



Asia-Pacific Research and Training Network on Trade  
Working Paper Series, No. 9, April 2006 (rev. 8/06)

# **An Evaluation of the Need and Cost of Selected Trade Facilitation Measures in Bangladesh: Implications for the WTO Negotiations on Trade Facilitation**

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## *Acronyms and Abbreviations*

ASYCUDA	Automated System for Customs Data
BDXDP	Bangladesh Export Diversification Programme
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIWTA	Bangladesh Inland Water Transport Authority
BLPA	Bangladesh Land Ports Authority
C&F	Clearing and Forwarding
CAM	Customs Administration Modernisation
CCI	Certified Internetwork Expert
CHC	Customs House of Chittagong
CPA	Chittagong Port Authority
CPD	Centre for Policy Dialogue
DCH	Dhaka Customs House
DTI	Direct Traders Input
EPZ	Export Processing Zone
ERC	Export Registration Certificate
FBCCI	Federation of Bangladesh Chamber of Commerce and Industry
FTA	Free Trade Area
GATT	General Agreement on Tariff and Trade
ICD	Internal Container Depot
IDA	International Development Assistance
IRC	Import Registration Certificate
IRD	Internal Resources Division
IRTC	Inland River Container Terminal
IT	Information Technology
ITCC	Import Trade Control Committee
L/C	Letter of Credit
LCA	Letter of Credit Authorisation
LCSs	Land Customs Stations
LDC	Least Developed Country
MFA	Multi-fibre Arrangement
NBR	National Board of Revenue
NMCT	New Mooring Container Terminal
NPOA	National Program of Action
NTBs	Non Tariff Barriers
PLI	Post Landing Inspection
PSI	Pre Shipment Inspection
RMG	Ready Made Garments
S&DT	Special and Differential Treatment
SAARC	South Asian Association for Regional Cooperation
SACEPS	South Asia Centre for Policy Studies
SAFTA	South Asian Free Trade Area
SASEC	South Asian Sub-Regional Economic Cooperation
SBW	Special Bonded Warehouse
TF	Trade Facilitation
UNCTAD	United Nations Centre for Trade and Development
WTO	World Trade Organisation

## *Executive Summary*

With the ongoing customs reforms in Bangladesh, possible future WTO negotiations on trade facilitation will have profound impacts on Bangladesh, as well as on other least developed and developing countries. These countries will benefit greatly from new trade facilitation initiatives. Simultaneously, these countries may face enormous challenges in implementing their commitments in the area of trade facilitation. It is, thus, imperative for these countries to closely monitor the Doha negotiations in this area and be prepared their negotiating strategies. They should also continue with customs administration reform and trade facilitation capacity building programs in order to develop their own internal capacities.

Successive governments in Bangladesh have taken a number of initiatives to liberalise the country's trade regime to enable an environment conducive to enhancing international trade. Bangladesh has come a long way to get rid of the lack of transparency that previously prevailed in customs procedures. Moreover, the government has been undertaking a number of trade facilitating measures such as a customs administration modernisation programme, development of the prime sea ports, establishment of new infrastructures, and simplification of documentation procedures. Nevertheless, the private sector business community in the country seems to be somewhat frustrated and disappointed regarding the level of implementation of various trade facilitation measures under GATT Articles V, VIII and X. The main criticism is that human and financial resources as well as the basic information technology infrastructure to support customs operations are extremely limited. Lack of political will on the part of the policy makers has also contributed to the current scenario.

Some of the major issues that have been highlighted by a relatively large number of private sector representatives as major hurdles in operating business in the country include: the complex nature of documentation, longer time in releasing and clearing goods from ports, and corruption among the customs personnel. An enquiry about the level of satisfaction among the private sector as regards the various trade facilitation measures in place in Bangladesh brought to the forefront their utter dismay with the situation. A sheer majority (65%) of the respondents were upset with the existing customs and trade regulations and procedures. They mentioned that such cumbersome administrative procedures impose a great deal of extra cost on doing business. This can also be corroborated by the fact that as many as 90% of the respondents felt that the major difficulties faced in the export and import context emanate domestically. Under the present context, the private sector has come up with a number of suggestions to facilitate trade, including adequate measures to eliminate corruption from the customs system, simplification of customs valuation and documentation procedures.

As for implementation costs of various trade facilitation measures, the qualitative assessment reveals that although set up and operating costs are large, the long term savings gains from such measures are likely to outweigh the costs.

