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Trade Benefits for Least Developed Countries: the Bangladesh Case

Market Access Initiatives, Limitations and Policy Recommendations

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ABSTRACT

Global evidence suggests that trade-related performance is becoming increasingly important for the socio-economic development of many developing countries. The paper finds that trade preferences accorded to Bangladesh as an LDC have played a crucial role in recent accelerated development of her economy and her significant achievements in trade and social sectors. The paper highlights the concerns that emanate from the trade preferences and proposes ways to make these more effective and beneficial for the LDCs. It concludes that Bangladesh will need to build the needed supply-side capacities and undertake necessary reforms to realize the potential opportunities provided by preferential market access.

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Acronyms

ADD	Anti-dumping duty
AfT	Aid-for-Trade
AGOA	Africa Growth and Opportunity Act
AoA	Agreement on Agriculture
AP	Asia-Pacific
APTA	Asia-Pacific Trading Alliance
ATC	Agreement on Textile and Clothing
BIMSTEC	Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation
BSTI	Bangladesh Standardization and Testing Institute
BWF	Bonded Warehouse Facility
CBI	Caribbean Basin Initiative
CCS	Cash Compensation Scheme
CU	Customs Union
CVD	Counter Veiling Duty
DAC	Disproportionately Affected Countries
DF-QF	Duty-free – Quota-free
DTA	Domestic Tariff Area
DTIS	Diagnostic Integration Study
EBA	Everything But Arms
EC	European Commission
EIFI	Enhanced Integrated Framework
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
GSTP	Global System of Trade Preferences
GTAP	Global Trade Analysis Project
HACCP	Hazard Analysis Critical Control Point
IFI	Integrated Framework
IMF	International Monetary Fund
L/C	Letters of credit
LDCs	Least Developed Countries
MFA	Multi-Fibre Agreement
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
NAMA	Non-Agricultural Market Access
NPTDA	New Partnership for Trade Development Act
ODA	Official Development Assistance
OTEXA	Office of Textiles and Apparel
RC	Regional Cumulation
RMG	Readymade Garments
RoO	Rules of Origin
RTA	Regional Trading Arrangement
SDT	Special and differential treatment
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Agreement
SMEs	Small- and medium-sized enterprises
SPS	Sanitary and Phytosanitary Measures
T&C	Textile and Clothing
TBT	Technical Barriers to Trade
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
US	United States
VERs	Voluntary Export Restrictions
WTO	World Trade Organisation

Introduction: Context and Issues

Bangladesh has been experiencing a rapid pace of global integration over recent years. The factors which have contributed to this include both domestic policy changes (in the forms of trade liberalisation, market-oriented reforms, removal of an anti-export bias and the pursuance of an export-oriented growth strategy in general) and a demonstrated ability to take advantage of emerging global market opportunities. The cumulative result has been an increasing degree of openness of the Bangladesh economy, as evidenced by the growing ratio of exports and imports of both goods and services to the country's Gross Domestic Product (GDP).

In the 1991 financial year (FY1991), total trade, official development assistance (ODA) and foreign direct investment (FDI) was equivalent to about one quarter of Bangladesh's GDP; by FY2013, this had increased to more than half (see table 1). In FY1991, the ratio of exports of goods to ODA was 1:1, by FY2013, it had risen to 9.7:1. When exports of services[1] are included, the value of Bangladesh's exports is now about fifteen times the amount of ODA she receives from bilateral and multilateral sources. Exports of goods and remittance earnings were equivalent to 70 per cent of Bangladesh's import payments in FY1991; this had risen to 121.7 per cent by FY2013. In brief, Bangladesh has been able to make a critically important transition from a predominantly aid-dependent country to a trading nation through a process of enhanced and increasingly strengthened global integration.

Global evidence and Bangladesh's own experience suggest that trade-related performance is becoming increasingly important for the socio-economic development of the country and that a conducive and supportive global environment can play a critically important role in this process. Thus, the efficacy of the global and regional measures that are stimulating and supporting Bangladesh's trade performance has important policy and practical implications. In

Table 1
Aid, foreign direct investment and trade in Bangladesh, 1981-2010

US$ million and percentage

Indicator	FY1991	FY2001	FY2007	FY2008	FY2009	FY2010	FY2013
1. Exports (X)	1718	6467	12154	14088	15565	16205	27027
2. Imports (M)	3472	9335	17157	20217	22507	23738	34084
3. Remittances (R)	764	1882	5978	7915	9689	10987	14461
4. ODA	1733	1369	1565	1873	1847	2164	2786
5. FDI (net)	24	550	793	650	961	913	1300
Total (1-5)	7711	19603	37646	44744	50570	54007	79658
GDP	30975	47306	67714	78997	89564	100365	128767
Trade Intensity ((X + M)/GDP) *100	16.8	33.4	43.3	43.4	42.5	39.8	47.5
Extent of Globalisation (%) (Total/GDP)	24.9	41.4	55.6	56.6	56.5	53.8	61.9
X as % of M	49.5	69.3	70.8	69.7	69.2	68.3	79.3
(X+R) as % of M	71.5	89.4	105.7	108.8	112.2	114.5	121.7
ODA as % of GDP	5.6	2.9	2.3	2.4	2.1	2.2	2.2
ODA as % of Exports	100.9	21.2	12.9	13.3	11.9	13.4	10.3
ODA as % of Exports & Remittances	69.8	16.4	8.6	8.5	7.3	7.9	6.7

Source: Estimated on the basis of Bangladesh Economic Review Yearbooks, various years.

1 Exports of services are mainly the services of migrant workers, with benefits in the form of earnings of remittances.

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.

The 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 differential 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 Pacific 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 significant 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. Thanks 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-fifths of manufacturing investment and employment in Bangladesh. The 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. There are several reasons for this. These 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 diversification, productivity enhancement and stronger competitiveness. Bangladesh could have benefited more from the potential benefits of market access and SDT accorded to her as an LDC if she had been able to address these constraints adequately.

In view of the above, the purpose of the present study is to: (a) provide an overview of Bangladesh's export sector and its performance, particularly of the export-oriented ready-made garments (RMG) sector and its role in the economy; (b) document the various types of SDT accorded under different preferential schemes to Bangladesh as an LDC; (c) examine the efficacy of the preferential schemes in attaining their declared objectives and the factors which have constrained Bangladesh's ability to realise the potential benefits, from the perspectives of both the design of the programmes and Bangladesh's weaknesses in terms of realising the benefits; and (d) put forward some policy recommendations for more enhanced and effective utilisation of the preferential market access schemes and the SDT accorded to Bangladesh as an LDC.

I Performance of Bangladesh's Export Sector and its Contribution to the Economy

Export Sector Performance

Bangladesh's export sector has played a key role in the country's economic development over the past three decades and continues to play an important role in the economy in terms of (i) employment, empowerment and social change; (ii) investment; (iii) foreign exchange earnings; and (iv) multiplier impacts.

Bangladesh's export earnings in 1981 were only about US$0.8 billion but rose to US$1.7 billion in FY1991, US$6.5 billion in FY2001 and US$16.2 billion in FY2010. The growth of exports was particularly robust between FY2006 and FY2010 (see table 2) which coincided with the post-Multi Fibre Agreement (MFA) period. The MFA was phased

Table 2
Bangladesh's export earnings, FY1991-FY2010

Average annual in millions of dollars and annual average percentage rates of growth (in parentheses)

	1991-95	1996-00	2001-05	2006-10	FY2011-13
Woven RMG	1233.4	2619.4	3378.4	5155.2	9691.9
	(25.6)	(11.3)	(3.4)	(10.9)	(23.0)
Knit RMG	222.3	920.5	1915.7	5376.4	9814.8
	(185.0)	(27.1)	(18.0)	(18.6)	(18.9)
Total RMG	1455.7	3539.9	5294.1	10531.6	19529.7
	(29.7)	(14.5)	(8.4)	(14.5)	20.9
Non-RMG	964.5	1364.4	1712.4	3164.0	5219.8
	(7.4)	(2.5)	(8.1)	(13.5)	10.5
Total Export	2420.2	4904.3	7006.6	13695.6	24749.5
	(18.3)	(10.7)	(8.3)	(14.1)	18.4

Source: Computed from EPB, various years.

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

There has been significant 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. This 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).

The 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). The 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

The phenomenal growth of Bangladesh's export-oriented RMG sector has been well documented (e.g., Rahman, M. *et al*, (2008)). Although the first exports of knit-apparels were made in FY1973, it was only in 1985 that exports of RMG became significant , 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 significantly 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 figure 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 fibres 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 (fine cloth). Oriented towards the domestic market but based on cotton and yarn sourced from other parts of undivided India, the textile industry provided the initial opportunity for this part of India (the then Bengal) to enter into industrialisation. The production of textiles and RMG was very familiar to ordinary 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 first 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. The Desh-Daewoo joint venture took off in 1980 and was the first 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. The venture demonstrated the potential that Bangladesh had in the global apparels business.

The mid-level Bangladeshi staff 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 letters of credit (L/C)[4] played a critical role since these measures helped keep the capital required for the RMG business at a very low level. Entrepreneurs needed only the working capital required to hire labour and to underwrite related capital requirements since raw materials (fabrics) could be procured against the master L/C that originated from the order placed by the buyer. At the same time, the BWF meant that no customs duty had to be paid on the imported fabrics. RMG entrepreneurs also benefited from the duty-drawback facility which reimbursed the duty paid on imports for which BWF were not available.

The availability of abundant female labour, ready to work at low wages and often coming from labour-surplus rural areas (in a Lewisian variant of industrialisation), created a conducive environment for the growth of the sector. As noted earlier, these workers were already familiar with knitting and stitching work. The workforce, predominantly female, was malleable and docile (providing the opportunity for a union-free and trouble-free production environment) and easily trainable (since the work allotted to Bangladesh was mainly for lower-end products where only basic skills were required).

