



**The Enclave Approach Has Outlived Its Usefulness for Bangladesh**

**Sanjay Kathuria and Nadeem Rizwan**

**July 2021**

**Macroeconomics, Trade and Investment Global Practice, South Asia Region  
The World Bank Group**

## **Abstract**

The growth of its readymade garments industry has been a critical factor in Bangladesh's development success. However, Bangladesh has not been able to replicate this success in other labor-intensive sectors. A key reason for this is the current trade policy stance that allows a virtual free trade regime in the garments sector, but perpetuates a high degree of protection to the domestic (import substituting) industries, at the expense of emerging and potential export industries. This enclave approach encourages most productive sectors to cater to the domestic market and cannot sustain export growth at the rates required to accelerate growth or provide quality jobs, especially in the face of impending preference erosion. There is an urgent need to change this policy stance and start the process of trade reforms in a careful and calibrated manner, which will promote export diversification and also maintain the dynamism of the garments sector.

# **The Enclave Approach Has Outlived Its Usefulness for Bangladesh**

**Sanjay Kathuria and Nadeem Rizwan**

**July 2021**

**Macroeconomics, Trade and Investment Global Practice, South Asia Region, The World Bank Group**

Acknowledgements: Sanjay Kathuria and Nadeem Rizwan are the primary authors of this research paper. It draws from background papers prepared by the Policy Research Institute of Bangladesh, under the leadership of Zaidi Sattar. The authors would like to thank Zaidi Sattar and PRI as well as former colleagues from the World Bank Group, including Masrur Reaz and Nusrat Nahid Babi.

Sanjay Kathuria is Adjunct/Visiting Professor at Georgetown University and Ashoka University; Senior Visiting Fellow at the Centre for Policy Research, India; and Non-Resident Senior Fellow at the Institute of South Asian Studies, Singapore. Earlier, he was a Lead Economist at the World Bank in Washington, D.C. Email: [sanjay@cprindia.org](mailto:sanjay@cprindia.org)

Nadeem Rizwan was a former consultant at the World Bank in Washington, DC.

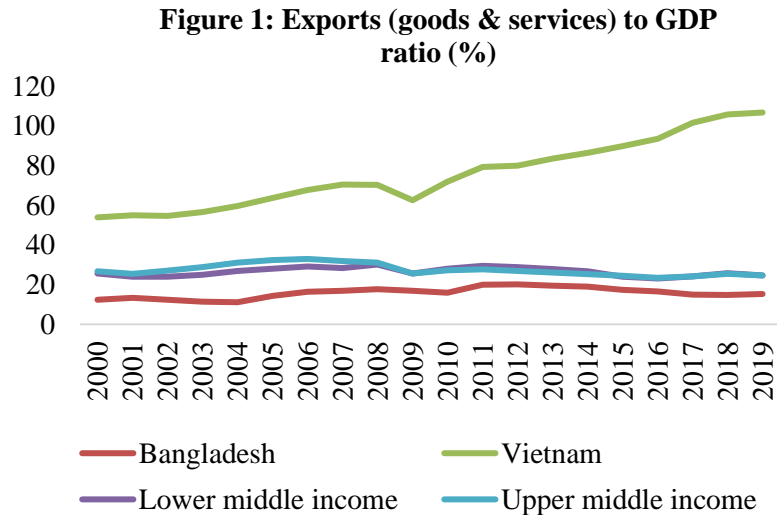
## The Enclave Approach Has Outlived Its Usefulness for Bangladesh

*Sanjay Kathuria and Nadeem Rizwan*

*Bangladesh needs to diversify its exports to foster overall development.*

### Trade has been a key element of Bangladesh's development progress.

In particular, exports, driven mainly by readymade garments (RMG), have contributed to the country's remarkable growth by creating jobs and reducing poverty. However, despite robust export growth over the years, Bangladesh's exports, at 15.3 percent of gross domestic product (GDP) in 2019, remain low compared with the average export to GDP ratio of middle-income countries and

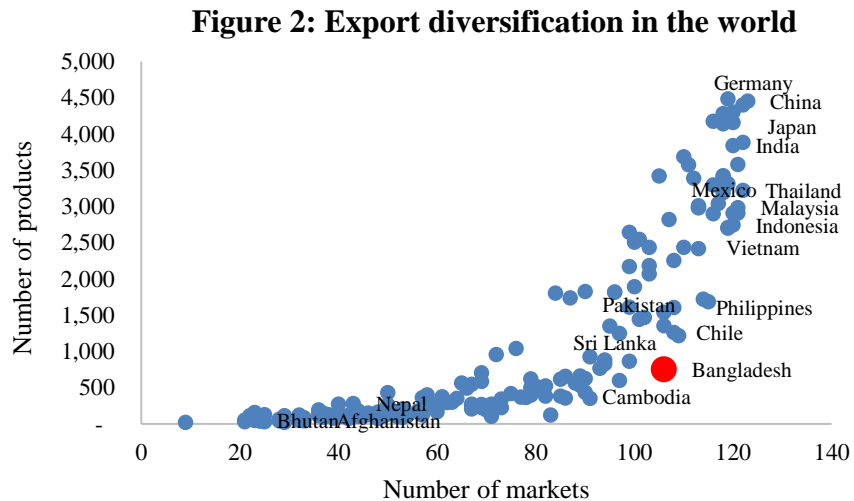


Source: World Development Indicators

comparators such as Vietnam (figure 1). The ratio for lower middle-income average was 24.7 percent, and for Vietnam, a major competitor for Bangladesh in garments, the ratio was 106.8 percent. The scars from the global health crisis created by COVID-19 and the possibility of preference erosion arising from Bangladesh's impending exit from LDC status in 2026 has reinforced the importance of creating a trade regime that fosters competitiveness and diversification (Planning Commission 2020).

