Trade Liberalization in Bangladesh

An International Political Economy Perspective

BY

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Abstract of the Dissertation

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Utilizing International Political Economy (IPE) perspectives, I analyze trade reform policies in Bangladesh under the research query: *What were the major forces for trade liberalization in Bangladesh? In particular, what were the relative importance of donors, the government and domestic pressure groups?* I examine these questions at the aggregate and sectoral level.

Extending Robert Putman's two-level bargaining game, I classify the IPE models as follows: Autonomous Government driven by international organizations (AGIO); Autonomous Government following Statist policies (AGS); Bureaucratic Politics (BP); Domestic Politics influenced by interest groups (DPIG); and Domestic Politics influenced by the general public (DPGP). Modifying previous classifications of the trade reform period by various authors (mostly World Bank), I distinguish four phases of trade liberalization: Phase 1 (1971-1982); Phase 2 (1982-1991); Phase 3 (1992-1996) and Phase 4 (1997-present). I qualitatively examine the nature of the trade liberalization during these phases with respect to my IPE models.

Examining my research query in terms of contingent generalizations, I found that no one particular model dominated all of the different phases. It did appear that the AGS model seemed relatively more prevalent in Phase 1 and for most of Phase 2, given that the donors were mostly less significant (less role of AGIO) and that the autocratic government had overwhelmed interest

groups and bureaucratic politics, under military pressure and realism. The end of Phase 2 and most of Phase 3 appeared to provide relatively more credibility to the AGIO model, given that democracy had surfaced explicitly and donors were driving most of the momentum of reform. Phase 4 was more a relative combination of BP and DPIG, with some reasserting of the AGS model, though under a democratic guise.

Presenting a case study on the Livestock and Poultry sector, I apply Coplin and Leary's (1983) "Prince Model," focusing on the 1994 ban on eggs. I found that the DPIG model had primarily driven the eventual ban with secondary support from the BP and the AGS models. This indicates the need for further sectoral studies to understand the full nature of the trade liberalization process in Bangladesh.

Dedication

I dedicate this dissertation to my late mother, Dr. Sofia Hasna Jahan Ali, my father, Dr. Shaikh Maqsood Ali, and my wife, Tabassum Muiyna.

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Chapter 1 Introduction

Bangladesh emerged as an independent country through the dismemberment of former Pakistan (1947-1971) on March 26, 1971. Over the years (1971-2005) it has changed its economic and political development perspectives in substantial ways. In the economic sphere, the general belief of inward-looking orientation and state control, has given way to outward-looking development strategies, focusing on the free market and open economy, significantly through WB / IMF led Structural Adjustment Policies. In the political sphere, institution of democracy has replaced (since 1990), the initial influence of State sponsored special variety of socialism and subsequent military or executive presidential rules (1971-1989). In the arena of international trade, the reforms have marked in a clear shift from import-substitution to export promotion, and rationalization of both tariff and non-tariff barriers. This has led to a new distribution of political winners and losers, ranging from key "internal" actors as domestic producers, consumers, bureaucrats, and opposition party, to "external actors" like the World Bank, IMF, and foreign governments.

To understand the above change, I have modified Yilmaz and Varma's (1994), World Bank's (1999), Ahmed's (2001) and Stamp's (2002) classification of the trade reform period, and developed four phases of trade liberalization: Phase 1 (1971-1982); Phase 2 (1982-1991); Phase 3 (1992-1996) and Phase 4 (1997-present). The reason I have developed these four phases is to show how the political economy process impacted trade liberalization. In other words, the way the authors have demarcated the trade phases before have been mostly on economic grounds, looking mainly at trade indicators. I also match the philosophical orientation of the regimes (1971–1990, having three regimes mostly autocratic/realist, while 1990–present has had another three regimes which have been primarily democratic/liberalist) to each of the phases–to provide a clearer breakdown of the phases. As chapter 2 shows, trade liberalization was not the focus of policy makers in the initial decade of the post-independent economy and later became more pronounced after the transition to democracy from military rule. In this way, the division of the period under study in terms of these different phases gives a better insight into political development that had taken place in the country which impacted significantly on the area of trade liberalization, by noticing the overlap between the various degrees of trade liberalization and the shifts in the relative pattern of the government's political orientation.

I utilized International Political Economy (IPE) perspectives to explain trade reform policies in Bangladesh during these phases, particularly noting Phase 3–when the main thrust of the reform program took off–and on the period 1992-1994, when I worked for the Bangladesh Tariff Commission, for their Institutional Development of Tariff Commission (IDTC) project.

Drawing on the IPE literature, I extended Robert Putman's two-level bargaining game, with the government at the center, facing the conflict of complying with external directives of opening up the economy (dismantling trade barriers) and selling the idea to its own constituencies. My version of Putman's model distinguishes between external (World Bank/IMF) and internal (Domestic Interest Groups) pressure on the government as well as recognizes governments own agenda (President's agenda, Bureaucrats agenda). Thus, my own classification of the IPE models is as follows: Autonomous Government driven by international organizations (AGIO); Autonomous Government following Nationalist or Statist policies (AGS); Bureaucratic Politics (BP); Domestic Politics influenced by interest groups (DPIG), and finally, Domestic Politics influenced by the general public (DPGP).

The research query of this dissertation was: *What were the major forces for trade liberalization in Bangladesh? In particular, what were the relative importance of donors, the government and domestic pressure groups?* I examine these questions at the aggregate and sectoral level.

I utilized Coplin and Leary's (1983) "Prince Model," to illustrate my modification of Putnam's model, in presenting the case study–particularly examining the interaction of the importance of decision-making of the relevant model and its general philosophy regarding trade liberalization. The Prince Model is a "general political forecasting model that can be applied to any collective action..." (Coplin and O'Leary, 1983, page 18) especially for data that is not easy to quantify. The political viability of policy can be relatively ranked, by plotting relevant "actors" (international and domestic) on a graph, where the vertical axis arrays the players by whether they support, are neutral or oppose a particular decisions (in our case, trade liberalization). The horizontal axis displays them by their importance in decision making. The model specifies each actor's orientation to the policy decision, his certainty and the power / resources under his control and salience.

My analytical technique was qualitative–of a "scenario" type that is often used in the IPE literature. See for example Odell (1980) (uses International Market Conditions, International Power and Security Conditions, Domestic Politics, Organization and Internal Bargaining, and Ideas, as perspectives to analyze policy change in the International Monetary Arena), Keohane (1991) (provides concepts of republican liberalism, commercial liberalism, regulatory liberalism), Frieden and Lake (1987) (introduce concepts of structural interdependence and institutional interdependence), Hieronymi (1980) (utilizes nationalism as a scenario type explanation), Kindleberger (1973), Keohane and Nye (1977), Levy (1987), Gilpin (1978), Lebow (1991), Krasner (1976), Frieden and Lake (1987), Crane and Amawi (1991) (hegemonic stability theory, power transition theories), Bauer, Pool and Dexter (1971), Kindleberger (1970), Strange (1976) and Shonefield (1976) (Domestic Politics), Keohane and Nye (1974), Keohane (1990) (transnational relations; interdependence), and Schumpeter (1954), Kindleberger (1978) and Polanyi (1944) (Ideas).

Utilizing this format, I examine what was the nature of liberalization, under different political-economy scenarios/models postulated. Then, depending on the scenario, I inquired which IPE perspective has more explanatory power, in terms of what actually happened to the trade liberalization process in Bangladesh.

While early research tended to debate the truth of hypothesis–in our case, whether trade liberalization was donor driven–the importance now is their relative influence. Chapters 3, 4, 5, and 6 have provided arguments for the relative degree of explanatory power of the five models (AGIO, AGS, BP, DPIG and DPGP) as developed in Chapter 2. This has created a base for shifting from comprehensive generalization type statements (which search for truth of hypothesis) such as "donor pressure caused trade liberalization" into a richer context of contingent generalization (which examines relative influences of perspectives / theories). From that perspective we found that no one particular model dominated all of the different phases. It did appear that the AGS model seemed relatively more prevalent in Phase 1 and for most of Phase 2, given that the donors were mostly absent (less role of AGIO) and that the autocratic government had overwhelmed all interest groups and bureaucratic politics, under military pressure and realism. The end of Phase 2 and Phase 3 appeared to provide relatively more credibility to the AGIO model, given that democracy had surfaced explicitly and donors were driving most of the momentum of reform. The primary export earning businessmen (Ready Made Garments) had come to terms with globalization and competition, while non-traditional bureaucrats could be more vocal in an open environment where "ideas" based on classical economic liberalism were being increasingly propounded (with the help of the donor agencies). Phase 4 was more a relative combination of BP and DPIG, with some reasserting of the AGS model, though under a democratic guise. If we examine our research query, then as far as the trade liberalization phase was "allowed" (prior to Phase 3, the political conditions did not fully exist for this), that particular phase did allow greater weight to the donors, relative to the other influencing actors.

In order to examine the process in more detail, I then turned to the case study of the Livestock and Poultry sector, specifically looking at the ban on eggs imposed from 1994. It seemed that the case study indicated that DPIG was the model that had driven the eventual ban, while the BP model supported it, and so did AGS too. Since the BP was also important in designing trade policy, it was given a high weight, similar to but less than DPIG. AGS was provided a bit less weight–it seems the government's executive role was just to support the decision that had already been manifested on them first by the producers and then by the support from the technical bureaucratic sources. The World Bank / IMF type organization's pressures for liberalization–and any that the government might have had on its own–at least in the egg ban implementation case, was ineffective.

Thus, the case study illustrated the ban on eggs went in the opposite direction to liberalization. This is important not only to show the need for further detailed study, but also because, as George and Smoke (1974, page 96) point out, "Analysis of difference can be just as useful as analysis of similarities for development of theory….By specifying the differing circumstances or cause that led to different results…the investigator can illuminate….the variation in outcomes." Even in the phase where trade liberalization occurred the most, the period (Phase 3) in which we are ascribing a higher relative overall strength of the AGIO model, this model failed in the case study scenario and it was the relative strength of the DPIG model, combined with a smaller weight by the BP and AGS model, that won.

This dissertation therefore serves to illustrate that looking at the overall trade policy and arbitrarily assigning IPE theories to explain reform is not enough. In this respect, more detailed sectoral study research can better illustrate the influence of different IPE models.

Hopefully, the dissertation would be useful to the development of Bangladesh, because first, as far as I know, the application of IPE theories to analyze the trade regime in Bangladesh, has not been undertaken before, and secondly, it will provide tools for Bangladeshi policy-makers in particular, and Third World governments embarking on trade liberalization, to analyze positive political economy, and help understand conflicts in policy, thus being able to make better and more realistic predictions for the future development goals.

The chapter formats are described briefly as follows:

Chapter 2 draws on the literature of International Political Economy theories (IPE) and provides the basis for my classification of the various models into the five categories mentioned above, that is, Autonomous Government (acts as a unitary actor and advocates liberalism independently or from pressure through external / international agencies (e.g. World Bank) or again, as a unitary actor taking a Statist / Nationalist / Realist approach under which the bureaucracy is subsumed); Bureaucratic Politics (where the bureaucracy is an independent actor, rationally expanding their budget to expand their gains of power and prestige); Domestic Politics (refers to how much the electorate is influenced by interest groups, or by the general public).

Chapter 3 provides a brief composite and summary history of Bangladesh not only to gauge the initial conditions the economy had when liberalization began–conditions that led–within a short frame of time, to a demand for a controlled economy with a "Realist" flavor that is, support for autarky with a Statist economy–but also to understand why trade liberalization was not the focus of policy makers in the initial decade of the post-independent economy and how the demand for this reform eventually became more pronounced. This Chapter is also important because it is referred to frequently in Chapter 6, where the IPE models are applied to the trade liberalization process.

Chapter 4 is titled Trade Policy Development in Bangladesh: Initial Setup. It describes the four phases outlined above, e.g. an overall restrictive trade regime from 1971-1981 (Phase 1), sporadic progress on these reforms between 1982-1991 (Phase 2), major evolution in the trade liberalization efforts during 1992-1996 (Phase 3) and finally a slowing down of lowering tariff and non-tariff policy efforts from 1997 onwards (Phase 4).

Chapter 5, revisits Chapter 4 in a modified way, extending the economic analysis by examining the deeper issues of protection–those revealed via ERP (Effective Rate of Protection), DRC (Domestic Resource Costs), CV (Coefficient of Variation) figures and the studies of the TIP (Trade and Industrial Policy) Reform project, which subsequently laid the foundation for donor-induced reform pressure.

Chapter 6 applies the IPE models from Chapter 2, to the trade policy developments over each individual phase, as laid out in Chapters 4 and 5, also drawing on Chapter 3. I also briefly examine the relative importance of each individual model as applied to the overall historical development of Bangladesh.

Chapter 7 examines the IPE models in the context of the livestock and poultry sector–specifically noting the development of the ban on egg imports. I worked as an economic consultant from 1993 to 1994, jointly for the Bangladesh Tariff Commission and Klynveld Peat Marwick Goerdeler's (KPMG) representative firm in Bangladesh, Rahman Rahman Huq. I was therefore able to closely observe the policy process that went on in formulating the appropriate trade policy for this sector, and draw on the IPE models to analyze the trade liberalization efforts.

Chapter 8 provides the conclusions and recommendations for future research.

Ever since Lionel Robbins rendered politics and economics to be divorced from each other (Frey, Bruno 1987), economics became apolitical, ahistorical and power-blind, while political science ended up being non-rigorous, ethnocentric and overly imitative of the physical sciences (Staniland, 1987). The international political economy literature cross-fertilizes these disciplines, providing "substantial gains from the exchange from the results of studies using different methodologies," and in particular, in supplementing "mainstream economic analysis .... with explicit political analysis." (Willett and Odell, 1993). I have aimed in attempting to provide such a cross-fertilization of the trade literature in applying it to Bangladesh.

The usefulness of any approach ultimately depends upon the types of questions being asked. Each of the above approaches offers a useful insight, but it is far from a complete explanation of Bangladesh's changing regimes and its influence by international political factors. International relations between countries are not formed on the basis of purely economic or purely political grounds. Relations are comprised of different levels interaction: political, economic, social and ideological. Thus on some issue areas it appears that a particular approach seems to have a comparative advantage and in other areas it may not seem very applicable. However, political scientists tend to emphasize power on average much more than economists while the analog for economists is rent seeking. The plus for the economist is that it is inherently easier to predict most types of economic behavior than it is on political behavior. But the minus is that real world situations cannot be described as ceterus paribus and therefore formal theory has to be complemented with a blend of historical, institutional and political analysis.

Chapter 2 International Political Economy Theories

Literature survey regarding the various IPE models reveals the following categories as shown in Table 1.

Table 1
International Political Economy Theories

<table>
<tr><td colspan="6">Grand Theories</td></tr>
<tr><td colspan="2">Liberalism</td><td colspan="2">Realism</td><td colspan="2">Marxism</td></tr>
<tr><td colspan="6">Traditional Variants</td></tr>
<tr><td colspan="2">Sovereignty at Bay; Interdependence</td><td colspan="2">Nationalism; Statism; Mercantilism</td><td colspan="2">Dependency, Structuralism; Imperialism; World Systems Theory.</td></tr>
<tr><td colspan="6">Modern Variants</td></tr>
<tr><td colspan="2">Neo-Liberalism</td><td colspan="2">Neo-Realism</td><td colspan="2">Neo-Marxism</td></tr>
<tr><td colspan="6">Specific Modern Variants</td></tr>
<tr><td colspan="2">State Centered Approach</td><td colspan="2">Society Centered Approach</td><td colspan="2">System Centered Approach</td></tr>
<tr><td>International Economic Perspective</td><td colspan="2">International Political Perspective</td><td colspan="2">Domestic Statist View</td><td>Domestic Societal Perspective</td></tr>
<tr><td>International Market Conditions</td><td>International Power and Security Considerations</td><td>Domestic Politics</td><td colspan="2">Organization and Internal Bargaining</td><td>Ideas</td></tr>
<tr><td colspan="6">Public Choice Variants</td></tr>
<tr><td rowspan="2">Median Voter Model</td><td colspan="5">Non-Median Voter Model</td></tr>
<tr><td colspan="2">Domestic Politics</td><td colspan="2">Bureaucratic Politics</td><td>Leviathan</td></tr>
</table>

I provide a brief literature survey along the lines of John Odell's (1982) different perspectives on IPE with other related various contending perspectives in the literature. Odell's versions of IPE perspectives are: (i) International Market Conditions, International Power & Security Conditions, (iii) Domestic Politics, (iv) Organization & Internal Bargaining, and (v) Ideas. Other perspectives are brought into these classifications also.

<u>International market conditions</u> is rooted in the classical tradition of Hume, Smith, Ricardo, and Mill, with the core idea of an efficient self-regulating market, as the basis for policy change. Also dubbed ***Liberalism***, and ***Sovereignty at Bay***, this perspective treats government as an exogenous variable, with intervention justified only to the extent necessary to enhance the self-regulation mechanism. The political assumption underlying this perspective is that of an ideal democracy, in which the informed median voter votes for liberal trade policies. Policy changes when market conditions have changed, such to make it irrational for governments to retain previous policy.

Keohane (1991) provides three specific sub-perspectives of the liberal school: (i) ***republican liberalism***, (explains state behavior in international arena, on the basis on domestic politics), (ii) ***commercial liberalism***, (extends the classical economist's benign view of trade into the political realm), and (iii) ***regulatory liberalism*** (emphasizes rules governing patterns of exchange, e.g. NATO, ASEAN, SAARC). Keohane blends (ii) and (iii) to a broader ***sophisticated liberalism***, which incorporates sociological perspectives on interests and no longer requires rejection of state intervention, but instead, recommends joint agreements such that the broad liberal character is maintained. (Ruggie, 1982). This has given rise to the concept of ***embedded liberalism***. (Keohane, 1991)

The liberal school views international exchange to be normally mutually beneficial, with the world moving towards liberal trade policies, as interdependence increases. This gave rise to the ***Interdependence School,*** with variants such as: (i) ***structural interdependence***–as happened among the industrialized countries, in converging objectives of social and economic policy, and (ii) ***institutional interdependence***–as on creation of institutions and joint decisions, e.g. SDR at the IMF, and aid consortia whereby donors coordinate foreign aid to particular countries under the general discussion of the World Bank (Freiden and Lake, 1987).

However, Susan Strange (1991) points out that "interdependence" is misleading, as it is not symmetrical. More importantly, the real name of the game was competition for world market shares, or catching up, based on the following structural changes: (i) accelerated pace of technology, (ii) greater transnational mobility of capital and (iii) reduced real costs of transport. Thus, what has really happened is an extension of interstate negotiations (State-State diplomacy), to diplomacy between government & foreign firms, and between domestic and foreign firms. For example, the push for a single European market came not just from commission officials and ambitious politicians like Jacques Delors, but more significantly from organized pressure groups of major European companies. However, her explanation seems to fall more in the public choice arena, than that of the interdependence school.

International security and power structure sees the world as essentially anarchic, in which the states strive to attain power and advance their relative strength. This perspective is also called the ***Realist***, ***Statist, Nationalist*** or ***Modern Mercantilist*** paradigm, based on the unitary actor nation state, in line with balance of power writings in international relations, where key issues arising are international security and stability, the key objective is national power and the nature of international relations is "zero-sum." In this vein, Merlo (2005) notes that one of the "fundamental premises of political economy is that the actions of government can be understood only as consequences of the political forces that enable governments to acquire and maintain power." He goes on to differentiate between the "macroeconomic side of political economy," which is the influence of "political institutions in shaping economic policy and their effects on the economy," while the "microeconomic side of political economy," deal with "individual (or voters), their preferences, and the set of available technologies..." (Merlo, 2005).

Realism, was a theory originally popularized by Thucydides in analyzing the Peloponnesian War (431-404 B.C.) This Greek historian warned that "the strong do what they can and the weak suffer what they must," resulting in realism in the 1930s and the 1940s prescribing nations to use power primarily as an end in itself and also to prevent war. In the early era of the bipolar nuclear system (1950s and 1960s), this form of realism, (in line with Morganthau) dominated most of international relations, and gave roots to the ***old IPE***.

According to Keohane (1986), Watlz (1979) extended Morganthau's concepts taking into account how changing power configurations affect patterns of alignment and conflict in world politics. He showed the possibility that great powers will constructively manage international affairs varies as systems change, thus systematizing political realism into a rigorous deductive systemic theory of international politics, which later was referred to as ***Neorealism***. From the point of view of IPE, this Waltzian synthesis, moved the philosophical base to a greater understanding of the global economy, reflecting multiple sources of objectivity (rather than the orthodox's one, based on realism). This came to be known as the ***New IPE***, because of its cultural openness to different theories and empirical reference (Tooze, 1991). However, neorealism has not gone uncriticized: Ruggie, Cox, Ashely and Keohane have attacked neorealism on various issues such as unit vs. system level variables; utilitarian vs. positive methodology; power, balance, and sovereignty; institutions and the role of information; transformation and continuity and history and human subjectivity.

Rose (1998) provides three versions of realism describing the behavior of States on the international system, regarding foreign policy. Offensive Realism highlights the dominant role of systemic factors and relates to scarcity in security leading States to "sometimes act offensively." Defensive Realism claims more abundance in security, and therefore foreign policy is limited to responding to rare external threats. Neoclassical realism takes into account both "relative material power capabilities" as well as analyzing pressures at the "unit level." Thus, by making "relative power" the "chief independent variable," the claim is as "relative power increases states will seek more influence abroad..." Rose notes that other authors have used different names for these labels: "Pessimistic Structural," (Kaufman, 1994) or "Neorealist" (Brooks, 1997) for Offensive Realism, and "Optimistic Structural," (Kaufman, 1994), or "Post Classical" (Brooks, 1997), or "Contingent" (Glaser, 1995), or "Neorealist" (Grieco, 1997) for Defensive Realism. Rose contrasts these three variants of realism (offensive, defensive and neoclassical realism) with the theory of Innerpolitik, which has roots in domestic politics instead, such as economic and political ideologies and national character.

On the issue of ***Nationalism***, Hieronymi (1980) emphasizes the importance of this for developing countries–most of the nations which had only recently obtained political independence, sought to achieve economic independence, through protection and the pursuit of nationalist development policies. The dramatic oil price increase of the 1970's was a significant example of nationalistic sentiment.

As regards the influence of ***mercantilism***, whereas the ***old mercantilist premise*** was exports are good and imports are bad, ***modern mercantilism***, or ***real politics*** argues that economics for its own sake will not dominate because of economic relations are inherently conflictual and dominated by national self-interest and extensive government involvement (Tooze, 1991). The most supportive factor for modern mercantilism, is not that there has been some increase in protectionism (which it suggests), but rather how successfully Western governments have managed to contain the increased protectionist pressure and avoid the repeat of the 1930's beggar-thy-neighbor policies (Willett, 1980). This suggests the importance of international economic cooperation, linking it to the interdependence school. On the other hand, ***neo-mercantilism*** takes an opposite turn, explaining the increase in protectionist pressure not as a result of strong national governments manipulating economic arrangements to theory-perceived political advantage, but rather from weak national governments giving in to the political pressures of domestic interest groups. This phenomenon is also called ***new protectionism***.

One view of the international power and security perspective holds that the more balanced the structure is, the more a state cannot gain at the expense of another. For example, France's linking itself with lesser states with financial ties (directing heavy loans to czarist Russia and to Southern European countries in the 1890's) was primarily in response to the external threat of the rising Germans. The formations of ***security communities*** largely follows this logic, these communities being either (i) amalgamated (former merger of two or more previously independent communities); or (ii) pluralistic (separate governments retain legal independence).

The government can respond, with restraint (as in its involvement in Northern Ireland, Gibraltar, and fishing rights in the vicinity of Iceland), or with interventionism and escalation (as in Pakistan and India over Kashmir, or of Greece & Turkey in Cyprus) (Lebow, 1991).

However, an alternate and more popular view holds imbalanced systems to be more stable, giving rise to the ***hegemony theory of stability***. Kindleberger (1973) sees the late nineteenth century and mid twentieth century as one with a single hegemonic leader - Britain and US, respectively. The basic features of hegemonic stability theory are (i) order in world politics is typically created by a single dominant power and the maintenance of order requires continued hegemony (Keohane, 1984); (ii) stability is a public good, and by having a dominant provider, there is less free-riding, as the bigger country internalizes more the benefits of the international public good and is willing to pay disproportionately more towards the cost of the good (Willett, 1980), and (iii) the more hegemonic a system is, the more open it is - as the hegemony declines one gets closure in the trading system (Krasner). Thus, when a formerly hegemonic state loses its "issue-specific" relative power position, and hence its interest in supporting a given regime, it will abandon its policies supporting that regime. Keohane and Nye (1977) put forward this argument to explain Britain's suspension of gold convertibility in 1931 - Britain could not change the value of the pound in terms of gold, nor could supply sufficient gold or foreign exchange to meet the demand, yet because she was still a major financial power, she forced a monetary rule (went off the gold and allowed the pound to float), that was towards her interest.

Another concern of a hegemon's decline is whether it leads to war. Whereas "power transition theories" (Levy, 1987), contend that hegemonic war is most likely to occur with a declining hegemone, Gilpin (1978) and Lebow (1991) contend that instead of adopting the historical Roman, Austrian and Russian approach of launching a preemptive war against the rising power while the declining state still has a military advantage, not all hegemonic declines necessarily lead to war–the state can adopt policies similar to Roman, Byzantine and Venetian rulers, in slowing the state's decline and strategically preserving the core of its power by abandoning some peripheral commitments.

It is noteworthy that some authors (Frieden and Lake, 1987) contend the theory of hegemonic stability was originally propounded by Krasner (1976), while others (Crane and Amawi, 1991) claim this theory is alluded to in different schools of thought. For example, Kindleberger provided a liberal interpretation in that the free rider problem in global economic management requires a hegemonic power to provide public goods. Keohane argues that hegemones act out of self-interest. Again, Wallerstein claims that hegemone is an integral part of capitalism as a world system. Finally, neorealists claim that hegemonic power is the result of political struggles among competing states.

It is noteworthy that Kindleberger's idea of a hegemony–that of one state "the stabilizer," providing the "public good of stability.....differs sharply" from Krasner's focus on openness (liberal trade), in that "states in hegemonic ascendancy will favor openness....(because a) ... state that is relatively large and more developed ...(which have low ratios of foreign trade to production)... will find its political power enhanced by an open system because its opportunity costs of closure are less." (Keohane, 1997) Thus, Keohane cites Lake (1993), in labeling Kindleberger's hegemonic theory as "leadership theory," and while lauding Krasner in recovering "the core subject matter of political science....State Power," titles Kranser's version as a "neorealist version of 'hegemony theory'."

<u>Domestic politics</u> is another perspective for explaining change. Two variants of this approach are: political party ideology (party platform and political ideology are exclusively for the purpose of winning elections) and interest groups (group representatives articulate different respective positions). The political party component of this perspective would explain why Republican Eisenhower administration's response to the inflation of 1955-58, involved much less use of direct controls over the economy, than Democratic Truman administration's response to the inflation of 1950-52. Again, the interest group influence would be supported with the example of successful pressure of silver-mining firms for a policy of buying & monetizing more silver in 1933, despite objections from other domestic groups, and the resulting disorder it caused in China and Mexico (Bauer, Pool & Dexter, 1972). Another example is the Social Democratic Party's victory in 1969 in Germany, causing an appreciation of the Deutsche Mark (to hold down inflation and cheapen imports) over the Christian Democratic Party–the former incumbents who had sided with the industrial exporters of the Ruhr region and the farmers, interest groups of lesser power (Kindleberger, 1970; Strange, 1976; Shonfield, 1976).

<u>Organization & Internal Bargaining</u>, rejects the premise that governments are unitary actors, and sees them instead as huge administrative conglomerates consisting of divided officials competing and bargaining with each other for resources, leading to possible conflicts in policy. Odell suggests that much of the initiative in US trade legislation policies were found to originate more with members of Congress themselves, rather than lobbyists. As an example, the Secretary of Agriculture, the Council of Economic Affairs, President Nixon and Henry Kissinger (his national security advisor), favorably viewed continued subsidies to farmers and a huge export sale of US grains to the Soviets in 1971, on the narrow strategy of increasing US farmers' prices and exports. However, this was achieved at the expense of a great loss to US Treasury and consequent high domestic inflation, and was later referred to as the Great Food Fumble of 1972. This serves that adherence to a certain perspective does not necessarily imply it is the correct one for the nation as a whole.

The "transnational camaraderie," is the extension of this perspective to the extension of across-government bureaucratic relations which create more flexible bargaining and more extensive coordination than would have been possible among governments operating as unitary actors. The most obvious cites for such "transgovernmental relations" are meetings of financial officials at the International Monetary Fund, and the Central Banker's confidential gatherings at the Bank of International Settlements in Basel, Switzerland. (Keohane and Nye, 1974). This has a kindred spirit to the Interdependence school as noted earlier.

Ideas are also considered as an important perspective in IPE. They consist of general beliefs (e.g. Secretary of State John F. Dulle had a generally negative predisposition towards the Soviet government), and specific beliefs (e.g. Greenspan's actions may cause a immediate run on the nation's currency as international markets will interpret an action of raising the Fed's discount rate, as a sign of panic). The emphasis is on ideas, and not on idiosyncrasies.

The core claim of this approach is that shifts in reigning ideas are an important determinant to change. Stein (1969) labels the influence of the idea of Keynesian economics as the most influential school of thought created in the first half of the twentieth century, changing macroeconomic policy to generate a fiscal revolution in America. Odell adds that this revolution was symbolized by the contrasting policies taken by President Hoover (recommending a tax increase) and President Kennedy (recommending a tax decrease), in response to unemployment. Somewhat earlier, during the mid-nineteenth century, ideas like economic liberalism, had, according to Kindleberger (Polanyi, 1944), "burst forth as a crusading passion." Schumpeter (1954) and Kindleberger (1978) assert that this culminated in the British landlords to finally agree to repeal the Corn Laws. This particular example exemplifies that both the perspectives of Ideas and Liberalism, were influential here. Thus, one particular perspective does not necessarily monopolize explanations of change.

The perspective of ideas also takes into account cognitive psychology and the implications of learning. Thus, the Clinton administration came to accept trade relationships with Vietnam, even though several years ago, such a policy would have clearly been unthinkable.

Public Choice encompasses the last three perspectives, from the viewpoint of its narrow and broad methodologies. The narrow methodology focuses on interest groups and is similar to society centered models such as the median voter model (the efficient outcome is that of the median voter), the non-median voter model (stresses the role of interest groups), leviathan model (no public check on the autonomous government) and the bureaucratic-politics model. The broad methodology argues that things like ideology or world view need to be considered also. Thus, the former would relate to the domestic politics perspective, and the organization & internal bargaining perspective, while the latter would relate to ideas. This approach, Stanilan (1987) maintains, was advocated as a by philosophical loyalists in economics to the onslaught of critics and was dubbed the ***new political economy***, ***rational choice***, or ***public choice***.

Public choice applies traditional economic assumptions of individual rationality, and demonstrates how, in a decentralized setting, the pursuit of individual interests can lead to outcomes that are not efficient in the aggregate, suggesting that Adam Smith's invisible hand does not work for the political market. This is because the free rider problem makes large groups not very effective (Olson). Thus, public choice tells us that there is an agenda that goes beyond identifying market failures, so that collective action is required, and then claims there are also failures in collective action. Taking the assumption of rational egoists, governments typically don't behave ideally.

This would help explain why USA gives foreign aid to developing countries, helping build their export capacity, and then sometimes restrict the entry of the output from this increased productive capacity, into the US (Willett, 1980). In a similar vein, Willett (1980) also extends public choice's application into the international monetary arena: (i) explaining why greater use was not made of exchange rate adjustments under the Bretton Woods System (as devaluations were viewed to be an admission of financial failure, shortening the tenure of financial officers), (ii) analyzing why the gold exchange standard remained viable for longer than would have been expected on the basis of Triffin's classic analysis of the liquidity-confidence dilemma, and (iii) providing a useful framework for analyzing the discipline arguments with respect to fixed versus flexible exchange rates. Public choice has also boosted the IPE toolkit by adding economic sanctions as an important explanatory variable.

The breadth of public choice, is perhaps obvious from its definition - it is an approach, a whole set of the theories, and not a single theory. The "major claim for public choice analysis is not its novelty, but rather its convenience in providing a systematic framework for analyzing a wide range of considerations (Willett, 1979).

Frey (1987) credits public choice with its following contributions to IPE: (i) providing fresh insight, (ii) being based on an explicit and unified theory of human behavior and on a technical apparatus capable of producing theoretical solutions and empirically testable propositions, (iii) providing a high degree of abstraction, (iv) allowing policometric analysis and (v) being interdisciplinary.

We note that perspectives not discussed have been ***Marxian*** and ***Neo-Marxian*** (Baran, Sweezy, Magdoff) theories and the sort (***dependency/structuralism*** (Prebisch, Furtado, Sunkel), ***imperialism*** (Lenin), ***world systems theory*** (Wallerstein)). This has been done because these perspectives are very controversial (e.g. if dependent underdevelopment were imposed by the core, one would not find any development of industrialization in countries influenced by the core, but one does (Staniland 1987), and more importantly, lack empirical support. Suffice it to say that the essential focus of this perspective is that economics dominates politics (in line with liberalism), and while economic considerations are powerful and economic interdependence is high, this works only for the benefit of special interests of the capitalists, (domestic and international level), giving rise to exploitation. The only solution is a revolution, marked through historical materialism, which brings about a "superior" order: socialism, and eventually communism. In this setting, international organizations such as World Bank and International

Monetary Fund are "transnational capital movers" which serve to enhance the internationally uneven spread of capitalist development. (Keohane, 1990)

However, for our purposes, this approach need not be viewed as separately. It can be viewed in the context on examining the extent to which interest groups are capital versus labor. Thus, in trade policy, Marxism would correspond to Heckscher-Ohlin, in these terms (capital and labor), contrasting it with specific factors models (industry specific). Thus, in the issue of conflict, one may ask if it were industry based interest groups, or economy-wide labor versus capital conflict. The latter answer would be a substitute for the Marxist perspective.

In early literature, there was a tendency to take a single factor approach to explain policy. The idea was the "three grand theories" (liberalism, Marxism, realism) could explain most of what one needs to know about the influences of government policy. As seen above, the roles of domestic interest groups and institutions in the determination of international economic policies are of increasing importance. In wake of this scholarship, it is clear that there are many different factors that influence economic policy. At a broad level, Merlo (2005, page) names four of the "fundamental institutions" affecting political economy as "voters, politicians, parties and governments." The fact is, different factors are important at different times, for different types of policies and different institutional arrangements under different conditions. Because the complex variety of the different perspectives can be confusing, I attempt to provide some degree of regularity, by developing my own classification of these various IPE models into a framework where specific theories differ in their assumptions and objectives of the actors.

My classification of the models are:

(i) Autonomous Government driven by International Organizations–AGIO

(ii) Autonomous Government following Nationalist or Statist policies–AGS

(iii) Bureaucratic Politics–BP

(iv) Domestic Politics influenced by Interest Groups–DPIG

(v) Domestic Politics conditioned by General Public–DPGP

Table 2 illustrates my classification of the different IPE perspectives, with particular focus on trade policy.

Table 2: IPE Perspectives: My Classifications

Models	*Assumptions and Objectives*
Autonomous Government International Organization (AGIO).	***Assumptions*** The government is an autonomous unit (acts as if it were one unit) and heavily influenced by international agencies (World Bank, IMF) in its decision-making process, or is an autonomous unit which advocates liberalism (assumed to be what international organizations also recommend for). The liberal approach is basically orthodox economics, the idea of which is that the state is out to maximize national efficiency (Willett). In this sense, the economic role of the government should be limited to providing the necessary foundation for the market. At the level of the international economy, liberals assert that a fundamental harmony of interests exists between as well as within countries. International trade leads to interdependence and reduction of interstate conflict. ***Objectives*** Trade liberalization (reduce tariffs and QR's, i.e. decrease protectionism, as measured by nominal rates of protection). International trade is beneficial and trade restrictions are inefficient, thus there should be a trend toward free trade.

Table 2 (Continued)
IPE Perspectives: My Classifications

Models	*Assumptions and Objectives*
Autonomous Government Statism (AGS).	***Assumptions*** The government is an autonomous unit (acts as if it were one unit) and heavily influenced by principles of nationalism, statism or realism, which takes a unified rational actor approach to the nation state. (Willett) From the standpoint of public choice theories, the realist approach corresponds to the Leviathan model, where the government is autonomous from domestic societal pressures and pursues its own interests. The government pursues some broad concept of national interests, i.e. that it is public spirited. Such public spiritedness stops at the national boundary, however, and interstate relations are seen as conflictual (Brennan and Buchanan, 1980). Where conflicts arise, it is assumed that national security considerations will (and should) dominate economic concerns—power is more important than plenty—and in the economic area, the focus is on relative rather than absolute gains (Willett). Nation States pursue power and shape the economy to this end. International system is anarchical, a condition under which nation states are sovereign, and states as the primary actors must rely on themselves. Another name for realism is modern mercantilism. An offshoot of realism is the Hegemonic Stability Theory, where order in the international system is created by a hegemone, calling for imbalanced systems of power in the world. The justification for this is that stability is a public good, and there is less free riding because the bigger country internalizes more benefits of international public good and therefore is willing to bear most of the cost. ***Objectives*** Trade Restriction (Increase Tariffs; QR's i.e. increase protectionism, as measured by nominal rates of protection), assuming it agrees with nationalist principles. Trade conflicts among nations are viewed as conflicts of optimal tariffs instead of among domestic economic interest groups (Willett). Autonomous government undertakes strategic trade policies based on maximizing national interest. Modern mercantilism would also predict rises in trade barriers. However, Hegemonic Stability Theory predicts that the more hegemonic a system is, the more open it is.
Bureaucratic Politics (BP)	***Assumptions*** The government bureaucrats are independent actors, rationally conducting "budget-seeking" (trying to expand their budget) to maximize their gains of power and prestige. Towards this end, administrative conglomerates compete with each other for resources (Odell). ***Objectives*** Trade restriction (increase tariffs; QR's i.e. increase protectionism, as measured by nominal rates of protection) for "traditional bureaucrats," or trade liberalization (reduce tariffs and QR's i.e. decrease protectionism, as measured by nominal rates of protection) for "non-traditional bureaucrats." Defining non-traditional bureaucrats as "reform-minded" bureaucrats who feel Bangladesh should compete in international markets, and protection is over-rated. Traditional bureaucrats are those who advocate higher tariffs either on grounds of protectionism (for example, some recommendations of Bangladesh Tariff Commission) or under revenue considerations (for example, some recommendations of National Board of Revenue).

Table 2 (Continued)
IPE Perspectives: My Classifications

Models	*Assumptions and Objectives*
Domestic Producers Interest Group (DPIG).	***Assumptions*** The government is more influenced by interest groups which lobby for special favors from the government. In trade policy, where benefits are highly concentrated, but costs are highly diffused, and government has less autonomy, this model would be a good example (Willett). This is similar to the IPE approaches of Domestic Societal Perspective, or Society Centered Approach. It is a non-median voter model in public choice. ***Objectives*** Trade restriction (increase tariffs; QR's, i.e. increase protectionism, as measured by nominal rates of protection) for traditional domestic producer of outputs, or Trade Liberalization (Reduce Tariffs and QR's, i.e. decrease protectionism, as measured by nominal rates of protection) for imported inputs, or for those non-traditional domestic producers of outputs. Defining non-traditional domestic producers as those who feel confident of competing with foreign producers and accept international competition. Traditional domestic producers are those who advocate protectionism under infant-industry arguments. Thus some desire trade liberalization, while others desire protection.
Domestic Producers General Public (DPGP).	***Assumptions*** The government is more influenced by the general public, that is, the voters of the society. The public choice model this would correspond to is the median voter model, where the politicians must cater to the median voter, in order to win elections. ***Objectives*** Trade liberalization (reduce tariffs and QR's, i.e. decrease protectionism, as measured by nominal rates of protection), as consumers benefit from competitive products.

From Table 2, an alternate way of presenting the direction of tariffs is given in Table 3.

TABLE 3
Direction of Tariffs under my IPE models

Models	**Direction of Tariff**	**Arguments**
AGIO	↓	Orthodox economic arguments based on static and dynamic gains from trade.
AGS	↑	Nationalism; Revenue (Budget)
BP (Traditional)	↑	Budget Seeking, Licensing; Revenue (Budget)
BP (Non-traditional)	↓	Liberalist philosophy
DPIG (Traditional)	↑	Infant industry arguments; Protection on output.
	↓	No or low protection on inputs or raw materials.
DPIG (Non-traditional)	↓	Accept international competition and feel confident to compete abroad.
DPGP	↓	Consumer benefits from lower tariffs.

Having classified the different IPE perspectives as shown in Table 2 and 3, I attempt to apply these models to Bangladesh's trade policy development. However, in order to accomplish this, it is important to provide a brief composite and summary history of Bangladesh not only to gauge the initial conditions the economy had at liberation–conditions that led–within a short frame of time, to a demand for a controlled economy with a "Realist" flavor that is, support for autarky with a Statist economy–but also to understand why trade liberalization was not the focus of policy makers in the initial decade of the post-independent economy and how the demand for this reform eventually became more pronounced.

Chapter 3: Composite History of Bangladesh

To provide a reference for Bangladesh's initial conditions at independence, regarding trade policy in particular, a brief composite history of Bangladesh is traced out in five phases:

1. Pre-Muslim Period (pre 1201);
2. Muslim Period (1201–1757)
3. British Period (1757–1947);
4. East Pakistan Period (1947–1971)
5. Bangladesh Period (1971–2006)

1. Pre-Muslim Period (pre 1201)

The historical roots of this new nation of Bangladesh extends to ancient times when this and its adjoining areas were divided into several smaller kingdoms[1] and part of these were marginally under the influence of imperial Gupta and Mauryan dynasties (from fourth century B.C to mid-sixth century A.D.) who were mainly Hindus. According to R.C. Majumdar,[2] Eastern Bengal or at least a part of it probably remained an independent kingdom till the middle of the fourth century.

The Buddhist rule became prominent in this area during eight to eleventh centuries A.D. In the eighth century, Bengal suffered prolonged anarchy. The Bengali chiefs then made one Gopala as

[1] Such as Rara (Western Bengal), Pundra, (Northern Bengal), Banga (middle Bengal), Bongal (South Bengal) and Harical (north eastern Bengal including Samatata) See: Sunil Chattopadhaya (1995) Ancient History of India. West Bengal State Book Board. Calcutta. p-271

[2] R.C. Majumdar (1925) The Early History of Bengal. Dhaka University. Bulletin No.3.

their king.[3] His son Dharmapala made himself the master of most of northern India under the Palas[4]. The present Bengali language of Bangladesh traces its origin in Buddhist literature.

The Palas were replaced by the Senas who came from South India and were Hindus. The Senas introduced caste rigidity in Bengal. The Buddhists who were more egalitarian and did not like caste distinction and persecution by the new rulers, preferred to become Muslims when the latter conquered the land since the early thirteenth century. Before the Muslim conquest of Bengal, however, a number of Arab traders had come to this land and had settled here in and around the Chittagong sea port. Following Muslim conquest, a large number of Muslim Sufis (Mystics) also came to this land. Their (the conquerors, traders and religious mystics) combined effort as well as the institution of polygamy helped to increase the Muslim population in the land in subsequent years. By 1947, the Muslims in Bengal became the majority of the population and Bengal was then divided into two parts—the larger part with its Muslim population became a part of former Pakistan under the name of East Bengal (later East Pakistan), and the smaller part with Hindu majority, became part of the new Indian republic under the name of West Bengal.[5]

It is noteworthy that Hinduism in India, had in the past, absorbed many invading powers like the Greeks, the Sakas and the Huns but the case of Islamic invasion was different. Islam, which can be traced, as Ellis (1972) notes, from the "Muslim conquest of Bengal about A.D. 1200" and with the arrival of the Mughal emperors from 1526, could not be absorbed into Hinduism. Nor were

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[3] Vincent A. Smith (1958) The Oxford History of India. Clarendon Press, Oxford. p-201.
[4] Ibid.
[5] For the process of division of undivided Bengal into part of India and Pakistan see The Political System of Pakistan edited by Verender Grove and Ranjana Arora, Deep and Deep Publications, New Delhi, India. Also see K.B. Sayeed (1968) Pakistan: The Formative Phase, 1857-1948. Oxford University Press, and K.B. Sayeed (1967), The Political System of Pakistan. Oxford University Press.

there any large conversions of Hindu trading class into Islam in Bengal (as happened in some other parts of pre-partition India). However, the immigrant Muslim trading class played an important role in business and commerce throughout the ancient and modern history of this country. Along the coast of Chittagong and Chalna (latter day Bangladesh's main ports), "Arab seafarers traded for fine muslin as early as the ninth century. Later, Chinese sought pearls and precious stones." (Ellis, 1972)

2. Muslim Period (1201–1757)

The Muslim period is mainly divided into two sub-periods: (a) the pre-Mughal or Delhi Sultanate (1201-1525) and (b) the Mughal[7] period (1526-1757). The pre-Mughal period is marked by the conquest of this region mainly by the Turks and Afghans who came from the northwest. They were followed by the Turkised Moghuls (usually known as Mughals). Under them, Persian became the language of the court but the Muslim rulers also patronized the development of Bengali as a language for communication with the local people. Subsequently, under the British patronage, this language was developed further, first by the Hindus and then also by the Muslims. Eventually it helped to develop a unique linguistic (Bengali) nationalism in this region covering both the Hindus and the Muslims.

In the 17th-18th centuries, trade and commerce flourished[6] in Bengal under the patronage of Mughal rulers led by the export of Muslin (fine cotton cloth) to the European courts. It was this prosperity of Bengal that attracted the European traders (English, French, Dutch and Portuguese)

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[6] For details see Nafis Ahmed (1968) An Economic Geography of East Pakistan, Oxford University Press.

to this region. In this process some non-Bengali Hindus merchants (headed by Jagat Seth) became economically powerful and politically ambitious. With the help of these non-Bengali merchants, the British were ultimately able to defeat the Muslim rulers and conquer Bengal (1757).[7]

3. British Period (1756–1947)

British initial interests were mercantilist–based on Classical liberalist philosophy (laissez-faire and minimal state interference). According to the Cambridge History of India, the famous economist, John Stuart Mill himself worked for the Company from 1823 to 1858. Another distinguished economist, Malthus, was a professor at Haileybury College, where many British decision-makers were trained in utilitarianism. "The Europeans were attracted to Indian trade by her fine manufactures of cloth and silk and her agricultural raw materials, notably .... spices." Thus, the East India Company was set up in India for trading and employment purposes to the benefit mostly of British upper middle class. However, as Maddison (1971) notes, because of the vastness of India's size, "the Company was forced to build an army and develop new administration methods," with the consequent realization that "control of India was a key element in the world power structure, in terms of geography, logistics and military manpower."

Further, whatever laissez fair trade orientation the East Indian Company might have had, was at best fleeting, as they became mainly interested in quick profit and administered this region with a

[7] K.M Pannikar (1959) Asia and Western Dominance, George Allen and Unwin, pp.78.

single purpose–earning profit as much and as quickly as possible[8]. The situation improved somewhat when administration of this region came under direct British crown.

Here was an example of mercantile interests playing its role in power politics. When the British captured power in Bengal, they realized the power of these merchants. They thus created a new Zamindar class by permanently providing land to them (Permanent Settlement Act of 1793), and changed the social structure by reducing the power of the native merchants in favor of the subservient new landlords (Zamindars). They also raised protection against the export of this region–mainly muslin, forcibly destroyed the productive capacity of these indigenous producers by outright stoppage of production and introduction of other crops which were profitable to the colonist country and discouraged manufacturing industries in this region. Thus, in terms of trade and commerce, the British, prohibited weaving of muslin (used to be exported to Europe), and introduced trade without payment of tax by European merchants. They introduced new cash crops such as indigo, jute and tea, and thus established Bengal as a hinterland of raw material for Europe. Although some jute and cotton textile mills were founded, they were in West Bengal. Industry developed by Indian capitalists was also "heavily concentrated in Calcutta, Bombay and Ahmedabad." (Maddison (1971). The area which was to become East Pakistan (or formerly called East Bengal) had a very low industrial base.

When the British came to India, a Muslim monarch was on the throne. Naturally, they were more anti-British then the Hindus (for whom it was mainly a change of master). In response, the British policies during the first hundred years mainly benefited the Hindus as against the Muslims.

[8] For the impact of the British colonial policies on Bengal in the eighteenth century see K.M. Panikkar (1959) Asia and Western Dominance, George Allen and Unwin Ltd.

In the British policies followed during the first century (1757-1856), the main winners were the Hindus, the losers, the Muslims.

Under British rule, the Hindus became the managers and paymasters and government clerks, and controlled trade, commerce and business, while the Muslims filled the lower-level jobs. Besides feeling economic exploitation in the hands of the Hindus, the mostly poor Muslims also feared religious persecution and therefore there were a number of sporadic revolts. In the second half of the British rule, some Muslims realized that it would not be possible to drive the British away by force and so, to make up the loss, they started to cooperate with the British (particularly by learning English and understanding western institutions.) Some British administrators responded positively to this change of the Muslim intelligentsia. Lord Curzon divided the greater Bengal into a Hindu majority West Bengal and a Muslim majority East Bengal (in 1906) so that the latter could get a better deal. There was violent opposition among the Bengali Hindus to this partition. The partition was finally annulled but it gave the Bengali Muslims their second strategy to survive: they needed a political organization to fight their case, constitutionally. The Muslim League was born in 1906 in Dhaka, the present capital of Bangladesh, as the political platform of the Muslim. Eventually it could mobilize the Bengali Muslim around the demand for a separate state in the eastern part of India. The Hindus were determined not to divide India. . "By 1947, when India gained independence, it was obvious that the gulf between the two groups could never be bridged within the framework of a single nation." (Ellis, 1972)

It should be noted that Western ideas did bring about some positive changes.[9] Notably were the acceptance of the right of self-determination, rule of law and democracy and later secularism (particularly in India). The British also brought western language (English), western learning and western institutions and western process of governance in this region. In particular, it many be noted that although Bangladesh is presently one of the poorest countries of the world, it has high commitment to democracy. By the end of the 1980's the people rose en-mass against military dictators and restored democratic rule. (We shall look into the nature of this democracy particularly in relation to trade promotion in Chapter 6 in greater detail.)

4. East-Pakistan Period (1947–1971)

In 1947, British India got partitioned into two independent countries: the Republic of India and the Islamic Republic of Pakistan. The basis of this partition was the Two-Nation Theory, which assumed that Indian Hindus and Muslims were separate nations and therefore, must have separate rights of self-determination. Pakistan, in turn, consisted of West Pakistan–in the northwest region of India–and East Bengal or East Pakistan (as it came to be known after 1955)–in India's northeast region. However, the Eastern wing of the newly created State of Pakistan, which previously was a hinterland of West Bengal, continued to remain an isolated area because, among other reasons, it could not reap the benefit of larger markets being separated from the Western

[9] Tinker (1967), notes the following efforts of the British to modernize India. They stamped out infanticide and ritual burning of widows (sati), legalizing remarriage of widows. They introduced a modified version of English education, which existed with Mughal court language of Persian and Muslim population's Urdu (a mixture of Persian, Arabic and Sanskrit). They introduced a penal code based on British law, to inculcate ideas of equality. They dispossessed the bulk of the old warlord aristocracy, appropriating the land revenue of the erstwhile Mughal State, as land tax. However, in the Bengal Presidency (i.e. the modern Bengal, Bihar, Orissa and part of Madras), the Zamindars (landlords), remained in power–having hereditary status until Zamindari rights were abolished in 1952, with Zamindari rental income converted into State revenue. Additionally, the British substituted the Mughal hierarchy with a modern bureaucracy, which took a smaller share of national income. (Madison, 1971)

wing of Pakistan by over 1000 miles by air. There was also allegation that the central government located in West Pakistan was more eager to develop that Wing at the cost of the Eastern Wing. Given this situation, the basis of unity of East and West Pakistan became, mainly "psychological"–in that, the Muslim population who lived in these two regions wanted to stay together and benefit from such union even at the cost of discriminatory economic development.

However, very soon, this assumption came under test particularly on three main questions of (i) whether Bengali, the mother tongue of the Bengalis would be recognized as one of the two State languages of Pakistan along with Urdu, the language spoken in West Pakistan; (ii) whether West Pakistan's power elite who came mainly from the feudal–tribal–military background would be willing to accept the political dominance of the Bengalis who came largely from the middleclass background; and (iii) whether there would be justice and fairness in the allocation of resources and expansion of trade and commerce for the development of the Eastern Wing vis-à-vis the Western Wing.

The middleclass in the East was more participatory and reform minded and emphasized immediate social reform through progressive social legislations (such as land reform, spread of liberal education, etc.) and democratic governance. It made the feudal-military elite of West Pakistan, uncomfortable. More important, the Bengalis were numerically larger in population (55%) as against the West Pakistanis (45%). There was, therefore, a danger that if a general election was held on the basis of adult franchise, the reform oriented Bengalis from East Pakistan might come to power. The response to this by the West Pakistan elite was to postpone the country's first general election till 1970 and when this was ultimately conceded the Bengalis captured absolute majority in the national assembly. A civil war followed leading to the break up of former Pakistan in 1971.

Further, the reason for the civil war in Pakistan was not only socio-political, but also economic. In Pakistan, the prevailing ideology centered on what was called functional inequality and import substitution industrialization. Inequality within and across West and East Pakistan was deemed necessary to "promote savings and create entrepreneurial dynamism." (World Bank 1994, March 17, Page 86, 89) This dynamism was concentrated on the very few, towards the benefit of the Western Wing. The Second Five-Year Plan of Pakistan thus quoted: "It will be necessary to tolerate some initial growth in income inequalities to reach high levels of savings and investment." The problem was "initial" remained constant throughout the entire 24 years of the existence of the Eastern wing–during the periods of Jinnah's (1947-1958), Ayub (1958-1969) and Yahya (1969-1971), with the major resources of the East being channeled towards investment and development in the West.[10] That is, by the central government of Pakistan, dominated by the West Pakistan army and civil servants. Thus, "For many years...the Eastern Wing felt it was subjected to severe economic discrimination. Through the sale of its jute and other products, the

[10] Jinnah's regime concentrated power in the Civil Service of Pakistan–the apex cadre service at that time. The bureaucrats did not encounter opposition from the businesses, because the "system gave most of them a guaranteed income and removed the pressure of competition." (Ellis, ibid.) After Jinnah died, Ayub's regime initially continued the process of centralized administration and economic planning, still adhering to the functional inequality doctrine. The Third Five Year Plan thus argued for ".....the creation of equal opportunities for all rather than equal distribution of wealth." This belief was sustained in the Fourth Five-Year Plan: "We cannot distribute poverty. Growth is vital before distribution can improve." By 1969, there was widespread opposition over the East–their contention was Ayub's creation of "Basic Democracies" (his own variety of local government institutions), was not a form of participatory administration, rather a one-man rule of guided-democracy, using the military-bureaucratic coterie as instruments of power. This President-style constitution, based on indirect representation was to be replaced by administrative reforms and general elections - only limited elections were held for 12 years (Ellis, ibid) offered by Yahya Khan, who came to power following a successful military coup.

East provided more than half the national export earnings for Pakistan. But though it had three fifths of the people, its share of the national budget was less than 40 percent." (Ellis, 1972)

Thus, the development strategy adopted by the central government dominated by West Pakistan elite was transfer of substantial revenue and foreign exchange earnings of East Pakistan for investment in the Western wing on the assumption that (a) West Pakistan was relatively more productive than East Pakistan and therefore, it was on the larger interest of the country to pursue this policy for a number of initial years; (b) the resultant increase in the income inequality against the poor (East Pakistan had larger number of poor) was necessary in the interests of higher growth and better future of the country and (c) East Pakistan had lesser absorption capacity for utilizing investible funds due to lack of a vigorous entrepreneur class and necessary infrastructure. Therefore, the two wings continued to differ substantially in their attitude towards socio-political development, throughout their united existence of about 24 years (1947-1971).[11]

The issue of economic justice and removal of disparity therefore, became important in Pakistan. When they could not be solved within the authoritative political framework, the East Pakistanis main political party came with its Six-Point Formulae, which demanded that the economy of

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[11] The major regional differences centered on issues of language, land, religion, industry, government autonomy, investment, income, administration and expenditure. For example, Jinnah designated Urdu to be the national language of Pakistan, while the Eastern Wing spoke primarily Bengali. This was resolved in 1954, when it was decided by the assembly that both the languages would be declared official. Most of the land in the West was Muslim owned, while the land in the East was either in the hands of Calcutta-based elites in India, or Urdu speaking Muslims affiliated with the Western Wing. Pakistan wanted to be an Islamic State, while the Eastern wing desired Secularism. Again, whereas the West wanted a strong central government, the East favored a high degree of autonomy. Over 3/4ths of expenditures were disbursed in the West, with the East being much less urbanized and less than 1/4th of private investment taking place. The capital city was located in the West and the majority of the bureaucrats were concentrated there. East Pakistan had almost no personnel in the administration who were Bengalis. The army was largely recruited in the West and the bulk of it was stationed there. Except in the technical branches, very few Bengalis were in the army. (Maddison, 1971)

Pakistan should be regarded as two economies and that the central political, military and economic power should be adjusted accordingly.

This suggestion became the most important political issue in the first ever conceded general election in 1971. The Awami League, the main political party in the East won absolute majority (167 out of 300 seats) in the election on this mandate. After election, this became a non-negotiable demand from the East, implying that henceforth United Pakistan would exist and survive only as a loose confederation (with a weak center) but no longer as a federation with a strong center.

The west-dominated military government which controlled power refused to hand over power to the elected representatives dominated by the Bengalis. A violent civil war followed. Yahya used his military strength to impose discipline on those he termed as rebels (the East Pakistanis). A government in exile of these rebels mobilized masses in favor of armed struggle against Pakistan military rulers and entered into with India for support. On December 16, 1971, Bangladesh was born a free country, (with the defeat of Pakistan, with India's help), after nine months of a violent civil war.[12]

The issue of Indian assistance is particularly relevant for Bangladesh, because after independence, Bangladesh chose to follow a modified style of India's Soviet style planning philosophy–the new

[12] The Pakistan army was defeated by the combined forces of Bengali freedom fighters and Indian army on Dec. 16, 1971, but Bangladeshis take their independence from March 26, 1971, when the Pakistan army started its armed action against them.

Bangladeshi constitution reflected “four basic principles: democracy, secularism, nationalism and socialism.” (World Bank, 1974 September 15, page 23)

5. Bangladesh Period (1971–2006)

Bangladesh has thus far gone through six regime shifts:

- Mujib (1971–1975)
- Zia (1976–1981)
- Ershad (1982–1990)
- Khaleda Zia (1991–1995)
- Sheikh Hasina (1996–2001)
- Khaleda Zia (2001–2006)

It is not the aim to go through a detailed analysis of each regime as we are analyzing the progress of trade liberalization in Bangladesh, from the perspective of political economy theories, with focus on the role of five main variables: State, Bureaucracy, Interest Groups, General Public and External Actors. However, in dealing with the above, it is important to continue the political-economic history of Bangladesh first, as a continuation of the composite history of Bangladesh and secondly to understand why trade liberalization, was not the focus of attention in Bangladesh, during the initial years of its independence. Further, describing the regimes in somewhat detail provides the background to compare the role of the State and the bureaucracy, in our subsequent chapter (Chapter 6) on the political economy analysis of trade liberalization.

Mujib Era (1971–1975)

Upon independence (December 16, 1971), Sheikh Mujibur Rahman was named the Prime Minister of independent Bangladesh. Because of the devastation the economy suffered from the war, the very survival of the country (the size of Wisconsin in the US–roughly 148,000 sq. km–with a population of 75 million in 1971), was at stake. Facing the economy were the problems of averting a famine, rehabilitation of one million refugees, reconstruction of infrastructure, the absence of critical institutions (banking and service), lack of a developed business class in the industrial sector (abandoned industries, as most of them were controlled by West Pakistanis), and exogenous forces (like the oil price hike, and deteriorating terms of trade).[13] Thus, steering the country with the above problems to address these immediate issues became the highest priority. Mujib's government propounded a demand for a controlled economy, and nationalized most industries.

Not only had economically Bangladesh inherited a heavily poverty stricken economy, ideologically it had now to redefine its orientation after being part of Pakistan–a religious regime–that had long exploited Bangladesh. On the other hand, India had played an important helping role during the independence struggle of Bangladesh. Consequently, this resulted into a special relationship with India–the signing of a 25 years friendship treaty between the two

[13] As for the problem of economic rehabilitation and reconstruction, the country took about six years (1971-1976) to come back to its pre-independence level. It may be mentioned that during the war of independence, much of the infrastructure of the country got heavily damaged. In addition, about 3 million people fled to India as refugees, who had to be rehabilitated. Moreover, the oil price hikes of 1973 and 1979 in the international market, made the effort of economic rehabilitation and development in Bangladesh, far more difficult. In addition, in 1974, a famine struck, particularly the northern part of Bengal and showed the vulnerability of the country at the time of such crisis - particularly in the absence of developed infrastructure and adequate foreign assistance. Much of the development assistance in subsequent years therefore, had to be devoted to building up of extensive and durable infrastructure throughout the country, with the help of substantial foreign assistance from development partners.

countries, which, on its turn, became subsequently, significantly controversial in its intentional effect. The treaty had both its good and bad sides. It was not renewed after its expiry.

On the economic front Bangladesh government showed socialist inclination. The country thus began its socioeconomic planning from 1973, implementing its development policies as part of five year plans, following, a modified version of India's Soviet style planning philosophy, by advocating democracy, secularism, nationalism and socialism.

A World Bank report (March 17, 1994, page 86, 89) describes the process of nationalism and socialism as follows (before independence) "...most entrepreneurial development was in the hands of West Pakistanis." "After liberation, with the departure of....public and private sector owners, managers and technicians (mostly West Pakistanis), industrial activities came to a grinding halt. As a result, the Government took possession of all factories, banks and properties abandoned by the Pakistanis. In order to restructure the economy on socialist patterns, Bangladeshi-owned factories, banks and insurance companies were also nationalized. The large vacuum in management as a result of both actions was gradually filled, primarily by Bangladeshi bureaucrats returning from West Pakistan." Basu and Greenaway (1993, page 3) write, "Following independence in 1972 the government embarked upon a massive nationalization program which resulted in over 90% of total assets in the manufacturing sector being government held in 1973. This covered the major manufacturing industries (sugar, jute and textiles) as well as some smaller scale activities and the entire banking sector." As a result, the share of the state in fixed assets went up from 34% in 1969 to 92% in 1972. Accordingly the First Five Year Plan (FFYP) (1973-1978) stressed that removal of private ownership is a necessary condition to social transformation and channeled investment resources towards industrialization–as that was the prevailing philosophy highlighted in economic growth literature, rather than agricultural development.[14]

On the issue of political recognition of Bangladesh, the country was in a peculiar situation–because of Indian help in its political struggle with Pakistan, most Muslim countries withheld their recognition to Bangladesh until 1974. Even United States was somewhat distant in its attitude towards the development of Bangladesh, because of its (US) traditional closer link with Pakistan. Additionally, the Foreign Secretary of Bangladesh during Mujib's period, writes that although "India tilted towards Soviet Union and emergence of Bangladesh with India's help meant for policy-makers in Washington, extension of the influence of Indo-Soviet axis in this area," the United States made no move to extend their influence in Bangladesh, because, "the presence of Indian troops," as well as "non-recognition by majority of the nations," explained the "coolness of Nixon and Kissinger towards Bangladesh." (Ahmed, 1993) Similarly, China was also cool in its recognition to Bangladesh, as China had strained relation with India. Only India and some countries in the Soviet Bloc gave Bangladesh diplomatic recognition in the initial stage.

Continuing on the religious aspect, given that Muslims were the majority (90%) of the population, this posed the question, why an Islamic Republic of Bangladesh was not created. The

[14] In spite of the initial neglect of agriculture, as a result of the above pro-industrialization policies, agricultural breakthrough could come in Bangladesh through an innovative approach, led mainly a research / action oriented institute for rural development, better known as the Academy for Rural Development at Comilla. Under the dynamic leadership of its Director, the small and medium farmers were organized at the grassroots. Trained in the new agricultural technologies and supported by the inflow of strategic inputs, particularly credit, water and better seeds, increased food production over the period (1971-2002), from 15 million tons to about 25 million tons to feed the rising population from 75 million to 130 million (during the same period). To help the process, the government and the development partners became more intimately involved from the 1980s.

1947 Lahore resolution stipulated that Bengal would be a separate Muslim State and with Pakistan would be a separate Muslim state, after independence of Bangladesh. However, after independence, there was no obligation on Bangladesh's part, to remain faithful to the Lahore resolution. In fact, those who wanted Bangladesh to be an Islamic State were considered pro-Pakistani. The AL government kept the question of making Bangladesh as Islamic State out of consideration and instead, opted for secularism and insisted that independent Bangladesh should be predominantly Bengali (linguistic), rather than religious (Islamic) in identity. This idea of "Bengali Nationalism" was supposed to win the support of the majority of the progressive Muslim intellectuals of the country in favor of the AL. This however, paved the way for the military, which captured political power in 1975 to rationalize their regime by bringing in the concept of "Bangladeshi Nationalism," which emphasized the Muslim identity of the people of Bangladesh over their linguistic identity. It may however be noted, that the vast majority of the people, actually did not understand the subtle differences in their national identification. They saw no conflict in their identity as both Muslims and Bengalis. The conflict therefore was more political then substantive. But it has continued to disturb the political climate of Bangladesh throughout its existence from its inception to date and distract the attention of the policy makers from more substantive issues of socio-economic reconstruction and development.

The regime of Mujib had initially appealed to the masses by preaching socialism and nationalization and gained popular support. Moreover, it goes to the credit of the then political leaders of Bangladesh mostly belonging to the Awami League, to have framed a democratic Constitution, immediately after independence (1971), in 1973, patterned on the Westministerial type of Parliamentary democracy, which, for obvious reasons, raised high hopes among the newly liberated people of the country.

However, it became apparent soon enough that the implementation of the constitution would be very difficult in the existing state of the country. Several important reasons for this are described below.

The country had only one main political party, Awami League (AL), which claimed to be the main actor in the independence struggle and therefore, wanted to perpetuate itself as the political authority of the country. The election of 1973, under the above Constitution, proved that the dominance of the political party was such that no other political party would be able to compete with it in the electoral process in the near future.

On the political front, Mujib's party, the Awami League (AL) was dominated by middle landlords and businessmen. Bangladesh did not have large landed aristocracy, and the big farmers (above 25 acres of land) were mostly absentee landlords.

In the first political phases of 1972-75, political power was mainly in the hands of these middle landlords, known in Bangladesh as Jotdars. Mujib's top advisors were political leaders and party affiliated interest groups who wanted political ascendancy over the bureaucracy because of their association with the military rule during the previous 12 years. They tried to get rich quickly without much regard to economic efficiency considerations. They resorted to getting licenses in their favor, or gaining other accesses (sending son as manager) in nationalized industries, and also obtaining loans on easy terms from nationalized banking sector. Many such State Owned Enterprises ended up showing sings of inefficiency, as a result. Further, a large number of army personnel were retired by the government, particularly those who came from Pakistan, thus creating a powerful unemployed interest group who wanted at least access in business opportunities.

The split between the party in power and the Leftist parties (divided among themselves into various groups), became obvious right from the beginning. These parties claimed that they had played a dominant role in the independence struggle of Bangladesh, with a view to introduce a Socialist revolution in the country. Naturally, the clash between AL, which was mainly dominated by relatively more conservative leadership, composed mainly of middle landlords, came on the surface immediately after independence.

The AL also considered the various conservative parties led by religious groups, to be another threat, because they presumably opposed the independence movement, and was willing to steer the country to religious orthodoxy.

As an aftermath of the independence war, many splinter political groups, with different kinds of ideologies had lot of arms in their hands. The country was under the threat of a continuous civil strife out of the different orientation of these various militant groups.

