

Bangladesh: Country Position on Important Hong Kong Ministerial Issues

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I. Introduction

The Sixth WTO Ministerial Conference, held in Hong Kong in December 2005, concluded with the adoption of a Ministerial Declaration, which was important for bringing some momentum to the stalled Doha round of negotiations as well as to restore confidence on the multilateral trading system. Expectations from the Ministerial were low as the consultations prior to the Hong Kong Ministerial Conference could not produce desired outcomes. In addition, given that agriculture occupied the centre stage in the run up to Hong Kong, Bangladesh's expectations about the possible outcomes of the Ministerial were even lower, as the sector accounted for only 4 percent of Bangladesh's exports, and the WTO obligations did not require the country undertaking reforms that could have far-reaching implications. Yet, the Hong Kong Ministerial has probably produced outcomes that are going to have significant implications for Bangladesh. To many observers, Bangladesh was the worst affected country in the Hong Kong Ministerial.

In the post-Hong Kong period, the assessment of the Ministerial outcome has been given special consideration both by the Government of Bangladesh (GoB) and by other stakeholders. The Ministry of Commerce (MOC), GoB, formed three task forces to study the issues related to market access, export diversification and services trade more closely with a view to developing the country position and negotiating strategy. Other issues are also being monitored by the WTO Cell, MOC. GoB has formed a high-level committee on WTO-related matters, comprising representatives from government, business enterprises and chambers, exporters' organisations, academics, and civil society think tanks, with the Commerce Minister as the head of this committee. The Committee is expected to provide importation guidelines and directions in determining Bangladesh's negotiating position on various WTO issues.

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The objective of this note is to provide Bangladesh's position on a number of key Hong Kong Ministerial issues. The issue that has overwhelmingly dominated Bangladesh's interest in the aftermath of the latest WTO Ministerial is the duty-free quota-free access for LDCs. Apart from this, services, non-agriculture market access (NAMA), aid for trade and agriculture have received some attention with the country's stance on them being developed. In the following, therefore, these five issues from the perspective of Bangladesh have been summarised.

II. Issue-specific Country Position

2.1. Duty-free and Quota-free Access

In the Hong Kong Ministerial Conference (MC), developed countries have made binding commitment with regard to providing duty-free and quota-free access to products originating from LDCs. However, it has allowed 'members facing difficulties' to reduce the LDC product coverage for duty-free treatment to 97 percent of tariff lines. As Bangladesh's exports are heavily concentrated on a few textile and clothing (T&C) categories, the Hong Kong MC declaration potentially implies no additional benefits for Bangladesh at all. For example, in the US Harmonised System (HS) 8-digit tariff lines there are 10,265 commodities. A 3 percent reservation list would then mean exclusion of 308 items from the duty-free and quota free (DFQF) facilities.¹ Bangladesh's top 10 apparel export items account for more than 46 percent of the country's total exports to the US, top 20 items 61 percent, top 30 products 70 percent, and top 50 products 80 percent. According to one estimate, if the US decided to keep only those items in the 3 percent list that had imports from LDCs (to the US) of more than \$50,000, it could eventually get away with not giving DFQF access for 224 apparel products thereby depriving 90 percent exports of Bangladesh and Cambodia. Again, if the US wants to exclude those items on which its existing tariff rate is 20 percent and above, it can restrict 137 apparel exports denying DFQF access to Bangladesh's more than 90 percent exports. These signify the severity of an apparently small trade restriction because of a very narrow export base of Bangladesh.

¹ Note that after the abolition of multi-fibre arrangement (MFA), quantitative restrictions are no longer imposed on trade in goods. Therefore, the issue of DFQF market access is essentially an issue of tariff free market access.

After the Hong Kong MC, Bangladesh is now desperately trying to protect its interest as the US has already indicated its taking resort to 3 percent ‘exclusion list’ while Japan has indicated its inability to make DFQF commitments on 180 tariff lines, which includes such items as rice, fish, leather, and sugar.² With this view, the MOC formed a Market Access Committee to devise Bangladesh’s strategy as regards post-Hong Kong negotiations on the modalities by which the provision of the DFQF access for LDCs would be implemented. The Committee has now produced its report and recommendations. Based on this report and discussions with the relevant stakeholders, what are emerging as Bangladesh’s strategies in the post-Hong Kong negotiations related the DFQF market access are summarised below.