**A reason for relatively low exports is insufficient product diversification.**

Bangladeshi exports are less diversified compared with those of countries such as Vietnam, Thailand, Malaysia, Indonesia, the Philippines, and others (figure 2). Razzaque (2017) shows that Bangladesh’s export basket is four times more concentrated than the



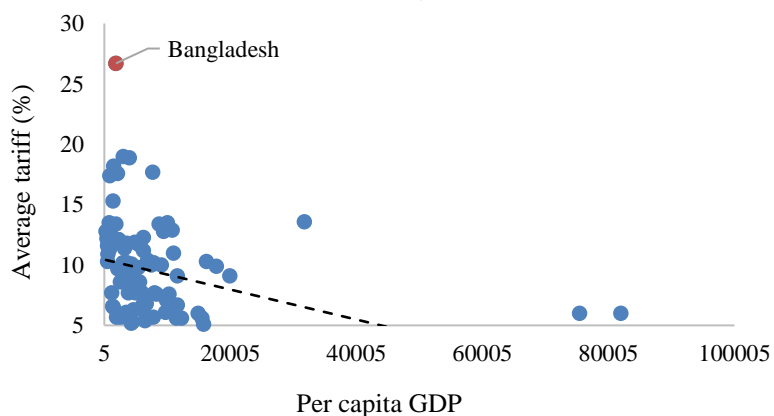
Source: WITS.

developing country average and less diversified even compared with low-income countries. The current export basket is heavily dependent on RMG. The share of RMG was 86.6 percent of total exports in 2018, as it has been for about the past two decades. In 2018, of the top 20 export products (at the Harmonized System (HS) 6-digit level), all but one belonged to RMG (annex table A.1).

**The absence of diversification can be at least partly attributed to the country’s protective trade regime.**

The high level of protection, provided through high tariffs and complex and nontransparent para-tariffs, is a key reason for the static export basket. Bangladesh’s average tariffs almost double, from 13.5 percent without para-tariffs to 26.7 percent with para-tariffs, in FY2019, which makes it an outlier among countries with a

**Figure 3: Tariff and income level, selected countries, 2019**



Source: World Trade Organization, World Development Indicators and PRI

similar income level (figure 3). This high degree of protection has created an enclave for domestic industries, incentivizing them to focus on the domestic market rather than exports, due to relatively higher profitability—and creating an anti-export bias.

**To accelerate and sustain export growth, Bangladesh needs to diversify its export basket.**

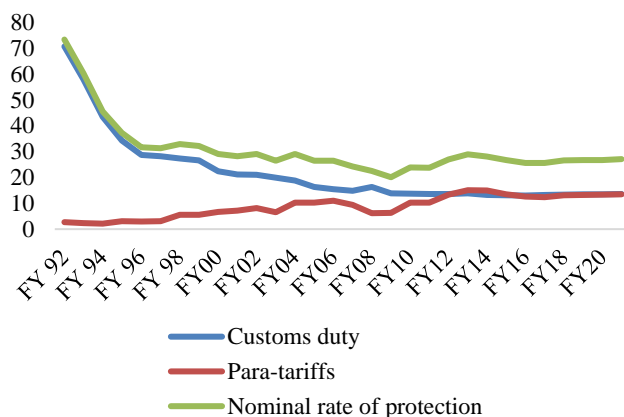
Bangladesh may not be able to enjoy special trade preferences, such as the European Union’s Generalized System of Preferences (GSP), for long, as the country is about to graduate from least developed country status. This may reduce the competitiveness of the current export basket that focuses on low value exports. A diversified export portfolio could reduce the risk of export

volatility, create new sources of export growth and increase export earnings in the long term. By diversifying into more products, Bangladesh can also offer more investment opportunities to investors abroad and attract more foreign investment. Diversification of exports in Bangladesh will require adequate trade infrastructure, a conducive business environment, and a trade policy regime that fosters a competitive and dynamic export-oriented manufacturing sector. Removing the anti-export bias and phasing out effective protection through rationalization of tariffs would be a key element of such a regime (Planning Commission 2020). Furthermore, the non-RMG sectors need to receive policy support similar to that received by the RMG. This brief touches upon these issues.

*The trade regime has been conducive for RMG but has disincentivized other export sectors.*

