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Execution of trade liberalization policy and the export involvement to trade liberalization-A special reference to Bangladesh

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Abstract

Bangladesh's Trade liberalization effort started in the mid-1980s, from that time Bangladesh has a less restrictive and more outward oriented trade policy environment. The study focuses the present condition of Bangladesh in terms of Trade Liberalization. For this study, data were collected from different relevant secondary sources. Some key issues have been addressed in this study. First the economic condition of Bangladesh, next is the implementation of trade liberalization in Bangladesh, next one is the export involvement to trade liberalization in Bangladesh, cash incentives to the exporters and last one is the findings of the study and recommendation that focus basically on the present and future opportunities of trade liberalization in Bangladesh.

Keywords: Cash incentive, Export, Trade liberalization, Trade policy, Trade Openness.

1. Introduction

Bangladesh's trade liberalization effort picked up its space in the early 1990s as an important component of the country's structural reform program. Trade liberalization has a contribution to higher growth and poverty reduction in Bangladesh. Trade liberalization also facilitates the export and import trends of the country and focus on the removal of Quantitative Restrictions in Bangladesh and important to investigate whether the trade liberalization policy is important to Bangladesh or not. Actually Trade liberalization is a burning issue in economics.

2. Objectives of the Study

The main objectives of this study

- To find out export performance and its involvement to trade liberalization in Bangladesh.
- To find out the export contribution in GDP of Bangladesh.

The specific objectives of this study are-

- To view the economic condition of Bangladesh.
- To examine the result of trade liberalization in Bangladesh economy.

3. Methodology of the Study

This study follows a descriptive approach. But this descriptive approach represents in a scientific way. For the study, the data is collected from secondary sources which are reliable. The study focus GDP growth model and Export growth model for Bangladesh over the last 10 years. For this analysis, use Time series analysis technique. This calculation done by least squares method which is fit to exponential curve.

4. Literature Review

There is a relationship between export and economic growth in both developed and developing countries. The early literature focused mostly on the role of export in economic growth. In many countries export is highly dependent on import of capital goods and raw materials. On the other hand, the classical school treats the foreign trade as a means for optimal distribution of resources and increasing productivity that stimulate economic growth.

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Now a day’s trade liberalization, openness and globalization are burning issues in developing economies.

According to Dornbushch (1992) and Romer (1989), trade reform may also improve economic welfare by reducing the distortions in relative prices and by channeling resources to sectors that can use them most efficiently.

Grossman and Helpman (1991) argue that product differentiation plays a significant role in trade between developed and developing countries. The product cycle model states that innovation of new products take place in developed countries and this technology eventually becomes known to developing countries that imitate and produce them at a cheaper cost.

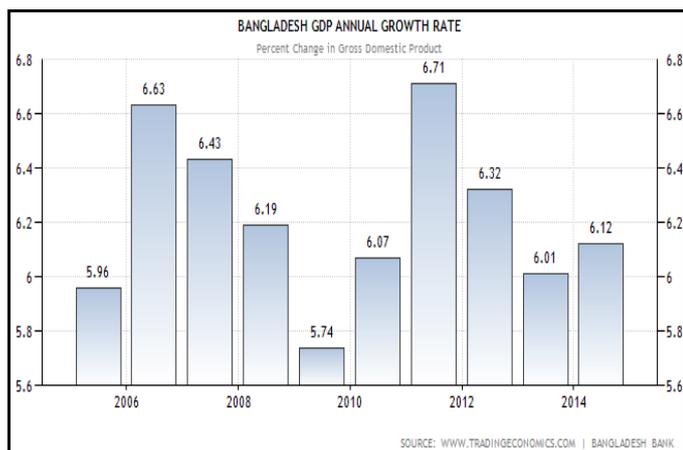
Krugman (1979) and Grossman and helpman (1991) argue that Economic growth takes place in the developing countries by technology transfer through the opportunity to imitate.

Kaary and David Dollar (2001) [5] provide evidence on trade liberalization, growth and poverty reduction. The study concludes that a third of the developing countries of the world, described as “rapid globalizes” did extremely well in terms of economic growth and poverty reduction over the past two decades or so. Bangladesh, India, Sri-Lanka in South Asia, have experienced a large increase in trade and significant reduction in tariff and non-tariff barriers.

