

Draft for Comments
Not to be Quoted

Demystifying Effectiveness of Market Access for LDCs
A Case Study of Bangladesh Apparel Exports to the USA

Rashed Al Mahmud Titumir
M Iqbal Ahmed

June 2006



House: 40/A, Road: 10/A, Dhanmondi, Dhaka-1209, Bangladesh
Tel: 880-2-815 82 74, Fax: 880-2- 815 9135
E-mail: info@unnayan.org; Website: www.unnayan.org

Authors
Rashed Al Mahmud Titumir
M Iqbal Ahmed

Acknowledgement

The report is an output of the research programme, **Trade Negotiations and the Livelihood of the People** (TNLP), undertaken by the Unnayan Onneshan, a centre for research and action on development, based in Dhaka, Bangladesh. The report has immensely benefited from insights shared in different in-house dialogues and from contributions made by participants in different consultations, organised jointly by Unnayan Onneshan, and Make Trade Fair Campaign. The present research has benefited from a grant of Oxfam International, managed by Oxfam GB Bangladesh Programme. The research has been coordinated at Unnayan Onneshan by Jakir Hossain while Palash Kanti Das task managed in Oxfam.

Trade Negotiations and the Livelihood of the People (TNLP) Papers

- ✚ Undercutting Small Farmers
Rice Trade in Bangladesh and WTO Negotiations
- ✚ Unkept Promises
Non-agricultural Market Access at the WTO
A Case Study of Apparel Trade of Bangladesh
- ✚ Dodging Development
Doha Round and Least Developed Countries
- ✚ Riding on the Road
Options for Bangladesh in the Hong Kong WTO Ministerial Conference
- ✚ Slippery Slopes
How Hong Kong Empowers Rich Countries to Choke the LDCs – A Rapid Assessment
- ✚ Demystifying Effectiveness of Market Access for LDCs
A Case Study of Bangladesh Apparel Exports to the USA
- ✚ Sinking into Vulnerability
Erosion of Non-Reciprocal Preferences in WTO-NAMA: The Case of Bangladesh
- ✚ Plunging into Food Insecurity
Multilateral Liberalisation in Agriculture and the Concern of Net-food Importing Countries: The Case of Bangladesh
- ✚ LDC Trade and Development Perspective
A Regular Bulletin on Trade and Development Issues

© **Copyright 2006**

Unnayan Onneshan – The Innovators

The content of this publication may be reproduced for non-commercial purposes with proper citation (please send output to the address mentioned below)

Any other form of reproduction, storage in a retrieval system or transmission by any means for commercial purposes, requires permission from The Unnayan Onneshan – The Innovators.

For orders and request please contact

Unnayan Onneshan – The Innovators

House – 40/A, Road – 10/A, Dhanmondi, Dhaka, Bangladesh

Tel: + (88 - 02) 8158274

Fax: + (88 – 02) 8159135

E-mail: info@unnayan.org

Web: www.unnayan.org

SUMMARY

The rhetoric of a special development package for the LDCs was aired in Hong Kong, and was told that, for sure, this Ministerial would deliver on the promise of market access.

The Ministerial decisions neither provided binding commitment, nor covered all products, nor granted the preferential treatment on a permanent basis, with keeping the option of reversibility of the treatment wide open. DFQF will be provided for all LDCs on a 'lasting basis' (not binding, not permanent) by 2008 for at least 97 per cent of all products. The decision was a step back from the Doha mandate of full DFQF access.

The Unnayan Onneshan examined the effectiveness of the DFQF provided to the products of LDCs, by taking exportables of a single country to a single country market. For this purpose a trend analysis of Bangladesh exports into the US market has been conducted for last six years.

Bangladesh's export trend in the US market shows that total number of dutiable export items ranged between 372 and 412 during last six years. Of them, Bangladesh received preferential treatments i.e. GSP and GSP plus facilities for 118 products, the export value of which is insignificant constituting US\$20.31 million or 0.88 per cent of the total exports. Share of exports under different tariff range shows that more than 65 per cent of the total export revenue faces tariff peaks in 2005.

Of the total products that Bangladesh exports to the USA, 90 per cent consists of textile and clothing items. Exploiting the provision taken in the Annex F, if the USA imposed restrictions on textile and clothing as it hinted several times then the given DFQF market access would bring no benefits for Bangladesh.

If, at HTS 8-digit level, we consider all 13150-tariff lines there are around 395 products (3 per cent of its tariff lines) that USA can identify as sensitive products and thereby can put in the exclusion list of the duty-free and quota-free market access. If we exclude the special section (XXII) that contains 2645-tariff lines then there are some 315 products that can fall in the US exclusion list. Therefore, the USA could exclude 76 – 85 per cent of Bangladesh exportables. The USA could exclude all tariffs lines relating to textile exports of Bangladesh falling under the HTS – 61 and 62, as the country exports between 248 – 258 products relating to textiles and clothing.

The 97 – per cent limit also held hostages to 'political whim' of the countries who had already provided 100 per cent, as it paves way for these countries to play around, if the recipient LDC fails to 'follow' the providers' policy agenda, citing that they are simply complying with the multilateral rules. Such imposition also leaves no process of multilateral redress, as the provider would simply state that they are acting within rules.

The Text also did not provide any timeline for the remaining tariff lines. This signals a grave danger that if these remaining are to occur, would be made operational at the end of the round, implying that the rich country would swallow the rules that negatively impact on the lives of masses of LDCs while benefiting a few multinationals of the rich countries, as happened in the Uruguay Round negotiations – the developing world were compelled to sign TRIPS, GATS, TRIMS while areas of interest to South such as agriculture was held in abeyance for future negotiation.

Recommendations

The LDCs shall make sure that the WTO membership at least agree to the following in the forthcoming negotiating phase: (a) all existing 100 per cent DFQF (e.g. the EU EBA Initiative) shall be maintained and barriers in accessing such facilities (e.g. stringent rules of origin) shall be removed; (b) developed country members shall provide DFQF market access in tariff lines in which positive duties are still applied to LDC existing exports (e.g. Bangladeshi textiles and clothing) as opposed to excluding those as part of sensitive list; (c) the developing country shall provide, as a first step, DFQF market access to products of export interest, and which are commercially meaningful, to LDCs, with a commitment to gradually achieving 100 per cent; and (d) the WTO membership shall ensure that market access provided under the DFQF market access provisions are not nullified by non-tariff barriers to trade, SPS provisions and other technical barriers to trade.

INTRODUCTION

The decision in the Hong Kong Ministerial on measures in favour of the least developed countries (LDCs) regarding duty-free and quota-free (DFQF) market access was incorporated in section 36 of Annex F. The Ministerial Text stipulates that developed and developing countries declaring themselves in a position to do so should provide duty-free and quota-free market access of products originating from LDCs by 2008.

The exceptions made in section 36(a)(ii) is highly disturbing from the perspectives of the LDCs. The exception empowers developed countries to provide DFQF access of 97 per cent of the products originating from LDCs, defined at the tariff line levels. This multilateral rule to exclude three percent of their tariff lines by the developed countries essentially deprives them from having the real benefit of duty-free and quota-free market access, as the exportables of the LDCs are a few. The LDCs has been asking to extend coverage to *all* products since the major exportables of these countries, which are a few, still face restrictions in a number of developed countries.

