a major role in promoting corporate social responsibility awareness;
- **WTO capacity building**, with an emphasis on the implementation of trade-liberalisation commitments, training in international negotiating skills, and the development of effective information systems to handle a wide variety of WTO issues;
- **Projects to further develop transport and infrastructure** generally, including assistance in the development of a Transport policy and improving management systems.

It is recommended that development partners should use more joint-donor approaches and address the challenges more holistically, such as in the currently prepared Private Sector Development Support Programme (PSDSP) and the South Asia Enterprise Development Facility (SEDF). In the next Country Strategy Paper, the EC should continue to provide support for improving the investment climate, the strengthening of the legal and institutional trade-related framework, WTO-capacity building, vocational education and supporting export diversification. Environmental, gender and social aspects should be addressed simultaneously in the sectoral support under export diversification. The EC's country strategy should ensure complementarities through parallel interventions in the governance and education areas to ensure faster trade integration to increase prospects for pro-poor growth .

12. In terms of trade development the focus needs to be on removing the anti-export bias in the economy through the development of a comprehensive Trade Policy, upgrading of all trade-related laws to remove discrepancies and contradictions, providing assistance to the NBR to evaluate the costs of reducing effective tariff levels and reducing further the number of tariff bands. The system of applying additional taxes imposed at Customs needs to be eliminated, as does the system of export subsidies. In order to evaluate the revenue effects on the exchequer from such reductions, long-term assistance should be provided to the NBR, and should be backed up by donor budgetary support. Customs performance needs to be improved, especially in streamlining of the movement of goods through Chittagong Port.

13. Operations in trade and investment promotion need to be improved by carrying out strategic reviews of the institutions most intimately involved in these areas – the Ministries of Industry and Commerce, the EPB, the BOI, and BEPZA - firstly, to upgrade their administrative management systems, and secondly to improve their performance. It is of particular importance to carry out a cost/benefit analysis to indicate to the Government the costs involved in retaining the staff rotation system.

14. Good governance needs to be reinforced at all levels of Government.

15. WTO capacity building provides the framework for better participation in the world trading system. It is not included as part of the PRSP list of priorities, but is important because it is demand-driven by the private sector. Training to the Ministry of Commerce and other concerned ministries and private sector representatives should be done through the Bangladesh Foreign Trade Institute to increase negotiation skills in the WTO arena and assist Bangladesh to define its position for the current Doha Round. Specific studies and technical assistance to policy definition as well as for better implementation of the WTO commitments should be prioritised. It should be done not only on tariff barriers issues and on the growing concern of the Agreement on Sanitary and Phytosanitary Measures and other Technical Barriers to Trade, but also on the opportunity to open up new services.

16. here is clearly a vast need for capital investment to improve the infrastructure, and it can readily be stated that tardiness in developing and approving infrastructure projects means that Bangladesh will fall further behind in the race to develop exports. Furthermore, it will also no doubt be apparent that significant improvements to the infrastructure bring extensive other social and economic benefits to the economy. In particular, it is imperative for approvals for the construction of the power plants that are in the pipeline to be provided as soon as possible. This will automatically boost the international competitiveness of Bangladeshi companies, in addition to removing a bottleneck to investment. Construction work needs to continue at the port, and significant expenditure is needed on road, rail and inland waterway systems to improve access to Chittagong Port. Consideration also needs to be given to expanding the system of Industrial Parks, not only for the sake of preventing indiscriminate factory developments, but to provide easy access for investors, either foreign or local, to land, buildings, power, telecommunications, and transportation facilities in a single location. This development would make life easier for all interested parties, but particularly for investors who are now plagued by inefficiencies in the allocation of these resources.

17. The Importance of Political Will. Many of the reforms proposed herein presuppose political will on the part of the Government to implement them which has to be accompanied by a unified voice from the private sector as a credible partner for the long-term reforms. Without that, reform in key areas underpinning trade performance will not be possible. It is imperative, therefore, that projects should only be initiated in the areas that have been identified if there is a clear demand for them on the part of the Bangladeshi beneficiaries.

CHAPTER 1: INTRODUCTION

1.1 TERMS OF REFERENCE

1.1.1 The **Purpose** of the Needs Assessment Mission (NAM) is to identify the constraints facing Bangladesh's integration into the world trade system in the Post-MFA era and to propose a strategy to address these constraints. The ultimate purpose of the Trade Related Assistance is to assist Bangladesh:

(a) In its efforts to increase its participation in world trade, regional integration and to participate more fully in the world trading system by developing a pro-poor strategy for trade reform and trade-related assistance;

(b) To integrate trade into its development policy and to develop a strategy for export diversification in the post-MFA era with significant pressure on its garment industry.

1.1.2 The **Expected Outputs** are the following:

(a) The identification of all the constraints that Bangladesh is facing in participating in the world trading system;

(b) A proposed strategy to overcome these constraints, taking into account that its objectives and results must have an orientation to Development, i.e. aligned with the Bangladesh poverty reduction strategy;

(c) A set of recommendations on how to integrate this poverty reduction strategy in the national development strategy.

1.1.3 The immediate **Beneficiaries** of the assignment are the Government of the People's Republic of Bangladesh and the EC Delegation in Bangladesh. The EC and other donors are expected to use the study for their programming purposes and in the case of the EC for the preparation of the next Country Strategy Paper from 2007 to 2013. It is expected that ultimately the people of Bangladesh will benefit from the pro-poor growth generated by trade.

1.1.4 Twelve **Deliverables** are required to be produced by the NAM, including the following:

1. A Mission Work Programme;
2. A Stakeholder Organisational Chart;
3. A Trade Related Assistance Report;
4. A Matrix of Constraints to Trade Development;
5. A Matrix of Needs;
6. An Analytical Trade Profile;
7. A Draft Action Plan;
8. A Set of Recommendations describing how the intervention strategy may be integrated in the national development policy of Bangladesh.
9. A proposal on how the joint donor-funded RISE programme could address some of the identified constraints;
10. An overview of the main governance issues constraining trade and investment and possibilities to address these issues through development cooperation;
11. The organization of Workshops with relevant stakeholders; and
12. An analysis of the impact of the new EC Generalised System of Preferences with its anticipated revised Rules of Origin and SAARC/ASEAN Regional Cumulation on Bangladesh and particularly the garment and textile sectors.

1.1.5 With the exception of Deliverable 12, all Deliverables are accounted for in the body of this Report and in the Annexes. Deliverable 12 has been left out because SEDF has already commissioned a study to look at this issue and also because of the delayed implementation of the new GSP. Deliverable 4 (Matrix of Constraints to Trade Development) has been submitted to the European Delegation to Bangladesh but has not been attached as an Annex because much of the information provided in that Matrix is already included in Deliverable 5 (Matrix of Needs) and is also covered in Chapter 2.

1.2 CONDUCT OF THE MISSION

1.2.1 The mission began in Dhaka on 27 February 2005 with the arrival of the Team Leader, who was joined on 28 February by the International Trade Expert. A local expert was recruited on 1 March but was replaced a week later. Another consultant, financed by the Japanese International Cooperation Agency (JICA), joined the team as a specialist expert on 3 March and remained with the team until 14 April. A second specialist expert joined the team on 24 March and remained in Dhaka until 17 April 2005.

1.2.2 As envisaged in the ToRs, the mission was conducted in three phases. The first was to gather (with the assistance of the European Delegation) and review the extensive documentation relevant to trade issues in Bangladesh. This was largely completed in the first week of the mission. A Summary Mission Work Plan was also submitted to the EC Delegation by the end of that first phase.

1.2.3 The second phase - which extended from 7 until 27 March – was taken up by consultations with key stakeholder groups in Dhaka to obtain up-to-date information on the state of play for trade-related issues in Bangladesh and discuss constraints, needs and possible options for future donor interventions to achieve the purpose of the mission. During that period, the second, fourth and fifth Deliverables were also submitted to the European Delegation. After some initial work by the team on the Trade Related Assistance Report (third deliverable) a local consultant was hired to prepare a detailed matrix of all previous, existing and (known) future Trade-Related Assistance actions by other donors or providers for Bangladesh since 2001. It was also during the second phase that the Steering Group was established. It consisted of representatives from SEDF, DFID, CIDA, JICA, the Bangladesh Ministry of Commerce and the EU. Meetings were held on 7, 14, and 21 March, and 5 and 13 April. A meeting scheduled for 31 March had to be cancelled because it coincided with a general strike *(hartal).*

1.2.4 During the third phase of the mission (28 March-17 April), three members of the NAM traveled to Chittagong to discuss a number of issues related to the mission with senior representatives of local government, business and the Port Authority. A coordination workshop – involving representatives from both the public and private sectors - was organized on 10 April at the Bangladesh Foreign Trade Institute to sound out the views of stakeholders on the findings and proposals of the NAM.

