Trade Made Easy

(TDP Campaign Kit)*

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* This campaign kit was prepared by Unnayan Shamannay, Dhaka under its project 'Trade, Development and Poverty Reduction (TDP)' with the support from CUTS International in order to understand trade issues easily.

August 2006

International Trade:

Deadline is 8:00 am sharp. Thousands of women of different ages are walking along the streets in small groups of 4 or 5. The main target is to enter the doors of the garments factories by 8:00 am. This scene is now a part of the everyday life in Dhaka city. Almost everyone now knows that these women are employed in the readymade garments sector and most of what is produced is sold to the markets abroad. Likewise when a product of one country is sent to foreign markets for selling it is called Export.

Similarly we also bring goods produced abroad such as cars, machinery, television, mobile phones etc to sell in the local markets. This is known as Import. Export and Import together is termed as International Trade.

All countries of the world are involved in international trade because countries cannot produce all the necessary items locally. Also sometimes countries can produce more of a particular product than is demanded by the local market, which may not be produced by some other country. Production of a country depends on factors like geographic location, climate, technological capacity, natural resource base, population etc. Hence surplus production is exported to other countries and goods that are not available or produced is imported.

Countries also need other supporting facilities to function properly, such as ships to carry the goods and airplanes to carry passengers. Many students go abroad to different countries for higher studies. Furthermore, hotels, restaurants and entertainment facilities are needed for the people who travel abroad for tourism and business purposes. These involve the buying and selling of services rather than goods. Just like the production of goods, production of services also varies from country to country. Therefore international trade also includes trade in services. Due to advancement of communication and information technology, international trade is increasing at a tremendous rate.

Governments regulate international trade in order to protect the interest and economy of their respective countries. This is done in two ways: (i) through tariff or subsidies; (ii) through quota system. Through this regulatory system the government can ensure the development of locally produced goods and services in the local market.

Some Important Terms Related to International Trade:

Tariff: Tariff is the tax imposed on imported goods. The benefit of tariffs is two-fold. It increases the earnings of the government through imports and it also increases the price of the good in the local markets. In this way the local industries get some protection. Normally there is no tariff on exported goods, but sometimes tariff is imposed to discourage exports. For instance, China imposed tariff on the export of low-cost readymade garments in 2005.

Supplementary Duty: The additional duty that is imposed on a good in addition to usual tariff is known as Supplementary Duty. Since VAT is practiced at the production level in our country, every year budgets impose some supplementary tariff on imported product to save local industry. Least developed countries use other measures in addition to the abovementioned taxing such as, Development Surcharge, Sales tax etc.

Import Quota: Sometimes the amount of good to be imported is regulated by the government. Normally this is done to protect local products from foreign competition. For instance, in Bangladesh only the foreign hotels are allowed to import salt from abroad. In some cases due to religious and social conditions, quota is imposed on certain goods, such as the import of alcoholic beverages is strictly monitored and regulated.

Banned Items: Banned items are particular goods that some countries keep out of the international markets mainly due to socio-economic conditions of those countries. For instance, import of goods like poultry eggs, all types of animal meat, biri, silk and silk products, polythene bags etc are prohibited in Bangladesh. Similarly export of goods like wheat, jute seeds, onions, pulses, frog, unprocessed leather etc are also prohibited.

Import quota and list of banned items is usually known as **Non-Tariff Barriers**.

Balance of Trade: We all know that exporting goods abroad generates foreign revenue for the country. Similarly when foreign goods are imported, the revenue earned through export is used to pay for the imported goods. When the total export earnings are greater than the total cost of imports, it is known as positive balance of trade and it is beneficial for the country. Negative balance of trade occurs when the export earnings are less than the import costs.

Since independence Bangladesh has been facing negative balance of payment. So where do we get the extra foreign currency to pay for the higher amount of imports? The sources of these payments are from Foreign Aid, Loans from various International Agencies and foreign currency (remittance) sent by Bangladeshis living abroad.

Foreign Exchange: When goods are bought from a foreign company, the payment has to be made in the currency of that country. Similarly if someone imports goods from a Bangladeshi company, they have to pay in Taka. Bangladesh carries out trade with 60 countries and each has their own currency. This creates quite a lot of difficulties. There is need for a common currency to make trade easier. The US Dollar is such a currency and is used by all countries for trading purposes. Therefore if importers want to buy anything from Japan, they have to first convert Taka to Dollars and then make payments. The Japanese company then takes the dollars and changes it into Yen in Japan. So during imports, both foreign and local companies, buy and sell dollars in the markets. A market for buying and selling dollars and taka arises. So the exchange rate of dollar and Taka depends on the rules of transactions and demand in the market. When Bangladesh trades with Europe, the common currency used is Euro.

Export Subsidies: In order to encourage export, government takes various steps. The steps vary from sector to sector. For instance to encourage the use of locally made threads instead of cheap foreign threads, the government gives a 5% subsidy on export value to the users of the locally made threads. That means that for export of worth Tk 100 of clothes made using local thread, the government gives Tk 5 to the producer as incentive. In this way the extra cost incurred for using the locally made thread is recovered.

