ABSTRACT

Global evidence suggests that trade-related performance is becoming increasingly important for the socio-economic development of many developing countries. e paper nds that trade preferences accorded to Bangladesh as an LDC have played a crucial role in recent accelerated development of her economy and her signi cant achievements in trade and social sectors. e paper highlights the concerns that emanate from the trade preferences and proposes ways to make these more e ective and bene cial for the LDCs. It concludes that Bangladesh will need to build the needed supply-side

-

CONTENTS

Introduction: Context and Issues 3

I Perfor ance of Bangladesh's Export Sector and its Contribution to the Econo y. 4

. 4

. 5

. 7

. 11

. 11

. 12

II Preferential Market Access Initiatives Favoi[redacted] Bl[redacted]gn[redacted]A aa La 12

L -22086 12

L -22086

L -22086

particular, the extent to which the preferential treatment accorded to Bangladesh as a least developed country (LDC) has contributed to the country's strengthened integration into the global economy is an issue of heightened interest to Bangladesh.

e institutional initiatives through which Bangladesh, as an LDC, receives preferential treatment may be categorised into four groups: (a) various World Trade Organization (WTO) provisions providing special and di erential treatment (SDT); (b) autonomous, non-reciprocal initiatives through various countries' Generalized System of Preferences (GSP) schemes, such as those of the European Union (EU) and Canada; (c) preferential market access initiatives that are part of various regional trade agreements (RTAs) that have special provisions for members that are LDCs, such as the South Asian Free Trade Area (SAFTA), the Asia and Paci c Trade Area (APTA) and Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area; (d) bilateral trade initiatives like the ones between India and Sri Lanka and India and Bhutan.

Bangladesh has been able to take signi cant advantage of the preferential market access provided under the aforesaid initiatives. Lower-duty or duty-free entry has given Bangladesh's exportables a competitive edge in those markets. anks in part to such access, Bangladesh has been able to achieve phenomenal growth of her exports, particularly since the early 1990s, and has emerged as a leading exporter of apparels in the global market. Export-oriented sectors account for about two- fths of manufacturing investment and employment in Bangladesh. e contribution and importance of trade from the perspective of employment generation, income augmentation and economic growth in Bangladesh cannot be overemphasized.

However, evidence also suggests that Bangladesh has not been able to take full advantage of the preferential treatment accorded by her developed and developing country partners. ere are several reasons for this.

ese range from inherent weaknesses in the design of particular preferential schemes to Bangladesh's own weaknesses in building the supply-side capacities required for export diversi cation, productivity enhancement and stronger competitiveness. Bangladesh could have bene ted more from the potential bene ts of market access and SDT accorded to her as an LDC if she had been able to address these constraints adesd S2(t)9 11 0 0 11 72 72 ant ad been able t s as ae to avo

out over a ten-year period, in four stages, between 1995-2005. is had special signi cance for Bangladesh because of the predominance of RMG in her export basket.

ere has been signi cant structural change in the composition of Bangladesh's exports over the years. Prior to the 1990s, Bangladesh's exports were dominated by jute and jute goods. However, gradually their place started to be taken over by exports of apparels, with a consequent shift from a resource-based to a manufacturing-based export structure. In the 1970s and 1980s, the ratio between manufactured and primary exports was 10:90; by the end of FY2010, this ratio had reversed to 90:10. is transition was driven, almost single-handedly, by the export-oriented RMG sector. From a negligible presence in the 1970s and 1980s, the RMG's share of total exports increased to about 60 per cent in the early 1990s and to almost 80 per cent in FY2010 (see table 2).

e notable non-RMG exports in FY2010 were raw jute and jute goods (continuing to remain in second place at US$788.0 million), home textiles (US$403.0 million), shrimp (US$349.0 million), footwear (US$204.0 million) and specialised textiles (US$186.0 million). e share of these items in total exports has tended to remain about 20-22 per cent. However, with total exports increasing, the absolute value of non-RMG exports has also risen substantially (see table 2).

Ascendancy of the Export-oriented Ready-made Garments Sector

e phenomenal growth of Bangladesh's export-oriented RMG sector has been well documented (e.g., Rahman, M. , (2008)). Although the rst exports of knit-apparels were made in FY1973, it was only in 1985 that exports of RMG became signi cant , with the share of apparels in total exports of Bangladesh rising to 12.5 per cent in that year. Over the following decades, RMG exports rose signi cantly in absolute value and as a share of the country's total exports. By FY1990, RMG accounted for 40.9 per cent of Bangladesh's total exports; in FY1994, the year before the start of the phasing-out of the MFA, the corresponding gure was 61.4 per cent and RMG had replaced jute as the country's predominant export. Two main factors were responsible for this. On the one hand, jute was facing tough competition from synthetic bres in the global market while, on the other, Bangladesh had started to realise its comparative advantage in the production of apparels.