In 1991 there were substantial scaling down and rationalization of tariffs, removal of trade related QRs and elimination of import licensing, unification of exchange rates and the move to a more flexible exchange rate system. All these indicate that liberalization of Bangladesh’s trade regime since 1991 was more systematic and comprehensive.

5. Economy of Bangladesh

Bangladesh is basically a developing country. There are many ways of prosperity that Bangladesh should gain in near future. The economy of Bangladesh is a market based economy. Bangladesh has the second most pro-capitalist population in the developing world. The following chart shows the GDP annual growth rate of Bangladesh from FY 2005 to FY 2014.



Source: Trading Economics.com/ Bangladesh Bank.

The GDP in Bangladesh expanded 6.01 percent in the FY 2013 and 6.12 percent in the FY 2014 from the previous year. Average GDP growth rate in Bangladesh is 6 percent from 2004 until 2014. Highest GDP is 6.7 percent in the FY 2011 and a record of lowest GDP 4.08 percent in the year 1994. In the last decade the country has recorded GDP growth rates above 5 percent due to developing of micro credit and garment industry. Three Quarters of export

revenues come from producing readymade garment. Content for Bangladesh GDP growth rate was last refreshed on March 4, 2015.

5.1 GDP growth rate of Bangladesh

Bangladesh GDP	Last	Previous	Highest	Lowest	Unit
GDP	129.86	116.03	129.86	4.30	USD billion
GDP growth rate	6.01	6.32	6.71	4.08	Percent
GDP annual growth rate	6.12	6.01	6.71	4.08	Percent
GDP per capita	625.34	597.02	625.34	219.28	USD
GDP per capita PPP	2475.97	2363.83	2475.97	1067.55	USD

Source: Trading Economics.Com/ Bangladesh bank (Table-1)

The economy is increasingly led by export-oriented industrialization. The Bangladesh textile industry is the second-largest in the world. Other key sectors include pharmaceuticals, shipbuilding, ceramics, leather goods and electronics. Being situated in one of the most fertile regions on Earth, agriculture plays a crucial role, with the principal cash crops, including rice, jute, tea, wheat, cotton and sugarcane. Bangladesh ranks fifth in the global production of fish and seafood.

From 1980’s Bangladesh became a trade liberalized country. The trade openness contributes to higher growth and poverty reduction in Bangladesh. Also improving productive and a locative efficiency, accelerating investment by allowing access to bigger markets, producing knowledge spillovers through technical innovation, improving income distribution and improving government policy.

5.2 GDP Growth Model of Bangladesh over the last Ten years (2004- 2013)

To illustrate the GDP growth model, use Time series analysis. Time series refers to such data in which one variable is time. A time series data may be defined as a set of figures observed over a period of time. Different methods are use in time series analysis. Among the methods I choose Exponential curve in Least Square methods. The exponential curve is applicable when the growth rate with respect to time is constant. Consider the following equation of an exponential curve,

$$Y_t = \alpha \beta^t$$

Y_t represents the trend value of the time series Variable Y at time t, α and β are two constant, t is the time variable. This equation use to fit the exponential curve. By using this equation and secondary data which collected from World Bank development indicators 2014, sketch a GDP growth model for Bangladesh from the FY 2004 to the FY 2013 is,

$$GDP_t = 5176603106(1.067)^t, \text{ here } 5176603106 \text{ represents } \alpha \text{ and } 1.067 \text{ represents } \beta_t.$$

6. Implementation of Trade Liberalization Policies in Bangladesh

One of the major goals of trade liberalization is to eliminate the anti- export bias of past protectionist policies and improve the economy’s export performance as well as its overall efficiency in resource allocation. Trade policy

reforms aim at liberalization quantitative import restrictions, tariff rationalization and export promotion.

From 1980's Bangladesh beginnings a move towards greater market orientation of economic policies. The new industrial policy of 1982 began the denationalization process. In order to analyze trade and industrial policy reform alternatives, the government of Bangladesh established the Trade and Industrial policy (TIP) reform program in 1982 with the assistance of the World Bank to analyze policy reform alternatives (Mallon and Stern, 1991). This TIP program primarily aimed at evaluating industrial assistance policies in Bangladesh and also recommends some measures for rationalizing and strengthening existing incentives in the industrial sector.

