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Bangladesh's Apparel Exports to the EU: Adapting to Competitiveness Challenges Following Graduation from Least Developed Country Status

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Abstract

Bangladesh is likely to graduate out of the group of least developed countries (LDCs) by 2024. While this represents a major transition in terms of its development, demonstrating the country's impressive socio-economic achievements, it also gives rise to concern about potentially sizeable costs due to the resulting loss of access to various support measures associated with LDC status. The most important consequence will be forgone EU trade preferences, taking advantage of which, among others, Bangladesh's export-oriented apparel industry flourished, creating direct employment opportunities for 4 million people – most of whom are women. This paper focuses on the EU market to analyse the potential implications of LDC graduation for Bangladesh's apparel exports. By using a partial equilibrium model, it estimates that discontinuing tariff preferences could lead to a potential export loss of more than US$1.6 billion. While the methodological approach employed in this paper has certain caveats, there is no denying that terminating duty-free access in the EU, resulting in a tariff hike of 9.6 per cent, will put serious pressure on Bangladesh's export competitiveness. This paper gathers several buyers and exporters' perceptions to provide insights into the issues and offers some broad recommendations to mitigate any adverse effects.

JEL Classification: F13, O19, L67

Keywords: Least Developed Countries, Bangladesh, apparel industry, export, EU

Contents

Abbreviations and Acronyms

CDP	Committee for Development Policy
CMT	cut, make and trim
CN	Combined Nomenclature
EBA	Everything But Arms
EPB	Export Promotion Bureau (of Bangladesh)
ECOSOC	United Nations Economic and Social Council
EU	European Union
FDI	foreign direct investment
FOB	free on board
GDP	gross domestic product
GSP	Generalised Scheme of Preferences
GSP Plus	GSP Special Incentive Arrangement for Sustainable Development and Good Governance
GVC	global value chain
HS	Harmonized System (of product classification)
ITC	International Trade Centre
LDC	least developed country
MFN	most favoured nation
OEM	original equipment manufacturing
R&D	research and development
RMG	readymade garment
ROO	rules of origin
SITC	Standard International Trade Classification
UN	United Nations
WTO	World Trade Organization

Summary

The impending graduation from least developed country (LDC) status represents a major transition in terms of development for Bangladesh, demonstrating its impressive socio-economic achievements. However, it also gives rise to concern about potentially sizeable costs due to the loss of access to various support measures associated with LDC status. Of this, the most important consequence will be the loss of trade preferences in the EU. Taking advantage of the duty-free market access and relaxed rules of origin (ROO) provisions of the EU's Everything But Arms (EBA) scheme for LDCs, Bangladesh's total exports to the EU have risen at a brisk pace. In 2018 such exports reached US$21 billion, of which $19.6 billion (i.e. 92 %) were due to apparel. Overall, the EU accounted for 58 per cent of Bangladesh's merchandise exports and 62 per cent of apparel exports. Over the past decade, EU apparel imports worldwide grew at a rate of 2.4 per cent per annum compared with a comparable growth of 12 per cent for the same imports from Bangladesh. There is evidence of further untapped export potential for Bangladesh in the EU: using a methodology suggested by the International Trade Centre, it is estimated that the existing level of exports is short of an additional $11.3 billion potential, of which more than 90 per cent is apparel.

Bangladesh's clothing exports to the EU are dominated by knitwear items (under the Harmonized System of product classification, category HS 61), accounting for a share of about 57 per cent. The same share actually reached a peak of 68 per cent in 2010. Until 2011, EU ROO required 'double transformation' of clothing items as a precondition for tariff-free market access. For woven apparel (under HS 62), this would imply domestically produced fabrics being used in garment making, making it difficult for Bangladesh to use EU preferences. The derogation of EU ROO in 2011 allowed single transformation for LDC clothing exports, reinvigorating the supply from the woven garment sector.

The EU accounts for almost 45 per cent of global apparel markets. In 2017, the combined EU-28 imports stood at $178.3 billion of which $116 billion (i.e. 65 %) was sourced from extra-EU suppliers. Between 1990 and 2010, China's market share in the EU rose steadily from less than 7 per cent to about 31 per cent, but over the next 7 years it fell by almost 9 percentage points. From 2000 to 2010 Bangladesh's market share rose from about 3.5 per cent to 6.5 per cent, and then accelerated further to reach over 12 per cent, i.e. a 5.5 percentage point rise in 7 years. Such robust export performance was greatly aided by the EU's derogation of ROO requirements under the EBA scheme.

