

2.7.4 In keeping with its objective to be a “one-stop-shop” staff from several relevant organizations – Bangladesh Bank, the Telecommunications Board, the Water and Sewerage Authority, the Power Development Board, the Rural Electrification Board, Dhaka Electric Supply, the Environment Directorate and the National Board of Revenue have been seconded to the BOI. Once an investor makes the decision to invest, it is then the responsibility of the BOI to provide specific services to help the investor register the company; obtain an industrial plot; obtain a utility connection; register for taxes; obtain work permits; and help with the importation of machinery and raw materials. In practice, however, the BOI is not in a position to provide these services. What happens is that the BOI writes letters of recommendation to the relevant agencies requesting the services, such as the allocation of a plot of land from the Ministry of Land. While the BOI recommendation cannot be bypassed, it is not known how successful this system is, although “Chamber bodies and industrial entrepreneurs generally complain that in most cases the ‘entrepreneurs’ have to buy the recommendation at a huge cost.”<sup>32</sup> A similar situation appears to exist with BOI efforts to obtain telephone, gas and electricity supplies. Obtaining work permits is also problematical. The BOI, once reporting to the Department of Industries, and despite the creation of the one-stop-shop appears not to have discernibly changed its *modus operandi* since its move to the Prime Minister’s Office in 1993.<sup>33</sup>

## 2.8 AGRICULTURAL POLICY

2.8.1 Bangladesh agriculture, which is characterized by subsistence farming, plays a very important role in the economy of the country accounting for 21% percent of total GDP in 2004.<sup>34</sup> The agriculture sector comprises crops, fisheries, livestock and forests. Of the agricultural GDP, the crop sub-sector contributes 57%, forestry 8.7%, fisheries 22.3%, and livestock 12%. The sector generates 52% of total national employment, of which the crop sectors share is nearly 48%.<sup>35</sup> Agricultural exports of primary products constituted 7.06% of total exports of the country in 2002-2003.<sup>36</sup> In the past decade, the agriculture sector contributed about three percent per annum to the annual economic growth rate. At the time of independence rice cultivation occupied nearly 75% of the cropland and 71% of agricultural income. It was the dominant source of supply of food and the major source of employment. The strategies and policies for agricultural development centered on the growth of the crop production sector, more particularly on rice and wheat production. The components of the policy included expansion of the infrastructure for flood control; drainage and irrigation for facilitating the adoption of modern high-yielding varieties; research and extension for technology generation and dissemination; and procurement and distribution at subsidized prices to farmers of modern agricultural inputs especially chemical fertilizers and seeds through public sector corporations. But technological progress remained limited in spite of investment from the public sector.

2.8.2 Since the mid-1980s with the initiation of the Medium-Term Foodgrain Production Plan, some changes were introduced in reducing government control and encouraging private sector participation in input and output markets. The reforms involved the private sector in the distribution of irrigation equipment; phasing out of subsidies on minor irrigation equipment; reducing fertilizer subsidies; phasing out the monopoly of the Bangladesh Agricultural Development Corporation on fertilizer distribution; and rationalizing domestic foodgrain procurement and distribution policies to provide reasonable returns to farmers and to help stabilize consumer prices. The most noteworthy reform on the output side was the end of the statutory food rationing policy and abolition of the monopoly in the export and import of foodgrains.

2.8.3 In 1996 the Government signed the Ganges Waters Treaty for sharing the discharge of the Ganges during the dry season between January and May in an attempt to get necessary water for the irrigation facilities developed in the North-western parts. The agricultural deregulation reforms and research successes in rice led to the rapid adoption of the high-yielding varieties of rice and contributed to the expansion in agricultural productivity and value added. As a result although the rice acreage remained at the same level at around 10 million hectares over the last 30 years, rice

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<sup>32</sup> *Reducing the Cost of Doing Business in Bangladesh (Draft)* Bangladesh Enterprise Institute (BEI), September 2003

<sup>33</sup> The Prime Minister is the Chairman of the BOI. It is funded directly by the Ministry of Finance. The BOI is independent in its day-to-day operations.

<sup>34</sup> Source: Bangladesh Bureau of Statistics, National Income Wing, 2004

<sup>35</sup> Source: Bangladesh Bureau of Statistics, Labour Force Survey, December 2004

<sup>36</sup> Source: Bangladesh Bureau of Statistics, Bangladesh Export Statistics, 2002-2003

production has increased from 16 million tons of paddy before independence to 35 million tons in 1999.

2.8.4 The present Government continues the policy of according the highest priority to the agriculture sector. The commitments in this respect are reflected in the National Agriculture Policy (NAP) of 1999 which includes:

- i. A timely supply of agricultural inputs at affordable prices;
- ii. An appropriate action plan for agricultural credit and marketing of agricultural products;
- iii. Government support to agriculture;
- iv. Priority for the development of agro-based small and medium industries;
- v. Increased private sector participation in different sectors of agriculture i.e. seeds, fertilizer, agro-machinery and also in establishing agribusiness;
- vi. Agricultural mechanization;
- vii. Pest management;
- viii. Greater coordination between the Government, NGOS and the private sector;
- ix. Food based nutrition;
- x. Environmental protection in agriculture; and
- xi. Greater involvement of women in agriculture.

2.8.5 Bangladesh agriculture is now in the process of transformation from subsistence farming into commercial farming. Bangladesh has already entered into foreign markets for vegetables and other high value crops. Exports are going into the European market especially targeting the ethnic immigrants. This process opens a vista to private sector investment in the areas of production of high value crops, production of seeds (especially hybrid seeds), of chemical and blended fertilizers, agro-processing enterprises, etc. The policy reforms that have taken place offer greater scope and opportunities for private sector participation and a suitable environment towards promoting agribusiness and investment.

2.8.6 The acceleration of agricultural growth in 1990s was also due to the growth in the non-crop sectors i.e. forestry, fisheries and livestock. The share of these sub-sectors in agricultural value added was merely 20% in 1973-74 but by 1998-99 it rose to 42%. The fisheries sector is very important to the national economy as it generates over \$321 million in foreign exchange, mainly through the export of cultured shrimp, in addition to its contribution to national food security. The Government provides various incentives such as research, extension facilities, credit and infrastructural support. In the forestry sector, seeds and seedlings are supplied to farms and NGOs. To improve the poor quality of animals and feed shortages, increasing use of modern equipment and medicine for treatment of livestock, feed for livestock and poultry, production of vaccine, extension of artificial insemination and also livestock services at the rural level have been undertaken. The non-crop agriculture has the potential to generate income and employment in such activities as increasing productivity, processing and marketing. Exploitation of this potential would require development of rural infrastructure, transport, power and communications and investment in human capital formation.

## 2.9 SOCIAL POLICY

2.9.1 Bangladesh has made important gains in the fight against poverty, reducing the percentage of people below the poverty line to 49.8% in 2000 as against 70% in the 1970s.<sup>37</sup> Human development conditions in education, health, and social safety nets are much improved. At a comparatively low level of development, Bangladesh has also earned the distinction of a major decline in the population growth rate. While mortality was halved during the 1990s, life expectancy has increased to 61 years, net primary school enrolment went up significantly as did women's economic participation, and gender parity has been achieved in primary and secondary education. Anti-poverty innovations such as micro-credit have become internationally renowned.

2.9.2 A vibrant non-government sector as well as private sector bodies have worked side by side with the government to achieve these gains. The government spends close to 1 percent of GDP on safety net provisions and runs one of the largest programs of targeted food transfers in the world.

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<sup>37</sup> Source: BBS, Statistical Year Book, 2002

These programmes are reasonably well targeted toward the poor and those affected by disasters, although targeting and reducing leakages in the administration of the programs could be improved. The Government's Five-Year Strategic Plan for the Comprehensive Disaster Management Programme (2004-2008) incorporates programmes to strengthen the capacity of the Bangladesh disaster management system in order to reduce unacceptable risk and improve response and recovery management at all levels.

2.9.3 However, for the most part, women remain in a subordinate position in Bangladesh. Literacy rates are approximately 26 % for women, compared with 49 % for men. In recent years, female school enrolment has improved, with approximately 50 % of primary and secondary school students being female.

2.9.4 Employment opportunities for women have been stronger since the early 1990s than for men. This is largely due to the growth of the export garment industry in Dhaka and Chittagong. Over 80% of the garment sector workers are women. Programmes extending micro-credit to large numbers of rural women have also contributed to greater economic power for them. However, the Government's policy to include more women in government jobs has only had a limited effect since women hold only about 12% of government jobs, and only 2 % of senior positions.