The major progress in trade policy reform was started in 1991 and main concern was to scaling down and rationalization of tariffs, removal of trade related QRs and elimination of import licensing, unification of exchange rates and the move to a more flexible exchange rate system, since 1991 outward orientation in Bangladesh has covered 'Inter alia' in three major areas:

- Liberalization of imports through removal of quantitative restrictions
- Reduction in nominal and effective tariffs
- Adoption of unified and moderately flexible exchange rate regime.

7. Export Policies

Since the early 1980s a number of reforms were implemented in the areas of export. The major export policy reforms in Bangladesh aims at providing exporters with unrestricted and duty free access to imported inputs, financial incentives for easy access to credit and credit subsidies, fiscal incentives to exporters, strengthening the institutional framework for export promotion. Additionally, policy reforms in the export sector include trade, exchange rate, monetary and fiscal policy incentives aimed at increasing effective assistance to exports. Actually RMG sector has been the major beneficiary of these reforms. Special bonded warehouse scheme was introduced in 1978 and it allowing an exemption from import taxes on inputs that are needed for export. A duty drawback scheme was also introduced in the RMG sector.

Until 1986, under the Export Promotion Licensing Scheme (XPL), exporters of nontraditional products used to allocated import licenses for specific products over and above their allotment. In 1986, XPL scheme was replaced by Export Performance benefit (XPB) scheme. In XPB scheme an additional benefit provided to exporters and allowing them to cash the licenses in the secondary exchange market. In 1987 Back –to- Back L/C system was introduced and it enabled exporters to import raw materials on a delayed payment basis. Exports without L/C can be done against TT through buying contract, purchase order, advance payment under sales contract and cash purchase agreement subject to the submission of EXP form and shipping bill. The export promotion fund was established to provide-

- Venture capital at lower interest rates and on soft terms for production of goods;
- Support for obtaining foreign technical assistance, service and technology for development and diversification of products;
- Support for sending marketing missions abroad and participating in international trade fairs;

- Assistance in possible cases, to set up sales and display centers as well as warehouse facilities abroad;
- Support for participating in training programs abroad on product development and marketing to improve technical and marketing skills; and
- Assistance in other activities related to the development and expansion of markets, including products and services.

Export Policy 2012-15 has emphasized the need for expanding export, enhancing the productivity of export-oriented industries and facilitating the overall development of the export sector through capacity building of the local export-oriented industries. Five Business Promotion Councils are already in place under public-private partnership to enhance the capacity and awareness of the exporters, and mitigate the supply constraints paving the way for uninterrupted supply of exports. The scope of these councils will be expanded gradually. The export earnings of Bangladesh witnessed growths of 10.31%, 4.11%, 41.49% and 5.93% during fiscal years 2008-09, 2009-10, 2010-11 and 2011-12 respectively, despite the fact that during these years many countries experienced negative growths in the context of the global downturn. It is expected that the Export Policy 2012-2015 will play a pivotal role in employment generation and poverty alleviation achieving desired and projected growth of our export.

8. Export Performance and Its Involvement to Trade Liberalization in Bangladesh

Trade is the main concern of all socio- economic development. The main objectives of a government are to create huge employment and income opportunities for the people, so that the poverty rate can be minimized by 2015 through the expansion of trade. Because of globalization and open trade economy, the world trade is changing and expanding daily. The main objective of trade policy is to make Bangladesh competent to survive in a rapidly changing and competitive world trade.

The relation between trade policy and export performance is a debatable issue in economics. Some studies show the positive effect of trade liberalization on exports. Among them the study of Ballasa (1971) and (1982); Bhagwati (1978); [8] Krueger (1978). According to them the developing countries which embarked trade liberalization had experienced improvements in export performance over the past two decades.

On the other hand some studies found a little significance evidence to support a link between trade liberalization and export performance. So in such types of paradoxical findings, it is important to examine the fundamental determinants of export performance in the context of trade liberalization in Bangladesh.