The textile and clothing sector attracts relatively high EU most favoured nation (MFN) tariffs, and therefore Bangladesh has substantially benefited from the EBA scheme. Graduating LDCs can apply for the second best (after the EBA scheme) preferential regime, the Generalised Scheme of Preferences Special Incentive Arrangement for Sustainable Development and Good Governance (GSP Plus), which grants duty-free access to 66 per cent of EU tariff lines including clothing items. Given the existing qualification criteria, Bangladesh is unlikely to be able to access GSP Plus. In that case, the least attractive Standard GSP would be the only option. Currently 98 per cent of Bangladesh's apparel exports attract EU MFN tariff rates of around 12 per cent. Under the Standard GSP scheme these tariffs will be reduced to 9.6 per cent, while with the GSP Plus scheme tariff-free access is given for the same products. However, GSP Plus ROO provisions are more stringent that those of the EBA scheme.

In the global clothing value chain landscape, Bangladeshi firms operate mainly in the low value-added segment of cutting and making apparel, and the principal source of its competitive advantage is the low costs of labour. The loss of duty-free access could thus adversely impact the country's competitiveness and export prospects. In this context, applying a partial equilibrium model, which was developed as part of the Commonwealth Secretariat's analytical framework for understanding the potential implications of LDC graduation, shows that the loss of tariff preferences in the EU could result in a potential export loss of

more than $1.6 billion for Bangladesh. Any potential decline in Bangladesh's exports will be compensated for by increased supplies from other countries. A market shift analysis seems to suggest China gaining by more than $0.5 billion. Among others, Cambodia, India, Turkey and Vietnam also stand to make gains.

The methodological approach and results reported have certain caveats. Analytical frameworks are simplified representations of the realities, failing to capture many complex issues. When the Multifibre Arrangement (MFA) quotas were abolished from global trade in 2005, many analysts predicted huge business losses for Bangladesh in sharp contrast to an eventual acceleration of its export growth. If EU importers have benefited from Bangladesh's duty-free access, they might not readily have alternative and equally lucrative sourcing opportunities elsewhere.

Competitive pricing and ability to deliver in large volumes are recognised by buyers as critical strengths of Bangladesh's garment industry. The buyers' representatives interviewed suggested that the demand for products was price driven. They did not agree with the popular notion that the prices of Bangladesh's products are unusually low compared with those of rival suppliers. Exporters' responses were mixed, although more than half of them expressed concerns about the prospect of weakened competitiveness arising from erosion of EU preferences. In contrast to buyers' views, almost all garment manufacturers interviewed thought that the prices obtained by Bangladesh were unusually low compared with those of competitors. They pointed out that replacing supply sources from Bangladesh might not be easy, as the country has developed a very large capacity and buyers benefit from the associated economies of scale.

However, there is no denying that loss of LDC preferences in the EU, resulting in a likely tariff hike of 9.6 per cent, will put serious pressure on competitiveness. There are certain measures that Bangladesh can consider to mitigate any potential adverse consequences. These include seeking an extended transition period (from the EBA scheme) for graduating LDCs, possible options and strategies for securing access to GSP Plus and a negotiated bilateral trade deal with the EU. On the supply side, industrial upgradation within apparel value chains, including technological upgradation, attracting foreign direct investment and ensuring compliance, would help. Finally, the cost of doing business is considered excessively high in Bangladesh because of factors such as infrastructural bottlenecks, inefficient customs processes, incompetent port management and trade facilitation measures, dysfunctional inland transport and weak governance. Any improvements in these areas will contribute to improving the competitiveness of exporting firms.

1. Introduction

In 2018, Bangladesh for the first time met the criteria for graduation from the group of least developed countries (LDCs), assessed at the Triennial Review conducted by the Committee for Development Policy (CDP) of the United Nations Economic and Social Council (ECOSOC). At the second consecutive review in 2021, it is also expected to fulfil the criteria again, paving the way for its official graduation from LDC status in 2024. Meeting all three pre-specified graduation thresholds in terms of per capita income, human assets and economic vulnerability certainly constitutes a great achievement, attesting to its journey through a critical transition in terms of its development.[1]

Indeed, Bangladesh has made great strides forward in its economic development. Since the early 1990s, it's economy has grown at an average annual rate of more than 5 per cent, with the comparable growth rate for the last 10 years being more robust at 6.5 per cent. Since 1995, its per capita gross national income has registered more than a five-fold increase from just

about US$300 to $1,751. Over the same timeframe, the proportion of the population living in poverty has more than halved from more than 50 per cent to 24.3 per cent. Dependence on foreign assistance declined from 8 per cent of gross domestic product (GDP) in the 1980s to just about 2 per cent. Compared with many other countries at a similar stage of development, Bangladesh has made faster progress as measured by various social and human development indicators.[2]