In addition to these lower production costs, preferential market access in the EU allowed importers to purchase Bangladeshi apparels without paying duties. In the US market, apparels were not allowed duty-free entry; however, the BWF and duty-drawback provided by the Bangladesh Government enhanced the competitive strength of Bangladesh's apparels in this market as well.

Many of the policy initiatives (BWF, duty-drawback, etc) that were initially put in place to stimulate the export-oriented RMG sector were subsequently also accorded to other exported-oriented sectors. From this

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), with the quota increasing year-on-year based on performance.

3 Secured facility supervised by customs authorities.

4 Two letters of credit (L/C) used together to help an exporter finance the purchase of equipment or services from a subcontractor. With the original L/C from the importer's bank in place, the exporter goes to its own bank and has a second L/C issued, with the subcontractor as beneficiary. The subcontractor is thus ensured of payment upon fulfilling the terms of the contract.

perspective, the coinage of 'picking the winner' could perhaps be applied in case of Bangladesh's apparels sector. However, the immediate follow-up question would be – why could other sectors, which were given similar treatment, not achieve success similar to that of the RMG sector? Most such products received preferential market access in all markets (including the US, which was not the case for RMG exports). Also, in most cases, the rules of origin (RoO) were more favourable than those for RMG; for the majority of non-RMG items, the RoO referred to domestic value addition and Bangladesh was capable of meeting these criteria for most other potential exports.

One major advantage of apparels as an export item was the sheer size of the global market and the corresponding opportunity for a large number of players. Product diversification was also wide and varied, allowing countries to concentrate in niche areas. The labour-intensive nature of production gave Bangladesh an edge. Concerns related to compliance with sanitary and phyto-sanitary standards (SPS), technical barriers to trade (TBT) and environmental requirements (which applied to agricultural and agro-processing exports) were not very relevant for RMGs. Finally, the buyer-driven nature of the apparels market allowed entry into foreign markets without significant investment by producers in marketing and distribution – the buyers did this for them.

Thus, a host of factors contributed to the success of the RMG sector in Bangladesh. This was not necessarily so for other items. In the case of jute, the emergence of synthetics as a substitute was a major factor contributing to its decline as an export item.[5] Even though jute's share of the country's total exports has come down significantly, Bangladesh still provided over 80 per cent of global imports of raw jute and over 6 per cent of global imports of jute goods in FY2009. The global jute market was relatively small and it is market size, as well as the share of that market, that determines the quantum of exports.

Although RMG continue to dominate Bangladesh's exports, this statistic does not provide a complete picture. In the early 1990s, non-RMG exports were less than US$1 billion; by FY2010, they had risen to almost US$4 billion. Most of these items enjoy preferential access in major markets and Bangladesh was able to take advantage of this. Previously, most of the limited investible resources of Bangladeshi entrepreneurs went into the expansion of the RMG sector, in such forms as scaling up, creating additional units, strengthening backward linkages in spinning and weaving and producing accessories. An increasing part of the investible surpluses are now being invested in other export-oriented sectors.

Within Bangladesh's RMG exports, there has been a significant shift towards the knitwear sub-sector from the wovenwear sub-sector. During the FY1991-FY1995 period, the ratio of exports of woven RMG to knit RMG was about 85:15; by FY2010, this had changed to 48:52 (see table 2). The shift towards RMG exports and the ascendancy of the knitwear sub-sector within RMG were heavily influenced by preferential market access and Bangladesh's ability to take advantage of the favourable treatment that was offered.

Phase-out of the MFA and the Performance of the Apparels Sector

In view of the importance of apparels in Bangladesh's export basket, the phase-out of the MFA at the end of 2004 and its immediate replacement by WTO's Agreement on Textiles and Clothing (ATC) had potentially significant implications for her export performance. Prior to the phase-out, there were several studies which estimated the likely impact of the end of MFA quotas for the global textiles and clothing (T&C) trade. The estimated global net gains varied from as low as US$6.5 billion to as high

5 With rising environmental concerns, there is a renewed interest in jute as an environmentally-friendly product and a reverse substitution favouring jute (away from synthetic items) may be taking place. If new jute-based goods (such as textiles and automotive materials) could be produced at competitive prices, the sector's market size could grow significantly.

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

At the same time, the elimination of quotas was expected to hurt some countries, particularly those which were beneficiaries of preferential trading agreements during the MFA era. It was argued by some that, as soon as such highly-constrained exporters as China were free from quota constraints, preference-receiving countries would lose the competitive advantage they received as a result their exports being quota-free. While the latter countries would continue to enjoy preferential tariff treatment, it was argued that tariffs were generally far less costly to exporting countries than quota restrictions. One study estimated that the export tax equivalent of quotas in 1999 averaged 40 per cent in the US and 20 per cent in the EU (Kathuria, Martin and Bhardwaj, 2001).

Bangladesh had indeed benefited from the MFA regime in a number of ways. In the EU, there were quotas on non-LDC exporters but Bangladesh's apparels items were allowed quota-free access (as well as duty-free treatment under the EU's GSP scheme). In the US market, Bangladesh enjoyed quota-free treatment for a number of apparels items in the non-quota market and was allowed significant annual quota enhancement in the quota market based on growth performance in the preceding year. This gave Bangladesh's apparels exporters a secure market in the US and also allowed them to gain from the quota-rent.[6]

Many of the *ex ante* studies predicted that there would be winners and losers in the post-MFA global apparels trading regime and that Bangladesh was likely to be one of the losers. The prediction was that the number of exporting countries would be reduced significantly, the global apparels market would undergo significant consolidation and the prices of apparels would fall as quota-rents were removed.[7] Bangladesh, with her dependence on imported fabrics and longer lead time, was not expected to be able to compete with some of

Table 3

Summary of findings on the expected effects of the expiry of MFA quotas on Bangladesh

Study	Methodology	Estimated impact	Observations
Cookson (2003)	Interviews with major exporters and author's conjecture	35 per cent decline in export values; loss of 50/20 per cent of US/EU market	Perception analysis
Gherzi Textile and Others (2002)	Based on conjectures; no quantification of impact	Negative impact but no estimates given	Focused on recommendations for policymakers
Spinanger and Verma (2003)	Simulations of combined effects of quota elimination and China's WTO accession using GTAP model	GDP: -0.14 per cent Overall exports: -0.1 per cent Textile exports: -15.5 per cent Clothing exports: -7.9 per cent	Numbers bench-marked to a 1997 baseline
Spinanger and Wogart (2000)	Ex post estimation. Effect of quota removal not isolated.	Bangladesh's share of Swedish market declined from 0.16 per cent to 0.03 one year after the 1990 elimination of quotas.	Suggestive results. regarding the impact of quota removal in 2005

Source: The End of Textile Quotas: A Case Study of the Impact on Bangladesh (IMF, 2004).

6 The prices of imports subject to quotas tended to be higher than it would have been in the absence of quotas because supply was more limited. The quota-rent was the premium that apparels sellers received due to those higher prices.

7 It was projected that number of supplying countries would come down from about 50 to about 10-15 and that prices would fall 10-35 per cent because of increased efficiency and competition in the post-MFA era.

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 Fund (IMF) estimated the potential consequences of the MFA quota phase-out for Bangladesh using a global general equilibrium model (Mlachila and Yang, 2004). Simulation results[8] in the study indicated that Bangladesh was likely to be adversely affected by the phase-out of the MFA and recommended support from the Trade Integration Mechanism of the IMF[9] to address the likely adverse implications for Bangladesh's balance of payments.

In the event, as is evident from section I, Bangladesh was able to increase her RMG exports to the major global markets significantly, from US$5.7 billion in FY2004 to US$12.5 billion in FY2010. Bangladesh's market shares in the EU and the US increased from 4.1 per cent and 2.9 per cent respectively in 2004 to 4.9 per cent and 5.3 per cent respectively in 2009. In addition, although Bangladesh's apparels exports experienced difficulty because of the financial crisis in 2009, they were able to rebound.[10] The prediction that China would gain most in a quota-free regime proved, however, to be correct: China was able to increase her share in the EU apparels market from 12.9 per cent in 2004 to 24.2 per cent in 2009; in the US market, the corresponding figures were 19.0 per cent and 43.2 per cent.[11]

Bangladesh has been able to retain and consolidate her position in the global T&C market thanks to her competitiveness at the lower end of the demand curve for apparels, where low-wage-based, low-priced goods ensure Bangladesh a competitive edge. It is also because the size of the global market, as predicted, expanded significantly in the post-MFA period, making room for multiple players. Bangladesh has seen a significant shift in favour of knitwear items as against the wovenwear, mainly thanks to strong backward linkage investment in the production of yarn and textiles for the knitwear sector. Also, some of the more technologically advanced units are producing up-market fashion and design items procured by the company GAP and others.

Nevertheless, despite some positive movement up the apparels value chain in recent years, Bangladesh has not been able to make significant headway in terms of intra-RMG diversification. Most of Bangladesh's RMG exports remain concentrated on a few items such as T-shirts, men's and boys' shirts and trousers, sweaters and pullovers, women's and girls' trousers and shorts, etc. Such low-end, mass-produced items, using traditional unsophisticated machinery, continue to dominate the sector. Indeed, the average price of Bangladesh's RMG exports has undergone a secular decline in recent years (see table 4).

Domestic value retention in T&C production in Bangladesh has risen over the years. Since knitwear had strong domestic linkages, net exports in this sub-sector were significantly higher than in wovenwear where a large part of gross export receipts was used as payment for imported inputs. Increasing exports in the RMG sector have also allowed scaling-up in some other related sectors, such as

8 The simulations focused on the static, medium-term effects of quota removal.

9 This was put in place specifically to address balance-of-payments difficulties arising because of the phase-out of the MFA.

