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# CPD QUARTERLY

## From The Editor's Desk

A major event during the second quarter was the visit of the five-member CPD team to Geneva in May to gain insights into the ongoing negotiations in the WTO. The visit was undertaken as part of the *Trade Related Research and Policy Development (TRRPD)* programme being implemented by the CPD. The CPD team met Dr. Supachai Panitchpakdi, Director General, WTO and also other senior officials of the apex trade body. Besides, the team met experts from intergovernmental organisations including the UNCTAD, ILO, UNEP and the World Bank, and also officials from a number of missions in Geneva including Canada, USA, EU and India, LDC coordinator Zambia, and also Chairs of some of the Negotiating Committees. In undertaking this tracking mission the CPD team received full support and cooperation from the permanent mission of Bangladesh in Geneva, particularly from HE Dr. Taufiq Ali, Ambassador and Permanent Representative of Bangladesh in the WTO.

As is widely recognised, the ongoing Doha Round negotiations under the WTO will have far-reaching implications for all number countries, including LDCs such as Bangladesh. Although LDCs are

not expected to undertake any major obligation in the context of the current negotiations, the outcomes in each of the areas under negotiations will have important implications for their economies in terms of preference erosion, change in global prices of importables, market access opportunities both for goods and services, and implementation of S&D provisions. In view of this, CPD thought it important to closely monitor the negotiations at the WTO focusing on a number of issues of vital interest and concern to Bangladesh. Of particular interest to Bangladesh are negotiations pertaining to liberalisation of trade in agricultural products, industrial goods and services, in areas related to WTO rules, trade remedies, intellectual property rights, environment, trade facilitation, and special and differential treatment provisions.

At the time of the visit of the CPD team various Negotiating Committees of the WTO were working towards the so-called *First Approximation*, keeping the July 2005 milestone in the perspective, with a view to reach understanding and consensus on major contentious issues on the table in each of the negotiating agendas.

The discussions in Geneva with key players in the WTO allowed the CPD team to have extremely useful insights into the way negotiations were

proceeding, various modalities and formulae around which discussion were being held, positions pursued by individual countries and coalitions, and the trade-offs under consideration. These discussions also provided the CPD team a unique opportunity to appreciate the implications of the various possible emerging scenarios for Bangladesh, and assess our *defensive* and *offensive* interests in the context of the ongoing negotiations (the CPD team's back to office report has been published as CPD Occasional Paper No. 49 titled *Road to Hong Kong Ministerial of the WTO: Anticipating the "First Approximations" from Bangladesh Perspective*).

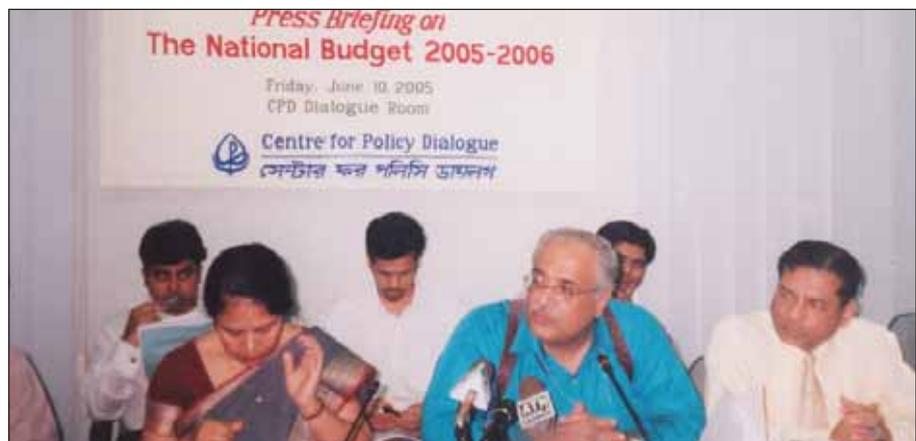
Hopefully, the knowledge gained from the visit will enable CPD to contribute to Bangladesh's policymaking in a more informed way. It will also enable CPD to appropriately articulate the concerns and interests of the LDCs at the forthcoming *LDC Civil Society Forum* being organised by the CPD during October 3-5, 2005 in Dhaka, in collaboration with a number of national and international partners. It goes without saying that Bangladesh and other LDCs will need to prepare adequately to advance their collective interests at the forthcoming sixth Ministerial Meeting of the WTO to be held during December 13-18, 2005 in Hong Kong. Hopefully, the *LDC Civil Society Forum* in Dhaka will be an important contribution to this ongoing process.

## A Budget of Care, Compromise and Collusion CPD's Initial Analysis of Budget for FY06 Reveals

CPD held a post-budget press briefing on *National Budget 2005-06* at its Dialogue Room on June 10, 2005. The press briefing was webcast live through the websites of CPD, the Daily Star, the Prothom Alo and D.Net.

Debapriya Bhattacharya, Executive Director, CPD briefed the press about CPD's initial comments on Budget FY06. Mustafizur Rahman, Research Director, Anisatul Fatema Yousuf, Additional Director, Uttam Kumar Deb, Senior Research Fellow, Fahmida Khatun, Senior Research Fellow, Khondaker Golam Moazzem, Research Fellow, CPD and other members of CPD's Budget Analysis Team were present at the press briefing. The press briefing was exclusively covered by both the print and electronic media.

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Debapriya Bhattacharya addresses press briefing on the National Budget 2005-2006. Mustafizur Rahman and Anisatul Fatema Yousuf are also seen in the picture.