1.2.5 During that third phase the seven remaining Deliverables were submitted to the European Delegation. During the length of the mission, the European Delegation provided briefings and guidance to the team on various matters relating to the assignment.

1.2.6 In the course of its mission, the Team had a total of 34 meetings in Dhaka and 7 meetings in Chittagong. The list of persons and organizations met are in Annex 12 and the Records of conversation are in Annex 13.

1.2.7 The Team had several meetings with the Manager of the Project, Mr. Farnhammer, and other officials of the European Delegation to Bangladesh, who provided a considerable amount of material and excellent guidance to the Team. throughout the mission. The Team also acknowledges the contribution made by JICA and SEDF to this report both through their consultants and also as members of the Steering Group. The Team is also grateful for the general comments provided by the Ministy of Commerce and for the paper (Annex 9) prepared by Professor Deb, Chief Executive Officer *ad interim* of the Bangadesh Foreign Trade Institute.

1.2.8. The members of the Team are as follows:

- Dr Dominique De Stoop, Team Leader
- Professor Elodie Ritzenthaler, International Expert
- Mr. Kunihiro Konishi, Consultant to JICA
- Dr Abdul Mubin, Local Expert
- Mr. Peter Carr, Specialised Expert

CHAPTER 2: BACKGROUND, ISSUES AND CONSTRAINTS TO TRADE

2.1 THE HISTORICAL AND POLITICAL CONTEXT

2.1.1 From the time it wrested independence from Pakistan in 1971, Bangladesh has experienced political instability and periods of extreme violence. Two Presidents have been assassinated, there have been numerous coup attempts and major tensions continue to exist between the two main political parties – the ruling Bangladesh Nationalist Party and the Awami League. As recently as August 2004, there was an attempt on the life of the Leader of the Opposition (Sheikh Hasina of the Awami League) and, on 27 January 2005, one of the senior figures in the Awami League was killed in a grenade attack. In addition, political parties impose *hartals* (general strikes) and conduct public demonstrations, often at short notice, which create widespread disruption in Dhaka and the other commercial centres in Bangladesh.

2.1.2 The polarized and confrontational nature of politics in Bangladesh has affected the civil service and has had a negative impact on both the public and private sectors. It affects trade, the smooth running of transport and other services, and Bangladesh's international image as a potential investment and tourist destination. The climate of confrontation and violence has affected the maintenance of law and order and has politicized the police, as well as contributed to current problems of corruption in several key areas of public administration and law enforcement.

2.1.3 Political instability also affects the welfare of the poor. They do not have the political and economic clout of the middle and upper classes in influencing the formulation and implementation of economic and social policies, and are the first to suffer when there are major economic disruptions, higher unemployment and political unrest.

2.1.4 The political situation has probably not deteriorated to any significant extent in the past couple of years but at the same time, it has not improved either.

2.2 GOVERNANCE

2.2.1 It is universally accepted that good governance is essential for the proper functioning and prosperity of any society. In the case of Bangladesh, it is also crucial for poverty alleviation as mentioned throughout the PRSP. Without good governance, the State's financial resources and donor funds will not be used effectively. Programmes designed to overcome poverty will not reach their intended recipients, especially the poor. Without good governance, corruption will flourish, foreign investment will be affected and commercial entrepreneurship will suffer.

2.2.2 Elements and characteristics of "good governance" that are most often identified in studies and to a large extent in the PRSP in Bangladesh include:

- The political and social dimensions of governance.
- Strengthening of accountable, transparent, efficient and effective national and local government.
- Promotion of respect for human rights without discrimination on the basis of race, sex, religion or national origin.
- The promotion of an independent media.
- Reinforcement of the rule of law, including a fair, responsive and accessible legal and judicial system; and
- Anti-corruption initiatives.

2.2.3 There are major problems in Bangladesh in observing any of the above criteria. This is particularly the case in regard to the practice of informal payments and other corruptive practices, which, in their many forms, adversely affects trade and the alleviation of poverty. It has also seriously tarnished the reputation of Bangladesh abroad.

2.2.4 Judging by the outcome of some recent surveys, poor governance – especially corruption and over-regulation – is viewed by firms in Bangladesh as being a serious problem. According to a survey of firms requesting them to identify the most important constraints to business operation and growth, corruption was ranked the second most important after the poor electricity system.[1] Recent empirical research confirms that measures of corruption are significantly and negatively related to inflows of foreign direct investment.[2]

2.2.5 The regulatory burden faced by Bangladesh firms is also a source of great concern. When asked, in a recent survey, how many visits they received from inspectors from government agencies, the response from the firms surveyed was about 17 visits a year.[3]

2.2.6 Of the various problems in governance some can be overcome only by a change in the mindset of Bangladesh decision-makers, combined with the adoption of effective policies at the highest levels. Others can be addressed more readily by individual and institutional capacity building.

2.2.7 In developing a strategy to significantly improve governance in Bangladesh, it is important to emphasize that governance is not something that governments can readily implement just on their own. Good governance can only flourish if the other political, economic and social actors in the community are prepared to press hard for improvements in governance generally, create awareness campaigns, develop training programmes, and cooperate with each other to achieve with the Government medium and long-term goals of good governance through laws, and individual and institutional capacity-building. It has to be emphasized, nonetheless, that any significant improvement in governance will need to be led by the authorities. Political will, from the highest level down, is required to develop the policies and introduce the reforms required not only to roll back poor governance, but also to overcome all the other constraints to trade.

2.3 TRADE-RELATED INSTITUTIONAL FRAMEWORK.

2.3.1 Trade development is a vast field in which numerous government ministries and agencies, private enterprises and civil societies participate. Coordination of policies and activities also involves many committees and councils.

Ministry of Commerce and Ministry of Finance

2.3.2 The Ministry of Commerce, which has prime responsibility for the Export Policy and Import Policy, and the Ministry of Finance with responsibility for Income Tax, VAT, and Customs revenue generation through the National Board of Revenue (NBR) have the main responsibilities for trade policy.

2.3.3 The Ministry of Commerce (MoC) plays a leading but weak role in the promotion and expansion of international trade and provides support to the private sector for investment in the development and diversification of products and markets. The Ministry is the nodal ministry for WTO affairs, for compliance with obligations under the WTO and for making strategic assessments of market opportunities for exploitation by enterprises. The MoC operates through agencies such as the Export Promotion Bureau (EPB), the Export Credit Guarantee Scheme of the state owned general insurance company, known as Sadharan Bima Corporation (SBC), Bangladesh Tariff Commission (BTC), the Chief Controller of Import and Export (CCI&E), and the Controller of Insurance. The EPB is the prime formulator of programmes and policies for the promotion of exports but it has neither the capacity for this, nor the required information to achieve its mandate effectively. The BTC, although mandated by law to advise the Ministry of Commerce in matters of protection for local industries, is not doing this, while the CCI&E's role in the freeing-up of imports and the removal of most Quantitative Restrictions (QRs) has greatly diminished.

2.3.4 The National Board of Revenue (NBR) under the Ministry of Finance is the supreme authority for tax administration in the country and is responsible for administration of all matters relating to taxes and duties as well as fees and charges. It also administers special bonded warehouses and the

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[1] *Improving the Investment Climate in Bangladesh.* An Investment Climate Assessment Based on an Enterprise Survey Carried Out by the Bangladesh Enterprise Institute and the World Bank. The World Bank and Bangladesh Enterprise Institute, June 2003, Figure 1.2, p.8.

[2] Corruption and Composition of Foreign Direct Investment: Firm Level Evidence. Policy Research Working Paper 2360. Smarzynska, B. and Shang-Jin Wei, World Bank, 2000, Washington DC, quoted in Improving the Investment Climate in Bangladesh, ibid.

[3] *Improving the Investment Climate in Bangladesh,* ibid. Figure 3.4, p.30

duty drawback scheme for exporters. With the phasing out of QRs, tariffs remain the main instrument of trade policy. Customs and VAT departments in the NBR set tariff rates, VAT at point of entry, and establish the structures for collecting these.