2.9.5 The garment and shrimp processing industries are the biggest employers of female laborers. Forty-three percent of women work in the agriculture, fisheries, and livestock sectors, but 70% of them are unpaid family laborers. Many women work as manual laborers on construction projects as well, and constitute about 25% of all manufacturing workers. Women are also found in the electronics, food processing, beverage and handicraft industries<sup>38</sup>

2.9.6 Child labour remains a major problem in Bangladesh. A survey, conducted by the Bangladesh Bureau of Statistics, found that roughly 17.5 % of children in the 15-17 age group was engaged in economic activities in 2002-03. The agricultural sector employed about 56% of total child workers (estimated at 7.6 million children). The production and transport sectors engaged 25.4% of them while 14 % were sales workers. Many children are engaged in hazardous occupations in manufacturing factories, where they are often subjected to exploitive working conditions as well as physical and mental abuse. A UNICEF report has pointed out that some forty industries in the country have been using child labour, where their jobs are highly hazardous and dangerous with little regard for health and safety. The ILO has identified (under its International Programme of Elimination of Child Labour (IPEC) 447 children under 15 years of age working in 130 tanneries in Dhaka's Hazaribagh area. Child labour is widely considered to be the most severe form of child abuse and exploitation in Bangladesh.<sup>39</sup>

2.9.7 Apart from being in violation of basic ILO and human rights treaties, child labour can also affect the exportation of products to some countries. For example, the 1997 Sanders Amendment to the US Trade Act of 1930, prohibits the importation of products made by "forced or indentured labor into the US.

2.9.8 Bangladesh has adopted a number of liberal labour laws but their implementation is not always consistent with ILO minimum standards, particularly in regard to non-discrimination and child labour. Another basic international standard – the right of free association – is not always respected in practice either. The NAM has been informed, for instance, that women are prohibited from forming unions in garment factories. This is another example of social policies and laws to implement international standards being applied unevenly, or sometimes not at all.

2.9.9 Women and children are increasingly and disproportionately the victims of poverty. They are often required to work in appalling conditions, and are easy prey to physical abuse. They receive little protection from the police or law enforcement agencies generally.

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<sup>38</sup> Sources: *Bangladesh: Country Reports on Human Rights Practices (2000)* ; *Women's Rights in Bangladesh* ([www.onlinewomeninpolitics.org/womensit/bd—sit.pdf](http://www.onlinewomeninpolitics.org/womensit/bd—sit.pdf).)

<sup>39</sup> Source: *Child Labour in Bangladesh*, by A.N.M.Nurul Haque (Editorial page from *New Nation Online Edition*, 25 Nov. 2004)

2.9.10 In addition to aiming to overcome these problems, social and human rights policies could be developed to enhance the health, education, and training of women and children. Increasing opportunities for working mothers are being examined by organizations in Bangladesh, in coordination with the ILO. The development of social policies in a number of other areas affecting women – such as their participation in SMEs and access to reproductive health care services – should also be given fuller consideration. To make women more equal partners in the labour force not only makes for sound human rights policy but also helps to make them more productive members of the work force, including in export industries.

#### **Compliance issues in the RMG sector**

2.9.11 Many garment factories, especially small sub-contractors, in Bangladesh are yet to comply with the rule of not using child labour. Non-governmental organization Nari Udjog Kendra conducted the survey, which finds that many such factories still have not ensured workers' rights to health and safety, minimum wages, maternity benefits, freedom of movement and good working environment. The survey finds only 30% factories in small sub-contracting category have implemented health and safety requirements, 40% obeyed the minimum wage rule, and 20% provided good working environment; maternity benefits or freedom of association have been left out. The random survey conducted in 40 factories in Dhaka, Narayanganj and Gazipur has found better implementation of compliances in the factories in the EPZs and factories working directly with buyers or buyers' agents. About 55-90% factories in this category have implemented health and safety requirements, 70-100% obeyed the minimum wage rule, 30-100% provided maternity benefits, 50-80% provided good working environment and 70-80% ensured freedom of movement.

2.9.12 Based on the findings of the survey, a roundtable on 'Compliance Development in the Garment Industry in Bangladesh' has recently been organized by the Nari Uddug Kendra (NUK) on issues like child labour, forced labour, discrimination in salary payments, unhealthy environment and exploitation in payment regarding the overtime work.

2.9.13 At least 4000 garment factories of the country have already been closed down due to lack of orders from the buyers. 30-40% of the garment factories, especially the old ones, might not survive in the longer period. At least 1,000 garment factories have been shifted from Dhaka to elsewhere for they lacked the compliances and entailed higher spending. On the other hand, the production in the RMG sector suffers when the workers do not return to their work places after a long vacation or migration.

2.9.14 Some of the big players have started investing money in developing facilities, including multi-storey dormitories for workers, hospitals, day-care centres and waste treatment plants at their factory premises or in surrounding areas.

## **2.10 EDUCATION POLICY**

2.10.1 Education in Bangladesh is traditionally state-financed. Primary education is compulsory. Public universities, which charge nominal tuition fees from the students, are almost entirely state-financed. The Technical and Vocational Education and Training (TVET) courses of one to four years duration are offered by vocational training institutes, polytechnics, commercial institutes, technical training centres and specialised institutes. Certificate level courses (post-class 8) are offered in about 157 public institutions and some 1,400 non-government institutions including secondary schools. Government allocations to the education sector finance educational expenditures.

2.10.2 The government however is heavily dependent on external sources for financing its educational budget. External aid finances more than 50 percent of government development expenditures on education. Private universities on the other hand receive no financial support from the government, and run their academic programmes charging high tuition fees from their students. NGO schools operate mainly in areas not served either by the government or private schools essentially to meet the educational needs of vulnerable groups in the society. They usually follow an informal approach to suit the special needs of children from the vulnerable groups.

2.10.3 The mainstream education system is a vernacular-based secular education system carried over from the colonial past. There also exists a separate religious system of education. In the urban

areas, another stream of education, modeled after the British education system, using the same curriculum and English as the medium of instruction, has grown rapidly.

2.10.4 In the past decade, Bangladesh has attained several milestones in education. For instance, adult literacy rates have increased from 37.2% in 1991 to 49.6% in 2002. In 2003, the country claimed to have reached a literacy rate of 62% but this high figure is inconsistent with other statistical information. Disaggregated statistics in literacy and quantitative expansion in education also signals that women are increasingly claiming seats as learners and teachers. At the primary level, NGO based institutions such as community, satellite and other schools have tripled in number since 1990. There has also been a spectacular increase in students at the primary level between 1990 and 2001 (12.3 million to 17.5 million), a phenomenon which is equally applicable to female children. The decade of the 1990's witnessed increasing numbers of female teachers in primary schools and in students seeking secondary education, where girls presently outnumber boys. In 2000, almost 100 per cent of all female children enrolled in secondary education were receiving tuition subsidies and stipends. Recent statistics show that more than 4.1 million children studying in 21,000 schools and madrasas are covered by education schemes such as the Female Secondary School Assistance Project and the Female Secondary Education Stipend project.<sup>40</sup>

2.10.5 Notwithstanding a significant increase in formal education and literacy rates, much of the technical-oriented education offered in Bangladesh appears to be based around what may be termed trades or "blue collar" occupations. This suggests that the vocational relevance of courses across a variety of skill requirements of many more labor market occupations is being overlooked. The placement rates of Vocational Training Institutes and Technical Training Centres' graduates in employment is believed to be some 40% and 65% respectively and unemployment is said to be common among graduates of polytechnics.<sup>41</sup> This suggests that courses are not sufficiently relevant to the needs of the labor market. It seems therefore that greater consideration will need to be given by the education authorities to link more closely technical and vocational education and training to the requirements of industry. The narrow focus of existing vocational courses will remain a key constraint for the competitiveness of Bangladesh so long as the relevant skills levels remain very low.

2.10.6 One of the major deficiencies among Bangladeshi business persons is the lack of the ability to negotiate in English. With English rapidly becoming the universal language of international business, it is essential to have the capability to communicate in English when dealing with export markets, not just in North America and Europe, but in Asia also. This is an important area that may need to be addressed by policymakers and by donors.

## 2.11 ECONOMIC SECTORS

### Introduction

2.11.1 Starting in the 1970's, Bangladesh moved from a predominantly agrarian economy to one based on industry with a high specialization on a very limited number of products.

