



CPD

Working Paper

107

Bilateral Free Trade Agreements (FTAs)
*Opportunities and Challenges for
Bangladesh – Framework Issues*

Khondaker Golam Moazzem
Mehrana Islam Chowdhury
Saifa Raz



CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think tank

BILATERAL FREE TRADE AGREEMENTS (FTAs)
Opportunities and Challenges for Bangladesh – Framework Issues

CPD Working Paper 107

Khondaker Golam Moazzem
Mehrana Islam Chowdhury
Saifa Raz

Publisher

Centre for Policy Dialogue (CPD)

House 40C, Road 32, Dhanmondi R/A

Dhaka 1209, Bangladesh

Telephone: (+88 02) 9141734, 9141703

Fax: (+88 02) 8130951

E-mail: info@cpd.org.bd

Website: cpd.org.bd

First Published June 2014

© Centre for Policy Dialogue

Disclaimer: The views expressed in this paper are those of the authors alone and do not necessarily reflect the views of the CPD.

Tk. 50

USD 5

ISSN 2225-8175 (Online)

ISSN 2225-8035 (Print)

Cover design

Avra Bhattacharjee

C42014_2WP107_TRC

The **Centre for Policy Dialogue (CPD)** was established in 1993 as a civil society initiative to promote an ongoing dialogue between the principal partners in the decision making and implementing process. Over the past 20 years the Centre has emerged as a globally reputed independent think tank with local roots and global outreach. At present, CPD's two major activities relate to dialogues and research which work in a mutually reinforcing manner.

CPD dialogues are designed to address important policy issues and to seek constructive solutions to these problems. In doing so, CPD involves all important cross sections of the society, including public representatives, government officials, business leaders, activists of grassroots organisations, academics, development partners and other relevant interest groups. CPD focuses on frontier issues which are critical to the development process of Bangladesh, South Asia and LDCs in the present context, and those that are expected to shape and influence country's development prospects from the mid-term perspectives. CPD seeks to provide voice to the interests and concerns of the low-income economies in the global development discourse. With a view to influencing policies CPD deploys both research and dialogue which draw synergy from one another.

CPD's research programmes are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include: *Macroeconomic Performance Analysis; Fiscal Policy and Domestic Resource Mobilisation; Poverty, Inequality and Social Justice; Agriculture and Rural Development; Trade, Regional Cooperation and Global Integration; Investment Promotion, Infrastructure and Enterprise Development; Climate Change and Environment; Human Development and Social Protection; and Development Governance, Policies and Institutions.*

CPD also conducts periodic public perception surveys on policy issues and issues of developmental concerns. With a view to promote vision and policy awareness amongst the young people of the country, CPD is also implementing a *Youth Leadership Programme*. CPD maintains an active network with institutions that have similar interests, and regularly participates in various regional and international fora. At present CPD is spearheading two global initiatives. *LDC IV Monitor* is an independent global partnership for monitoring the outcome of the Fourth United Nations Conference on the Least Developed Countries (UN LDC IV). *Southern Voice on Post-MDG International Development Goals* is a network of 48 think tanks from the developing South which seeks to contribute to the ongoing global discourses on post-MDGs. In recognition of its track record in research, dialogue and policy influencing, CPD was selected as one of the awardees of the Think Tank Initiative (TTI) through a globally competitive selection process.

Dissemination of information and knowledge on critical developmental issues continues to remain an important component of CPD's activities. Pursuant to this CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has been bringing out CPD Occasional Paper Series on a regular basis. It may be noted in this connection that since November 2011, the Series has been re-introduced as **CPD Working Paper Series**. Dialogue background papers, investigative reports and results of perception surveys which relate to issues of high public interest are published under this series.

The present paper titled **Bilateral Free Trade Agreements (FTAs): Opportunities and Challenges for Bangladesh – Framework Issues** has been prepared by *Dr Khondaker Golam Moazzem*, Additional Research Director, CPD; *Ms Mehruna Islam Chowdhury*, Senior Research Associate, CPD; and *Ms Saifa Raz*, Research Associate, CPD.

Executive Editor: *Ms Anisatul Fatema Yousuf*, Director, Dialogue and Communication, CPD

Series Editor: *Professor Mustafizur Rahman*, Executive Director, CPD

Abstract

In the backdrop of rise in Free Trade Agreements (FTAs) in developing countries, particularly after the global financial and economic crisis, Bangladesh is still ambivalent in setting its strategies regarding it. The present study tries to explore Bangladesh's scope for taking market-specific initiatives including FTAs with a view to enhance export. A number of economic tools and techniques have been applied to examine possible scenarios regarding preferential market access for Bangladesh. Based on the analysis, the following conclusions have been drawn out: a) there are good reasons for Bangladesh to pursue negotiations for preferential market access including bilateral FTAs, though at a limited level, particularly with countries of Southern region; b) Given the limited level of export competitiveness, major focus should be put on signing Preferential Trade Agreements; and c) the government should put emphasis on strengthening its institutional capacity for effective negotiation with prospective partner countries.

Contents

<i>Abstract</i>	<i>v</i>
<i>Acronyms</i>	<i>viii</i>
1. Introduction	1
2. Literature Review	1
3. Bangladesh's Policy Guideline for Bilateral FTAs	2
4. Methodology of the Study	3
5. An Overview of Bilateral Trade of Bangladesh: Experience with Top 50 Countries	4
6. Exploring the Opportunities of Bilateral FTAs: Product-wise and Market-wise Analysis	6
7. Technical Analysis	14
8. Services-Related Issues	17
9. Suggestions: Bangladesh's Strategies with regard to Bilateral FTAs	17
References	19

List of Tables

Table 1: Bilateral Trade of Bangladesh with Top 50 Countries	4
Table 2: Export of Top 50 Products in Major Markets by Bangladesh	6
Table 3: Import from Different Countries by Bangladesh	8
Table 4: Possible 'Natural Partners' for Forming FTAs	10
Table 5: 'Natural Partners': Case of Trade between Bangladesh and Korea	11
Table 6: Bangladesh's Export of 410712 to Korea: Trade Diversion Effect	12
Table 7: Bangladesh's Export of 410712 to China: Trade Diversion Effect	13
Table 8: Bangladesh's Import of 271019: Trade Diversion Effect	13
Table 9: Export of Bangladesh to China: Analysis of RCA and Trade Potentials	14
Table 10: Export of Bangladesh to Malaysia: Analysis of RCA and Trade Potentials	15
Table 11: Trade Complementarity Index for Export of Bangladesh to China	16

Acronyms

BFTI	Bangladesh Foreign Trade Institute
CEPA	Comprehensive Economic Partnership Agreement
CIS	Commonwealth of Independent States
DDR	Doha Development Round
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GSP	Generalized System of Preferences
HS	Harmonized Commodity Description and Coding System
ITC	International Trade Centre
LDC	Least Developed Country
NTB	Non-Tariff Barrier
PTA	Preferential Trade Agreement
RCA	Revealed Comparative Advantage
RTA	Regional Trade Agreement
SAFTA	South Asian Free Trade Area
UN COMTRADE	United Nations Commodity Trade (Database)
USA	United States of America
USTR	United States Trade Representative
WTO	World Trade Organization

1. INTRODUCTION

Bilateral Free Trade Agreements (FTAs) and Regional Trade Agreements (RTAs) signed by developed and developing countries have significantly increased in recent years. Slow progress in multilateral trade negotiations under the World Trade Organization (WTO) and global economic slowdown since the financial and economic crisis in 2008 are some of the major reasons for proliferation of regionalism (Kawai and Wignaraja 2010). Bangladesh is by and large less active in this process; more concretely, Bangladesh is still at the 'recipient' end. Such approach of Bangladesh has a number of limitations and may have adverse implications on the overall economic welfare of the country. Firstly, its trade preferences are likely to be eroded in major markets due to their gradual tariff liberalisation; secondly, its trade preferences are likely to be eroded further with the proliferation of FTAs between developed and developing countries where Bangladesh has export similarity in these markets (Winters 2009). Besides, a number of countries have expressed interest to sign bilateral FTAs with Bangladesh; it has yet to complete economic analysis on these markets, and hence no progress is made regarding the political stance on those issues. Thus, a proactive role is urgently needed with regard to overall stand of the government regarding bilateral FTAs.