Other Ministries/Organisations

2.3.5 The Ministry of Commerce works in close contact with other line ministries and through them with agencies that have responsibilities for regulating and developing the productive sectors. These are, *inter alia*, the Prime Minister's Office, the Ministry of Finance and Planning, the Ministry of Industries, the Ministry of Foreign Affairs, the Ministry of Agriculture, the Ministry of Jute and Textiles, the Ministry of Livestock and Fisheries, the Ministry of Communications, the Ministry of Energy and Mineral Resources (Power Division), Ministry of Science and Technology, the Ministry of Cultural Affairs, and the Ministry of Shipping. The principal trade-related organizations are the Board of Investment, the Bangladesh Export Processing Zone Authority, and the Export Promotion Board.

The Export Promotion Bureau (EPB) The EPB under the Ministry of Commerce is entrusted with the responsibility of promoting Bangladesh exports.[4] It is mainly responsible for:

- Formulating policies and programmes for active promotion of experts
- Coordinating export development efforts
- Monitoring and evaluating national export performance
- Promotional activities in product development
- Exploring markets abroad
- Organizing participation in international trade fairs abroad
- Conducting studies, surveys, research etc. for expansion and diversification of exports; and
- Administers and monitors quota and origin certification for both regular and preferential exports

Board of Investment (BOI) Established under the Investment Board Act 1989, and located directly within the Prime Minister's Office, the BOI is the principal private investment promotion and facilitation agency of Bangladesh. The act mandated BOI to provide diversified promotional and facilitating services with a view to accelerating industrial development of the country. The BOI's[5] responsibilities can be categorized as follows:

- Investment Promotion
  - Country Promotions
  - Sector/Industry Promotions
  - Publications on Business Processes
- Investment Facilitation
  - Pre-Investment Information and Counselling Service
  - Investor Welcome Service (faster immigration)
  - Registration /approval of foreign, joint-venture and local project
  - Registration /approval of Branch/Liaison/Representative Offices
  - Approving work permits for Foreign Nationals
  - Facilitating utility connections (electricity, gas, water & sewerage, telecom etc.)
  - Assistance in obtaining industrial plots
  - Approving remittance of royalty, technical know-how and technical assistance fees
  - Facilitating import of capital machinery & raw materials
  - Approving foreign loan suppliers' credit, PAYE scheme etc.
- Policy Advocacy
  - Advocating policy suggestions to the Government
  - Assisting the government in framing new policies for private sector development, and
  - Assisting the National Taskforce on Investment Climate Facilitation

[4] Source: EPB Website

[5] *Source*: BOI Website.

The Bangladesh Foreign Trade Institute is an institution legally created under public-private partnership and is currently awaiting the start of the EC Trade Support Programme to build its capacity to play the role as think-tank, training and consulting organization for the public and private sector on all trade issues.

Bangladesh Export Processing Zone Authority (BEPZA) The Bangladesh Export Processing Zones Authority (BEPZA) is the official organ of the government to promote, attract and facilitate foreign investment in the Export Processing Zones. The primary objective of an EPZ is to provide special areas where potential investors would find a congenial investment climate, free from cumbersome procedures. There are six EPZs in Bangladesh. At the moment five of these – at Chittagong, Dhaka, Mongla, Comilla, and Uttara - are in operation while the other (Ishwardi) is in the implementation stage. BEPZA's responsibilities are as follows:[6]

- Promotion of foreign (FDI) & local investment
- Promotion of exports
- Diversification of exports
- Development of backward & forward linkages
- Generation of employment
- Transfer of technology
- Upgrading of skills
- Development of management
- Promotion of international marketing skills.

National Coordination Committees/Councils

2.3.6 Coordination for trade regulation and development interventions to improve trade is met through various committees. Often these committees are composed of Ministers, high government officials and representatives of the private sector. Concerned ministries serve the Committees as secretariats. Among the important Committees are the National Committee on Exports, the National Industrial Development Council, the Export Promotion Council, the Import Consultation Committee, the WTO Advisory Committee and the National Board of Revenue Consultation Committee.

Stakeholder Institutions in the Private Sector

2.3.7 While the Ministries and the government agencies have legal decision-making powers their functions are often facilitated by other stakeholders in the private sector. Government documents indicate that there are more than 180 registered Chambers/Trade bodies. The Ministry of Commerce holds regular consultations with apex business organizations such as the FBCCI and other chambers. Discussions are also held by concerned ministries with line industry associations. FBCCI is hampered both by weak infrastructure and a weak financial position. The Dhaka Chamber (DCCI) has developed capacity in promotional and training activities. There are multiple district Chambers but they mainly liaise with local government agencies and have little influence on national issues. The Garment Manufacturers and Exporters Association (BGMEA) and the Bangladesh Knit Manufacturers and Exporters Association (BKMEA) are important players in the garment sector, as is the Bangladesh Textile Mills Association (BTMA) in the textiles sector.

Research and Academic Institutions

2.3.8 There are a number of research and academic institutions, which are involved in trade policy issues from time to time on the basis of requirements from the government or private sector for specific tasks. Some of the important institutions are the Center for Policy Dialogue, Bangladesh Enterprise Institute and the Institute of Business Administration.

2.4 TRADE POLICY

2.4.1 Bangladesh's international trade profile has changed substantially over the last twenty years. In the early years after independence, trade policy was heavily protectionist, with high tariffs and rigid controls on imports and exports. Reorientation of policy in the 1980s was in the first instance driven by the objective of removing the anti-export bias for the garment sector to enable it to exploit the

[6] Source: BEPZA Website

opportunities offered by the Multifibre Arrangement (MFA) and the Generalized System of Preferences (GSP) for the export of readymade garments to North America and Europe. Export benefits and incentives including duty drawbacks and export financing at concessionary rates were provided to encourage the manufacture and export of readymade garments. To enable better efficiency within the constraints imposed by the overall administrative system, bonded warehouses were set up and quota allocations were assigned to better performers.

2.4.2 The second half of the 1980s saw some more general relaxation of QRs and rationalization of tariffs. In contrast to the piecemeal and partial reforms of the 1980s, liberalization of Bangladesh's trade regime since 1991 has been more systematic and comprehensive. It was only in the early 1990s that the government undertook significant trade liberalization by removing QRs on imports, lowering the tariff rates substantially, improving export incentives, and relaxing exchange controls. The overriding objectives of policy since the early 1990's have been to promote competition and achieve neutrality of incentives between production for exports and import substitution, while gradually making trade facilitation the centrepiece of customs administration. The most recent Import Policy Order (IPO) for example, has seen the number of items on the Control List reduced to 63 from 122 in the previous IPO; the number of tariff slabs has been reduced from 24 to three; the highest tariff rate has been reduced from 350% in 1992 to 25% in 2005; and the unweighted tariff rate has fallen from 57% to 16.5%.[7] A further area where Bangladesh has made a notable advance in facilitating international trade has been in the exchange-rate regime, after the currency was floated in May 2003.

2.4.3 Export earnings are now three times what they were in 1991/1992, and the structure of exports has been radically altered. While once-predominant traditional commodities such as raw jute and tea have declined in importance, ready-made garments in particular, have increased such that they now command a 75% share of exports, while a limited number of other non-traditional products such as frozen shrimp have also made solid progress in overseas markets. However, the range of exported products remains very small, and readymade garments - as a result of the increased competition generated by the phase-out of the quota system under the MFA – face an uncertain future in their most important markets, the US and Europe. An indication of the challenge faced not only by Bangladesh but by other countries producing inexpensive readymade garments is that China's clothing exports rose by 28% in the two months following the ending of the MFA quota agreement on January 1, 2005.

2.4.4 While Bangladesh has enjoyed growth through trade and has advanced significantly in terms of income generation and poverty reduction since the early 1980's, much remains to be done. The World Bank contends that the poor of Bangladesh would be well served by "wider, faster, and more determined trade liberalization measures than policymakers have so far pursued."[8] But if Bangladesh is to promote its exports more broadly and further boost economic growth and alleviate poverty, it will also need to address urgently some major constraints to trade, in particular: informal payments; procedural weaknesses throughout the export and import institutional framework; poor trade facilitation especially in the area of transportation; infrastructural weaknesses particularly in electricity generation; inadequate access to financing; the very limited number of products suitable for acceptance in foreign markets; and a host of marketing-related problems such as insufficient quality, lack of standards, poor packaging; and a general lack of export marketing capability, especially within the SME sector. Action needs to be taken in all of these areas.

