Measuring External Sector Openness and Integration Status Of Bangladesh Economy

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Abstract

There have been notable changes in external trade and financial controls in the developing countries since mid 1980s. Many developing economies have experienced tremendous increase in the volume of global international trade and international financial transactions after mid 1990s in response to the removal of external sector restrictions and other policy reforms undertaken in the developing countries. In line with global development strategy, a substantial openness measures have been undertaken in external sector of Bangladesh since early 1990s with the objective of achieving positive benefits from global financial integration. The paper is an attempt to find the external sector openness and integration status of Bangladesh relative to a set of developing economies. It is evident that Bangladesh has become more open over the period; nonetheless it has remained less open among the sample economies. And though the volume of foreign capital flows has increased in Bangladesh, it has remained the least integrated economy of all the selected economies of Southeast Asia, and South Asia.

SECTION - I: INTRODUCTION

Globalization has become a reality today. It is widely used alongside external sector reforms primarily to mean the process of economic openness or global integration through trades, investments and capital flows taking place all over the world. The process of opening up and integration has been an irresistible force which no economy can avoid embracing unless it is determined to isolate itself from the international mainstream. The main reason or factor behind such a development lies in the popular belief that such a global economic integration ensures greater efficiency and output.

Tremendous increase in the volume of global international trade and international financial transactions are considered one of the far-reaching developments in the process of globalization that originated basically from the removal of external sector restrictions and other policy reforms undertaken in the developing countries. However, the experience of developing countries in regard to the actual impact of international trade and capital flows varied widely across countries, and a number of them have not been able to take advantage of the growing trade and high capital mobility. In several instances international financial liberalization, especially opening of capital account appears to have been associated with financial crises and governments have had to intervene to rescue the financial sectors. Notwithstanding the developments, most developing countries continue to progress in opening up their economies and dismantling trade and capital controls to integrate their markets with the rest of the world. Some other forces such as multilateral agreements, bilateral treaties, regional arrangements, different international bodies and international financial institutions have been contributing in the globalization process. As a multilateral agreement, World Trade Organization (WTO) has undertaken substantial steps in connection with creating an integrated global market within a short span of time since its inception.

By 1990s, a number of developing economies have attached themselves to the globalization process to take positive benefits of external sector openness and global integration. In line with the development, Bangladesh initiated external financial reforms (along with a set of other economic reforms) mainly since mid 1980s by opening up international trade sector. By the time current account of the BOP has been made convertible and a number of deregulatory measures have been undertaken in connection with openness of capital account of BOP. On the way towards a market-oriented approach, the country has adopted floating exchange rate management system since May 2003. On the above background the paper attempts to answer a few research questions: What is the degree of external sector openness of Bangladesh? What is the status of the country's economic integration? What is Bangladesh's relative openness and integration status side by side it's neighboring and other developing economies?

As relevant issues, external sector openness measures and external trade and financial flows are the focus of attention, and the paper attempts to find current status of external sector openness and integration scenario of Bangladesh economy relative to a set of developing economies. The specific objectives of the paper are as follows: one, to sketch a historical review of policy shifts in developing economies; two, to draw the status of external trade and financial openness of Bangladesh economy side by side some developing economies; and three, to examine Bangladesh's scenario of external trade and financial integration relative to a selected set of developing economies.

The analyses of the paper are completely based on secondary data published in local and international journals and periodicals. Most data and information have been collected from published sources of international financial institutions like World Bank, IMF and ADB. Here a simple methodology has been followed to examine Bangladesh's relative openness and integration status by constructing two indices, namely "Openness Index" and "Integration Index." Openness status of the economies has been considered as of 2004 and data between 2000 and 2004 have been analyzed for examining the comparative integration scenario. A total of 6 Asian economies have been selected to make a comparative picture of Bangladesh. Three neighboring economies[1] have been chosen considering their more or less similar socio-economic conditions, and similar less developed trade and financial structure; and three economies[2] have been selected from Southeast Asia, where substantial external sector reforms have been undertaken, and where a number of economies have experienced substantial trade and capital flows. It is obvious that external sector openness is essential but not sufficient condition for ensuring trade and financial integration; however, the other responsible factors have not been covered in the paper. Lack of availability of recent comparable data is another notable limitation of the paper.

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[1] India, Pakistan and Sri Lanka.

[2] Indonesia, Philippines and Thailand.

