

Speech for Honorable Commerce Minister at
Bangladesh Development Forum
on
Improving the Trade and Investment Climate
10 May 2004

*Hon'ble Chairperson,
Excellencies, distinguished participants*

Assalmualikum and Good Morning

It's a great privilege for me to be with you at this august gathering. I hope you have enjoyed the sessions so far held.

2.0 Bangladesh's economy has done considerably well over the last few decades given the conditions at the time of its emergence as a new nation in 1971 and its well-known vulnerability to natural calamities. The most striking areas of success are in human development, family planning, and near sufficiency in food and disaster preparedness and response. These represent considerable advances to achieve the Millennium Development Goals. On the economic front too, Bangladesh has managed reasonably well over the years.

3.0 The present government inherited a fragile economy with no specific policy directions. Moreover, the faltering global economy and the adverse impact of the September 11 shock further aggravated the economy's fragility and instability. Against this backdrop, the Government took some pragmatic programs to recover the economy and to put it in the right track that yielded desired result. Despite the substantial improvement in the major macroeconomic and social indicators, still much need to be done to meet the Millennium Development Goals by 2015.

Trade Liberalization

4.0 The present government recognizing the private sector as the major driving force of the market economy is committed to take supportive steps towards enhancing the involvement and active participation of the private sector in the overall development activities of the country. Consequently, reform and liberalization programs have been made more operational and effective to strengthen the structure of the market economy as well as to develop an efficient private sector. Government is now changing its role from a regulator to that of a facilitator and partner. The free market policy has opened up the export market for all countries, but it has inclination towards the developed countries having advanced technology and easy access to the

capital market. But with underdeveloped technologies and low capital base, the export sectors in developing countries are facing great challenges in getting access to the world market. The import substitute industries, on the other hand, gradually losing its competitiveness with the reduction and rationalization of the import tariff structure. This critical situation has stimulated the government to formulate a three-year Export Policy (2003-2006) to make the export sector more competitive.

5.0 There has been a shift in the strategy of export from 'export promotion' to 'export development'. Export development is aimed at producing new export products, and/or penetrating new markets that were not accessible before. The objective is to facilitate diversification by assuring exporters identify, enter, sustain and expand foreign markets. Our mission is to create a conducive environment wherein Bangladeshi private sector thinks globally for markets, invests locally to become competitive, adapts continuously as markets change and acts immediately to seize opportunities. Towards attaining these goals, Business Promotion Councils on ICT, light engineering, and leather have already been formed as private and public sector initiatives. Some more Council is also at the formation stage that includes agro-products, pharmaceutical products, and medicinal and herbal products. Besides, government is encouraging FDI on products/sectors that could be produced in Bangladesh for markets like Canada, Australia and EU, wherein, Bangladesh enjoys duty free access. One such potential product is auto-parts. To familiarize our products to foreign buyers, we are developing a trade portal to do trading online with the rest of the world. It will enable the foreign buyers to be in direct touch with our exporters. It will also develop our capacity in the field of e-commerce. To meet the sanitary and phyto-sanitary requirements, setting up of a Shrimp Seal of Quality (SSOQ) organization as a private and public initiative is at the final stage. We appreciate the role taken by ATDP in this regard.

Reform of Import Trade Regime

6.0 Our Trade Policy is largely characterized by liberalization and simplification. In response to rapid globalization and free market economy, Bangladesh is consistently committed to rationalization of tariff, simplification of import and export procedure, relaxation of restrictive trade policies and practice, and reforming financial and monetary policies and attaining greater national goal of sustained economic growth shifting from import-substitution policy to export led growth. In order to attain these objectives, the strategy has been adopted to gradually withdraw the items from the banned/restricted list of the import policy and to simplify procedures for import.

7.0 Recently a 3-year import policy (2003-2006) has been formulated ensuring a greater degree of transparency and continuity of the import policy provisions, and thereby enabling the importers to go for a long term import programming. I am happy to inform you that this policy conforms to the WTO rules and regulations.

8.0 Introduction of a multi-year import policy has made it possible for the businessmen; industrialist and agriculturist to adopt a long-term perspective plan with respect to their businesses. Moreover, the number of tariff slabs has been reduced to five, which was twelve in 1993-1994. The maximum tariff rate has also been brought down to 30 percent in the year 2003-2004 from 300 percent in the year 1993-94.