2.4.5 The application of unfettered free-market capitalism, however, needs to be balanced by the recognition that the unilateral and continuous reduction of tariffs has revenue effects on the exchequer that the exchequer can ill-afford, and therefore need to be offset by increases in employment, and simultaneously contribute meaningfully to poverty alleviation, the improvement of women and children's rights, and environmental protection. Although gradually improving, the situation in Bangladesh remains problematical in all these areas.

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[7] *Unlocking the Potential: National Strategy for Accelerated Poverty Reduction.* General Economics Division, Planning Commission, Government of the People's Republic of Bangladesh, December 2004.

[8] *Trade Policies in South Asia: An Overview* World Bank: Poverty Reduction and Economic Management Unit, South Asia Region, Report 29949, 2004.

2.4.6 The trade policy issues that remain significant revolve principally around the exchange rate regime; tariffs and para-tariffs; non-tariff barriers; export policy; and WTO issues such as market access, anti-dumping, sanitary and phytosanitary measures, and Intellectual Property Rights.

Exchange rate regime

2.4.7 In the aftermath of the difficult period of 1972-75, exchange rate management improved gradually and by and large the adverse effects of overvaluation were avoided for most of the period since then. Exchange rate reforms gained momentum in the 1990s. Importantly, the multiple exchange rate regime was replaced by a unified exchange rate in 1992 and the flexibility of the exchange rate system was enhanced to strengthen the competitiveness of exports. In 1994, the Taka was made convertible for current account transactions. Bangladesh has operated a floating exchange rate mechanism since May 2003. This move towards a market-based exchange rate system is strongly supported by the World Bank[9] because it is supportive of a free market. No changes are necessary in this area.

Import Policy

2.4.8 The positive impact of a supportive trade policy in the last twenty years has reinforced the Government's belief in the continued liberalization of the import regime as a contributory engine for export growth and its concomitant influence on employment and poverty reduction. While trade policy reform has continued to emphasize removal of QRs and reduction in nominal and effective tariffs, the second half of the 1990s has witnessed a growing tendency toward nontransparent protection through supplementary duties on imports.

2.4.9 Availability of raw materials at world market prices by means of a 0% tariff rate or by neutralizing the tariff rate through a duty drawback or a bonded warehousing system enables Bangladesh, with its abundance of cheap labour, to compete on world markets, as has been readily apparent from the success of the readymade garment sector; conversely, the higher the level of tariffs and para-tariffs, and the inability of exporters and potential exporters to neutralize them, the less likely it is that domestic manufacturers can compete internationally. The latter is self-evident, and may also go some way towards explaining why there is such a limited range of exports from Bangladesh; the duty drawback system is said to be dysfunctional, and smaller producers do not have easy access to bonded warehouse facilities. There are thus significant constraints to be overcome in further liberalization of the import regime in terms of both import tariffs and non-tariff barriers (NTBs). In the latter case, the following are some of the NTBs that have been identified:

- Import licensing has been abolished, but various licenses, permits and certificates are still required, which have the potential to act as protective NTBs. The net effect of these procedures is akin to import licensing.
- Bangladesh maintains two types of quantitative restrictions (QRs) – a banned list and a restricted list. While the banned list includes such items as those related to health, religion, environment, culture etc. (imports of which are sensitive or banned in most countries), the restricted list also includes goods such as salt, and fabric and grey cloth. Yet, a review of all the items in this group reveals that many of the prohibitions or restrictions cannot be justified on these grounds and are presumably included for protection purposes. Thus, in the interest of economic efficiency and predictability of impact, at a minimum, it would still be more meaningful to replace the QRs with equivalent tariffs. Furthermore, administrative procedures designed to manage QRs are equivalent to "non-automatic licensing" that implicitly places ceilings on imports of certain products.
- Bangladesh Petroleum Corporation still has a monopoly in the petroleum sector.
- There are still restrictions on the import of yarn through inland customs, which means that yarn at world market prices from India has to go through Chittagong Port before entering Bangladesh.

2.4.10 While these and other restrictions from the old general import licensing regime still exist, and should be removed or at least reduced, the problem with tariffs lies not so much with the tariff levels themselves, although these are still considered to be high, as with the range of additional taxes that must be paid on a wide range of imported goods. During the ten-year period that ended in 1993 there

[9] Ibid., p. 4.

was virtually no reduction in average total tariff levels in Bangladesh, while there were big increases in selective domestic industrial protection. Customs duty rates on their own thus do not give an accurate picture of the protection afforded to domestic industry. Bangladesh uses other protective taxes (para-tariffs), of which there are three that are applied to selected products – supplementary duties, regulatory duties and VAT. These provide very high levels of protection in certain cases.

2.4.11 All of these serve to raise protection levels for domestic producers, and, as a consequence, diminish their ability to compete on export markets as well as raising the cost for domestic consumers. According to World Bank calculations, current average protective tariffs, including para-tariffs, stand at 29% - a rate that is far higher than in other South Asian countries. This renders Bangladesh among the most highly protected of all developing countries[10]. The World Bank also considers that the Bangladesh tariff system remains non-transparent, complex, and obscure because of the proliferation of para-tariffs, and this further feeds into a resistance to reforms, which can be strong, with special interest groups, including domestic producers, being able to obtain special treatment, or be excluded from trade liberalization measures.

2.4.12 In addition to the constraints on export sales imposed by non-zero tariffs, and the further constraints imposed by para-tariffs, there are other trade policy issues involved in the import regime.

- The tariff structure, with its system of tariffs and para-tariffs results in a complexity that is not made easier by the unavailability of basic information that explains the system.
- Advance income taxes are collected at the point of importation which represents a further constraint on imports.
- Bangladesh maintains a very high level of agricultural tariffs.
- Bangladesh operates a duty drawback system[11] and a bonded warehousing system[12] that is mostly geared to readymade garment exporters. However, the duty drawback system does not work well – it can take up to a year for a producer to recoup the duty paid at the point of importation, often long after the finished goods have been exported, while the bonded warehouse system is said to be cumbersome and susceptible to corruption through leakage into the protected domestic market. Furthermore, there is no system in place that will facilitate central bonded warehousing for the garment and other industries.

2.4.13 While the shift to lower tariffs needs to continue in order to help domestic companies compete more effectively on international markets - with all of the benefits that accrue for exporters and the exporting country – there is nevertheless a price to be paid for this policy. It is well known that the reduction in tariff levels can drive existing companies, which are operating near the margin, out of business. As tariff levels are reduced, their contribution to government revenues diminishes. It thus may not be entirely appropriate to advocate the unilateral reduction of tariff levels without significant research on, and the creation of programs of, management consulting assistance to domestic companies to enable them to compete with imports, as well as research by the National Board of

[10] *Growth and Export Competitiveness*, The World Bank, Washington D.C., January 19, 2005, pp. 14-20

[11] The Duty Drawback system provides for rebate of duties and taxes on inputs used in the production of exports of finished products after export proceeds are received. This is available to partial and occasional exporters as well. Indirect exporters are also covered by this scheme. The Duty Exemption and Drawback Office (DEDO) under the Custom Department is responsible for determining the amount of taxes and duties paid and payment of rebates. Over the years DEDO has calculated and established flat rates for a large number of export products on the basis of input-output coefficients. Flat rates are available mostly for RMG and leather exports. For these products drawback is paid fairly quickly after submission of claims. The claims are required to be backed by export proceed realization certificate and the bill of lading. For the new products, for which there are no flat rates determined, it takes long time to calculate and determine the amount of rebate.

[12] For industries outside EPZs the National Board of Revenue provide bonded warehouse facilities so that industries can import and stock the necessary raw material and accessories free of import duty. Within the bonded area they can operate with a minimum of customs formalities. But bonded facilities are allowed only within very narrowly defined firms. They are available only to units which are 100% percent export oriented or to industries whose raw materials are mostly imported. Presently it is mainly confined to the RMG industries. A few leather and toy firms have joined the RMG club. Small exporters including RMG units want central bonded warehouses but NBR is reluctant to provide these. There are over 3000 customs bonded facilities in Dhaka and the NBR has operational problems in managing these. Facilities are monitored by the Customs Department through the use of import and export passbooks and pre-set input-output coefficients. Allegation of leakages from these facilities to the protected domestic market is regularly reported in the press.