The paper is divided into five sections. Section II sketches the background of the paradigm shifts of developing economies towards globalization with special reference to Bangladesh. The openness scenario of Bangladesh economy relative to some developing countries has been examined in section III. Section IV draws a comparative assessment of trade and capital flows of Bangladesh side by side the selected economies to have a relative picture of 'Bangladesh's integration'. And finally, the paper concludes with summary findings and concluding remarks in section V.

SECTION II: DEVELOPING COUNTRIES' PARADIGM SHIFT TOWARDS EXTERNAL SECTOR LIBERALIZATION

The strategy of industrialization through state-led import substitution [popularized by economists like Raul Prebish, Hans Singer, Albert Hirschman etc] that was adopted by most developing countries since the early 1950s came under challenge by mid 1970s. As a part of the strategy, the ignorance to the role of international trade and foreign capital in the economic development came under serious criticism. Economic literatures (Bhagwati, 1978; Krueger, 1975 etc.) came up with the opinion that import substitution industrialization strategy with protective tariffs, quotas and pervasive capital controls not only created uncompetitive and inefficient industries but also proliferated corruption and rent seeking activities. The net result of both financial repression and import substitution was economic stagnation even in countries that were thought to have a greater potential for rapid economic growth (Bhagwati, 1993).

The period of 1950s and 1960s is characterized by export pessimism and import substitution under high tariffs and quotas in developing world. During the period, a whole body of literature grew up that established the case for protection of infant industries under tariff and non-tariff barriers. The strategy of the financial sector of developing countries were in favor of lower interest rate financing, and directed allocation for industrial and agricultural development. Governments used to borrow heavily from the domestic financial system and from abroad to finance budget deficits and to meet the need for state-owned enterprises. However, the inherent weaknesses of the inward looking strategy were exposed by 1970s. Moreover, in the early 1980s, deteriorating terms of trade and international recession put pressure on developing economies. Thus, atmosphere of structural adjustment was being created by early 1980s for a policy shift in developing economies from import substitution to export orientation, although it was only since late 1980s when most of the developing economies started moving towards opening up of international trade and investment.

Among the developing nations, Latin American was the first area for testing openness strategy of development, and then the focus shifted to the East and South East Asian economies. Though, most developed economies completed trade and current account liberalization by 1960s and 1970s, most developing countries, even being signatories to the IMF articles and the GATT agreements, resisted the process of opening up trade sector and delayed convertibility of current account. It was only during late 1980s and 1990s when most countries adopted major external sector reforms through liberalizing international trade, current account and exchange rate policies. By 1980s, most developed countries were more or less financially integrated maintaining a very few restrictions on financial flows. However, most of the developing countries were maintaining strict control on capital account transaction till the early 1990s as a strategy to have control on monetary and financial policy. During 1990s, a number of developing countries not only allowed capital flows but also provided with good incentive structures to attract foreign capital (especially FDI) with the objective of achieving positive benefits from global financial integration.

After independence, Bangladesh adopted an inward looking socialistic kind of development strategy. Economic policies were designed to protect import-substituting industries from foreign competition. As part of the strategy, the then government nationalized all heavy industries and financial institutions, and brought foreign trade under the state control. Foreign private investment was discouraged if not prohibited. These created a restrictive regime for international trade and investment flows. However, the development model could not succeed to give the war-ravaged economy a push. Since 1976, the development strategy started turning towards market-oriented system. However, the main impetus to economic reforms and deregulation took place since mid 1980s when the country was under a series of World Bank-IMF structural adjustment programs. With the objective of financial reforms in Bangladesh, Financial Sector Reform Project (FSRP) was launched in 1990, and the first phase was completed in 1996. Practically, FSRP laid the groundwork for a substantial reform in the financial sector of the country.

SECTION III: OPENNESS STATUS OF BANGLADESH ECONOMY – A RELATIVE PICTURE

In the external sector, notable reform measures have been undertaken during last two decades through removing trade and financial barriers in most of the developing economies. The tremendous increase of the global trade and capital flows of 1990s have originated basically from the removal of external trade and financial restrictions in the developing world. In determining openness, the section analyzes the status of the external trade deregulatory measures, policies in connection with foreign investments, and exchange rate deregulation to see how far these have been favorable to trade and financial inflows into Bangladesh and outflows from Bangladesh.