- (a) Bangladesh considers that the clause “developed country members shall” is a binding commitment for developed countries. Therefore, firm commitment from all developed countries, especially from the USA and Japan, which have indicated their difficulties at this point of time, to provide DFQF market access for all products originating from LDCs.
- (b) Bangladesh is also of the view that the provision of DFQF market access for at least 97 percent of products originating from LDCs (defined at the tariff level), has two main implications which should be subject of further discussions and negotiations. First, the declared 97 percent is to be considered as the minimum level (as the phrase “at least” would imply so). Hence at the negotiation, it should be stressed that members should not start negotiation on the basis of 97 percent as the maximum level. That is given the provision of Hong Kong MC, developed countries can make commitments at a much higher level than 97 percent. Second, the reference point for “tariff line” is confusing. If the number of tariff lines of items exported from LDCs is taken as the basis, as per the text, the number of items in the exclusion list will be quite low. In the US tariff line although there are 10,265 commodities, but the tariff lines of items imported from LDCs were only 1655 in 2005. A 3 percent exclusion list

² It is to be mentioned here that the US currently accounts for 28 percent of all Bangladesh’s merchandise exports, while the corresponding figure for Japan is 4 percent. The EU is Bangladesh’s most important export destination, which is the market of 54 percent of the country’s exports. Under the Everything but Arms Initiative of the EU, Bangladesh along with other LDCs receives DFQF market access to this important market in virtually every item, provided that the EU rules of origin requirements are satisfied. Amongst others, Australia, Canada, New Zealand, Norway, and Switzerland provide attractive market access opportunities for LDCs including Bangladesh.

on the basis of this will cover just about 50 products. This confusion leaves room for negotiation.

- (c) The Hong Kong Declaration specifically provides that members facing difficulties ‘shall take steps to progressively achieve compliance’. In this light, Bangladesh is to take a position that there must be a time line for phasing out the exclusion list.
- (d) In association with the above, Bangladesh is to urge that the phrase ‘members facing difficulties’ needs to be defined precisely.
- (e) The definition of ‘on a lasting basis’ in the paragraph 36 (a) (i) of the Hong Kong Ministerial Declaration is not clear. In Bangladesh’s perspective this should be considered as bound in the WTO, i.e., its implementation is mandatory and subject to dispute settlement discipline in case of breach.
- (f) The same paragraph of Hong Kong Ministerial Declaration while providing DFQF access for 97 percent of LDC products also mentions about ‘taking into account the impact on other developing countries at similar levels of development’. Bangladesh is to argue that developing countries at similar levels of development should imply consideration of interest of other LDCs, and not non-LDC developing countries. In favour of its position Bangladesh is to point out that, the UN considers only one sub-strata within the developing country group – the LDCs. Hence the non-LDC developing countries cannot be considered to be at similar levels of development.
- (g) The DFQF initiative opens up an opportunity for a review of the rules of origin (RoO) requirements as the Hong Kong Declaration clearly states that ‘...preferential rules of origin applicable to imports from LDCs are transparent and simple....’. In this regard, Bangladesh’s proposal will be to follow the RoO regime of Canada, which requires a simple 25 percent domestic value addition as a pre-condition for obtaining preferential access.
- (h) Bangladesh has now prepared a list of products covering 97 percent of Bangladesh’s exports for receiving DFQF market access. It will try to ensure that the products that

are of export interest to Bangladesh should be “as little number as possible” in the exclusion list of 3 percent.