On the other hand, if producers can export Tk 100 worth of vegetables government gives an incentive of Tk 25 to the exporter. This creates two types of impacts. Firstly, existing exporters will invest more and secondly, it attracts more investors in the market.

Letter of Credit (LC): Normally many companies from various countries are involved in export and import in the same market. So to ensure that the seller from one country will get paid a fair price from the buyer in another country, one bank each from both the countries together gives assurance to the buying company. For example, a Bangladeshi company wants to import electronics from a Singaporean company. After the companies settle on a price, the importing company will contact a bank that has liaison/ agreement with a bank in Singapore. An LC will be opened at the bank in the name of the exporting (Singapore) company and will present a copy of the Letter of Credit to the company. This LC is then presented to a bank in Singapore and they will verify the legitimacy of the documents. After the documents are verifies, the exporting company will send the goods by ship. The LC ensures that if the importing company fails to pay the exporting company, then the bank will pay.

Back to Back LC: The manufacture of some goods needs raw materials from abroad. For instance the readymade garments industry need fabric, thread and wool that is imported from abroad. This needs a lot of money. So when the manufacturers get an order for a large amount of clothes, they face problems. To avoid this problem the government has adopted the policy of Back to Back LC.

According to this policy, against an existing LC, the importer can open an LC for raw materials (e.g. fabric, thread, wool etc). Therefore the factories do not need cash to import raw materials. The money for the raw materials are paid with the money earned after the finished goods are exported and the buyer pays the manufacturer.

Trade Policy and Trade Liberalization in Bangladesh:

Trade is regulated by each country depending on its development goals. Therefore measures like tariff, supplementary duty, quota etc are used to formulate guidelines to direct trade. These guidelines are known as Trade Policy.

During the liberation war of 1971, the industries of Bangladesh faced huge losses. Furthermore, as a newly emerging independent country, the foreign currency reserve was also considerably low. So considering the existing situation, the government took some protective measures—high supplementary duty on foreign goods, to limit imports through quota, banning the import of certain goods and subsidy in order to increase export. The first three policies were necessary in order to develop local industries and to give them a chance to grow. On the other hand, exports were encouraged to pay for the import of food for the growing population.

All successive government also followed these trade policies. Even though import had increased, comparatively the growth of export was slow. Therefore there was increasing negative balance of trade which started to put a strain on the economy of the country. So it was essential to change the trade policy.

During this time the World Bank and IMF offered to help. Under their advice, guidance and pressure, trade liberalization took place. Important trade liberalization measures were undertaken in three phases. During the first two phases 1982-86 (with financial assistance from the World Bank) and 1987-91 (through the IMF Structural Adjustment Facility - ESAF) non-tariff barriers on imports were emphasized to remove. During the third phase (1992 onwards, under the IMF sponsored Enhanced Structural Adjustment Facility - ESAF) tariffs on various goods started reducing.

Removal of quantitative restrictions (QRs) at the 4-digit HS Classification Level

Year	Total	Restricted for trade reasons			Restricted for non-trade reasons
		Banned	Restricted	Mixed	
1985-86	478	275	138	16	49
1986-87	550	252	151	86	61
1987-88	529	257	133	79	60
1988-89	433	165	89	101	78
1989-90	315	135	66	52	62
1990-91	239	93	47	39	60
1991-92	193	78	34	25	56
1992-93	93	13	12	14	54
1993-94	109	7	19	14	69
1994-95	114	5	6	12	92
1995-97	120	5	6	16	93
1997-2002	122	5	6	16	95
2003-2006	63	5	8	10	40

Source: Ministry of Commerce (2004) Figures for 2003-06 are derived from the Import Policy Orders 2003-06.

The liberalization programs resulted in significant changes to the trade policy regime. Both non-tariff restrictions and import tariffs have been cut. List of banned items, import quota and tariff rate began to decrease.

- The number of trade related HS-4 digit banned items has declined from 275 in 1985 to 5 in 2003.
- Trade related quantitative restrictions that in 1987 applied to 40% of all HS-4 digit import lines had drastically been reduced to less than 2 per cent in 2003.
- The highest tariff rate was brought down from 350% in 1992 to 25% in 2004-05.
- According to a study (Ministry of Commerce 2004), the un-weighted customs duty has fallen from 57.2% in 1991-1992 to only 16.5% in 2002-2003 with the import-weighted rate registering a decline from 24% to 24.4%.

This has caused a decrease in price of foreign goods in the local market. Many of the sectors namely steel and iron, jute, chemical etc started to close down. It also has to be remembered that due to the policy reform, the price of machineries and raw materials also decreased. Therefore the industries where we had comparative advantage started to flourish. New investments also took place in labor intensive sectors like garments, textile and footwear.

Due to the set-up and expansion of new industries, initially the rate of imports increased. At first, loans from the World Bank and IMF were used to pay for the cost of increased imports. A closer look at the situation reveals the government agreed to the increased import as a means of strengthening our export capacity. Simultaneously, changes were also made in the trade policies of these fast growing industries.

