

# PLURILATERAL TRADE AGREEMENTS AND THE IMPACT ON LDCs – TO PARTICIPATE OR NOT TO PARTICIPATE?

## COUNTRY CASE STUDY: BANGLADESH

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**TABLE 1** BASIC STATISTICS ON BANGLADESH'S ECONOMY

Economic status	Least-developed country	Free market economy
Population size	162.9 million (2016) <sup>1</sup>	
Gross domestic product (GDP) growth rate	6.46% (2011) <sup>2</sup>	7.05% (2016) <sup>3</sup>
GDP per capita	\$757 (2010)	\$1,358 (2016) <sup>4</sup>
GDP – composition by sector <sup>5</sup> , 2015 estimate	Agriculture: 16%    Industry: 30.4%    Services: 53.6%	
Poverty rate (ie, living on \$4 per day or less)	48.9% of the population (2000) <sup>6</sup>	31.5% of the population (2015) <sup>7</sup>
Human Development Index ranking	2016 Human Development Index <sup>8</sup> score was 0.579 and the country ranked 139 <sup>th</sup> out of 188 countries	
Value of foreign trade <sup>9</sup>	<b>Imports of goods and services:</b> 24.75% of GDP (2016) <b>Exports of goods and services:</b> 17.34% of GDP (2016)	
Exports (2016)	<b>Main export product</b> Woven apparel, knitwear, leather and leather goods, jute products, textiles	<b>Main export markets</b> US, Germany, UK, France, Spain, Netherlands
Inward investment (foreign direct investment, or FDI, reached a record \$2.2 billion in 2016) <sup>10</sup>	<b>Main sectors attracting investment:</b> Energy, power, pharmaceuticals, information technology (IT), telecommunications and infrastructure sectors, as well as labour-intensive industries such as ready-made garments, household textiles and leather processing <sup>11</sup>	<b>Main sources of investment:</b> China, South Korea, India, Egypt, the UK, the United Arab Emirates and Malaysia <sup>12</sup>
World Economic Forum's Global Competitiveness Index ranking <sup>13</sup>	106 <sup>th</sup> out of 138 countries (2016)	

## BACKGROUND

Given its long association with the multilateral trading system, Bangladesh has adopted a cautious stance towards the concept of plurilateral trade agreements (PTAs). It knows that it would face a number of risks and uncertainties if it were to join one or more plurilateral(s), including having to conform to agendas that could well be better suited to developed than developing countries. As Bangladesh is not involved (even as an observer) in any of the plurilateral negotiations, the approach taken in this case study is to comment on and draw conclusions both from the country's general activities in the services, IT, government procurement and environmental goods sectors, and from stakeholders' expressed opinions and concerns about the plurilaterals. Broad references are also made to the results of the quantitative analysis.

To provide a wider context to the discussion, an overview of Bangladesh's economic and trade activities and relationships is provided below.

## ECONOMIC AND TRADE PERFORMANCE

Bangladesh is a least-developed country (LDC) in South Asia. Despite many economic problems (such as high unemployment and poverty levels, and

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- 1 UN, 'Bangladesh', 2016, <http://data.un.org/CountryProfile.aspx?crName=bangladesh>, accessed 2 July 2017.
  - 2 Trading Economics, 'Bangladesh: GDP growth', 2017, <https://tradingeconomics.com/bangladesh/gdp-growth>, accessed 2 July 2017.
  - 3 *Ibid.*
  - 4 World Bank, 'GDP per capita (current US\$)', 2017, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=BD>, accessed 2 July 2017.
  - 5 Index Mundi, 'Bangladesh GDP – composition by sector', 2017, [http://www.indexmundi.com/bangladesh/gdp\\_composition\\_by\\_sector.html](http://www.indexmundi.com/bangladesh/gdp_composition_by_sector.html), accessed 2 July 2017.
  - 6 World Bank, 'Bangladesh: Poverty', 2017, <https://www.adb.org/countries/bangladesh/poverty>, accessed 2 July 2017.
  - 7 ADB (Asian Development Bank), 'Bangladesh: Poverty headcount ratio at national poverty lines (% of population)', 2017, <https://www.adb.org/countries/bangladesh/poverty>, accessed 2 July 2017.
  - 8 UNDP (UN Development Programme), 'Countries: Bangladesh', 2016, <http://hdr.undp.org/en/countries/profiles/BGD>, accessed 2 July 2017.
  - 9 WITS (World Integrated Trade Solution), 'Bangladesh trade at a glance: Most recent values', 2017, <http://wits.worldbank.org/CountrySnapshot/en/BGD>, accessed 2 July 2017.
  - 10 Banco Santander, 'Bangladesh: Foreign investment', <https://en.portal.santandertrade.com/establish-overseas/bangladesh/investing>, accessed 2 July 2017.
  - 11 US, State Department, '2015 Investment Climate Statement: Bangladesh', <https://www.state.gov/e/eb/rls/othr/ics/2015/241475.htm>, accessed 2 July 2017.
  - 12 Banco Santander, *op. cit.*
  - 13 WEF (World Economic Forum), 'The Global Competitiveness Report 2016–2017', [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf), accessed on 2 July 2017.

infrastructural weaknesses), it has grown by roughly 6% per year since 1996.<sup>14</sup> The country's strong growth has largely been driven by the domestic agricultural sector, exports of ready-made garments (RMGs) and remittances from Bangladeshis working abroad.