2.11.2 While its share of GDP decreased in the last 30 years, the agricultural sector still accounted for 21% of GDP and for more than 60% of employment in 2003<sup>42</sup>. At the same time, services accounted for 53.7% of GDP and industry 25.3%<sup>43</sup>. Industrial development has been the priority of the last 20 years. This has been successful, due largely to the heavy concentration on the textile and garment industries.

2.11.3 The main agricultural products are jute and fisheries (shrimps). New attempts are being made to develop specific sectors such as fresh vegetables and to re-launch "old sectors" such as tea.

2.11.4 The industrial background of Bangladesh is concentrated in a very small number of sectors. The main one is ready made garments (RMG), which provides direct employment to 2.5 million people locally, thereby accounting for 65% of the industrial employment of the country and 9.5% of

<sup>40</sup> ASK, *Rights in Bangladesh*, 2003

<sup>41</sup> *Bangladesh: Education Sector Review*, Volume III, World Bank, 2000.

<sup>42</sup> World Bank Bangladesh: Growth and export competitiveness, January 19, 2005

<sup>43</sup> Source: Asian Development Bank. [www.adb.org](http://www.adb.org)

the GDP. Other industrial sectors are textile, leather and footwear, ceramics, pharmaceuticals, light engineering, bicycles, packaging, etc.

2.11.5 Services include all the infrastructural activities (telecommunications, port services, etc). These are mainly state-owned and will not be analyzed here except for two sectors Information and Communication Technologies (ICT) and Tourism (see below).

2.11.6 The average annual percentage growth in output of GDP by sector is as follows:

	1983-1993	1993-2003	2002	2003
Agriculture	2.2	3.6	0.0	3.1
Industry	6.0	6.9	6.5	7.3
Services	3.7	5.0	5.4	5.4

Source: World Bank: Promoting the Rural Non Farm Sector in Bangladesh, October 7, 2004

## 2.11.1 Primary Products

### Jute

2.11.1.1 Bangladesh is the second largest jute producer in the world after India with 859,000 metric tons (mt) produced in 2002 and 800,000 mt in 2003<sup>44</sup>. Eleven million people work in the sector.<sup>45</sup> Local consumption absorbs between 13% and 15% of production, with the remaining 85% being exported. One of the main problems in the sector is the insufficiency of national consumption, and therefore a continued decline in demand - shops, cement industries and others no longer use jute bags but instead use paper. To these internal problems should be added the battle between jute and synthetic fibers that are mainly produced by developed countries at very competitive prices<sup>46</sup>. Moreover in the international arena, anti-dumping procedures against Bangladesh have been initiated by India and Brazil, while Malaysia has imposed high duties on jute products (30% on jute bags and 10% on carpets made from jute).

2.11.1.2 The jute sector is concentrated in State enterprises. Many companies are still state-owned enterprises (SOEs) even though, in 2004, a major step was taken with the privatization of Adamjee Jute Mill, the country's largest and most costly SOE. The lack of investment and R&D is a handicap for the competitiveness of the sector and results in a lack of improvement in the poor-quality image of jute products, when, conversely, this should be promoted due to the environmentally-friendly nature of the product. New applications for jute through production and development of low-cost geotextiles should be evaluated as a means of maintaining production and employment in the sector.

### Tea

2.11.1.3 Tea production reached 37,000 metric tons in 2003, up from 52,000 mt in 2002<sup>47</sup>. Presently, Bangladesh has difficulty in competing in the global market due to the low productivity of the sector and to the tea quality. During the late 1990s Bangladesh was among the world's top ten exporters of tea and accounted for 2% of total exports. Dwindling production and increasing consumption in the domestic market has seen exports slump to 11 million kilograms or 1.3% of global exports in 2004.

2.11.1.4 Bangladeshi researchers announced in March 2005 that they had developed a cloned plant called the BT-16 species that yields 3,100 kilograms of tea per hectare (2.5 acres), two and a half times the present tea rate. According to the Head of the Tea Research Institute<sup>48</sup>, this cloned tea plant will help boost the country's tea production to 110,000 tons in a decade's time.

### Fresh vegetables

2.11.1.5 Bangladesh produces many fruits<sup>49</sup> and vegetables. Water gourds, tomatoes, radishes, beans, pumpkins, cucumbers, potatoes, cabbage etc. can be grown readily due to the favorable

<sup>44</sup> Bangladesh Bureau of Statistics, Statistical Bulletin, July 2004

<sup>45</sup> Bangladesh Bureau of Statistics

<sup>46</sup> French Embassy: study on the jute sector, 2004.

<sup>47</sup> Bangladesh Bureau of Statistics

<sup>48</sup> In the Bangladesh Today: Cloned plant may double country's tea production. March 29, 2005

<sup>49</sup> Banana, mango, pineapple, papaya, melon, litchi, lime and lemon, orange, guava, pomelo, etc

climate. In 2001/2002, Bangladesh produced 12,761 metric tons of fresh vegetables<sup>50</sup>. However, despite the high use of fertilizers, the productivity of the sector remains low because of low mechanization. Most of the products are sold in the local market due to the transportation difficulties as well as the lack of cooling facilities. Up to 40% of merchandise is said to be lost because of poor transportation facilities.

2.11.1.6 Exports are also limited because of the inadequate airfreight facilities provided by BIMAN. In addition, an inadequate understanding of the needs of developed-country markets (size, colors of products, standardization, etc.) limits export opportunities. The lack of harmonization with the Agreement on SPS and the quality standards required by developed countries (HACCP, ISO) as well as the new European rules on traceability (EC Regulation n°178/2002), makes matters even more difficult for exporters, who have problems in complying with the international rules.

### **Fisheries, Shrimps, Frozen Food, and Agro-Processing**

2.11.1.7 The government decided to make agro industries development one of its priorities to diversify its production and exports as well as to limit rural migration. Fisheries represent 22% of the agricultural sector in Bangladesh<sup>51</sup> and 5% of GDP. Bangladesh has a variety of benefits from inland and marine species<sup>52</sup> such as carp, catfish, snake head, bombay duck, Indian salmon, sharks, rays and shrimps. Shrimps are the main output in the sector and all of these are exported. Shrimp is the second largest export from Bangladesh. The shrimp industry began to grow into a major non-traditional export in the late 1980s. There are now approximately 37,397 farms cultivating bagda (tiger shrimp) with an average farm size of 4.5 ha. Bagda production has increased by 20% per annum in the last 15 years. Fish products (mainly shrimps) amounted to 2 million metric tons in 2003 and this sector should continue to grow with a better culture management and cost reduction in the infrastructure mainly for electricity, transportation, and cold storage. The objective of the industry is to reach \$1 billion in export earnings by 2008<sup>53</sup> but quality standards implementation in respect to the SPS Agreement, cold storage facilities, better packaging and marketing will have to be improved to fit developed country needs.

2.11.1.8 There are 124 shrimp processing factories in Bangladesh sited mostly in Khulna and Chittagong as well as about 60 hatcheries, mostly in Cox's Bazaar. The separation of the hatcheries from the production and processing facilities increases transportation problems and, as a result, costs for the entire value chain in the range of 25% - 30% of the larvae are lost during transportation. There are 600,000 people employed in the shrimp sector<sup>54</sup> in Bangladesh generating \$301 million of exports annually. Losses from the 2004 monsoon are estimated at \$50 million<sup>55</sup>.

2.11.1.9 The shrimp industry is problematical due to low productivity and extensive production. The production remains low (40% capacity of utilization of shrimp processing plants), damages the eco-system and causes extinction of species. A further risk has arisen from the adoption of the sanitary and phytosanitary agreements and subsequent standardization of production and processing methods using HACCP methods. As of now, HACCP is applied mainly in the processing plants, but shrimp farms are also required to adopt them. The farming community lacks capital, education, and knowledge to implement changes under current market conditions.

2.11.1.10 Other sectors of agro-processing in Bangladesh are fruit juices, jam, and canned food but the lack of raw materials such as iron, aluminum or plastic makes packaging for these products difficult.