## A Budget of Care, Compromise and Collusion

(From Page 1)

Bhattacharya termed the budget as one of care, compromise and collusion. He maintained that it was a budget of care as it has striven to give priority to certain sectors in terms of budgetary allocation from the perspective of poverty alleviation. These include the initiatives in such areas as health, education, agriculture and rural development. There had been a conscious effort to expand social safety net programmes, he said.

In this connection, Bhattacharya welcomed inclusion of two new projects proposed by CPD under social safety net programmes. These included initiatives to help the disabled and the seasonally unemployed in munga prone areas of the northern districts.

This was also a budget of compromise, he stated. This was reflected in the budget through recasting of tax holiday provisions, continuation of a number of cash incentive schemes for selected export sectors to support investment interests of particular sections of the business community, Bhattacharya commented.

Again it was a budget of collusion. One manifestation of this was the extension of the time for whitening of black money. It

shows that the government has succumbed to pressures from vested quarters. Bhattacharya observed that there could be no bigger fiscal injustice than this and such backtracking by the Finance Minister will send a wrong signal to the taxpayers and undercut the credibility of other fiscal measures.

Bhattacharya commented that GDP target set at 6.2 per cent is a reflection of conservative aspirations of the government, particularly in view of the fact that GDP growth rates of some of the other South Asian countries was higher compared to Bangladesh. The revenue target for FY06 at 10.96 per cent of GDP is still only 0.24 per cent of PRSP target.

Bhattacharya said that there were some not so pro-poor trends in the public finance basket: revenue expenditure is increasing at a faster rate than that of revenue earnings and development expenditure, increased contribution of VAT in the incremental contribution to the total revenue intake, and extremely poor level of utilisation of resources allocated to some of the social sectors e.g., Primary Health Care (PHC) and education which essentially benefit the

poor. He said it was not clear how the figure of 54 per cent of total allocation being earmarked for poverty alleviation projects was arrived at in the proposed budget.

Commenting on budget deficit, Bhattacharya stated that high borrowing from banking sources and incremental foreign loan were likely to result in *double jeopardy* for the fiscal balance which could lead to liquidity crisis and increasing expenditures on interest payments.

Increase in the share of block allocation in the ADP from 8 per cent in FY05 to 12.4 per cent in FY06 goes against the budget discipline, Bhattacharya said and added that not a single taka of block allocations of last fiscal year was used till March 2005.

Bhattacharya maintained that implication of the revised income tax rate was that people in the high income brackets will pay relatively less compared to those in low income groups. He said that increase in the tax rate of non-listed companies from 37.5 per cent to 40 per cent would work against the government's policy of poverty reduction and employment generation as it will affect the SMEs which do not have the financing strength to be listed in the capital market. Bhattacharya concluded his briefing by saying that the 'reality check' for the budget for FY06 will be in its implementation.

### CPD Professionals Overseas

#### Rehman Sobhan

Chairman, CPD and Executive Director, SACEPS

- | Attended SACEPS Planning Meeting during 5-7 April, 2005 in New Delhi, India.
- | Attended a Colloquium in remembrance of Lal Jayawardena organised by Global Development Network (GDN) on 8 April, 2005 in New Delhi, India.
- | Attended First Biannual Global Network Conference organised by the Ash Institute during 12-14 April, 2005 in Harvard, the USA.
- | Was on a fellowship offered by Columbia University, New York, USA during April-May 2005.
- | Participated in the Sixth Global Forum on *Reinventing Government- Towards Transparent and Participatory Governance* organised by UNDP, UNDESA, the World Bank Institute, OECD, UN- HABITAT, Transparency International and Harvard University during 24-27 May 2005 in Seoul, South Korea.
- | Attended ECOSOC Meeting of UNDESA on 29 June 2005 in New York.

#### Debapriya Bhattacharya

Executive Director, CPD

- | Participated in *Asian Driver Workshop* held on during 9-10 May, 2005 at the University of Sussex, London, UK.
- | Visited Geneva during 16-26 May, 2005 as part of CPD's Geneva Tracking Mission.
- | Participated in *Strategic Dialogue on Commodities, Trade, Poverty and Substantial Development* held during June 13-15, 2005 at OECD, Barcelona, Spain.
- | Attended the *2005 Regional Trade Policy Course (RTPC)*, as a member of the regional faculty, held on June 21, 2005 at the

- | Participated in the *OECD Global Forum on Trade* held during June 28-29, 2005 at OECD, Barbados.

#### Mustafizur Rahman

Research Director, CPD

- | Visited Geneva during 16-26 May 2005 as part of CPD's Geneva Tracking Mission.
- | Attended Wilton Park Conference in the United Kingdom during 30 May - 4 June 2005.
- | Attended IMF- World Bank Preparatory Annual Conference Meeting in Singapore during 25 June - 1 July 2005.

#### Uttam Kumar Deb

Senior Research Fellow, CPD

- | Visited Geneva during 16-26 May 2005 as part of CPD's Geneva Tracking Mission.

#### Fahmida Khatun

Senior Research Fellow, CPD

- | Attended workshop on Fisheries and Trade organised by International Centre for Trade and Sustainable Development (ICTSD) in Geneva on May 9-11, 2005.
- | Visited Geneva during 16-26 May 2005 as part of CPD's Geneva Tracking Mission.