Most of the evolving trade facilitation standards and exemplar models are those devised by developed countries in the light of their own needs, experiences, capacities and objectives to develop command of state-of-the-art technology and tools. It is, thus, in the interests of least developed and developing countries to make haste

slowly so that they can manage the balancing of the costs and benefits of trade facilitation. If not, trade facilitation could thus become another arduous obligation on least developed and developing countries and provide developed countries with yet another sophisticated instrument for creating a stumbling block towards economic development in LDCs such as Bangladesh.

## 1. Introduction

With the evolving nature of complexity in trade among nations, the costs of moving goods across international borders is now as important as tariffs in determining the cost of landed goods. The ability of countries to deliver goods and services in time and at low costs is a key determinant of their participation in the global economy; and easier movement of goods and services clearly drives exports competitiveness. Trade facilitation is about ensuring that customs procedures are trade friendly and facilitate cross border movement of goods and services. Thus, trade facilitation assumes an even greater importance now in the arena of international trade given the recent trends in the structure of goods and services traded and the sophistication of such products.

Originally, trade facilitation was understood to be the harmonisation and standardisation of different regimes, and the mutual recognition of different customs administrations. It aimed to identify and simplify or remove mainly administrative, logistical or procedural obstacles to the movement of goods and services across borders.<sup>1</sup> Both the WTO and the World Customs Organization (WCO) have been working to establish common sets of international standards and good customs practices for their member countries. However, the challenge remains to implement the customs procedures and other administrative measures based on these international standards.

In recent years, the idea of trade facilitation expanded to include the modernisation and automation of import procedures in order to ease the adoption of international standards. It is generally understood that trade facilitation involves the reduction of transaction costs for all parties in the enforcement, regulation and administration of trade policies. Trade facilitation has been described as the “plumbing of international trade” which focuses on the efficient implementation of trade rules and regulations. By nature, trade facilitation is very technical and detailed. For example, UN Conference on Trade and Development (UNCTAD) estimates the average customs transaction involves 20-30 different parties, 40 documents, 200 data elements and the repeated entry of the same data in the reporting process.

### **1.1. Bangladesh’s Experience with Trade Facilitation**

Bangladesh has been experiencing a steady growth in terms of trading with its global partners since the early 1990s. This is corroborated by the rise in total export earnings: from earnings equivalent to US\$ 1,524 million in FY1990 to US\$ 5,748 million in FY2000 and an increase to US\$ 8,435 million in FY2005. On the other hand, figures for import payments for these respective years were US\$ 3,509 million, US\$ 8,228 million and US\$ 12,083 million. Statistical figures show that growth rates for export and import for FY2005 over FY2004 were 11.0 percent and 11.4 percent respectively.

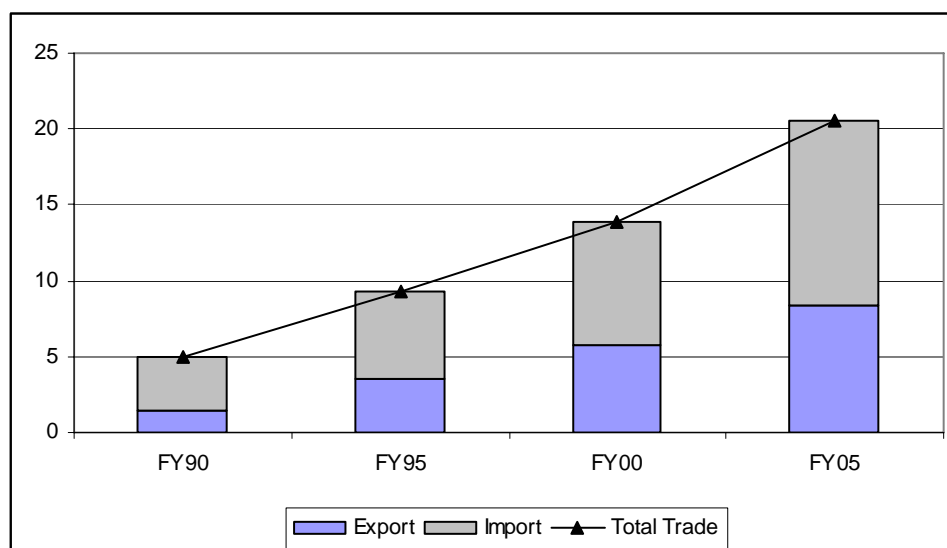
In the above context, the external sector performance during the last decade and a half shows some encouraging signs for the country’s economic development. Statistics show that Bangladesh was able to register a four fold growth as regards its total trade (export + import) over the period 1990 to 2005 (Figure 1). While the value

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<sup>1</sup> WTO, WT/COMTD/W/57 “Development Aspects of Trade Facilitation: Note by the Secretariat.”

of total exports in 2005 was about six times higher than that in 1990, total imports also increased about 3.5 times.