### **2.11.2 Industrial Products**

Ready Made Garments (RMG), Knitwear and Textiles

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<sup>50</sup> World Bank Bangladesh: Growth and export competitiveness, January 19, 2005

<sup>51</sup> Ministry of Agriculture

<sup>52</sup> Bangladesh Bureau of Statistics, 2002 Statistical yearbook of Bangladesh

<sup>53</sup> French Embassy: *agro-processing in Bangladesh 2004*

<sup>54</sup> A. K. Enamul Haque, North South University, Dhaka: *Sanitary and Phytosanitary Barriers to trade and its impact on the environment: the case of Shrimp farming in Bangladesh*, 2003 – 1 million people work in the shrimp sector according to World Bank Bangladesh: *Growth and export competitiveness*, January 19, 2005

<sup>55</sup> Centre for Policy Dialogue: *Rapid assessment of flood 2004*

2.11.2.1 The garment sector grew very rapidly in the last 20 years as it progressively benefited from the Multi-Fibre Arrangement (MFA). It provides direct employment to 2.5 million Bangladeshis<sup>56</sup> (65% of industrial employment in Bangladesh, more than 80% of whom are women) and accounts for 9.5% of GDP. Knitwear and knitted garments are a growing component of the sector. RMG amounted to \$5 billion of exports, and knitwear \$1.7 billion in 2003. This amounts to 75% of total exports of Bangladesh, with woven garments accounting for 49.8% and knitwear 25.2%<sup>57</sup>.

2.11.2.2 The RMG sector faces a lack of competitiveness due to infrastructural bottlenecks – electricity, telecommunications, transportation - and inadequate regulations (such as bans on imported yarn and cartons), low value-added to products (production is mainly concentrated on T-shirts, sweaters, trousers and jackets), lack of an adequate textile industry (yarn and fabrics), low productivity, dearth of skilled manpower on design, management, marketing, R&D and quality standards.

2.11.2.3 The government is supporting the idea of having backward linkage industries in the textile sector and clusters<sup>58</sup>. Manpower should be trained to better answer market needs. If export growth is to be promoted, the main industrial sector (RMG) should be reinforced and enhanced.

### **Leather and Footwear**

2.11.2.4 Only six domestic tanneries have the ability to produce finished leather, which limits the domestic supply of leather/hides as raw materials. Infrastructural bottlenecks, quality management, lack of testing laboratories for azo-dyes, and the inability to cope with growing environmental concerns related to the high pollution levels and the Corporate Social Responsibility and other rules<sup>59</sup>, are the main difficulties faced by the leather sector. While the export of very specific products such as hides at the wet-blue stage is banned, exports in 2003 amounted to \$191 million<sup>60</sup>.

2.11.2.5 Footwear has expanded significantly in recent years. The annual production capacity (domestic and export production) is about 32 million pairs of leather and non-leather footwear. Direct employment in the footwear sector amounts to 25,000 people but the sector is mainly made up of SMEs that lack mechanization, credit access, skills, and international standards requirements. As for the RMG sector, skills development – projects concentrating on design, management, marketing, quality - as well as equipment improvement and quality standards should be put in place to improve the performance of the industry.

### **Handicrafts**

2.11.2.6 Handicrafts represented only 0.09% of Bangladesh exports in 2003<sup>61</sup>. Due to the poverty alleviation role of the sector, it needs to be fostered. However, products are lagging behind in design, marketing and diversification requirements to target developed countries markets because of the inability to access market information, and because artisans and crafts people are insufficiently organized to take advantage of overseas' markets

### **Ceramics**

2.11.2.7 Annual exports of ceramics (which for the most part, go to the European markets) doubled to nearly \$20 million compared to the 1990s<sup>62</sup>. Twenty-seven ceramic plants employ between 10,000 and 19,000 people. The sector is very dependent on raw material imports (95% of the inputs are imported) and mainly face structural constraints such as electricity outages and port congestion. The lack of skilled manpower in design, marketing, testing, and quality is also a major issue as well as is the need to increase investments. The enhancement of market access to the Indian market would benefit this sector.

### **Pharmaceuticals**

<sup>56</sup> Gherzi Report: Strategic Development and Marketing Plan for RMG and related industries

<sup>57</sup> Export Promotion Bureau: *Bangladesh export statistics, 2002-2003*

<sup>58</sup> Centre for Policy Dialogue: *State of the Bangladesh economy and budget response 2004*, report n°14

<sup>59</sup> EU standards requirements HACCP and ISO, OECD Guidelines or UN Global Compact Initiative

<sup>60</sup> Export Promotion Bureau: *Bangladesh export statistics, 2002-2003*

<sup>61</sup> Ibid 54

<sup>62</sup> World Bank Bangladesh: *Growth and Export Competitiveness*, January 19, 2005



2.11.2.8 The pharmaceutical industry provides 95% of Bangladeshi needs instead of the 20% it provided at the beginning of the 80's. The industry enjoys a growth rate of 10% per annum and employs more than 70,000 people. Bangladesh mainly imports vaccinations and highly-innovative pharmaceuticals such as those used to fight cancer<sup>63</sup>. Companies in the sector started exporting their products in 2003 (\$9 million<sup>64</sup>) and laboratories improved their performance to cope with international standards although this required heavy investments. More than 200 companies are working in the sector but between 10 and 15 share 80% of the market. More than 90% of the medicines produced are generic and only 12 companies produce "Active Pharmaceutical Ingredients." (API).

2.11.2.9 As an LDC, Bangladesh has a transition period until 2016 to implement the Trade Related Aspects of Intellectual Property Rights (TRIPS) but there is fear of competition from India and China. Accordingly, the quicker the legislation is harmonized, the better it will be for the industry in Bangladesh. Also an independent laboratory for testing bio-equivalents should be considered to limit costs and avoid the requirement to do the tests in Singapore or Malaysia.

### **Packaging**

2.11.2.10 The packaging and packing sector in Bangladesh is estimated at \$400 million and has grown over the last 15 years. The industry is based on the needs of the garments, pharmaceuticals, hygiene and cosmetics and agro-processing industries. The country mainly depends on imported raw materials including paper, uncoated paper, tissue paper, plastic and polymer (which attracts a 30% duty rate); chemical products (15%);<sup>65</sup> and equipment to produce packaging. The cost of packaging made in Bangladesh is 10% higher than imported goods. Six hundred companies work in the sector, essentially SMEs that lack know-how or access to technology and equipment.

2.11.2.11 The \$340 million paper and carton packaging sector benefits from an annual growth rate of 15%, but a ban on the import of cartons protects the sector from competition, although where it supplies the exporting RMG sector, it benefits from tariff exemption.

2.11.2.12 Plastic packaging grew between 12 -15% in 2003 with a turnover amounting to \$45 million. These products are mainly addressed to the local market and do not benefit from tariff exemption, like paper and carton packing.

### **2.11.3 Services**

#### **Information and Communication Technology (ICT)**

2.11.3.1 The ICT sector in Bangladesh is in its infancy and remains well behind the ICT capacity of its neighbors. Infrastructure remains insufficient although Bangladesh signed an agreement to connect SEA-ME-WE-4 that links South East Asia to the Middle East and Europe. Bangladesh is counting on outsourcing development and expects to benefit from its low wages to develop this market, as local demand remains very low. Apart from the need for improvements in infrastructure, there is also a need to have modern and effective legislation on copyright. Skills capacity is also weak - only 3,000 people graduate in ICT each year and most of them leave the country as soon as they graduate. For database treatment and digitalisation, the competition of the global market is high and Bangladesh lacks the type of quality processes that will enable them to compete. For multimedia, internal consumption is clearly insufficient to boost the sector and galvanise creativity. Software development in general faces a lack of expertise to develop complex solutions and the absence of an internal market.

#### **Tourism**

2.11.3.2 Only 244,509 persons were registered as tourists in 2003 in Bangladesh and the total amount of money spent is Taka 3331 million<sup>66</sup> (around \$52 million). This means that each visitor spent on average \$212. The main sources of tourists to Bangladesh are: India; UK; USA; Pakistan; South Korea; China; Japan and Nepal.

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<sup>63</sup> French Embassy: *The Pharmaceutical Industry at the Beginning of 2005*

<sup>64</sup> Export Promotion Bureau: *Bangladesh Export Statistics 2002-2003*

<sup>65</sup> Toluene, Methanol, Mek, Ethyl Acetate, etc.

<sup>66</sup> Bangladesh Parjatan Corporation

2.11.3.3 Hotels and restaurants represented 0.77% of GDP in 2003 (representing a growth rate of 7% over the previous year), and land, water and air transport 8.11% of GDP. The tourism industry suffers from several deficiencies. Site preservation and rehabilitation, for example, are not fostered. Tourism is a sector that should be encouraged because of its impact on poverty alleviation, job creation and links with many other sectors: transportation, construction, hotels and restaurants, health, insurance etc. However, there is no strategy to promote the tourism industry within Bangladesh or abroad and there appears to be a lack of capacity of either the public or private sector to implement any strategy. Nevertheless, the tourism potential for Bangladesh seems to be smaller than for many other Asian countries.