To bring improvement in export performance, The Ministry of Commerce establishes the main objective of export policy 2012-2015. These policies are described below:

- Updating and liberalizing the trade regime in accordance with the needs and requirements of the World Trade Organization and globalization;
- Encouraging labor-intensive (especially female labor) export-oriented production;
- Ensuring availability of raw materials from home and abroad for manufacturing export goods;
- Augmenting productivity and diversification of products;

- Improving the quality of products, encouraging the use of modern, appropriate and environment-friendly technology, producing high-end products, and improving the design of the products;
- Enhancing efficiency and dynamism by using e-Commerce and e- Governance;
- Initiating new strategies for the expansion of the markets for export products, making proper utilization of computer technology and encouraging application of all modern technologies including e-Commerce;
- Assisting the development of necessary infrastructure, particularly for backward and forward linkages in order to encourage the production of exportable goods;
- Creating new exporters and providing all-out support to the existing exporters;
- Assisting the development of a skilled labor-force through proper training for managing international trade; and
- Providing adequate guidance to trade bodies, business organizations, business people and related individuals in understanding the changing international trading system, etc.

Table 2: Annual and Monthly trends in exports

Annual Exports (in million USD)		
2010-2011	2011-2012	2012 -2013
22928.22 (+41.49)	24301.90 (+5.99)	27027.36 (+11.22)
Monthly Exports (in million USD)		
Month	2013 - 2014	2012 – 2013
July	3024.29	2439.08
August	2013.44	1951.48
September	2590.24	1900.89
October	2119.20	2077.03
November	2212.44	1765.09
December	2726.20	2466.16
January	2753.77	2554.28
February	2389.42	2246.51
March	2413.66	2303.42
April	2411.73	2079.15
May	2722.18	2538.81
June	2800.23	2705.46
July-June	30176.80 (+11.65)	27027.36 (+11.22)
Month	2014-2015	2013-2014
July	2982.74	3024.29
August	2159.50	2013.44
September	2552.86	2590.24
October	1957.55	2119.20
November	2417.43	2212.44
July-November	12070.08 (+0.92)	11959.61 (+18.02)

Source: Export Promotion Bureau

Export earnings increased by 23.49 percent (m-o-m) in November 2014 compared with the earnings of October 2014, while it increased by 9.27 percent (y-o-y) and stood at the \$2417.43 million in November, 2014 compared with the same month of previous year. Cumulative export receipts also rose slightly by 0.92 percent during July-November, 2014 compared to that of the previous year. Export receipts

fell short of the strategic target for the first five months of FY15 by 5.23 percent. In the year 2014- 2015 from July-February the total export amount is USD 20.31 billion. The percentage increase is 2.42%. But it didn't fulfill the targeted amount of export of this fiscal year, which is USD 33.20 billion.

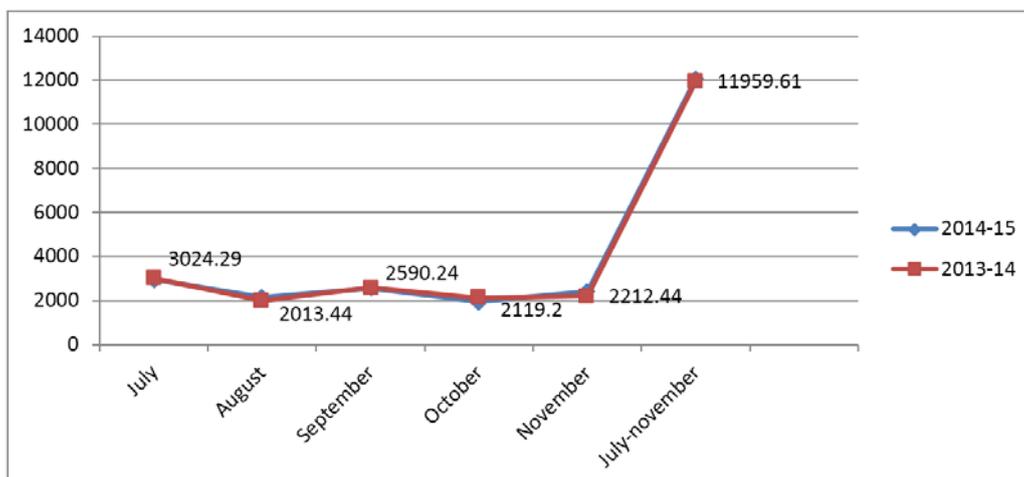


Fig 1: Export Performance: value Trend

Table 3: (Category-wise breakdown of exports)

