BIISS JOURNAL, VOL. 16, NO. 3, 1995

Sadrel Reza

BANGLADESH AS "THE EMERGING TIGER" AND PROSPECTS FOR STRENGTHENING BANGLADESH-TAIWAN ECONOMIC RELATIONS[1]

The Bangladesh economy has made some remarkable progress in the recent past, particularly on the macroeconomic front. This has generated renewed hopes about the economy's potentials and its future growth prospects. So high has been the optimism in certain quarters that the recently held Bangladesh Investment Conference jointly organized by the Bangladesh Board of Investment (BOI) and Euromoney publications of the United Kingdom even labelled the economy as "the emerging tiger". Without entering into any controversy as to whether or how soon an East Asian type of economic "miracle" will happen in this country, one can safely assert that there has been a sea-change in the Bangladesh economic scene in the course of two decades - between early 1970s and early 1990s. As compared to the "bottomless basket case image" due to devastations wrought by the occupation forces in 1971 and the near suicidal flirtations with degenerative mould of socialism in the initial years of the post-liberation period leading to famine, not to speak of natural calamities at regular intervals, the country now enjoys a level of macroeconomic stability which is unprecedented and compares favourably with many of its better-off neighbours. The current setting, inspite of its many shortcomings, is certainly more propitious than ever before for the economy to take off into self-sustained growth.

1. The paper speaks of economic links with Taiwan without any prejudice to Bangladesh's policy towards China.—Ed.

Sadrel Reza, Ph.D., is Director General, Bangladesh Institute of Development Studies (BIDS). The views expressed here are those of the author's own.

An attempt is made in this paper to briefly analyse the past performance of the economy and determine its future growth prospects. In addition, the existing economic links between Bangladesh and Taiwan will also be explored particularly with a view to identifying the potential lines along which such relationships could be further strengthened. Section 2 examines the nature and extent of major policy reforms which have so far been carried out in Bangladesh. It also provides an overview of the current macroeconomic indicators as contrasted with the past.

GDP composition and sectoral growth rates are reviewed in Section 3. Bangladesh's economic links with Taiwan are probed next in Section 4 in the broader framework of the country's external economic sector. Section 5 highlights the investment incentives in Bangladesh and investment prospects for Taiwanese firms. Finally, some concluding observations are made in Section 6.

2. ECONOMIC POLICY REFORMS

Bangladesh has undertaken some major initiatives towards policy reforms since about the mid-eighties, particularly with the initiation of a 3-year borrowing programme from the IMF under the Structural Adjustment Facility (SAF) in 1986-87 which covered virtually all sectors of the economy.[2] These policy reforms continued at an accelerated pace after the IMF Enhanced Structural Adjustment Facility (ESAF) came into effect in August 1990. Since then, there have been intensified efforts to implement the reform package.

2. In the past, Bangladesh followed a highly protective and restrictive trade regime and the investment scene was dominated in the industrial and financial sectors by state-owned-enterprises, particularly as a legacy of the Nationalization policy of 1972. A major policy shift in favour of the market came with the declaration of the new Industrial Policy in 1982, which was revised in 1986 to sustain the changes. The latest industrial Policy in 1991, revised in 1992, also maintains the same trend. Note that the World Bank has provided Structural Adjustment Loans (SAL) to Bangladesh since 1980.

Three key elements may easily be identified in the reform programme. They are: (i) assigning a leading role to the private sector, (ii) encouraging free operation of the market forces, and (iii) an open and outward-oriented policy within a liberalized trade framework. In essence, this means adoption of policies for privatization, marketization and globalization of the economy. It is expected that such policies will be conducive to the exploitation of the country's comparative advantage and achieving enhanced allocative and productive efficiency of resources.

The reforms include: demand management, structural policies, and also institutional measures.[3] Specifically, some major components of reforms in the domestic sphere are: (i) reform of enterprises to encourage private sector growth, (ii) price liberalization for facilitating transition to a market economy, (iii) financial sector reform to ensure efficient allocation of savings, and (iv) reform of labour market regulations and labour institutions for better functioning of labour market.

In the realm of the external sector, the major policy reforms include: (i) trade liberalization, including elimination of sectoral differences in effective protection, elimination of quantitative restrictions or replacing them with tariffs, and reduction in export incentives, etc., and (ii) reforms of foreign exchange regime, including unification of exchange rates, devaluation, and abolition of exchange control in order to reduce imbalance in the value of domestic currency. Besides, policy reforms for trade expansion also involve rationalizing tariff schedule, tariff rebates, and tariff and customs administration as well as shipping reforms.