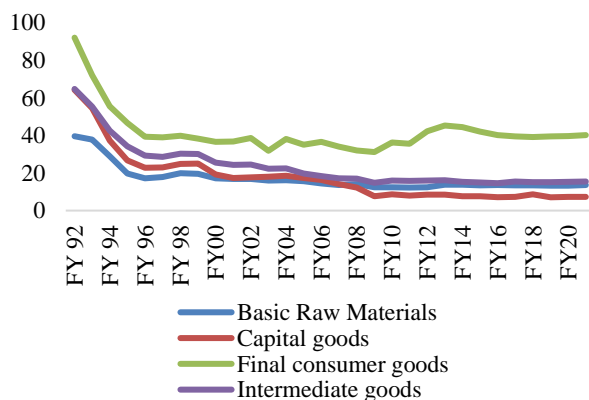
**The proliferation of para-tariffs significantly increased the nominal rate of protection.** The removal of import restrictions left tariffs as the main trade policy instrument in Bangladesh. Since 2001, there has been a proliferation of para-tariffs such as the supplementary duty and regulatory duty. Initially, these were introduced to increase revenue, but over time they have turned into major instruments of protection. The rise in para-tariffs has offset the decline in average customs duty rates, with the downward trend in tariffs until FY2009 being reversed thereafter by the rise in para-tariffs (figure 4). The share of para-tariffs in nominal protection was almost 50 percent in FY2021, more than double its share in FY2001. The average nominal protection rate for input categories has been declining, while that of final consumer goods has increased (figure 5).<sup>1</sup>

**Figure 4: Average rate of tariff, para-tariff, nominal rate of protection (%)**



Source: PRI 2020

**Figure 5: Nominal rate of protection (%)**



Source: PRI 2020

**Tariff policy has negatively impacted export performance.** Over time, the difference between tariffs on inputs and outputs has increased, leading to a high degree of protection, mostly to domestically produced consumer goods. This is consistent with the premise that the consumer goods lobby in favor of high protection has been particularly effective. Although most countries provide some degree of protection to domestic industries, it is much higher in Bangladesh if we include para-tariffs, as reflected in the high tariff escalation ratio (table 1). This high effective protection tilts the balance of incentives in favor of import substitutes over exports, creating anti-export bias (PRI 2017). For example, estimates of the effective rate protection from a survey of 15

<sup>1</sup> A list of the top protective rates and product categories is given in table A.2 in the annex.

leather goods and footwear manufacturers, suggest that profitability from domestic sales is 2.5 times higher than that from exports (PRI 2018). Since the tariff regime has been geared toward protecting consumer goods, the intermediate goods industry has not flourished, which has made Bangladeshi exports heavily dependent on imports that are mediated by inadequate logistics, thus penalizing exports.

**Table 1: Tariff escalation ratio of Bangladesh and selected countries**

Country	Year	Average input tariff (%)	Average output tariff (%)	Tariff escalation ratio
Bangladesh	2018	13.1	46.0	3.5
Myanmar	2015	4.3	9.1	2.1
Cambodia	2016	10.3	14.6	1.4
Indonesia	2017	5.5	13.5	2.5
Malaysia	2016	3.5	7.4	2.1
Philippines	2017	4.9	9.8	2.0
Thailand	2015	7.9	18.5	2.3
Vietnam	2017	6.5	17.5	2.7

*Sources:* Calculated based on data from UN TRAINS through WITS and the National Board of Revenue, Bangladesh.

**The RMG sector has been relatively insulated from the trade environment in Bangladesh through favorable policies that helped create a free trade channel.** Along with low-cost labor and favorable preferential treatment, e.g., in the Multi-Fiber Arrangement and the European Union’s GSP, two key policy initiatives helped Bangladesh become the second largest RMG exporter in the world (Kathuria and Malouche 2016; Razzaque 2017; Yunus and Yamagata 2012). The first was the back-to-back letter of credit facility through which the industry was able to obtain inputs without substantial investment, thereby saving on working capital costs. Second, the special bonded warehouse facility enabled duty-free access to imported raw materials and components for 100 percent export-oriented RMG firms. The firms could also import duty-free machinery and replacement parts and other supplies, and also make domestic purchases of inputs free of local excise, sales, and other taxes. In FY2011, the bonded warehouse facility saved exporters (the majority of which were RMG) an up-front payment of around Tk 310 billion in customs taxes, which was more than the total trade-related tax collected by the National Board of Revenue (NBR) and more than one-fifth of total exports (table 2).<sup>2</sup> If the duty exemption from domestic purchases were considered, the savings for exporters would be even higher.

<sup>2</sup> Of course, these figures are notional, since for export-oriented companies, the duties are in theory refundable under duty drawback. It is a separate matter that duty drawback does not work well in Bangladesh (Kathuria and Malouche, 2016, PRI 2017).

**Table 2: Duty savings through the special bonded warehouse**

Fiscal year	Duty savings (taka, billions)	Share of duty savings	
		% of trade tax	% of exports
2006	144	94	23
2007	112	72	14
2008	162	82	19
2009	152	73	16
2010	203	89	20
2011	310	111	21

*Source:* Customs Bond Commissionerate, National Board of Revenue.

**The bonded warehouse facility is not being provided in an inclusive manner.** Although the bonded warehouse facility has been extended to non-RMG exporters on a highly selective basis since 1993, evidence shows that the system does not work as effectively as in the case of the RMG industry. Table 3 shows that the bonded warehouse facility provided to non-RMG exporters, which is described as a supervised bond, makes up only around 2.5 percent of the total active (operating) bonds. The rest of the bonds are given to RMG firms and deemed exporters, which are mostly suppliers of accessories and inputs to the RMG industry. This forces non-RMG exporters to pay duties on imported inputs upfront and rely on the inefficient duty drawback system, which involves high transaction costs.

**Table 3: Snapshot of special bonded warehouse coverage, FY2018**

Bond license category	Active	Inactive	Total	Active
				(% of total active bonds)
RMG bonds	2,317	2,111	4,428	64.0
Deemed bonds	1,215	532	1,747	33.5
Supervised bonds	90	41	131	2.5
Total	3,622	2,684	6,306	

*Source:* PRI & Customs Bond Commissionerate, National Board of Revenue.