Moreover the text does not provide any guidelines about how the 97 per cent would be materilised nor does it delineate the process of identification for three percent of tariff lines, leaving those for future negotiations. Also the ministerial declaration neither provided binding commitment, nor covered all products, nor granted the preferential treatment on a permanent basis; with keeping the option of reversibility of the treatment wide open. There is no deadline for extending duty and quota-free treatment to all products, although the text includes a 'best effort' provision to "take steps to progressively achieve" full product coverage "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." While this last provision may be thought to have provided some respite to poorer developing countries likely to compete for the same export markets, it carries the risk of permanently excluding the products of LDCs' interest.

Highlights of the Decision at Hong Kong Ministerial on DFQF Market Access

- 36) We agree that developed-country Members shall, and developing-country Members declaring themselves in a position to do so should:
- (a) (i) 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 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.

Source: Section 36, Annex F, Sixth Ministerial Declaration, Hong Kong

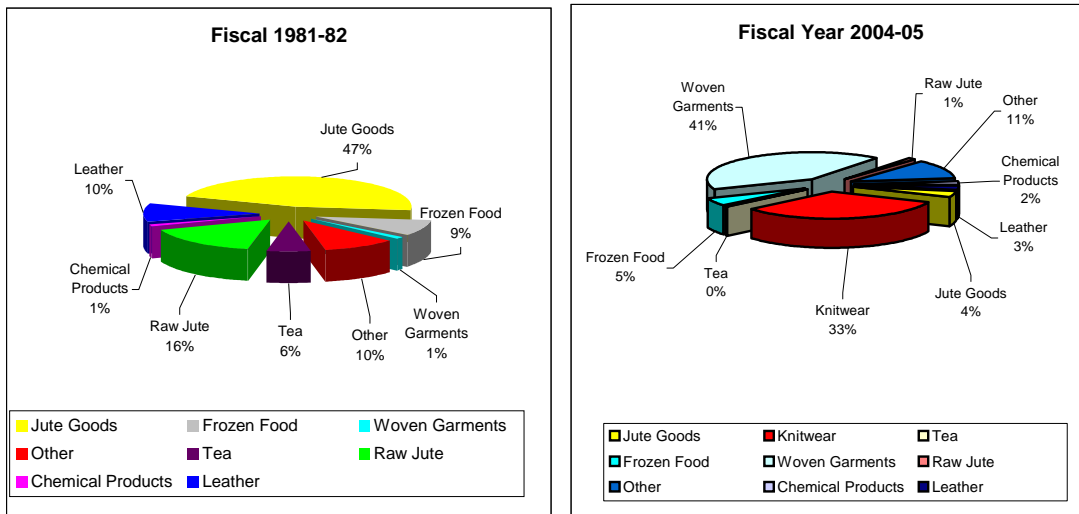
The standard rules of origin clauses, which restrict the utilization of preferences, have remained essentially unchanged for the last 30 years despite the increasing fragmentation of production and falling MFN tariff rates. Unfortunately the Hong Kong Ministerial text has made no progress on changing rules of origin, which only has addressed by passing, “Developed members shall, and developing country members in a position to do so should: [...] (b) Ensure that preferential rules of origin applicable to imports from LDCs are simple and transparent, and contribute to facilitating market access”. Nevertheless, the wording of the decision is of course not legally enforceable and provides no concrete roadmap for reform.

Since the export base of the LDCs are limited and concentrated mainly on few products, a comprehensive assessment is needed to examine the effectiveness of the availed duty-free and quota-free market access by the LDCs. This part of the study explores the scope and opportunity of Bangladesh to reap the maximum benefit of the proposed duty-free and quota-free market access. Since textile and clothing constitutes about 75 per cent of the total export from Bangladesh and USA is the single largest buyers of these products, the report investigates the inter-relationships focusing on textile and clothing exports to the US market.

Though the criteria of selecting the tariff lines are yet to be decided, it has been said that developed and developing countries would identify their sensitive lists of products respectively in September 2006 and December 2006. Therefore homework needs to be done for Bangladesh to identify her sensitive products that has export potential in search of DFQF market access in Geneva. Prior to this, it is important to take a view of the overall export dynamics of Bangladesh both in terms major exportable items as well as major export destinations, which is given in the following section.

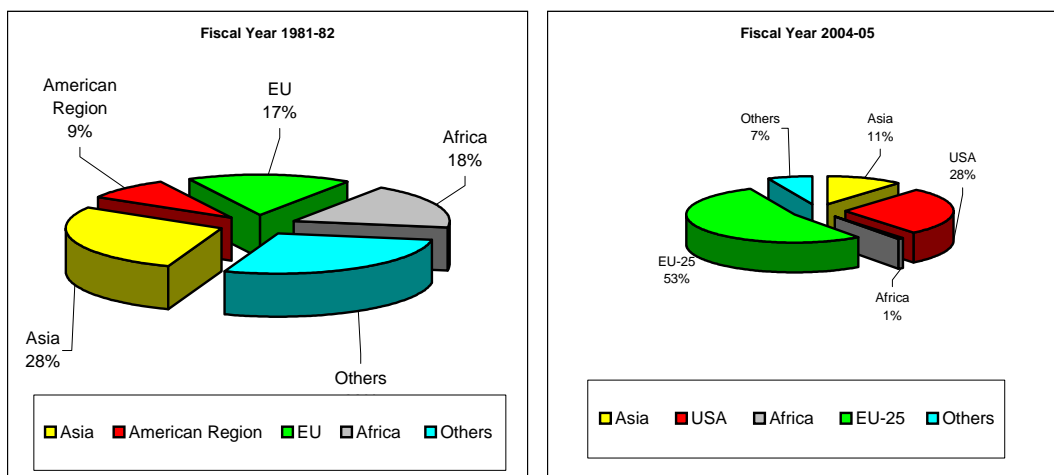
EXPORT DYNAMICS OF BANGLADESH

Bangladesh's exports have marked significant shifts since 1990s to a ready-made garment-centric one, which make up the bulk (about two-third) of the export earnings. Its phenomenal expansion from an insignificant sector in the 1970s to a major supplier of garments in the global market is mostly attributed to the multi-fibre agreement that expired on December 31, 2004. In fiscal 2004-05, the RMG constitutes about 74.15 per cent of the total export earnings, up from just little above one per cent in 1981-82. Apart from RMG, frozen food is the second largest export earning sector, which constitute 5.13 per cent followed by jute goods, leather and chemical products that respectively account for 3.24 per cent, 2.78 per cent and 1.59 per cent respectively in the fiscal 2004-05.



Source: EPB, Bangladesh

In terms of export destinations export underwent important changes over the decades. The USA and the EU became the most important export destinations of Bangladeshi products in the global market. Bangladesh's exports to the two major export markets registered growth throughout the 1990s. While in 1981-82, the American region account for only 9 per cent of the total Bangladesh exports, the share rose to 28 per cent in the USA. The EU has become the largest market for Bangladeshi goods with export share rising to 53 per cent from 17 per cent over the same period. This transformation is clearly discernable from the following figures.



