

Market Access: Bangladesh's Interests and Concerns

Professor *Mustafizur Rahman*
Research Director

I. INTRODUCTION

The issue of enhanced market access for products of interest to the developing countries and the LDCs were discussed in each of the GATT Rounds; and it has also received prominence in the deliberations in the WTO since the organisation was established in 1995. However, it will not be an exaggeration to state that till now, at least from the LDC perspective, the results have been, by and large, far from satisfactory.

As may be noted, the GATT Uruguay Round discussions focused mainly on market access for industrial products – the developed countries committed to bound 99% of their tariff lines in industrial products from the previous 78%, whilst the share of bound tariff lines committed by the developing countries increased from 21% to 73%. Average tariffs on industrial products imported by developed countries were reduced by 40% on imports from all countries, and by 37% on imports from developing countries; for the developing countries the corresponding figures stood at 25% and 21%. These reductions were negotiated line by line, rather than through either a *formula approach* or a *sectoral approach*. An attempt was also made to deal with non-tariff barriers (NTBs): voluntary export restraints (VERs) were prohibited and as is widely known, a phase-out was agreed with respect to the multi-fibre arrangement (MFA) under the Agreement on Textiles and Clothing (ATC).

LDCs such as Bangladesh, as also the developing country members in the WTO, were concerned by a number of outstanding issues which were not adequately addressed during the GATT Uruguay Round. Some of the more pressing concerns were: (a) although average tariffs in developed countries have come down sharply, from the pre-UR level of 6% to post-UR level of about 4%, because of existing *tariff peaks* (high tariff rates on particular commodities) in developed country markets, import duty on a number of export goods of heightened interest to LDCs, such as textiles, leather and food products, continued to remain at very high levels; (b) because of *tariff escalation* (tariffs on goods increasing with higher degree of processing) in the developed country markets, export of manufactured goods from developing countries and LDCs were being penalised; (c) trade in agricultural commodities remained highly constrained and distorted because of high level of farm subsidies in the OECD

countries (total OECD subsidies currently stand at one billion dollar a day) and tariff rate quotas (TRQs); (d) developed countries and some of the developing countries were showing a growing tendency to use non-tariff barriers (NTBs) in the form of Anti-dumping duties (ADDs) and Countervailing Duties (CVDs), technical standards and compliance requirements with respect to sanitary and phytosanitary measures (SPSM), which hindered market access of exports from developing countries and the LDCs, and (e) a visible lack of enthusiasm on the part of the developed countries to include in the ongoing negotiations issues relating to market access in services of interest to the developing countries and LDCs, including access to the labour market.

As a recent joint study by the World Bank and IMF observes, “In Canada and the United States, tariff peaks are concentrated in textiles and clothing in the (European Union) and Japan in agriculture, food products and footwear”. The study goes on to point out that “Trade barriers, mostly erected by rich countries, are eating up \$650 billion that could otherwise be used to improve livelihoods around the world each year and limiting poor countries’ sorely needed access to world markets”. Other studies have found that the opportunity cost of every job protected through market access barriers in the developed countries is 30 jobs in the developing world, and this results in about 27 million lost jobs in the developing countries.

There is a growing recognition that because of the formidable supply side constraints it is becoming increasingly difficult for the LDCs to ensure competitive presence in the global market, and to compete with imported products in the domestic market. The idea of zero-tariff, quota-free global market access for the LDCs did indeed receive some attention during the Doha Ministerial Meeting of the WTO in November, 2001. Such a demand originated in the backdrop of a secular fall in the share of the LDCs in global export which came down from 0.7% in early 1990s to 0.4% in 2001.

II. BANGLADESH’S MARKET ACCESS CONCERNS

As was pointed out, LDCs such as Bangladesh have been severely constrained because the tariff rates on items of their export interest such as apparels, textiles, leather and frozen food have continued to remain at very high levels despite the market access improvements during the Uruguay Round talks. For example, in spite of the fact that US average effective tariff levels have come down from 3.4% in 1991 to 1.6% in 2001, effective tariff rates on clothes and shoes continued to remain at very high levels of 11.4% (compared to 0.9% for the rest of the products). Tariffs on

woven-wear (16.2%), men's knitted shirt (32.5%) and some categories of woven trousers (29.0%) are particularly high. Although clothes and shoe account for only 6.7% of US annual imports, they account for 47% of total tariff collected by the USA.