Since 1971, the United Nations has recognised LDCs as highly disadvantaged in terms of their development. These countries have been characterised as being caught in a low-income trap and facing the risk of failing to overcome poverty and deprivation; as predominantly dependent on primary commodities for domestic production and exports, with extremely inadequate opportunities for diversification; and, as critically reliant on foreign aid because of limited economic activities accompanied by unfavourable fiscal (internal) and current account (external) balances. In response to their development challenges, the global community has devised special international support measures.

Bangladesh enjoys certain privileges and special and differential treatments designed for LDCs. These include development partners' various concessions, special attention and commitments to support LDCs with development finance, trade preferences and technical assistance. The members of the World Trade Organization (WTO) have also devised more favourable conditions and flexibilities for this group of countries in implementing and enforcing international trade rules and regulations. Bangladesh has been the largest beneficiary of tariff-free access in the EU under its Everything But Arms (EBA) initiative designed for LDCs. LDC graduation would imply Bangladesh's not being eligible for the LDC-specific benefits. As the EU is its largest export destination, the erosion of preferences in this market is likely to have implications for Bangladesh.

The impressive socio-economic development of Bangladesh has greatly been facilitated by its export growth. In recent decades, among other things, taking advantage of privileged market access in the EU, apparel exports, locally known as readymade garments (RMGs), have exhibited a remarkable expansion, generating jobs for four million workers, of which around 60 per cent are women. The industry has become integrated within the clothing global value chain in which local producers use both domestic and imported raw materials for renowned international brands and other buyers target mostly consumers in developed countries. There is huge potential to further enhance RMG exports and for industrial upgradation in the sector, generating higher value-added products and moving up the value chain. The loss of EU preferences could thus come at a critical juncture of this transformation, potentially weakening Bangladesh's competitiveness.

Against this backdrop, the objective of this paper is to consider the likely impact of the loss of EU tariff preferences on Bangladesh's exports, resulting from its graduation from its LDC status. In particular, the terms of reference of this study are to identify the main competitors, analyse market shares and assess the potential for trade shifts and to gather exporters and buyers' perceptions of the related issues through a short, quick survey to ascertain the apparel export sector's competitiveness challenges in the light of the prospect of Bangladesh's graduation. In terms of the approach and methodology, this paper utilises the Commonwealth Secretariat's *A Guide to Leaving Least Developed Country Status: Sustaining Graduation with Momentum* for analysing the implications of graduation from the global value chain (GVC) perspective. This includes using quantitative data and analysis as well as qualitative assessments based on exporters and buyers' perceptions.

This paper is organised as follows: following this introduction in Section I, Section II provides a brief review of Bangladesh's apparel exports highlighting the importance of the EU market. Section III identifies the major competitors in the EU market and analyses the possible impact of graduation on apparel exports. Section IV sheds light on the competitiveness issues from the perspective of the global value chain, while considering perceptions of exporters and buyers. Section V provides a brief discussion of some broad elements of adaptation strategies for dealing with any adverse consequences. Finally, Section VI concludes the paper.