Source: EPB, Bangladesh

In EU, although UK remained the major export destination, Germany, France, Italy, Spain Belgium, and the Netherlands have emerged as important markets. These countries account for over 87 per cent of the total exports of Bangladesh to EU-15 in 2004-05. Among others only Canada accounted for some sizable amounts of 3.51 per cent. Exports to Japan and Australia were 1.42 per cent and 0.42 per cent respectively. The RMG - knit and woven - is the major export item to these destinations. In the fiscal year 2004-05, 77.64 per cent of the total Bangladesh's knit export went to the EU, while the USA imported 14.28 per cent. Exports of knit garments to the Canada and Japan were 3.56 per cent and 0.13 per cent respectively. The USA is the largest buyer of woven garments from Bangladesh accounting 45.5 per cent of the total woven exports from Bangladesh in 2004-05, followed by the EU, which accounts for 45 per cent. Exports of woven garment to Canada, Japan and were respectively 5.26 per cent and 0.35 per cent respectively.

Thus the export dynamics of Bangladesh shows that the USA and the EU are the major export destinations, which are also the main buyers of the Bangladeshi RMG products.

Post-MFA Textile and Apparel Exports of Bangladesh

With the blessings of the decade long quota restrictions imposed by the USA as well as the duty-free facility given by the EU under its Generalised System of Preference Scheme since the mid 1990s, the textile and clothing or readymade garment (RMG) sector has become the largest manufacturing industry in the country, contributing 70 per cent of total manufacturing output and created a large employment base of 1.9 million workers, of which women make up roughly 90 per cent. Nevertheless, net benefits are small (about 25-30 per cent of the gross value), as the RMG industry imports almost all inputs other than labour.

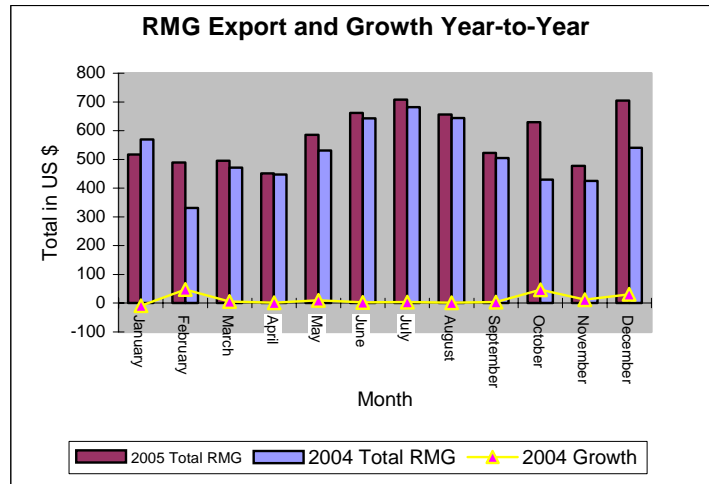
Bangladesh has maintained a moderate growth in apparel exports in 2005. Several studies including those of IMF, WTO and the Gherzi report¹ concluded that phasing out of quota would likely to be negative. There were several estimates about the quantitative impact of quota removal on exports, which by and large predicted the falling share of exports, closure of the factories and job loss in the post MFA regime.

In preparation for stiffer competition, some enterprises had begun to take measures to upgrade production processes and productivity. However the growth of RMG exports during the post MFA period cannot be fully explained by level of preparation taken by the home country.

It was obvious that only a certain segment of the RMG industry have the capacity to upgrade along the global value chain. Moreover, there was no evident of major abrupt shifts of sourcing of textile and clothing by the RMG buyers. In addition the intention of the EU and the USA to restrict import surge from China, which discouraged many importers to source from China alone, worked as a fillip for Bangladesh's textile and apparel exports. The real scenario of the textile and apparel trade would be clearer when the US would lift the quota restriction against China in 2008.

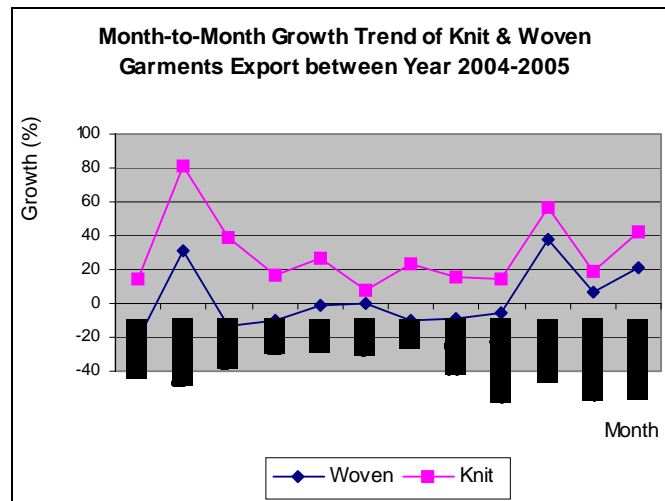
Bangladesh shows a mixed outlook in 2005 – the first year of the quota free regime. For the whole year the growth of RMG exports registered a growth of 10.95 per cent in terms of value while the growth was 17 per cent in terms of volume compared to 2004. Total worth of RMG (knit and woven) accounted for US\$ 6.9 billion. The following table shows that exports RMG slid in the first month of quota-free regime by 9 per cent. However, the subsequent months have witnessed a modest recovery of overall RMG exports.

¹ The Gherzi Report, conducted for the Ministry of Commerce, under a technical assistance by the World Bank, pictured a pessimistic view of the RMG sector in the post-MFA period.



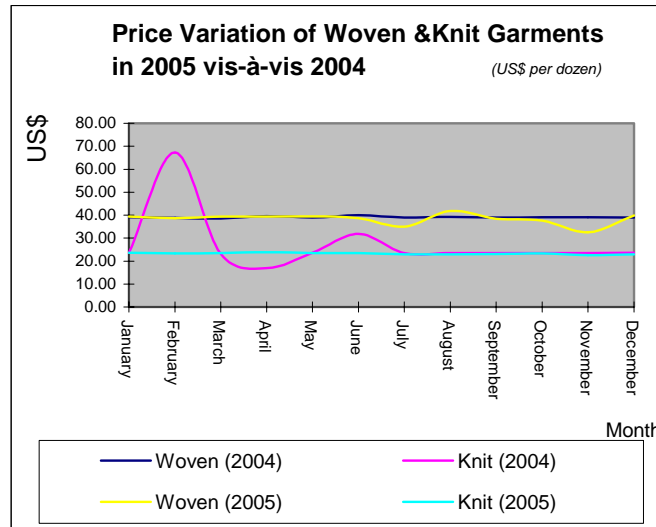
Source: BGMEA, Bangladesh

Export data disaggregated between woven and knit garments shows that the scenario of woven garments is at precarious state with a negligible growth rate of 0.08 per cent in 2005 compared to 2004. In the first three quarter of 2005 woven has experienced a negative growth except in February. However, in the last quarter, the growth of woven export started picking up with seesaw trend as shown in the following figures. The woven exports stood at US\$3.69 billion in 2005 as against US\$ 3.69 billion. Knit garments, however, shows a modest performance with growth rate picking up at 26.8 per cent in 2005 compared to 2004. Export of knit garments stood at US\$ 3.21 billion as against US\$ 2.53 billion.