The present study tries to explore the scopes and opportunities for undertaking various market-specific initiatives including FTAs for enhancing Bangladesh's export. The paper comprises nine sections. Section 2 provides a literature review on rationale behind forming FTAs and factors that influence countries to sign FTAs, various kinds of interests of partner countries, and state of FTAs under imperfect market condition. Section 3 discusses about major aspects related to government's policy guidelines for bilateral FTAs. Section 4 briefly mentions about the methodology of the study – a number of tools and techniques have been applied in order to get a better understanding with regard to scopes and opportunities for prospective preferential arrangements. Section 5 provides a brief overview of bilateral trade of Bangladesh with top 50 countries in 2011. This discussion has set the benchmark condition for exploring possibilities for undertaking initiatives beyond the current state of trading arrangements at bilateral level. Section 6 explores the potentials for bilateral FTAs through product and market-specific analysis both from exporters' and importers' points of view. This analysis has tried to reveal a set of 'natural partners' for Bangladesh for further engagement in bilateral trade negotiations. Section 7 provides a technical analysis about the issues discussed above. A number of indices are applied including Revealed Comparative Advantage (RCA) Index, Indicative Trade Potential and Trade Complementarity Index, etc. Since service trade is an important issue in the bilateral trade negotiation, Section 8 very briefly discusses about service trade-related issues. Finally, Section 9 puts forward a set of suggestions with regard to Bangladesh's strategies about bilateral FTAs.

2. LITERATURE REVIEW

Bilateral FTAs have been signed by countries with the objective of maintaining and expanding the market access (Kawai and Wignaraja 2010). Increasing intra-industry trade between member countries is most likely to reduce the cost of production, and thereby, improves the competitiveness at international markets. Overall, an FTA could contribute in strengthening the process of industrialisation of developing countries. However, the extent of contribution of FTAs may vary widely depending on the size of the economies involved, extent of trade integration, and terms and conditions of FTAs, particularly the rules of origin. The FTA signed between developed and developing countries may or may not be the best options in trade-led development process. It depends on relative strength of countries involved in the FTA, particularly in getting concessions in each other's market. While a multilateral trade agreement could be the best option for these countries, given the slow progress at the multilateral trade discussion at the WTO, developing countries have looked for alternate options including FTAs.

FTAs between developed and developing countries have always faced challenges in ensuring considerable trade creation effect. There are diverse views as regards the extent of trade creation and diversion through bilateral FTAs. Viner's (1950) seminal work on trade integration first raised the issue of trade diversion in FTAs. Later, a number of studies tried to justify that trade creation is higher than trade diversion which contributed high net trade creation effect for the member countries. According to Bhagwati and Panagaria (1996) trade creation effect outweighs trade diversion effect if FTAs are signed between 'natural partners'. The 'natural partners' have been defined as partners with having high initial volume of bilateral trade with each other. There is no reason that 'natural partners' are always located in proximate distance. Countries are better off in forming FTAs with distant rather than approximate countries when two countries are otherwise identical (Bhagwati and Panagaria 1996). Low transport cost between two countries under FTA is more important determinant for forming FTA than two proximate countries. Thus, distance between two countries is always considered from the perspective of cost of production. However, it is not that the nearest ones are superior to the distant ones. Overall proximity reduces trade diversion effect of partner countries, and thereby turned these countries to become 'natural partners'.

A number of literatures have rather argued that trade diversion, not trade creation, is one of the principle motives for forming FTAs. Gross and Helpman (1995) and Helpman (1995) show that countries are forming FTAs with a view to penetrate member country's market through diversion of trade from existing supplying countries, and thereby like to ensure more benefits through bilateral trade under the FTAs.

An FTA has both 'static' and 'dynamic' effects in terms of trade, investment and employment of member countries. In static sense, forming an FTA would have immediate short-term effect on bilateral trade, where changes in global trade pattern are less considered. On the other hand, in dynamic sense, forming an FTA affects bilateral trade in the long-term through greater trade liberalisation at the global level. A major concern in case of FTA is loss of revenue generated at the import stage due to reduction of tariff on member countries' products. According to Panagariya (2000), if two small countries with approximately balanced bilateral trade form an FTA, country with higher tariff is likely to lose more revenue at the initial stage.

In case of FTA, reduction of tariff at member countries' market does not necessarily mean competitiveness of counterpart's products. It largely depends on price competitiveness of products of member countries after the reduction of tariff. Unless significant price difference takes place after signing the FTA, trade may continue to take place with non-member countries like earlier. Similarly, extent of an FTA's impact partly depends on economies of scale of production operated in the member countries. Most of the above mentioned consequences are considered under the assumption of perfect competition. Given the prevalence of imperfect competition at domestic markets, FTAs may not work as it is usually perceived in a competitive market framework. However, countries always target signing FTAs which are welfare-increasing for their national economies.

3. BANGLADESH'S POLICY GUIDELINE FOR BILATERAL FTAs

The Government of Bangladesh has prepared a policy guideline to explore bilateral FTAs with prospective countries with a view to make deeper trade integration for export diversification and enhancement of Bangladesh's exports and competitiveness. The objectives set forth in the policy guidelines of FTA are three-fold: a) identification of potential countries for FTAs; b) coverage of FTAs; and c) procedures to be followed for initiating negotiations. The priorities for FTA negotiations are: a) economic strength, growth potential and demand for partner countries; b) geographical proximity; c) diplomatic relationship; d) market access condition for Bangladesh; e) willingness of the partner

country; f) scope for manpower exports in the partner countries; g) consideration to elevate bilateral cooperation to strategic level; and h) future prospect of cooperation.

The guideline has provided a broader framework for identification of prospective countries taking into account different strengths of these markets in terms of trade in goods, services and investment. The guideline provides broader indication about possible markets for Bangladeshi products in Asia, South America, Africa, countries with increasing demand for manpower, member countries of the Commonwealth of Independent States (CIS), least developed countries (LDCs) and developed countries. Government should set priority criteria for taking preparation about prospective markets, which is not reflected in the policy guideline.

In terms of coverage of FTAs, primary focus has been put forward on trade in goods and services. It may also cover investment depending on sectoral needs. Within the negotiation of trade in goods, a number of issues are to be taken into account which include tariffs, effective mechanism for removal of non-tariff barriers (NTBs), rules of origin, customs cooperation, safeguard measures, dispute settlement mechanism and institutional mechanism to oversee the implementation of the agreements. In case of trade in services, major focus should be put in place on movement of natural persons.

The policy guideline for FTAs puts focus on issues related to preparatory and negotiation phases for an FTA. Broadly, it is a policy guideline for Bangladesh putting emphasis mainly on 'offensive interests'. The policy guideline discusses about major export interests of Bangladesh in prospective markets ('offensive interest'), but it mentions relatively less about export interest of partner countries in Bangladesh (which could be 'defensive interest' of Bangladesh). Bangladesh could initiate discussion for an FTA if it does the baseline exercises of the counterpart. Such issues are less discussed in the policy framework.

4. METHODOLOGY OF THE STUDY

The present study applies a number of tools and techniques to examine the possible scenarios regarding preferential market access including bilateral FTAs for Bangladesh at global level. First, a simple statistical analysis has been carried out on bilateral trade with top 50 countries to understand the state of export, import and trade balance during 2005 and 2011. This analysis helps to understand the growth in bilateral trade of Bangladesh with major trading partners over the years. Second, a simple statistical analysis is presented with regard to state of export of top 50 products to major markets and rate of tariffs for those products, to understand the current state of trade barriers in respective markets. This analysis has been extended further by classifying products in terms of rates of tariffs faced in different markets such as 50 per cent, 30-50 per cent, 20-30 per cent, 10-20 per cent, 5-10 per cent and less than 5 per cent to appreciate the extent of barriers in different markets. Similar exercise has been carried out in case of import to Bangladesh by major trading partners and levels of tariff faced by those products in Bangladesh to understand the interest of the trading partners for signing FTAs. These analyses helped to identify the possible 'natural partners' of Bangladesh in case of bilateral trade integration initiatives. Thirdly, a trade diversion analysis has been carried out to understand not only the conservative aspects of FTA issues as importing country, but also to understand prospects as exporting country in the member countries' markets. This analysis has been extended further with a unit value analysis to appreciate the possible extent of trade diversion by Bangladeshi products in partner countries and vice-versa.

