Report No. 19

THE STATE OF THE BANGLADESH ECONOMY AND BUDGET RESPONSES '99

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December, 1999

The Centre for Policy Dialogue (CPD)*, established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together ministers, opposition front benchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.*

In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include ***The Independent Review of Bangladesh's Development (IRBD), Governance and Development****,* ***Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System*** *and* ***Leadership Programme for the Youth****. The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.*

As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of a two-day long dialogue on ***The State of the Bangladesh Economy and Budget Responses '99*** *held at Hotel Sheraton on June 22-23, 1999.*

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Dialogue on

The State of the Bangladesh Economy and Budget Responses '99

i. The Dialogue

A two-day long dialogue on ***The State of the Bangladesh Economy and Budget Responses '99*** organised by the Centre for Policy Dialogue was held on 22nd and 23rd June 1999. Mr. S.A.M.S. Kibria, Finance Minister, Government of Bangladesh inaugurated the dialogue. With Prof. Rehman Sobhan, Chairman, CPD in the chair the dialogue was attended by ministers, former ministers, senior government officials, experts, academics and representatives of various development agencies (list of participants is annexed). This dialogue report presents summaries of keynote presentations and subsequent discussion.

Speech by Mr. S.A.M.S. Kibria, Hon'ble Minister for Finance, Government of Bangladesh

Drawing attention of the dialogue participants to the macroeconomic context which informed the preparation of the budget for the year 1999, Mr. SAMS Kibria gave his opinion on a number of issues which played a critical role in determining the performance of Bangladesh economy in FY 1998. Mr. Kibria mentioned about both internal and external factors which had put snags on the economy in FY 1998. He put forward the international and regional perspectives for development which he found to be not very optimistic and noted that the global growth rate had fallen and trade and investment flows had also declined in the recent past. Coming to the national context, he opined that recent floods have overshadowed all plans and programmes of development which the government of Bangladesh had initiated earlier. Inspite of this debacle, the economy received a boost thanks to the bumper production of *boro* crops which boosted the GDP growth, and made it possible for Bangladesh to attain a GDP growth which was, by latest estimates, about 5.2 percent.

Expressing his view regarding the current discourse pertaining to the much debated high GDP growth rate, Mr. Kibria expressed his confidence that the latest GDP growth estimates were founded on solid grounds and thought that there was little scope for confusion since the method of estimation was similar to the one used during the previous Government. In this connection, he recalled that his government has provided critical support and incentives to the agri-sector which had contributed to bumper *boro* production in FY 1999 and argued that timely interventions in the form of provision of fertilizer and other inputs to the farmers proved to be very effective; timely disbursement of large volume of agri-credit to the farmers also played a crucial role in attaining high GDP growth.

In response to a question as to why the price of rice was still high despite the bumper *boro* crop production, Mr. Kibria said that it was the policy of the government to ensure good prices for the farmers by means of higher procurement price of rice. The rise in this price by Tk. one per kilogram was the principal reason behind the relatively high price of rice. He emphasised that the government had fixed the price of rice and wheat at levels which were on the one hand attractive to the farmers, and on the other did not fuel domestic inflation. As a result, agro-processing industries had also been receiving high incentive, he added.

As regards tax collection target, he admitted that the target set for the following fiscal year was an ambitious one. However, he expressed confidence that targets would be achieved. He denied ever saying that it would not be possible to collect more revenue, rather, he claimed that what he said was that he would not introduce any new tax other than extending the tax net under the VAT.

Referring to the proposed significant cut in the price of industrial raw materials in the budget, Mr. Kibria argued that the budget was targetted to boost the industrialisation process in Bangladesh. He emphasised that the present government had been trying to encourage exports; however, he was of the opinion that the export sector should not be given unlimited financial or monetary benefits since this might lead to inefficiency in the economy which might result in loss of competitiveness as a consequence.

Speech by Begum Matia Chowdhury, Hon'ble Minister for Agriculture and Food, Government of Bangladesh

Echoing the Finance Minister's claim about attainment of high GDP growth rate, Begum Matia argued that despite the unprecedented flood and a prolonged draught which was the most severe in the last 50 years, the country attained a relatively high GDP growth in FY 1999 thanks to the bumper *boro* production. She rejected the challenge made by the opposition political parties and others about the high agriculture growth by showing SPARSO satellite pictures which indicated that in terms of acres coverage *boro* production in Bangladesh had indeed increased tremendously.

Begum Matia informed the participants that the government had fixed the wheat price at Tk. 8.80 in order that farmers could avoid the salient hunger during the month of February and March. She also claimed that the government target of rice procurement was attained almost fully since 3 lac 29 thousand tons had already been procured out of a target figure of 4 lac tons of rice. She claimed that the production was so high that there was a growing demand from different districts for raising the quota for rice procurement. The minister further argued that government had provided both input subsidy and price support to the farmers. One important achievement has been that there was no inflationary pressure in the economy, she opined. According to her, it was the farmers who were the real force behind this achievement. She wondered why the opposition political parties were not ready to accept this achievement and give due credit to the farmers. This achievement was a pointer to the success of the government's rural credit programmes, she emphasised.

Regarding the Finance Minister's claim pertaining to the growth rate, Begum Matia thought that it was an accurate estimation and added that such estimates reflected bumper production of *boro*, potato, wheat, oil seeds and maize. Referring to growth rate of agricultural products during the BNP regime she said that it was frustratingly low. She argued that the rise in agricultural production was mainly due to the timely support provided by the government to the farmers. In this connection she also drew attention of the participants to some of the recent steps of the government towards poverty alleviation including introduction of old people's benefit scheme and allocation of Taka 25 crore for the benefit of distressed people. She claimed that the present government was *pro-poor* as against *pro-poverty.*

ii. Keynote Presentations

Presentation by Dr. Debapriya Bhattacharya on Macroeconomic Performance

In his paper *"Recent Trends in Bangladesh Economy"*, Dr. Debapriya Bhattacharya, Executive Director, CPD presented an analysis on the state of the Bangladesh economy in the year 1999. Dr. Bhattacharya observed that whilst the state of Bangladesh economy was usually subjected to intense public scrutiny during the run-up to the budget session of the parliament and subsequent to the presentation of the national budget, there were a number of other reasons which fuelled the debate and had generated special interest in this particular year. Firstly, there was a natural urge to understand how the economy has fared in compensating the flood induced loses. Secondly, an analysis of the performance in 1999 allowed people to take an overall stock of the economic achievements of the current political regime which was crossing the half-way threshold in its tenure. Thirdly, with the advent of the millennium, 1999 offered an opportunity to look back and make an assessment of the progression made by the country during the last decade of the current century.

Dr. Bhattacharya thought that the rate of savings and investment did not fully support the growth rate as claimed by the Finance Minister. Bangladesh's revenue-GDP ratio was very low even by standards of developing countries. A decline in the level of revenue collection in both real and relative terms had emerged as one of the major disconcerting features during FY1999. According to Dr. Bhattacharya, actual revenue collection in FY1999 was expected to be about 5.2% below the revenue target. In FY1998, the shortfall was about 4.3% whilst in FY1997, the first year of the current government, this level was marginally higher compared to the target. In this connection, he thought that this inability to realise tax revenue targets (NBR component which accounts for 95% of total revenue receipt) was largely responsible for the fiscal deficit, and was of the opinion that significant enhancement of revenue efforts remained one of the major macroeconomic challenges for the coming years.