#### Khondaker Golam Moazzem

Research Fellow, CPD

- | Attended Consultative Meeting on *"Foreign Direct Investment and Policy Challenges: Areas for New Research"* and presented a paper on *"Attracting FDI to South Asian Countries: Need for Policy Changes in View of South East Asian Experience"* during 12-13 May, 2005 in Bangkok, Thailand

#### Syed Saifuddin Hossain

Research Associate

- | Participated in the *ARTNeT Trade Facilitation Research Team Meeting* and the *UNCTAD-UNESCAP Round Table on Trade Facilitation* during May 25-27, 2005 at the United Nations Conference Centre (UNCC) in Bangkok, Thailand.



# Harmonisation of Aid Procedures Vital for Efficient Utilisation of Aid

Speakers Observe at CPD Dialogue on Utilisation of Aid in Bangladesh

Foreign aid disbursement procedures should be harmonised and cross-conditionalities reduced to ensure efficient utilisation of external resources. Both the donors and recipients should harmonise their respective aid procedures and adopt a common frame.

The above observations came at a CPD dialogue on *Utilisation of Aid in Bangladesh: Concerns and Challenges* held on April 12, 2005 at CIRDAP auditorium in Dhaka. The dialogue was organised as part of disseminating the output of CPD's flagship publication, the IRBD 2003.

Mushfiqur Rahman, MP, Chairman, Parliamentary Standing Committee on Ministry of Finance and Planning, GoB was present at the dialogue as the Chief Guest, while Vice Principal Md Abdus Shahid, MP, Hon'ble Chief Whip of the Opposition attended as Guest of Honour and Zakir Ahmed Khan, Secretary, Finance Division, Ministry of Finance and Planning, was present as the Special Guest. In addition, high level government officials, members of the Parliament, academics, representatives, from donor agencies, members and leaders of civil society organisations, economists, businessmen and journalists participated in the dialogue.

The Dialogue was chaired by M Syeduzzaman, Member, CPD Board of Trustees, and Former Finance Minister.

A K M Masihur Rahman, CPD-IRBD 2003 Team Member and Former Secretary, Economic Relations Division, GoB presented the keynote paper based on his contribution to the IRBD 2003. Rahman said that in the early 1990s, foreign aid was mainly in the form of grants and bilateral aid, but by the end of the last decade and also in the beginning of the current decade, loan and project aid became more important in the aid basket. He observed that in recent years the share of loan in the pipeline is increasing because of donor conditionalities on the one hand and low and inefficient aid utilisation by the recipients on the other.



CPD Dialogue on Aid Utilisation in Bangladesh: (from left) A K M Masihur Rahman, Vice Principal Abdus Shahid, MP, M Sueduzzaman, Musfiqur Rahman, MP, Zakir Ahmed Khan, and Amir Khosru Mahmud Chowdhury, MP

The Chief Guest Mushfiqur Rahman, MP, referred to Bangladesh's achievements in terms of the Human Development Index (HDI) and also mentioned about the gains in poverty eradication and infrastructural development which he thought were examples of the positive side of foreign aid. What was pessimistic about foreign aid was that Bangladesh could not realise the benefits of aid as were expected. He felt low disbursement of aid was a reason for concern. The Chief Guest also held the view that project design was important; conditionalities come much later. A lot of interactions take place between the government and the donors at the time of project design and feasibility study.

Therefore, conditionalities should be guarded against at the time of project design, he observed.

Vice Principal Md Abdus Shahid, MP stressed the need for aid for economic

development of the country, to eradicate poverty and meet the challenges of meeting the Millennium Development Goals (MDGs). He maintained that it was important that local government be strengthened for effective utilisation of aid.

Zakir Ahmed Khan, Finance Secretary, informed the dialogue participants that both donors and recipients have now agreed to harmonise aid procedures. "We have to harmonise our own procedures as well so that donors can be confident" he added.

Expressing consensus about Bangladesh's inability to utilise aid, the dialogue participants observed that reforms suggested by donors will not help unless we can improve our state of governance and get rid of corruption and inefficiency in all their manifestations.

## Admirable Gesture of Bangladesh Civil Society to Help Tsunami Victims

As a gesture of fellow feelings and an expression of solidarity with the sufferings of the people, civil society of Bangladesh organised a fund raising effort for the victims of last year's devastating Tsunami in India, Sri Lanka, Indonesia and the Maldives. The unique initiative to support the Tsunami victims was initiated by CPD Chairman and SACEPS Executive Director Rehman Sobhan. It may be mentioned here that an account named *Bangladesh Citizen's Fund for Tsunami Victims (BCFTV)* was opened to raise the fund to help the Tsunami victims. A simple ceremony was organised on April 3, 2005 at PKSF auditorium to formally hand over the amount of Tk 3.87 crores mobilised as part of this effort.

Ambassador of Indonesia H. E. Warmas Hasan Saputra, High Commissioner of Sri Lanka H. E. Gamini S Munasinghe and Indian High Commission's Counsellor Ajit Gupta received the donations. They appreciated this initiative of the Bangladesh civil society and expressed their deep appreciation to the common people of Bangladesh for their support to the victims during their sufferings.

BRAC, PKSF, DCCI, CPD, Bank Asia, ICCB, Citibank N. A. and Sunbeams School took part in raising the fund. Students, business people, poor village women and micro-credit borrowers of NGOs and individuals from various walks of life contributed to the fund.



# Budget Reflects Political Philosophy of the Government; Good Governance Key to Development

Finance Minister Tells CPD Dialogue on Budget FY2006

CPD organised a dialogue on *State of the Economy and Budget Responses 2005* at Dhaka Sheraton Hotel Ballroom on June 19, 2005. Finance and Planning Minister M Saifur Rahman, MP was present as Chief Guest. Salehuddin Ahmed, Governor, Bangladesh Bank was the Guest of Honour and Zakir Ahmed Khan, Finance Secretary was the Special Guest. In addition, a distinguished set of participants drawn from cross-section of society including policymakers, former ministers, members of the Parliament, civil society representatives, researchers and journalists took part in the dialogue. Rehman Sobhan, Chairman, CPD moderated the dialogue.