2. Bangladesh's apparel exports and the importance of the EU market

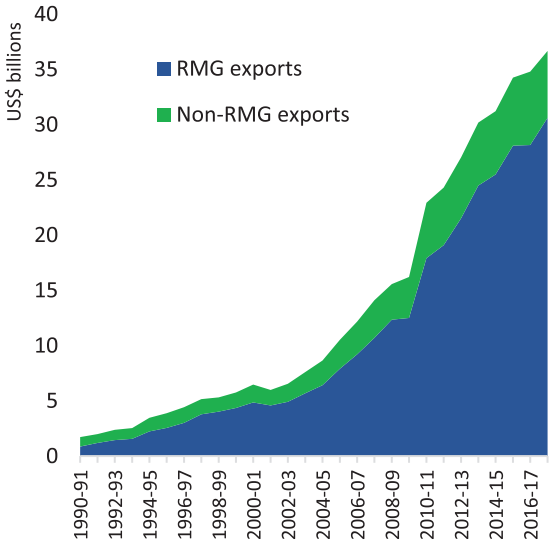
Apparel exports from Bangladesh

Among LDCs, Bangladesh is regarded as an export success story. From less than US$2 billion in the early 1990s its exports rose to $36.7 billion in fiscal year 2017–18 (FY2018). This would imply an average annual export growth rate of close to 12 per cent in comparison with that of 6 per cent for world merchandise exports. In the process of export expansion, RMGs emerged as a flagship export product for Bangladesh, generating export receipts from about $1 billion in 1990 to above $30 billion in 2018 (Figure 1). While so many countries, particularly those in sub-Saharan Africa, failed to move export production away from primary commodities and other mineral resources to manufacturing, Bangladesh exhibited dramatic shifts in its export composition in which the share of erstwhile traditional exports (such as raw jute and jute goods, tea, leather and frozen fish) fell from more than three-quarters to just about 10 per cent to accommodate the growing relative significance of RMGs from virtually nothing to more than 80 per cent (Figure 2). In the early 1990s, yearly growth rates were relatively high given the narrow base of apparel exports. But the 2000s also saw impressive growth rates despite the sector by then having grown to a considerable size (Figure 3). The rate of expansion would appear to have lost some momentum and become less stable in recent years particularly since 2014–15. This is largely due to an unprecedented slowdown in global trade that affected the export performance of the overwhelming majority of global economies (Razzaque, 2018a).[3]

Significance of the EU as Bangladesh's export market

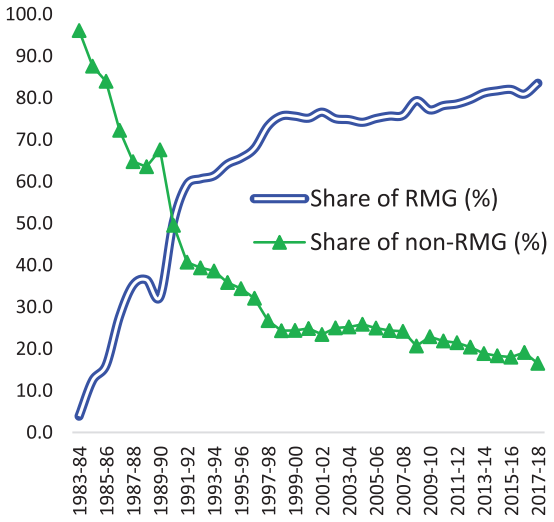
The EU has been the largest export market for Bangladesh. In FY2018, more than $21 billion worth of products were destined for the EU, of which $19.6 billion (i.e. 92 per cent) were due to apparel alone. In the same year, the EU accounted for close to 58 per cent of Bangladesh's total exports and 62 per cent of apparel exports (Figure 4). In terms of individual markets, the USA is the single most important export destination with a share of 16.3 per cent of Bangladesh's merchandise export earnings, followed closely by Germany (16.1%). Other important markets are the UK (10.9%), Spain (6.7%), France (5.5%), Italy (4.3%),

Figure 1. Bangladesh's exports



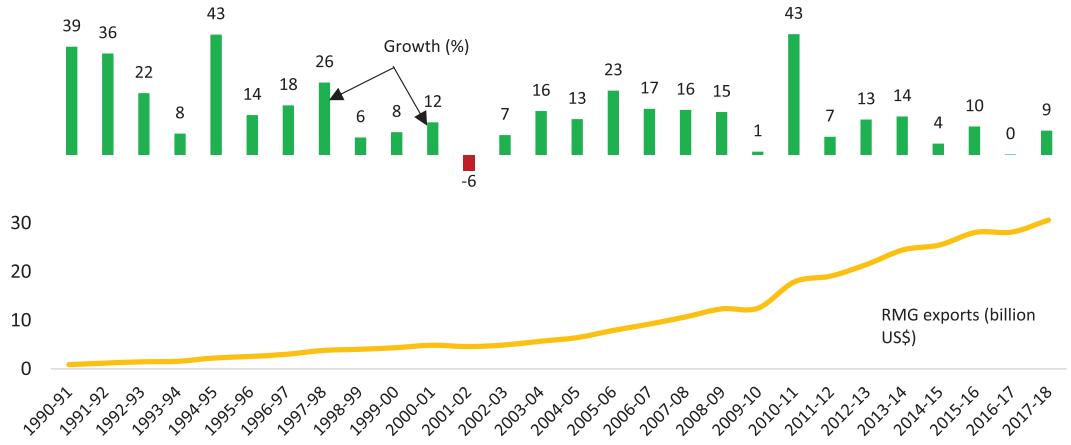
Source: Authors' presentation using data from the Export Promotion Bureau (EPB) of Bangladesh.