- (i) Bangladesh’s strategy will be to keep most of the duty-paid export items (a total of 365 items) out of exclusion list. The Committee on Market Access, as formed by the MOC, suggests Bangladesh to argue that duty free exports would be most beneficial for commodities that are subject to existing high tariffs. One of the suggestions of the Committee is to negotiate for having duty free access of all those products that have tariff rates higher than 6 percent.
- (j) In 2005, 233 export items of Bangladesh entered into the US market either on MFN zero-duty basis (108 items) or GSP duty-free basis (125 items). Bangladesh will negotiate to have these commodities in the 97 percent duty free list.
- (k) Bangladesh is also to put emphasis on negotiations with the US in particular. One strategy would be to dispel US notion about Bangladesh’s export competitiveness. There were reports during the Hong Kong Ministerial, exaggerating Bangladesh’s competitive strength in T&C exports. Bangladesh will now try to portray a realistic assessment of competitive strength taking into consideration of the fact that immediately after China’s accession to the WTO, the country’s exports to the US market actually fell. The situation slightly improved only after the imposition of US safeguard measures against China.
- (l) Bangladesh is to point out that, tariffs on apparels and other industrial goods are expected to come down because of the on-going NAMA negotiations. Therefore, if the USA does not provide zero tariff market access now, the opportunity of benefiting from such preferential treatment will become insignificant in the near future.
- (m) It is to be argued that providing DFQF access to Bangladesh is unlikely to cause any major disruptions for other countries. The apparel items exported by Bangladesh compete mainly in the mass-produced, lower end of the US market and therefore do not compete with the products manufactured in the US. Again, most of Pakistan’s apparels are of home textile category which Bangladesh does not produce. Similarly, Sri Lanka mainly specialises in women under garments in which Bangladesh does not

have any comparative advantage. However, there is no denying that in certain items Bangladesh competes with other developing countries. Because of these few items, the inclusion of all or most of Bangladesh's apparel products in the exclusion list is not justified.

- (n) There has also been a suggestion to propose to the US for consideration of ceilings for the items in the exclusion list. Only if imports from LDCs exceed the ceiling the specified duties will be imposed.
- (o) Yet another strategy for Bangladesh would be to seek low tariffs (5 percent) on commodities in the exclusion list.
- (p) Bangladesh is to take the position that while deciding about commodities for DFQF market access, the US or any other developed countries should not differentiate commodities across LDCs.
- (q) If major export items are included in the exclusion list, Bangladesh should emphasise on phasing out of them on a priority basis and in an expeditious manner.
- (r) 41 items that Bangladesh exports to Japan are on the Japan's sensitive list. Bangladesh's strategy here will be to reduce the number of these items from the sensitive list. There are a number of other items which are not on the sensitive list but are subject to tariffs. Bangladesh will try to obtain duty free access of these items in particular.
- (s) Bangladesh is also concerned about safeguarding the export interest of LDCs which they are already enjoying. It is of the view that, since many other developed countries have comprehensive GSP schemes for LDCs, it is in the best interest of the latter that these schemes be brought under the ambit of the relevant special and differential treatment (S&DT) provision of the WTO.

2.2. Services

Like the DFQF access, concrete negotiating strategies for services have not emerged for Bangladesh. The MOC formed a Committee on Services and it had now prepared a report. However, the content of the report has not yet been made public. It is understood that the Committee on services has made recommendations for future strategies concerning the negotiations in services with special emphasis on movement of natural persons. The Committee is also expected to identify the services sectors in which Bangladesh is likely to have comparative advantage. Discussions on the prepared reports are to take place soon, from which Bangladesh's future stance will be clear.

The Hong Kong Ministerial Declaration, for the first time, explicitly recognizes that LDCs are not expected to undertake new commitments in services negotiations (paragraph 26 of the Hong Kong Ministerial Declaration). Members have also committed to developing methods for full and effective implementation of the Modalities for the Special Treatment for LDCs in the negotiations on Trade in Services (LDC Modalities). Members are also supposed to develop appropriate mechanisms for according special priority to sectors and modes of supply of export interest to LDCs. Although this provision is a mere reaffirmation of what is already provided for in the LDC Modalities, it reflects Members' commitment to resolve it before 31 July 2006. It may be noted that the concept of special priority in trade in Services has not been tested or operationalized. Unlike trade in goods, where under the legal cover of enabling clause, developed country Members can provide preferential market access to LDCs, there has not been any such mechanism in services trade. The LDC Modalities, reaffirmed by the Hong Kong Declaration, provided the LDCs an opportunity to work out a framework so that they receive special preference in market access of their services and service suppliers. The Declaration has emphasised on assisting LDCs to enable them to identify sectors and modes of supply that represent development priorities. The full and effective implementation of the LDC modalities also calls for providing targeted and effective technical assistance and capacity building for LDCs.