The reform programme also encompasses economic, social and physical institutions and structures. Denationalization and privatization

3. For details see, Sadrel Reza, "Economic Reforms in Bangladesh: Prospect and Future", paper presented at a seminar on *Private Sector Growth: Creating a Conducive Environment,* by the Dhaka Chamber of Commerce and Industry, Dhaka, 27-28 August, 1994.

are major elements related to economic institutions. Policies to encourage development of nutrition, health, education service etc. pertain to social infrastructure, while physical infrastructural policies relate to development of roads, bridges, dams, irrigation bank, electricity grids, etc. which directly affect household incomes and welfare.

The economic policy reforms in Bangladesh, carried out particularly over the past four years, appear quite impressive and wide-ranging. They have provided, *inter alia*, for a liberalized investment climate, some outward-orientation, financial sector and exchange rate reforms and prioritized government expenditures for social and infrastructural development. Table 1 highlights some of the salient features of the policy reforms.

Table 1: Economic Policy Reform in Bangladesh

Sectors	Pre-reform (1989/90)	Current (1993/94)
1. Financial		
a) Bank credit growth (%)	19.80	1.10
b) Bank rate (%)	9.75	6.50-5.50
c) Maximum interest rate on deposits (%)	14.25	9.25
d) Maximum interest rate on advances (%)	20.00	15.00
e) Credit ceilings	in force	abolished
2. Fiscal		
a) Corporate tax rate (%)	51	40
b) Tax compositions:		
Customs	37.40	33.70
Sales	11.00	-
Excise	28.00	3.90
VAT	-	41.90
Others	23.00	20.50
c) Tax holidays	Available for 5-12 years	Due for replacement
3. Trade		
a) Average tariff rate (%)	94.00	50.00
b) Dispersion of tariff (standard deviation)	59.00	32.00
c) Tariff range (%) (high/low)	508.2/2.5	100/7.5
d) Quantitative restrictions	39.50	10.00
e) "Passbook" for import entitlement	Yes	No

Table 1. Contd.

Sectors	Pre-reform (1989/90)	Current (1993/94)
4. Investment		
a) Registration of firms	Compulsory	Voluntary
b) Reserve sector for government	9	6
c) Government ownership of industrial assets	90	40
d) Government's role	Regulatory	Facilitator
e) Permissible equity participation (%)	49	100
f) Stock Exchange listing of large companies	Compulsory	Voluntary
g) Foreign participation in Stock Exchange	Restricted	Freed
5. Foreign Exchange		
a) Exchange rate (T/$) (Official)	32.93	39.53
b) Secondary Exchange Market	33.60	-
c) Convertibility	Not convertible	Convertible on current account
d) Rules	Complex and Stringent	Liberalized
6. Labour Market	Highly interventionist and politicized	Reforms under way
7. Administrative & Legal	Complex & inefficient	Reform committees set up
8. Social Sector expenditures (education, health, social welfare etc) (% of ADP)	8.60	16.00

Notes: i) % tariff lines covered by licensing requirements or quantitative restraints.

ii) Power, telecommunication and domestic air transport have been opened up for private sector investment.

iii) Pre-reform refers to immediate post-independence period and current refers to late 1980s.

Source : MCCI, *Chamber News*, October 1994; J.M. Dean, *et al* "Trade Policy Reform in Developing Countries Since 1985: A Review of the Evidence", *World Bank Discussion Papers*, 267, Washington D.C. and Sadrel Reza and Rukshana Matin, "Bangladesh Economy: Poised to Take-off?", *BIDS Working Paper*, forthcoming.

As a result of the above reforms, some remarkable improvement has been achieved in various economic fronts between 1990 and 1994. These are depicted in Table 2.

Table 2: Major Economic Indicators of Bangladesh, 1989/90-1993/94

	1989/90	1990/91	1991/92	1992/93	1993/94
Population (million)	107.5	109.6	111.4	113.2	115.6
GDP growth rate	5.8	3.6	3.9	4.5	4.9
Per capita GDP (US $)	208.0	213.0	213.0	219.0	225.0
Domestic savings as % of GDP	2.3	4.4	8.0	9.0	7.2
Investment as % of GDP	10.7	11.0	12.1	13.0	14.3
Net foreign assistance as % of GDP	6.4	6.1	5.4	5.2	4.4
Export growth (%)	18.0	12.7	16.1	19.5	20.0
Import growth (%)	11.4	-7.7	-0.2	15.1	3.7
Workers remittance (Million US $)	761.0	764.0	848.0	944.0	1093.0
Foreign exchange reserves (Million US $)	520.0	880.0	1608.0	2124.0	2772.0
Debt Service ratio (%)	19.8	18.5	16.9	15.7	16.2
Tax revenue (mil taka)	57814.0	63830.0	77410.0	83200.0	90450.0
Current surplus of government(mil taka)	382.0	5120.0	16170.0	25500.0	31300.0
M2 growth rate	16.9	12.1	14.1	10.6	15.4
Maximum interest rate on deposits (%)	14.2	13.8	13.0	11.0	9.2
CPI (% change)	9.3	8.9	5.1	1.3	1.9

Source : MCCI, *Chamber News*, October 1994.