10 Both knitwear and wovenwear exports of Bangladesh experienced difficulties in FY2010 because of the lagged impact of the global financial crisis. The growth of knitwear exports declined to 0.8 per cent and woven wear to 1.6 per cent, in contrast to the double-digit growth registered in prior years. Export growth rates picked up again in FY2011; wovenwear and knitwear exports increased 31.9 per cent and 30.0 per cent respectively for the first quarter (July-September 2010) of FY2011, albeit from the low base of the corresponding period of FY2010.

11 This happened despite the fact that quota ceilings were imposed on China's exports of certain items because of the astronomical growth of China's exports to both the EU and US when the MFA quotas were phased out fully. The new quotas were in place for about 12-18 months before being withdrawn.

Table 4
Unit price of Bangladesh's knit and woven RMG exports, 2001-2010

	Knit			Woven		
Year	Export Receipts (Million US$)	Export Quantity (Thousand Dozen)	Average Price (US$/Doz)	Export Receipts (Million US$)	Export Quantity (Thousand Dozen)	Average Price (US$/Doz)
2001	**1496.36**	**52536.17**	**28.48**	**3364.20**	**71480.88**	**47.06**
2002	1459.24	63390.09	23.02	3124.56	77054.50	40.55
2003	1653.83	69178.00	23.91	3258.27	82835.00	39.33
2004	2148.02	91600.00	23.45	3538.07	90487.72	39.10
2005	2819.47	120130.81	23.47	3598.20	92261.54	39.00
2006	3816.98	165022.78	23.13	4083.82	108814.81	37.53
2007	4554.19	199544.26	22.82	4657.63	133075.14	35.00
2008	5532.52	241594.76	22.90	5167.28	147425.96	35.05
2009	6429.26	290916.74	22.10	5882.51	169584.81	34.69
2010	6483.29	292699.32	22.10	6013.43	172799.71	34.90

Source: Estimated from Export Promotion Bureau documents, various years.

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). This 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.

The 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 firms. Though this leads to significant cost escalation, major buyers are often reluctant to share the costs, preferring to choose the lowest price offers when purchasing apparels.[12] There is continuing pressure to offer lower prices because of both growing competition within Bangladesh and competitive pressure from other sources. Competition from other countries, such as China, India, Turkey and Vietnam, has been on the rise in recent years. Some enterprises are trying to address the situation through technological upgrading and productivity enhancement, but most others are having to accept shrinking profit margins. Wages have tended to remain low, although minimum wages for workers in export-oriented sectors, including apparels, are revised through periodic reviews.[13]

Meanwhile, the cost of production in China is rising because of the appreciation of the yuan, increasing wages, a shift of production inland and the resulting infrastructural and logistical challenges. In addition, many traditional buyers are pursuing a "China plus one" strategy[14]. Bangladesh therefore has an opportunity to further consolidate her position in the global apparels market. For example, between FY2007 and FY2010, Bangladesh was able to increase her exports of apparels to Japan from US$63.2 million to US$330.6 million and to Turkey, itself a major producer, from US$71.2 million to US$478.2 million.

12 This is sometimes known in Bangladesh as the hypocrisy between ethical buying and ethical sourcing.

13 The minimum wage review which became effective from November 2010 increased the wages for RMG workers by 70-80 per cent (depending on the grade of work) compared to the previous review in 2006. However, wages continue to remain very low compared to the minimum livelihood requirements of workers and their families and discontent regarding wages tends to result in periodic agitation by RMG workers.

14 This strategy involves acquiring products from at least one other country, rather than purchasing solely from China.

Impact of the RMG Export Sector on the Economy

The contribution of the export-oriented RMG sector to Bangladesh's economy has been extensive and diverse. The sector, with about four thousand production facilities, employs about 2.8 million workers and accounts for about two-fifths 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. The contribution of the apparels sector to GDP comes in the form of various backward and forward linkages to suppliers of inputs, banking and insurance, shipping and logistics, transport and communications, the government exchequer, professional services, engineering services, utilities, information and communication technology, real estate and hotel and tourism. (Bhattacharya and Rahman, (2000)).

Although the industry was initially a joint venture, 95 per cent of the country's exports of RMG are now produced by Bangladeshi entrepreneurs, unlike many other LDCs, such as Cambodia. About 90 per cent of the exports are made in the domestic tariff area (DTA), where all enterprises are owned by Bangladeshis.[15] Formerly, FDI in the RMG sector was allowed only in the export processing zones (EPZs)[16] which account for about 15 per cent of the apparels exported from Bangladesh.[17]

15 The other 10 per cent of exports are made by enterprises in the country's various export processing zones (EPZs), which are either FDI-based, Bangladeshi-owned or joint ventures.

16 This restriction on FDI has been withdrawn and now foreign and joint venture apparels units can be set up in the DTA.

17 Bangladeshi and joint venture investments are also allowed in the EPZs.

Socio-economic impacts of the RMG Sector on Women

Some 70 per cent of the employees in the export-oriented RMG sector are women.[18] Most of the female workers come from rural areas and the attendant implications of this transformation have been significant in terms of women's empowerment, sociological changes, marriage-age, fertility, birth spacing, population growth, attitudinal changes and the contribution of women in the country's GDP.

A study of the socio-economic externalities originating from the RMG sector shows that women's participation in income generation activities gives them improved status within the family and provides them with considerable freedom (Paul-Majumder and Begum (2000)). A job ensures more equitable access to household resources (nutrition) and larger investment in female human capital, creating a demand for education and health services. Employment opportunities draw attention to women's needs for public facilities, such as transportation, communication, safety, etc., and create a demand for policy responses in these areas. The income of the female members of the household reduces dependency on male income, women's vulnerability and the possibility of domestic violence against women. Additionally, the expansion of women's employment has contributed positively to the improvement in the savings behaviour of the poor since women tend to save more than men.

Employment in the RMG industry has provided direct access to cash income to many poor women for the first time. A survey showed that work in the garment industry was the maiden wage employment for 96 per cent of the female workers in the non-EPZ areas (Bhattacharya (1997). It also showed that women were taking up such roles as making payments for house rents and schooling expenses

18 The share, about 90 per cent in the 1990s, has declined as the dominance of wovenwear (mainly female-labour based) waned and the importance of the knitwear sub-component (employing relatively more male labour, particularly in the sweater sub-component) rose.

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. The same survey further showed that female workers were spending their earnings on their marriage, thus taking a big burden off 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

The 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 benefits originating from the opportunities of strengthened global integration could be substantial. Trading out of poverty, from this vantage point, has important significance for Bangladesh.

The tools for translating the comparative advantages into revealed competitive advantages are many and diverse. Domestic policy initiatives have to play a key role. At the same time, global competition and market entry are crucial in providing LDCs with an additional competitive edge which could lead to higher export earnings and increased market share. Indeed, it is in appreciation of this that the global community established S&DT for the LDCs in the form of preferential market access for their products in the markets of developed countries[19] and through various S&DT provisions as part of different trading arrangements. These initiatives were undertaken in the context of multilateral, regional, bilateral and unilateral support measures. The fact that Bangladesh was able to register high growth in the export sector is, to a significant extent, attributable to those initiatives. On the other hand, it is also argued that Bangladesh's gains would have been higher if she had been able to make more effective use of these market access initiatives and preferential treatment. There is, thus, a strong case for reviewing these initiatives, examining the bottlenecks and searching for ways and means to address them in a manner that could enable Bangladesh, as an LDC, to take greater advantage of the various market access initiatives in place. The next sections will address some of the key issues

II Preferential Market Access Initiatives Favouring Bangladesh as an LDC

Bangladesh enjoys preferential treatment in the European Union (EU) under the "Everything but Arms" (EBA) initiative, and, in Canada, Japan and the US, under their respective GSP schemes. Bangladesh also enjoys preferential market access in such other industrialized countries as Australia and in some developing countries, such as China, India and the Republic of Korea, under RTAs and bilateral initiatives. All these schemes are non-reciprocal in the sense that Bangladesh is not expected to offer preferential access to products originating in the preference-giving countries in response to the offer made to her as an LDC. Since developed country markets account for about 90 per cent of Bangladesh's total exports, preferential market access in these countries is of special significance to Bangladesh. However, with South-South trade increasing globally, and also in terms of Bangladesh's exports, preferential access to developing countries is expected to gain importance in the coming years.

Market Access in the European Union

Of all the GSP schemes of which Bangladesh is a beneficiary, that of the EU has traditionally been the most generous. Bangladesh became a beneficiary of the EU-GSP scheme for LDCs when it was initiated in 1971. The EBA, which provides duty-free and quota-free access exclusively to LDCs, was put in place in 2002 and Bangladesh became a beneficiary

19 The first GSP scheme for the LDCs was put in place in 1971 following background work by the United Nations Conference on Trade and Development (UNCTAD).