To complicate the situation, the administration of these nationalized industries and banks were frequently politically administered, leading to not only inefficiency, but also high degree of corruption and losses. Subsequently when external assistance started to flow in the country in larger quantities, one of the major preconditions the development partners started insisting was to reduce the losses and preferably denationalized and privatize these enterprises–under their "structural adjustment" reform policies.

Thus, as a result of these problems and interest group politics, to those who controlled the state, socialism meant no more than nationalization of major industries, some land reforms, and a few other half-hearted measures. And even to that extent, nationalization was meant to promote the interest of the intermediate class–the ruling political elite came neither from the top nor the bottom echelons of society. The semi-feudal lords, not being businessmen, only talked about socialism, but practically opposed any land reform and progressive tenancy legislation. And when the expectations of the people were not met partly due to flood and famine (of 1974), but mostly due to interest group politics, his regime became more authoritarian.

Iftekharuzzaman (1993) writes, Bangladesh "started off with all the arrangements for establishing a limited and accountable government in the Westministerial type sovereign parliament, But soon the political landscape underwent massive transformation creating the stage for authoritarian tendencies leading eventually to the establishment of autocracy either under civilian, military, or so-called civilianized military rule. In the process, the parliament was robbed of its sovereignty, the president or chief executive was made omnipotent, effectiveness of the judiciary was curtailed, and above all accountability of the government was totally lost." Mujib's government, eventually thus ended up rejecting democratic pluralism, introduced a one party system (BAKSAL: Bangladesh Krishak Sramik Awami League) and suppressed press in early 1975.

In response, notwithstanding the framing of the Constitution and holding a General Election in 1973, the then leader of Bangladesh, Sheikh Mujibur Rahman, who became the first Prime Minister of Bangladesh, under the new Constitution, introduced several amendments in the Constitution, immediately after coming to power and changed the character of governments in favor of a more authoritative regime. The main amendments were:

(a) replacement of Westministerial Cabinet form of government to a Presidential form, with more power in the hands of the President;
(b) introduction of a Public Safety Act, which gave him (President) the power for arbitrary arrest;
(c) suspension of the Autonomy of media and reducing the number of newspapers to mainly four and greater centralized control over other media services, and
(d) changing of his own political party (AL) into what came to be known as BAKSAL (Bangladesh Krishak Sramik Awami League), apparently accommodating some Leftist groups and suspending all other political parties.

These steps had some positive effects, such as, reducing the threat from both the Leftist and Rightist splinter groups. However, they also led to a number of negative effects, in that it paved the way to intervention by the military in politics on the apparently valid pretext of restoration of democracy after his regime. It would be seen later that it took Bangladesh about 15 (1975 to 1990) years to throw the military regime and institute democratic politics in the country by a spontaneous people's revolution. However, during the Mujib regime, with the widespread flooding and ensuing famine in the northern region of the country, along with increased law and order problems, the regime was forced to turn significantly to the bureaucrats (with some reshuffling in administration) for help, during the early days of 1975. The top civil bureaucrats, therefore, could survive in partnership with the military elite after November 1975, when General Zia assumed political power.

Zia Era (1975–1979)

After the assassination of President Sheikh Mujibur Rahman by a small group of mainly army officers, Martial Law was declared in the country and political power came into the hands of Zia. He formed a new party, the BNP (Bangladesh Nationalist Party), which stressed "Bangladeshi Jatiatabad (Nationalist),"and laid the foundation of future multiparty democracy by allowing other parties to revive–like the (old) Muslim League (believed Bangladesh should be an Islamic State), the Jamate Islam (wanted to establish Quranic Rule of Law) and Leftist Parties–and participate in elections. (The country remained under Martial law until 1979 after which general elections were allowed.)

Zia's power base was an elite-mix: bureaucrats and the military. The new government encouraged the market mechanism–on the domestic front–by raising the ceiling (and eventually abolishing it) of private investment (imposed by the previous government) (see Table-4), conducting limited denationalization and placing emphasis on industrialization and infra-structure development, which improved the climate for investment from 1979 onwards. The strategy to achieve these goals were primarily import-substitution oriented state interventionist policy, but Zia also initiated a bold process of privatization and initial structural adjustment process.

TABLE 4
Private Investment Ceiling

	1972	1974	1975	1977	1979
Ceiling on private investment	Taka 2.5 million	Taka 3.5 million	Taka 30 million	Taka 100 million	Completely abolished

Source: Monem (2001, page 143)

He also encouraged agricultural revolution, promoted gas-based electricity to meet oil crisis, development of infrastructure and encouragement of village development (with setting up of "Gram Sarkar" or village local government institutions). Zia wanted to extend his power base across the society by repeating the old cliché of "popular participation" and "decentralization." At the root of this, was his intention to involve the support of the local elites through the creation of moderately participatory institutions.

On the international front, Zia attempted to immediately restore ties with the US, the Western countries and Saudi Arabia. Zia's modification of the secular orientation of Mujib's philosophy prompted the Islamic states to recognize Bangladesh and start providing foreign aid and assistance. As Mohammad Shamsul Huq, Minister for Foreign Affairs notes in 1979, Zia's introduction of multiparty system and holding of elections, both Presidential and Parliamentary, coupled with international cooperation had positive impacts in the West. He also gained popular support in this regard by his introduction of the practice of saying "in the name of Allah," in his addresses in all official functions. He also attempted to restore democracy by removing socialism by social justice in the constitution and tried to activate projects that would benefit the rural poor (like adult literacy, canal digging and family planning). All these steps brought about increased inflow of foreign assistance.

As with Mujib, Zia also faced problems. The bureaucrats were isolated from the people but were happy to retain their status quo and motivated by various factors such as promotion and prestige. Some of them wanted special favors because of their participation in the independence war, through extension of such facilities introduced by the earlier Mujib regime such as two-year seniority over others–non-freedom fighters in service, as well as other privileges such as allocation of houses, cars, better posting, etc.

On the other hand the army had its own perceptions about what was good for the country. They emphasized honor, discipline, and regulation. To gain their support, not only were investment opportunities extended to them but also a number of retired and serving army personnel both freedom and non-freedom fighters were moved into civil administration. Moreover, there was also a conflict between the former (East Pakistan's time) provincial civil service cadre and the central civil service cadre officers of former Pakistan.

Further, because the army itself was divided into conservative and radicals, the then president had to confront a series of internal coups during his reign. The absence of 'real democracy' made some of the army officers even more ambitious, and Ziaur Rahman was killed in 1981, in one of these coups. Justice Sattar, the Vice President, became the President of the new government. It was expected that he would try to restore democracy in Bangladesh through a fair general election but before this could happen, the army, under Ershad (first wanted to share power), took over the government in March 1982.

Ershad Era (1981–1990)

During 1982-90, Ershad made the army to come to civilian administration in greater number He also raised his own party known as the Jatiaya (Nationalist) Party.

Ershad depended more on the military and consequently the military officers began to man more and more important positions in the secretariat, public corporations, infrastructure (roads and highways) as well as into the foreign offices too.

In this way, the army became a powerful interest group–obtaining quick promotions, and getting into profitable business. Iftekharuzzaman (1993) points out that Ershad's Foreign Minister, Humayun Rashid Chowdhury had suggested in a note to President Ershad in November 1988 that administration of the Foreign Office should be headed by a high ranking officer of the army, and army officers should be placed in the Foreign Service to make it dynamic.

However, by mid to late 1980s, certain structural problems forced Bangladesh to turn to the World Bank and IMF, which urged the government to implement structural adjustment reforms. In 1986, the IMF implemented the Structural Adjustment Facility (SAF), under which a number of policy reforms were suggested. (Taken up in Chapter 4 and 5)

After mid 1980s other donors came in line with the World Bank. Most of its loans were given under sectoral program loans and in many cases comprehensive sectoral policy matrixes were worked out and the loans were disbursed in phases depending upon satisfactory performance.

Simultaneously, IMF and WB, with the government, worked out a policy matrix for the financial sector reform known as FSRP (Financial Sector Reform Program). Thus, in 1989, a comprehensive policy of financial sector reform was undertaken by the Government of Bangladesh, in line with the World Bank's Structural Adjustment Policies (SAP).

The performance of the three year SAF (1986-89), came under scrutiny in 1989-90 under the Policy Framework Paper (PFP)–and an Extended Structural Adjustment Facility (ESAF) was worked out for the country for 1990-1993 to achieve certain benchmarks. It is noteworthy that in the 1989 Paris consortium–the donor agencies insisted that before Bangladesh aid requirement in the following year, April 1990, the Bangladesh government should organize a review meeting by the end 1989 in Dhaka with the donors who will assess the progress of structural adjustment program. This evaluation would be considered in the upcoming Paris meeting. In this background the government framed a mid-term adjustment plan, which drew upon the IMF and WB's SAF. (Ahmed, 1993)

These events demonstrated how Ershad had to move towards policy of introducing a more liberal economy. Moreover, the SAF and ESAF type loans perhaps would not have been made, had the economy showed signs of socialism and closed-economy import-substitution philosophy that was prevalent in the Mujib Era. It was a clear shift of paradigms, where IMF and WB influences were legitimized through the gradual encroachment of the idea that the market mechanism would best promote efficiency.

Ershad also carried out administrative decentralization by creating mini-urban centers–Upazilla's (upgraded from previous "Thanas"). He placed public administration nearer to the people by developing infra-structure, courts, offices, roads, hospitals, etc. at the Upazilla level thereby also reducing migration from rural to big cities. However, he allowed to spent lots of money in the constituencies of his MPs in order that some of them could be re-elected.

He also declared Islam as the State religion of Bangladesh (which is different from Bangladesh as being an Islamic State). This pleased those who wanted Bangladesh to grow on the basis of Bangladeshi nationalism, based on its Muslim culture.

However, because Ershad had replaced civilian rule by military rule, the general people became increasingly frustrated with the lack of political democracy, and autocratic rule. Moreover, the high patronage towards the army in this way encouraged autocracy on the political front and mismanagement in the economic front. Intellectuals in Bangladesh thus blamed the prevalent autocratic government as mainly responsible for the deteriorating economic condition characterized by stagnation, corruption and non-accountability. To them, structural adjustment was a necessary and not sufficient condition. The sufficient condition was the restoration of democracy in the country.

Ahmed (1993) writes "Ershad, by accelerating the process of liberal economy secured the confidence of the West despite the fact that he was autocratic and corrupt to the bottom. It was only when people's movement to overthrow Ershad gained momentum that the West withdrew their support and finally the army also abandoned him." By 1990 the demand for democratic government snowballed, there was unity among the political leaders and the people at large and the military government was overthrown through a civil disobedience movement.

Khaleda Zia Period (1990–1995)

For many years, both Awami League and BNP opposed Ershad separately. In 1990, they joined hands (under popular pressure), and overthrew Ershad. Once Ershad was overthrown, the Constitution of Bangladesh (1973) was amended to hold general elections every five years under the new President who came to power, Justice Shahabuddin. In the first election held in 1990, Khaleda Zia, and the leader of BNP (with its Bangladeshi Nationalism), won the majority, but it was not sufficient to form the government. So they had to seek the support of other parties. They got this from Jamate Islami and formed the government. At a later stage, they used the support of a clause of obtaining 30 female Member of Parliament seats through nomination by the party in power to continue its rule.

Khaleda Zia, being the wife of late President Ziaur Rahman, claimed to have continued her husband's policy of pragmatism and liberalism. Her movement of "Dal Bhat" (rice and lentil or food security) was a natural outcome of this–trying to reach the millions of poor. The poverty issue–always a problem–was brought much more to the forefront now. (It may be noted that Bangladesh became nearly self-sufficient in food grain production in the late 1990s, with a population of abut 13 million.) In addition, there was also the international phenomenon of an upsurge of worldwide democracy to contend with. Iftekharuzzaman (1993) writes, "The exit of long years of autocracy in the face of massive popular uprising towards the end of 1990 and subsequently a free and fair election, led to the formation of the government that today faces the challenge of sustaining the process of democratic transition in the country."

The new government that came to power aimed at the addressing two tasks. First the process of democratic movement had to be consolidated and expanded and made sustainable. Second, the performance of the economy had to be increased. The government accepted the structural adjustment recommendations of the WB and IMF as necessary conditions towards this end.

These changes brought about some positive benefits, with Bangladesh showing signs of macro-stabilization. Efforts were also made to go for decentralized perspective planning based on both (a) Structural Adjust Reform (SAR) Polices and (b) Social Mobilization, mainly through bringing the dynamism of the poor in the micro credit net through efforts of a non conventional Grameen Bank, a large number of Non-Government Organizations (NGOs) supported by some non-conventional government programs including the Rural Employment Support Foundation (PKSF). However, the country still faces formidable problems such as pervasive poverty, unemployment / under-employment, low per capita income, low adult literacy rate, and poor life expectancy at birth. A 1994 draft World Bank report states that "despite these recent gains, the longer-term challenges facing Bangladesh remain formidable." While the Government had achieved macroeconomic stability, it appeared that the pace of structural adjustment was uneven.

Sheikh Hasina Era (1996–2001); Khaleda Zia Era (2001–2006)

In 1996, Sheikh Hasina captured power through next general election (under a caretaker government) overthrowing the BNP government led by Khaleda Zia, and reinstating her father's party, Awami League. It is however, claimed that her rise to power was helped by Ershad's party, the Jatiya Party and by the deteriorating law and order situation arising from allegations of vote rigging in a bye-election by the party in power. Writes Karim (2001), "The Awami League emerged as the largest single party in the last parliamentary election, and formed government with the support of the Jatiya Party."

Hasinas' positive achievements were increased food production and improvements in family planning. During her regime, the Fifth Five Year Plan was launched, according to which, "the main objective .... was to ensure the provision of basic needs to every citizen through providing new employment opportunities and building proper infrastructure for facilitating increased production." The mid-term review of the Fifth Five Year Plan (1997-2002) indicates a growth rate of 5.4% achieved in June 1997. Karim (2001) mentions the rise of food production, laudable success in family planning and introduction of VGD (voter) cards, old people's pension and rehabilitation.

On the negative side, there was criticism about the deterioration of law and order, anti-democratization, and greater corruption. Samad (2001) points out that Bangladesh has been rated number one in the year 2000, as the most corrupt country in the world, according to a Berlin-based organization Transparency International's Corruption Perception Index. (91 countries were surveyed). Kabir (2001) explains one reason for this could be because the politics of Bangladesh is not institutional, but instead authoritarian, confrontational and dynastic centric.

After the Hasina's regime was over, (2001), the government handed over power to a neutral caretaker government. It was headed by the Chief Justice. Samad (2001) explains the idea of a non-partisan caretaker government running the country during an election is that "no political party should be allowed to use either the power of government office or governmental facilities for electioneering or for influencing the outcome of the election." It is noteworthy that this type of caretaker government was unique in the world as it was been included in the Constitution by the Thirteenth Amendment Act in 1996. Kabir (2001) thus distinguishes this form of caretaker government as different from that of Australia and New Zealand, countries in which a non-party caretaker government does not have permanent constitutional arrangement.

Currently BNP has once again come to power with Khaleda Zia (in 2001) as the Prime Minister. However, this time she made political alignments with the rightist parties giving more rightist orientation to her late husband's party.

Subsequently, the role of Zia, during the independence movement and afterwards became an intense subject of controversy particularly between the members of Mujib's Awami League (AL) and his own political party, BNP (Bangladesh Nationalist Party). When Pakistan army started its armed action against the Bengalis, they immediately arrested Mujib and took him to custody (March 25, 1971). The AL claimed that before he was arrested, he declared independence for Bangladesh through a letter to one of his colleagues and subsequent declaration by the latter in the air at Chittagong. On the other hand, BNP claimed that it was Zia (an army major at Chittagong at that time) who rebelled against Pakistan army and sent a message for independence of Bangladesh through a local radio (at Chittagong). Although initially BNP admitted that Zia did so, on behalf of Mujib, subsequently, his party (particularly after his death) claimed full credit for this. The incident may apparently seem of not much importance, but subsequently it intensified the division of the people into two major political groups who would fight both inside the Parliament and outside on the streets. The major instrument of these two parties to fight out this issue was Hartal (Strike) against the party in power by the opposition at great socio-economic costs. This rivalry between the two major political parties of Bangladesh AL and BNP was further reinforced when the former emphasized the Bengali identity of the Bangladeshi more than their Muslim identity, in contrast to BNP which viewed themselves as Muslims first and hence the abbreviation, "Bangladesh" Nationalist Party, as against Bengali Nationalist Party.

Needless to say, to the people of Bangladesh, the above issue remained much less significant. The continued pleading by the general people to the leaders of both AL and BNP is to end the process of continuous strike, loss of property and disruption of economic and commercial activities, based on essentially inter-party rivalries and concentrate on the more important task of nation building. However, economically, both parties agree on open-economy, market-based approaches to economic development.

I modify Yilmaz and Varma's (1994), World Bank's (1999), Ahmed's (2001), Stamp's (2002) and Ahmed and Sattar's (2004) classification and present the following phases of trade liberalization in Bangladesh, with their summary measures in Table 5 below.

Table 5

Phases of Trade Liberalization in Bangladesh

Phases	Characteristics
1. 1971-1982	Overall restrictive trade regime. Socialism and Nationalism were the inherent characteristics.
2. 1982-1991	Sporadic progress in trade liberalization. Trade policies influenced by donor conditionalities (ISAC 1, SAF, ESAF) and government programs (NIP, 1982; RIP, 1986; TIP, 1980s). Initial steps ad hoc. Mostly QR reduction, some export diversification (XPB, DDS), import liberalization and privatization. Little progress on tariff rationalization.
3. 1992 to 1996	Major progress made on tariff reforms and reduction/removal of QR's, as Bangladesh picked up its pace in the early 1990s, under mostly ISAC 2 (World Bank/IMF). BTC made autonomous.
4. 1997-present	Some slowing down of the pace of reform towards the latter part of the 1990s primarily due to the "greater challenge of tariff rationalization"*, more effective foreign competition, and interest group pressures revitalizing protectionist-based arguments.

Notes:
* World Bank (1999) page 1
BTC: Bangladesh Tariff Commission
DDS: Duty Drawback Scheme
ESAF: Extended Structural Adjustment Facility
ISAC 1: Industrial Sector Adjustment Credit 1
ISAC 2: Industrial Sector Adjustment Credit 2
NIP: New Industrial Policy
QR: Quantitative Restrictions
RIP: Revised Industrial Policy
SAF: Structural Adjustment Facility
TIP: Trade and Industrial Policies
XPB: Export Promotion Bonus

The reason I have developed these four phases is to show how the political economy process impacted trade liberalization. In other words, the way the authors have demarcated the trade phases before have been mostly on economic grounds, looking mainly at trade indicators. I also match the philosophical political orientation of the regimes to each of the phases to provide a clearer breakdown of the phases. Phase 1 and 2 are subsumed under the three autocratic / realist regimes of Mujib / Zia and Ershad, while Phase 3 and 4 times with the three democratic /

liberalist regimes of Khaleda Zia, Sheikh Hasina and Khaleda Zia (again). As Chapter 3 showed, trade liberalization was not the focus of policy makers in the initial decade of the post-independent economy and later became more pronounced after the transition to democracy from military rule. Thus, the overlap between the various degrees of trade liberalization and the shifts in the relative pattern of the government's political orientation gives a better insight into the politico-economic developments that had taken place in the country which impacted significantly the area of trade liberalization. However, for the present purposes, I will examine the four phases from the trade orientation focus. In Chapter 6, where the IPE models are applied to the trade phases, I will integrate the political economy processes mentioned above.

Pre–Phase 1 (before 1971)

Historically the area of Bangladesh was part of Bengal in India and by the 18th century, produced primarily muslin[15], silk, jute, rice and sugar. In the 19th century jute had replaced muslin as the primary trading commodity, on the one hand "due to the import of cheap cloth from England and the competition of the mills of Lancashire," and on the other hand, because of forward linkages via "establishments of jute mills in Europe ...[which] ...led to greatly increased demand for jute." In the mid 19th and early 20th century jute was supplemented by tea cultivation introduced by the British in the Sylhet region of "Bengal." However, the area of Bengal, which had by 1857, become a "province of British India" had "practically no large industries, banks, or commercial

[15] A fine cloth which "fetched Rs. 20 a square yard in the eighteenth century." World Bank (1974, September 15) Bangladesh: Development in a Rural Economy. Report No. 455b-BD. Volume I: The Main Report. South Asia Region.

establishments." (World Bank, September 15, 1974, page 5) Those were all dominated by the upper-caste Hindus who had ownership rights in trade, commerce and administration.

As far as commerce was concerned, trade between India and Pakistan was initially complementary. Prior to 1947, Cotton from West Pakistan and jute, tea and leather from East Pakistan (East Bengal) were exported to India in exchange for finished products, particularly consumer goods. East Bengal having very little industrialization at that time was mostly a hinterland to India.

After partition in 1947, the area of Bangladesh (Muslim East Bengal) became East Pakistan. Property rights had shifted over the West Pakistanis. A World Bank report writes, for "the most part, it was the merchants, bankers, industrialists and administrators of West Pakistan who provided the economic and political leadership." The East continued to produce more along the lines of basic agricultural commodities such as jute, tea and rice (which could be exported to India for industrial goods) but faced a "limited entrepreneurial tradition"–while most of the "institutions charged with helping the private sector (in the East) had their headquarters in West Pakistan." (World Bank, September 15, 1974, page 9, 15)

In 1949, India massively devalued her currency as a conditionally for obtaining food aid from the US (meeting of Nehru and Lyndon Johnson). Pakistan interpreted this as an unfriendly action on the part of India–perhaps also aided by the Kashmir dispute (both India and Pakistan claimed to own Kashmir), and Pakistan's foreign trade (more so that of East Pakistan) was at the point of collapse. The sudden outbreak up of the Korean War in 1950 proved to be a blessing in disguise to Pakistan. It could sell its stock of cotton in the international market without devaluing its currency, and import consumer goods and raw materials from abroad. Thus there was steady diversion of Pakistan's trade away from India. After Bangladesh's independence, trade resumed between Bangladesh and India.

Phase 1: 1971-1982

Upon independence of Bangladesh (1971), important issues in the field of foreign trade were: (a) how to make up the loss of inter-wing trade between former East and West Pakistan (export of tea, for example in exchange for pharmaceuticals); (b) how to cover the loss of inter-wing trade by expanding trade with other countries; (c) how to develop new trade relationship with India (which could supply some of the industrial goods) and (d) how to deal with the changing nature of the currency–to the "Taka" in January 1972, which had undergone a 53 percent devaluation compared to the Pakistani Rupee–what it used to be prior to independence. (World Bank, September 15, 1974, page 19) The question of trade with India was additionally complicated due to the lucrative smuggling business from the existence of a large border and the division of opinion among leading political parties about the intention of India (to trade for the advantage of both countries or to dominate and control Bangladesh economy through trade).

To answer these questions, the "structure and origin of imports changed substantially" and consequently the FY73 and FY74 budgets adjusted import duties, imposed a general 20 percent import sales tax, abolished preferential tariffs applicable to UK, attempted some reductions in multiplicity of tariffs, and introduced some concessions for imports of machineries to be used for developing areas. The "import duty structure....remained complex and not fully adapted to the changed requirements of a new country," with high tariff barriers, ranging from 30-300 percent. Foreign exchange was rationed through an import license system and a dual exchange rate (due to the very low levels of foreign exchange upon independence) was maintained, quantitative restrictions were imposed in the form of bans, specific quotas and licensing requirements and only items on a "positive list" were importable. According to a World Bank (World Bank, March 17, 1994, page 59, para 2.21), "...all imports to Bangladesh were subject to control, with a "positive list" attached to annual Import Policy Orders (IPO) listing those goods that could be imported."

The main exportable items were still agro-based products–raw jute and jute goods, with the remainder contributors being tea, fish, spices, leather and hides and skins–which earned between 79-87% of the countries foreign exchange during the early 1970s (World Bank, September 15, 1974, page 47). However, Bangladesh's traditional export sector and principal trading commodity, jute, "declined consistently since the 1970s due to growing competition from synthetic fibers, while on the raw jute supply side, jute cultivation was squeezed by competition from the expansion of rice cultivation." And, though the government tried to promote the shrimp and leather processing sectors "given the supply constraints in (these) domestic resource based industries, it became evident that future export growth would have to come from activities using imported raw materials to be processed in Bangladesh for exports." (World Bank, 1986, March 17, page 106) Hence, on the export side, an Export Performance Licensing Scheme (XPL[16]) was

[16] The Export Performance License Scheme is discussed in detail in World Bank (June 29, 1990), Report No. 8874. This rate applied to non-traditional exporters, who could import more than their normal share (which was based on their exports f.o.b. value) of inputs in the form of raw materials, spare parts and machinery. This was criticized on

created during the early 1970s to provide incentives for these non-traditional export-oriented producers who "received import licenses (Import Entitlement Certificates–IEC) for specific products over and above their normal percentage allotment based on the f.o.b. value of their exports."

The IPO's (Import Policy Order) spelt out which industries were eligible for XPL. Among other developments, Ahmed (2001, page 42) notes were the creation of an Export Credit Guarantee Scheme (ECGS) in 1978 (provided 90 percent of the L/C value as concessionary credit and covered up to 75 percent risks of pre and post shipment financing), and establishment of an Export Promotion Bureau (EPB) in 1977 to help promote export policies. To allow readymade garment exporters (a "non-traditional" sector) to be exempt from import taxes while importing inputs, a Special Bonded Warehouse (SBW) scheme was developed in 1978. (Ahmed, 2001, page 42) The Ready-made Garments industry however, as part of non-traditional exports, on the whole accounted for only 5% of total exports after independence. (World Bank, 1986, March 17, page 106) (This would grow to over 70 percent of total exports by the late 1990s.) However, total export duties did not amount to much–in FY78 budget, they accounted for "les than 5% of the total proceeds from customs duties." (World Bank, April 26, 1978, page 10, 11)

Another step in the trade front during this period was initiation of the SAARC (South Asian Association for Regional Cooperation) movement, which involved Bangladesh, Pakistan, Bhutan, India, Nepal, Maldives and Sri-Lanka. This was the first movement for cooperation among these countries. Nonetheless, from an overall perspective on the trade front, the strategy can best

grounds of having arbitrarily determined rates of entitlement, being non-transparent, and generating uncertainly due to frequent changing of rates.

described as primarily import-substitution oriented state intervention. Despite some effort, the trade structure "was unduly complicated....(having) too many exemptions and preferential rates." The political economy analysis of this era will be taken up in Chapter 6.

Phase 2: 1982-1991

Between 1982-1991, some trade reform began taking place along the lines of liberalizing the import regime. In FY86, the "tariff structure was simplified by reducing the number of tariff rates from 24 to 11 with a view to establishing a more uniform structure of protection among industries and improving export orientation and resource allocation," (World Bank, March 1989, page 21) using the "concertina" approach–which lowers the maximum rate and where appropriate, increases the minimum rate, so the average reaches a 45% target. (Basu and Greenaway, 1993, July, page 3) This is shown in Table 6, in FY86, with about 7000 items being reallocated into the following rate structure.

Table 6
Breakdown of tariff rates

Tariff Rates (%)	Breakdown of the 11 rates	Products
0-20	5	Raw Materials
50	1	Intermediates
100	1	Final
150-400	4	Luxury Consumer Goods

Source: World Bank (June 29, 1990, page 82)

Table 7 shows some of the progress achieved during this period and into Phase III–mean protection rates declined for all sectors as well as for the entire economy.

Table 7
Mean Nominal Rates of Protection

Fiscal Year	Economy	Agriculture	Mining	Manufacturing
1988/89	94	77	54	94
1989/90	92	69	53	93
1990/91	90	59	56	91
1991/92	82	42	51	85
1992/93	72	31	52	73
1996/97*	39	-	-	-
2002/03*	35.5	-	-	-

Source: World Bank (March 24, 1993, page 68); * Ahmed and Sattar (2004, May 01, page 14)

Historically, Ahmed (2001, page 39) notes import licenses were required to protect domestic industries from foreign competition, and to ensure allocation of scarce foreign exchange to priority areas. Except for food grains (imported by the Ministry of Food), imports in bulks were undertaken by the Trading Corporation of Bangladesh, with the idea that it would facilitate import programming. Greenaway and Basu (1993, page 3) remark that this import passbook system was "administered on a discretionary basis." In 1983-84, this import licensing system was abolished and imports were permitted against letters of credit (L/C) authorization forms to be accepted by banks designated by industrialists.

Although the overall regime continued to be restrictive during the early to mid 1980s, the end of the decade brought an acceleration in liberalization efforts, particularly from 1986, when in line with the "Structural Adjustment" polices (of donor agencies, such as the World Bank and the International Monetary Fund), Bangladesh began to make some progress towards trade liberalization. This will be taken up in more detail in Chapter 5. Suffice it to say for now that under this pressure, the government, among other measures, rationalized the tariff structure by adopting the Harmonized System of classifying trade restrictions in July 1988. "By bringing all trade related transactions under a common classification system and removing the ambiguities that plagued the previous system, this resulted in a significant improvement." (World Bank, March 16, 1990, page 28)

The Import Policy Order (IPO) has been the traditional instrument employed to implement import policy. The Minister of Commerce was responsible for chalking out the IPO under the Imports and Exports Control Act of 1950. Until 1985-86, the annual Import Policy Order (IPO), allowed which goods were importable into the country, though a "positive" list of imports. This list "narrowly defined eligible imports (in addition to limited access to foreign exchange through the tightly controlled official market)." (World Bank, March 1989, page 21) Any imports not on the list were not importable. In 1985, this scenario changed. According to the World Bank (World Bank, March 17, 1994, page 59, para 2.21), "The (trade) liberalization process began in FY85 with the replacement of the positive list by lists containing goods subject to outright ban or some form of restriction, and eventually into a single 'control list.'" The banned goods fell into a "Negative List," while the restricted goods were categorized under a "Restricted List." According to the 1985 Import Policy Order (1985, page 5000, 5001), the "Negative List" referred to "the list of items the import of which is banned....(or) not be permissible for import." The "Restricted List" meant "the list of items the import of which is subject to such restrictions as may be specified therein....(or) importable only on fulfillment of the conditions specified therein against the item." Thus, any item not on the list was titled a "Freely Importable Item."

The World Bank report (March 10, 1988, page 58) on Bangladesh's adjustment during the eighties, also refers to this change. "A further relaxation of the import regime occurred in FY86 when the "positive" list of items specifically permitted to be imported was replaced by a negative and a restricted list." Some of the banned items are permissible for imports by "established exporters and foreign exchange-earning hotels. In the restricted list, there are items that "require prior permission for import," such as seeds, insecticides, drugs, etc, and also items that could be imported only by "registered industrial enterprises, up to the values specified in their passbooks." From 1989-90, the IPO changed from having an annual duration to a two-year duration, and the two lists were combined into a single "Consolidated" or "Control" List. According to the 1991-93 Import Policy Order (Amended, page 3), the "Control List" included both "....items which have been indicated as banned in this list...not permissible for import..." as well as "...item(s) ... with specific conditions for import...importable only on fulfillment of the condition(s) specified therein against the item." Accordingly, the "Freely Importable Items" meant that "...any items the name of which does not appear in the Control List shall be freely importable."

The greater time element (two-year duration) in the IPO reflects introduction of "stability and certainty of trade policy," the "Consolidated" list provides "greater ease in import procedures," and because "any item outside the list was made freely importable," this has allowed "definite improvements" in trade policy. (Ahmed, 2001, page 39). These changes were instituted through the recommendation of the Revised Industrial Policy (RIP) of 1986 which essentially drew on the lines of the Trade and Industrial Policy (TIP) studies. (Yilmaz and Varma, page 4, para 14).

Further, 17 percent of the restricted industrial imports identified in the Import Policy Order of FY87 were removed in FY88. There was a small (4 percent) decrease in the negative list on goods such as textile, steel and engineering goods, as well as a lowering of tariffs on these items–

from over 200 percent down to 125. (World Bank, August 1989, page 21; March page 59) Some of these measures are outlined in Table 8 and 9.

Table 8
Protection Measures

	% reduction in 4-digit SITC imports		
Fiscal Year	Banned Items	Restricted Items	Maximum Nominal Tariffs*
FY87	39	28	200
FY88	28	24	125
FY89	18	16	

*In the Textiles, Steel and Engineering, Chemicals and Electronics Sectors
This tariff included customs duty, sales tax and development surcharge. (World Bank, March 10, 1988, pg59)
Source: World Bank (March 13, 1989, page 22; June 29, 1990, page 81)

Table 9
Reductions in the Negative List

	FY86	FY87	FY88	FY89
All items banned	149	132	125	
Some items banned	217	206	209	
Only one item banned	22	21	21	
Total	388	359		178*

Source: World Bank (March 10, 1988, page 59; *June 29, 1990)

Tables 8 and 9 shows a continuous decrease in the items reduced in the negative list. However, the decrease was marginal at most–only 11 percent overall from FY86 to FY87 and then 5 percent. Further, another World Bank report (World Bank, 1992, March 16, page 52), claims that the decrease in maximum nominal tariffs for the textiles, steel and engineering and chemical sectors was supposed to fall to between 10-75%.

With a view to "rationing scarce foreign exchange and protecting vulnerable local industries from import competition," the government employed tools of allocating foreign exchange and Import Policy Orders (IPO). Those items not on either list (negative or restricted) could be imported under the official exchange rate or the Wage Earners' Scheme (WES) market…which carried a 15 percent premium over the official rate in FY86, and around 7 percent in FY87." (World Bank, December 1989, page 6) This was lowered further to about 2 percent by FY89. (World Bank August 1989, page 32) Since 1982, a major reform in the import arena was "on expansion of the secondary foreign exchange market to finance imports.." This involved using the "Wage Earners' Scheme (WES), where supply and demand determine the price of foreign exchange and hence its allocation among competing users..." The expansion of this market occurred by the government allowing more imports under this method.

This is shown in Figure 1 below, derived from Table 10. This scheme was established in June 1974, with "a view to providing a strong incentive to exporters and to give importers greater access to imported raw materials and other inputs.." As a result, this secondary exchange market "attracted more wage remittances from overseas." (Ahmed, 2001, page 57) The WES allowed "a parallel market for foreign currencies at premium rates to attract remittance funds." The World Bank (September 15, 1974, page 10) report explains the WES in the following way: "This scheme enables nationals of Bangladesh to import specified categories of goods by use of the proceeds of inward remittances made by Bangladeshis resident abroad." When the dual exchange rate did exist, government policies tried to also gradually encompass more imports financed via the secondary exchange market–the Wage Earner's Scheme (WES[17])–in Phase II, from 26 percent in FY82 to 44 percent in FY84 and 70 percent in FY87. (World Bank, March 10, 1988, page 58)

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[17] The WES has also been called a shadow rate, which, Basu and Greenaway (1993, page 7) note was "determined by the interaction of supply and demand." The two rates–the official and the shadow–, in 1992 were "unified to a single rate which is ostensibly market determined, although the demand side of the market is driven by the process of foreign exchange allocation and exchange controls." The dollar became the "intervention currency," in 1983. Due to the fast growth in non-traditional exports, particularly RMG, by 1991-92, 70% of the imports were mostly financed by the secondary exchange market, causing the official and secondary exchange rates to narrow in gap. Consequently in 1992, the two rates were unified. In October 1993, current account convertibility was announced. And During 1996-97, the taka was made fully convertible, as per conditions of IMF's Article VIII, for current account transactions.

Table 10
Structure of Import Financing, Fiscal Year 1980 to 1989

	Year\ $m	Cash/a	WES/b	Barter	Special Trade	Loans & Grants	Total
PHASE I	1973	396.3	49.4	-	-	541	986.7
	1974	397.3	64	-	-	392.9	854.2
	1975	273.7	62	3	41.2	810.7	1190.6
	1976	430.1	23.7	5.2	40.4	786.5	1285.9
	1977	307.2	28.8	2.7	56.2	449.9	844.8
	1978	497.3	48.6	2.6	88.1	794.7	1431.3
	1979	442.6	73.7	2.9	116.1	1005.6	1640.9
	1980	901.7	177.4	75.4	3.5	1181.2	2339.2
	1981	1056.3	334.3	96.6	2.7	1178.9	2668.8
PHASE II	1982	976.9	342.2	100.6	4.1	1262.9	2686.7
	1983	489.9	479.2	49.9	10.6	1287.1	2316.7
	1984	637.4	494.8	75.3	7.2	1138.1	2352.8
	1985	735.2	695.8	63.9	6.8	1145.8	2647.5
	1986	649.3	676.2	85.1	33.1	920.3	2364
	1987	366.4	879.1	79	27.4	1268.5	2620.4
	1988	443.9	1090.2	84.7	43.0	1324.2	2987.2
	1989	422.7	1435.3	90.9	90.9	1160.2	3200.0
	1990	568.9	1797.9	63.2	55.2	1273.5	3758.7
	1991	485.0	1505.0	72.0	36.0	1372	3470.0

Note: /a = Official Exchange Rate (OER)
/b = Wage Earners Scheme / Secondary Market
Source: World Bank (June 29, 1990, page 228, 251)

Table 10 and Figure 1 show that while imports financed via the WES increased (from about 5 percent average in Phase I to about 32 percent in Phase II), there was a decrease in both imports obtained by the official exchange rate (from 35 percent average in Phase I to 21 percent average in Phase II, by 1992) and those entering the country through others means (mostly loans and grants) (59 percent average in Phase I, down to 47 percent by 1992). The split between the "other" and WES category was almost even by 1989. Because of the reform of the import regime to shift import more towards the WES, this made it relatively easier for importers to obtain their inputs without having to deal with the "cumbersome and costly import licensing," and it also shifted imports "from the controlled cash (official) market to the secondary market where the exchange rate better reflects the opportunity cost of foreign exchange." (World Bank, June 29, 1990, page 80)

The WES system was abolished in January, 1992, and the exchange rates were unified. By 1994, 68 percent imports were accomplished via the official (and only) exchange rate, while loans and grants contributed the remaining 32 percent. (World Bank, 1995, March 16, page 71)

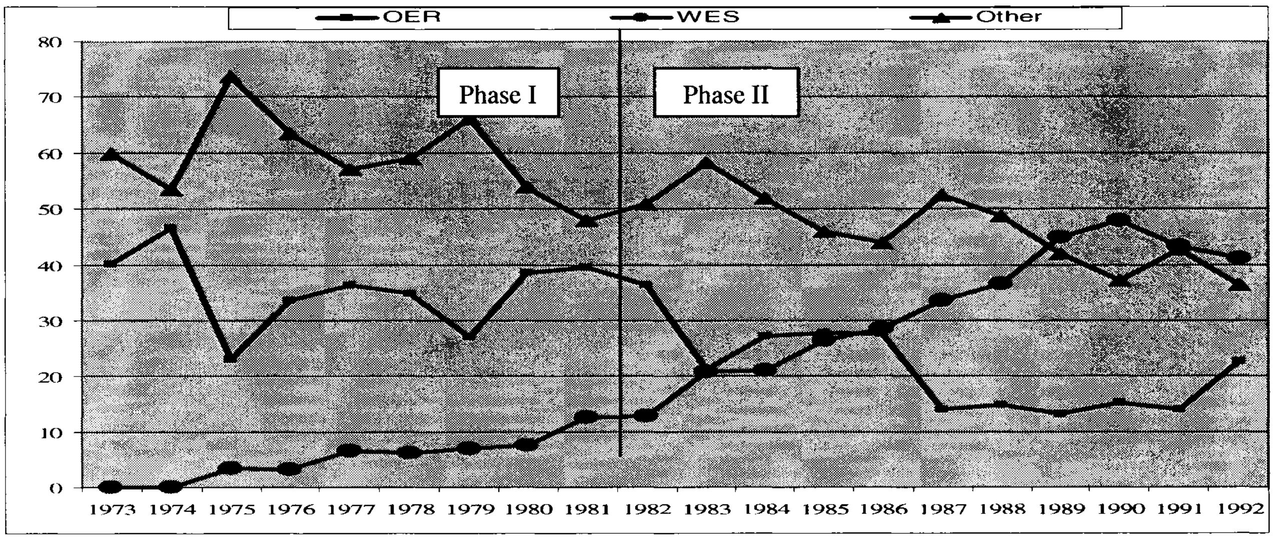


Figure 1: Import Financing

However, Figure 1 still displays the fact that "Bangladesh is a highly aid-dependent economy...only 50-60% of the country's imports are financed through these sources (export earnings and remittances from Bangladeshi wage earners abroad)...(the) remaining external deficits are made up through concessional external assistance, grants, loans and short-term borrowings from the IMF." (World Bank, 1994, March 10, page 30) Chowdhury (1992, page 13, 16) notes that Bangladesh's import bill "is largely dependent (50%) on foreign aid, which makes our so called internal revenue generation effort dependent on foreign aid." This point is also important, because, as Rajaram (World Bank, 1992) points out, revenue considerations are not often adequately addressed in the design of tariff proposals, contributing, in some cases, to policy reversal.

In terms of exchange rate management throughout the trade reform phases, Bangladesh did not experience any significant devaluation in real terms, and the central bank pursued a "policy of mini-devaluations, with several small adjustments resulting in cumulative nominal devaluations." This gradualism in the exchange rate scenario is depicted in Figure 2. The devaluations were "of roughly 3-5 percent annually"–the government opting for a "managed but flexible exchange rate policy…to maintain the competitiveness of exports, while keeping domestic inflation at bay." (World Bank, 1999, page 12). This included unifying the dual exchange rates prevailing prior to 1992–that of the official exchange rate and the rate under the Wage-Earners Scheme.

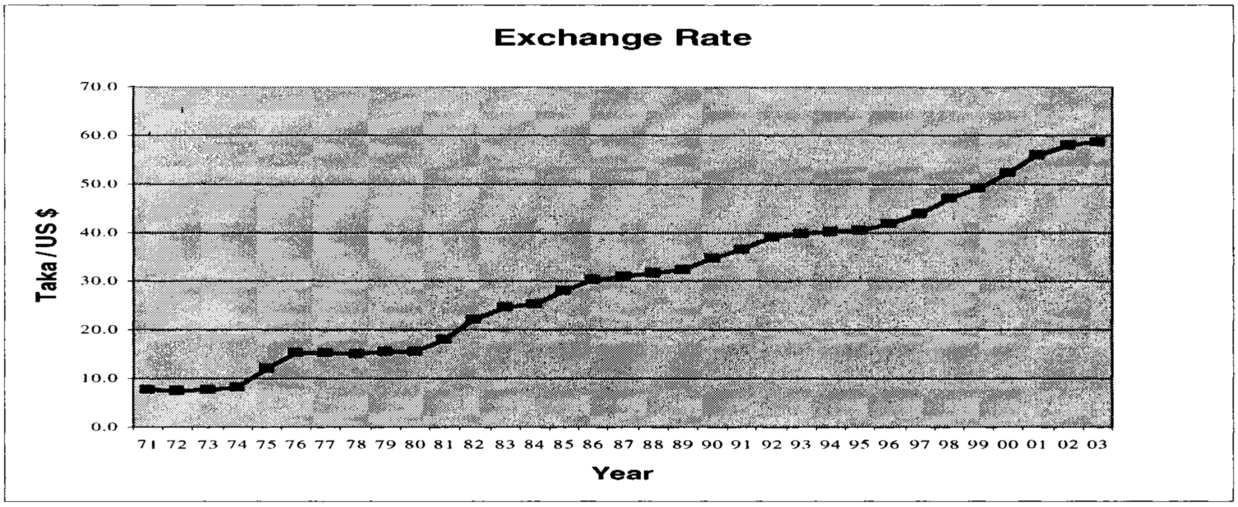


FIGURE 2: Exchange Rate Scenario

Yilmaz and Varma (1994) acknowledge positive changes on the export area: "On the export side, the government introduced the Export Performance Benefit (XPB[18]) Scheme and the Duty Drawback Scheme (DDS[19]). The XPB allowed exporters to sell their earnings of foreign exchange through the secondary market in increasing proportion–which increased from 40-60 percent in FY82 to 100 percent by 1988 (World Bank, March 10, 1988, page 50).

The XPB replaced the XPL (Export Performance License) prevalent in Phase I, providing two benefits: (i) exporters received the proceeds from their banks at the time of negotiation of the export documents" and (ii) "it could be cashed in the secondary exchange market." (Ahmed, 2001, page 42). Regarding the DDS, a duty exemption and duty drawback cell was established in December 1987 (Duty Exemption/Drawback Office (DEDO), within the National Board of Revenue, (World Bank, March 10, 1988, page 60 and World Bank, March 13, 1989, page 30)), to facilitate export diversification. "This boosted non-traditional exports from 18% in 1980 to 33% in 1985 (as a percentage of total exports)."

[18] Ahmed (2001) notes that the benefit received from the XPB scheme depended on the XPB entitlement rate and the difference between the official exchange rate and the secondary exchange rate. Thus, if, for example, the difference between the two exchange rates is 10 percent, a 100 percent XPB on gross export value would provide a benefit equivalent to 10 percent of the f.o.b. value of exports. After the unification of the exchange rates, the exchange rate differential has disappeared, and with that the benefit from the XPB Scheme has become zero.

[19] The Duty Draw Back System or tax reductions on export income are discussed in World Bank (June 29, 1990), Report No. 8874. Its purpose was to reduce income tax on export sales (by upto 30%) and refund various duties (import duties, sales and excise duties) on inputs (raw and packaging materials) and output (exported finished goods). However, this was criticized as extremely slow in the time-frame for reimbursement, being cumbersome and subject to ambiguous interpretation.

In addition, other benefits were export financing[20] at concessionary rates (9 percent as against the already lowered 11.5 percent) for non-traditional exporters and to "those who exceeded previous year's performance by more than agreed targets. Exporters could also import restricted items on the basis of special permission. (World Bank, March 10, 1988, page 60). Ahmed (2001, page 42, 43) describes the development of the duty drawback and back to back L/C system as follows. The former was introduced notionally in 1982-83 and then practically in 1984, import taxes for readymade garment inputs were put on a suspended account, to speed up the clearance of these raw materials. This account would then be canceled once actual exports of the finished product took place. In 1987 another scheme–the back to back L/C system, allowed import taxes to be paid later, through export proceeds. This was extended to some other sectors besides RMG, as was the DDS, from 1988 onwards.

Further, a financial incentive from the Central Bank (Bangladesh Bank) was also made available to exporters of RMG, hosiery and specialized textiles, which provided them 15 percent of the f.o.b. value as cash assistance. (This rate was increased to 25 percent during Phase III, in 1994) Basu and Greenaway (1993, page 3, 4) also point out that during Phase II, the export scenario included "registration procedures, export license fees, export duties, widespread use of minimum prices, export quotas and export licenses." The official exchange rate was applicable for traditional exports, which implied "a tax was levied," since non-traditional exports could use the secondary market. The main effect of these export-promotion measures was on shifting the

[20] Export Financing issues are discussed in World Bank (June 29, 1990), Report No. 8874. The report notes that: "These were provided in terms of pre-shipment loans at concessionary interest rates for up to 90% of a letter of credit or of confirmed export orders....An Export Credit Guarantee Scheme was introduced in 1978, designed to provide insurance to banks and exporters against losses from risks in export financing." (page 232)

pattern of trade from traditional items to non-traditional items. This can be seen in Table 11 below. (Table 23 takes this further into Phase III.)

Table 11
Bangladesh's Recorded Commodity Trade, 1981–1998: Export Composition in Percentage

		Traditional Exports	Jute & Jute Goods	Leather & Leather Goods	Tea	Non-Traditional Exports	RMG Products	Fish / Shrimp / Frozen Food	Others	Total	RMX/All X
	1981	82.0	68.2	8.0	5.8	18.0	0.4	5.6	12.0	100.0	0.4
	1982	78.9	62.8	10.0	6.1	21.1	1.1	8.5	11.5	100.0	1.1
P	1983	77.7	62.4	8.5	6.9	22.3	1.6	10.5	10.2	100.0	1.6
H	1984	77.4	58.4	10.5	8.5	22.6	3.9	9.5	9.1	100.0	3.9
A	1985	71.9	57.9	7.5	6.5	28.1	12.4	9.3	6.3	100.0	12.4
S E	1986	62.4	50.9	7.4	4.0	37.4	16.0	13.8	7.3	100.0	16.0
	1987	53.2	37.8	12.6	2.8	46.8	27.8	12.7	6.3	100.0	27.8
II	1988	46.1	31.0	11.9	3.2	53.9	35.3	11.8	6.8	100.0	35.3
	1989	42.3	29.9	8.8	3.5	57.7	36.5	13.5	7.7	100.0	36.5
	1990	44.3	30.0	11.8	2.6	55.7	41.3	9.6	4.7	100.0	41.3
	1991	33.6	23.0	8.0	2.5	66.4	52.0	8.7	5.8	100.0	52.0

It can be seen from Table 11 above that the spearhead of export growth stemmed from Readymade Garments exports. A World Bank report (March 13, 1989, page 29) notes that in 1988 "...the value of Bangladesh's non-traditional exports exceeded that of traditional exports for the first time, with garments easily surpassing jute and jute goods as the largest single category of merchandise exports." This was largely managed due to a "flexibly managed exchange rate policy," and enclave type arrangement favoring exporters, such as "...export performance benefit (XPB) scheme...export credit guarantees (increased in 1987 to expand export financing)...(ensuring) exporters access to imported inputs duty-free or at low duty rates (through DEDO)..." setting up an Export Monitoring Unit in the Export Promotion Bureau (EPB), to monitor "garments exporters to countries with quota limitations in order to ensure full utilization of such quotas," (as a result of which Bangladesh could avail "favorable access to the US market"). (World Bank, March 13, 1989, page 29-31) SAARC was also formalized in the first SAARC Summit held in Dhaka in December, 1985.

Inspite of these shits in export patterns, they concentrated mostly on one sector (garments) and for the other sectors provided "insufficient export incentives" with "a wide array of regulations affecting private investment" and "excessive import restrictions." (World Bank, 1993, page 64). A major theme for the tariff dependence was because "tariffs, in addition to protecting the domestic industries, provide approximately 55% of government tax revenues. Even in 2003, though "average operative tariffs have fallen considerably, from 89% in 1991 to 17% in 2003, tariffs still remain the principal instrument of trade policy and contribute about 50% to tax revenue." (World Bank, 2003, June, page 34)

It is noteworthy to glance at the composition of the tax revenue–tariffs fall under indirect taxes which are mainly sales and excise (taxes on goods and services) and taxes on international trade (tariffs and other duties of the sort). These account to about 80 percent of total tax, while direct taxes (income tax, corporation tax, agricultural income tax, taxes on property, etc) account for about 17 percent of total taxes (out of which again, 75 percent comes from company taxes). Again, the import tax itself is dependent on foreign aid by almost 50 percent. (Chowdhury, 1992, page 10, 11, 12) Hence this illustrates the importance tariffs have.

A World Bank report (2003, June, page 34) emphasizes this point further. "Customs tariff in Bangladesh have a dual role: an instrument of revenue collection…(and to) provide protection to domestic industries." In most developed countries, this rate is almost reversed: 80 to 85% tax revenues are derived from direct sources, indirect ones contributing the rest. As tariff reforms have revenue implications, alternative sources of revenue would have to be sought to compensate for revenues forgone." (World Bank, June 29, 1990, page 83). Another support for the "excessive import restrictions" was that the "CD (Customs Duty) structure still remains high.." The range of the nominal rate of protection was also very wide, as shown in Table 12 below, in 1989 and 1992. World Bank report (1993, page 67)

Table 12
NRP Range

Year	Range of NRP
1989	2.5% to 508.5 %
1992	2.5 % to 352.5%

Source: World Bank (1993) pp. 65

On the other hand, despite these high tariff rates, the collection rate (total revenue divided by total value of imports), as Basu and Greenaway (1993, July, page 3) note, "was under 30%...partly accounted for by evasion, but also by widespread exemptions and tariff redundancy induced by import controls." Not only were the rates of protection very high, but the concessions and exemptions were often granted on "ad hoc bases, resulting in a fairly low average collection rate of 23%..." (World Bank, 1993, page 64) In another World Bank report (1992, March 16, page 51), the collection rate was cited as a bit higher, at 27%, but still under the 30% Basu and Greenaway claim. Even into the 2000's this trend is observed. A World Bank report (2003, June, page 38) puts the collection rate at about 28%.

Thus, liberalization progress was slow until the early 1990's. Pressures from different interest groups (bureaucracy, domestic producers, politicians) and inconsistencies within the program, contributed to this stagnation. Yilmaz and Varma (1994, page I, para 1 and 19) confirm this: "Progress until 1991 was sporadic, as trade policy changes were poorly implemented under the New Industrial Policy (1982) and Revised Industrial Policy (1986)...Both the heavy reliance on tariff revenues and strong domestic industrial lobby pushed the government to retain high tariff protection. In certain cases, tariff rates were even increased."

Hence, the late 1980s trade era was "marked by a highly dispersed and anomalous tariff structure ... (which) favored protection for the domestic market....(by) protecting many inefficient import-substituting activities and creating a significant anti-export bias." (World Bank, 1999, page 6, para 1.19) The government had, "on the whole....approached the issue of tariff reform guardingly. As a result, the net effect of the reforms had not been appreciable as "distortions in the trade regime, especially those emanating from high rates and exemptions, remain excessive, suggesting that efforts must continue in earnest to rectify the situation." The trade reforms of the 1980s were "piecemeal reforms," which resulted in "water in the tariff – tariff redundancy which results from smuggling and prohibitively high tariffs." (World Bank, 1996, October 4, page ii)

Thus, reforms were implemented slowly, and upto 1992, Bangladesh's trade policy framework was characterized by what Ahmed (1996, September) calls "prohibitively high nominal tariffs...high quantitative restrictions...tariff anomalies...the use of tariff values which arbitrarily fix tariff rates on some imported items far above their invoice values...underinvoicing of imports and widespread smuggling...." All of these gave rise to "domestic prices being lower than duty-tax-paid prices of imported products," and "low quality domestic products compared to high quality imported products," resulting in "hardly any doubt that there was a need for drastic change in the tariff structure."

Phase 3: 1992-1996

From 1992 mainly to 1996, major progress began on trade reforms. In terms of progress made, Table 13 displays the reductions in QR's and the maximum tariff.

Table 13

NRP and QR

QR: Four digit tariff headings	Maximum Tariff Rate (%)	Unweighted average tariff	# tariff slabs
315 (FY90)	509 (FY89/90)		
253 (FY91)	350 (FY90/91)	89 (FY91)	11 (FY92)
104 (FY95)	60 (FY95); 35.5 (FY02/03)	30 (FY95)	6 (FY95)

Source: World Bank March 16, 1995, page 6
World Bank, 1999, page 6
Mujeri, 2002, page 9
Ahmed and Sattar (2004, May 01, page 14)

From Table 13 we can observe the dramatic progress achieved in this phase. Table 14 similarly, shows the decrease in the coverage of CD rates which was not a one-shot decrease, but rather a gradual one. (World Bank, 1993, page 67)

Table 14
Coverage of CD Rates: FY89-FY95

Operative Rate (%)	FY89	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95
0.0	383	393	313	349	340	309	1212
2.5	146	146	164	0	0	0	0
5.0	20	20	47	37	0	0	0
7.5	0	0	0	0	1524	1630	11535
10.0	1378	1374	1458	1484	0	0	0
15.0	69	69	73	42	647	892	1080
20.0	1094	1161	1150	644	0	0	0
25.0	0	0	0	56	0	0	0
30.0	232	274	369	782	903	1354	11976
40.0	0	0	0	393	2	0	0
45.0	0	0	0	3	1334	1552	11874
50.0	2399	2275	2367	14	2	0	0
60.0	574	574	574	2863	1996	1699	905
75.0	0	0	0	207	1529	636	0
99.0	30	154	6	8	0	0	0
100.0	1505	1556	2489	2352	769	40	0
125.0	0	0	0	0	3	3	0
150.0	1017	857	207	179	24	8	0
175.0	0	0	2	2	0	0	0
200.0	13	11	8	8	13	0	0
250.0	1	1	0	0	0	0	0
300.0	25	21	43	46	6	6	0
350.0	0	0	6	6	0	0	0
400.0	2	2	2	0	0	0	0

Source: Yilmaz and Varma
Source: Bangladesh Operative Tariff Schedules
Note: This table classifies all products at the 8 digit HC code by the CD rate applicable for that fiscal year.

Thus, from this table, one can see the coverage of CD rates changed in the fashion shown in Table 15.

Table 15
CD rates and their range

Year	CD Rates	Range
1989	16	0 – 400 %
1992	19 (highest rate eliminated)	0 – 350 %
1993	14 (second highest rate eliminated)	0 – 300 %
1994	11	0 – 300 %
1995*	6	0 – 60 %

Source: Ahmed and Sattar, 2004, May 01, page 14
* Top CD rates for Phase 4 are: 50 % (1996); 47 (1997); 37.5% (2002) and 32.5 % (2003)

Table 16 displays the trends of nominal protection in the decade since 1990/91. It shows that from what the World Bank (1999) calls the "Pre-reform" period–my classification of Phase I and II, the unweighted tariff for all tradables and manufacturers fell by a little over 70 percent between 1990/91 to 1999/00 (from about 89% to about 25%), while the import-weighted figures decreased by a little over 50 percent between 1990/91 and 1998/99 for both tradables and manufacturers, indicating considerable trade liberalization on the tariff front. Tables 80 and 81 detailed (Annexure) trade indicators (tariffs) for the whole economy.

Table 16
NRP: Tradable Items

	Unweighted	Weighted
Pre-Reform		
1988/89	114**	--
1989/90	93.8*	--
1990/91	88.6	42.1
Post-Reform		
1991/92	58.6*	39.7*
1992/93	50.3*	29.6*
1993/94	39.9*	27.7*
1994/95	30.0*	--
1998/99	28.2	20.3
1999/00	24.7	--

Source: World Bank (1999);
World Bank (1994) for * figures.
Mujeri (2002) for the ** figure

Import controls at the 8 digit level were also progressively removed, as shown in Table 17 below.

Table 17
Import controls at the 8 digit level

	Number of Controlled Items (HS-8 level)	Share of Controlled Items in Total
FY88	2306	39.5%
FY89	1907	32.7%
FY90	1525	26.1%
FY91	1257	21.5%
FY92	1103	18.9%
FY93	584	10.0%

Source: World Bank (1993, page 66); Ministry of Commerce and National Board of Revenue

Similarly, Table 18 shows that between 1989 and 1994, the number of HS-8 line free items registered almost a 150% increase, the banned, mixed and restricted items fell by over 94%, and the non-trade reason items remained constant at low rate, indicating considerable trade liberalization on the quantitative restrictions (QR) front. Tables 84 to 87 are detailed at the end of the chapter–in Annexure 1–for trade indicators for the whole economy.

TABLE 18
Percentage of HS-8 lines QR

	Free	Banned	Restricted	Mixed	Non-Trade	%
1989	63	12.4	8.5	12.3	3.8	100
1991	77.5	7.9	3.6	7.2	3.8	100
1994	95	0.4	0.4	0.4	3.8	100

Source: Mid-Term Review of the FFYP. Page 59.
Note: Non-trade reasons include religious and security reasons

A World Bank Report (1999, page 6), provides a similar story, but adds more recent coverage. Table 19 shows that from 1989/90 to 2002, except for the number of 4-digit HS Code corresponding non-trade restricted items, the banned and restricted items decreased by over 90 percent, while the mixed items fell by close to 70 percent, indicating that "Significant progress...has been made in reducing the importance of quantitative restrictions as instruments of protection." Further, the report claims that "In FY92 nearly 11.5 percent of the 10,000 tariff lines were subject to QR's, compared to only 3.4 percent today. Less than one-half of current imports – mainly in the textile category–are restricted..." (World Bank, 1999, page 6)

TABLE 19

QRs on number of 4-digit H.S.Codes

			Trade Reasons			Trade Reasons	Non-trade
		Total.	Banned	Restricted	Mixed	Total	Reasons
Phase II	1989-1990	315	135	66	52	253	62
	1990-1991	239	93	47	39	179	60
Phase III	1991-1993	193	-	-	-	79	114
	1993-1995	111	-	-	-	19	92
Phase IV	1995-1997	120	5	6	17	28	92
	1997-2002	124	5	6	17	28	96

Source: World Bank (1999, 2003 June, page 20)
WTO (2000) Trade Policy Review, Bangladesh

Table 19 shows that the 1991-93 IPO "saw a major scaling down of QR's, both for trade and non-trade reasons." However, the later IPO's displayed the QR's stagnating at 28 items in the controlled list for trade reasons and over 90 items for non-trade reasons.

Also, import permits were eradicated–the "last vestige of the permit system was eliminated in 1993; imports against direct payment by non-Bangladeshi residents may now occur without permit. The former requirement that all imports be made pursuant to prescribed entitlements in industrial or commercial "passbooks" was modified for industrial importers in 1992 to allow a lump sum value for all goods not on the control list. The government has announced a further modification, eliminating the need for any prior entitlement for free imports." Also, the newer two-year IPO's (began in 1989-90, as mentioned in Phase II), now reflected greater transparency, since the "control list integrates all remaining items to a ban or restrictions..(making) the IPO text itself purely explanatory, rather than adding extra controls, as it had done in the past." (World Bank, March 17, 1994, page 59) The dual exchange rates were unified (in January 1992), and the

XPB scheme became redundant. (Ahmed, 2001, page 42). The current account was also made convertible since early 1993. (World Bank 1994, March 10, page 30)

Basu and Greenaway (1993, page 3, 4) also point out that after the reform period, Phase III, the minimum prices were discarded (except on Jute), the incentives of export processing zones, special bonded warehouse scheme and the duty drawback schemes were extended. For example, in August 1993 the SBW scheme was "extended to all 100-percent exporters and deemed exporters." (World Bank, 1996, October, page 12)

Again, whereas in Phase II, there was only one export-processing zone, set up in the port city of Chittagong in August 1984, Phase III saw the development of another EPZ in the capital city of Dhaka, in 1993. These allowed the exporting firm producers to "import raw materials…free of duty, retain foreign currency earnings, operate in a labor market free of unions, (and be)..exempt from income tax for ten years after opening." (World Bank, 1996, October, page 13) In addition, the elimination of the secondary exchange market did the same for the implicit export tax on tradable goods.

As a result of the decline in tariffs, Bangladesh became a more "open" economy as shown in Figure 3 below. Exports went from a very low level of US$ 2.7 b in 1973 to US$ 390 in 2002, while imports increased from US$ 2.3 b to US $ 520.4 b during the same time frame.

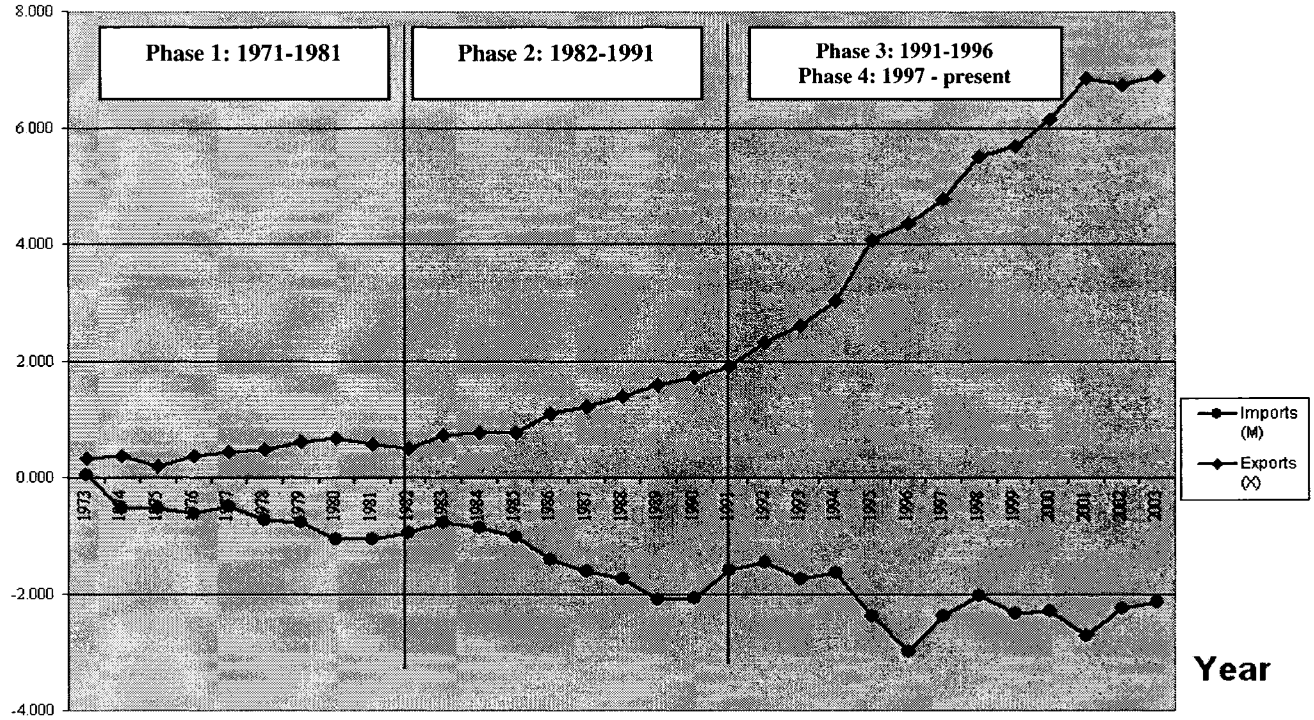


Figure 3: Trade Balance

Coupled with this achievement has been a lowering of the anti-export bias–as measured by the "ratio of the effective exchange rate for imports to that of exports" (World Bank, 1999, page ii).

Table 20
Anti Export Bias (AXB)

	Fiscal Year	e	EERx	EERm	AXB
	1991/92	38.15	38.53	63.84	1.66
PHASE III	1992/93	39.14	39.72	60.81	1.53
	1993/94	40.00	40.48	57.97	1.41
	1994/95	40.20	40.53	52.79	1.3
	1995/96	40.84	41.25	51.91	1.26
PHASE IV	1996/97	42.70	43.22	54.16	1.25
	1997/98	45.46	46.25	58.44	1.26

e = Exchange rate (Taka per US $)
EERx = Effective Exchange Rates for Exports (Unweighted)
EERm =Effective Exchange Rate for Import Substitutes
AXB = EERm/EERx
Source: World Bank (1999)

Table 20 indicates that from 1991/92 to 1997/98 this ratio became smaller (moved towards the direction of 1.00) indicating there was less bias against export activity. In other words, in 1997/98, the "structure of the trade policy-induced incentives ...(was) skewed in favor of import-substitutes by about 25 percentage points.." as against being skewed by 66 percentage points in 1991/92. This is also a measure of trade liberalization. We note that if the ratio had EERx on the numerator and EERm on the denominator instead, then the opposite would be true, i.e. the lower the ratio, the more the trade regime would be biased against exports. Conceptually, it would mean the same thing. Some authors (Bhagwati, 1988, Krueger 1986) use this angle–that is to say a less than one number would then be consistent with an import-substituting strategy, where "incentives are biased against exports and in favor of domestic sales." (Ahmed, 2001, page 10).

The pick up in exports–termed by Chowdhury (2003, page 8) as "remarkably positive," expanding at an annual rate of 17 percent in nominal terms until FY98, led to a substantial improvement in the balance of payments position....(and) there has been no adverse effects on budgetary revenues as a result of tariff cuts....the growth of imports and the introduction of the IDS (Infrastructure Development Surcharge) have more than offset any potential revenue losses from tariff cuts so as to stabilize the tariff revenue-GDP ratio." (WB, 1999, page 15)

Table 21 describes this scenario. The 17% average growth in exports was dominated by the EPZ (Export Processing Zone) exports. Again, although imports growth was 16%, it too was dominated by EPZ imports. As a percentage of GDP, the trade balance declined favorably from 1991/92, worsened somewhat during 1994-1996, and then improved again. The average trade balance as a percentage of GDP was 5.3% during Phase III (1991/92 to 1997/98), which was lower than the two years in Phase II (1989/90 and 1990/1991).