Given the above important provisions, Bangladesh is keenly observing the on-going services negotiations. However, from the discussions with the policy makers and other informed observers, it is evident that stakeholders in Bangladesh are not very much hopeful about any

meaningful market access gains during the Doha Round. It has been pointed out by many that, the text of the “objective” of Annex C to Hong Kong Ministerial Declaration is quite vague as it reads, “In order to achieve a progressively higher level of liberalisation of trade in services, with appropriate flexibility for individual developing country Members, we agree that Members should be guided, to the maximum extent possible, by the following objectives in making their new and improved commitments” (underline added).

Nevertheless, amongst the policy makers and researchers there is a general consensus on taking the services negotiations seriously. The Report of the Taskforce on Services may inspire a round of informed discussions on various related matters.

A salient feature of the Hong Kong Ministerial Declaration was the introduction of plurilateral approach to request-offer negotiations in services in addition to the traditional bilateral approach to negotiations. Plurilateral requests are addressed directly from the demandeurs to other Members to whom these are made. Exchanges in those meetings are strictly private, unless otherwise provided for by participants. As stipulated in the Hong Kong Ministerial Declaration, Members are to organize such meetings with a view to facilitating the participation of all Members, taking into account the limited capacity of developing countries and small delegations. A round of services negotiations with the plurilateral approach was completed in the early April and observers in Bangladesh are now trying to assess the advantages and disadvantages of this approach along with the outcomes of these negotiations.

2.3. Aid for trade

The Hong Kong MC gave a special emphasis on the issues of aid for trade, as the paragraph 57 of the Declaration stated that aid for trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure. The Hong Kong MC also made a provision for a Task Force to make recommendations on operationalizing aid for trade. The Task Force is to provide its recommendations by July 2006 on how Aid for Trade might contribute most effectively to the development dimension of the Doha Development Agenda.

The Aid for Trade is relatively a new concept. During the G-8 Gleneagles Summit in 2005 the richest countries of the world decided to provide support for improvement of infrastructure and supply side capacity building for LDCs and developing countries. And, then it appeared as a specific provision in the Hong Kong Ministerial. Bangladesh is seriously intended to take advantage of this new provision and in this regard Japan's proposal for Aid for Trade has received attention of the policy makers.

Under the provision of Aid for Trade, Japan has offered a new package called *New Development Initiatives for Trade* to help LDCs build trade capacity. The proposed Japanese package calls for integrating the three pillars of trade: production, distribution and consumption. Of these, production and distribution are considered as supply-side issues while consumption falls under the demand side. Expansion of exports, productivity improvement, marketing, and trade-related infrastructure development of the LDCs are the principal objectives of this package. The Government of Japan has announced that it will make \$10 million available for its contribution towards Aid for Trade.

The Japanese proposal on *Development Initiative for LDCs* was discussed in an Inter-Ministerial Meeting, where special attention was given to Prof Stiglitz's suggestion of creating a global trade facility fund under the management of the WTO with the contribution from the developed countries and development partners.³ Prof Stiglitz was also of the view of developing an integrated framework to coordinate the activities of all donors in order for better utilisation of the Aid for Trade fund.

In the above mentioned Inter-Ministerial Meeting, it was decided that the concerned ministries/divisions/organisations would evaluate their own needs and, if required, will submit Trade Related Capacity Building projects to the External Resource Division (ERD) for seeking funding support.

The MOC is actively monitoring other developments associated with Aid for Trade. In this connection, it is maintaining contacts with its missions in Geneva, Brussels and Washington to obtain further specific information on other countries' commitment to Aid for Trade initiative.

³ Professor Stiglitz made this suggestion during a meeting in Geneva organised by the Commonwealth Secretariat and UNCTAD on 21-22 March 2006.

Notwithstanding the above, until now there has not been any official position or negotiation strategy with regard to this relatively new development on Aid for Trade. It is understood that the Policy makers and stakeholders are keen to see the recommendations of the Task Force, which was formed by the WTO given the mandate of the Hong Kong Ministerial Declaration.