In the fiscal arena, for example, rationalizing the tax structure, revamping tax administration and successful implementation of VAT (with minor exception), have led tax receipts to rise as a proportion of GDP from a stagnating 7-8% upto 1989/90 to about 11.7% by 1993. The government now can finance 37% of ADP expenditure from local resources. Total public expenditure by the central government which was over 15% of GDP for 1989/90 has also been contained to around 11% of GDP through reduction in subsidies for jute and food and other expenditure restraints. The government's fiscal deficit has, as a result, declined from over 8% of GDP in the late 1980s to about 5% in 1992/93.

Simultaneously, in the monetary field, there has been a reduction in the rate of growth of M2 from 16.9% in 1989/90 to 15.4% in 1993/94. Interest rates, already flexible, have also been lowered overtime. The successful demand management programmes have lowered the inflation rate to a record low of only 1.3% in 1992/93 (prices actually fell in December 1993).[4]

On the external sector, the deficits on payments balance had earlier led to substantial accumulation of external debt which amounted in 1991/92 to more than 50% of the country's GDP. Recently, because of some remarkable export growth (around 20%, led by readymade garments) along with reduced import demand, and increase in wage earners' remittances (above US$1 billion in 1993/94), the current account deficit has come down to 2.2% of GDP in 1991/92 as compared to 6.9% in 1989/90. As a result, notwithstanding a decline in foreign aid disbursements, the foreign exchange reserves have continued to rise, reaching to the present US$3 billion, which can pay for an unprecedented 6.5 months' import bills. The country's success in stabilizing the economy has accordingly made it less dependent on general balance of payments support in the form of commodity aid. Meanwhile, the exchange rate has been made flexible and partially

4. Indications are there that inflation has risen to around 3% by 1994, mainly as a result of the drought and the consequent fall in food grains production in the country.

convertible. The debt service ratio has also declined to around 16% of the export earnings by 1993/94.

In the demographic front, some concerted efforts at family planning have recently been bearing fruits, and the population growth rate has fallen from 2.6% in the 1970s to below 2%.

Inspite of the impressive records as depicted above, it must be pointed out that the Bangladesh economy continues to suffer from many deep-seated problems. The country still remains least developed and half of its population of over 110 million lives below the poverty line. The growth rate in real GDP at around 4% is lacklustre. Economic activity remains weak. Total investment at 13% of GDP is very inadequate. Public investment has stagnated at around 5.7% of GDP for the past six years. The implementation of ADP has failed to reach targets and has remained at or below 86% of the revised ADP during the last three years in a row.[5] Private investment averaged only 6.5%. The lending rates of banks continue to remain high, and average 10% to 12% in real terms. Exports are still critically dependent on a few major items, 52% of the same being accounted for by readymade garments only. Imports are sluggish (although they rose by 11.8% in 1992/93), indicating low aggregate demand and a depressed economy. Low and declining labour productivity is another area of concern which erodes the advantages due to low wage. Finally, the gross losses incurred by the Public sector enterprises, inclusive of railways, came to a staggering Tk 20 billion in 1992/93, amounting to 27% of the ADP, 45% of external aid disbursements and 2% of GDP.[6]

Thus, it should be reiterated that the unfinished agenda still remains quite daunting. In each of the areas where reforms have been

5. The picture relating to ADP implementation has, however, significantly improved recently.
6. World Bank, *Bangladesh: From Stabilization to Growth,* Report No. 12724-BD, March 1994, p. vii.

implemented or visualized, there are some major problems which need to be attended to on an immediate basis. Legal and administrative reforms, in particular, have as yet eluded any meaningful progress. These facts, however, do not undermine the achievements. They only point to the urgency of according better coverage and speeding up of the reform programmes.

3. GDP COMPOSITION AND SECTORAL GROWTH OF THE ECONOMY

The sectoral growth rates in the Bangladesh economy during the various Plan periods are depicted in Table 3. On the whole, serious shortcomings can be easily discerned relating to achievement of targets. The overall GDP growth rate has remained quite disappointing, averaging less than 4% between 1973/74 and 1992/93.[7] However, due to the policy reforms currently under implementation in the country, there has been a modest improvement in growth performance in 1993/94 estimated at about 5% which is expected to increase to just less than 6% next year.

Although both agriculture and industry have been marked by significantly lower growth rates than targeted, over time the composition of GDP has visibly undergone some structural changes as shown by the pie-charts in Figure 1. It is easily seen that the share of agriculture has been declining, which, however, still dominates the economy contributing 36% of GDP and absorbing 61% of the labour force as of 1990.