Reforms/Controls on International Trade and Current Account

In the trade sector, Bangladesh has moved from the initial phase of quantitative controls to the phase of tariff reduction by the end of 1980s. Tariff rates on the imported goods have come down (having five tariff bands: zero, 5%, 15%, 25%, and 37.5%) over the period. The average nominal rate of protection [weighted tariff barrier] has been reduced significantly from 88 percent to 30 percent in between 1990 and 1995, further down to 17 percent in 2004 (World bank, 2005). Number of items subject to quantitative restrictions reduces from 315 in 1990 to 110 by mid 1990s, and number of items subject to import ban for the trade reasons comes down form 275 in 1986 to only 11 by 1996. As of 2005, the controlled list contains 110 items, which are mainly restricted or prohibited for public safety, religious, environmental or social reasons. And only 26 items of these are restricted purely for trade purposes of which 7 are banned and 19 are restricted. All items not on the control list may be imported freely by registered importers. A number of goods are still subject to regulatory duties, import license fees, and infrastructure development charges. Payments related to all authorized trade transactions have generally been allowed under irrevocable letter of credit. However, some perishable food items not acceding USD 7500 may be imported overland without letter of credit; and capital machinery and industrial raw materials may also be imported without letter of credit. Exports of about 20 items are banned and trade with Israel is prohibited. In Bangladesh, the chief controller of exports and imports of Ministry of Commerce used to allocate quotas for garments exports [the main export item of the country] that has been removed since January 2005 under WTO agreement.

By the first quarter of 1990s considerable deregulatory measures have been under taken in Bangladesh in connection with the items (payments on visible and invisible trade transactions, remittances of incomes, travel and personal payments etc.) of current account. Then in the process, taka has been declared convertible on current account by Bangladesh Bank in October 1993 and Bangladesh has been awarded Article VIII status of IMF as the recognition of the substantial openness of current account of BOP since April 11, 1994.

Reforms / Controls on Foreign Direct Investment (FDI)

In Bangladesh, there are no ceilings on foreign direct private investment inflows, investments except in the industrial sector requiring approval. To encourage inward FDI, tax holidays have been granted to the foreign investors depending on locations. The Foreign Private Investment Act has provided for the protection and equitable treatment of foreign private investment, indemnification, protection against expropriation and nationalization, and guarantee for repatriation of investment in Bangladesh. Authorized dealers have been allowed to remit profits of foreign firms operating in Bangladesh on receipt of application supported by documentation. Repatriation of proceeds from liquidation of direct investment is allowed subject to Bangladesh Bank scrutiny. However, all outward transfers of resident-owned capital are subject to approval, which are sparingly granted.

Reforms / Controls on Portfolio Investments

Positive approach has been adopted to attract foreign investors in the securities market of Bangladesh. Government has undertaken some measures during 1990s to give a right direction to the underdeveloped capital market structure of the country. At present, the non-residents are allowed to buy Bangladesh securities through stock exchanges against payment in freely convertible currencies remitted through banking channels. Proceeds from sales including capital gains and dividends earned on securities are permitted to remit freely. However, outflows of the residents' capital are not allowed. The residents have not been permitted to purchase securities from foreign stock exchanges and non-residents are not allowed to issue securities in Bangladesh. Sale and issue of securities abroad by the residents are subject to prior approval of Securities and Exchange Commission (SEC). The country's policy has been rigid in connection with money market instruments, collective investment securities, and derivative instruments.

Reforms / Controls on External Private Debt

Generally, financial lending by the residents to the non-residents and borrowing by the residents from non-residents are subject to the approval of Bangladesh bank. Authorized dealers may obtain short-term loans and overdrafts from overseas branches and correspondents for a period not exceeding seven days at a time. Though, Bank may issue guarantee or sureties in favor of non-residents in relation to permissible current transactions on behalf of residents, receipt of guarantees/sureties by residents from abroad requires full disclosure of underlying transactions. As per the provisions, Bangladeshi nationals residing abroad, foreign nationals, companies, firms, banks and financial institutions, institutional investors etc. may open interest baring foreign currency deposit accounts denominated in dollars, euros, pounds or yen held domestically. Generally residents of the country are not allowed to maintain foreign currency account abroad. However, Bangladeshi nationals who opened an account abroad when residing abroad may maintain it after returning to Bangladesh.

