The future of Bangladesh’s trade policy

Selim Raihan

Bangladesh has made a major transition in its trade policy from a protectionist stance to a freer trade regime since the early 1990s as is reflected by the reduction in the average tariff rate from as high as 105% in 1990 to 13% in 2016 (Figure 1). Despite that, in 2016, Bangladesh’s average applied tariff rate was the highest in South Asia and much higher than that of the countries in Southeast Asia. Also, in 2016, the share of tariff lines with international peaks (rates that exceed 15%) in total tariff lines was as high as 39%, which was much higher than most of the South Asian (except Nepal and Pakistan) and Southeast Asian countries (Figure 2). Given this scenario, it is suggestive that there are scopes for further tariff liberalization in Bangladesh in terms of cutting down the average tariff rate as well as the tariff peaks. Admitting the need for further tariff liberalization in promoting export and economic growth, there are concerns that a mere tariff cut is not sufficient to achieve such targets. Two illustrations are presented in support of this argument. First, as Figure 3 shows, since 2000, reduction in the average tariff rates had hardly any systematic pattern, and even with both the import-GDP ratio and export-GDP ratio in Bangladesh. Second, Bangladesh, in terms of cutting down the average tariff rate as well as the tariff peaks, needs to be continued. The use of para-tariffs for the protection of domestic industries needs to be transparent and consistent with the WTO framework, and timely phase-out of such para-tariffs is warranted. However, it should be kept in mind that with the escalation of the preferential trading arrangements (PTAs), and assuming Bangladesh’s engagement in PTAs will increase in future, the preferential tariff rates will become more important than the MFN (most favored nation) tariff rates. Therefore, the simple average tariff rate would not reflect the true picture of the status of tariff protection in future. Second, the trade policy needs to be pro-active to effectively engage with multilateral, regional and bilateral trading arrangements, and to take initiative for participation in the prospective mega-trading blocs. Bangladesh, being an LDC and thus receiving trade preferences in major export destination markets, has so far been very passive in such trading arrangements. However, with the bright prospect of getting out of LDC status in the near future, such trade preferences will turn out to be redundant and the country has to bank on its comparative advantage and competitive strengths in future. Third, the trade policy needs to facilitate Bangladesh’s effective integration with the global and regional value chains by addressing the policy-induced and supply-side constraints, and finally, presenting an action plan to deal with the Non-tariff measures (NTMs) or non-tariff barriers (NTBs) which are increasingly getting more prominence in international trade. The second article titled “The slowing down of global trade: Implications for developing countries” emphasizes that the slowdown of economic growth and import demand in the developed world, an after-effect of the global financial crisis, has had implications for the export growth of developing countries. Panel-data econometric regression results indicate that the slowdown of economic growth in the developed countries is likely to have profound implications for the exports from developing countries in general and least developed countries in particular. What can the developing countries, especially the LDCs, do to confront these challenges? In this context, a two-pronged strategy needs to be adopted. First, the developing countries should exploit the potential of South-South trade. Second, the developing countries have to expedite efforts to improve their export competitiveness by addressing structural supply-side bottlenecks especially weak infrastructure and the high cost of doing business. In this issue, SANEM interviews Professor Mustafizur Rahman, Distinguished Fellow, Centre for Policy Dialogue (CPD). Professor Rahman discusses the outcomes of 11th Ministerial Conference of WTO. The final page draws attention to the events that took place in the month of December 2017.

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Figure 1: Simple average applied tariff rate (%)

Figure 2: Share of tariff lines with international peaks (%)

Figure 3: Tariff rate and trade-orientation in Bangladesh

Figure 4: Tariff rate and per capita GDP

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South Asian Network on Economic Modeling
The slowing down of global trade: Implications for developing countries