Table 5
Bangladesh's total exports, exports of apparels and exports under preferential market access, 2009

$ million

Export Market	Preference Scheme	Coverage	Total imports from Bangladesh	Of which: Apparel	Total imports of apparels	Extent of preferential market access
European Union (EU)	EU GSP Scheme (EBA)	All products except arms	8,106.09	7,142.44	79,725.87	28% of woven exports; 92% of knit exports
United States	US GSP Scheme	All major items except apparels and textiles	3,886.00	3,510.00	66,723.00	5.8% of all exports
Canada	Canadian GSP Scheme	All items except dairy, chicks, poultry and eggs	710.74	619.17	6,858.11	Almost all exports
Turkey	EU GSP Scheme (EBA)	All products except arms	523.42	415.17	1,910.13	Almost all items (though a 17% duty has been imposed on RMG imports)
China	APTA	Excludes 161 items	140.72	19.79	1,651.75	
India	SAFTA, Bilateral	All except items in the negative list	234.42	6.46	112.80	Almost all exports, includ-ing 10 million pieces of RMG As of January 2012, all exports except 25 items, for al SAARC LDCs
Rest of the World	-	-	2,967.03	2,057.08	137,563.59	
Total	-	-	16,832.80	13,890.65	318,615.07	

Sources: Compiled from various databases and information sources.

of that scheme as well.[20] Under EBA, all exportables from Bangladesh are eligible for duty-free treatment, subject to compliance with product-specific 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] This is more so because, although EU average tariffs are low (about 4.2 per cent), average most favoured nation (MFN) tariffs 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 significant 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 The EBA arrangement is applicable for an indefinite 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 significantly smaller preferential margin under the EU GSP scheme (of only about 15 per cent equivalent of the MFN tariffs) and are subject to a ceiling on market share.

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. This 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 those countries (see table 5). At present, Bangladesh is the third most important supplier of apparels to the EU, after China and Turkey. However, utilization of the duty-free market access to the EU has traditionally been constrained by RoO requirements, particularly for exports of RMG items. In 2010, Bangladesh's GSP utilisation rate for apparels items was about 78 per cent in value terms; the rest, about 22 per cent, entered the EU by paying the MFN duty. Goods that do not receive duty-free access mostly belong to the woven goods category and are mainly shirts. About half of the exports of trousers (denim and other cotton-made) receive duty free access, but only about a quarter of cotton shirts receive the benefit. Jute and jute products, leather and fertilizer exports from Bangladesh are either MFN duty-free or subject to low duty in the EU.

The RoO for apparels exports to the EU have been in the form of a "stages of production" requirement. The EU RoO for apparels used to require a "two-stage conversion": from yarn to fabrics to apparels. Bangladesh does not have strong backward linkage in textiles, particularly in woven fabrics, and is therefore dependent on imported fabrics to a large extent. This has made it difficult to realize the full advantage of the duty-free access offered under the EBA. Only about 28 per cent of Bangladeshi woven exports are able to enter the EU market at zero duty. Importers of the other 72 per cent have to pay the MFN duty of, on average, 12.1 per cent. As a consequence, Bangladeshi exporters lose a potential competitive edge. In the case of knitwear, Bangladesh has been able to build strong backward linkages over the years as a result of private sector investment in the production of yarn and knit fabrics. For knitwear, the utilisation rate (i.e., the proportion of the total value of Bangladesh's knitware imports admitted duty-free) is about 92 per cent.

Indeed, an important argument that was put forward in support of the double-stage conversion was that such RoO would lead to the establishment of backward linkages in the LDCs and would thereby contribute to their development and industrialization. Investors, particularly apparels entrepreneurs, would be encouraged to invest in backward linkages in textiles in order to receive duty-free market access in the EU. This incentive would contribute to the growth of the manufacturing sector and the creation of industrial employment in LDCs such as Bangladesh.[24] The argument was that, if the RoO were relaxed, say to one stage, the benefits would accrue to countries which were exporting fabrics to LDCs (i.e., countries from which exporters in LDCs buy fabrics as inputs for their export-oriented apparels enterprises). If this were the case, the benefits to LDCs would be limited because of the low value-added they would obtain from processing fabric into garments.

In the case of Bangladesh, the EU's RoO have played a key role in stimulating investment in backward linkage activities, although this has been limited primarily to the knitwear sector. The relaxation from the three-stage EU RoO requirement (cotton to yarn to fabrics to apparels) to two stages (yarn to fabrics to apparels) in 2004 provided the Bangladesh knitwear sector with the breakthrough it had been waiting for. The sector took off when the RoO was changed.[25] Later, the sweater sub-component of Bangladesh's knitwear sector also saw significant growth. Thanks to its higher compliance with the new RoO, Bangladesh's knitwear sector has been able to register exceptional growth in the EU. The ratio between knitwear and woven exports to the EU rose to 66:34 in 2010 from 42:58 in 2002.

24 However, some observers have argued that such stringent RoO served protectionist interests in the EU who were keen to protect the EU apparels sector from outside competition and wanted to curtail the availability of the incentive to the LDCs by putting in place stringent RoO.

25 In the case of high quality knit-apparels (particularly for brand items), knit-fabrics need to be imported and, in such cases, even the two-stage requirement was a constraint. However, since Bangladesh's exports were concentrated in low-end items, the revised RoO was a major incentive for the majority of Bangladesh's knit-exporters.

The growth of the knitwear sector has also been helped significantly by the Bangladesh government's cash compensation scheme (CCS) which has been in place since the mid-1980s. This compensation was available to suppliers of fabrics to export-oriented RMG exporters. The CCS enabled domestic fabrics producers to supply at a lower price and thereby remain competitive vis-à-vis foreign suppliers of fabrics. The 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 benefited apparels producers who sourced locally, because domestic fabrics producers were able to pass on a part of the benefits from the reduced cost of fabrics to downstream apparels producers. The advantages of producing knitwear fabrics in the Bangladesh context,[26] and the combined impact of DF market access in the EU and the CCS, thus stimulated the development of a strong backward linkage in knit textiles in Bangladesh[27] and resulted in a phenomenal rise in knitwear's share of total apparels exports in recent years.

Bangladeshi exporters of wovenwear have always considered the RoO for apparels as being restrictive and constraining. In the case of woven fabrics, the combined impact of the CCS and DF market access helped to develop a backward linkage woven textile industry in Bangladesh. In the early 1990s, the woven textile sector met only about 4 per cent of domestic exporters' demand for woven fabrics; this proportion has since risen to about a quarter.[28] Woven apparels' exporters in Bangladesh had been asking for relaxation of the EU RoO for a long time. According to them, the two stage requirement severely undermined their ability to obtain duty-free access to the EU market. As a result, their products had to compete on equal footing with exports from India, Pakistan and China.[29]

The inability of many LDCs to comply with the EU RoO for apparels and the request for a reconsideration of these rules led to a review by the EC. At one point, the EC offered the possibility of regional cumulation (RC) of RoO among the member countries of the South Asian Association for Regional Cooperation (SAARC) as a way of addressing the difficulties.[30] However, because of the conflict of interest between apparels' and textiles' producers, the Bangladesh government was unable to decide and the offer was never accepted. The EC initiated a "green paper" in 2004 to review the EU GSP scheme and sought the views of LDCs. Bangladesh, in a way, was an outlier in this exercise. The woven-apparels exporters came out very strongly in favour of a relaxation of the RoO, arguing in favour of one

26 This is primarily because knit textiles are less capital-intensive than woven textiles and can be sustained with lower levels of technology. On the other hand, local producers of woven fabrics found it difficult to compete with many types of imported fabrics, even though they received a waiver of the 12.1 per cent MFN duty and a 25 per cent benefit under CCS. The combined 37.1 per cent benefit was supposed to provide a significant incentive to procure locally rather than relying on imported fabrics. However, inputs for export-oriented RMG units were allowed duty-free import under the BWF which reduced the incentive.

27 The support to domestic producers under the CCS was subsequently reduced from 25 per cent of the value of locally-procured fabrics to 15 per cent, then to 10 per cent and then to the prevailing 5 per cent.

28 Between these two periods, exports of woven fabrics have increased manifold and this one-fourth share relates to a much higher figure in quantitative and value terms.

29 Under the EU GSP scheme for non-LDCs, exports of apparels are eligible for a 15 per cent reduction of MFN duties; as a result, the actual duty facing, for example, Indian exporters of apparels was 9.6 per cent. However, this was subject to a ceiling of 10 per cent of the EU market. China, for example, has exceeded the ceiling and is no longer eligible for preferential treatment. Since exporters such as India and Pakistan are able to comply with RoO (because of strong backward linkages), Bangladeshi items which do not comply with the RoO face a higher duty than those imported from these two countries. Such Bangladeshi exporters are also at a disadvantage vis-à-vis exporters belonging the EU and from Turkey which receive duty-free treatment for apparels within the EU..

30 SAARC regional cumulation would have allowed sourcing of fabrics from any other member of SAARC to be deemed to have been produced in the exporting country. Thus, if the RC offer was agreed to by SAARC member countries, Bangladeshi apparels would have received DF treatment in the EU when exporters sourced fabrics from India and Pakistan.

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 Bangladeshi exporters to go for the higher end of the EU market. Previously, Bangladeshi producers were unable to utilize the GSP for high value items made of high quality fabrics which were imported. Now they will be able to do this.

The opposition of Bangladesh's knitwear sector to the relaxation in the RoO is understandable. One option could have been to have one-stage requirement for wovenwear and continue with the two-stage requirement for knitwear. However, the EU RoO are not

Table 6
EU rules of origin conversion requirements for Bangladesh's apparels exports, 1990s-present

	Early 1990s, under EC-GSP	2004-2010, under EBA	Present requirement
Woven apparels	One stage	Two stages	One stage
Knit apparels	Three and then two stages	Two stages	One stage

Sources: Various EC GSP documents.

These revised rules have been ratified by EU members and became effective as of January 2011. The difficulties faced by a significant section of Bangladesh's exporters of apparels have been addressed.[33] The revised RoO are likely to provide Bangladesh with a significant 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 significantly. Within the RMG sector, the exporters of woven items are likely to be the major beneficiaries of the change. It may also provide opportunities

specifically for Bangladesh, but for all LDCs. Most LDCs don't have backward linkage capacity in either wovenwear or knitwear. Accordingly, most LDCs will benefit from the relaxation of the rules. Secondly, the idea is also to stimulate export diversification – to create possibilities for preferential market access for products, including within the knit-RMG sector, where currently there are no exports but which could potentially gain a competitive edge now that the RoO have been relaxed. Additionally, advantages emanating from procurement from domestic sources, particularly in terms of reduced lead time, are likely to give domestic fabrics producers a competitive edge over imports as a result of the relaxation of the RoO for Bangladesh's knit-RMG sector.