Even in the days of British India, Bangladesh enjoyed an excellent reputation for the quality of its textile products, particularly muslin

women (and also men) and was an economic activity that had deep roots in the then Bengal.

Bangladesh's breakthrough in the international market occurred when Desh Garments, a Bangladeshi company established in 1979, formed the country's rst joint venture in the garment industry with the Korean conglomerate Dawoo Corporation. Siddiqui (2004) provides a fascinating account of this early episode of Bangladesh's journey into the export-oriented RMG business and her integration into the global apparels value chain. Because quota restrictions under the MFA limited exports from the Republic of Korea to the EU and the United States (US), it made good business sense for Daewoo to use Bangladesh as a sourcing country since she enjoyed quota-free market access to these markets.[2] Bangladesh's low wages and easily trainable workforce provided the necessary comparative advantage and competitive edge. e Desh-Daewoo joint venture took o in 1980 and was the rst fully export-oriented venture in Bangladesh. Desh workers, operators and supervisors were trained in the Republic of Korea. Production started in the port city of Chittagong. Dawoo took responsibility for marketing the products through its worldwide network. e venture demonstrated the potential that Bangladesh had in the global apparels business.

e mid-level Bangladeshi sta working in Desh-Dawoo formed the core of the entrepreneurial class which subsequently carried the journey forward. Familiarity with global buyers gained through the Desh-Dawoo venture encouraged many to set up their own enterprises. Global buyers also saw this as an opportunity to stimulate further competition in the sourcing market. Government support in the form of bonded warehouse facilities (BWF)[3] and allowing fabrics to be imported under back-to-back

2 Bangladesh continued to enjoy quota-free status in the EU over subsequent years. In the US, quotas were later imposed on a number of items (Quota Categories), witn-(s)-9BDC BT/T12 1 TBDC Global 9 1 Tf0. k/GS2 gs/T12 1 Tf6023BDC B22.4(s)-1029(i)-19-

as US$324 billion (Razzaque and Raihan (2008)). About two-thirds of the gains were expected to accrue to developing countries, whilst the remaining

the more competitive suppliers under the new trading regime in apparels. Studies mostly forecast that the removal of quotas would have a negative impact on Bangladesh (see table 3).

A study conducted by the International Monetary

accessories for apparels. Previously, most accessories (cartons, hangers, zippers, etc) had to be imported, but most of these items are now produced domestically by hundreds of small and medium enterprises (SMEs). is is a good example, in addition to textile production, of additional economic activities (backward linkages) being stimulated by the preferential market access accorded to RMG. Furthermore, a small proportion of these items is exported, receiving preferential access in their own right.

e RMG sector of Bangladesh continues to be dominated by buying-houses, both local and foreign. Major buyers are exerting increasing pressure on RMG producers to enhance the compliance capability of apparels rms. ough this leads to signi cant

Impact of the RMG Export Sector on the Economy

e contribution of the export-oriented RMG sector to Bangladesh's economy has been extensive and diverse. e sector, with about four thousand production facilities, employs about 2.8 million workers and accounts for about two- fths of the employment and value-added in the manufacturing sector. One study (Centre for Policy Dialogue (CPD), (2003)) indicates that the RMG sector, through its manifold multiplier impacts on the economy, accounts for about 7 per cent of Bangladesh's GDP. e contribution of the apparels sector to GDP comes in the

of their children or brothers and sisters. Despite the fact that they had lower incomes, female garment workers were spending the same amount as male workers for the education of their family members.

e same survey further showed that female workers were spending their earnings on their marriage, thus taking a big burden o their families. Independent earning opportunities also allowed these women to have a greater role in household decision-making.

The Need to Review Preferential Treatment Schemes

e export-orientation of its economy poses both challenges and opportunities for Bangladesh in the context of a fast-changing world. Global markets are becoming increasingly competitive. On the other hand, if Bangladesh is able to translate her comparative and strategic advantages into competitive advantage, the potential bene ts originating from the opportunities of strengthened global integration could be substantial. Trading out of poverty, from this vantage point, has important signi cance for Bangladesh.

e tools for translating the comparative advantages into revealed competitive advantages are many and diverse. Domestic policy initiatives have to play a

of that scheme as well.[20] Under EBA, all exportables from Bangladesh are eligible for duty-free treatment, subject to compliance with product-speci c RoO.[21]

Since EU countries accounted for 50.7 per cent of Bangladesh's total exports and were the destination of 57.5 per cent of Bangladesh's global apparels exports in 2000 (see table 5), EBA is of vital importance to Bangladesh's export performance in general and apparels exports in particular.[22] is is more so because, although EU average tari s are low (about 4.2 per cent), average most favoured nation (MFN) tari s in the EU on apparels items exported by Bangladesh average 12.1 per cent. As a result, duty-free (and quota-free) treatment under the EBA provides Bangladesh's exporters with a signi cant advantage vis-à-vis their competitors from China, India, Pakistan, Turkey and Vietnam.[23]

20 In January 2007, Bulgaria and Romania were added to the EU's 25 member states, thereby expanding DF-QF treatment to Bangladesh and other LDCs under the EBA to 27 countries.