The contribution of the manufacturing sector, particularly that of large-scale industries remained more or less stagnant, while the share of the small-scale enterprises visibly declined. Some increases have occurred in construction and transport and communications, whose combined share in GDP has gone up to about 18% in 1992/93 from

7. Annual growth rate of GDP during 1972-1992 was 3.8%.

Table 3: GDP Composition and Selected Sectoral Growth Rates in Bangladesh during the Plan Periods

1992-93	1993-94 (Estimated)		FFYP (1973 -78)		TYP (1978-80)		SFYP (1980-85)		TFYP (1985-90)		FFYP (1990-95)	
(Million) Taka	Tar-get	Achieve-ment	Tar-get	Achieve-ment	Tar-get	Achieve-ment	Tar-get	Achieve-ment	Tar - get	Achieve-ment		(1992-93)
Agriculture	201364 (35.9)	205100 (35)	4.6	3.7	4.1	1.8	5.0	3.6	4.0	1.7 2	3.6	1.8
Industry	58435 (10.43)	64640 (10.9)	7.1	-0.3	7.3	2.3	8.4	4.8	10. 10	4.0 2	9.1	9.1
Constructi on	34094 (6.05)	35920 (6.20)	12. 1	7.8	17. 3	18. 0	4.8	7.5	4.9 0	7.0 6	8.8	4.8
Power, gas, Natural resources	8956 (1.60)	10220 (1.74)	11. 0	1.3	15. 8	11. 8	16. 0	14. 5	9.6 0	17. 39	11. 0	13. 4
Trade Services	50940 (9.09)	53160 (9.04)	7.2	6.0	5.5	4.7	5.7	3.8	6.4 0	4.9 1	5.1	4.3
GDP Total	560180 (100)	588190 (100)	5.5	4.0	5.6	3.5	5.4	3.8	5.4	3.8	5.0	4.5

Note: GDP figures are in 1984/85 constant prices; figures in parentheses are the percentage values. FFYP, TYP, SFYP, TFPY and FFYP refer respectively to First, Two Year, Second, Third and Fourth Five year Plans respectively.

Source: BBS, *Statistical Yearbook*, various issues; and Ministry of Finance, *Bangladesh Economic Survey*, 1993-94.

13% in 1973/74. Housing sector's contribution has declined from 8.02% to 7.53% over the same period. Trade increased marginally from 8.6% in 1973/74 to 9.1% of GDP in 1992/93.

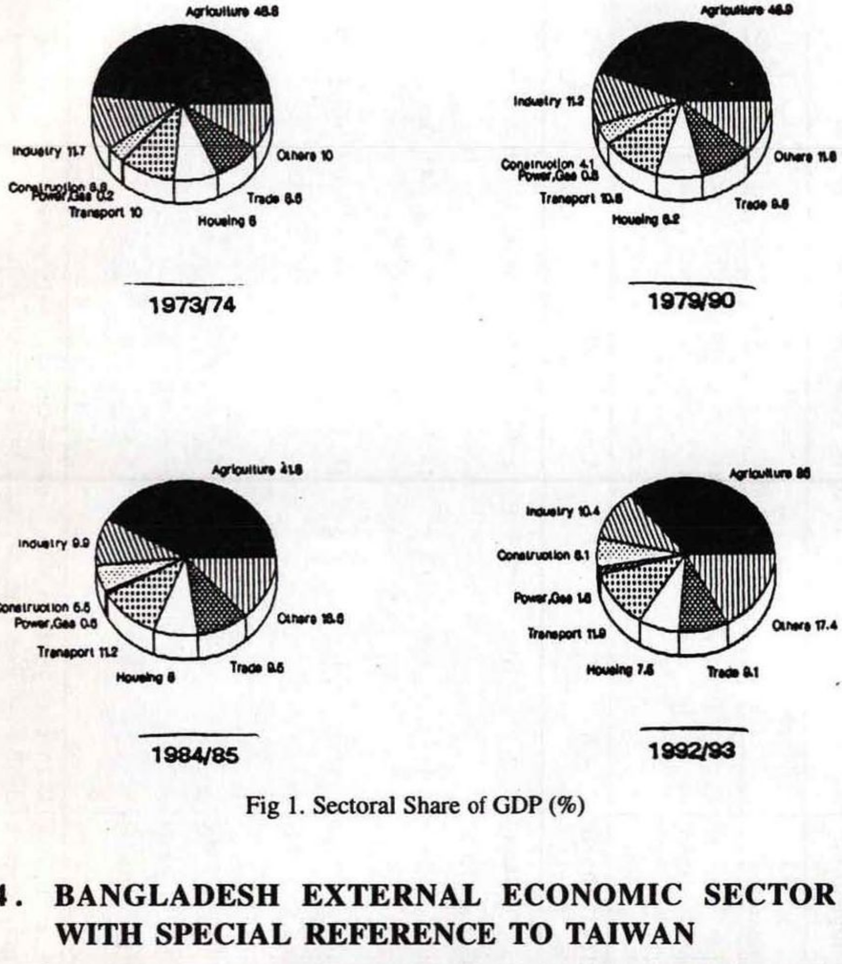

Fig 1. Sectoral Share of GDP (%)

4. BANGLADESH EXTERNAL ECONOMIC SECTOR WITH SPECIAL REFERENCE TO TAIWAN

Bangladesh has recorded some robust growth in its foreign trade sector in the recent years. The rate of growth in export has been more than that of imports which has helped improve the country's trade balance, as shown in Table 4.