For most other exports from Bangladesh, such as shrimp, leather and footwear, vegetables and light engineering products, the RoO requirement involves compliance with value addition criteria. For these non-apparels industrial products, the new RoO propose that value addition should be at least 30 per cent for the LDCs. However, this does not pose any substantial problem for Bangladesh as the domestic value addition of these items is generally high. This will

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 different entities, although some composite manufacturers produce the entire range of yarn, fabrics and apparels. The interest of the latter would be different from those who produced and exported only apparels items.

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

33 The 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.

The more important difficulties for non-apparels exports are ensuring full compliance with stringent SPS and TBT requirements. This 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 effort 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 diversification is of heightened interest to Bangladesh. Bangladesh has yet to realize the full potential of the market access offered by the EBA beyond the traditional items of apparels and shrimp. Since MFN tariffs on a large number of agricultural items are high in the EU, the DF treatment of her exports of those products offers significant 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 effort through more bilateral aid in trade-related capacity building investment in Bangladesh.

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.

Market Access in Canada

The 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 refined 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 tariffs on apparels items are about 17 per cent[35] and several apparels items face tariff peaks so that duty-free entry provides Bangladesh with a significant 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 figures 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 tariff lines are covered under the US GSP scheme for the LDCs.[36] Bangladesh's exports of such items as shrimp, jute and jute products and fertilizers are imported MFN duty-free into the US but, with respect to other potential exports, the US GSP scheme is the most restrictive among those of the developed trading partners of Bangladesh because it excludes the majority of tariff lines in the apparels and textiles categories. This exclusion has important implications for Bangladesh's competitiveness

35 However, the average MFN duty in Canada was about 3.2 per cent.

36 A large number of US tariff lines have MFN zero duties. These include oil and many petroleum, oil and lubricants items. These are not exported by Bangladesh but are major exports of some African LDCs.

in the US apparels market because apparels items constitute over 90 per cent of Bangladesh's exports to US (see table 5) and average MFN tariff rates on Bangladesh's apparels exports to US were about 16.3 per cent, with most items facing tariff peaks. Duties imposed on Bangladesh's exports (mainly on apparels items) at US customs points were US$596 million in 2008 (see table 7). This was more than four times the bilateral aid that the US disbursed to Bangladesh in 2008 (about US$135.0 million).

Bangladesh has faced specific market access difficulties in the US at various times. In the early 1990s, a countervailing duty (CVD) was imposed on Bangladesh's exports of shop towels on the basis of complaints about subsidies given to the items. There was also an attempt to ban shrimp exports from Bangladesh on the grounds of her inability to use turtle-extrude machines in the open-catch method of shrimp farming.[38] Bangladesh also regularly comes under scrutiny during GSP reviews because of an export surge of particular items or labour issues.[39] In 2010, for example, a complaint submitted by a US company caused the US Government to undertake a review of the GSP treatment afforded to Bangladesh's exports of sleeping bags; the US decided to continue to extend GSP preferences for this item.

Table 7
Indicators of Bangladesh's market access in the US

Item	
Proportion of imports from Bangladesh with:	**Percentage**
GSP zero tariff	0.4
MFN zero tariff	5.4
MFN non-zero tariff	15.2
US average MFN tariff rate for apparels	16.3
	US$ million
US duties on imports from Bangladesh in 2008	596

Source: Estimates based on database of the Office of Textiles and Apparel (OTEXA). US Department of Commerce.

Moreover, Bangladesh (and also 14 other Asia-Pacific LDCs) is at a disadvantage in the US market vis-à-vis some of her developed, developing and LDC competitors which enjoy duty-free treatment for apparels and textiles (as also for other items) under either the North American Free Trade Area (NAFTA) (e.g., Canada and Mexico), the African Growth and Opportunity Act (AGOA) (sub-Saharan African countries, including both developing countries and 33 LDCs) or the Caribbean Basin Initiative (CBI) (Haiti, an LDC, and some developing countries such as Dominican Republic and Honduras).[37] Bangladesh therefore has to compete on similar footing with her non-LDC competitors, such as China, India, Pakistan and Vietnam in the US market. The failure of the US GSP scheme to cover apparels items has been a major concern for the Asia-Pacific (AP) LDCs.

In appreciation of the demand of the AP LDCs for duty-free treatment of their products in the US market, Representative McDermott and Senator Feinstein initiated a Bill in the US Congress entitled "New Partnership for Trade Development Act

37 Under the CBI and AGOA, countries receive duty-free treatment for all products entering the US market, subject to certain RoO.

38 The attempted ban also concerned exports of shrimp from Malaysia, Pakistan and Thailand. However, the case was rejected by WTO's Dispute Settlement Board (DSB), albeit on procedural grounds.

39 Bangladesh was able to resolve the child labour issue successfully (under threat of sanctions approved by the Harkings Bill floated in the US Congress). However, the issue of absence of trade union rights in RMG factories in the EPZs continues to be raised during US GSP review hearings in the Congress.

Table 8
Bangladesh's market access to the US under the proposed NPTDA 2009

Category of market access	Share of value of exports to US (per cent)
Items with limited DF treatment	**63.8**
Items with DF treatment	30.4
Of which: Apparels items	26.2
Non-apparels items	4.2
Items DF under MFN or GSP	5.8

Source: Estimates based on NPTDA 2009 document and OTEXA Database.

of 2009" (NPTDA 2009). The 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 beneficiary 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 showed that, even with the restrictions on market access, Bangladesh would stand to benefit significantly (see table 8). However, the proposed bill expired under the procedure that all bills and resolutions that haven't passed are expunged at the end of each session of Congress.

Market Access in Japan

Bangladesh, as an LDC, is a beneficiary of the Japanese GSP scheme for the LDCs. Bangladesh's major export to Japan, RMG, is included in the country's GSP scheme, which covers all but five items. Bangladesh's total exports to Japan rose from US$147.9 million to US$330.6 million between FY2007 and FY2010; over the same period, apparels exports rose from US$20.9 million US$173.3 million. Frozen food and leather items, which accounted for about 9 per cent of Bangladesh's exports in 2010, are not covered under the Japanese scheme, but shrimp is subject to very low duty. Japan's commitment to the WTO's decision on duty-free quota-free (DFQF) treatment for LDCs (see below) reiterates the approach embodied in its GSP.

Nevertheless, Bangladeshi exporters face difficulties in benefiting from preferential market access because of RoO, particularly with respect to knitwear items. The RoO for knitwear items involve a three-stage conversion requirement: cotton to yarn to fabrics to knitwear. Despite the fact that Bangladesh has strong backward linkage in knit textiles, some of the fabrics are produced from imported yarn. This makes those knit items ineligible for DF treatment. Relaxation to a one stage conversion requirement would allow Bangladeshi exporters of knitwear using imported yarn and fabrics to avail themselves of preferential treatment in the Japanese market. This is important particularly in view of the fact that Japanese importers are showing growing interest in sourcing from Bangladesh under their "China plus one" policy. [40] Major Japanese buyers, such as Uniqlo, are shifting a considerable part of their import sourcing in favour of Bangladesh and wish to see changes to the RoO requirements which would allow duty-free treatment of apparels imported from Bangladesh, making them more competitive in the Japanese market.

Preferential Treatment in Other Developing Country Markets

Entry into force of the EU's Customs Union with Turkey in December 2005, which resulted in Turkey's

40 China continues to remain the dominant player in the Japanese market, accounting for some 75 per cent of the total annual imports of about US$28.0 billion in 2009.

alignment with the EU's GSP scheme, had the effect of granting industrial exports from such LDCs as Bangladesh DFQF access to the Turkish market. Thanks to this, Bangladesh was able to increase exports to Turkey from US$93.7 million in FY2006 to US$478.2 million in FY2010; the corresponding figures for apparels were US$28.8 million and US$306.3 million.

Among other developed countries, New Zealand and Norway provide duty-free treatment to almost all exports from Bangladesh and other LDCs, while Switzerland enforces certain restrictions on exports of agricultural products. However, Bangladesh's exports to these countries are negligible. Russia provides duty-free access to all products from all LDCs but Bangladesh's exports to Russia have been insignificant (US$53.4 million in FY2010).

Bangladesh also receives duty-free treatment under the Generalised System of Trade Preference (GSTP) scheme operated by developing countries. Eleven developing countries offered specific concessions to their LDC partners in the first round of GSTP in the form of reduced tariffs. A new round of GSTP negotiations was launched by UNCTAD XI in Brazil in 2004 with the objective of extending the commitments.

Bangladesh has not shown a keen interest in the initiative and is not participating in the current round of GSTP negotiations for several reasons. Firstly, Bangladesh's exports to the GSTP offering countries have traditionally been negligible. Secondly, the preferential margins have tended to be low. Thirdly, many countries with significant GSTP schemes have made deeper commitments as part of their response to the Hong Kong Ministerial Decision with regard to the DFQF treatment of LDC exports. For example, Brazil notified WTO that she would accord duty-free treatment to LDC exports for 80 per cent of tariff lines by 2010 and 100 per cent by 2012. Fourthly, some of the developing country partners of Bangladesh, such as China and India, accord deeper and wider duty-free treatment to Bangladesh's exports under regional initiatives such as SAFTA and APTA than under the GSTP. Preferential market access for the LDCs under the GSTP may lose its importance in view of developments in RTAs and in the WTO.