21 e EBA arrangement is applicable for an inde nite period while the normal GSP and GSP-plus schemes are reviewed regularly and may be changed.

22 Bangladesh's total exports and exports of apparels to EU in FY2010 were US$8220.6 million and US$7190.7 million respectively.

23 As developing countries, these are eligible for a signi cantly smaller preferential margin under the EU GSP scheme (of only about 15 per cent equivalent of the MFN tari s) and

Bangladesh's preferential market access under EBA and, prior to that, under the EU GSP scheme, has played a crucially important role in helping Bangladesh expand her exports to the EU. is is most prominently manifested in the case of apparels which is Bangladesh's most important export to the EU, accounting for about 87.5 per cent of her total exports to

e growth of the knitwear sector has also been helped signi cantly by the Bangladesh government's cash compensation scheme (CCS) which has been in place since the mid-1980s. is compensation was available to suppliers of fabrics to export-oriented RMG exporters. e CCS enabled domestic fabrics producers to supply at a lower price and thereby remain competitive vis-à-vis foreign suppliers of fabrics. e CCS subsidy was at one point as high as 25 per cent of the price of local fabrics going to export-oriented RMG units. Although the incentive was given to fabrics producers, it also bene ted apparels producers who sourced locally, because domestic fabrics producers were able to pass on a part of the bene ts from the reduced cost of fabrics to downstream apparels producers. e advantages of producing knitwear fabrics in the Bangladesh context,[26] and the combined impact of DF market

stage transformation – from fabrics to apparels. On the other hand, the woven textile producers and the knitwear exporters[31] came out very strongly against any relaxation, arguing that a switch to one-stage would put them under competitive pressure from imported fabrics.[32] After prolonged consultations, the EC revised the RoO. For all apparels items, both woven and knitwear, the RoO requirement for duty-free treatment is now one-stage conversion, from fabrics to apparels (see table 6).

for Bane he x ortes t62.7(o)0.5gso fh-11.1er h-11.1eee-228nc

ese revised rules have been rati ed by EU members and became e ective as of January 2011. e di - culties faced by a signi cant section of Bangladesh's exporters of apparels have been addressed.[33] e revised RoO are likely to provide Bangladesh with a signi cant advantage in the wovenwear market in EU countries. As a result, Bangladesh's utilization of duty-free market access for woven RMG and the volume of its exports to the EU are expected to increase signi cantly. Within the RMG sector, the exporters of woven items are likely to be the major bene ciaries of the change. It may also provide opportunities

31 In the knit sector, yarn to knit fabrics to knitwear production is often carried out by the same entrepreneur, as part of a single operation. In contrast, in the case of the wovenwear sector, fabrics producers and apparels producers tend to be di erent entities, although some composite manufacturers produce the entire range of yarn, fabrics and apparels. e interest of the latter would be di erent from those who produced and exported only apparels items.

32 is was because a one-stage conversion requirement would allow DF market access even when fabrics were imported.

33 e opposition of Bangladesh's textile sector to a relaxation of the RoO persists. However, they have little option but to accept the changed rules and adjust accordingly.

allow Bangladesh to obtain duty-free treatment for items using imported raw materials as long as their value is less than 70 per cent of f.o.b. export value.

e more important di culties for non-apparels exports are ensuring full compliance with stringent SPS and TBT requirements. is is particularly relevant for exports of frozen food items, such as shrimp, to EU countries. In the past, Bangladesh has faced sanctions and has been compelled to adopt voluntary export restrictions (VERs) because of concerns regarding the export of shrimp to EU member countries.[34] Bangladeshi shrimp consignments have had to face mandatory inspections at EU customs points; this has resulted in delays, higher costs and sometimes rejection of consignments. Capacity-building in SPS and TBT compliance has emerged as a major task for Bangladesh in its e ort to maintain and enhance exports of food and agricultural products to EU markets and also from the perspective of diversifying exports beyond the apparels sector.

Support in export diversi cation is of heightened interest to Bangladesh. Bangladesh has yet to realize the full potential of the market access o ered by the EBA beyond the traditional items of apparels and shrimp. Since MFN tari s on a large number of agricultural items are high in the EU, the DF treatment of her exports of those products o ers signi cant market access opportunities to Bangladesh. It is here that assistance to Bangladesh in capacity-building in SPS and TBT compliance assumes critical importance. EU countries have been extending support to Bangladesh to address these problems. However, there is a need to enhance this e ort through more bilateral aid in trade-related capacity building investment in Bangladesh.