Bangladesh epitomises what this means in real terms: with an export of \$2.40 billion to the US market, Bangladesh has a \$331 million tariff slumped on her exports; by contrast importers have to pay a tariff of only \$330 million on exports from France although annual export of France to the USA is worth about \$24.2 billion (or 13 times more than Bangladesh!). Thus, the effective tariff rate on Bangladesh's exports to USA is 14.1%, compared to a mere 1.1% on exports from France. It goes without saying that such high tariffs undermine Bangladesh's competitive strength in the US market.

A welcome development in 2001 was that the European Union came up with the offer of a zero-tariff, quota-free market access to the EU for exports from the LDCs under EU's everything but arms (EU-EBA) initiative. However, since the stringent rules of origin has not been changed, from at least the short-term perspective the capacity of LDCs such as Bangladesh to enhance their exports to EU, by taking advantage of this initiative, has been severely constrained. The findings of an ongoing study at the Centre for Policy Dialogue (CPD) show that if the RoO requirements remain unchanged, the incremental export in response to this initiative will be worth only about \$60 million dollar annually, or less than 3% of value of current exports of Bangladesh to the EU. It is relevant here to mention that in recent times Canada and Japan have revised their preferential schemes to provide enhanced market access to LDCs such as Bangladesh. From the short term static perspective, any such initiative by the USA would substantially broaden Bangladesh's market access opportunities; nonetheless USA is yet to come up with such as initiatives.

It is pertinent to recall here that in 2001 USA did indeed provide quota-free and zero-tariff access to all the 34 African LDCs under the Africa Growth and Opportunity Act (AGOA) and 1 Caribbean LDC (Haiti) under the Caribbean Basin Initiative (CBI) (subject to certain RoO requirements and restrictions). Indeed, Bangladesh, a country with relatively strong supply side capacities among the LDCs, specially in apparels, could have benefited substantially through such an enhanced market access. As was

pointed out above, the structure of US tariffs evince that a zero-tariff access would have provided Bangladesh with considerable competitive edge in the US market. As the abovementioned CPD study shows, a similar initiative by the USA (which in effect will result in a *Quad initiative*) may be expected to lead to an incremental export of about \$850 million for Bangladesh. A quota-free access, accorded to LDCs such as Bangladesh, in the context of continuing quota on non-LDC exporters, to be effective till 2005, would have provided apparel exporters in Bangladesh considerable advantage in terms of positioning themselves during the run up to the quota-free post-MFA regime which will be in place in January, 2005.

In spite of significant reductions in tariff rates during the GATT Uruguay Round, tariff peaks (high tariffs on particular products) and tariff escalation (increase in tariff rates in tandem with the degree of processing) and Tariff Rate Quota (TRQ) continue to inhibit market access of many commodities exported by the developing countries and the LDCs.

Non-tariff barriers in the developed economies, which constrain market access of developing countries and the LDCs, take various forms: export-import quota, QRs, anti-dumping and countervailing duties, sanitary and phytosanitary measures (SPSM) and technical barriers to trade (TBT). In the recent past Bangladesh's exports have faced sanctions or threats of sanction in the developed country markets on account of ADDs (shop towel in USA), SPSM (shrimp in the EU and Japan), TBT (shrimp-turtle debate) and presence of azodye in export goods (in textiles). Some developed countries are also trying to impose standards in the form of environmental measures such as eco-labelling and compliance stickers. Some of the developed countries would like to enforce more rigorous compliance with *new measures* in the form of safety, standards, customs valuation and trade facilitation, human rights and labour standards. Compliance with stringent demands in the context of ISO-9000 and ISO-14000 are becoming important factors in terms of market access in the developed countries. It is to be noted with due importance that along with the trade authorities in the developed countries, various consumers groups and non-government consumer watchdogs are also coming up with their own demands in the area of compliance, specially as regards compliance with social standards as articulated by SA-8000 and related standards.