Agriculture's contribution to GDP has been declining. Yet it remains an important sector, as the majority of rural Bangladeshis make a living from farming, with the main products including rice, jute, wheat, tea and fish.<sup>15</sup> Manufacturing and services have shown strong growth in recent years. Bangladesh's manufacturing sector is heavily dependent on the labour-intensive RMG sector,<sup>16</sup> while products of its agro-processing sector include baked goods, confectionery items, processed fruit and vegetables, cereals and assorted beverages.<sup>17</sup> Some progress has been made in developing other value-added industrial sectors, such as pharmaceuticals (which satisfy the bulk of domestic demand), leather and jute products, and plastics.

The services sector (notably financial services, telecommunications and construction) makes a significant contribution to GDP and employment in the country. The Bangladesh economy is also heavily reliant on remittances paid by the estimated 10 million Bangladeshis living and working in the Middle East, South-East Asia and other regions.<sup>18</sup>

Bangladesh's total merchandise exports in 2016 amounted to \$38.5 billion, consisting mainly of woven apparel and knitwear, with much more modest contributions made by, for example, leather and leather products, jute and jute products, home textiles, frozen food and chemicals. Bangladesh's main export markets that year were the EU and the US.

Bangladesh's RMG export sector has seen exponential growth in recent years and today the country is the second largest exporter of RMG in the world after China. This growth is largely attributable to the trade preferences that Bangladesh enjoys as an LDC, which take the form of duty-free quota-free (DFQF) market access into many developed and some developing countries and preferential market access under regional trade agreements such as the South Asian Free Trade Area (SAFTA) and the Asia-Pacific Trade Agreement (APTA).<sup>19</sup>

Bangladesh's total merchandise imports in 2016 amounted to \$40.4 billion, with some of the main products imported being cotton, machinery, mineral fuels and

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14 CIA (Central Intelligence Bureau), *The CIA World Fact Book 2017*, 'Economy overview', [https://www.cia.gov/library/publications/the-world-factbook/fields/print\\_2116.html](https://www.cia.gov/library/publications/the-world-factbook/fields/print_2116.html), accessed 15 April 2017.

15 ITA (International Trade Administration), 'Bangladesh agricultural sector', 2016, <https://www.export.gov/article?id=Bangladesh-Agricultural-Sector>, accessed 17 April 2017.

16 BKMEA (Bangladesh Knitwear Manufacturers and Exporters Association), *Apparel Export Statistics of Bangladesh FY 2015–2016*. Dhaka: BKMEA, 2017.

17 ITA, *op. cit.*

18 Trading Economics, 'Bangladesh: Remittances', 2017, <http://www.tradingeconomics.com/bangladesh/remittances>, accessed 15 April 2017.

19 WTO, *Trade Policy Review: Bangladesh 2012*, 'Executive summary', [https://www.wto.org/english/tratop\\_e/tpr\\_e/s270\\_sum\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s270_sum_e.pdf), accessed 11 April 2017.

mineral oils, animal or vegetable fats and oils, electrical machinery, fertilisers, and iron and steel. The main countries of supply that year were China, India, Singapore, Japan, Hong Kong and Malaysia.<sup>20</sup> Bangladesh's merchandise exports grew by about 8% and its imports by about 7% in the period 2011–2015, but the country's share of global trade stands at only about 0.2%.<sup>21</sup> Although services make a substantial contribution to the Bangladesh economy, the country's services trade is comparatively small. For example, in 2015 services exports and imports together amounted to just over \$12.3 billion (or 15.8% of total trade).<sup>22</sup> In 2014 Bangladesh's services exports mainly comprised government services, followed by IT and software services, other business services, transport and travel. In the same year services imports comprised mainly transportation, financial services, other business services, travel services and government services.<sup>23</sup>

## BANGLADESH'S TRADE POLICY

Having operated under a fairly restrictive trade policy for a number of years after the country's independence in 1971, the Bangladesh government changed course after it joined the WTO in 1995, embarking on a trade liberalisation programme that led to tariff cuts and rationalisation, the liberalisation of the exchange rate and a dramatic reduction in quantitative restrictions.<sup>24</sup>

Today Bangladesh is very dependent on international trade, both for employment and economic growth and for development purposes. However, there is growing concern about the sharp rise in the use of so-called 'para tariffs', such as licensing fees and countervailing duties (particularly on imported food), which are aimed at protecting local producers.<sup>25</sup> Export diversification is a key goal in Bangladesh's Export Policy for 2015–2018, with a number of sectors having been designated as 'high-priority sectors' and 'special development sectors', which makes them eligible for special policy support. High-priority product categories – such as value-added RMG and garment accessories, home textiles and furnishings, leather products and jute products – are those that have high export potential but for various reasons have not been satisfactorily exploited.<sup>26</sup>

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20 ITC (International Trade Centre), 'Trade map', <http://www.trademap.org/>, accessed 14 April 2017.