Bangladesh receives preferential market access to a large number of developing countries (including China, India, Pakistan, Republic of Korea, Sri Lanka and Thailand) under the various RTAs of which she is a member, notably SAFTA, APTA and BIMSTEC (which was elevated to a free trade agreement (FTA) in July 2008). The margin of preference ranges between 10 and 100 per cent. Under SAFTA, for example, Bangladesh (as also the other four LDC members[41]) receives preferential tariff treatment from the three developing members for all items outside their respective sensitive (or negative) lists.[42] Under the SAFTA accord, tariffs on imports from the LDC members of the group were to be reduced to 20 per cent over the first two years (2006-2008) and to 0-5 per cent over the next five years. India reduced tariff rates for LDCs to zero on an accelerated basis and provided Bangladesh and other LDCs in SAFTA with duty-free access for all items outside its negative list by July 2008.

As part of the APTA, China has granted all other members preferential treatment on 1697 products (with an average preferential margin of 26.7 per cent) and has added 161 products exclusively for the LDCs in the group (with an average margin of preference of 77.9 per cent). China has also announced unilateral duty-free access to all LDCs for 182 items as part of its WTO commitments.

In addition to preferential market access under SAFTA and the BIMSTEC FTA, India offers duty-free

41 The four LDCs originally in the SAFTA, Bangladesh, Bhutan, Nepal and Maldives, have been joined by Afghanistan. The three developing country members are India, Pakistan and Sri Lanka. Maldives also has since graduated.

42 The number of items (at the six digit level) applicable to Bangladesh in these sensitive/negative lists were: India 927; Pakistan 1157; and Sri Lanka 1065. The negative lists include many items of export interest to Bangladesh, the most notable being the majority of apparels items. Negative lists are also in place in the LDCs in the group. For its part, Bangladesh has its own negative lists which include a large number of items exported by other SAFTA countries, both developing and LDCs.

Table 9
Bangladesh's major export products excluded from preferential treatment in selected developing countries

Importing country	Products excluded	Value (US$ million)	Products excluded as share of Bangladesh's total exports to the country (percentage of value)
China	No major export items	11.0	8.3
India	Garments (but duty-free under TRQ), Betel nuts	22.7	8.0
Republic of Korea	Shrimp, Leather, Petroleum by-products	84.7	69.5

Source: Republic of Korea GSP and SAFTA and APTA documents.

access to Bangladesh on a bilateral basis, initially allowing the duty-free import of eight million pieces of apparels annually but increasing this to ten million pieces in April 2011.[43] Later on, as of January 2012, India had offered duty-free market access to all products from all SAARC LDCs (barring 25 items).

Some of Bangladesh's major exportables are excluded from preferential treatment in some developing country markets, such as the Republic of Korea (see table 9). Moreover, RoO for preferential treatment in some of these markets are rather stringent. The Republic of Korea has a RoO requirement of 50 per cent domestic value addition; China's requirement is 40 per cent domestic value addition or change of tariff heading (CTH). The RoO requirement for preferential access to the Indian market by LDCs under the SAFTA is 30 per cent value addition and CTH.

Most of Bangladesh's exports are eligible to enter China and India duty-free. Nevertheless Bangladesh's exports to these two countries have tended to remain low (see table 1) while both China and India are major sources of imports for Bangladesh (US$ 6307.6 million and US$ 4740.7 million respectively in FY 2013). [44] Bangladesh has a high trade deficit with India[45] and the long negative list of India is a major concern. The list was reduced to 480 items but continued to include most apparels items. In January 2010, Bangladesh requested a review of the items of export interest which remained on the Indian negative list, including exclusion from the list of another 61 items, of which 47 were apparel items. In September 2011, India agreed to remove 46 apparel items from its negative list and to grant them duty-free entry to the Indian market.

NTBs have also emerged as a major impediment to Bangladesh in accessing the Indian market. These NTBs relate to the imposition of anti-dumping duties (ADD)[46] on the grounds of non-compliance with SPS and TBT standards (requirements relating to certification, laboratory testing, standardization, etc) and periodic sanctions imposed on various grounds by India. Bangladesh seeks redress both through the SAARC arbitration process and bilateral negotiations. Since most NTBs in India relate to SPS and TBT, it is of critical importance for Bangladesh to raise the compliance capacity of her exporting units in the relevant areas and to further strengthen the Bangladesh Standardization and Testing In-

43 This is, in essence, a tariff rate quota (TRQ). The initial allowance was 8 million items, but this was raised to 10 million in 2011.

44 Together, India and China accounted for about 38 per cent of Bangladesh's imports in FY2013 but only about 3.8 per cent of her exports.

45 In FY2013, Bangladesh's imports from India were about US$ 4740.7 million against exports to India of only about US$ 564 million.

46 An ADD was imposed on exports of dry-cell batteries to India by a Bangladeshi company., The ADD was withdrawn in 2005 when Bangladesh went to the WTO Dispute Settlement Body to resolve the dispute.

stitute (BSTI). Raising the accreditation capacity of BSTI with regard to certifications and the signing of a "mutual recognition of standards agreement" between Bangladesh and India[47] are important from this perspective. India has offered to support to Bangladesh in strengthening the capacity of the BSTI to ensure compliance with Indian certification and standardization requirements.

Consequences of the WTO Decision on Duty-free Quota-free treatment

The GSP, an idea which originated in UNCTAD, has served an extremely useful purpose for LDCs such as Bangladesh. Nevertheless, the proliferation of preferential schemes, with varying conditionalities and rules of origin arrangements, put an unnecessary administrative burden on LDCs and is only a second-best solution compared to a universal initiative to be provided under the WTO on a secure and lasting basis. A universal DFQF decision in the WTO would also ensure that all LDCs, as an internationally recognized group of disadvantaged countries, received equal preferences in all developed countries and also in developing countries 'in a position to do so'. It would also offer the possibility of more flexible RoO. For Bangladesh, the added attraction of the DFQF initiative in the WTO was that, appropriately designed, it could potentially address the lack of preferential treatment in the US for her major export item, RMG.

LDCs have long shown a keen interest in having preferential treatment provided on a multilateral basis and the proposal for a universal DFQF programme, as part of the SDT accorded to LDCs, has been part of the WTO Doha Round negotiations since the fourth Ministerial Meeting of the WTO in Doha in 2001. LDCs have been asking for duty-free access to the markets of developed countries as part of the negotiations on non-agricultural market access (NAMA) and the Agreement on Agriculture (AoA) in the Doha Round. DFQF treatment of LDCs' exports has also figured prominently in the negotiations on SDT favouring the LDCs.

The Hong Kong Ministerial Conference of the WTO in December 2005 took, for the first time, a decision to provide DFQF treatment to products originating from the LDCs. Annex F of the Hong Kong Ministerial Decision included Members' "commitment to effectively and meaningfully integrate LDCs into the multilateral trading system" and stipulated that:

"(a) (i) Members shall provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability. (ii) Members facing difficulties at this time to provide market access as set out above shall provide duty-free and quota-free market access for at least 97 per cent of products originating from the LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period. In addition, these Members shall take steps to progressively achieve compliance with the obligations set out above, taking into account the impact on other developing countries at similar levels of development, and, as appropriate, by incrementally building on the initial list of covered products. (iii) Developing-country Members shall be permitted to phase in their commitments and shall enjoy appropriate flexibility in coverage.

(b) Ensure that preferential rules of origin applicable to imports from LDCs are transparent and simple, and contribute to facilitating market access."

The WTO DFQF decision was a major achievement for the LDCs in terms of market access in the developed countries. It also committed developing WTO members, for the first time, to accord duty-free treatment to LDC products. However, the flexibility allowing members 'facing difficulties' to provide duty-free treatment to only 97 per cent of LDC exports at the product-line level and the wording 'declaring … to do so' with regard to developing countries weakened the decision considerably and were serious disappointments for Bangladesh and other LDCs.

47 Under this agreement, the BSTI and the Bureau of Indian Standards (BIS) will accept each other's certification when products enter into the market of the partner country.

Preferential treatment of her exportables is of critical importance for Bangladesh. Preferential market access and related initiatives have played a significant 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 tariffs and tariff peaks, the various preferential treatment schemes significantly enhance her export competitiveness in the global market. Bangladesh thus has a strong interest in making the preferential schemes more effective so that they provide her with commercially meaningful market access.

Underutilization of Potential Benefits

Like many LDCs, Bangladesh finds it difficult to realize the full potential of the various preferential market access schemes for the LDCs. A wide spectrum of factors contribute to this, including: (a) inability to ensure compliance with RoO; (b) the limited product coverage of particular schemes; (c) a lack of predictability and security in the initiatives; (d) NTBs of various types; and (e) trade-related supply-side constraints.

III Limitations of Preferential Treatment and Recommendations to Address Bangladesh's Concerns

The DFQF decision in the WTO is important from the perspective of providing preferential access to goods originating from the LDCs, as a group and on a multilateral basis. The issue of preference erosion is of vital importance to the LDCs in view of the WTO negotiations on the reduction of MFN tariffs. S&DT provisions in the WTO and WTO's Aid for Trade (AfT) initiative go beyond the issue of preferential market access to LDCs and include various derogations that are allowed and raise their capacity in the areas of competitiveness and market access. These are important since multilateral initiatives and actions are of heightened interest in enabling LDCs to ensure enhanced market access on secured and sustainable basis.

DFQF Decision in the WTO and Suggested Measures

As indicated above, the WTO Hong Kong Ministerial Decision on DFQF market access did not meet the longstanding demand of the LDCs for DFQF access for all products originating from all LDCs in that it allows 'developed countries facing difficulty' to provide duty-free market access only for (at least) 97 per cent of the tariff lines originating from the LDCs.. The US insisted on this limitation. The concern was that the list of the 'excluded' 3 per cent could include most of the tariff lines in apparels. There are about 11300 US tariff lines at the nine-digit level so that, if 3 per cent are excluded, about 330 tariff lines will remain outside DFQF treatment, i.e., will continue to face MFN duties. It is highly conceivable that most such excluded tariff lines will belong to the apparels sector. Because Bangladesh's apparels exports are concentrated in only a few tariff lines, a carefully crafted list of even only one per cent of tariff lines could exclude almost all apparels exports to the US from DF treatment.