9.0 One of the main characteristics of the new import policy is the exclusion of sugar, cement, coal, gas-cylinder, sulphur, C.I sheet, M.S billet etc. from the restriction list. Banned and restricted H. S. Headings have been reduced from 131 to only 60 in the present import policy. This is a significant improvement over preceding policy. Review of the policy to meet the changed demand is a continuous process. I am happy to inform this august gathering of our development partners that we have already initiated a review of the restricted list of the import policy and hope to bring down further the number of restrictive items below 50. However, I must also mention that being a least developed country Bangladesh is already finding it difficult to fully adhere to the existing WTO rules and regulations. I should however, mention here that the additional conditionalities will make compliance more difficult for us. Moreover, though we have initiated liberalization since long and pursuing it yet we have not derived any significant benefit out of it. For example the trade balance with most of our neighboring countries are widening rather than decreasing.

Export Performance

10.0 In recent years, world trade on goods has been adversely impacted by a series of events, viz. September 2001 terrorist attack on USA, worldwide prolonged recession since March 2001, Afghan war, Iraq war, software bubble, etc. Despite these, Bangladesh's exports have marked impressive growth in recent years except in 2001-02. Compared with corresponding previous periods, our exports grew 12.43% in 2000-01, which, however, has gone down by 7.44% in 2001-2002. Thanks to the appropriate policy steps taken by the government, our export grew by 9.38% in 2002-03, and by 14.8% during the first 9 months of the current year. With a narrow export product base, and limited market access to major destinations, export growth we achieved is quite impressive. Canada has allowed duty-free access to our

products from January 2003. This resulted in a phenomenal growth of 140% during the first 9 months of 2003-04. On the other hand, the presence of a stringent rules of origin in EU, and the denial of duty-free access to the US market are the key factors responsible for under-utilization of the export capacity vis-à-vis a relatively low or negative export growth to these countries. I would request you to help Bangladesh as an LDC to obtain duty free access to the developed markets including the USA.

Getting Government out of Business

11.0 Privatization Board was transformed into Commission, the 'Privatization Law, 2000' has been enacted; privatization policy has also been formulated but privatization did not gather the expected momentum. However, we expect positive impact of the interventions in near future.

Investment Climate in Bangladesh

12.0 Government has been striving for ensuring the much desired investment friendly environment for achieving the coveted investment in the country. Various government policies and measures had its reflection. Moreover, several institutions have been established to provide all out support to the investors.

13.0 The general features of Bangladesh are conducive for investment in this country. Its strategic location with access to international sea and air route; easy availability of natural resources like gas, water and land; abundant supply of disciplined, cheap workforce; social stability for its homogenous culture; a potential domestic market of 140 million people and the GSP facility it enjoys for duty and quota free access in EU, Canada and few other developed countries made Bangladesh a natural choice for investment.

14.0 **Cost of doing Business in Bangladesh:** In a recently published report of World Bank on Investment Climate Assessment in Bangladesh used six aggregate measures to capture different aspect of governance. The six indexes measure perceptions about voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. Bangladesh scores relatively well on the indexes for voice and accountability, regulatory quality and government effectiveness exceeding the average for low-income countries. In addition, it performs better than China, India and Pakistan on regulatory quality. On control of corruption it performs a little better than the average for low-income countries.

15.0 However, the government is not complacent with the prevailing situation with regard to corruption. A Law has already been enacted in February this year for establishment of an independent anti corruption commission. This would be established soon.

16.0 Ministry of Commerce has already taken initiatives to improve the performances and transform agencies into business friendly organizations through reorganization. The Export Promotion Bureau, Bangladesh Tariff Commission and Office of the Chief Controller of Imports and Exports are being reorganized as professional based, business friendly organizations to deliver quality service to their clientele. The Office of the Chief Controller of Imports and Exports would be renamed as Directorate of Foreign Trade.

17.0 In the Office of The Registrar Joint Stock Company recently online service of name clearance has been introduced that resulted in substantial improvement in processing cases. We planned to expand automation in other areas of this office. I take this opportunity to thank the Australian government and the SEDF for supporting automation in The Registrar Joint Stock Company, which ultimately helped us in minimizing human contacts and increasing transparency in the process; and above all improve corporate governance.