21 *Ibid.*

22 *Ibid.*

23 *Ibid.*

24 Bangladesh, GED (General Economics Division) Planning Commission, *7th Five Year Plan FY2016–FY2020: Accelerating Growth, Empowering Citizens*, 11 November 2015, [http://www.lged.gov.bd/UploadedDocument/UnitPublication/1/322/11.%207th%20Five%20Year%20Plan\(Final%20Draft\).pdf](http://www.lged.gov.bd/UploadedDocument/UnitPublication/1/322/11.%207th%20Five%20Year%20Plan(Final%20Draft).pdf), accessed 14 April 2017.

25 Sattar Z, 'Tariffs, protection, and price effects of budget 2014–15', *The Financial Express*, 19 July 2014, <http://print.thefinancialexpress-bd.com/2014/07/19/46065>, accessed 27 March 2017.

26 Bangladesh, Ministry of Commerce, 'Export Policy 2015–2018', [http://mincom.portal.gov.bd/sites/default/files/files/mincom.portal.gov.bd/page/e177ee18\\_f389\\_4f9e\\_a40c\\_57435cfac5b2/Export%20Policy%202015-2018\\_English.pdf](http://mincom.portal.gov.bd/sites/default/files/files/mincom.portal.gov.bd/page/e177ee18_f389_4f9e_a40c_57435cfac5b2/Export%20Policy%202015-2018_English.pdf), accessed 14 April 2017.

In recent years the Bangladesh government has done a fair amount to liberalise the services sector, which has seen a growth spurt in the wake of the expanding middle class' consuming more technology-rich services.<sup>27</sup> However, services exports are still small in comparison with merchandise exports. Tourism, architectural services, engineering and consultancy have been identified as special development sectors in the services arena.<sup>28</sup>

Although the government maintains that the private sector is consulted on substantive business and trade issues, some private sector respondents felt that the political elite and 'bureaucrats' have a different policy approach from that of the business community, ie, 'wait and see' vs. 'act today'.

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## TRADE AGREEMENTS AND ARRANGEMENTS

Over the years Bangladesh has played an active role in the WTO, urging that priority be given to issues affecting LDCs, such as agricultural subsidies and the erosion of preferences. Given Bangladesh's heavy reliance on RMG exports, the negotiations on non-agricultural market access are of particular importance to the country. Bangladesh sees the WTO, with its rules-based and inclusive approach, as an important vehicle for driving DFQF market access for all products originating in LDCs, supported by flexible rules of origin; for negotiating a realistic transition period for compliance with WTO agreements, such as the Trade Facilitation Agreement; for securing preferential treatment for LDC services and service providers; and for securing capacity-building assistance with a view to tackling supply-side constraints.<sup>29</sup>

Bangladesh has long taken an interest in the WTO services negotiations – framed within the General Agreement on Trade in Services – and has advocated improved market access for LDC services and service providers (particularly under mode 4). As an LDC Bangladesh is not expected to submit service offers, but it has already unilaterally liberalised key services sectors such as banking, financial services and telecommunications, thereby stimulating international competition.<sup>30</sup>

Bangladesh is party to a number of regional economic and trade cooperation agreements that aim to promote intra-regional trade. Yet despite these links, the countries of South Asia are not well integrated. In fact, intra-regional trade among the members of the South Asian Association for Regional Cooperation (SAARC) – Bangladesh, India, Pakistan, Afghanistan, Bhutan, Nepal and Sri Lanka – accounts

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27 Munir Z, Muehlstein O & V Nauhbar, 'Bangladesh: The surging consumer market nobody saw coming', *bcg.perspectives*, 22 October 2015, <https://www.bcgperspectives.com/content/articles/center-customer-insight-go-to-market-strategy-bangladesh-surg-ing-consumer-market/>, accessed 20 April 2017.

28 Bangladesh, Ministry of Commerce, *op. cit.*

29 WTO, *op. cit.*

30 UNCTAD (UN Conference on Trade and Development), 'Services Policy Review: Bangladesh 2016', <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1568>, accessed 11 April 2017.

for less than 5% of members' total trade.<sup>31</sup> One of the main reasons for this is the high level of competition among South Asian neighbours. China and India, for example, which are Bangladesh's largest and second-largest regional trade partners, compete directly with Bangladesh in garment and other manufacturing activities, which creates tension at both a political and a commercial level. Furthermore, cross-border trade between Bangladesh and India is constrained by poor road infrastructure, insufficient storage facilities at border posts and onerous customs clearance procedures.

