

## **Import Liberalization under an Exchange Control Regime : An Analysis of the Bangladesh Wage Earners' Scheme**

S. Reza

### **1. INTRODUCTION**

Introduced through the Import Policy Order of July - December 1974, the so-called Wage Earners' Scheme (WES) of Bangladesh has been devised as a mechanism for attaining the twin objectives of (i) encouraging the inflow of foreign exchange remittance through the official channel, and (ii) increasing the supply of imported goods in the domestic market.

The scheme allows Bangladeshi national and persons of Bangladesh origin working abroad to open foreign currency accounts (FCA) with the commercial banks in Bangladesh.<sup>1</sup> Deposits into FCA may be made by remittances from abroad, or by tendering foreign currency notes, travellers cheques, etc. by the account holder which he brings into Bangladesh and are duly declared on a specified form (FMJ). These remittances can then either be disposed of in the open market or they may also be used for the importation of specified items for sale in the local market. Since imports into Bangladesh generally enjoy significant scarcity premium, the Wage Earners' Scheme assures, in terms of domestic currency (taka) considerably higher effective yields for foreign exchange remittance under the scheme than what could be obtained by conversion at the official rate. As is well known, the grossly overvalued taka acts as a distinctive to wage earners' remittance through official channels. The higher rate expected under the WES acts, to some extent, as a corrective mechanism in this respect. Moreover, foreign exchange available from this source has permitted liberalization<sup>2</sup> of imports and opening up of a partially free foreign exchange market.

Section 2 outlines the theoretical basis of the WES. The inflow and importance of remittances under the scheme are analysed in Section 3. Finally, some concluding observations are provided in Section 4.