Fourthly, a number of structured tools are used to get an impression in quantifiable terms. Thus, the study applies RCA indices, indicative trade potentials and trade complementarity indices for a selected set of products and markets, particularly in the context of Korea, China and Malaysia. These

analyses have been carried out by using global trade database, i.e. United Nations Commodity Trade (UN COMTRADE).

5. AN OVERVIEW OF BILATERAL TRADE OF BANGLADESH: EXPERIENCE WITH TOP 50 COUNTRIES

Bangladesh's trade openness has significantly increased over the years – from 22.3 per cent in 1990 to 26.2 per cent in 2000, and 50.5 per cent in 2011. Rise in trade openness is reflected with simultaneous rise in export and import. Although Bangladesh's export is heavily concentrated in limited number of products in few major markets, it has been 'diversified' at a limited scale with the export rise of non-traditional products as well as rise in export destinations. For example, during 2005, number of export products (at 6 digit level) of Bangladesh was 1,566, which increased to 1,867 in 2011; similarly number of export destinations have increased from 171 in 2005 to 198 in 2011.

Among the top 50 trading partners, Bangladesh has enjoyed trade surplus with 24 countries in 2011, and trade deficit with 19 other countries (Table 1).¹ The respective number of countries in 2005 was 23 and 21. More importantly, Bangladesh has registered considerable growth in trade balance between 2005 and 2011 in most of the top 50 trading partners (except 11 countries). Over time, trade balance both in terms of growth and with number of countries has shown improvement. These positive changes in the export sector are contributed by a number of factors including preferential market access in major developed and developing countries, rise in production and export capacity particularly of traditional products, rise in production of non-traditional products a part of which are being exported, tariff liberalisation particularly in case of raw materials, intermediate products and capital machineries, relatively low labour cost, and overall favourable national policies for strengthening industrialisation and promotion of export.

Table 1: Bilateral Trade of Bangladesh with Top 50 Countries

Trading Partner	2005			2011			Change in Trade Balance (%)	Preferential Market Access Status
	Import	Export	Trade Balance	Import	Export	Trade Balance		
	'000 USD			'000 USD				
USA	318,908	2,881,041	2,562,133	1,145,590	5,081,818	3,936,228	8.9	Partly
Germany	320,766	1,470,325	1,149,559	615,062	4,340,872	3,725,810	37.4	Fully
UK	145,283	1,191,880	1,046,597	217,618	2,428,711	2,211,093	18.5	Fully
France	69,520	767,250	697,730	137,045	2,005,488	1,868,443	28.0	Fully
Italy	179,125	391,639	212,514	432,443	995,782	563,339	27.5	Fully
India	1,719,789	103,698	-1,616,091	3,405,516	579,125	-2,826,391	12.5	Fully
Spain	58,212	453,778	395,566	97,397	1,166,204	1,068,807	28.4	Fully
Belgium	53,564	437,846	384,282	163,845	784,088	620,243	10.2	Fully
Canada	85,062	404,644	319,582	557,235	1,072,413	515,178	10.2	Fully
Netherlands	56,884	294,564	237,680	181,908	776,178	594,270	25.0	Fully
China	2,402,740	98,835	-2,303,905	7,810,658	449,036	-7,361,622	36.6	Partly
Sweden	173,038	147,464	-25,574	85,929	339,728	253,799	-182.1	Fully
Turkey	90,727	100,031	9,304	132,200	896,000	763,800	1351.6	Fully
Japan	529,235	151,914	-377,321	1,074,339	562,630	-511,709	5.9	Partly
Hong Kong	571,702	105,658	-466,044	990,972	181,339	-809,633	12.3	Partly
Singapore	695,432	95,123	-600,309	2,270,757	107,214	-2,163,543	43.4	No

(Table 1 contd.)

¹There is lack of trade data (either export or import) for the remaining seven countries.

(Table 1 contd.)

Trading Partner	2005			2011			Change in Trade Balance (%)	Preferential Market Access Status
	Import	Export	Trade Balance	Import	Export	Trade Balance		
	'000 USD			'000 USD				
Denmark	22,272	97,732	75,460	46,585	353,936	307,351	51.2	Fully
Korea	611,137	45,495	-565,642	1,627,620	244,205	-1,383,415	24.1	Limited
Pakistan	234,411	68,086	-166,325	947,228	82,734	-864,494	70.0	Limited
Ireland	1,595	50,353	48,758	5,510	153,935	148,425	34.1	Partly
Mexico	1,574	40,508	38,934	7,354	181,874	174,520	58.0	No
Russia	187,147	16,317	-170,830	234,850	342,875	108,025	-27.2	Limited
Saudi Arab	359,400	27,140	-332,260	0		0	-16.7	No
UAE	71,825	17,966	-53,859			0	-16.7	No
Iran	15,381	49,312	33,931			0	-16.7	No
Switzerland	75,300	66,100	-9,200	135,611	207,551	71,940	-147.0	Fully
Poland	6,455	47,735	41,280	26,585	594,109	567,524	212.5	Fully
Austria	13,555	146,704	133,149	37,639	50,057	12,418	-15.1	Fully
Australia	180,410	33,970	-146,440	563,670	250,961	-312,709	18.9	Limited
C. Taipei	443,639	18,308	-425,331	1,066,351	68,086	-998,265	22.5	Partly
Indonesia	353,301	18,915	-334,386	1,361,917	39,464	-1,322,453	49.2	No
Malaysia	409,399	21,389	-388,010	1,776,463	39,834	-1,736,629	57.9	No
Slovakia	557	8,376	7,819	2,676	206,037	203,361	416.8	Fully
Greece	3,520	17,644	14,124	12,013	43,485	31,472	20.5	Fully
Finland	16,644	51,145	34,501	218,425	43,022	-175,403	-101.4	Fully
Norway	10,686	64,139	53,453	24,376	163,151	138,775	26.6	Fully
South Africa	10,466	6,563	-3,903	36,322	70,402	34,080	-162.2	No
Vietnam	22,050	31,970	9,920			0	-16.7	No
Sudan	17,997	15,928	-2,069			0	-16.7	No
Portugal	873	10,632	9,759	7,256	38,486	31,230	36.7	Fully
Thailand	392,649	28,938	-363,711	1,215,509	42,224	-1,173,285	37.1	No
Brazil	149,639	7,460	-142,179	877,432	156,521	-720,911	67.8	No
Sri Lanka	15,498	8,867	-6,631	46,308	24,348	-21,960	38.5	No
Czech	14,259	34,703	20,444	25,638	176,407	150,769	106.2	Fully
Syria	4,248	10,283	6,035			0	-16.7	No
Egypt			0	50,786	20,718	-30,068		No
Ukraine	18,379	2,109	-16,270	51,516	33,903	-17,613	1.4	No
Qatar	1,018	1,133	115	25,243	3,499	-21,744	-3168.0	No

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

A distinctive feature is Bangladesh, as an LDC, has been enjoying preferential market access in most of the top 50 trading partners. The preferences are however different in terms of levels of tariffs, coverage of products (from partial to full) and types of rules of origin in respective markets/regions. Such preferential market access, particularly in developed and developing countries, have made significant contribution to enhance Bangladesh's export, particularly for traditional products (Moazzem 2009). This indicates that a further improvement in preferential terms and conditions even with existing preferential markets as well as introduction of preferential arrangement in new markets would make considerable changes in Bangladesh's export. However, this requires rise in productive capacity, improvement in price competitiveness and quality of products.