Market Access in Canada

e Canadian GSP scheme for the LDCs was revised in 2002 when almost all tradable items were made eligible for duty-free (and quota-free) treatment. Four excluded items were eggs, poultry, dairy and re ned sugar, none of which is exported by Bangladesh. Most of Bangladesh's exports to Canada (89.3 per cent in FY2010) are RMG items. Average Canadian tari s on apparels items are about 17 per cent[35] and several apparels items face tari peaks so that duty-free entry provides Bangladesh with a signi cant competitive advantage. Moreover, the Canadian GSP RoO are considered to be the most LDC-friendly of all, requiring only 25 per cent domestic value addition. Bangladesh can comfortably comply with this criterion even when, in case of apparels, the major input, fabrics, is imported. As a result, Bangladesh's exports to Canada jumped from US$109.8 million in FY2002 to US$666.8 million in FY2010; the corresponding gures for apparels were US$97.9 million and US$595.5 million. Nevertheless, in the Canadian case also, Bangladesh has not been able to realize the full potential of the GSP scheme beyond RMG and a few other items because of supply-side constraints.

Market Access in the US

About 84 per cent of US tari lines are covered under the US GSP scheme for the LDCs.[36] Bangladesh's ex-

34 In 1998, the EC imposed a four months' ban on exports of shrimp from Bangladesh on account of non-compliance with Hazard Analysis Critical Control Point (HACCP) requirements. More recently, in response to EC concerns with regard to the presence of nitrofuran, Bangladesh decided to impose a VER, choosing to withhold the export of shrimp from March to September 2010.

of 2009" (NPTDA 2009). e objective of the Bill was to provide additional DF market access to exports from the AP LDCs that would go beyond the US GSP. To assuage opposition from the US textiles and apparels sector and AGOA bene ciary countries, the proponents had included a number of limiting preconditions such as quantitative limits on eight categories of apparels (covering about 64 per cent of Bangladesh's apparels export to US), sourcing requirements and stringent RoO. Bangladesh and Cambodia indicated their opposition to a number of provisions in the Bill, but NPTDA 2009 nevertheless promised a unique opportunity for AP LDCs such as Bangladesh to have limited duty-free access to the US apparels market. Estimates show5(i)2 122o 11.4(m(a)-2-0.6(a)-23.8(r)4.8(e)-3.7(l)-9.5(s m)-7.6(a)-239.9(t)e)2.2(n)20

Preferential treatment of her exportables is of critical importance for Bangladesh. Preferential market access and related initiatives have played a signi - cant role in Bangladesh's export performance over the years. Since most items in the apparels category, the country's major export, are subject to high MFN tari s and tari peaks, the various preferential

in the US market; and (b) as mentioned above, because of Annexes 3 and 4 of the WTO Hong Kong Decision, Bangladesh could face higher tari s in the US market than DAC countries. Furthermore, for items that receive DFQF treatment, there will be signi cant preference erosion as a result of tari reductions when the Doha Round is concluded and the implementation of the DFQF Decision begins.

Implementation of SDT Provisions in the WTO

SDT provisions have been criticized for being of a "best endeavour" nature and hence having weak en-

Strengthening Institutional and National Capacities Related to Standards, Metrology, Testing and

the sectors where domestic value addition is higher (such as jute and shrimp) don't need facilities such as BWF and can comply with RoO without di culty. However, these sectors need other types of support (e.g., in SPS and TBT). Skill upgrading, labour and capital productivity growth and the development of technical pools are cross-cutting areas where increased attention and investment could lead to a signi cant enhancement of Bangladesh's competi

investment; they have also contributed importantly

References

Bhattacharya, Debapriya (1997). [illegible]. Research Report, Bangladesh Institute of Development Studies.

Bhattacharya, D. and M. Rahman (1999). [illegible]. UNRISD Occasional Paper, 10 July.

Bhattacharya, D. and M. Rahman (2000

World Bank, Poverty Reduction and Economic Management Sector Unit (2006). *B A : B* . Report No. 34964-BD.

WTO Document WT/COMTD/LDC/W/46 (2009). Note by the Secretariat on "Market Access for Products and Services of Export Interest to Least-Developed Countries". 23 October.

WTO (2005). Hong Kong Ministerial Decision. WT/MIN(05)/Dec.

Zohir, S.C. (2000). Intra-household Relations and Social Dynamics among Garment Workers in Dhaka City. Paper presented at the National Seminar on Garment Industry in Bangladesh: Economic and Social Dimensions, Dhaka, 21-22 January.