It is therefore not surprising that the LDCs are requesting that: (a) any 97 per cent list include items of major export interest to the LDCs; (b) a concrete time-line is set for the phase-in of items in the 3 per cent exclusion list; (c) developing countries (declaring themselves in a position to do so) undertake greater commitment to provide DFQF treatment to LDC products;[48] and (d) RoO for market access under the DFQF be flexible and LDC-friendly;[49] and (e) negotiations in the Working Group on RoO be completed at an early date.

48 This is of particular importance to LDCs such as Bangladesh since South-South trade is on the rise and there are significant market opportunities in Brazil, China, India and South Africa if a generous DFQF offer is made.

49 A separate WTO Working Group is reviewing RoO issues and is mandated to provide recommendations.

Of heightened concern to Bangladesh and some other LDCs are Annex 2 (submitted by the EU) and Annex 3 (submitted by the US) of the NAMA Draft[50] which put forward a number of tariff lines for slower tariff reduction under the NAMA. Bangladesh's concern relates to tariff lines both in the EU list (for items for which she cannot enjoy duty-free access at present because of non-compliance with the RoO requirement) and in the US list (for almost all items because the US GSP does not cover apparels). A slower pace of tariff reduction will result in market entry at higher MFN rates than other products once NAMA starts to be implemented.

Another set of concerns relates to the lists of items submitted by the so-called disproportionately affected countries (DACs) in Annexes 3 and 4 of the proposed draft NAMA text. If this is accepted, Bangladesh, an LDC, could have less favourable market access than Pakistan and Sri Lanka which are designated as DACs[51] (see figure 1). Bangladesh and other LDCs feel that this is unacceptable under any and all circumstances, since it goes against the very spirit of the WTO and and of SDT for the LDCs. The concerns of LDCs in this respect must be addressed in the future, through either inclusion of affected LDCs such as Bangladesh, Cambodia and Nepal in the two Annexes or by not considering the notion of DACs.

Addressing the Impact of Preference Erosion

Of major concern to Bangladesh, in the context of both the tariff reductions envisaged under the WTO negotiations and the autonomous reductions of tariffs by trading partners, is the issue of preference erosion. As part of the NAMA and AoA negotiations, tariffs will be significantly reduced under the agreed "Swiss formula".[52] Although the cuts are to be made from bound tariff rates, the applied and bound rates in Bangladesh's major markets – EU, USA, Canada and Japan – are almost identical for most tariff lines. Because of this, for the products and markets where Bangladesh receives preferential market access, there will be significant erosion of preferences when MFN tariffs are reduced under NAMA and the AoA. Since the "Swiss coefficient" will have most impact on tariff peaks and since most apparels items face tariff peaks in developed country markets, the impact of preference erosion will be particularly telling in the case of Bangladesh, as reflected in the possible range of tariff cuts that would result from the application of a Swiss-coefficient of 8 (see table 10).[53] While estimates of the adverse impact of preference erosion vary significantly, one suggests that it is likely to be in the range of US$240 million for Bangladesh (Rahman, M. and Shadat, W. 2005). However, the overall negative consequences of preference erosion for Bangladesh and other preference-receiving countries will be much higher since their competitive edge will be significantly undermined.

On the other hand, tariff reduction under the NAMA and AoA should help for products and markets where Bangladeshi items are not accorded duty-free (or preferential) treatment. The US market is a case in point: since Bangladesh doesn't receive duty-free treatment for most of her exports at present, any reduction in MFN duty will reduce the tariffs faced in the US market. However, there are two major considerations: (a) the adverse impact of preference erosion in other markets would be offset only if Bangladesh gets duty-free access for all products

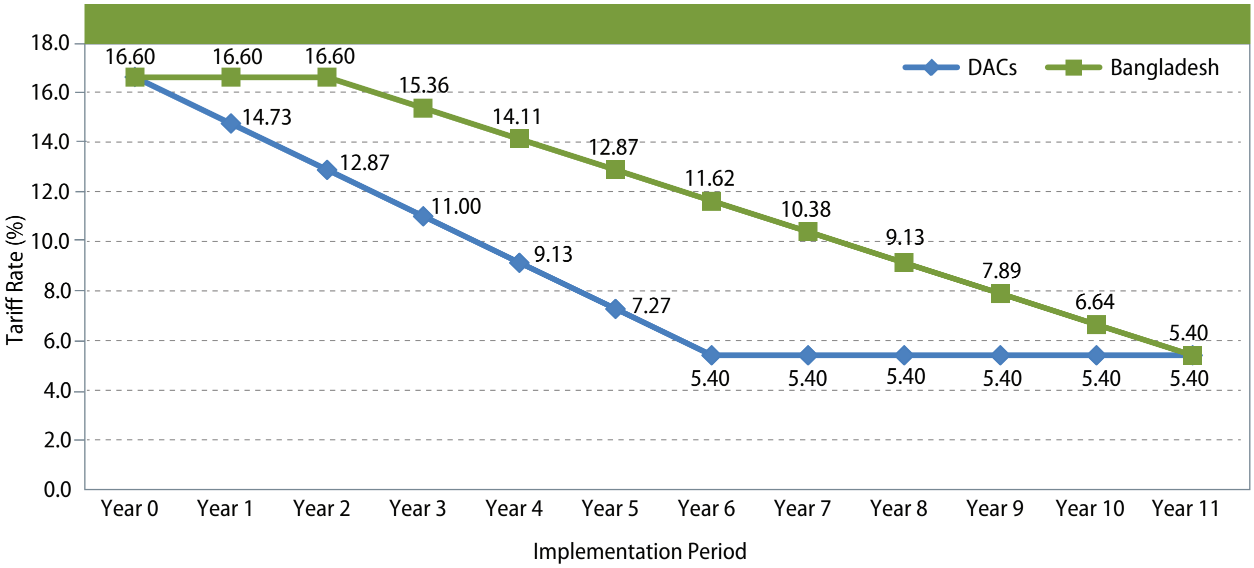
50 Annex 2 includes 57 tariff lines at the 8-digit level; Annex 3 includes 29 items, mostly apparels.

51 Annex 3 and Annex 4 include five items each for Pakistan and Sri Lanka, in both US and EU. These have been requested for exclusion from Annex 2 and Annex 3 lists. Thus, these particular items will be eligible for faster reduction under the NAMA. In the US market, where Bangladesh and other AP LDCs do not enjoy duty-free market access, this could result in higher MFN duties being paid on seven common items by the AP LDCs than by Pakistan and Sri Lanka

52 Agreement, however, is yet to be reached with regard to which "Swiss coefficient" is to be applied.

53 One distinctive feature of applying the Swiss coefficient is that, the higher the level of the tariff, the higher will be the range of reduction when the coefficient is applied. Thus, tariff peaks will be subject to the deepest cuts.

Figure 2
Impact of NAMA Annexes 3 and 4 for Bangladesh and Directly Affected Countries



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 tariffs in the US market than DAC countries. Furthermore, for items that receive DFQF treatment, there will be significant preference erosion as a result of tariff 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 enforceability. There is now a demand to take decisions to ensure that SDT provisions are appropriately implemented. In all, 88 proposals have been submitted to the WTO to address SDT-related issues in the various WTO Agreements. These proposals came from individual developing countries (13 proposals), LDCs (19 proposals) and the African Group (that includes both developing countries and LDCs) (56 proposals). Of the proposals submitted by LDCs, 13 were agreed in principle in WTO or were likely to be agreed. However, the Hong Kong Ministerial Meeting was able to address only five of these proposals, including the proposal on DFQF treatment of LDC products. Almost all WTO agreements have SDT provisions favoring the developing countries, particularly the LDCs. There is a need to address the other proposals expeditiously so that LDCs are able to take advantage of them.

Table 10
Preference erosion as a result of applying the Swiss formula with a coefficient of 8

Current Tariff Rate (%)	Coefficient	New Tariff Rate (%)	Tariff Reduction	Annual Tariff Reduction (6 installments)	Annual Tariff Reduction (9 installments)
8.1	8	4.02	4.08	0.68	0.45
16	8	5.33	10.67	1.78	1.19
32	8	6.40	25.60	4.27	2.84

Source: Estimates based on NAMA Draft Modalities and USITC Tariff Database.

WTO-TRIPS and realizing SDT

Because of their lack of the necessary human and institutional capacity, compliance with the WTO Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS) could emerge as a major challenge for LDCs such as Bangladesh in terms of their ability to access developed markets. Bangladesh and other LDCs have been granted exemption from various TRIPS obligations till 1 July 2013.[54] Meanwhile, Article 67 of GATT-WTO stipulates that developed country members "shall provide … technical and financial cooperation in favour of developing and LDCs". It calls on LDCs to provide relevant information on priority needs and on developed country Members to provide financial cooperation to the LDCs to enable them to effectively address these needs. Bangladesh has indicated the need for technical assistance in developing the human, legal and institutional infrastructure required to comply with the TRIPS Agreement. The EU is implementing a project in the Department of Patents, Design and Trademarks with a view to helping Bangladesh modify existing laws and introduce new ones in the areas of patent designing, trademarks and geographical indications. The project also involves the training of police, customs officials, lawyers and judges in the areas of TRIPS compliance. However, much more is required to build up Bangladesh's TRIPS compliance capacity, as non-compliance with TRIPS-related obligations is likely to emerge as an important market access constraint in future, for example in relation to apparel design.