Source: BGMEA, Bangladesh

The export of RMG in terms of volume increased by 17.8 per cent in 2005 compared to the preceding year. As shown in the following figure, knit market a staggering growth of 31.7 per cent while the woven rose only 2.3 per cent. Price of knit garments marked a slight declining in 2005 as per dozen knit items fell to US\$23.01 in December from US\$23.63 in January. Price of woven witnessed fluctuation in the second half of 2005, down the level of the price of the corresponding months of the previous year. However, at the end of the December, 2005 the woven garments gained slightly in terms of price to US\$39.91 per dozen from US\$39.28 per dozen in January, 2005.



Source: BGMEA, Bangladesh

Trend of RMG Exports in the USA and the EU

The USA and the EU are Bangladesh's two major export destinations, which account for over 80 per cent of the total exports from Bangladesh. These two markets are also the major buyers of Bangladeshi RMG products. The following tables provide information of Bangladesh exports of and market share in RMG products for the US and EU markets. In the US market Bangladesh's exports increased from US\$927 million in 1994 to US\$2205 million in 2000. However, since 2002 exports have fallen absolutely. Up to the second phase of ATC integration, which was completed in the beginning of 1998, Bangladesh was not much affected.² The third phase of integration took place in January 2002 immediately after the 9/11, which had a downturn impact on the US economy. The available data show Bangladesh's market loss in the products liberalised in this round. In 2001 export earnings from quota items integrated in Phase III were US\$298 million, which conceded a huge decline to reach only about US\$150 million. In fact as against an overall 16 per cent increase in US imports of the third phase quota items, Bangladesh has witnessed a 50 per cent fall in exports of the same products. Consequently exports of RMG to the USA declined by 9.75 per cent in 2002 and the declining trend continued till it recovered in 2004 with gaining price though the market shares remained below 2.5 per cent.

During this period the share of RMG in the USA market has also declined as the unit price fell due to competitive pressure generated by China in a quota free environment. The following table shows that in recent times Bangladesh's market share in the US, in terms of both export value and quantity, has declined. In 2001 Bangladesh was the source of 3.14 per cent US apparel imports (in value terms) but by 2003 this share declined to 2.5 per cent. The share fell from 3.56 to 2.63 per cent in term of quantity during the same period.

Trend of RMG Exports of Bangladesh in the US Market

Year	Export (in US\$ Mn)	Growth of Export Earnings	Market Share (%) in terms of Value	Export of quantity (in million SMEs*)	Growth Quantity (%)	Market Share (%) in terms of quantity	Price per SME
1990	438.3	-	1.57	220	-	1.8	1.99
1994	927.4	27.90	2.32	487	30.34	2.82	1.90
1995	1115	20.23	2.54	603	23.82	3.29	1.85

² Bangladesh's exports of RMG from products integrated in Phase II stood at US\$64.5 million in 1998. By the end of 2003, receipts from these export categories increased marginally to US\$73.1 million, i.e., Bangladesh managed to prevent absolute fall in revenues in these quota items.

1996	1178	5.65	2.57	625	3.65	3.28	1.88
1997	1498	27.16	2.77	765	22.40	3.34	1.96
1998	1695	13.15	2.81	866	13.20	3.34	1.96
1999	1757	3.66	2.75	911	5.20	3.18	1.93
2000	2205	25.50	3.08	1131	24.15	3.44	1.95
2001	2205	0.00	3.14	1169	3.36	3.56	1.89
2002	1990	-9.75	2.76	1150	-1.63	3	1.73
2003	1939	-2.56	2.5	1110	-3.48	2.63	1.75
2004	2065	6.50	2.48	1109	-0.09	2.36	1.86
2005	2459.93	19.12	2.48	1313.67	18.46	2.36	1.87

Sources: ITCB and OTEXA

In the EU, the market share of Bangladesh rose remarkably in the recent years as close as to 5.8 per cent in 2004 compared to a decade back of 2.5 percentages. Both quantity and price marked a steady growth during in the recent years, which were respectively 6.65 per cent and US\$8571.3 per ton in 2004. This is perhaps because of rise in knit products as the utilisation of GSP is higher in the segment due to relatively lower cost of setting up backward linkages compared to woven segment. However, the first nine months of 2005 shows declining trends in respects of all the variables i.e. export value, volume and price.

Trend of RMG Exports of Bangladesh in the EU Market

Year	Export to EU (US\$ million)	Growth of export earnings (per cent)	Market share (%) (Extra-EU) in terms of value	Export of quantity (tons)	Growth quantity (%)	Market share (Extra-EU) in terms of quantity (%)	price (\$) per ton
1990	402	-	0.94	132050	-	3.19	3044.3
1994	1026	-	1.89	198803	-	3.58	5169.9
1995	1380	34.5	2.27	220112	10.72	4.12	6269.5
1996	1570	13.77	2.51	247667	12.52	4.43	6339.2
1997	1771	12.8	2.73	248942	0.51	3.97	7114.1
1998	1951	10.16	2.9	286652	15.15	4.35	6806.2
1999	1995	2.26	3.05	314011	9.54	4.56	6353.3
2000	2446	22.60651629	3.71	329431	4.91	4.37	7424.9
2001	2609	6.663941128	3.76	358670	8.875607	4.12	7274.1
2002	2694	3.257953239	3.7	376437	4.953578	4.31	7156.6
2003	3599	33.59317001	4.18	462374	22.82905	4.9	7783.7
2004* (25)	4835.6	34.35954432	5.74	564162	22.01421	6.5	8571.3
Jan-sep,2004	3658.2		5.79	429561		6.65	8516.1
Jan-sep,2005	3442.6	-5.893608879	5.09	424039	-1.2855	6.22	8118.6

Source: ITCB

EFFECTIVENESS OF MARKET ACCESS OF BANGLADESH EXPORTS TO USA

This section examines the effectiveness of the proposed DFQF. The analysis considers single product and single export destination. The Bangladeshi products face difficulty in the EU market primarily because of its ineligibility in accessing already provided DFQF facility due to stringent rules of origin requirement. On the other hand, Bangladeshi products are not enjoying the DFQF in the other major market, the USA. Bangladesh has already availed the duty free market access in to the Australia and Canada. A similar exercise like the present one can be done in case of Japan, which, however, is beyond the scope for this study.

US HTS Tariff Lines

The Harmonised Tariff Schedule, which is based on the international Harmonised System (the global system of nomenclature that is used to describe most world trade in goods) provides the applicable tariff rates and statistical categories for all merchandise imported into the USA. The HTSA is subject to revision in each year. Some modifications have been made in the HTSA 2006 effective March 1, 2006. This revision contains modifications to include the Central America Free Agreement which came into force from March 1, 2006. The tariff lines at HTS eight-digit level have been scheduled in 99 chapters under 22 broad sections that incorporate all products imported by the USA. There are some 13150 tariff-line altogether placed in different chapters. The Chapters 1 - 97 include the tariff rates of all products whereas chapters 98 and 99 in section XXII takes into account of the special classification provisions; temporary legislation; temporary modifications proclaimed pursuant to trade agreements legislation; additional import restrictions proclaimed pursuant to section 22 of the agricultural adjustment act, as amended.