*Note:* RMG = readymade garments.

**The non-RMG sector receives discriminatory treatment in utilizing the bonded warehouse facility due to nontransparent provisions.** There are around 320 statutory rules and orders (SROs), meeting minutes, and instructions governing the bonded warehouse regime, 248 of which are not recorded anywhere. Most of the instructions have been drafted to support the operation of bonded warehouses in the RMG sector (World Bank 2018a). When they are applied to other sectors, the rules have the effect of being less favorable and, in some cases, a barrier to seeking a bonded warehouse license. Box 1 describes some of the key advantages in the bonded warehouse scheme that are available to only the RMG sector.



**Box 1: Examples of benefits from statutory rules and orders that apply only to readymade garments**

- Audit cycles are longer, so there is less intrusion from the Bond Commissionerate.
- Direct exporters of readymade garment are exempt from seeking annual entitlements to imported inputs, a process that limits duty-free inputs to an amount that is based on machinery and last year's production.
- Utilization rates used to determine the extent of inputs and packaging material are set by an industry body, not Customs.
- Multiple premises (within 60 kilometers) are covered under one license.
- Goods may be sent to subcontractors for part of the process.
- Firms are not required to house fulltime Bond Commissionerate staff onsite.

*Source:* World Bank 2018a

**An equal bonded warehouse facility extended to non-RMG exporters could result in improved export performance.** Estimation of an augmented export demand function shows that, given all things remain the same, on average, having the bonded warehouse facility allowed the RMG industry to export an additional amount worth US\$1.8 billion per year (box 2). By contrast, over the past few decades, non-RMG exports have performed below potential. Given the opportunity to use a proper bonded warehouse scheme, non-RMG exports could have grown at a much higher rate. Estimates show that, in the past five years, non-RMG exporters could have exported around US\$0.4 billion to US\$2.6 billion more each year had they been given proper access to the bonded warehouse facility (table B.2.1 in box 2).

## Box 2: Potential loss from not providing the bonded warehouse facility to non-RMG industries

Quantifying the impact of the special bonded warehouse (SBW) facility is not a straightforward exercise due to data limitations. This report tried to quantify the impact of the bonded warehouse facility on two dimensions: first, how much it has benefitted the readymade garments (RMG) industry, and second, the potential export loss arising from the non-RMG industry from not being able to utilize its full benefits.

To estimate the benefit of the special bonded warehouse facility on the RMG industry, a linear export demand function with dummy variables was estimated. Other studies have modeled an export demand function for Bangladesh using the gross domestic product of destination countries and the real effective exchange rate (REER) as explanatory variables, which were also used in this model (Kabir 1988; Nur, Wijeweera, and Dollery 2007). Data on exports (US\$, millions) over 1975–2017, sourced from UN Comtrade, were divided into RMG and non-RMG. The weighted average GDP (US\$, millions) of Bangladesh’s top 10 trading partners was collected from the World Development Indicators database and the REER from the Brugel database. The dummy variables includes the following: a dummy for special bonded warehouse taking the value of 1 from 1978 (when it was introduced) for RMG and 0 otherwise;<sup>1</sup> MFA = 1 over 1975–2004 for RMG and 0 otherwise to capture the effect of the Multi-Fiber Arrangement; BBLC = 1 over 1987–2017 for RMG and non-RMG and 0 otherwise, to control for the impact of back-to-back letters of credit; and EBA = 1 over 2002–17 for RMG and non-RMG and 0 otherwise, to control for the impact of the European Union’s Generalized System of Preferences. A fixed effect estimation was used to capture any other variability impacts across the sectors. Only the dummy for SBW was significant in the estimated equation (equation B2.1, p-values in parentheses) and had a coefficient of 1,794.8, meaning that keeping all things equal, the usage of the SBW facility increased RMG exports by US\$1.8 billion.

$$\text{Export} = 0.95 \text{ GDP} + 106.1 \text{ REER} + 1794.8 \text{ SBW} - 16358.9 \text{ MFA} + 666.1 \text{ BBLC} - 1431.8 \text{ EBA} \dots \text{(B2.1)}$$

(.43)                      (.48)                      (.04)                      (.12)                      (.47)                      (.41)

To estimate the potential loss of exports for non-RMG industries, it was assumed that the use of the SBW facility would lead to cost decreases of 5 and 10 percent (as most intermediate goods are taxed at the 5-10 percent level) and could be deemed as a price advantage in the global market. Considering this price advantage and using the short-run and long-run average export supply elasticities for Bangladesh of 2.15 and 2.97 percent, respectively (Tokarick 2014), the potential export growth was derived for the short term (10.8 and 21.5 percent, respectively) and long term (14.8 and 29.7 percent, respectively). A range of estimates of potential loss of exports from FY2014 was then calculated by applying the different potential growth rates to non-RMG exports from FY2014 and calculating the difference from actual exports. These potential export loss estimates range from US\$0.4 billion to US\$2.6 billion a year (table B2.1).