Table 4: Trade Balance and Growth Rates

(billion US $)

Year	Export Earnings	Growth rate	Import Payments	Growth Rate	Trade Balance	Export Earning % of import
1979-80	726	17.3	2365	54.3	- 1639	30.7
1984-85	934	15.2	2648	13.1	- 1714	35.3
1990-91	1718	12.7	3470	-7.7	- 1752	49.5
1992-93	2383	19.5	3986	15.1	- 1603	59.8

Source: Ministry of Finance, *Bangladesh Economic Survey*, various issues.

Note that whereas the country's export earnings could finance less than than one-third of import bills in 1979/80, by 191992/93, it could meet about 60% of payments.

As can be seen from Figure 2, there has been a dramatic increase in the share of exports of readymade garments (RMG). The share of this sector in total export earnings has increased from a negligible 0.8% in 1979/80 to 52% in 1992/93. The most important factor contributing to the success story has been the quota-free status of Bangladesh in most of the major markets under the Multifibre Arrangement (MFA). For example, Bangladesh did not face quota restrictions in U.S. market until 1985. However, MFA itself will be phased out over the next couple of years, as agreed upon by the Uruguay Round of Final Act 1994, when Bangladesh will have to compete with other exporters. This calls for urgent steps to improve efficiency and forging of backward linkages.

Other important non-traditional exports from Bangladesh include frozen shrimps, which rose from 1% to 6% of total export earnings (i.e. from $3.76 million to $164 million) over the same period. The share of hosiery products has also increased from nil in 1973/74 to 8.5% of total export earnings in 1992/93. On the other hand, the share of the most important traditional item, viz., jute goods has undergone serious decline: from 53% in 1973/74 to just over 12% in 1992/93, inspite of the fact that their absolute level of export earnings has increased moderately. As already noted, the production of raw jute has meanwhile decreased substantially because of the adverse jute-rice price ratio when the world market for jute products became unfavourable because of the advent of cheaper - and at times more user-friendly - synthetic.[8]

Relating to imports, as shown in Figure 3, the share of food grains has remarkably declined from 26.34% in 1979-80 to 4.5% in 1992/93 due to the significant increase in the production of rice. In 1993/94, only 1.16 million tons of wheat was expected to be imported for which Tk 6.8 billion was to be spent. Imports of other items like edible oil, petroleum, fertilizer, cement, however, appear to be rising moderately. Imports of capital goods which include machinery and equipments have depicted a rising trend in the second half of the eighties.

Bangladesh-Taiwan Economic Links

As far as Bangladesh's trade relations with Taiwan is concerned, it has remained at a relatively low level until now, although the latter has experienced a continuous growth in trade over the years with Asia as a whole. This is clearly brought out by Table 5 which depicts the picture relating to the direction of the country's foreign trade for selected years between 1979/80 -1991/92.[9] As can be seen, Bangladesh suffers from trade deficit against Taiwan, and the country's

8. From the environmental point of view, however, synthetics are somewhat hazardous which may give jute an edge in future over such substitutes.

9. By 1994, however, there has been some substantial growth in trade relations between the two countries. Bangladesh's exports to Taiwan increased to $14.7 million, while its imports from that country rose to $219.9 million.