Exchange Rate Deregulation

Following the independence, the exchange rate of the newly created currency taka was fixed with the British Pound Sterling. In 1979, the government pegged taka to a basket of currencies of its major trading partners that continued till May 2003. Since May 31, 2003, Bangladesh adopted floating exchange rate management system. Currently, Bangladesh Bank declares no exchange rate, and the central bank has no obligation to transact with any authorized dealer in any currency. Exchange rates are to determine through the interaction of demand and supply forces in the market. As per the provisions of independent floating, the central bank is not expected to intervene directly in the foreign exchange market. However, Bangladesh Bank continues to intervene in the market. Considering the fact, the IMF categorized exchange rate arrangement of Bangladesh as 'managed floating with no preannounced path'.

Comparative Openness Status of Bangladesh's External Financial Sector

To have a comparative openness picture of Bangladesh, a summary table (openness table -I) has been constructed on the basis of the presence and absence of openness measures in connection with international trade, current account, FDI, portfolio investment and private external debt [described briefly in annex tables A1, A5, A6, A7 and A8].

OPENNESS TABLE– I : SUMMARY OPENNESS STATUS OF SELECTED ECONOMIES

Country	Internationl Trade ♣	Current Account ♦	Capital Account ♥	Exchange Rate System
Bangladesh	Relatively Free (RF)	Convertible (CNV)	Partly Restricted (PR)	Managed Floating (MF)
India	Relatively Free (RF)	Convertible (CNV)	Controlled (CD)	Managed Floating (MF)
Indonesia	Relatively Free (RF)	Convertible (CNV)	Controlled (CD)	Managed Floating (MF)
Pakistan	Relatively Free (RF)	Convertible (CNV)	Partly Restricted (PR)	Managed Floating (MF)
Philippines	Relatively Free (RF)	Convertible (CNV)	Controlled (CD)	Independent Floating (IF)
Sri Lanka	Relatively Free (RF)	Convertible (CNV)	Partly Restricted (PR)	Independent Floating (IF)
Thailand	Relatively Free (RF)	Convertible (CNV)	Controlled (CD)	Managed Floating (MF)

♣ It covers provisions on Trade in goods and services. The economies have been classified into Free (no restrictions on international trade & payment, very low tariff, absence of any restrictive list for trade reason); Relatively Free (insignificant restrictions on international trade & payment, comparatively low tariff, presence of small restrictive list for trade reason) Controlled (Significant restrictions on international trade & payment, comparatively high tariff, presence of big restrictive list for trade reason); and Restricted (Significant restrictions on international trade & payment, and very high tariff and quota).

♦ It covers convertibility status of the current account of BOP of the selected economies. Current Account of the BOP are convertible in the economies those have been awarded Article VIII of IMF, and non-convertible having IMF status of Article XIV.

♦ It covers provisions on FDI flows, capital market flows [equity bond], money market flows, and bank and trade related lending/borrowing. The economies have been classified into Free (no or very limited control on outflows and inflows); Relatively Free (Inflows and Outflows permitted subject to some conditions) Controlled (Inflows and outflows permitted having notable restrictions like minimum holding periods, classes of investors, registration requirements etc); Partly Restricted (complete prohibition on inflows or outflows) and Restricted (inflows and outflows prohibited).

♥ Based on IMF's Classification that based on the practices and may be different from the declaration of their respective governments.

♠ Based on the summary table [openness table –I], a simple weighted index [openness table-II] has been constructed. It is recognized that, all factors do not have the same financial integration effects. For example, portfolio capital flows and external private debt are said to have higher integration effects than FDI. In the paper, this aspect has been ignored. Exchange rate determination system has been considered as another important force for trade and financial flows. It is said that capital account convertibility and floating exchange rate should go hand in hand. In constructing index, current account and capital account of BOP have been assigned equal weights of 40% each; and remaining 20% has been assigned to the exchange rate management systems.