There is no clear cut guideline as yet about what digit level the products will be selected in the 3 per cent list and 97 per cent list. It is also unsure whether the tariff lines listed in the special section (XXII) will be incorporated in making the list since this are already under the special provision list. So the ambiguity prevails in selecting the product lists dividing at 3 per cent and 97 per cent. However, by taking all the considerations into account a proximate analysis can be put up.

If, at HTS 8-digit level, we consider all 13150-tariff lines there are around 395 products that USA can identify as sensitive products and thereby can put in the exclusion list of the duty-free and quota-free market access. However, if we exclude the special section (XXII) that contains 2645-tariff lines then there are some 315 products that can fall in the US exclusion list.

In our analysis, we have excluded the Section XXII since it is already defined as special section and take into account of 10505-tariff lines scheduled up to chapter 97. Of these, there are some 37 per cent or 3878 tariff lines, which have zero tariff rates. Besides of the total tariff lines taken under consideration there are about 13 per cent or 1413-tariff lines in which Bangladesh as an LDC enjoys duty-free market access under the US LDC-GSP scheme. Therefore, out of total 10505-tariff lines there are some 50 per cent or 5291 tariff lines in which at present Bangladesh get either duty-free or quota-free access or zero tariff rate.

The USA imposed tariff rates on remaining 5214 products. Since our main concern is textile and clothing we will look into the US tariff rate composition of this item. The US tariff rate on textile and clothing is charted between HS chapters 50 and 63 under the section XI. In the HTSA 2006, there are some 1597 tariff lines on textile and clothing. Of them, 223 tariff lines are MFN duty-free, none of them is from HS Chapters 61 (knit) and 62 (woven) – the main exportable items from Bangladesh to the USA. Bangladesh exports none of the textile and clothing items which are given as MFN duty-free. Of them, Bangladesh exported a total of 803 products between 2000 and 2005. In 2005 total number of exportable products was 317.

Table – Tariff Lines Relating to Textiles and Clothing

Chapter	Chapter Description	No. of Products at HTS 8-digit Level	No. of MFN Duty-Free Items
Chapter 50	Silk	31	8
Chapter 51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	101	29
Chapter 52	Cotton	233	15
Chapter 53	Other vegetable textile fibers; paper yarn and woven fabric of paper yarn	37	29
Chapter 54	Man-made filaments	121	13
Chapter 55	Man-made staple fibers	131	9
Chapter 56	Wadding, felt and nonwovens; special yarns, twine, cordage, ropes and cables and articles thereof	57	18
Chapter 57	Carpets and other textile floor coverings	47	19
Chapter 58	Special woven fabrics; tufted textile fabrics; lace, tapestries; trimmings; embroidery	72	16
Chapter 59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	59	22
Chapter 60	Knitted or crocheted fabrics	59	1
Chapter 61	Articles of apparel and clothing accessories, knitted or crocheted	249	15
Chapter 62	Articles of apparel and clothing accessories, not knitted or crocheted	319	14
Chapter 63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	99	15
Total		1597	233

Source: US ITC

Bangladesh Exports Trends and Tariff Structure in USA Between 2000-2005

Export has been decelerated during 2002 and 2003, which is mainly because of third phase quota integration (as discussed above) and the impact of post 9/11 on the USA economy. However, the export has surged during 2004 and the growth rate was 19 per cent in 2005. The trend analysis also shows that average effective tariff rate faced by Bangladeshi products in the USA market is on the upward curve. On an average the effective US import tariff rate on Bangladesh products persists at 16 per cent during the last three years, which is up by one percentage point from the preceding years.

Of more than ten thousand tariff lines under the US HTSA schedule at eight-digit level, USA imported a total of around 571 items worth US\$2,303.87 million defined at the HS-8 digit level. Of them, Bangladesh has received preferential treatments i.e. GSP and GSP plus facilities of 118 products, the export value of which is very insignificant constituting US\$20.31 million or 0.88 per cent of the total exports. The remaining US\$2283.56 million exports are subject to MFN tariff rate. The value of import duty that was imposed on Bangladeshi products was US\$329.13 million with an weighted-average import duty of 14.41 per cent. It is important to note that this export value also included the MFN zero duty items, which are 100 in numbers and worth US\$ 210.93 million. In other words, under the MFN zero duty Bangladesh exported 100 items, value of which is US\$210.93 million. In 2005, the number of exportable items was around 600 (HS-8 digit) worth US\$2,697.36 million, in which the amount of dutiable exports worth US\$2,468.50 million. The remaining US\$228.86 million or 8.5 per cent of the total export has got either MFN or preferential duty-free market access.

Bangladesh's export trend in the US market shows that the total number of dutiable export items ranged between 372 and 412 during the last six years. Bangladesh exported almost the same products during the

period except some marginal variation in case of few products³. Of these limited export items around 30 per cent of the products face tariff peaks. Share of exports under different tariff range shows that more than 65 per cent of the total export revenue face tariff peaks in 2005 i.e. only 30 per cent of the products constitute two-third of the total exports. Share of exports which face tariff rate equivalent to 15 but less than 20 is 52.25 per cent. Only a marginal amount of export faces tariff rate between greater than zero and less than 5 per cent whereas shares of exports that face tariff rate within the range between 5 and 10 accounts for 28.82 per cent.

Table: Bangladesh Exports Trends and Tariff Structure in USA Between 2000-2005

Year	Total Dutiable Export	Growth	Avg. Effective Tariff Rate	Number of dutiable export items at 8 digit level	No. of product face Tariff Peaks	Share of Export Under Different Tariff Range (%)							
						=0	=0<5	=5<10	=10<15	=15<20	=20<25	=25<30	30 and above
2000	2209.88	.	15	372	145	0.05	3.59	36.87	1.47	30.77	12.48	8.55	6.23
2001	2218.67	0.4	15	389	136	0.04	3.90	38.02	0.92	32.68	11.94	8.19	4.32
2002	1997.91	-9.95	15	395	136	0.04	3.07	36.87	0.88	34.29	11.90	8.66	4.28
2003	1948.05	-2.5	16	400	147	0.04	2.49	35.50	1.22	44.67	0.10	10.81	5.18
2004	2073.58	6.4	16	401	111	0.05	2.16	31.90	3.05	45.62	0.83	11.24	5.16
2005	2468.5	19	16	412	120	0.04	1.23	28.82	2.98	52.25	0.87	10.09	3.71

Source: Authors' Calculation from the US ITC Database

It is important to note that even though Bangladesh's exports to the USA on the rise since last couple of years, shares of exports that face tariff rate between zero and five per cent and that of between five and ten per cent is on the declining trend. Also shares of exports that face tariff rates between 20 per cent and 25 per cent and that of between 30 per cent and above have been declining. On the other hand, share of exports that face tariff between 15 per cent and 20 per cent has increased significantly, which means that Bangladesh's export is mainly concentrated on products that face tariff rates between 15 per cent and 20 per cent. Since the export basket is almost same in different years, one reason for declining share of exports that face tariff between 20 per cent and 25 per cent and between 30 per cent and above due to the resultant impact of US tariff cut on the upper end tariff rates. As a result, exports of those commodities fall into lower tariff range. However, the cut in MFN tariff rate has little impact to overall export growth as the average effective duty on US imports from Bangladesh has gone up to 16 per cent in 2005 from 15 per cent in 2002. Since bulk of the exports constitute within range between 15 cent and 20 per cent Bangladesh exports would not be benefited much unless US cuts tariff rates on products within the range between 15 per cent and 20 per cent, in which most of Bangladeshi products fall.