While presenting the findings of CPD's budget analysis Debapriya Bhattacharya, Executive Director, CPD identified six challenges facing the budget for FY06. These were: *slow progress* in revenue mobilisation, *inability* to implement public investment programmes, *upsurge* in inflation rate, *delicate balance* in external payments situation, *failure* to undertake complementary reforms for improving the environment for private investment, and *widening income disparity* between the rich and the poor.

The Minister appreciated CPD efforts in presenting a thorough analysis of the national budget. "The homework of your organisation is excellent", he said.

The Minister stated that the country's economic condition could not be improved only through budget; governance was crucially important and here the nation witnessed a "collective failure". According to the Minister the proposed budget reflected the philosophy of the current



Finance Minister M Saifur Rahman addresses the CPD dialogue on budget FY06 while A M A Muhith, Rehman Sobhan and Zakir Ahmed Khan pay attention.

government. "We have the people's mandate and it is natural that our commitment will be reflected in the budget." he maintained. The Minister also emphasised on accountability and transparency of local government system.

On whitening of the black money, the Minister noted that tax amnesty for undisclosed income was extended considering some economic and non-economic rationale justifying such a step.

Former Finance Minister A M A Muhith, and some other participants commented that the proposed budget was ambitious and the government's capacity to implement the budget was questionable. Some were apprehensive that the large block allocations would be used for election purposes. Muhith added that the budget made all kinds of compromises with various pressure groups in order to satisfy

their vested interests. *Gram Sarkar*, against which 60 crore taka are allocated, does not exist in reality, some pointed out.

Zakir Ahmed Khan maintained that all allocations were for development and no distinction should be made between revenue and development budget. "No money is spent on any unapproved project," he said.

World Bank Country Director Christine Wallich expressed her disappointment as regards continuing higher reliance on trade taxes. She also pointed out that fiscal measures proposed in the budget has increased the level of protection in the economy. She underscored the need for detailed discussion on the budget in the Parliament.

Ali Ashraf, MP, Professor Abu Ahmad, Professor Momtaz Uddin Ahmad, DCCI President Sayeeful Islam, Abdul Khaleque, MP, Former BTMA President Matin Chowdhury, also took part in the discussion.

## Young Scholars' Seminar Series (YSSS)

Nafisa Khaled, Programme Associate, CPD presented a paper on *Urbanisation Trend and its Impact on Municipal Service Delivery* at CPD Dialogue Room on April 20, 2005. The study noted that since independence Bangladesh had been experiencing rapid urbanisation as a consequence of massive rural-urban migration. This rapid pace of urbanisation, coupled with government's unfavourable policies and centralised developmental efforts, have contributed to the present dismal situation with municipal service deliveries. Ms Khaled found that paurashava services were not growing at fast enough rate and, thereby, creating immense pressure on the existing delivery channels. The criteria of defining the urban area are not also strictly maintained while demarcating paurashava. Interestingly, she found that paurashavas with large population provides better service than those having small population. The paper also revealed that some paurashavas were not able to collect any revenue and are creating pressure

on Government. Lowly densed paurashavas are particularly weak in their revenue mobilisation efforts. Ms Khaled put forward a number of recommendations which include channeling development fund from central government to paurashavas having lower level of service quality, developing strategies to minimise regional disparity among paurashavas, decentralising administrative, economic and social investment in smaller towns, not declaring urban areas as paurashavas which do not fulfill eligibility criteria, adoption of efficient taxation policy to mobilise higher revenue, encouraging private sector and active community participation in service delivery, creating job opportunities in small towns to help arrest rural-urban migration and improving performance of urban governance bodies.

**Upcoming Seminar :** Kazi Mahmudur Rahman, Senior Research Associate, CPD will make a presentation on *Special and Differential Treatment in the WTO: Implications on Agreement Specific Proposal for the LDCs* in September at CPD Dialogue Room



# Bangladesh Should Play a More Pro-active Role in WTO Trade Negotiations

*CPD Suggests Bangladesh's Roadmap to Hong Kong Ministerial Meeting*

CPD press briefing on *Current WTO Negotiations Under Doha Round* was held on 29 May, 2005 at CPD Dialogue Room. The press briefing coincided with the release of the CPD report titled "*Road to Hong Kong Ministerial of the WTO: Anticipating the 'First Approximations' from Bangladesh Perspectives*" which was prepared by CPD Geneva Tracking Mission members who visited Geneva during May 16 - 25, 2005.

Undertaken as part of CPD's *Trade Related Research and Policy Development (TRRPD)* programme, the purpose of the Tracking Mission was to assess Bangladesh's potential gains and losses from the ongoing Doha negotiations and to contribute to Bangladesh's preparation for the forthcoming LDC Trade Ministers' Conference in Livingstone, Zambia during 25 - 27 June, 2005. The insights from the visit were expected to contribute to the design of Bangladesh's policy stance as regards the Sixth Ministerial Meeting of, the WTO in Hong Kong to be held during 13 -18 December, 2005.

Debapriya Bhattacharya, Executive Director, CPD briefed the press about the aforesaid visit and the report. CPD Geneva Tracking Mission Team Members Professor Mustafizur Rahman, Research Director, Uttam Kumar Deb, Senior Research Fellow, Fahmida Khatun, Senior Research Fellow, Ananya Raihan, Research Fellow (on leave), CPD also took part in the question and answer session with media representatives that took place following the presentation.