OPENNESS TABLE- II : WEIGHTED INDEX ON EXTERNAL SECTOR OPENNESS

Country	International Trade ♣		Current Account ♦		Capital Account		Exchange Rate System♠		Overall Status	
	TRS	**TWS**	**CACS**	**CAWS**	**CAS**	**CWS**	**ERS**	**ERWS**	**TS**	**R**
Bangladesh	RF	13.33	CNV	20	PR	10	MF	15	58.33	6
India	RF	13.33	CNV	20	CD	20	MF	15	68.33	2
Indonesia	RF'	13.33	CNV	20	CD	20	MF	15	68.33	2
Pakistan	RF	13.33	CNV	20	PR	10	MF	15	58.33	6
Philippines	RF	13.33	CNV	20	CD	20	IF	20	73.33	1
Sri Lanka	RF	13.33	CNV	20	PR	10	IF	_	63.33	5
Thailand	RF	13.33	CNV	20	CD	20	MF	15	68.33	2

Note: TRS- Trade Status; TWS- Trade Weighted Score; CACS- Current Account Convertibility Status; CAWS – Current Account Weighted Score; CAS- Capital Account Status; CAWS – Capital Account Weighted Score; ERS- Exchange Rate Status; ERWS – Exchange Rate Weighted Score; TS – Total Score; and R – Rank.

♣ Following the weight of 20% on Trade, the scores allotted are: Free - 20; Relatively Free – 13.33; Controlled – 6.67; and Restricted – 0.

♥ Following the weight of 20% on Current Account [that also includes trade in goods and services], the scores allotted are: Convertible 20; and Non-convertible – 0.

♠ Following the weight of 40% on Capital Account, the scores allotted are: Free - 40; Relatively Free – 30; Controlled – 20; Partly Restricted – 10; and Restricted – 0.

♦ Following the weight of 20% on Exchange Rate Management Systems, the scores allotted are: Independent Floating - 20; Manage Floating – 15; Basket Peg– 10; Single Currency Peg – 5; Fixed – 0.

SECTION IV: BANGLADESH'S ECONOMIC INTEGRATION RELATIVE TO THE SELECTED ASIAN DEVELOPING ECONOMIES

International trade and financial transaction increased considerably in responses to the policy changes in most of the developing economies following mid 1980s. In 1980s the trade flows of all developing countries was only 30% of their total GNI [Gross National Income] that increased to 42% in 1990, 66% in 2000 and reached to 80% in 2004. In between 1980 to 2004, the trade flows increased by above seven times as against increase in GNI in the developing countries by about three times. Gross private capital flows[4] of the developing countries increased from 6% to 13% of GDP in between 1990 and 2003. Private capital flows have started dominating official flows in the developing economies since early 1990s. Net private resource flows to developing countries in 1990 were slightly higher than 40% of total flows, which increased to 88% in the year 2004 [World Bank, 2005]. Moreover, the composition of the private flows has changed over the decade. Trends clearly indicate that growth in the net resource flows to the developing countries had mainly been due to sharp increase in the private resource flows in the form of FDI, portfolio equities and bonds. Total net FDI flows in 1990 was less than 22% of the total long term net flows, which went up to about 60% in the year 2004; and net portfolio equity flows increased from 3.5% of the net total long term flows in 1990 to above10% in the year 2004. Though total debt flows[5] into the developing economies decreased as percentage of total flows, private debt flows went up considerably as percentage of total debts. In 1990, only 13% of the total debt flows of the developing economies were private non-guaranteed debt [and 87% public and publicly guaranteed debt], which increased to about 50% in the year 2004.

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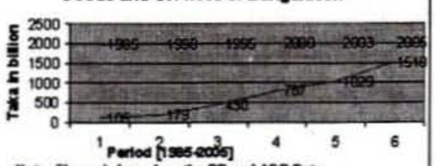
[3] Sum of Exports and Imports of Goods and Services [including workers' remittances].
[4] Sum of total private capital inflows and outflows.
[5] Sum of total disbursement and repayment of non-guaranteed private debt.

There is no doubt that as a whole the developing economies have become more integrated through higher level of trade and capital flows since early 1990s. However, among the developing nations, only a dozen countries accounted for most of the trade and private capital flow. In the world merchandise trade only six economies[6] accounted for over 40% of world trade share, and in Asia only four countries accounted for above 60% of their total trade [as of 2004]. According to the World Bank [2000], 140 of the 166 developing countries accounted for less than 5% of private capital flows during 1990-95. The situation has not changed much over the following period other than adding another 6/7 economies to the elite club [those experienced notable volume of private capital flows].