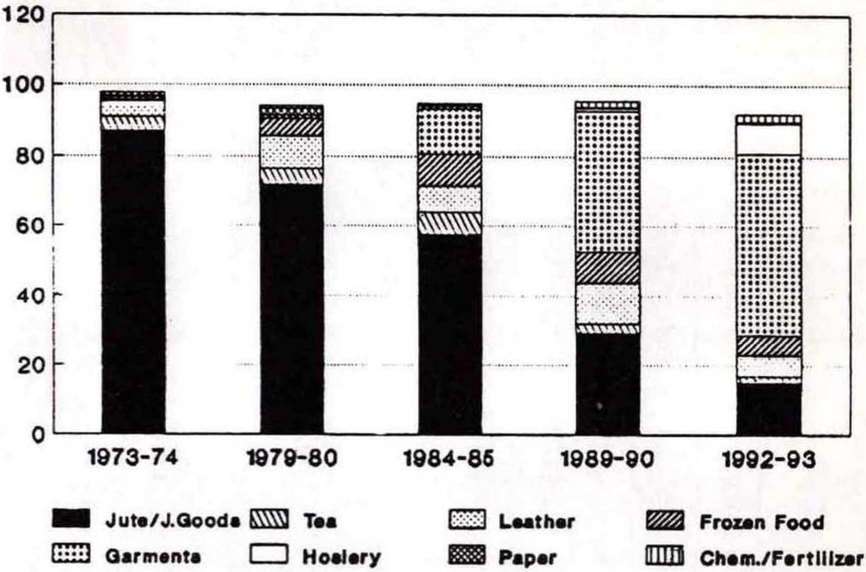

Fig 2. Value of Commodity Exports (%0

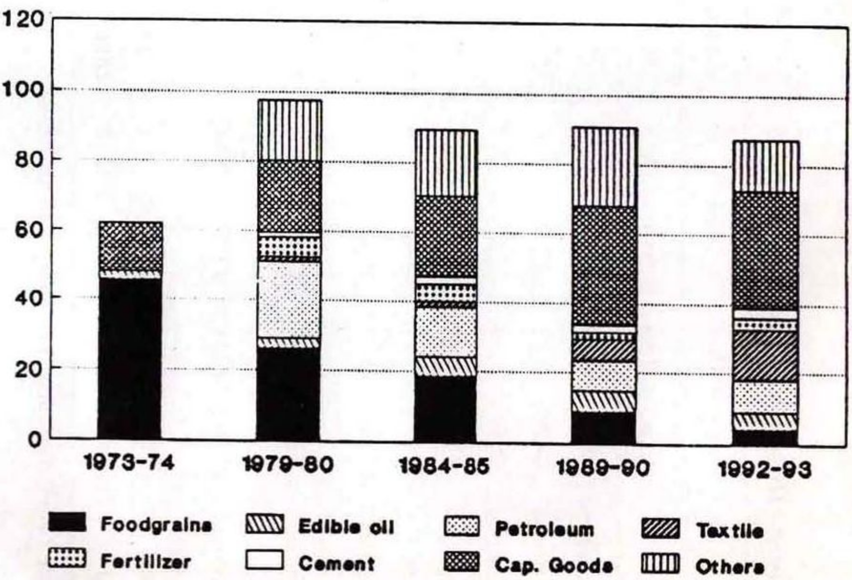

Fig 3. Value of Commodity Imports (%)

Table 5. Direction of Foreign Trade

	1979/80		1984/85		1988/89		1989/90		1990/91		1991/92	
	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp
N. America	1498	7517	5254	10831	11693	13874	1702	9272	1844	10844	26190	10630
S. America	247	21	27.9	746.4	557	2592	706	2274	70	3355	964	5055
C. America	54.6	36	222	7.7	176	174	129	135	14	13	102	357
Ocenia	472	1429	569	2118	687	2625	794	3272	1002	2682	835	3088
Europe	3569	7167	8048	13615	15737	18226	20355	21356	26276	21672	28133	23531
Middle East	2718	4820	6040	8279	2886	13805	5050	20250	3741	11970	6204	14009
African Countries	815	137	1479	99.8	1369	437	1063	837	1049	371	1359	1662
Asian Countries	1621	11741	4573	32564	7963	42850	6226	55909	7746	60309	9478	74086
Of which : Taiwan	-	-	27	761	119	3473	88	4002	99	4133	217	6352
Total	10996	30523	26225	68262	42686	95075	51415	113305	60272	111877	74198	132756

Source : BBS, *Statistical Yearbook,* various issues.

exports to Taiwan have stagnated at around 0.3% of the total which, however, is broadly in consonance with the trend prevailing *vis-a-vis* the rest of Asia.

On the other hand, imports from that country have not significantly gone up over time which is sharply in contrast with the more robust growth in imports from the other Asian countries. Alongside, it should also be noted that there is a very narrow range of commodities to which trade between Bangladesh and Taiwan has so far been confined. For example, two-thirds of the former's export in 1991/92 consisted of hides and leathers alone, while another 20% was accounted for by jute yarn. Imports into Bangladesh for the same year from Taiwan consisted mainly of clothes and fabrics (34%), other important items being steel sheet, machinery and mechanical appliances. While, obviously Bangladesh's limited export base does not permit any major rise in its trade links with the whole of the growing Asian region including Taiwan, its relationship particularly with the latter has been seriously handicapped by lack of any formal diplomatic ties or bilateral agreements. Only intensified private initiative can probably mitigate the situation to some extent.

One important area where more meaningful cooperation can certainly take place is through developing the investment trade-nexus and relocation of some labour-intensive industries to Bangladesh to take advantage of the low wage factor. Outflow of foreign direct investment from Taiwan was about US $1.7 billion in 1992 (which has been a notable decline from its peak of US $6.9 billion in 1989) out of which, Bangladesh probably received only a trickle. For 1993/94, figures indicate that just over US $1 million worth of proposed investments (in ceramics, electronics and shrimp culture and processing) were made from Taiwan in joint ventures, which may be contrasted with over a total of $800 million foreign direct investment (FDI) proposals for the same year. Clearly, unless FDI flows increase significantly, prospects of export growth for Bangladesh will remain rather limited.