Preferential market access justifies better competitiveness of Bangladeshi products in different markets. Given the favourable condition for export in major markets under preferential arrangements, Bangladesh has been following a 'conservative' position for undertaking initiatives for bilateral trade agreements. Though this position of the government is well understood, opportunities in other large markets could not be enjoyed through taking such 'conservative' position without taking initiatives for opening up the market at preferential terms. Bangladesh has long been waiting for completion of Doha Development Round (DDR) in the WTO which would facilitate better market access to a number of potential markets. While Doha negotiations have made slow progress so far, Bangladesh should consider alternate avenues, where bilateral FTA could be a possible option.

6. EXPLORING THE OPPORTUNITIES OF BILATERAL FTAs: PRODUCT-WISE AND MARKET-WISE ANALYSIS

There are 'offensive' and 'defensive' interests in case of bilateral FTAs. 'Offensive interest' includes scopes for enhancing export both through reduction of tariff, and rise in export of major products as well as non-traditional products. On the other hand, 'defensive interest' includes less adverse impact due to reduction of tariffs on domestic industries, limited trade diversion effect, and less loss of revenue at import stage. To understand those issues, an in-depth understanding on current state of bilateral trade of different products in different markets is very important. The present study however puts forward a brief analysis on a selective basis to provide a broader understanding on those issues in the context of FTAs.

6.1 Export Destinations of Major Products of Bangladesh

A product-wise analysis has been carried out for Bangladesh for its top 50 products exported in 2011 (Table 2). Each product was exported to 10 to 15 countries which covered over 90 per cent of total export. Such an analysis will help to understand the prospective markets where Bangladesh has sufficient export interest. This analysis will partly comply with Bangladesh's 'offensive interest' in export market.

Table 2: Export of Top 50 Products in Major Markets by Bangladesh

Export Destination	No. of Top 50 Products Exported	Total Export of the Products ('000 USD)	Tariff Faced by Bangladesh's Products	Export Destination	No. of Top 50 Products Exported	Total Export of the Products ('000 USD)	Tariff Faced by Bangladesh's Products
USA	50	4502975	0-20.3	Thailand	8	4603	
Canada	49	921599	0	Estonia	7	1049	0
Germany	49	3946604	0	Belarus	6	6015	18.8-21.3
Spain	49	1054286	0	Bosnia and Herzegovina	6	997	15
Belgium	47	719950	0	Indonesia	6	13477	
Italy	47	865836	0	Sri Lanka	6	2954	0-4.5
UK	47	2083362	0	Colombia	5	696	15
France	46	1868599	0	Jordan	5	3550	0-24
Netherlands	45	720258	0	Egypt	4	8341	5-30
Poland	45	519837	0	Algeria	3	4830	15
Russian Federation	44	267446	0-32.8	Bahrain	3	297	5

(Table 2 contd.)

(Table 2 contd.)

Export Destination	No. of Top 50 Products Exported	Total Export of the Products ('000 USD)	Tariff Faced by Bangladesh's Products	Export Destination	No. of Top 50 Products Exported	Total Export of the Products ('000 USD)	Tariff Faced by Bangladesh's Products
Turkey	43	801097	0-25	Bulgaria	3	879	0
Japan	42	414395	0	Côte d'Ivoire	3	2874	
Denmark	36	316229	0	Cyprus	3	395	0
Switzerland	36	109728	0	Greece	3	8012	0
China	35	165029	3-13.6	Pakistan	3	73940	
Czech Republic	35	89166	0	Tunisia	3	2676	10-22
Slovakia	35	142845	0	Hungary	2	349	0
Sweden	35	251514	0	Kyrgyzstan	2	896	0
Australia	34	158978	0	Panama	2	362	10-12.5
Norway	33	35790	0	Philippines	2	2144	
Ireland	29	91783	0	Macedonia	2	220	0-17.5
Mexico	29	71434	0-30	Armenia	1	90	10
Brazil	28	51203		Azerbaijan	1	96	15
Republic of Korea	28	117517	1.5-13	Bolivia	1	563	10
Croatia	27	8727	10.2-14	Costa Rica	1	804	
Slovenia	26	8518	0	Ecuador	1	70	
South Africa	24	18608		El Salvador	1	1012	0
New Zealand	22	6523	0	Ethiopia	1	3167	20
Finland	21	9966	0	Iceland	1	136	0
Honduras	21	527	15	Israel	1	75	12
Hong Kong, China	21	40308	0	Kenya	1	3582	45
Ukraine	20	3792	0-12	Kiribati	1	78	
Luxembourg	19	3134	0	Lithuania	1	55	
Austria	18	9511	0	Madagascar	1	423	20
Chinese Taipei	17	7416		Malawi	1	68	15
Ghana	16	280	20	Mozambique	1	175	7.5
Serbia	16	3875		Nepal	1	6624	5
Chile	15	3849		Oman	1	1685	
Lebanon	14	1845	0-40.7	Peru	1	426	
Argentina	13	6161	14-35	Moldova	1	2906	
Romania	12	2631	0	Rwanda	1	116	45
Singapore	12	5234	0	Saint Vincent	1	52	5
India	11	282073	0-30.8	Uganda	1	2196	45
Malaysia	11	7779	0-343.7	Tanzania	1	200	45
Portugal	10	10704	0	Yemen	1	123	5
Kazakhstan	8	795	13.5-26.8				

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

Bangladesh's major export products are mostly textiles and apparels – out of the top 100 export products 70 per cent products are related to apparels (HS codes: 61 and 62). Thus, market analysis of major products is overwhelmingly directed by export of traditional products. Almost all major

products of Bangladesh are exported to major markets of developed countries and a number of developing countries. In most cases, export of these products have enjoyed duty-free market access. United States of America (USA) which is the largest export market of Bangladesh, provides GSP (Generalized System of Preferences) facility to a limited number of products which does not cover major export products including apparels (tariff range: 0-20 per cent). High tariff rates prevail in other major markets (i.e. markets where at least 10 major products are currently being exported) including Russia, Turkey, China, Mexico, Brazil, Korea, Croatia, South Africa, Honduras, Chinese Taipei, Serbia, Ukraine, Argentina, Malaysia and Singapore. There are another 47 markets where export of major products are relatively low (less than 10 products); among these, Bangladesh faces tariffs at different levels in 33 markets. Thus, there are scopes for undertaking initiatives for reducing tariffs in a number of those markets. Such initiative has to be prioritised taking into account the relative importance of these markets in terms of Bangladesh's export interest.

6.2 Import of Bangladesh

Analysis of structure of import of Bangladesh is not only important for importing country, but also important for Bangladesh with a view to understand the 'defensive interest', which may facilitate finding out possible mechanism for taking initiative regarding preferential market access particularly under bilateral FTAs. According to Table 3, Bangladesh has significant import of major products from a number of countries which include India, China, Germany, Thailand, USA, Malaysia, Korea, Japan, Netherlands, Chinese Taipei, Pakistan, Hong Kong, France, Indonesia, Italy, Spain, Turkey, Italy, Indonesia, Singapore, UK, Belgium, Brazil, Russia, Canada, Mexico, Australia and Argentina. Thus a large number of countries have export interest to Bangladesh which could be the minimum benchmark required for any kinds of discussion on bilateral FTAs. For most countries, tariff structure is ranged between 0-25 per cent, indicating products from raw materials to finished goods. In other words, a high tariff structure at initial level could always be considered 'positive' for a prospective country to

Table 3: Import from Different Countries by Bangladesh

Import Source	No. of Top 50 Products Imported	Tariff Range	Import Source	No. of Top 50 Products Imported	Tariff Range	Import Source	No. of Top 50 Products Imported	Tariff Range
India	42	0-25	Finland	9	0-25	Portugal	3	14.6-25
China	35	0-25	Ukraine	8	0-25	Vietnam	3	14.6
Germany	33	0-25	Greece	7	0-25	Colombia	2	5
Thailand	29	0-25	Nepal	7	0-25	Israel	2	0-8.3
USA	29	0-25	South Africa	7	0-25	Kazakhstan	2	8.5-12
Malaysia	28	0-25	Sri Lanka	7	8.5-25	Kuwait	2	0-14.8
Republic of Korea	28	0-25	Sweden	7	5----25	Madagascar	2	25
Japan	26	0-25	Czech Republic	6	0-25	Morocco	2	0-8.3
Netherlands	25	0-25	Poland	6	0-25	Romania	2	0
Chinese Taipei	23	5---25	Switzerland	6	0-25	Saudi Arab	2	14.8
Pakistan	23	0-25	Austria	5	0-25	Togo	2	0-14.6
France	22	0-25	Denmark	5	0-25	Algeria	1	14.8
Hong Kong, China	22	0-25	Egypt	5	0-8.3	Bahrain	1	5
Indonesia	22	0-25	Lebanon	5	5---25	Bolivia	1	5
Italy	22	5----25	Mauritius	5	5---25	Bulgaria	1	8.3

(Table 3 contd.)

