The Governance and Management of Trade Policy in Bangladesh

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Abstract

Trade policy has been a cornerstone of Bangladesh's development journey. The critical importance of trade policy has become even more pronounced recently, as Bangladesh faced external pressures on foreign exchange reserves and balance of payments. Traditionally, discussions around economic policy in Bangladesh have focused on fiscal and monetary measures, but the current climate reveals trade policy's central role in ensuring macroeconomic stability. The governance of trade policy defines the broad direction of policy -- open or restrictive trade – while management refers to the effective coordination of multiple agencies in implementing trade policy. Currently, Bangladesh's trade approach reflects an awkward mix of outward-oriented and inward-looking strategies, resulting in significant progress in RMG export but little diversification into other sectors. This lack of alignment calls for a renewed round of trade policy reforms to create a more industrialized, employment-driven economy based on strong export performance. Embracing these changes can propel sustainable development, while missing this opportunity risks stalling progress at a crucial moment for transformation.

Keywords: Trade policy governance, Macroeconomic stability, Export diversification

1. Introduction

For several decades international trade has been the handmaiden of Bangladesh development. This outcome is intricately related to the conduct as well as direction of trade policy, which is a combination of trade taxes, import-export promotional measures or restrictive regulations, with wider implications for macroeconomic stability and growth. Anne Krueger, a leading trade economist, highlighted the criticality of using trade policy as an important input to development. Bangladesh has followed this advice, though not in all its forms and manifestations (Krueger, 1980).

Most discussions of macroeconomic policies in Bangladesh tend to focus on monetary and fiscal policies. Lately, however, management of foreign exchange reserves and exchange rate – core components of trade policy -- have assumed heightened importance on account of external pressures and adverse balance of payments developments. These developments prove that ignoring trade policy as a critical component of overall macroeconomic management would be a mistake. That is why I believe it is important to understand how trade policy in Bangladesh is formulated and conducted. The question that needs to be answered is whether the current arrangement works efficiently, without inherent conflicts, in terms of aligning trade policy with the strategic developmental goals of the economy.

To begin with, one conceptual issue needs to be clarified. Governance, which is the more strategic part of policymaking, sets the direction of trade policy. In the Bangladesh context, governance of trade policy would involve commitment at the national level of what kind of trade policy to pursue – restrictive, protectionist, or open trade; outward-oriented, or inward-looking. The management of trade policy then involves the implementation of the guidelines set out under the governance framework by the responsible agencies of government which could, in the Bangladesh context, involve an interplay of several ministries and agencies working with each other. Here, the critical question that arises is whether the coordination is consistent and effective to yield the outcome of a pro-industrialization, pro-growth, and pro-employment developing economy.

2. Governance of Trade Policy

Formulating and guiding strategic directions of policy is the sine qua non of governance. In the early 1990s, by launching the deepest trade and import liberalizing measures, Bangladesh made the radical switch from a largely trade-restrictive inward-looking overwhelmingly import-substituting economy, with fixed and over-valued exchange rate, to an outward-looking export-oriented economy, with flexible exchange rate. Thus, Bangladesh joined the group of economies that earned the moniker of "globalizers" by the World Bank – i.e. developing countries that unleashed their potential and started to grow faster than those that did not globalize (i.e. liberalize). From then on "export-led growth" became the cornerstone of Bangladesh's development policy and that alignment, in principle, would have persisted to this day. Regrettably, this strategic alignment of trade policy of the 1990s petered out over the next two decades into what appears to be a radar less orientation of international trade with mixed pursuit of trade restrictiveness and trade openness without any clear signal of trade policy direction.

Trade policy can be open, restrictive or somewhere in between. Deep trade liberalization measures launched in the first part of the 1990s decade soon gave way to creeping protectionism through the emergence of para-tariffs, such that by the second decade of the 21st century, para-tariffs (regarded as Other Duties and Charges (ODCs) by WTO) had assumed as much of the protective effect as WTO-compliant custom duties. As a consequence, Bangladesh's trade policy appears to have lost a sense of direction. Today, in an age of cutthroat global competition Bangladesh's economy lacks any strategic direction of trade policy, which in effect implies an absence of trade policy governance – a pivotal flaw in the overall management of macroeconomic stability and growth dynamism. Trade policy governance is crying for reforms to infuse a sense of direction compatible with the evolving trade landscape of the future.

3. Management of Trade Policy

External sector developments as well as internal macroeconomic stability have much to do with the handling of trade policy. Activities that constitute the whole package of trade policies may be divided into domestic and external components (Table 1).