Revenue on the revenue effects of such reductions, and resolution of the conundrum of replacing them with alternative sources of finance.

Export Policy

2.4.14 Bangladesh's export policy has highly supportive ambitions. The Ministry of Commerce's Export Policy 2003-2006 sets out a vast range of incentives for exporters. The effectiveness of export promotion agencies in general has long been questioned, and the capability of the Export Policy to deliver such objectives as developing product quality and design and production of high-value products; development of backward and forward linkage companies; and creating new exporters is indeed imaginative. Public-sector bodies, such as the Export Promotion Bureau, are generally not equipped, either by temperament or resources, to achieve such objectives.

2.4.15 Achievement of all the objectives of the Export Policy is unlikely, but there are several constraints, which, if addressed, could yield greater returns because they focus on areas where improvements can actually be achieved. These include the following:

- Duty neutralization schemes such as the Duty Drawback system are cumbersome, inefficient, and involve high transaction costs for exporters.
- Bangladesh restricts exports of certain agricultural products for domestic price stability purposes, for example, onions and pulses. Raw hides and skins are banned from export to support the domestic leather industry.
- Two types of subsidy on exports are now available: (1) garment exporters who use local fabrics in lieu of duty drawback facilities and (2) exporters included in the "thrust sector" list and specified products such as jute, frozen foods, tobacco, fruits and vegetables etc. Subsidies are made available to exporters through their banks according to the procedures spelled out in circulars issued by Bangladesh Bank. The Finance Division of the Ministry of Finance decides on rates and amounts of subsidies but the decisions are taken in Cabinet or other Ministerial Committees. There are allegations of misuse and fake subsidy claims. The government is under pressure to discontinue subsidies. Subsidies on fabrics will be phased out and are due to expire at the end of the current financial year in June 2005. The total disbursement of subsidies in the current year is expected to be Tk. 7520 million or over 2% of the total exports value.
- Importers routinely experience delays and rent-seeking at Customs. Streamlining the Customs service through procedural improvements and advances to full computerization, as well as the full implementation of ASYCUDA ++ is necessary, so that goods can be imported and exported more efficiently.
- The existing back-to-back Letter of Credit (LC) system, which was very helpful in developing exports in the RMG sector by allowing manufacturers to import raw materials duty free on the strength of the LC, is now under threat from foreign buyers, especially since the end of the MFA. Because of the ending of quotas, and the resultant increased pressure from competition, most EU and US buyers want Bangladeshi exporters to replace the back-to-back LC with a landed, duty-paid (LDP) system, under which it will be the responsibility of the exporter to complete all export formalities and pay the duty at the point of entry before transporting merchandise to the doorstep of the importer. India and China have partially introduced this system, a further factor that puts pressure on Bangladeshi RMG exporters.
- Trade finance, working capital and term loans are generally available from the local banks which consist of publicly owned commercial and development banks, local private banks and foreign banks. However, a certain amount of favouritism is shown to garment manufacturers, and a question also arises as to the availability of trade finance for smaller companies which may not have sufficient collateral to cover the lending institutions' requirements. For borrowers, foreign exchange availability has not been a problem as the Taka is freely convertible for current account transactions. Private firms can also borrow abroad without permission from any Bangladesh Government authority provided the terms of the loan are soft i.e., the interest rate is within LIBOR plus 4 percent and the repayment period is not less than 7 years. Exporters however are given additional concessions. The interest rate for them is fixed by the Government at only 7% whereas the current market rate is over 11-13%. An Export Development Fund has been established by the Government to give foreign currency loans to the banks at LIBOR + 1% for lending to exporters. The existing regulation of limiting a single borrower loan to 25% of the bank's capital is relaxed to 50% in the case of exporters.

As per Bangladesh Bank's rule, lending banks can reschedule loans of the borrowers after payment of a down-payment of the outstanding amount but garment exporters are exempted from payment of a down payment instalment.

- Export marketing skills need to be further developed in both the public and private sectors. This should include the provision of market intelligence, technical assistance to companies to help them prepare products for export markets, and to assist in management upgrading.
- More intensive efforts to attract Foreign Direct Investment into the export sector are needed.
- Improvements in export facilitation are needed.

2.5 WTO ISSUES

2.5.1 Bangladesh is a founding member of the WTO and is an LDC. In accordance with the Special and Differential Treatment principle, Bangladesh avoided different commitments such as tariff binding or reduction and benefited from transition periods to implement the WTO agreements. It also received promises of technical assistance. Under the Generalized System of Preferences Bangladesh enjoyed a total suspension of import duties and quotas on eligible products going to the EU, Canada, Japan, Norway, etc. but not the USA. The "Everything But Arms" (EBA) initiative approved by the European Union in 2001 further opened the EU market to Bangladesh. However, stringent rules of origin provisions in the GSP meant that Bangladesh has not been able to take full advantage of those schemes because of its inability to comply with their requirements. Accordingly, only about 61% of exports take advantage of the GSP.

Market access

2.5.2 While lowering tariff averages, Bangladesh has aimed to keep the rate of customs duty lowest on raw materials and capital goods, in-between on intermediate goods, and highest on finished consumer goods. But still, there is an uncertainty and opacity in tariffs due to the existence of para-tariffs and lack of trade facilitation. (*vide* Sections 2.1.4.2 and 2.1.5). Bangladesh's commitments in its WTO tariff schedule are negligible: during the Uruguay Round it bound only 831 tariff lines, or 13.2 % of the total. All of its agricultural tariff lines are bound (at a relatively high level) - but only 0.9 % of its industrial tariffs. Bound tariff rates remain prohibitive at 200%. A small number of agricultural and machinery items are bound at 50%, with a 30 % surcharge. The number of tariff bands was reduced to 3 over the range of 0% to 25% in the fiscal year 2005 down from 18 in 1990/91 (when it ranged from 0% to 350%). According to WTO estimates, the simple average applied tariff rate fell significantly from 58% in 1992/1993 to 22.2% in 1999/2000 and to 16.5% in 2002/2003. Customs duties constituted 78% of tariff revenue in 1999/2000 making it the main instrument of trade policy, which if distorted is an obstacle to the efficient allocation of resources, thereby directly affecting agriculture and industry.

The specific case of the textile and clothing sector

2.5.3 The textile and garment industry was an exception to the GATT rules (as is also still the case for agriculture). In the 1970's, developed countries agreed on the MFA to protect their markets from competition by maintaining quotas and duties for products originating from developing countries. Some other countries took advantage of this rule as they benefited from the Special and Differential Treatment principle and were not subject to quotas. This is the case with Bangladesh (except for its exports to the USA). While the MFA has been distorting world trade, it gave Bangladesh the opportunity to develop a new industrial sector and to maintain its competitive position.

2.5.4 During the Uruguay Round, the Agreement on Textiles and Clothing(ATC) was adopted in the Marrakech Agreement (that created the WTO) to integrate textiles and clothing into the GATT on the basis of strengthened GATT rules and disciplines. Developed countries agreed to dismantle the quota system by 31 December 2004. The removal of quotas threatens many developing countries (including Bangladesh), which rely on earnings from the textile and clothing sector for a substantial portion of their foreign exchange earnings. The quota system has provided protected market shares for higher cost producers. Accordingly, when the quota system is fully eliminated, it should result in a much more market-driven system. The agreed phase-out protected the position of smaller producers and some LDCs. Bangladesh is expected to suffer from the weakness of its textile industry and its poorly developed infrastructure. It may lose market share as garment exports are lowered by increased competition. Pressure on wages and on working conditions is another risk.

Non-Tariff Barriers

2.5.5 The WTO Agreements that address non-tariff barriers consist mainly of the Technical Barriers to Trade (TBT) Agreement and the Sanitary and Phytosanitary Agreement (SPS). TBT covered standard-setting procedures, labelling and certification requirements, product description, etc.