An important element of trade policy reform has been the support measures for exports such as, income tax rebate, duty free import of machinery and intermediate inputs, foreign currency banking, subsidized rates of interest on bank loans, 90% loan facilities against export orders, cash subsidies, supply of electricity, gas and water supply at subsidized rate. Apart from these promotional measures, there are provisions for exporters to take part in foreign trade fairs, set-up overseas trade offices, send business representatives in abroad, special status for exporters and awards for excellence. So far 18 sectors including the industries like textile, garments, medicine, petrochemicals, fertilizers, steel, agro-processing, agricultural machineries etc are getting these facilities from the government. Other export sectors also get some of these benefits. Thus with time, export is also increasing.

Bangladesh's Openness in Global Context: A Comparative Picture

Even though tariff rates have been decreasing since 1980 in Bangladesh, it has decreased mainly in the early 1990s. In the first half of the 1990s, Bangladesh embarked on a hasty liberalization process, recording one of the most rapid reductions in tariffs as measured by the ration of post-reform average tariffs to pre-reform rates among a set of world economies that had undertaken trade liberalization measures (World Bank 1999). Since the late 1990s, however, the pace of tariff liberalization has somewhat slowed down. As a result, there has not been much change in the average rate of tariff.

How does Bangladesh compare with other countries in terms of trade barriers? Is our Trade Policy protective or liberalized? Using the UNCTAD Trade Analyses and Information System (TRAINS) data at the 6-digit HS classification level, Raihan's (2005) estimation of Trade Barrier Index (TBI) ranks Bangladesh 8th most closed economy out of 119 world economies for which the information was available. This means that compared to international trade, Bangladesh's tariff rates are still quite high. Among the South Asian countries, only India has a TBI value higher (thus representing even more closed economy) than Bangladesh.

Status of South Asian Countries:

Country	Place	TBI Value*
India	1st	25.42
Bangladesh	8th	17.48
Maldives	9th	16.69
Pakistan	11th	16.56
Bhutan	31st	12.72
Sri Lanka	76th	7.88

* Higher index values (lower ranks) represent more closed economies
Source: TDP background paper (2005)

Current Export - Import Scenario in Bangladesh

In the fiscal year 2004-05, the total export (including that of the export processing zones) was 50.8 thousand crore taka, which was 25.3% more than the previous year and most of it was readymade garments (65.6%). The other important export items included shrimp (5.1%), jute and jute products (4.4%) and leather goods (3.2%). Even though the quota system was lifted in January 2005, export of readymade garments increased by almost 27% than the previous year. Except for tea (-1.05%) the export of all other goods were satisfactory.

In the last decade (1995-2005) average annual export has increased by 13.88%. On the other hand, average import has also increased by almost 11.07% annually. Even though the rising trend of export is hailed as a success, its major drawback is that the export depends only on a limited number of items. So if there is any problem in the international markets, our export will be threatened. To overcome this, government is providing various economic incentives to bring in new sectors for export.

Export – Import Scenario (in million dollars)

Fiscal Year	Export	Import	Proportion of export and import (%)
1983-84	811	2073	39.12
1987-88	1231	2961	41.57
1991-92	1994	3466	57.53
1995-96	3882	6827	56.86
1999-2000	5752	8403	68.45
2004-2005	8655	13147	65.83

Source: Export Promotion Bureau

In the same year (2004-05) total import of Tk 80.6 thousand crore took place which was 25.8% more than the previous year. Majority of the import costs were for food grains (12.2%). These include soybean and palm oil, pulses, sugar, rice, wheat, powdered milk, and various spices. Other large import items include fuel (12.3%) and raw materials for the readymade garments sector (20%). Last year machineries imports showed the most significant increase (8.5%). Compared to last year, import increased by nearly 60%. Increase in imports in this sector will help secure the future expansion of industrialization and export of the country.

In the present fiscal year (2005-06) Bangladesh export surpassed $10 billion mark. Total export earnings were $10.5 billion which is 21.6% more than the previous year by almost $1.9 billion. The garments industry deserves for most of the increase (woven garments 25.9% and knit garments 53.2%). Other noteworthy export sectors are: raw jute (2.8%), jute products (2.9%), frozen shrimp (2%) and leather and leather goods (1.9%). Besides, export of bicycle and camera parts is increasing.

Readymade Garment Export in a Quota Free Scenario:

Over the last couple of years there have been many discussions in the newspapers regarding Bangladesh's export of readymade garments in the post-quota regime. Various economic calculations and models have shown that with the elimination of quota system, Bangladesh's export would fall rapidly. But in reality it was seen that Bangladesh's export is increasing rapidly. In the first year of quota free regime, Bangladesh's export was 10.8% more than the previous year (in 2004 there was export of 6219.7 million dollars and in 2005 it has increased by 6883 million dollars). The 2005-06 statistics have shown that export has increased by almost 23.11% (in the fiscal years 2004-06 export was for 6417 million dollars while in 2005-06 it was 7900 million dollars).

What is Quota System? In this system, various countries cannot export more than a limited quantity of goods to developed countries like USA, Europe and Canada. So even though the products from China are of higher quality and cheaper, the quantity that these countries can import is restricted. As a result they had to import from Bangladesh as well. But from January 01, 2005, this system has been removed. Now import by these countries is not restricted anymore and if they want they can import all their goods from one country only.