In his remarks, Bhattacharya hoped that if decisions favouring the LDCs are taken at the MDG Summit in September 2005, which will be held under aegis of the UN General Assembly, and also G-8 meeting in June 2005 Bangladesh will stand to gain.

Bhattacharya informed the press that discussions on agriculture was gaining momentum, but no significant headway could be evinced as regards other sectors such as non-agricultural market access (NAMA), services (GATS), WTO rules and development provisions. WTO was ready to lower the "ambition level" as regards the outcomes of the upcoming General Council Meeting, he cautioned.

Bhattacharya pointed out that developed, developing and least developed countries have divergent positions in the negotiations on agriculture.



*CPD's Geneva Tracking Mission Team Members meet WTO DG on May 17, 2005 . From Left to Right: Alain Frank, Director, External Relations Division, WTO; Toufiq Ali, Bangladesh Ambassador to WTO; Supachai Panitchpakdi, Director General, WTO; Debapriya Bhattacharya, Executive Director, CPD and Mustafizur Rahman, Research Director, CPD.*

Whilst developing countries considered agriculture as the engine of progress in the current negotiations and that negotiations in agriculture will accelerate discussions in other sectors, the developed countries felt that negotiations on all sectors should proceed in tandem.

As regards agricultural subsidy, Bhattacharya warned that if developed countries reduce subsidy in agriculture, it could push up prices of agricultural products in an import-oriented country. If the US withdraws subsidy, the price of cotton too could rise. These developments could impact negatively on import-dependent Bangladesh's economy.

Bangladesh may come out loser in trade negotiations if deeper cuts in tariffs are agreed upon in sectors of vital interests to Bangladesh such as textiles, leather, footwear, and ceramics, Bhattacharya apprehended, as this may lead to preference erosion enjoyed under the GSP schemes.

The CPD Executive Director noted that if the advanced developing countries such as Brazil, India, Russia and China (BRICs) give access to Bangladeshi goods, it could regain some of the losses expected from NAMA negotiations. He underscored the need for utilising Bangladesh's export potential in the traditional markets, especially in the EU.

Discussion on the movement of natural persons under Mode-4 did not proceed much and would not advance further as the matter has already become linked with the issues of immigration and terrorism, Bhattacharya observed.

Bhattacharya urged the government to continue pushing for zero tariff market access for Bangladeshi products in the US markets.

Bhattacharya emphasised on the need for unity among the LDCs. He informed that CPD will organise an International Civil Society Forum prior to the Hong Kong Ministerial in partnership with civil society organisations from the LDCs and also organisations from developed countries dealing with trade related issues.

Mustafizur Rahman underscored that it was important to gain support for the LDCs in the MDG Plus Five Summit. If political support could be mobilised in favour of MGD-8 which call for global partnership through aid, trade and credit, it would have an impact on the outcomes of the Hong Kong Ministerial.

## Condolence Meeting

CPD organised a Condolence Meeting on May 30, 2005 to mourn the death of Abdus Salam, Driver, CPD, who had served CPD for 10 years. Salam passed away on May 16, 2005 at the age of 62. CPD staff including Rehman Sobhan, Chairman and Debapriya Bhattacharya, Executive Director expressed deep shock at his death and expressed sympathy for the bereaved family of late Salam. CPD professionals observed one minute silence and prayed for the salvation of the departed soul.



# Economy Shows Mixed Signals in FY05; Challenges Lie Ahead in the Year of Electoral Politics

*Independent Review of Bangladesh's Development (Second Reading) Released*

As part of its Independent Review of Bangladesh's Development (IRBD) 2005 programme, CPD undertook a review of the performance of the economy during the FY05. The assessment report, titled *State of the Bangladesh Economy in the Fiscal Year 2004-2005 (Second Reading)* was placed before press briefing held on 4 June, 2005 at CPD Dialogue Room. Debapriya Bhattacharya, Executive Director, CPD made the presentation on behalf of the CPD-IRBD team.

The CPD review identified eight hazards which successive governments tend to repeat in election year budgets. These include bloated public investment programmes, adverse selection of projects and programmes, tendentious award of tax and tax relief, contracting of questionable suppliers' credit, patronage distribution through public procurement and through privatisation of state-owned enterprises (SOEs), issuance of licences to new banks and insurance companies. The hazards were identified in view of the country's macroeconomic performance in FY05 and in the context of economic policymaking in a year of political transition.

The CPD review noted that the economy in FY05 recovered effectively from twin shocks of Flood 2004 and final phase-out of the MFA-quota. Other positive developments included bumper Boro production of estimated 13.75 MT, reactivation of Privatisation Commission, increased liquidity flow to the capital market, buoyant foreign remittance, improved offtake of foreign aid, and credit expansion to the private sector as well as to the agriculture sector.

The CPD review identified six major sources of fragility and credibility gap which afflict the current macroeconomic stability in Bangladesh. These include: weaknesses in the economy emanating from the systemic failures to implement public investment programmes in the face of growth in government expenditure, discernible shortfall in the revenue collection and increase in direct tax at a slower pace than domestic VAT and non-fulfilment of ADP targets, upsurge in the inflation rate and creeping consumer price index, strain on the balance of payment in the second half of the FY05, and widening income disparity.

