

## **Rhetoric v. Reality in Bangladesh's Trade Policy**

### *Abstract*

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Bangladesh is living proof that trade liberalization works.

Starting in the early 1990s, Bangladesh lowered import tariffs, removed quantitative restrictions, and reformed its industrial sector. There followed an export boom fueled by garment exports, an acceleration of economic growth, and a reduction in poverty.

The tremendous success of RMG sector is not just because of MFA, but because that sector was given the facility of a free trade regime (through duty-free imports of inputs) in an otherwise highly restrictive import regime. RMG and remittances were also supported by moving away from a fixed to a flexible -- and recently -- to a floating exchange rate regime. Bangladesh's export diversification is not happening because other exports and potential exports do not have the "free trade enclave" that RMG has. It is well known that the duty drawback system is dysfunctional. The existing tariff-ridden import regime is not conducive to new export development.

To accelerate and maintain its economic growth, Bangladesh will have to improve its export competitiveness relative to other developing countries—and lowering trade restrictions is essential to that objective.

Yet today the public discussion in Bangladesh is almost uniformly opposed to further trade liberalization. We hear every possible argument against greater trade openness, and hardly any in favor of reforms that have contributed to the economy's success. The tax authority is concerned about loss of revenue from tariff reduction. Domestic industrial lobby would like to keep import competition at bay. Among economists, the most vocal critiques tend to be left-leaning or socialistic. Consumers – the largest stakeholders – who ultimately bear the burden of the "protection tax" are the ones least heard of. Because of internal resistance, despite the reforms of the past, Bangladesh today has the most restrictive trade regime in South Asia and one of the highest average tariff rates in the world.

Thus there is a significant gulf between rhetoric and reality; and that is a paradox. In this paper, we attempt to resolve this paradox by first describing the evolution of trade policy and its results in Bangladesh. Next, we summarize the main arguments made against further trade reform, and compare them with economic logic and empirical facts. Finally, we offer a possible solution to the puzzle. We show that the trade and industrial reforms of the 1990s were largely driven by external policy advice. Although they have been successful, these reforms were not initially "owned" by the broader civil society in Bangladesh. Consequently, despite its potential to accelerate growth and reduce poverty in Bangladesh, the idea of further trade reform is resisted because of its association with external actors. The paper concludes by hoping that the resolution of the paradox will lead to a more evidence-based debate in Bangladesh about the future of trade policy.