The main reasons for worry regarding our readymade garment industry were:

1. We import most of the fabric from abroad and so not only transport cost is incurred but it takes more time as well. Hence the production and delivery of the finished product takes more time and its cost is also higher.
2. Most of the factories are not large enough to accommodate large orders for goods.
3. We have very bad reputations regarding working environments. Therefore well known foreign companies would not like to place orders in this country.
4. There is a lack of skilled labour and the quality of products is not good.

It is true that we have many weaknesses. For instance, the thread manufactured in Bangladesh is more expensive than foreign threads, frequent load-shedding, political unrest that close down factories for days, bribes at the ports, rent of ships which is higher than that of India and Sri Lanka, etc. The strength we have is in the low labor costs, which is probably the lowest in the world. Majority of the workers have become quite skilled over the years. Also managers, technicians and quality controllers have become skilled. They now know how to ensure delivery on time. Besides, years of business relationships between the buyers and the sellers has created an atmosphere of mutual trust. These benefits are necessary for any sector. So it can be said that unless any catastrophic events take place, Bangladesh will continue to keep up its momentum of export in the readymade garments sector.

Budget and International Trade:

Every year the budget revises the tariff and tariff rates of some goods. This also changes the import cost of some import items. This is how the budget influences the following year's international trade. For instance, tariff was imposed on 5 new items at a higher rate in the 2005-06 budget:

- Purified drinking water: 35%
- Laundry detergent: 20%
- Electric lights: 20%
- Processed foods and fruit juices: 25% to 35%
- All furniture: 25% to 35%

Tariff has been imposed on the above items in order to discourage its imports and to encourage local industries.

On the other hand, budget for 2006-07 is of mixed type. Tariff on all raw materials and half processed goods was reduced at a 1%. As a result, the readymade goods produced in the country will be competitive in price with foreign produced goods. In some cases the import of readymade goods will also decrease and the import of raw material will increase.

Moreover, readymade goods with a tariff of 35% were decreased to 20% and those that had a tariff of 25% were reduced to 20%. Therefore, the price of imported goods will decrease and the demand will increase, and total import will increase.

At the same time, extra tariff has been imposed to maintain continuity and to protect some sectors:

- Tariff on Mango juice has been increased from 13% to 25%
- Plastic follows two ways protection to increase production. For raw materials the tariff has been reduced from 13% to 5% while tariff on finished plastic products has been increased from 13% to 25%.
- Tariff on electronic components has been reduced from 13% to 5%.

It is hoped that these measures will help to develop the abovementioned sectors and imports will be reduced in the long-run.

Trade, Economic Development and Poverty Eradication:

Poverty is a major handicap for Bangladesh that has to be eradicated. High population density is considered as the main factor for poverty. On the other hand, economists believe that our strength lies in our population. We would achieve our main target if we would be able to convert the enormous population into immense manpower. Examples exist in Korea, Taiwan and Malaysia.

We have converted the population into manpower in some sectors. For instance, the readymade garments industry employs almost 20 lakh people. They were unskilled labor at the outset but now they have developed into highly skilled workers. Their contribution to our economy is now the highest. In order to eradicate poverty we have to generate employment opportunities. But how? The only way is to establish numerous industries and factories but the drawback is that we do not have enough buying power to consume the produced goods. So what to do with the surplus goods? The only answer is to export them. Hence, there is demand for conomic Development and Poverty Eradication through international trade. In reality, East Asian countries were developed themselves through following this rule.

Now it can be asked that over the last two decades we have reformed our trade policies in order to make it more export friendly. But has this measure assisted in economic development and poverty eradication? To find the answer to this question different economists have taken different paths.

The World Bank (1999) and Ahmed and Sattar (2004) has done a comparison of the growth of GDP in pre and post liberalization period. It was seen that the trend growth rate of GDP in the 1980s was 3.51% as against of 4.81% during 1990 - 2004. Based on statistics it was concluded that GDP has increased due to trade liberalization and therefore poverty has decreased slightly. But some other economists argue the increase in GDP should not be attributed to the increase in exports only. Other factors like increasing productivity could also be the reason. With a view to examine the effect of export/trade liberalization on GDP growth, Razzaque *et al.* (2003) and Raihan (2005) have employed regression methods. In his model, Razzaque has tried to find out the effect of trade liberalization on labor, land and investment and finally its contribution to GDP growth. While the estimated models turned out to be satisfactory, none of the indicators of trade liberalization, quite surprisingly, achieved statistical significance in any of the regressions. Hence, he realized that statistically it was not possible to link up all these indicators and find a common relationship between them.

Raihan, on the other hand, concentrated on the manufacturing sector using a panel of 27 industries over a long period of 22 years (1977-98). Extending the production function framework, he used five indicators of trade liberalization. Surprisingly, he did not find any positive relationship between these indicators. Rather, in a number of cases significant negative effects are obtained.