Figure 1  
**Decomposition of Bangladesh's External Sector Performance**

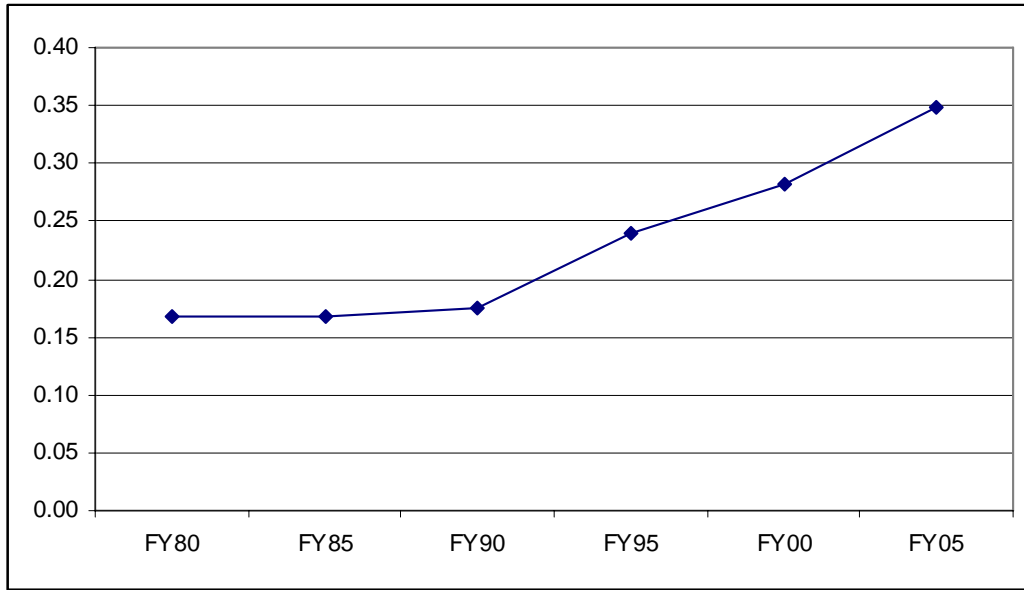


Source: CPD Database

Such expansion in trade volume in Bangladesh can be attributed to the trade policy reform measures taken by successive governments since the early 1980s. These reforms during the last two decades have led to withdrawal of quantitative restriction, notable opening up of trade in many restricted items, significant rationalisation and reduction of import tariffs and complete liberalisation of the foreign exchange regime. This process of trade liberalisation was designed to make the economy more outward oriented. The agenda moved forward in three phases: FY1982-1986 (first phase), FY1987-1991 (second phase) and FY1992 onwards (third phase). The first two phases coincided with the advent of two industrial policies: the New Industrial Policy (NIP) of 1982 and the Revised Industrial Policy (RIP) of 1986. However, the third phase is considered to be more forward looking than the earlier two in terms of intensity of trade liberalisation.

As Figure 2 depicts, the degree of openness during the period following the 1980s is seen to have gained an upward going momentum. Nevertheless, the phasing out of the MFA has brought Bangladesh formidable challenges to continue the growing trend of international trade. It is, therefore, imperative for the country to design a set of pragmatic policy options to enhance its competitiveness as regards moving along with its trading partners.

Figure 2  
Degree of Openness in Bangladesh



Source: CPD Database

The World Bank funded Bangladesh Export Diversification Programme (BDXDP) project included a Customs Administration Modernization (CAM) programme as a sub-component, aiming at customs reforms, trade and tariff policy reforms. Earlier, UNCTAD helped install the Automated System for Customs Data (ASYCUDA++) for electronic data control. It allows random data selection of consignments and staff for inspection purposes. The system was installed in Chittagong, Mongla, Benapole, Dhaka Customs House and also in ICD Dhaka. The Customs Act was amended and a single administrative document covering import and export was developed for introduction of the system. The conventional bill of entry system was formatted differently for export and import and electronic bill of entry was not acceptable, according to customs law.

Attempts were also made to implement a closed loop principle in the ASYCUDA system. Under this principle, a local Direct Traders Input (DTI) facility was developed to enable the C&F agents to fill bills of entry electronically in the local premises. This led to full automation of exports and imports declaration under ASYCUDA++ and substantially reduced exports and imports clearance times. The

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