**Table B 2.1: Estimating potential export losses of the non-RMG sector (US\$, billions)**

Fiscal year	Actual exports	Projected at 10.75% growth rate	Lost exports	Projected at 21.5% growth rate	Lost exports	Projected at 14.85% growth rate	Lost exports	Projected at 29.7% growth rate	Lost exports	Actual growth rate (%)
2014	5.69	6.09	0.40	6.69	0.99	6.32	0.62	7.14	1.44	3.49
2015	5.72	6.31	0.59	6.92	1.20	6.54	0.82	7.39	1.67	0.40
2016	6.16	6.33	0.17	6.95	0.78	6.57	0.40	7.42	1.25	7.79
2017	6.69	6.83	0.14	7.49	0.80	7.08	0.39	7.99	1.31	8.47
2018	6.05	7.40	1.35	8.12	2.07	7.68	1.62	8.67	2.62	-9.45

Source: Calculation based on Export Promotion Bureau of Bangladesh data.

<sup>1</sup> It is assumed here that although the bonded warehouse facility was extended to other sectors later, it was not as effective because of the reasons discussed in this paper.

Source: World Bank staff and PRI (2017)

**The overall process of obtaining a license and operating a bonded warehouse system is not efficient.** Even within the RMG sector, it is arduous. The bonded warehouse system is based on a paper-based, manual system. The entire system is cumbersome, from the process for licensing an entity and bonded premises to the separate process for seeking permission for and taking delivery of imported components and other raw materials to be used in manufacturing. The authorities exercise 100 percent transaction-by-transaction control, rather than risk-based, selective control, making the process burdensome for the licensee and the Customs officials, who themselves lack capacity, resources, and industry expertise. There is a significant amount of redundancy in documentation and data requirements and formalities. Duplication also appears between the bill of entry and the import entitlement (World Bank 2018a).

*Diversification of exports will require a more liberalized trade regime and appropriate policy support.*

**The tariff regime needs to be rationalized to diversify exports.** To foster a globally competitive export industry, Bangladesh needs to remove the anti-export bias present in its tariff regime. Protection provided to the domestic import substituting industries should be time bound and performance based. Further scaling down of tariffs along with rationalization would be an appropriate strategy to pursue. Bangladesh needs to initiate a process of gradual reduction of para-tariffs, with the goal of eventually eliminating them. A recent example of such initiatives can be seen in Sri Lanka, where the government reduced para-tariffs such as the Port and Airport Development Levy and the cess on a significant number of tariff lines. The then Sri Lankan government was also preparing a Trade Adjustment Program to assist stakeholders who would be adversely impacted due to this liberalization process.<sup>3</sup>

**The bonded warehouse system should be modernized and equally accessible for all exporters.** The government should review the existing SROs and other instructions that govern bonded warehouses and simplify them. In addition, a business process review should be conducted for bond license issuance, audits, management, reconciliation, and renewal procedures and to identify process simplification options for bonded warehouses. Based on the review, new procedures and SROs can be introduced, such as generic eligibility criteria, warehouse categories, and special eligibility criteria. The adoption of risk management principles and an automated license management system for application and renewal can make the process considerably simpler (World Bank 2018a). Such a system can better address the authorities' concerns on revenue leakages, compared to the over-administered system that currently prevails and hurts the competitiveness of firms (Razzaque 2017).

*The impact of liberalization on government revenue and jobs can be managed by putting adequate mitigation measures in place.*

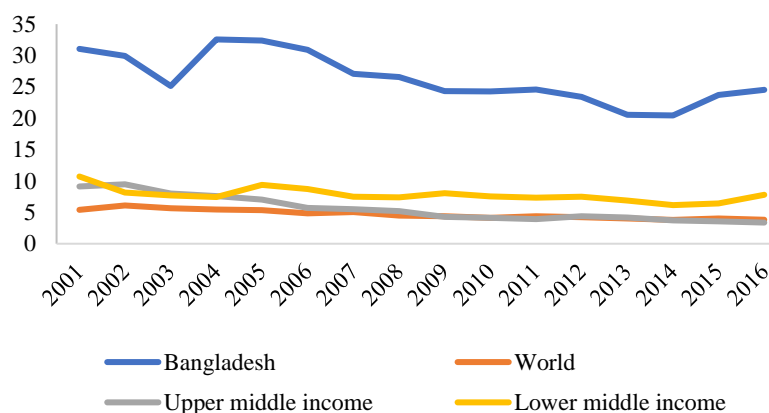
**Bangladesh is overly reliant on trade taxes compared with the rest of the world.** Although the dependency on trade-related taxes has been decreasing in Bangladesh, the country's reliance

---

<sup>3</sup> For details, see Budget Speech 2019 at <http://www.treasury.gov.lk/budget-speeches>. A judgement as to whether this program will continue will need to wait for policy pronouncements from the new government.

on international trade taxes is still well above the world and middle-income country averages (figure 6). Compared with peer countries, such as Thailand, Malaysia, Cambodia, and others, Bangladesh's tax-to-GDP ratio was the lowest, at 8.9 percent in (except Myanmar) 2019<sup>4</sup> (table 4). Within this low revenue environment, customs and other import duties contributed to almost 28.3 percent of the tax revenue in Bangladesh in 2019, which is the highest among the comparators. This indicates the heavy influence of revenue considerations on tariff policy in Bangladesh. Hence, the possible loss of revenue maybe a concern for Bangladesh in contemplating tariff rationalization.

**Figure 6: International Trade Taxes (% of revenue)**



Source: World Development Indicators.