**ANNEX 7**

**TRADE PROMOTION STRATEGY**

## **1. TRADE PROMOTION STRATEGY**

### **Customer-oriented trade promotion strategy and trade diversification**

This paper includes two separate categories;

#### **Part (A) Necessity of customer-oriented trade promotion strategies for trade diversification**

1. Strategic reforms of policy-making research functions
2. Strategic reforms of implementing functions of trade promotion
3. Strategic reforms for improvement of customs clearance procedures

#### **Part (B) Necessity of customer-oriented trade diversification.**

1. Development of tourism industry in Bangladesh

### **Part (A): Necessity of a trade promotion strategy in terms of customer-oriented international marketing**

Many donors such as ADB, CIDA, DFID, EU, FIAS, SEDF, USAID and WB have practical and concrete future action plans to assist trade promotion in Bangladesh. In pursuit of better assistance to trade promotion in Bangladesh, a different approach may also be considered from the customer-oriented international marketing point of view.

All on-going and future programmes by donors as well as public and private sectors are essential elements to trade promotion, in particular, export promotion, which will lead to poverty reduction. In order to promote trade, two essential components are required; (1) good policy-making and (2) good policy implementation. Many future action plans are deeply related to these two components.

However, to be integrated into the world economy through trade, the angle of customer-oriented international marketing must be considered as one of the most important elements. Trade (in particular, exports) can only be promoted with good understanding of the needs or requirements of foreign customers,. Therefore, it is very important for the government to arrange the following: (1) to create an efficient and effective international marketing system that can contribute to policy-making in Bangladesh, (2) to analyze results from international marketing and formulate effective policy-making through those assessments and (3) to arrange efficient policy implementation to promote trade. Customer-oriented international marketing can be a basis for both efficient trade policy-making and policy implementation.

In order to pursue this, the following three strategic reforms by government are recommended in terms of (1) trade policy-making, (2) trade policy implementation and (3) improvement of trade environment (customs clearance procedures), based on customer-oriented international marketing.

<b>Strategic reforms, based on the customer-oriented international marketing</b>	
<b>1.</b>	<b>Strategic reforms of policy-making research functions (Necessity of more sophisticated and integrated research functions assisting efficient policy-making, based on the customer-oriented international marketing approach)</b>
<b>2.</b>	<b>Strategic reforms of implementing institutions of trade promotion (Necessity of functional reforms of the EPB, the BEPZA and the BOI as more efficient one-stop-shop centres, based on the customer-oriented international marketing approach)</b>
<b>3.</b>	<b>Strategic reforms for improvement of customs clearance procedures (Necessity of reforms on customs clearance procedures at Chittagong Port, based on customer-oriented international marketing approach)</b>

- 1. Strategic reforms of policy-making research functions  
Necessity of more sophisticated and integrated research functions assisting efficient policy-making, based on the customer-oriented international marketing approach**

As mentioned in earlier sections, irrespective of developing or developed countries, trade promotion based on an approach of customer-oriented international marketing is the most essential element to be integrated into the world economy. This principle applies to all areas of commerce. The starting point of all trade is to understand the needs or requirements of foreign customers. However, it seems that this condition is not sufficiently met in Bangladesh. Any trade must meet the needs or requirements of foreign customers in terms of Quality, Cost and Delivery time (QCD), with regard to specific commodities or services. Satisfaction of QCD among foreign customers will facilitate trade to materialize. In general, the following three components must be identified to promote trade; namely,

**(Three components to embark on trade; in particular exports)**

- |     |                                                                                                                                                                                                    |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (1) | To identify the current and potential conditions of a country with regard to trade.                                                                                                                |
| (2) | To identify the needs and requirements of foreign customers in terms of quality, cost and delivery time of targeted commodities or services in foreign countries to which it is desired to export. |
| (3) | To identify the current and potential conditions of other competing countries with regard to trade.                                                                                                |

Firstly, it is important to clarify the current and potential conditions of a country with regard to trade; what strength or weakness for trade a country has, in particular, what kind of comparative advantages and disadvantages a country has in trade must be identified. Secondly, in-depth identifications of the needs and requirements of foreign customers in terms of quality, cost and delivery time of targeted commodities or services in targeted countries must be implemented because these identifications are essential elements for trade. Thirdly, in-depth identifications of the current and potential conditions of other competing countries with regard to specific commodities or services must also be implemented. Without any good understanding of these three components, international trade will not materialize or be maintained in the long term.

With regard to comparative advantage and disadvantage in Bangladesh, strengths such as cheap labour<sup>1</sup> and weaknesses such as poor infrastructure<sup>2</sup> are considerably identified by public, private and donor institutions. Actual figures of the results of exports and imports in Bangladesh can also be obtained on a macro-level from public institutions such as Bangladesh Bank and National Bureau of Statistics. It is true that macro data is a basis of trade analysis and contributes to policy-making. However, it is very difficult for policy-makers to gain necessary information on how to create trade diversification of specific commodities or services in future from macro data. In order to promote trade, more concrete information on targeted commodities or services in targeted countries as well as other competing countries must be efficiently provided to policy-makers. Otherwise, efficient policy-making can not be formulated. In order to export specific commodities or services; in particular, to promote trade diversification, macro data is not sufficient and more micro data or analyses on current or specific commodities, services or industries of both targeted countries and other competing countries are required. It must be realized that customer-oriented international marketing is a crucial key to embarking on trade integration into the world economy. Good international marketing information which contributes to policy-making must be efficiently provided by an appropriate institution. To meet this requirement, it is suggested that the government establish a more sophisticated research function holding responsibilities of customer-oriented international marketing. The following recommendations are provided.

**Recommendations 1: The establishment of a research institute with more sophisticated and integrated functions that provides (1) micro trade analysis in each targeted commodity, service or industry, based on the customer-oriented international marketing as well as (2) macro trade policy analysis as a Trade-Related Economic Intelligence Unit (TREIU)**

Currently, export policy is drafted by the Ministry of Commerce, mainly supported by Export Promotion Bureau (EPB) with data offered by various institutions such as Bangladesh Bank or National Board of Revenue.

According to 'Export Policy 2003 – 2006' published by the Ministry of Commerce, five targeted products are identified for export diversification.

- (1) Software and ICT products
- (2) Agro-products and agro-processing products
- (3) Light engineering products (including auto parts and bicycles)
- (4) Leather products
- (5) High priced ready-made garments

In addition, (1) pharmaceutical products, (2) cosmetics and toiletries and (3) luggage and fashion goods, (4) electronic products, (5) C.R. coil, (6) cards and calendar, (7) stationary products, (8) silk cloths, (9) handicraft, (10) herbal medicines and (11) medical plants, are listed as special development sectors with great potential.

'Export Policy' itself, which is elaborately prepared by the government, provides proper direction for trade promotion. However, with regard to five or eleven identified products to promote trade, information such as how to deal with trade diversification in future is not provided as much. Macro analyses themselves are very important, but, the linkage between macro-analyses and micro

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<sup>1</sup> Based on the report by the World Bank (*Bangladesh: Growth and Export Competitiveness Draft*, Poverty reduction and Economic Management Sector Unit, South Asia Region and International Finance Corporation, South Asia Enterprises Development Facility, July, 2004), if the average salary per month of Bangladesh is 100 in the garment industry, that in India, Vietnam and Thailand is 150, 150 and 225 respectively.

<sup>2</sup> Based on the survey for the *Global Competitiveness Report*, (World Economic Forum 2002), in overall quality of infrastructure, Bangladesh ranked 74<sup>th</sup> among 75 developing and developed countries.

analyses on each targeted commodity, service or industry, based on customer-oriented international marketing, are also crucially important. Both macro and micro analyses must be included in the process of trade policy-making. To meet this requirement, the establishment of **Trade-Related Economic Intelligence Unit (TREIU)** is highly recommended in the following ways;

- (1) TREIU should be formulated to have two functions; (a) a function focusing more on general issues of whole trade profiles or trends of trade on a macro-level and (b) a function focusing more on micro analyses of each targeted commodity, service or industry for trade diversification, in order to contribute to trade policy-making or provide public and private trade-related institutions with useful information.
- (2) These two functions should be established so as to collaborate to contribute to trade policy-making.
- (3) TREIU should consist of professional members of public and private sectors who have, at least, strong practical backgrounds in marketing, manufacturing, quality control, quality management, economics, econometric or international legal framework in order to provide a practical draft of trade policy and appropriate directions of trade diversification.

