

## Political Economy of Trade Liberalisation in Bangladesh: *Impact of Trade Liberalisation on Bangladesh Agriculture*

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### Introduction

In the globalised world of today, trade liberalisation is often promoted for economic growth. But the link between economic growth and trade liberalisation has been the subject of a lot of controversies in recent time. While the growth argument for trade liberalisation has been challenged in a lot of ways, the proponents of liberalisation have their strong arguments as well. The evolution of thoughts on international trade from protectionisms to liberalisation has actually been a journey from Mercantilism to the so-called doctrine of free-trade.

From the 16<sup>th</sup> to 18<sup>th</sup> century, Mercantilism in Europe advocated for high level of protection for domestic industries arguing that countries should simultaneously encourage exports and discourage imports. In 1776, Adam Smith came up with the theory of 'absolute advantage', which was one of the foremost strides in favour of unrestricted free trade economy. Later, David Ricardo, an English economist, pioneered the theory of 'comparative advantage' which was an even stronger advocate of free trade. Further developments in the mainstream trade theories heavily depended on the theory of 'comparative advantage'.

However, trade in itself is not a panacea and is contingent on a host of issue before it can make a difference in development outcomes. Also, the terms trade liberalisation, development, globalisation and its instrumentality (policy choices) are deeply contested and encompass both economic and political dimensions. These terms are the anchors of a complex political economic process within which the interests of various actors may not necessarily converge. Herein lies the rationale for a political economy consideration of mainstreaming trade policy into the national development strategy.

This paper, by using political economy as an approach, tries to contribute to the process of advocating for mainstreaming international trade policy into the national development strategy of Bangladesh. Although trade liberalisation is expected to have significant impact on all sectors of the economy, the focus of this paper is limited to agriculture. And given the fact that agriculture itself is a vast sector and encompasses a lot of sub-sectors, two particular cases have been picked up for zooming in the impact of trade liberalisation on the ground. The sugarcane farming and poultry farming, which are considered to be

heavily impacted by the trade liberalisation policies adopted over time, are the two cases addressed in this paper.

The study has undertaken extensive literature review and qualitative investigations in two locations of the country. Two villages in Veramara *upazila* (sub-district) of Kustia district have been investigated for the case of sugarcane while two villages in Savar *upazila* of Dhaka district have been investigated for understanding the case of poultry.

### From Protection to Liberalisation: An Overview of Trade Liberalisation Policies since Independence

Immediately after the independence, Bangladesh was highly influenced by the political and economic philosophy of the socialist block of that time. The country immediately went for a huge drive to nationalise about 92 percent of its total fixed assets abandoned by the Pakistani Entrepreneurs (Rahman 1994). Since then Bangladesh economy has been extremely protected and inward looking until the end of the 1970s. During the early 1990s, the country adopted very quick reforms in financial sectors and was one of the fastest amongst the reforming countries of the world. In the second Five Year Plan (1980-85), the Government of Bangladesh took initiatives to reduce the export-import gap and to follow a policy of import substitution with efforts towards promoting export growth.

The Third Five Year Plan (1985-90), consequently, emphasised on adoption of policies aimed at stimulating export through the adoption of various promotional and development measures, i.e. providing concessional credit to exporters and improving direct incentive schemes like Export Performance Benefit (XPB) and the duty draw-back scheme etc. The Fourth Five Year Plan (1990-95) and Fifth Five Year Plan (1997-02) adopted more outward looking policies through a measure like Structural Adjustment Programme (SAP) and introduced a trade neutral policy environment for attaining the goal of export-led growth.

In the Fourth Five Year Plan, SAP covered the issues of accelerating export growth, competitive import substitution and restoring imports of non-essential goods. The Fifth Five Year Plan,

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however, initiated a number of import liberalisation measures, i.e. tariff rates reduction, rationalisation of the tariff structure, removal of Quantitative Restrictions (QRs), direct export promotion measures and a flexible exchange rate policy. Over the 1980s and 1990s, these policies of import liberalisation and export promotion were complemented by substantial reforms in exchange rate regime, industrial policy, monetary policy and fiscal policy.