International Trade Flows and Current Account of Bangladesh

Trade flows of Bangladesh received a momentum mainly since mid 1990s. Total volume of exports and imports of the country was around 18-19% of GDP during 1985-1990 that increased to near 30% of GDP in 1995, and the figure surpassed 40% mark in 2005. In Bangladesh, merchandise trade registered comparatively higher rate of growth than services trade over the period. Average growth in real trade has been 4.6% higher than average growth in real GDP over 1990-2003 [World Bank, 2005]. Other than merchandise trade, worker remittance has been a crucial force of the current account flows of Bangladesh. Worker remittances accounted for over 45% of the country's total export earnings. The volume of worker remittances has consistently been at the range of 4-6% of GDP since early 1990s.

Fig- 1: Trend of Exports and Imports of Goods and Services of Bangaldesh



Note: Figure is based on the BB and ADB Data

6 USA, Germany, Japan, China, France and UK as of 2003

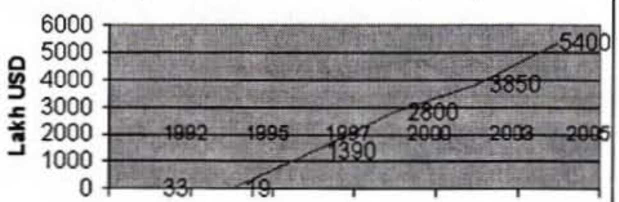
The comparative picture of the trade and current account flows are not impressive. The trade and current account flows of the emerging economies of Southeast Asia have been over 100% of GDP. In the SAARC region, Sri Lanka is much ahead with high trade flows and current account flows that are about 100% of GDP [table A2 and A3].

Private Capital Flows of Bangladesh

Private capital flows of Bangladesh have increased as responses to the deregulatory measures undertaken in Bangladesh in connection with capital account of BOP. Gross private capital flows of the country increased from 0.9% to 2.5% of GDP in between 1990 and 2003 [WB, 2005]. However, as compared to the emerging developing economies the country received only very limited responses.

Since 1991, there has been slow increase in the inflow of foreign direct investments in Bangladesh. In this regard, only some improvement has taken place following FDI inflows in the energy and power sector of the country since 1997-98 when Bangladesh started drawing considerable volume of FDI on gas exploration and development. There has also been rising trend of FDI inflows in manufacturing and service sector since mid 1990s. In the year 2000 Bangladesh attracted FDI inflows of about USD280 million that reached to USD 500 mark in 2004 [Economic Review, 2005]. Though, the FDI flows to the developing countries constituted over 2% of their total GNI [in 2004] , it is yet to reach 1% mark in Bangladesh. Like the overall picture of private resource flows, a few emerging economies have been consistently attracting lions share of FDI flows to the developing countries.[7]

Fig-2: FDI Inflows to Banagldesh



Note: Based on MOF Economic Review

An important feature of the capital flows of recent years has been the participation of foreign institutional investors in the stock markets of developing economies. According to the World Bank (2004) data, net equity flows increased by over tenfold and net bond flows increased by more than twenty fold in between 1990 and 2003. However, Bangladesh's underdeveloped capital market has not been proved to be attractive to the foreign investors, and it could attract a very negligible portfolio capital during the second half of 1990s in the form of equity, and whatever came into the nascent capital market left the scene following the stock market debacle in 1996. Like other forms, total portfolio investment flows have been highly concentrated to a few economies. Private debts or Bank and trade related debt inflows and outflows increased in the developing region over the period. Again, the flows are concentrated in a few countries. In Bangladesh all private debts are publicly guaranteed. Private bank and trade related flows increased to USD268 million in 2001 that came down to USD 37 million in 2003 [WB, 2005]. Of the selected economies, Thailand, Philippines, and Indonesia are much ahead as compared to the others in connection with bank and trade related private credit flows [table A4].

Comparative Integration Scenario

The direct measures of trade and financial integration for developing countries have not been developed or are not available. Here a simple methodology has been followed to have a comparative composite rank or an index of integration status of Bangladesh side by side the selected group of economies. Determinants/ factors related to exports and import flows, current account flows, FDI flows, portfolio investment flows and private debt flows have been taken into consideration for constructing the index. Separate ranks have been obtained for current account and capital account in constructing the index. Same weight has been assigned to the current account and capital account related flows.

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[7] China, Brazil and Mexico accounted for over 50% of total FDI inflows in developing countries in 2003.

