

Impact of External Trade in Poverty Reduction: Bangladesh Context

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There is no gainsaying the fact that external trade is one of the vital components of development of any country. It provides capital, managerial expertise, technology, employment and a host of other benefits. In the present day world, external trade plays increasing role in the economic development of a country and its contribution in the growth of Gross Domestic Product (GDP) is gradually increasing. As a result, the dependence on external trade for economic development is also increasing. Bangladesh is not the exception in this respect.

The purpose of this small effort is to briefly present the increasing role of external trade in the economic growth of Bangladesh and its resultant effects on the poverty alleviation of the country. This is an attempt to briefly discuss the trade policy, contribution of trade in GDP, export performance, role of private sector in development, compliance of WTO rules and regulations, benefits and problems of globalization, Free Trade Agreement (FTA), multilateral trading system, Bangladesh's proposal for overcoming the problems of WTO, Doha declaration of TRIPS, Post Multi-Fibre Arrangement (MFA), SMEs, Problems of implementation of Brussels Program of Actions (BPoA) and progress of poverty reduction in Bangladesh.

Trade Policy of Bangladesh

Consistent with the trends of free market economy and globalization, Bangladesh has been pursuing a liberal trade policy since 1990s. Extensive reform programs have been implemented during this time to liberalize the trade regime and dismantle both tariff and non-tariff barriers. The number of tariff slabs has been reduced to five, compared to twelve in Financial Year (FY) 1993-94. The maximum tariff rate has also been brought down to 30 percent in the FY 2003-04 from 300 percent in the FY 1993-94. The rationalization of tariff has been done to facilitate the external trade. A set of five-year term liberal export and import policies was declared at the end of FY 1997-98 to simplify the import and export procedures and attain a favorable trade balance. Now, the Government has formulated a three-year export and import policy (2003-06) in conformity with the rules and regulations of the World Trade Organization (WTO) making more relaxation to restrictive trade policies and practice.

Although the government has liberalized the trade regime, it has been pursuing a moderate protective policy considering some sensitive issues like public health, security, cultural and religious bindings. The Government is prepared to review the policies from time to time to meet the changing demand.

Contribution of Trade in GDP

Bangladesh is among a handful of countries that has avoided even a single year of negative growth since 1990s. During the 1990s the economic growth registered a remarkable progress. The average growth rate of GDP was around 5 percent during this decade. Implementation of a wide array of reforms undertaken during the early 1990s made it possible to achieve this higher rate of growth. GDP growth increased from 4.4 percent in FY 2001-02 to 5.3 percent in FY 2002-03. Notably, external trade has played a significant role in this growth and accounted for 40 percent of the GDP.

Export Performance

Despite adverse international situation Bangladesh's exports marked impressive growth in recent years except in FY 2001-02. The export grew by 9.38% in FY 2002-03 and by 14.8% during the first 9 months of the current fiscal year. The latest statistics show that exports of Ready Made Garments (RMG) have grown up from 16 percent in 1986 to over 76 percent in 2003. On the other hand exports of jute and jute products have fallen down from 51 percent to 5.2 percent over the same period.

Role of Private Sector in Development

Private sector has been recognized as the major driving force in the overall development activities of the country. The role of private sector in Bangladesh, though limited, is gradually increasing. Last year private sector accounted for 70% of the total investment of the country, whereas this year private sector accounts for 71% of the total investment. This shows the increasing role of the private sector in the development of Bangladesh. The Government is committed to privatize all types of state-owned enterprises (SOEs) in a phased manner.

World Trade Organization (WTO) Rules and benefits of globalization

Globalization in the face of WTO has opened up the doors of the national economies to the market economy and led it to the integration of global economy. Bangladesh has opened up her economy in compliance with the rules and regulations of WTO. Globalization has brought structural changes in the national economy, increased the competition internally as well as externally, altered the consumers' preferences, lifestyles and demands of the

citizens. But being a member of the Least Developed Countries (LDCs) Bangladesh is already finding difficulty to fully adhere to the existing WTO Rules and Regulations. With its present infrastructure Bangladesh is facing difficulty to bear the pressure of globalization.