(In million USD)

Particulars	July-November 2014	July-February 2014-15	Changes in absolute amount	Growth rate
Raw Jute & Jute goods (in million Kg.)	348.64	569	+220.36	+6.40%
Agricultural Products (in million kg.)	121.36	400	+278.64	+11.81%
Leather (in million kg.)	173.49	740	+566.51	+0.54%
RMG (in million Pcs.)	9691.25	16550	+5914.5	+2.57%
Total	10635.5	18689	+8053.5	+2.42%

Source: Export Promotions Bureau

Category wise breakdown of exports shows that during July-November, 2014-15 exports of RMG, raw jute and jute goods, agricultural products, leather products experienced positive growth compared with that of July- November, 2014. RMG is the most strong export industries in Bangladesh. So it can say that the export performance of Bangladesh is largely depending on the RMG sector. RMG holds large portion which is 81.48% in the income from exports. All sectors export income was increase, but didn't fulfill the targeted export amount of this year.

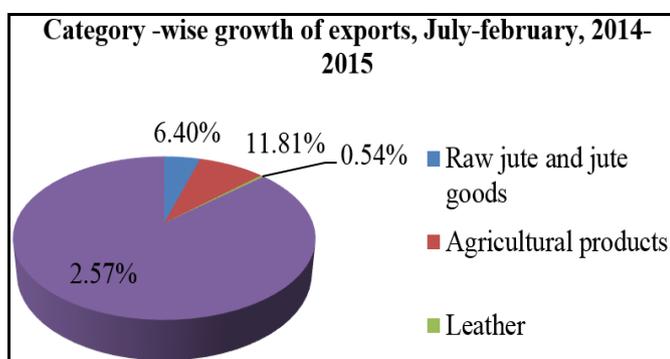


Fig 2

Table 4: (Export of goods and services contribution in GDP of Bangladesh)

Year	Export of goods and services as percentage of GDP
2005	16.6%
2006	16.4%
2007	17.0%
2008	17.7%
2009	16.9%
2010	16.0%
2011	19.9%
2012	20.2%
2013	19.5%

Source: World Bank development indicators, 2014.

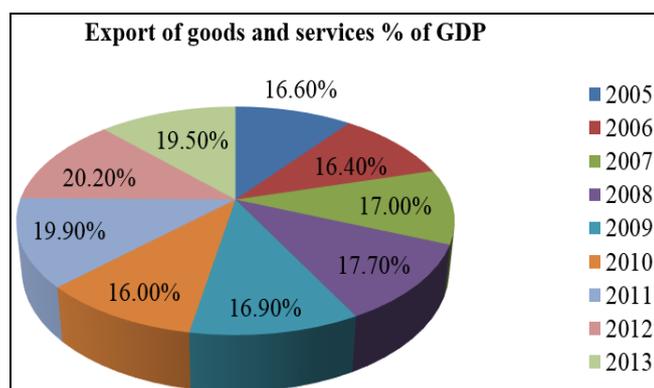


Fig 3.

From the above information find that export had the highest GDP contribution in the FY 2012 which is 20.20%. And lowest GDP contribution in the FY 2010 which is 16.0%. But in 2013 it was decrease by 19.50%.

9. Cash Incentives to the Exporters of Bangladesh

Bangladesh's export performance is quite satisfactory during the last few years. So to make it more accomplished, the government of Bangladesh provides some cash incentives to the exporters. Potato, halal meat and agro-products are getting the highest 20 per cent cash subsidy. The small and medium garment factories get an additional 5.0 per cent subsidy, while 3.0 per cent incentive (including government special support) is provided for new products and new market expansion except USA, Canada and EU in the current FY.

The export-oriented textiles sector gets 5.0 per cent alternative cash incentive instead of customs bond and duty-drawback facility. The products made of grass (hogla), paddy straw (khor) and sugarcane bark (akherchhobra) get cash incentive at the rate between 15 per cent and 20 per cent. Exporters of bone dust and leather goods get 15 per cent incentive, pet bottle, flakes, finished jute goods and products of light engineering sector get 10 per cent cash subsidy. Among the other sectors, frozen shrimp and jute yarn get 10 per cent and 7.5 per cent incentives respectively and ship export gets 5.0 per cent cash subsidy.