Selim Raihan and Sunera Saba Khan

There has been a striking slowdown in world trade in recent years. The slowdown in trade was initially referred to as an after-effect of the financial crisis and eventually an economic hazard. The global economic crisis of 2008-2009 had adverse effects on global trade and has cancelled out a number of gains brought about by globalization. Global trade and economic growth has been slowing since the economic crisis. The global crisis has altered the dynamism of world trade and till today the recovery remains incomplete. Global integration through trade has temporarily ceased. The global crisis and uneven trade recovery have reinforced the ongoing shift in balance in the world economy, featuring the relative decline of developed countries. More than eight years have passed since the global financial crisis of 2008, yet the world economy has not been able to regain its pre-crisis growth trajectory. As a result, world trade growth has remained sluggish for a number of years in a row. Slow economic growth and trade have negative impacts on trade expansion of developing and least developed countries. Theafter effects of the global economic crisis which include, weak economic performance of the euro-zone, growth slowdown in China, a decline in commodity prices and a stronger US dollar all hinder trade expansion of developing and least developed countries. The global economic crisis also stimulated an increase in protectionism, thus leading to the implementation of several trade-restrictive measures which remain active till today. These measures have had adverse effects on trade flows of developing countries.

Figure 1 depicts the annual import growth of the developed countries. Figure 2 illustrates the annual GDP (gross domestic product) growth of EU, North America, and China from 2003-2016. It is observed that during the year of the crisis, growth rates for EU and North America were negative. There was some recovery after the crisis, EU and North America continued to experience a slowdown of GDP growth in recent years. In case of China, growth rates decelerated during the crisis period and is continuing to decline in recent times. There are several potential explanations for the change in the relationship between trade and growth. The slowdown may be as a result of weak demand concentrated in highly-traded products. This may have resulted due to a decline in global growth. There has also been an increase in the demand for services. However, this is not a significant contributing factor because trade in services has also experienced a decline although when compared to the fall in trade of goods, the fall in trade in services is slightly lower. Other reasons include structural changes which may have led to a deceleration in the pace of trade liberalization, the slowing of cross-country supply chain formation which is linked to international value chains, and ongoing changes in the structure of the Chinese economy. Cyclical factors are responsible for trade slowdown and include post-crisis recession and fluctuating economic performance of large developing countries, a fall in the price of energy and other commodities.

The slowdown in economic growth and import demand in advanced economies has had a large impact on exports from the developing countries. Figure 3 shows annual export growth of East Asia and Pacific, South Asia, Sub-Saharan Africa, Latin America and Caribbean regions during 2003-2016. All the regions experienced negative export growth shortly after the crisis. In case of Sub-Saharan Africa and South Asia export growth did pick up after the crisis but were again negative during 2012-2013 and 2015 respectively. However, as of 2016, export growth of South Asia is recovering. Moreover, the general picture is that since 2010, all the four regions have been experiencing major slowdown in export growth. In order to make a further systematic analysis we employ a panel-data econometric framework, where we considered the export of developing countries as the dependent variable and real GDP of the developed countries as one of the explanatory variables. The UN classifications for developed, developing and least developed countries have been used. All data have been obtained from World Bank’s World Development Indicators.

In our dataset there are 105 developing countries and their exports are in panel data format between the years 1970-2015. The random effect panel regression results suggest that all the coefficients are statistically significant with expected signs. A 1 percent increase in real GDP of developed countries is associated with a rise in exports of developing countries by 2.8 percent. Furthermore, a 1 percent reduction in average tariff of developed countries is associated with an increase in the exports of developing countries by 0.17 percent. We have conducted a similar exercise for the least developed countries. In our dataset there are 47 least developed countries (LDCs) and their exports are in panel data format between the years 1970-2015. The random effect panel regression results suggest that all the coefficients are statistically significant with expected signs. A 1 percent increase in real GDP of developed countries is associated with an increase in exports of least developed countries by 4.1 percent. Furthermore, a 1 percent reduction in average tariff of developed countries is associated with an increase in exports of least developed countries by 0.29 percent. The aforementioned regression results indicate that the slowdown of economic growth in the developed countries is likely to have profound implications for the exports from developing countries in general and least developed countries in particular.