III. MARKET ACCESS AND THE DOHA ROUND

In the context of the emerging market access difficulties, developing countries and LDCs made a concerted attempt to reflect their attendant concerns in the final declaration emanating from the Doha Ministerial Meeting of the WTO. However, LDCs were particularly disappointed to find that no firm endorsement of their demand for a *zero-tariff and quota-free market access* emerged from the Doha Ministerial. It should, however, be noted that the Doha Ministerial did not entirely ignore the emerging concerns of the LDCs. Thus, the Doha Mandate commits members to “reduce, or as appropriate, eliminate tariffs, including reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of interest to developing countries”, and goes on to mention that the forthcoming negotiations “shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments”. The Doha Ministerial Meeting set up a *Negotiating Group on Market Access* to discuss the relevant issues in the WTO. At the beginning of March 2002, Members also decided that the Group will also discuss market access for environmental goods, which will be monitored by the special session of the Committee on Trade and Environment (CTE).

Current Debates in the Negotiating Group on Market Access

The Negotiating Group on Market Access working in Geneva has discussed a broad spectrum of issues in the areas of: (a) market access for industrial and agricultural goods; (b) market access in environmental goods and (c) non-tariff barriers. A large number of countries have submitted proposals articulating their position, some times individually, often in groups. A close scrutiny of the market access proposals submitted by various countries and debriefing of key players and organisations evince some early signals as regards similarities of interest, emerging tensions and the prioritisation of the relevant issues by individual countries, major players and coalitions of interests. The following sections highlight the focus of some of the ongoing discussions in the Negotiating Group.

Schedule for Discussion on Modalities

From the very beginning of its work, structuring of the market access talks became a hotly debated issue in the discussions in the Negotiating Group. India and the Africa group initially argued that Doha Declaration did not prescribe a dead line for modalities or negotiating formulas; the EC on the other hand was pushing for a deadline of March 31, 2003 to agree on modalities. Subsequent to protracted and intensive consultations, members agreed in July, 2002 to reach a common understanding on a possible outline on modalities by the end of March, 2003 with a view to reaching agreement on modalities by May 31, 2003.

Modalities for Tariff Reduction

Three options have emerged from the proposals submitted by the various countries in the Negotiating Group: (i) formula approach; (ii) request-offer approach and (iii) sectoral approach. The formula approach includes the well-known *Swiss Formula* (which envisage deeper cuts for higher tariffs) as also the linear tariff cuts of equal magnitude (a harmonised rate which is usually a percentage, and cuts across whole classes of products). A sectoral approach would mean a unique formula for each of the broad sectors. A request-offer approach is usually based on bilateral requests and offers with the results to be subsequently extended to all WTO members on a most favoured nation (MFN) basis.

The tensions in the abovementioned context are becoming increasingly apparent. Many developing countries and LDCs are not yet ready to liberalise their markets in a linear fashion fearing import surge, deindustrialisation and revenue loss. On the other hand, a formula approach is perceived to be a more convenient and expeditious way for reaching an agreement within a short time frame (such as the January 1, 2005 deadline for the Doha Round). India, China and Kenya seem to prefer the request-offer approach, while South Korea and Japan have indicated preference for the formula approach. EC submission indicates some flexibility, noting that while there are different ways to reducing tariffs, “the modality to be chosen has to bring about the greatest possible reduction across the board for all the WTO Members”.

Developing countries and LDCs want to ensure that tariffs are reduced to a certain targetted level by taking cognisance of the stage of development of individual countries and their competitive strength. The strategy of the LDCs is to take as few commitments as possible by taking advantage of S and D provisions.

Tariff Peaks and Tariff Escalation

As was mentioned earlier, inspite of the overall reduction in the tariff rates, many developing countries are concerned by the tariff peaks and tariff escalation which continue to inform the tariff structure of the developed countries. A number of countries including India and China has argued that high value-added products from developing countries are being subjected to higher tariffs because of existing tariff peaks. EC and Japan have underscored the need to reduce tariff peaks, but have not come out explicitly in favour of reduction in tariff escalation. It is to be noted here that discussion on reduction of tariffs principally concerns *bound tariffs*, and not *applied tariffs*. For countries which were able during the Uruguay Round to bound their tariffs at high levels compared to applied tariffs, the immediate impact of reduction in the tariff rates will obviously have limited value. Obviously, it will be in Bangladesh's interest to ask for reduction in tariff peaks and tariff escalation in all the non-LDC economies to be applied on a non-reciprocal basis under the S and D treatment for the LDCs.