Post-MFA strategy (Garment Sector)

18.0 The Commerce Ministry is in the process of finalizing an elaborate programme to address the challenges in the post-MFA era. In view of the abolition of quota on the clothing and textiles products after 2004, our RMG industry is likely to face a major challenge. With the support from the World Bank, the Commerce Ministry has conducted a study on the Post-MFA Development Strategy. The study, known as Gherzi study, provides 14 recommendations, and most important ones include promotion of export trade, development of physical infrastructure, establishment of a central bonded warehouse, provision for investment incentives, lowering interest rates on exports, human resource development, raising labour standards, and marketing support.

19.0 A post-MFA Action Programme (PMAP) has been initiated by the Commerce Ministry to alleviate the depressing effects stemmed from the termination of the quota system from January 1, 2005. To reposition the RMG and the textile sector, PMAP contains eight components. These are:

19.1 Skill and Quality Development Program (SQDP);

19.2 Displaced Workers Rehabilitation Program (DWRP);

- 19.3 Small Enterprise Capacity Enhancement Program (SECEP);
- 19.4 Support to Technological Capacity Development of SMEs (STCD);
- 19.5 Support to Primary Textile Sector (SPTS);
- 19.6 Support to Handloom Sector (SHS);
- 19.7 Support to Forward Linkage Industry (SFLI); and
- 19.8 Support to New Market Opportunities (SNMO)

Distinguished participants,

20.0 Let me take this opportunity to explain you in detail about the eight components of the PMAP.

21.0 The **first component** of the PMAP is the Skill and Quality Development Programme or SQDP. It includes imparting training on six areas namely, compliance norms, quality management, productivity management, marketing, merchandizing, and inventory management. Depending on the nature and type of the courses, there will be short-term courses of up to one week, medium-term courses of up to 12 weeks and long-term courses over 12 weeks. It is estimated that a total of 21,660 participants, representing workers from shop floors to supervisors, managers, marketing officers and executives will be benefited from this programme. This will help them attain higher skill, minimize cost of doing business, raise productivity, and as such movement from producing lower-end products to medium and higher-end products. This will also help them retain present market share.

22.0 Training courses on the first three sub-components of the SQDP, namely compliance norms, quality management and productivity management have already been set off from February 29, 2004. Five training institutes representing both the public and the private sectors have been selected for imparting these short-term SQDP courses. The programme has gone underway with the meagre \$41,000 unspent money of BDXDP project. The Commerce Ministry hopes to organize training courses on the remaining three sub-components from July 1, 2004. The programme is planned to continue till December 31, 2005 and the cost of implementing it is \$2.5 million.

23.0 The **second component** is the Displaced Workers Rehabilitation Programme or DWRP. It aims at providing alternative skill training programmes for the displaced workers on handicraft, nursing, hotel catering, small business, and entrepreneurship to find alternative employment. The programme aims at providing micro credit support for starting new business or enterprise at zero interest rates for at least five years, micro credit for export-oriented production, granting subsistence allowance for the first six

months of the training on alternative trade and unemployment, creating new job avenues in the handicraft, catering, nursing, agro-processing, leather, ICT and design industry, etc. The Commerce Ministry plans to undertake programmes to impart training courses on alternative trades for those workers who will lose jobs following termination of MFA. Besides, the cost of training, the participants will be provided with subsistence allowances. This programme may involve \$15 million and will run for 5 years.

24.0 The **third component** is the Small Enterprise Capacity Enhancement Programme or SECEP. It is designed to provide support to small RMG producers in forming strategic partnership and capacity building in the face of increased competition. While most of the bigger RMG enterprises are technically prepared to face the post-MFA threat, most of the SMEs are not prepared and too lack the absorptive capacity to internalise the potential shock. The vulnerable small entrepreneurs seem to be not aware of definite threat looming on them, or they might be in illusion of "nothing will happen in post-MFA era", or they have left their fate to the uncertainty. These small firms lack skills in modern management, negotiation, supply chain management, production planning and control, and most importantly, in compliance standards. Banks are reluctant to finance them.

25.0 To alleviate the position, several alternative rescue programmes are considered. These are forming strategic partnership within a group of 15-20 small enterprises and eventually can agree on a "win-win" business partnership; merger and acquisition to save from bankruptcy; and enterprise capacity building to acquire requisite skill and standards. The programme will be for a period of 3-5 years and will cost about \$10 million.