Another potential area which could be mutually gainful for the two countries pertains to labour migration. At present, only a few thousand Bangladeshis may be working in Taiwan as illegal immigrants. If ways and means could be devised to legalise emigration, there could occur a sharp increase of labour outflow that could effectively contribute to the growth process of the Taiwanese economy, while at the same time raising the foreign exchange remittances for Bangladesh.

5. INVESTMENT INCENTIVES AND INVESTMENT PROSPECTS IN BANGLADESH

The Bangladesh government provides many generous incentives to investors. A host of measures, including the Foreign Private Investment Promotion and Protection Act, 1980, have also been adopted to attract FDI.[10] Besides, in the recent past, it has significantly relaxed many exchange control regulations, as earlier pointed out. Some of the incentive measures are detailed as follows:

5.1 Fiscal Incentives

i) **Tax holiday** : Tax holiday is allowed to industries subject to the relevant rules and procedures set by the National Board of

10. For details see, Sadrel Reza, *Transnational Corporations in Bangladesh: Still at a Bay*? UPL, forthcoming. Opportunities for foreign private investments include:
    - Direct (100%) foreign investment or joint-venture investment in Export Processing Zones (EPZ) or outside EPZs to set up any industry with the exception of industries reserved for public sector investment only.
    - Portfolio investment by purchasing shares in publicly listed companies through the stock exchange.
    - Outright purchase of shares of State owned Enterprises which are under the process of privatization.

Revenue (NBR). Presently, it is allowed for five, seven, nine and twelve years for industries set up in the developed, less developed, least developed and special economic zones respectively. It will remain effective until the year 1995. The period of the such tax holiday will be calculated from the month of commencement of commercial production. The eligibility of tax holiday is to be determined by the NBR and the time of commencement of production is certified by the respective sponsoring agencies.

ii) **Concessionary duty on imported capital machinery:** Import duty at the rate of 10% of payable on capital machinery and spares imported for initial installation or for BMR/BMRE of existing industries. The value of spare parts, however, should not exceed 10% of the total value of the machinery.

iii) **Accelerated depreciation:** Accelerated depreciation in lieu of tax holiday is allowed at the rate of 80% of actual cost of machinery or plant from the year the unit starts commercial production and 20% for the following year, if the industry is located in a developed area. If the unit is set up in a less developed area the rate of depreciation shall be 100%.

iv) **Tariff rationalization:** Local industrial products are protected through tariff rationalization keeping in view the interest of the entrepreneurs and the consumers. Tariff protection is allowed up to 4 years to the new industries.

v) **Incentives to non-resident Bangladesh**: Special incentives are provided to encourage non-resident Bangladeshis for investment in industries. Non-resident Bangladeshi investors will enjoy facilities similar to those of foreign investors. Moreover, they can buy newly issued shares/debentures of Bangladeshi companies. Furthermore, they can maintain foreign currency deposits in special account up to five years.

vi) **Rationalization of import duty :** Duties and taxes on import of goods which are produced locally will be higher than those applicable to import of raw materials for producing such goods.

5.2 Other Incentives and Protections

Other incentives and protections available to foreign investors include :

- Exemption of tax on interest of foreign loans,
- Exemption of tax on Royalty, Technical know-how and Technical Assistance Fees, etc.,
- Liberal investment allowance for tax assessment,
- Tariff protection upto 4 years to the new industries,
- Import of machinery under Supplier's Credit or PAY-AS YOU-EARN Scheme is freely allowed on approved terms,
- Availability of long term credit facilities on liberal debt-equity ratio from industrial financing institutions,
- Income tax exemption of foreign technicians employed in approved industries for a period of 3 years,
- Remittance of savings from earnings, retirement benefits and personal assets of individuals on retirement/termination of services, and
- Remittance of approved royalties, technical know-how and technical assistance fees.

Additional incentives to export-oriented and export-linkage industries are also allowed. For example,

- Concessionary duty is allowed on the import of capital machinery and spare parts for setting up export-oriented industries or BMRE of existing industries;

- Facilities such as special Bonded Warehouse against back-to-back Letter of Credit or rational import duty and non payment of value added tax (VAT) facilities are available;
- The system for duty drawback is being made simple and concise. The exporter will be able to get back the duty draw-back directly from the concerned commercial bank;
- Bank loan up to 90% of the value against irrevocable and confirmed Letters of Credit/Sales Agreement is available;
- For granting export performance benefit, the list of export products and the rate of XPB is reviewed from time to time;
- With a view to ensuring backward linkage, export-oriented industries including export-oriented readymade garment industries using indigenous raw materials instead of imported one are given additional facilities and benefits at prescribed rates. Similar incentives are extended to the suppliers of raw materials to export-oriented industries;
- The export-oriented industries are allocated foreign exchange for publicity campaigning and for opening offices abroad;
- The entire export earning from handicrafts and cottage industries is exempted from income tax. In case of all other industries, proportional income tax rebate on export earnings is given between 30% and 100%. Those industries which export 100% of their products are given tax exemption up to 100%;
- The facility for importing raw materials is given for manufacturing exportable commodities under control list (CL).
- The import of specified quantities of duty-free samples for manufacturing exportable products is allowed. The quantity

and value of samples is determined jointly by the concerned sponsoring agency and the National Board of Revenue (NBR);