Although containing the size of government, particularly through imposition of restraints on current account expenditures continued to remain one of the guiding principles of macroeconomic management in Bangladesh, FY1999 witnessed significant overshooting of revenue expenditure targets largely due to the expanded public foodgrains operation underwritten by large volume of food imports, as well as rehabilitation costs of flood damaged infrustructure. In this regard Dr. Bhattacharya also mentioned that even without the flood-induced increase in expenditures, revenue expenditure as a share of GDP had shown no sign of decline during the FY1997 and FY1999. The inability to generate adequate revenue in order to meet the demand for additional public expenditures had compelled the government to resort to borrowing, which had severe implications on interest payment. On account of both domestic and foreign loans, interest payment increased steadily from about 16 per cent of the total revenue expenditures in FY1998 to 17.6 percent in FY1999. He was of the view that additional expenditure was exclusively due to increase in the domestic component. Whilst a large part of the additional claims on public expenditures may have been genuine (e.g. announcing new pay scale for the public servants), it had made little dent in terms of plugging the holes in the allocation of public resources (e.g. with regard to loss making state-owned enterprises).

Drawing attention to the fact that moving current balance of public resource allocation away from revenue expenditures and in favour of development budget had been one of the major challenges for the development administration in the country, Dr. Bhattacharya mentioned that protecting the size of the Annual Development Programme (ADP) and enhancing its size particularly in the face of revenue shortfall was a major achievement of the government of Bangladesh in FY1999. The actual expenditure under ADP in FY1999 exceeded the originally earmarked amount by Tk 4.0 billion (2.9%). Nonetheless, the realised size of ADP as a share of GDP in FY1999 failed to attain the heights registered in FY1995 (8.8% of the GDP). This demonstrated that very little progress had been achieved in this regard. However, the general proposition that the target for budget deficit in Bangladesh is usually achieved through downsizing of the ADP, particularly when the revenue expenditure overshoots the target did not hold true in FY1999, and the budget deficit had been close to the target, Dr. Bhattacharya informed the participants.

In the backdrop of stagnation in revenue collection and decline in the contribution of foreign savings since mid 1990s, borrowing from domestic sources had emerged as the major source of financing the budget deficit in Bangladesh. In this connection Dr. Bhattacharya informed that domestic credit expansion had picked up in FY1999 (July-April) registering a growth rate of 14.03% over the preceding comparable period. This expansion, however, had been spurred by financial compulsions of the government and had led to a squeeze on the share of the private sector, he added.

Highlighting that the agricultural credit disbursement targets in FY1997 and FY1998 had been realised only by 69%, the paper pointed out that in FY1999, for the first time in many years, not only the disbursement target was fulfilled, but this was also overachieved to the extent of 26.3%. The availability of credit in rural areas not only contributed to the bumper harvest of cash intensive crop *boro*, but also to the recovery of the rural economy as a whole in the post-flood period. As regards the industrial credit, it was observed that there had been a modest but steady increase in industrial term loan sanction with some fluctuating offtake. However, the industrial sector in Bangladesh was starved to austerity due to low availability and high cost of institutional finance. Dr. Bhattacharya emphasised the need for establishment of an adequate mechanism to ensure disbursement of high quality project loans. He also called for raising additional resources for the industrial sector through sale of Tk 5 billion worth of domestic bonds and $200 million worth of foreign bonds.

Dr. Bhattacharya observed no significant recovery in the capital market since its crash in October 1996; rather all the major indicators had deteriorated during FY1999. There had been episodic oversubscription (186% in FY99 till April) of IPO shares and debentures; however, the bulk of the undersubscribed IPOs were related to textile and textile related ventures. Dr. Bhattacharya argued that there was little problem in the primary market; rather it was the lack of public confidence regarding transactions in the secondary market which was keeping the capital market so depressed.

Informing dialogue participants that moderate inflation rate was one of the cornerstones of macroeconomic stability, Dr. Bhattacharya told that the inflation rate which remained under double-digit figure for past few years had started to show an upward trend over the last two years. In rural areas, after a sharp rise of first seven months, the rate of inflation had started to fall from February 1999. However, such encouraging trend was not visible in the urban areas, he noted. Nonetheless, "bumper *boro* crop seems to be already putting a sobering pressure on the inflation rate", Dr. Bhattacharya pointed out.

According to Dr. Bhattacharya, the spectacular production performance of the crop sector in FY1999 had been underwritten by a super-bumper *boro* harvest and wheat production. Incremental output of *boro* and *wheat* compensated for the shortfall in *aus* and *aman.* In spite of the floods, food availability was higher in FY1999 (26.32 mln tons) as compared to FY1998 (22.6 mln tons) and FY1997 (21.39 mln tons). This was mainly due to massive foodgrain imports which amounted to 4.92 mln tons. In contrast, the industrial sector had to take a heavy beating due to the prolong and devastating flood of 1998. He found that industrial production had been week and fragile in FY1999. Growth rate in the manufacturing sector fell to 2.5 per cent in FY1999 from the 9.5 per cent achieved in FY1998. Quantum Index of Production (QIP) of large and medium manufacturing industries had increased only by 1.7 % during the first three quarters of FY1999, whereas QIP for small industries was 13.5% lower in the corresponding period when compared to FY1998.

Presenting his analysis of the external sector, Dr. Bhattacharya informed that import had been sluggish during the last half of the 1990s. Imports increased by 4.32% during the first half of FY1999. However, a negative growth of 6.1% is observed once imports of foodgrains are excluded from the figures of FY1999. He cautioned that this six-months period was not a typical period and observed that imports, though food accounted for a large part of it, had accelerated during the second half of the FY1999. As far as the export sector was concerned, the sector was gradually recovering from the aftermath of the flood. However, he pointed out that the export base continued to be narrow as RMG accounted for about 76% of the export receipts in FY1999 (till April).

In terms of foreign investment Dr. Bhattacharya observed that an overall upward trend was discernible, and thought that it was due to investments in the EPZs and in the gas and energy sectors. However, investment in manufacturing sector in the domestic tariff area (DTA) continued, and also there was a negative balance of portfolio investment. He held that the trade deficit need not be considered alarming because of growing export and sluggish import. The flow of remittances had continued to remain buoyant during the recent past in spite of the financial crisis in many host countries. Foreign exchange reserve had remained under pressure. He thought that the pressure would increase if non-food import picked up in the near future. He concluded saying that on most count, the economic indicators of the 1990s were better than those of 1980s. However, if 1980s had been the "decade of stagnation", then the 1990s remained to be a decade of "unrealised potential". Inability to push up the investment rate remained the fundamental flaw of the recent growth experience, he concluded.

Presentation by Dr. Omar Haider Chowdhury on Fiscal Policy

Drawing the attention of the participants to the importance of the statement to the effect that the budget is not an end in itself but a means to achieving end, Dr. Omar Haider Chowdhury, in his paper " A Review of Budget 1999-2000: Implications for Development Policy" analysed the salient features of the budget and its implications and consequences for the Bangladesh economy.

Pointing to the fact that Bangladesh has opted for a market oriented economy, Dr. Chowdhury argued that the size of the government (sum of development and revenue expenditures as a share of GDP) had increased substantially from the early eighties compared to the late nineties. According to Dr. Chowdhury, this was in contradiction to the primary role of the government to maintain macroeconomic stability and its expected reduced economic role which is envisaged in an open competitive economy.

Informing the participants that the level of public expenditures and its composition determine revenue requirements of the government and the nature of development strategy respectively, Dr. Chowdhury mentioned that the share of revenue expenditure in GDP increased from around 6.3 percent in early eighties (1980/91 to 1984/85) to 9 percent by late nineties (1995/96 to 1997/97). As against this, the share of development expenditure in GDP declined from around 9 percent to around 7.7 percent over the same period. The composition of development expenditures showed that the share of social sector (education and religious affairs, population control and family planning, social welfare, sports and culture) in development expenditures has increased from around 10 percent in late eighties (1985/86 to 1989/90) to around 23 percent by late nineties (1995/96 to 1998/99). Such increase in the share of social services was brought about at the cost of economic services, since the share of infrastructure remained static at around 40 percent during the same period.