INTEGRATION TABLE - I : COMPARATIVE FINANCIAL INTEGRATION STATUS
(Rank based. Weighted Index)

Countries	TF4♣	CAF♦	R1 CRA	FDI♥	PIF♠	BTF *	R2 CPA	Overall Rank
Bangladesh	6	7	6	7	7	7	7	7
India	7	7	7	4	5	6	5	5
Indonesia	4	4	4	5	4		4	4
Pakistan	7	6	6	6	6	5	6	5
Philippines	2	2	2	2	1	2	2	2
Sri Lanka	3	3	3	3	3	4	3	3
Thailand	1	1	1	1	2	1	1	1

Note: R1 is the Ranks of Economies on Current Account flows that are based on the ranks on TF and CAF; R2 is the Ranks of Economies on Capital Account flows that are based on the ranks on FDI, PIF, and BTF; Overall Ranks are based on R1 and R2.

♣ Ranks of TF or Trade Flows (sum of Exports and Imports of Goods and Services) are based on annual average Trade Flows as % of GDP during 2000-2004 for the economies [table A2].

♦ Ranks of CAF or Current Account Flows (sum of inflows and outflows on current account) are based on annual average Current Account Flows as % of GDP for 2000-2004 for the economies [table A3].

♥ Ranks of FDI or Foreign Direct Investment flows (sum of FDI inflows and outflows) are based on annual average FDI Flows as % of GDP for 2000-2004 for the economies [table-A4].

♠ Ranks of PIF or Portfolio Investment Flows (sum of Portfolio Investment assets and liability figures) are based on annual average PIF as % of GDP for 2000-2004 for the economies [table-A4].

* Ranks of BTF or Bank and Trade Related Flows (sum of Disbursement and Principal repayment of commercial bank and other private debt) are based on annual average BTF as % of GDP for 2000-2004 for the economies [table-A4].

SECTION V: FINDINGS AND CONCLUDING REMARKS

The evidences in the paper clearly indicate that developing countries along with Bangladesh have become more open and integrated over the period. The paper came up with the following findings in connection with external sector openness and integration of Bangladesh relative to the set of developing economies.

It is evident that Bangladesh has become more open by the end of 1990s. By mid 1990s, Bangladesh has undertaken considerable deregulatory measures in connection with international trade flows and taka has been made convertible on current account. Though inflows of FDI and portfolio investments have been allowed, provisions on outflows of resident-owned capital and private credit operations have remained restricted. In contrast to the provisions in a number of developing economies, transactions on money market instruments and collective investment securities (except for sale or issue abroad, which requires approval of SEC and BB) have been prohibited. In regard to the comparative picture, the openness index (table- II) revealed that Bangladesh is among the least open economies of the selected group. The scores of the openness index indicate that the Southeast Asian countries [Thailand, Philippines and Indonesia] are ahead of the South Asian economies in terms of external sector openness status. South Asia as a whole is less open and Bangladesh positioned last along with Pakistan of the selected economies.

In response to the policy changes, developing economies have experienced tremendous increase in trade transactions and private capital flows. Exports and import transactions and current account related flows have gone up considerably in Bangladesh over 1990s, however, still it is far behind of the Southeast Asian economies. Net private capital flows of the country increased only by some marginal quantities. Though Bangladesh's net FDI inflows increased since mid 1990s, the comparative picture has not at all been impressive. In contrast to the trends in a number of developing economies, Bangladesh's underdeveloped capital market has not proved to be attractive. Moreover, whatever entered into the capital market left the scene following the stock market debacle in 1996. As against no external bond financing in Bangladesh, there has been notable increase in bond flows into the developing economies. In contrast to the trends in most of the emerging economies, maximum portion of external debts of the South Asian economies has been of official nature. Bank and trade related debt flows of Bangladesh have been much lower as compared to the selected group of economies. It can be observed that the differences among selected countries are particularly marked in financial integration. The comparative over all ranks obtained by the Integration Index (integration table-I) indicate that South Asia as a region is less integrated. The index clearly reveals Bangladesh's lower level of integration as compared to all of the selected economies.

It is difficult to deny that trade and financial globalization is a reality today. Though the process varied widely in different areas and economies, it is obvious that the developing world has opened up trade sector and at least partially liberalized their external financial sector. However, a few emerging economies have already moved far ahead in connection with financial openness, and attained remarkable financial integration with the global financial sector. For Bangladesh, it is less financially open and is much less integrated in terms of financial flows.

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