- The local products supplied to local projects against foreign exchange under international tender are treated as indirect exports and the producer is entitled to all export facilities;
- Export oriented industries like toys, luggage and fashion articles, electronic goods, leather goods, diamond cutting and polishing, jewellery, stationery goods, silk cloth, gift items, cut and artificial flowers and orchid, vegetable processing and engineering consultancy services identified by the Government as thrust sectors are provided special facilities in the form of cash incentives, venture capital and other facilities;
- Export-oriented industries is exempted from paying local taxes (such as municipal tax, etc.); and
- Apart from the above mentioned facilities, other facilities as announced and provided in the Export Policy are also applicable to export-oriented and export-linkage industries.

These incentives compare very favourably *vis-a-vis* the incentive structure of the neighbouring countries. Again, low wage and the easily trainable labour force in Bangladesh should be big attractions for foreign investors. There are already a number of identified areas in which foreign investors including the Taiwanese entrepreneurs can profitably participate. Example are :

A. Some categories of textile and garments

B. Some agro industries

C. Leather and Products

D. Some engineering items and some miscellaneous goods.

A good number of these products are exportable and some may also be developed primarily for sale in the domestic market. In addition to the above, the foreign investors are also currently being attracted to the power, transport and infrastructure sectors in the increasingly liberalized frame of the economy. Taiwan can obviously also explore some of these areas for possible investments for mutual benefits.

6. CONCLUDING REMARKS

On the whole, it is now widely recognized that Bangladesh has established a reasonably sound industrial policy framework. To give weight and credence to the seriousness of the government's efforts in this direction, the four major super-ministerial statutory agencies, namely, the Planning Commission, the National Council for Industrial Development, the Board of Investment and the Board of Governors of the Export Processing Zones Authority, are all headed by the executive head of Bangladesh government. The latest Industrial Policy 1991, revised in 1992, has put particular emphasis on market forces and private sector initiative in industrial growth. FDI is welcome and buttressed by a host of fiscal and other incentives. The role of the government itself has changed from regulatory to supportive/ complementary in nature, which has added a fresh element to the policy environment.

However, inspite of some recent improvements, the country has been suffering from serious export-import gap and therefore, is heavily dependent upon external financial resources for essential imports. The debt service of Bangladesh as a percentage of exports of goods and services has declined but still remains high. Export expansion is necessarily of critical importance to the country in the existing context for ensuring future growth.

In the recent past, the country's exports have made some impressive gains, within an overall positive economic trend. However, Bangladesh has not been able as yet to increase its market share in the most dynamic regions of Asia. Taiwan, a newly industrializing country (NIC), is no exception. Although recently marked by some deceleration in its economy, Taiwan is still enjoying vigorous growth following a policy of market liberalization to create a better, fair and open trading environment since 1984, which has recently culminated in the adoption of Foreign Trade Act in 1993 that clearly specifies the legislative principles for the country's trade measures.

Note that the per capita income of Taiwan is above $15000 (1992) and the gross domestic investment is more than 25% of GDP. Industrial sector accounts for more than 41%, while services account for more than 54%, with agriculture contributing only about 3% of GDP. The country is heavily dependent on trade but enjoys a huge surplus ($11753 million in 1993) in its balance. Obviously, Taiwan holds out great prospects for the Bangladesh economy which is only currently being recognized. Taiwan, in turn, has also not paid serious attention to the potentials of the Bangladesh market, as a result of which its share in the imports of Bangladesh has stagnated. Clearly, greater inflow of FDI from Taiwan can help the investment-trade nexus for mutual gains. Investment incentives obtaining presently in Bangladesh are favourable and the country also offers many areas of profitable investment from abroad, including Taiwan. So long, however, some negative factors, including cultural barriers and lack of diplomatic ties, have held back the normal growth of economic links between these two countries.[11] Without undermining the importance of government initiatives, these problems can be overcome in the present context primarily by intensified efforts from the private sector only. To operate efficiently and competitively, they must seize every opportunity in the continuing process towards greater integration of the world economy.

---

11. In December 1994, however, the Taiwanese government established a guideline for strengthening economic and trade relationship with neighbouring countries, including Bangladesh. The Bangladesh government also is currently in the process of setting up an office in Taiwan to promote bilateral relations.