(Table 3 contd.)

Import Source	No. of Top 50 Products Imported	Tariff Range	Import Source	No. of Top 50 Products Imported	Tariff Range	Import Source	No. of Top 50 Products Imported	Tariff Range
Singapore	20	0-25	New Zealand	5	0-25	Côte d'Ivoire	1	0
Spain	20	0-25	Hungary	4	0-5	Croatia	1	25
Turkey	20	0-25	Ireland	4	0-25	Cuba	1	8.7
UK	19	0-25	Norway	4	5---25	El Salvador	1	8.5
Belgium	18	5	Oman	4	5---25	Guatemala	1	8.7
Brazil	17	0-25	Tunisia	4	0-25	Malawi	1	0
Russian Federation	16	0-25	UAE	4	0-25	Tanzania	1	0
Canada	15	0-25	Belarus	3	0-25	Uruguay	1	25
Mexico	14	0-25	Chile	3	0-25	Uzbekistan	1	0
Australia	13	0-16.7	Lithuania	3	0-25	Zambia	1	
Argentina	12	5---25						

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

discuss about FTA. On the other hand, high tariff on imported products indicates its implications on domestic industry as well as on revenue. Thus, reduction of tariff at least in case of finished products would adversely affect the domestic industry in one hand, and may cause loss of revenue on the other. A select set of countries which have been involved in considerable bilateral trade might be considered for bilateral FTAs.

6.3 Identifying 'Natural Partners' for FTA

Taking the theoretical basis, an analysis has been carried out to identify possible 'natural partners' for forming FTA with Bangladesh. Of course, this analysis is only indicative to understand the scope for forming FTA with other countries. Considering at least 10 out of 50 products to be exported by Bangladesh and a good number of products are to be imported at bilateral trade as the benchmark for discussion on an FTA, a total of 42 countries could be identified as possible 'natural partners' (Table 4). Interestingly, a large number of these countries (23 in number), mainly those that are European Union (EU) countries, are currently providing duty-free market access to Bangladesh. Few others have provided preferential tariffs at different levels.

Countries being 'natural partners' for bilateral trade depends on mutual interest from both sides. Analysis shows that for Bangladesh, such possible partners could be Argentina, Brazil, Chile, China, Chinese Taipei, Malaysia, Mexico, Korea, Russia, South Africa and Ukraine. Besides, there is a second set of countries which are also important for Bangladesh's trade that includes countries such as Indonesia and Thailand. This has happened because Bangladesh is facing significant level of tariffs in a number of markets which include Argentina (14-54 per cent), Brazil (8-35 per cent), Malaysia (0-20 per cent), Mexico (0-30 per cent), Korea (0-13 per cent), Russia (0-33 per cent), and USA (0-55 per cent). Most of the South Asian countries have maintained low level of tariffs including Pakistan and Sri Lanka, but number of major products traded is relatively small; India is the lone country where significant export and import interest prevails.²

²India is providing duty-free market access for all products (except 22) under the special and differential treatment of the South Asian Free Trade Area (SAFTA) accord.

Table 4: Possible 'Natural Partners' for Forming FTAs

Bangladesh's Export Side			Bangladesh's Import Side		
Export Destination	No. of Top 50 Products Exported	Tariff Faced by Products of Bangladesh	Import Source	No. of Imported Products by Bangladesh	Tariff Range
Argentina	13	14-35	Argentina	12	5---25
Australia	34	0	Australia	13	0-16.7
Austria	18	0	Austria	5	0-25
Belgium	47	0	Belgium	18	5
Brazil	28	0-35	Brazil	17	0-25
Canada	49	0	Canada	15	0-25
Chile	15		Chile	3	0-25
China	35	3-13.6	China	35	0-25
C. Taipei	17	0-20	C. Taipei	23	5-25
Czech	35	0	Czech	6	0-25
Denmark	36	0	Denmark	5	0-25
France	46	0	France	22	0-25
Germany	49	0	Germany	33	0-25
Hong Kong	21	0	Hong Kong	22	0-25
India	11	0	India	42	0-25
Ireland	29	0	Ireland	4	0-25
Italy	47	0	Italy	22	5----25
Japan	42	0	Japan	26	0-25
Lebanon	14	0-40.7	Lebanon	5	5---25
Malaysia	11	0-178.8	Malaysia	28	0-25
Mexico	29	0-30	Mexico	14	0-25
Netherlands	45	0	Netherlands	25	0-25
New Zealand	22	0	New Zealand	5	0-25
Norway	33	0	Norway	4	5----25
Poland	45	0	Poland	6	0-25
Portugal	10	0	Portugal	3	14.6-25
Korea	28	1.5-13	Korea	28	0-25
Romania	12	0	Romania	2	0
Russia	44	0-32.8	Russia	16	0-25
Singapore	12	0	Singapore	20	0-25
South Africa	24	16711	South Africa	7	0-25
Spain	49	0	Spain	20	0-25
Sweden	35	0	Sweden	7	5----25
Switzerland	36	0	Switzerland	6	0-25
Turkey	43	0-25	Turkey	20	0-25
UK	47	0	UK	19	0-25
USA	50	0-20.3	USA	29	0-25

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

Take an example of bilateral trade between Korea and Bangladesh where substantial amount of trade has taken place in a number of products (Table 5). Most of Bangladesh's export products face moderately high tariffs, except a few. On the other hand, most of the products of Korea's export

Table 5: 'Natural Partners': Case of Trade between Bangladesh and Korea

Export from Bangladesh to Korea				Import from Korea to Bangladesh			
HS Code	Export Value 2011 ('000 USD)	Share in Bangladesh's Export (%)	Tariff (Estimated) Faced by Bangladesh (%)	HS Code	Import Value 2011 ('000 USD)	Share in Bangladesh's Import (%)	Tariff (Estimated) Applied by Bangladesh (%)
620192	55834	55.3	2.5	720711	199390	52.2	5
530710	26908	12.3	13	720839	98343	27.1	8.5
630260	10685	7.4	6.5	790111	89281	83.1	12
610343	5250	7.2	0	252310	70579	31.4	14.6
630622	4054	3.2	11.7	390410	17258	14.2	5
620530	2906	1.6	0	320416	12541	12.4	5
620293	2391	1.6		390760	10212	7.7	2.5
650590	2134	1.3	12.7	851712	6106	1.7	
530720	1322	0.6	7.1	845229	3436	2.8	8.5
610610	1294	0.5	1.5	520932	2965	1.5	25
610342	1212	1	13	540752	2241	1.5	25
410712	1115	1	13	851762	1609	1.2	
620343	1005	0.4	6.5	520832	1440	1.3	25
610230	896	1.1	0	170199	871	0.5	16.7
620469	795	0.8	13	840999	628	0.6	5
610990	517	0.3	5.6	870322	380	0.3	21.4
620452	377	0.3	6.5	850213	250	0.1	0
620193	260	0.1	13	600622	230	0.2	25
621040	207	0.2	13	999999	86	0	
530720	206	0.3	9.1	871120	64	0	25
610443	194	0.2	6.5	520939	58	0	25
240120	152	0.2	11	520839	36	0	25
610442	136	0.1	13	520524	35	0	12
620463	135	0.1	9.1	520523	32	0	12
610821	107	0.1	8	521041	30	0	25
640399	102	0.1	13	520942	1	0	25
611420	102	0.1	6.5	840890	1	0	6.5
611011	68	0.1	13	271011			14.8
640391	59	0.1	8.1				

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

interest to Bangladesh face relatively low tariff mainly because of the nature of products such as raw materials, intermediate products and machineries (where tariffs are usually low). The number of finished consumer goods imported from Korea with high tariff (25 per cent) is small in number (9 out of 30 products), which indicates less pressure on domestic market as well as less pressure in terms of loss of revenue. Although a large number of export products are traditional apparels-related one (HS codes 61 and 62: 19 out of 31 products), a number of non-traditional products are also exported there. Thus, the scope for enhancing export, both traditional and non-traditional products, is significant, if preferential market arrangement could be extended further.