Figure 2. Change in shares of apparel and non-apparel exports in total exports (%)



Source: Authors' presentation using data from the Export Promotion Bureau (EPB) of Bangladesh.

Figure 3. Readymade garment exports and growth rates



Source: Authors' presentation using data from the EPB.

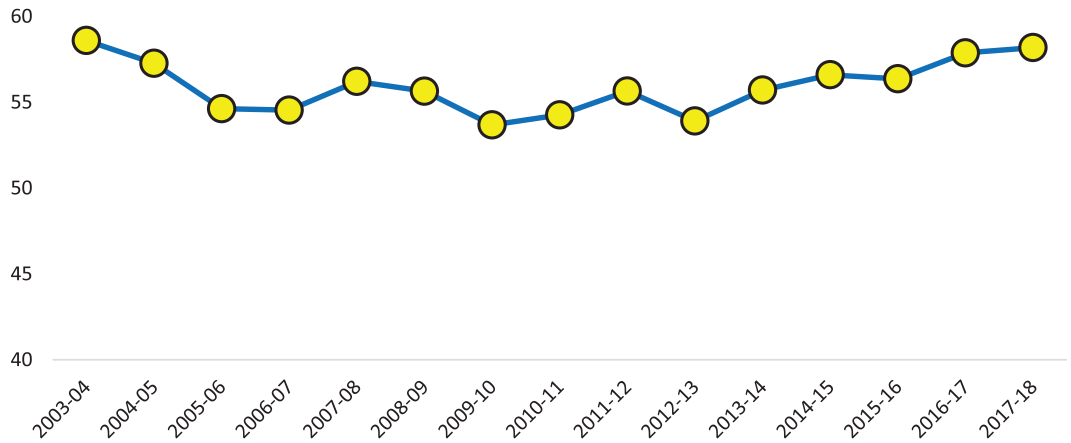
the Netherlands (3.3%), Canada (3.1%), Japan (3.1%) and Poland (2.6%). Information on total and apparel exports to each EU Member State and their respective shares in Bangladesh's overall export earnings is given in Annex Table A1.

Figure 5 shows that, although the overall import growth of most EU Member States (measured on the vertical axis) were either close to zero or negative in the 5-year period from 2013 to 2017, their imports from Bangladesh (measured on the horizontal axis) in the majority of cases grew at a considerable pace. Imports of Spain and Poland, for example, from world markets were virtually stagnant (the average 2013–17 growth rate being zero), but their comparable figures for growth in imports from Bangladesh were 13 and 20 per cent, respectively. Bangladesh's top five EU partners together account for about 45 per cent of total exports and almost half of apparel exports. The notable growth in Bangladesh's exports to the EU and the latter's large shares in Bangladesh's exports make the EU its most critical trading partner.

As is obvious from the above, Bangladesh's exports are mainly driven by RMGs: over the past decade its average yearly growth in exports to the EU was 12 per cent. During the same period, EU apparel imports from the world grew at a rate of 2.4 per cent per annum. It is worth pointing out that, immediately after the global financial crisis of 2008, while EU imports of apparel from extra-EU countries declined by more than 8 per cent in 2009, imports from Bangladesh posted a 5 per cent growth (Figure 6). A similar pattern was also observed during the relatively recent trade slowdown period of 2015–16.

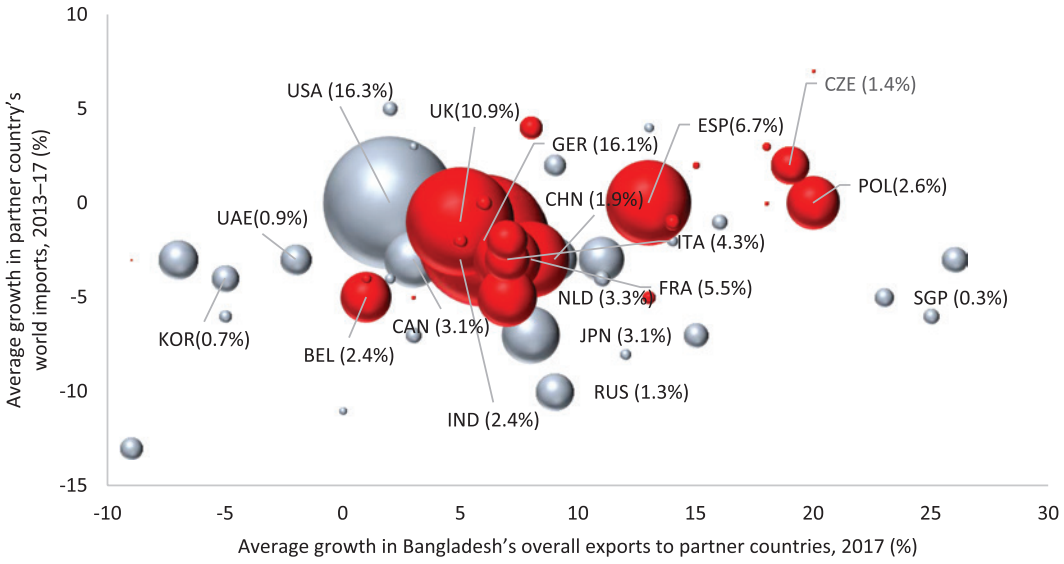
Bangladesh's apparel exports to the EU are dominated by knitwear items under the Harmonized System (HS) of product classification category 61, accounting for a share of about 57 per cent in