Studying the two main sectors of economy, agriculture and readymade garments, Bakht (2001) found that from 1990-2004 even though readymade garments industry developed tremendously, many other sectors were closed down. In fact, trade liberalization has resulted in deindustrialization.

Incidence of Poverty

Year	**Head Count Ration (Percent)**		
	Rural	**Urban**	**Total**
	BBS Household Expenditure Survey (cost of basic needs method)		
1991-92	61.2	44.9	58.8
1995-96	55.2	29.4	51.0
2000	53.0	36.6	49.8
	Poverty Monitoring Survey (food energy intake method)		
1997	46.8	43.4	46.0
1999	44.9	43.3	44.7
2004	43.3	39.2	42.1

*The poor in the BBS Household Expenditure Surveys are estimated using the Cost of Basic Needs (CBN) method and are taken as those living below the poverty line which corresponds to an intake of 2122 kcal per person per day and a non-food allowance. On the other hand, the poverty line on the Poverty Monitoring Survey uses the food energy intake (FEI) method and refers to calorie intake of 2122 kcal per person per day in rural areas and 2112 kcal per person per day in urban areas.

According to the Bangladesh Bureau of Statistics Survey, between 1991-92 and 1995-95, absolute poverty reportedly fell by 1.56 percentage points. On the other hand, between 1995-96 and 2000, poverty has decreased by 1.3 percentage points only (i.e. about 0.3 percentage points per annum). Though later GDP growth and trade was increasing at a higher rate, hence, debate was started regarding trade as a tool for development and poverty reduction.

Economists believe that development and poverty reduction is not possible with the existing international trade framework due to the fact that goods produced in a poor country like ours cannot compete with those of produced by the industrialized countries. And to keep the price of the product competitive the local producers are not increasing wage of the workers. As a result, purchasing power of the mass people is not increasing and the local industries are failing to generate new jobs. To overcome this situation the new idea being forged is that the least developed countries should be allowed more facilities and duty free quota free market access to developed countries in order to achieve development and poverty reduction.

Both the case studies show how we are being benefited through international trade. Then again in other sectors, trade is not really assisting in development of the country. But at present 'International Trade' is the way forward. International trade was regulated earlier by GATT and now is under the guidance of WTO. We, therefore, need to have some general knowledge of GATT and WTO to understand international trade.

Background of GATT:

National trade policies cannot protect individual countries when it comes to International Trade. We need to have proper trade policies to protect our interests. At the same time the trade policies of other countries with which we carry on trade, also need to be favorable for us.

We always want easy market access of the goods we have comparative advantage in the international market. We would also like to have barrier free markets for our main exportable items. The other trading countries also want the same facilities. So there has to be such a trade policy that will ensure a win-win situation for all trading parties.

A trade policy that looks into the interests of all the trading parties is only possible through multilateral discussions. Based on the need for a common trade policy, an agreement on multilateral trade and tariff was signed in Geneva in 1947 among 23 countries. This agreement is known as GATT (General Agreement on Tariffs and Trade). The main goal of the GATT was to increase trade among the signatory countries through the reduction of tariff.

It is also important to know something about the history of GATT. Mainly GATT was formed by the developed/ industrialized countries as a first step towards forming a Trade Organization (ITO) and for establishing guidelines for international trade. The members of GATT then decided to form a special wing named International Trade

Organization under the United Nations umbrella. This wing tried to give the GATT agreement as the status of an organization among the members. But the US Congress did not agree to this. Though such step was taken with the consent of the US government, nevertheless the congress did not pass a bill in this regard. The activities of ITO, therefore, were slowed down at the very out set of its journey.

Even though this incident weakened GATT, its work for the next 48 years showed its considerable success. Step by step, GATT reduced the tariff rates at the rounds (meetings). Tariff on finished goods was reduced to 5%, which was over an average of 40% in 1947. GATT was formed with 23 member countries only but by its last Round of meetings, the number of members was 123 countries. International trade increased by an average of 6% due to reduction of tariff. So ultimately in 1997 international trade had increased by 14 times than that of 1950.

The GATT members met at eight rounds. At these rounds various decisions were taken through wide range of discussions among the members with regard to removal of tariff and non-tariff barriers.

The GATT Trade Rounds

Trade Rounds	Year	Issues Covered	Number of Countries
Geneva	1947	Establishment of GATT and tariff	23
Annecy	1949	Tariffs	13
Torquay	1951	Tariffs	38
Geneva	1956	Tariffs	26
Dillon Round (Geneva)	1960-61	Tariffs	26
Kennedy Round (Geneva)	1964-67	Tariffs and anti-dumping measures	62
Tokyo Round (Geneva)	1973-79	Tariffs, non-tariff measures, "framework" agreements	102
Uruguay Round (Geneva)	1986-94	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc.	123

History of WTO:

Though GATT was successful in reducing tariff, at the Tokyo Round (1973-79) the removal of non-tariff barriers functionally failed. At the same time the hike in the price of oil in the early 1980s caused the slowed down of growth of almost all countries in the globe. As a result, many companies closed down and the unemployment rate shot up. With a view to overcome the situation some developed countries started to give subsidies to various sectors. Other countries also started to follow this path. So countries began to compete against themselves regarding who could give the highest subsidy and subsequently, this had a disastrous result on international trade.