Table 21
Export-Import Scenario

	PHASE II		PHASE III					PHASE IV		
Fiscal year:	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	Ave
				Annual Growth Rate in Percentage						
Total Exports	**18.0**	**12.7**	**16.1**	**19.5**	**6.3**	**37.0**	**11.8**	**13.8**	**16.8**	17
Estimated SBW Export (25%VA)		29.5	19.6	17.2	18.2	50.4	-7.8	10.4	19.5	20
Export Processing Zone Exports	112.5	25.0	57.5	34.9	42.4	62.8	32.5	54.0	22.8	49
Derived non-SBW/EPZ Exports		11.4	-12.8	40.0	2.7	42.5	22.6	-2.5	7.0	14
Total Imports	**44.0**	**14.3**	**-6.6**	**7.4**	**7.3**	**45.1**	**14.7**	**2.5**	**10.9**	16
SBW B/B L/C Fabric Imports		29.5	19.6	17.2	18.2	50.4	-7.8	10.4	19.5	20
Export Processing Zone Imports	113.3	25.0	57.5	34.9	42.4	62.8	32.5	54.0	22.8	49
Non-SBW/EPZ Imports		11.4	-12.8	4.0	2.7	42.5	22.6	-2.5	7.0	9
				Percentage of GDP						
Total Exports	**5.0**	**5.6**	**6.4**	**7.5**	**7.6**	**9.2**	**9.6**	**10.8**	**12.2**	8
Estimated SBW Export (25%VA)	2.1	2.7	3.2	3.6	4.1	5.5	4.7	5.1	5.9	
Export Processing Zone Exports	0.1	0.2	0.2	0.3	0.3	0.5	0.7	0.9	1.3	
Derived non-SBW/EPZ Exports	2.8	2.7	3.0	3.5	3.1	3.2	4.2	4.7	5.0	
Total Imports	**10.7**	**12.0**	**11.1**	**11.6**	**11.8**	**15.3**	**16.4**	**16.5**	**17.8**	14
SBW B/B L/C Fabric Imports	1.6	2.0	2.4	2.7	3.1	4.1	3.6	3.9	4.5	
Export Processing Zone Imports	0.1	0.1	0.2	0.3	0.4	0.5	0.6	1.0	1.2	
Non-SBW/EPZ Imports	9.0	9.8	8.5	8.6	8.4	10.7	12.2	11.7	12.1	
Total Trade (X + M)	15.7	17.6	17.5	19.0	19.4	24.6	26.0	27.3	29.9	22
Trade Surplus or Deficit (-)	**-5.6**	**-6.4**	**-4.7**	**-4.1**	**-4.3**	**-6.1**	**-6.8**	**-5.8**	**-5.6**	-5

Source: World Bank (1999)

In terms of import composition, Table 22 shows that imports of all categories decreased except for those under enclave type arrangements (mostly "re-exportable inputs for the SBW units (mainly RMG/knitwear producers)) (World Bank, 1999, page 21) from the latter part of Phase II to Phase III. Moreover, most of the averages for Phase III (from 1991/92 to 1997/98) for the five categories are lower than those of Phase II. Thus, it appears that heavy flooding of imports–as some critiques of the reform process contend (taken up in Chapter 5)–did not take place through trade liberalization.

Table 22

Bangladesh's Recorded Commodity Trade, 1989/90 – 1997/98: Import Composition (%)

	PHASE I I		PHASE I I I							
Fiscal Year:	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	P I I I Ave.
Primary Commodity (PC)	21.5	30.5	19.0	20.6	18.1	20.2	20.9	17.2	18.2	19
Intermediate Input Goods (IIG)	35.7	30.5	33.9	31.4	31.1	27.6	28.7	29.0	27.4	30
Capital Goods (KG)	18.7	14.6	18.8	15.5	14.2	14.6	17.6	17.2	16.1	16
Final Consumer Goods (CG)	8.2	6.4	5.1	6.5	7.6	7.2	7.1	7.4	6.6	7
Enclave Goods (EG)	15.9	18.0	23.3	26.0	29.0	30.4	25.7	29.2	31.7	28
Total Recorded Imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: World Bank (1999)

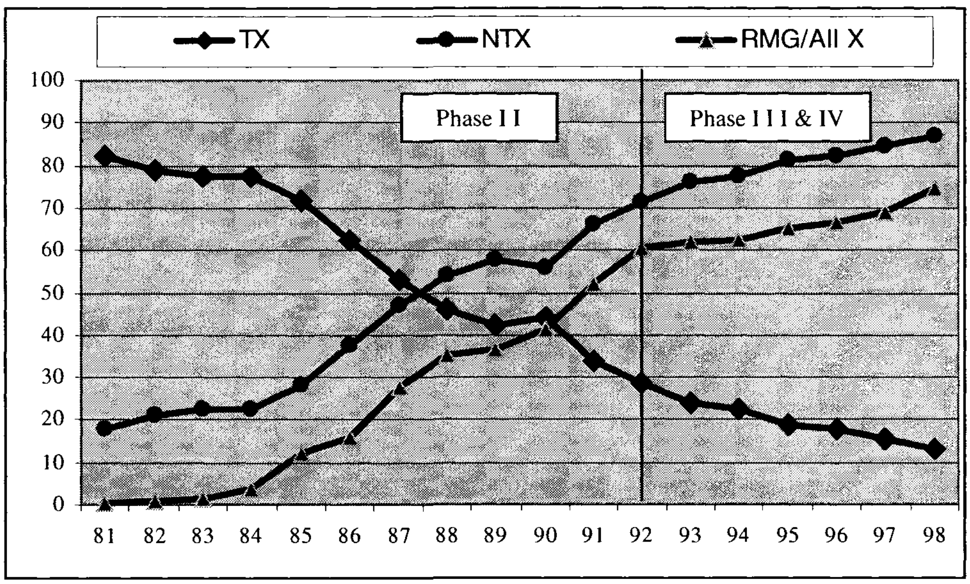
Table 23

Bangladesh's Recorded Commodity Trade, 1981–1998: Export Composition in Percentage

		Traditional Exports	Jute & Jute Goods	Leather & Leather Goods	Tea	Non-Traditional Exports	RMG Products	Fish / Shrimp / Frozen Food	Others	Total	RMX/All X
PHASE II	1981	82.0	68.2	8.0	5.8	18.0	0.4	5.6	12.0	100.0	0.4
	1982	78.9	62.8	10.0	6.1	21.1	1.1	8.5	11.5	100.0	1.1
	1983	77.7	62.4	8.5	6.9	22.3	1.6	10.5	10.2	100.0	1.6
	1984	77.4	58.4	10.5	8.5	22.6	3.9	9.5	9.1	100.0	3.9
	1985	71.9	57.9	7.5	6.5	28.1	12.4	9.3	6.3	100.0	12.4
	1986	62.4	50.9	7.4	4.0	37.4	16.0	13.8	7.3	100.0	16.0
	1987	53.2	37.8	12.6	2.8	46.8	27.8	12.7	6.3	100.0	27.8
	1988	46.1	31.0	11.9	3.2	53.9	35.3	11.8	6.8	100.0	35.3
	1989	42.3	29.9	8.8	3.5	57.7	36.5	13.5	7.7	100.0	36.5
	1990	44.3	30.0	11.8	2.6	55.7	41.3	9.6	4.7	100.0	41.3
	1991	33.6	23.0	8.0	2.5	66.4	52.0	8.7	5.8	100.0	52.0
PHASE III, IV	1992	28.6	19.5	7.5	1.6	71.4	60.4	6.8	4.2	100.0	60.4
	1993	23.8	15.4	6.7	1.7	76.2	61.9	7.3	6.9	100.0	61.9
	1994	22.5	13.5	7.6	1.5	77.5	62.7	8.8	6.0	100.0	62.7
	1995	18.9	11.5	6.5	0.9	81.1	65.1	9.1	6.9	100.0	65.1
	1996	17.9	10.8	6.2	0.9	82.1	66.7	8.2	7.3	100.0	66.7
	1997	15.7	9.8	5.0	0.9	84.3	69.1	7.4	7.8	100.0	69.1
	1998	13.1	7.5	4.6	0.9	86.9	74.4	5.9	6.6	100.0	74.4

Source: World Bank (November 23, 1999 and March 13, 1989, page 30)

Table 23 provides the export composition of Bangladesh, in terms of shares of total (in percentages). (Tables 88 in Annexure 2 provides the same information in US$) A clear picture in Table 23 is the increasing dominance of the non-traditional exports (78 percent average in the period of Phase III shown) over traditional exports (22 percent). Within the non-traditional sector, Readymade Garments and Knitwear account for about 68 percent of exports by the end of Phase III and about 75 percent by 1998, which is much higher compared to the 52 percent figure at the end of Phase II. The share of some of the other non-traditional exports, e.g. frozen food (11% to 8%) and traditional exports, e.g. leather and leather goods (9.7% to 7%), have correspondingly declined indicating not only a relatively narrow export base to begin with (three main sectors), but a high reliance on mainly one sector. Despite this, given the liberalized trade framework and the supportive government policies, the RMG/Knitwear sector was able to "respond to emerging opportunities...for competitive activities based on the abundance of labor," (World Bank, 1999, page 21)–creating the X type pattern in Figure 4.



TX = Traditional Exports; NTX = Non-Traditional Exports; RMG/All X = Share of RMG in Total Exports

FIGURE 4: Export Pattern

It is noteworthy that the "cross-over" occurred well before Phase III, in fact from the Table, we can observe 1988 to be the year that Non-Traditional Exports overtook Traditional Exports.

Although this actually ties in with the World Bank / IMF's "Structural Adjustment Program," incentives for the Garments Sector, in terms of enclave-type arrangements were provided even before that. A more detailed explanation of this is taken up in Chapter 5.

In terms of assessing imports, as mentioned in Phase I, the Brussels Definition of Value (tariff values) was prevalent till 1993-94. Ahmed (2001) notes that this changed to an independently validated invoice-based valuation system voluntarily in 1993/94 (importers had flexibility of choice) and then mandatorily (as a requirement under the Uruguay Round Agreement on Customs valuation) in February 15, 2000. Under this "Pre-Shipment Inspection" (PSI) scheme, three companies[21] monitor the imported goods HS code classification, price, quantity and description and issue a Clear Report of Findings (CRF) certificate, thus expeditiously clearing the goods. Thus, the discretionary power of the Customs Authority is minimized, as they now have to legally accept the CRF. In this way, the PSA has aimed at obtaining better collection of revenues (by preventing over/under invoicing of value, and quantity misdeclarations) and decreasing importers costs by speeding up clearance costs (by minimizing physical inspection of import consignments). However, Ahmed (1996, September 9) notes that there was some "discrepancies in the invoice valuation," and as a result the "National Board of Revenue has temporarily banned the use of Pre-Shipment Inspection system for 12 items."

A major policy change was changes in components of the Nominal Rate of Protection (NRP). Until 1991, it used to comprise Customs Duty (CD), Import Sales Tax (ST), Regulatory Duty

[21] Ahmed (2001) mentioned these three companies are: (i) M/S Intertek Testing Services Limited, UK (ii) M/S Inspectorate Griffith Limited, UK and (iii) M/S BIVAK International Bureau Veritas Group, France.

(RD), Development Surcharge (DS), and Import License Fee (LF) (there was also an Advanced Income Tax, AIT). In the 1992 budget, the second, third and fourth component were replaced by Value Added Tax (VAT) and Supplementary Duty (SD). (Yilmaz and Varma, 1994, Appendix B)

A World Bank report mentions this change. "In its FY92 budget, the Government introduced value added taxation (VAT) to replace the import sales tax and most of the domestic excise duty. A standard rate of 15 percent was set, but a supplementary duty was also introduced to make the consumption tax rate higher on selected items....The FY92 budget also abolished the development surcharge and a regulatory duty, and added 10 percent to most customs duty (CD) rates under 100 percent to compensate for the resulting loss of revenue. The FY93 budget began to phase out end-user concession categories, further reduced high custom duty rates, and raised some very low rates. The ... FY94 budget (went further to) reduce high duty rates and eliminate rate discrimination between end users and within similar product categories." (World Bank, March 17, 1994, page 60)

The reason for choosing a 15 percent number was, as Basu and Greenaway (1993, page 4) note, Mansur and Khondkar (1991) had calculated that rate would be revenue neutral. The terms CD, ST, DS, RD, VAT, AIT, LF and SC are described in the Annexure 3, in Table 89.

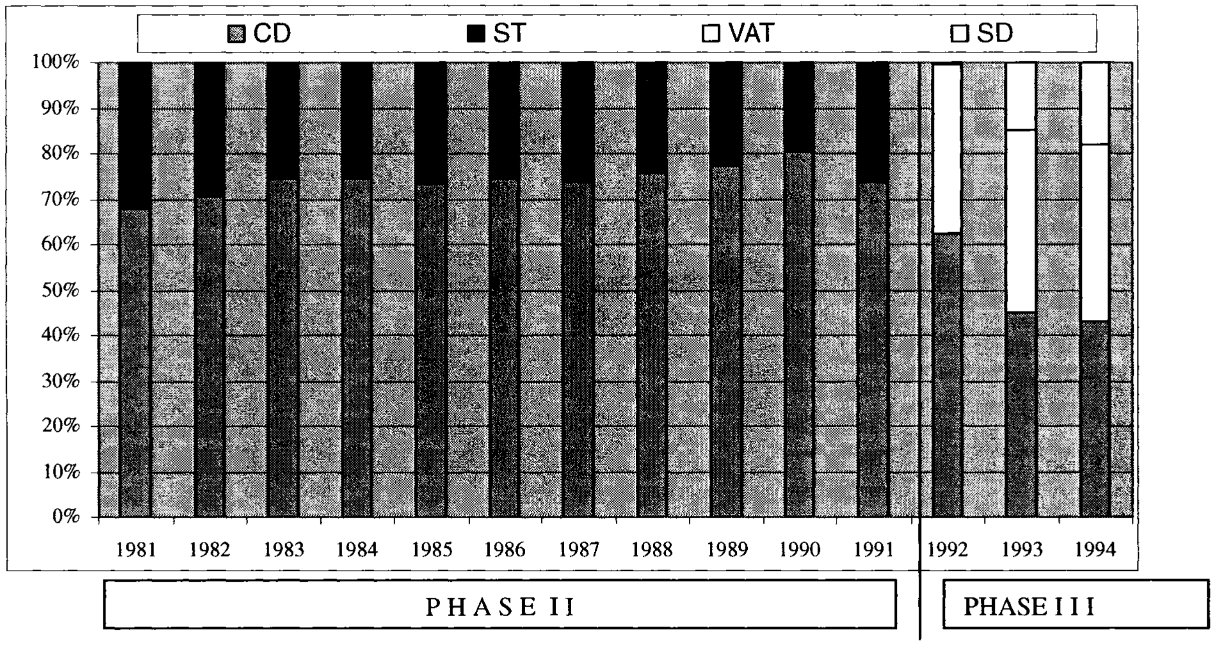
This change is shown in Table 24. It can be seen that Customs Duties alone accounted for 40 percent of total tax revenues from 1981 to 1989. Adding Sales Tax with CD, this brought the average to the 55 percent number mentioned in the World Bank report mentioned earlier (World Bank, 2003, June. Page 34).

Table 24
Tax Revenue Breakdown, 1981 to 1994 (%)

	Year	Customs Duties	Sales Taxes	Excise Taxes	VAT	Stamp Taxes	Motor Vehicle Taxes	Supplementary Duty	Income Taxes	Land Revenue Taxes	Other taxes*
PHASE II	1981	41	19.3	21.2	0.0	4.0	0.3	0.0	12.5	1.1	0.5
	1982	40	16.5	23.1	0.0	4.4	0.3	0.0	14.2	1.0	0.6
	1983	41	14.1	23.5	0.0	4.1	0.4	0.0	15.4	0.9	0.4
	1984	41	14.3	24.9	0.0	3.1	0.0	0.0	13.7	1.4	1.1
	1985	40	14.6	26.7	0.0	3.9	0.4	0.0	13.9	1.4	0.8
	1986	41	14.2	23.8	0.0	3.9	0.4	0.0	14.2	1.6	0.6
	1987	41	14.5	23.8	0.0	3.7	0.4	0.0	14.5	1.5	0.7
	1988	38	12.2	27.2	0.0	3.9	0.5	0.0	15.4	2.1	1.1
	1989	38	11.2	29.0	0.0	3.5	0.4	0.0	15.5	1.8	1.0
	1990	38	9.3	29.8	0.0	3.1	0.6	0.0	15.3	2.0	2.0
	1991	37	13.0	27.1	0.0	3.0	0.6	0.0	17.0	1.0	1.5
PHASE III	1992	37	0.0	17.8	21.9	3.3	0.5	0.3	17	1	0
	1993	32	0.0	3.6	28.0	3.5	0.6	10.6	19	2	0
	1994	31	0.0	1.8	28.4	3.6	0.6	13.2	18	2	0

*Other taxes include electricity duties, estate duty on agricultural land, taxes on immovable property, gift taxes, capital gains taxes, toll taxes, betterment taxes on commercial establishments and other levies.
Sources: 1981 to 1983: World Bank (June 29, 1990) page 251 and 254; 1984 to 1993: World Bank (March 17, 1994) page 201; World Bank Online files to convert domestic taka to US dollar.

In Phase III, with eradication of the sales tax, the loss of revenue of 14 percent on average from this tax was easily replaced by the imposition of Value Added Tax (VAT) and Supplementary Duty (SD), which brought the CD+VAT+SD together to 59 percent in 1992 alone–this became 73 percent in 1994, thus enabling the tariff rates (reductions in CD rates) to fall without much worry about decreases in overall tax revenue. This can be seen in Figure 5 below. The CD rates started falling at the end of Phase II but VAT and SD picked up.



Sources: 1981 to 1983: World Bank (June 29, 1990) page 251 and 254;
1984 to 1993: World Bank (March 17, 1994) page 201; 1994: World Bank (March 16, 1995) page 81

Figure 5: Tariff Revenue Breakdown

Thus, tariff revenues were derived from a number of sources: the operative rate (Customs Duty, CD) the Supplementary Duty (SD), Value Added Taxes (VAT) and Others (Infrastructure Development Surcharge, Advance Income Tax, License Fee, etc., where applicable) "cascading in that order on the c.i.f. value of imports." (World Bank, March 16, 1990, page 30) Hence the range of the actual duties (effective tariffs) becomes higher, as shown in Table 25 below.

Table 25
Effective Tariff Rates

	Tariff Rates (%)					
CD	0	7.5	15	30	45	60
SD	0	0	0	0	0	0
VAT	15	15	15	15	15	15
OTHERS	5	2.5	2.5	2.5	2.5	2.5
NRP	20	25	32.5	47.5	62.5	77.5

The Bangladesh Operative Tariff Schedule (OTS) was codified in computer format from 1992. A World Bank report (1992, March 16, page 53) notes that "Until very recently, there has been no operative schedule of import taxes and controls, since the levels and coverage of the various instruments are set out in different publications, often using inconsistent or overlapping tariff descriptions." Utilizing the computerized OTS and calculating the nominal rate of protection as the sum of all the duties levied (CD+VAT+SD+Others), I have classified tariff rates into four broad headings.

Table 26
Effective Tariff Rate Classification

	NRP (%)
Low (L)	0 – 30
Moderately High (MH),	30 – 50
High (H)	50 – 65
Very High (VH)	Above 65

Using this classification, Table 26 shows values of NRP for some selected years in Phase I I I, obtained from Bangladesh Operative Tariff Schedule.

Table 27
Effective Tariff Rates over selected years

	PHASE I I I				PHASE IV
	9293	9394	9495	9596	2003
L	27	15	17	26	42
MH	14	17	29	46	33
H	5	14	15	23	21
VH	54	54	39	5	4
	100	100	100	100	100

Source: Bangladesh Operative Tariff Schedule

The numbers in Table 27 are in percentage terms. Thus, in the Fiscal Year 1992/93 (9293), there were 41 percent (27+14) items subject to low and moderately high tariffs in the OTS. The remaining 59 percent were taxed at high or very high rates. By 2003, in Phase IV, the liberalization process had worked itself so that the low and moderately high taxed items had increased to 75 percent, while the high to very high items now totaled 25 percent. Figure 6 below captures this.

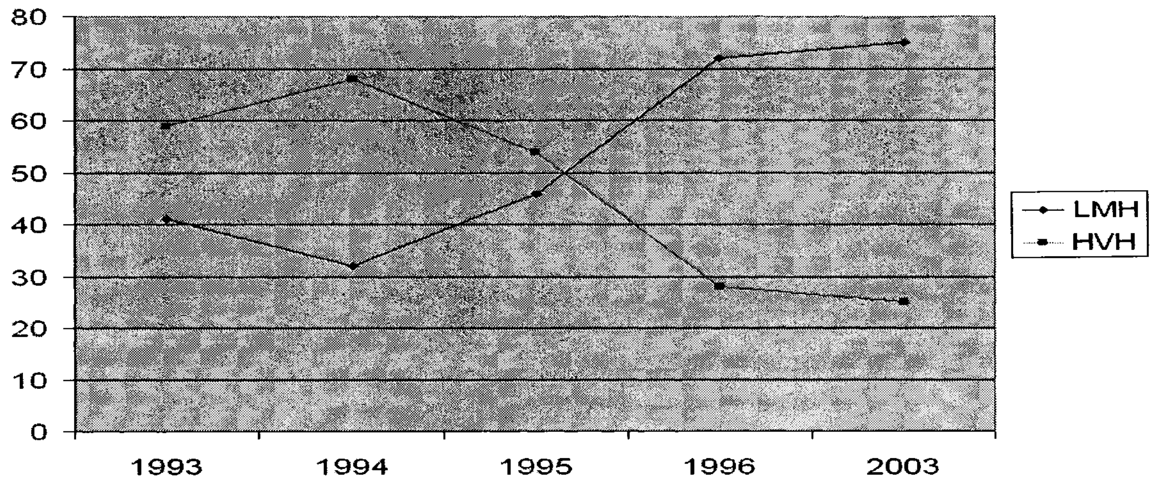


FIGURE 6: Low/Medium versus High/Very High Effective Tariffs

Figure 6 shows a noticeable improvement in trade liberalization in terms of more items being shifted to the Low and Medium High category (LMH) with a corresponding decrease in the High to Medium High (HMH) items, in Phase 3.

Ahmed (2001, page 2) notes that “Although partial measures of trade liberalization measures were undertaken during the 1980s, extensive steps have been taken since 1992 to liberalize Bangladesh’s trade regime (Bayes, M.I. Hossain and M. Rahman, 1995; World Bank 1996a;

Bakht, 1998; and Dutta and N. Ahmed, 1999)." Yilmaz and Varma (1994, page I, para 1) state: "...trade policy changes announced in 1991 signaled a definitive break with the past. They resulted in significant reductions in tariff and non-tariff barriers and incorporated measures designed to strengthen existing export promotion schemes."

Ahmed (2001, page 216) refers to the first part of Phase III, i.e. from 1992-1996, is the "period of extensive trade liberalization..." Razzaque, Khondker, Ahmed and Mujeri (2003, page 18) refer to the period of trade liberalization of the 1990s as having "remarkable momentum." A World Bank report (1999) echoes the same story: "After a start in the mid-1980s, Bangladesh's trade liberalization effort picked up its pace in the early 1990s as an important component of the country's structural reform program. Ahmed (2001, page 2) concludes that these "reforms have reduced "water in the tariffs[22]" (tariff redundancy resulting from prohibitively high tariff rates and smuggling) bringing statutory levels of protection closer to observed levels (World Bank, 1996a and 1999b)." The "statutory rate" is the highest legal rate that can be applied which is generally higher than the "operative rate," which takes into account exemptions and concessions. These are provided to "stimulate investment in priority sectors and to induce business to locate in less developed areas." (World Bank, March 16, 1990, page 30)

1. [22] Ahmed (1996, September 9), describes water-in-the-tariff as a situation where domestic prices are "lower than duty-tax-paid prices of imported products due to smuggling and underinvoicing of imported products."

Phase 4: 1996-present

From the mid 1990's there was some slowing down of trade reform efforts. Looking closer at Figure 6, we can observe that in seven years from 1996 to 2003, the decrease in the HVH items was marginal, by only 11 percent (from 28 percent to 25 percent) compared to only four years from 1993 to 1996, when the decline was 53 percent (from 59 percent to 28 percent). This can be seen in Figure 7 below. The bar heights of HVH for 1996 and 2003 are almost the same.

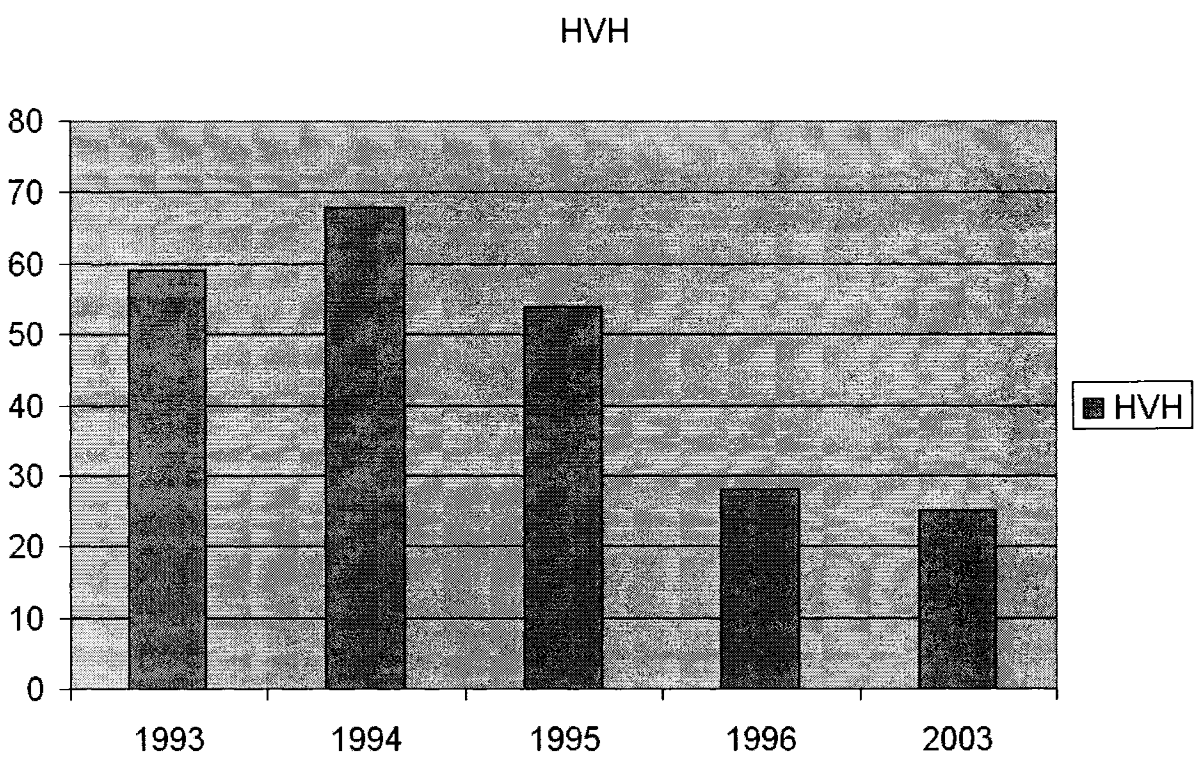


Figure 7: High and Very High Effective Tariff Rates

Examining the 2003 OTS schedule, we can observe how high some of the tariffs still are. Table 28 provides the VH effective tariff rates under several categories (in percent): 71.11, 75.75, 86.64, 101.59, 102.25, 132.06, 396.56, 436.81 and 589.19, for different items, with their corresponding HS Codes. These values are taken from Table 90 and 91 in Annexure 4.

Table 28
VH effective tariff rates from OTS 2003

HSCode	71.11
85.19	Turntables/record/cassette players
8520.20.20	Telephone answering machines
73.04	Iron pipes and tubes
39.22	baths, sinks
3924.10.00	Plastic tableware / kitchenware
4011.61.90	New pneumatic rubber tyres
8703.22.22	Motor cars (1350-1649 cc)

HSCode	75.75
0805.10.10	Oranges
0806.10.10	Grapes
0808.10.10	Apples

HSCode	86.64
8407.31.20	Spark engine, 4 stroke, 3 wheeler
8408.20.20	Compression engine, 4 stroke, 3 wheeler

HSCode	101.59
1806.20.90	Chocolates
1905.31.00	Sweet Biscuits (cookies)
2202.10.00	Waters (mineral, non-alcoholic)
70.03	Colored/cast glass
7324.10.00	Iron/steel bath/sink
8415.10.10	Air Conditioners
2402.10.00	Cigars
2523.21.00	White Cement
2710.11.41	Light oils & preparations
8506.10.20	Primary cells / batteries
8703.22.12	Vehicles (3 wheel, 4 stock engine)
8703.31.24	Motor cars (less than 1000 cc)
87.11	Motorcycles
8539.31.00	Fluorescent lamps

HSCode	102.25
0802.90.10	Betelnuts

HSCode	132.06
3303.00.00	Perfumes and toiletries
3304.10.00	Make up / Beauty
85.21	Video-recording apparatus (magnetic tapes)
8703.22.21	Motor cars (old) 1201 – 1349 cc
6910.10.00	Porcelain or china ceramic sinks/basins
6911.10.00	Porcelain/China Tableware/kitchenware

HSCode	396.56
8407.31.10	Spark Engines 3 wheelers 2 stroke less than 50 cc
8408.20.10	Compression engine, 2 stroke

HSCode	436.81
8703.21.11	Spark Engines 3 wheelers 2 stroke less than 1000 cc

HSCode	589.19
2202.90.00	Sparkling wine
2204.10.00	Other wine
2205.10.00	Vermouth
2208.30.00	Whiskies
2208.40.00	Run
2208.50.00	Gin
2208.60.00	Vodka
2402.20.00	Cigarettes

As can be seen from Table 90 in the Appendix, supplementary duties alone on alcoholic products are 350 percent. Understanding that alcoholic products are discouraged on religious/cultural grounds, however, other products too, have high protection afforded to them. SD on three wheeled engines in 250 percent, and most types of motor cars have SD's from 10 to 50 percent. Even on some basic agricultural products like milk, butter, cheese, fruits (apples, grapes, and oranges), sugar, coconut oil, betelnuts, the SD's range from 20 to 50 percent. Make-up and beauty products, porcelain/ceramic/china sanitary ware/kitchenware has SD's of 50 percent. Although most of these items have a fixed customs duty of 32.5 percent, a VAT of 15 percent and an Infrastructure Development Surcharge of 3.5 percent, instead of the total duty being 51 percent (which would place then under our classification of MH–Moderately High), the products instead have an effective tariff that ranges from about 71 percent to almost 590 percent. This is clearly not an effective indicator of low tariff rates resulting from trade liberalization.

Another observation from Table 90 in Annexure 4, is that although CD rates for many items may have declined over times, it is the SD's that made the overall tariffs quite high. The following figures have been compiled from Table 90 and illustrate that there is almost a counter-cyclical style in the direction of CD and SD, for the items selected–hard liquor, wine (sparkling and regular), perfume, make-up, cigarettes and three-wheeler vehicles. The Table also shows the same pattern with agricultural products such as milk (powdered), butter, fresh cheese, oranges, apples, coconut oil (refined), raw sugar (cane) and air-conditioning for cars.

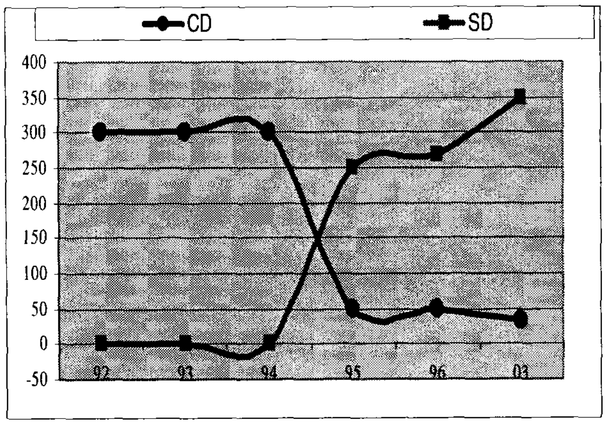


FIGURE 8: Whiskey, Rum and Gin

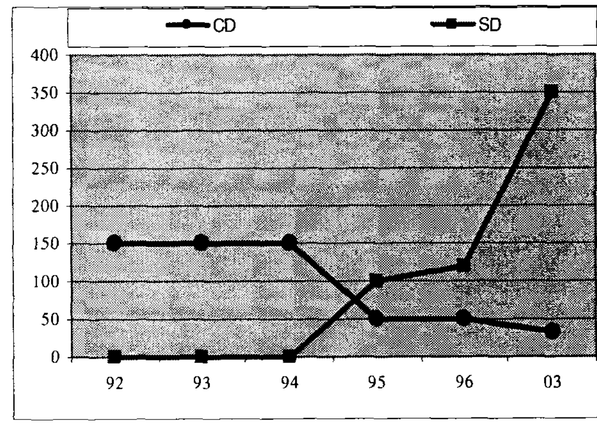


FIGURE 9: Sparkling and Regular Wine

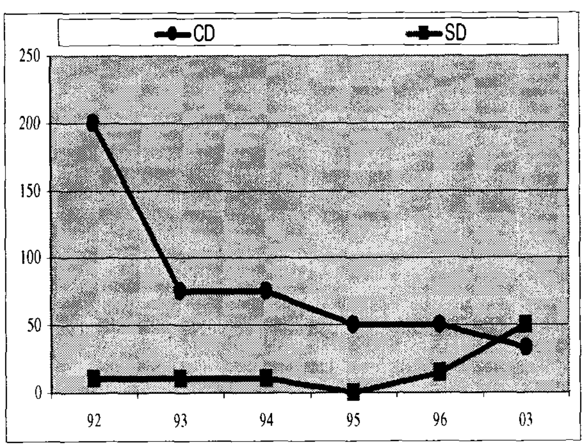


FIGURE 10: Perfume

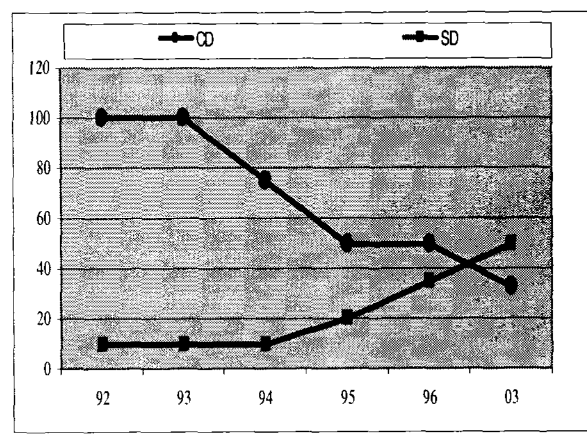


FIGURE 11: Make-Up

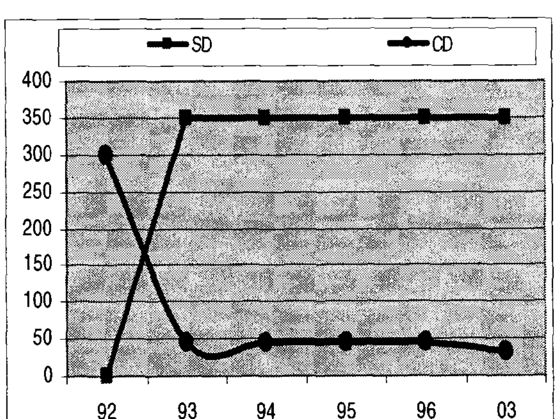


FIGURE 12: Cigarettes

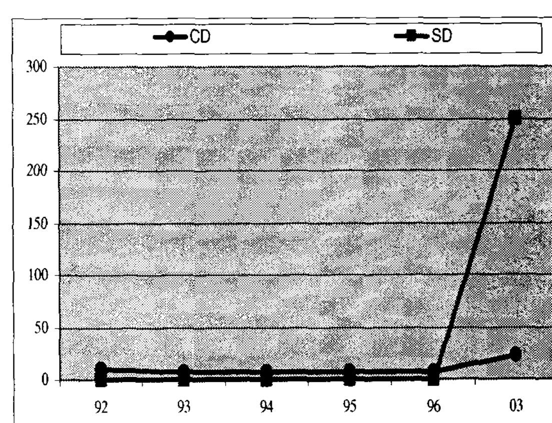


FIGURE 13: Three-Wheeler Vehicles

This is a trend that Stamp (2002, page 6) has noticed in the following way. He claims that "protection is actually becoming increasingly less dependent on customs duties, and more dependent on the proliferating range of additional (but equivalent) charges and duties levied on imports." In our figures, we have only plotted customs duty and supplementary duties, but in 2002, Stamp (2002, page 6, 33) points out that are also license fees, infrastructure development surcharge, regulatory duty (introduced in FY 2001) VAT and Advance Income Tax. Adding these para tariffs, "average nominal protection increased modestly since the mid-1990s after the sharp decline experienced since 1991/92."

A World Bank report (2003, June, page 35), highlights the important role of SD. The 2002/03 budget found not only eight rates of SD (normal rates of 10%, 20%, 25%, 30%, 50%, 60% and extra high rates of 250% and 350%), which brings the six CD (0%, 7.5%. 15%. 30%, 45% and 60%) plus SD rates to fourteen, but the SD "increases protection by more than the supplementary duty itself," because "the duty is not applied directly to assessable Customs values but rather to the assessable value plus Customs duty."

In terms of exports, the picture appears to be impressive. According to a World Bank report (World Bank, March 17, 1994, page 67), "The Industrial Policy of 1991 has the explicit goal of enhancing the environment for the growth of Bangladesh's export industry. In addition, the Bangladesh Export Development Strategy, 1992-2000 was recently adopted to correct policy distortions and alleviate regulatory and infrastructural restrictions to private sector export promotion. The Export Strategy mandates improved and expanded rebates on taxes and duties on imported inputs for export promotion, technical and information service promotion through the

Export Promotion Bureau (EPB), grants for training for international marketing development, infrastructure investments and transfer of certification responsibilities to export agencies."

Continuing from the previous phases, the tools used to enhance exports have been the export processing zones (EPZ), the special bonded warehouse scheme (SBW), the duty drawback scheme and export quotas under the Multi-Fiber Arrangement. The SBW helps provide finance duty-free imports of raw materials for industries producing for the export market, through what is called back-to-back letters of credit (BBLC). However, the growth has largely been spearheaded by the readymade garments knitwear (RMG) industry, which has taken advantage of these enclave type arrangements and contributed to "over 70 percent" over Bangladesh's gross exports by 1998 (World Bank, 1999, Nov. 23). Because of the special environment created via "various export promotion schemes (special bonded warehouse[23], export processing zones, quotas under the Multi-Fibre agreement and concessionary financing), assisted in provided world-priced inputs to exporters in the absence of general trade policies that would do the same for all would-be exporters...(and created) ...a free-trade environment for ready-made garments..." (World Bank, 1996, October, page 11, 12) Thus, insulation of the RMG sector from the prevailing trade regime, enabled exports to grown at a "significantly high annual rate of 17 percent" during the 1990s decade. (World Bank, 1999, November 23). The success of RMG also derives from the comparative advantage Bangladesh has in abundant labor which "can be harnessed efficiently in fairly small units that do not require highly sophisticated management skills." RMG mostly involved is a process of "cut, make and trim" assembly process, which was supplemented with a

[23] The special bonded warehouse, according to the World Bank (1996, October, page 11) allows "firms producing exclusively for export to import and stock duty-free inputs." A condition is the firm has to be 100 percent export-oriented, and use back-to-back letters of credit (BBLC), which consists of "import L/Cs for importing inputs, whose primary collateral is the export L/C, and which is paid out of the proceeds of the exports."

mushrooming knitwear industry in the mid to late 1980s. (World Bank, 1999, page 20) An additional benefit the RMG sector provides is employing mainly women, where there has been a large increase in employment. (World Bank, April, 1991, page 22)

Despite this "impressive success," in the RMG sector, this has "yet to be replicated in other industries," rendering Bangladesh's export base to continue to be quite narrow. (World Bank, 1999, November 23, page 7) Though RMG had generated high growth, it "remains dependent on foreign buyers," such as the US and EU, which provided quotas (ended in 2005) to Bangladesh through a Multi-Fibre Agreement. (Chowdhury, 2000, June)

Ahmed (2001, page 42) notes that historically the SBW scheme was provided to the RMG exporters in Phase 1, from 1978, exempting them from import taxes, and allow them to "import duty-free into established special bonded warehouses." For example, In the Export Policy 1995-97 (page 3), under the "new incentives" heading, "leather manufacturing firms exporting at least 80% of the products will be declared as 100% export-oriented industries." This was done to "recognize their contribution in the leather sector and also to make their activities more dynamic." However, Chowdhury (2000, June) notes that issues of quality standards, environmental and labor safety issues have plagued the leather, and seafood producers, while "import competing sectors such as textiles, chemicals, and metals which have not successfully competed with consumer goods imports."

In terms of regional cooperation, there was also the movement to create a sub-regional arrangement within the regional set-up of SAARC, which was originally espoused by the World

Bank to be called South Asian Development Triangle (SADT), but which later became to be known as South Asia Growth Quadrangle (SAGQ), consisting of Bangladesh, Bhutan, India and Nepal. (Barai, 1997; Kalam, 1997).

This chapter attempts to provide a political economy explanation of the developments that occurred in the trade arena of Bangladesh, as laid out in the previous chapter. We therefore revisit Chapter 4 in a modified way, extending the economic analysis by examining the deeper issues of protection–those revealed via ERP (Effective Rate of Protection), DRC (Domestic Resource Costs), CV (Coefficient of Variation) figures and the studies of the TIP (Trade and Industrial Policy) Reform project, which subsequently laid the foundation for donor-induced reform pressure. Because trade policy was conducted in the overall context of Bangladesh's historical development, we can also tie in Chapter 3, which had provided a picture of the country's political development, via regime changes. This, then, enables us to draw on the IPE models (AGIO, AGS, BP, DPIG and DPGP), as developed in Chapter 2, to examine their particular relevance on the four trade phases and their applicability for Bangladesh in general.

Phase 1: 1971-1982

After independence when most of the West Pakistani owners left the Eastern Wing and the government nationalized the industrial assets (local or foreign owned), there was very little entrepreneurial base and almost no known demand for transforming the country suddenly to a trade-based open-market economy. This argument is reinforced by a World Bank report (1994, page 89, para 33) as follows: "After liberation with the departure of (West Pakistanis)...industrial activities came to a grinding halt. As a result, the government took possession of all factories, banks and properties owned by the Pakistanis."

On the trade front, Yilmaz and Varma (1994, page 3, para 8) point out that the demand for implementing a "protectionist trade regime" (high tariffs and quotas), was "initially justified as an immediate action to avert an imminent balance of payments crisis." A World Bank report (March 17, 1994, page 20) echoes this: "With low levels of foreign exchange earnings and the need to procure a sizeable amount of food from its own resources, the Government extended the complicated system of direct controls, which they had inherited, to cover all imports....Given a starting point of almost zero reserves, the Government was reluctant to allocate cash resources for imports other than food."

More importantly, the trade issues and measures during this phase, as described in Chapter 4, were overwhelmed by the by the immediate issues of stabilizing the war-ravaged economy by providing massive relief and rehabilitation operations. A World Bank report writes, "On balance...the period from independence to mid–1973 is more likely to be remembered with relief for what might have, but did not happen..." (World Bank, September 15, 1974, page 23) Faced with the need to stabilize the economy, restore confidence and provide a long-term vision for the country in the early 1970s, the government prescribed–as developed in Chapter 3–socialism, democracy, nationalism and secularism.

Another World Bank report (1994, page 89, para 33) refers to the socialist inclination by arguing that "...factories, banks and insurance companies were .... nationalized... in order to restructure the economy on socialistic patterns..." Similarly, Mallon and Stern (1991, page 192) add to the socialist philosophy of the party in power (Awami League), two additional criteria (i) inheritance of the controls over prices and economic activities installed by Pakistan during the 1950s and 1960s, and (ii) nationalization of factories formerly owned by Pakistanis, who fled after the war. The authors conclude that, "In an effort to deal with the unprecedented economic turmoil, the Awami League government of Sheikh Mujib imposed a complex system of ...controls." These "controls" as pertaining to the trade sector, have been described in Phase I in Chapter 4. Coupled with this argument was Bangladesh inheriting a "tradition of state paternalism and a distrust of free markets," (Mallon and Stern, 1991, page 190) and having a 'government agency' mentality (World Bank Report No. 12318-BD, February 1, 1994). Therefore, even after government power shifted in 1975 and opportunities arose for the private sector to enter development of tradable manufactures, the World Bank report (# 12724–BD, page 86) writes, "This was done ... by the heavy-handed encouragement of investment by identifying permissible sectors, making directed capital available, providing protection through trade policies, and in many instances, undertaking the purchase of output or supply of inputs."

Therefore, during the 1970s to late 1970s, the overall trade regime was quite restrictive–the strategy remained primarily import-substitution oriented state intervention. Thus, very little thought was given to international trade–the idea was mostly that of an import-substitution environment with heavy command type control on imports by the government. However, as described in Chapter 3, the latter part of this phase, provided the foundations for the philosophical orientation towards encouraging the market mechanism to develop, supporting denationalization, completely abolishing the ceiling on private investment, fostering decentralization, and laying the foundation of future multiparty democracy.

Phase 2: 1982-1991

According to a World Bank report (1993) trade liberalization "had been a GOB (Government of Bangladesh) objective since 1981. This was derived from the government's need to "increase foreign exchange and employment opportunities outside agriculture.." The major steps included "gradual liberalization of the import regime...improving export policies and exchange rate management to encourage export production..." (World Bank, March 1989, page 20). This was accompanied by denationalization of public enterprises (under the New Industrial Policy–NIP–of 1982 and the Revised Industrial Policy–RIP–of 1986). However, Yilmaz and Varma (1994) note that in terms of the tariff regime itself, "...there was very little change ... between 1982 and 1986." Mallon and Stern address this problem by hinting at its political nature: the NIP was not "received very enthusiastically by much of the bureaucracy and by those private business groups that had learned to manipulate government controls for their own benefit and they were strongly opposed by most existing political parties and labor unions...Policy reforms...were far from assured (as)...Most of the bureaucracy had a stake in preservation of government controls..." (Mallon and Stern, page 194-195) Therefore, during the early eighties...very little progress was made in tariff reform..." (Yilmaz and Varma, page 5, para 19).

As an example of discretionary behavior, Dr. Raab (August, 1997), provides the following example in simple words. "Say something went into production. This has to be helped at this time; at the same time others should not get this help. So that is why there were increases in laws, more sub-clauses, more refinement. When we looked at all those in 1982 (before we started the TIP studies), we were amazed. There were so many concessions and so many explanations, we were in a loss. What is this, we thought? Behind each concession or tariff, was a great justification–maybe honest in intention, but the point is this whole process, who came up with this? It was not the great civil service mind, but the inspector and customs who put the tariffs as they pleased." Ameen (July, 1997), a former Chair of NBR notes that "Many of the duties might have been set haphazardly from the port inspectors." Khan (1997) goes so far as to joke that it was as if "Before 1991, in the morning there was one rate, in the evening, another rate. But that is not there any more. BTC has import policies from beginning to end."

Mallon and Stern (page 193) write: "While trade and industrial policy reforms were initiated before the end of the Sheikh Mujib Regime (1971-75) and continued under President Zia's administration (1976-81), they were accelerated after 1982, when General Ershad came to power and the Trade and Industrial Policy (TIP) project was initiated." Particularly, the New Industrial Policy (NIP) of June, 1982 aimed at liberalizing the import regime.

The major focus of the NIP, TIP and RIP (Revised Industrial Policy of 1986), was to "develop a broader and diversified export base, spearheaded by the private sector; to initiate institutional reform involving the import regime...(and the)...tariff structure...(and) to limit the role of the public sector to strategic industries..." With this view in mind, with donor assistance (specifically World Bank's Industrial Development Assistance), the government embarked on an "extensive program of studies to review trade and industrial policies and propose reform." (World Bank, June 29, 1990, page 77) The basic idea behind the TIP project was "laying the groundwork for reforming and strengthening its policy framework in industrial planning and project identification, tariff-making and administration; industrial exports; and industrial statistics and monitoring of performance....This work will also enable the Government to incorporate into the decision-making process analytical methods which were formerly little used, and to build into the decision-making institutions a process of systematic analysis which makes it possible to assess more comprehensively the implications of changes of decisions on policies, tariffs, incentives and controls for the whole system of incentives." (World Bank, March 4, 1983, page 60)

In terms of analytical tools, the three indicators used to gauge the current status of protectionism were the Nominal Rate of Protection (NRP) the Effective Rate of Protection (ERP) and the Domestic Resource Cost (DRC).

The NRP is defined in the following way. "Nominal protection is given by the ratio of domestic ex-factory price to the cif price of a similar, if not identical, imported product. On the other hand, nominal rate of protection is an index which shows the extent to which a producer can raise his price above the cif price of the imported product. Eltezam (September 1985, page 13)

"Pioneered by Balassa (1965), Johnson (1965) and Corden (1966)," the ERP goes further into examining the rate of protection granted to "value added in given industry." (Ahmed, 2001, page 21) Warner (30 July 1985, page 11, 17) notes that NRP is "not an adequate measure of net assistance provided by the structure of protection on output and inputs taken together," since it "only reflects the extent of protection on output (or inputs).....Since taxes on inputs used in the production of a particular output reduce the extent of protection received by an activity," the ERP is used to "express the joint effect of taxes and other instruments on outputs and inputs." The ERP is defined as the "percentage increase in value–added at domestic prices over what it would be at world prices." Thus, the ERP "measures the margin of protection not on the product, but on value added. Value added is defined as the value of output less the costs of all purchased inputs."

DRC is called the "...Domestic Resource Cost (DRC) of foreign exchange savings..." It "indicates the economic efficiency with which domestic resources are being used in an activity. It "measures the cost of domestic resources used in generating the net foreign exchange saved or earned by local production of a product...Generally the higher the DRC, the less desirable (on economic grounds) it is to encourage the process via protection or other forms of assistance." (Warner, R. W. August 18, 1985, Page 11, 52) Thus, DRC is a cost-benefit ratio of saving one unit of foreign exchange and the higher the ratio, the less efficient the industry is.

DRC figures used as a proxy for industry efficiency–it is a cost-benefit ratio of saving one unit of foreign exchange and the higher the ratio, the less efficient the industry is. . "In contrast to ERP which measures economic incentives given to an activity, DRC measures economic costs and benefits. DRC, indeed, is a cost-benefit ratio, the numerator consisting of costs, the denominator, of benefits." (Eltezam, September 1985, page 22)

Theoretically, Ahmed (2001, page 28) notes that the limitations of ERP and DRC have been provided by Bhagwati and Srinivasan (1983), Balassa and Schydlowsky (1972) and Edwards (1989, 1992). However, he acknowledges that despite this, ERP and DRC does "..provide some valuable information on the rates of protection granted to value added in an industry." (page 21) Therefore, ERP and DRC indices ...measure more accurately the way in which input-output relations affect the extent of "true" protection granted to a particular sector of economy (Bhagwati-Krueger, 1978, Balassa, 1971; and Krueger, 1983)" (Ahmed, 2001, page 21)

Tables 29 to 47 provide results from these various TIP (Trade and Industrial Policy) reports undertaken by the government of Bangladesh, from 1985 to 1988, which reflect differing NRP (Nominal Rate of Protection) numbers, a wide disparity in ERP (Effective Rate of Protection) figures across and in some cases, within different industries in Bangladesh, and in some cases, the DRC (Domestic Resource Cost) figures used as a proxy for industry efficiency. Thus, in many of these tables we can see that "the highest protection often being given to industries with the lowest value added." (World Bank, June 29, 1990, page 82; TIP, 1987, March, page 2-7). A summary of these tables is provided in Table 48 and 49.

Table 29
Protection: Agro-Based Industry Products

Agro-Based Industry Products	NRP	ERP
Wet Blue Leather from Cow Hide	-5	-69
Wet Blue Leather from Goat Skin	-5	-39
Finished Cow Leather	10	251
Finished Goat Leather	10	14
Tea (Packet)	10	74
Tea (Loose)	0	-12
Sugar	43	407
Shrimp	4	1
Fish	8	-1
Refined Edible Oil	20	978
Vegetable Ghee	80	435
Jute (1984/85)	na	-14%
Jute (1985/86)	na	-5%

Note na = not available; Source: Doc. TIP-MU-C. (May 1986)

For the agro-based industries, the report claims that "In contrast to the discouragement of ....loose tea (negative ERP), ...packet ..tea has been heavily assisted (ERP of 127%)." "Loose tea is considered a 'traditional' product and hence does not benefit from XPB." In the case of sugar, it is protected "by an intermittently applied ban which keeps out sugar imports except when there is a shortfall in domestic production." Shrimp and fish have very low ERP's. Note that "About 90% of the shrimp harvested are exported." ERP's for edible oil and vegetable ghee industries are extremely high, at about 1000% and 500% respectively. These "employ high cost, capital-intensive production processes and are relatively inefficient industries." For leather products, while wet blue leather is taxed, finished leather is protected. Jute, "in which Bangladesh seems to have a growing comparative advantage, is being seriously discouraged by trade policy."

Table 30
Protection: Products of Bangladesh Steel and Engineering Corporation

Bangladesh Steel and Engineering Corporation	ERP
CGI Sheets	916
Super Enameled Copper Wire (SWG14 product)	336
Super Enameled Copper Wire (SWG18 product)	1400
MS Billets (50/62 mm2) Per Ton	NVA
MS Plates (Thin) Per Ton	NVA

Source: Ahmad, J.K. (June 1986); The author provides a NRP of 10-20% on basic steel inputs, 21% for basic steel products, 32% for finished steel products and 54% for final steel products.

The author notes that "....negative world value added and high ERP levels both indicate an inefficient use of the nations factors of production and scarce foreign exchange....CGI sheets receive an inordinately high level of protection....SECW production is highly protected." (Page 2) Therefore, "TIPs analysis of the steel and engineering sector clearly indicates that Bangladesh has a comparative disadvantage in the production of basic steel products: Production of these items leads to an outright loss in foreign exchange (i.e. negative world value added where the border value of imports exceeds the border value of output) or saves foreign exchange only at a very high cost. The only exception is the recovery and re-rolling of ship scrap which, TIP studies indicate, is a relatively efficient industry in Bangladesh." (Page 2, 5)

Table 31
Protection: Ceramic Sanitary Ware Industry

Ceramic Sanitary Ware Industry	NRP	ERP	DRC
Ceramic Sanitary Ware	146	435	4.75

Source: Eltezam, Z. A. (January 1984).

ERP figures are based on the "pre-ban tariff structure and on ex-factory price of 1982/83.." (page 24) The high DRC figure of 4.75 displays the "uneconomical use of domestic resources in the ceramic sanitary wear industry." (page 27) Eltezam notes that "Imports into Bangladesh of ceramic sanitary wares has been effectively prohibited since June 1982." (page 13)

Table 32
Protection: Ceramic Tableware Industry

Ceramic Tableware Industry	NRP	ERP	DRC
Porcelain products	25	0.07	1

Source: Eltezam, Z. A. (March 1985).

Eltezam notes that the assistance policy on ceramic tableware as follows. "Import of all ceramic tableware is banned. (page 6) For ERP figures, in the presence of the ban on ceramic tableware, CIF prices are not available, and hence "FOB price is considered here as a proxy to the CIF price....the value of the ERP is 0.07, indicating that despite a ban on the imports, the activity meant for the domestic market is not enjoying sufficient protection." An answer for this is provided because "ceramic table wares consumer a large amount of foreign inputs with relatively heavy taxes levied on them." (page 13) On the side of DRC, calculations by the author reveal this number to be 1.0, indicating that this "is a relatively low cost industry, and its further development deserves encouragement..." (page 16)

Table 33
Protection: Products of Chemical & Allied Industry

Chemical & Allied Industry	NRP	ERP
Basic Chemicals		
Sulphuric Acid	85	142
Hydrochloric Acid	85	366
Bleaching Powder	4	-279
Chromium Sulphate	85	228
Starch	68	1590
Liquid Glucose	123	482
Dextrose Monohydrate	25	-52
Fertilizer: Urea	-37	-45
Others		
Pulp & Paper: Newsprint	-3	-20
Duplex Board	83	160
Packaging Materials	61	-25
Plastic Products		
Pipe	80	88
Footwear	100	160
Electrical Accessories	80	86
Rubber Products		
Tire	512	NVA
Tube	125	NVA
Sandal	35	-12
Paint & Varnishes		
Industrial Enamel	14	-40
Auto Finish	55	-9
Marine Enamel	15	-39
Plastic Emulsion	24	-9

Note: NVA = Negative Value Added.
Source: Doc. TIP-MU-D. (Feb. 1986).

Just in the Chemical Industry alone, the range of ERP was from -279 (for Bleaching powder) to +1590 (for Starch). The ERP figures for these industries reflect "great disparity," ranging from being "highly negative, indicating activities which are heavily taxed, to those with negative world price value added (NVA)." At the same time, one can observe "high and low ERP's occur within the same sector." The report claims that the "high levels of ERP not only permit inefficiency but actually encourage inefficiency by promoting the use of high cost inputs for lower cost inputs." The author explains the negative numbers in the fertilizer output as resulting "from paying producing firms less than the world market price of urea in order to reduce the explicit subsidy for users." (page 12)

Table 34
Protection: Diesel Engines

Diesel Engines	NRP	ERP	DRC (average)
Diesel Engines (local manufacture of 30% parts)	15	-85	
Diesel Engines (local manufacture of 64% parts)	15	-63	0.61
Diesel Engines (local manufacture of 65% parts)	15	+40	

Source: Warner, R. W. (Revised 30 August 1985).

For diesel engines, when the "local content" exceeds 65%, "a Cabinet decision reported in Cabinet Division Letter No. 10/79/ECNEC/56(6) allows exemption from all duties ...of diesel engines." (page 16) Below 65%, the ERP figures indicate a "negative rate of assistance..." (page 20) The DRC number is "fairly encouraging ..... (and) support the view that the existing units should be encouraged to continue production if they can cover variable costs." (page 24)

Table 35
Protection: Products of Dry Cell Batteries Industry

Dry Cell Batteries Industry	NRP	ERP	DRC
Paper tube batteries	137	585	4.85
Metal jacket batteries	137	7650	75

Source: Eltezam, Z. A. (May 1985).

The ERP figures are extremely high–close to 600% for paper tube batteries and over 7000% for metal jacket batteries. The author notes that both these cases "show that the industry is inefficient; it receives a very high level of protection; it cannot survive at the existing world prices; and in fact, it causes a net drain in the country's foreign exchange reserves given the negative world value-added in either of the two cases." (page 13) The DRC figures show that "In terms of domestic resources...manufacturing of dry cell batteries is an excessively high cost industry. These DRC ratios suggest that the nation would be better off by importing dry cell batteries from abroad and not producing them domestically unless there is a revolutionary improvement in efficiency and productivity of the domestic firms." Or, "if imports were allowed to take place side by side with domestic production, domestic manufacturers would be compelled to make concerted efforts to improve the quality of their products, reduce unnecessary expenses, lower prices, become competitive or some go out of business and close down their plants." (page 15) The author also notes that "Import of the dry cell batteries of all sizes, save penlight size, is currently banned." (page 8)

Table 36
Protection: Duplex Board Industry

Duplex Board Industry	NRP	ERP	DRC
Duplex Board	83	160	2.60

Source: Eltezam, Z. A. (December 15, 1985).

For the duplex board industry, "based on the 1984 price and tax figures, the value of the ERP is quite high, about 160%." (page 13) The DRC number show that "at the official exchange rate (US$1=Tk.25), each dollar saved by curbing import for the sake of domestic production would cost the society more than 65 taka in terms of national productive resources. Given this, it is difficult to justify the continuation of high protection to the industry while there are many other activities with lower DRCs which could use nation's productive resources relatively more efficiently." (page 15) Eltezam also notes that the "import of duplex board as intermediate product for the packaging industry or other users in banned." (page 9)

Table 37
Protection: Electric Bulb Industry

Electric Bulb Industry	NRP	ERP	DRC
Electric Bulbs	-2.9	-0.68	0.32

Source: Eltezam, Z. A. (September 1985).

The negative NRP of 2.9%, the author claims "implies that domestic producers are not enjoying any protection. Instead, they are being taxed, assuming that foreign and indigenous products have comparable qualities." (page 16) The negative ERP suggests that "the industry is not only non-protected by the government's assistance policy, but rather, it is very much taxed."(page 18) Further, "the negativity of ERP can be largely attributed to the taxes which the domestic industry is paying directly or indirectly on the inputs it employs." The DRC for the entire industry is about 0.26. "This implies that it costs about 26 poisha of national productive resources to save one Taka worth of imports." Using market values instead of shadow prices, DRC works out to be 0.32. Eltezam claims that it is "therefore, clear that the electric bulb industry in Bangladesh enjoys a comparative advantage compared to many activities showing DRCs in excess of one." (page 25) The author also notes that "Following the 1985-86 Import Policy Order....import of bulbs from 15w to 100w is now banned. The import of fluorescent tube light is also banned." (page 9)

Table 38
Protection: Electric Motors Industry

Electric Motors Industry	NRP	ERP	DRC
Electric Motors	60	30	0.5

Source: Warner, R. W. (30 July 1985).

It appears that the ERP for this industry is fairly moderate. The low DRC figure suggests that "continued production in existing units is worthy of encouragement." (The DRC number, the report claims, "implies that the shadow value of incremental costs amount to about Tk. 14 for every US dollar of 1 of foreign exchange saved.") (page 16) The author also notes that import of "induction type synchronous speed squirrel cage motors from 1HP to 25HP is banned for all categories of importers (commercial, WES and industrial)." (page 7)

Table 39
Protection: Products of the Hosiery Knitting Industry

Hosiery Knitting Industry	NRP	ERP	DRC
Nylon Socks	214.5	-13.4	0.72
Cotton Vests or T-Shirts	214.5	-69.9	0.24

Source: Reza, Sadrel and Abdur Rab. (Revised October, 1985).

In the case of the Hosiery Knitting Industry, the negative ERP figures for the shows that "...in reality this industry is relatively disadvantaged." (page 10) DRC on Sleeveless Cotton Vests (Ganji's or T-Shirts) = 0.24, which are "quite low," and therefore it can be concluded that "knitting activities in Bangladesh enjoy comparative advantage and hence, deserve to be promoted." (page 10) "Under the 1985/86 IPO, imports of hosiery products such as cotton vests and undergarments, nylon socks, cardigans and other items listed under BCT heading no. 60.05 are banned." Further, "...there is an import ban on knitting wool, woolen yarn and double twisted cotton and synthetic yarn." (Page 7)

Table 40
Protection: Products of M.S. Rods Industry

M.S. Rods Industry (Basic Steel)	NRP	ERP	DRC
M.S. Rods (Re-rolling from imported billet)	90	215	2.7
M.S. Rods (Re-rolling from re-rollable scrap)	90	Over 1000	1.3
M.S. Rods (using ship-breakers' re-rollable scrap)	90		0.5

Source: Warner, R. W. (Revised August 18, 1985).

The ERP figures for M.S. Rods, show "For all processes except shipbreaking, effective rates of protection are very high, providing large incentives for resources to remain in the steel industry." (page 17) The figures above show M.S. Rods "involve a net loss of foreign exchange," except in the case of using scrap from ship-breaking, which has a low DRC, and is "worthy of encouragement, since it generates foreign exchange savings fairly efficiently." (page 17) "Imports of the types of rods and bars most commonly used in construction in Bangladesh are banned." (page 29) This is counter-intuitive as, "...Bangladesh is poorly endowed with the natural resources relevant to making iron and steel." (page 35)

Table 41
Protection: Products of Newsprint and Packaging Industry

Newsprint and Packaging Industry	NRP	ERP	DRC
Newsprint	21	74	1.74
Packaging	43.9	-25	0.75

Source: Eltezam, Z. A. (April 1985 and February 1985).

The author notes that "import of newsprint is completely banned." ERP works out to be a relatively high number of 74% (the industry is well protected), and the DRC figure of 1.74, indicates that the "cost, in terms of domestic resources, exceeds the benefit. Assuming the official exchange rate to be 25 Tk/$, each dollar earned from the export of newsprint or saved by not importing it, costs the nation about 43 to 44 taka." (page 17). (25*1.74=43) As far as the packing industry is concerned, Eltezam notes that the "import of duplex board has been banned since the end of 1982." (page 2) The ERP figure for this industry illustrates that "the packaging industry...receives negative protection since its inputs are highly taxed and the competing products imported by the exporting firms are tax free." On the other hand, DRC figures show that this is an efficient industry, and that "at an exchange rate of 25Tk/$, each dollar saved by the Packaging industry via import substitution would cost the nation Tk 18.75 in terms of real resources." (page 6)

Table 42
Protection: Pipes and Tubes Industry

Pipes and Tubes Industry	NRP	ERP	DRC
1.5" G.I. Pipe = 292	90	292	3.3*
4" G.I. Pipe = 210	90	210	

Note: * 1.5" G.I. Pipe
Source: Warner, R. W. (18 July 1985).

The author notes that "Under the 1984-86 and 1985/86 IPOs, import of GI pipe from 0.5" to 8" diameter are banned." (page 10) Regarding the ERP number, this "is quite high, " (page 13) ....because of the total insulation from import competition by a ban." (page 20) The DRC number is also very high, indicating that "manufacture of pipe and tubes is an activity which is ill suited to Bangladesh's comparative advantage." (page 19) A DRC of 3.3 implies that "every US$1 of foreign exchange saved in production of this pipe involves incremental costs with a shadow value of Tk 84. This compares with an estimated shadow exchange rate for 1983/84 of about Tk 31 per US$1." (page 16)

Table 43
Protection: Products of the Plastics Industry

Plastics Industry	NRP	ERP	DRC
PVC Pipe	80 (domestic sale)	87 (domestic sale)	1.18
PVC Pipe	8 (export)	30 (export)	
Footwear	100 (domestic sale)	166 (domestic sale)	2.66
Footwear	8 (export)	36 (export)	
Plastic products	55	26	1.25*
Electrical accessories and fittings	80	85	1.25

*Machinery spares plastic products; Source: Ahmed, Momtaz Uddin and Llyod McKay. (March 1985).

The authors show that in the plastic industry, there is "considerable variation in the ERP for producers of different items of plastic. There is also considerable variation in the ERP for manufacturers producing the same plastic product depending on the market and source of material inputs. There is an important consistent difference in ERP between producing for export and/or aid funded projects and producing for the local market. Much higher rates of assistance are made available to producers supplying the domestic market..." (page 19) Except for footwear, the DRC figures are relatively "modest." The author further notes that "Import of PVC pipes of up to 8" diameter, shoes, buttons and electrical accessories and fittings are banned." (page 14)

Table 44
Protection: Products of the Steel and Engineering Industries

Steel and Engineering Industries	NRP	ERP	DRC
Basic Iron & Steel Products			
Cast iron	73	149	na
Ship Breaking	22	15	0.6
MS Rod	87	288	2.9
CGI Pipe	90	260	4.8
Textile Machinery			
Power loom	3	-36	0.4
Spinning frame	15	-4	0.1
Softener	7	-18	0.1
Cop winding m/c	2	-17	0.1
Broad loom	5	-19	0.1
Reeling m/c	26	-22	0.4
Machine Tools			
Lathe	22	-22	0.4
Agricultural Machinery			
Diesel engine 73% local manufacture	-19	-58	0.6
Diesel engine 25% local manufacture	9	33	na
Power tiller	22	-1	0.3
Electrical Machinery & Appliances			
Super-enameled copper wire	100	411	1.5
Electric motor	60	33	0.5
Transformer	150	288	0.4
Television (B&W)	85	290	na
Electric bulbs	-2	-67	0.2
Transportation Equipment: Bicycles	50	14	0.7

Source: Doc. TIP-MU-A. (15 September, 1985).
Note: na = not available

The ERP figures show a myriad of scenarios. The ERP numbers range from -67 (electric bulbs) to 411 (super enameled copper wire) within the same industry (Electrical Machinery & Appliances). Except for ship breaking, iron and steel products are assisted heavily (ERP range is 149 to 288). Textile machineries are all taxed (negative assistance), as are most machine tool products.