6.4 Analysis of 'Trade Diversion' Effect

6.4.1 Bangladesh's Export

Taking the logic of strong trade diversion effect to be the reason for formation of FTAs, an analysis has been carried out in order to understand the extent of trade diversion effect for Bangladesh both as exporter and importer (Table 6). For example, HS code 410712 (i.e. grain splits leather 'incl. parchment-dressed leather', of the whole) and HS code 410792 (i.e. grain leather 'incl. parchment-dressed leather', of the portion) are exported by Bangladesh to Korea by a large amount (e.g. USD 55.8 million and USD 4.2 million in 2011 respectively). But for both products Bangladeshi products face average tariffs of 2.5 per cent. In contrast, some of the South East Asian countries which are exporters of the same category of product have enjoyed zero tariff market access in Korea. Under this scenario if Bangladesh could form FTA with Korea and could get zero tariff market access for the above mentioned products, it would be more competitive firstly by enjoying the benefit at par with those of the other South East Asian countries; and secondly, it would be better competitive over those of the other supplying countries currently providing same or higher level of tariff vis-à-vis those of Bangladeshi product. For example, in case of Korea a zero tariff on Bangladesh's product of 410712 would put it at par with Vietnam and Indonesia, but place it in advance over India and China (which are currently facing same rate of tariff like Bangladesh), and also put it over Brazil, Pakistan and Poland (which are currently facing higher rate of tariff vis-à-vis Bangladesh). The unit values of different exporting countries show that Bangladeshi product is not necessarily the most competitive one in the Korean market. Hence, reduction of tariff under a possible FTA between Bangladesh and Korea would favourably contribute to Bangladesh's export to selected categories of products mainly through diversion of trade. Similar is the case in the Chinese market, where Bangladesh would get benefit over a number of other supplying countries in selected products through trade diversion (Table 7). To what extent Bangladesh would enjoy the benefit of zero tariff over others would depend on their price competitiveness. A unit value analysis on products exported to Korea and China reveals that a reduction of tariff would further enhance the competitiveness of Bangladeshi products in both markets.³

Table 6: Bangladesh's Export of 410712 to Korea: Trade Diversion Effect

Exporter	Trade Indicators					Tariff (Estimated) Applied by Korea (%)
	Imported Value 2011 ('000 USD)	Share in Korea's Import (%)	Unit Value (USD/Unit)	Ranking of Partner Countries in World Exports	Share of Partner Countries in World Exports (%)	
World	76174	100	20677		100	
Bangladesh	55834	73.3	23699	7	2.2	2.5
Brazil	6022	7.9	13718	2	15.4	5
Pakistan	3800	5	11047	14	1	5
India	3745	4.9	16073	36	0.1	2.5
Italy	2556	3.4	19075	1	36.2	5
Indonesia	1109	1.5	23104	16	1	0
Vietnam	603	0.8	20100	20	0.6	0
Poland	420	0.6	70000	23	0.4	5
China	346	0.5	23067	10	1.3	2.5

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

³ Given the diverse nature and quality of products, unit value of products under the same category may widely differ both at intra-country, as well as inter-country levels.

Table 7: Bangladesh's Export of 410712 to China: Trade Diversion Effect

Exporter	Trade Indicators					Tariff (Estimated) Applied by China (%)
	Imported Value 2011 (‘000 USD)	Share in China's Import (%)	Unit Value (USD/Unit)	Ranking of Partner Countries in World Exports	Share of Partner Countries in World Exports (%)	
World	604943	100	20298		100	
Italy	214743	35.5	21621	1	36.2	5.5
Brazil	90220	14.9	18171	2	15.4	5.5
Korea	58841	9.7	15724	17	0.9	5.5
India	41684	6.9	15742	36	0.1	5.5
Australia	29111	4.8	30104	13	1.1	5.5
Thailand	23384	3.9	21220	33	0.1	0
Argentina	19773	3.3	24202	15	1	5.5
Indonesia	18073	3	16093	16	1	0
Japan	16322	2.7	25072	30	0.2	5.5
Pakistan	11160	1.8	18788	14	1	3
Vietnam	9672	1.6	19901	20	0.6	0
Germany	9467	1.6	47813	5	6.2	5.5
Mexico	8469	1.4	30464	18	0.8	5.5
China	7423	1.2	16986	10	1.3	
Costa Rica	6735	1.1	34538	60	0	5.2
USA	6531	1.1	21554	27	0.3	5.5
Spain	5765	1	33517	6	2.6	5.5
Chinese Taipei	5100	0.8	14697	35	0.1	5.5
Bangladesh	4195	0.7	23049	7	2.2	5.5

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

6.4.2 Import of Major Products to Bangladesh

Bangladesh would also face trade diversion effect while its import concerned is under possible FTAs. At the same time, a large extent of trade diversion by a particular country over other suppliers would encourage it to consider about FTAs (Table 8). For example, Bangladesh imported HS code product

Table 8: Bangladesh's Import of 271019: Trade Diversion Effect

Exporting Country	Trade Indicators					Tariff (Estimated) (%)
	Exported Value 2011 (‘000 USD)	Share in Total Exports (%)	Unit Value (USD/Unit)	Ranking of Partner Countries in World Imports	Share of Partner Countries in World Imports (%)	
Malaysia	968575	12.7	923	50	0.4	16.8
Singapore	750895	1.4	790	50	0.4	16.8
C. Taipei	222557	1.6	971	50	0.4	16.8
Korea	195853	0.5	907	50	0.4	16.8
India	45978	0.1	993	50	0.4	16.8
China	40197	0.2	758	50	0.4	16.8

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

271019 (petroleum oils and preparations) from a number of countries including Korea and China. All the supplying countries face a tariff rate of 16.8 per cent. If a bilateral FTA takes place between Bangladesh and Korea with reduction of tariff on this specific product, both the countries would be in a favourable position compared to those of other supplying countries such as Malaysia, Singapore, India and Chinese Taipei. Since Korea is not necessarily the lowest cost suppliers, any reduction of tariff would create the possibility of trade diversion effect on Bangladesh.

7. TECHNICAL ANALYSIS

7.1 Revealed Comparative Advantage (RCA) and Trade Potentials

An RCA analysis would provide better understanding about competitiveness of Bangladesh's export products to prospective markets. The present study has undertaken RCA analysis on Bangladesh's export to China and Malaysia (Tables 9 and 10). Among China's 4,800 HS product lines (at 6 digit levels) Bangladesh exports only 321 products. However, only 146 out of those are found to be competitive in the Chinese market (RCA>1). But a large number of products have significant export potentials in the Chinese market. Taking into account all tradable products, export potentials are found in 302 products with a range of USD 1,000 to USD 210 million. In fact, rising export capacity to China's large market would not only enhance exports of traditional products, but also contribute to export diversification. In contrast, competitiveness in Malaysian market is rather very limited – only five products out of 50 are found to be competitive.