Some claim that Bangladesh liberalised its economy with undue speed. However, the international community including the World Bank has had different observations and thus the pressure to liberalise more has always been there. Despite the mounting pressure, the assessment of the past liberalisation measures also should be considered. How common people were benefited from the process should be taken into consideration to make trade liberalisation more meaningful to the countrymen.

## Trade Liberalisation and Agriculture in Bangladesh

Historically, the agricultural sector has been highly protected both in developed and developing economies. However, since the 1980s with the re-emergence of the neo-classical orthodoxy as the 'new' development paradigm, many developing countries adopted market reform and trade liberalisation programmes. The aims of these programmes were to reduce government control on both agricultural input and output market, lowering tariffs and non-tariff barriers (NTBs) and allowing market forces to work in agriculture. These programmes often came as a part of SAP with the conditions attached by the international donor agencies, such as the World Bank and the IMF.

Like many other developing countries, Bangladesh maintained very tough restrictive measures in the agriculture sector compared to other sectors. It started liberalisation reform under the SAP programme in the early 1980s. Since then the country eased many restrictive measures previously imposed on agriculture. However, the result or outcome did not reflect much of reaping the due benefits. For example, the yield per hectare remained lower in Bangladesh than what was in other Asian countries with comparable environment even after the implementation of market reform and trade liberalisation nearly two decades ago.

In 2001, average paddy production per hectare was 6,062 kg in China, 4,515 kg in Indonesia, 3,129 kg in Malaysia, 2,856kg in the Philippines, 2,811 kg in India and 2,792kg in Bangladesh (FAO 2001). The logical question arises then whether market reforms and trade liberalisation indeed stimulated production environment and production efficiency in agriculture. Till now, approximately 77 percent of the population lives in rural areas, and about 63 percent of the labour force is employed in agriculture, forestry and fisheries. Besides, agriculture remains the single largest contributor to the GDP, i.e. 21.11 percent (BBS 2007).

## Impact of Trade Liberalisation on Agriculture: The Case of Sugarcane

Sugarcane was one of the major commercial crops in Bangladesh, which has been linked to the sugar industry in the country. As an import substitution industry, it enjoyed high level of protection in terms of trade for a substantial period since independence. However, things have changed in the recent past as a result of liberalisation of sugar industry, which resulted in heavy dependence of the country on imported sugar and the ruin of the industry as a whole. The obvious result has been the sharp decline in the acreage and production of sugarcane in Bangladesh. This has had a huge implication on the livelihoods of the millions of sugarcane growers in the country.

Sugar industry has been playing an important role in the economy of Bangladesh by way of farming and creation of employment. The industry is under the Bangladesh Sugar and Food Industries Corporation. By-products of sugar mills have many uses. Molasses and bagasse are inputs for other industries. Around 4,25,000 acres of land are under sugarcane and the annual production is about 7.5 million tonnes, of which only 2.28 million tonnes are used in sugar mills and the rest goes to molasses making. Bangladesh now produces about 1,50,000 tonnes of sugar, 1,00,000 tonnes of molasses and 8,00,000 tonnes of bagasse per year. The country, however, ranks the lowest in the world in per acre yield of sugarcane.

In the 1980s, the industry employed 15 percent of the labour force and had 30 percent of the fixed assets of the food industry as a whole. With 1.5 percent of world production, Bangladesh ranked 67<sup>th</sup> among the 130 sugar producing nations. In 2000, the country had 15 sugar mills at Panchagarh, Thakurgaon, Setabganj, Rangpur, Shyampur, Rajshahi, Mahimaganj, Jaipurhat, Darshana, Kushtia, Mobarakganj, Jamalpur, Kaliachapra, Narsingdi, and Pabna. The estimated total annual production capacity of these mills was about 2,15,000 tonnes but the mills did not work in full capacity and, therefore, the production remained far less than the country's total estimated annual demand of about 4,00,000 tonnes (Banglapedia 2006).