Presenting the review Bhattacharya informed the press that the GDP growth was not creating enough employment opportunities which could have successfully addressed the objective of poverty reduction. He was also critical of

the upward revision of GDP growth rate at 6.3 per cent noting the limitations in its estimation methodology. He added that the contribution of real economic sectors (agriculture and industries) to the incremental growth declined from 33.6 per cent in FY04 to 27.3 per cent in FY05 while the share of services sector has increased from 44.6 to 60.9 over the same period. This structural transformation of the economy will aggravate the poverty situation as poor people do not have adequate skill and the required education to get employment in the services sector, Bhattacharya noted.

Regarding the ADP of Tk. 24,500 crore for FY06 Bhattacharya said though it is respectively 11.4 per cent and 19.5 per cent higher than the original and revised ADP of the previous year. He was of the opinion that a large ADP target was worth chasing for, however implementation was a major challenge that needed to be tackled.

Bhattacharya has also expressed concern regarding the increase in the prices of diesel and kerosene by 13 per cent in May

2005. This would directly and negatively affect the rural poor through higher cost of irrigation and through transportation cost of agricultural commodities.

The State of the Bangladesh Economy report noted that between 1999 and 2004 per capita income of the poor increased by 4.8 per cent, while the increase was 19.4 per cent for the non-poor, the income differential between the poorest and the richest 10 per cent of the population increased from 20 times in 1999 to 24.5 times in 2004.

Bhattacharya recalled the January 2005 study of CPD where five major challenges for the economy for next six months were identified - food price inflation, Boro production, ADP implementation, utilisation of foreign aid, and new Initial Public Offerings in the capital market. The second reading of interim IRBD revealed that only one concern i.e. Boro production was assuaged to some extent and foreign aid utilisation was addressed marginally over the preceding six months. Other challenges continued to remain nagging concerns.

## Upcoming Events

- | First meeting of the National Advisory Committee (NAC) of International Civil Society Forum on July 17, 2005 at CPD Dialogue Room
- | Pre-election Consultation Meeting with development partners on July 19, 2005 at CPD Dialogue Room
- | SACEPS Executive Committee Meeting on August 1, 2005 at CPD Dialogue Room
- | SACEPS Board Meeting on August 2, 2005 at CPD Dialogue Room
- | Pre-Election Consultation Meeting with the Chairs, Co-Chairs and Member Secretaries of the Task Forces on August 22, 2005 at CPD Dialogue Room.
- | Seminar on Promoting Regional Cooperation in South Asia: Issues for the Dhaka SAARC Summit on August 3, 2005 at BRAC Center INN.
- | Indo-Bangladesh Dhaka Dialogue at BRAC Centre INN during August 6-7, 2005.
- | Advanced Lecture on Bangladesh Economy at CPD Dialogue Room during August 21-23, 2005.
- | Dialogue on Upcoming National Election: Planning the Role of Civil Society on August 25, 2005 at BRAC Center INN.
- | Macroeconomic Expert Group Meeting on August 28 at CPD Dialogue Room.
- | Dialogue on Millennium Development Goals in September 2005 at CIRDAP Auditorium
- | Pre-election Consultation meeting with Young Professionals on Sept. 7 at CPD Dialogue Room.
- | IRBD Workshop at CPD Dialogue Room during September 14-15, 2005
- | Press briefing on Global Competitiveness Report on September 28, 2005

## CPD Website at a Glance

- | Average visitor per month: 5000 persons
- | Average bandwidth use per month: 1.6GB
- | More than 50 percent visitors are from European countries and North America
- | Web casting of Post budget analysis enjoyed wide coverage this year
  - Total viewers this year: 8333 (170 per cent increase over last year)
  - Total viewers last year: 3078
  - Bandwidth used during web casting was 6 times compared to a month's bandwidth use.
- | Total download of IRBD 2005 (second interim): 3777 (in the first 30 days)
- | Total download of IRBD 2005 (first interim): 606
- | Total download of CPD Budget analysis 2005-06: 390
- | Total documents (pdf) downloaded from CPD's website: 10878 (in first 4 months)



# Trade Liberalisation has Mixed Impacts on Agriculture

## Experts Tell CPD Dialogue

The Centre for Policy Dialogue (CPD) organised a dialogue on *Impact of Agricultural Trade Liberalisation on Cropping Pattern in Bangladesh* at the CIRDP auditorium on May 5, 2005.

State Minister for Agriculture Mirza Fakhru Islam Alamgir, MP was the Chief Guest at the Dialogue while Awami League lawmaker Mohammad Abdur Razzaque, MP was the Guest of Honour. Commerce Secretary Siddiqur Rahman Choudhury attended the dialogue as Special Guest. M Syeduzzaman, Member, CPD Board of Trustees and Former Finance Minister, moderated the dialogue. Researchers, high-level policymakers, civil society representatives, NGO leaders, economists, academics, and journalists attended the dialogue.

Uttam Kumar Deb, Senior Research Fellow, CPD presented the keynote paper titled *Agricultural Trade Liberalisation and Changes in Cropping Pattern in Bangladesh*. He observed that over the last two decades Bangladesh agriculture has experienced important policy reforms and liberalisation of the agricultural trade. Deb pointed out that in Bangladesh the area under different crops and cropping pattern have changed in response to agricultural trade liberalisation. He added that while area under crops having comparative advantage (such as HYV Boro rice, HYV T. Aman rice, potato, vegetables, maize) has increased, acreage of crops (such as wheat, sugarcane, oil seeds, Aus rice) which do not enjoy comparative advantage has indeed experienced decline during 1980/81 to 2003/04 period.