Table 9: Export of Bangladesh to China: Analysis of RCA and Trade Potentials

Product Code	RCA	Trade Potential ('000 USD)	Product Code	RCA	Trade Potential ('000 USD)	Product Code	RCA	Trade Potential ('000 USD)	Product Code	RCA	Trade Potential ('000 USD)
030333	57.7	0	580136	50.1	3	940350	12.5	29	570299	3.0	1176
030741	57.7	0	411420	48.4	4	411200	12.1	1536	853120	3.0	4000
282110	57.7	0	670300	47.9	165	120210	11.7	18	520299	3.0	7768
550630	57.7	0	850490	45.2	123	854231	11.5	4	560410	3.0	37
700719	57.7	0	392113	43.2	2	520611	11.2	158	410711	2.6	3263
761610	57.7	0	30624	42.5	7793	853400	10.8	393	410712	2.4	96765
040900	57.7	0	550510	40.5	423	580632	10.5	112	853939	2.3	121
50800	57.7	0	852359	40.2	10	030376	10.5	9	640699	2.3	2158
260112	57.7	0	560313	38.8	18	540110	10.2	14	620113	2.2	19570
293339	57.7	0	900290	38.6	563	410621	10.0	128	610432	2.0	7227
382319	57.7	0	590320	38.4	46	370790	9.6	5	630130	1.9	1669
392093	57.7	0	570210	36.6	142	392119	9.6	5	640419	1.9	60589
511219	57.7	0	520210	36.6	3300	581099	9.6	5	482110	1.8	497
530929	57.7	0	900190	35.9	4058	950639	9.5	7732	392330	1.7	32
540761	57.7	0	560122	35.1	272	960719	9.3	57	382490	1.7	33
551513	57.7	0	391510	34.3	110	530710	8.9	239	620333	1.6	14843
560314	57.7	0	960610	31.3	16	230800	8.2	6	030192	1.6	139
830890	57.7	0	631010	29.5	16765	580620	8.2	6	620690	1.6	1813
560392	57.7	0	631090	28.4	12886	401699	7.9	810	903180	1.6	71
261900	57.5	111	540742	25.2	103	410441	7.6	38168	640610	1.5	9424
120740	57.0	53	970500	24.7	4	411390	6.4	1400	630391	1.4	6751

(Table 9 contd.)

(Table 9 contd.)

Product Code	RCA	Trade Potential ('000 USD)	Product Code	RCA	Trade Potential ('000 USD)	Product Code	RCA	Trade Potential ('000 USD)	Product Code	RCA	Trade Potential ('000 USD)
940390	56.8	7	844399	23.8	603	030749	5.8	581	630221	1.4	17020
940190	56.8	12	560394	23.7	23	670490	5.2	40	620293	1.3	101787
551311	56.7	13	410419	23.5	7295	961590	5.2	10	630491	1.2	46
511211	56.7	1	900219	23.4	2812	410411	5.0	3482	630222	1.2	4465
411410	56.6	2	410792	22.6	24858	411310	4.7	19020	410799	1.2	26043
600642	55.4	2	520832	21.4	88	580610	4.7	34	640320	1.2	470
151800	55.0	20	151550	21.0	279	530720	4.6	1311	611790	1.2	236
550810	54.2	6	520919	20.7	210	830810	4.0	53	410449	1.2	5829
391590	54.1	2530	760720	19.2	2	600632	3.7	73	621040	1.2	23305
854442	53.4	17	847790	19.2	16	051191	3.7	951	590390	1.2	291
581100	53.3	10	640620	17.8	143	853190	3.6	76	580710	1.1	299
030199	53.1	597	530310	15.7	44	401693	3.5	245	850431	1.1	50
903290	52.6	5	400121	15.6	7737	610332	3.5	5455	630260	1.1	12045
120220	51.8	13	411510	14.7	905	630392	3.5	3984	620332	1.1	17469
560393	50.8	8	30614	13.5	271	620193	3.3	162253	410622	1.0	19469
120799	50.1	3	960720	13.0	24	610431	3.2	186	650691	1.0	56

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

Table 10: Export of Bangladesh to Malaysia: Analysis of RCA and Trade Potentials

Product Code	RCA	Indicative Trade Potential ('000 USD)	Product Code	RCA	Indicative Trade Potential ('000 USD)
240120	22.0	70262	610230	0.1	437
620293	7.5	59833	620463	0.1	2945
530720	6.1	295	620469	0.1	7497
610990	4.1	30639	620343	0.0	2560
610343	1.7	1189	650590	0.0	4256
630260	0.9	10050	610462	0.0	2685
030613	0.8	205233	611420	0.0	694
630510	0.7	246	611011	0.0	782
620192	0.5	270	620920	0.0	781
630221	0.4	1976	620462	0.0	12743
620193	0.4	1383	611020	0.0	3627
610342	0.4	1520	610711	0.0	3008
030269	0.3	86828	611030	0.0	4064
620530	0.3	1326	621210	0.0	28655
610510	0.3	11419	610831	0.0	245
620630	0.3	7435	530710	0.0	128
621040	0.2	2119	620640	0.0	1194
640399	0.2	47037	620452	0.0	738
620342	0.2	22833	630622	0.0	1918

(Table 10 contd.)

(Table 10 contd.)

Product Code	RCA	Indicative Trade Potential ('000 USD)	Product Code	RCA	Indicative Trade Potential ('000 USD)
630231	0.2	3925	610220	0.0	177
620520	0.1	13726	610821	0.0	3073
611120	0.1	1828	610443	0.0	507
640391	0.1	2701	410712	0.0	4028
530310	0.1	72	610721	0.0	139
610610	0.1	5834	610442	0.0	887

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

7.2 Trade Complementarity Index

Analysis of Trade Complementarity Index in China indicates that Bangladesh has strong trade complementarity for a number of products (Table 11). Similar is the case for other markets including Malaysia. Thus, technical analysis shows Bangladesh's strong potential for enhancing bilateral trade to prospective markets.

Table 11: Trade Complementarity Index for Export of Bangladesh to China

Product Code	Complementarity Index	Product Code	Complementarity Index
620342	93.39	620293	99.72
611020	96.02	630260	99.73
611030	97.06	610831	99.74
620520	97.21	610442	99.74
610462	99.09	621040	99.75
611120	99.27	630622	99.76
620920	99.44	610342	99.78
620530	99.45	620452	99.78
530310	99.48	630510	99.79
610610	99.50	640391	99.79
620343	99.51	410712	99.81
630221	99.57	620192	99.81
620193	99.58	620469	99.83
530710	99.60	611420	99.83
530720	99.66	610443	99.84
610990	99.67	620640	99.84
650590	99.68	611011	99.85
610821	99.68	610721	99.85
630231	99.69	610220	99.86
621210	99.71	610230	99.86
610711	99.71	240120	99.86
640399	99.72	610343	99.86

Source: ITC calculations based on UN COMTRADE statistics (data accessed on July 2013).

8. SERVICES-RELATED ISSUES

Trade in services between member countries is increasingly becoming important in bilateral FTA negotiations. Bangladesh has opened up its domestic markets for banking and financial services. Under the General Agreement on Trade in Services (GATS) Bangladesh has opened up four services sectors for foreign direct investment (FDI) including telecommunications, banking, hospitals and tourism. Among the four modes of services, Bangladesh has 'offensive interest' in Mode 4 (temporary movement of natural persons), while it may have 'defensive interest' in Mode 3 (investment). However, there is very limited data to analyse services trade issues of Bangladesh at a large scale. According to Raihan and Ahmed (2008) most of the services sectors are yet to be ready to face competition and not protected by various issues. In multilateral negotiations, Bangladesh has put focus on Mode 4 as 'offensive interest', while it would take decision regarding the 'defensive interest' after considering the requests made by developed and developing countries in the WTO (Bhuyan 2007). Such requests of these countries could be discussed (if necessary) even in bilateral trade negotiations. Service trade negotiations should be considered along with merchandise trade. The policy guideline prepared by the government has indicated a conservative stand with regard to services trade issues – through taking a positive list approach.