The Sanitary and Phytosanitary Agreement

2.5.6 The SPS Agreement relates to food safety, animal and plant health standards (this is separate from the Agreement on Agriculture). It allows countries to set their own standards in a scientific and non-discriminatory way. Member countries are encouraged to use international standards, guidelines and recommendations. The Agreement includes provisions on control, inspection and approval procedures. Developing countries benefit from transition periods to implement these obligations and expect technical assistance to strengthen their understanding and compliance with the rules. Few projects have been carried out in this field in Bangladesh – either by donors or the GoB - but if the country wants to continue to export shrimps and frozen foods and to develop the agro-processing sector, it will have to comply with and to implement the rules sooner rather than later. As was pointed out in the Report of the Identification Mission for the EC's Bangladesh Quality Support Programme, Bangladesh also needs to address technical trade barriers by other (mainly developed) countries and the EC, particularly in the area of product standards and other import requirements. Standards are a major concern for business, particularly in relation to market access. The prevailing metrology, product and process standards, testing and quality system are of poor quality. There are insufficient voluntary industry-oriented standards, which reflect best international practices. Setting up appropriate accreditation and certification facilities and improving the existing ones will be a major challenge for Bangladesh.

Services

2.5.7 Bangladesh opened only two sectors to foreign competition: tourism and telecommunications. For the Doha Round, the main priority is to open new services to foreign competitors[13]. The Ministry of Commerce will need technical assistance in this field to choose services and to measure the impact of the opening of services. Bangladesh was very keen to negotiate on Mode 4 (Movement of Natural Persons) during the Doha Round, but in accordance with a General Council decision of July 2004 in Geneva, it was omitted from the Agenda. It has to be noted that as an LDC, Bangladesh does not have any compulsory commitment to open up its services. If it does so, there will be consequences – including some benefits - for the economy as a whole.

Intellectual Property Rights

2.5.8 As a LDC, Bangladesh has a transitional period until the end of 2005 to meet its obligations under the TRIPS Agreement, and it will meet the deadline. In the Doha Declaration on TRIPS and Public Health adopted by WTO Members in 2001, LDCs were given a further extension until 2016 for implementing patent protection on pharmaceuticals. WIPO has provided over the last few years constant support on IPR issues and particularly in the area of legislation, capacity building and the automation of the resgistrar office for trade marks and patents. The EC-WIPO project that will start in 2005 will address the issues more broadly including enforcement, further support to automation in the area of copyright, legal advice, creation of a collective management society for copyright and IP training. In view of the rather low development of the IPR system in Bangladesh, assistance beyond the EC-WIPO project will be needed.

Subsidies

2.5.9 There has been an increasing number of direct and indirect export subsidies in recent years, such as a 50% tax rebate on export earnings, the foreign exchange retention and duty drawback schemes, which may over-compensate exporters. Direct subsidies have been provided to exporters of textiles and garments, manufactured jute goods, leather products, handicraft, fresh and artificial flowers under the EPB's "thrust sectors". As an LDC, Bangladesh does not have to make any

[13] The New Industrial Policy 2005 defines 19 sectors to be opened but offers are still not published at the WTO: Hospital and clinic; IT related activities; Agricultural activities (fish catching, preserving and marketing); Telecommunications; Transport and communications; Forestry and furniture; Construction and housing; Construction business; Entertainment; Photography; Hotel and tourism; Warehouse and container services; Printing and packaging; Ginning and baling; Laboratory; Cold storage; Horticulture, floriculture and flower marketing; Processing food-grains and oilseeds; High standards intelligent and skilled knowledge society.

commitment to reduce subsidies, but raising information on how to better use them in accordance with the WTO principles could be useful.

Bangladesh trade defense instruments

2.5.10 The legislation exists, but there has been no investigation initiated on anti-dumping or countervailing measures in the country. A provision on safeguards was introduced in 1997 by amendments to Section 18 of the Customs Act, 1969. However, rules regarding imposition of safeguard measures have not been made. In any case, the administration – trade defence is the responsibility of the Bangladesh Tariff Commission - and the private sector does not have the capacity to prove the damage caused by dumping. On the other hand, a request for consultation was initiated at the WTO on antidumping measures on Batteries from Bangladesh by India in February 2004. There is a large deficit of information and knowledge on trade defense instruments, but the EC Trade Support Programme has a specific component to address these issues.

Trade facilitation

2.5.11 At the General Council Meeting in Geneva, it was decided as part of the "July 2004 package" to maintain trade facilitation in the Doha Agenda. Among other developing countries, Bangladesh remains hesitant to include this issue in WTO negotiations because of its lack of financial and technical capacity to implement comprehensive reforms in customs administration, to simplify procedures etc, and the concern that it will open itself to the compulsory WTO dispute settlement mechanisms.

2.6 INFRASTRUCTURE AND TRANSPORT

2.6.1 With gradual tariff reductions yielding greater access to products at world market prices, and being implemented in most countries, the focus has been turning towards trade facilitation.[14] In a narrow sense, trade facilitation is concerned with the logistics of moving goods through ports and airports. A broader definition would consider the impact on international trade of a number of interrelated factors that include various types of transportation of goods as well as customs regimes and their associated procedures. On-time delivery, low transaction costs, and procedural efficiencies are key components in international trade, and represent a further element in the trade liberalization spectrum that must be addressed to ensure competitiveness by removing associated bottlenecks and inefficiencies in the supply chain. These, however, can also involve infrastructural and other changes that can be very costly to implement, implying, as they do, improvements to power and telecommunications systems, which can also be lumped together under trade facilitation. Improvements to other areas, which facilitate exporters, such as Customs regulatory regimes, are less costly to implement and have shorter implementation horizons.

(1) Power Supplies

(a) Electricity

2.6.2 The power sector is a serious constraint on business operations and export development in Bangladesh because it is underdeveloped, unavailable in most rural areas, unreliable and thereby disruptive to industrial production to the extent that an estimated 72%[15] of users must rely on their own costly generating equipment.[16] It suffers from power pilferage and poor revenue collection, and operates below the cost of production – a study by JICA estimated that the Power Development Board (PDB) lost several billion Taka each year. Furthermore, electricity supplies are difficult to access for new customers, difficulties that are compounded by unnecessary delays, harassment, unnecessary queries and ubiquitous rent-seeking.[17]

2.6.3 Demand for electricity is projected to grow by about 10% per annum over the next ten years, a demand level that will be difficult to satisfy without additions to the national grid through public or

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[14] The World Bank currently has 80 trade facilitation projects in place at a cost of $4.6 billion.

[15] *Reducing the Cost of Doing Business in Bangladesh (Draft)* Bangladesh Enterprise Institute (BEI), September 2003

[16] The Bangladesh Steel Mill Owners Association estimates that disruptions to electricity supplies has increased production costs by Tk 4,000 to Tk 7,000 per metric ton.

[17] *Reducing the Cost of Doing Business in Bangladesh (Draft)* Bangladesh Enterprise Institute (BEI), September 2003

private participation, improvements to efficiency, reducing wastage and eliminating losses. Foreign investors, however, blame the lack of improvement in the country's power generation capacity on bureaucratic procedures for the delayed implementation of a number of power projects that have been in the pipeline for years. These include the development of a 450mw plant at Sirajganj; a 450mw plant at Dhaka North; a 210mw plant at Khulna; a 150mw plant at Sylhet; a 109mw plant at Haripur; a 90mw plant at Fenchuganj; and a further 70mw plant at Fenchuganj.[18] Reforms planned for the sector include the transfer of the Power Development Board into a holding company in preparation for divesting its shares through the Stock Exchange, and the privatization of the Dhaka Electric Supply Authority and other PDB concerns. It is also planned that all segments of the power sector, including power generation, transmission and distribution will be left to the private sector in the future.[19]

(b) Gas

2.6.4 Natural gas is Bangladesh's main source of commercial energy (along with coal) and accounts for 70 % of the country's commercial energy. At present nearly 90 % of the power generated in the country is gas based. Due to the near absence of any other major energy source, dependence on gas for power generation has spiraled and is expected to continue to do so. Another important gas user is the fertilizer sector where gas is used as raw material for producing nitrogenous fertilizers. Over the last decade, cultivation of HYV crops has gained popularity, and consequently, demand for nitrogenous fertilizer has increased sharply, which is expected to continue. Gas consumption in major industries like textile, dyeing, paper, pulp, cement etc. and in the commercial sector, including tea gardens is also increasing steadily. CNG already is used to fuel over 20,000 motor vehicles, mainly in the Dhaka area. With the gradual coverage of major growth centers with gas distribution network, use of gas as domestic fuel is increasing manifold. But gas - which can play an extremely important role in Bangladesh's future development - suffers from shortages, distribution bottlenecks and tweaking supply pipelines. It is the worst in Savar and Dhaka Export Processing Zone where the crisis has affected industries. Demand for gas has always exceeded Petrobangla supplies causing disruption to power generation plants and businesses. In March 2005 with the commissioning of Unicol's Maulvibazar field Bangladesh struck the highest ever gas output, surpassing the day's demand for the first time.