Table 1. Trade policy bifurcation

Domestic	External
Trade policy (tariffs, subsidies, protection, exchange rate)	**Market access**
Trade facilitation (via logistics, trade infrastructure)	**WTO, FTA/RTA/PTA, GVC, FDI**
Institutions of trade policy management	

Trade policy instruments that have to be domestically formulated and implemented include tariffs, subsidies, protection, and exchange rates. Logistics and trade infrastructure have to be geared towards trade expansion and removal of any barriers to international transactions; all relevant institutions in the public and private sectors have to be activated to foster trade smoothly. On the external side, ministries, public and private institutions need to be engaged in creating market access for our exports which in turn would require membership in multilateral and regional institutions such as the WTO, SAFTA, BIMSTEC, APTA, in addition to pursuing Preferential or Free Trade Agreements (PTAs/FTAs), seeking global value chain (GVC) integration and courting FDI. That brings to the fore the question of management of trade policy by the ministries and agencies of government and the private sector, and a focus on the efficacy of coordination among the critical institutions. BOX 1 highlights the role of the ministries and agencies involved in the management and implementation of trade policy, domestic and external.

BOX 1

Key Components of trade policy, its formulation and implementation agencies

1. Tariff Policy – formulation and implementation by NBR; recommendations from BTTC
   -- NBR to impose tariffs for revenue; BTTC to recommend protective tariff

2. Export Policy – formulation and monitoring by the Ministry of Commerce
   -- MOC to recommend export subsidies; MOF to provide allocation

3. Import Policy Order – WTO-compliant binding Regulations; MOC formulates, Customs/NBR implements

4. Exchange rate policy – exclusively Bangladesh Bank; no consultations with MOC

5. Market access and trade agreements – MOC; MOF/ERD; MOFA; BIDA; consultations with the private sector (business chambers)

MOC: Ministry of Commerce; MOF: Ministry of Finance; NBR: National Board of Revenue; BTTC: Bangladesh Trade and Tariff Commission; BIDA: Bangladesh Investment Development Authority.

What immediately becomes clear is the crucial importance of inter-ministerial and inter-agency coordination for effective implementation of trade policy. Also, what transpires is the possibility of potential conflict between agencies that could undermine the effective implementation of trade policy or lead to outcomes that are contrary to the ultimate goals intended by policymakers.

Here is a strategic question that policymakers have failed to grapple with: is Bangladesh trade policy dynamic and futuristic enough to seize global opportunities in the 21st century? As noted earlier in elucidating trade policy governance, we see a lack of clear direction of trade policy, in the absence of which Bangladesh's trade policy has become radar less, *ad hoc,* and mostly reactive to emerging short-term challenges. That calls for an assessment of the current state of trade policy. First, it makes sense to review the framework of trade policymaking. Though the Ministry of Commerce is expected to be the ultimate arbiter of what constitutes trade policy there are other ministries and institutions that also have a significant role in formulating and managing trade policy. Critical among them are the National Board of Revenue (NBR) and Bangladesh Bank. The five major components of trade policy, viz. tariff policy, export policy, import policy order, exchange rate policy, and market access and trade agreements, are listed in BOX 1, with the relevant agencies stated alongside. Furthermore, the fastest growing segment of internation trade in the past 25 years is trade in intermediate goods or trade in value added (prompted by cross-border value chain integration via trade). Futuristic trade policy must take this rising phenomenon in its purview.

What becomes clear is the absolute necessity of close coordination among the agencies in the conceptualization, monitoring and implementation of all the components of trade policy. What becomes also clear is the possibility of tensions and conflicts between the agencies involved. It is important therefore to identify the ultimate goal of trade policy so that all participants work towards that goal in harmony with each other.

I will now identify two instances of serious conflict in the formulation and implementation of trade policy as is practiced currently. These are also areas in which reforms are absolutely essential.

(a) Tariff Policy determination: Import tariffs are lethal instruments of trade restrictions. Around the world, tariffs are being used as the pivotal armor for ensuring the efficacy of the "new industrial policy". Tariffs are now the key instruments that restrict or open trade flows in Bangladesh, as confirmed by WTO in its 2019 Review of Bangladesh Trade Policy. Though MOC articulates the direction of trade policy, it is NBR that is *ipso facto* responsible for formulating and implementing tariff policy as a result of which tensions and conflicts emerge when it comes to the issue of liberalizing imports or promoting exports through low tariffs, which often conflicts with NBR's objectives of mobilizing revenue. Though Bangladesh Trade and Tariff Commission (BTTC) is a statutory body under MOC entrusted with the task of reviewing and assessing the need for tariff protection to selected industries/sectors, the role of BTTC has been relegated to barely a recommending authority without much clout. The two objectives of tariffs – revenue and protection – are inherently conflicting. Higher tariffs accord higher protection but up to a point, beyond which revenue declines but protection increases. Both protection and revenue objectives are now handled in an ad hoc manner. Even when MOC is inclined to support rationalization of tariffs to promote business, industry and export diversification, NBR seems unwilling to acquiesce. It appears that NBR and BTTC/MOC are not on the same page regarding the revenue-protection objective of tariffs. This is all to the detriment of a business and investment-friendly trade policy. This is where reform is essential.