On the other hand, the GATT framework was prepared keeping in mind the international trade regime of the 1940s. But by the 1990's international trade not only increased considerably, but the quality of trade had also changed. For example, inclusion of service sector in trade. This could be seen especially for America and England as their export of services far surpassed their export of goods. Hence it became essential to include services in the trade policy.

On the other hand, many countries began to take advantage of the weakness and loop holes in the GATT framework. For instance, even though India was part of GATT since its inception, its tariff rates were higher than any other country. Also agricultural products were not included into the GATT mandate. GATT also failed to bring under its mandate goods like readymade garments, textiles and threads, over which the developing countries have technical advantage. There was also lack of required institutional capability to mitigate conflict among the member countries. Therefore in the Uruguay Round a new organization called the World Trade Organization (WTO) was established in place of GATT.

Differences between GATT and WTO	
GATT	WTO
Provisional	Permanent
Contracting Parties	Members
No Organization	Legal Organization
Dealt with trade in goods	Covers goods and services and TRIPs as well
Dispute settlement system is not binding on the parties	Dispute settlement system is automatic and binding to all parties

What is WTO?

The World Trade Organisation (WTO) is a stable organization that directs international trade through set rules and regulations. This trade deals with goods as well as services. WTO has a strong legal base of rules and regulations like World Bank and IMF. All the members have passed the WTO agreement in their respective parliaments. The two main basis of WTO are:

1. The 1994 GATT document which is essentially a revised and modern version of the 1947 document.
2. All the agreements made at the Uruguay Round.

WTO has mainly three functions:

1. To manage and direct international trade under the present agreement. At the same time WTO helps to develop framework for new necessary agreements. In order to bring all its members under sinlge agreement, WTO

also provides member countries with technical and other assistance. The WTO General Council carries out all these activities.

2. To review the trade policies of all the member countries and to provide guidance for reform under the new agreement. The WTO trade policy review committee carries out this responsibility.
3. To solve trade related disputes among the members. WTO has a separate dispute settlement committee. The committee gives its decision based on the agreement.

Besides, WTO has two more functions—to keep liaison with the World Bank and the IMF; and to provide the developing and least developed countries with technical assistance and training opportunities. The General Council mainly carries out these activities.

WTO’s Working Process:

It is important to know about the two processes of the WTO: the process finalizing agreements and the dispute settlement process.

The process of carrying out agreements is regulated by the Ministerial Conferences of the members that take place every two years. This process is divided into 4 phases:

1. Procedural and Submission Phase: In this phase, countries as a group or individually, presents proposals which are included into the agenda of the WTO. After inclusion into the agenda, the General Council prepares a document against the proposal and presents it to the member contries.
2. Responses and Discussion Phase: In this phase, different countries explained WTO in writings about their status regarding the agreement and any views they might have. Many countries, however, raise questions about the technical difficulties of the proposal and request for more time to analyze the proposal. Some countries take time in the question of number of supporting countries of the proposal. Generally it is seen that developed countries make obstacles to the proposals raised by the developing and least developed countries using the later two processes discussed above.
3. Negotiation Phase: In this phase, it is seen that some countries agree to the proposal while other countries have disagreements with some of the conditions of the proposal and pressurized the country presenting the proposal to change some of their policies. On the other hand, some countries oppose the proposal completely. Therefore to reach a consensus, some changes are made to the proposal. This manages to satisfy the interest of most of the countries. But since the least developed countries depend on the developed countries for assistance, it is seen that the developing countries cannot withstand the pressure exerted by the developed world. It is noted that an agreement is finalized in the WTO through the unanimous consent of all the members.

4. General Council Phase: In this phase, the ministers of different countries agree on the time frame needed to complete and implement the agreement. There are different time frames for developed, developing and least developed countries. At the same time, final frameworks are prepared to implement the decisions which were taken through negotiations.

At every stage of the agreement finalization process the main activity carried out by WTO is to prepare documents that are consistent with the present framework and present the documents to the member countries in due time.

The Dispute Settlement process is done in two steps:

1. Through mutual discussions: When a country takes its complaint to the WTO, WTO then sends its initial feedback to the two disputing countries and gives them 60 days to resolve the problem through discussions.

2. Formation of Panel: If the countries cannot resolve their dispute, the country with the complaint informs the WTO and requests for the formation of the panel. The panel receives written description of the dispute from both the parties, looks at both for and against arguments and finally gets expert opinions on the subject. In most of the cases, opinions are taken from more than one expert. Both the parties are informed about the experts' opinions and they are asked to provide their remarks. Based on the remarks of both the parties, the panel makes a decision and informs both the parties.

   Within 60 days of giving the verdict if both parties can come to an agreement, the verdict becomes null. If not, the verdict will be considered as WTO ruling and there is provisions for appeal. The main problem of this process is its lengthy time frame.