Dr. Chowdhury observed that the share of directly unproductive sector in total revenue expenditure had gone up from less than 50 percent in 1990/91 (actual estimates) to more than 56 percent by late nineties (revised estimates). The share was envisaged to rise above 60 percent in the current budget. The share of general public services was expected to rise from 15 percent to 20 percent during the current fiscal compared to the previous one. The share of defence was also expected to rise from around 15 to 17 percent during the same period. He informed that the interest burden of foreign debt had declined over the years, while the one on the domestic debt increased from less than 8 percent in FY1991 to more than 13 percent in FY1999. Thus, he observed, interest payment on domestic borrowing was claiming an ever increasing share of public expenditure.

Making the observation that the growth of public expenditure was ultimately constrained by the feasibility of increasing revenue from domestic sources, Dr. Chowdhury said that the revenue effort (total revenue as a percentage of GDP) as well as tax effort (tax as percentage of GDP) of Bangladesh increased since the early nineties, peaked in 1994/95 and thereafter stagnated. Taxes on international trade constituted the major part of the tax yield; value added taxation (VAT) was unable to bring in the expected dynamism in structure of the tax yield. In this connection Dr. Chowdhury pointed out that the ever increasing share of supplementary taxes (from 1.7% of total tax in 91/92 to 16.0 percent in 98/99) bear testament to the failure of the VAT to generate expected revenue. He argued that major weakness of the tax system in Bangladesh during the pre-VAT era was weak administration and poor accounting system. VAT was a relatively more demanding system in terms of the demands on administrative capability and presence of a modern accounting system, so that improvements on both counts was a pre-requisite for the success of the tax system in Bangladesh.

In the backdrop of increasing public expenditure, a stagnating revenue yield had forced the government to borrow both from the foreign as well as domestic sources, Dr Chowdhury informed participants. He was of the view that the borrowing from domestic sources had adverse implications on the economy in the form of inflationary tendencies and crowding out effect on public investment depending on the method of financing. He estimated that the rate of inflation had risen to around 9 percent in FY1999 from around 6 percent in FY1998.

Recalling that one of the major objectives of the government of Bangladesh since its inception had been to eliminate poverty, Dr. Chowdhury argued that even though 28 years has elapsed since independence around fifty percent of Bangladesh's population was still suffering from absolute poverty. Globalisation or marketisation was not going to help alleviate poverty since efficacy of markets as an institution is severely constrained by absence of adequate purchasing power of significant proportions of the population in our country, he opined. He considered market failure as one of the major causes of existence of widespread poverty in poor developing countries such as Bangladesh. Though globalisation preaches free mobility of all factors of production which facilitate competition and maximisation of output, he thought that the process of globalisation as is currently envisaged did not include the cross-country movement of one of the most important factors of production, namely labour. Thus, he noted that the prospect of reducing poverty through migration was bleak in the new world order for poor labour surplus economies such as Bangladesh.

Trade liberalisation, on the other hand, could not make a poor country rich; at its best it may provide enabling environment for development, Dr. Chowdhury opined. There was a close relationship between the benefits derived from opening up trade and the level of economic development. In other words, the government will have to play a crucial role to ensure that the cost of doing business is comparable with that of other developed countries. Otherwise, in a competitive world it will be hard for Bangladeshi entrepreneurs to survive, he emphasised.

In the above context, Dr. Chowdhury concluded that the revenue effort of Bangladesh was stagnating and the tax system was also lopsided. More than 50 percent of the taxes came from taxation on import. Such a tax system cannot be sustained in an environment of economic liberalisation nor can it be defended on the ground of industrialisation of the economy. Therefore, he was of the view that in future GOB will have to increasingly depend on direct taxes and taxes on domestic goods and services to finance the ever increasing public expenditure. Unless public expenditure priorities are set judiciously and implemented efficiently and unless the general public are convinced that the benefits from such expenditures will go to their accounts, the resistance to pay taxes will continue to persist. He thought that the twin problems of raising the revenue and ensuring the effective utilisation of the resources needs to be tackled by strengthening the local level institutions through strengthening of their capability to prepare plans at the local level and more importantly by vesting them with certain fiscal authority as well.

Presentation by Professor Mustafizur Rahman on External Sector Performance

In assessing the performance of the external sector during FY1998 and FY1999, Professor Mustafizur Rahman in his paper "Bangladesh External Sector: Changes and Challenges" focused on three areas: (a) major trends in external sector indicators; (b) policies which influenced external sector performance in recent years; and (c) some of the challenges major facing the Bangladesh export sector as the country sets its objective to translate its *comparative advantages* into *competitive advantage* in a fast changing global market. Highlighting the growing exposure of the Bangladesh economy to global markets which was manifested by an increasing degree of openness in recent years, he observed that Bangladesh's external sector dynamics and macroeconomic performance correlates were becoming ever more entwined, and the country's overall economic performance has come to critically hinge on the performance of her external sector. Evidence shows that the fiscal, financial and institutional reforms of the last decade had contributed to a substantial reduction in the anti-export bias in the Bangladesh economy over the last decade and had led to a major shift from a *resource based* export structure to a *process-based* one in Bangladesh. Since the shift favouring process based export activities did also entail a growing dependence on imports of intermediate inputs, structural changes in imports and overall quality of performance and governance in the import sector had also become an important determining factor for export sector performance of the country.

Drawing attention of the participants to recent trends, Professor Rahman informed that Bangladesh's export sector has registered quite robust growth in the recent past. Such high export growth rates (coupled with concomitant growth of remittances) had enabled Bangladesh to keep the current account deficit to reasonable levels. He, however, informed that export sector growth rate in FY 1999 was yet to match the growth performance registered in FY1995 when growth rate exceeded 37.0%; a significant deceleration in export growth was observed in the first three quarters of FY1999 with projections that the export growth rate would not exceed 3% in FY1999 (the growth rate for the first nine months of FY1999 was only 1.07%). The structure of incremental exports showed that in FY 1998 woven and knit-RMG sectors together accounted for almost all the marginal growth for that particular year, A single item, RMG, accounted for two-thirds of total exports from Bangladesh; six items accounted for 91% of total exports; another 7 items accounted for 5% of the exports whilst the share of the rest 118 items was only 4% of total exports. He cautioned that such a structure reaffirmed the continued lack of export diversification in Bangladesh and testified that the country's growing dependence on exports of RMG products have continued to persist.

According to Professor Rahman, the deceleration in the export growth in FY 1999 could only partially be explained by the negative impact of flood on (a) sourcing of inputs, (b) on export-oriented production activities, and (c) on marketing of exports. A decomposition of export growth rates showed that in recent years an increasingly larger share of the growth is being accounted for by a relative rise in the *quantum index* of exports as against the movement in the *price index*. A decomposition of export growth during July-March of FY1999 showed that for most of the major exportables from Bangladesh the unit value in the global market had gone down between 5% to 40%. The quantum increase in exports was unable to compensate for this decline, and excepting leather, fertilizer and knit-RMG exports, quantum and price index declined in tandem in case of all other exportables from Bangladesh during the period under scrutiny, Professor Rahman added.

Global price trends indicated that although in recent times the prices in the upmarket segment of the demand curve in the developed countries had continued to show robust upward trends, prices of labour-intensive relatively low-priced commodities had continued to show a secular decline. Prof. Rahman was of the view that *export diversification, technological upgradation and enhancement of local value addition* appeared to be the three strategic choices where Bangladesh would need to put her full policy thrust if she is to overcome the current challenges emerging in the global market place.