(b) Exchange rate policy: Export policy, formulated and monitored by the MOC is a non-binding set of policies meant to promote exports through various support measures like direct or indirect subsidies. Yet, exchange rate policy, a critical instrument of export competitiveness, and conducted by the Bangladesh Bank without much consultation with the MOC, is completely absent from the configuration of export policy. In consequence, the exchange rate often becomes misaligned with the objective of export promotion, as was observed during FY2011-2022. By various estimates, the Real Effective Exchange Rate (REER), a key indicator of export competitiveness, appreciated by some 40% by the close of FY2022. When the BOP crisis occurred following the Russo-Ukraine war, Bangladesh Bank had to summarily make a steep depreciation of the exchange rate by nearly 30% during FY2023-2024 causing a major disruption to macroeconomic stability. This situation – exclusion of exchange rate management from export policy – is untenable and warrants recalibration and reforms.

A few other trade policy or regulatory components that raise issues of proper management are discussed below.

Import Policy Order: The triennially formulated Import Policy Order by the MOC is a binding WTO-compliant regulatory scheme governing import flows. IPO is an essential prerequisite for ensuring standards of human and animal health, and other requirements within the rules-based international trade order. Having done away with import bans or restrictions for trade reasons, the IPO can only marginally be considered a major component of trade policy, unless some of the regulations/restrictions are disingenuously maneuvered to have protective effect. The formulation of IPO is the responsibility of MOC, though it involves cooperation and inputs from key ministries such as that of agriculture, livestock and fisheries, industries, textiles, foreign affairs and many others, including representatives of business chambers. Thus, the IPO essentially is a regulatory mechanism, not a trade policy instrument anymore, primarily to ensure that imports are subject to WTO-compliant rules. Managing the smooth implementation of IPO, i.e. ensuring IPO is trade facilitating rather than trade impeding, is the responsibility of Customs administration, a wing of the NBR. This is where the need for a modern digitalized Customs administration that is geared towards trade facilitation rather than revenue collection becomes even more critical.

Market access: Finally, MOC has the primary responsibility to campaign for improved and wider market access for Bangladesh exports through trading arrangements, reciprocal (PTA/FTA) or non-reciprocal. In addition, in coordination with BIDA and MOFA, it is imperative that Bangladesh become a significant recipient of FDI in the South Asia region and that is only possible with a more open trade regime. The current dualistic trade regime that accords free trade channel to RMG but creates a highly restrictive and protective regime for non-RMG exports is not at all conducive to attracting FDI. The latter is also a key driver of GVCs at a regional or inter-regional (e.g. BIMSTEC-ASEAN) level. But all of these trade mechanisms can produce results only under an open trade regime, not the kind of restrictive regime that Bangladesh's economy is encumbered with.

4. Conclusion

For an economy on the path to development, there are two broad trade policy configurations to consider. The first, a trade openness strategy, is outward-looking and export-oriented, with growth driven by integration into the world market. The second, a more restrictive approach, is inward-looking and focuses on import-substituting industrialization, relying on the domestic market for growth. Historical evidence and research indicate that the first option, centered on trade openness, has consistently yielded the best outcomes for developing countries in terms of growth, employment, and poverty reduction. Bangladesh took steps in the early 1990s to adopt this outward-looking approach; however, over the following decades, the country seems to have diverged from this path. Today, the trade policy mix in Bangladesh appears to be an inconsistent combination of both configurations, lacking a cohesive direction. This has led to notable export success in one sector-ready-made garments (RMG), while non-RMG exports have made limited progress, reflecting a tendency towards the inward-looking configuration.

The governance of trade policy should give clear guidance and direction as to which of the two trade policy configurations the country adapts on its development pathway. Accordingly, the management or implementation of trade policy orientation can then be entrusted to the ministries concerned with an effective mechanism for inter-ministerial or inter-agency coordination to attain the nation's development goals. Conflicts will arise but again there must be mechanisms to resolve them and produce the desired outcomes in terms of exports and growth performance, which are the quintessential pursuit of trade policy.

The economy has been crying for deep-rooted reforms in several areas, beyond the colossal malaise in the banking sector. Trade policy is one area that has been gripped with stasis for over two decades. A second round of trade policy reforms has become a national imperative. The Monsoon Revolution has opened the door for transformative changes in the way we manage our polity and economy. Trade policy arena is one area to miss such an opportunity for change could be too costly for the nation.

Reference

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