**Table 4: Customs duties and tax revenue, selected countries, 2019**

Country	Customs and other import duties (% of tax revenue)	Tax revenue (% of GDP)
Bangladesh*	28.3	8.9
Malaysia	1.5	13.8
Myanmar	6.8	6.4
Cambodia	13.1	14.8
Indonesia	2.4	10.3
India (2018)	4.9	11.1
Philippines	22.3	13.7
Thailand	4.0	15.4
Turkey	2.6	18.3
Mexico	2.1	13.5

\*Bangladesh data for FY19

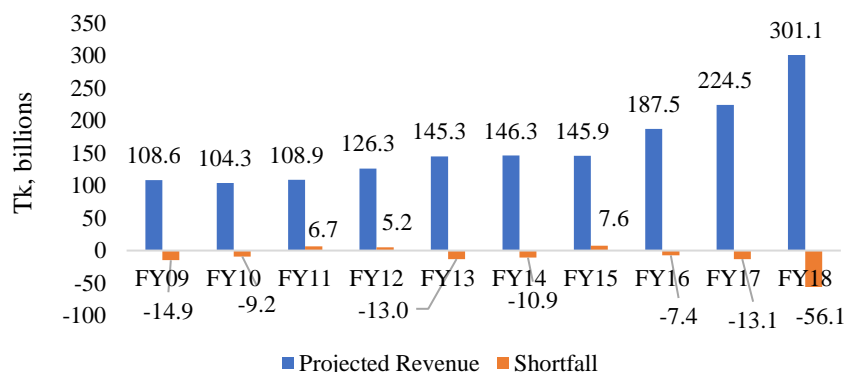
Source: World Development Indicators, National Board of Revenue and Ministry of Finance, Bangladesh

**The concern over revenue is exacerbated by the lack of policy coordination and institutional capacity.** NBR is the authority that sets the tariff and has the policy goal of revenue maximization rather than export promotion. Tariff setting is also influenced by the domestic business lobbies

<sup>4</sup> 2016 is the latest comparable year of data that from WDI. According to NBR data, the tax to GDP ratio was 9.4 percent and CD+SD was 15.4 percent of tax revenue in FY18.

before it is adjusted annually as part of the budget process. The changes tend to be ad hoc in nature, implemented without any background research about how much and for how long the protection is justified. And there is no obvious rationale for the variable rates of protection given to different products. There is also a lack of capacity in projecting the revenue implications of tariff changes. Revenue from customs duties fell short of the projected customs revenue seven times in the past 10 years, with the shortage reaching 18.6 percent of the projected customs revenue in FY2018 (figure 7).

**Figure 7: Projected and actual revenue from customs duties in Bangladesh**



*Sources:* Calculated based on data from the Ministry of Finance and the National Board of Revenue.

**Revenue targets can be managed with a rationalized tariff structure.** A less distortionary tax structure could achieve the same or an even higher level of revenues. Removing exemptions may increase fiscal revenues significantly. There are many exemptions in the tariff schedule that are benefitting specific industries and resulting in revenue shortfalls. In FY2016, revenue foregone due to exemptions was estimated to be Tk 171 billion, or 1 percent of GDP (World Bank 2018b). Kathuria and Malouche (2016) projected that removing tariff exemptions would increase revenues by about 7–9 percent and help compensate for the reduction or removal of other taxes while inducing greater economic efficiency. Another simulation conducted by Kathuria and Malouche (2016) shows that by removing the supplementary duty and adopting a uniform rate of 15 percent for custom duty+ regulatory duty, tariff revenue can increase by 0.9 percent. A third simulation results in a decline of tariff revenue by 3-7 percent by capping tariff peaks at 15 percent.

**The potential short-term loss in revenue can be offset to some extent by adopting various strategies.** Although high tariffs and para-tariffs are adding to short-term revenue, they negatively affect the economy by encouraging the use of resources in inefficient sectors. This also means that consumers end up paying higher prices and exporters do not get the most competitive inputs for export production. In the longer term, trade liberalization can increase growth and bolster revenue (Ebrill, Stotsky, and Gropp 1999). There is strong evidence of significant recovery of the lost revenue arising from trade liberalization by middle-income countries. The initial loss in revenue can be offset through continuous and concerted efforts to broaden the tax base, reduce exemptions, increase other forms of taxes due to increased income, and strengthen tax administration (IMF 2005).

**Improving institutional capacity on revenue forecasting can defuse some concerns.** The target for revenues, usually set up during the time of the annual budget, has a significant bearing on the trade policy stance of the country. Hence, there is a need for capacity building so that policy makers

can use sound analytical frameworks to get a proper idea about the revenue impacts of tariffs. This would equip policy makers with informed assessments to gauge the fiscal challenges of tariff liberalization and formulate policies accordingly. It would also help policy makers to communicate clearly the economywide impacts of reforms to relevant stakeholders and maintain transparency of the reform process.

**Some firms and workers will be vulnerable to liberalization.** Trade liberalization will result in winners as well as losers. The losers will be the firms that will have to downsize or close businesses because of loss of market share due to reduced protection. Workers employed in such firms are at the risk of experiencing a reduction in wages or losing their employment after liberalization. Among these workers, some are likely to be more vulnerable due to certain demographic and socioeconomic factors that make it more difficult for them to find another job. For example, workers from poor households, with little or no savings or alternative sources of income, are likely to be more vulnerable and need greater assistance from the government, compared with others. Similarly, workers in the informal sector are vulnerable, as they do not have access to the social protection schemes that formal workers enjoy, such as severance and retraining (Francois, Marion, and Peters 2011).