Figure 4. The EU's share in Bangladesh's total exports (%)



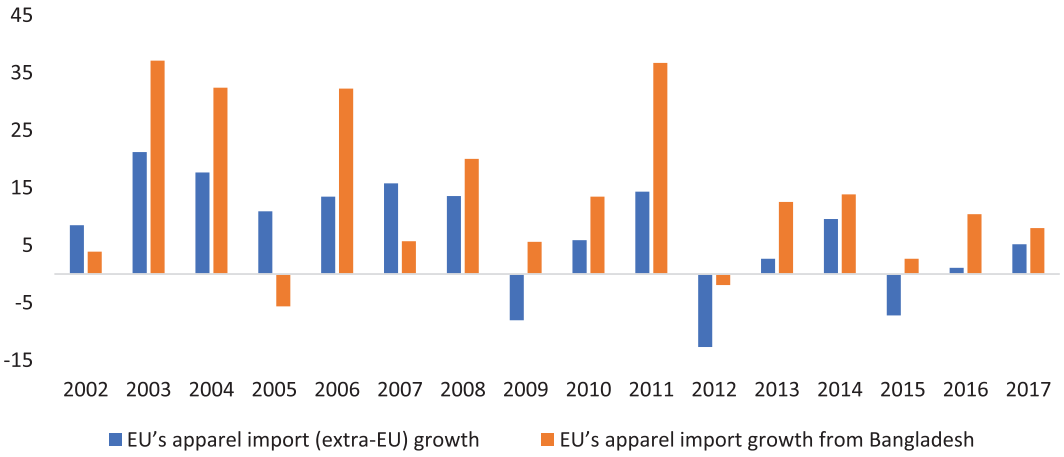
Source: Authors' presentation using data from the EPB.

Figure 5. Share in Bangladesh's exports by partner countries (%)



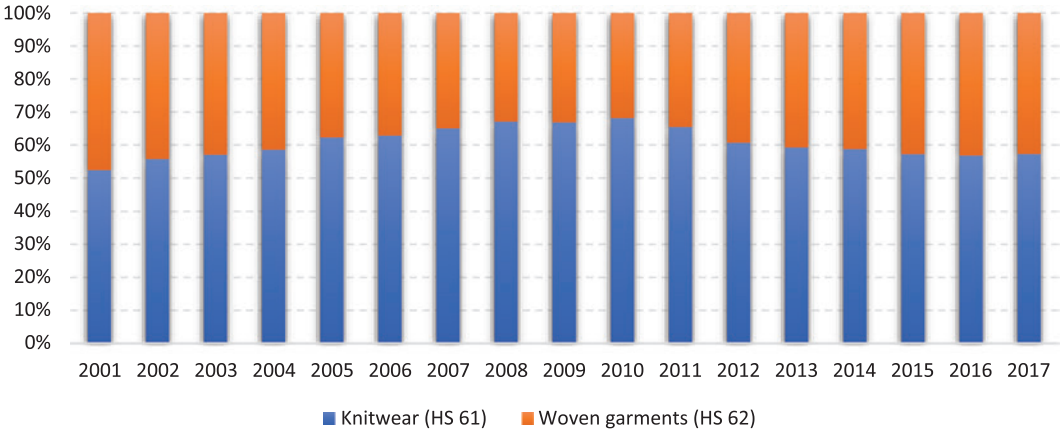
Note: Bubble sizes correspond to partners' shares in Bangladesh's exports in FY2018. Export shares have been computed from EPB data. The red bubbles present Bangladesh's exports to individual EU Member States.
Source: Authors' presentation using data from the ITC and EPB.