### **Recommendations 2: The establishment of an information network among trade-related institutions**

Even if TREIU is formulated as the professional body, it may face difficulties in that all staff cannot be an expert of each targeted commodity, service or industry, and necessary information gained within TREIU will be limited. In order to make TREIU function efficiently and provide government or industries with sufficient information for policy-making, it must gain in-depth information to analyze current or potential conditions inside and outside of Bangladesh. To meet this, the establishment of an information network among trade-related institutions such as TREIU, MOC, BOI, EPB, BEPZA, Bangladesh Bank, Dhaka Chambers of Commerce and Industry (DCCI) (include Ministry of Foreign Affairs in the network as mentioned in the meeting) and think-tank institutions such as the BEI, BIDS and CPD is essentially required. This means that TREIU will function as a hub centre of trade-related information network.

### **Recommendation 3: Capacity building of members**

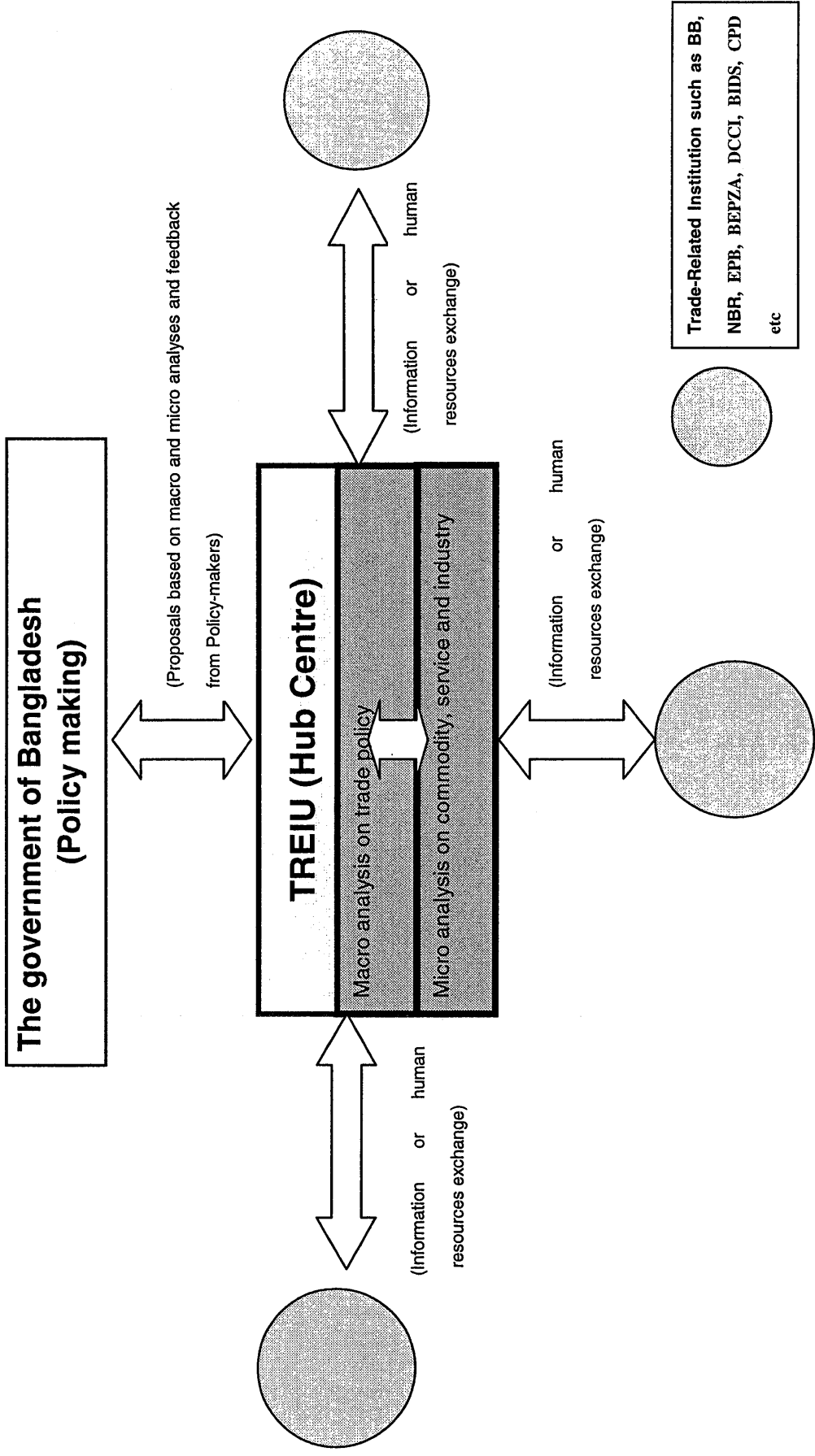
To offer effective outputs by TREIU, capacity building of TREIU staff should be properly implemented. For that purpose, the following programmes are recommended;

- (1) Intensive economic, econometric and legal training including WTO issues and Trade-Related Intellectual Property Rights (TRIPs) will be definitely required.
- (2) Human resources exchange between TREIU and other related institutions such as government, BIDS, CPD, Bangladesh Bank, foreign governments or foreign research institutes.
- (3) International study units from TREIU and targeted industries should occasionally be implemented as a part of international market investigations.

(See the concept of TREIU on next page.)



# Concept of Trade-Related Economic Intelligence Unit (TREIU)



The function of TREIU is to provide policy-makers with more practical proposals reflecting actual conditions. It is one possibility to establish a new research institute with the TREIU function, but it may be better to make an existing institution have the TREIU function. The most important thing is to establish the function of TREIU.

For example, Bangladesh Foreign Trade Institute (BFTI) was recently established through tight cooperation with government and private partners for the purposes of (1) facilitating the growth and diversification of export and expansion of trade. (2) Strengthening official and private sector capability in technical aspects of the negotiation, compliance and enforcement of cooperation arrangement, (3) strengthening official and private sector capability and skills in all managerial, technical, financial and practical aspects of the foreign trade. Though further investigation to establish the TREIU institute is necessary, BFTI will have the potential to be one with the above-mentioned functions because it is a newly established institution which can arrange functions more flexibly and has tight cooperation among the public and private sectors and donors.

### **(Summary)**

It is recommended that a research institute which has more sophisticated functions providing (1) micro trade analysis in each targeted commodity, service and industry, based on customer-oriented international marketing and (2) macro trade policy analysis, is established as the TREIU. It is one possibility to establish a new research institute with the TREIU function, but it may be better to make an existing institution have the TREIU function. The most important thing is to establish the function of TREIU.

In particular, the establishment of information network among trade-related institutions such as TREIU, MOC, BOI, EPB, MoFA, BEPZA, Bangladesh Bank, Dhaka Chambers of Commerce and Industry (DCCI) and think-tank institutions such as the BEI, BIDS and CPD is very important. Practical capacity building of TREIU staff is also required in order to enhance the efficiency of TREIU functions.

## **2. Strategic reforms of implementing institutions of trade promotion**

### **Necessity of functional reforms of the EPB, the BEPZA and the BOI as more efficient one-stop-shop centres, based on the customer-oriented international marketing approach**

As mentioned, in order to provide more practical trade policies or proposals, the establishment of an efficient TREIU based on customer-oriented international marketing is recommended. However, even though good trade policy proposals are provided by the TREIU and materialized by the government, the degree of trade promotion will be diminished or adversely affected if there is no efficient implementation system. Though there are many implementation institutions in trade promotion, it may be that the essential and influential institutions are the Export Promotion Bureau (EPB), the Bangladesh Export Processing Zone Authority (BEPZA) and the Board of Investment (BOI), which are directly related to implementation of trade promotion.

#### **The Export Promotion Bureau (EPB)**

The EPB is under the jurisdiction of the Ministry of Commerce (MOC). Its objectives are defined as export promotion through a variety of activities such as; (1) to help government to formulate and implement export policy, (2) to assist and advise the exporters through organizing programmes relating to product diversification, product development and product adaptation for expansion of export basket, (3) to organizing marketing missions and buyers-sellers meets in cooperation with different exporters. The EPB has a responsibility to provide a one-stop-shop service to promote trade for private sector.