Product Decomposition

A product decomposition analysis under US-HTSA shows that textile and clothing dominates more than 95 per cent of the total Bangladesh exports to the USA in 2005, up from 90.8 per cent in 2000. This reflects that Bangladesh's exports have been concentrating more on T&C with raising her exports to USA market. On the other hand, the relative share of other products is on the downward curve.

This rising share of T&C is mainly due to increasing exports of woven and knit items defined respectively at HTS 62 and 61. Shares of these two category have increased to US\$2.27 billion or 91.7 per cent of the total exports in 2005 from US\$1.97 billion or 87.7 per cent that of total exports in 2000.

Of total 319 items defined at eight-digit tariff lines under the HTS 62, Bangladesh has exported 159 items in 2005 whereas of total 249 items under the HTS 61 defined at the same level, number of exported items

³ The range of variation persists only 7 to 12 per cent of the total products from one year to another during the last six years. However, there shares in total export is marginal

was 99. Number of exportable items of these two categories was steady during the period under consideration. Out of 99 products in HTS 63 category, Bangladesh exported only a limited number of products that ranged between 26 and 36 during the last six years. Though absolute export value of the category has increased to US\$86.4 million to US\$69.1 million, its share of export has marginally declined in recent years along with the number of exportable commodities as shown in the following table. Share of other textile and textile articles excluding HTS 61, HTS 62 and HTS 63 also in the downward trend. Thus Bangladesh exports continuously being dominated by categories HTS61 and HTS62. However, the long run sustainability of these two major items depend on the emerging trend in the world of textile and clothing trade with continuous opening up of the economies.

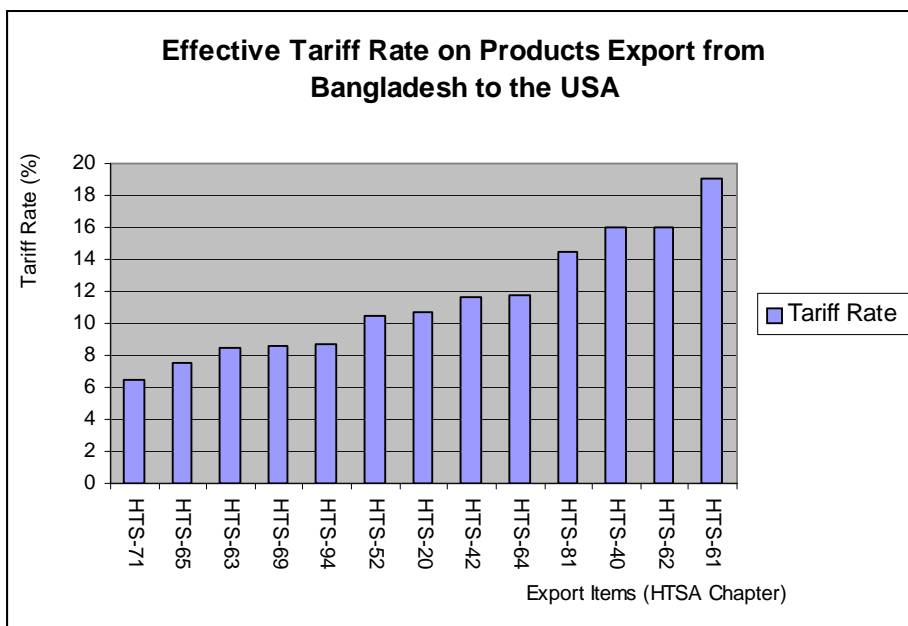
Table: Share (%) of Textile & Clothing of Total Bangladesh Exports to the USA

Category	2000	2001	2002	2003	2004	2005
HTS 61	21.2	21.6	24.6	25.6	24.0	23.7
No. of Products Exported	(92)	(90)	(86)	(98)	(87)	(99)
HTS 62	66.5	65.2	63.2	64.6	66.1	68.0
No. of Products Exported	(155)	(153)	(154)	(150)	(157)	(159)
Total 61&62	87.7	86.8	87.8	90.2	90.1	91.7
Total No. of Products Exported of 61& 62	242	243	240	248	244	258
HTS 63	3.13	3.91	4.64	4.50	4.13	3.50
No. of Products Exported	(26)	(29)	(33)	(36)	(35)	(30)
Others Textile & Textile Articles excluding 61, 62 & 63	0.21	0.16	0.15	0.16	0.17	0.05
No. of Products Exported	(36)	(36)	(39)	(30)	(31)	(23)
Total T&C	90.83	90.87	92.59	94.70	94.40	95.3
No. of T&C Products Exported	309	308	312	314	310	311
Other Exports excluding T&C	9.17	9.13	7.41	5.3	5.6	4.7
No. of Products Exported	63	81	83	86	91	101

Source: Calculated from the data available from the US ITC

US Tariff Structure of Textile & Apparel Imports

The US tariff structure on imports under the HTSA shows that its import duty on T&C remains on of the highest tariff rates. The following graph shows the effective rate of main exportable items, defined by chapter under the US-HTSA, from Bangladesh to the USA. It shows that knit (61) and woven (62) garments, which constitute more than 95 per cent of the total exports concentrating mainly on few products, face tariff rate at 16 and 19.02 per cent.



Source: Calculated from the data available from the US ITC

Note: HTS 71: Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin; HTS 65: Headgear and parts thereof, HTS 63: Other made up textile articles; sets; worn clothing and worn textile articles; rags, HTS 69: Ceramic products; HTS 94: Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated sign illuminated nameplates and the like; prefabricated buildings; HTS 52: Cotton; HTS 20: Preparations of vegetables, fruit, nuts or other parts of plants; HTS 42: Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut); HTS 64: Footwear, gaiters and the like; parts of such articles; HTS 81: Other base metals; cermet; articles thereof HTS 40: Rubber and articles; HTS 62: Articles of apparel and clothing accessories, not knitted or crocheted, HTS61: Articles of apparel and clothing accessories, knitted or crocheted

Table: US Tariff Structure on Items Under 61, 62 & 63 Categories in 2005:

(US\$ in mn)

Category	Total Export in 2004	Total Export in 2005	Growth 2004-2005 (5)	Shares (%) of Total Export at HTS 2-digit level Under Different Tariff Range			
				0<10	=10<15	=15<25	=25<35
HTS 63 (No. of products at 8-digit level)	85.64	86374691	1	95.6 (25)	3.6 (4)	0.8 (1)	0.0 (0)
HTS 62 (No. of products at 8-digit level)	1,372.18	1680493916	22	27.0 (92)	8.3 (15)	53.9 (32)	10.8 (20)
HTS 61 (No. of products at 8-digit level)	499.29	586971348	18	20.4 (30)	2.6 (17)	46.7 (31)	30.3 (21)

Source: Calculated from the data available from the US ITC

The above table shows that the share of total export at different tariff range in respect of categories HTS61, HTS 62 and HTS 62. The objective is to identify the number of products at 8-digit level, which fall into different tariff range. Both the HTS 61 and HTS 62 have marked a modest growth rate in 2005 compared to the preceding year, which is respectively 18 per cent and 22 per cent. The above table shows that around 77 per cent of the total export of products in HTS 61 face tariff peaks i.e. more than three-fourth of the knit items face tariff range between 15 per cent and 35 per cent. Some 52 products fall in

this range out of the total 99 products, which the USA imports, from Bangladesh in 2005. The number of products that face tariff within the range of greater than zero but less than 10 per cent and equal to 10 per cent but less than 15 per cent are respectively 30 and 17 and their export shares account for 20.4 per cent and 2.6 per cent.