The members of SAARC decided to deepen their trade ties in 2006 and formed SAFTA. Bangladesh is also a member of APTA, together with China, India, the Republic of Korea, Sri Lanka, Laos and Mongolia, and of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, whose other members are Bhutan, Myanmar, India, Nepal, Sri Lanka and Thailand. A few years ago, Bangladesh also signed two regional services trade agreements: the Agreement on Trade in Services under the SAARC banner and the Framework Agreement on the Promotion and Liberalisation of Trade in Services under the APTA banner.

At the bilateral level, Bangladesh has only one formal bilateral free trade agreement (with Pakistan). The Generalised System of Preferences (GSP) scheme operated by the EU for LDCs (Everything But Arms), and from which Bangladesh benefits, makes provision for DFQF access to the EU market for all products except arms and ammunition. Bangladesh is also a beneficiary of Canada's and Japan's GSP schemes, both of which provide for high levels of DFQF market access and rules of origin that were relaxed some years ago for LDCs. Among developing countries, Chile, China, Korea and India operate DFQF schemes for LDCs, from which Bangladesh benefits.

## **IMPLICATIONS OF BANGLADESH'S PROPOSED GRADUATION FROM LDC TO MIC STATUS**

The government of Bangladesh has ambitious plans for the country to be elevated to middle-income country (MIC) status within the next 10 years, once it has met the relevant income, human asset and economic vulnerability index criteria. The graduation process will take place in phases, with Bangladesh transitioning out of LDC status by 2024. The country will still enjoy LDC preferential treatment for a further three years, until 2027.<sup>32</sup> With Bangladesh's trade benefits from its LDC status having played such an important role in its export drive over the years, the loss of these preferences (three years post graduating from LDC status) will put the country under pressure to bring about the necessary economic and trade reforms to withstand the new competitive reality that it will face. Other benefits that Bangladesh will lose include access to concessionary financing from regional and multilateral banks, technical cooperation and other forms of assistance (eg, training).

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31 The Asia Foundation, 'Intra-Regional Trade in South Asia', 2016, <https://asiafoundation.org/resources/pdfs/IndiaRegionalTrade.pdf>, accessed 11 April 2017.

32 *The Daily Samakal*, 'Bangladesh to graduate from LDC status in 2024: UNCTAD', 17 December 2016, <http://www.samakal.net/2016/12/17/10146>, accessed 19 April 2017.

It was in respect of Bangladesh's proposed graduation to MIC status that the researchers encountered very different views during their fieldwork. Government representatives and the policy research fraternity were largely of the opinion that Bangladesh had a fair amount of time to devise and implement transitional arrangements, including addressing supply-side shortcomings. However, business people interviewed viewed the impending change in country status as enormously challenging, and said that there was no time to waste in preparing for the loss of preferences, building much-needed supply-side capacity, and forging closer bilateral and regional ties.

## **BANGLADESH AND THE PLURILATERALS**

Bangladesh is not party to any of the four plurilateral trade negotiations and is removed from the practical interactions among the participating countries. However, the researchers elicited an interesting mix of opinions about the perceived value of the plurilaterals to Bangladesh. At this stage the government does not feel particularly compelled to get actively involved and its overall stance is neutral. The private sector, on the other hand, sees value in Bangladesh's joining certain plurilaterals sooner rather than later, provided the right terms and conditions can be negotiated.

### **GENERAL VIEWS AND CONCERNS ABOUT THE PLURILATERALS**

Bangladesh has reached an interesting crossroads. As an LDC, it has enjoyed trade preferences and other concessions that have shielded it from the kind of competition to which other developing countries have been exposed. However, within a decade Bangladesh may have graduated to MIC status, which will mean fewer privileges and greater exposure to market forces. It is from both of these perspectives that the country's position vis-à-vis the plurilaterals should be considered.

From their fieldwork, the researchers got the impression that the government, research organisations and academic institutions in Bangladesh see the LDC–MIC crossover as a fairly distant event, with the country's LDC status in the meantime continuing to shape trade policy and relations. Despite the Doha negotiations' having effectively run aground, these stakeholders identify with and value the inclusive and rules-based multilateral approach to trade decision-making and so view the plurilaterals with some circumspection.

On the other hand, the private sector (and organised business in particular), being at the coalface, appeared to be far more concerned about the rapid approach of the change in country status and the need to prepare early for less protected trade. As a result, they showed greater (albeit still cautious) interest in the plurilaterals, regarding them as an opportunity for local producers to build stronger regional and global alliances and tap into other countries' knowledge, experience and technologies. However, they stressed that the plurilaterals should not operate as a collection of splinter groups that sow divisions between countries. There should still be an overarching multilateral framework that brings order and transparency to global trade relations and practices, and caters to the interests of poor and wealthier countries alike.