#### The Bangladesh Export Processing Zone Authority (BEPZA)

The BEPZA is under the Prime Minister's Office (PMO). Currently, six zones are nominated as Export Processing Zones (Chittagong 453 acres, Dhaka 355.34 acres, Mongla 460 acres, Ishwardi 308.97 acres, Comilla 267.46 acres, Uttara 264.99 acres). The objectives are defined as promoting foreign direct investment (FDI) and local investment. The BEPZA has a responsibility to provide consultations and privileged opportunities for exporting companies.

#### The Board of Investment (BOI)

The BOI is under the jurisdiction of the Prime Minister's Office (PMO). Its objectives are defined as promotion and encouragement of private sector participation.

- Providing necessary facilities and assistance in the establishment of industries.
- Implementing investment-related GOB policies.
- Preparing investment schedule.
- Registering private sector industrial projects and identifying competitive investment sectors and facilitating investment by providing information and service

The BOI has a responsibility to provide a one-stop-shop service to promote investment; in particular, providing foreign investors with useful information and guiding them in proper ways in order to promote efficient investment.

The EPB, the BEPZA and the BOI, as policy implementing institutions are main avenues for local and foreign private companies to embark on trade. To provide private companies with necessary information for trade and investment promotion and to consult private companies efficiently and effectively are crucial responsibilities of these institutions.

In particular, efficiency of these institutions against foreign current or potential investors is crucially important because they have already some information on international markets. As mentioned, it is difficult to gain micro data for trade diversification in Bangladesh. To induce foreign investors leads to expansion of international marketing, and ultimately trade diversification. Therefore, in addition to local companies, more attention must be placed on foreign investors with customer-oriented international marketing. In this sense, a well-organized consultation mechanism of investment and exports between these institutions and private companies; in particular, foreign companies is a crucial key to trade promotion. However, some reports (BEI; '*Reducing the Cost of doing Business in Bangladesh*', 2003, Japanese Commerce and Industry Association in Dhaka, '*Impediments for doing business in Bangladesh*', 2003 etc) point out that these institutions are occasionally inefficient to provide private companies with necessary information or guidance due to following reasons;

- (1) Lack of accountability and transparency  
Implementing institutions are occasionally less accountable, and transparent to private companies. Less accountability and transparency lead to less efficient consultation when problems related to necessary procedures occur.
- (2) Lack of timeliness  
Timelines of necessary procedures, which is one of the most important factors in launching trade for the private sector, is occasionally not maintained.

It is essential to remove these difficulties to promote trade, in particular, to remove difficulties of current and potential foreign investors with an ability of customer-oriented international marketing. Good trade policy can not be implemented without any good implementing institution. On the basis of above current conditions, the following recommendations are provided.

**Recommendation 1: Necessity of functional reform – the establishment of function of a one-stop-unit within each institution (the EPB, the BEPZA and the BOI)**

To pursue better guidance, it is recommended that each institution should clearly assign or establish a **one-stop-unit (OSU)** with the following responsibilities;

- (1) Within each institution, a one-stop-unit (OSU) should be formulated to deal with any inquiry from a private company **as a single window** in order to establish both accountability and transparency and provide local and foreign companies with necessary information and appropriate consultations.
- (2) Within each institution, OSU should take responsibilities; (a) to support necessary procedures so that a private company can minimize departments or sections to contact, (b) to take care of any delay against proper procedures, (c) to negotiate with related departments or sections to settle any problems in necessary procedures and (d) to support negotiations among institutions such as the EPB, the BEPZA and the BOI if necessary.
- (3) Actual performance of OSU must be monitored in a proper way. In particular, a reviewing system by private companies must be established.

**Conditions:**

In order to implement the above functional reforms efficiently, elements of regulatory or administrative barriers must be carefully considered. Cooperation with other related sections or agencies which deal with regulatory reforms or administrative barriers is also essentially recommended.

**Recommendation 2: The establishment of an information network among the EPB, the BEPZA and the BOI**

Investment and trade are closely related in that investment is fairly related to trade promotion in Bangladesh, and information with regard to current situations of trade in Bangladesh is also essential for investment decisions. Therefore, good communications among the EPB, the BEPZA and the BOI are important. The regular meeting of the headquarters of these three institutions may be formulated to aid the implementing responsibilities of each institution effectively. The following issues may be discussed;

- Basic conditions; current conditions of investment, trade volume, destinations, amount of money exported, export conditions of targeted industries or commodities
- Review of performance of each institution
- Discussions among them with regard to any dispute
- Future cooperation plans for better performance

**Recommendation 3: Capacity buildings of staff**

In order to offer efficient services to private companies, more capacity building of staff in each institution has to be executed effectively. Without good programmes of capacity building of staff, any reform will be fruitless. Capacity buildings will be one of the most important elements to implement reforms

(Summary)

The functional reforms of the EPB, the BEPZA and the BOI are recommended so as to meet the needs and requirements of private companies pursuing exports. In particular, to provide necessary information for trade and investment promotion and to consult private companies efficiently and effectively are crucial responsibilities of these institutions. Therefore, it is suggested that a one-stop-unit (OSU) within each institution should be formulated as a single window to provide private companies with necessary information and guidance properly. The close relationships of these institutions must be established. To establish an efficient OSU, capacity building of staff or cooperation with other related sections or agencies that deal with regulatory reforms or administrative barriers is also essentially required.

**3. Strategic reforms for improvement of customs clearance procedures  
(Necessity of reforms on customs clearance procedures at Chittagong Port, based on customer-oriented international marketing approach)**

So far, what reforms should be implemented in order to pursue efficient policy-making or policy implementation is considerably discussed from the customer-oriented international marketing point of view. Reforms on the issues of a trade policy-making or policy implementation must be urgently designed and implemented. In addition to the above, there are still other many issues to cope with in order to promote trade. Among them, one of the most important issues is a 'customs clearance.' Based on the report by the World Bank and Bangladesh Enterprise Institute, '*Improving the investment climate in Bangladesh, 2003*,' the average wait for imports to clear customs is nearly 12 days and the average wait for exports is 9 days. Based on customer-oriented international marketing, this is definitely one of the crucial constraints for trade promotion because international competitiveness of commodities, which are elaborately produced in Bangladesh, even under severe conditions such as less electricity and water supply, will definitely be lost if 'an appropriate time' to clear customs at Bangladeshi ports is not maintained.

The issue of customs clearance in Bangladesh is inadequate to meet the needs or requirements of both domestic and foreign customers. In an interview with officials in the garment industry, it states that even in 2005, it still takes 7 to 10 days to clear customs for imports at Chittagong Port, which is one of the most important ports in Bangladesh, handling<sup>3</sup> about 80 percent of the total exports and imports in the country. In this sense, the customs clearance issue is also a substantial bottleneck of trade promotion.

Since January 2005, Chittagong Port Authority has taken an initiative to reform the customs clearance procedures; this is the establishment of a one-stop-shop section to deal with customs issues of importers and exporters. However, not much progress is being made in terms of reducing waiting time for customs clearance at this stage. It is important to consider an efficient customs clearance procedure, which contributes to making shorter delivery time to importers and foreign customers. With regard to customs issues, direct and indirect assistance has been implemented by donors. For example, both the World Bank and ADB have assisted the introduction of ASYCUDA ++ at Chittagong Port. DFID is assisting capacity building of NBR staff, who influence customs issues. However, more technical assistance for staff, who are in a position to take customs clearance procedures at Chittagong Port are required to promote trade. Therefore, with regard to procedures of customs clearance, the following recommendation is provided.

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<sup>3</sup> Total handlings in Chittagong port 654,116 TEUS = 324,329 TEUS for export + 329,787 TEUS for imports in 2003-2004 (CPA: '*Administrative Report 2003-2004*)

**Recommendation 1: Necessity of capacity building of staff at Chittagong Port**

Capacity building of staff, who are in a position to take customs clearance procedures; in particular, to implement a one-stop-shop function of customs clearance at Chittagong Port, which is the main port in Bangladesh, is essentially required because efficient functions will lead to shorter time of customs clearance.

**(Summary)**

The customs clearance issue is a serious bottleneck to trade promotion. Though some donors assist efficiency of customs clearance, it is recommended as essential to implement the capacity building of staff, who are in a position to take customs clearance procedures; in particular, to implement a one-stop-shop function of customs clearance at Chittagong Port.

**(Summary: Necessity of a trade promotion strategy, based on the customer-oriented international marketing)**

A variety of essential activities are implemented by public and private sectors as well as donors to promote trade.. As a recommendation following the activities, the importance of trade promotion in terms of customer-oriented international marketing is emphasized because understanding needs and requirements of foreign customers is the first step in promoting trade. For that purpose, the following recommendations are proposed.