2.6.5 Under an appropriate policy regime gas can play an important role in the economic development of Bangladesh. Exports of natural gas to the neighbouring Indian market are a possibility. Exports of piped gas have the potential to become a major source of investment in gas development and additional revenue source for Bangladesh, but the issue remains controversial. Unocal, the largest foreign investor in Bangladesh's natural gas sector, announced in March 2004 that it was shelving a proposal for exports. Previously, in August and September 2003, Chevron Texaco and Shell had announced sales of their natural gas assets in Bangladesh citing the limitations of the domestic market and exports. Recently the Tata Industries group of India entered into negotiations with GoB authorities to use domestically supplied gas in Tata's planned industries in Bangladesh. The GoB has decided to devote its largest undeveloped gas field to the domestic market rather than to export the gas to India, as originally planned. The decision is a tacit acknowledgement that Bangladesh faces a supply crisis unless more fields are developed for domestic use.

(2) Telecommunications

2.6.6 In the telecommunication sector the policy of opening up the sector and reducing the role of government is on-going. The Bangladesh Telephone and Telegraph Board (BTTB) until recently was the regulator and public sector telecommunications monopoly. The late 1990s saw various changes in the environment. A number of private companies were allowed into the mobile telephone sector and rural areas involving wireless technology. However, land lines and international long distance remain a monopoly. Regulatory authority was transferred to the Ministry of Post and Telecommunication as an interim measure and then vested in the Bangladesh Telephone Regulatory Commission (BTRC) with its formation in 2002. Very recently BTRC has given licenses to a few private operating entities to provide basic telecommunications and long distance transmission facilities and other value-added

[18] Report on the Foreign Investors Chamber of Commerce meeting in Dhaka, March 28, 2005. Quoted in the *Star*, March 29, 2005.

[19] HE the State Minister for Power, Iqbal Hassan Mahmood, at a Foreign Investors Chamber of Commerce meeting in Dhaka, March 28, 2005. Quoted in the *Star*, March 29, 2005.

services, and the country has been divided into zones for the issuance of licenses. These companies have just started activities and it will be some time before benefits can start to flow. In order to ensure reasonable opportunities and competition the government retains the authority to determine the number of competitors.

2.6.7 In 1996, teledensity was only 0.26 telephones per 100 inhabitants. In the same year there were 155,000 people wait-listed for telephone service. The wait-list duration averaged 6.6 years. Since then there has been a phenomenal growth in mobile telephones. But the telephone lines (91 percent) are heavily concentrated in urban areas. Regional distribution of telephone lines, of which there are around 690,000,[20] is skewed heavily to Dhaka. Dhaka alone holds 36.6% constituting an urban teledensity of 1.09 telephones per 100 inhabitants. In the rural areas only 9 percent of the total main lines existed, a teledensity of 0.02.

2.6.8 The telecommunications sector in Bangladesh rests on a very weak infrastructure. The Bangladesh Telephone and Telegraph Board (BTTB), the public sector telecommunications monopoly, suffers from similar problems to those in the power sector. According to the BEI, there is restricted access to telephone connections, poor quality of service, inefficiency, uncompetitive pricing, high installation costs and delays in connections, high charges, and particularly, corruption. All of these factors not only increase the cost of doing business, but also negatively affect competitiveness, and thereby constrain growth. While the density of telephones extends only to 7% of the population, the market for telephones is growing at a rapid rate. The National Telecommunications Policy provides for competition and private sector participation, but this commitment has not been expressed in full liberalization of the industry. In the absence of full liberalization, Bangladesh is likely to miss out (if it has not already done so) on the benefits of worldwide advances in telecommunications.

(3) Transportation

(a) Ports

2.6.9 Trade performance is heavily reliant on transportation. Chittagong is the main gateway for trade - over 90% of all Bangladesh exports are estimated to go through Chittagong Port,[21] while in terms of volume, about 15 million tons of freight are accounted for by import and export shipments. Chittagong Port handles 80% of all container cargo into and out of Bangladesh – this amounted to 654,116 TEUs in 2003-2004. The port, however, is inefficient. The incidences of congestion on the quays and the extended time frames between the time of discharge at port and final delivery to the consignee's premises as well as the need to dispatch exports early in order to make sure that they are loaded on time are common areas of discontent for importers and exporters.

2.6.10 Turnaround times for loading and unloading containers are problematical – five days are required compared to the 1-2 days required in other regional ports. Container handling charges out of Chittagong are $640 compared to $220 out of Colombo and $360 out of Bangkok.[22] Average dwell time for a container in Chittagong is about 22 days compared to 3-5 days in modern ports. Such slow and uncertain turnaround times inhibit producers from developing efficient supply chains or participating in just-in-time manufacturing. The inefficiencies attributable to such cost and time differences are stated to be due to outdated work practices, the extensive power of the labour unions, obsolete facilities and excessive charges. It has been stated that the cargo-handling technology and method of operation of Chittagong Port remain "mired in the 1970's" with the benefits of multi-modal transport being unrealized as a majority of the containers continue to be stuffed and unstuffed at the port.[23]

2.6.11 Improvements to the port facilities are underway. Construction of a new container terminal, which will extend to 1,000 metres and accommodate five feeder vessels at a time began in January 2002 and will be completed by September 2006. Moreover, a study of a further new container berth of 600 metres with six shore gantry cranes for feeder vessels is ongoing. In addition, a feasibility study for the construction of a deep-sea port is about to start under the Economic Research Division (ERD)

[20] Ibid.
[21] EC estimate, quoted in *Reducing the Cost of Doing Business in Bangladesh (Draft,)* Bangladesh Enterprise Institute (BEI), September 2003
[22] For a 20 foot container.
[23] Arnold, J., *Bangladesh Logistics and Trade Facilitation.* World Bank, Washington DC October 2004

of the Ministry of Finance with the Investment Infrastructure Facilitation Centre (IIFC). However, while new container-handling equipment has and is being acquired by the Port, operational improvements will only occur if there is also a restructuring and capacity-building of the workforce, computerization of planning and close interaction with the shipping lines.[24]

(b) Air Transport

2.6.12 There has been an encouraging growth in export of fresh fruits and vegetables to other European countries also in recent years. The export of vegetables in 2003-04 was over 26,000 metric tonnes (MT). But exporters of vegetables - be it an institution such as BRAC or individuals - face a host of problems. Bangladesh BIMAN is the only airline that they can rely on - other airlines including foreign and private airlines refuse to carry vegetables mainly because of poor packaging standards and because they prefer other cargo. In 2003-04 BIMAN carried a total of 18,529 tonnes of vegetable cargo whereas other airlines carried 8000 tonnes only. BIMAN allows vegetable cargo at a discount of 30-40%. In the harvesting season there is great demand for space and exporters do not get adequate space in the aircraft. The reliability of BIMAN to carry the goods in time remains a big question mark. As BIMAN plans to add more wide-body aircraft to its fleet this will give rise to additional cargo capacity. It is also necessary that steps be taken to make sure that shipments move faster through customs. There is clearly also a need for improving the packaging of the vegetables by the sector. Dhaka airport is comparably one of the most expensive airports in the region, partly because of monopolies such as the cargo handling that is entirely done by BIMAN. Further deregulation of the airline industry should be urgently pursued to allow the upcoming private carrier to play a bigger role.

(c) Road Transport

2.6.13 Road transport is the dominant mode in the inland distribution network, and has a market share of over 70% of freight tonnage movement. Trucking thus offers good potential for moving goods by road between manufacturing facilities and export/import nodes, but it is limited by a lack of inland clearance facilities and the possibility for expedited shipments. However, with regard to container shipments, apart from localized operations in Chittagong and Dhaka, the distribution of containers over the national road network is presently very limited. In other countries, shipment of goods by long-distance road transit is normally undertaken by heavy-goods vehicles (HGV) in order to obtain economies of scale. This is not practicable in Bangladesh because of road infrastructure constraints. Thus, high unit costs are incurred in having to use relatively small vehicles over relatively long distances. The road freight sector is principally served by the private sector and consists mainly of small transport companies. HGVs for the movement of heavier loads such as containers are not common and are effectively limited to localized or intra-urban operations in Dhaka or Chittagong. However, private companies are understood to have been increasing their HGV fleets for carrying containers to and from the ports and it is assumed that this capacity will be increased when the upgrading of the Dhaka-Chittagong Highway is fully completed. However, even with improvements, there will be continuing problems with road traffic congestion, which can only be addressed by fully upgrading the existing road network.