As regards imports, Professor Rahman observed that imports to Bangladesh in FY 1998 registered a substantial growth compared to FY 1997. This was mainly due to a sharp rise in imports of food items (rice and wheat) subsequent to flood 1998, he maintained. According to Professor Rahman, the rise in import expenditures and deceleration in export accruals led to a widening of the deficit in the balance of trade in goods in the first nine months of FY1999 compared to the corresponding period of FY1998. He opined that the trade gap as a percentage of GDP will increase in FY1999 since the imports in the first nine months of FY99 has continued to register double digit growth rates (about 14.9%) and L/Cs opened over the corresponding period has grown by 21.8%. However, he noted that this may not be reflected fully in the current account deficit because of the rising flow of remittances, the resultant pressure on trade balance and reserves may turn out to be quite high in the current fiscal.

Referring to the implications of imports for performance or the export sector, Professor Rahman said that an analysis of import data indicated a significant rise in the imports of garments and textile related machineries over the recent past. This evidence could be interpreted to the effect that some degree of technological upgradation activities was indeed taking place in the country's RMG sector. He considered this trend as an encouraging one and called for further policy support in this area.

Coming to the analysis of Budget FY2000 and its implications for external sector performance, Prof. Rahman thought that the budget had proposed a number of measures which was expected to have positive impact on the external sector performance of Bangladesh. Some of these were: (a) introduction of a number of new fiscal incentives for the export sector; (b) further rationalisation of tariff rates which was expected to make the import regime more export-friendly and (c) proposals for changes in the management of the external sector which are expected to raise efficiency in this sector.

Drawing attention of the participants to the fact that abolition of the advanced income tax (A.I.T) had long been a standing demand of the Bangladeshi exporters, Professor Rahman welcomed the provision in the budget for abolition of AIT which was charged at source at the rate 0.25% on export accruals. He also informed that all services related to exports had now been exempted from VAT. These measures were expected to enable exporters to avoid the cumbersome process of obtaining drawback under the existing duty drawback system. Such sector specific incentives were: (a) introduction of a 10% cash incentive on exports of manufactured leather goods; (b) withdrawal of customs duty and VAT on imported pickled, wet blue and crushed leather; (c) reduction of duties from 7.5 -15% to 5% on critical inputs of the export oriented leather sector; (d) withdrawal of the 2.5% infrastructure development surcharge on principal raw materials of the leather industry. He opined that the budget also proposed a number of new initiatives which were expected to stimulate investment in the backward linkage industries of the RMG sector. These included: (a) withdrawal of duties and taxes chargeable on almost all types of machineries and spare parts; (b) withdrawal of the 2.5% infrastructure development surcharge on synthetic staple fiber which is a important raw material for synthetic yarn and fabric; (c) reduction of duty rate of polyster yarn from 30% to 5%; (d) reduction of duties on all types of dyes used in the textile industries from 7.5 -15% to 0% and (e) reduction of duties on a large number of other raw materials from 25-40% to 5-15%.

In addition to the abovementioned incentives, Professor Rahman also mentioned cash incentives under the *alternate cash incentive system*, and the replacement of voluntary PSI system by mandatory PSI. As regards cash incentives, he mentioned that a further provision for Tk 5.6 billion had been made in the FY1999 budget for providing export subsidies and financial assistance to export-oriented sectors. However, he opined that there was a need to improve the level of management of the scheme since in the past this had been susceptible to a high degree of misuse. As far as the PSI system was concerned, Professor Rahman mentioned that he did not share, the optimism expressed in the budget to the effect that since in future as of now the PSI company will be employed and paid for by the government, fraud and forgery which afflicted the system in the past would be checked. To him this assertion appeared to be somewhat premature. He thought that this was an issue which was perhaps more closely related to the overall governance in the country.

Professor Rahman was of the view that the proposed system of four slabs of duty rates (i.e., 5%, 15%, 255 and 37.5%) in place of the currently existing five had the potential to improve the quality of import sector management. As per budget FY1999 maximum tariffs were brought down from 40% in FY1999 to 37.5% in FY2000; as a consequence unweighted average tariff rates were expected to come down. Since the structure of reduction of tariff rates in FY2000 budget showed a bias favouring intermediate inputs and capital goods, the reduction in average tariff rates was relatively higher for these two categories of imports compared to agriculture and consumer goods. This was considered to be a positive departure from the earlier trends, and was expected to support production- oriented activities in the economy.

An analysis of the fiscal measures and incentives proposed in the FY2000 budget showed that these were expected to further reduce the anti-export bias in the economy and should transmit positive signals favouring export-oriented investment activities in the country. Professor Rahman cautioned, however, that whether the policies and incentives proposed in the budget got translated into real economic activities would depend on a number of factors. In the past in many instances the efficacy of the policies were to a large extent undermined by bad governance - incentives were misallocated and misappropriated, PSI system was abused, delays and corruption led to cost escalation. He was of the view that fiscal proposals needed to be further consolidated and deepened with measures which promote technological upgradation in the export-oriented sector. This was essential in terms of improving the quality of overall governance of the external sector and in order to augment domestic capacity to design and implement appropriate policy responses for coping with the changing dynamics of the global market. He emphasised the need for evaluating the efficacy of policy changes only in terms of success achieved in enhancing Bangladesh's real capacity for coping with future challenges of the global market place.

Professor Rahman emphasised that incentives and policy support provided to the export sector was capable of enhancing competitiveness only when these were able to increase the level of productivity, reduce the cost of doing business and raise the quality of export products. Professor Rahman argued that although wage rates given by Bangladeshi firms were lowest even by regional standards, because of low productivity capacity of Bangladeshi firms' capacity to compete in the global market had become severely limited. Till now government policy has failed to adequately address the issue of lack of technological capacity within the firms which was closely related to *process and product engineering capacity* at firm levels. In this context, Professor Rahman emphasised the need for designing a comprehensive incentive package to support technological upgradation which would enable Bangladeshi exporters to access higher value-added product markets. Future strategic advantages of Bangladesh's export sector was here, Professor Rahman emphasised.

Professor Rahman thought that there was a need to analyse the prospects Bangladesh's external sector from four interrelated perspectives: *Strengths, Weaknesses, Opportunities and threats* (the SWOT analysis). This could throw important insights into the dynamics of external sector performance and was helpful in terms of designing an appropriate policy response in order to cope with future challenges from a position of competitive strength. Professor Rahman thought that such a coping strategy needs to be developed and implemented at three levels: (a) domestic (b) regional and (c) global. He was of the view that the capacity to face the future challenges of global markets arising out of the globalisation process must be developed at home - the imperative was to *act locally and compete globally.* In this context he underpinned the importance of regional cooperation and observed that regional routes could prove to be critically important for enhancing the performance of the Bangladesh external sector.

Professor Rahman mentioned that Bangladesh was a member of a number of regional groupings where investment and export figure prominently; however she was unable to reap the benefits of regional agreements. Under the three rounds of SAPTA negotiations, Bangladesh had received preferential treatment on a large number of commodities, particularly from India. However, because of its narrow export base the *real impact* of the concessional treatment provided to Bangladesh was of very limited significance to Bangladesh. He was of the opinion that the zero-tariff access for all exportables which the four LDCs in the SAARC have requested from the three developing countries of the SAARC (*first track*) would be more preferable option for Bangladesh compared to the commodity wise preferential treatment which was the current practice. However, he mentioned that the *second best* solution was to negotiate a negative list. Despite declaration, to the contrary, in actual practice a large number of NTBs continue to persist in India which discourage Bangladeshi exports to India, he mentioned. Professor Rahman drew attention to the growing deficit in the bilateral trade between Bangladesh and India and thought that the possibility of narrowing down this deficit will depend on many interrelated factors including the pace at which Indian NTBs are withdrawn, and Bangladesh's capacity to diversify her exports in the coming years. He was of the opinion that without the flow of intra-regional FDI with guaranteed buyback contracts, joint marketing arrangements, cooperation in the field of infrastructure development and transit it was difficult to foresee any radical breakthrough in the pattern of not only Indo-Bangladesh bilateral trade but also in the pattern of intra-regional trade in South Asia in general.