Regarding steel products, except for ship breaking, "manufacture of most steel products is very inefficient," as the high DRC numbers indicate as "the measure (DRC) is greater than the official exchange rate (or the ratio is greater than one), the activity is making inefficient use of the factors of production it employs (page 12) .... pipes and tubes industry (involve) ...very high costs in terms of domestic resources employed." (page 14)

On the other hand, textile machineries, machine tools industry and electrical machinery & appliances industry (except for super-enameled copper wire) all show very low DRC's which appear to indicate that these sectors are efficient, except that the report also notes that the "machinery and equipment industries is very different," because "most machinery imports are taxed at ..lower rates of duty," (page 20, 21), depending on whether they are used in agriculture, initial installation or modernization of industries, or as an ancillary machinery etc. (Customs Provisions No. S.R.O. 285-L/81/665/Cus, No. S.R.O 114-L/83/773/Cus and No. S.R.O. 215-L/83/788/Cus.).

Table 45
Protection: Sugar Industry

Sugar Industry	NRP	ERP	DRC
Average Sugar Mill	48.2	157.5	1.44* 2.83**
Rajshahi Sugar Mill		89	
North Bengal Sugar Mill		116	
Carew and Co. Sugar Mill		87	
Setabganj Sugar Mill		145	
Thakurgaon Sugar Mill		184	

Note: * with a US Sugar Border price of $375/MT; ** with a US Sugar Border price of $350/MT
Source: Rab. A. (June 1985).

The ERP figures show that "sugar manufacturing in Bangladesh is currently receiving a high level of effective assistance." (page 35) The DRC figures of sugar refining in Bangladesh is "considerably above unity, which means that the industry, rather than having any comparative advantage, suffers from considerable cost disadvantage....At the DRC (of) ...2.83....domestic resource costs exceed the cost of foreign exchange saved by not importing sugar by 183%.....(suggesting that)...the industry needs to be considerable improved if it is to be placed on a sound footing." (page 42, 43) The existing policy is that sugar is subject to a ban and can be imported during a particular year only when this ban is lifted by announcement. The government decides on when to import and who can import in consultation with the BSFIC (Bangladesh Sugar and Food Industries Corporation)–a public sector corporation. All sugar mills at independence have been taken over by the government and the government did not allow these mills to be handed over to the private sector, perhaps because of, as Rab notes the "seemingly good performance of the industry." (page 19)

Table 46
Protection: Products of the Textile Industry

	Textile Industry (ERP figures)					
	Cotton Yarn 20 count	Cotton Yarn 80 count	Cotton Saree	Cotton Lungi	Finished Cotton Shirting	Knit Cotton Vests
1974/75	164.2	392.7	240.5	227.8	828.9	348.0
1975/76	176.8	417.0	236.4	223.8	829.7	347.9
1976/77	179.0	420.9	236.4	223.8	829.6	347.9
1977/78	187.4	436.5	236.2	223.6	828.9	347.7
1978/79	187.4	436.5	236.3	223.7	828.9	347.8
1979/80	187.4	436.5	307.7	289.9	1084.5	347.8
1980/81	170.1	422.2	385.9	362.2	1366.9	598.4
1981/82	170.1	417.6	387.7	363.7	1355.7	600.1
1982/83	136.8	258.8	195.9	184.5	674.3	628.5
1983/84	135.9	256.0	266.7	250.2	933.0	628.0
1984/85*	135.9	256.0	409.3	332.3	1442.6	626.7
1985/86	188.5	368.1	388.5	364.5	1358.5	600.9
1986/87	171.0	332.0	171.6	162.6	564.5	618.5
1987/88*	159.9	351.6	177.2	168.0	572.0	622.4

	Polyester Shirting Grey	Polyester Shirting Finished	Polyester Suiting Grey	Polyester Suiting Finished	Polyester & Blended Men's Shirts
1974/75	302.0	326.9	ne	ne	ne
1975/76	242.0	273.1	666.8	339.0	0
1976/77	242.0	273.1	666.8	339.0	28.9
1977/78	353.0	350.0	656.1	336.3	38.4
1978/79	466.0	501.2	1065.0	512.1	35.7
1979/80	522.1	563.9	1266.8	599.3	35.7
1980/81	346.9	495.0	1020.3	674.9	29.1
1981/82	360.8	507.6	1105.3	697.9	25.8
1982/83	311.2	450.8	939.9	620.6	1.8
1983/84	310.5	449.2	922.9	615.6	18.7
1984/85	224.1	347.0	686.8	484.6	23.2
1985/86	211.1	335.2	605.3	443.0	22.0
1986/87	146.6	146.5	402.8	204.8	8.6
1987/88	152.6	155.4	433.3	219.7	8.3

Note: ne = not estimated as information on the export incentives was not fully available.
Note: NRP figures are not provided.
Note: * indicates that these ERP figures are also available in Sahota, (and team) (July 4, 1989)
Source: Rab, Abdur, Mainul Huq and Nandini Abedin. (Feb. 29, 1988.)

ERP on cotton yarns are "moderately high for lower count yarn and excessively high on higher count yarns." Similarly, ERP on blended men's shirts is also "moderate." However, ERP for cotton saree and cotton lungis are "quite high over all years. There has been some noticeable fluctuations in the levels of this assistance, but it never went down below a considerably high excessive level." Cotton shirting and knit fabrics also show "very high protection," while that for polyester fabrics is "inordinately high."

Table 47
Protection: Transformers Industry

Transformers Industry	NRP	ERP	DRC
250 KVA Transformer (1983/84)	150 -7	258* -86**	0.4

Source: Warner, R. W. (Revised 24 July 1985).

The ERP figures show that when sales are made to government against local currency (*), the ERP is "positive and....quite high," whereas, when sales are made against foreign currency on international competitive bidding (**), the ERP figure is negative, indicating negative assistance. (page 20). The low DRC number indicates that "...continued production...is in the nation's interest." (page 23) Note that, Ahmed (June 1986, page 14) finds that the ERP for transformers (when sales are made against local tender) works out to be 245, which is fairly close to the 258 figure Warner comes up with. Ahmed's (June 1986, page 15) figures for ERP for transformers (when sales are made against international tender) are similar, -73, just a bit lower that the -86 number that Warner calculates.

The Tables above show the great disparity and discrepancies in ERP figures. While on some items ERP figures are significantly higher than NRP figures, on others actual protection is actually much lower, or in some cases, is a disincentive (e.g. taxed instead). The disorder thus "dissipates benefits in transactions costs, shares rent-seeking among various agents, and encourages smuggling at the expense of the domestic industry." (World Bank, March 17, 1994, page 66) Ahmed (2001, page 32) notes that the "TIP studies show that the structure of industrial assistance policy prevailing at that time, or which the tariff system and import regulations form an essential part, has created serious distortions which are impeding the efficient development of the economy.....The existing maze of protection has directly fostered monopolistic and oligopolistic market structures, allocative inefficiency, and underutilization of existing capacity. Since ad hoc, highly differentiated protection depends a great deal on administrative discretion, existing policies have also fostered favouritism and "rent-seeking" instead of entrepreneurial behaviour (TIP, 1987c)."

A further illustration of this theme can be seen in the summary Tables 48 and 49. The economic reasons for protection, during the TIP studies, were as Eltezam, Z. A. (April 1985 and February 1985, page 6) notes based "on the "infant industry" argument, and also to limit the consumption of foreign products (considered luxurious) in favor of local products (manufactured in modern or cottage industries). Ahmad, J.K. (June 1986, page 5) provides non-economic arguments for protection, from the TIP studies, again, as follows. "Government may, however, decide that for political and social reasons and despite the high and financial costs, ...(protection)...should be continued..."

Table 48: Summary Table: ERP > NRP

SECTOR	% ERP > NRP	DRC Efficiency
Agro-Based Industry Products		
Finished Cow Leather	2410	Not Available
Finished Goat Leather	40	
Tea	640	
Sugar	847	
Refined Edible Oil	4790	
Vegetable Ghee	444	
Ceramic Sanitary Ware	198	- - - -
Chemical & Allied Industry		
Sulphuric Acid	67	
Hydrochloric Acid	331	
Chromium Sulphate	168	
Starch	2238	
Liquid Glucose	292	
Urea	21.6*	Not Available
Pulp & Paper: Newsprint	567*	
Duplex Board	93	
Ceramic Sanitary ware	194	
Pipe	10	
Footwear	60	
Electrical Accessories	7.5	
Diesel Engines	167	+
65% local parts assembly		
Dry Cell Batteries	327	- - - -
Paper tube dry cell batteries	7650	Highly inefficient
Metal jacket dry cell batteries		
Duplex Board Industry	93	- -
M.S. Rods Industry		
M.S. Rods (Re-rolling from imported billet)	139	- -
M.S. Rods (Re-rolling from re-rollable scrap)	1011	-
Newsprint and Packaging Industry		
Newsprint	252	-
Pipes and Tubes Industry		
1.5" pipe	224	- - -
4" pipe	133	
Plastics Industry		
PVC Pipe	8.8	-
Footwear	66	- -
Electrical Accessories	6.3	-
Steel and Engineering Industries		
Cast Iron	104	Not Available
M.S. Rod	231	- - -
CGI Pipe	189	- - - -
Diesel Engine (73% local manufacture)*	205	- - - -
Diesel Engine (25% local manufacture)	267	+
Super enameled copper wire	311	-
Transformer	92	+
Televisions (B&W)	241	Not Available
Bulbs	3250*	+
Sugar Industry	227	-
Transformers Industry		+
Sales against domestic currency	72	
Sales against international tender	1129	

* The negative NRP became a higher negative ERP number, indicating that the product/industry became more taxed instead of being assisted.
The second column in Table 48 shows by how much in percentage terms was the ERP greater than the NRP.
+ means the DRC is less than one and the industry is efficient.
- means the DRC is above 1. - - means the DRC is above 2 but less than 3. --- indicated DRC is between 3 and 4. Above 4 is termed highly inefficient.

Table 49
Summary Table: ERP < NRP

SECTOR	% ERP < NRP	DRC Efficiency
Agro-Based Industry Products		
Shrimp	75	Not Available
Fish	113*	
Ceramic Tableware Industry	100	+
Chemical & Allied Industry		
Bleaching Powder	7075*	
Dextrose Monohydrate	308*	
Packaging Materials	141*	
Ceramic Table ware (Porcelain)	72	Not Available
Sandal	134*	
Industrial Enamel	386*	
Auto Finish	116*	
Marine Enamel	360*	
Plastic Emulsion	138*	
Diesel Engines		
30% local parts	667*	Not Available
64% local parts	520*	
Electric Bulb Industry	77**	+
Electric Motors Industry	50**	+
Hosiery Knitting Industry		
Nylon Socks	106*	+
Cotton Vests or T-Shirts	133*	+
Newsprint and Packaging Industry		
Packaging	157*	+
Plastics Industry		
Plastic products	53	-
Steel and Engineering Industries		
Shipbreaking	32	+
Power loom	1300*	+
Spinning frame	124*	+
Softener	357*	+
Cop winding	950*	+
Broad loom	480*	+
Reeling m/c	185*	+
Lathe	200*	+
Power tiller	105*	+
Electric motor	45	+
Bicycles	72	+

* Turned from having a positive NRP to a negative ERP, indicating that instead of being protected, it became taxed.
** The negative ERP became a lower number than the negative NRP, indicating that industry/sector is taxed less than it used to be, but it is still not assisted.

The late Finance Minister, Kibria (1997, page 2) extends this political argument by pointing out not only interest group pressure, but the governments own agenda at maintaining political office. "...governments in the past often granted exemptions to serve the different vested interest groups and classes, and at times to gain cheap popularity." This "maze of effective protection rates inadvertently has fostered oligopolistic market structures and allocative inefficiency." Also, since ad hoc protection involves a high degree of administrative discretion, existing policies have also encouraged favoritism and rent-seeking as opposed to entrepreneurial behavior."

As Ahmad, J. U. (1992) points out, the Harvard Institute for International Development, aligned with the Planning Commission, undertook a research project during 1987-90, and surveyed 30 four-digit industries (HSCode). They found the following:

"There was little evidence that highly assisted sectors reaped scale of economies and attained low cost output under infant industry argument. Some already protected industries were sick and were asking for more protection and assistance in general. A prima facie conclusion which emerged was that there was little economic case for continuing to protect and assist old industries at current high rates."

Ahmed (2001, page 34) notes in 1987, the government formed a committee to investigate the recommendations of the TIP program. The 1987 and 1988 budget reflected the recommendations of the committee[24]. In 1989, a Standing Committee on Tariff Rationalization and Import Policy

[24] Essentially these were (i) phasing out QR's; (ii) lowering tariff levels and dispersions (confining the high NRP rates to 30-50% and 20-40% respectively, for industrial outputs and inputs; (iii) targeting the ERP at about 30% for most and 20% for agro-based industries, and a higher rate based on temporary protection (infant industry or externalities); (iv) eliminate anti-export bias by raising the level of the real effective exchange rate of non-traditional exports to the level

was formed. Its recommendations were also accepted, which "paved the way for comprehensive import liberalization in Bangladesh."

The first significant SAR began in FY87–the "Government embarked on a three year structural adjustment program with assistance from the IMF (under its Structural Adjustment Facility) and the World Bank, aimed at consolidating and building on the progress achieved in the early to mid-eighties." (World Bank, March 16, 1990, page 2) The theoretical underpinning of this model can be described by what Hufbauer (2000, April 26-27, page 3, 6), explains by stating "The most successful economic model of our times combines macroeconomic stability (the so-called "Washington consensus") with "Anglo-Saxon capitalism." He describes the former by "small fiscal deficits, low inflation (and) stable exchange rates," while the latter is defined as having "private rather than public enterprise' highly flexible labor practices, the possibility for corporations to grow and shrink rapidly; spectacular compensation for corporate executives; and a decisive role for finance in shaping the direction of firms." Equating globalization with Anglo-Saxon capitalism, global finance and trade, he argues can increase per capita income simply through the law of comparative advantage: "producers become more efficient in response to import pressure as firms are able to spread high fixed costs over longer production runs; firms and households are able to buy the goods and services that precisely meet their needs, not close approximations." The comparative advantage argument has also been used by the World Bank in their study on Bangladesh's trade policy reform. "An open trade regime resulting from trade

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of real effective exchange rate for imports; (v) provide assistance to and backward integration of the export sector by export performance bonus – e.g 30% of the value of nontraditional exports in the case when bonded warehouse or Drawbacks make import tax-free, or 30% of the value of gross exports when tax-free import systems are absent; (vi) a minimum excise tax of 15% for revenue purposes should be imposed on final consumer goods. Exempt would be basic necessities, intermediate goods and capital goods. The tax range for luxury goods would be 30-100% (Ahmed, 20001) reforms...induces resource shifts towards activities that show comparative advantage efficiency in resource allocation, and encourages innovation and diversification." (World Bank, 1996, October 6, page i).

Holsen (1991) notes that "In the 1970's "adjustment" usually referred to "balance of payments adjustment," Structural adjustment lending was initiated was initiated by the World Bank in 1980 in response to the serious balance of payments problems then affecting many developing countries." "....structural adjustment...was seen as a "medium-term issue," to first "quickly disburse balance of payments support...and then "support ...changes in policies and institutions designed to make the economy more flexible, more efficient, and better able to mobilize and allocate resources."

Table 50 shows that from 1980 to 1992, Bangladesh received thirteen combined IMF/World Bank credits/loans of which the loans of the 1990s were the ones that, from the trade point of view, involved "a major drive from the World Bank intended to persuade the government to commit to reform. In particular, the core reforms–VAT,...concertina style tariff reductions and so on ...were Bank conceptions and became part of the conditionality package." (Basu and Greenaway, 1993, page 8,9)

Akash (1998) notes that Bangladesh availed two loans from IMF under their Structural Adjustment Facility program. These loans were for FY86-87 and FY87-88. Next, a Policy Framework Paper (PFP) was designed via WB/IMF and the government, with specific macro-targets for the period 1986-89.

Table 50
IMF/WB Loans

	IMF		WB	Purpose
July 1979-July 1980	85	Jun-87	147.8	Industrial Policy Reforms
Dec. 1980-Dec.1983	800	Apr. 1989	137	Energy Sector
Dec. 1983–Mar. 1984	68.4	Oct. 1989	1.8	Energy Sector
Dec. 1985-June 1987	180	Jun. 1990	132.7	Financial Sector
Feb. 1987 – Feb. 1990	201.3	Nov. 1990	2.5	Financial Sector
Aug 1990-Aug 1992	345	Nov. 1991	2.2	Financial Sector
		Nov. 1992	109.3	Public Resource Management

Note: IMF refers to International Monetary Fund loans under SAF (Structural Adjustment Facility), and ESAF (Extended Structural Adjustment Facility). WB refers to World Bank Loans and Credits. Figures are in millions of SDRs.
Source: Basu and Greenaway (1993, page 24)

Specifically, these were, as Akash continues, (i) GDP growth rate of 5% per annum; (ii) inflation rate at 7% by 1989; (iii) containment of the two deficits (current and budget) to 7% of GDP and (iv) increase revenue/GDP from 9.5% to 10.5%. In reality, by 1988, GDP growth rate was only 2%. And foreign aid had financed the revenue budget completely and the current account deficit partially, by 1990. Despite a devastating flood in 1987/88, donors were in general, as Akash mentions, "increasingly dissatisfied with the economic performance of the military regime and in 1990 at the Paris aid consortium meeting in April, expressed its vote of no-confidence in the state of economic management." A new PFP was contracted in 1990, in August, shortly before Ershad's fall in December of that year.

Holsen (1991) goes on to venture into the 1990s where he points out that while the underlying need for stabilization on balance of payments grounds still exist, the term "structural adjustment has come to signify something quite different." As the "reform process has been more difficult," they now call for incorporating "sustainable economic growth and significant alleviation of poverty." One of the major reasons for this difficulty was political in nature. From this angle, Chowdhury refers to reform-resistance "from labor unions in the public sector and a variety of civil society groups in 1991. The resistance was one of the factors that caused the Ershad government to fall that year. When the BNP government came to power and continued the liberalization, it also lost to the opposition led by the Awami League which received support from labor unions and anti-reform groups (Maclean, et.al., 1997)." (Chowdhury (2000, June)

Another problem mentioned earlier in this phase was the bureaucracy continuing to favor the status quo (of protection). An example of this can be provided by their leeway on setting tariff values to extract rents. According to Rege (1998) and Ahmed (2001, page 39), up to 1993-94, the Brussels Definition of Value (BDV) was the tool by which imported goods were valued at customs. The system was developed by the World Customs Organization. The idea was that the customs officers would figure out what the price imported goods would be, given the condition that led to the sales, the exporters and importers relations, and how similar / identical goods were priced. The method left "considerable degree of discretion to the customs authority to modify and raise the price declared by the importer."

Phase 3: 1992-1996

The trade reforms philosophy was from "an economic efficiency viewpoint....to move towards uniformity in nominal rates and, thereby, in effective protection rates (EPRs), ... trying to lower the average tariff rate...(and) reducing the anti-export bias of the trade regime..." (World Bank, March 16, 1995, page 24) Rashid and Rahman (1998, page 198) refer to the neo-classical philosophical base of the IMF-WB's ESAF (IMF) and SAP (WB) programs, which, on the trade front was justified in the following way: "a policy of import liberalization would remove the extant anti-export bias by correcting distortions in relative prices and would, thereby, lead to a rapid growth of exports and income. Import liberalization would also lead to an increase in consumer welfare by making available better-quality imported goods at cheaper prices..." In the 1998-99 Budget Speech, the Finance Minister S.A.M.S. Kibria, quotes Adam Smith (1755): "Little else is requisite to carry a state to the highest degree of opulence, from lowest barbarism, but peace, easy taxes, and a tolerable administration of justice, all the rest being brought about by the natural course of things." He then uses this statement to justify trade reforms as follows. "Keeping this goal in mind and following the principles of free market economy we have continued the trade liberalization process." (page 1)

Trade reforms were not unique only to Bangladesh. Trends to liberalize trade for throughout the world had begun during through the period 1950-73, and became more pronounced under the Kennedy Round and then the Tokyo Round of the GATT negotiations of the 1970s, along with the development of the Generalized System of Preferences which lowered tariff barriers to developing country imports. (World Bank, May, 1983, page 2.5 & 2.12) Greenaway and Basu (1993, page 8) note the studies of Whalley (1991), Michaely, Papageorgiou and Choksi (1991) and Greenaway and Morrissey (1993), which illustrate that in the era of the 1980s "in excess of eighty developing countries have engaged in reforms of the type we have been describing for Bangladesh." Dornbusch (1992, Winter, page 69-70) mentions the enthusiasm for free trade stemming from four overlapping sources: Anti-Statism–"protection is seen as one of the manifestations of an overly intrusive state; Poor Economic Performance–"populist macroeconomic policies ...(created) dismal economic performance; Information–it "is no longer possible to assert that liberal trade policy must immiserize a country...access to imports (are) a way of stretching...buying power"; and World Bank pressure and evidence of success–"favorable performance of countries which adopted outward-oriented policies, served to make trade liberalization,...a central condition for World Bank lending."

And though Bangladesh did adopted some structural adjustment reform (SAR) programs during the late 1970s and the early 1980s" (World Bank, May 1983, page 2.35), we are really referring to the programs of the late 1980s and early 1990s–the ones that started off with ISAC I and then ISAC II. (Industrial Sector Adjustment Credits) In fact, the government's SAR policies of the 1990s were "more determined and comprehensive...to open up and establish a liberalized, market-and private sector-driven economy, operating within a stable macroeconomic environment," compared to the earlier efforts during the 1980s. (World Bank March 16, 1995, page 3) These reforms were financed via the World Bank (Industrial Sector Adjustment Credit, ISAC I; Second Industrial Sector Adjustment Credit, ISAC II (during Phase III); Financial Sector Adjustment Credit, FSAC; Jute Sector Adjustment Credit, JSAC; and Public Resource Management Adjustment Credit, PRMAC), the International Monetary Fund (Enhanced Structural Adjustment Facility, ESAF, 1991-93), and other agencies such as the Asian Development Bank. Some highlights of these reforms are noted in Table 51, from Basu and Greenaway (1993), who show the trade policy reforms also involved "complementary reforms relating to the regulatory framework, public enterprises and the financial sector.." during FY87 to FY89. (World Bank, April 19, 1991, page 21) Similarly encompassing reforms have been mentioned in another World Bank report (World Bank March 16, 1995, page 3-5). These are shown in Table 52.

Table 51
Policy Reforms in Bangladesh

Policy Focus	Timing	Measures
Trade Policy	1985-93	Streamlining of import procedures Rationalization of the number of tariff rates Reduction in the number of QR's Tariff liberalization Tariff exemptions for exporters Minimum export prices for jute Elimination of export duties Export subsidies Introduction of special supplementary duty
Fiscal Policy: Revenue	1991-93	Introduction of Value Added Taxes Replacement of some tariffs with specific excise duty Phase-out of sales tax Introduction of turnover tax Reform of income tax Reform of corporation tax
Fiscal Policy: Expenditure	1991-93	Privatization of State Enterprises Public Sector Retrenchement Public Enterprise Reform Reduction of subsidies
Investment Policy	1989-93	Reorientation of the Board of Investment Simplification of Approved Procedures Fiscal incentives to MNE's Non-fiscal incentives to MNE's
Exchange rate and Monetary Policy	1989-1993	Progression to Market Determined Interest Rates Strengthening of institutional environment for commercial banks Elimination of Multiple Exchange Rates Revision of Foreign Exchange Allocation Resources Relaxation of Credit Controls

Source: Greenaway and Basu, July 1993. Page 23

Table 52
Various Reforms

Reforms	Centerpiece
Fiscal Policy	Introduction of VAT in FY92
Financial Sector	Creation of Financial Courts Act in 1990 and establishment of 27 special courts to facilitate debt recovery. Movement towards market determination of interest rates.
Exchange Rate Policies	Unification of the exchange rate system by abolishing the secondary exchange market system in January 1, 1992. Accepting the Article VIII obligations of the IMF, marking current account convertibility. Flexibly managing exchange rate – the real effective exchange rate depreciated by about 10% between 1990 and 1993.
Industrial Policies	Relax investment sanctioning regulations such that foreign investors can undertake projects in all but 5 reserved areas, with 100% ownership and repatriation. Opening most sectors to private investors, e.g. domestic air, transport, telecommunications and power generation.

Source: (World Bank March 16, 1995, page 3-5)

Regarding commonality of trade patters, one might factor in here, issues of sequencing, timing and speed of reforms (Rodrik, 1989; Calvo, 1989; Edwards, 1990; Fischer and Gelb, 1991; Edwards and Lederman, 1998). A draft World Bank paper (Yilmaz and Varma, 1994), claims that trade liberalization by itself, cannot bring a resurgence of economic growth. One needs complementary fiscal, monetary, exchange rate policies and effective coordination and improvements in the regulatory environment (e.g. increase accountability and transparency). Comprehensive programs merit discussion also about the speed of reform (i.e. rapid vs. low and broad-based vs. narrow, e.g. Papageorgio et al, 1991). On this issue, Greenaway and Basu (1993) note that the sequencing and timing patterns have been appropriate to Bangladesh. For example, QR elimination has preceded some of the tariff reductions, while trade and fiscal reforms have preceded liberalization of factor markets and the capital account. The authors further point out that "... rapid implementation of a broadly based programme was undoubtedly more sensible than a gradualist piecemeal strategy." They concur with Papageorgio (et al) (1991) in that "rapid implementation is more conducive to sustainability than staged programmes and that broadly based programmes have better prospects than those which are narrowly based....the Bangladesh reforms ... are fairly broadly based ... pervasive, rather than narrow."

Phase 4: 1996-present

Chapter 4 detailed how the NRP had shown consistent declines during Phase 3. Further, by examining ERP figures, we can also see in Table 53 that the average ERP reduced considerably (68%) between 1992/93 to 1999/00.

Table 54 provides the ERP figures for 40 sectors in the economy over the same time period. However, examining that table, one can see that although average ERP has declined from 76% in FY93 to 25% in FY00, many other imports still maintain high ERPs. Out of the 40 items in the table, 43% of them show higher than average ERPs and 13 percent have an ERP at or above 60% in FY00. Some of them include the RMG and textile sector, as can be seen by a World Bank statement "most import-competing lines of production (e.g. textiles) continue to enjoy high ERPs." (World Bank, 1999, page 6)

Table 53
Average ERP (%)

Year	Ave. ERP %
1992/93	75.7
1993/94	56.7
1994/95	40.6
1995/96	33
1996/97	32.4
1997/98	28.6
1998/99	26.8
1999/00	24.5

Source: World Bank (1999);
Mid-Term Review of the FFYP. Page 59.

Moreover, examining the coefficient of variation[25] or dispersion of the NRP, in Table 55 we observe that although the coefficient of variation for tradables decreased marginally by 7% (it was a 6% decrease for tradables), between 1990/91 to 1998/99 this measure of dispersion, actually increased by 15.3 percent by 1999/00 (it was a 23.1% increase for manufacturers), which meant that compared to Phase I and II, in Phase III, tariff dispersion actually increased by 6.8

[25] This "provides a measure of deviations from the average value (of NRP) by normalizing these variations with the mean itself." (World Bank, 1999, page 5).

Table 54: Effective Protection Rates (EPRs) in 40 sectors in Bangladesh in %

SI.# Sector Name	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
01. Rice	-8	0.9	2.4	-5.8	-5.7	-5.4	-5.3	-4.7
02. Wheat	-3.9	8.5	11	2	2.2	2.6	2.8	2.2
03. Coarse Grains	-4.9	-4.1	-0.8	-0.2	-0.2	0.1	0.1	0.4
04. Jute	64.4	67.2	30.6	31.8	32	32.4	32.5	26.8
05. Sugar Cane	68.4	71.3	14.2	14.8	15	15.2	15.2	15.8
06. Cotton	4.8	5.4	-2	-1.7	-1.7	-1.5	-1.5	-1.4
07. Tobacco	12.5	-0.9	10.2	11.8	12.1	11.1	11.3	12.2
08. Potato	58.9	60.4	48.8	36.7	35.7	26.9	24.5	23.1
09. Other Vegetable	71.7	43.6	44.5	32.1	32.2	32.1	32.1	26.9
10. Pulses	19.9	18.1	17.4	16.9	17	18.2	11.3	8.3
11. Oil Seeds	53.8	42.7	35.6	24.6	24.7	22.8	22.8	19.7
12. Fruits	58.2	60.5	44.9	40.2	39.9	38.1	36.3	33.1
13. Tea	82.7	85.1	66	48.7	48.8	46.4	43.4	41
14. Other Crops	64.9	40.4	41.5	28.3	28.6	28.1	27.2	22.5
15. Livestock	74.3	54	42	33.2	32.8	28.8	28	24.8
16. Fish	78.4	45.3	45.1	28.4	28.5	27.9	28	23.2
17. Forestry	38.8	32.7	23.9	22.7	22.9	19.7	19.2	16.9
18. Other Fruits	489.2	327.4	88.5	88.3	86	76.7	68.3	66.9
19. Edible Oil	74.8	46.5	39.6	55.6	53.7	41.4	35.3	35
20. Sugar and Gur	96.3	42.3	52.3	51.1	51.4	40	38.5	31.1
21. Salt	51.4	61.6	43.5	37.2	34.6	30.7	29.1	29.6
22. Yarn	68	57.4	60.9	51.7	35	34.2	33.7	30.5
23. Cloth: Mill	189.7	147.5	131.6	98	110.2	86.2	78.2	72.7
24. Cloth: Handloom	157.7	128.5	114.6	87.6	94.9	75.5	68.8	64.6
25. Readymade Garments	237.2	130	84.1	53.7	57.4	65.4	60.5	58.9
26. Jute Textile	98.2	93.5	81	55.7	56	48.4	44.1	43.5
27. Paper	68.3	74.1	48.8	25.4	22.7	12.7	11.3	15.5
28. Leather/ Products	98.6	87.3	42.3	20.7	15.8	8.8	5.9	6.5
29. Chemical Fertilizer	5.6	-2.2	-5	-3.6	-3	0.4	0.5	0.6
30. Pharmaceutical	1.5	-2.2	-2.5	-2.6	-1.4	0.7	0.6	-1.7
31. Chemical	30.3	15.4	14.9	12.5	13.8	15.2	16.1	9.7
32. Petroleum Products	40.2	32.8	45.7	35.5	35.7	32.3	31.2	27.3
33. Cement	56	30.6	21.4	18.5	19.1	19	20.3	21.2
34. Steel and Basic Metal	40.9	27.2	27.4	25.1	24.6	25	25.1	19.5
35. Metal Products	52.7	43.3	25.1	25.8	27	18.2	17.3	15.4
36. Machinery	47.5	28.9	15.1	12.6	12.3	9.3	9.6	5.2
37. Transport Equipment	69.9	49.1	41.9	38	22.8	21.8	19.8	17.9
38. Wood/Wood Products	124	81	48.1	47.3	47.3	32.9	32.9	31.8
39. Tobacco Products	133.6	69.9	89.7	85	86.7	81.9	74.7	68.5
40. Other Industries	72.7	65.1	38.5	37.3	29.6	21.9	21	19.9
a) Average ERP	75.7	56.7	40.6	33	32.4	28.6	26.8	24.5
b) Standard Deviation	84.4	57	31.2	25.7	26.9	23	20.9	20
c)Coefficient of Variation	111.5	100.6	76.9	77.7	82.6	80.4	78.2	81.6

Source: World Bank (November 23, 1999)

percent (it was a 16.2 % increase for manufacturers). Table 56, for the whole economy, shows the situation is even worse. Except for a brief stint in 1993, the dispersion steadily worsened for the economy as a whole. The pattern was also repeated from FY91 to FY95, when dispersion increased by 2 percentage points.

Table 55: CV:NRP (Tradables)

	CV: NRP	
	Tradables	Manufacturers
Pre-Reform		
1990/91	71.9	72.4
Post-Reform		
1998/99	66.6	68.3
1999/00	76.8	84.1

Source: World Bank (1994, October, page 32)

Table 56: CV:NRP(Whole Economy)

CV:NRP (Whole Economy)	
Pre-Reform	
1991	59.0
Post-Reform	
1992	68.1
1993	61.9
1994	68.4
1995	73.8
1996	74.3

Source: World Bank (1994, Oct. pg 32)

Further, "the continuing dispersion of nominal tariff rates...implies that "effective protection rates" ... have ...remained widely dispersed too, (and) has been an important shortcoming of the whole tariff rationalization effort so far." (World Bank, 1995, March 16, page 6, 28) In fact, examining the CV for ERP, we see that although dispersion initially decreased (until 1994/95), it did started to increase again. This is shown in Table 57.

Table 57
CV: ERP

Year	CV: ERP
1992/93	111.5
1993/94	100.6
1994/95	76.9
1995/96	77.7
1996/97	82.6
1997/98	80.4
1998/99	78.2
1999/00	81.6

Source: World Bank (1999)

These findings provide the analytical explanations of why the variations in tariffs remain high. The reasons cited why the "dispersion of import tariffs did not show a decline" (World Bank, 1995, March 16, page 6), or why "tariff dispersion in Bangladesh remains high and has not changed significantly since 1997/98," (Stamp, 2002, page 5), are "continued use of tariff concessions (World Bank, 1995, March 16, page 6), "other protective import levies" (World Bank, 1999, page 5)–such as license fees, value added taxes, supplementary duties and infrastructural development surcharges–and "unnecessarily large–and increasing–number of import taxes...commonly multiple published tariff rates on many single products, ... (and) a high degree of discrimination in the tariffs applied to imports of the same commodity, depending on the importer, the stated end-use of the product and the production sector." (Stamp, '02, pg5)

Another similar argument for the high tariff dispersion is provided by Ahmed (1996, September 9), who states, "Because of increasing the number of duty-free status from 300-500 items in 1989-90 to about 1,295 in 1995-96, and quantitative restrictions in the textile sector, the tariff dispersion has increased." Raab (August 1997) also confirms this. "The dispersion–measured by the coefficient of variation, however, has increased, in unweighted form, compared to 1989.

Further, there are discrepancies in measuring value added because of discrepancies in measuring the data." Sattar (June 1997) notes another problem arises from tariffs on intermediate goods. "Tariff anomalies in tariff structure exist from the protective duties on domestically produced intermediate goods. To protect domestically manufactured intermediate goods, when duty is increased here, the output users who use these inputs get affected. Duty should stay at least one or two steps below. But when this does not happen because you have to protect the industries, then anomalies appear. For example, take China Clay. China clay is used by the ceramic industries. Some producers of china clay may have gone to BTC and lobbied and got duty for china clay. Ceramic clay industry will now shout. At least a dozen intermediate inputs have had tariff increases."

Due to this scenario, it appears that the trade reform measures in Phase 4 started slowing down. We have seen in Chapter 4, how high some of the tariff rates still are. The crux of the situation was demonstrated not just by the numbers illustrated in Tables 28 and 90 (Annexure 4) but by the "X" shape diagrams in Figures 8 to 13, which was constructed only for CD and SD. The duties on top of CD, are what the World Bank (2003, June, page 27, 35) calls "para-tariffs," and "without exemption they are invoked to give extra protection to local industries which are already benefiting from the maximum general tariff protection rate of 36% (general maximum CD of 32.5% plus IDS of 3.5%)...creating a set of high-to-very-high protective tariffs benefiting local industries which lobby for them. They are also distinctively non-transparent and complex." A

World Bank report (1999, page 5) notes that "In some instances SD rates levied on imports are higher than those levied on domestic production. Consequently, the unweighted average nominal protection rate–i.e. including import tariffs, other protective taxes and the protective components of VAT and SD–has remained much higher than the average tariff rate."

And although the government belief in competition and international trade was pronounced, the slowing down of the tariff measures can be seen by the Budget Speech of the late Finance Minister Kibria, (1997, page 3, 11). He first states that globalization has "opened magic windows of opportunity" and further that competition "is the soul of the market economy," with one of the "major advantages of international trade is its favorable effects on competition..." However, he then mentions that "But we have to prepare our local industries gradually to face international competition. So, instead of a drastic reductions of customs duty as was done in the past, I propose to reduce the highest rate of customs duty from 45 to 42.5 percent." And again, in the budget speech of the following year, the Finance Minister stated "...following the principles of free market economy, we have continued the trade liberalization process...", this rate was further decreased to 40 percent in the budget speech of the following fiscal year (1998-99), again only a small decrease, the argument being favoring "gradual and moderate adjustment rather than rapid and extensive changes in customs duty rates so that the development of local industry is not constrained." (page 11)

The Budget Speech of 1997-98 further goes on to claim that while the reduction of customs duty from 30 percent to 2.5 percent on double decker buses (announced in the budget of 1995-96) was to be maintained (in line with government's goal of developing a "rapid mass transport system" to "benefit people of lower and middle income groups"), duties on a majority of auto parts and accessories will only decrease from 30 percent to 22.5 percent in order to "encourage local production" and to provide "adequate incentive to assemblers." (page 12) Among some other incentives provided to local production have been reduction of customs duty on limestone (to support domestic cement industry), and on inputs such as paraffin and liquid chlorine (to help domestic hydrochloric acid industry), based on "the recommendations of the Bangladesh Tariff Commission and demands from various Chambers to provide due protection to local industries.." (page 13, 14).

Thus, Stamp (2002, page 5) notes that "Although Bangladesh's tariffs have declined significantly since 1991/92, the pace of this reduction has slowed sharply since 1997-98. In addition, many sectors now benefit from increased, rather than less protection since 1997/98. On the latter point, Not only did tariff measures slow down, in some cases they were new measures adopted, and in others, reversals of direction took place. For example, Kibria (1997, page 14, 15) introduced, in the Budget Speech of 1997-98, "a separate infrastructure development surcharge[26] at a rate of 2.5 percent" under the justification of "modernizing our physical infrastructure" to "achieve the ultimate growth of poverty alleviation through rapid economic growth."

In terms of tariff reversals, the 1997-98 Annual Budget–based on recommendations from the Bangladesh Tariff Commission–increased supplementary duties on the following items shown in Table 58. These measures were justified as "desirable in the greater interest of the country." In

[26] The Infrastructural Development Surcharge (IDS) was to be levied on all imports and on certain locally produced items as may be notified. The exceptions would be imports for defense, for diplomatic reasons, for handicapped items, for relief products and goods for exports. (Kibria, 1999, page 15)

the 1998-99 Budget Speech, also, several items were provided an increase in supplementary duty, the rational being in "keeping the common and poorer section of population free from onerous tax burden and imposing tax on the relatively prosperous section of the population...to increase revenue." (page 22, 23). These are shown in Table 59 below.

Table 58
Increase in Supplementary Duties: 1997-98

Items	Increase in Supplementary Duties
Crown cork, crude china clay and quartz	7.5 to 15 percent
Rice huller parts	2.5 to 15 percent
Writing and printing paper	15 to 22.5 percent
Bicycle and cycle rickshaw chain	30 to 40 percent
Bicycle and polymethyl mythacrylate, reed wire and other photographic film	22.5 to 30 percent
Tractors	2.5 to 7.5 percent
Import of completely built up (CBU) three wheeler vehicles	Imposition of 25 percent supplementary duty
CKD three wheeler	15 to 22.5 percent along with imposition of 25 percent supplementary duty
All kinds of cars, station wagons and jeeps	Imposition of additional supplementary duty of 25 percent
Scrap vessels	7.5 to 15 percent

Source: 1997-98 Annual Budget, Government of Bangladesh. (page 16, 17)

Table 59
Increase in Supplementary Duties: 1998-99

Items	Increase in Supplementary Duties
Air Conditioner (except when used as capital machinery in industries)	From 10% to 40%
Refrigerators	15% to 20%
Ceramic Tiles	10% to 20%
Cigarette Papers	35% to 45%
Furniture	Imposition of 40% SD
Toilet soaps	10% to 20%
Perfumery products (except incense)	15% to 35% to a consolidated rate of 40%
Three Wheelers	25% to 50%
Two stroke engines	Impose 50% SD
Dried milk	Impose 2.5 % SD
Small cars (upto 1000 cc) Cars (1000 cc to 1300 cc) Luxurious cars (above 1300 cc)	Reduction in SD From 35-45% to 45% Increase in SD

Source: 1998-99 Annual Budget, Government of Bangladesh

Further, from the QR side, it is also questionable whether all the items on the importable lists are economically justifiable of being banned or restricted. Table 60 describes a random selection of 13 examples of some banned and restricted items as obtained from the IPO's of 1985/89, 1988/89 and 1991-93 and the 2002-03 Operative Tariff Schedule.

Table 60
Some banned and restricted items

From 1985/96 to 1989/90		Since 1989/90 onwards
Negative List* (Banned)	Restricted List*	Control List**
Item(s) under the corresponding ITC heading number which is/are banned and corresponding H.S. Heading	Item(s) under the corresponding ITC heading number which is/are banned and corresponding H.S. Heading	Import status and corresponding H.S. Heading
Live Swine (01.03)		Live Swine Banned (0103)
Frog Legs (02.04)		Frog Legs (0208) free.
Potatoes (except seed potatoes) (07.01)	Seed potatoes importable by Bangladesh Agricultural Development Corporation and agricultural research institutions approved by the Government.	Fresh Potatoes (0701.90.11) free, but seed potatoes (0701.10.11) restricted
Bananas, coconuts, pineapples, guavas, mangoes (08.01)	Betel nuts (08.02) importable subject to prescribed conditions	Coconuts (0801) free, Betel nuts (0802) free, Bananas (0803) free, Mangoes (0804) free.
All tea items except tea for blending (09.02)	Tea for blending, importable only by recognized tea exporting units with clearance from the Bangladesh Tea Board	09.02 Tea, whether or not flavored, free.
	Coriander seed and black cumin seed (09.09)	Free
All items except raw tobacco (24.01)	Raw tobacco importable by cigarette industries with the clearance from the Ministry of Agriculture	24.01 Tobacco and manufactured tobacco substitutes, free
Toothpaste, Perfumes, Shaving Cream, Preparations for use on hair (shampoos) (33.06)		Preparations for oral hygiene (3306); Perfumes (3303); Shaving Preparations (33.07); Preparations for use on hair (33.05), free
Foam Rubber; Tyres pf cycle and rickshaw (upto 4 ply); rubber belt of size 3/4" to 6" breadth. (40.02)	Natural rubber (40.01) importable subject to prescribed conditions	Rubber and rubber articles thereof (40), free.
Cotton thread (double) (55.06)	Cotton thread (single: 21 to 59 count) importable subject to prescribed conditions	Cotton Thread (52.04), cotton yarn (52.05, 52.06), free.
	All kinds of grey cloth (55.12) importable subject to prescribed conditions. Knit fabrics, mesh fabrics, nylon satin, (58.04, 60.01, 60.02) importable only against back to back L/C by the export oriented readymade garments industry operating under bonded warehouse system	Woven fabrics (55.12, 55.13, 55.14, 55.15, 55.16), restricted, i.e. importable subject to prescribed conditions.
M.S. Bars, rods and rounds of 2" diameter and below; Stapler pin (73.31)	G.I. Pipe (73.04) importable only subject to prescribed conditions	Articles of Iron or Steel (73), Pipes and Tubes (73.04), free
Motor cars with engine capacity above 1600 cc (87.02)	Petrol and diesel engine motor cars (used/reconditioned) (87.02) importable only subject to prescribed conditions	Motor cars principally designed for the transport of persons (87.03), restricted

* IPO, 1985/86 and 1988/89; ** Operative Tariff Schedule, FY 2002-03

Table 60 shows that while swine is banned mainly on religious grounds, many other items continued to be restricted (e.g. seed potatoes, woven fabrics and motor cars), which pose questions on economic efficiency grounds. Stamp (2002, page 28) notes that though many items on the list are justified on "religious, cultural, moral, health and environmental reasons," one would at least question the validity of this argument for some of the items in the Table 60.

Stamp (2002, page 29) provides his own version of some of these products–described in Table 61, and poses the question himself. "Clearly, a high proportion of these prohibitions and restrictions cannot be justified on health, environmental, social security or cultural grounds, and are presumably included for protection purposes." A World Bank report (2003, June, page 20) also supports this claim. "Some of the ban/restriction on imports is ostensibly applied on grounds of health, religion, environment, culture and so on. Yet a review of all the items in this group reveals that many of the prohibitions cannot be justified on these grounds..." They have been imposed "for protection...(e.g. salt, insecticides for mosquitoes)." Among the restrictions in 2003 that still prevalent are "three categories: agricultural products (chicks, eggs, salt), packaging materials, and textile products. Nearly 40% of all QRs apply to textile products that enjoy the heaviest protection." Table 62 outlines the sectors with "higher than average protection." (Stamp, 2002, February, page 50)

Thus, on the economic side, the reasoning was that after the reductions in quantitative restrictions and tariff redundancy, now the government faces the "greater challenge of tariff rationalization–that of consolidating issues of opaqueness and complexity of the remaining tariff structure (e.g. use of "discretionary "tariff values" for import valuation and multiple tariff slabs even at highly disaggregated level of commodity classification"), addressing the "considerable dispersion around the average rate and the numerous exemptions/concessions in the existing nominal tariff protection structure." All in all, these loopholes provide customs officers continued "wide leeway for discretionary decisions and rent seeking behavior." (World Bank, 1999, pg. 1) This has been complemented with existing export bans on certain agricultural and manufactured products[27] as a method to protect consumers. (World Bank, March 16, 1995, page 6, 28)

Table 61
Prohibited and Restricted Goods

Prohibited Goods	Restricted Goods
1. Chicks (in part to ensure imports are not diseased, in part for protection)	1. Refined palm olein (for health reasons importation requires certification)
2. Eggs (ditto)	2. Coconut oil (ditto)
3. All items under tariff code 15.01 (animal fats) except lard (for religious and health reasons)	3. Sugar 4. Baby food with cream (to encourage breast-feeding)
4. Gypsum	5. Common and table salt
5. Petroleum gas	6. Sulphur (for social security purposes)
6. Petroleum products (HS Code 27.13)	7. Cement (to ensure quality control)
7. Insecticides (HS Code 38.08 for health and environmental reasons)	8. Coal and hard coke (mandatory PSI certificate with respect to quantity, weight and quality)
8. Woven fabrics of silk (HS Code 50.07)	9. Petroleum oil
9. All items (with some exceptions) under tariff codes 52.08 to 52.12 (cotton fabrics, woven fabrics of silk, synthetic fabrics)	10. All petroleum products other than liquid paraffin 11. Phosphorus (social security reasons)
10. All items under tariff codes 54.07, 54.08 and 55.12 to 55.16 (shirting and suiting of 85% or more by weight of man--made fibers)	12. Antibiotics (health reasons) 13. Chemical fertilizer (mandatory PSI certification with respect to physical and chemical properties of goods)
11. Ropes of nylon and polyethylene (HS 5607.41 to 5607.90)	14. Enzymes (health reasons)
12. Fishing nets	15. Developed cinematography film (cultural reasons)
	16. Paper bags
	17. Grey cloth
	18. Fishing nets
	19. Boilers (mandatory PSI certificate required)
	20. Weighing machines
	21. Radio transmitters (social security reasons)

Source: Stamp (2002, page 28, 29)

[27] The agricultural products mentioned are wheat, pulses, onion, jute and sun-hemp seeds, unprocessed or fresh prawns and shrimp and whole bamboo and cane. Similarly, manufactured products banned include urea, ferrous and non-ferrous metals and their scraps, petroleum and certain petroleum products, gur (molasses) and khandari sugar, certain types of rice bran and wooden logs, and edible oils and milk products. (World Bank, 1995, March 16, page 6)

Table 62
Sectors with higher than average protection

ISIC	Description
1	Agriculture, hunting and related services
5	Fishing, operation of fisheries and fish farms
11	Extraction of crude petroleum and natural gas
15	Manufacturer for products and beverages
16	Manufacturer of tobacco products
17	Manufacturer of textiles
18	Manufacturer of wearing apparel; dressing and dyeing of fur
19	Tanning and dressing up leather; manufacture of luggage etc.
20	Manufacture of wood and wood products
21	Manufacture of paper and paper products
23	Manufacture of coke, refined petroleum products and nuclear fuel
25	Manufacture of rubber and plastic products
26	Manufacture of other non-metallic mineral products
28	Manufacture of fabricated metal products, except machinery
32	Manufacture of radio, televisions and communication equipment
34	Manufacture of motor vehicles, trailers and semi-trailers
36	Manufacture of furniture, manufacturing NEC.

Source: Stamp (2002, February, page 50)

The latter part of the 1990s showed some slowing down on the pace of reform due to arguments based on not only economic reasons but also interest group pressures revitalizing protectionism.

On grounds of interest group pressures, responding to the complaints from different Chambers of Commerce and Industry, the 1997 budget also withdrew the PSI (Pre-Shipment Inspection) system "on all items attracting highest effective rate of customs duty and a few other selected items (finished products)." (page 18)

Another way the government "responds" to interest groups is to pacify them by actions which would sustain the government's continued power and help keep the government winning the electorate. According to Ahmed (1996, September 28), the former Finance Minister (FM) of Bangladesh claims the culture of politics in Bangladesh has been "proposing by one party and opposing by another," and shortsightedness of "failure of political parties to see beyond the next election." Particularly, winning electoral votes is the driving force behind political parties not wanting "to antagonize the powerful few who would be hurt" although benefiting millions. "Politicians make friends with the vested quarters like trade unions and associations to gain support, which further stalls reforms. That is exactly how politics is run today." Ahmed continues that this particular Finance Minister, Saifur Rahman, has been the longest serving FM in Bangladesh, for 11 years, and on top of that, an "uncompromising advocate of reforms, privatization, opening our market, and of tough actions against the loss making state-owned enterprises." It is vital, the former FM argues that Bangladesh does not get "enslaved by historical hangovers," and "ignore economic and investment logic in the globalized free market economy..."

Particularly on the trade front, the former FM explains the slowing down of the reform process as being politically engineered. He mentions that though the former prime minister was "well-disposed towards reforms in the beginning and had given ... strong support, ... she was gradually overwhelmed by other colleagues. When we went for freeing trade, the minister concerned complained to the prime minister that the market was being opened up to foreign goods and that would be bad for us." Further, instead of losing gracefully in the mayoral election of Dhaka and Chittagong, by saying "it had set a fine example of BNP's (Bangladesh Nationalist Party) commitment toward democracy and fairness in election," the government used the incident as a vehicle to push forward those vocal against reform. The government associated the loss of election with the reforms, and as a result, "reforms were substantially stalled. As a result we failed to fulfill the conditions for jute sector reform programme, we did not get the second chance of the JSAC." (Jute Sector Adjustment Credit)

Besides these economic and interest group reasons, there is also what some have called the "Singapore Issues," that have also retarded the pace of trade liberalization. In the Cancun round of World trade talks in September, 2003, these referred to the "new rules on investment, competition, government procurement and cutting red tape that holds up trade." (India-West, 2003, September 19)

Another area continuing to pose challenges for trade liberalization is political in nature. National disruptions in terms of strikes and unionization also added to this problem. A World Bank report (March 17, 1994, page 114) documents this. "A survey by the Directorate of Labor (DOL) found that during 1977–91 out of 796 industrial disputes, 200 cases (44 percent) were directly caused by political factors of extra-industrial origins. The unions have traditionally wielded considerable political clout…."

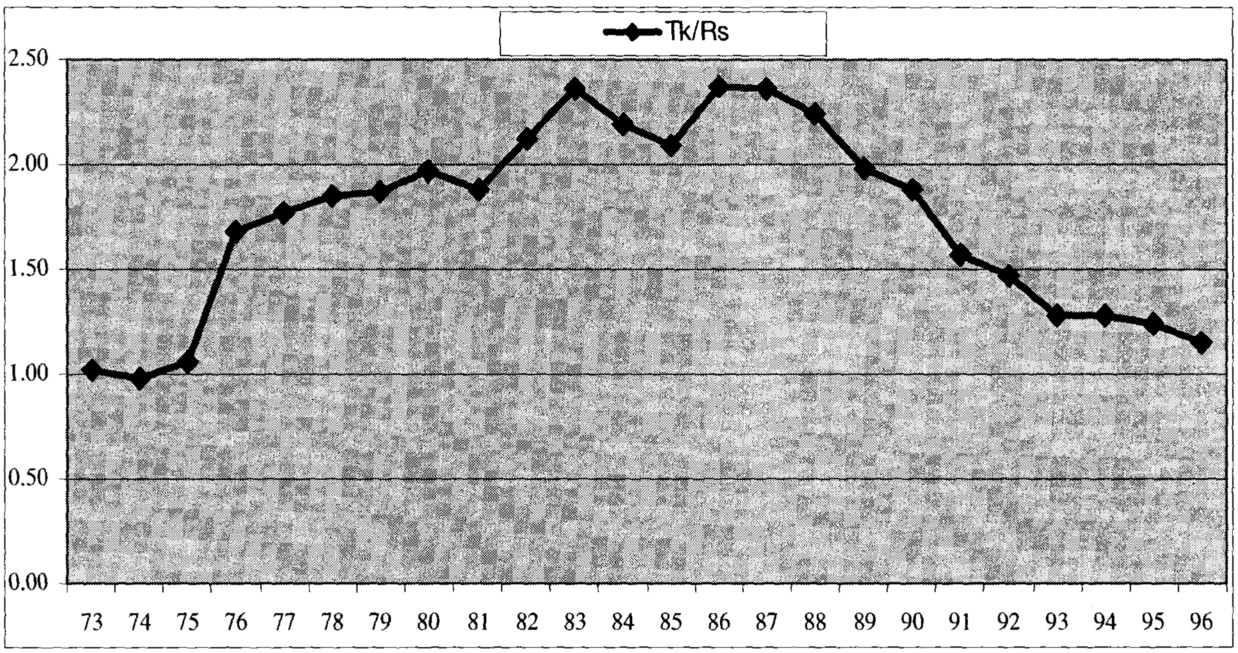
Yet another opposition to trade liberalization came from those who argue Bangladesh has liberalized too fast. Khan (1997) notes this as follows. "Some (present PM) say, given the fragility of domestic industries, we have moved too fast."

The general philosophy of BTC was not one-shot liberalization, but rather for medium liberalization. A former Chair of BTC, Hamid (July 1997), explains this as follows. "I have always fought that reduction of tariffs should be in a phased manner, because if you reduce and India does not reduce, our balance with India will become adverse: imbalanced. We will be put in a great disadvantage. Thus, one should not look at liberalization in isolation, but examine how, when Bangladesh liberalizes or does not, whether neighboring countries liberalize or not. That is, assess the impact of differential liberalizations of countries." In this respect, from the point of view of Bangladesh having a very large and strong neighbor there has been the claim that bilateral trade has been unfavorable–that Bangladesh has liberalized faster than India, and consequently, cheaper Indian goods have hurt the Bangladesh economy. Further, smuggled items from the large porous border had also adversely affected domestic industries.

Both these arguments have been used to advocate a slower pace of reform. Comparing the bilateral exchange rate between Bangladesh and India, a World Bank report (2003, June, page 7) observes that from 1985 to 1999, the real exchange rate appreciated by 40 percent (India had undergone two major devaluations in their Rupee within 1985 to 1992), and this, along with the trade liberalization reforms in Bangladesh (tariff reductions and QR removals), "led to a rapid growth of imports from India, which during the 1990s became Bangladesh's largest single supplier, accounting for between 15-18% of its total recorded imports." Alam (1998) also quotes A. R. Khan of University of California at Riverside, in that "lack of protection from cheap imports from India is widely perceived as a major impediment to the development of Bangladesh." Rahman (1998) also claims it would be "quite unwise to belittle the importance and geosignificance of Bangladesh's trade with India." Rashid (2001, page 412) notes that the bilateral trade deficit in 1987/88 was $79m and increased in 1997/98 to $1118m, which is a 13 fold increase in 10 years, and thus terms this as "really a matter of concern."

Adding smuggled goods this number is higher–about 30%, which has led "some groups using the import competition from India and the bilateral trade deficit to argue against further general trade liberalization," while others have pressured for "further trade liberalization combined with reform of the Customs service so as to divert illegal imports into legal channels." (World Bank, 2003, June, page 7) Ahmed (1996, September 9), also confirms the smuggling aspect by noting that "illegal imports from India in 1994 was about 18 percent of total imports, which is a staggering figure." Ahmed (1997) cites World Bank 1994 figure of $600 m for "cross-border trade or smuggling with India." Current unofficial figures are higher–abut $1 b. Figures 14 and 15 illustrate the official bilateral trade scenario of Bangladesh and India–about the same as the unofficial cross-border number, at $1 b, by the mid 1990s.

Figure 14
Taka Rupee Exchange Rate



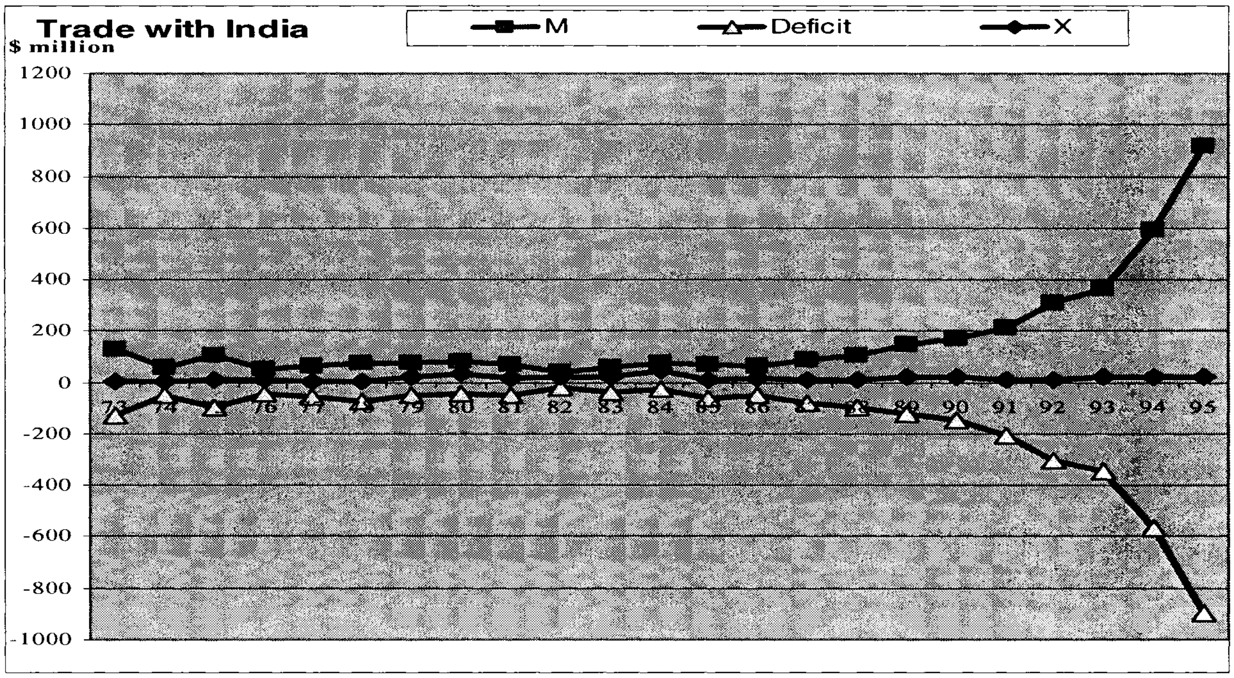


Figure 15
Bangladesh–India Bilateral Trade

Hamid (1997) continues “Although there was an inner belief about the pace of reform, during the Structural Adjustment phase, there was not much choice to be made for opposing this speed. Actually these reductions were forced by the WB. It was not done with a lot of government support. My personal opinion is we should reduce the tariff, but in a phased way, so that we should give time to our industries to catch up. But in this, this can happen–some of the industries will go out of production and some new ones will come up. It is a basic question of comparative advantage. We understood that liberalization (reductions in tariffs) will lead to increase in prosperity and the costs of adjustment could be rationalized by what “Schumpeter …calls...creative destruction. But creative destruction and fate of the people are intimately linked.

Because in creative destruction, people suffer often. And the fate of the people is a highly sensitive political variable."

A World Bank report seems to acknowledge this opposition by claiming that in this phase (late 1990s), "...some business and government circles and researchers have criticized Bangladesh's trade liberalization for being too fast and for flooding domestic markets with foreign goods in amounts that harm local industries." (page ii). The report therefore states that from an economic point of view the progress "toward a lower and uniform tariff rate has slowed due to concerns for budgetary revenues, the balance of payments, and, in particular, possible adverse effects of trade liberalization on import-competing industries." (page i). Regarding the lack of recent progress in lowering of tariff barriers further and the remaining anti-export bias, the report claims this also stemmed from "infrastructural bottlenecks, corruption and unreliable law enforcement" (page ii)

A World Bank report (1999, page 32) on 74 enterprises between 1992/93 (pre-liberalization) and 1997/98 (post-liberalization) focused on their technical efficiency and technological progress using firm-level survey data on costs, inputs and outputs for these two separate years. By "constructing indices of total factor productivity," the quantitative report finds that "Trade liberalization...(has) not had any widespread adverse impact on the performance of the surveyed firms. On the contrary, the majority of the enterprises appear to have experienced a positive total (factor) productivity growth between 1992/93 and 1997/98, averaging 29 percent over a period of five years, about 6 percent annually....the resulting picture is generally positive, a refutation, rather than a support for the claim that trade liberalization in the 1990s harmed Bangladesh's manufacturing industries." In fact, the report stresses that "...trade liberalization, far from being harmful, has, on the contrary, contributed together with other market-oriented reforms and sound macroeconomic management to improved macroeconomic performance." (page iii) The data on macroeconomic indicators in Table 63 displays this positive environment.

Table 63 shows that despite a turbulent period during Phase 1 (average inflation was about 25%), inflation smoothened out during Phase 2 (average inflation at about 9%) and Phase 3 (average inflation around 3.5%). This is depicted in Figure 16. Figure 17–derived from this table also, depicts that the GDP trend has been fairly upward sloping–the overall average GDP growth from 1973 to 2002 has been about 8.5%. It was 12% (probably driven by high foreign aid induced growth for war recovery and reconstruction) in Phase 1, 6.5% in Phase 2 and 7.7% in Phase 3. Table 63 shows that in absolute terms, X/GDP increased by 127% from 6.29 in 1971 to 14.28 in 2002, while M/GDP also increased from 10.73 to 19.05 over the same period. Aid/M fell by about 82% from 53.12 in 1973 to 9.12 in 2002, and Debt/X fell by about 73% from 27.34 in 1976 to 7.31 in 2002. Further, on average export/GDP has grown at a 32% rate higher than the import/GDP, while growth of foreign aid as a percentage of imports has declined by 4.75 and growth of debt as a percentage of exports has also declined by 3.67%. It appears to signal that the increased export earnings have been able to provide more of imports, therefore reducing the need for aid as a component of imports. The strong exports have also been able to lower the debt export ratio. This is incorporated in Figure 18.

From a broad macroeconomic perspective, it appears that the increased openness from the trade liberalization front during the 1990s provided "a positive stimulus to growth," although "rigorous econometric evidence on Bangladesh is awaited.." (World Bank, 1999)

Table 63

Some macroeconomic data

	GDP	X / GDP	Aid / M	M / GDP	Infln	Debt / X
Year	$b	%	%	%	%	%
Phase 1 TL						
1971	-	6.29	..	10.73	2.96	..
1972	-	5.67	..	13.73	4.40	..
1973	5.52	6.54	..	11.86	61.41	..
1974	8.80	3.70	..	10.35	38.92	..
1975	8.48	2.90	..	8.10	74.48	..
1976	7.19	4.75	53.12	17.64	-16.59	27.34
1977	7.06	7.04	60.68	12.38	-2.08	22.15
1978	9.80	5.56	59.95	15.48	25.67	17.52
1979	11.05	6.11	53.87	15.80	10.90	19.61
1980	12.18	5.49	44.10	17.88	16.77	16.96
1981	11.75	5.27	36.87	14.50	10.53	13.69
Phase 2 TL						
1982	11.01	5.21	47.64	15.94	9.69	14.24
1983	11.54	5.74	42.60	15.08	8.52	13.28
1984	13.46	3.28	40.28	12.96	14.05	16.71
1985	13.08	5.55	38.75	13.23	11.15	18.64
1986	15.12	5.35	48.04	12.22	8.00	26.27
1987	17.28	5.17	57.52	12.11	10.88	24.72
1988	18.50	5.63	45.80	12.70	7.60	21.02
1989	20.44	5.75	42.79	13.26	8.50	20.56
1990	20.61	6.12	50.61	13.53	6.34	25.76
1991	21.63	6.66	47.79	12.23	6.60	20.60
Phase 3 TL						
1992	23.24	7.59	42.25	12.35	2.98	15.36
1993	23.79	9.02	28.80	14.10	0.29	12.89
1994	25.60	9.00	31.49	13.86	3.77	11.51
1995	28.72	10.86	16.59	17.34	7.35	13.21
1996	39.18	11.08	16.18	18.69	4.23	11.04
1997	39.76	11.99	12.58	18.02	3.09	9.66
1998	41.27	13.33	14.19	18.28	5.27	8.52
1999	43.08	13.19	13.22	18.66	4.66	8.84
2000	43.91	13.98	11.69	19.23	1.86	8.59
2001	44.48	15.38	10.28	21.50	1.59	7.45
2002	47.18	14.28	9.58	19.05	3.20	7.31
2003		..	..	..	..	..