Figure 6. EU's apparel import growth: from the world and Bangladesh (%)



Source: Authors' presentation using data from the ITC.

Figure 7. Structure of Bangladesh's apparel exports to the EU: woven and knitwear (%)



Note: Mirror data are used.
Source: Authors' presentation using data from the ITC.

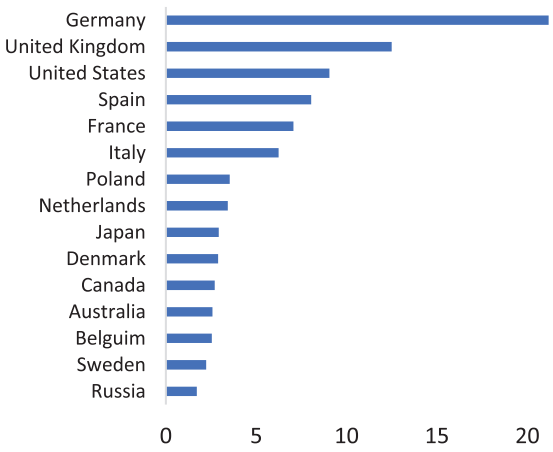
2017 (Figure 7). The same share actually reached a peak as high as 68 per cent in 2010. Until 2011, EU rules of origin (ROO) required 'double transformation' of clothing items as a precondition for tariff-free market access. For woven apparel, this would imply domestically produced fabrics to be used in garment making (i.e. from yarn to fabric and from fabric to garment would fulfil the double transformation criterion). Bangladesh lacks domestic capacity in fabrics, thus finding it difficult to make use of EU preferences. However, in the knitwear segment there were strong domestic backward linkages to spinning factories and thus knitwear products fared better than woven garments. The derogation of EU rules of origin in 2011 allowed single transformation for LDC clothing exports, which generated a reinvigorated supply from the woven garment sector, raising its share in exports.

About 21 per cent of total knitwear shipped from Bangladesh was destined for Germany in FY2018, followed by 12.5 per cent to the UK (Figure 8). Slightly less than 10 per cent is exported to the USA. However, more than one-quarter of woven garment exports under HS 62 are bound for the USA. Among the EU countries, 15.3 per cent of Bangladesh's woven garments are exported to Germany, 11.8 per cent to the UK, 6.8 per cent to Spain, and 5 per cent to France (Figure 9).

An analysis of the data at a more disaggregated level shows that Bangladesh's single most important (in terms of export revenues generated) export item at HS 8-digit level is HS 61091000 (T-shirts, singlets and other vests of cotton). Almost three-quarters of all export earnings ($3.8 billion) from this item are due to the EU (Figure 10). For this particular product, Bangladesh has an EU market share of about 25 per cent. For the largest woven garment – men's or boys' bib & amp; brace trousers, breeches and shorts of cotton (HS 62034200) – the single most important individual market is the USA, accounting for about 30 per cent of all exports. However, the combined EU Member States' share is far greater at about 50 per cent of Bangladesh's export earnings from this product (Figure 11). The other major RMG exports to the EU markets are men's or women's shirts, jerseys, pullovers, shorts made of cotton and fibre, etc. Annex Table A4 provides a list of the top 20 Bangladeshi RMG items (at the Combined Nomenclature (CN) 8-digit level) exported to the EU and their respective market shares.

Figure 12 depicts the growth dynamics of Bangladesh's individual HS 6-digit apparel

Figure 8. Countries' share in Bangladesh's knitwear (HS 61) exports (%)



Source: Authors' presentation using data from the EPB.

Figure 9. Countries' share in Bangladesh's woven garments (HS 62) exports (%)