Presentation by Dr. Quazi Shahabuddin on Crop Sector Performance

Dr. Shahabuddin highlighted the damage and destruction brought about by the unprecedented flood of the 1998 which was the most severe in the 20^{th} century. He mentioned that the subsequent relief measures and rehabilitation efforts were most pronounced in agriculture, particularly in the crop sector and in the rural areas. Dr. Shahabuddin, in his paper titled "1998 Floods, Post-Flood Agricultural Rehabilitation Programme and the Annual Budget, 1999-2000", was of the view that the government had carried out its flood relief operations with a considerable degree of efficiency and was able to cope with the crisis through proper targeting of foodgrains through VGF and other channels of distribution. He supported the government policy which took the view that the government imports and food aid alone would not be sufficient to make up for the projected loss of 2.2 million tons shortfall in *aus* and *aman* in the run up to the wheat and *boro* harvests during April to June 1999, and encouraged private sector import of rice through removal of tariff on imports. Allowing free flow for official trade through land routes was also to be supported. The private sector had imported 2.20 million tons of rice which contributed significantly towards stabilisation of market supplies and prices.

In view of the significance of agricultural regeneration and the fact that the farmer's need for working capital was far more compelling than ever before, Dr Shahabuddin thought of the government initiated post-flood rehabilitation programme including the Tk. 3270 crores credit support to the flood affected farmers as a welcome step. Informing that the government also distributed, among others, 6500 tons of seeds, and 6484 tons of fertilizes free of cost to the affected small and marginal farmers, he estimated that the assistance had benefitted about 8.74

lakh flood affected farm households in the country. To increase crop production, a number of short and medium term projects including supplementary irrigation of *aman*, provision of diesel fuel and electricity for minor irrigation and rehabilitation of 1200 shallow tube-wells valued at Tk. 6494 million were also undertaken by the GOB. Dr. Shahabudin was of the view that such measures along with the efforts of the farmer's towards making up for the large scale loss of *aus* and *aman* due to floods resulted in a bumper wheat and *boro* harvests.

Coming to the latest estimates of both *boro* and wheat production, Dr. Shahabuddin mentioned that the estimates had a close bearing on the estimated growth of agricultural sector at 5 percent and the GDP growth of 5.2 percent in 1998-99. He informed that the latest estimates of both boro and wheat production, specially *boro* production, would appear to be greater than their original target levels. According to the latest estimates available, the production of wheat was estimated to be 2.00 million tons. For boro - the revised estimate published in the April issue of Bangladesh Foodgrain Digest was 9.0 million tons while the Annual Budget 1999 -2000 gives an estimate of about 10.05 million tons. How realistic was the estimate of boro harvest of 10.05 million ton? – he questioned. If the estimate for boro was included the estimate for total rice production would be 18.34 million tons which would be 2.8 percent lower than last year's production level and 4.5 percent lower than pre-flood target levels of production. The corresponding total foodgrain production which was estimated to be 20.34 million tons would imply a short fall of 0.32 million tons when compared to last year's production. On the other hand, with the estimate of the annual budget 1999-2000, rice production would amount to 19.39 million tons which would be 2.8 percent higher than last year's production. Total foodgrain production would be 3.5 percent higher than that of the previous year.

However, Dr Shahabuddin emphasised that estimates made by BBS were "preliminary estimates" and should be treated as such. He then made few observations regarding the factors influencing the prospects of *boro* harvest in the current year.

Firstly, he argued that a *boro* production of 10.05 million tons in 1999 as compared to 8.14 million tons the previous year implied an increase of 1.91 million tons i.e. 23.5 per cent increase over the previous year. How much of this increase could be attributed to an increase in acreage and how much to an increase in yield was not known, although available information (from rapid appraisal surveys) would attribute most of the incremental production to increase in acreage. The question arose in the back drop of the stagnating tendency of variety-specific yield over the last decade, he added. However, the lesser incidence of pests and enrichment of soil following the floods in 1998 might have also contributed to the increase in crop yield in the current *boro* season, he opined.

Secondly, the sale of fertilisers (in terms of nutrient contents) in the 1999 *boro* season was reported to be about 20 per cent higher in the current *boro* season which should have contributed to a higher production of *boro* for this year. Although this does not mean a corresponding increase in output (a part of fertilizer was used for such crops as wheat and potato which are fertilizer-intensive), this at least meant that the increases in fertilizer use matched the increase in *boro* acreage in 1999.

Thirdly, he noted that the amount of irrigated area in the current *boro* season is reported to have increased by 9.9 per cent over the previous year, largely due to an increase in surface water irrigation. Such a large increase in surface water irrigation in the light of the negative trend growth rates during the 1990/91 - 1996/97 period was very much open to question. This happened despite the prolonged draught which, according to some reports, made 50,000 shallow tubewells (about 8% of total STW) inoperative in the country.

Fourthly, he mentioned that the disbursement of agricultural credit has been much greater this year (Tk. 2600 crores) as compared to the corresponding period of the previous year (Tk. 1400 crores). *Boro*, being a cash-intensive crop, has certainly benefited from this accelerated credit disbursement.

Fifthly, he argued that the farmers must have made every effort to increase the acreage and production of *boro* rice in order to make up for the loss of *aus* and *aman* production due to floods.

Finally, Dr. Shahabuddin noted that though a large proportion of *boro* is marketed, no significant impact on rice prices following the *boro* harvest had been observed. The price of rice (wholesale, coarse variety) prior to *boro* harvest was around Tk. 14/kg which came down to about Tk. 12/kg in May and remained more or less stable around that level since then. He thus argued that one should wait for the final estimate from BBS which is based on scientific method of investigation and uses a relatively large sample, or for that matter estimates made by any other organization which comes out with a definitive estimate of *boro* harvest in 1999 based on a comprehensive survey.

Intervention by Dr. Muhiuddin Khan Alamgir, Hon'ble State Minister for Planning, Government of Bangladesh

Dr. Alamgir emphasised that the estimated growth rate reflected the realities on the ground. According to him, the growth rate was determined on the basis of "very conservative estimates". The growth rate might even go up when final calculation would be made in September, he remarked. He opined that agriculture growth had increased considerably, including the growth in the production of potatoes, wheat and *boro* rice. He argued that the growth in transport sector would rise as a result of the increase in agriculture production, and these additional supporting factors were not considered whilst making the current estimate.

According to Dr. M. K. Alamgir, timely intervention by the government subsequent to the floods of the previous year had raised the acreage of *boro* crops and also led to an increase in per acre yields. He argued that farmers normally keep the *aman* and *aush* crops for household consumption and use the *boro* as a cash crop. He further argued that farmers took extra care for having a good *boro* harvest in the light of losses suffered due to floods and this has substantially raised the *boro* production.

On the issue of raising the budgetary allocations for defense expenditure the Minister claimed that in view of the current inflation rate military expenditure did not actually rise in real term. He drew attention to the need for increasing the savings and investment rates in order to ensure economic development and to achieve poverty alleviation.