* Worldbank Online files

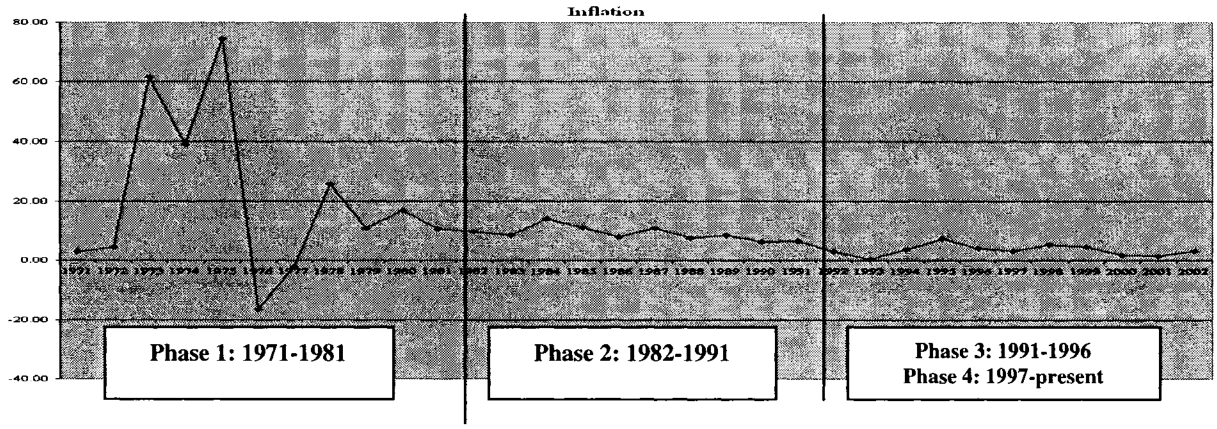


Figure 16: Inflation

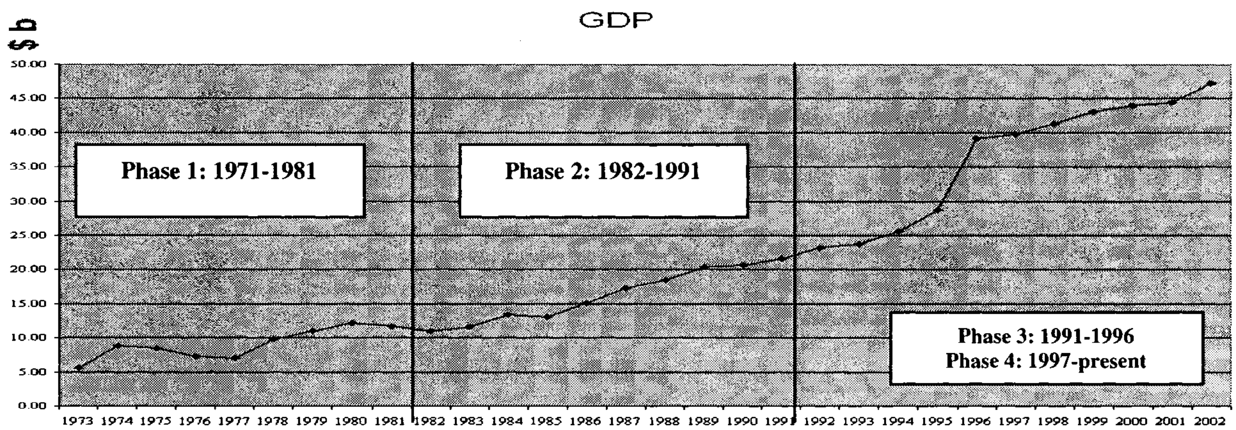


Figure 17: GDP

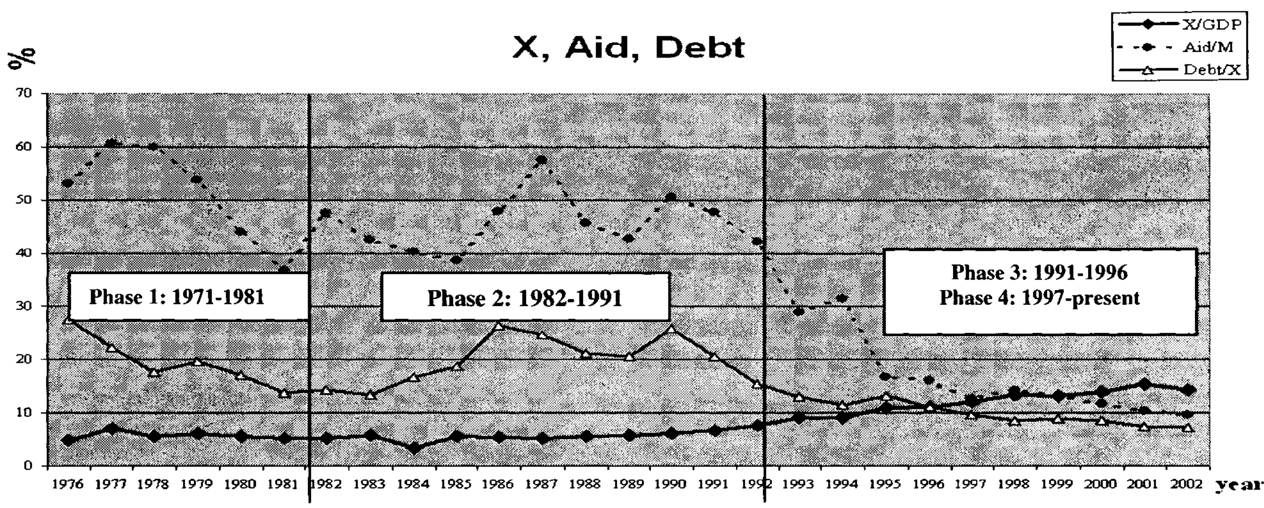


Figure 18: Exports, Foreign Aid and Debt

Among other studies recently concerning Bangladesh trade, Razzaque, Khondker, Ahmed and Mujeri (2003, page 5, 18), note that they could "locate only two studies" regarding trade liberalization and economic growth–one by Ahmed (2001), and another by Siddiki (2002), both of whom find a positive relation. The authors then conduct their own study of the pre-and post liberalization period (1990s) and found that though the trend GDP growth rate was higher (4.8 percent) in the latter compared to the former (3.6 percent) period, "it could not be ascertained whether the superior growth performance was attributable to trade liberalization...and might have been the result of an interaction between the inherent aggregate production function for the economy exhibiting increasing returns to scale in production and accumulation of factors of production at a faster rate." However, they do acknowledge missing data from 1973 to 1979 which they claim was "simply not available."

On the other hand, Arndt, Dorosh, Fontana, Zohir, Said and Lungren (2002, page 43) conduct a study on Bangladesh, utilizing a computable general equilibrium model on agricultural and readymade garments data from a 1999-2000 social accounting matrix find positive links between trade and real income gains for producers and consumers. They find that "the Bangladesh economy and household incomes are clearly linked with the global economy, particularly through foodgrain trade and the RMG sector." In fact, in agriculture, back in Phase II, duties on small irrigation equipments such as small diesel engines (1986-87) and deep tube wells (1982) were removed on the basis of "participation of the private sector..." Fertilizer trade was also privatized, and farm-level subsidies were lifted. (Asaduzzaman and Titumir, 2002, September, page 8)

Further, Hossain and Karunartne (2002, January), utilizing a vector error correction model, quarterly time series data, weights from Bangladesh's 22 major trade partners, find a positive relation between trade liberalization and export growth in Bangladesh. They proxy trade liberalization by anti-export bias reduction, given by the ratio of the real effective exchange rates of exports to imports.

Ahmed (2001, page 216) reiterates this point by noting that because there were significant improvements in the fiscal deficit, declines in the rate of inflation and deficit on the current account, increases in the position of international reserves, and reduction on foreign aid dependence, "Krueger's (1990) assertion that successful trade reform and macro stabilization can proceed in tandem is valid for Bangladesh."

Table 64 describes the impact of trade liberalization on macroeconomic performance. The annual growth rate of manufacturing increased by 133% from 3% in 1980s to 7% in 1990s. This occurred "despite external shocks and extended political uncertainty" (page 14), and a significant portion of it had to do with the fast-growing RMG/Knitwear industry. Agriculture grew by half of the percentage increase in manufacturing. The report adds that "one of the factors leading to the acceleration of growth in foodgrain productivity was the decision in the late 1980s to liberalize trade in pumps and engines." (page 14) Growth of exports was about 143%.

Table 64
Trade Liberalization and Economic Performance

Annual growth rates (%)	Pre Liberalization 1980s average	FY 90	FY 92	FY 94	FY 96	FY 98	Post Liberalization 1990s average
Real GDP	4	7	5	3.8	5	5.6	5
Manufacturing	3	1	10	5	6	9	7
Agriculture	2	10	2.5	0.8	3.4	3	3.3
Exports (in nominal US $)	7	37	25	4	8	12	17

Source: World Bank (1999); World Bank Staff Estimates

Table 65
Exports as a % of Imports

Period	Year	X/M
Phase I	1974-1981	39
Phase II	1982-1991	45
Phase III	1992-2002	67

Source: World Bank Online files.

Table 65 shows that exports as a percentage of imports registered only a 15 percent increase from Phase I to Phase II on average, using the years 1974-1991. However, the increase was almost 50 percent in Phase III. In more dramatic terms, in an average year export earnings (as a percentage of imports) in Phase I was around 40 percent, while in Phase III, this increased to over 70 percent, reducing consequently the need for foreign aid.

There are many studies that have investigated the connection between economic performance and liberalization or between trade regime openness and economic growth. Some of the prominent work indicating a positive relation has been done by authors such as Bhagwati (1978), Krueger (1978), Pack (1988), Michaely, Choksi and Papageorgiou, (1991), Grossman, G. and Helpman, E (1991); Romer, P.M. (1992), Barro, R.J. and Sala-i-Martin, X. (1995), Harrison (1996), Edwards, S. (1989, 1992, 1993, 1998) and Onafowara and Owoye (1998).

Ahmed and Sattar (2004, May 01), provide examples of Chile, China and India, citing the positive impact trade liberalization had on these economies, drawing on the works of Edwards and Lederman (1998, April), The World Bank (1997, 1999), Srinivasan (2001, Dec., Nov.), Bhawati and Srinivasan (2001, Dec.) and Stern (2002, Nov). Their findings are summarized in Table 66, along with their data on Bangladesh. Examining the period 1991-2000 (which covers Phase 3 and Phase 4), it appears that there was an increase both in growth per annum and the trade-GDP ration, while the index of poverty registered a decline – all of which seem to indicate conducive macro figures that occurred at the same time.

Table 66
Some country comparisons

Country	Time Period	Growth per annum	Inflation per annum	Index of Poverty
Chile	1974-2000	7 %	6% (decrease)	Cut in half 1987-1998
			Trade GDP Ratio	
China	From late 1978	7 %	11% (1978) 40% (1998)	30% 1978 15% 1998
India	1980-2000	6%	10% (1980) 25% (2000)	45% 1980 26% 2000
Bangladesh	1972-1975 1976-1990 1991-2000	2.75% 3.89% 4.80%	11.2 17.4 30.1	88.14 58.8 49.8

Source: Ahmed and Sattar (2004, May, 01), Edwards, S. and Daniel Lederman (1998, April), The World Bank (1997, 1999), Srinivasan, T.N. (2001, Nov.); Bhagwati and Srinivasan (2001, Dec.) and Stern, N. (2002, Nov.)
Note: Index of poverty is a percentage headcount index.

Among the skeptics of liberalization and growth are Krugman, P. (1994); Rodrick and Rodriguez (1999). It is not our intention to probe into this relationship here–our concern is on what happened as regards trade liberalization and how the political economy models constructed in Chapter 2, tie into them (discussed in the next chapter). However, it is noteworthy that the findings of opening up of the economy impacting the economy positively, does coincide with the literature–that is, by examining Tables 63 and Figures 16–18, it appears that there does not seem to be an adverse impact on the economy. From Table 63, pending actual statistical work, the World Bank report (1999, page 14) notes that the "higher momentum–5 percent annual GDP growth compared to 4% in the previous decade–could be linked to the market–oriented policy changes, including trade liberalization..." The report further notes that "Having averaged 4 percent in the 1980s, the current account deficits as a percentage of GDP declined in the 1990s. Import growth was evenly distributed among intermediate, capital and final consumer goods without, contrary to popular (political) belief, the economy being particularly flooded with consumer goods. Similarly, Hossain and Karunartne (2002, January) also refuted the claim that "trade liberalization has sprearheaded the imports of capital goods..."

Thus, if there were any losses–for example a World Bank report (WB, 1999, page iv, v, para 12) notes reduced employment and output levels for some import-competing enterprises (cotton-textiles, insecticides, metal and machine products, paper, rubber, footwear and vegetable oil)–then these "displacements," the report carefully points out "are a function of inefficiency, not a basis for retreating from trade reform....Despite a long period of protection, these enterprises apparently failed to improve efficiency and competitiveness [which] now feel the pressures of competition brought by trade liberalization and smuggling....most import-substituting industries have not become efficient enough even to compete at home, let alone export–the textile sector is a very good example."

Along these lines, another area where losses may have led to critics citing that "trade liberalization has contributed to de-industrialization in Bangladesh" (Ahmed and Sattar, 2004, page 27), can be seen from Table 67, where it appears that all sectors had a positive growth in employment, except for manufacturing, which registered a 29 percent decline in employment (from 5.9 million to 4.2 million) from the end of Phase 2 (1991) to Phase 4 (2000). However, Ahmed and Sattar (2004, page 28) claim that the decline was actually due to the "predictable demise of many state-owned ... "sick" industries (which) were actually unviable to begin with....(and a)...rapid growth in employment in the garments industries....(along with a) surge in the rate of growth of small enterprises (7.0% p.a. in the 1990s as compared with 5% in the 1980s)....(that) contributed to employment growth."

Table 67
Employment Trends (millions)

	Agriculture	Manufacturing	Services	Total	RMG	Number of Garment Factories
1983-84	16.4	2.5	9.0	27.9	-	134
1984-85	16.7	2.7	9.6	29.0	-	384
1985-86	17.4	3.0	10.2	30.6	0.198	594
1990-91	18.0	5.9	11.0	34.9	0.402	834
1995-96	20.6	4.0	15.7	40.3	1.29	2353
1999-00	21.6	4.2	17.3	43.1	1.60*	3200

* 1.8 for 2000-2
Source: Labor Force Survey, December 1995, 1996, 2002
Source: Ahmed and Sattar (2004, May 01), page 20, 39

Examining Table 67 it can be seen that while manufacturing sector lost 1.7 million jobs in the manufacturing sector, it gained almost 1.2 million jobs between the same time period (1990/91 to 1999/00). In other words, whereas manufacturing employment declined by 29 percent, RMG employment increased by almost 300 percent. The number of garments factories increased by almost the same percentage too over the same period. Further, overall manufacturing growth increased by 38 percent during this period (Table 68), which also would negate the negative concerns of trade liberalization.

Table 68
Sectoral Performance

	Share of GDP			Average Growth		
	1972-1975	1976-1990	1990-2000	1972-1975	1976-1990	1990-2000
Agriculture & Forestry	43.09	25.15	19.49	1.02	2.58	2.6
Fishing	5	4.37	6.09	0.36	2.35	8.21
Manufacturing	10.88	12.52	15.4	-10.92	4.99	6.9
Large & Medium Scale	4.81	8.91	11.01	-22.36	4.94	6.95
Small Scale	6.07	3.61	4.39	0.87	5.15	6.78
Construction	2.81	6.01	7.84	-19.44	6.02	8.31
Wholesale & Retail Trade	8.65	12.17	13.35	12.24	4.5	5.67
Hotel & Restaurant	-	0.59	0.63	-	4.12	5.49
Transport, Storage & Communication	10.7	9.32	9.2	3.66	4.57	4.89
Other Services	18.87	29.87	28	-	-	-
Total	100	100	100			

Source: Ahmed and Sattar (2004, May 01), page 20; Statistical Yearbook of Bangladesh, 2000; Bangladesh Bureau of Statistics.

On the other hand, a World Bank report (1999) notes that their direct interview with 74 enterprises (in addition to firm-level quantitative survey data), revealed problems such as corruption, theft and toll collection, lack of business support services (e.g. help with acquiring new technology, assistance with quality control), shortage of access to credit (non-availability of working capital and finance), inadequate infrastructural supply, natural disasters, increased competition domestically, managerial inexperience / shortage of skilled labor, etc. Thus the recommendation of the report was that the Government addresses these "business environment problems," and conduct "faster improvements in the areas of infrastructure, financial sector reforms, business support services, customs administration, law and order and the reform of the state-owned enterprise sector." (WB, 1999, Page vii, para 17, 18).

On the trade liberalization policies on Bangladesh, a WTO Secretariat report (May 1, 2000) claims that although there has been significant progress, the "main obstacles are home-grown." These consist of "severe political difficulties and civil unrest," causing a loss "of impetus for structural reforms." Further, if there has been a failure in "promoting wide-scale efficient import-substituting industries in Bangladesh...(..the textile industry...still enjoys very high protection)...(the) culprit is not trade liberalization. The prolonged protection, direct/indirect subsidies, and the unpaid bank loans have all allowed many inefficient firms to survive, and these are the policies that should perhaps be blamed for Bangladesh's slow and inefficient industrialization." (World Bank, 1999, page 24). Ahmed (1996, September 9) provides more examples as "lack of infra-structural facilities, difficulties in getting productive loans from the financial institutions and inefficiencies and obstacles in the export administrative agencies."

Saadat (1996), refers to poor infrastructure, unreliable power and telephone system, inefficient cargo handling at the port, and outdated laws (19^{th} century) which are not compatible with modern times, while others are not even present, e.g. Bankruptcy Acts. The free-market open-economy strategy becomes particularly difficult when one faces not only the dense set of regulatory constraints (high volume, discretionary and haphazard application), but also the additional costs of business via "protection money to mastaans (local goons)...and rent-seeking facilitation payments." Thus, he argues for policymakers to use Nike's marketing strategy of "Just do it!" to create an "enabling environment"–stable macroeconomic fundamentals (low inflation, low unemployment, high growth), open economy, stable foreign exchange reserves, a healthy financial sector, properly functioning judicial system, and well developed infrastructure.

For all of this to occur, a former Secretary, and Minister of Finance and Planning, Muhith (1996, June 12) notes that "It should be understood that economic performance cannot be improved without parallel political development," which would translate to "upholding of the democratic principles as generally understood the world over," and "ensuring transparency of government operations and accountability of the government."

Thus, regarding continued protection, the World Banks recommendation (WB 1999, page v, para 12) is "The experience of the recent decades suggests that what is needed is not continued high protection of final goods, but more openness for efficiency enhancement."

However, Ahmed (1996, September 9), cautions against rapid openness, by proposing a "breathing spell of a few years ... to the country's fledgling industrial sector," and hence argues for a "gradualist made-to-measure approach" instead, albeit with a time-frame deadline in that "the government should announce the year when it will introduce such a reform (the next round of tariff cuts), so that the industrialists can brace themselves up for that change."

Thus, overall it seems that trade liberalization did occur extensively in Phase 3, which at least on the face of it, coincided with a stable macroeconomic framework, which went into Phase 4 also. However, it is mostly the interest group pressures and the political nature of policymakers decisions, and red-tape, which has slowed down the reform process, creating a danger of slippage in future macro-performance. The World Bank had alluded to this process during the early periods of Phase III–the ISAC II period, where it stated: "...the Government is once again faced with a choice between the high road of rapid, credible reforms that can forge a partnership with the private sector to boost its investment and growth over the medium term, or to continue on its present low road of gradual, incremental liberalization that will essentially maintain the status quo and the low growth equilibrium." (World Bank, March 17, 1994, page 53)

In closing this Chapter, let us examine the way decision-making is carried out regarding the trade policy process, from the government's point of view.

Trade Policy Process

Table 69 describes the major government actors and their respective philosophies/objectives with respect to in trade policymaking in Bangladesh.

Table 69
Major Government Actors in Trade Policy in Bangladesh

Internal Actors	Objectives
National Board of Revenue / Ministry of Finance	Primarily concerned with revenue raising for national budget, tariffs facilitate this. Have implementation power and are heavily influenced by external agents like the World Bank.
Bangladesh Tariff Commission	Primarily concerned with domestic industry and their well being. Advocate tariffs on infant industry ground. However, also listen to those wanting tariff reductions (e.g. importers or competitive-spirited entrepreneurs). Do not have implementation power and can only recommend or formulate trade policies. Also influenced by the World Bank, and attempting to balance out the divergent pressures of external agents asking for trade liberalization with domestic pressures for protection.
Ministry of Commerce	Primarily concerned with quantitative restrictions. Most QR's have already been phased out or converted to tariffs. This Ministry used to directly control the Tariff Commission prior to 1991, after which the Commission became an independent and autonomous government unit.

Trade policy in Bangladesh is formulated by the Bangladesh Tariff Commission (BTC), which is under administrative control of the Ministry of Commerce (Foreign Trade Division).

According to interviewed sources (January 18, 1997, 17th Chair, BTC), the Commission began to have an increased role in determining tariff policy when, under the backdrop of liberalization, its new constitution was adopted–BTC was established by law, promulgated in November 6, 1992, (Law Number 43 of 1992), and in 1993, it was passed in parliament and established as a statutory body, with an independent entity. BTC began an "Institutional Development of the Tariff Commission" (IDTC) program under the spirit of neoclassical liberal economics, largely in response to the Industrial Sector Adjustment Credit (ISAC) requirements by the World Bank. IDTC began in two phases IDTC-I from 1992-1993 and IDTC-II, from 1993-1995. BTC consists of one Chairman (a Secretary ranked officer), who is appointed by the government, under whom there are three Members–one technical, one economic and one research. Two other officers are of the rank of Additional and Joint Secretaries. Under its upgraded responsibilities it is "now empowered to conduct anti-dumping and countervailing investigations." (WTO, 2000, May 1)

Raab (August 1997) explains the late rise of BTC. "Why was the rise of BTC so late? Previously, in the Pakistan period, they (Tariff Commission) used to listen to hearings, but that was all. They were no where near policymaking. After independence BTC was almost ineffective–it was basically ignored by the government. They were just an institution kept mostly for historical reasons, nothing more than that. It is NBR that made decisions." Chowdhury (July 1997) adds, "BTC was a subordinate department, under the MoC. Later it was made autonomous, under MoC, upon the backdrop of liberalization." Karim (July 24, 1997) provides a budgetary reason for BTC autonomy. "When BTC became an autonomous body under the Ministry of Commerce, it was also because they used to hire technical people–foreign consultants, and it was hard for budgetary purposes, being a department of the government. It was easier to just have some money apart as an autonomous body to hire the foreign consultants.

The main purpose of BTC is to (i) protect the interests of domestic industries; (ii) encourage competition in production of industry output; (iii) ensure optimum use of industry resources; (iv) develop exports of local goods; (v) develop local goods both in country and abroad, through bilateral and multilateral agreements and (vi) prevent dumping and illegal means of importing and selling foreign goods. Thus, the Commission recommends tariff levels, inquires into complaints received by government of monopolistic practices by protected industries, investigates allegations of dumping, and "rationalizes" the structure of protection.

When the tariff commission has its meetings with the concerned representatives of the private sector, the latter themselves suggest trade recommendations during the "hearings" at BTC. How these take place is described by Hamid (July, 1997) as follows.

"Industrialists would submit a petition. They would say 'we manufactured these things and used these kinds of materials and we feel that the tariff on the materials is not fair, it does not actually give us proper incentive, we cannot compete with the foreign producers.' After the producers submitted their petitions, we conducted industrial surveys using a cost proforma to collect data, using the following information: name of industry, history of industry and its development, production capacity, cost data, manpower. Keeping in view the existing tariff structure, we calculated what are the ERP and DRC. We used Balassa method, Corden method and Dr. Abid

Khan's own method. Then we prepared a report and submit it to the various Ministries – particularly, to the Finance Ministry.

The Finance Ministry examines these and when required, finalizes them with the representatives of the concerned ministries separately, or through inter-ministerial meetings. According to my interview (June 1997) with Dr. Zaidi Sattar (World Bank Consultant), "MoC can recommend, through the BTC, for either increasing or decreasing tariffs. It is up to NBR to accept it."

Karim (July 24, 1997), (Ministry of Commerce) notes that "domestic industries still want bans. They don't want to come to the open market. One group–chamber, trade organization, are traders (maximum, like 80%), not manufactures. Traders want open economy, manufacturers want closed. A problem is that the traders are much more powerful than the manufacturers. Capital costs are also low for traders; all you need is a small office, phone, fax and labor. Further, because of problems with electricity, communication and hartals, the number of traders is increasing, but not that of industry and manufacturing. Further, another problem is that politics is linked with the nationalized industry sector. It is hard to dismantle the Adamjee jute mills which employ about 30,000 people."

BTC is under the Ministry of Commerce. Karim (July 24, 1997), (Ministry of Commerce) notes that the Ministry of Commerce's role is on non-tariff barriers. When policies need formulation, there is a consultative committee meeting, which comprises all the Chambers of Commerce of the country, the economic ministries and department related to trade and finance. It meets and sets policies for two years. Once the technical detail is worked through, a report (a "neetie" or an intention) is prepared which goes first to the cabinet and then to the Assembly, after which it becomes a law. Say, SRO # 35, I-96. As mentioned in Phase II, the Ministry of Commerce is responsible for drawing up the IPO.

Ahmed (2001, page 38), describes this process as follows. Ministry of Commerce invites written suggestions from various Ministries, particularly Economic Ministries, various Chambers of Commerce and Industry, and manufactures and traders associations. The IPO Sub-Committee, headed by the Minister of Commerce Joint Secretary (Import) and comprising representatives from relevant Ministries/government agencies and various chambers and business associations, reviews the various proposals indicated above. Subsequently these proposals are discussed at Inter-Ministerial meetings held under the aegis of the IPO Consultative Committee in the Ministry of Commerce, with the Commerce Minister as the head, and the draft IPO emerges out of this process. The draft IPO is submitted to the Cabinet for approval. After approval by the Cabinet, the IPO is publicly announced and published.

It is the National Board of Revenue (NBR) that actually implements BTC's recommendations and makes decisions about tariff policy. The NBR was "established in 1972, is responsible for collecting 98% of total tax revenue. It also assists the Government in the formulation of tax laws and policies." (World Bank, April 26, 1978, page 8)

NBR is under the Internal Resources Division (IRD) of the Ministry of Finance (MoF), and so the Finance Minister who has a key role in trade policy. Other key players are the Chairman of the NBR (who is also Secretary of IRD), and the Chairman of the BTC. NBR is mostly responsible for collecting and administering taxes. That is, revenue considerations are a top priority for NBR. The expenditure side is handled by the MoF. However, NBR and BTC require greater coordination due to tariff anomalies which "arise partly from the contending objectives of tariff liberalization and revenue generation." (World Bank, March 17, 1994)

NBR's proposals are sent to the Cabinet Secretary for the final approval at the last stage. In order to analyze this, the Cabinet Secretary sends this to the Cabinet meeting. There is almost one meeting per week at the Cabinet. Here, to facilitate decision making, the written opinions of the concerned ministries / agencies are supposed to be present, indicating why they agree or disagree about the proposal. Then the decision regarding trade policy is taken at the cabinet.

Both BTC and NBR are accountable to the National Economic Council (NEC)–the political authority for development. It formulates national policy and objectives for long term plans. The Planning Commission is entrusted with the task of preparing national plans and programs according to the directives of the executive agency of NEC policies (ECNEC). The NEC consists of all members of the Council of Ministers and is chaired by the Head of the Government. (Skylark, Nov. 1984) The President is the head of the state, elected for five years by members of the parliament. Executive power is vested in the Cabinet, headed by the Prime Minister, which is responsible to the Parliament. Legislative power is lodged with a unicameral Parliament (Jatiya Sangshad), comprising 300 members directly elected by universal adult suffrage for a term of five years, and 30 women members elected by other members. (GATT, May 11, 1992) However, the Members of Parliament (MPs) complain that they cannot act as legislators because they will not get re-elected unless they can show development work in their constituency. So they influence allocation of resources in the national budget (revenue and development) in favor of their areas. This absence of legislative power inhibits the development of self-governing local government institutions like the Union, Thana and Zila Parishads. In developed countries, the MPs are legislators–they examine existing laws and modify them to improve the welfare of the poor.

We now move to applying the IPE models from Chapter 2, to the Trade Policy Developments over each individual phase, as laid out in Chapters 3 and 4, also drawing on Chapter 3. Afterwards, we examine the development of the five modes over the period under consideration over all four phases together.

Phase 1: 1971-1982

In summary, it appears that Phase I was characterized by the following:

From Chapter 3

- No entrepreneurship class, nor spirit for aggressive search for knowledge and capital formation in the pre-Bangladesh area of Bengal. Consequently, no European style industrial revolution. Manufacturing industries discouraged first by the British via colonialism, then by property rights which had developed in India (Jute and cotton textile mills in Calcutta, Bombay and Ahmedabad in the 1850s) and in W. Pakistan (the paradigm of "functional inequality" led to the Eastern Wing's resources to be funneled to the West's industrialization from mid 1950s). Frustration with Pakistan's development ideology and acknowledgement towards India's military intervention during independence war, and subsequent signing of a 25 year friendship treaty, helped sway independent Bangladesh's policymakers towards the

Soviet model of economic planning, modifying it by adding the tenants of nationalism, democracy, secularism and socialism.

- 90% of total manufacturing assets under government control by 1973.
- Share of the state in fixed assets went up from 34% in 1969 to 92% in 1972.
- First Five Year Plan (FFYP) (1973-1978) stressed that removal of private ownership is a necessary condition to social transformation.
- Political leaders and top advisors from the middle class–not really businessmen, aimed at get-rich-quick schemes, and opposed progressive social legislation.
- Significant dilution of the chain of command within the bureaucracy based in part on primarily the allegiance of the members of the bureaucracy to the new political leadership and also due to a new enactment (Presidential Order # 9), that stated any member of the bureaucracy / civil service could be dismissed without showing any cause. This weakened the decision-making role of the civil servants and helped the emergence and perpetuation of the Autonomous State.
- By the mid 1970s: democratic pluralism rejected, one-party system created, freedom of press suppressed, and the government turned mostly autocratic.
- Historically, Bangladesh had become frustrated with the Pakistan model of functional inequality, and had felt it felt it had been subjected to severe economic discrimination. India's style of India's Soviet style planning philosophy seemed more appealing.
- On the trade front, the strategy remained one of import-substitution oriented state interventionist policy.
- From the mid 1970s to 1980, some measures were taken towards encouragement of the market mechanism. Private investment ceiling was abolished in 1979. Decentralization at the

grass roots was stressed, along with adult literacy, canal digging, and family planning programs. Multiparty system was revived. The term "socialism" was replaced by "social justice." Attempts to restore and increase ties with the Western World, especially USA was undertaken. Process of regional cooperation (SAARC) was initiated. However, the army informally came to power, over the bureaucracy, at the latter stages of this phase.

From Chapter 4

- Restrictive trade regime with high tariff barriers ranging from 30-500%.
- Imports possible through a "positive list" of imports characterized by bans and restrictions.
- Dual exchange rate with selected incentives for nontraditional exporters.
- Import-substitution oriented state intervention strategy.

From Chapter 5

- Trade issues overwhelmed by immediate issues of stabilizing the war-ravaged economy.
- Protectionist trade regime: imposed complex system of controls to cover imports.
- Socialist philosophy combined with secularism, democracy and nationalism.
- Nationalization of most production facilities.
- Inheritance from Pakistan period of state paternalism and distrust for free markets.
- A government agency control mentality.

From Chapter 2, applying the models, it would appear that high tariff rates and protection would be advocated by the AGS, BP and DPIG models. (Table 3) However, the role of the bureaucrats was rather limited in the early 1970s because, from Chapter 3, Mujib's top advisors were political leaders and party affiliated interest groups who wanted political ascendancy over the bureaucracy because of their association with the military rule during the previous 12 years. Also, nationalization of most productive enterprises, left very little room for the DPIG model, which could also be seen by Mujib's replacement of Westministerial Cabinet form of government to a Presidential form, with more power in the hands of the President; introduction of a Public Safety Act, which gave him (President) the power for arbitrary arrest; suspension of the Autonomy of media and reducing the number of newspapers to mainly four and greater centralized control over other media services and changing his own political party (AL) into what came to be known as BAKSAL (Bangladesh Krishak Sramik Awami League. Hence it would appear that the relative power of AGS model is more significant for this phase.

At independence, Bangladesh externally wanted world recognition and aid. Internally, she needed to consolidate the process of independence and utilize the euphoric nature of the people's spirit from unshackling themselves from the tyranny of foreign rule. The situation was chaotic–anarchic. Because of the presence of Indian troops other nations had not yet recognized Bangladesh. Only India and the USSR had provided recognition. Hence international stability and security issues were important. This takes us to the model of International Power and Security Considerations (Odell) as laid out in Chapter 2, which I have subsumed under the heading of AGS model.

The government also faced the enormous task of reconstructing the economy, with little or no industrial or manufacturing base, and a historical dominance of primarily agro-based products to rely on. The historic product of muslin had been long gone, and subsequently replaced with agro-based products like jute, tea, spices and leather. Factories of manufactured products were mostly owned by W. Pakistan.

Further, as Chapter 2 also mentions about nationalist development and protectionist policies as a pursuit taken by many developing nations that had only recently gained independence (Hieronymi, 1980). We can also ties in modern mercantilism or real world politics here, again from Chapter 2, in that economics for its own sake will not dominate (it did not, at independence), but rather, got dominated by national self-interest and extensive government control. (Tooze, 1991) This links with Mujib's nationalizing all industries, imposing a complex set of controls on all areas of the economy (trade included) and subsequently abolishing all opposition parties, leaving only his own one (BAKSAL), as laid out in Chapter 4 and 5. Once again, all of these perspectives, I have merged under the general heading of the AGS model, in Chapter 2.

India's help to Bangladesh can also be put in the AGS perspective, under the heading of "Security Communities" and "Hegemone." Chapter 2 noted, via Lebow (1991), that France had linked itself with lesser states with financial ties and had directed heavy loans to Czarist Russia and to Southern European countries in the 1890s primarily in response to the external threat of the rising Germans. India too, had similarly, formed an informal "security community" with Bangladesh, to not only help Bangladesh during her independence, but also as a countermeasure against the potential rise of a more powerful United Pakistan in the future.

There was also the deep resentment among many Gandhi supporters over the break up of India in 1947 in the first place and the liberation war of Bangladesh gave them a pretext to gain some solace at United Pakistan's demise too. Further, India, being the local hegemone, was willing to assist Bangladesh during its liberation war to independence as it would make the South Asian system more fragmented and imbalanced, and therefore, easier for a bigger and powerful India to be a single dominant leader in S. Asian politics and trade (Keohane, 1984 and Kindleberger, 1973). Further, if freedom for Bangladesh could be viewed as a public good, India benefited too (by gaining an ally). Further, Indira Gandhi's help towards Bangladesh had personal ambition for her–she was to become a heroine for India.

It appears that the trade objectives fall in line relatively more with the AGS model, contingent upon the weak explanatory power of the other influences (international donor agencies, and classical liberalism type scenarios, under which one would expect less controls and lowering of trade barriers). Further, though nationalism may have been well intended in the beginning–when the country became independence–the unified state actor (Mujib government) did pursue its own interests by distancing itself from domestic societal pressures (opposition groups), imposing a one party rule and assuming the realist model of the leviathan, during the mid 1970s. Thus, as the Mujib government pursued mostly inward looking policies, with the trade regime was highly restricted, the relative strength of Autonomous Government, operating form a Statist / Nationalist / Mercantilist perspective, appears more powerful.

During the latter part of the 1970s, during the Zia era, the bureaucrats emerged as the ruling elite in partnership with the military elite. However, the regime favored the army mostly to gain their support and gave them precedence over the bureaucracy, as mentioned in Chapter 3. Though there were some positive efforts like introduction of multiparty system, abolishment of private investment ceilings, green revolution, decentralization, removal of socialism with social justice, not much was done in the trade arena–it continued to show signs of high protectionism, although with some limited positive steps in the export side and regional cooperation, as mentioned in Chapter 4. Moreover, the fact that the military gained greater prominence over the bureaucrats was evidenced by the assassination of Zia and the opportunity for the military to formally come into power, via the next regime–that of Ershad's in the early 1980's. So although there may have been a role for DPIG model–this time the interest groups being the Army–in the latter phases, our trade phase still appears to have a higher relative weight for the AGS model.

Phase 2: 1982-1991

In summary, it appears that Phase II was characterized by the following:

<u>From Chapter 3</u>

- Army formally came into power, especially in key government administrative positions and into profitable businesses.
- WB/IMF SAP from mid-1980s consisted of the following: SAF (1986-89), PFP (1989-90) and ESAF (1990-93).
- More administrative decentralization.
- Through the patronage of the Army government became more autocratic and corrupt.

From Chapter 4

- Overall trade regime still restrictive, cumbersome export license fees, registration processes, tariffs still provided 55% of government revenues, the range of NRP was still very high with the top rate at over 350%, low collection rate of tariffs (under 30%) due to widespread exemptions and tariff redundancy, arbitrary and discretionary use of tariff values, under invoicing of imports and smuggling, resulting in water-in-the-tariff.
- Most reforms of slow, sporadic and piecemeal nature.
- Tariff Reform and approached guardingly.
- Many inefficient import-substituting industries protected with significant anti export bias.
- Tariff rates reduced from 24 to 11 by FY 86.
- Mean NRP declined to 72% by 1992.
- Import license system abolished in 1983/84.
- Adoption of Harmonized System off Classification (trade) in 1988.
- Conversion from "positive" lists to "negative" and "restricted" list in 1985.
- IPO changed from having an annual to a two-year duration in 1989/90 to introduce more stability and certainty of trade policy.
- Utilization of a secondary foreign exchange market (WES) which financed about 32% of imports in Phase 2 (as against only 5% in Phase one). This was primarily aimed at promoting nontraditional exports which also benefited by use of enclave type export arrangements such as DDS, XPB, BBLC.
- Big shift in pattern of export composition–from traditional exports (82% in 1981) to nontraditional exports (68% in 1991).

- Most of these measures were taken by the findings based on TIP (1982-89) and RIP (1986) studies as well as the government's acceptance of SAR policies, as imposed through WB/IMF from 1986.
- Bangladesh still highly dependent on foreign aid (contributed to about 50% of imports financing)

From Chapter 5

- Gradual liberalization of import Regime since 1981 via NIP of 1982.
- NIP not received enthusiastically by bureaucrats, businesses, political parties and labor unions.
- Many duties haphazardly set by port inspectors.
- Tables 29 to 49 displayed some of the TIP findings which illustrated the existing maze of protection, utilizing TIP and DRC figures in addition to NIP. The resulting monopolistic and oligopolistic market structures, allocative inefficiency and capacity underutilization were an outgrowth of the ad hoc and highly differentiated protection administered on discretionary basis, based on favoritism and rent-seeking. Many inefficient industries (with high DRC) had very high protection (high ERP), while many efficient industries had low protection (low ERPs), or were in fact taxed or negatively assisted (negative ERP).
- Economic policies for protection were based on infant-industry arguments, favoring domestic consumption over luxurious foreign products, to obtain foreign exchange and also to expand employment beyond agriculture.
- Noneconomic reasons cited were political and social, for example to serve vested interests of different groups and government's own desire for cheap popularity.

- TIP and RIP 1986 studies (1986) helped to lay the foundation for acceptance of SAR policies (1987) of WB/IMF, based on classical liberalist philosophy of opening up the trade regime and encouraging products on comparative advantage grounds.

If we examine Phase two, there was some progress made on the trade front as shown by our summary points from Chapter 4. Applying Table 3, on first glance, it might provide relative strength to the AGIO model for fitting in this era. The role of the donor agencies was mostly marginal during the early to mid 1980s, but in the later period of this phase, there was a package of structural adjustment reforms that the economy had begun to adhere to. However, as far as trade policies were concerned, the overall regime was still restrictive, and on the political front, public agitation against an autocratic government had become increasingly vocal. From that viewpoint, the AGIO model would have less relevance for the actual sporadic trade liberalization that occurred.

The BPNT model would also argue for decreases in protection, but since the Army was the dominant power, they overwhelmed all other groups, including these reform-minded bureaucrats. Taking the military (as a higher weighted interest group), traditional bureaucrats, and businessmen (who favored the status quo) into consideration, the overall scenario was that the declines (trade restrictions) were marginal and had left the country's import structure inefficient and highly prone to rent-seeking. The TIP studies revealed this true nature of protectionism by highlighting both their economic and non-economic grounds.

The claim that the army could be viewed as an interest group, was primarily made for Phase 2, when the military regime of Ershad was in power. Although the previous regime of Zia (second part of Phase 1) also had martial law, investment opportunities extended to the army as well as providing them entrance into the civil administration were more of an implicit nature, primarily intended to gain their support. Zia claimed he did not originally impose Martial Law–that it was enforced by an interim President (Moshtaque) after Mujib's death, when the law and order situation was chaotic and anarchic. When Zia replaced Moshtaque, he made Justice Siam the President, gave general elections in 1978, (under martial law), and legalized his capture of power. He then claimed that his aim was to restore democracy and he opened his government to multi-party political system.

In contrast, when Ershad declared Martial Law by replacing Justice Sattar, (who came in power through a referendum in 1981, after the death of General Zia), his government was more of a military regime. Ershad also promised to hold general elections within a short time. But the replacement of Sattar's government and imposition of Martial Law made the people more hostile to the military regime. Ershad therefore had to rely on the army support more openly. However, the army was not one homogenous group. There were those who participated in the civil war (freedom fighters), those members of the Bengali officers of the East Pakistan Rifles (East Pakistan army) who were Bengalis (and not Pakistanis) and had also participated in the independence movement, and the returning army personnel who were originally stranded in Pakistan (who came back to the country either by fleeing W. Pakistan or as exchange of prisoners after the war). Some personnel within these groups wanted rewards for participating in the liberation war and took advantage of the military regime present. Ershad provided them with access to business facilities (especially for retired army officers), and directly inserted many of the army personnel into the civil service, and whenever possible, gave them accelerated promotion. This was also given by the previous government, but the investment opportunities were not much (ready made garments had not yet flourished) and the people's attitude was relatively less hostile.

There could be a contention made that some such postings in the government (e.g. customs area), or in a specific area of business (e.g. ready made garments) were relatively more lucrative and therefore there might have been a pressure from within the army group (active or retired), to lobby for those privileges too. However, it should also be pointed out that this is more of a contention than a claim. One could also claim that since Bangladesh was a newly independent country, a portion of the army might also have had a public-interest view, as against only wanting to maintain its own power. Within the army, there was a significant number who–by their participation in the liberation war–were genuinely patriotic and wanted the country be steered in the public interest. Therefore, the army, as far as an interest group is concerned could have had some impact of wanting protectionist policies in the specific area of international trade (to exploit rents), but that would be a more indirect effect rather than an active organized lobby that domestic pressure groups conduct.

Chapter 4 cites the fact that due to the dual role nature of Customs tariffs–that of raising revenues for budget reasons (55% government tax revenues emanated from tariffs) and protecting domestic industries–the tariff rates continued to be very high, and concessions and exemptions were often granted on ad hoc basis. It was a combination of pressures from bureaucracy, domestic producers and politicians that led to the stagnation of trade liberalization processes till the early 1990s.

Chapter 5 supports these arguments by pointing out the bureaucrats having a stake in government control preservations–because they had learned to manipulate these controls towards their own benefits, in liaison with private business groups, also caused very little tariff reform progress during the early 1980s. For example, the World Bank cites the "resistance of entrenched and concerned bureaucracies and labor unions" and the "influence of politically powerful pressure groups" (World Bank Report No 8874, June 29, 1990), influencing policy. Moreover, while some in bureaucracy had a stake in the preservation of government controls, others thought that "markets in Bangladesh were fatally flawed and facilitated exploitation of the poor by the rich." Even the private businessmen "seemed more concerned with preserving the privileges they enjoyed under the existing system. Real entrepreneurs, who probably supported decontrol, were without legal status and so their voices were not heard as loudly." (Mallon and Stern, 1991)

It is also mentioned how the Customs and port inspectors–perhaps through honest intentions–haphazardly set tariff duties, due to the considerable degree of discretion they were empowered with in setting tariff values. At times it was also domestic interest groups pressuring the government for exemptions and concessions and the government responding to gain cheap popularity. All in all, the policies allowed rent-seeking and favoritism, possible by the high degree of administrative discretion. Ahmad, J. U. (1992) also voices this. The policy malaise, characterized by "high protection, especially through bans and high tariffs... was sustaining high cost industries leading to debilitating sickness," while "Assignment of import permits and licenses of all kinds on basis other than competitive entrepreneurship for the auctioning type promoted rent-seeking and corruption..." Admittedly there were some benefits conferred on the export side, but again, most of them concentrated on a single sector alone–RMG, with not much development in other areas, rendering the export base to be very narrow.

The traditional model of BP which would advocate high tariffs based on budget-seeking, licensing, revenue reasons along with the standard infant-industry arguments for protection, might tie in here as having more explanatory power. Typically the model postulates that the bureaucrats are independent actors, attempting to expand their budget to maximize their gains of power and prestige. They also compete within the government framework for more allocation of resources in their own department's favor. As described in Chapter 3, however, the role of the bureaucrats was gradually subdued in Phase one. Particularly Presidential Order # 9 enabled the Prime Minister to dismiss any member of the bureaucracy/civil service without any cause. There was further politicization of the bureaucracy in Phase 1 and 2 by favors being granted to those who had participated in the civil war, by new recruits from freedom fighters, and by direct insertion of army personnel into the civil service. However, since the bureaucrats had a long history in Bangladesh, especially since pre-independence (the "civil service of Pakistan" officers were an elite personnel, polished, and highly empowered), they had to carefully reinstate their position when opportunities so arose. The opportunities during Phase 2 were not for bureaucratic control and development. They faced a military general for an autonomous government.

From Table 70 we can also see the lack of power bureaucrats at BTC held. BTC was, as cited in Chapter 5, kept mostly for historical reasons, a subordinate department under the Ministry of

Commerce. It was NBR, under the Ministry of Finance that implemented BTC's recommendations, collected tax revenues and formulated tax laws and policies. Whatever power the bureaucrats did have, there seemed to be a support for high tariffs through them in line with coalescing with interest groups. It is debatable and difficult to say exactly how much protection was specifically from BP and how much from DPIG or AGS, except that these three models all seem to have some explanatory power.

Technically as Rahman (1997)–a former cabinet Secretary notes–the bureaucrats are supposed to be the "machinery for running the government and are required to implement the decisions of the political masters." In turn, these political masters–the politicians such as the Prime Minister and her Ministers are "expected to reflect the wishes and aspirations of the people" and "collectively be responsible to the government." Rahman details how in Bangladesh, instead of having a complementary work nature, the attitudes between the two groups often becomes confrontational, and further, how the "history of the last 50 years of our country is in a sense a history of struggle against the civil and the military bureaucracy." Continuing on the BP front, Saadat (1997) has also alluded to the "rigid bureaucratic rules which prevent the sales or divestiture of public enterprises," and the "glacial speed at which official approvals come by" or the "maze of bureaucratic regulations" that add to the cost of doing business. He highlights the need for a complete makeover within the bureaucracy–"altering the genetic code or DNA of the public system organism," and requiring a strong political will to do so.

However some of the conflicts bureaucrats and Ministers may have had could have been secondary if one looks at the nature of aid dependence Bangladesh had, in fulfilling its basic macro plans. Because of this high aid reliance, Akash (1998) mentions the government "functionaries remained interested in negotiating as many projects as possible within their respective ministries irrespective of their conformity with the long run plans of the government." He enables this "project fetishism."

Another issue with BP is the inherent inter-governmental turf battles. This can be tied in with Odell's examples of the government not as a unitary actor but instead as big administrative conglomerates which compete with each other sometimes causing policy conflicts (cited in Chapter 2). The conflict may be costly. Odell cites the example of the Great Food Fumble in USA, where the narrow interests of helping US farmers' prices (via draining subsidies from the treasury) and exports (via a huge grain shipment to the Soviets in 1971) consequently resulted in high domestic inflation.

As mentioned in Table 69, BTC is only a recommending body, NBR is the implementing one. BTC therefore felt a resentment not only on this front (that of comparatively limited power), but also because in many instances, some of their recommendations were not heeded by NBR.

On the former point, Rashid and Rahman (1998, page 203) cite World Bank reports (Governance report of 1996; Trade Policy Report of 1996), government planning documents (Fifth Five Year Plan), and Budget Speeches emphasizing the important need for BTC to be made responsible for formulating / advising / drawing up the country's tariff policy. Unfortunately, the best BTC can do in reality is only make recommendations. The authors continue that the NBR has been "empowered ... to design the tariff structure," via "Government rules pertaining to *Allocation of*

Business Among Different Ministries and Divisions and the Rules of Businesses." On the second point they also express frustration at the high percentage of recommendations that are not accepted by NBR. Table 70 illustrates this.

Table 70
BTC recommendations in Budget

	% recommendations fully implemented in budget	% recommendations partially reflected in budget	% recommendations not accepted in budget
1994/95	43	15	42
1995/96	25	10	65

Source: Rashid and Rahman (1998, page 203)

There are conflicting reports as to how many recommendations of BTC are accepted. On one of my interviews a former Chair of BTC, Hamid (July, 1997), gives a positive spin to the acceptability of the recommendations. "In my regime most of the recommendations were accepted. We recommended the duty structure for the electronics industry for about 152 items. All our recommendations were accepted. Similarly, regarding transformers, we carried out a study–all recommendations were accepted by the government. So much so, that in our time BTC started becoming so much important that in Finance Minister Saifur Rahman's speech (when I was chairman, BTC), in 6 or 7 places he referred to our recommendations. In this year's budget, Kibria said we are accepting BTC's recommendations."

On the other hand, in another interview, (January 18, 1997), the 17th Chair of BTC mentioned, "I gave them 75 recommendations. There was detailed study behind these recommendations. Unfortunately, out of our 75 recommendations sent to the government, they accepted 7. Our BTC staff feels frustrated about this...(because since)...our views reflect those of the local industries and academicians and BTC staff, they should not summarily be dismissed." Zaidi Sattar (June,

1997) reasons as to why this happens is to provide NBR with a buffer against domestic pressures. However, he claims a larger share of acceptance of BTC's recommendations. "NBR ties to avoid responsibility. To do this, they accept about 75% of the recommendations that come from BTC yearlong."

Given that these recommendations came from a long drawn-out process of "Public Hearings" and the Commissions detailed intellectual analysis, it is natural that there is a sense of resentment. The problem of intellectual capacity gets compounded when, after foreign training of some of the civil service "who are deputed by the government to work in the *Tariff Commission*....(get) posted elsewhere...(when they) return home." (Rashid and Rahman, 1998, page 205) Even at the anchor, BTC had "7 Chairman in the last three and a half years." (i.e. 1995-1998)

The authors extend the resentment argument to argue that "The general feeling is that the bureaucracy, which is directly responsible for framing policy, has little time to study such (trade) cases. It would therefore appear that the participatory process of tariff policy formulation appears to have been debilitated by the existence of conflicting interests within the business community, the weak and inadequate research and analysis capability of the Chambers (of Commerce and Business), a marked propensity for private-sector representatives to project personal and parochial interests above national interests in their dialogues with the Government and insufficient attention being paid to the views and opinions put forward by professional bodies." (Rashid and Rahman, 1998, page 206)

Rashid and Rahman (1998, page 208) note that imports are assessed on the higher value of Tariff Value or Invoice Value. Since the "same commodity imported from different countries tend to have different prices," the authors continue, the "customs authority therefore has the discretionary power to choose one out of several import prices available for a particular commodity, presumably on the basis of some value judgment, and fix it as the *Tariff Value* for that commodity." The authors, thus admit that the "possibility of misusing this discretionary power cannot be ruled out."

DPIG could also be a reason for lack of progress of trade liberalization. In fact it was. However, it is difficult to pinpoint exactly which tariff was granted in which way, without having a great deal of inner policymaking experience in the actual workings of economy. Suffice it to say it is well recognized that DPIG was a significant factor.

There is a sharp difference in the operation of democratic politics in contemporary developing countries compared to the developed countries. In developed countries, the Members of the Parliament (MPs) are legislators. Their main function is to examine the existing laws, improve them where necessary, and replace them by new laws as and when needed particularly with focus on the welfare of the poor. In Bangladesh, MPs complain they cannot act as legislators because they will not get re-elected unless they can show evidence of development works in their constituencies. As such, they try to influence allocation of resources in the national revenue and development budgets in favor of their areas. This shows that even after the fall of Ershad government, a number of Jatiya Party politicians got reelected (like Maudud Ahmed, Anwar Hossain Monju), because they had performed these tasks. This absence of legislative power, inhibits the development of self-governing local government institutions like Union Parishad, Thana Parishad and Zila Parishad. Further, these add to problems with reform efforts too. "Partial compliance and delays in carrying out actions should be attributed to administrative weaknesses, reinforced by political developments, and the (fact that) .... political commitments to a continued adjustment effort has been fragile." (World Bank, 1990, June 29, page ix, x)

Thus, the real question becomes one of degree. The NRP figures were still very high, extensive controls were still in existence, and the government was still autocratic. Some trade liberalization did occur, but not in sufficient degree–and not much until the mid 1980s. Along with the donor pressure for structural reform, it could be that there had begun the inception of a weakening of the realist model.

For example, Willett cites the weakening of the Realist model in terms of explaining increased, but limited protection in the US (by the inclusion of special protection afforded to industries):

> "The traditional public choice analysis from an interest group perspective has important explanatory power, but taken in a vacuum, it would predict considerably more protection than is observed. Countering these pressures we have the clout of a relatively strong executive branch with lots of institutional arrangements biased in the direction of giving us more liberal trade policy outcomes than would come out of a policy process dominated by Congress. It's the decline in the power of the realist model (in its liberal form) relative to the domestic interest groups, rent-seeking model that gives rise both to the particular

incidents of discretionary voluntary export restraints, quotas, etc., and which have also given rise to recent pressures to revise again our basic trade policy institutions, this time to reduce the power of the executive branch." (Willett, February 1996)

Combined with the TIP studies (which demonstrated the high and distorted protection system), the frustration of the mostly autocratic and military dictatorship of the latter 1980s, the complex nature of the bureaucratic process (some wanted reform, others wanted to maintain the status quo) and the pressure for reform from donors, it does appear that a general relative weakening of the AGS model had occurred. However, it also appears that there was a relatively strong influence for the BP and DPIG model too.

Phase 3: 1992-1996

From Chapter 3

- Exit of autocracy, process of democracy initiated.
- Government accepted WB/IMF conditionalities with greater commitment.
- Although positive signs emerged regarding macro-stabilization, there was also the negative presence of corruption, national strikes and continued issues of poverty.
- Rivalries between the two major political parties continued on Bengali versus Bangladeshi nationalism.

From Chapter 4

- Major progress made on tariff reform.
- Number of tariff slabs fell to 6, by FY95, from 26 in FY92.
- Maximum tariff (CD) rate fell to 60% by FY95 from over 500% in FY 89/90.
- Unweighted NRP fell to about 25% by FY 99/00, from 114% in FY 88/89 for tradable items and to about 30% by FY95 from about 89% in FY91 for the economy as a whole.
- By 2003, the "Low" and "Moderately High" taxed items had increased to 75% (from 41% in 1992), while the "High" to "Very High" taxed items were down to 25% (from 59% in 1992).
- Number of banned and restricted items fell by 95% by 1994 (only 63% items were free in 1989) at the HS-8 line.
- Import permits eradicated in 1993.
- Dual exchange rates unified in January 1992–WES abolished.
- Current Account made convertible since 1993.
- Tariff values converted to Pre Shipment Inspection Scheme by 2000.
- Structure of tariff changed from being: 1991: Protection = CD+ST+RD+DS+LF+AIT, to 1992: Protection = CD+VAT+SD+LF+AIT.
- VAT set at a standard rate of 15%.
- Lowering of anti-export bias to 1.26 in FY 97/98 from 1.66 in FY 91/92.
- Clear dominance of nontraditional exports (78% average between 1992-98) over traditional exports (22% average).
- Within nontraditional exports, RMG accounted for 75% of total exports by 1998 (versus 52% by 1991). This was largely due to the continued extension of enclave type export incentives.
- BTC made autonomous.

- Different authors cited trade liberalization processes in Phase 3 as follows: "extensive steps" (Bayes, Hossain, Rahman, 1995; World Bank 1996; Bakth, 1998; Dutta and Ahmed 1999); "definitive break from the past resulting in significant reductions (in barriers)" (Yilmaz and Varma, 1994); "period of extensive trade liberalization" (Ahmed, 2001); "remarkable momentum" (Razzaque, Khondker, Ahmed and Mujeri, 2003) and "picked up its pace." (World Bank, 1999)

From Chapter 5.

- Government committed to liberalize trade–Budget Speech reflected goals of trade liberalization and free-market principles.
- Economic arguments for trade liberalization justified in lowering average tariff barriers (nominal and effective), reducing anti-export bias, correcting distortions in relative prices and increasing consumer welfare.
- Trade liberalization idea driven mostly from neo-classical philosophy of WB's SAR programs which made trade reforms a central condition of donor funding availability.
- Trade reform programs not taken in isolation, but as part of a comprehensive package of broader policy reforms (fiscal/financial policies; industrial/investment policies; exchange-rate/monetary policies), all aimed at a liberalized, market and private-sector driven open economy.
- Some of these reforms were: ISAC I and II (industrial sector); IDTC I and II (trade sector); FSAC (financial sector), JSAC (jute sector); PRMAC (public sector management) from WB and ESAF, from IMF.

- BTC made a statutory body with an independent entity. Its program of "Institutional Development of the Tariff Commission" began in Phase 3, first from 1992-93 and then from 1993-95. This WB funded program aimed at the administrative upgrading of BTC.
- Macros stability: a World Bank study of 1999 found that the trade liberalization and other reform measures contributed to market-oriented reforms and in general, improved macroeconomic performance. In Phase 3, GDP growth was 7.7% versus 6.5% in Phase 2; X/GDP grew at a 32% higher rate than M/GDP; growth of foreign aid as percentage of imports declined by 4.75% as did the growth of debt as a percentage of exports (by 3.7%). Most other studies in this respect also found trade liberalization providing a positive stimulus to growth. Tables 63-65 and Figures 16-18 provide illustrations of this.

From Chapter 2, it appears that the model that that has the most relative explanatory power with this phase is the AGIO model. The liberal approach of this model is essentially orthodox economics, set out at maximizing efficiency. The lowering of tariff and nontariff barriers, along with a stable macro- environment during this period would suggest that the reform measures tied in with the objectives of this model, i.e. that international trade is beneficial. The model also postulates that the economic role of the government should be limited to providing the necessary foundation for the market. This role–promoting a market-driven open-economy aimed at welfare maximization–is what the WB/IMF were insisting on, via their "conditionalities" in Bangladesh. Partly being an aid-dependent economy (although this dependence had fallen due to the rapid increase in primarily RMG's contribution towards export earnings and also independently by the inward remittances of Bangladeshi workers abroad), and partly having a general shift in philosophy from the transition to democracy from autocracy, Bangladesh was now correctly poised to now absorb more readily, as pointed out in Chapter 2, the core of an efficient self-regulating market–rooted in the classical tradition of Hume, Smith, Ricardo and Mill.

It could be debatable whether the move to this period of the Sovereignty at Bay model–where the informed median voter votes for liberal trade policy–was more likely internationally imposed via the donors versus arising from an inward process of self-realization about the inherent benefits of an ideal democracy–where intervention is justified only to enhance the self-regulating mechanism. This is a matter of normative analysis. Perhaps Bangladesh could have come at this process (of relaxing controls) herself over time. Perhaps it might have been costly (macro indicators could have gone haywire).

However, what is explicitly positive is that during Phase 3, at least over a period of three to five years, there were very clear and unmistakable signs that trade liberalization had occurred. What is also very likely is that most of the trade reforms were donor driven, under the spirit of neoclassical economics. Greenaway and Basu (1993, page 8) argue this latter point.

> "...the coincidence of timing between reforms and IMF/World Bank credits, and the explicit inclusion of so many specific recommendations in World Bank documentation makes it difficult to avoid the conclusion that the reform programme would *not* have been adopted without World Bank conditionality."

On the role of international agencies like the World Bank and the International Monetary Fund, on the trade policy process in Bangladesh. Sattar (June 1997) noted

> "What is the role of the WB? WB gave ISAC for trade liberalization and so definitely had a role. But the credit was given with a lot of conditionalities."

Raab (August 1997), also agrees that

> "Trade reform that has been undertaken in Bangladesh, has been due to the insistence of the WB. After the TIP program, trade policy took off in the late 1980s. It started about 1986-1987. They (donors) insisted about policy reforms. The government formed a committee. I was in it as an advisor. The Chairman, BTC was the Chair of that committee. We worked about till 1987-1989. They (donors) took some of the suggestions from TIP, but not all. ISAC2 began in the 1990's. Trade reform was accelerated. The major push for trade reform was from the WB, through the ISAC's."

Khan (1997) also comments that

> "ESAF and ISAC-II were the forces behind trade liberalization. ISAC-II was the main force–it set up the numbers."

Dr. Abed, (Abed, January, 1997) Chief Officer, BTC agreed that

> "the pressure for reform to implement trade reforms came from the WB."

However, he adds

> "there was also the added pressure of the rules of GATT, which later became the WTO. Bangladesh signed WTO in 1995 and agreed to reduce tariff on about 300 HSCode items."

As positive steps in the spirit of acceptance and enthusiasm from within the BTC about the trade reform process that the WB/IMF had started, Hamid (July 1997), on the institutional development of BTC, comments, "We installed about 40/50 computers, and entered the "Operative Tariff Schedule" in the computers–previously it was in books." Khan (1997) notes that "OTS started in 1992." Hamid (1997) continues, "We also computerized all trade agreements that Bangladesh has done: SAPTA, Uruguay Round, etc. We trained our staff to be competent to do calculations for sector-wise NRP, ERP, DRC, etc. Our own staff has refined some of the calculations too–for example, Dr. Abed has his own variant of the Corden model to calculate ERP. The SINTIA program of the WB was only with NBR. We transferred the entire technology into BTC. We bought almost all the books in the BTC library, on trade theory, trade policy, and also IMF/WB books." Hamid (July 1997) also reveals a larger role for the BTC in that it "started taking over other functions: e.g. government made me the Chairman of a Committee, which had to deal with what Bangladesh should do about GSTP. Then, BTC started work about the whole SAPTA. I went three times-the Commerce Minister did not go. I gave recommendations on which items we require tariff concession from India, Pakistan, etc. and what we should give. We identified 1800 items at the HS4 digit level on tariff and non-tariff barriers for Bangladesh, India, Sri Lanka and

Pakistan. These entire studies were carried out by us. Today the concessions Bangladesh is getting, we did the initial work here; there was no role by the Ministry of Commerce."

Thus there may have also been a spirit of free-market economics emanating from policy makers at BTC. Even if that is the case, it would still signal economic liberalism, which is what the donors were prescribing anyway. Hence, the AGIO model is the model that appears to have the greatest relative credibility for this phase.

Further, as far as democracy was concerned, the role of the general public was significant because right from the beginning, at independence, the general public had high expectations from the political leaders for the creation of a West ministerial type of Parliamentary democracy which would be responsible to the people. The inheritance of this demand for reform came from the historical experience of political development in this area under the British rule (1757-1947) and Pakistan period (1947-1971).

After independence in 1947, during the Pakistan period (1947-1971), there was repeated demand from people at large in Bangladesh for a West ministerial type of Parliamentary democracy, free general election under it, and formation of progressive government that would lead the above round of social legislation to its second stage. Instead, they got tagged under an authoritative military rule, which was openly against radical land reform and participation of the people in governance. Naturally, after independence in 1971, the people at large wanted to see that their demand for responsible government oriented towards progressive social legislation be no longer suppressed. Hence, Bangladesh inherited a package of reform agenda, as part of its historical struggle for independence.

After the assassination of President Zia in 1981, there was optimism in favor of participatory democracy but it was short lived. The new President (Justice Sattar) who came to power during the crisis of 1981, was preparing for giving general election for restoration of democracy in the country. But his effort was interrupted, and soon there came the second capture of power by another army ruler, President Ershad.

The people protested against this rule, now under two political parties–the AL (the old political party) and the BNP (the new political party). Both of them had large supporters but they failed to launch a united struggle against the army for about 8 years (1982-1990), until in 1990 the public pressure forced them to come to a united platform. When that happened, waves of people gathered around them to topple the military ruler and forced him to hand over power to the Chief Justice of Bangladesh (Justice Shahabuddin). Subsequently it was agreed that henceforth Bangladesh would be ruled by civilian government and the military would remain in barracks, and there was a greater demand for freedom for the media to voice public demand and promote transparency and accountability in government.

It may therefore be seen that Bangladesh's people in general has contributed substantially in moving forward from an authoritative to a democratic polity.

Thus, it seems that the AGIO (Autonomous Government International Organization) model began to have more relevance after the system became more democratic, which means the DPGP was there, but not in the standard way of advocating lower tariffs, but rather wanting an entirely different government, that had a different attitude and then the government paid heed to them. (One could perhaps modify the AGIO model by changing it to Democratically Autonomous Government International Organizations.)

Further, after the democratic government came to power, people also started trusting the government. So when the democratic government started talking about the benefits of trade liberalization and globalization, many segments of the population believed it and gave support. This trust element was lacking in the previous military regime, where the general public were more suspicious of the intention of the government.

Phase 4: 1997–present.

From Chapter 3

- Emergence of a "Caretaker Government" in the Constitution, as a neutral party to facilitate elections and power transition to the newly elected part.
- Although the main two political parties continue to have political differences, economically their ideology tends to agree on an open-economy and market-driven philosophy.
- Unfortunately, the instruments of hartal (strikes) and boycotting attending Parliament meetings have disrupted socio-economic life.

From Chapter 4

- Slowing down of trade reform efforts. (However, even though there were some tariff reversals and in some cases, impositions of new restrictions, on average tariffs had reduced considerably.)
- "High" and "Very High" tariff rates remained essentially the same from 1996 to 2003. (Figure 7) Table 28 displays–certain products–how high overall tariff rates still are. These range from 71% to about 590%.
- Figures 8 to 13 displays a "X" type graph indicating that although CD rates may have declined, SD' s on many products had increased. Thus the CD tariff slab of six, effectively becomes 14.
- The export picture still remains impressive, with SBW, DDS, BBLC, and EPZ's (opening up of a second EPZ in 1993 in Dhaka), continuing to provide incentives to export. Because of this, RMG continues to contribute over 70% of gross exports.

- However the export base still remains quite narrow.
- Although SBW has been made available to other exporters also, problems of quality standards, environmental and labor safety issues remain.
- SAARC movement led to the development of SAGQ for further regional corporation.

From Chapter 5

- Average ERP declined to 24.5% in FY99/00 from 75.7% in FY92/93.
- Trade reform measures began to slowdown. The economic reasons were the following.
- Many items still had high ERPs. 43% of economy-wide sectors still showed above average ERP's and 13% had above 60% ERP's in FY00.
- The CV on NRP had actually increased for from 72% (FY 90/91) to 77% (FY 99/00) for tradables and from 59% (FY91) to 74% (FY96) for the whole economy, indicating shortcomings of the tariff rationalization efforts. Similarly, the CV on ERP had also increased from 77% (FY94/95) to 82% (FY 99/00).
- Continued use of para-tariffs, multiple tariffs on the same product, use of discretion in applying tariffs and nontransparent and complex nature of many tariffs. Tables 58 and 59 provide examples of tariff reversals in many cases, some of the justified in the "greater interest of the country."
- On the QR front, many items banned or restricted on religious, health, environment, moral and cultural grounds have questionable justification. Tables 60-62 illustrates some of these questionable products.

- Tariff reform measures also slowed down due to interest group pressures. The 1997 budget withdrew the PSI on several items (e.g. with highest ERP) due to pressures from interest groups such as the different Chambers of Commerce and Industry.
- Shortsightedness of concentrating on the narrow view of winning elections, cited by a former Finance Minister (Saifur Rahman) as overriding welfare loss concerns of the larger group of the general public. Government's response to interest groups and vested quarters (like trade unions) slowed down reforms. Loss of the second JSAC cited as an example of this–failure to privatize the jute mills and instead keep the running at a loss to satisfy vested interests went counter to World Bank conditionalities. Further, Government itself associated loss of election (by-election) with reforms and also caused it (reforms) to stall.
- Some concerns voiced about Bangladesh having liberalized too fast and needing a more gradual approach to give local fledgling industries time to catch up.
- Another concern cited has been the big bilateral trade deficit with India ($1b), as well as the almost similar amount of unofficial cross-border trade.
- World Bank responds that most of the obstacles and inefficiencies are due to continued operation of inefficient industries, direct/indirect subsidies, and bank-loan defaults, so that the culprit (of loss of impetus for structural reforms) should not be trade liberalization, but home grown factors such as political difficulties, civil unrest and the lack of an enabling environment such as good governance which includes transparency and accountability of Government operations.

From Chapter 2, it appears that a combination of models worked during this phase. Having now facing the greater task of that of rationalization and of consolidating the progress made, the government felt it had to slowdown the reform process. Some of the arguments were economic (high tariff dispersion, questionable merits of continued items in restricted lists, inability of inefficient industries to "grow up"); some were interest-group based (responding to vested group pressures) to maintain popularity. Further, some forces emanated from the intellectual circles (advising the government to allow domestic firms to consolidate the trade liberalization movement) and while others cited the bilateral trade deficit with India.

Even with economic integration, policymakers in Bangladesh feel across the board lowering of trade tariff barriers might be disadvantageous, because India being a local hegemone and with diversified exports, placed Bangladesh in the weaker partner category, more so because of Bangladesh's narrow export base. Under SAPTA substantial tariff liberalization had actually taken place in most SAARC countries but the balance of Indo-Bangladesh trade continues to be substantially against Bangladesh. Further, for historical reasons, India had an aggressive entrepreneurial (marwaris) class while in Bangladesh such an entrepreneurial class did not grow particularly during the period this region was with Pakistan. (Only in recent years some entrepreneurs are coming up.) There was therefore a perceived fear that Indian government and traders would use Bangladesh market to their advantage through such practices as dumping (Indian goods) and through non-tariff barriers against Bangladesh commodities. (Although Bangladesh is a small country her 120 million consumers constitutes an attractive market for India.)