The next two sections provide a summary of the reasons why, on the one hand, Bangladesh may consider participating in one or more plurilateral(s) and why, on the other hand, it may be disinclined to do so (at least for now).

### **ARGUMENTS IN FAVOUR OF BANGLADESH'S PARTICIPATING IN ONE OR MORE PLURILATERAL(S)**

All WTO members are, to a greater or lesser extent, frustrated by the relative inaction on the multilateral negotiations front. Yet while a number of people interviewed saw the plurilaterals as offering a shorter and swifter passage to more limited, sector-based agreements, the Bangladesh government in particular held the view that the WTO remains the right vehicle to drive the global trade agenda.

The plurilaterals, particularly the Trade in Services Agreement (TiSA) and the Government Procurement Agreement (GPA), were generally seen as having the potential to boost Bangladesh's domestic development and export performance by encouraging the importation of goods and services that could fast-track the growth of certain industries with export potential. This in turn could put the country on a firmer path towards the realisation of its development goals. In the face of limited FDI inflows, Bangladesh could also leverage the plurilateral model to acquire foreign expertise and technology. In addition, more open trade and heightened competition could induce greater productivity among local businesses, which might have become complacent due to their reliance on various forms of protection. Another benefit of engaging with the plurilateral process is that it would send a positive signal to the investment community, thereby possibly making the distant dream of Bangladesh's becoming a regional hub for re-exports from landlocked neighbours a reality.

Some people reported that Bangladesh is under some pressure to participate in one or more plurilateral(s), because by not participating the country could find itself marginalised. If a plurilateral in which Bangladesh had no involvement were 'multilateralised', ie, activated within the WTO system, Bangladesh would have no choice but to settle for whatever the agreement offered. If competitors such as India, Cambodia and Vietnam had opted in to the negotiations, they might have succeeded in extracting favourable terms for themselves, to the ultimate detriment of Bangladesh and other uninvolved parties. Furthermore, if the negotiating parties to a particular plurilateral were using the 'critical mass' strategy to bring the agreement within the ambit of the WTO, the interests and priorities of Bangladesh and other LDCs could be overlooked if critical mass were achieved through the involvement of relatively few, but nevertheless economically powerful, WTO members.

### **ARGUMENTS AGAINST BANGLADESH'S PARTICIPATING IN ONE OR MORE PLURILATERAL(S)**

Despite the obvious potential of plurilaterals, these are not as clear-cut as the WTO agreements and are therefore of questionable value in some people's eyes. It has been suggested in some of the literature that the subject matter of plurilaterals such as the TiSA, the Environmental Goods Agreement (EGA) and the Information Technology Agreement II (ITA-II) is not of sufficient interest to LDCs, which helps to explain their non-involvement. Yet this is a simplistic generalisation, as Bangladesh is either active in or has aspirations for the sectors covered by all four

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plurilaterals under investigation. The reasons for the country's non-involvement are complex, inconsistent across different stakeholder groups, and often linked just as much to the processes surrounding the negotiations as to the subject matter on the table.

There is a common view in Bangladesh that the plurilaterals are developed country initiatives, catering mainly to their OECD-dominated memberships. The fact that China's request to join the TiSA has not been accepted could support this partiality claim.

Bangladesh's non-involvement in the plurilaterals also stems from capacity constraints and development challenges. Opening its markets to more foreign competition, particularly from large and well-resourced countries, would put pressure on jobs and erode some industries' growth prospects. Bangladesh's IT sector, for example, is mainly domestically focused at this stage and an influx of imported IT goods could harm the growth prospects of this sector. It is possible that the country would also have to incur considerable expense in meeting environmental standards and improving working conditions. While this sort of investment would ultimately be good for the country, in the short term it could erode the competitiveness of the manufacturing sector and lead to job losses.

Plurilateral negotiations are complicated affairs, requiring knowledgeable and experienced individuals to act on behalf of different sectors and interest groups. They must also be intimately acquainted with the political dynamics in the sectors and highly skilled in negotiation techniques. Any new agreement to which Bangladesh became a party would create a heavy administrative burden. With plurilaterals, Bangladesh would not be able to rely on the LDC 'collective' for support and guidance. Both the literature and the results of the interviews point to a lack of knowledge and capacity, within government in particular, to seriously engage with the plurilateral process.

Other expressed concerns about plurilaterals were the absence of a formal and transparent dispute settlement process (like that of the WTO) and the risk that, in helping to steer the negotiations towards a satisfactory conclusion and final agreement, developing country and LDC participating members will, in the eyes of developed countries, have served their purpose and outstanding issues from the DDR that have long preoccupied developing countries and LDCs (such as subsidies and agricultural market access) will simply be swept from the negotiating table.