Intervention by Dr. A. Moyeen Khan, Member of Parliament and Former State Minister for Planning, Government of Bangladesh

Dr. Moyeen Khan thought that there was a puzzle between the growth rate that the government was claiming and the investment and savings rates posted during the corresponding period. Given the devastating flood in 1998, there was no reason for the GOB to pretend that everything was fine. He blamed the government for distorting vital national statistics in order to claim a higher GDP growth figure. He argued that during the period between 1990 and 1998 the *boro* production had increased by 28 per cent, whereas according to the statistics provided by the government *boro* production in FY 1999 alone had increased by 29 per cent compared to FY 1998. This he found out to be highly questionable. He was of the view that the economy was showing severe strains and that almost all major sectors had registered negative growth in FY 1999. Only one sub-sector of agriculture, the *boro* crop, had registered upward growth. To him it appeared to be impossible that the upward growth rate in *boro* crop could compensate the downward trends in the growth rates of the other sectors and sub-sectors in the economy. According to him a GDP growth rate of 5.2 per cent was simply not possible. There was thus a built in contradiction in the GDP growth rate estimate.

Whilst commenting on statements reportedly made by the State Minister for Planning as regards unreliability of advises made by 'white skin' people, Dr. Khan mentioned that he considered such statements as vague. Since it was impossible to ignore the fact that every year the finance minister of Bangladesh had to go to Paris Consortium to 'beg' for foreign aid from those very 'white skin' people, such statements were actually mere rhetoric. Dr. Khan, in this connection criticised the government for its poor performance in implementing the annual development programme (ADP) and said that this was not a good sign since one-third of the ADP projects did not undergo proper approval. As regards the planning process of the government he commented that this was still highly centralised. He argued in favour of participatory development, decentralisation and devolution of the planning and implementation process.

Coming to the Finance Minister's claim on the withdrawal of import duties to promote industrialisation, Dr. Khan questioned the validity of such claims. He thought that nothing was said in the current budget about backward linkages of RMG sector, which he considered to be of crucial importance in view of the MFA phase-out under the WTO agreement. About the Finance Minister's claim pertaining to non-imposition of new taxes Dr. Khan commented that though the Finance Minister was technically right, he was morally wrong to say so. According to the present budget Tk. 3000 crore additional tax were to be collected during this year, which was 22.5 per cent more than the collection of the previous year.

Dr. Khan commented that the borrowing of the government was quite substantial and that this would burden the future budgets by way of raising the interest payment burden. As a matter of fact, the burden would have to be borne by future governments, since the major part of such loans were long-term in nature, he argued.

Intervention by Mr. M. Saifur Rahman, Member of Parliament and Former Minister for Finance, Government of Bangladesh

Taking the cue from Dr. Khan's comments on new taxes, former finance minister and BNP leader Mr. M. Saifur Rahman argued that under the present budget each and every sector in the economy had been loaded with supplementary duties. He challenged the contention of finance minister SAMS Kibria who had claimed that a large number of sectors were given duty exemption in the FY 2000 budget. Referring to the finance minister's reference regarding his initiative for imposition of value added tax (VAT) during his tenure and his present stance in opposing this, Mr. Rahman said that indeed it was he who has introduced VAT in Bangladesh. He personally regarded VAT as the best tax system available. However, he was of the view that the present government assaulted the entire tax system in the name of VAT extension. The proposed imposition of taxes distorted the rationale of the budget itself, he maintained. Mentioning that the finance minister had proposed VAT on a number of items for protection of various local industries including the ball-point unit, he argued that VAT was not meant for protection of domestic industries. In this context he thought that imposition of custom duty was a more appropriate tool for giving protection to the local industries.

Mr. Rahman drew attention of the participants to the inherent contradictions in the budget. The highest slab of the custom duty was reduced from 40 percent to 37.5 per cent whilst a 2.5 per cent infrastructure development surcharge was imposed at the same time. This clearly showed that no reduction has actually occurred in real terms. He added that the finance minister should have the courage to admit that he would not reduce custom duty. He observed that the supplementary duty had been proposed to compensate for the loss of revenue following introduction of the mandatory PSI system. This was considered by him to be an intellectual dishonesty since the real intention was not to help the industries, but to collect more taxes from these.

Mr. Rahman thought that the present budget failed to provide any specific direction for continuation of the economic reform programme, towards economic growth, for creation of employment and for putting in place a conducive environment for private sector development. Foreign Direct Investment (FDI) inflow was almost nil, he said. He was of the view that FDI was likely to come in the gas sector only, but that this particular type of FDI was neither growth-oriented nor pro-employment and that the government would need to pay a huge money in foreign currency in order to have such FDI. FDI was particularly needed in the processing industries, he opined. Revenue collection was also going down whilst expenditure was on the rise, resulting in heavy borrowings from the banking system by the government. According to him, the real sufferer were the domestic private sector investors who were facing serious credit crunch.

Rejecting the estimated 5.2 per cent GDP growth rate, Mr. Rahman said that only one or two crops could not contribute towards such a big surge in an economy as was being claimed by the government. If *boro* was the determining factor then it may well be asked how much the government procurement of rice had been given such a bumper crop. He, however, thought that the debate should end here as it had diverted people's attention from the real issues and problems.

iii. Discussion

Doubt Over the Agricultural Growth Rate and the GDP Growth Rate

Dr. Sajjad Zohir, Senior Research Fellow, BIDS argued that price elasticity of demand for rice in Bangladesh was considered to be relatively low ranging between 0.2 to 0.4. however, even if a high price elasticity of 0.8 was assumed a 25 per cent increase in *Boro* production should have led to a 30 per cent decrease in the price of rice. Dr. Zohir noted that the growth in rice production was not being reflected in the rice market, and that the price of rice was not going down. He thus opined that the `bumper' *boro* production might not be true.

However, this argument was rejected by Dr. Muhiuddin Khan Alamgir who held that farmers in Bangladesh produce mainly for their own consumption since most of the them are subsistence farmers. Therefore, the amount of marketed surplus was not significantly high. Thus, conventional price elasticity theory would not hold here. Dr. Salahuddin Ahmed of North South University was of the opinion that the claim about the 'bumper' *boro* production was indeed true and that the GDP growth rate would be more than 5.2 per cent. Dr. Muinul Islam, Director General, BIBM did not agree with the figures estimated by the BBS and argued that in almost all the sectors of the economy growth rates had decelerated. He believed that agriculture growth alone could not contribute to GDP growth rate of 5.2 per cent.

Quality of Growth

Mr. Anu Muhammed, Dept. of Economics, Jahangirnagar University argued that the quality of growth rather than high growth rate was of much more importance for a country such as Bangladesh. He observed that during April 1995 to April 1999 rural poverty and urban poverty had declined by 0.3 per cent and 0.1 per cent respectively, inspite of the fact that the annual GDP growth rate over the corresponding period was well above 5 per cent. This implied that high GDP growth rate was not a guarantee for poverty alleviation. On the other hand, during April 1998 and April 1999 crime had increased by 28 per cent. He thought that indepth investigation was required to identify if there was any correlation between high GDP growth rate and significant increases in crime.

Professor Momtazuddin Ahmed of Dhaka University argued that high GDP growth does not really make any real difference if this is not translated into economic development. He argued that growth and development are not the same, and Bangladesh was far behind the growth rate required for poverty alleviation. Responding to this, Dr. Muhiuddin Khan Alamgir argued that GDP growth rate was indeed very important for economic development and poverty alleviation, and we should, therefore, put our utmost effort for achieving high growth rates. Informing the participants that in terms of gross domestic savings (GDS) Bangladesh occupied the lowest position in South Asia, Dr. Muhiuddin Khan Alamgir emphasised the need to raise the GDS. He also argued in favour of raising investment from the present rate of 18 per cent to at least 22 per cent. Without having national consensus on GDS and investment Bangladesh would not be able to have quality GDP growth, he opined.

Participating in the discussion Professor Rehman Sobhan, Chairman, CPD referred to the stagnating ADP / GDP ratio and argued that there were some structural distortions in the ADP. Dr. Muhiuddin Khan Alamgir agreed with Professor Sobhan that ADP was being squeezed and stressed the need to improve the quality of projects of ADP.