The government is likely to reduce the rates of cash incentive/subsidy facility on a good number of export items from next fiscal year (FY). The initiative has been taken to bring some potential and diversified export items under the incentive/subsidy facility while reducing government expenditure. According to the move, the government may reduce the rates of cash incentive/subsidy on export of jute and jute goods, leather and leather goods, on new products and new market expansion facility, on additional subsidy given to small and medium garment factories and export-oriented textiles sector.

Besides, the rate of the cash incentive facility on export of frozen shrimp and fish will be reviewed The government wants to make the move effective from next FY as if the existing rates of cash incentive/subsidy are reviewed in the ongoing FY. If the move is made effective from next FY, the government expenditure for this purpose will reduce by about Tk 3.0 to 5.0 billion in every FY It may reduce the rate of alternative cash incentive on the export-oriented textiles to 4.0 per cent from existing 5.0 per cent, additional subsidy for small and medium garment factories to 4.0 per cent from 5.0 per cent and incentive on new products and new market expansion (garment sector) except USA, Canada and EU to 2.0 per cent from the current 3.0 per cent, according to the MOF data. Besides, the government may also decrease the rate of cash subsidy on export of both jute goods and jute yarn by 2.5 per cent from existing 10 per cent and 7.50 per cent respectively, the data showed. Diversified

jute goods will be included in the incentive basket which will get 10 per cent cash subsidy from the next FY.

10. Export Growth Model of Bangladesh over the Last Ten Years (2005-20015)

The exponential curve is applicable when the growth rate with respect to time is constant. Consider the following equation of an exponential curve,

$$Y_t = \alpha \beta^t$$

Y_t represents the trend value of the time series Variable Y at time t, α and β are two constant, t is the time variable. This equation uses to fit the exponential curve. By using this equation and secondary data which collected from World Bank development indicators 2014, sketch a export growth model for Bangladesh from the year 2005 to the year 2014 is,

Export = $7033146328(1.2063)^t$, here 7033146328 represents α and 1.2063 represents β .

11. Findings

- Trade liberalization is an important component of the country's structural reform program. Concurrently Bangladesh has a less restrictive and more outward oriented trade policy environment. During this times Bangladesh witnessed a fairly rapid trade liberalization compared to the past. At this time trade, good sectors, service sectors also spectator the denationalization of industries, flexible economic system and a significant reduction in trade barriers.
- In terms of trade GDP ratio in Bangladesh has been a remarkable rise in the share over last two decades. The GDP in Bangladesh expanded 6.01 percent in 2013 and 6.12 percent in 2014 from the previous year. Average GDP growth rate in Bangladesh is 6 percent from 2004 until 2014.
- The major export policy reforms in Bangladesh aims at providing exporters with unrestricted and duty free access to imported inputs, financial incentives for easy access to credit and credit subsidies, fiscal incentives to exporter, strengthening the institutional framework for export promotion.
- By implementing export policies, Bangladesh experienced a vigorous export growth of 19.90% in the FY 2013. It indicated that the country's export sector has started to recover from the adverse effects of global financial crisis.
- Trade liberalization could influence the labor market directly, indirectly and tangentially.
- In Bangladesh RMG sector create huge job. From 1990s the fastest rate of employment creation was in export oriented RMG sector. RMG sectors hold 75% of total exports.
- A limited number of dynamic export products at the upper part dominate Bangladesh's export basket. Some new products at the middle consistently maintain a high growth and some surviving products which have struggled to survive due to fluctuations in export growth.
- Major challenges facing the competitiveness of new and diversified products include the lack of comparative advantage, efficient use of available resources, poor

capacity to ensure product and market diversification, high trade cost, low level of initial export value, poor physical connectivity and size of the economy of the importing country.

12. Recommendations

- High concentration in exports put policy makers under pressure towards achieving export diversification in order to ensure a broader basis for the export led growth of the country.
- Make strong strategies for new and surviving products along with dynamic products.
- To overcome global economic recession, the Bangladesh government needs to offer more attractive cash incentives to the exporters.
- The entrepreneurs of RMG sector are busy improving their factories and work environment which is consuming huge fund. On the other hand political unrest is going on in the country. In the circumstances government have to offer attractive incentives to the entrepreneurs of RMG sector to operate their export business smoothly.
- The Bangladesh Bank has slashed interest rate of its Export Development Fund (EDF) by one percent. This cheaper loan will help exporters face the impact of recession and main competitiveness on global markets.
- The government should ensure the supply of qualitative and hygienic commodities to the consumer at the right price.
- In case of employment it is important to create more alternatives of RMG sector. Only RMG sector is not enough to create jobs for people.