According some global projections, the slowdown in the global trading regime is expected to continue in the coming years. Therefore, there is no denying that the developing countries will face enhanced challenges to keep up their export growth in the future. What can the developing countries, especially the LDCs, do to confront these challenges? In this context a two-pronged strategy needs to be adopted. First, the developing countries should exploit the potential of South-South trade. The rapidly rising significance of a number of emerging developing economies in the backdrop of economic slowdown in the advanced economies provides a right moment to strengthen the ongoing engagement between developing countries in trade and development cooperation. Second, the developing countries have to expedite efforts to improve their export competitiveness by addressing domestic supply-side bottlenecks especially weak infrastructure and high cost of doing business.

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Source: World Bank, WDI

Data source: World Bank, WDI

Figure 1: Annual import growth (%)
SANEM: What are the outcomes of the 11th Ministerial Conference of WTO?

MR: The outcome of the WTO MC11 in Buenos Aires, though disappointing, was not altogether unexpected. That the WTO’s highest-level meeting may not be able to come up with any meaningful result in the form of an agreed ministerial declaration could be anticipated from the way discussions had been progressing in Geneva during the run up to the MC11 in particular, and following the MC10 held in Nairobi in December 2015, in general. Several factors may be cited as the underlying reasons—the shifting geographical landscape in global trade with newly emerging powerful players such as China, India and Brazil, with their own offensive and defensive interests; stance of the US which questioned the reaffirmation of the centrality of the multilateral trading system and the development dimensions of the WTO’s work; diverse approach and perspectives on the part of some of the key WTO members as regards systemic issues including the single undertaking, role of plurilaterals and prioritisation of issues to be put on the table at MC11, involving both the built-in agendas and the new and on-the-run issues. It is not surprising that Ministers were not able to reach a consensus on a ministerial declaration, in spite of the successive drafts to reach a deal lasting till the dying hours. One should concede, however, that the trade issues are becoming increasingly complex, both in terms of diversity of concerned issues and the correlation of forces whose interests are manifested in changing, and often shifting, contours of variable geometry. The loss of consensus can also be accounted for by new economy issues and varying perceptions about the developmental dimensions of trade that made trade talks at MC11 both divisive and highly charged.

The elephant in the room was the Doha Round Agenda, initiated in 2001 at MC4, about the fate and future of which members had quite opposing views. Coming to a consensus at MC11 in the face of all these was never going to be easy, to say the least. The five facilitators appointed by the Director General Roberto Azevêdo (fisheries, agriculture, services and non-agricultural market access, e-commerce and development) did convene open discussion sessions with interested members and Conference Chair Susana Malcorra, the Minister for trade for Argentina, presented a summary of the discussion which evinced where particular WTO members stood on various critically important issues. It was obvious that a balanced outcome concerning agricultural domestic support, market access, public food stockholding, special safeguard mechanism, e-commerce, fisheries subsidies, cotton, new issues such investment facilitation, domestic regulation in services and micro, small and medium-sized enterprises (MSMEs) was hardly feasible in Buenos Aires. However, these discussions give pointers to future discussions in Geneva and could serve as inputs for the post-MC11 Work Plan. Members who thought that there will be a decision with regard to fisheries subsidies (banning of illegal, undocumented and unregulated fishing pursued proactively by friends of fish), or that there will be a permanent solution as regards public food stockholding (to end the so-called peace clause) could not have there way in spite of broad agreement because other issues remained unresolved. However, work programmes on small economies, and e-commerce were adopted as part of the Ministerial decision, as also decision as regards continuing the work on fisheries subsidies and TRIPS non-violation and situation complaints. Several countries evinced interest to pursue plurilateral negotiations on several issues. So not everything was lost at MC11. Overall, the MC11 should transmit the message, for Bangladesh and other countries with similar interests, that for them all routes should matter – multilateral, regional and sub-regional – in a world where the dynamics of trade is changing at a fast pace, with ascendancy of value chains and increasing importance of non-tariff factors as drivers of market access, and where WTO is only one of several institutional arrangements governing present-day global trade.

SANEM: How can general plurilateral negotiation be a way to dissolve the unresolved trade issues?