## SECTORAL INVOLVEMENT AND REACTIONS TO THE FOUR PLURILATERALS

### TiSA

Bangladesh has been active in the DDR services negotiations, especially in relation to LDC matters. The various stakeholders whom the researchers interviewed were very conscious of the key role that the services sector plays in Bangladesh's economy and how it could in time also become a force for regional and global expansion. In a Service Policy Review of Bangladesh that the UN Conference on Trade and Development completed in 2016, it emerged that the country had a liberal regulatory framework for the services sector but that persistent challenges

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included a general lack of services data and insufficient knowledge of the trade potential of specific services sectors.<sup>33</sup>

According to certain people interviewed, Bangladesh's involvement in the DDR negotiations in general and in the services negotiations in particular has consumed a great deal of time and energy, and the prospect of moving on to a new agreement (TiSA) is far from appealing. There is also a feeling that the TiSA negotiations are not being conducted openly. If Bangladesh were to join the TiSA it could find itself in an 'exclusive club' that it is not in favour of, particularly given its lengthy exposure to WTO inclusiveness and transparency. Nevertheless, the view of the private sector respondents was that Bangladesh could not afford to be left out of the TiSA negotiations, as services are too important to the country's economy and future trade prospects for it not to have a say in the shaping of the agreement.

## EGA

The global trade in environmental goods is massive, totalling nearly \$1trillion annually<sup>34</sup> and forecast to exceed \$1.9 trillion by 2020.<sup>35</sup> However, LDCs' share of environmental goods trade is small. For example, Bangladesh's total environmental goods exports in 2013 were valued at \$26.5 million,<sup>36</sup> representing only about 0.1% of the country's total exports.<sup>37</sup>

Bangladesh's environmental goods export basket is dominated by a handful of products destined for a limited number of markets. Jute and jute products (eg, raw jute, yarn and twine, sacks and bags) make the most substantial contribution to its environmental goods exports, helped by their ecological sustainability and environmentally friendly character.

As one of the most natural disaster-prone countries in the world, Bangladesh understands the importance of environmental protection and the growing trend globally of adopting a 'green economy' approach – and is keen to play a part in this. Most of the interviewees felt that it would be beneficial for Bangladesh to more closely follow and/or join the EGA negotiations. They saw as a key benefit the

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33 UNCTAD, *op. cit.*

34 Mckenna M, Melo JD & M Vijil, 'The WTO Environmental Goods Agreement: Why even a small step forward is a good step', World Bank, *The Trade Post*, blog post, 22 September 2014, <http://blogs.worldbank.org/trade/wto-environmental-goods-agreement-why-even-small-step-forward-good-step>, accessed 14 April 2017.

35 ITC, 'Trade in Environmental Goods and Services: Opportunities and Challenges', 2014, <http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/AssetPDF/EGS%20Ecosystems%20Brief%20040914%20-%20low%20res.pdf>, accessed 14 April 2017.

36 Khatun F, 'Liberalization of Environmental Goods and Services South Asian LDC Issues', SAWTEE (South Asia Watch on Trade, Economics & Environment) Briefing Paper, 10, 2009, <http://www.sawtee.org/publications/Briefing-Paper-20.pdf>, accessed 14 April 2017.

37 UN, Comtrade, <https://comtrade.un.org/>, accessed 28 April 2017.

opportunity for the country to secure better market access for its environmental goods and to acquire cleaner technologies at more affordable prices.<sup>38</sup>

It was evident to the researchers, however, that there was a general lack of awareness about the EGA negotiation process. A potential challenge that Bangladesh would face in the EGA negotiations is that the list approach is being used, whereas the project approach would be a preferred option. Bangladesh views the project approach (which developing countries generally favour but developed countries seem to oppose) as offering better market access opportunities, as it facilitates technology transfer. This, in turn, could strengthen the country's ability to comply with EGA-prescribed technical and phytosanitary requirements.<sup>39</sup>

The Asia Pacific Economic Cooperation (APEC) experience has shown that the negotiation and implementation of tariff reductions for lists of environmental goods are very complex.<sup>40</sup> As the EGA is following the APEC approach, Bangladesh would need a great deal of technical assistance if it were to hold its own at the EGA negotiating table. While it is still an LDC, though, Bangladesh would not be obliged to make any tariff reduction commitments.

The EGA is intended to be a 'living agreement', which allows the addition of new products in the future. Thus, if Bangladesh were to join the negotiations, it would have the opportunity to influence the agreement in ways that would help it address its sustainable development shortcomings. The trade in environmental goods is prone to excessive use of non-tariff measures (NTMs), such as production regulations and standards, eco-labelling and certification requirements, and subsidies, which could constitute costly impediments for Bangladesh and other LDCs.<sup>41</sup> Therefore, Bangladesh would need to be particularly vocal about how detrimental the unrestrained usage of NTMs is to LDCs. Furthermore, with small and medium enterprises forming the bedrock of Bangladesh's industrial output yet unable to afford the clean technologies called for under the EGA's environmental standards, special financial assistance for this sector would be necessary – possibly via Aid for Trade initiatives.