Problems faced by Bangladesh in compliance of WTO rules

External trade under the umbrella of free market economy and globalization, apparently, seems to be beneficial to the LDC countries like Bangladesh. The architects of globalization, the advanced countries having advanced technological and capital base, had already opened up their economy to the global economy. The advanced countries, which played the pioneering role in the process of formulation of globalization, advocated for economy with higher growth, egalitarian distribution of income and better social relations in the developing countries. They have been successful in integrating the developing countries and the former socialist countries with the global economy. But in practice it is found that such integration has created discrimination against the developing countries from the part of the developed countries. A developing country like Bangladesh finds it difficult to access to the market with her products. Bangladesh has comparative advantage of cheap labor force and disadvantage of low productivity due to technological backwardness and lack of skilled manpower. With underdeveloped technological and low capital base, the export sector of Bangladesh is facing great challenges in getting access to the world market. The import substitute industries, on the other hand, are gradually losing competitiveness with the reduction and rationalization of the import tariff structure.

Like other developing countries Bangladesh is demanding duty-free and quota-free market access for all products along with realistic, flexible and simplified rules of origin taking into account the industrial capacity of the country in order to raise its market share of world trade.

Barriers to Free Movements of Labor

The free-market mechanisms have created the opportunities for money and goods to move freely but have not removed the barriers to the free movements of labor. There are experienced labor forces in different broad service sectors like telecommunications, constructions and related engineering services, environmental services, financial services, transport services, audio visual services etc. Exchange of labor forces would have been beneficial to both the developed and developing countries. It has been estimated that a temporary visa scheme for temporary labor could yield economic benefit for both developed and developing countries equivalent to almost US\$ 150- 200 billion.

Free Trade Agreements

Regional and bilateral Free Trade Agreements (FTAs) are being pursued in compliance with the rules and regulations of WTO to address the trade barriers faced by the LDCs. Bangladesh has been playing pioneering role in the formation of South Asian Free Trade Agreements (SAFTA)

Multilateral Trading System

Under the banner of WTO the multilateral trading system gives very little attention to the needs of the developing countries, primarily because of domination by the developed countries. The rules are restrictive and there is no coherence in the policies followed by multilateral institutions. The commitments made in the Doha Declaration for the integration of the LDCs into the multilateral trading system require support for the diversification of the production and export base of the LDCs, including trade related technical assistance and capacity building. The Integrated Framework (IF) process launched in October 1997 by the donors and six core agencies to assist the LDCs integrate into the multilateral trading regime could not yet bring an effective result to facilitate trade for the LDCs. The LDCs need strong support from the developed countries and development partners in this respect as they are at serious disadvantageous position due to inadequate infrastructure and backwardness in technology.

Issues to be Resolved

In the forums of LDC Trade Ministers' Meeting and the last Ministerial conference of WTO, Bangladesh put forward mainly the following issues:

- Binding Commitment on duty-free and quota-free market access for the products originating from the Least Developed Countries (LDCs) with realistic, flexible and simplified rules of origin in order to raise LDCs market share in world trade.
- Access to developed country markets for temporary movement of less skilled and unskilled persons, simplifying visa procedures and without asking for Economic Needs Test (ENT).
- Exemption of LDC products from anti-dumping, countervailing and safeguard measures.
- Appropriate compensatory mechanism to address the erosion of preference margins due to lowering of tariffs.
- Implementation of para 6 of the Doha Declaration on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Public health.

Doha Declaration on TRIPS

Bangladesh is concerned over the non-implementation of Doha Declaration on TRIPS and public health. With weak scientific and technological infrastructure, Bangladesh has no capacity to comply fully with the rules of WTO. The developed countries did not have the strong intellectual property regimes in their early stages of development. Today, LDCs are unable to obtain patented drugs at cheap prices to tackle public health crisis. They must be given the opportunity to use compulsory licensing effectively, without any restricted list of diseases.

The Doha declaration also supports for long-term cross-border investment, particularly foreign direct investment for expansion of trade and enhancement of technical assistance and capacity building in this area, including policy analysis and development. Bangladesh is seeking promotion of Foreign Direct Investment (FDI), closer multilateral cooperation and human and institutional development.

Post Multi-Fiber Arrangement (MFA) Strategy

Abolition of quota system on the clothing and textiles products after 2004, the RMG industry is likely to face a major challenge. The government is in the process of finalizing an elaborate program to address the challenges in post MFA era. A post MFA Action Program (PMAP) has been initiated by the government to alleviate the depressing effects stemmed from the termination of the quota system from 1 January 2005.