Appendix 1: (Export Growth model)

Year	Export value	In export Y_t	$t=X_t$	$Y_t X_t$	X_t^2
2005	9994813008	23.0253321	1	23.0253321	1
2006	12575570395	23.25502191	2	46.51004382	4
2007	14207326494	23.37702362	3	70.13107086	9
2008	15213291774	23.44543534	4	93.78174137	16
2009	15217628243	23.44572035	5	117.2286017	25
2010	15360907110	23.45509162	6	140.7305497	36
2011	19867662810	23.71235926	7	165.9865148	49
2012	22357529708	23.830429	8	190.643432	64
2013	22905710477	23.85465208	9	214.6918687	81
2014	1.38824E+11	25.65647566	10	256.5647566	100
	Total	237.0575409	55	1319.293912	385

Mean Value of $Y_t = 237.0575409 / 10 = 23.70575409$
 Mean Value of $X_t = 55 / 10 = 5.5$
 $\hat{b} = \frac{\sum Y_t X_t - n \bar{X} \bar{Y}}{\sum X_t^2 - n \bar{X}^2}$
 $\hat{b} = \frac{1319.293912 - 10 * 5.5 * 23.70575409}{385 - 10 * 5.5^2}$
 $= 0.1876$
 $\hat{a} = \bar{Y} - \hat{b} \bar{X}$
 $\hat{a} = 23.70575409 - 0.1876 * 5.5$
 $= 22.67395409$
 $\hat{Y}_t = \hat{a} + \hat{b} X_t$
 $= 22.6379 + 0.1876 X_t$
 $\hat{\alpha} = \text{Antilog}(22.6739) = 7033146328$
 $\hat{\beta} = \text{Antilog}(0.1876) = 1.2063$
 Fitted model is $\hat{Y} = 7033146328(1.2063)^t$

Appendix 2: (GDP Growth Model)

Year	GDP	ln GDP=Yt	t=Xt	YtXt	Xt^2
2004	56889517979	24.76438	1	24.76438	1
2005	60277560976	24.82223	2	49.64445	4
2006	64273563733	24.88641	3	74.65924	9
2007	68404967193	24.94871	4	99.79485	16
2008	72639529866	25.00878	5	125.0439	25
2009	76809880500	25.0646	6	150.3876	36
2010	81471733197	25.12352	7	175.8647	49
2011	86936936296	25.18845	8	201.5076	64
2012	92356328485	25.24892	9	227.2403	81
2013	97925639076	25.30747	10	253.0747	100
	Total	250.3635	55	1381.982	385

Mean Value of $Y_t = 250.3635/10 = 25.03635$

Mean Value of $X_t = 55/10 = 5.5$

$\hat{b} = \frac{\sum Y_t X_t - n \bar{X} \bar{Y}}{\sum X_t^2 - n \bar{X}^2}$

$\hat{b} = \frac{1381.982 - 10 * 5.5 * 25.03635}{385 - 10 * 5.5^2}$

$= 0.065$

$\hat{a} = \bar{Y} - \hat{b} \bar{X}$

$\hat{a} = 25.03635 - 0.065 * 5.5$

$= 24.67$

$\hat{Y}_t = \hat{a} + \hat{b} X_t$

$= 24.67 + 0.065 X_t$

$\alpha = \text{Antilog}(24.67) = 5176603106$

$\beta = \text{Antilog}(0.065) = 1.067$

Fitted model is $\hat{Y} = 5176603106(1.067)^t$

13. Conclusions

In the concluding part it is essential to summarize the major findings of the study. This study analyses the Bangladesh's experience with trade liberalization. In case of export Bangladesh has done well in international market. RMG is the largest sector of export in Bangladesh. Now government needs to make strategies for new and diversified products of export basket. The government also needs to give attention to the survival products of export to enhance the export growth of Bangladesh. The present study may support a lot for further study in the field of trade liberalization and diversified export basket.

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