Priority Sector for Development

Professor Momtazuddin Ahmed argued that for economic development to take place we should not depend solely on the agriculture sector. He was of the view that high agriculture growth did not indicate economic dynamism. He argued that papers presented in the dialogue have shown rather a gloomy picture of the economy. For self-reliant development focus should be given to the issue of industrial growth. He observed that the industrial sector suffered from stagnation during the whole decade of the 1990's, and stressed the need for preparing the country to face the challenges of the next millennium.

Mr. Abdul Awal Mintoo, President, FBCCI also stressed the importance of industrial growth and mentioned that the industrial sector provided more employment opportunities than agricultural sector. He accepted that the current budget had provided some facilities to the industrial sector by reducing import duty on some of the industrial raw materials and intermediate products. However, he thought that this was not sufficient and that more facilities including additional fiscal measures were needed to ensure high growth rates of Bangladesh’s industrial sector.

Mr. Mintoo also argued that power loadshedding, strike, high transport cost are detrimental to industrial growth. He opined that a strong manufacturing sector was vital for sustaining high GDP growth rate.

He noted that the public sector borrowing was crowding out private borrowers, and argued that unless the monetary policy was conducted in such a manner that it conforms to the fiscal policy pursued by the government it would be difficult to have a strong manufacturing sector in place.

Taxation, Tax Anomalies and Revenue Collection

Mr. Abdul Muyeed Chowdhury, Chairman of NBR defended the proposal relating to advance income tax which was put forward in the budget. He argued that there was a major growth in real estate sector and a large number of people were purchasing apartments and consequently an advance income tax was imposed on this sector. As of now, no taxes were being paid by the developers as also the buyers. Under the circumstances, as he saw it, introduction of the advance income taxes on this particular sector was definitely justified.

Mr. Manzur Elahi, Chairman of Apex Group complained about corrupt tax officials and mentioned that those who were willing to pay taxes were not being able to pay even the amount assessed themselves by tax officials since the officials did not want the assesses to pay the tax to the exchequer. Instead, they sought a percentage from the taxpayers in lieu of reducing the assessed value. He expressed doubts whether government's attempt to raise revenue through widening of the tax net would in fact increase the volume of its coffer or whether it would benefit the tax collectors through their unfair negotiations with the tax payers.

Professor Ali Ashraf, Chairman, Parliamentary Standing Committee on Finance pointed out that there was no transparency and efficiency in tax administration. Many of the tax inspectors were corrupt. He informed that there were only six hundred thousand people enlisted as tax payers having a TIN and that of these only two hundred thousand actually paid any tax. He argued that the tax base should be widened to bring more people within the tax net. Participating in the discussion on this issue, Finance Secretary, Dr. Akbar Ali Khan said that close consultation between NBR and the business community could help remove tax anomalies and enhance tax collection.

While commenting on the proposed budget, BNP leader Mr. M. Morshed Khan mentioned that the budget was prepared from a negative angle and did leave a lot of room for corruption. He thought that relatively more taxes were proposed for the manufacturing sector compared to other sectors. He did not find any qualitative change in the budget for the manufacturing sector, and complained that a lot of incentives have been given in the budget to stimulate the unproductive sector.

Mr. AKM Shamsuddin, President, FICCI criticised the proposed supplementary tax in the various sectors and he was afraid that this might raise prices of many items. Mr. Samson H. Chowdhury, Chairman, Square Group of Industries and former President, MCCI supported this view and added that the introduction of supplementary taxes would raise the prices of medicines. As a result, pharmaceutical industry in Bangladesh might not be able to survive the competition exerted by cheap imported pharmaceuticals which will be available in the market, he argued. He was of the view that all the sectors, except textile, leather and agro industries, would be affected by VAT and supplementary duties.

Mr. M. K Anwar, Member of Parliament and former Minister of Commerce, GOB wanted to know why the Pre Shipment Investigation (PSI) was reintroduced when it was once withdrawn a few years back. Mr. Latifur Rahman, Chairman, Transcom Ltd. opined that the introduction of PSI would negatively affect many of the local industries. He gave an example where a 20" color TV if imported would cost Tk. 14,000 whereas a locally assembled TV of the same configuration would cost Tk. 17,000 because of the PSI system. He argued that the local industries would not be able to survive in the market because of this unequal competition.

Mr. Amir Khosru Mahmud Chowdhury, Member of Parliament and President of Chittagong Stock Exchange mentioned that it was critical that the right sectors were selected at the time of expanding the VAT net. He, however, was of the view that there was every possibility that corruption in the process of collection of VAT would be increased.

Stock Market

Mr. Roqibur Rahman, Chairman of Dhaka Stock Exchange argued that industrialisation requires a strong capital market. He recollected that during 1993-96 there was a "boom" in stock market. People invested more than 1200 crore taka through stock market; people also invested in the textile sector. As a result four composite textile mills were established during that period. However, in 1996 an unexpected situation emerged: the share index registered an abnormal rise to be followed by a drastic fall. He accused the relevant authorities for their failure to tackle the situation. He thought that a package deal to stimulate the capital market was expected in this year's budget; however, he was very much disappointed that the budget failed to do so. Mentioning that VAT has been extended to bonus shares in the share market he argued that this step was anti-capital market and should thus be withdrawn.

Export Diversification and Role of the Government

Informing the audience that an export diversification project (EDF) underwritten by the World Bank has been initiated, Professor Ali Ashraf, Chairman, Parliamentary Standing Committee on Finance pointed out that trade facilitation was the most important factor for increasing Bangladesh's exports. Drawing attention of the participants to the recession in the export growth in Bangladesh, Mr. Syed Manzur Elahi commented that the situation was unlikely to improve in the next four to five years because of recession in the economies of industrialised nations. In Europe people are saving, not buying beyond the minimum need, he said. He referred to his own area of interest, the leather sector, and informed that the sector has suffered substantially from the fall in global price. Unit price has gone down by 30 per cent, and at present 70 per cent of the tanneries were closed. He stressed the need for diversifying exports and recommended for massive investment in information technology and software engineering in order to face the future challenges and avail of the emerging opportunities.

Drawing attention to the issue of quality Mr. M. K Anwar said that the exportable goods would have to have quality, price competitiveness and all these should be underwritten by high productivity. He thought that we talk much about low-cost labour, but do not give equal importance to factors which increase productivity of labour. Unless technologies are developed it is not possible to diversify exports, he opined.

Mr. Jamaluddin Ahmed, Former Deputy Prime Minister said that the slow growth of export was an ominous sign for the national economy. He was of the view that the whole economic picture of the country was very gloomy.

Mr. Amir Khorsu Mahmud Chowdhury argued that export growth can not be sustained through giving financial support of the government alone. He pointed out the need for acquiring competitiveness in the export sector for the purpose of maintaining dynamism in the sector. Professor Muzaffer Ahmad of IBA, Dhaka University emphasised the need for industrial diversification for reduction in the country's trade deficit. He thought that the cash incentive for the industrial sector as proposed in the budget will not increase export, and was of the opinion that imposition of tax on export hampers export growth.

Mr. Mahbubur Rahman of International Chamber of Commerce, Bangladesh was of the view that the government will have to provide a package of incentives as compared to disparate facilities in order to raise the level of investment in the country. He also thought that the amount of *`chanda'* (unauthorised payments to the mastans, political parties etc.) should be included in the balance sheet of the companies.

Dr. Hossain Zillur Rahman, Senior Research Fellow, BIDS thought that the government was successful in managing the disaster following the recent flood, but has failed to manage the economy efficiently. Professor Muzaffer Ahmad also thought that the public sector has, to a large extent, failed to boost industrialisation in the country. On the other hand, the private sector was also not doing well. He pointed out that the overall development of the economy depends on good governance in the public sector.