Market Access for Environmental Goods

Some developed countries are trying to broaden the ambit of the market access debate in the Negotiating Group. Thus, the submission by the USA calls for greater coordination between the Committee on Trade and Environment (CTE) and the Market Access Group to ensure greater market access for environmental goods. The inherent danger here, for countries such as Bangladesh, is that once enhanced market access for environmental goods is agreed upon, exports of LDC industrial products to the developed country markets may be subsequently subjected to environmental standards. Malaysia and a number of other countries have cautioned against this possible development. The EU would like to include goods which were produced in an environmental-friendly way, thus also bringing the process issues into trade dispute. Many of the developing countries are opposing this stance. Cairns group is

divided on this with Australia favouring and some of the other group members opposing. As a counterweight to EC's position some of the other countries including Chile is trying to promote organic goods for favourable market access, on environmental grounds. Some countries are trying to promote the idea of formulating a definition of 'environmental goods' whilst others are opposing it. It appears that it will not be in the interest of the LDCs to support attempts widening the debate as regards the inclusion of the PPM issues because of its potential use as a market access barrier. The debate is still continuing.

Non-Tariff Barriers

A number of countries would like the Negotiating Group on Market Access to pay priority attention to the issue of NTBs since in many instances these not only pose serious threat to further liberalisation of trade in goods, but also undermine the efficacy of earlier agreed provisions. These countries have argued that the Negotiating Group should clearly identify the various categories of non-tariff measures, and list particular NTBs under each category. India, New Zealand and Korea are most vocal in this regard. Bangladesh also has a stake in these issues.

The discussion here has marked some progress. The Negotiating Group has come up with an inventory of the NTBs in place. These have been categorised under five headings: (a) Government Participation in Trade, and Restrictive Practices Tolerated by Governments; (b) Customs and Administrative Entry Procedures; (c) Technical Barriers to Trade; (d) Specific Limitations; (e) Charges on Import.

The strategy for the LDCs here should be to come up with proposals which identify the NTBs in the developed economies which LDCs would like to see removed on a priority basis. LDCs should cite '*real life cases*' to show how the NTBs have constrained their access to developed country markets. An issue which LDCs will have to seriously consider relate to market access barriers their exports face in some of the developing country markets.

Market Access for Agricultural Goods

Commitments negotiated under the Agreement on Agriculture (AoA) envisaged that all NTBs will be tariffied and the existing and newly introduced tariffs will be reduced by 36% over a period of six years (24% by developing countries over a period of 10 years). It is to be noted that tariff reduction approach followed here was a *line by line approach* with the minimum level of reduction being (with some exception) 15% for developed and 10% for developing countries. Commitments were also made in terms of subsidies and domestic support.

Here the tension is most vividly articulated by the approaches of the two major trading blocs, the EU and the Cairns Group. The Cairns Group would like to see further commitments in terms of reduction in subsidies and other support measures in agriculture. Many of the developing countries are complaining that commitments under the Agreement on Agriculture (AoA) required reductions on an unweighted average basis which allowed developed countries to maintain high tariffs on such products as sugar, rice and dairy products by taking recourse to deeper cuts in less sensitive tariff lines with little trade. Developing countries such as India are playing a key role in the discussions on market access for agricultural commodities. Developing countries are also pushing for effective measures to prevent the rolling over of unused subsidies to the next year.

GATS and Market Access

Here the interest of the developing countries and the LDCs is to make sure that the market opening under the GATS is balanced. They are pushing for enhanced access to the labour markets of the developed world under Mode-IV of GATS which relate to *movements of natural persons*. India has proposed an *Occupational Approach* to identify skills of interest to developing countries from the perspective of market access. Developing countries and the LDCs are also arguing against the economic needs test (ENT) and local needs test (LNT) in the developed countries which constrain movement of labour. However, till now, the focus of the developed countries have been mainly on the movement of professionals in the context of Mode-3 relating to *commercial presence*.