2.4. Non-Agricultural Market Access

LDCs are not required to undertake any tariff reduction commitments on NAMA. They have also been exempted from participating in the sectoral approach to liberalization. However, these countries are expected to substantially increase their level of binding commitments. Currently, the coverage for Bangladesh is very low at 3 percent, which implies that it may have to take commitments to bind a significant proportion of its industrial products as part of the current round of negotiations. This might not cause any serious problem since having implemented the unilateral trade liberalisation programme, average tariffs in Bangladesh have already fallen at a low level. In addition, for most developing countries the bound tariffs are much higher than their applied rates, implying that the provision requiring the bound tariffs to be at an average level not exceeding the overall average of bound tariffs of all developing countries might not prove to be very stringent.⁴

The most important concern related to NAMA negotiation is the potential erosion of preference. Under various regional trading arrangements (RTAs) and generalised system of preference (GSP) schemes, Bangladesh and other LDCs have been enjoying preferential tariff margins. With the future tariff cuts, the margin between the MFN and preferential rates could get eroded or completely eliminated. This could have serious consequences for South Asian LDCs. According to one estimate, losses due to erosion of preferences could be US\$100 million for Bangladesh. Accessing trade preferences has been conditional on complying with the rules of origin (RoO) requirements of donor countries. However, complicated rules have resulted in very low utilisation of trade preferences reserved for LDCs.⁵ Therefore, erosion of

⁴ In fact, the average bound tariff rate for WTO members is 43 percent. Moreover, since the provision is specified in terms of 'overall average tariff rate', the scope of keeping rates significantly higher than the overall average on some sectors is retained.

⁵ The utilization rate of trade preferences by LDCs in the markets of Canada, the EU, Japan, and the US has been less than 50 percent. In fact, either preferences given to South Asian LDCs have limited product coverage or are conditional on complying with very restrictive origin rules.

preference along with the continuation of restrictive RoO will weaken LDCs' competitive position further.

However, it needs to be pointed out that, for Bangladesh, NAMA is going to have mixed implications. In the EU market the preference erosion could dominate as Bangladesh is already enjoying some significant tariff preferences. On the other hand, in the US market NAMA could enhance competitive edge of the country vis-à-vis many other countries, which are unlike Bangladesh are enjoying DFQF market access (e.g. countries under CBI/AGOA).

Until now there has not been any official position on NAMA, largely due to the fact that tariff reductions are not applicable to Bangladesh. However, policy makers and stakeholders are of the view that the issue of loss of trade preference should be taken into consideration seriously.

2.5. Agriculture

Despite very little progress on agricultural trade negotiations, the Hong Kong MC called for a balance between agriculture and NAMA. Agriculture is still characterised by high tariffs and astronomical domestic support in the developed countries. The only significant achievement of the Hong Kong Ministerial Conference was the commitment on abolishing all export subsidies on agricultural commodities by 2013. Similar subsidies on cotton, however, will be eliminated by the end of the current year.

While negotiations on the modalities for tariff cuts in agriculture are underway, LDCs have been exempted from undertaking tariff reduction commitments. Although any meaningful liberalisation of agricultural trade appears to be a far cry, the potential impact of such liberalisation has become a grave concern for many poor countries including Bangladesh. It is envisaged that while tariff reductions would depress prices, withdrawal of domestic support and subsidy-cuts would tend to increase prices – the net result depending on the relative strength of these two differing forces. However, it is widely viewed that the net effect of agricultural trade liberalisation will be to raise prices, which is like to have important consequences for food security and poverty situations in many developing countries and particularly in net food importing LDCs.

Price rise resulting from global liberalisation of agriculture also appears to be an important concern for Bangladesh. According to one recent study, agricultural liberalisation could increase rice price about 8 percent, exerting adverse effects on poverty incidence in Bangladesh, with landless and marginal farmer households being the worst victims. This stresses the need for considering the problems and prospects of ensuring food security in the poor counties in the wake of global agricultural trade liberalisation.

Although the official position of Bangladesh on agriculture is not clear at this stage, from discussions with various stakeholders it appears that the issue of food security is being considered as the most vital issue. Many welcome Members' commitment to maintain an adequate level of food aid to create a "safe box" to ensure that there is no unintended impediments to dealing with emergency situation (paragraph 6 of the Hong Kong Ministerial Conference Declaration). In this respect, however, several recommendations made by some stakeholders may be noted:

- (a) The Safe Box will be used for emergency food and the emergency situation will be defined by a relevant UN agency.
- (b) Safe Box will be based on independent assessment of genuine food needs of people in immediate distress
- (c) Non-emergency food aid shall be demand driven, shall be provided in fully grant form and shall not be tied either directly or indirectly to commercial exports of goods and services to the recipient country.