Small and Medium-sized Enterprises (SMEs)

SMEs are a major source of employment and output in Bangladesh. However, financial market infrastructure is poorly developed to assist such enterprises in growing to an efficient size. The persistence of capital market imperfections makes it more difficult for small firms to access financing in order to upgrade or expand. There is also resistance on the part of owners to provide reliable balance sheet information in order to gain improved access to finance. Many small firms thus find it difficult to reach a minimum efficient size and are prone to financial difficulties, causing in consequence wasted or misallocated capital. It has not yet been possible to connect the SMEs with the global market due to lack of technology, skill, market access etc. The support needed for improvement of the performance of SMEs is not available.

Problems of Implementation of Brussels Program of Actions (BPoA)

Among the seven commitments of BPoA, the implementation of trade-related commitment (Commitment No. 5) is said to be beneficial for both the LDCs and the other

developing countries and development partners. Some of the issues, which concern the LDCs like Bangladesh are necessary to mention here. In the area of “trade, commodities and regional trading arrangements”, the provision for support to LDCs’ efforts by the development partners to promote sub-regional and regional cooperation is yet to be implemented. For market access time limit to remove all barriers to trade, product coverage to duty free and quota-free access, simplification and harmonization of existing rules of origin, efficacy of integrated framework for capacity building in the LDCs etc. is yet to be fixed. With respect to special and differential treatment, measures should be made mandatory, legally binding and enforceable. Concerns of the LDCs about emergence of standard setting and quality control measures by the developed industrialized countries as technical barriers to trade are yet to be fully addressed.

As set in the BPoA, Bangladesh has designated Secretary, Economic Relations Division, Ministry of Finance, as the focal point for implementation of the BPoA for LDCs and a National Forum is under process of formulation.

As discussed above the different aspects of trade and trade-related activities, it is evident that enhancement of the role of trade in the development has a direct impact on the reduction of poverty. Although poverty reduction depends on many factors, trade provides the vital tool for economic growth and hence, contributes to the generation of employment and gradual reduction of poverty.

Progress in Poverty Reduction

The goal of all development efforts of the government of Bangladesh is the reduction of poverty. Since independence the government has been pursuing to improve the quality of life of the people and reduce poverty through planned activities. Bangladesh has so far implemented 5 Five-Year Plans and a Two-Year Plan. The main focus of these plans was the reduction of poverty. Although the plans could not achieve the overall desired success against the targeted objectives due to a host of factors including resource constraints, improvements in the income poverty reduction since independence are commendable. The percentage of people below the poverty line declined from 70 percent in FY 1973-74 to 59 percent in FY 1991-92 to around 50 per cent in 2000. Since poverty is a multifaceted problem, the human poverty considerably exists in the rural areas as well as in the urban slum areas. In the socio-economic realities of Bangladesh, medium-term development plan within the vision of the long-term perspective is developed befitting the poverty reduction program in consistent with Millenium Development Goals (MDGs) and the philosophy of market economy and globalization.

Poverty Reduction Strategic Paper

Bangladesh completed the I-PRSP entitled “National Strategy for Economic Growth, Poverty Reduction and Social Development” in March 2003 and set to a well-rounded process of preparing the full-blown PRSP by December 2004. Bangladesh adheres to the core principles of PRSP that it should be country-driven, results-oriented, comprehensive in scope, partnership-oriented, long term in perspective and fully participatory in nature. There has been a 21-member National Steering Committee (NSC) set up under the chairmanship of the Principal Secretary to the Hon’ble Prime Minister. The NSC has been providing overall guidance and directions to the preparation of PRSP.

Conclusion

Trade is a vital component of development of Bangladesh. As a member of LDCs, it needs to promote the enhanced role of trade in the context of globalization. The dearth of skilled manpower and advanced technology is a great impediment in the way to enhance the role of trade in development. At the same time lack of market access or limited market access may jeopardize the contribution of trade in the development. Bangladesh is lacking expertise in the relevant field of trade and commerce. A comprehensive technical support for capacity building in the areas enumerated below is required for the development of her trade related institutions: (a) trade support service for product development, market promotion, (b) support for product diversification, (c) strengthening Standard Testing Institutes’ capacity to ensure quality compliance, (d) development of SMEs, (e) enhancement of technological and marketing capacity of identified industries, (f) support in establishment of trade institutions, (g) support in research in the areas of productivity enhancement, quality up-gradation, (h) support for enhancement of production capacity of identified sectors. Bangladesh needs the support from the developed countries and other multilateral donors for institutional arrangements for the development of trade.