**Reducing the cost of adjustment of the losers from liberalization is of utmost importance.** To gain social and political support and make the liberalization sustainable, the adjustment cost for the vulnerable groups needs to be minimized. The potential losers from reforms need to be correctly identified, so that adequate compensation measures can be put in place, making the process of transition as smooth as possible. Strengthening safety nets and training for those workers whose jobs are affected and improving links between education, training, and the job market should be part of any trade reform agenda. Furthermore, the government can formulate a fiscal package for a limited time, with clearly defined criteria for the firms or sectors that will be adversely affected (Kathuria 2018).

### *Conclusion and final thoughts*

**Bangladesh needs to put in place forward-looking policies to encourage diversification while building on existing strengths.** Import tariffs affect export competitiveness and have serious implications for overall growth prospects. The current trade policy stance, while allowing a free trade regime in the RMG sector, perpetuates the high degree of protection to the domestic (import substituting) industries, at the expense of emerging and potential export industries. This enclave approach encourages most productive sectors to cater to the domestic market and cannot sustain export growth at the rates required to accelerate growth or provide quality jobs. Policies should be geared toward stimulating export response from sectors other than RMG. This becomes even more important given Bangladesh's impending LDC graduation and the resulting preference erosion, as well as an ongoing recalibration of global trade and value chains. In view of this, Bangladesh needs to bring an urgency to articulating a roadmap for trade reform that will promote export diversification and maintain the dynamism of the RMG sector, and then implanting the roadmap in a calibrated, deliberate and transparent manner.

## Annex

**Table A.1: Bangladesh's top 20 export products in 2018**

HS code	Product description	Export value (US\$, thousands)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	5,586,628
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	5,449,534
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	3,348,642
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted	2,589,939
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibers, knitted	2,460,071
620520	Men's or boys' shirts of cotton	1,905,645
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted	1,133,206
610510	Men's or boys' shirts of cotton, knitted or crocheted	959,639
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted	816,476
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted	814,729
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibers	681,436
620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibers	512,788
621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	483,969
610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted	454,960
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibers	425,099
610342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted	395,405
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	391,428
030617	Frozen shrimps and prawns, even smoked, whether in shell or not	377,712
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton	375,491
620293	Women's or girls' anoraks, windcheaters, wind jackets and similar articles, of man-made fibers	355,175

*Source:* International Trade Centre.

**Table A.2: List of top protective rates, FY2018–FY2019, sorted by nominal rate of protection**  
(*excludes motor vehicles, cigarettes, alcoholic beverages, and firearms*)

Category	Commercial description	Tariff rate, FY2018–FY2019 (%)		Foreign trade, FY2017–FY2018 (US\$, millions)	
		TTI	NPR	Exports	Imports
CAP/FCG	Air-cooler & air-conditioning machines	216.47	156.00	0.0086	2.8173
FCG	Confectionery items, biscuits	130.81	113.44	63.6147	1.5222
FCG	Electric lights and lamps	130.81	113.44		0.0976
FCG	Footwear – Rubber/plastic strap thongs	130.81	113.44	0.3034	0.4444
FCG	Plastic household articles, like tableware & kitchenware	130.81	113.44	19.7138	3.4547
FCG	Ceramic sanitary items	154.17	104.80	0.0016	4.5068
FCG	Ceramic tableware & kitchenware	154.17	104.80	33.5095	0.7471
INT	Building stone – Tiles, cubes, etc.	154.17	104.80	1.0694	7.3292
INT	Cigarette paper	216.47	104.80	0.0222	8.9295
FCG	Cosmetics – Hair dye/color	154.17	86.18	0.0581	6.4990
FCG	Electric fans	130.81	85.60	0.1002	15.0195
FCG	Lamps – Discharge lamps	130.81	85.60		0.4391
FCG	Chocolate	130.81	85.60	2.8136	10.7620
FCG	Confectionery items	130.81	85.60	6.8952	0.2548
FCG	Electric lights and lamps	130.81	85.60	0.4339	19.6548
FCG	Footwear – Leather and non-leather (6403)	130.81	85.60	774.4127	21.0833
FCG	RMG – Knitwear and woven wear	130.81	85.60	30,313.9557	802.2522
FCG	Sanitary towels (pads) and tampons	130.81	85.60	0.0475	7.9767
FCG	Seats	130.81	85.60	2.0160	4.1443
FCG	Textile – Fabrics	130.81	85.60		1.3372
INT	Glass & glassware – Sheets, tableware & kitchenware	130.81	85.60	0.1476	20.8663
INT	Plastic doors & windows	130.81	85.60	0.1384	0.0489
INT	Plastic packing materials	130.81	85.60	2.6411	26.7567
INT	Other household articles, of plastics – Feeding bottles	130.81	76.76	25.9342	14.4793
FCG	Carpets and floor coverings, jute and other textile materials	81.64	76.64	2.5138	3.8906
FCG	Plastic household articles – Feeding bottles	91.88	76.64	0.2708	0.2019
FCG	Sanitary wear – Aluminum	91.88	76.64	0.0048	0.0193
FCG	Textile – Fabrics – Cotton	91.88	76.64	87.8247	3,980.9118