In case of HTS 62, more than 64 per cent of its total export, which include one-third of the total exportable items in this category, face tariff peaks. Number of products that fall within the tariff range equal to 15 per cent but less than 25 per cent and constitute 53.9 per cent of its total exports is 32 while the number of products that fall within the tariff range equal to 25 per cent but less than 35 per cent and constitute 10.8 per cent of the total export is 20. Number of products and its share of exports in HTS 62 category, which fall tariff rate greater than zero but less than 15 per cent is 107 and 35.3 per cent respectively.

Number of exportable item in HTS 63 category is very limited and most of these products and bulk of its share fall within the tariff range greater than zero but less than 10 per cent.

Thus it can be seen from the above that few products under the HTS 61 and HTS 62 account for the bulk share of total exports, however, face higher tariff rates by the US government. The list of the products is given in the Appendix. These are the key products that really can boost Bangladesh's export in the US market in the upcoming years if they get differential treatment. These products need to be taken under consideration to bargain with the USA for having duty-free and quota-free market access into its market.

An international comparative analysis shows that China and India have become dominant in categories HTS 62 and HTS 61 with the emerging trend of globalisation of T&C trade. As shown in the following tables, US imports of these two categories have increased in recent years. While both China and India have been enabled to raise their shares with increasing growth, Bangladesh is trailing behind both in this respect.

The following table shows that both China and India have marked a sharp growth, respectively, 56.52 per cent and 34.47 per cent, of products under HTS 62 category in 2005 as the quota phased out whereas Bangladesh's exports in this category surged in last couple of years after conceding consecutive slide in the preceding years. Both the countries have raised their shares in total US imports of items under the category, respectively, to 34.36 per cent and 7.27 per cent in 2005 from 17.67 per cent and 5.39 per cent in 2001. The share of Bangladesh has declined to 5.83 per cent in 2005 from 6.26 per cent in 2001, giving an indication that China and India are becoming more competitive.

Table: Trend Analysis of the US Imports of HTS 62 Items:

	2000	2001	2002	2003	2004	2005
RoW Exports of 61 to the USA	24,867.49	23,155.10	22,212.34	24,680.35	26,408.789	28,834.35
Bangladesh	1,469.73	1,448.44	1,263.36	1,258.47	1,372.18	1,680.49
India	1,348.34	1,248.26	1,359.04	1,452.90	1,559.21	2,094.91
China	4,118.23	4,091.75	4,436.26	5,464.04	6,379.53	9,985.39
Pakistan	303.86	295.45	251.22	235.60	281.60	340.69
Cambodia	484.02	517.17	586.30	723.13	776.31	827.33
Vietnam	24.30	20.31	429.82	1,237.05	1,421.25	1,537.35
Sri Lanka	1,073.05	1,064.74	1,000.59	1,027.28	1,098.80	1,060.78
Thailand	821.29	841.17	798.72	827.30	870.05	868.02
Indonesia	1,495.45	1,593.47	1,454.49	1,550.60	1,757.65	2,008.73
Growth (%)						
RoW Exports of 62 to the USA	-	-6.89	-4.07	11.11	7.00	9.18
Bangladesh	-	-1.45	-12.78	-0.39	9.04	22.47
India	-	-7.42	8.87	6.91	7.32	34.36
China	-	-0.64	8.42	23.17	16.75	56.52
Pakistan	-	-2.77	-14.97	-6.21	19.52	20.98

Cambodia	-	6.85	13.37	23.34	7.35	6.57
Vietnam	-	-16.43	2016.47	187.81	14.89	8.17
Sri Lanka	-	-0.77	-6.02	2.67	6.96	-3.46
Thailand	-	2.42	-5.05	3.58	5.17	-0.23
Indonesia	-	6.56	-8.72	6.61	13.35	14.28
Share (%) of 62						
RoW Exports of 62 to the USA	100	100	100	100	100	100
Bangladesh	5.91	6.26	5.69	5.10	5.20	5.83
India	5.42	5.39	6.12	5.89	5.90	7.27
China	16.56	17.67	19.97	22.14	24.16	34.63
Pakistan	1.22	1.28	1.13	0.95	1.07	1.18
Cambodia	1.95	2.23	2.64	2.93	2.94	2.87
Vietnam	0.10	0.09	1.94	5.01	5.38	5.33
Sri Lanka	4.32	4.60	4.50	4.16	4.16	3.68
Thailand	3.30	3.63	3.60	3.35	3.29	3.01
Indonesia	6.01	6.88	6.55	6.28	6.66	6.97
Other Countries	55.21	51.97	47.87	44.18	41.24	29.24

Source: US ITC

Bangladesh is exposed to face more competitiveness in Category HTS 61. Both China and India remain dominant in the US market while countries like Cambodia, Indonesia and Sri Lanka have emerged as major exporters in the quota free regime. The data shows growth of Bangladesh exports of products under HTS 61 is at the slowest rate compared to the other major exporting countries, increasing to 17.56 per cent in 2005 from 2 per cent in 2001 whereas China and India have marked a remarkable growth rates of 59.56 per cent and 39.55 per cent respectively from 11.9 per cent and 6.46 per cent during the same period. Also Cambodia, Indonesia and Sri Lanka have accelerated their growth respectively to 36.74 per cent, 36.44 per cent and 30.68 per cent respectively. While the Bangladesh maintains a share of just above 2.5 per cent of the total USA imports of items under the category, the other major exporting countries have increased their shares significantly in recent years as shown in the table.