The WTO Doha Ministerial Declaration on TRIPS and Public Health allows LDCs such as Bangladesh exemption from TRIPS obligations for pharmaceutical products until 2016. Bangladesh has a large pharmaceuticals sector which meets up to 90 per cent of her domestic demand; she also exported about US$41 million of pharmaceutical products in FY2010. However, because of supply-side constraints, particularly Bangladesh's lack of capacity to undertake reverse engineering, use of preferential market access offered under the Declaration on TRIPS and Public Health has remained largely underutilized. LDCs such as Bangladesh would be in a better position to take advantage of these SDT measures if commensurate support was available to build up the necessary supply-side capabilities.

In a similar vein, the GATS Annex on Telecommunications stipulates that "members shall give special consideration to opportunities for the LDCs to encourage foreign suppliers of telecommunications services to assist in the transfer of technology, training and other activities that support the development of their telecommunications infrastructure and expansion of their telecommunications services trade" (para. 6d). Bangladesh has a thriving mobile phone sector. However, whatever steps the telecommunication companies are taking in technology upgrading and training are being initiated autonomously and under normal business practices. These corporations do not receive any additional or special incentives from the developed countries to support their activities in Bangladesh. A lack of resources has also prevented Bangladesh from undertaking a national assessment of trade in services which would have facilitated the identification of opportunities to receive SDT in various services-related areas.[55]

Aid-for-Trade and Support for Supply-side Capacity Building

Bangladesh has benefited from technical and financial support from various multilateral and bilateral organisations to strengthen her trade-related supply-side capacities. The EU, UNIDO and Japan Debt Cancellation Fund (JDCF) have supported various projects including Quality Management System and Conformity Assessment Activity, Quality Support Programme, Market Access and Trade Facilitation Support (for South Asian LDCs),

54 The LDCs as a group requested an extension of the transition period offered to LDCs under the WTO TRIPS Agreement beyond 2013. Subsequently the exemption was further extended to 1 July 2021, or when a particular country ceases to be the LDC if that happens before 2021.

55 LDCs such as Bangladesh also have a strong interest in GATS Mode 4 (Movement of Natural Persons). LDCs are being considered for either a waiver or flexibility under SDT in services with regard to Mode 4.

Strengthening Institutional and National Capacities Related to Standards, Metrology, Testing and Quality (SMTQ), Modernization of BSTI through Procurement of Sophisticated Equipment & Infrastructure and Development of Laboratories for Accreditation, among others. However, there is a need to significantly increase these efforts. The Agreement on Trade Facilitation stipulates that developed country members will provide financial and technical assistance to help LDCs address bottlenecks in these areas, and that compliance requirements will be subject to commensurate assistance under the Aid for Trade initiative of the WTO.

One of the major concerns is that supply-side constraints do not allow realisation of the SDT and preferential market access that is, in principle, available to LDCs. Lack of capacity in the LDCs in areas of export diversification has been a longstanding problem. Although Bangladesh receives DFQF market access for thousands of tariff lines, her exports other than apparels remain limited. Greater international support in building supply-side capacities towards export diversification is thus key to realising the potential benefits of preferential market access. Initiatives to encourage FDI in LDCs from developed and developing countries (such as targeted incentives by these countries, as envisaged under various WTO Agreements) to build up supply-side capacities is important from the perspective of realising the potential benefits of preferential access and SDT more generally.

More energetic support towards capacity-building in SPS and TBT and technology transfer could enable LDCs to improve their compliance capacities with regard to various obligations and demands in these areas. The WTO Agreement on Trade Facilitation stipulates that necessary support will be accorded to LDCs to meet identified needs and that no sanctions will be imposed on the grounds of non-compliance if such support is not forthcoming. However, the issue at stake is not sanctions. LDCs need to improve their trade facilitation capabilities significantly and there ought to be adequate support for this.

The AfT initiative envisages support for building infrastructure, strengthening supply-side capacity and putting in place trade-related infrastructure. Significant commitments have been made by developed countries although there is scepticism as to whether support under the AfT initiative will involve additional financing by the developed countries. There should be targeted commitments of additional funds under the AfT initiative. It is encouraging that WTO members have agreed that AfT initiatives and commitments will be independent of developments in the Doha Round. Keeping the commitment made by developed countries to allocate 0.15 per cent of gross national income for aid could be an important step in this connection.[56]

The support for the LDCs under the previous Integrated Framework (IF) initiative and the present Enhanced Integrated Framework (EIF) initiative has been weak. Bangladesh received negligible support under the IF[57] and, because of its scepticism for the EIF initiative, became a member only in November 2009. Work has been initiated on a Diagnostic Trade Integration Study (DTIS) to document the constraints faced by export-oriented sectors of the country and to identify sectors with greatest export potential. An Action Matrix for strengthened integration into the international trading system will be developed as part of this exercise. The DTIS, which is being implemented by the World Bank, will identify projects for possible support, which will then be submitted for assistance under AfT.

The Overriding Importance of National Action

Some of the incentives which the apparels sector currently enjoys (including BWF, CCS and duty-drawback) are also available to many other sectors, particularly the so-called "thrust" sectors. Some of

56 Some of the developed countries (including the Scandinavian ones) have already fulfilled this promise. UK, in spite of its public austerity measures, has committed itself to significantly increase aid in the coming years. Japan and US (Millennium Challenge Fund) have also made higher aid commitments; however, these still fall short of the 0.15 per cent GNI target.

57 Only one project, focusing on the marketing of leather products, received support under the IF.

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 difficulty. 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 significant enhancement of Bangladesh's competitive edge. A number of new potential sectors, such as pharmaceuticals and ship-building, have specific requirements such as reverse engineering capacity, zoning and financing arrangements. One common weakness, however, is Bangladesh's inability to go into higher-end products where quality, lead time, fashion and design are critically important for the importer/retailer.

The momentum of investment in non-RMG export-oriented sectors will hinge critically on Bangladesh's abilities to cater to the specific demands of particular sectors and to undertake economy-wide reforms in areas of institutional strengthening, governance and implementation capacity. As Bangladesh's experience shows, preferential schemes and preferential market access, while important, are not a guarantee for market presence. When other necessary conditions are met, preferential access can make the difference. In view of the expected erosion of preferences, the role of these other factors is likely to increase. making international support for building trade-related supply capacities all the more important.

The most critical bottleneck in Bangladesh is the gap between demand and supply of power and electricity. This is having an adverse impact on both current and prospective production and investment. In the absence of reliable power supply, enterprises are setting up their own generators, using diesel and furnace oil. Since the resulting energy cost is two or three times higher than when power can be accessed from the national grid, the competitiveness of the resulting products is undermined. The government is taking a number of initiatives to correct the situation, but this will take time.

Institutions (such as the regulatory framework and access to credit, particularly for SMEs), skilled labour, infrastructure and compliance assurance are some of the areas where formidable tasks remain. Lack of capacity in all these areas has cost implications. The advantage in terms of lower duties are often counterbalanced (and more) by the absence of the required "hardware" (infrastructure) and "software" (institutions). Whilst global support could assist Bangladesh in addressing these inadequacies, domestic action is needed first. Often, this is not so much an issue of financing, but rather of policy initiative and implementation. A significant part of the allocation for Bangladesh's Annual Development Plan often remains underutilised. This is related to wider political, administrative and governance reforms which Bangladesh needs to undertake. Global support will also be more effective with such measures. If Bangladesh is able to attain parity with her competitors in these areas, preferential access can give her the added advantage which can make a difference in terms of competitive edge. Whilst the required domestic measures are necessary factors, preferential access related advantages could serve as sufficient factors in terms of raising Bangladesh's competitiveness in global market. Thus, whilst the demand for global support ought to be forcefully articulated, this should not distract Bangladesh from undertaking her own reforms and initiatives. Without the latter, the benefits from the former are unlikely to generate the expected dividends.

Concluding Remarks

The preceding sections have identified the benefits and highlighted the concerns that emanate from the trade preferences that Bangladesh enjoys as an LDC. Bangladesh is one of the countries that have been able to gain most from the preferences and other SDT accorded to the LDCs. Multilateral, regional and bilateral trade preferences for LDCs have played a crucial role in enabling Bangladesh to achieve the high growth rates of her export sector over recent years. Export-oriented sectors contribute significantly to Bangladesh's GDP, employment and investment; they have also contributed importantly to social transformation and gender empowerment in Bangladesh. However, Bangladesh's export basket has continued to remain concentrated in only one product - apparels. In order to realise the potential opportunities in other products that are eligible for preferential market access, but presently cannot enjoy the benefits, much more will need to be done. Because of stringent RoO in some GSP schemes, lack of GSP coverage, weak ability to comply with SPS and TBT requirements, NTBs and inadequate trade-related supply-side capacities, Bangladesh has not been able to maximise the potential benefits from preferential market access and the SDT provided in the WTO.

In order for Bangladesh to be able to significantly enhance her benefits as a recipient of special measures in support of LDCs trade, the following measures are called for:

a. the preferential arrangements in developed country markets should be made more universal:

b. some of the stringent RoO in GSP schemes should be made more LDC-friendly;

c. other developing countries should make their preferential treatment of LDC products more inclusive and offer more generous market access;

d. WTO negotiations should be concluded in a more expeditious manner;

e. SDT provisions in the WTO should be given more enforceability;

f. SPS and TBT compliance capacity should be enhanced; and

g. aid-for-trade for export diversification and trade-related capacity-building in Bangladesh should be increased and made more effective.

These proposals do not imply that domestic policy initiatives are not important but rather that Bangladesh's own efforts and reforms will generate significantly more dividends for her economy and for her people if commensurate global support is forthcoming. That is the spirit of the partnership embodied in the eighth Millennium Development Goal and its aim of making trade work for poverty alleviation in developing countries.

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