(d) Rail Transport

2.6.14 Moving containers by train offers a competitive service, but capacity is limited. As a result, only 11% of cargo is shipped to Chittagong Port by rail. The rail network offers a lower unit cost alternate to trucking, but suffers from a lack of resources and inefficiencies. Obsolete rail wagons and speed limitations are a major hindrance to rail freight operations. This is further compounded by theft and the constant need for safety checks which increase transit times and congestion on the predominantly single-track rail system. Rail transport of containers is also underdeveloped due to a lack of commercial management at Bangladesh Railways, and in poor performance such as in wagon turn-around time and wagon availability. According to the World Bank review of logistics:

"Commercialization of the railway container services and the introduction of corridor planning to improve the utilization of available multi-modal capacity and optimize investments in new infrastructure is necessary. Bangladesh should emulate India's successful efforts at separating container unit train operations from other less profitable and less time-sensitive rail services and placing them under commercial management. Decisions on capital investments in the road and rail

[24] Ibid.

sector should be made considering them as part of the same corridor and choosing the service that offers the greatest improvement in service within the corridor as measured relative to cost."[25]

In particular, the Bank's review recommends that rail freight capacity can be increased by:

> "double-tracking, improved signaling, procuring faster wagons, constructing new links, extending sidings and/or replacing passenger trains with bus services. However, this service still requires a truck movement between the rail depot and the factory."[26]

(e) Inland Waterways

2.6.15 The inland waterways system is an important element of the inland transportation system in Bangladesh, but it has not yet been able to meet the needs of the developed logistical chain, for example in the area of containerization. Both Chittagong and Mongla ports are dependent on inland water transport for the movement of bulk and semi-bulk products. While the inland waterway network has long been used for the distribution of bulk and break-bulk cargo, the transportation of containers by waterway to the ports has not yet been developed. The lack of Inland Container Depots (ICDs) is a further constraint on the development of the inland waterway system. Some developments in this area are ongoing – a riverside container terminal is being constructed at Khanpur which will facilitate a barge capacity of 15,000 TEUs. Until this is operational, efforts will need to be made to encourage the development of waterways to relieve congestion in Chittagong Port and improve facilities for transportation to and from the port.

2.7 INVESTMENT POLICY

2.7.1 While it is a truism that countries will generally accept foreign direct investment (FDI) whenever they can find it, (except in areas that are banned to foreigners) the Industrial Policy 2005[27] generally determines investment policy and the GoB states that the provision of all facilities for attracting foreign investment is a priority in the context of achieving the main objectives of the Industrial Policy which are the following:[28]

1. One of the foremost objectives of the Industrial Policy 2005 is to set up planned industries considering the real domestic demand, prospect of exporting goods abroad, and discouraging unplanned industries in the light of past experiences.
2. Accept private initiatives as the main driving force of economic development and uphold the government's assisting role in creating a favourable atmosphere in order to augment private investments in the country's industrialisation, given the background of free market economy and globalisation.
3. Arrange for state-owned industrial enterprises to be sold/ transferred/ leased or administered in any other way by the Privatisation Commission or concerned ministries in order to accelerate the privatisation process.
4. Take necessary initiatives to set up industries with private entrepreneurship, and, where that is not feasible, establish industries on state initiative in those sectors that are considered very important and essential because of national interest, where private entrepreneurs are not forthcoming.
5. Provide support to productivity development by ensuring (a) the production of goods of world standards, (b) diversification of goods, (c) cost-effective management of production, (d) more value addition in the industrial sector, and (e) using appropriate but developed technology so that goods produced at home are widely popularised in local and export markets, and industrial goods of high standard are manufactured to consumer satisfaction.
6. Provide assistance to augment the industrial sector's contributions to the GDP of the national economy, meet the general demands of local consumers and earn more foreign exchange so that local industrial entrepreneurs can attain further capacity to establish industries, and industrial goods can have access to the overseas market on a competitive basis.

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[25] Ibid
[26] Ibid
[27] The new Industrial Policy was introduced in March 2005.
[28] Source: World Bank translation of the Industrial Policy

7. Provide inspiration for the speedy expansion of cottage industries and SMEs and for further investment in these sectors so that the new employment opportunities are generated, unemployment reduced and poverty alleviation program made successful in the country.
8. Prioritize the expansion and development of agro-based and agricultural processing industries, and assist in the expansion of poultry, dairy and goat-sheep industry as agricultural industries.
9. Provide women entrepreneurs with all necessary assistance in establishing industries in various sectors.
10. Arrange for the production and gradual diversification of high value-added goods through increased productivity in the industrial sector and development and implementation of appropriate technology, and also promote export through a strategy of export diversification.
11. Provide all necessary assistance in respect of the production of environmentally friendly goods aiming at creating a pollution-free industrial environment. Expand the local market and establish more backward linkage industries in order to accelerate the export of high value-added garments produced in the export-oriented garment industries and other relevant industrial sub-sectors.
12. Further enrich the industrial sector with the proper utilisation of the country's various natural and mineral resources.

2.7.2 It is a commonly-accepted principle among investors, both foreign and local, that the more conducive the operating environment, the more likely it is that an investment will take place, and conversely, the more barriers that are in place, either administrative or operational, the less likely it is that foreign companies will be interested in investing. Bangladesh has certain characteristics that are encouraging to investors, such as an abundant supply of labor at highly-competitive wage rates compared to other countries in the region (although when productivity is taken into account, the low labor rates are less attractive) and more reasonable interest rates than heretofore; nevertheless, there are deficiencies that seriously erode Bangladesh's attractiveness as a target for FDI. Bangladesh has a poor image internationally due in large part to its political instability, social unrest, and systemic corruption. In terms of governance, the country is plagued by unnecessary regulations that cause delays and increase firms costs; informal payments are endemic; and the legal system and the judiciary are flawed, particularly in commercial law and in regard to enforcement of contracts. (*vide* Section 2.2. above). The most significant deterrent is in the provision of electricity, where supplies are deficient and unreliable; where new connection applications have to endure long delays; and informal payments are a ubiquitous feature of private sector dealings with electricity suppliers. (*vide* Section 2.6.2 above). A further area that discourages investment is the lack of a modern, efficient telecommunications sector. Bangladesh suffers from the lowest teledensity in South Asia, as well as the lowest level of information technology by firms in South Asia.[29] (*vide* Section 2.6.6). Transport presents a further disincentive. Services are inefficient and costly. In particular, services at Chittagong Port are not sufficiently competitive with other ports in the region. (*vide* Section 2.6.9). Customs and tax administration have improved in recent years but companies are still subject to the harassment of long delays and informal payments. Finally there is poor access to credit, and the interest rates, although these have been reduced from 16-18% to a current 11-13%, are still high by international standards.

2.7.3 The BOI was established in 1989 under the Investment Act to promote and facilitate private sector local and foreign investment, and boasts a liberal investment policy. According to its mandate, the Board of Investment (BOI) is designated as the focal point for investment and the single point of delivery for all services to investors. Despite the negative factors referred to in 2.7.2 above, the BOI has recently been performing almost creditably in its quest for new investment, with FDI marking a generally upward trend. From $78.1 million in 2001, investment declined to $52.3 million in 2002 but increased to $120.7 million in 2003.[30] These amounts, however, are miniscule compared to other countries that have more investor-friendly environments. Currently, there are several large projects under negotiation. The Tata Group from India, for example, is currently considering investing $2 billion in Bangladesh to set up steel mills, fertilizer factories and power plants.[31]

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[29] The World Bank and Bangladesh Enterprise Institute, *Improving the Investment Climate in Bangladesh,* Washington DC and Dhaka, June 2003.
[30] *Source*: UNCTAD, World Investment Report 2004, Country Fact Sheet Bangladesh
[31] Anand Krishnamoorthy, *Tata Group aims to lift sales abroad,* International Herald Tribune, Tuesday, March 29, 2005.