26.0 The **fourth component** is the Support to Technological Capacity Building of SMEs or STCD. It will provide small and medium enterprises in textile and clothing sector with access to simple and better technology to promote their competitiveness as well as to help achieve the compliance requirements of the buyers. The objective of the programme is to create technology awareness among the SMEs, to provide assistance in technology transfer, to create a data bank on the latest available technological advancements, to help relocate sunset industries to Bangladesh, and to encourage investments on R&D. The estimated cost of the component is \$3.0 million and it will run for 5 years.

27.0 The **fifth component** is the Support to Primary Textile Sector or SPTS. This component will include supports in terms of quality enhancement of the products and reduction of costs, awareness creation on technological advances and the need for having R&D facilities. Our considerable view is

that sustainable growth of Bangladesh RMG exports can best be supported with some selected backward linkages into primary textiles production, especially woven fabric processing, so that the dependency of the woven RMG sector on woven finished imports is reduced. These investments will be geared to helping the RMG companies match buyers' demands more exactly for shorter lead times, reliability in terms of delivery scheduling, quality consistency, service to customers and manufacturing flexibility. The intention is not to balance the capacities of the RMG and PTS but to realize about 50% self-sufficiency in cotton woven fabric finishing that will be based in part on local fabric weaving and part on imported grey fabrics. This will require new investments and BMRE of the existing mills. The programme will be for a period of 5 years and could cost about \$4 million.

28.0 Support to the Handloom Sector is the **sixth component** of the PMAP. Assistance is planned for this sector so that they can look for the niche market, meet the needs for RMG sector. The sector needs to be modernized and developed. This sector uses days old technology, the workers are not trained and the lack of knowledge on technological developments is the main barriers. Efforts will be taken to improve quality, develop capacity to produce according to the changing market needs, and reduce cost by improving productivity. Creation of a design and development centre for the handloom sector is also included in the plan. The programme will cost \$4 million and will run for 5 years.

29.0 **Another essential component** is the Support to Forward Linkage Industries (SFLI), that includes, inter alia, simplification of customs and port procedures, improvement of banking and insurance facilities, development of infrastructure, and setting up a design and development centre for the RMG sector. The programme will assist exporters acquire e-commerce capabilities, support front-end and back-end applications development, restructuring of supply chain management systems, customer relation management systems to the needs of electronic commerce, and entry into international e-procurement systems, marts and exchanges. The programme will cost \$0.5 million and will be for a period of 3-5 years.

30.0 The **final component** is the Support to New Market Opportunity or SNMO. With the phase out of the MFA system, we need to find out new markets for our RMG products. Efforts must be there to compensate the potential loss of market shares in USA. This necessitates planned and concerted forward-looking marketing efforts. Sending of marketing missions to these countries, organizing single country fairs, participation in international fairs, exchange of dialogues with governments and the trade

bodies and so on. The programme is for 5 years and this would cost about \$1.0 million.

31.0 Of the eight components of the PMAP mentioned, the SQDP, DWRP, SECEP, and SNMO are to be implemented on priority basis. These should preferably be started latest by July 1, 2004. Implementation of all the eight components will cost about \$40 million. I would like to draw attention of our development partners for supporting this program.

32.0 From my statement, you may have got a clear idea that Bangladesh is doing relatively well in trade sector. A double-digit export growth is definitely to be regarded as satisfactory. Trade is considered as a tool for poverty alleviation. More production and increased export income have resulted in the creation of more jobs in the country and indeed, it's a satisfactory development. However, I feel 15% export growth is not the maximum that we could have achieved. It could be more had there been no political disturbances and hartals. Any political activity that hampers economic growth should be discarded. Political misunderstanding or differences of opinion is natural to a democratic society. But such activity should be conducted in a manner, which is peaceful, and does not disrupt the normal economic activities.

33.0 I request our development partners including the World Bank and ADB to help my ministry to take major trade development projects in addition to the post-MFA Action Programme that I have outlined earlier. Before I conclude, I might mention here that we have started tea cultivation in North Bengal, and Chittagong Hill Tracts under small growers concept. A family having a small piece of land is given necessary technical and financial support to grow tea. This will help the small tea growers to have increased income leading to poverty reduction. In addition, we encourage contract farming, which guarantees the small growers to have contractual prices for their produces and at the same time ensure steady supply of commodities to agro-processors.

I thank you all for your kind and patience hearing.

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