Current Agenda of WTO:

Ongoing multilateral trade negotiations that started in Doha, Qatar, in 2001 is called the Doha Round. The initial deadline for finalization of the agreements of this round was January 01, 2005. But due to disagreement between the developed and developing countries regarding agricultural subsidy, the closure of the round has not taken place yet. It was decided that a new deadline would be set at the Hong Kong Ministerial Meeting. But unfortunately even that failed. The deadline for this decision has been changed quite a few times already. According to the latest news, on July 27th 2006 the WTO has announced that the agreement on agricultural subsidy has been in vain and so no new agreement will be put on the table.

This round has a total of 19 agenda:

Relevant and important issues for implementation of agreement; agriculture; service; non-agricultural market access (NAMA); intellectual property rights; trade and investment; competition policy; transparency in government procurement; trade facilitation; anti-dumping and subsidies; regional trade agreements; simplification of dispute settlement process; trade and environment; e-commerce; small economies;

trade, loan and revenue; exchange of trade and technology; technical assistance; least developed countries.

Hong Kong Ministerial Meeting 2005:

It was clear even before the Hong Kong meeting that the developed and developing countries would continue their stalemate on agricultural and non-agricultural market access issues. But during this meeting some rules were presented regarding market access of agricultural and non-agricultural products that may make the discussion easier. It was decided that by April 30th 2006 the parties must reach an agreement. But in reality there does not seem to be any possibility for reconciliation. The main decisions of this meeting included issues that are beneficial to the development of least developed countries like Bangladesh:

1. Least developed countries may liberalize their service sector if they want to and are not bound to other member countries
2. Least developed countries may demand same facilities for services from the developed countries like duty free market access for goods.
3. After detailed discussion on Mode 4 of trade in services, it was decided that the least developed countries would get priority in exporting unskilled labor to the developed countries. But the rules and regulations regarding trade in this sector has not been completed by the WTO General Council.
4. Least developed countries will get duty free market access for 97% of products to the developed countries.
5. In case of least developed countries the "Rules of Origin" (minimum percentage to be processed) have to be decided through discussions.
6. All least developed countries have been exempted from trade and investment agreement for a period of 7 years.
7. In order to develop export potential, least developed countries can adopt any trade policies over the next 5 years; and
8. Least developed countries will receive loan as 'Aid for Trade' from the World Bank and IMF so that they could spend for developing their export capabilities.

General Agreement on Trade in Services (GATS)

Ever since the inception of the WTO, the importance of trade in services was recognized and thus an agreement was done among the member countries. At present, 20% of the international trade is traded in services and this is increasing tremendously. Mainly this agreement was done under the encouragement of the developed countries. At the out set some of the developing countries thought that the agreement would go against their interest and so was against it. But due to some considerations given to the developing countries, the agreement was finally accepted. For instance:

- The member countries only need to open up some of their sub-sectors. The other sectors can remain under control of the government.
- To protect national interest in the service sectors, any trade policy can be implemented.

Under this agreement the service sector has been divided into 11 segments: Business service; communication; construction; marketing; education; environment related services; banking; health; water and tourism related service; entertainment and sports; and others.

Service delivery has been divided into 4 modes:

Mode1 – 'Cross border supply': Services supplied from one country to another (e.g. international telephone calls).

Mode 2 – 'consumption abroad': Consumers or firms making use of a service in another country (e.g. tourism).

Mode 3 – 'commercial presence': A foreign company setting up subsidiaries or branches to provide services in another country (e.g. foreign banks setting up operations in a country).

Mode 4 – 'movement of natural persons': Individuals traveling from their own country to supply services in another country (e.g. fashion models or consultants).

For least developed countries like Bangladesh, Mode 4 is the most useful and attractive. So least developed countries proposed open markets for Mode 4 of trade in services at the Hong Kong Ministerial meeting. The developed countries are willing to take people for only a limited number of sectors. Proper legal framework for this has not been formulated yet. Hopefully within next 2-3 years we would be able to avail advantage of the Mode 4 provision.

Some Important definitions related to WTO:

Most Favored Nation (MFN)

Favor one, favor all. MFN means treating one's trading partners equally on the principal of non-discrimination. Under GATS, if a country allows foreign competition in a sector, equal opportunities in that sector should be given to service providers from all other WTO members.

Non-Agricultural Market Access (NAMA)

The objective of this proposition is to bring non-agricultural goods under the boundaries of the WTO. The developed countries brought up this proposal to mainly keep agriculture out of the WTO, because the agriculture sector receives enormous subsidy from the developed governments and this practice is banned by the WTO. If this subsidy is removed the developing countries can export huge quantities of agricultural products to the developed countries. That is why the developing countries are against NAMA.

Trade Related Intellectual Property Rights (TRIPS)

According to this proposition, if a country produces a good that was invented in another country, the producing country must pay the inventing country a certain amount of money to produce that particular good. This payment is known as Royalty. For instance, if we want to produce any medicine locally which was invented by a developed country, according to the agreement we have to pay the company royalty. Otherwise we just cannot start producing the same medicine whenever we want to. TRIPS covers copyright, trademarks, geographical indications, industrial design, patents, layout designs of integrated circuits, undisclosed information including trade secrets. This agreement is against the interests of the developing countries because among all patented goods, about 90% belongs to the developed countries. But for the least developed countries, this rule will come into effect from 2016 onwards.