MR: It transpires from the MC11 that at least with regard to four issues members are keen to pursue plurilateral negotiations in future trade talks – trade-related e-commerce, framework on investment facilitation, MSMEs and domestic regulations on services. As may be recalled, plurilateral agreements are of negotiations where several members, accounting for the critical mass in terms of share in global trade, pursue separate negotiations. This is admissible under the WTO rules. The best case scenario for developing countries is of course to have the discussions within the ambit of the WTO where their interests and concerns can be appropriately voiced and addressed through special and differential provisions. The Trade Facilitation Agreement in the WTO is a pertinent case in point in this connection. The apprehension is that, when plurilateral negotiations are subsequently multilateralised, the excluded members are compelled to play the role of mere takers, without the balance of interests provided under the single undertaking principle of the WTO. I would take the view that, Bangladesh and other South Asian countries should approach the issue of whether to be involved in plurilateral negotiations with an open mind. At MC11, the LDC group to which Bangladesh belongs had decided not to join discussions and negotiations, although a large number of developing countries, not to say developed country members, did issue joint statements to initiate plurilateral discussions as part of post-MC11 work plan. However, I feel that LDCs, as a second best solution, given the way multilateralism is evolving in a very challenging and dynamic trading system, ought to follow the plurilateral discussions very closely. They should also, through friendly WTO member countries taking part in the negotiations, try to embed their concerns and interests in the discussions being held. When the issue of multilateralising the plurilateral arises, efforts will need to be taken to have the SBDoT and technical and financial assistance provisions in place while enforcing the implementation of any such decision. Whilst the four South Asian LDCs have many common interest as regards the plurilateral, the developing country members were likely to have a heterogeneity of interests. It is interesting to note, however, that Cambodia, an LDC, has signed on to the e-commerce statement at the MC11 while India came out unequivocally against any decision on e-commerce.

SANEM: What does the lack of agreement on the Substantive issues under discussion at MC11 mean?

MR: Lack of agreement on substantive issues at MC11 can be examined from several vantage points. On the one hand, as is well-known, not all Ministerial Conferences of the past were able to come up with a ministerial decision. Seattle (MC3: 1999) and Cancún (MC5: 2003) may be mentioned in this context. However, what distinguishes MC11 is that powerful members such as the US chose to raise questions as regards the fundamentals as also the spirit which have informed the functioning of the WTO till now. As a consequence, for the WTO to go forward, there will need to be a serious rethinking about the objectives and role expected of the WTO for it to perform as the key multilateral trading institution of the twenty-first century. Distinctive features of the global trade, with growing prominence of value chains, the need to address trade and trade-related investment facilitation issues and the urgency to cater to new economy issues such as e-commerce, will have to inform the future work of the WTO. On the other hand, failure of an agreement in MC11 and lack of progress in the discussions in Geneva also mean that development dimensions of global trading system will continue to be ignored and resolution of trade-distorting measures such as agriculture subsidies and WTO-incompatible protectionist tools will likely remain unaddressed, at least for now. However, as I have pointed out already, a significant part of the global trade at present takes place under the host of regional, cross-regional and sub-regional trading arrangements in place, and this will continue and gain momentum in absence of lack of progress in the WTO. On the other hand, I don’t think all is lost. WTO has in the past faced many crises. Whilst MC11 failed to come up with a ministerial decision, the overwhelming majority of its members have demonstrated their willingness to remain engaged, through plurilateral forms of negotiations and the envisaged post-MC11 work plan. WTO is a member-driven organisation and to what extent WTO will be an effective multilateral system will critically hinge on the appetite of the members. But I think that all members understand that absence of a
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Rule-based system and a lack of an effective dispute settlement mechanism will be detrimental to their trade interest. I see a strengthening of plurilateral in the coming days and more discussion as to how these will be multilateralised. I anticipate more intensive discussion to deepen south-south cooperation which then will become integral to the WTO rules (under Article xxv and other provisions). Developing countries and particularly the LDCs will need to learn to rely more on their own competitive strength and less by taking advantage of the S&D treatment and preferential market access within the ambit of the WTO.