The State Minister observed that agriculture sector of the country experienced substantial growth due to sustained government support. Non-farm sector has also flourished over time. However, the traders, instead of farmers, have benefited more from liberalisation,



Dialogue on Impact of Agricultural Trade Liberalisation on Cropping Pattern in Bangladesh : (From left) Mohammad Abdur Razzaque, MP; M Syeduzzaman, Former Finance Secretary and Member, CPD Board of Trustees; Mirza Fakhru Islam Alamgir, MP, State Minister for Agriculture; and Siddiqur Rahman, Commerce Secretary are seen in the picture.

CPD Executive Director Debapriya Bhattacharya suggested that the price of diesel should be kept at reasonable level to help increase crop production and ensure food security. He emphasised on the need for establishing a laboratory to ensure quality and standard of exportable agri-products.

Commerce Secretary Siddiqur Rahman Choudhury emphasised on the role of farmers' organisations for ensuring their due share from increased trade. He added that export of agricultural products has increased by 131 percent during the July-March of FY05 period against the comparable months of the previous year.

Mohammad Abdur Razzaque, MP felt that the government is yet to take any decision about providing subsidy on diesel price for agriculture which was recommended by the Parliamentary Standing Committee on Agriculture. He requested the government to seriously consider this proposal.

Discussion from the floor emphasised such issues as pricing of inputs and agricultural products, incentives to producers,

marketing, promotion of export and Bangladesh's stance in the ongoing WTO negotiations in Agriculture. The participants felt that the government should increase its support for agriculture including subsidy for diesel used for irrigation; the existing procedure of utilisation of subsidy needs to be revisited to ensure efficient utilisation. It was observed that Bangladesh has liberalised its agriculture but subsidy and tariff barriers on agricultural products in the developed countries were negatively affecting Bangladesh's export. Government and private sector should set up modern laboratories and appropriate certification system to satisfy the sanitary and phytosanitary (SPS) requirements in the developed countries; this would help increase exports.

Amongst others, Professor M A Sattar Mandal of Bangladesh Agricultural University, Nazira Quraishi Kamal, Director (Research) of BRR, Sajjad Zohir of BIDS, Jahangir Alam of BARC, Hasanul Haq Inu, President of Jatiyo Samajtantrik Dal and A F M Fakhru Islam Munshi, President of the Agribusiness Development Organization of Bangladesh (ADOB), took part in the discussion.

### From Research Division

The following research activities were carried out by CPD during the second quarter of 2005:

#### CPD's Business Competitiveness Survey

CPD carried out the Executive Opinion Survey 2005-2006 during February to April on Business Competitiveness Environment 2005. This is the fifth time CPD has undertaken the Survey since 2001 when the first survey was conducted in joint collaboration with World Economic Forum (WEF). A total of 93 top business executives from different sectors responded to the survey which is designed to capture their perception on various business environment related issues including macroeconomics, governance and institutions. The findings of the survey will be presented at a press conference in

September. Major objectives of the survey were to: i) identify major factors constraining proper functioning of the business sector in the country; ii) generate information on achievements of the country with respect to environment for trade and investment; iii) understand inter-temporal changes in competitiveness environment situation based on findings generated in previous years, and iv) provide inputs to policy makers as regards prioritising areas for improving economic performance.

CPD will publish a research report titled 'Business Competitiveness Environment in Bangladesh' based on the findings of all the surveys that has been carried out in the last five years.

#### IRBD 2004

CPD is, at present, working on the preparation of the Volume Two (Thematic Part) of the IRBD2004. This part of the IRBD2004, titled *Regional Cooperation in South Asia*, will focus on

(Cont. Page 8)



## From Research Division

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cooperation in the area of trade investment, energy, poverty alleviation and a number of other areas in the context of regional cooperation among the countries of South Asia.

### **CPD-ARTNeT Study on Trade Facilitation**

CPD is currently carrying out a study titled *An Evaluation of the Need and Cost of Selected Trade Facilitation Measures in Bangladesh: Implications for the WTO Negotiations on Trade Facilitation* in collaboration with ARTNeT, a network of research institutions working under the umbrella of the UNESCAP. The objective of the study is to evaluate the need for, and the cost of, implementing relevant trade facilitation measures in Bangladesh in the context of the ongoing WTO negotiations on trade facilitation. It is expected that the study will provide a better understanding of the needs and priorities of Bangladesh, as well as provide quantitative and qualitative information on the cost of selected trade facilitation measures related to Article V, VIII, and X of GATT 1994. It may be noted here that similar studies are being carried out in China, India, Indonesia and Nepal under the ARTNeT programme. CPD Executive Director Debapriya Bhattacharya and Research Associate Syed Saifuddin Hossain are working on the study.

### **Trade Related Research and Policy Development (TRRPD) Programme**

A study titled *NAMA Negotiations and Strategies for Bangladesh* is currently being carried out at the CPD under this programme. The main objective of this study is to examine the possible impact of the ongoing negotiations in NAMA including the implementation of possible tariff preference erosion on Bangladesh's export sector and export competitiveness.

CPD is currently implementing a study titled *The Importance of the China Factor for Bangladesh's Export of RMG in the US Market*. The study undertakes an indepth examination of the relative competitiveness correlates of Bangladesh and China in the US market. Towards this, the study will investigate the export performance of Bangladesh and China in the US market, price dynamics, and identify the sources of strengths and weaknesses of Bangladesh vis-à-vis China. The study attempts to identify categories in which Bangladesh has dynamic comparative advantages with respect to China. Hopefully, the study will be able to identify Bangladesh's area of core competitiveness in the apparels trade and help the policy makers to

take appropriate measures to sustain and strengthen Bangladesh's future competitive presence in the US and EU apparels market.