Anti-dumping and Countervailing Tariff

According to this rule, if an importing country can prove that an exporting country is exporting its goods at a price lower than the production cost, the importing country can impose excess tariff on that particular good. In the same way, if the exporting country gives subsidies to any of its sectors, the importing countries can place extra tariff on the goods produced by that particular sector of that particular exporting country.

But in reality it can be seen that some of the developed countries are misusing this rule in order to protect their companies. In that case, the country affected negatively can make a complaint to the WTO. The WTO dispute settlement board will first listen to both the parties and then give a ruling. At present a majority of the ruling is going against the developed countries.

Generalized System of Preference (GSP)

The Generalized System of Preference (GSP) is an advantage given to the least developed countries. Under this facility, if the exported goods are processed to a certain extent, they can be exported to the developed countries as duty free or at a lower tariff rate. For instance, if we want to get this facility from the EU, we have to prove that the price of the raw materials is about 60% less than the price of the finished product. This means that remaining 40% value is added while processing the raw materials to get the finished good.

Rules of Origin (RoR)

A rule of Origin (RoR) basically states the level of processing needed by a country to get recognition as the producer of that good in the international market. It indicates set of rules that determine the country in which a product is deemed to have originated. Suppose we import white t-shirts from China, paint them, package them and then export it. If we import per T-shirt with Tk 90 and export it at Tk 100, it means that we are adding only Tk 10 to the cost of the shirt. In percentage, the value addition is only 10%. So according to the RoR, the T-shirt will not be recognized as a product of Bangladesh. If a value addition of 25% can be made to a good by the exporting country, only then can the exporting country claim the good as their product.

Two important institutions in International Trade

United Nations Conference on Trade and Development (UNCTAD)

UNCTAD is the permanent trade wing of the United Nations. It was established in 1964 by the mutual consent of the member countries. Its main objective is to bring about development through trade and to encourage the member countries to carry out Fair Trade. UNCTAD has its head quarters in Geneva.

UNCTAD has six different committees:

- Finished and Agricultural goods
- Private sector companies
- Goods transportation
- Service sector (banking and tourism)
- Technology transfer
- Trade-related financial assistance

Every year UNCTAD tries to identify how trade has brought about changes in poverty in different countries. It also carries out research on how the protectionism policies of the developed countries are hampering and affecting the poor in the developing world. UNCTAD also assists the developing countries to increase their trade capabilities and promote trade among them.

Export Promotion Bureau (EPB)

The Export Promotion Bureau (EPB) of Bangladesh is an organization under the Ministry of Commerce. This organization works towards the increase in export of Bangladesh and carries out other development activities. The responsibilities carried out by the EPB are:

- Provides assistance in production in order to develop a few particular sectors and encourage export of certain goods.
- Drafting and implementation of policies to increase export.
- To observe and consider our capability of exports and to keep an eye on trend of exports.
- To improve the quality of goods and to encourage exporters to increase export of goods.
- To take the initiative to create new markets for export.
- To collect trade related information and distribute this information among the trade related stakeholders.

- To arrange the participation of Bangladeshi exporters in International Trade Fairs
- To provide training to increase skill; and
- To assist the Ministry of Commerce to regulate the export policies

Every year EBP sets export goals. To achieve that goal the quantity of goods to be exported to various countries are set and the Bangladesh Embassies in those countries are notified. The Embassies themselves work in their own way towards achieving those goals.

Two Important Issues related to Regional Trade:

Free Trade Area:

Through mutual agreement if some countries decided to allow free access of goods produced in their respective countries among themselves, then a Free Trade Area is created. Free trade in this instance does not imply duty free trade, but means that tariff rate among them have to be equal and during trade with countries outside the Free Trade Area, they can follow their own trade policies.

Generally it is seen that Free Trade Areas are emerged within regions. The main reason for this is that in the same region the countries are close in economic situation and strength, and also they have some comparative advantage over each other. So the counties get some economic benefits.

South Asian Free Trade Area (SAFTA):

The seven countries of South Asia—Bangladesh, India, Pakistan, Sri Lanka, Nepal, Maldives and Bhutan, after many years of discussion, created a free trade area known as the South Asian Free Trade Area (SAFTA). In 1993 SAFTA succeeded the South Asian Preferential Trade Agreement (SAPTA). SAFTA is supposed to come into force from July 01, 2006. Economists believe that the efficient implementation of SAFTA will increase trade between these seven countries considerably and all the members will be benefited equally.

The funny thing is that under this agreement, all goods can't be exported to all countries. Keeping their own interests in mind the countries have prepared a list of sensitive items and these items cannot be exported to the member countries. It was noted that the list is different for different countries. For instance, Bangladesh cannot export medicine to India but can export it to other countries. At the same time, even though India cannot export salt to Bangladesh, it has no such restrictions to other countries in the agreement. Though Pakistan has signed the agreement, it still does not want to carry out free trade with India. So there still exists uncertainty regarding the implementation of SAFTA.

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