Rules-making and Market Access

Developing countries are increasingly feeling that they would need to take a more proactive stance in the area of rule making since in future this would play a most crucial role from the perspective of market access in real terms. Here priority attention should be given to systemic improvement in the area of rule making, and on making decision making process in the WTO more democratic and transparent.

IV. ADDRESSING MARKET ACCESS CONCERNS

In the context of the above, LDCs such as Bangladesh will need to pursue a multi-pronged strategy: firstly, they will need to be careful that NTBs are not put up to serve hidden 'protectionist' agendas in the developed world. To this end, they will need to forge coalitions, and put forward targetted proposals in the WTO Negotiating Group on Market Access to safeguard their interest in the face of the threat of use of NTBs against products of their export interest. They will need to play a more active role in the Negotiating Group which was established by the Doha Ministerial declaration. Secondly, on their part, LDCs will also need to understand that standards will, in all possibility, become a critical issue in terms of market access in future. Not only governments, but also consumers in developed countries are becoming sensitive to issues related to labour and environmental standards, human rights concerns, and health and hygiene issues. Even if some of these emerging concerns remain outside the ambit of trade talks for the time being, consumers may nonetheless be able to enforce corrective measures through pressure on importers, and, more particularly, at the retail end. Policy makers in the LDCs and their producers will need to demonstrate sensitivity to these emerging concerns. Thirdly, and this is of crucial importance, LDC producers and governments must endeavour to strengthen their supply side capacities in order: (a) to take advantage of the new market access opportunities originating from further opening up of the developed country markets, (b) exploit, to the fullest extent, the market access initiatives and preferential treatment offered by the developed countries by putting in place capacities to address the RoO requirements, be it in the form of stages of conversion, or value addition; and (c) to ensure compliance with the increasingly stringent standards in the developed country markets. It needs to be recognised that if LDCs such as Bangladesh are able to successfully address these issues, it will create substantive market access opportunities for them.

Bangladesh must give priority attention to the task of strengthening backward linkages, and enhancing process and product modification capacities to take

advantage of initiatives such as EU-EBA and those under the revised GSP Schemes of Japan and Canada. For this to happen Bangladesh will need to put in place adequate supply side capacities in order to translate *comparative advantages* into *competitive advantage*. Competitive advantage, in its turn, can be realised by way of *revealed comparative advantage* in the market place if Bangladesh is able to successfully cope with the emergent market access barriers in the developed countries.

V. CONCLUDING REMARKS

The Doha Round of negotiations has been dubbed as the *Doha Development Round* and it is important to spotlight on the term 'Development' here. There is a need to relate market access to development in a manner in which market access is made to serve the agenda of overcoming the *development deficit* in the LDCs. What the LDCs stand to benefit from is not trade liberalisation or market access *per se*, but *meaningful market access* and in order to achieve this objective LDCs in the WTO will need to move as a coherent group, and also at the same time try to build issue-specific coalitions of interest in the context of the current negotiations.

Much will depend on what emerges in the end from the ongoing negotiations in Geneva which are mandated to be continued till 2005. In this context the deliberations and decisions of the Fifth Ministerial Meeting of the WTO which is expected to take place in September, 2003 in Cancun, Mexico is likely to play a crucial role. It emerges from the ongoing discussion in Geneva that there is little prospect for a favourable outcome as regards a *quad* initiative favouring global zero-tariff, quota-free market access for the LDCs. However, in all probability, this issue will come up for discussion as the date for the Cancun Ministerial Meeting draws closer. As regards more flexible rules of origin in which Bangladesh and other LDCs have critical interest, concrete proposals are yet to be forthcoming. It will be in Bangladesh's interest to maintain vigilance as regards both the abovementioned issues during the run up to the Cancun Ministerial since these have crucial market access implications for Bangladesh.

Evidently, in order to successfully address market access concerns in the context of the evolving global trading regime, Bangladesh will need to pursue two mutually reinforcing strategies: appropriate domestic supply side initiatives, and active participation in the ongoing negotiations in the WTO.