Table: Trend Analysis of the US Imports of HTS 61 Items:

	2000	2001	2002	2003	2004	2005
RoW Exports of 61 to the USA	18,754.34	18,411.03	19,122.84	20,184.81	21,532.17	22,940.10
Bangladesh	470.16	479.55	493.31	499.81	499.29	586.97
India	469.96	500.32	557.63	581.55	671.15	936.58
China	2027.62	2268.94	2605.10	3186.53	4085.45	6518.61
Pakistan	615.80	629.38	629.60	780.71	856.21	926.70
Cambodia	315.61	404.12	439.86	505.75	640.17	875.39
Vietnam	16.50	21.23	435.41	1,096.15	1,079.91	1,123.56
Sri Lanka	375.10	414.74	399.97	399.36	448.35	585.92
Thailand	995.73	977.12	924.14	887.75	932.38	944.44
Indonesia	552.20	600.60	585.52	594.74	621.62	848.14
Growth (%)						
RoW Exports of 61 to the USA	-	-1.83	3.87	5.55	6.68	6.54
Bangladesh	-	2.00	2.87	1.32	-0.10	17.56
India	-	6.46	11.45	4.29	15.41	39.55
China	-	11.90	14.82	22.32	28.21	59.56
Pakistan	-	2.21	0.03	24.00	9.67	8.23
Cambodia	-	28.04	8.84	14.98	26.58	36.74
Vietnam	-	28.67	1950.92	151.75	-1.48	4.04
Sri Lanka	-	10.57	-3.56	-0.15	12.27	30.68
Thailand	-	-1.87	-5.42	-3.94	5.03	1.29
Indonesia	-	8.76	-2.51	1.57	4.52	36.44
Share (%)						
RoW Exports of 61 to the USA	100	100	100	100	100	100
Bangladesh	2.51	2.60	2.58	2.48	2.32	2.56

India	2.51	2.72	2.92	2.88	3.12	4.08
China	10.81	12.32	13.62	15.79	18.97	28.42
Pakistan	3.28	3.42	3.29	3.87	3.98	4.04
Cambodia	1.68	2.19	2.30	2.51	2.97	3.82
Vietnam	0.09	0.12	2.28	5.43	5.02	4.90
Sri Lanka	2.00	2.25	2.09	1.98	2.08	2.55
Thailand	5.31	5.31	4.83	4.40	4.33	4.12
Indonesia	2.94	3.26	3.06	2.95	2.89	3.70
Other Countries	68.87	65.8	63.03	57.73	54.33	41.82

Source: US ITC

The above trend shows that despite the fact of growing US imports of woven (HTS 62) and knit (HTS 61), Bangladesh has not been able to capture the market up to the level the other countries did. Though the woven garments give a better picture as far as its export growth and market share are concerned the knit sector did not gain much ground vis-à-vis other major exporting countries. The post MFA export scenario of the knit items shows that apart from India and China, countries like Cambodia, Indonesia and Sri Lanka have become more competitive. This is because of the fact that despite quota restriction by the US government China is dominating one-third of the total US imports of woven and knit items from the world. Chinese share is likely to increase at much faster rate when the safeguard measures will be lifted in 2008. This means that share of other countries would likely to be eroded.

The sustainability of exports of woven garments in Bangladesh remains under question as the sector lacks backward linkages far from the requirements. At present, around 20 to 25 per cent of the raw materials required for the woven garments are supplied domestically whereas the same for the knit garment is 75 to 80 per cent. The manufacturers depend on the international market for the rest of the raw materials required for both the sectors. Given the pattern of growing demand for T&C in the international market and the increasing competitiveness from the major exporting countries it would be difficult for Bangladesh to stand in the competition with her limited supply-side capacity. Bangladesh may suffer a serious setback in outsourcing raw materials from the international market.

With having been relatively low export base and concentrating mainly on textile and apparel exports, Bangladesh overall export may suffer serious setback if she loses her share particularly in category HTS 61 and HTS 62 in the USA market – the single largest export destination - as a result of emerging competition. Therefore, to sustain with the emerging competition of global T&C trade, Bangladesh should get duty-free and quota-free market access on products in these two categories. The apprehension is that many of the products under these two categories, in which Bangladesh has export interests might be excluded from the market access as those products have already been identified as sensitive products by the USA and covered with high tariff barriers.

CONCLUSION

The rhetoric of a special development package for the LDCs was aired in Hong Kong, and was told that, for sure, this Ministerial would deliver on the promise of market access.

The Ministerial decisions neither provided binding commitment, nor covered all products, nor granted the preferential treatment on a permanent basis, with keeping the option of reversibility of the treatment wide open. DFQF will be provided for all LDCs on a 'lasting basis' (not binding, not permanent) by 2008 for at least 97 per cent of all products. The decision was a step back from the Doha mandate of full DFQF access.

The Unnayan Onneshan examined the effectiveness of the DFQF provided to the products of LDCs, by taking exportables of a single country to a single country market. For this purpose a trend analysis of Bangladesh exports into the US market has been conducted for last six years.

Bangladesh's export trend in the US market shows that total number of dutiable export items ranged between 372 and 412 during last six years. Of them, Bangladesh received preferential treatments i.e. GSP and GSP plus facilities for 118 products, the export value of which is insignificant constituting US\$20.31 million or 0.88 per cent of the total exports. Share of exports under different tariff range shows that more than 65 per cent of the total export revenue faces tariff peaks in 2005.

Of the total products that Bangladesh exports to the USA, 90 per cent consists of textile and clothing items. Exploiting the provision taken in the Annex F, if the USA imposed restrictions on textile and clothing as it hinted several times then the given DFQF market access would bring no benefits for Bangladesh.

If, at HTS 8-digit level, we consider all 13150-tariff lines there are around 395 products (3 per cent of its tariff lines) that USA can identify as sensitive products and thereby can put in the exclusion list of the duty-free and quota-free market access. If we exclude the special section (XXII) that contains 2645-tariff lines then there are some 315 products that can fall in the US exclusion list. Therefore, the USA could exclude 76 – 85 per cent of Bangladesh exportables. The USA could exclude all tariffs lines relating to textile exports of Bangladesh falling under the HTS – 61 and 62, as the country exports between 248 – 258 products relating to textiles and clothing.

The 97 – per cent limit also held hostages to 'political whim' of the countries who had already provided 100 per cent, as it paves way for these countries to play around, if the recipient LDC fails to 'follow' the providers' policy agenda, citing that they are simply complying with the multilateral rules. Such imposition also leaves no process of multilateral redress, as the provider would simply state that they are acting within rules.

The Text also did not provide any timeline for the remaining tariff lines. This signals a grave danger that if these remaining are to occur, would be made operational at the end of the round, implying that the rich country would swallow the rules that negatively impact on the lives of masses of LDCs while benefiting a few multinationals of the rich countries, as happened in the Uruguay Round negotiations – the developing world were compelled to sign TRIPS, GATS, TRIMS while areas of interest to South such as agriculture was held in abeyance for future negotiation.

The LDC should make sure that the WTO membership at least agree to the following in the forthcoming negotiating phase: (a) all existing 100 per cent DFQF (e.g. the EU EBA Initiative) shall be maintained and barriers in accessing such facilities (e.g. stringent rules of origin) shall be removed; (b) developed country members shall provide DFQF market access in tariff lines in which positive duties are still applied to LDC existing exports (e.g. Bangladeshi textiles and clothing) as opposed to excluding those as part of sensitive list; (c) the developing country shall provide, as a first step, DFQF market access to products of export interest, and which are commercially meaningful, to LDCs, with a commitment to gradually achieving 100 per cent; and (d) the WTO membership shall ensure that market access provided under the DFQF market access provisions are not nullified by non-tariff barriers to trade, SPS provisions and other technical barriers to trade.