- (1) Trade-Related Economic Intelligence Unit (TREIU) should be created to have more sophisticated functions that provide, (1) micro trade analysis in each targeted commodity, service and industry, based on customer-oriented international marketing and (2) macro trade analysis must be established. In particular, the establishment of an information network among trade-related institutions is essential. The possibility to establish a new research institute with the TREIU function can be considered, but it may be better to make an existing institution have the TREIU function. The most important thing is to establish the function of TREIU.
- (2) It is recommended that the EPB, the BEPZA and the BOI should be a more efficient window as a one-stop-unit (OSU) for trade and investment promotion respectively and the close relations of these institutions must be established.
- (3) Improvement of efficiency of customs clearance procedures at Chittagong Port, based on customer-oriented international marketing is essentially required. The capacity building of staff, who are in a position to take customs clearance procedures, in particular, to implement a one-stop-shop function of customs clearance at Chittagong Port is crucially recommended.

## **Part (B): Necessity of customer-oriented trade diversification.**

It is often stated that trade diversification is a key to trade promotion in Bangladesh. In fact, the Ministry of Commerce published two main documents (Export Policy 2003 – 2006 and Import Policy Order 2003-2006) in 2004. Export Policy 2003-2006 defines targeted products to contribute to trade diversification.

- (1) Software and ICT products
- (2) Agro-products and agro processing products
- (3) Light engineering products (including auto-parts and bicycles)
- (4) Leather products
- (5) High priced ready made garments

Recently, with regard to these commodities, several approaches have been implemented in various institutions such as the World Bank (*Bangladesh: Growth and Export Competitiveness Draft Poverty Reduction and Economic Management Sector Unit, South Asia Region and International Finance Corporation, South Asia Enterprises Development Facility, 2004*) and UNDP (*Sustaining RMG Export Growth after MFA Phase-out: An Analysis of Relevant Issues with Reference to Trade and Human Development Draft, 2005*).

The World Bank applies the Integrated Value Chain Analysis (IVCA) method to current commodities with trade potential (French green beans, Leather products etc.) to pursue international competitiveness of trade. The IVCA includes analyses of historical backgrounds, a current market share in the world on a macro level, a breakdown of product cost components (materials, production, packing, transportation, incurred tax or tariffs etc) in comparison with these components of other competing countries.

UNDP econometrically simulates and analyzes the future prospects of RMG industry after the Post-MFA, assuming various conditions of trade environment such as GSP. This approach aims to analyze the degree of international competitiveness of trade though considering trade environment change.

The above techniques are very useful to trade evaluation. It is a time to promote trade, based on customer-oriented international marketing through using a variety of these experience or techniques, which should be shared and applied to marketing as useful analytical tools.

Lastly, another possible industry linked with trade, which may contribute to poverty reduction in Bangladesh, is the tourism industry as described below.

### **1. Development of tourism industry in Bangladesh**

World Bank or UNDP studies provide a crucial clue to analyzing international competitiveness or export diversification, and lessons from them should be applied to gain more integrated international competitiveness practically. However, there are still many constraints to be overcome such as poor infrastructure (electricity gas, water for manufacturing), governance and administrative barriers, high tariffs and industrial specific constraints. In reality, it may still take time to eliminate these constraints. From another point of view, it can surely be recommended that the tourism industry is one of the targeted industries to be developed. Money spent by foreign visitors in Bangladesh can be regarded as money received not in foreign countries but in Bangladesh in return for provisions of commodities or services. The difference is only that provisions of them and payment take place not in a foreign country but in Bangladesh. Direct money spent in hotels and restaurants by foreign visitors will be exempt from any direct or indirect interventions such as corruptions, and political force. These private companies will have directly benefits from them.

According to data of a national organization, the so-called, Bangladesh Parjatan Corporation (BPC) under the Ministry of Civil Aviation and Tourism, the number of foreign visitors (including for business purposes) was 156,231 people and the total amount of money spent was TK 955.2 million in 1995. However, the number of foreign visitors (including for business purposes) was 244,509 people and the total amount of money spent was TK 3,331 million. During this term, the number of visitors increased by 56 % and money spent by them increased by 346% (nominal terms).

(Trend of Visitors to Bangladesh)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
No. of visitors (people)	156231	165887	182420	171961	172781	199211	207199	207246	244509
Amount of money spent (Million Taka)	955.2	1401.2	2741.4	2454.8	2451.9	2627.0	2653.8	3312.6	3310.0
Majour country of foreign visitors (No. of visitors)	India (46015) Pakistan (12903) UK (31984) USA (10541) Japan (5600) Korea (5251) China (3408) Holland (3279)	India (53007) UK (33463) USA (11033) Pakistan (7070) Korea (6017) Japan (5716) China (4016) Malaysia (3927)	India (61606) UK (28115) USA (12070) Pakistan (11481) Korea (6927) Japan (6482) Nepal (5296) China (4869)	India (57937) UK (19605) Pakistan (12087) USA (11358) Japan (7808) Korea (6154) Nepal (4799) China (4379)	India (62935) UK (22510) USA (9557) Pakistan (7894) Japan (7055) Korea (6595) China (5208) Nepal (4733)	India (74268) UK (29106) USA (11924) Pakistan (10637) Japan (8006) Korea (6746) China (5901) Nepal (4481)	India (78090) UK (34087) USA (11394) Japan (7090) Pakistan (10637) Japan (7010) Korea (6896) China (56867) Nepal (4280)	India (80415) UK (28905) USA (13622) Pakistan (8703) Japan (7325) China (6681) Korea (6511) Nepal (4159)	India (84704) UK (42138) USA (24458) Pakistan (9238) Korea (7465) China (6681) Japan (6523) Nepal (3904)

(Data source: Bangladesh Parjatan Corporation)

Value of TK 3,310 million spent by foreign visitors, accounted for only 0.88% of total export value of TK 379,154 million in 2003. However, the fact is that other potential products, which are regarded as targeted commodities by the Ministry of Commerce, accounted for similar shares in trade; namely.

Share of total export value in 2002-2003 (Bangladesh Export Statistics 2002-2003)

- Pharmaceuticals: 0.14 %
- Engineering products: 0.2 %
- Leather bags and purse: 0.05 %
- Leather footwear: 0.54 %

Recent main countries of visitors are India, UK, USA, Pakistan, Korea, China, Japan and Nepal. These countries may be industrially or geographically related to Bangladesh. However, it is true that the value spent by foreign visitors as well as the number of visitors have significantly increased and



shared 0.88 % of total export value, which is equivalent to other potential products. Tourism promotion in Bangladesh will significantly contribute to poverty reduction.

In 2004, JICA conducted the survey of current conditions in the Bangladeshi tourism industry in detail. Based on the report, '*Tourism Development Project Formulation Study (Draft), 2004*' prepared by JICA, it identifies (1) the historical background of tourism development since 1988, (2) current conditions of government capacity of tourism development, (3) current conditions of tourism industries in Bangladesh, (4) identification of potential resources to attract tourists to Bangladesh, (5) current relations in tourism between Bangladesh and Japan, (6) current conditions of international cooperation (SASEC: South Asia Sub-regional Economic Cooperation and BIMSTEC: Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation), (8) identification of obstacles to future tourism promotion in Bangladesh, and (9) the possibility of future cooperation between Bangladesh and Japan.

In particular, as it is still at the stage of a draft, it suggests the necessities of (1) in-depth identification of obstacles to tourism promotion, (2) further investigation of the inventory survey of tourism resources, (3) market segmentation, (4) positive support by governmental, (5) improvement of functional and institutional initiatives of government in tourism, (6) the establishment of a mutual cooperation system among concerned parties, (7) infrastructure arrangements for tourism, (8) service improvement in tourism, (9) support to private tourism industries, and (10) international marketing.

Further investigations on all the above items will be required. It is sure that segmentation based on in-depth international marketing will be a key to identification of needs and requirements which enable foreign visitors to visit Bangladesh because necessary provisions to them will differ in each segment. Involving international tourist companies with information of international marketing may be one of the options for investigating the needs and requirements of foreign visitors. A customer-oriented international marketing approach to develop tourism industry is really recommended.

Tourism is related to various industries such as travel agents, hotels, handicraft shops, food, transportation and advertising. Therefore, strong initiatives by government will be essentially required.