Concluding the dialogue Professor Rehman Sobhan mentioned that the Parliamentary Standing Committee on Finance should arrange dialogues on budget with experts, academicians and representatives of various development agencies prior to the budget announcement made in the month of June. He stressed the importance of holding such dialogues since he thought these were very helpful in ensuring a participatory approach to the process of preparation of the budget.

Annexure A

List of Participants
(in alphabetical order)

Session I: Macroeconomic Aspects
22 June 1999

Prof. Momtazuddin Ahmed	Dept. of Economics, Dhaka University
Dr. Salahuddin Ahmed	North South University
Dr. M. K. Alamgir	State Minister for Planning, GOB
Dr. Toufiq Ali	Additional Secretary Ministry of Foreign Affairs, GOB
Prof. Ali Ashraf	Chairman, Parliamentary Standing Committee on Finance
Advocate Abul Kalam Azad	Member of Parliament
Dr. Debapriya Bhattacharya	Executive Director, CPD
Mr. Abdul Muyeed Chowdhury	Chairman, NBR
Begum Matia Chowdhury	Minister for Food and Agriculture, GOB
Dr. Omar Haider Chowdhury	Research Director, BIDS
Mr. Tareq Chowdhury	IDPAA, Proshika
Mr. Manzur Elahi	Chairman, Apex Tannery Ltd.
Mr. Ronald P. Hicks	Resident Representative, IMF
Mr. Moazzem Hossain	Editor, The Financial Express
Mr. Muinul Islam	Director General, BIBM
Dr. Faizul Kabir	Executive Director, IDACOL
Mr. Sayed Kamaluddin	The Far Eastern Economic Review
Dr. A. Moyeen Khan	Member of Parliament and former State Minister for Planning
Dr. Fahmida Akhter Khatun	Economist, USAID
Mr. S.A.M.S. Kibria	Minister for Finance, GOB
Syed Akhter Mahmood	World Bank
Mr. Abdul Awal Mintoo	President, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI)

Mr. Shan Mitra	Economic Adviser, DFID, British High Commission
Mr. Anu Muhammad	Dept. of Economics, Jahangirnagar University
Ms. M. Murayama	Special Assistant, Embassy of Japan
Prof. Mustafizur Rahman	Dept. of Accounting, Dhaka University and Research Director, CPD
Dr. Quazi Shahabuddin	Research Director, BIDS
Prof. Rehman Sobhan	Chairman, CPD
Mr. M. Syeduzzaman	Former Finance Minister, GOB
Ms. Fahmeeda Wahab	Canadian High Commission
Dr. Sajjad Zohir	Senior Research Fellow, BIDS

Session II: Sectoral Issues
23 June 1999

Abu Ahmed Abdullah	Director General, BIDS
Mr. Jamaluddin Ahmed	Former Deputy Prime Minister
Prof. Muzaffer Ahmad	IBA, Dhaka University
Mr. Salahuddin Ahmed	General Secretary, Sawnirvar Bangladesh
Major Md. Aktaruzzaman	Member of Parliament
Mr. M.K. Anwar	Member of Parliament and former Minister of Commerce, GOB
Dr. Debapriya Bhattacharya	Executive Director, CPD
Mr. Amir Khosru Mahmud Chowdhury	Member of Parliament and President, Chittagong Stock Exchange
Mr. Samson H Chowdhury	Chairman, Square Group of Industries and Former President, MCCI
Mr. Syed Manzur Elahi	Chairman, Apex Group
Mr. K.M. Ejazul Huq	Secretary, Ministry of Industries, GOB
Mr. Hassanul Huq Inu	Secretary General, Jatyio Samajtantrik Dal (JSD)
Mr. Syed Kamaluddin	The Far Eastern Economic Review
Dr. Akbar Ali Khan	Secretary, Ministry of Finance
Mr. Manzurul Ahsan Khan	President, Communist Party of Bangladesh (CPB)
Mr. Morshed Khan	Member of Parliament and former Special Envoy to the Prime Minister, GOB
Dr. Fahmida Akter Khatun	Economist, USAID, Dhaka
Mr. Syed Akhter Mahmood	World Bank
Mr. S.A. Motahar	USAID, Dhaka
Mr. Anu Muhammad	Dept. of Economics, Jahangirnagar University
Ms. M. Murayama	Special Assistant, Embassy of Japan
Dr. Hossain Zillur Rahman	Senior Research Fellow, BIDS
Mr. Latifur Rahman	Chairman, Transcom Ltd
Mr. Mahbubur Rahman	International Chamber of Commerce (ICC),

	Bangladesh
Prof. Mustafizur Rahman	Dept. of Accounting, Dhaka University and Research Director, CPD
Mr. M. Saifur Rahman	Member of Parliament and former Minister for Finance
Dr. Rushidan Islam Rahman	Senior Research Fellow, BIDS
Dr. Binayak Sen	Senior Research Fellow, BIDS
Dr. Quazi Shahabuddin	Research Director, BIDS
Mr. A.K.M. Shamsuddin	President, Foreign Investors Chamber of Commerce and Industry (FICCI)
Prof. Rehman Sobhan	Chairman, CPD
Mr. Bo Sundstrom	SIDA
Mr. M. Syeduzzaman	former Finance Minister, GOB
Prof. Mahabub Ullah	University of Chittagong
Ms. Fahmeeda Wahab	Canadian High Commission

List of Journalists

22 June 1999

Mr. Faruque Ahmed	Economic Reporter, The Independent
Mr. Asrafuzzaman	Economic Reporter, Muktakantha
Mr. Rezaul Karim Byron	Economic Reporter, Protom Alo
Mr. Ashik Chowdhury	Economic Reporter, Bangladesh Observer
Mr. Titu D. Gupta	UNB
Mr. Rafiq Hasan	Economic Reporter, The Daily Star
Mr. Ezaz Hossain	Economic Reporter, Ajker Kagoj
Mr. Monir Hossain	Economic Reporter, The Sangbad
Mr. Masud Karim	Banglabazar Patrika
Mr. Nurul Hasan Khan	Economic Reporter, Dainik Dinkal
Mr. Monjur Mahmud	Economic Reporter, The Daily Star
Mr. Nasir Mahmud	Bangladesh Television
Mr. Sohel Manzur	Economic Reporter, The Financial Express
Mr. Masumur Rahman	Economic Reporter, Dainuk Dinkal
Mr. Minhazur Rahman	The Daily Inquilab
Mr. S.I. Shameem	News Reporter, BSS
Mr. Z.H. Swapan	Economic Reporter, Bhorer Kagoj

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Mr. Faruq Ahmed	Economic Reporter, The Independent
Mr. Nazmul Ahsan	Economic Reporter, The Sangbad
Mr. Asrafuzzaman	Economic Reporter, Muktakantha
Mr. Syed Ishtiaque Reza	Economic Reporter, The Financial Express
Mr. Z.H. Swapan	Economic Reporter, The Bhorer Kagoj
Mr. Monjur Mahmud	Economic Reporter, The Daily Star
Mr. Rafiq Hasan	The Daily Star

Mr. M. Ezaz Hossain	Economic Reporter, The Ajker Kagoj
Mr. Saiful Islam	Economic Reporter, United News of Bangladesh (UNB)
Mr. Masud Karim	Economic Reporter, The Banglabazar Patrika
Mr. Abul Kashem	Economic Editor, The Dainik Inqilab
Mr. Rezaul Karim	Economic Reporter, The Prothom Alo
Mr. Nurul Hasan Khan	Economic Reporter, Dainik Dinkal
Mr. Masumur Rahman	Economic Reporter, Dainuk Dinkal