Thus, some (like M.K. Alamgir–former Chairman, Bangladesh Tariff Commission) were of one view that for Indo-Bangladesh trade that there should be no general trade reduction, but it should be commodity specific. The Ministry of Commerce in Bangladesh, NBR (National Board of Revenue) and Tariff Commission are now promoting trade studies to get more insight into the very complex area of formal and informal trade with India. On the other hand, if Bangladesh were to settle for a product-by-product approach, Bhuiyan (1986) noted that ASEAN experience indicates that may be very time consuming and inefficient. All of these issues further contributed to the "slowing down" issue.

In terms of the AGIO model, if we look at these above mentioned issues, as well as the loss of the JSAC-II credit loan and–as will subsequently be examined in Chapter 7–the eventual ban on eggs (as protection to the livestock and poultry sector), it appears that the AGIO model might not have much relative strength in explaining the slowing down of trade reforms.

The DPGP model also appears to not have much relative weight as consumers are still not a strong force in the economy. As far as the consumers association of Bangladesh is concerned, Karim (1997) claims, "they are always invited to meetings (Public Hearings). They talk about prices, quality and quantity concerns, but don't have much influence, and are not effective. We don't have any Consumers Protection Act–it will take some time, because this is a new concept. But we do agree that checks and balances are needed with the free market." This new concept is catching on though–recently (2005), there was a seminar at Bangladesh Institute of Developing Society titled "Consumer Association in Bangladesh" where at least intellectually, this area was highlighted.

This leaves the AGS, BP and DPIG model to explain the stalling of reforms. In a sense it would be tempting to compare the applicability of these models in this phase to their applicability during Phase 2. However, at least with the AGS model, there was an important difference. In Phase 2, the AGS model was mostly an autocratic one. In Phase 4, it was primarily under democratic leadership. Thus, although the PM could have been swayed by her Ministers and the various interest groups, the context of that decision is very different than an authoritative regime taking independent decisions and relying mostly on the military for support. Democracy had started its evolution in Bangladesh, over the last 15 years already. The World Bank had already pushed ahead with rapid reforms. It would now be very difficult for any one ruler to ignore these movements and assume an independent Statist role–or at least we would hope so.

Thus, it would seem that the AGS, BP and DPIG models together played a significant role, with perhaps the AGS model having lesser significance (as explained by Willett's comment in Phase 2) and the latter two models in combination providing greater weight.

No one particular model dominated all of the different phases. It does appear that the AGS model seemed relatively more prevalent in Phase 1 and for most of Phase 2, given that the donors were mostly absent (less role of AGIO) and that the autocratic government had overwhelmed all interest groups and bureaucratic politics, under military pressure and realism. The end of Phase 2 and Phase 3 appears to have relatively more credibility to the AGIO model, given that democracy had surfaced explicitly and donors were driving most of the momentum of reform. The primary export earning businessmen (RMG) had come to terms with globalization and competition, while non-traditional bureaucrats could be more vocal in an open environment where "ideas" based on classical economic liberalism were being increasingly propounded (with the help of the donor agencies). Phase 4 was more a relative combination of BP and DPIG, with some reasserting of the AGS model, though under a democratic guise. In the next chapter, we will concentrate on a specific case study to examine this process further.

Overall, we return to Table 5 in Chapter 4 and link in the IPE models as described above. We can therefore obtain a modified version of Table 5 as Table 5A.

Table 5A
Modified Version of Phases of Trade Liberalization in Bangladesh

Trade Phases	Trade Characteristics	Regime Phases	IPE characteristic
1. 1971-1982	Overall restrictive trade regime.	Mujib (1971-75) Zia (1976-81)	Autocracy Military Rule Realism
2. 1982-1991	Sporadic progress in trade liberalization.	Ershad (1982-1990)	
3. 1992 to 1996	Major progress made on tariff reforms.	Khaleda Zia (1991-95)	Democracy Liberalism
4. 1997-present	Slowing down of the pace of reform.	Sheikh Hasina (1996-01) Khaleda Zia (2001-present)	

We are now in a position to better understand the justification of the four trade phases. The reason I have developed these four phases is to show how the political economy process impacted trade liberalization. In other words, the way the authors have demarcated the trade phases before have been mostly on economic grounds, looking mainly at trade indicators. I also match the philosophical orientation of the regimes (1971–1990, having three regimes mostly autocratic/realist, while 1990–present has had another three regimes which have been primarily democratic/liberalist) to each of the phases–to provide a clearer breakdown of the phases. As Chapter 3 showed, trade liberalization was not the focus of policy makers in the initial decade of the post-independent economy and later became more pronounced after the transition to democracy from military rule. In this way, the division of the period under study in terms of these different phases can provide an integrated view of transition of Bangladesh economy from a highly import substitution interventionist economy to a competitive efficiency based open economy (to a substantial extent), by examining the shifts in the relative pattern of the government's political orientation and the political economic development that had taken place in the country which impacted significantly on the area of trade liberalization, by noticing the overlap between the various degrees of trade liberalization.

During Mujib's period (1971-75), political development was towards a socialistic orientation with greater state control over the economy–its politico-economic strategy was further expansion of the public sector with emphasis on import substitution oriented interventionist policy. Statism along with socialism and nationalism was the ideological policy that the ruling political party Awami League had adopted. The next regime, that of Zia's (1976-81), moved away from this ideological platform of socialism and went for a mixed economy. As a result, although the import substitution oriented interventionist policies continued for some more time (till early 1990s), there was a steady increase in the role of the private sector along with greater support from the donor countries. This period, therefore, showed a major initial break in the ideological frame of development. However, the overall policy (as far as trade was concerned) was still of a restrictive regime, and his leadership was also primarily of military rule.

Therefore, the period of Mujib (1971-1975) and Zia (1976-1991) are shown together to indicate the initial nature of political condition (socialistic orientation) and trade dimension (import substitution based interventionist policy) of the country and its gradual, slow but steady movement towards private enterprise orientation leading to greater inflow of foreign assistance (with its various conditionalities) in subsequent periods in the country. I have therefore subsumed these two regimes in Phase 1 of the Trade Liberalization process in Bangladesh.

Regarding Phase 2, this corresponds with the Ershad era (1982-1990). During this phase the break from apparent public sector domination in favor of private enterprise driven development got further stimulus. This period also showed an increased cooperation between the top civil servants and the rising business class. The result was the rapid development of the ready made garment industry. Starting from a very low base, Bangladesh became one of the major producers in this field. Further, this period saw a rapid increase in the dependence on foreign assistance—naturally there was external pressure for both greater accountability and opening up of the domestic economy to greater outside competition for the sake of greater efficiency. Moreover, in the late 1980s, there was increasing concern among the donors about the merit of import substitution oriented interventionist policy and on the need for structural change in economy in favor of open economy based competitive development. However, as far as trade policies were concerned, the overall regime was still restrictive, and on the political front, public agitation against an autocratic government had become increasingly vocal. It would not be until Phase 3, that the ushering of democracy would allow the bold steps of reforms to actually take place and gain popular support. Thus, Phase 2 lasted from 1982 to 1991, while Phase 3 began from 1992.

Phase 3 (1992-95) relates to the situation after restoration of democracy in the country. The change over of Government from the previous military dictatorships in favor of democratic regime, paved way to a major structural change in Bangladesh economy–from import substitution oriented to export promotion oriented policies based on greater competition. Democracy had created the opportunity to provide the framework for trade liberalization to effectively take place. That is, there had by now, a taste of freedom and choice, by the general public, the general acceptance of international competition by businessmen and the compliance of a government with some reform-minded bureaucrats to adhere to donor conditionalities driven also by the government's own desire to consolidate and sustain the process of liberalization from fifteen years of military rule. Thus, the democratic government showed greater courage and foresight to respond to this challenge and went ahead with rapid liberalization of trade which might not have been possible, otherwise. Indeed trade liberalization moved at a very fast speed during this period which was unthinkable in the previous periods. However, in moving in this direction, Bangladesh government also had to take into consideration the opposition pressures from the various types of interests groups.

Phase 4 (1996–2006) describes the slowing down of trade reform efforts from the mid 1990s onwards. During Post-1995 period Bangladesh came to realize another grim reality: to make the structural change work, the quality of governance was important. This, along with the complexities of interest groups pressures, corruption, nepotism, and excessive regulation would not allow democracy to flourish unfettered. Some of these problems had existed during the years of autocracy too, but this time, the role of the public and the shift in ideology had become prevalent. The people had become more cautious–they wanted the government to be more accountable. Donor agencies also started shifting gears and now talking about "effective" government–one that would be transparent and accountable for its actions. Some in the government too, were also cautioning that Bangladesh had perhaps moved too swift in its direction of trade liberalization. Domestic industries began clamoring for protection against cheaper imports. And then there was the never ending political bickering between the top two political parties, largely on ideological issues, which ironically had nothing to do with the economic manifesto of either party (which was both for economic liberalization). All in all, these are reasons for justifying a separate category for Phase 4.

In summary, in the first two phases of trade liberalization (1971-1990) three military / autocratic governments (Mujib: 1971-75, Zia: 1976-81 and Ershad: 1982-90) ruled the country, while from 1990 onwards, two democratic governments (Khaleda Zia: 1991-95, Sheikh Hasina: 1996-01 and Khaleda Zia: 2001-2006) had taken over leadership. What is interesting, is that though on the political front the two governments have been on serious conflict on a number of issues (leading to much deterioration in the quality of governance), it is remarkable that there is not much difference in their orientation towards an open economy type development. The current emphasis seems to be on (a) improving the quality of governance so that efficiency of the economy can be increased further within the given resources and (b) go for a simultaneous effort for a "poverty reduction strategy" so that the poor can also share the benefit of this open economy development.

As a conclusion, it would be tempting to say from Table 5A and the explanations provided in this chapter that the major force of trade liberalization was the ideological shift from "realism" to "liberalism" and donor pressure. This would be what George and Smoke (1974) call a "first-order generalization," or a "comprehensive generalization." In a quantifiable data-rich world, one could "test" this via econometric methods. In the absence of rigorous testing tools, one has to be careful in making this contention–what guarantee is there, that with a reversal of ideology (from liberalism to realism), that there could not be opening up of trade barriers too? As our study is more of a "scenario-type" (as mentioned in the introduction), we move therefore for "relative" influences–by focusing on, as George and Smoke (1974) mention, "contingent generalizations," which are "regularities that occur under certain specific conditions." "Put differently," this means seeking "to identify several different causal patterns associated with variation in .... outcomes." Verba (1967) also supports this by stating "the uniqueness of the explanation for any particular case arises from the fact that the *combination* of relevant forces that accounts for a nation's pattern of politics will be different from the combination in other cases."

In this chapter I have attempted to explain the various phases of trade liberalization by, integrating the economic and political scenarios from Chapters 3 and 4, and have provided arguments for the relative degree of explanatory power of the five models (AGIO, AGS, BP, DPIG and DPGP) developed in Chapter 2. This has created a base for shifting from the comprehensive generalization type statement of (donor pressure causing trade liberalization) into a richer context of contingent generalizations (i.e. first, that the relative strength of AGIO better explained the nature of the trade liberalization process during Phase 3, given that AGS, BP, DPIG and DPGP had created an environment conducive for AGIO to foster and second, the other models had their own share of importance over different periods of time). In order to better explain the nature of this contingency, I briefly return to the overall historical context of Bangladesh, and examine the development of each of the models in isolation.

Variable # 1: Autonomous Government: Statism: Role of the State

The character of the government or the role of the State since independence has undergone several changes which ultimately created pre-conditions for the emergence of a more democratic polity from its initial authoritative background. To understand this progress, the strategic components were:

(a) the formulation of a constitution, upon independence and the variations it passed through until consensus in favor of a more democratic institutional process with more responsible governance was built;

(b) the declining role of the authoritative State vis-à-vis that of the emerging private sector and the related capitalistic, open-economy and market-oriented ideological adjustments enabled the country to move from a more public-sector oriented approach to a more private-sector oriented approach;

(c) the mobilization of external assistance for both reconstruction and development needs of the country and the related international relations that had to be built up for the purpose (of diplomatic relations);

(d) the role of the State in relation to promoting internal security and building consensus on political issues (Bangladesh vs. Bengali nationalism); and

(e) the case of participation of the people in political and economic development of the country.

From our analysis it has been seen that during the Mujib regime, Bangladesh started with an Autonomous government, where the State acted on its own, and other actors were substantially subdued. A justification for the emergence for such a Statist State at the initial stages could be identified. In the Zia and Ershad period, however, the character of the State underwent a transition period, which was slow but steady, towards a more participatory democracy in the decision making process where other actors gradually achieved increasing scope for consolidating their position and exerting their influence in the policy making process. This process blossomed from the 1990s with the restoration of a Parliamentary form of government. However, although it appeared that the vestiges of statism / realism might have been considerably lessened, if not eradicated, fifteen years since democracy (in 1990), the two major political parties are still locked in deep ideological clashes with each other. Sobhan, Rehman (2001, page 294) provides a new terminology for the two-party political system in Bangladesh–that of a "political duopoly in which the two major political parties manage to neutralize each other and then created major problems for the nature of the political culture of the country itself." Sadly, he mentions further, that the "two-party political system....should have been Bangladesh's greatest strength." Interestingly enough, none of their issues center on economic grounds–they are more driven by historical rights to simply be the ruling party.

Hence to the extent that these parties–both the incumbent and the opposition, create anarchic conditions (through national strikes, social agitations, etc), it will be difficult to discount the role of the statist government, which can envisage the opposition's destabilizing behavior as an internal threat. Huntington (1996, page 33) describes the realist theory as one where States, facing a situation of anarchy, "to insure their survival and security ... invariably attempt to maximize their power. As a characteristic of this paradigm, Huntington notes that although the governments of states give "priority to insuring the external security of their states," they also "often may give higher priority to insuring their security as a government against internal threats."

Variable # 2: Bureaucratic Politics

Here the strategic components for analyzing the above variable may be identified as follows:

In pre-independence days the bureaucracy as an institution appeared to be more developed than the political institutions in the country. This was primarily because at the first independence (1947), both India and Pakistan inherited a Constitutional framework from the British which gave special powers to the governor-general. During subsequent political development in India, these special powers were removed and the country (India) rapidly moved towards a West ministerial parliamentary form of government. On the contrary, in Pakistan, the Presidential format continued (with the special power–Section 91A–under which the President could dismiss the Prime Minister). This provision was frequently applied to sustain the authoritative nature of the State, inspite of its apparent representative form. During this period, the President ruled the country primarily with the help of a Bureaucracy that was responsible to him and not to the Parliament.

After independence of Bangladesh, the new political leader drastically changed the position. Though a new enactment (Presidential Order # 9), any member of the bureaucracy / civil service could be dismissed without showing any cause. There was also significant politicization of the bureaucracy through new preferences given to those who participated / supported the independence war, as against those who did not. In addition, there were new recruits from among the freedom fighters and significant dilution of the chain of command within the bureaucracy, based primarily on the allegiance of the members of the bureaucracy to the new political leadership. This specifically weakened the decision-making role of the civil servants and helped the emergence and perpetuation of the Autonomous State. At a later stage however, the top civil servants, through careful maneuverability reasserted their positions somewhat - especially when the scope for such endeavor came through regime changes. Also, the new bureaucrats had to face new challenges not only from their new political leaders but also from an aspirant public who wanted greater decentralization and devolution of power in their favor through promotion of autonomous self-governing type of local government institutions. Successive governments had to make open political pledges for such sharing of power with the people, but acted in collusion with the bureaucracy to postpone such developments as long as possible. A significant step however, had to be taken in this direction in the early 1980s, by the then regime in power for its own survival. But it got diluted in subsequent period. Over the period, the bureaucracy had no option, but to readjust in its new role of working better with the political decision makers and at the same time equip themselves to play a more constructive role for socio-economic development of the country on merit as well as an interest group.

One such role was the emergence of the reform-minded bureaucrats. Perhaps they were always there, but during the process of democracy, and under pressure from donor-based liberalization programs, it was relatively less difficult for them to be more vocal. Many had foreign training, many believed in the economics of market efficiency. The government's own TIP program, the various development institutes of the country (e.g. Bangladesh Institute for Development Studies, Center for Policy Dialogue, the new private universities etc.) were employing many PhDs in economics and finance fresh from Western institutions–in short, a gradual pool of technocrats had developed in the country. This is important, as John Williamson (1994) reasons that the probability of reform success is positively correlated with "the existence in government of a team of economists (headed by a technopol)." Edwards and Lederman's (1998) similarly follow Bhagwati (1988) on the role of ideas, interests and institutions in Chile's trade liberalization process (1974-1990s). Their analysis focuses on the role played by the "reform team," for example, ideas of the "Chicago Boys," and liberal minded policy-makers such as the Minister of Finance who stated in 1973 that Chile's "best prospects for growth are in opening to international competition." (Mendez, 1979). Such a team had already been built up in Bangladesh.

Let us now highlight the difference between the AGS and BP model. This can be done in the following way. Under the democratic government of Bangladesh, the President is the formal head. Under him, the Prime Minister (PM) is the executive head. The PM has under her, a number of Ministers who are in charge of one or more Ministries. Each ministry has a Secretary who is a bureaucrat. Under him there are Additional, Joint, Deputy and Assistant secretaries. These bureaucrats are recruited through a separate Public Service Commission through competitive exams (Civil-Service Commission in UK).

After recruitment, they are placed under the Ministry of Establishment. This ministry then posts them into different ministries. This service structure is called Bangladesh Civil Service. There are 30 cadres here, for example, Administrative Cadre, Finance Cadre, Accounts and Service Cadre, Police Cadre etc. In addition, the Ministers also directly recruit lower service officers (Class II, III and IV). Class I officers are recruited from the Public Service Commission. There are different recruitment rules for Class II and Class III officers.

If the Ministry wants to initiate a policy, it has to prepare a "Policy Paper" and then circulate it to all the Ministries connected with the policy in question for their comments. After obtaining their comments, they include these in the Policy Paper and send them to the Cabinet Secretary, who is the head of all Secretaries. He then arranges a meeting on the Policy Paper with the PM who chairs the meeting and is the Head of the Cabinet. All other relevant Ministers attend this meeting. It then goes to the Parliament for necessary discussion, if it requires Parliament's sanction / approval. Finally it goes to the president for his assent. Those policies which do not need to go to the Parliament go straight to the President.

While proposing a policy, the concerned Ministries also consult different relevant groups of people who would be affected by the policy, regarding the Policy Paper. Then they send the Paper to other Ministries who also consult their relevant groups. The main responsibility of initiating the policy rests with the Minister because he is the public representative. However, ordinarily the Minister is helped by the Secretary in initiating the policy, consulting the people and processing the policy. This suggests that the Minister and Secretary work in cooperation. When there is any friction / conflict, the Establishment Division can transfer the Secretary (to another Department), or if necessary, take action against him to a legal process (Government Servants Conduct Rule).

When a decision about preparation and implementation of a project is concerned, the project can be initiated in any Ministry. A "Project Concept Paper" goes to the relevant Ministry for individual comments. The individual Minister can approve a smaller project through the "Project Evaluation Committee" of the ministry (about taka 10 million). Bigger projects go to the relevant division of the Planning Commission (for example Industry Division), headed by a Member, who with his comments sends it to ECNEC. The PM is the chair of the NEC. Sometimes the Finance Minister acts as the Vice Chair of NEC. If the project is approved, it goes to the President for final approval.

This is the parliamentary System of the government. The bureaucrats do not work independently. They always work under the Minister in making policy decisions. They are supposed to scrutinize the technical side of the policy in detail and give it to the minister for final decision making. There is a "Rules of Business" which incorporates these steps in decision making which is followed to avoid any difficulty.

Under the Presidential System there was no prime minister. It was the President who was the Executive Head. He also had no Ministers under him. He had a Vice President to help him and a number of Advisers in charge of different Ministries (Adviser, Agriculture etc.).

The Secretaries of the various Ministries, although under the Advisers, were also controlled by the President directly, through the Cabinet Secretary. The Rules of the Business was there but most decisions were initiated by the President himself, in consultation with a few top Ministers and a few top Secretaries. So this resembled the statist system, as laid out by the AGS model.

Prior to independence, Pakistan was mostly a feudal-civil and military power elite. This was not liked by the Eastern Wing. The struggle for independence was thus a struggle against a Statist model. (Incidentally Pakistan is still a military state). When East Pakistan won the general election in their Wing, and wanted democracy, war broke out, and Bangladesh became independent in 1971. However, though this new country had managed to escape the clutches of the authoritative rule of the West Pakistan power elite, it needed to go a long way to consolidate this newly achieved democracy. Mujib was initially a PM, but then amended the Constitution and became President. Hence policies during his era were mostly of the AGS model. Zia kept the system a Statist one, but allowed multi-party elections. Ershad, being mostly a military dictator, also followed the AGS model, but promoted growth of the RMG (along with other pioneering businessmen like Nurul Kader Khan and Subid Ali, and bureaucrats like Mokammel Khan), and the decentralized Upazilla system. However, by this time the general public was fed up with autocracy and military rule and undertook massive public demonstrations, which resulted in the long awaited proper birth of democracy.

Variable # 3: Domestic Politics: Interest Groups

As mentioned in Chapter 2, two variants of Odell's (1982) version of the domestic politics model involve political party ideology and interest groups. The former is where party platform and political ideologies are tools deployed for winning elections. The latter would be representatives of different groups articulating their positions to influence policy in their favor.

The dominant interest group at the time of independence was the members of the political party of Awami League, which claimed to have played the pre-dominant role in the independence of Bangladesh. To distinguish them from others, they even devised their own dress code (black jacket and white pant/pajama). Their primary aim was to consolidate their position and ensure their perpetuation of their political power by insisting mainly on (i) immediate trial of those who opposed the independence of Bangladesh, with focus on the religious groups, whom they termed as "Rajakars," and (ii) as a State philosophy they rejected the concept of religious state in favor of a secular state and emphasized "Mujibism" and Socialism (without clearly defining these), along with Nationalism and Democracy. However, the AL was itself divided into centralist and leftist groups. The latter were in favor of some radical social legislation when they talked about socialism. The former preferred a welfare-orientation, mostly within the status-quo. On nationalism, both these groups emphasized "Bengali Nationalism," derived from the ethnicity of the Bengalis and their historical fight in favor of giving recognition to Bengali as the State language. This was known as the Language Movement.

Their other demands were (i) induction of freedom fighters into civil service through lateral entry and providing them other facilities and welfare benefits; (ii) appointment of their members to high positions in the nationalized industries and banks; (iii) giving privilege to them in the distribution of business licenses and facilities; (iv) prevention of other political parties considered to be anti-liberation, to play any political role in the country. As far as Mujibism was concerned, it was left largely undefined, however, with focus on the historical role that Mujib played in the independence struggle of Bangladesh and was likely to play in the further development of Bangladesh as a nation, as its great and benevolent leader.

In contrast, the Leftist parties who remained divided among themselves since the liberation war, wanted radical social reform and rapid movement towards communist-type socialism. They were mainly divided into Marxist and Maoist groups. In addition, they had their supporters in the

Leftist group in AL and the Nationalist AL party led by Maulana Bhashani–a religious leader with a reformist orientation. Together, these groups formed a considerable threat to the centralist AL. Soon, their differences widened. The Leftist groups wanted to continue the freedom struggle to its second phase till the peasants and workers could come at the center of the power. When this could not be achieved smoothly, their armed struggle went underground and AL government felt they had no alternative but to force them into submission by using para-military forces against them.

Separately, the religious groups tried also to consolidate their position in independent Bangladesh, by insisting that they were not anti-independence except for only a few amongst them. They preferred that those accused of such behavior should be tried through the due process of law, and the rest should be allowed to play their legitimate role in the development of Bangladesh. Since it was very difficult to establish such accusation against these people through due process of law, in the absence of adequate supportive evidence in most cases, this left the AL rather unhappy and some of them continued their demand for action against this group through movements in the street. Taking advantage of this position, this religious group could consolidate and expand their position in subsequent years particularly under the umbrella of the military rulers.

All these political groups also had their counterparts among the labor and student classes (they were patronized by them) in the industrial and educational establishments There were occasional clashes among them leading to considerable deterioration of the law and order situation. This disturbing situation continued even under the successive governments and the public demand for keeping these institutions free from party and politics increased over time.

At independence, Bangladesh had only a small army of about 30,000 people, most of whom were stranded in Pakistan. A small group which was in Bangladesh and fought for its independence, wanted rapid promotion and consolidation of their power. However, they also had a small active Leftist group who preferred to continue the freedom struggle in favor of a more egalitarian society and there was effort on their part to come to power through a coup-d'etat. This had to be suppressed by successive governments who were against such movements. Simultaneously provision had to be made to get back the army personnel stranded in Pakistan and rehabilitate them either in their jobs in Bangladesh or providing them access to business facilities after retirement (forced or otherwise) under successive governments.

As far as the business class was concerned, before independence, most industrial and commercial establishments were in the hands of West Pakistanis. Upon independence, these owners fled from Bangladesh and their establishments had to be taken by the State as abandoned properties. However, this take-over was rationalized in the name of Nationalization of large-scale industries and financial establishments, for establishing socialism in the country. The number of Bengali owners of such establishments were minimal, but even most of these establishments were nationalized. In addition, a ceiling on private investment of only Taka 2.5 m was imposed on them–again in the name of socialism and the increased role that was given to the State as an engine of growth.

It took about a decade to realize that the public sector would not be able to deliver the goods on its own and that a dynamic private sector was a necessary condition for future development of the country. To this end there were some early efforts to raise the ceiling on private investment, and subsequently to provide them with other incentives and necessary conditions for their expansion. This realization was re-enforced when Bangladesh tried to borrow substantial assistance from external sources, which on their turn advocated "Structural Adjustment Reform" policies with focus mainly on the promotion of market-oriented economy.

The educated and the intellectual group also seemed to be divided mainly into two camps - the pro-AL, who supported the policies of the AL, and another group (outside the AL), who contested the idea that independence in Bangladesh had come exclusively by the efforts of the AL. They highlighted the role of the general public in the freedom struggle. Specifically, they pointed out, that most of the AL had not stayed in the country during the war period, but instead took shelter in India. So they wanted a broader political base for the country and greater participation for the non-AL in the political process. Ultimately, this group consolidated their positions particularly under the first Military rule which captured political power after 1975, (1975-1981) and promoted a separate political party which came to be known as Bangladesh Nationalist Party (BNP), based on "Bangladeshi Nationalism" and social justice in place of socialism. The second Military rule that came to power in 1981 (1981-1990), promoted yet another political party–the Jatiya Party (Nationalist Party), which, after the overthrow of this regime (in 1991), got substantially weakened, but continued to persist in a reduced form.

Through this above evolution, both AL and BNP became the two most important political parties in the country. With the restoration of democracy in 1990, after the removal of the Military rulers, AL and BNP competed among themselves as the main contenders of political power, through general elections. However, when it was found that it would be difficult for any one of them to secure absolute majority to form a government, they tried to get support from the other smaller political parties–both religious and leftist. In doing this, they frequently compromised their ideological orientation and became more pragmatic in forming government through coalition as and when needed, in their own interest.

It may therefore be seen from above that the two critical areas of economic rehabilitation and reconstruction and trade diversion and trade creation, had to be approached initially mainly through the dominant role of the public sector. It took quite some time for the nascent private sector to assert itself and get its position to play its legitimate role in development, while consolidating and expanding itself. The early years of 1990 showed a sharp expansion in investment in the private sector over the public sector and with the advent of the SAR policies, they became the main actors in the process of growth. In the process two important developments followed: (i) there was a shift of trade away from Pakistan to rest-of-the-world, including India and (ii) a further shift from traditional (primarily jute and jute goods) to non-traditional (ready-made garments, shrimp, manpower) export items. In addition, there was also great expansion in small and medium domestic private producers (livestock and poultry, rubber, etc.), who catered to expanding domestic market. Some of them are coming out of the protection shell and arguing themselves for free trade. In a conference titled "The Bangladesh Investment Conference: The Emerging Tiger," (January 1995), sponsored by Euromoney and the Bangladesh Board of

Investment, Salman Rahman, president Federation of Bangladesh Chamber of Commerce and Industry (private sector) says that the image problem of Bangladesh (that it is poor and disaster prone) is largely self-created and needs to be changed. He supports free market and trickling down of its benefits, although he cautions that government has to provide social investment and NGO's should play their appropriate role in attacking poverty at the grass roots level. Rahman's biggest statement was:

> "We have accepted the fact that ultimately we will live without protection, but the question is the speed. The speed at which you (government) decrease protection should be directly related to the speed at which you create the "enabling environment (conducive business environment) and create a level playing field (compared to neighboring countries)." (Rahman, 1995)

Finally, on the issue of DPIG, one particular interest group that is left out of consideration is the poor. Let me elaborate on this, as it can be a unique extension of this IPE model. Most poor people in Bangladesh are yet not organized in their interest groups. When they are organized, they are dominated by relatively better off people (like in poultry, livestock, frozen fish, etc., sectors) and they try to promote their interests whenever they get an opportunity. Muhammad Yunus, creator of the "Grameen Bank," says,

> "In Bangladesh, we run a bank for the poor. We think of the poor differently. We think they are as capable and as enterprising as anybody else in the world...But that's not how conventional bankers look at the poor...conventional bankers told

us..the poor..will never return your money...Today, Grameen Bank, the poor people's bank in Bangladesh, operates in 34,000 villages, exactly half the number of all the villages in Bangladesh. Grameen Bank currently lends money to 1.7 million borrowers, 94 percent of them are women. The borrowers own the bank. We lend out over $30 million each month in loans averaging less than $100. The repayment record of our loans is over 98 percent." (Muhammad Yunus, Morning Sun, Jan. 26, 1994)

Thus, it is no longer sufficient in Bangladesh to say that liberalism through competitive efficiency in trade would benefit the country: a more important question now is what has been its impact on the poor? An innovative thinking in Bangladesh in this area has been that normal trade expansion cannot significantly benefit the poor in Bangladesh for three main reasons.

First, the poor operate mainly in the informal sector (covers about one third of the economy). Government formal financial institutions usually do not reach the poor. Second, the poor are taken as inefficient (because of their low productivity) and are, therefore, given only a marginal role in the development of the country. Finally, one third of the unemployed / underemployed live in the informal sector–there is no mechanism to convert them into productive labor mainly due to acute shortage of capital.

The new realization that has emerged in Bangladesh from a number of experiments at the grassroots is that most of the poor are efficient; even when they are not organized. When organized their efficiency increases. When given micro credit this efficiency increases further and when given other sensitive support like (marketing opportunities, adequate infrastructure support etc.) they can come to the mainstream of development and creatively contribute to growth. More important, at the initial stage this effort helps the poor to graduate to self-reliance.

At a later stage this can be linked to those sectors which have considerable export potential. One example of this export oriented poverty alleviation program has been the Grameen Check (a new type of popular exportable shirt fabric). This is the link with trade liberalization.

Variable # 4: General Public

As far as the role of the general public in the socio-political economic development of Bangladesh is concerned, it had both an optimistic and a pessimistic side.

On the optimistic front, the role of the general public was highly significant because right from the beginning, at independence, the general public had high expectations from the political leaders for the creation of a West ministerial type of Parliamentary democracy which would be responsible to the people. The inheritance of this demand for reform came from the historical experience of political development in this area under the British rule (1757-1947) and Pakistan period (1947-1971). The British promoted constitutional government in stages and widened the scope for participation of the ruled in the process of this development. This process was reinforced by increased scope of Western education and promotion of local government (from as early as 1885 and subsequent development of an active middle class in this area). Even under this British rule, the political leaders in this area could form a government and pass legislation's in favor of (i) compulsory primary education; (ii) steps towards land-reform; (iii) relief against the money lenders and (iv) food security. (This social legislation was steered by a Bengali political leader A. K. Fazlul Huq during 1937-1940, when he was the chief Minister of Bengal under the British rule).

After independence in 1947, during the Pakistan period (1947-1971), there was repeated demand from people at large in Bangladesh for a West ministerial type of Parliamentary democracy, free general election under it, and formation of progressive government that would lead the above round of social legislation to its second stage. Instead, they got tagged under an authoritative military rule, which was openly against radical land reform and participation of the people in governance. Naturally, after independence in 1971, the people at large wanted to see that their demand for responsible government oriented towards progressive social legislation be no longer suppressed. Hence, Bangladesh inherited a package of reform agenda, as part of its historical struggle for independence.

The immediate response to the above demand by the government led by AL was praiseworthy. A constitution for West ministerial type of Parliamentary government was quickly established as early as 1972-1973. This was applauded by and large by all sections of the people. However, the nation had its first shock, when the Mujib government amended this constitution in favor of a Presidential form with concentration of authoritative power in its hand. This included passage of Public Safety Act, restriction of media freedom and prohibition of other political parties in politics. After the assassination of Mujib and changeover of the government in 1975, when the military moved in, they could at least partially understand the mood of the people. To placate them, at least partially, they immediately lifted the ban on wider participation of political parties in the government, eased the control over the media and despite concerns about the freeness–went for general elections (1979)–in which the main opposition party (AL) participated.

To win the support of the general public, this first military government (Zia Regime), also tried to promote its own variety of local government institution at the village level (Gram Sarkar) to mobilize people at the grassroots, with focus on family planning (population control), canal digging (to supply irrigation water to agriculture) and expansion of literacy. However, by and large, people remained suspicious of the military rule. By understanding this public mood the AL took the movement against the military rulers from the Parliament to the streets.

After the assassination of President Zia in 1981, there was optimism in favor of participatory democracy but it was short lived. The new President (Justice Sattar) who came to power during the crisis of 1981, was preparing for giving general election for restoration of democracy in the country. But his effort was interrupted, and soon there came the second capture of power by another army ruler, President Ershad.

The people protested against this rule, now under two political parties–the AL (the old political party) and the BNP (the new political party). Both of them had large supporters but they failed to launch a united struggle against the army for about 15 years (1975-1990), until in 1990 the public pressure forced them to come to a united platform. When that happened, waves of people gathered around them to topple the military ruler and forced him to hand over power to the Chief Justice of Bangladesh (Justice Shahabuddin).

Subsequently the following developments took place in Bangladesh.

(a) It was agreed that henceforth Bangladesh would be ruled by civilian government and the military would remain in barracks.

(b) General elections would be held every 5 years under a "Caretaker" government, who would be given three months time to conduct the election and hand over power to the new political party that would win the election. To make this system effective, immediately before the incumbent's (political party) tenure is over, it would resign and hand over power preferably to an independent person acceptable to all political parties, preferably the Chief Justice of the Supreme Court. Since 1996 this process is in operation.

Thus, there was a greater demand for the following:

(c) There should be freedom for the media to voice public demand and promote transparency and accountability in government.

(d) The political issues would be dealt with separately from the economic issues. No political party should promote any activity (such as strikes, prolonged lockouts, etc.) that would disrupt the economic activity of the country. And political issues should be discussed and settled in the Parliament and not on the streets.

(e) The economic policies (including SAR policies) should be explicit so that the benefits going to the poorer sector of the community can be seen by the people.

(f) All efforts should be made to separate judiciary from the executive.

(g) All repressive laws (such as Public Safety Act) should be withdrawn.

(h) Government should be responsible, responsive and accountable to the people and an effective civil society should be promoted to ensure these.

On the pessimistic side, the significant factors of the General Public have been:

(a) The continuous conflict between the perceptions of Bengali vs. Bangladesh Nationalism. The AL remains the champion of the former and the BNP remains the main proponent of the latter. The AL insists that Bangladesh should be developed on the basis of Secularism and Bengali Nationalism, implying that the Muslim identity of the Bangladeshi Muslims (who constitute about 85% of the population) should be underplayed and remain a private affair. The BNP on the other hand, insists that Bangladesh should be developed on the basis of geographical nationalism and its Muslim identity should obviously remain a dominant factor. As mentioned before, this issue is not very significant to the average poor Bengali who constitutes about 80% of the population, in the sense that they are not very bothered whether their Bengali or Muslim identity comes first. (They are more interested in what benefit the State has been giving to them after independence vis-à-vis the degree of their deprivation that they are suffering.) However, the above issue has divided the upper section of the nation into conflicting rivals. It has its unfortunate manifestations among the respective student and labor wings, intellectual supporters and sometimes, even mass followers. The sad part of it is that frequently these two political parties resort to strikes and economic lockouts on issues around this identify and continue to harm the economic interest. More important, during these disturbing days, the poor are particularly affected because it becomes harder for them to earn money for their livelihood.

(b) The continuous authoritative rule of the country since 1974 had increased the scope of arbitrary decisions political and administrative, leading to increased patronization, politicization, corruption, nepotism and graft. Even after the 1990 period of democracy and reforms, it remains difficult to make the government adequately responsible, responsive and accountable to the people. A number of civil society organizations have been continuously agitating against these socio-political ills. Even the donor agencies are insisting that inflow of foreign assistance cannot be continued in such anti-investment environment. And progress towards improvement seems to remain slow.

(c) The inflow of substantial external assistance has brought further scope for corruption in the absence of an adequate responsibility on the part of the government. This is particularly so because, external assistance, by and large are invested through a project approach, under which projects are mostly prepared by public servants and implemented through them. Because of lack of participation by the general public in the process, there is scope for substantial diversion of funds away from the clientele in favor of the intermediaries.

(d) In spite of all the insistence on the withdrawal of the repressive acts and separation of judiciary from the executive, the progress in this direction has been extremely slow.

(e) The implementation of media autonomy and rigorous implementation of the existing laws against corruption, nepotism and graft, have been rather slow.

(f) The progress towards removing bottlenecks in favor of promoting investment–both indigenous and foreign–through creating an investment-friendly climate has been rather slow.

(g) The above situation gets further complicated because Bangladesh's population increased from about 45 m in 1947 to about 75 m in 1971 and further to about 130 m in 2002. To feed this huge population for a country (147,750 sq. km) of the size of the State of Wisconsin, itself is a gigantic task. Although it goes to the credit of Bangladeshis (both public and private sector) to have achieved near self-sufficiency in food, but in the face of further increase in the size of the population, the situation remains vulnerable. This on its turn makes both the political and economic situation of the country significantly unstable.

It may therefore be seen that Bangladesh's people in general has contributed substantially in moving forward from an authoritative to a democratic polity. However, much yet needs to be improved in the field of governance, and as such, considerable frustration remains among the general public.

In the background of the above optimism and constraints the role that the general public played in the specific area of trade expansion and trade creation may be analyzed as follows:

(a) The expansion of agricultural production, has not only reduced the dependence on imported food (PL-480 wheat support), but also production of items such as vegetables, livestock and poultry, fisheries, have increased significantly, while the country has undertaken export expansion of some of items and is searching new markets for their further expansion.

(b) The rapid expansion of Garments manufacturing has provided employment for a very large number of female labors, and created an interest group for preservation and further expansion of this sector in the face of problems it has been facing in the context of the globalization process, such as labor safety standards and environment issues.

(c) The rapid expansion of Manpower export has created new affluence and interest groups among these groups of people, who want policies from the government in favor of their job protection abroad and scope for domestic expansion of investment of their remittance.

(d) Business interests in the large scale industries and commerce has been more progressive in that they have organized themselves in about a dozen interest groups, which actively lobby to promote their interests in the new political environment.

(e) Because of the expansion of micro-credit among the poor women in rural areas, about 15 million of them could be organized into separate interest groups, who are now demanding greater inflow of credit in their favor to enable them to graduate to self-reliance.

(f) The rapid expansion of NGO's in Bangladesh during the end of 1980's and 1990's have promoted not only organization of the poor around micro-credit, but also of the organization of the various advocacy groups in favor of women and children rights, transparency and accountability in governance, reduction of corruption and nepotism in administration, and other socio-political-economic issues.

Variable # 5: Autonomous Government International Organization (External Actors)

The role of AGIO needs to be understood in its two phases of development. The first stage which extends from 1971 to end of 1970's is characterized by Bangladesh various efforts to improve external relations with foreign countries, particularly Western Countries, with focus on getting development assistance from them and help diversify its trade. External assistance was needed in Bangladesh right from the beginning for a number of reasons. First, the country was heavily food deficit and therefore it needed food support from friendly countries. However, this food was not only used as safety nets and price supports, but also judiciously for building rural infrastructure, by mobilizing surplus labor in the rural areas. The bulk of the food assistance came from United States and the EU countries. Second, the country was susceptible to frequent annual natural calamities. Therefore, it needed additional assistance, both in terms of cash and kinds during the period. However, again, over the period of time, government built up an institutional mechanism for advance prediction of such natural calamities and mobilization of the people, for facing it in a better way including construction of large number of embankments and cyclone shelters around the susceptible areas. External help played a significant role in this effort. Third, government's need for foreign assistance became urgent in the immediate years of independence, out of the need of economic rehabilitation and reconstruction as well as meeting the threat of severe flood in the northern region of Bangladesh in 1974. And finally, there was also the greater need for development support from foreign sources in view of very low domestic savings rate in Bangladesh.

In the second phase of AGIO, when substantial foreign assistance started coming into Bangladesh, the development partners became more interested on the correct use of this assistance for developmental needs. The philosophy of liberal trade theories worldwide reinforced this need also in Bangladesh. The situation was in sharp contrast from the previous method of getting foreign assistance, where more emphasis was given on repayment of the loan, then on its use. Because of the limited capacity of the country for such repayment, foreign assistance consisted of substantial part as grants, vis-à-vis loans. Gradually, the grant component of the foreign assistance got reduced. The loan component increased and it became, what came to be known as "Sectoral" and "Program" loans. This meant that loan was given as a package, for a particular sector, such as agriculture, industry, energy, etc., with a cluster of policies to be jointly agreed upon by the donors and the government and be implemented as par the time schedule. While this appeared to be somewhat harsh on the recipient country, it was considered necessary for leading the country to the path of short term macro-economic stabilization and long term growth, with focus on transition from an inward-looking import-substitution oriented interventionist economy to an outward-looking, export-promotion oriented efficiency based market economy.

When in the initial phase Bangladesh desperately tried to attract foreign assistance for its reconstruction and rehabilitation, the main problem was to get diplomatic recognition from the prospective donor countries. At independence, Bangladesh was in a relatively disadvantageous position in this respect. The US did not support its independence movement primarily because it had a defense pact with Pakistan, and also, because Bangladesh independence movement was supported by India backed by Russia. Moreover, the adherence of Bangladesh leaders at the initial phase to the philosophy to socialism also discouraged the Western countries to play a more important role in the development of Bangladesh.

Further, most of the Muslim countries were also critical about Bangladesh's fight for independence because it implied the dissolution of a larger Muslim state–Pakistan. Even China–another large neighbor–also supported Pakistan, during the independence war, and was therefore reluctant to give recognition to Bangladesh, in the immediate years. The political leaders of Bangladesh therefore, had to initially deploy lot of their energy to get diplomatic recognition from these countries and in this effort, both the political leaders and the civil servants played a laudable role. However, by the end of the 1970's Bangladesh was able to get recognition from most countries of the world, specially the Western countries and was in a position to finance its development planning effort considerably, with foreign assistance. This was perhaps helped with the transition of the country from socialism to social justice and exclusive public sector intervention to gradual opening up of the private sector, the situation eased up. In addition, when the Western countries realized that although Bangladesh was one of the world's populous countries with very adverse land-man ratio, there was a high commitment to democratic polity, naturally there was favorable inclination to help develop the country through a democratic process. The donors also understood that although for several years the military ruled the country, there was no mistake that the people wanted to get rid of the situation and switch over to a liberal democratic state. Perhaps they (donors) also found out that the army rule in Bangladesh was of a somewhat different character as the military was coming to power through general elections with dominant opposition parties frequently participating in the election. And the bureaucracy and the judiciary continued to function without major restrictions except in limited areas. It was because of this reason that the external agencies such as World Bank, IMF, could come with their package of suggestions for trade liberalization, right from the beginning of the 1980s (when Military rule was prevailing in the country) and convinced the government to implement not only liberalization policies in respect of implementation of the program loans, but also implementation of these policies elsewhere in the economy with greater degree of accountability, transparency and responsibility in the governance.

When Bangladesh started expanding its garment industry in the 1980s though its private sector, with cooperation among reform minded bureaucracy in the government and the rising entrepreneurs they got reasonable help also from their development partners in this area. Similarly in the agricultural sector, which was still largely in the private hands, the government and the donor agencies cooperated very effectively in the liberalization process. The industrial sector, however, proved to be more difficult to handle, because a large number of industries were already nationalized and many of them were incurring huge losses. Because of trade union opposition and opposition from other vested interests, their denationalization and privation proved extremely difficult, particularly in the jute and textile sector, which were responsible for giving employment to the largest groups of industrial labor. The situation was also complicated in the absence of big entrepreneurs who could buy these enterprises and run them efficiently. On the whole the privatization drive continued in the country, and made steady progress, although somewhat slowly, because of political and other difficulties in this area.

The liberalization drive was also difficult in Bangladesh because of the peculiar Bangladesh-India political and trade relations. Politically, immediately after independence, Bangladesh entered a 25 years friendship treaty with India, which was not liked by a section of the people in Bangladesh (the treaty was not renewed at the end of its expiry). In addition, Bangladesh and India had a porous border around three sides of Bangladesh, which promoted lucrative smuggling trade. Because India was more industrialized than Bangladesh, it was in a position to dump its industrial products in Bangladesh and became a threat to Bangladesh nascent industries. This threat increased with liberalization of trade, and eventually it was found that Bangladesh had a huge running deficit in trade with India. This matter was taken up between Bangladesh and India from time to time and is being partially resolved through bilateral negotiations.

At the same time efforts were being made particularly in the 1990s to increase trade cooperation particularly among the South Asian countries, through SAARC–South Asian Association for Regional Corporation–founded in 1985. Under this organization efforts are being made to promote further trade liberalization among these countries, through what came to be known as South Asian Preferential Trade Agreement (SAPTA).

Now that we have examined each model in terms of its own historical development, and where it has had influence on the trade liberalization process, we can understand the nature of contingent generalizations. While early research tended to debate the truth of hypothesis–in our case, whether trade liberalization was donor driven–the importance now is their relative influence. A number of research questions have been raised and examined to understand trade liberalization in Bangladesh during the period under consideration. The role of domestic government policies vis-à-vis the pioneering role of the donor has been an important area of investigation. The inflow of foreign assistance started to increase with the opening up of the economy to the private sector beginning from the late 1970s. The dependence on foreign assistance in the late 1980 increased and with that there was also pressure from the donors to ensure that the aid was utilized properly. Donors believed the best way to ensure this was for the economy to switch over from the current import substitution oriented interventionist policy to export promotion oriented competitive policy.

This dissertation also narrated how the political economy of development in the country (transition of the country from Mujib / Zia / Ershad military phase to the Khaleda Zia / Sheik Hasina / Khaleda Zia democracy phase) created the condition for these policies to be put to test and how over a short period, it got substantially internalized in the country (by development of BP, DPIG and DPGP). Although there was not much influence by donors during Mujib's era, their role and importance increased by Ershad's time. Again, Zia's shift to some openness and breaking the platform of socialism in favor of a market economy created the base for subsequent governments to embrace capitalism more readily. Allowing structural adjustment reforms by Ershad furthered this. Because the country had, at liberation (1971), flavored the brief moment of democracy (which was blacked out my subsequent military dictatorship), the additional rise of the business sector (specially readymade garments), their general acceptance of the economic impact of competition and globalization, the growth of reform minded bureaucrats, and the frustration by the general public with autocracy, made it relatively less difficult for people to accept democracy during the 1990s. Subsequently micro-credit loans (particularly from the Grameen Bank) enabled development of small-scale industries (in which Bangladesh had a comparative advantage). The base for democracy had been established–it would have been extremely difficult for any leader, after the 1990s to revert back to realism. Thus, the demand for trade liberalization had been internalized.

The relevance and usefulness of a number of models developed in recent years in this connection have also been examined. It has been found that although no one model can fully explain the situation in Bangladesh, they have been relevant at different phases of its political economic development to different degrees (explained in the dissertation as and when necessary). Wherever possible, we have tried to highlight these relevancies. An important conclusion therefore, is that while no one model can exclusively explain the situation in the field of trade liberalization in Bangladesh, they can collectively give us much insight into what happened to trade liberalization in Bangladesh so far, and with what impact. Thus, from a contingent generalization vantage point, Bangladesh's main trade liberalization period (as related to Phase 3) can be relatively better explained by the AGIO (donor influence) model, contingent upon the government (BP, AGS) and interest groups (DPIG, DPGP).

The latest position of the government of Bangladesh in the field of further trade liberalization (Phase 4) seemed to be in favor of consolidating the gains of the past years, and be more cautious as well as more open with increased participation of the civil society and the stakeholders in the near future.

Chapter 7 Trade Policy Development in Bangladesh: IPE Model Application to the Livestock and Poultry Sector

In 1994, the Bangladesh Tariff Commission (BTC) initiated a program titled Institutional Development of Tariff Commission (IDTC-2) largely in response to the Industrial Sector Adjustment Credit (ISAC) requirements by the World Bank. This $2.1 million project which was financed by the World Bank as a project of the World Bank's TA VI Project ($14.4 million). Its primary mission was upgrading the Commission administratively, by providing academic and technological staff training, qualitatively improving the management of its assigned functions and recommending adequate trade policies based on sub-sectoral studies of industry and agriculture. The genesis of the theme was neoclassical in spirit, as suggested by World Bank's broader Structural Adjustment Policies, tying in with the governments own beliefs about "open" and "market" economy.

IDTC began in two phases: IDTC-I from 1992-1993 and IDTC-II, from 1993-1995. It was under this IDTC-II project that I worked as an economic consultant from 1993 to 1994, jointly for BTC, Klynveld Peat Marwick Goerdeler's (KPMG) representative firm in Bangladesh, Rahman Rahman Huq, and Nathan Associate, Inc., USA. Other members of my team were Kaiser Rahman and Shahryar Hussain. Our team leader was Dr. Kabir Uddin Ahmed. Naemuddin Chowdhury was our research assistant. The aim of the World Bank financed study was to put together government's own views about these sectors with those of different domestic interest groups, i.e., producers, consumers, and international agencies like the World Bank itself, towards a better basis for trade policy. A study was conducted in 1994, to recommend appropriate ways for evaluating effective protection to six key sectors: Livestock and Poultry, Edible Oil, Fish Processing, Footwear, Agricultural Machineries / Implements, and Rubber and Rubber Goods.

This study deals with the Livestock & Poultry sector as that is the specific sector I specifically examined from 1993 to 1994. Although my other team members provided valuable support, the data gathering, interviews and analysis were undertaken by me. The basic tools for this purpose were primary level data, questionnaires, and interviews of the associations of the sub-sectors and policymakers. For a representative sample size, we took assistance of trade associations of this sector. My responsibilities included formulating the appropriate trade policy for different agricultural and manufacturing subsectors, through extensive firm-level interviewing, collecting cost data, calculating NRP, ERP and DRC, presenting the findings at BTC, having follow-up seminars and public hearings for concerned entrepreneurs, and submitting and presenting the final report at BTC. In this vein, I had to also undertake meetings with key personnel at the Bangladesh Tariff Commission, different relevant Ministries (e.g. Finance, Commerce, Planning, etc.), World Bank representatives and private sector agents about the way policy formulation is influenced by different bodies. A summary of respondents interviewed is provided in Annexure 7.

The basic steps to recommend trade policy for this sector involved the following:

1. An overview of the sector, its importance and relevance for the economy, and its future potential.
2. A detailed study of this sector using the NRP, ERP, EPC and DRC figures to present the state of the livestock and poultry sector.
3. Our recommendations towards this sector.

4. The government's own position on this sector–specifically, the stipulations of the Fourth Five Year Plan as regards to development of the Livestock and Poultry sector.
5. The Livestock and Poultry Association's perspectives, as surfaced through appeals voiced by domestic producers, public hearings at the Bangladesh Tariff Commission, and our interviews with the entrepreneurs at the firm level.

Once these were completed, and the report submitted, BTC conducted its own internal meetings with it's Chair, and sent the recommendations to the government for approval. These steps are described briefly below.

1. ***An overview of the sector, its importance and relevance for the economy, and its future potential.***

<u>Description / Background of the Livestock and Poultry Sector</u>

The livestock and poultry sector was chosen as an important one as it contributed to 7% of GDP and almost 17% to the agricultural share in GDP according to the Fourth Five Year Plan. The sector accounted for 5% growth rate during the Third Five Year Plan. Moreover, livestock products, namely leather and leather products, hides and skins were important export items of the country and contributed about 13% to the total foreign exchange earnings of the country. Further, besides its nutritional value (milk, meat and eggs), this sector also conferred benefits in the form of by-products like manure (used as fertilizer, fuel and poultry feed), skin, feathers, fats & oils, bones, and draught power (ploughing and transport). The government was also anxious to develop this sector as milk, meat and eggs provided only 43%, 67% and 58% of per capita daily intake requirement.

Poultry raising and production—in the informal form of scavenging—was a characteristic occupation in this area for centuries. However, commercial poultry agribusiness enterprises, based on imported hybrid strains, had expanded only over the last decade. In spite of infrastructural restrictions, a good number of progressive small holder poultry producers had been emerging. Day old chick production was carried out by a limited number of hatcheries. But as these hatcheries could not adequately meet the requirements of the sector the chicks were frequently imported from Europe (especially France), India and Nepal. Apart from public and private efforts, certain Non-Government Organizations like BRAC were also attempting to spread the practice of poultry farming in this country. In the early 1990's there were about 300,000 small scale poultry farms in this country and the number was increasing.

About 70% of egg and poultry meat originated from rural sources, providing livelihood to a vast majority of people, especially women. Moreover, there were improvements with high yielding varieties of milking cattle, increasing milk production from 3-4 liters to over 20 liters per day, indicating that Bangladesh had good potential to raise milk production levels. Livestock and poultry did not require much capital-intensive technology, and was ideal to set up in rural areas. Bangladesh, being 80% rural based, this business was highly popular. Moreover, many urban residents were also rearing poultry and livestock themselves. Of the major domestic animals, the black Bengali Goats produced some of the highest quality leather in the world. (FFYP, 1990) At the time of our study, in 1994, there were 11,000 cattle farms (each having more than or equal to 5 cows) and around 41,000 poultry farms (each farm having one having more than or equal to 50 birds). Apart from these there were about 400,000 poultry farms (each farm having one rooster and many hens) set up by NGO's (Non-Governmental Organizations), of the "scavenging" type. Thus, depending upon the number of birds, the poultry farms of this country were classified in the following fashion:

Table 71
Types of Poultry Farms in Bangladesh in 1994

Type of Farm	Size	Product	Associations
Scavenger	Below 50	Local eggs	Unorganized
Small	50 to 2,000	Farm eggs	Bangladesh Small Poultry Farm Owners Association
Medium	2,000 to 10,000	Farm eggs	Bangladesh Poultry Association
Large	Above 10,000	Farm eggs	Bangladesh Poultry Association

Table 72
Comparative Production Data of Chicken Products in Bangladesh in 1991

Products	Small holder system				Large commercial system (m)	% of total population
	Scavenging	% of Production	Commercial	% of total Production		
Egg Production (m)	107,679.00	75.06	303.90	21.18	54.01	3.76
DLS (m)	1,260.97	77.89	303.90	18.77	54.01	3.34
Meat (MT)	61,394.00	86.05	8,561.72	12.00	1,391.28	1.95

Source: FAO (1990) population data, DLS (1991) population data, Agricultural Research Project II, USAID, 1993

DLS: Department of Livestock Services

The principal input components of the poultry sector of Bangladesh consisted of (i) mechanical inputs like incubator, feeder, drinker, etc.; (ii) poultry birds; (iii) poultry feed; and (iv) poultry medicine and vaccines.

There were four different categories of poultry birds. These were:

(a) Pure Line–established through several years of continuous research and development process to increase egg laying capacity, to reduce fat and cholesterol content as well as to reduce mortality rate. Pure line birds were generally not imported into Bangladesh.

(b) Grand Parent Stock–off-springs of the pure line birds were considered as grand parent stock. These were also not imported into Bangladesh

(c) Parent Stock–considered to be the next generation of the grand parent stock. Breeder farms usually imported then from different European countries, as well as from India.

(d) Commercial Stock–the birds generally employed in poultry farms for laying eggs and/or for meat production. These were off-springs of the parent stock. Bangladeshi poultry farms generally procured them from local breeding farms and government hatcheries as well as from other countries like India, Thailand, Pakistan and Nepal. Major local producers of commercial broiler stock were "Biman Poultry", "Eggs and Hens," and "Phoenix Poultry." In 1994, in Bangladesh, total annual demand of commercial chicks stood roughly at 1,000,000 chicks, of which 70% was provided by local sources (government and private), and the rest 30% imported. Depending on variety, market price of local commercial layer and broiler chicks ranged from Tk 8-26 and Tk 6-18 respectively.

During the time of our study, annual per capita egg consumption was 19. According to the Bangladesh Livestock Institute, this needed to be raised to at least 40 eggs / year. Per capita consumption of meat was 13 gm/day and needed to be increased to at least 120 gm/day.

Feed costs alone accounted for 70 percent of the total cost of poultry production. Profit in poultry farming, therefore, was highly dependent on the costs of the different ingredients used for feed rations. There were very few feed ingredients used to make balanced poultry rations in Bangladesh. The major ingredients were: wheat, wheat bran, rice polish, sesame oil cake, fish meal, oyster shell, common salt, vitamin mineral premixes, etc. Wheat was the major feed ingredient in preparing mixed feed. But the poultry birds directly competed with humans for its use as food. Moreover, wheat was not always readily available in the open market. Rice polish was also used as an energy source, but it was very difficult to get fine quality rice polish. By proper utilization of non-conventional feed resources such as molasses nutrient blocks, ipil ipil, soy bean expeller etc., the costs of livestock feed input could be reduced significantly, resulting in increased per unit production at decreased costs.

Since most of the non-conventional feed were highly nutritious and contained significant amounts of by-pass proteins, soluble protein or non-protein nitrogen, not only did they make up for quantitative deficiency in feed, but they also eliminated the qualitative deficiencies as well. Feed resources included traditional feed and crop residues, non-conventional agricultural products, by-products and wastes. The majority of the non-conventional feed represented high value protein and non protein nitrogen sources which helped balance ration and increased feed utilization efficiency. Proper utilization of feed that was available was commonly constrained by a failure to use a balanced diet and frequently resulted in nutritional deficiencies that were otherwise preventable. The principal components of the poultry feed were (i) rice polish, wheat; (ii) wheat bran, maize; (iii) brans of different pulses, oil cake; (iv) dried fish (shukti); (v) fish meal of different grades; (vi) soya bean oil of different grades; (vii) molasses and (viii) vitamins and additives.

Village-level poultry production in Bangladesh was divided into four sub-systems: (i) native small holder scavenging chickens consisting of several birds with local germplasm; (ii) crossbreed village level production with cross between local and several improved breeds provided by the public sector; (iii) production with improved breeds (White Leghorn, Fayoumi, etc.) available in the country at public sector poultry farms; and (iv) based on commercial hybrid production of chickens imported from overseas as day-old chicks or parent stock birds.

Commercial production systems were of two types: (i) the small holder commercial enterprise, which raised up to 5,000 layers or broilers; and (ii) the large commercial company, which raised more than 5,000 layers or broilers.

Poultry and Poultry Product Marketing

Marketing of poultry and poultry products began at the farm level, when the farmer planned his production to meet specific demands and market prospects. The problem of marketing was that most of the production came from a large number of very small production units. Because of their perishable nature, maintenance of quality of poultry products during production and delivery to the final consumers was difficult, particularly because of the absence of strong organized marketing of poultry and poultry products and poor transportation infrastructure. However, compared to the smallholder dairy production system, commercial poultry rearing appealed to smallholder farmers because of its relatively small initial investment requirement.

The marketing of rural scavenging poultry consisted of farmers, middlemen (Bepari), wholesalers, retailers, and consumers. The most common marketing system was for farmers to bring the birds to the village market and sell these to the middlemen. The middlemen then placed the birds in baskets, and transported them by either bus or train to wholesalers in the town or cities in a specified wholesale market. Wholesalers then sold these birds to retailers from where consumers purchased them live birds.

Smallholder producers of broilers or meat birds were usually located close to the cities or major urban centers where they have access to the city markets. Organized broiler marketing was limited to Dhaka, Chittagong, Khulna, Comilla, and Bogra. Most broiler farmers had some contractual marketing arrangements with foods stores or hotels. The smallholders slaughtered the birds near farm premises. De-feathering and evisceration of the birds was done by hand. The processed birds were put under ice and packed in polythene bags, and brought to the retailers in cites who own food stores with freezing facilities. Consumers purchased the dressed bird from the food store by weight. Frequently, middlemen purchased birds from producers and sold them to retailers. Biman Poultry Complex, which has a partially automated broiler processing facility, was one of the few producers who handled their own marketing.

Marketing of Table Eggs

The marketing of high quality eggs required eggs to be stored in temperatures ranging from 5°C to 15°C. Due to inadequate facilities, this could not be done. The majority of egg production in Bangladesh was undertaken by indigenous scavenging poultry producers. Small-holder commercial or large producers catered to the urban market, while indigenous birds provided eggs to the rural households and the small rural and urban trading centers. The leading commercial egg production areas were: greater Dhaka, greater Chittagong, Khulna, Comilla, and Bogra.

The eggs from indigenous scavenging rural birds were marketed through the middleman chain link. Since there was no organized egg marketing system in Bangladesh, the role of the middleman in linking the producer and the consumer was essential. The rural small-unit producers brought the eggs to the local village markets and sold these either to the village traders or directly to wholesalers who transported them. Sometimes, the village traders moved from village to village and directly collected the eggs from the women and children who normally owned and cared for rural scavenging indigenous poultry.

Smallholder commercial layer producers seldom had direct contact with the wholesalers and/or retailers but large egg producers generally distributed the eggs directly to the retailers through their own contact arrangements.

Marketing of Day-old Chicks

At the time of our study, in 1994, there was an acute shortage of day-old chicks to support layer and broiler production in the country. Production of commercial day-old chicks was influenced by the price of poultry meat and eggs. The low price of these products generally resulted in farmers buying fewer day-old chicks, the resulting decrease in meat and egg production leading to higher market prices. When prices increased, more farmers were inclined to enter into poultry production, increasing the supply of meat and eggs.

In general, smallholder poultry raisers placed an order of day-old chicks with a hatchery by paying an advance deposit and then collecting the chicks within an agreed-upon period. The production of chicks, distribution, and pricing was mainly in the hands of the private sector except for the chicks produced at the Biman Poultry Complex and Government hatcheries.

There were eight United Food complex farms: Silver Carp, Shaver Bengal, Jasmine Bohumukhi Agriculture Complex, Aftab Bohumukhi Agriculture Complex and M.M. Aga Ltd. There were five public sector hatcheries: Department of Livestock Services (DLS) (at Mirpur Farm), Biman Poultry Complex, Women Affairs Hatchery, BADC, and BAU. Among the public sector hatcheries, only the Biman Poultry complex was extensively producing layer and broiler chicks (sometimes they supplied chicks for commercial raisers). Others were generally under-utilized and usually produced chicks for their own requirements. The DLS hatcheries distributed poor quality chicks at a lower price throughout the countryside. It was because of excessive inbreeding that the quality of DLS chicks was relatively poor.

Livestock Sector

As a result of increased awareness about this sector, in 1993, some 4000 new farms registered with the directorate of livestock. Like the poultry sub-sector, livestock has also acted for ages as a source of income for millions of people in the rural Bangladesh.

Table 73
Sectoral Share of GDP and FFYP Allocation

Sector	Share of GDP (%) in 1989-90	Growth rate (%) during TFYP	Allocation (%)	
			TFYP	FFYP
Livestock	6.5	5.0	0.9	1.4
Fisheries	6.0	1.4	1.4	1.4
Forestry	3.1	-	1.6	2.0
Crop	23.8	2.5	5.6	3.7
Agriculture	39.4	1.7	9.6	9.0
Industry	7.5	4.0	10.4	10.3

Livestock population in Bangladesh was estimated in 1994 to comprise of 22.50 million cattle, 0.68 million buffaloes, 21.70 million goats and 0.87 million sheep. In fact, Bangladesh had a relative density of livestock population well above the averages for many other countries of the world. In spite of the high density of the livestock population, the country suffered from an acute shortage of livestock products like milk and meat. The domestic production of milk and meat accounted for 13.58% and 10.50% respectively of minimum requirement. The per capita availability of animal protein from domestic livestock resources had declined from an average of 2.03 gm/day to 1.82 gm/day over the 1977-87 period. There was also an acute shortage of animal power for tillage operation. This situation was further aggravated by a decline in power output of each work animal from 0.25 HP in the seventies to 0.17 HP in the eighties. The average body weight and power output of cattle of Bangladesh was very low in comparison to those of other countries of the world. The present level of per capita consumption of milk and meat is 33.95 ml/day and 12.61 mg/day respectively, as against the required level of 250 ml/day and 120 mg/day respectively.

2. ***A detailed study of this sector using the NRP, ERP, EPC and DRC figures to present the state of the livestock and poultry sector.***

The methodology consisted of calculating the ERP and Effective Protection Coefficient (EPC) by using a somewhat modified version of the Corden formula (Annexure 8). The concept of ERP (as against NRP) has already been explained in Chapter 5. ERP was given by the formula:

$$ERP = \frac{VAD_d - VAD_w}{VAD_w}$$

where: VAD_d = Domestic Value Added and VAD_w = World Value Added.

VAD_w is the world value added, and is taken to a proxy for the most efficient way of producing output. (Edwards, 1993). VAD_w has been taken as the difference between the value of output and the value of inputs in world/border prices. In the absence of CIF prices, the tradable border prices were determined by deflating domestic price by corresponding effective tariff rates.

Thus, $$P_{domestic} = P_{world}(1+t_e) \text{ and } P_{world} = \frac{P_{domestic}}{(1+t_e)}$$

The effective tariff (t_e) is the sum of the Customs Duties, VAT, Supplementary Duties, Advance Income Tax and Import Charges. Tables 77 and 78 show calculation of effective tariff rates of inputs and outputs in this sector.

To calculate EPC, we utilized the formulas:

Then, EPC was given by: $$EPC = \frac{VAD_d}{VAD_w}$$

EPC was calculated alongside ERP to give a better understanding of the nature if protection at both the firm and industry level. The analytical framework of analyzing different values of EPC and ERP is provided in Annexure 9.

Domestic Resource Cost was given by: $$DRC = \frac{VAD_s}{VAD_w}$$

where: VAD_s = the value-added at shadow prices; VAD_w = world value added.

In the absence of shadow prices for domestic factors of production, DRC becomes equivalent to EPC.

The questionnaire used–as part of data collection–was designed in line with the specified data requirement of the Tariff Commission and in consultation with entrepreneurs. In order to decide on a representative sample size, we took assistance of trade associations of this sector. The questionnaire is laid out in Annexure 10.

There were three different associations in this sector. In the poultry sub-sector, there are two associations: small and large. In the livestock sub-sector, there is a single dairy farms' association. The large poultry association has about 30 members, the small, over a few hundred and the same in the dairy association.

We obtained 15 questionnaires from the poultry sector which covered all sizes and types of farms—from 500 to above 100,000 birds—and from eggs producers, to broiler meat producers to hatcheries and poullet producers. Thus the cross section of the sector has been fairly accurately reflected by the sample coverage. The farm size we had to omit were those having less than 50, or the scavenging population. We have understood that calculation of ERP for the scavengers would be extremely difficult as there is no record of their costs.

From the livestock sub-sector we were able to obtain 11 questionnaires. In addition, we obtained general recommendations about the sector from the entrepreneurs, while the policy makers who we interviewed gave us valuable thoughts for the development of this sector. Literature survey on the state of the industry was done by keeping up to date on the current activities in the sector.

<u>ERP Calculation of the Livestock and Poultry Sector</u>

<u>Calculation</u>

Tables 74 to 79 contain product-wise calculation of NRP's, ERP's, EPC's and DRC's for the poultry and livestock sub-sectors respectively.