## GPA

In Bangladesh, public procurement refers to the purchasing, hiring and obtaining of goods, works and services by any contractual means by government agencies or procurement entities, including ministries, divisions, departments/directorates and

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38 Araya M, 'Can the Environmental Goods Agreement help advance the Paris Agreement and Sustainable Development Goals?', ICTSD (International Centre for Trade and Sustainable Development), 9 December 2016, <http://www.ictsd.org/opinion/can-the-environmental-goods-agreement-help-advance-the-paris-agreement-and-sustainable-development-goals>, accessed 15 April 2017.

39 Khatun F, *op. cit.*

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41 Khatun F, *op. cit.*

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According to the US Department of Commerce, the government of Bangladesh is the country's largest importer of goods and services, spending about \$10 billion per year on projects aimed at building and upgrading schools, hospitals, roads, power utilities and other infrastructure

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other bodies.<sup>42</sup> According to the World Bank, Bangladesh has improved its system of public procurement in recent years, with the help of digitisation, with a view to meeting international standards.<sup>43</sup> The Central Procurement Technical Unit in the Ministry of Planning, which is responsible for all procurement management and monitoring, has devised an e-Government or electronic system that tracks the procurement activities of all public agencies and disseminates tender opportunities to potential bidders from Bangladesh and abroad.

According to the US Department of Commerce, the government of Bangladesh is the country's largest importer of goods and services,<sup>44</sup> spending about \$10 billion per year on projects aimed at building and upgrading schools, hospitals, roads, power utilities and other infrastructure. However, among the stumbling blocks to efficient government procurement practices in Bangladesh are frequent political interference and governance issues.<sup>45</sup>

There is no overt discrimination against foreign firms in Bangladesh, although the government does tend to promote the interests of local producers through preferential policies and regulations.<sup>46</sup> For example, the government firmly controls approvals for imported medicines that compete with domestically manufactured equivalents.

Most people whom the researchers interviewed held the view that Bangladesh should join the GPA negotiations, especially given the importance of government procurement to the country's development and the capacity constraints that the domestic supply market often faces – although they differed on the optimal timing of such a move. The interviewees were aware of the increased competition that Bangladesh suppliers would face but seemed to think that this would be outweighed by the additional capacity and employment opportunities that would be created with greater foreign involvement. Despite these positive signals, there was clearly a lack of knowledge about the GPA, its commitments/schedules, and the requirements and procedures for accession (or becoming an observer). This seemed to point to capacity constraints among government representatives and a lack of serious involvement on the part of private sector respondents in debates about the pros and cons of GPA involvement. Few of those interviewed could comment meaningfully on what would be required to make Bangladesh GPA-ready.

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## ITA-II

In 2002 the Bangladesh government identified information and communications technology (ICT) as a ‘thrust sector’ in view of its potential for job creation, industry growth, greater economic inclusiveness and high spillover effects in other sectors. In collaboration with various industry associations such as the Bangladesh Computer Council and the Bangladesh Association of Software and Information Services, as well as international trade support institutions, the government has introduced various support measures to assist the development of the IT sector and to boost exports of IT-related products and services. Bangladesh’s IT and IT-enabled services industry is reported to have grown by 40% over the past five years, with many new software companies having been registered in the country.<sup>47</sup>

Despite these efforts, Bangladesh trails well behind many other countries as a user and producer of IT products and services, and was ranked 112<sup>th</sup> out of 139 countries on the World Economic Forum’s Networked Readiness Index in 2016.<sup>48</sup> Also in 2016, Bangladesh ranked 145<sup>th</sup> out of 175 countries on the International Telecommunication Union’s ICT Development Index<sup>49</sup> and 124<sup>th</sup> out of 193 countries on the UN’s e-Government Development Index.<sup>50</sup>

According to a number of respondents, although joining the ITA-II appears to have merit, the IT sector lacks the capacity at present to exploit opportunities resulting from a more liberal IT trading environment.

Under the original ITA, some countries took the opportunity to ‘free ride’ by keeping their tariffs on imported IT products high while enjoying tariff-free treatment for their IT exports. Yet this was often to their detriment. Research shows that, as a result of this practice, countries such as Argentina, Brazil and South Africa were sidelined in global value chains.<sup>51</sup> This needs to be borne in mind when Bangladesh weighs up the pros and cons of maintaining relatively high tariffs on IT imports as a way of encouraging local production vs. liberalising the sector in the interests of (ultimately) heightened competitiveness. Again, it was evident from the interviews that there was limited awareness of the ITA negotiation and implementation process, and how joining the plurilateral would affect Bangladesh’s economic efficiency levels and development prospects in the longer term.