Category	Commercial description	Tariff rate, FY2018–FY2019 (%)		Foreign trade, FY2017–FY2018 (US\$, millions)	
		TTI	NPR	Exports	Imports
FCG	Cosmetics – Lip/eye make-up, etc.	130.81	68.73	0.0069	4.7709
FCG	Confectionery items, cereals	107.45	66.40	17.4247	8.8087
FCG	Paper tissues	107.45	66.40	0.3951	2.4790
FCG	Perfumes	107.45	66.40	0.0007	1.8521
INT	Coconut oil	107.45	66.40	0.0279	1.0273
INT	PVC tubes & pipes	107.45	66.40	0.1934	5.8053
FCG	Other ceramic sanitary items (excluding porcelain/china)	154.17	57.54	0.0016	4.5068
CAP/FCG	Batteries	91.88	53.60	39.9472	41.7114
CAP	Electric switches and holders	91.88	53.60	0.0005	13.3590
CAP	Freezers & refrigerators	91.88	53.60	0.0009	46.9314
CAP	Lamps – Filament lamps	91.88	53.60		0.3543
CAP	Purifying machines	91.88	53.60	0.0028	10.9919
FCG	TV	91.88	53.60		1.3416
FCG	Children’s toys	91.88	53.60	32.1180	12.9227
FCG	Furniture	91.88	53.60	12.1915	18.7593
FCG	Matches	91.88	53.60		0.0001
FCG	Mattresses	91.88	53.60		0.0936
FCG	Motorecycle seats	91.88	53.60		0.5170
FCG	Office and school supplies	91.88	53.60	0.2617	3.9933
FCG	RMG – Knitwear and woven wear – Track suits	91.88	53.60	114.4458	0.3204
FCG	Razors	91.88	53.60	2.5663	8.5040
FCG	Salt	91.88	53.60	0.0190	24.7964
INT	Aluminum foil	91.88	53.60	0.0021	0.8888
INT	Cement	91.88	53.60	10.5255	2.3118
INT	Locks and parts	91.88	53.60	0.0756	17.4350
INT	Metalized yarns	91.88	53.60	0.0029	1.7849
INT	Soap and toiletries	91.88	53.60	0.0967	31.5214

Note: Goods category: INT = intermediate goods; CAP = capital goods; FCG = final consumer goods.

Tariff rates: TTI = total tariff incidence; NPR = nominal protective rate.

Source: PRI

## References

- Ebrill, L., J. Stotsky, and R. Gropp. 1999. *Revenue Implications of Trade Liberalization*. IMF Occasional Paper No. 180, International Monetary Fund, Washington, DC.
- Francois, J., J. Marion, and R. Peters. 2011. "Trade, Adjustment Costs and Assistance: The Labour Market Dynamics." Organisation for Economic Co-operation and Development, Paris, <http://www.oecd.org/site/tadicite/48133815.pdf>.
- IMF (International Monetary Fund). 2005. "Dealing with the Revenue Consequences of Trade Reform." Background Paper for Review of Fund Work on Trade, International Monetary Fund, Washington, DC.
- Kabir, R. 1988. "Estimating Import and Export Demand Function: The Case of Bangladesh." *Bangladesh Development Studies* 16 (4): 115–27.
- Kathuria, S. (ed.). 2018. *A Glass Half Full: The Promise of Regional Trade in South Asia*. Washington, DC: World Bank.
- Kathuria, S., and M. Malouche. 2016. *Strengthening Competitiveness in Bangladesh—Thematic Assessment: A Diagnostic Trade Integration Study*. Washington, DC: World Bank.
- Nur, M., A. Wijeweera, and B. Dollery. 2007. "Estimation of the Export Demand Function Using Bilateral Trade Data: The Case of Bangladesh." *South Asia Economic Journal* 8 (2): 249–64.
- Planning Commission. 2020. *Eighth Five Year Plan June 2020–June 2025: "Promoting Prosperity and Fostering Inclusiveness"*. Dhaka: Government of Bangladesh.
- Policy Research Institute (PRI). 2020. Summary of Changes in Tariffs and Para-tariffs in FY2020-21 Budget. Dhaka, Bangladesh.
- Policy Research Institute (PRI). 2018. Case Studies of Protection and Export Competitiveness of Selected Industries. Background Paper. Dhaka, Bangladesh.
- Policy Research Institute (PRI) 2017 Assessment of Potential Impact of Tariff Harmonization and Expansion of Bonded Warehouse Facilities on Sectors with Export Potential. Background Paper. Dhaka, Bangladesh.
- Razzaque, M. A. 2017. "Revitalizing Bangladesh's Export Trade: Policy Issues for Growth Acceleration and Diversification." Keynote paper prepared for Stakeholder Consultation on Export Diversification: Challenges and Policy Priorities, Bangladesh Enterprise Institute, November 7.
- Tokarick, S. 2014. "A Method for Calculating Export Supply and Import Demand Elasticities." *Journal of International Trade & Economic Development* 23 (7): 1059–87.

World Bank. 2018a. *Bangladesh Policy Notes: Export Diversification through Bonded Warehouse Reforms*. Washington, DC: World Bank Group.

World Bank. 2018b. *Estimate of Revenue Foregone on Customs Duty in Bangladesh*. Washington, DC: World Bank Group.

Yunus, M., and T. Yamagata. 2012. “The Garment Industry in Bangladesh.” In *Dynamics of the Garment Industry in Low-Income Countries: Experience of Asia and Africa* (Interim Report), edited by T. Fukunishi and T. Yamagata. Chousakenkyu-Houkokusho, Institute of Developing Economies–Japan External Trade Organization.