Table 74
Industry Specific

	Milk	Table Eggs	Broiler Meat	Layer Meat	Day Old Chick
NRP	50.00%	71.75%	71.75%	71.75%	5.00%
ERP	95.28%	212.42%	2256.75%	233.15	-4.07%
EPC	1.95	5.12	25.57	5.55	0.96
DRC	1.26	5.21	21.15	5.42	0.96

Table 75
Firm Specific - Table Eggs

	F1	F2	F3	F4	F6	F7	F8	F9	F10	F11	F13	F14
NRP %	71.75	71.75	71.75	71.75	71.75	71.75	71.75	71.75	71.75	71.75	71.75	71.75
ERP %	159.5	104.9	207.8	145	484.1	161.7	356.8	473.5	238.3	155.7	457	211.7
EPC	2.59	2.05	3.08	2.45	5.84	2.62	4.57	5.75	3.38	2.56	5.51	5.12
DRC	2.58	2.05	2.72	2.39	5.87	2.62	4.39	5.6	3.38	2.55	5.5	2.55

Table 76
Firm Specific - Layer Meat

	F7	F8	F9	F10	F11
NRP (%)	71.75	71.75	71.75	71.75	71.75
ERP (%)	161.67	356.83	472.46	238.25	155.67
EPC	2.62	4.57	5.75	3.38	2.56
DRC	2.62	4.39	5.60	3.38	2.55

Table 77
Firm Specific - Broiler Meat

	F5	F6	F15
NRP (%)	71.75	71.75	71.75
ERP (%)	-170.33	484.14	785.33
EPC	-0.70	5.84	8.85
DRC	-0.73	5.87	8.67

Table 78
Firm Specific - Day Old Chick

	F12	F15
NRP (%)	5.00	5.00
ERP (%)	-6.96	602.42
EPC	0.95	7.02
DRC	0.95	6.88

Table 79
Firm Specific – Milk

	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10	F11
NRP(%)	50%	50%	50%	50%	50	50%	50%	50%	50%	50%	50%
ERP(%)	312.41	348.45	87.82	203.3	118.06	76.78	69.34	397.14	333.63	89.21	145.46
EPC(%)	4.12	4.46	1.86	3.03	2.16	1.77	1.69	4.97	4.34	1.89	2.43
DRC(%)	3.92	4.38	1.85	2.78	2.01	1.75	1.6	4.84	3.42	1.9	2.14

Analysis–Industry

It appeared that industry figures for the livestock and poultry sector indicated heterogeneous ranges of effective protection among the various line items. Table eggs and layer meat were protected almost 2.9 and 3.2 times more in effective than in nominal terms. That is, these categories of goods were well protected. However, whereas the protection for broiler meat was over 2000%, day-old chicks appeared not to be protected, but instead, taxed. This was because the negativity originated from the numerator, in the latter case, and not in the denominator. The figures for milk production suggested that the industry was enjoying not very unreasonable protection, with the number exceeding the upper band of 30-70% by about 25 percentage points only.

In terms of efficiency, the most inefficient product, broiler meat (DRC and EPC figures suggested that the production process involves using 21 times more resources, compared to world standards) enjoyed the highest protection (about 31 times more than nominal protection). On the other hand, the most efficient product, day-old chicks (DRC and EPC figures suggested that the industry required 4% less resources than internationally), was taxed, and not protected. In the middle, table eggs and layer meat both required just over 5 times world resources to produce, implying they were inefficient too. In the case of milk, using shadow prices instead of market prices gives a 35% improvement in resource use (as DRC $<$ EPC), although overall, the industry still requires about 26% more than international standards.

Analysis–Firms

Firm-wise analysis for table eggs showed ERP to range from 104.88% to 484.18%, with 42% firms having ERP between 100-200%, 25% firms from 200-300%, and the rest (33%) being from 300-500% range. The DRC and EPC figures ranged from 2.05 to 5.87, suggesting that the firms were not efficient in production of table eggs. This was disappointing, given that table eggs were banned in order to foster domestic enterprises to develop, flourish, and compete internationally. Moreover, this particular sector provided them other benefits such as nutrition and employment generation.

Figures for layer meat were not very different from table eggs, with ERP, EPC and DRC figures ranging from 155.67% to 472.46%, 2.56 to 5.75, and 2.55 to 5.60. The reason the figures were so close was probably because layer meat was mostly a by-product in the production of table eggs. There was no separate layer meat production as such. The separate meat production was only done for broiler meat. However, the performance of this sub sector was dismal, given DRC's of 5.87, and 8.67, for firm 6 and firm 15. Firm 5, with a negative DRC of 0.73, and a negative ERP of 170.33 appeared to be taxed. However, the negativity originated from the denominator, suggesting it was protected. Nonetheless, the inefficiency of firm 6 and 15, pulled the DRC industry average to 21.15 and ERP to 2256.75%. This was seen by comparing the weight of the three firms: 62% for firm 15, 35% for firm 6, and only 3% for firm 5. The production of DOCs at the firm level, showed opposite results for the two firms. Whereas firm 12 was efficient, firm 15 was inefficient. However, although DOC production was shared almost 50% by the two firms, the former firm specialized in 100% production of DOCs, while the latter firm also produced broiler meat. Thus, the pure sensitivity of DOCs was higher for firm 12, which carried through to the industry level.

In the case of milk production, the industry ERP was only 25 percentage points above the upper limit of the 30-70% ERP band. This suggested that milk production was not protected as much in effective terms, as was table eggs and poultry meat. On the other hand, it required about one third less resource compared to table eggs and sixteen times less, compared to poultry meat. ERP's for the eleven firms in this industry range from about 77% to about 397%, with more than half of the firms effectively protected at less than 150%. By observing DRC figures, it was seen that these firms were less inefficient, compared to the remaining firms. These firms also accounted for over 80% of total production, which explained why, at the industry level, milk production required only 1.26 times more resources than world standards.

We found that the current state of livestock and poultry production exhibited the situation where the industry was being assisted in terms of protection on final output. The world price was below the domestic price–this was attributable either to lower costs abroad or dumping-type arguments (prices are intentionally kept low). If imports were allowed freely, the domestic industry would not be able to survive. What needed to be done was to assist the industry, or at least make the playing field even, until it could bring about an improvement in its technical efficiency for its long run survival. This period we assumed to be two years, after which the protection could be lifted assuming the inefficient DRC figures specially for eggs and layer meat production (milk was only marginally inefficient) could bring about efficiency in production. We advocated that in order to come to terms with the lowering of tariff barriers, the firms in the livestock and poultry industry would have to make adjustments in their organization and operation. Increasing efficiency in ways of egg and layer meat production was a must. Diversifying was another way to prepare against low tariffs. It seemed the firms could benefit by going into Broiler production also. Day Old Chicks seemed efficient, but there was much room for improvement in the line of developing parent and grandparent stock.

3. *Our recommendations towards this sector.*

Our main recommendation was that the present ban on table eggs be continued for the next two years (1994-1996), by which time it was hoped appropriate backward linkage facilities like feed, breeding and cage building sectors would be developed, and the firms would be able to bring down their costs and increase efficiency, so as to compete with foreign eggs. The major recommendations were the following. As a leading agro-based thrust sector, the livestock and poultry industry, in general, needed to be protected at least for a number of years on grounds of infant industry. Appropriate trade policy for this sector should provide sufficient protection such that replacing imports of eggs, poultry, milk, cows and meat with domestic production (i.e. by import-substitution) will allow the industry to be established and grow. The sector-specific characteristics should dictate how long protection should be accorded.

As feed cost constitutes over 70% of total cost for poultry sector, and over 90% for the dairy sub-sector, imported feed materials should be subject to lower tariff rates. The effective tariff rates averaged to 23% for imported materials and 26.43% for local materials if the latter were to be imported. Because of seasonal fluctuations, local materials were imported only by producers who could afford to. In most cases, however, those who could not were the majority (over 90%) of the egg producers who relied on materials imported for human consumption. The direct competition between human and poultry for feed (wheat, maize, oil etc.) suggested that import duties on such overlapping items could be reduced further. In the case of medicines, all tariffs on the importation of vaccines should be waived. Local pharmaceutical companies should be encouraged to produce veterinary medicine in this respect.

Competitive efficiency in the meat industry necessitated the development of pasture/grazing land, improved feed content, adequate scientific supervision, and rapid increase in our livestock population. At the same time, strict measures are required to stop the illegal smuggling of cattle stock from other countries, so that the growth of this sector could be initiated.

Appropriate fiscal, monetary, infrastructural, institutional and procedural incentives should be provided by the Government to this sector in line with those provided in neighboring countries. Many of our incentive packages are similar to those abroad (establishment of institutions) but the main problem appears to be procedural. For example, although there is provision to claim exemption from AIT for the Poultry sector, it is apparently not being claimed due to anomalies in the duty structure mainly in the processing time arena.

4. The government's own position on the Livestock and Poultry Sector.

The Government placed high priority on developing this sector because it was an agro-based sector, and provided comparative advantage in terms of cheap labor, a large domestic market and cultural orientation towards small scale agricultural ventures. Government policies and programs included reduction of mortality rates in animal and poultry, infrastructure development for improvement for breeds and biological products. The government aimed to develop specialized dairy enterprises in the country's "milk pockets" as well as improve yield of average herd.

The Fourth Five Year Plan acknowledged that significant increases in poultry production under village-based scavenging system were not realistic, and major attention needed to be placed on specialized production systems, i.e. for either broilers (poultry for meat) or layers (egg layers); high yielding strains should be promoted on a large scale through smallholder commercial operations, under an intensive production system. In a similar vein, for cattle, buffaloes, sheep and goats, emphasis was been given on productivity, rather than increasing numbers. Important components of the strategy were: reduction in morbidity and mortality, increase in fodder supply, improved husbandry techniques, and improvements in the genetic base. The government particularly wanted to encourage production of black Bengal goats—through selective breeding programs and expanded vetenary care—as they produce some of the highest quality leather in the world.

It is important to note this general attitude of the government. All of the government officials interviewed, ranging from the Ministry of Livestock and Poultry, the Bangladesh Livestock Research Institute, and the Directory of Livestock Services were very nationalistic about domestic egg production. They recognized that protection on infant industry grounds could make the industry hide behind high tariff walls and have no incentive to innovate, but they were willing to give the domestic producers a chance to try and improve efficiency.

External Agents Views on the Livestock and Poultry Sector.

The World Bank favored liberalizing the trade sector, as part of the general program of "Structural Adjustment Reform" measures mentioned in Chapter 4, which began in Phase 2, but gained substantial momentum in Phase 3. For this particular sector, as well as others, it fell under the sub-project of IDTC-2, under World Bank's Bangladesh TA VI Project ($14.4 million). IDTC-2 ($2.1 million) aimed at undertaking studies to measure the effective provision of assistance to industrial and agricultural sectors and strengthening Bangladesh Tariff Commission to provide adequate training and development of the Commission's personnel, and speedier and quality discharge of its assigned functions.

The principal funding agencies for different government sectors involved with livestock and poultry were: for Directorate of Livestock Services: International Fund for Agricultural Development (IFAD), Danish International Development Agency (DANIDA), Overseas Development Agency (ODA), United Nations Development Program (UNDP), Islamic Development Bank (IDB), and donor governments like Japan and France; for Bangladesh Livestock Research Institute: IDA, UNDP and the Ford Foundation; for Ministry of Fisheries and Livestock: Asian Development Bank (ADB) and UNDP; and for Cabinet Division: IFAD.

Reform-Minded Bureaucrats

Some of the key players in this area, among others were BTC Chairman, Dr. Muhiuddin Khan Alamgir (PhD in Economics), Dr. Abdul Hamid Chowdhury (Secretary and BTC Chairman), Harvard educated Dr. Tawfiq-e-Elahi Chowdhury (Secretary Statistics Division), Dr. Shaikh Maqsood Ali, (PhD in Economics, Secretary, Member Planning Commission and overviewed the Fourth Five Year Plan), Finance Ministers, Saifur Rahman, and Nasimuddin Ahmed (strong advocates of the market mechanism), Minister of Industries, Moudud Ahmed, Dr. Kamal Hossian, (a prominent member of the opposition party who also stressed the importance of transition from a highly regulated economy to a market-based economy) and Bangladesh Tariff Commission intellectuals, Dr. M. A. Rashid, (formerly an Economics Professor) and Dr. Abed (did most of the ERP work). Also prominent were Dr. Forrest Cookson (Team Leader and Consultant Financial Sector Reform Project) and Khorshed Alam (Governor, Bangladesh Bank) who helped support deregulation of interest rates, S.M. Al-Hussainy (Secretary, who supported minimalist civil service), Habibur Rahman (Secretary, who worked on Public Sector Management Reform), and BTC Consultant, Dr. Kabir U. Ahmed, who was the Team Leader for the IDTC-2 project, and had pointed out "Actually we did not go for any kind of consideration of group interests. Our considerations were based on pure and simple economics–what is the ERP, and if you want to promote this sector, is it important for the economy, that was the consideration." (Ahmed, 1996)

The surfacing of so many reform-minded personnel certainly helped strongly steer the trade liberalization process. Rehman Sobhan (foreign trained Economist) of the Center for Policy Dialogue held numerous seminars, supporting the free nature of academic thinking in Bangladesh, which also had many seminars of International Trade. The Bangladesh Institute for Development Studies was also a significant intellectual resource in this vein. Many bureaucrats had strong ties to these institutions.

Domestic Interest Groups: The Producers Views

Poultry Sector

For the poultry sector, private domestic interest groups were represented by the associations involved with this sector. These were:

- *Bangladesh Poultry Industries Association*: This was the umbrella body of all the poultry associations (small or large), and acted as their collective bargaining agent.
- *Bangladesh Poultry Association*: This was the association representing the large poultry farms of the country. The definition of a large farm was having more than 2000 birds. Many influential people, like the Former Foreign Minister, Humayun Rashid Chowdhury, during Ershad's era owned such farms.
- *Bangladesh Small Poultry Farm Owners Association*: This association represents the small poultry farm owners. A small farm was one having 50-2000 birds. This association had branches in all the districts of the country.
- *Bangladesh Poultry Cage Manufacturer's Association*: The members of this association provided the infrastructure build up for iron frames and cages in the poultry farms.
- *Bangladesh Poultry Feed Manufacturer's Association*: This association was the umbrella body of all the poultry feed manufacturers and suppliers.
- *Bangladesh Poultry Medicine and Vaccine Importers Association*: The members of this association imported medicines and vaccines usually used in the poultry industry.

In terms of producers influencing policy, large owners had more power than small owners. The Bangladesh Poultry Association was more organized, powerful, and had more resources to lobby, compared to the Bangladesh Small Poultry Farm Owners Association. In BTC public hearings addressing producers concerns, the most representation was from large poultry farmers association, and milk producers, followed by small poultry farmers association. The bird cage manufactures and feed producers had the smallest turnout and were not much vocal. Although the small farmers had relatively less influence, they actively published in the general media, trying to promote consumer support for consuming domestic eggs and boycotting imported / smuggled eggs (mostly from India).

Most producers favor protection or assistance. At the time of our survey, the Phoenix Poultry Center was the largest poultry farm in Bangladesh (with over 100,000 birds). As regards protection, Mr. Samiul Hasan, proprietor, advocated initial protection, until the government supports were developed. These would be availability of animal feed (better backward linkages), zero duties on imported feed, electricity at reasonable rates (he claimed they were being charged at industrial rates, when they should be charged at the lower agricultural rates), and vaccines. Mr. Hasan boasted that their farm did not require any subsidies from the government but did express concern at the lack of local vaccination from the government, due to which during 1991-93, his firm lost 2,265,000 birds because of a disease called Gumboro (poultry equivalent of AIDS). The government did not allow importation of vaccines on grounds that it was a virus and may plague the country. Samir claimed that it was harmless if kept frozen.

Mr. Siddique, general secretary, Bangladesh Poultry Association, pointed out the importance of the Livestock and Poultry sector, in that it can provide rural employment generation and nutritional benefits. He argued that per capita egg consumption per annum was a low number of 18, and if consumption increased only by one egg per capita, that would translate into an additional 120 million eggs being produced per year.

Mr. Siddiqui noted that there were 12 hatcheries in Bangladesh, and although day old chick production were carried out by a limited number of private hatcheries, these hatcheries could not adequately meet the requirements of the sector and as such frequently the chicks are imported from Europe (France), India and Nepal. He advocated government assistance in the form providing zero duties on inputs, charging reasonable utility rates on electricity and water, speeding up the cumbersome process of duty refunds on installation of capital machineries, removal of anomalies in other duties, and lastly rationalization of the insurance structure. He found it strange that the insurance companies only pay for day-old-chicks if the entire aircraft crashes, but not if these chicks die during transit, which is what happens most of the times.

Mr. Azizul Huq, a small poultry producer (300 hens), claims that this sector should be protected especially because it contributed to lowering unemployment. He thought that in certain economic zones, competition is required, but not for eggs.

In terms of their major concerns, these associations overwhelmingly support protection of the final product, and want zero tariffs on imported inputs. Their reasoning is that this sector has the potential to be self-sufficient in a very short time. As feed costs account for 70% of total costs, they want government to lower feed duties as they are currently very few feed ingredients to make balanced poultry rations. If medicine is added, costs rise by another 10%. At the Mahakhali government vaccine plant, vaccine against only two diseases is produced and the rest need to be imported. Of the ingredients, only rice bran, oil cake and fish meal (of low protein content) is available in adequate supply from local sources. Again, one kilogram of poultry feed costs Taka 11.50 in Bangladesh, as against Taka 5.50 in India. Further, as poultry feed is also used by many poor rural households for their own diet, poultry producers have to compete with them.

Livestock Sector

The Livestock sector had only one association–the Dairy Farm Owners Association, which had branches in all the districts of the country. A central body, (a federation), regulated their activities and worked in close unison with the Directorate of Livestock of Bangladesh Government. The district branches of the Association, in turn, worked in close collaboration with the District Livestock Officer (public sector). The President of the Association, Shah Alam, was an influential person (his son also ran for Ward Chairman of Dhaka), and mobilized many of the dairy farm owners in regular meetings at his home.

Among milk producers, there was a Cattle Farm Owners Association in all the 64 districts of the country. Mr. Bari, additional director of Livestock Directorate (government sector), provided this information. He, like Mr. Siddiqui, pointed out that 60% of the farmers (landless and/or marginal, numbering 1 crore 40 lac), could be engaged in income-generating activities provided by

Livestock and Poultry Sector in a short period of time. He claimed that there are at least 4 million high-yielding cattle heads in this country.

In the livestock sector, much of the milk produced could not be sold because of inadequate storage facilities and poor transport system. For example, a liter of milk sold in Dhaka for Taka 24, while it was only Taka 12, just 10 miles away. Because of poor roads, consumers could not benefit from lower prices.

Implementation of Trade Policy

After analyzing the findings of our report, the Bangladesh Tariff Commission organized a public hearing to address the producers concerns. Representatives from every association made their case for protection of final inputs and lifting of duties for raw materials. They also expressed their concern for greater government support in infrastructure, financial loans, and speedy procedures. The most representation was from the large poultry farmers association, and the milk producers, followed by the small poultry farmers association. The bird cage manufacturers and feed producers had the smallest turnout.

The Bangladesh Tariff Commission had by now several internal meetings with the Chairman, the foreign and local experts and reviewed the situation carefully. Considering the government's own position, the potential of the sector and the appeals voiced by the domestic producers, the Commission recommended the appropriate trade policy for the sector, and submitted its findings to the National Board of Revenue, which had its own internal meetings, and sent the recommendations to the Ministry of Finance. There, they had meetings with other concerned ministers, as Ministry of Livestock and Poultry and Ministry of Agriculture, and taking into account the World Bank's general thrust of trade policy, decided which changes should effectively take place, and implemented the policy. The government had recognized the importance of this sector, and taken our recommendations into effect in lowering the duties on most inputs to 0% or 7.5% from a previous high of 30% to 100%. This is shown in Tables 80 and 81.

However, there have been certain anomalies in this trend. First, there has been a reversal in protection, namely in eggs, day old chicks and wheat from 1993 to 1994 (tariffs rose instead of the usual decline), and in mushur (lentil) pulse from 1994 to 1995. Second, eggs and day old chicks were banned from 1995. Third, in the livestock (milk) sector, tariff rates on medicine increased during 1993 to 1994, while it, and other items like salt and vaccine, continued to be "restricted" in terms of quantitative restrictions.

More importantly, egg importation was banned or restricted, confirming acknowledgment of the producers argument for protection on infant industry grounds. It is reasonable to hypothesize that pressure from domestic interest groups for protection on infant industry grounds strongly contributed to these spikes in protection rates, and bans or restriction. Moreover, many bureaucrats and ministers themselves had large poultry and livestock farms and therefore a stake in trade policy. One such person was an ex-foreign minister of Bangladesh who had a large poultry farm (large farms have over 500 birds, he had over 40,000 birds). He was also the president of the Bangladesh Poultry Industries Association (in the private sector).

When I interviewed an influential person in the Tariff Commission, he informed me that this ex-foreign minister had used his clout to get the ban on the eggs. Another pressure was from domestic egg producers who smashed a whole truck-full of eggs in from of government offices, as a protest against cheaper Indian eggs. These events may lead to why the World Bank (1995), acknowledged that eggs are "sensitive" items. Further, all of the government officials interviewed were very nationalistic about domestic egg production. They recognized that protection of infant industry grounds could make the industry hide behind high tariff walls and have no incentive to innovate, but they were willing to give the domestic producers a chance to try and improve efficiency.

Thus while Tables 77 and 78 illustrates that nominal rates of protection have decreased uniformly for most items from 1992 to 1995, if we examine Figures 20–22, we can see that in Figure 20 there was no mention of the egg-ban (HS Code 0407.000). Any item not on the restricted list can be imported. However, Figures 21 and 22 both show that eggs have been banned, indicated by the rectangle shown. The figures are in Bengali language–the translation is Figure 19 below.

<u>Description of item in the restricted list</u>

HS Code Item

০৪.০৭	০৪০৭.০০	ডিম ("হ্যাচিং ডিম" ব্যতীত)
04.07	0407.00	Eggs (except hatching)

FIGURE 19: Ban on Eggs

Table 80
Effective Tariff: Poultry Sector

HS Code	Output	Operative Tariff (CD)				Value Added Taxes (VAT)				SD	AIT	LPF	Effective Tariff			
		1992	1993	1994	1995	1992	1993	1994	1995	92-95	92-95	92-95	1992	1993	1994	1995
407	Eggs	60	30	45	45	0	0	0	0	0	2.5	2.5	65	35	50	50
105.117	Day old chick	0	7.5	30	30	0	0	0	0	0	2.5	2.5	5	12.5	35	35
207.23	Meat	100	75	75	45	0	0	0	0	0	2.5	2.5	105	80	80	50
	Local Raw Materials															
1001.91	Wheat	30	7.5	15	7.5	15	15	0	15	0	2.5	2.5	50	27.5	20	27.5
1104.23	Maize	30	30	7.5	0	15	15	15	0	0	2.5	2.5	50	50	27.5	5
2304	Various oil cakes	30	30	7.5	0	15	15	0	0	0	2.5	2.5	50	50	12.5	5
2302.2	Rice polish	30	30	7.5	0	15	15	0	0	0	2.5	2.5	50	50	12.5	5
2301.2	Fish meal	30	30	7.5	0	15	15	0	0	0	2.5	2.5	50	50	12.5	5
2308.9	Soy Meal	30	30	7.5	7.5	0	0	0	0	0	2.5	2.5	35	35	12.5	12.5
1518	Soy Bean Oil	100	100	60	45	15	15	15	15	0	2.5	2.5	120	120	80	65
1506	Soy Bean Full Fat	60	60	45	30	15	15	15	15	0	2.5	2.5	80	80	65	50
307.109	Crushed Oyster	100	75	45	45	15	15	0	0	0	2.5	2.5	120	95	50	50
2936.1	Vitamins / Additives	60	60	45	30	15	15	15	15	0	2.5	2.5	80	80	65	50
2302.4	Various Brans	30	30	7	0	15	15	0	0	0	2.5	2.5	50	50	12	5
713.4	Mashur Pulse	20	15	7.5	15	0	0	0	15	0	2.5	2.5	25	20	12.5	35
2941.1	Medicines	20	15	15	7.5	15	15	15	15	0	2.5	2.5	40	35	35	27.5
2501	Salt	100	75	75	60	15	15	15	15	0	2.5	2.5	120	95	95	80
	Imported Materials															
105.11	DOC: Parent Stock	7.5	7.5	7.5	0	0	0	0	0	0	2.5	2.5	12.5	12.5	12.5	5
2308.9	Soy Meal	30	30	7.5	7.5	0	0	0	0	0	2.5	2.5	35	35	12.5	12.5
2301	Fish Meal	30	30	0	0	0	0	0	0	0	2.5	2.5	35	35	5	5
2305	Groundnut Extracts	30	30	7.5	0	15	15	0	0	0	2.5	2.5	50	50	12.5	5
2309.9	Protein Concentrates	15	15	7.5	7.5	15	15	0	0	0	2.5	2.5	35	35	12.5	12.5

Source: Operative Tariff Schedule

Table 81
Effective Tariff: Livestock Sector

		Operative Tariff (CD)				Value Added Taxes				SD	AIT	LPF	Effective Tariff			
HS Code	Output	1992	1993	1994	1995	1992	1993	1994	1995	92-95	92-95	92-95	1992	1993	1994	1995
401.1	Milk	60	60	60	45	15	0	0	0	0	2.5	2.5	80	65	65	50
3101	Dung / Animal Fertilizer	0	0	0	0	0	0	0	0	0	2.5	2.5	5	5	5	5
	Local Raw Materials															
102.1	Cow	0	7.5	7.5	7.5	0	0	0	0	0	2.5	2.5	5	13	13	13
1006.4	Broken Rice	30	30	7.5	0	15	15	0	0	0	2.5	2.5	50	50	13	5
2302.4	Brans except wheat	30	30	7.5	7.5	15	15	0	0	0	2.5	2.5	50	50	13	13
2302.3	Wheat Bran	30	30	7.5	0	15	15	0	0	0	2.5	2.5	50	50	13	5
2304	Oil Cake	30	30	7.5	0	15	15	0	0	0	2.5	2.5	50	50	13	5
1703.9	Molasses	100	75	45	45	15	15	15	0	0	2.5	2.5	120	95	65	50
2302.2	Rice Husk	30	30	7.5	0	15	15	0	0	0	2.5	2.5	50	50	13	5
2501	Salt	90	75	75	60	15	15	15	15	0	2.5	2.5	110	95	95	80
604.91	Grass	0	0	0	0	0	0	0	0	0	2.5	2.5	5	5	5	5
1213	Straw	30	30	7.5	7.5	0	0	0	0	0	2.5	2.5	35	35	13	13
3002.39	Vaccine	30	30	0	0	15	15	15	15	0	2.5	2.5	50	50	20	20
511.1	Bovine Semen	60	60	0	0	0	0	0	0	0	2.5	2.5	65	65	5	5
2941.1	Medicine	20	7.5	15	7.5	15	15	15	0	0	2.5	2.5	40	28	35	13

Source: Operative Tariff Schedule

Figure 20

Control List Items: Page 42. IPO 1991-1993

Annexure-I

CONTROL LIST

HS Heading Number.	HS Code No. (ITC No.)	Description of items	Import-status
1	2	3	4
01.03	All H.S. Codes.	Live Swine	Import Banned.
02.03	Do.	All Items	Importable only by foreign exchange earning hotels subject to prescribed conditions.
02.06	Do.	All items including edible offal of bovine animals.	Ditto.
02.09	0209.00	All items including Pig fatfree of lean meat.	Import Banned.
05.02	All H.S. Codes.	All items including Pig [illegible] s or boars' bristles and hairs.	Import Banned.
12.11	Do.	Ghas (Andropogon SPP) and Bhang (Cannabis Sativa).	Import Banned.
13.02	Do.	All items including vegetable saps & extracts.	Opium is not importable. Other items except Agar agar & pectin are importable with prior clearance from the Director, Drugs Administration.
14.04	1404.901	Tendu leaves (Biri leaves)	Import Banned.
15.01	1501.00	All items including lard; Other pig fat & poultry fat.	Import Banned.
15.03	1503.001 } 1503.009 }	All items including lard stearin, lard oil, oleo stearin, oleo oil and tallow oil.	Import of all items except "inedible tallow and RBD palm stearin" is banned. "RBD palm stearin" is importable subject to prescribed conditions.
15.07 and 15.18 }	1507.101 1518.001	Unrefined edible oil.	Importable subject to prescribed conditions.

Source: Import Policy (Amended) Order 1991-93

Figure 21

Control List Items, page 4719, IPO 95-97

বাংলাদেশ গেজেট, অতিরিক্ত, মার্চ ২৫, ১৯৯৬ ৪৭১৯

পরিশিষ্ট-১

আমদানি নিষিদ্ধ পণ্যের তালিকা
(অনুচ্ছেদ ৩(ক) দ্রষ্টব্য)

এইচ এস হেডিং নং	এইচ এস কোড নম্বর (আইটিসি নম্বর)	সংশ্লিষ্ট এইচ এস কোড নম্বরের আওতাধীন আমদানি নিষিদ্ধ পণ্যের বিবরণ
১	২	৩
০১.০৩	সকল এইচ এস কোড	জীবিত শুকর
০১.০৫	সকল এইচ এস কোড	'প্যারেন্ট স্টক' এবং 'গ্রান্ড প্যারেন্ট স্টক' ব্যতীত মুরগীর বাচ্চা
০২.০৯	০২০৯.০০	সকল পণ্য
০৪.০৭	০৪০৭.০০	ডিম ("হ্যাচিং ডিম" ব্যতীত)
০৫.০২	সকল এইচ এস কোড	সকল পণ্য
০৫.১১	০৫১১.১০	ফ্রিজিয়ান ; ফ্রিজিয়ান ক্রস ; শাহিওয়াল ; শাহিওয়াল ক্রস; ফ্রিজিয়ান শাহিওয়াল ক্রস; এ, এফ, এস ; এ, এফ, এস ক্রস জাতের ষাঁড়ের হিমায়িত সীমেন (deep frozen semen) ব্যতীত অন্যান্য গরুর সীমেন।
১২.০৭	সকল এইচ এস কোড	পপি সীড ও পোস্ত দানা (মসলা হিসেবে অথবা অন্য কোন ভাবেও পোস্ত দানা আমদানিযোগ্য হইবে না)।
১২.১১	ঐ	ঘাস (এনথ্রোপোজেন এস পি পি) এবং ভাং (ক্যানাবিস স্যাটিভা)
১৩.০২	ঐ	আফিম
১৪.০৪	১৪০৪.৯০১	টেন্ডু পাতা (বিড়ি পাতা)
১৫.০১	১৫০১.০০	লার্ডসহ সকল পণ্য
১৫.০৩	১৫০৩.০০১ } ১৫০৩.০০৯	"খাওয়ার অযোগ্য ট্যালো এবং আর বি ডি পাম স্টিয়ারিন" ব্যতীত লার্ড স্টিয়ারিনসহ সকল পণ্য।
২২.০৭	সকল এইচ এস কোড	"ইথানল (ইথাইল এ্যালকোহল) এনাদার গ্রেড (আনডিনেচার্ড)" ব্যতীত সকল পণ্য।
২৫.০৭	২৫০৭.০০	সকল পণ্য
২৭.১১	সকল এইচ এস কোড	পেট্রোলিয়াম গ্যাস এবং অন্যান্য গ্যাসীয় হাইড্রোকার্বন।
২৭.১৩	ঐ	পেট্রোলিয়াম কোক, পেট্রোলিয়াম বিটুমিন এবং

Source: Import Policy Order 1995-97

Figure 22

Control List Items, page 37, IPO 97-02

৩৭

পরিশিষ্ট—১

নিয়ন্ত্রিত পণ্যের তালিকা

(ক) আমদানি নিষিদ্ধ পণ্যের তালিকা

[অনুচ্ছেদ ৩(ক) দ্রষ্টব্য]

এইচএস হেডিং নং	এইচ এস কোড নম্বর (আইটিসি নম্বর)	সংশ্লিষ্ট এইচএস কোড নম্বরের আওতাধীন আমদানী নিষিদ্ধ পণ্যের বিবরণ
১	২	৩
০১.০৩	সকল এইচ এস কোড	জীবিত শুকর
০১.০৫	সকল এইচ এস কোড	'প্যারেন্ট স্টক' এবং 'গ্র্যান্ড প্যারেন্ট স্টক' ব্যতীত মুরগীর বাচ্চা
০২.০৯	০২০৯.০০	সকল পণ্য
০৩.০২	০৩০২.৭০	চিংড়ির ডিম
০৩.০৬	০৩০৬.২৩	চিংড়ির পোনা
০৪.০৭	০৪০৭.০০	ডিম ("হ্যাচিং ডিম" ব্যতীত)
০৫.০২	সকল এইচ এস কোড	সকল পণ্য
০৫.১১	০৫১১.১০	ফ্রিজিয়ান, ফ্রিজিয়ান ক্রস, শাহিওয়াল, শাহিওয়াল ক্রস, ফ্রিজিয়ান, শাহিওয়াল ক্রস এ [illegible], এফ, এস ক্রস জাতের গবাদি পশুর হিমায়িত সীমেন (deep frozen semen) ব্যতীত অন্যান্য সকল সীমেন।
১২.০৭	সকল এইচ এস কোড	পপি সীড ও পোস্ত দানা (মসলা হিসেবে অথবা অন্য কোন ভাবেও পোস্ত দানা আমদানিযোগ্য হইবে না)।
১২.১১	ঐ	ভাং (এনড্রোপোগেন এস পি পি) এবং গাঁজা (ক্যানাবিস স্যাটিভা)
১৩.০২	ঐ	আফিম
১৪.০৪	১৪০৪.৯০১	তেঁদু পাতা (বিড়ি পাতা)
১৫.০১	১৫০১.০০	লার্ডসহ সকল পণ্য
১৫.০৩	১৫০৩.০০১ ১৫০৩.০০৯	"[illegible] ট্যালো এবং আহরিত [illegible] স্টিয়ারিন" ব্যতীত লার্ড স্টিয়ারিনসহ সকল পণ্য।
২২.০৭	সকল এইচ এস কোড	"ইথানল (ইথাইল এ্যালকোহল) এনালার গ্রেড (ল্যাবরে-টরি)" ব্যতীত সকল পণ্য।
২৩.০৭	২৩০৭.০০	সকল পণ্য।

Source: Import Policy Order 1997-02

Trade policy eventually favored protection, based on higher weights from domestic producers and the government's own beliefs. Let us examine the IPE models in this context.

AGIO

WB/IMF pressures to liberalize tariff barriers would be consistent with the gradual declines in most of the inputs for the livestock and poultry sector. However, it was inconsistent with the ban on eggs imports. The AG IO model here had very little weight as far as the ban on eggs was concerned.

AGS

The government, on the whole, was sympathetic to the domestic producers. If we apply the Statist model of the unitary actor, then the government, feeling nationalistically inclined towards developing an egg industry base–specially since Bangladesh is largely an agrarian based economy–would support the ban on eggs. As Saadat, NBR Chair (1997) mentioned

> "The ban on eggs was a clear political decision. The domestic producers lobbied to Khaleda Zia (Prime Minister). The problem was with low productivity: our producers couldn't compete with India." Thus, I will assign a weight of medium to the AGS model.

BP

If we take our detailed study into consideration, then BTC's recommendations to the government, via NBR has to be given a high weight, since the egg ban was instituted. Our interviews with the different associations, along with visiting the livestock and poultry farms and looking at their production potentials, swayed us at BTC to accept their appeal for the ban, despite the fact that the ERP and DRC figures suggested otherwise. Even our chair, who would normally be considered a reform-minded bureaucrat, had a general cautionary opinion about across-the-board dismantling of tariff barriers. Alamgir mentions

> "..the heat of the moment may not be used to tear apart or down the general tariff wall without consideration of specific items of import just to meet a certain predetermined and albeit arbitrary number as is being largely done at present. ... an undeveloped technological base does not allow for continuos retooling of plants to make possible unabated or quick changes in industrial production. In this predicament, tearing down of tariff wall has to be mostly product specific and for periods necessary for adjustment or averting disruption. As it appears, in the process of current tariff reform, there has not yet been adequate recognition of this necessity." (Alamgir, October 22, 1992)

Thus although coming from the tradition of neo-classical economics (had a PhD in economics), it appears he was sensitive to the political economy of reforms also. In an interview (August, 1997) with Dr. Fazlul Kabir Khan (NBR) he mentioned that

"Livestock inputs duties are zero now. Besides hatching eggs, egg imports are banned, i.e. there is a QR. The Poultry association was important in making this decision. But we also felt that hatching eggs should not be banned, for development of local poultry industry."

Another interview (July 1, 1997) with Secretary, Abdul Hamid Chowdhury. (a former Chair, of BTC), revealed positive supported for this industry.

"We produce eggs, they produce eggs. But Indian big business have competitive advantage, because they take advantage of their subsidy structure. They give about subsidy to about 90,000 items, I think. But if Indians keep their egg costs low through subsidy, then by that subsidy, my poultry industry will be destroyed, if I start importing freely. And after I am destroyed, if the Indians withdraw their subsidy, by that time I will have no industry. So an easy example was the (ban) eggs. And we gave protection."

In the same organization, my interview (July 18, 1987) Dr. Abed, revealed that

"Eggs are still banned. They have been for 1994, 95, and 96. This is visible in the import policy order. The Poultry Sector has repeatedly appealed to us. The government also gives them subsidized bank loans from Sonali bank to encourage this sector.

Besides NBR and BTC, the other key institute that dealt with trade policy was the Ministry of Commerce. Here, I interviewed (July 1997) M. Mazhar ul Karim who opined in the same tone.

> "Eggs are banned. Yes, this was mostly done from domestic producers pressure. But this is benefiting our country. Local production has increased. Specially with dairy farms, eggs and hens."

DPIG

The domestic producers lobbied very hard for the ban. Not only did they actively participate in the Public Hearings at BTC, but they also sent written appeals. Figures 22 and 23 show some of their later appeals. These are written in Bengali–the boxed area translates to the Chairman of Bangladesh Poultry Council Samiul Ahsan requesting the Chairman of BTC to exempt the poultry producers from all tariffs and VAT on machineries, spare-parts of machineries, medicine and inputs used in poultry production. Figure 23 lists the chemicals, machineries, equipments and spare parts exclusively used in poultry industries / farms. This figure is already in English.

Regarding the egg-ban, as indicated earlier a key figure among the domestic producers was Humayun Rashid Chowdhury (ex-foreign minister of Bangladesh). He was also instrumental in voicing succinctly the concerns of many of the poultry producers, who, although well-organized, were not as well versed diplomatically in the art of bureaucracy as he was.

The general public choice insight of small interest groups being more effective to articulate themselves is illustrative of what occurred here. Consumers, being of a large number and having diverse interests are prohibitively costly to organize–smaller groups with more uniform interests have lower transactions costs and had more to gain by the egg ban. Although the consumers faced loss of welfare (cheaper eggs from India), an individual consumer would conclude the costs of being informed on trade issues, petitioning the government for free trade policies, actively being engaged in Public Hearings at the BTC and the sort, outweighs the benefits of cheaper eggs–which (s)he may or may not purchase anyway and may conclude that "let someone else do it." In this way informed voter participation becomes a public good and thus falls privy to the free-rider problem. This, on its turn can cause individual rationality (of demanding the ban on eggs be lifted) to result in collective irrationality–the ban did get imposed, even though it was uneconomical from the ERP and DRC study, and although BTC had recommended only two years protection, 11 years later, eggs still continue to be banned. It is doubtful that an industry could be considered an "infant" for over such a period. Clearly, economics alone could not explain this decision.

Of course all groups were not very diplomatic in their approach. In one incident in 1994, some poultry producers had smashed a truck against the walls of the government secretariat building to protest against cheaper foreign eggs flooding the country. Based on these observations I assign a strong weight to the DPIG model.

DPGP

There was no effective consumer organization group in Bangladesh, to lobby their interests to the Commission. Consumers usually expressed their frustration about higher domestic priced goods through popular media like the newspaper and television. I assign a low weight to this model.

In terms of Putnam's two level bargaining game, Table 82 shows the government was subject to different kinds of pressures: the bureaucrats, the interest groups, general voter, and the international players. It applies the IPE theories of AGIO, AGS, BP, DPIG, and DPGP as developed in Chapter 2, focusing particularly on the ban on eggs. The international players have been represented by AGIO, which takes the form of major influence by WB / IMF on the government. This was the external side versus the internal side consisting of the AGS (PM); BP (NBR, BTC, MoC); DPIG (BLPFA, BSPFA, DFOA) and DPGP (Consumers).

TABLE 82

Livestock and Poultry Sector: Ban on Eggs: Putnam's Model

		Internal Side						
	External Side	Government Constituencies			Producers			Consumers
	WB/IMF	PM	BTC	NBR	BLPFA	BSPFA	DFOA	BCA
QR desired	None	Ban			Ban			None
Models	AGIO	AGS	BP		DPIG			DPGP
Weight	Min.	Med.	Strong		Strong	Med.		Min.

Sectors (arranged alphabetically)

BCA: Bangladesh Consumers Association.
BSPFA: Bangladesh Small Poultry Farmers Association.
DFOA: Dairy Farmers Owners Association.
NBR: National Board of Revenue.
BPIA: Bangladesh Poultry Industries Association.
BLPFA: Bangladesh Large Poultry Farmers Association
BTC: Bangladesh Tariff Commission.
IMF: International Monetary Fund.
WB: World Bank.
PM: Prime Minister

Figure 23: Poultry Sector Appeal

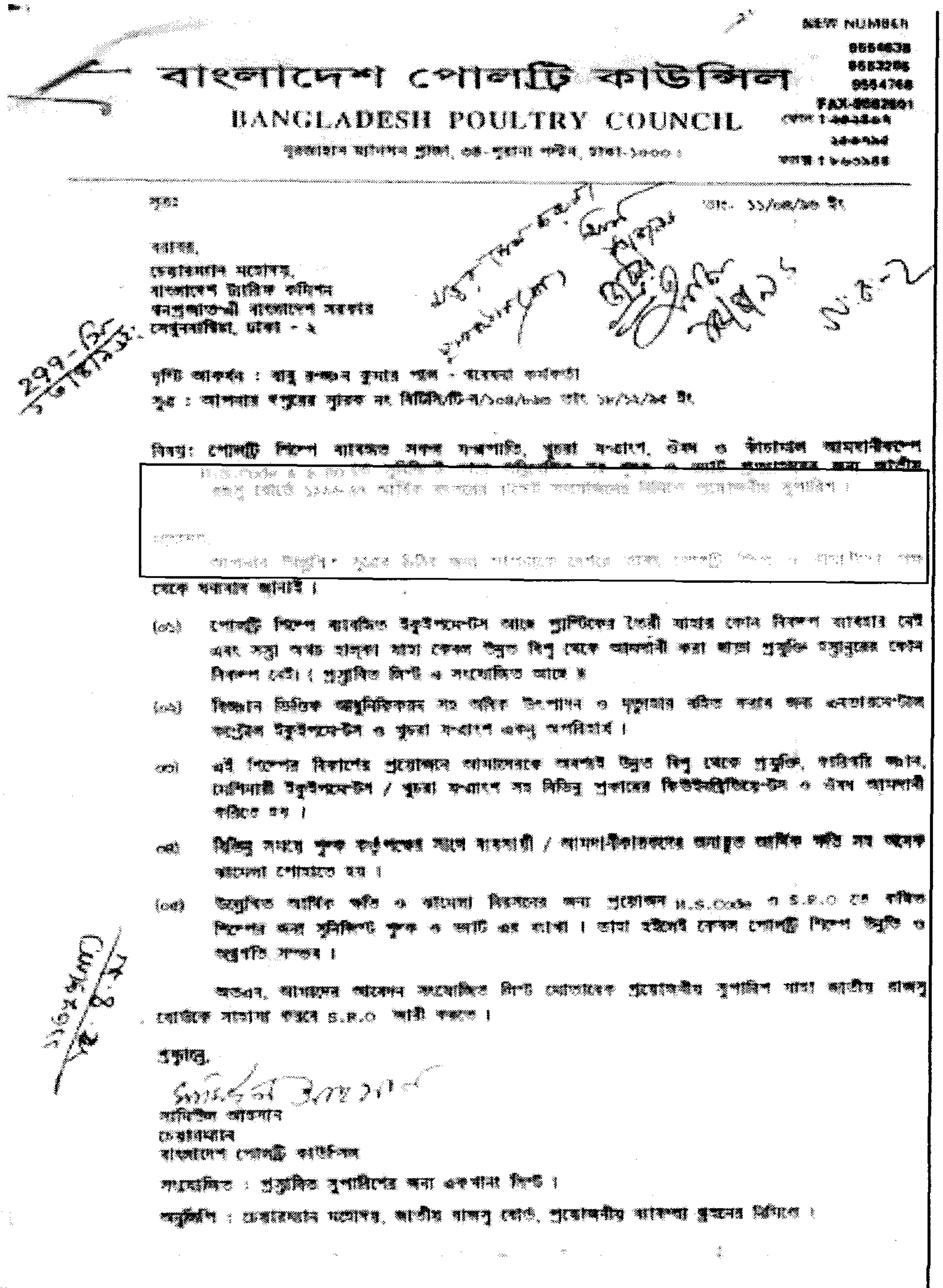


Figure 24: Poultry Sector Appeal Items

বাংলাদেশ পোলট্রি কাউন্সিল

BANGLADESH POULTRY COUNCIL

[illegible]

FAX-[illegible]

LIST OF CHEMICALS, MACHINERIES, EQUIPMENTS & SPARES EXCLUSIVELY USED IN POULTRY INDUSTRY/FARMS.

NAME OF ITEMS	H.S.CODE NO.	DUTY/TA
1) Preparations of kind used in Animal Feeding excluding dog cat Food such as:	2309.90	NIL.
Calcium Hydrogen phosphate (di calcium phosphate) Feed Grade, Disodium Phosphate Feed Grade, Lysine Feed Grade, Methionine Feed Grade, Provitamines Unmixed Feed Grade, Vitamin A Feed Grade, Vitamin E Feed Grade, Vitamin B Feed Grade, Dl-or Dl pantothenic Acid Feed Grade, Vitamin B6 Feed Grade, B12 Feed Grade, Vitamin C Feed Grade, other Vitamins Feed Grade, Natural concentrate, Premix for Layer/Broiler/Breeders/Parent stocks, Concentrate feed for Layer, Broiler, Yellow, Cycostate/Coxistate Super Dot, Clopidol, Dinitro-O-Tolmamide, Electrolytes with Selenium (soluble), Furazolidone, Neomycin Sulphate (Watersoluble), Doxycycline, Levamisole BP (Vet), Trimethoprim, Sulphamethoxazole.		
Feed Manufacturing machineries, Equipments & Spares:	8436.10	NIL.
Feed storage silos, Quality Control Equipments, Fork lifts, Mounting Truck, Loaders etc. Steam Sterillisation Plant Mixtures, Crushers, Grinders, Pelletisers, Crumbles, Extruders, bagging & Sealing, Clipping equipments etc.		
Brooding Equipments, Machineries:	8436.21	NIL.
Infrared Heater, Electric Heater, Gas Brooder, Incubators (Setter + Hatchers), Coolers Heaters, Recording instruments (electric/electronic), Humidifiers, Egg Candlers, Egg Testers, Egg washers, Dryers, Fogging Machine, etc.		
Meat Processing Equipments, Machineries and Spares:	8436.29	NIL.
Feather Plucker, Deborner, Meat Cutter, Vent cutter, Slaughtering equipment, Neck cutter, Meat trimmer, Carcass cutting tools, Meat Freezing Unit, Scales, Fogging pad, vacuum filter, Grinder, Mixer, Transportation vehicle, and other items required for broiler processing, storage, marketing, etc.		
Housing Equipments & Accessories:	8436.29	NIL.
Dessert cooling system, Curtains, Coolingpads, Blower fans, Insulating equipments and insulation devices & other poultry House environment control equipments. Plastic/Metal cages, Drinkers (Nipple/Cup/Bell), Feeders (manual/Auto), Plastic/PVC Slats, Nest boxes, Egg Trays, Egg Crates, Thermometers etc.		
Other Machineries & Equipments:	8436.91	NIL.
Plastic/PVC crates for transportation of Poultry, Debeakers, Weighing Scales, Vaccinators (Manual & Automatic), Fly control & disinfection equipments, Washing & Cleaning equipments, farm waste disposal unit, Poultry bi-product processing unit, Electronic balance for body weight measurement, Fumigators, chlorination devices, Medicine dispenser in watering system, Luxometer, Computer disk for feed formulation & immunization programming and Monitoring equipments etc.		

In terms of the "Prince Model," this scenario (regarding the ban on eggs) is depicted by Figure 24 for this sector.

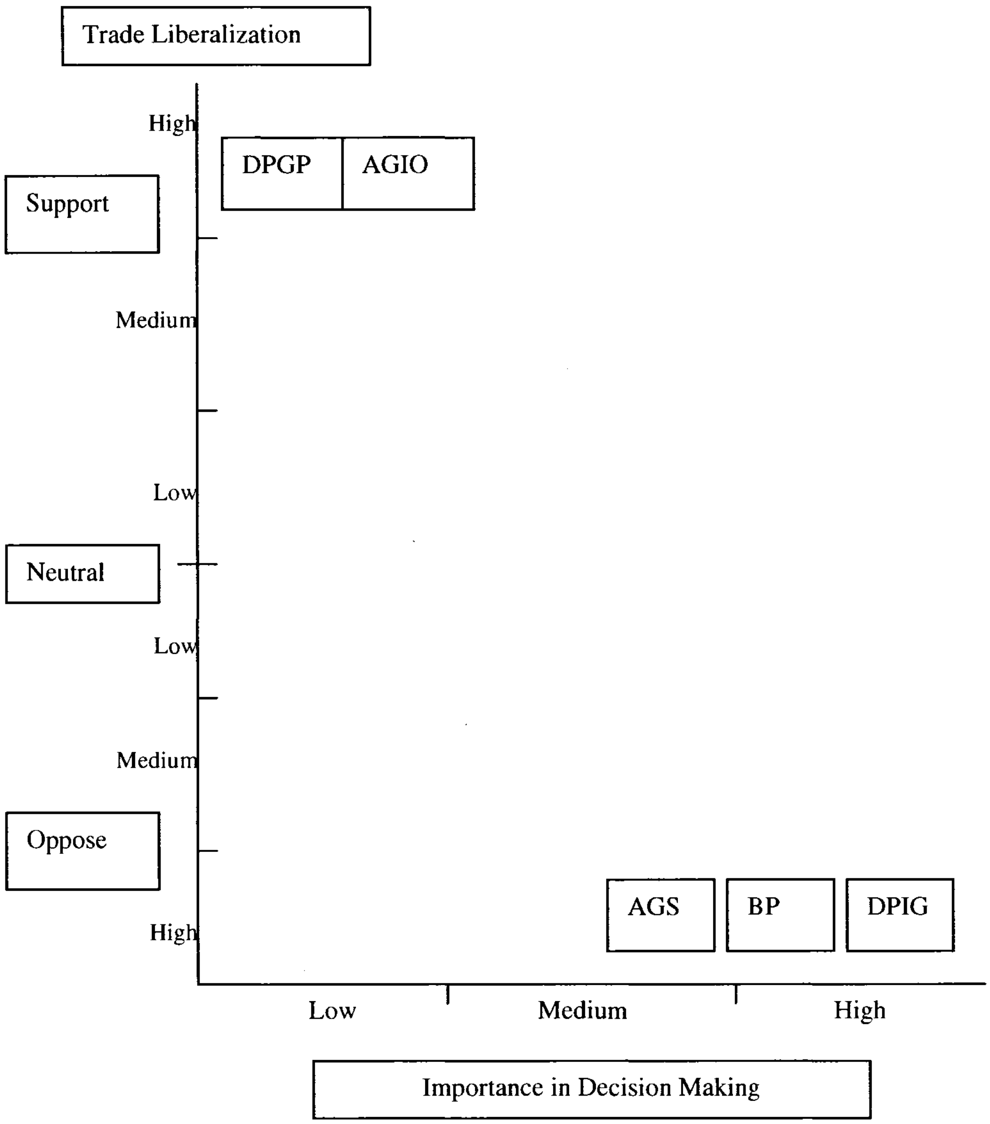


Figure 25: Prince Model in the Livestock and Poultry Sector: Ban on Eggs

In the Prince Model[28] shown in Figure 25, the horizontal axis shows the relevant group (or model's) importance in decision-making, which goes from low to high. The vertical axis represents the philosophy of trade liberalization–starting with opposing reform, becoming neutral and supporting reform.

From our discussion, it seemed that the DPIG was the model that had driven the eventual ban, while the BP model supported it, and so did AGS too. Since the BP was also important in designing trade policy, it was, as mentioned before, given a high weight, similar to but less than DPIG. AGS was provided a bit less weight–it seems the government's executive role was just to support the decision that had already been manifested on them first by the producers and then by the support from the technical bureaucratic sources. The World Bank / IMF type organization's pressures for liberalization–and any that the government might have had on its own–at least in the egg ban implementation case was ineffective. Although the AGIO model would support liberalization highly, its importance in decision making therefore was assigned as low. The DPGP had an even lower weight as the consumers had really no active voice in decision makers–or they were not motivated strongly to undertake costs of lobbying to the government individually.

As a result of the study, the budget of 1995, enacted the following measures: (i) the present ban on import of table eggs, was continued for the next two years (1995, 1996), by which time it was hoped

[28] The relevance of the name "PRINCE" might be of passing coincidence with the name of Niccolò Machiavelli, where he advised the "Prince" of Italy (around 1500) on issues of statecraft in primarily maintaining survival and conducting "expedient actions to stay in power, including the manipulation of the public and military alliances." (A Guide to World Politics; Quick Study; ISBN: 157222692-7) Coats (2006) cites Bauzon's 1977 article where Coplin and O'Leary come up with an acronym for PRINCE (in an obvious homage Machiavelli's most famous work) in the following way: (i) PRobe your surroundings to figure who the most important actors are; (ii) INteract with them to find out their inclinations and infuence on the topics important to you; (iii) Calculate how to get them to behave the was you want; and (iv) Execute the plans you have decided upon." The URL for this unpublished manuscript is http://www.upd.edu.ph/~twsc/issue_sample/bauzon.pdf.

that backward linkage industries like feed, breeding and cage building sectors could be developed; (ii) ingredients of imported poultry feed and medicines were made mostly tax-free, and only in some cases where present, duties were brought down to the minimum floor of 7.5%, and (iii) it was recognized that there is a need to better integrate different government institutions within themselves, such as the Bangladesh Livestock Research Institute, the Department of Livestock Services, and the Ministry of Livestock and Poultry as well as having more input by both the private sector- the poultry associations (large and small), and the livestock associations including the dairy association, and Non-Governmental Organizations like BRAC.

The resultant measures were not taken by the government in isolation. They reflected the government's own views, the recommendations of the World Bank, and the domestic producers lobbying. There was skepticism in some circles about continuing the present ban on import of eggs. This was made worse by pressure from the World Bank and IMF to liberalize. However, due to domestic interest groups (some of the farmers were influential businessmen, former Ministers, and government employees themselves), the government adopted a two year ban and made most inputs duty free, as indicated earlier. Trade policy eventually favored protection, based on higher weights from domestic producers and the government's own belief. It should be noted that there is not effective consumer organization group in Bangladesh, to lobby their interests to the Commission. Consumers usually express their frustration about higher domestic priced goods through popular media like the newspaper and television. The main gainers through this trade policy were the producers.

Thus, the case study serves to illustrate that looking at the overall trade policy and attempting to assign IPE theories to explain reform is not enough. A detailed sectoral study can better illustrate the influence of different IPE models.

Chapter 8 Conclusion

The story of trade liberalization in Bangladesh has some parallels with the story of the US trade scenario. where anti-protection counterweights were developed in the form of ideas (liberal trade promotes peace, derived from Classical Liberalist Philosophy, that Franklin D. Roosevelt's Secretary of State, Cordell Hull embraced), processes (shielding Congress from the direct responsibility of setting tariffs) and institutions (the US International Trade Commission) Destler, 1986; Hufabuer and Rosen, 1986). Destler (1986, page 36) notes "From the 1930s through the 1960s, the main story of American trade policy-making was the story of the construction and elaboration of a pressure-diverting policy management system. No one planned this system in its entirety. It evolved from a mix of strong executive and congressional leadership and ad hoc responses to particular pressures. It gave the American body politics not only an unaccustomed capacity to resist new trade restrictions, but remarkable success in reducing old ones, as evidenced by a series of negotiations that culminated in the Kennedy Round agreements of 1967." Bailey, Goldstein and Weingast (1997), similarly state that "Trade liberalization in the United States was neither inevitable nor irrevocable....the early history of liberalization in the U.S. provides a picture of how domestic politics, institutional choice, and the international economy are linked..."

In Bangladesh, anti-protection counterweights were also developed in the form of ideas (structural adjustment reform program induced classical liberalist philosophy), processes (shielding the NBR from the direct pressure of domestic lobbies) and institutions (the reorganized Bangladesh Tariff Commission).

The BTC facilitates "the politically difficult decisions on what to protect, while shielding the Government from pressure to preserve protection at the expense of the consumers." (World Bank, March 17, 1994, page 66) Again, just as the conventional view of US trade policy was a "running battle between "special interests" favoring protection and the "general interest" in open trade," (Destler and Odel, 1987, September, page 1), this traditional view has also held in Bangladesh.

However, as the authors continue, a new, almost peculiar view has emerged in the US, that of "anti-protection," being lobbied by "special interests that suffer from trade restrictions, specifically "trade-dependent groups to block or limit new import restrictions…in automobiles, or copper, or footwear, or steel, or sugar, or textiles..." (Destler and Odell, 1987, page 125. 126) A crucial difference is that while in the US this liberal trade scenario was chosen, in Bangladesh, it was mainly donor-imposed. The international institutions, namely the World Bank and IMF, spearheaded the drive for trade liberalization, largely as a component of Structural Adjustment Reforms. This is where the Bangladesh case would differ most from the US scenario.

The donors (World Bank, IMF) in Bangladesh pressured for structural adjustment reforms under "aid-conditionality," while the government, to keep "a healthy distance from them, so as to not invoke popular resentment among the general masses," responded with its New Industrial Policy of 1981, Trade and Industrial Policy (TIP) reform program (established in 1982), and Revised Industrial Policy of 1986. The Bangladesh Tariff Commission (BTC–formulates trade policies), insulates the Ministry of Finance (implements tariff policies) and Ministry of Commerce (implements QR's), from producer pressures. Applying Destler's (1987) terminology, domestic producers or even BTC personnel, can make ample protectionist noise, while actual decisions are made elsewhere. Finally, institutions are fundamentally important in explaining trade liberalization decisions in Bangladesh.

While BTC has been important in buffering the tariff and quota implementing authority from producer pressure, the pressure nonetheless exists, and manifests itself in various ways (petitioning the Ministries, through writing in newspapers and journals to create mass support, or by more direct measures through strikes, or violence). At the same time, the government was also changing its own belief structure to "liberalism." This was because there has been increasing presence of "reform-minded bureaucrats" (counterpart to the "technopol" mentioned earlier) on an ever increasing scale. They made it more acceptable for the general public, and other bureaucrats to believe in World Bank type arguments, that more open economies–in the sense of less distortions in their foreign trade–grow faster, as they discriminate less against tradable activities, and within tradable activities, they avoid creating home market bias, i.e. not discriminating against export activities and instead, favoring import substituting activities that cater to the domestic market. (Jaime de Melo and Sumana Dhar, World Bank, 1992) Further, differential liberalization in neighboring countries was also an important factor–most of the other South Asian countries were "opening" up too, and the government felt it would be left behind, if it did not jump on the bandwagon of trade liberalization. The South Asian Preferential Trade Agreement, was also suggesting preferential trade as the first stage of economic integration, and free trade as the ultimate. The South Asian Association of Regional Cooperation (SAARC) was also collectively working to have greater bargaining power with the World Trade Organization (WTO).

There also emerged a new breed of private entrepreneurs / business-minded class, who, unlike traditional rent-seekers, or traders benefiting from import liberalization, "naturally accepted that they had to compete in the international markets." (World Bank 1994, March 8) These were mostly exporters of non-traditional items, like ready made garments, frozen fish, and leather products.

Further, in terms of legislative and political support for trade reform, since 1991, the two major political parties in Bangladesh (Awami League and Bangladesh Nationalist Party), both support trade liberalization. The Fourth Five Year Plan (1990-1995) focused on trade objectives as export promotion and diversification (encouraging non-traditional items–specially "thrust sectors" such as garments, frozen fish and leather over traditional exports, such as jute and tea), selective import substitution, and pursuance of a flexible exchange rate policy. The Plan pursues an outward-oriented, export-promoting industrial sector strategy, keeping in view the principle of comparative advantage.

This was in stark contrast to the founding government of Shaikh Mujibur Rahman, which was inward-looking, statist, and focused on nationalism, imposing high tariff barriers and quantitative restrictions. To that extent, the First Five Year Plan (1973-1978) stressed that removal of private ownership is a necessary condition to social transformation. All industries were nationalized and the share of the state in fixed assets increased from 34% in 1969 to 92% in 1972. Trade policies were stringent, with high tariffs, strict quantitative restrictions (bans, specific quotas, licensing requirements and other restraints in the form of positive or negative / restricted list of imports), and foreign exchange controls (it was rationed through an import-licensing system). The overall trade regime was quite restrictive, a reflection of Bangladesh inheriting a "tradition of state paternalism and a distrust of free markets," (Mallon and Stern, 1991) and having a 'government agency' mentality (World Bank Report No. 12318-BD, February 1, 1994). Government philosophy largely reflected "nationalism" and "realism." The tariff regime thus, discriminated against export promotion and favored import substitution.

This dissertation has examined the development of this trade policy making story–investigating whether it was entirely donor imposed, or whether there were other significant factors influencing the trade movements. Trade liberalization, Mallon and Stern (1991) pointed out, was not been uniform in terms of being applied from one source. It was initiated by three sets of pressures: donor pressure, government response and changing beliefs, and a growing new entrepreneurial class. According to them, ultimately,

> "implementation of recommended reforms...depended primarily on the attitudes and bargaining power of...five main protagonists–policymakers, government bureaucrats, influential businessmen, international donor agencies, and technocrats." (Mallon and Stern, 1991)

Further, if one can equate trade liberalization with increased privatization, then we can apply the World Bank's classification of group interests on privatization, based on their mission interviews and published media comment. (World Bank, 1992, March 16) Table 83 suggests that one has to take account of these main protagonists in implementing liberalization programs. The key issue the report mentions is how the government "deals with the tensions between the economics and politics of privatization and how it balances the need to access foreign investors' and local entrepreneurs' capital for the privatization process, and the legitimate concerns of the community." (World Bank, 1994, March 10, page 40) In fact, this tension is not unique to privatization alone, but can also be extended to trade liberalization.

Table 83
Philosophies of different groups

Groups	Philosophies
Politicians	Non-enthusiastic or almost reluctant support for privatization.
Bureaucrats	Overall neutral but suspicious to privatization programs which increase wealth. They draw the past example of when Bangladesh was part of Pakistan, how 23 families controlled industry and finance–such a re-emergence might disrupt a large-scale divestiture program. Further, recent entrepreneurs are more traders than industrialists e.g. in a World Bank sample survey, 50% of insurance company promoters were the former versus only 20% the latter. Further, not only do the same large business groups manage to command a disproportionately large share in the total credit flow to the private sector, but also potential defaulting on bank loans makes the bureaucrats nervous also.
Intellectual Community	Skeptic about privatization because past efforts have failed and have led to increasing concentrations of wealth.
Business Community	Pro-privatization. Believe government should not be involved in business, especially since State Owned Enterprises perform poorly.
Organized Labor	Equate privatization with job losses at their cost.

Source: World Bank (1994, March 10, page 40, 121)

Mallon and Stern's classifications as well as those of the World Bank are similar to those of mine: government (bureaucrats, policymakers and technocrats), producers, international agencies, and consumers. I took a step beyond these studies in that I attempted to present these conflicts and assign various IPE models to explain the trade measures over the different phases mentioned.

Chapters 3, 4, 5 and 6, have provided arguments for the relative degree of explanatory power of the five models (AGIO, AGS, BP, DPIG and DPGP) as developed in Chapter 2. This has created a base for shifting from comprehensive generalization type statements (which search for truth of hypothesis) such as "donor pressure caused trade liberalization" into a richer context of contingent generalization (which examines relative influences of perspectives / theories). From that perspective we found that no one particular model dominated all of the different phases. It did appear that the AGS model seemed relatively more prevalent in Phase 1 and for most of Phase 2, given that the donors were mostly absent (less role of AGIO) and that the autocratic government had overwhelmed all interest groups and bureaucratic politics, under military pressure and realism. The end of Phase 2 and Phase 3 appeared to provide relatively more credibility to the AGIO model, given that democracy had surfaced explicitly and donors were driving most of the momentum of reform. The primary export earning businessmen (RMG) had come to terms with globalization and competition, while non-traditional bureaucrats could be more vocal in an open environment where "ideas" based on classical economic liberalism were being increasingly propounded (with the help of the donor agencies). Phase 4 was more a relative combination of BP and DPIG, with some reasserting of the AGS model, though under a democratic guise. If we examine our research query, then as far as the trade liberalization phase was "allowed" (prior to Phase 3, the political conditions did not fully exist for this), that particular phase did allow greater weight to the donors, relative to the other influencing actors. However, the case study on ban on eggs went in the opposite direction to liberalization. This is important not only to show the need for further detailed study, but also because, as George and Smoke (1974, page 96) point out, "Analysis of difference can be just as useful as analysis of similarities for development of theory....By specifying the differing circumstances or cause that led to different results...the investigator can illuminate....the variation in outcomes." Even in the phase where trade liberalization occurred the most, the period (Phase 3) in which we are ascribing a higher relative overall strength of the AGIO model, this model failed in the case study scenario and it was the relative strength of the DPIG model, combined with a smaller weight by the BP and AGS model, that won.

A question here is whether pressures from international organizations (e.g. the World Bank) on developing countries to undertake economic liberalization policies ultimately strengthen trends towards political liberalization and democratization as well? For example, as actual tariff rates approach target tariff rates (lower rates as dictated by WB/IMF), and indicators of economic liberalization (e.g. the export openness ratio) increase, should indicators of political liberalization (in the form of increased government accountability) increase as well? This could be an area for potential future research.

The dissertation is useful to the development of Bangladesh because first, application of IPE theories to analyze the general trade regime in Bangladesh and sectoral case studies in particular, has not been undertaken before, and secondly, it will provide tools for Third World policy-makers embarking on trade liberalization to analyze positive political economy and help understand conflicts in policy, thus being able to make better and more realistic predictions for the future development goals.

This is contextual in the present day misunderstanding of the potential benefits of free trade. Witness the failure of the WTO trade talks at Seattle and the rise of the masses of anti-trade protestors. The meetings at Cancun in 2003, Mexico was "the biggest defeat for trade liberalization since a chaotic meeting in Seattle in 1999 (which) was rocked by violent street protests…" (India-West, page A8), although in that meeting the tensions were more with conflicts about bureaucracy-cutting and the Singapore issues. The Doha meetings therefore were geographically strategically placed to provide some insulation from anti-globalization activists. Conventional economic wisdom did not predict this–an IPE analysis might have.

One area of further research in this vein is whether the Singapore issues (new rules on investment, competition, government procurement, red tape) can be cited as possible measures of reform impediments. For example, one could examine relative effects of corruption (before and after the democratic transition), on the slowing down of trade reform policies.

What can be noted is that Bangladesh's bureaucracy always had wide discretionary power. In absence of viable media, the people's knowledge about this discretionary use in favor of corruption could not be well publicized–which is what happened in the military regime of Zia / Ershad. When democracy came, newspaper autonomy and journalism increased–many daring people joined toe profession of journalism and started disseminating information to the public. So there was more flushing out of corruption cases. People became more vocal, due to the media revolution, and in fact, Bangladesh came to become known as a highly corrupt country.