The Veramara *upazila* (sub-district) of Kustia, a district in the northwest of Bangladesh, has been traditionally known for its sugarcane cultivation (due to concentration of sugarcane industry since the British Period). The area has been going through tremendous changes in the recent past. Two contrasting villages have been selected from this *upazila* for field investigation.

The farmers of the South Bhabanipur village have been cultivating sugarcane since the Pakistani rule before (1947-1971). Sugarcane cultivation at that time was quite widespread and was highly profitable. Much of the harvest was consumed by the famous Darshana Sugar Factory, which was the only factory nearby at that time. Later, another sugar factory was established even nearer and this resulted in expansion of sugarcane cultivation.

Due to various facilities and incentives provided by the sugar factories, sugarcane cultivation was becoming more

and more profitable and it was replacing jute which was on the decline since independence. But the sugar factories soon were exposed to the realities arising from trade liberalisation resulting in a declining sugar industry. A sharp decline in sugarcane cultivation followed. The decline in land under sugarcane cultivation has been huge – from 55 percent in 1980 to 02 percent in 2007 according to people’s perception (see Table 1).

<b>Table 1: Distribution of Cultivable Land by Crops in South Bhabanipur</b>		
<b>Crop</b>	<b>Land under cultivation (%)</b>	
	<b>1980</b>	<b>2007</b>
Sugarcane	55	02
Paddy	45	90
Jute	10	30
Tobacco	10	70
Winter crops	30	15
Vegetables	10	05
Maize	00	10
Wheat	00	05

*Notes: (1) Aggregate of percentages exceeds 100 because of multiple cropping on the same land. (2) Percentages are estimated by people participating in group discussion.*

Apart from the impact of liberalisation on sugar industry, there have been other factors contributing to the decline in sugarcane cultivation. One of the major factors has been the emergence of more profitable tobacco and maize cultivation. The impact of reduced sugarcane cultivation has been rather positive on farmers, who shifted to the cultivation of tobacco and maize which are much more profitable. Tobacco cultivation which has grown phenomenally since 1980 has created a huge scope for women’s employment. The high profitability against low cost of maize cultivation has given the farmers an opportunity of more economic gains. However, there are debates over the long-term impact of these new crops, particularly tobacco.

While at the micro-level the farmers have been gaining by means of shifting from sugarcane cultivation which is becoming less and less profitable, at the macro-level this indicates the decay of one of the major commercial crops of the country.

Therefore, whether the ultimate impact is positive or negative requires much more in-depth investigation and analysis. While at Bhabanipur sugarcane cultivation is in delay apparently due to declining demand from loss-making sugarcane industry exposed to trade liberalisation, the case in Khemirdiar, another village in the same area, is somewhat different. Here, instead of decline, sugarcane cultivation is in fact increasing (see Table 2). Does it mean that there has been no similar impact of import liberalisation measure on sugar in this village?

The story of Khemirdia village has to be considered in a slightly different way. It has been evident from discussion

with the villagers that there has been huge capitalisation in agriculture and cultivation of almost all major crops increased remarkable by virtue of much increased crop intensity. From that point of view, the increase in sugarcane cultivation has been rather less compared to some other crops. Also, the farmers cultivating sugarcane are large ones and outsiders having good connection with sugar factories.

So whatever little demand the sugar factories have are met much by these large farmers investing heavily on sugarcane cultivation. This indicates another implication of the changes in sugarcane cultivation due to trade liberalisation. That is, whatever impact has resulted from the overall decline in sugarcane cultivation, its incidence has fallen mostly on small farmers, while the large farmers are still enjoying whatever little benefit there is in the sector.

### **Trade Liberalisation and Poultry Farming in Bangladesh**

Poultry sector is one of the sectors that has developed only during two decades and at present 5 million people are directly involved in this sector. This sector is providing comparably cheap protein for the huge population of Bangladesh and acting as a substitute for red meat and fish, which is also insufficient in production. Natural sources of fish are decreasing every year and due to shortage of cattle and goat the price of red meat is almost unreachable for the poor population. Poultry industry started to grow as a self-employment opportunity for the youth and spread out all over the country. In some places, poultry sector got industrial level investment but overall situation is that small and medium size poultry farms are the most common in this sector.

