
Articulating and Mainstreaming Agricultural Trade Policy and Support Measures

An FAO study based on analyses for Bangladesh, Ghana, Nepal, Sri Lanka and Tanzania

Policy Brief 4 – Highlights of the country case study – Bangladesh. May 2011

Introduction

This brief presents key highlights of the Bangladesh case study under the FAO Project *Articulating and Mainstreaming Agricultural Trade Policy and Support Measures*. The objectives of the Project were to contribute to improving the process of: i) articulating trade policies consistent with overall development objectives; ii) articulating appropriate trade support measures; and iii) mainstreaming these policies and support measures into development frameworks such as the Poverty Reduction Strategy Paper (PRSP).

Mainstreaming of trade policies is defined as a process whereby trade policies are drawn from, and are consistent with, development strategies articulated in the apex policy framework such as the PRSP. In a mainstreamed process, policies, programmes and support measures are mutually consistent across key policy frameworks, create synergies and avoid inconsistencies. This is the sense in which mainstreaming has been analysed in the country case studies. The main policy frameworks reviewed for Bangladesh were: interim PRSP and 2004 PRSP; import and export policy orders; national food policy; and agricultural support.

Key highlights

Increasingly open and outward-oriented economy with selective protection of importables - Bangladesh economy has opened to trade rather dramatically since the early 1990s, with the trade openness index (exports plus imports divided by GDP) increasing slowly from 14% in 1981 to 17% in 1991 but reaching 43% by 2007. This is consistent with Bangladesh's pursuit of an outward-oriented growth strategy and efforts to reduce the anti-export bias. By 2004/05, the average agricultural tariff (unweighted) was only

20%, a fall from 77% in 1991/92. However, the overall level of protection is higher than 20% because of the use of a number of para tariffs (license fees, regulatory duties, infrastructure development surcharge, supplementary duties, protective VAT etc.), estimated to be equivalent to about 13% of tariff protection and applicable to about 21% of the tariff lines (agricultural and non agricultural). As in many other countries, protection is selective, with relatively high tariffs on some basic foods and fishery products (e.g. processed seafood, milk powder, sugar). There is also a significant degree of tariff escalation; indeed tariff escalation is seen as an industrial policy objective.

Trade policy discourses in general and trade policies and the PRSP in particular are exclusively focussed on exports – The interim PRSP acknowledged that it lacked attention to trade policy issues. The full PRSP addresses trade issues, but the focus is exclusively on exports. While the executive summary noted the importance of the growing domestic market and stressed the synergy between the export and domestic markets for a pro-poor growth strategy, the discussion of the trade components in the PRSP document itself is squarely on exports. Where import issues are discussed, these are mostly in the context of facilitating raw materials imports for the export sectors, and not for domestic food and agro-industry development. As for the two trade policy documents, while the focus of the export policy order is obviously on exports, the import policy order is also limited to issues around the import of raw materials.

The concerns of food and agro-industry sub-sectors tend to be addressed in the national food and agricultural policy papers. However, the PRSP and trade policy strategies can be improved considerably by articulating trade policies in a

more balanced manner. For this, one needs to begin with the national agricultural and national food policies which provide a more solid basis for pro-poor agricultural growth. For example, trade policy for export agriculture should be derived on the basis of the programmes articulated in the agricultural policy. Likewise, some of the components of the national food policy make reference to agricultural trade, but they remain weak because they are not elaborated in the trade policy papers.

Inter-ministerial and stakeholder consultations need strengthening – Although documentation on the quality of these consultations are not available in the public domain, one of the findings of the case studies is that these consultations were lacking in several respects. For example, food and agricultural issues, despite their significance, were not considered to be “trade” issues and so not taken seriously in the PRSP/trade consultations. There is also a question mark on the effective participation of the Ministry of Agriculture as a stakeholder, as well as of the farm and civil society organizations who traditionally champion the cause of agriculture and the rural poor. Effective stakeholder meetings are essential for recognizing that the food and agro-industry sub-sectors, despite being primarily importables, need trade policy support.

Rice policy in the aftermath of the 2007-08 global rice crisis – The rice situation in Bangladesh in terms of supplies and prices have been considered satisfactory since the early 1990s when private trade became active as well as effective in supplying the shortfalls (availability of relatively cheap rice from India was also a big plus). The 2007-08 experience changed this perception, with the new Government calling for self-sufficiency by

2012, and support to rice production increasing. Rice self-sufficiency is an issue that has been debated for decades, and indeed many studies have shown that self sufficiency is economical at import parity prices. But there is also a strong view that a more sensible strategy would be to aim for less than full self-sufficiency. Rice policy is an important trade issue and deserves to be debated periodically as situations and outlook change.

There is a need for a complete document on trade-related support measures (TRSMs) - Despite being an LDC, Bangladesh did not undertake a diagnostic trade integration study (DTIS) under the WTO IF/EIF process, nor was there another similar and complete document on TRSMs. This limited the analysis on TRSMs, especially the linking of TRSMs to policy priorities.

Rationalization of export incentives – Bangladesh provides a range of incentives to exports (tax breaks, duty reductions, cash incentives etc). Some background studies commissioned under the project examined these schemes and issues. Incentives provision is a divisive issue in terms of the effectiveness, fairness and sustainability. The overall conclusion is that there is a need for rationalizing these outlays, which in turn requires a better understanding of what has worked so far. Why these incentives should be limited to exports and not to import-competing sub-sector needs also to be answered. A review of the overall TRSMs also needs to look into the growing trends in subsidies (fertilizers etc) relative to investment in agriculture.