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## OVERVIEW OF GTAP CGE MODELLING RESULTS

### TiSA

The GTAP CGE modelling revealed that Bangladesh would derive benefits from joining the TiSA, but these benefits would be marginal. Overall, the opportunity cost of joining this plurilateral would exceed that of not joining. Bangladesh would experience an aggregate net welfare gain of \$16.2 million if it decided to join the TiSA and an aggregate net welfare gain of \$6.9 million if it decided not to join. For Bangladesh, accession to the TiSA is likely to have a positive effect on real GDP growth, investment, real national income, import volumes and value, export value and real wages. For example, investment in Bangladesh is projected to increase over the baseline when joining the TiSA (Scenario B), with a slight increase in investment from 0.003 (in Scenario A) to 0.004 (in Scenario B) percentage points relative to the baseline.

The countries that are estimated to gain the most from joining the TiSA are those for which the services sectors are relatively more important. Also, countries are expected to benefit from higher real national income increases if their services sectors' exports share in GDP is higher. The small gains for Bangladesh (ie, real national income gains of 0.02 percentage points from joining the TiSA) can therefore be explained by the country's relatively small services exports' share of GDP (2%) and the fact that the average trade cost savings equivalent to eliminating the binding overhang are only around 1.4%. The strongest sectoral effect of joining the TiSA is projected for the maritime transport industry, with an increase in output of +0.14 percentage points relative to the baseline in response to joining the TiSA.

### EGA

The modelling revealed that Bangladesh would benefit from joining the EGA, but these benefits would be marginal. Overall, the opportunity cost of joining the plurilateral would exceed that of not joining. Bangladesh would experience an aggregate net welfare gain of \$2,211.8 million if it decided to join the EGA and an aggregate net welfare gain of \$1,239.6 million if it decided not to join. Accession to the EGA for Bangladesh is likely to have a positive effect on real GDP growth, investment, real national income, import volumes and value, and real wages. The only macroeconomic indicators that would show negative growth are export volumes and value, and the negative growth would be realised in both scenarios (joining and not joining). For example, the value of exports (percentage points relative to the baseline) would decrease from -0.1652 under Scenario A (if Bangladesh decided not to join) to -0.2358 under Scenario B (if Bangladesh decided to join). Similarly, the volume of exports would decrease from -0.2754 under Scenario A (if Bangladesh decided not to join) to -0.6440 under Scenario B (if Bangladesh decided to join). The strongest sectoral effect of joining the EGA is projected for the EGA-related sectors, and the transport, communication and public services sectors. There would also be some positive gains in the manufacturing sector.

## GPA

The modelling revealed that Bangladesh would experience significant economic gains from liberalising its government procurement practices and joining the GPA, and that the opportunity cost of not joining would exceed that of joining. Bangladesh would experience an aggregate net welfare gain of \$1,097.6 million if it decided to join the GPA and an aggregate net welfare gain of \$75 million if it decided not to join. Of the four plurilaterals, Bangladesh would benefit the most from joining the GPA because the difference in welfare is the greatest when the two scenarios (joining and not joining) are compared. The only macroeconomic indicators that would not register a benefit (should Bangladesh decide to join the agreement) are export volumes, output and employment (both skilled and unskilled); all other indicators revealed positive growth rates. This makes sense in view of Bangladesh's domestic supply-side constraints and the fact that because of trade (and the value of imports exceeding that of exports) there would be little effect on domestic employment. Bangladesh stands to gain a great deal in terms of an increase in investment if it joins the GPA. Investment is projected to increase from 0.2365 (Scenario A) to 2.1331 (Scenario B) percentage points relative to the baseline. The strongest sectoral effect of joining the GPA is projected for the services (notably construction) and some primary and manufacturing sectors.

## ITA-II

The modelling revealed that, depending on the measure used, Bangladesh would either be better off or worse off if it joined the ITA-II. For example, in terms of GDP and investment benefits, the opportunity cost of joining the plurilateral would exceed that of not joining because of the cross-sectoral effect, meaning that the country would be better off by joining. Bangladesh would also experience an aggregate net welfare loss of -\$2.9 million if it decided to join the ITA-II (upper bound Scenario B) and an aggregate net welfare loss of -\$2.4 million if it decided not to join the ITA-II (upper bound Scenario A). Of all four plurilaterals, Bangladesh stands to gain the least (in net welfare terms) from joining the ITA-II. Those macroeconomic indicators that would show a positive effect from joining the ITA-II include real GDP growth, investment, and import volumes and value. If Bangladesh does not join, there would be positive growth in GDP, import value (although import volumes would decline), export volumes and value, and skilled employment. All other macroeconomic indicators would experience negative growth rates for both scenarios (joining and not joining). The strongest sectoral effect of joining the ITA-II is projected for the ITA-II-related sectors, construction and some primary sectors. Some positive gains would also be made in manufacturing. Of the four plurilaterals, the ITA-II would offer the least benefits to Bangladesh.



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