The field investigation in the two villages reveal that the impact of the recent changes in the policies and realities of the poultry sector have influenced the poultry farming just as in the whole country. Thus the stories of the two villages show how different trade policies and the resulting outcomes have been influencing a large number of poultry farmers in the country.

<b>Table 2: Distribution of Cultivable Land by Crops in Khemirdiar</b>		
<b>Crop</b>	<b>Land under cultivation (%)</b>	
	<b>1980</b>	<b>2007</b>
Sugarcane	15	25
Paddy	50	70
Jute	10	60
Tobacco	15	30
Vegetables	00	05
Maize	00	20
Wheat	10	20

*Notes: (1) Aggregate of percentages exceeds 100 because of multiple cropping on the same land. (2) Percentages are estimated by people participating in group discussion.*

Poultry sector started as a protected sector, which is still there to some extent. During the first half of the 1990s, the government liberalised the import of poultry materials by making them duty free and as a result the profit was very good (almost one Taka per egg). Under the liberalised import scenario the prices of feed and other materials were low. Although the next government continued similar policies of liberalised imports the benefit of protection was hampered due to one new policy. The government permitted the import of hatched egg from India as well and in disguise of hatched eggs some importers started to smuggle commercial eggs, which affected the whole business of the egg producing farms.

The egg producing poultry farmers were compelled to sell eggs at a loss as the chickens keep laying eggs and the storage of eggs was not possible. Moreover, farmers always needed a huge amount of running capital to buy feed and other inputs like medicine, disinfectants etc. Farmers, therefore, urged the government to stop this illegal import of egg but the government did not take any initiative to stop smuggling until 2003. In fact, the period from 2003 to 2006 was very much favourable for poultry farming and profit was the highest. All the duties and charges on imports of poultry materials came down to zero while the price of feed and other inputs remained stable.

In the fiscal year 2006-07, the government imposed custom duty on the import of poultry materials which has affected the poultry industry and farming in a severe way. The price of the feed was already high before the budget of the fiscal year and due to this newly imposed custom duty, feed and other poultry materials have gone to the limit when many poultry farms are going to be closed down. The price of the egg and meat did not change much compared to the price of feed and as this industry is almost totally dependant on imported input materials, any measure of imposing any custom duty influence the existing poultry farms and growth of this industry.

Apart from the trade policies, the uncertainties of prices of inputs and outputs of poultry farmers have also been

contributing significantly to the volatility that the poultry farmers are facing now. Thus in a liberalised scenario in which the sector depends heavily on the imported inputs, the poultry farmers are exposed to greater vulnerabilities and as a result the small farmers in particular are moving away from the sector.

## Conclusion

The impact of trade liberalisation on the agricultural sector in Bangladesh presents a mixed picture. A number of points emerged in the preceding sections that deserve attention, including.

- Impact of trade liberalisation on agriculture does not result only from agricultural trade liberalisation but also substantially from the liberalisation of manufacturing sector. The example of sugarcane cultivation is a clear case of declining protection on the sugar industry having heavy impact on the backward linkage agriculture. The results of such impact are multi-faceted at micro, meso and macro levels.
- The liberalisation of agricultural inputs (including fertiliser and seeds) has contributed in increasing the agricultural production of major crops, particularly paddy. However, it has also increased the vulnerability of the farmers who have been exposed to crises arising from unavailability of fertiliser, lack of dependability on seeds etc.
- Overall, liberalisation in many cases has exposed some of the previously protected sectors to substantial vulnerabilities. Therefore, the liberalisation policies have to be handled very carefully considering domestic priorities on which sector to protect and how.

Seeing the political economy of trade liberalization through the lens of agricultural trade liberalization is a complex process and involves a very broad canvas. This paper is a modest effort to putting only a step in that huge initiative. But for a fuller understanding into this broad and complex issue, studies on much wider scales will be required.

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