### **National Budget 2005-2006**

Following the presentation of the National Budget for FY2005-06 on June 09, 2005 by the Finance Minister, CPD prepared an analysis of the various proposals made in the Budget. This particular research was designed to undertake a comparative study of the pre-budget suggestions and their reflections in the budget proposals and analyse the implications of the various fiscal measures proposed in the budget.

### **Research Proposals Submitted**

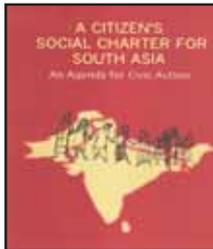
Proposal for a study titled *Rules of Origin and Non-Tariff Barriers in Agricultural Trade: Perspectives from Bangladesh and Cambodia* has been submitted by the CPD to the ARTNeT. The study will focus on Rules of Origin (RoO) and non-tariff barriers in selected countries (USA, EU, Japan, India and Thailand) and their impacts on export of agricultural products from the perspectives of Bangladesh and Cambodia. It is expected that successful completion of the study will provide a more informed understanding of the rules of origin and non-tariff barriers in agricultural trade in developed and developing countries. Governments of Bangladesh, Cambodia, and other LDCs and developing countries are expected to benefit from the study in formulating their WTO negotiation strategies on agriculture and related negotiations (such as SPS and TBT).

CPD has submitted another study proposal titled *LDCs Interest in the Proposed Changes to the Special and Differential Treatment at the WTO* to the ARTNeT. It is hoped that the outcome of the study will assist LDCs such as Bangladesh to assess the progress in the current negotiations on S&D provisions, and articulate their demands in a more informed way. An investigation with the current negotiations as regards S&D is expected to raise awareness in LDCs and development community about the current state of play in Geneva, assess the value of S&Ds on which consensus has been reached and articulate the needs of LDCs with respect to S&D provisions in light of their trade flow situation. The study is expected to allow LDC governments to have an assessment as regards the implications of the proposed changes in the various S&D proposals, help identify areas of interventions to take advantage of the aforesaid changes, and help articulate further changes in other S&D provisions in the WTO.

## Publications

### **Book**

**A Citizen's Social Charter for South Asia: An Agenda for Civic Action (2005)**



**Edited By: Rehman Sobhan**

This is the first volume published on Citizen's Social Charter for South Asia (CSCSA) prepared over a period of six years involving citizens' groups from South Asian countries. The volume is divided into two parts. Part I presents the CSCSA and the National Citizen's Social Charters in six South Asian Countries i.e., Bangladesh, India, the Maldives, Nepal, Pakistan and Sri Lanka. The Charter documents spell out a charter of obligations for each of South Asian states to address such vital social issues as eradication of poverty, empowerment of women, protection of children and the aged, environmental degradation and utilisation and development of human resources. The charters articulated various plans of action, policies and programmes and allocation of resources needed by the states to meet their obligations under the charters. Part II reviews

the preparatory process involved in drafting the charters. It contains the reports of three meetings of the Citizens' Task Force set up to prepare CSCSA convened by SACEPS in 2002, 2003, 2004 in Dhaka and Colombo.

### **Dialogue Reports**

**Regionalism Vs Multilateralism: What Could Bangladesh Learn from the Global Experience? Report No. 78 (May 2005)**

**Citizen's Voice in Health Policy and Programming: Setting Agendas and Establishing Accountability. Report No. 81 (June 2005)**

### **Occasional Papers**

**Preferential Market Access in the Canadian Market: Maximising Benefits for Bangladesh. Paper No. 48 (June 2005)**

This occasional paper prepared by May Yeung, Research Associate, Estey Centre for Law and Economics in International Trade, Saskatoon, Canada explored the Canadian Market Access Initiative (MAI) that granted duty and quota-free access facility to the Least Developed Countries (LDCs) under the LDC-friendly Rules of Origin (at 25 per cent value addition). The paper identified opportunities for Bangladeshi products in the Canadian market and highlighted the challenges Bangladeshi exporters face in diversifying their export baskets in Canadian market.

**Road to Hong Kong Ministerial of the WTO: Anticipating the "First Approximations" from Bangladesh Perspectives. Paper No.49 (May 2005)**

The paper was prepared by Debapriya Bhattacharya, Mustafizur Rahman, Uttam Kumar Deb, Fahmida Khatun, and Ananya Raihan. In this paper, CPD assesses Bangladesh's potential gains and losses from the ongoing Doha Development Round negotiations. One of the objectives of the paper was to contribute to Bangladesh's preparations for the forthcoming LDC Trade Ministers' Conference in Zambia in June as well as for the upcoming WTO Ministerial Meeting in Hong Kong. The report also reviews the current negotiations status under the WTO framework on key issues such as agriculture, NAMA, Services (GATS), S&D Treatment of Developing countries and LDCs as well. The paper puts special emphasis on the implications of reduction in subsidies and domestic support by developed countries for LDCs including Bangladesh and suggests their possible strategies in the negotiation processes in the context of next WTO Ministerial Meeting in Hong Kong in December 2005.

### **CPD Professionals' Publications**

Billah, M., (2005): *Air Pollution Intensity Mapping of Khulna City As Health Risk To Urbanites*; paper published at the Second International Conference and Exhibition on Geographic Information, Estoril, Portugal.

Hossain, S.S. (2005) *Dispute Settlement in the WTO: Challenges and Opportunities for the LDCs*; Bangladesh Journal of Law; BILIA; Vol. 7 Nos. 1 & 2; June & December, 2003 (Published in June, 2005); ISSN 1609-3593; pp. 43-80.