SANEM: What should be Bangladesh’s strategy in the changing global trade regime?

MR: As distinct from many other LDCs, the Bangladesh economy is integrated with the global economy in a more intense way, both through product and factor markets. Bangladesh has also been able to take more advantage of her global integration compared to many other LDCs. As such, she has a keen interest in advancing her trade concerns by pursuing her offensive and defensive interest within the multilateral trading system of the WTO, as also through regional and sub-regional trading arrangements. Bangladesh will need to pursue a number of strategies in this context. Firstly, Bangladesh should remain proactively engaged in the WTO negotiations in Geneva, particularly in the context of the evolving post-MC11 Work Plan. Here she has an interest to see the Doha Round and LDC package deliverables to figure on the agenda. Secondly, as is known, Bangladesh has already embarked upon its middle-income journey and, what is more pertinent, she is likely to be considered for LDC graduation in 2018, to be finally graduated by 2024. Accordingly, while pursuing the LDC cause, her engagement in the WTO should also be informed by her post-LDC interests as a non-LDC developing country. Thirdly, Bangladesh should take a keen interest in the plurilateral negotiations and, where feasible and necessary, take part in relevant discussions. Fourthly, Bangladesh should take an interest in the discussions on the new issues as these may feature in future negotiations in the WTO. Fifthly, Bangladesh should do its best to build, and be part of, coalitions in the WTO based on common interests. And sixthly, in view of the developments in the WTO, Bangladesh should pursue a more proactive trade policy to deepen regional and sub-regional cooperation and integration. More attention should be given to developing comprehensive economic partnerships at bilateral and regional levels. For Bangladesh, in going forward in the twenty-first century, all routes that facilitate trade and raise its competitive strength in the global market should matter. This is a key learning from the lessons of MC11.

SANEM: Thank you!

MR: You are most welcome.

Expert Group Meeting held in Bangkok, Thailand

An Expert Group Meeting on “Macroeconomic Prospects and Policy Challenges in Asia and Pacific, including Countries with Special Needs” was held on December 4 and 6, 2017 at United Nations ESCAP, Bangkok, Thailand. The meeting brought together experts and policy makers from the Asia and Pacific to analyze emerging economic issues and discuss policy considerations, keeping in view the 2030 agenda for Sustainable Development. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka, attended the meeting.

ADB-SASEC National SPS and TBT Diagnostic Study for Maldives and India: National Validation Meeting held in Male, Maldives and New Delhi, India

"ADB-SASEC National Sanitary-phytosanitary (SPS) and Technical Barriers to Trade (TBT) Diagnostic Study: National Validation Meeting" was held in Male, Maldives and in New Delhi, India on December 7 and 8 respectively. The program was organized by South Asia Subregional Economic Cooperation (SASEC), with the objective of sharing the findings and recommendations of the study. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka, participated as a presenter at both events.

The 59th Annual Conference of the Indian Society of Labour Economics (ISLE) held in Kerala, India

The 59th Annual Conference of the Indian Society of Labour Economics (ISLE) was held on December 16-18, 2017, at the Gulati Institute of Finance and Taxation (GIFT), Thiruvananthapuram, Kerala, India. The conference was organized by the Gulati Institute of Finance and Taxation (GIFT), Thiruvananthapuram, in collaboration with Department of Economics, Kerala University and Centre for Development Studies, Thiruvananthapuram. Dr. Selim Raihan, Executive Director of SANEM, Professor, Department of Economics, University of Dhaka, participated in the conference.

Workshop on Introduction to Interest Rate Markets held in Doha

South Asian Network on Economic Modeling (SANEM) organized a workshop on “Introduction to Interest Rate Markets” on December 17, 2017 at SANEM Office, Doha. Dr. Tanweer Akram, Director of Global Public Policy and Economics, Thrivent Financial, USA, conducted the workshop. Young researchers, students and Economic professionals from different Universities and research organizations participated in the workshop. The workshop focused on dynamics of bond and futures market.

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