It is difficult to say whether the incidence of corruption has declined after the democratic transition. One can perhaps contend that corruption during the Statist regime the system, as mentioned earlier, did not have much transparency. After the democratic regime took over, although new institutions for corruption may have emerged, at least there is now the possibility of having more checks and balances, which might not have existed before. For example, there has been the demand for a new Anti-Corruption Commission. This is additionally a demand for more autonomous self-governing local government so that transparency and accountability at the local level can be increased.

One specific way corruption might be tied with the slowing down of tariff reforms is in that corruption may convolute ERP calculation (by lowering value added), providing a basis for domestic pressure groups to demand higher protection. Further, as Khan (1997) notes, "Many of the costs calculation of ERP are hidden costs. Also for things like electricity shut down or fluctuates, there is no mechanism for accountability in ERP calculation. Further ERP calculation is flawed is if there is wastage or excess capacity, this is not caught in ERP. It does not adequately capture productivity, because of side payments to mastans, payments to police–you won't be able to run your factory. It may appear that ERP on paper will show 45%, but due to these inefficiencies and hidden costs, actually it is 15%. This then becomes a justification for slowing down the pace of TL."

Regarding the "red tape," a World Bank report (1995, March 16, page 6, 28) cites the cumbersome process of duty drawback–the time length is from 52 to 120 days to obtain a refund. The report also mentions about the "slow pace of extending the scope of SBW to sectors outside the RMG" sector. Hence, despite the measures taken, the report concludes, "Trade liberalization is incomplete. Further progress requires more measures to rationalize and simplify the existing tariff structure..." (page iii) But this is made difficult because the high measures of dispersion are "evidence of downward rigidity of protection levels and of the tacit acquiescence by authorities under heavy pressure from domestic protection lobbies."(World Bank, 1999, page 6)

Tables 89 and 90 in Annexure 5 provide a summary of these additional costs. When I worked for the World Bank in 1994 I found that the bribery costs for basic business expenses are: electricity, $2,500; gas, $1,000; water, $400; trade license, $125; factory license, $38; fire license, $25; etc. In this way, for a garments exporter, the cost of bureaucracy and corruption ($7763) come to 340% of official ($2291) initial costs of setting up his business. On the other hand, 51% of total costs go for bribes to open a pharmaceutical industry, while kickbacks for renewal fees for a leather producer are 96% of total costs, which is about the same figure for renewal costs for a garments producer, as against 60% for initial costs. (Ali, 1995, March) Similarly, when I worked for the Central Bank under their "Financial Sector Reform Project," I was informed by the firms I interviewed in the Exporters of Fresh Fruits and Vegetables sector, that side-payments account to about 8 percent of their business costs to sustain their business per year. (Ali, 1993, November 15) Annexure 6 provides a few examples of the level of corruption-induced problems and costs. Besides these monetary costs, in the RMG sector corruption manifests itself "through leakage into the protected domestic market." That is, this sector benefits from the SBW scheme, importing raw materials like grey cloth and woven fabrics duty-free, but then instead of exporting them 100 percent (the condition for availing SBW), they siphon off a portion to the domestic market. (World Bank, 2003, June, page 20) Hence corruption can manifest itself via conducting illegal services too.

According to a report of the Independent South Asian Commission on Poverty Alleviation, (2003, page 32), "if Bangladesh could reduce corruption level to those prevailing in countries with the highest reputation for honest dealing, it could add between 2.1 and 2.9 percent to the annual per capita GDP growth. This could lower the country's poverty by 25 percent."

All in all, whether corruption overall has declined over the years, and in what particular way does or does not influence trade measures slowing down, is an area for future research.

In conducting policy analysis in Bangladesh, whether it be trade or any other issues, the interplay between economics and politics is vital. India is poised to invest $2 b in three major projects via their "Tata Group," in the areas of steel, power and fertilizer. This is "the biggest investment proposal the country has ever received." (Holiday, 2004, Aug. 20) In attracting this foreign investment, the Bangladesh government has to, besides addressing the fundamental issue of ensuring the much required infrastructure, also "end the patronage and what economists politely call rent-seeking in public administration," ensure "political stability," (Financial Express, 1995, March 29 page 8) and, as Saadat mentions "get out of the business of doing business," or at least provide unwavering political commitment" for reforms. (Saadat, 1997) In an interview with John Stossel (Is America #1, 1999, abc inc.), regarding the role of government, regulations, Milton Friedman mentions "There is nothing that does so much harm as good intentions." What is really required, Friedman continues, is "economic freedom." This can be done, as Bangladesh has a high commitment to a pluralistic democracy, and being a small country with a huge population and challenging poverty issues could even become a model for developing countries.

Similarly, there are political areas of concern about regional cooperation regarding the SAARC or the SAGQ movement. Some are worried whether India would use the proposed creation of a "super-highway" linking some of the member countries to exercise its military might. Clearly, economic and trade issues alone cannot override this concern, and perhaps that is why formatting any analysis with an appropriate blend of IPE and Public Choice models, could be useful in “providing a systematic framework for analyzing a wide range of considerations.” (Willett, 1979) In conclusion, we revert to Huntington’s (1996, page 29) quote of Thomas Kuhn in his classic “The Structure of Scientific Revolutions as follows:

> “To be accepted as a paradigm, a theory must seem better than its competitors, but it need not, and in fact never does explain all the facts with which it can be confronted.”

ANNEXURES

Annexure 1

TABLE 84
Economy wide Protection

Unweighted Nominal Protection (as % of assessed value)

Bangladesh	1989	1991	1992	1993	1994	1995	1996
The Whole Economy	93.80	88.60	58.80	50.30	40.00	30.10	24.80
Agriculture	104.60	90.50	61.60	50.40	41.00	35.90	27.20
Mining	54.30	54.10	33.50	33.40	25.00	16.90	14.40
Manufacturing	94.00	89.00	59.10	50.60	40.10	29.80	24.80
Consumer Goods	133.90	124.40	84.80	70.40	56.00	47.00	38.30
Intermediate Goods	83.40	79.00	51.70	44.20	35.10	27.00	22.20
Capital Goods	73.30	72.00	47.00	41.20	30.20	18.10	15.00
Food, Beverages, Tobacco	125.30	112.70	79.80	65.70	50.90	38.80	35.70
Textiles & Leather	134.00	135.30	95.20	79.70	61.00	49.90	39.40
Wood, Cork & Products	147.90	105.10	71.80	52.60	42.00	28.60	26.20
Paper & Printing	122.50	107.80	66.50	54.60	51.40	39.00	27.60
Chemicals, Petroleum, Coal	74.80	73.70	46.80	40.10	30.40	26.40	21.90
Nonmetallic Minerals	117.80	100.60	67.60	56.30	48.50	31.50	27.00
Basic Metals Industries	77.50	73.30	50.00	47.50	34.50	29.90	24.60
Metal Products, Machinery	81.70	78.30	51.40	44.00	34.80	21.40	18.10
Other Manufacturing	149.00	130.80	86.00	64.30	54.30	41.00	38.10

Source: World Bank (1994, August 31; 1996, October 4)

TABLE 85
Import-Weighted Nominal Protection (% of assessed value)

Bangladesh	1991	1992	1993	1994	1995
The Whole Economy	42.10	39.70	29.60	24.40	21.00
Agriculture	20.90	19.20	17.80	17.30	10.10
Mining	24.00	30.60	35.50	40.60	38.80
Manufacturing	51.80	43.10	31.00	26.70	21.90
Consumer Goods	50.00	44.90	49.40	37.80	25.50
Intermediate Goods	55.00	36.50	29.70	33.40	24.90
Capital Goods	47.20	52.00	23.30	18.40	14.20
Food, Beverages, Tobacco	50.60	48.70	51.30	43.70	27.70
Textiles & Leather	56.60	39.50	39.80	26.80	19.40
Wood, Cork & Products	40.80	27.30	24.70	16.80	18.20
Paper & Printing	99.00	56.30	49.30	35.90	21.20
Chemicals, Petroleum, Coal	49.40	25.50	23.10	36.10	24.10
Nonmetallic Minerals	40.80	30.90	23.70	22.30	22.10
Basic Metals Industries	61.30	29.80	33.10	25.20	24.10
Metal Products, Machinery	51.10	55.80	28.20	22.30	17.90
Other Manufacturing	73.00	49.20	45.40	34.80	33.90

Source: World Bank (1994, August 31; 1996, October 4)

Annexure 1 (Continued)

TABLE 86: Quantitative Restrictions (% of Total HS-8 lines)

	Total # of	FREE			BANNED				RESTRICTED		
	HS-8 lines	1987	1991	1994	1987	1987	1991	1994	1987	1991	1994
The Whole Economy	5981	63.00	77.50	93.80	12.40	12.40	7.90	0.40	8.50	3.60	0.40
Agriculture	380	57.20	89.40	97.10	22.00	22.00	2.90	0.00	14.70	4.80	0.00
Mining	110	92.70	93.70	94.60	3.60	3.60	2.70	0.00	0.90	0.90	0.00
Manufacturing	5491	62.70	76.60	89.60	12.00	12.00	8.30	0.50	8.30	3.50	4.40
Consumer Goods	2103	42.70	57.50	79.90	21.50	21.50	16.70	1.10	10.10	4.80	11.20
Intermediate Goods	2259	76.10	89.20	96.90	8.00	8.00	3.60	0.10	5.50	3.10	0.10
Capital Goods	1129	73.00	86.50	93.00	2.70	2.70	2.20	0.00	10.60	2.00	0.20
Food, Beverages, Tobacco	513	52.90	80.40	88.50	6.80	6.80	3.60	0.00	26.60	6.20	21.90
Textiles & Leather	1080	24.10	36.70	74.00	32.60	32.60	30.90	0.70	8.00	2.50	0.00
Wood, Cork & Products	85	52.90	95.30	100.00	35.30	35.30	4.70	0.00	1.20	0.00	0.00
Paper & Printing	159	54.10	86.80	99.40	24.50	24.50	5.00	0.60	10.10	2.50	0.00
Chemicals, Petroleum, Coal	1127	74.10	81.70	91.30	6.30	6.30	3.60	0.00	5.40	5.70	0.00
Nonmetallic Minerals	169	59.20	88.20	100.00	19.50	19.50	5.30	0.00	3.60	6.50	0.00
Basic Metals Industries	422	89.10	96.30	99.50	1.90	1.90	0.70	0.00	3.80	3.00	0.00
Metal Products, Machinery	1718	74.00	85.70	92.60	4.20	4.20	2.50	1.00	7.50	2.60	0.20
Other Manufacturing	218	79.40	89.50	99.10	15.10	15.10	7.80	0.00	3.70	1.80	0.00

Source: World Bank Industrial Strategy Working Paper # 28a, August 31, 1994

Notes: 1) All numbers are in percentages and add up horizontally by fiscal year to 100%

TABLE 87: Quantitative Restrictions (% of Total HS-8 lines)

	MIXED			NON-TRADE REASONS		
	1987	1991	1994	1987	1991	1994
The Whole Economy	12.30	7.20	0.40	3.80	3.80	3.80
Agriculture	2.20	0.00	0.00	3.80	2.90	2.90
Mining	0.00	0.00	0.00	2.70	2.70	5.50
Manufacturing	13.10	7.70	4.40	3.80	3.80	3.80
Consumer Goods	20.60	16.00	11.20	5.10	5.00	5.10
Intermediate Goods	8.30	1.70	0.10	2.10	2.40	2.60
Capital Goods	8.90	4.50	0.20	4.90	4.80	3.80
Food, Beverages, Tobacco	4.00	0.20	0.00	9.80	9.60	9.40
Textiles & Leather	35.40	29.90	21.90	0.00	0.00	0.90
Wood, Cork & Products	10.60	0.00	0.00	0.00	0.00	0.00
Paper & Printing	11.30	5.70	0.00	0.00	0.00	0.00
Chemicals, Petroleum, Coal	5.50	0.00	0.00	8.70	9.00	8.70
Nonmetallic Minerals	17.80	0.00	0.00	0.00	0.00	0.00
Basic Metals Industries	5.20	0.00	0.00	0.00	0.00	0.20
Metal Products, Machinery	11.00	5.90	0.20	3.40	3.30	2.70
Other Manufacturing	0.90	0.00	0.00	0.90	0.90	0.90

Source: World Bank Industrial Strategy Working Paper # 28a, August 31, 1994

Notes: 1) All numbers are in percentages and add up horizontally by fiscal year to 100%

2) Non-trade reasons include religious and security reasons

Annexure 2
Table 88
Export Patterns

Figures in $m

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Traditional Exports	583	495	533	628	672	511	571	568	550	674	575	568	566	571	656	694	694	675
Raw Jute	119	102	110	117	151	124	104	81	96	125	104	86	74	57	80	90	116	108
Jute Goods	366	292	318	357	390	293	302	301	293	331	290	302	292	284	319	329	318	281
Leather & Leather Goods	57	63	58	85	70	61	135	147	115	179	137	149	159	192	225	241	222	238
Tea	41	38	47	69	61	33	30	39	46	39	43	32	41	38	33	33	38	48
Non-Traditional Exports	128	132	153	183	262	306	503	663	750	846	1138	1419	1814	1962	2816	3189	3724	4486
RMG Products	3	7	11	32	116	131	299	434	475	628	890	1201	1474	1588	2261	2588	3053	3842
Fish / Shrimp / Frozen Food	40	53	72	77	87	113	136	145	175	147	149	136	175	222	316	319	328	303
Others	85	72	70	74	59	60	68	84	100	71	99	83	165	153	239	282	343	342
Total	711	627	686	811	934	819	1074	1231	1300	1520	1713	1988	2380	2533	3472	3883	4418	5161

Share Of Total (%)	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98
Traditional Exports	82	78.9	77.7	77.4	71.9	62.4	53.2	46.1	42.3	44.3	33.6	28.6	23.8	22.5	18.9	17.9	15.7	13.1
Raw Jute	16.7	16.3	16	14.4	16.2	15.1	9.7	6.6	7.4	8.2	6.1	4.3	3.1	2.3	2.3	2.3	2.6	2.1
Jute Goods	51.5	46.6	46.4	44	41.8	35.8	28.1	24.5	22.5	21.8	17	15.2	12.3	11.2	9.2	8.5	7.2	5.5
Leather & Leather Goods	8	10	8.5	10.5	7.5	7.4	12.6	11.9	8.8	11.8	8	7.5	6.7	7.6	6.5	6.2	5	4.6
Tea	5.8	6.1	6.9	8.5	6.5	4	2.8	3.2	3.5	2.6	2.5	1.6	1.7	1.5	0.9	0.9	0.9	0.9
Non-Traditional Exports	18	21.1	22.3	22.6	28.1	37.4	46.8	53.9	57.7	55.7	66.4	71.4	76.2	77.5	81.1	82.1	84.3	86.9
RMG Products	0.4	1.1	1.6	3.9	12.4	16	27.8	35.3	36.5	41.3	52	60.4	61.9	62.7	65.1	66.7	69.1	74.4
Fish / Shrimp / Frozen Food	5.6	8.5	10.5	9.5	9.3	13.8	12.7	11.8	13.5	9.6	8.7	6.8	7.3	8.8	9.1	8.2	7.4	5.9
Others	12	11.5	10.2	9.1	6.3	7.3	6.3	6.8	7.7	4.7	5.8	4.2	6.9	6	6.9	7.3	7.8	6.6
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: World Bank (November 23, 1999 and March 13, 1989, page 30)

Annexure 3

Table 89
Various types of tariff instruments

Duties	Description
CD	CD is the primary instrument of import taxes. The rates are set at the eight digit HS Code level, by the Parliament.
ST	This was mostly a 20% tax on imports. It was imposed on the sum of the assessed value of imports and customs duty. This was another import and source of revenue for the government until it got replaced by the VAT in 1992.
DS	This was " levied only on dutiable imports which accounted for approximately 60% of all 10 digit HS Codes." It was initially levied at 6% and in 1991, increased to 8% of the assessed value of imports.
RD	This was supposed to compensate for the decreased sales tax rates. It was also an import -- discriminating tax and ranged from 2.5% to 50%. It was imposed on assessed value for products such as air -- conditioners, electric generators, fibre, iron and steel, rubber tires, spare parts for motorcycles, transformers, yarn, etc.
VAT	This import -- neutral tax was set at the uniform rate of 15% from 1992. It was imposed both on domestic and imported goods. Exemptions to VAT include food, some chemicals, fertilizers, basic plastic / metal products and those items under capital and machinery concession.
AIT	All importers are required to pay an advanced income tax at 2.5% of the assessed value of the import. It is " credited against the importers tax obligation." Exemptions include licensed industrial importers (including small-scale industries raw materials) government imports, and materials imported under " capital and machinery concession category." This is a non-neutral import tax because when the income tax liability is less than the AIT paid, the taxpayer, who ought to get reimbursed, is often not compensated.
LF	This, like the AIT, is also set at a 2.5% rate on assessed value of imports. This letter of Credit Authorization or Permit Fee used to apply to imports valued above Tk 25,000 (1985 --1989), which increased to TK 50,000 (1989) and then to Tk 75,000 (1991). It is payment to the government for governments services of issuing and authorizing import licenses and letters of credit. Government imports and imports made under the concession category of capital and machinery are exempt. It is a non-neutral import tax as there is no domestic counterpart.
SD	A supplementary excise duty was introduced in the 1992 budget to offset the removal of development surcharge. The SD is imposed both on domestic and imported final goods and luxury products, e.g. 5% on crude palm oil and 350% on cigarettes in 1992. The SD rates are " differentiated and applied in a non-neutral manner..." (World Bank, 1991, pg. 5) e.g. 10% on 46 codes, 15% on 12 codes and 91% on 21 codes, with an average of 52.5%, as against the average CD rate of 56%. Source: Yilmaz and Varma, 1994)

Where:

AIT	= Advanced Income Tax	RD	= Regulatory Duty
CD	= Customs Duty	SD	= Supplementary Duty
DS	= Development Surcharge	ST	= Sales Tax
LF	= Import License Fee	VAT	= Value Added Tax

Source: Yilamz and Varma (1994, Appendix A and B)

Annexure 4: Table 90: Effective Tariffs, from OTS 92, 93, 94, 95, 96 and 03

	OTS92				OTS92	OTS93				OTS93	OTS94				OTS94
	CD	VAT	SD	Other	Total	CD	VAT	SD	Other	Total	CD	VAT	SD	Other	Total
0402.10.10	60	15	0	5	80	25	15	0	5	45	45	15	0	5	65
0405.10.00	60	15	0	5	80	45	15	0	5	65	45	15	0	5	65
0406.10.00	60	15	0	5	80	60	15	0	5	80	60	15	0	5	80
0805.10.10	75	0	0	5	80	60	0	0	5	65	60	0	0	5	65
0808.10.10	75	0	0	5	80	60	0	0	5	65	60	0	0	5	65
1513.19.90	48	15	0	5	68	60	15	0	5	80	60	15	0	5	80
1701.11.00	60	15	0	5	80	60	15	0	5	80	60	15	0	5	80
2204.10.00	150	15	0	5	170	150	15	0	5	170	150	15	0	5	170
2204.21.00	150	15	0	5	170	150	15	0	5	170	150	15	0	5	170
2208.30.00	300	15	0	5	320	300	15	0	5	320	300	15	0	5	320
2208.40.00	300	15	0	5	320	300	15	0	5	320	300	15	0	5	320
2208.50.00	300	15	0	5	320	300	15	0	5	320	300	15	0	5	320
2402.20.00	300	15	0	5	320	45	15	350	5	415	45	15	350	5	415
3303.00.00	200	15	10	5	230	75	15	10	5	105	75	15	10	5	105
3304.10.00	100	15	10	5	130	100	15	10	5	130	75	15	10	5	105
8407.31.10	10	15	0	5	30	7.5	15	0	5	27.5	7.5	15	0	5	27.5
8408.20.10	30	15	0	5	50	7.5	15	0	5	27.5	7.5	15	0	5	27.5
8415.20.10	100	15	20	5	140	75	15	20	5	115	60	15	20	5	100
8703.22.22	350	15	15	5	385	200	15	20	5	240	100	15	120	5	240
8703.22.11	175	15	15	5	210	100	15	20	5	140	75	15	50	5	145

	OTS95				OTS95	OTS96				OTS96	OTS03				OTS03
	CD	VAT	SD	Other	Total	CD	VAT	SD	Other	Total	CD	VAT	SD	IDS	Total
0402.10.10	45	15	0	5	65	60	15	0	5	80	32.5	15	20	3.5	71
0405.10.00	45	15	0	5	65	60	15	0	5	80	32.5	15	20	3.5	71
0406.10.00	45	15	0	5	65	60	15	0	5	80	32.5	15	20	3.5	71
0805.10.10	45	0	0	5	50	100	0	0	5	105	32.5	0	30	3.5	66
0808.10.10	45	0	0	5	50	100	0	0	5	105	32.5	0	30	3.5	66
1513.19.90	45	15	0	5	65	60	15	0	5	80	32.5	15	20	3.5	71
1701.11.00	30	15	0	5	50	100	15	0	5	120	32.5	15	20	3.5	71
2204.10.00	50	15	100	5	170	300	15	120	5	440	32.5	15	350	3.5	401
2204.21.00	50	15	100	5	170	300	15	120	5	440	32.5	15	350	3.5	401
2208.30.00	50	15	250	5	320	300	15	270	5	590	32.5	15	350	3.5	401
2208.40.00	50	15	250	5	320	300	15	270	5	590	32.5	15	350	3.5	401
2208.50.00	50	15	250	5	320	300	15	270	5	590	32.5	15	350	3.5	401
2402.20.00	45	15	350	5	415	100	15	350	5	470	32.5	15	350	3.5	401
3303.00.00	50	15	0	5	70	100	15	15	5	135	32.5	15	50	3.5	101
3304.10.00	50	15	20	5	90	100	15	35	5	155	32.5	15	50	3.5	101
8407.31.10	7.5	15	0	5	27.5	100	15	0	5	120	22.5	15	250	3.5	291
8408.20.10	7.5	15	0	5	27.5	1000	15	0	5	1020	22.5	15	250	3.5	291
8415.20.10	50	15	5	5	75	100	15	0	5	120	32.5	15	30	3.5	81
8703.22.22	50	15	20	5	90	100	15	25	5	145	32.5	15	10	3.5	61
8703.22.11	45	15	0	5	65	100	15	0	5	120	32.5	15	250	3.5	301

Note: The rates for OTS'03 for the "Total" items are different than the numbers in the previous table, under the heading TDR '03, which refers to the Total Import Tariff incidence Rate for FY 2002-03. That rate is even higher than the one I have calculated–whichever rate is used, it is still very high.

Following are the items that correspond to the HSCodes shown.

0402.10.10	In powder form,<=1.5% fat content by wgt, in retail pkgs <= 2.5 Kg
0405.10.00	Butter
0406.10.00	Fresh cheese
0805.10.10	Oranges: excl. wrapped/canned
0808.10.10	Apples (excl. wrapped/canned)
1513.19.90	Coconut (copra) oil and its fractions, refined, other
1701.11.00	Raw sugar not containing added flavoring/coloring matter: Cane sugar
2204.10.00	Sparkling wine
2204.21.00	grape wine with fermentation and adding alcohol
2208.30.00	Whiskies
2208.40.00	Rum & tafia
2208.50.00	Gin & geneva
2402.20.00	Cigarettes containing tobacco
3303.00.00	Perfumes and toilet waters
3304.10.00	Make up / Beauty
8407.31.10 (03) 8407.31.00 (92,93,94,95,96)	Two-stroke engine (<=50 CC) for 3 wheelers and auto rickshaw (Reciprocating piston engines)
8408.20.10 (03) 8408.20.00 (92,93,94,95,96)	2-stroke engine for 3 wheelers and auto rickshaw (compression-ignition internal combustion piston engine
8415.20.10 8415.10.20 (92,94,95,96) 8425.1020 (93)	Air Conditioning for cars requiring not more than 3 bhp
8703.22.11 8703.22.31 (92, 93) 8703.22.39 (94) 8703.22.10 (95, 96)	Vehicles of cylinder capacity 1001-1500 cc: Three wheeled vehicles, CBU, with 2 stock engine

Table 91: Effective Tariff from OTS 2003

HSCode	Harmonized Description: OTS Jan 01, 2003	CD-03	VAT-03	SD-03	IDSC-03	RD-03	TDR-03
0402.10.10	Milk, in powder form	32.50	15.00	20.00	3.50	0.00	86.35
0405.10.00	Butter	32.50	15.00	20.00	3.50	0.00	86.35
0406.10.00	Fresh cheese	32.50	15.00	20.00	3.50	0.00	86.35
0802.90.10	Betel nuts (excl. wrapped/canned)	32.50	0.00	50.00	3.50	0.00	102.25
0805.10.10	Oranges: excl. wrapped/canned	32.50	0.00	30.00	3.50	0.00	75.75
0806.10.10	Grapes: fresh (excl. wrapped/canned)	32.50	0.00	30.00	3.50	0.00	75.75
0808.10.10	Apples (excl. wrapped/canned)	32.50	0.00	30.00	3.50	0.00	75.75
1513.19.90	Coconut (copra) oil and its fractions, refined, other	32.50	15.00	20.00	3.50	0.00	86.35
1701.11.00	Raw sugar not containing added flavoring: Cane sugar	32.50	15.00	20.00	3.50	0.00	86.35
1701.12.00	Raw sugar not containing added flavoring: Beet sugar	32.50	15.00	20.00	3.50	0.00	86.35
1806.20.90	Chocolate/cocoa, blocks, slabs/bars, liquid, paste, powder	32.50	15.00	30.00	3.50	0.00	101.59
1905.31.00	Sweet biscuits, waffles & wafers: Sweet biscuits	32.50	15.00	30.00	3.50	30.00	101.59
20.07	Jams / Jellies	32.50	15.00	20.00	3.50	0.00	86.35
2009.12.00	Orange juice: Not frozen	32.50	15.00	20.00	3.50	0.00	86.35
2009.19.00	Orange juice: other	32.50	15.00	20.00	3.50	0.00	86.35
2103.10.00	Soya sauce	32.50	15.00	20.00	3.50	0.00	86.35
2103.20.00	Tomato ketchup and other tomato sauces	32.50	15.00	20.00	3.50	0.00	86.35
2202.10.00	Waters, incl. mineral/aerated waters	32.50	15.00	30.00	3.50	0.00	101.59
2202.90.00	Other non-alcoholic beverages	32.50	15.00	30.00	3.50	0.00	101.59
2202.90.00	Other non-alcoholic beverages: Non-alcoholic Beer	32.50	15.00	60.00	3.50	0.00	147.30
2204.10.00	Sparkling wine	32.50	15.00	350.00	3.50	0.00	589.19
2204.21.00	Other wine; grape/fermentation by adding alcohol, in <=2 L	32.50	15.00	350.00	3.50	0.00	589.19
2204.29.00	Other wine; grape/fermentation by adding alcohol, in >2 L	32.50	15.00	350.00	3.50	0.00	589.19
2204.30.00	Other grape must	32.50	15.00	350.00	3.50	0.00	589.19
2205.10.00	Vermouth and other wine, in <=2 L containers	32.50	15.00	350.00	3.50	0.00	589.19
2205.90.00	Vermouth and other wine, in > 2 L containers	32.50	15.00	350.00	3.50	0.00	589.19
2208.20.00	Spirits obtained by distilling grape wine or grape marc	32.50	15.00	350.00	3.50	0.00	589.19
2208.30.00	Whiskies	32.50	15.00	350.00	3.50	0.00	589.19
2208.40.00	Rum	32.50	15.00	350.00	3.50	0.00	589.19
2208.50.00	Gin	32.50	15.00	350.00	3.50	0.00	589.19
2208.60.00	Vodka	32.50	15.00	350.00	3.50	0.00	589.19
2208.70.00	Liqueurs and cordials	32.50	15.00	350.00	3.50	0.00	589.19
2208.90.00	Other undenatured ethyl alcohol...spirituous beverages	32.50	15.00	350.00	3.50	0.00	589.19
2402.10.00	Cigars, cheroots & cigarillos, containing tobacco	32.50	15.00	30.00	3.50	0.00	101.59
2402.20.00	Cigarettes containing tobacco	32.50	15.00	350.00	3.50	0.00	589.19
2402.20.00	Cigarettes containing tobacco	32.50	15.00	350.00	3.50	0.00	589.19
2402.20.00	Cigarettes containing tobacco	32.50	15.00	350.00	3.50	0.00	589.19
2523.21.00	Portland cement, white whether or not artificially colored	32.50	15.00	30.00	3.50	0.00	101.59
2523.29.10	Grey portland cement	32.50	15.00	20.00	3.50	0.00	86.35
2710.11.11	Light oils & preparations: Motor spirit /aviation spirit	32.50	15.00	20.00	3.50	0.00	86.35
2710.11.61	Light oils & preparations: Gas oils: Light diesel oils	32.50	15.00	20.00	3.50	0.00	86.35
3303.00.00	Perfumes and toilet waters	32.50	15.00	50.00	3.50	0.00	132.06
3304.10.00	Make up / Beauty	32.50	15.00	50.00	3.50	0.00	132.06

Table 91 (Continued) Effective Tariff from OTS 2003

HSCode	Harmonized Description: OTS Jan 01, 2003	CD-03	VAT-03	SD-03	IDSC-03	RD-03	TDR-03
39.22	Baths / Sinks	32.50	15.00	10.00	3.50	0.00	71.11
3924.10.00	Tableware & kitchenware, of plastics	32.50	15.00	10.00	3.50	0.00	71.11
4011.61.90	New pneumatic rubber tyres	32.50	15.00	10.00	3.50	0.00	71.11
6802.21.00	Monumental / building stones : Marble	32.50	15.00	20.00	3.50	0.00	86.35
6802.23.00	Monumental / building stone: Granite	32.50	15.00	20.00	3.50	0.00	86.35
6910.10.00	Porcelain or china ceramic sinks/basins	32.50	15.00	50.00	3.50	0.00	132.06
6910.90.00	Other ceramic sinks	32.50	15.00	50.00	3.50	0.00	132.06
6911.10.00	Porcelain / China Tableware & kitchenware	32.50	15.00	50.00	3.50	0.00	132.06
6911.90.00	Other household/toilet articles, of porcelain/china	32.50	15.00	50.00	3.50	0.00	132.06
70.03	Cast / Rolled Glass	32.50	15.00	30.00	3.50	0.00	101.59
73.04	Iron Pipes / Tubes	32.50	15.00	10.00	3.50	0.00	71.11
7321.11.00	Cooking appliances and plate warmers	32.50	15.00	20.00	3.50	0.00	86.35
7324.10.00	Sinks and wash basins, of stainless steel	32.50	15.00	30.00	3.50	0.00	101.59
7324.21.00	Baths: Of cast iron, whether or not enameled	32.50	15.00	30.00	3.50	0.00	101.59
7324.29.00	Baths: Other	32.50	15.00	30.00	3.50	0.00	101.59
7324.90.00	Other, incl. parts: Other	32.50	15.00	30.00	3.50	0.00	101.59
8407.31.10	Two-stroke engine <=50 cc for 3 wheelers & auto rickshaw	22.50	15.00	250.00	3.50	0.00	396.56
8407.31.20	Four-stroke engine <=50 cc for 3 wheelers & auto rickshaw	22.50	15.00	30.00	3.50	0.00	86.64
8408.20.10	Two-stroke engine for 3 wheelers/ auto rickshaw	22.50	15.00	250.00	3.50	0.00	396.56
8408.20.20	Four-stroke engine for 3 wheelers / auto rickshaw	22.50	15.00	30.00	3.50	0.00	86.64
8415.10.10	Window/wall types: not more than 3 bhp	32.50	15.00	30.00	3.50	0.00	101.59
8415.10.20	Window/ wall types: not more than 3 bhp	32.50	15.00	20.00	3.50	0.00	86.35
8415.10.92	Window or wall types: other, in CBU Condition	32.50	15.00	30.00	3.50	0.00	101.59
8415.10.93	Window or wall types: other, in CKD Condition	32.50	15.00	20.00	3.50	0.00	86.35
8415.20.10	used in motor vehicles: not more than 3 bhp	32.50	15.00	30.00	3.50	0.00	101.59
8415.20.90	Of a kind used for persons, in motor vehicles: other	32.50	15.00	30.00	3.50	0.00	101.59
8506.10.20	Primary cells/batteries: Manganese dioxide: Dry cells	32.50	15.00	30.00	3.50	0.00	101.59
85.07	Electric Accumulators / Separators						
8507.10.00	Lead-acid, of a kind used for starting piston engines	32.50	15.00	30.00	3.50	0.00	101.59
85.19	Turntables / Record / Cassette Players	32.50	15.00	10.00	3.50	0.00	71.11
8520.20.20	Telephone answering machines	32.50	15.00	10.00	3.50	0.00	71.11
85.21	Video Recording apparatus	32.50	15.00	50.00	3.50	0.00	132.06
8525.20.21	Transmission/reception apparatus: Cellular telephone	2,500	0.00	0.00	0.00	0.00	2,500
	Radio-broadcast receivers not capable of operating						
	without an external source of power (used in motor vehicles)						
8527.21.10	Combined with sound recording apparatus	32.50	15.00	10.00	3.50	0.00	71.11
85.39	Electric Filament / Discharge lamps	32.50	15.00	20.00	3.50	0.00	86.35
	Other vehicles, spark-ignition engine:						
8703.21.11	capacity <=1000 cc: 3 wheeled vehicles, 2 stock	32.50	15.00	250	3.50	0.00	436.81
8703.21.12	capacity <=1000 cc: 3 wheeled vehicles, 4 stock	32.50	15.00	30.00	3.50	0.00	101.59
8703.21.29	Motor cars, 850-1000 cc (Old)	32.50	15.00	25.00	3.50	0.00	93.97

Table 91 (Continued) Effective Tariff from OTS 2003

HSCode	Harmonized Description: OTS Jan 01, 2003	CD-03	VAT-03	SD-03	IDSC-03	RD-03	TDR-03
8703.21.91	Other vehicles: Jeep of capacity <850 cc, CBU (Old)	32.50	15.00	25.00	3.50	0.00	93.97
8703.21.92	Other vehicles: Jeep 850-1000 cc, CBU (Old)	32.50	15.00	25.00	3.50	0.00	93.97
8703.22.11	Vehicles 1001-1500 cc: 3 wheeled vehicles, 2 stock	32.50	15.00	250.00	3.50	0.00	436.81
8703.22.12	Vehicles 1001-1500 cc: 3 wheeled vehicles, 4 stock	32.50	15.00	30.00	3.50	0.00	101.59
8703.22.13	Vehicles 1001-1500 cc: 3 wheeled vehicles, 2 stock	22.50	15.00	250.00	3.50	0.00	396.56
8703.22.14	Vehicles 1001-1500 cc: 3 wheeled vehicles, 4 stock	22.50	15.00	30.00	3.50	0.00	86.64
8703.22.21	Motor cars, 1001-1200 cc (Old)	32.50	15.00	25.00	3.50	0.00	93.97
8703.22.21	Motor cars, 1201-1300 cc (Old)	32.50	15.00	50.00	3.50	0.00	132.06
8703.22.22	Motor cars, 1301-1349 cc (Old)	32.50	15.00	50.00	3.50	0.00	132.06
8703.22.22	Motor cars, 1350-1500 cc (Old)	32.50	15.00	10.00	3.50	0.00	71.11
8703.23.11	Motor cars, 1501-1600 cc (Old)	32.50	15.00	10.00	3.50	0.00	71.11
8703.23.12	Motor cars, 1601-1649 cc (Old)	32.50	15.00	10.00	3.50	0.00	71.11
8703.23.12	Motor cars, 1650-1800 cc	32.50	15.00	20.00	3.50	0.00	86.35
8703.23.15	Motor cars, 2500-3000 cc	32.50	15.00	20.00	3.50	0.00	86.35
	Other vehicles (diesel or semi-diesel):-						
8703.31.11	<=1000 cc: 3 wheeled vehicles, CBU, 2 stock engine	32.50	15.00	250.00	3.50	0.00	436.81
8703.31.12	<=1000 cc: 3 wheeled vehicles, CBU, 4 stock engine	32.50	15.00	30.00	3.50	0.00	101.59
8703.31.13	<=1000 cc: 3 wheeled vehicles, CKD, 2 stock engine	22.50	15.00	250.00	3.50	0.00	396.56
8703.31.14	<=1000 cc: 3 wheeled vehicles, CKD, 4 stock engine	22.50	15.00	30.00	3.50	0.00	86.64
8703.31.24	Motor cars (diesel/semi-diesel), 850-1000 cc (Old)	32.50	15.00	30.00	3.50	0.00	101.59
8703.31.26	Motor cars (diesel/semi-diesel), 1300-1350cc (Old)	32.50	15.00	50.00	3.50	0.00	132.06
8703.32.11	Motor cars (diesel/semi-diesel), 1501-1600cc (Old)	32.50	15.00	10.00	3.50	0.00	71.11
8703.32.12	Motor cars (diesel/semi-diesel), 1601-1649cc (Old)	32.50	15.00	10.00	3.50	0.00	71.11
8703.32.13	Motor cars (diesel/semi-diesel), 1801-2000 cc	32.50	15.00	20.00	3.50	0.00	86.35
8703.32.14	Motor cars (diesel/semi-diesel), 2000-2500 cc	32.50	15.00	20.00	3.50	0.00	86.35
8703.33.10	Motor cars (diesel/semi-diesel), >2500 cc	32.50	15.00	20.00	3.50	0.00	86.35
8703.90.11	Three wheeled vehicles, CBU, with 2 stock engine	32.50	15.00	250.00	3.50	0.00	436.81
8703.90.12	Three wheeled vehicles, CBU, with 4 stock engine	32.50	15.00	30.00	3.50	0.00	101.59
8703.90.14	Three wheeled vehicles, CKD, with 2 stock engine	32.50	15.00	250.00	3.50	0.00	436.81
8703.90.15	Three wheeled vehicles, CKD, with 4 stock engine	32.50	15.00	30.00	3.50	0.00	101.59
8703.90.24	Motor cars nes: 850-1000 cc, CBU (Old)	32.50	15.00	30.00	3.50	0.00	101.59
8703.90.25	Motor cars nes: 1201-1300 cc, CBU (Old)	32.50	15.00	50.00	3.50	0.00	132.06
8703.90.26	Motor cars nes: 1301-1350 cc, CBU (Old)	32.50	15.00	50.00	3.50	0.00	132.06
8703.90.26	Motor cars nes: 1350-1500 cc, CBU (Old)	32.50	15.00	10.00	3.50	0.00	71.11
8703.90.27	Motor cars nes: 1500-1600 cc, CBU (Old)	32.50	15.00	10.00	3.50	0.00	71.11
8703.90.28	Motor cars nes: 1601-1649 cc, CBU (Old)	32.50	15.00	10.00	3.50	0.00	71.11
8703.90.28	Motor cars nes: 1650-1800 cc, CBU	32.50	15.00	20.00	3.50	0.00	86.35
8703.90.29	Motor cars nes: 1801-2000 cc, CBU	32.50	15.00	20.00	3.50	0.00	86.35
8703.90.30	Motor cars nes: 2001-2500 cc, CBU	32.50	15.00	20.00	3.50	0.00	86.35
8703.90.31	Motor cars nes: >2500 cc, CBU	32.50	15.00	20.00	3.50	0.00	86.35
87.11	Motorcycles/mopeds, Cycles	32.50	15.00	30.00	3.50	0.00	101.59
93.02	Firearms	32.50	15.00	60.00	3.50	0.00	147.30

Annexure 5

Additional Costs of doing business in Bangladesh

Table 92

Payoffs by Business

Connections	Bribes (Taka)	Conservative
Electricity	100,000-150,000	Same
Gas	40,000	10,000
Water	14,000-20,000	10,000
Telephone	50,000-70,000	15,000-20,000

Source: World Bank Consultancy Work, 1994

Table 93

Regulatory Costs for a Garments Exporter

	Initial Cost (Tk)			Yearly renewal costs (Tk)		
Licenses	Total	Official (%)	Bribes (%)	Total	Official (%)	Bribes (%)
Trade License	6,500	33	77	2,000	75	25
Sign Board	12	100	0	12	100	0
Import Trade Control	4,000	50	50	2,500	80	20
Export Trade Control	3,000	33	67	1,500	67	33
EPB Registration	600	83	17	700	71	29
Textiles Registration	10,500	5	95	0	0	0
Bond License: Customs	30,300	1	99	15,300	2	98
Factory License	1,570	4	96	270	26	74
Fire License	5,750	83	17	5,250	91	9
BMGEA Membership	5,000	100	0	5,000	100	0
Joint Stock Registration	7,900	51	49	0	0	0
Joint Collaboration	100,000	50	50	0	0	0
Government approvals						
Utilization Permissions	0	0	0	25,000	0	100
Interbond-subcontract	0	0	0	60,000	0	100
Inspection: Customs	0	0	0	60,000	0	100
Export Benefit: Bangladesh	0	0	0	50,000	0	100
Bank	0	0	0	12,000	0	100
VISA: EPB						
Total	175,132	40	60	464,532	3	97

Source: World Bank Consultancy Work, 1994

Annexure 6

Corruption Examples

Example 1

Illegal Toll Collection by Ubiquitous Mastaans
The paying of illegal taxes to local *mastaans* in Bangladesh, exemplifies how weak the regulatory system is, or is kept. Cattle trucks carrying 15-25 cows, going from *Aricha ghat* - the assembly point for about 10,000 cattle per day, pay an illegal toll of over Tk 12,000 per truck, at *Gabtali*, a passing point. For other trucks the fees come to Tk 10,000-Tk 30,000 in total, at different points in the city. Fees for the mastaan who control this area come to Tk 37 lacs.

Example 2

Illegal Protection Payments
Paying of taxes to local mastaans is a precondition for "protection." A Harvard economists and his neighbors cars recently got stolen from their residences at Dhaka. Understanding the futility of reporting the case to the local police, the economist contacted the mastaan to whom he paid taxes for protection, charging his party with negligence. The mastaans recovered his car the following day, but as some parts had already been sold, there was a Tk 4,500 fee. The other car was recovered intact. The other mastaans who had stolen the cars, returned the cars at the request of this local mastaan. This sort of code of honor is prevalent in the stealing of rickshaws too. Protection money is also charged even in small business like opening a primary school in Dhaka.

Example 3

Problems with electricity connection for a knitwear manufacturer
A knitwear manufacturer, who has been paying his electricity bills regularly suddenly finds his electricity supply cut off during peak production hours, because of a line-man and electricians desire to earn some extra money. They claim the manufacturer has not paid his bills and demand Tk 3,000 to reconnect the lines. When the manufacturer produces the paid electricity bill receipts and informs them that he has a very influential minister as his relative, the electricity line is promptly restored. However, by that time, already the factory has lost two hours of production time, and it takes another hour for production to get back into peak, resulting in a loss of almost Tk 5,000.

Example 4

Problems with exporting leather jackets.
A leather jacket manufacturer exports designer leather jackets to Italy. An export consignment is seized at the airport because a customs official refuses to believe that such jackets can be made in Bangladesh and incidentally, also requested and was denied a jacket for his son.

Example 5

Problems with exporting leather shoes.
A leather shoe exporter exports from Internal Container Depot, Kamalpur. An export consignment is held up because the concerned inspector decided that for Customs Utilization Permit samples, he required one pair per style. When asked the rationale for this, he explained that surely different sizes were sold at

different prices, and so one pair in each size had to be retained to check consumption. The exported took up the matter very strongly and it was discovered that the inspector had no basis for saying this. The season being prior to the religious festival (Eid), it turned out that he wanted shoes for his near and dear ones.

Annexure 7

Summary of Respondents Interviewed

Name	Occupation in 1997	Previous Occupation
	Bangladesh Tariff Commission	
Abdul H.Chowdhury	Secretary Ministry of Food	Former Chairman Bangladesh Tariff Commission
Muhiuddin Khan Alamgir	Principal Secretary to the Government	Former Chairman Bangladesh Tariff Commission
	Secretary Government of Bangladesh	Former Chairman Bangladesh Tariff Commission
Mohammad Ali Rashid	Member Bangladesh Tariff Commission	Professor of Economics Dhaka University
Azad Ruhul Ameen	Secretary and Present Chairman Bangladesh Tariff Commission	
Mostafa Abid Khan	Assistant Chief Bangladesh Tariff Commission	
	Ministry of Finance	
Saadat Hossain	Secretary (forgot which Ministry)	Former Secretary National Board of Revenue Ministry of Finance
Abdur Rab	Consultant Ministry of Finance Government of Bangladesh	Former Head, Trade and Industrial Policy Reform Project, Planning Commission. Long-term Consultant Policy Implementation and Analysis Group Ministry of Industries
Zaidi Sattar	Consultant World Bank Resident Mission Bangladesh	Former Consultant National Board of Revenue Mnistry of Finance
Zaidi Hossain	National Board of Revenue Ministry of Finance	
Mohammad Emran	Senior Assistant Secretary External Resources Division Ministry of Finance	Assistant Secretary Ministry of Tourism
Shams-al-Mujahid	Senior Second Secretary, Taxes National Board of Revenue Ministry of Finance	
Mohammad Azharul Huq	Senior Second Secretary, Customs National Board of Revenue Ministry of Finance	
A.F. Amin Choudhury	Second Secretary (Administration) Ministry of Communication	Second Secretary National Board of Revenue Ministry of Finance
	Ministry of Industries	
Musleuddin Ahmad	President North-South University	Former Secretary Ministry of Industries
	Ministry of Commerce	
Mofazzel Karim	Secretary Ministry of Shipping	Former Additional Secretary Commerce Ministry
Ghulam Rahman	Additional Secretary Ministry of Commerce	
M. Mazhar ul Karim	Joint Secretary Ministry of Commerce	
Alamgir Faruque	Deputy Secretary Ministry of Commerce	
	Ministry of Planning	
Mubin	Secretary Government of Bangladesh	Formerly associated with Trade Reform Planning Commission
Ishaq Talukdar	Planning Commission.	Planning Commission Trade and Industry Reform Project

Annexure 7 (continued)

Summary of Respondents Interviewed

	Ministry of Textiles	
K.M.Ezazul Huq	Secretary Ministry of Textiles	Secretary
Mokbul A. Khan	Consultant Ministry of Textiles	
	Ministry of Livestock, Poultry & Fisheries	
Ershadul Huq	Secretary Ministry of Livestock, Poultry & Fisheries	Secretary
	Export Promotion Bureau	
(Forgot Name)	Director Export Promotion Bureau	
A.K.M.Jashim Uddin Ahmed	Manager Export Credit Guarantee Department Shadharan Bima Corporation (Insurance)	Export Promotion Bureau
	World Bank Resident Mission Bangladesh	
Pierre L. Mills	Resident Representative World Bank Resident Mission Bangladesh	
Owaise Saadat	Chief, Industry and Finance World Bank Resident Mission Bangladesh	
Nizamuddin Chowdhury	Economist, Economics Unit World Bank Resident Mission Bangladesh	
Shamsul Arefeen	Manager, Finance and Administration World Bank Resident Mission Bangladesh	
	Private Sector	
Subid Ali	Executive Director Aristocrat Garments Tomco Knitwear	Former President, Bangladesh Garments Exporters Manufactures Association Former President, Bangladesh Chamber of Commerce & Industries Association
A.M.Sharafat Ali	Managing Director Janata Fashion Ltd. (Garments Industry)	
H. Mohammad Ali	Managing Director Modern Garments Ltd. Modern Poultry Ltd.	
Md. Mahbub-Ul Haque	Director Tallu Spinning Mills Toyo Composite Knit Garments Ltd.	
Syed S. Kaiser Kabir	Executive Director Sajida Foundation Poultry Owner	
M. Kaiser Rahman	Managing Director Quality Feeds Limited (Poultry and Livestock)	Director KPMG - Rahman Rahman Huq
Humayun Rashid Chowdhury	Present Speaker National Parliament	President Bangladesh Poultry Farm Owners Association Minister for former President H.M.Ershad
Samiul Hasan	Executive Director Phoenix Poultry Farm	
Nizam Ahmed	Director Pioneer Fisheries	Lecturer History Department University of Chittagong

Note: Interviews conducted between 1994 to 1999

Annexure 8

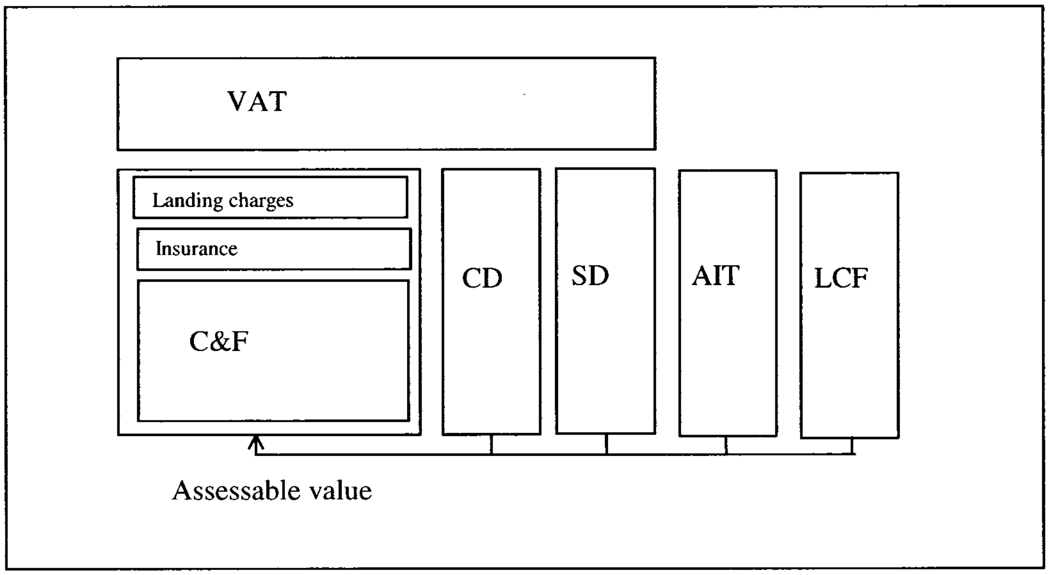
Modification of Corden's formula on ERP

In calculating ERP, we (Bangladesh Tariff Commission IDTC group) used the Corden formula with slight modifications. The formula used is:

$$ERP = \frac{VAD_d - VAD_w}{VAD_w}$$

where: VADd = Domestic Value Added and VADw = World Value Added.

VAD_w is the world value added, and is taken to be a proxy for the most efficient way of producing output. (Edwards, 1993). VAD_w has been taken as the difference between the value of output and the value of inputs in world/border prices. In the absence of CIF prices, the tradable border prices were determined by deflating domestic price by corresponding effective tariff rates. The effective tariff (t_e) is the sum of the Customs Duties, VAT, Supplementary Duties, AIT and Import Charges. Annexure IV shows calculation of effective tariff rates of inputs and outputs in this sector. Effective tax rates have been calculated on basis of new tariff structure as published in SRO 21 dated June 9, 1994 on basis of current method of calculation. The following illustration shows the tariff imposition method practiced in Bangladesh.



Where:	C&F	=	Cost and Freight	CD	=	Customs Duty
	SD	=	Supplementary Duty	VAT	=	Value Added Tax
	AIT	=	Advance Income Tax	LCF	=	L/C Fee
	AV	=	Assessable Value			

We have: $$P_{world} = \frac{P_{domestic}}{(1+t_e)}$$

Breakdown of total costs is shown in Table A. We have divided total costs into tradable, non-tradable and value-added components. The tradable part is further divided into local (indigenous) and imported parts, while the non-tradable part is subdivided into tradable part, and taxes on non-tradable part, the remaining being pure non-traded and treated as value-added. The value-added part of total costs, includes remuneration (rent, wages, interest and profit) to primary resources (land, labor capital and organization), as well as the pure non-traded part of the non-traded cost of electricity, gas, water, repair and maintenance, administrative expenses, selling & distribution, depreciation and other manufacturing overhead. The tradable part of non-tradables as well as the taxes on these, are added to the tradable cost part and treated as tradables. Thus, Table A presents of the division of non-tradables into tradables, non-tradables, local and imported elements, and various tax rates.

The non tradable component has been modified further by treating the pure non tradable inputs as value added and therefore excluding this part into calculation of ERP. This improved methodology reflects more accurate ERP figures by removing the non relevant value added component. We have also included payments to primary factors in calculation of shadow prices in determining DRC. In the case of non-tradable border prices, we have not used standard conversion factors applied in the first phase of IDTC. Instead we have applied factors used by Shahabuddin and Rahman (1992), with subsequent modifications on some items based on casual empiricism.

Categorization of each of the 8 non-tradables in terms of tradable and non-tradable components, containing local and imported parts, each being taxed at different rates, is shown in Tables B to F. In assigning the share of local and imported content, we have taken up detailed discussions with the Bangladesh Tariff Commission, Engineers and Accountants, as well as asked some manufacturers whether these breakdowns are sensible.

Treatment of Taxes

Taxes on local items are assumed to be 15%, consistent with average rates of VAT. For imported items, taxes are an average of imported items used in the production of these non-tradables. We have used the Bangladesh Operative Tariff Schedule 1993-94 and the SRO-XXI-Law/94/1550/Tariff, to arrive at the tax figures. Electricity (Other Manufacturing Overhead (OMO) is also treated the same as Electricity). Oil Fire, Gas Fire and Hydro-electricity are the various processes of electricity generation. Most imported engineering parts consist of generators, turbines, boilers, transformers, circuit breakers, and sub-station equipment. The average duty rate for these is shown in Table B.

Table B

Calculation of Effective Tax on Production of Electricity

H.S. Code	CD	VAT	OTHER	Eff. Tax
84.02.11	45%	15%	5%	65%

Table A

Assumptions in Breakdown of Non-Tradable Items

<table>
<tr><td>Non Tradables</td><td colspan="7">Breakdown of Non-Tradables (% Tradable vs. Non-Tradable), Source (Local vs. Imported) and Taxes</td><td>Pw / Pd</td></tr>
<tr><td rowspan="2">Electricity,
OMO</td><td colspan="4">Tradable 90.7%</td><td colspan="3" rowspan="2">Non-Tradable 9.3%</td><td rowspan="2">1.03</td></tr>
<tr><td colspan="2">Local 10%</td><td colspan="2">Imported 90%</td></tr>
<tr><td rowspan="2">Gas and
water</td><td colspan="4">Tradable 87.0%</td><td colspan="3" rowspan="2">Non-Tradable 13.0%</td><td rowspan="2">0.52</td></tr>
<tr><td colspan="2">Local 10%</td><td colspan="2">Imported 90%</td></tr>
<tr><td rowspan="4">R&M</td><td colspan="6">Tradable 98.0%</td><td rowspan="4">NT
20.0%</td><td rowspan="4">1.57</td></tr>
<tr><td colspan="3">B&S 10%</td><td colspan="3">M&E 90%</td></tr>
<tr><td colspan="2">Tradable 80%</td><td>NT 20%</td><td colspan="2">Tradable 90%</td><td rowspan="2">NT
10%</td></tr>
<tr><td>Local
80%</td><td>Imported
20%</td><td>Local
100%</td><td>Local 30%</td><td>Imported
70%</td></tr>
<tr><td rowspan="2">A&E</td><td colspan="4">Tradable 18.3%</td><td colspan="3" rowspan="2">Non-Tradable 81.7%</td><td rowspan="2">1.14</td></tr>
<tr><td colspan="2">Local 5%</td><td colspan="2">Imported 95%</td></tr>
<tr><td rowspan="2">S&D</td><td colspan="4">Tradable 18.3%</td><td colspan="3" rowspan="2">Non-Tradable 81.7%</td><td rowspan="2">1.15</td></tr>
<tr><td colspan="2">Local 10%</td><td colspan="2">Imported 90%</td></tr>
<tr><td rowspan="3">Depreciation</td><td colspan="4">B&S 10%</td><td colspan="2">M&E 85%</td><td colspan="2" rowspan="3">VA 5%</td></tr>
<tr><td colspan="2">Tradable 80%</td><td colspan="2" rowspan="2">Non-Tradable 20%</td><td colspan="2">Traded 100%</td></tr>
<tr><td>Local
80%</td><td>Imported
20%</td><td colspan="2">Imported 100%</td></tr>
</table>

Note: Taxes on local item are assumed to be 15%; Taxes on imported items are an average of the taxes on these items.

AE = Administrative Expenses M&E = Machinery & Equipment R&M = Repair & Maintenance

B&S = Building & Structure OMO = Other Manufacturing Overhead. S&D = Selling & Distribution

Gas and Water

The main items for processing gas and water are equipment and some chemicals. These are taxed according to the following average rate:

Table C

Calculation of Effective Tax on Production of Gas and Water

H.S. Code	CD	VAT	OTHER	Effective Tax
84.05	45%	15%	5%	65%

Repair and Maintenance (R&M)

R&M is divided into Building and Structures (B&S) and Machinery & Equipment (M&E). Cement (20% of the cost), bricks, paint, sand, PVC Pipe, Glass (Imported), Aluminum, Steel, etc. are major items used in B&S. For M&E, mostly M&E parts are used. The average rates are:

Table D: Calculation of Effective Tax on Repair and Maintenance

H.S. Code	CD	VAT	OTHER	Effective Tax
84.20	30%	15%	5%	50%
84.21	45%	15%	5%	65%
84.05	45%	15%	5%	65%
84.06	30%	15%	5%	50%
84.13	30%	15%	5%	50%
			Average	56%

Selling and Distribution (S&D)

This item consists of cars, trucks, micro-buses, station wagons, fuel, conveyance, transport, showroom expenses, warehouse expenses, traveling salesmen expenditures, packaging payments, carrying costs, etc. The NT part consists of commissions to service people. The average duty structure is provided below:

Table E: Calculation of Effective Tax on Selling and Distribution

H.S. Code	CD	VAT	OTHER	Eff. Tax
87.02	15 to 30	15	5	35 to 50

Administrative Expenses (A&E)

These are mostly local items like ball point pens. Some items like stapler are imported.

Depreciation

Depreciation is split into B&S, M&E and VA. Items like MS rod (mostly local) fall under B&S, while articles like Super Enameled Copper Wire fall under M&E. The latter also contains capital machinery, and not parts of capital machinery. Those capital machinery which fall under BMRE, have no VAT, AIT and LPF. In B&S, it is assumed that rod and cement are used equiproportionately. The different rates are:

Table F: Calculation of Effective Tax on Building and Structure

H.S. Code	CD	VAT	Other	Effective Tax
72.13	45%	15%	5%	65%

Table G
Calculation of Effective Tax on Machinery and Equipment

H.S. Code	CD	VAT	Others	Eff. Tax
85.14, 87.02	7.5%	0%	0%	7.5%

Effective Protection Coefficient is given by:

$$EPC = \frac{VAD_d}{VAD_w}$$

Domestic Resource Cost (DRC) is given by:

$$DRC = \frac{VAD_d \ (at\ shadow\ prices)}{VAD_w}$$

where: VAD_d = Domestic value added and VAD_w = World value added

The domestic resource costs of a unit of output is the reward paid to various factors of production for their services to produces that unit of output. If resources are used in perfect competition, the use of resources is maximum, and we get the intrinsic value of the factors. In valuing these services, the market prices (wages, interest, rent, profit) are not always equal to opportunity costs/intrinsic prices/shadow prices. Because of market failures, imperfect competition, non-competitive forces (monopoly, oligopoly), taxes, subsidies, and tariffs, market prices do not reflect the true intrinsic value or shadow prices. That is why VAD_d is shadow priced. VAD_w is not shadow priced, but is expressed in domestic currency values of the world value added. The value of output is subtracted from the value of inputs, both valued at international prices and then, multiplied by the shadow exchange rate to obtain VAD_w in domestic currency.

Thus, calculation of DRC enables us to interpret EPC values at their true opportunity costs. In this sense, it is a better indicator than EPC because it shadow prices the resources used to produce the output. This means that market failures, distortions and externalities are taken into consideration.

Annexure 9

Framework for analyzing different values of EPC and ERP

Positive ERP

VADd	VADw	Case	Up/Down	ERP	Implication
+	+	VADd>VADw EPC > 1	(+)/(+)	+	Protection on output is greater than protection on input. Industry is enjoying protection. No need for corrective action. But, as EPC>1, the industry is not efficient yet. So protection should continue till the industry becomes efficient.
-	-	VADd<VADw EPC > 1	(-)/(-)	+	Protection on output is less than protection on input. Domestic industry is being taxed. Industry is inefficient. Industry is a loosing concern. As world VA is (-), extra production will not increase VA, so, close down.

Zero ERP

VADd	VADw	Case	Up/Down	ERP	Implication
Whatever, except VADw not zero		VADd=VADw	0/(+) 0/(-)	0	Industry is in a state of free trade with the outside world. The domestic product is as competitive as the world product.

Depending on whether the negativity comes from the numerator or denominator, the implication will be different.

Annexure 9 (continued)

Negative ERP

Cases		Up/Down	Implications
VADd + VADw +	VADd<VADw 0<EPC < 1	(-)/(+)	Domestic industry is taxed, not assisted. It is efficient.
VADd + VADw -	VADd>VADw EPC < 0	(+)/(-)	Domestic industry is highly protected. Industry cannot survive as world prices are too low, so either close down, or realize dumping is going on, which calls for other solutions.
VADd - VADw +	VADw>VADd EPC < 0	(-)/(+)	Domestic industry is heavily taxed. Tariffs on inputs is higher than that on outputs. For some reason (perhaps political) domestic price is kept below world prices. If the tariff and pricing policy are restructured and some assistance is given, then the domestic industry can survive.
VADd - VADw +	VADd>VADw 0<EPC<1	(+)/(-)	The domestic industry is marginally protected. It is efficient. But the country looses foreign exchange as it imports cheaper world inputs. The solution to this problem is giving subsidy to the industry in some form or other so that it can bring about an improvement in its technical efficiency for its long run survival.

Ranges of EPC

Cases			Explanation
VADd > VADw	EPC> 1	Inefficient	Using more domestic resources to produce one unit of value added compared to amount needed to import the same unit.
VADd < VADw	0<EPC<1	Efficient	Using less domestic resources to produce one unit of value added compared to amount of resources needed to import the same unit.
VADd < VADw	0 < EPC	Depends	EPC = VADd/VADw EPC = (-)/(+) Cost of production per unit of output is greater than the price of a unit of output. Could be due to several reasons: Taxes may be high; Poor management; Less than capacity operation. EPC = (+)/(-) Something is happening in the outside world. World price is less than world costs. This could be artificially created for dumping purposes.

Annexure 9 (continued)

Ranges of DRC

Cases	DRC		Explanation
VADd < VADw	0< DRC< 1	Efficient	The domestic production of an output with a certain amount of value added costs less than importing the same output with the same level of value-added. That means it is taking less resources domestically to generate one unit of value added than it takes internationally. The industry is efficient. This gives a more accurate picture than EPC, because the domestic resources are shadow valued. This industry does not need protection. We should promote this industry.
VADd = VADw	DRC = 1	Same	The domestic and world value added are the same. This means that the entrepreneurs is indifferent between using domestic resources and producing the output domestically and importing it, because the resource value in both are the same.
VADd > VADw	DRC > 1	Inefficient	DRC is greater than one. The domestic value added is more than the world value added. This means it is taking more resources domestically to produce one unit of value added than it takes internationally. The industry is inefficient. It is necessary to redesign the industrial structure. Or, it may just be better to eliminate these industries.
VADd<VADw DRC=(-)/(+) VADd>VADw DRC=(+)/(-)	DRC<0	Depends	Explanations in line with EPC explanations for this case, but evaluated at shadow prices

Note:

We note that these cases may differ if we take account of time factor. That is the short run DRC (where fixed costs are treated as sunk costs and not counted and only variable costs - costs of labor and material inputs, interest rates, and rates of return on variable capital - are considered) is different from the long run DRC (where fixed costs become variable - there are no sunk costs, and depreciation is taken into account). Thus we will get different numerical figures for the short versus the long run. Another point to take into consideration is that of capacity utilization. DRCs will be different for different levels of capacity utilization. In general, if the capacity utilization is very poor, (say 20%), then the firm will incur a high capital cost (in terms of fixed overheads and depreciation), because a lot of capacity is being left unused. In this case, the DRC will not really indicate the comparative advantage the industry has.

If the capacity utilization is higher (say 80%, or closer to full utilization), the capital cost will be lower and the DRC value will be more correctly reflected.

This Appendix was mostly derived during our work at the Bangladesh Tariff Commission.

Annexure 10

QUESTIONNAIRE

SECTOR: [____]

BANGLADESH TARIFF COMMISSION
IDTC PHASE II

1. COMPANY PROFILE

Name of Firm			
Address Telephone			
Year of Establishment			
Name of Person Interviewed			
Designation			
Ownership of firm (tick)	Proprietorship	Partnership	Corporation
Financial Year	From To		

2. CAPITAL ('000 Taka) AND LABOR (number)

	1991	1992	1993
Number of employees			
Number of shifts run			
Project Cost			
Debt / Equity			

3. PRODUCTIVE CAPACITY

H.S.Code	Name of Product	Please tick		Installed production capacity in terms of output			Actual production capacity in terms of output		
		Final	Inter	1991	1992	1993	1991	1992	1993
	Local								
	Export (If any)								

4. OUTPUT/PRODUCTION (Value in taka)

H.S.Code	Name of Product	Actual Production in Taka ('000)			Sales Value in Taka ('000)		
		1991	1992	1993	1991	1992	1993
	Local						
	Export (If any)						

5. COST DATA:

(a) Imported Direct Materials and Duties Levied (inputs to your firm)

H.S. Code and Item	CIF Price / Assessed Price in Taka ('000)			Customs Duty in Taka ('000)			VAT in Taka ('000) (VAT on inputs)		
	1991	1992	1993	1991	1992	1993	1991	1992	1993
a.									
b.									
c.									
d.									
e.									
f.									
g.									
h.									
i.									
j.									

Continued ...

Item	Advance Income Tax in Taka ('000)			Import Related Charges in Taka ('000)			Other Charges in Taka ('000)			Total in Taka ('000)		
	1991	1992	1993	1991	1992	1993	1991	1992	1993	1991	1992	1993
a.												
b.												
c.												
d.												
e.												
f.												
g.												
h.												
i.												
j.												

5. COST DATA

(b) Local Direct Materials and Duties Levied (inputs to your firm)

Item	H.S. Code	Local price (Tk. '000)			Excise Duty (Tk. '000)			VAT (Tk. '000)			Other Charges (Tk. '000)			Total (Tk. '000)		
		1991	1992	1993	1991	1992	1993	1991	1992	1993	1991	1992	1993	1991	1992	1993
a.																
b.																
c.																
d.																
e.																
f.																
g.																
h.																
i.																
j.																

5 (c). COST DATA (Continued)

Categories	1991	1992	1993
A. Manufacturing Overhead:			
Direct Labor			
Factory Rent			
Electricity			
Gas			
Water			
Repair & Maintenance (R&M)			
Other manufacturing Overhead			
B. Depreciation.			
C. Factory Cost. (A+B)			
D. Administrative Expenses			
E. Interest and other Financial Expenses			
F. Selling & Distribution Expenses.			
G. Total Cost (C+D+E+F+5a+5b)			
H. Ex-Factory Price of Finished Product			
I. VAT on Output (Total VAT - Input VAt = Output VAT)			
J. Ex-Factory Price including VAT			
K. Mark-up % / Profit			

Note:

Administrative Expenses:	Includes salaries to staff, cost of office facilities, paperwork, telephone, fax, telex, stationery.
Financial Expenses:	Interest on loans, commissions and fines paid to commercial institutions, If foreign loans are involved, please indicate change in amount of interest rates due to domestic currency depreciation.
Selling and distribution:	Transport costs, distribution costs, selling costs.
Manufacturing overhead:	
Direct labor:	Wages and benefits to workers actually being paid. If possible, divide into skilled labor, unskilled labor and professional staff.
R&M:	Maintenance of office, building, plant, and repairs thereof.
Electricity	
Gas, Water	
Factory Rent.	
Other overhead:	Insurance, Canteen Expenses, Coding, Lighting, etc.

6. NAME OF THE PRODUCT FOR WHICH PROTECTION IS REQUESTED AND REASONS THEREOF

Products	Reasons

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