9. SUGGESTIONS: BANGLADESH'S STRATEGIES WITH REGARD TO BILATERAL FTAs

- a) Bangladesh has good reasons to pursue negotiations for preferential market access including bilateral FTAs on a case-by-case basis. It is fact that Bangladesh is currently enjoying preferential market access in a number of developed countries; but it is not enjoying such facilities in other major markets. Moreover, preferential market access provided by many developing countries covers a limited set of products. Thus, there are scopes of taking initiatives at different levels to expand product coverage through different kinds of preferential market access arrangements.
- b) Because of slow progress in the WTO, Bangladesh as like other LDCs did not get the benefit of duty-free quota-free market access to a number of developed and advanced developing countries. The process has culminated with the rise in regionalism with increasing number of regional and bilateral FTAs signed by developing countries in recent years. In most incidences, Bangladesh is not the member of these RTAs or FTAs, but it would face adverse impact in export and overall economic welfare because of erosion of preferences due to export similarity (Winters 2009). Unless Bangladesh would go for special preferential arrangements with major trading partners, its export would be affected because of these new bilateral/regional trade arrangements. Thus Bangladesh should take bold steps towards that direction.
- c) The attractiveness of preferential market access in developed countries would not be continued for long for all LDC products. Since developed countries are unilaterally reducing their tariffs, LDCs are most likely to face erosion of preferences in these markets. Thus Bangladesh should look for alternate approach and explore alternatives markets in the developing countries, particularly in the global South region in order to get better market access for its products. Signing FTAs could be a better option for Bangladesh.
- d) The institutional approach so far followed by Bangladesh is mainly 'supply-driven'. Major initiative is observed in pursuing for extension of GSP coverage, and allowing duty-free market access for all products in the US market. However, Bangladesh is now struggling to convince the United States Trade Representative (USTR) to continue the existing preferential market access facility as the former faced the GSP hearing after the complain made for poor compliance standard in RMG and shrimp sectors. Bangladesh has yet to take position on signing bilateral FTAs. It has never approached any country for signing FTAs; while it has yet to take decision regarding a number of proposals submitted by prospective countries. Anecdotal information suggest that as many as 50

countries are making queries at different levels regarding FTAs and/or preferential market access. Bangladesh should not wait for proposals from other countries, rather it should place its own proposals to them. However, Bangladesh should follow the policy guidelines with the objective of greater market access, reduction of cost of production, strengthening the value chain and overall welfare enhancing through forming FTAs.

- e) Bangladesh's production base, production capacity, export of products, competitiveness of products in terms of price and quality indicate that it should follow multiple strategies in order to enhance its export. These strategies include: i) pursuing countries to extend their product coverage under their GSP schemes; this could be made under the DDR Agreement, i.e. advanced developing countries who are in a position to do so to provide duty-free market access to Bangladeshi products as many as possible; ii) pursuing countries to go for bilateral FTAs mainly focusing on merchandise trade at a limited scale; and iii) pursuing countries to go for broader bilateral cooperation covering services, investment and trade facilitation issues.
- f) The current level of bilateral trade indicates that there are a number of countries which could be considered for offering FTAs at a limited scale. Similarly there are countries that Bangladesh should pursue extending the product coverage under GSP schemes or relaxation of rules of origin. There are a number of countries which could be considered for FTAs from the perspective of promoting non-traditional exports. An extensive analysis is required to identify markets for such initiative.
- g) Bangladesh has limited interest in considering prospective FTA arrangement with countries where it is currently enjoying duty-free market access. On the other hand, Bangladesh allows import of raw materials, intermediate products for export-oriented industries and selected domestic industries at zero import duty which indicate 'de facto' duty-free market access to large number of products of major trading partners.
- h) Bangladesh needs to take specific position with regard to specific markets. For example, given the current level of trade cooperation between Bangladesh and India, Bangladesh should consider broader economic cooperation with India as like the Comprehensive Economic Partnership Agreement (CEPA) which would cover trade in goods and services, investment, trade facilitation, etc. In case of USA, Bangladesh has been pursuing not only to withdraw the preferential market access facility currently enjoyed by Bangladesh. There are countries such as Malaysia where Bangladesh has special interest in trade in services particularly under Mode 4 (i.e. movement of natural persons).
- i) Bangladesh's export competitiveness is limited in few products, and most of its industries are still struggling to become competitive even at local level. A broad-based FTA would have serious repercussions which needs to be taken into account. Thus, Bangladesh could initially look for a Preferential Trading Agreement (PTA) with a positive list approach. Such cases are usually called 'early harvest' which is evident in case of other countries. Since FTAs are signed for strengthening partner country's industrialisation process, a value chain-based approach should be taken into account.
- j) Institutional capacity to deal with these issues requires further improvement. There are lots of technical, analytical and information/data-related tasks involved at the early phases, preparatory processes, as well as at the negotiation phases. Currently, Bangladesh Tariff Commission is in charge for undertaking these activities. Because of limited human resources, analysis and preparatory works could not be speeded up. Thus, recruitment of skilled professionals and arranging training for them are required on an urgent basis. Bangladesh Foreign Trade Institute (BFTI) could be involved in the preparatory process. An advisory board could be formed comprising of government high officials, private sector representatives, civil society organisations and research organisations to get their views regarding the FTA-related issues.

REFERENCES

- Bhagwati, J. & Panagariya, A. (1996). "The Theory of Preferential Trade Agreements: Historical Evolution and Current Trends." *The American Economic Review*, 86 (2): 82-87.
- Bhuyan, A. R. (2007). *Study on Services Sector in Bangladesh*. Dhaka: The Bangladesh Trade Support Programme, European Union.
- Gross G. M. & Helpman, E. (1995). "The Politics of Free-Trade Agreement." *American Economic Review*, 85 (4): 667-690.
- Helpman, E. (1995). "Politics and Trade Policy." In Kreps, D. M. & Wallis, K. F. (Eds.) *Advances in Economics and Econometrics: Theory and Application.*, New York: Cambridge University Press.
- Kawai, M. & Wignaraja, G. (2010). *Asian FTAs: Trends, Prospects and Challenges*. ADB Economics Working Paper Series No. 226. Manila: Asian Development Bank (ADB).
- Moazzem, K. G. (2009). "Bangladesh's Emergence as a Major Exporter of Readymade Garments." Presented at *India-Bangladesh Dialogue*, organised by the Asian Institute of Transport Development (AITD), New Delhi and Centre for Policy Dialogue (CPD), Dhaka, 12-13 October, New Delhi, India.
- Panagariya, A. (2000). "Preferential Trade Liberalization: The Traditional Theory and New Developments." *Journal of Economic Literature*, 38 (2): 287-331.
- Raihan, S. & Ahmed, M. (2008). "Domestic Preparedness for Services Trade Liberalisation in Bangladesh." In Raihan, S. (Ed.) *Domestic Preparedness for Services Trade Liberalisation: Are South Asian Countries Prepared for Further Liberalisation?* India: CUTS International.
- Viner, J. (1950). *The Customs Union Issue*. New York: Carnegie Endowment for International Peace.
- Winters, L. A. (2009). *Innocent Bystanders: Implications of an EU-India Free Trade Agreement for Excluded Countries*. London: The Commonwealth Secretariat.

Recent CPD Working Papers

- Paper 106 Minimum Wage in the RMG Sector of Bangladesh: Definition, Determination Method and Levels
- Paper 105 Revisiting the PRSP Experience in Bangladesh: Perspectives on Representation, Accountability and Inclusiveness
- Paper 104 Least Developed Countries (LDCs) in the Global Value Chain (GVC): Trends, Determinants and Challenges
- Paper 103 China and the Least Developed Countries: An Enquiry into the Trade Relationship during the Post-WTO Accession Period
- Paper 102 Innovation and Additionality for Development Finance: Looking at Asia
- Paper 101 Analytical Review of Bangladesh's Macroeconomic Performance in FY2012-13 (First Reading)*
- Paper 100 Technological Upgradation in the Jute Mills of Bangladesh: Challenges and Way Out
- Paper 99 Framework for the Proposed Comprehensive Trade Policy for Bangladesh
- Paper 98 Analytical Review of Bangladesh's Macroeconomic Performance in FY2011-12 (Second Reading)
- Paper 97 Assessing the Impact of the Global Economic and Financial Crisis on Bangladesh: An Intervention Analysis
- Paper 96 Liberalising Health Services in South Asia: Implications for Bangladesh
- Paper 95 Stabilising the Capital Market of Bangladesh: Addressing the Structural, Institutional and Operational Issues

*Available on web only



Centre for Policy Dialogue (CPD)

House 40C, Road 32
Dhanmondi R/A, Dhaka 1209, Bangladesh
Telephone: (+88 02) 9141734, 9141703
Fax: (+88 02) 8130951
E-mail: info@cpd.org.bd
Website: cpd.org.bd