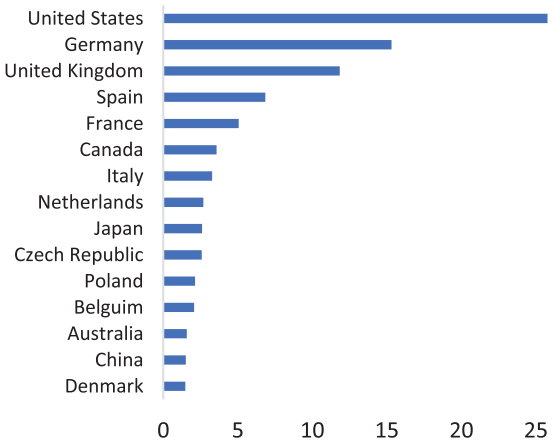
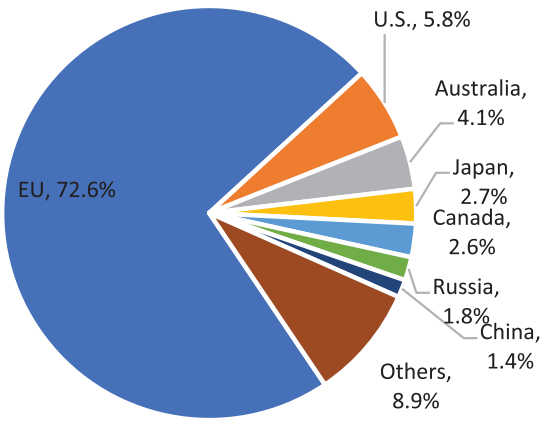
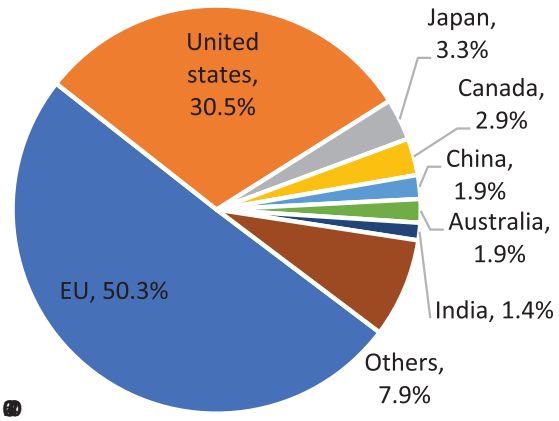


Figure 10. Partners' share in Bangladesh's exports of HS 61091000



Source: Authors' presentation using data from the EPB.

Figure 11. Partners' share in Bangladesh's exports of HS



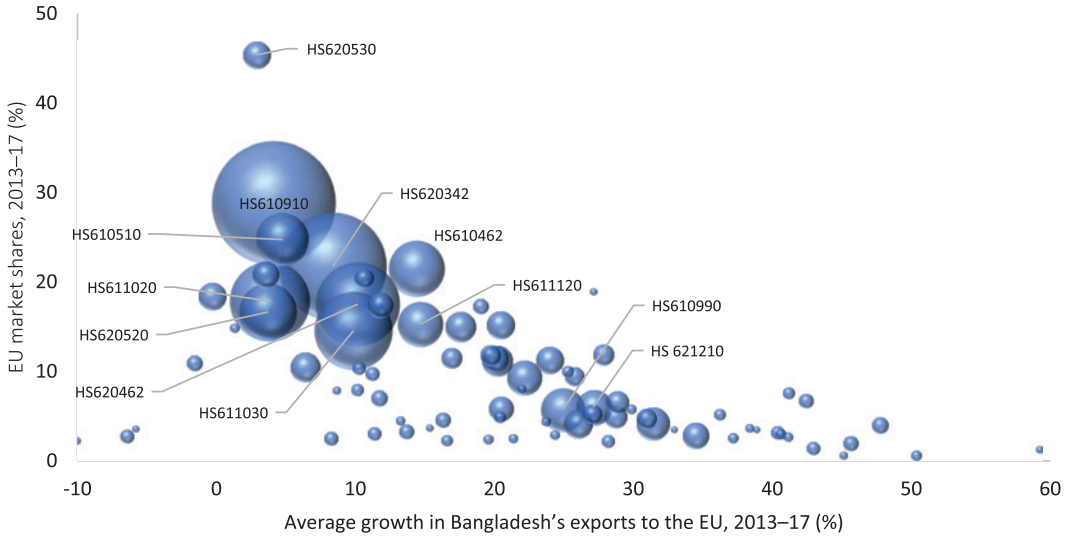
export products to the EU. Clearly, there are several items for which Bangladesh enjoys large market shares. It is, however, striking to find that there are many items that are relatively small in terms of export revenues but achieved high average growth rates over the 5-year period from 2013 to 2017. Although their small base could be one reason for achieving such high growth, nevertheless it implies that these products have promising export market prospects.

Further export potential in the EU

Although the EU has been its largest export destination, there is evidence of further export potential for Bangladesh by taking advantage of tariff-free market access. Unused export potential by destination markets can be determined using a methodology recently developed by the International Trade Centre (Decreux and Spies, 2016). The ITC export potential indicator (EPI) identifies products in which an exporting country has already proven that it is internationally competitive and which have good prospects of export success. The potential export value in a target market is estimated based on exporters' supply capacity, the demand in the market of interest and market access conditions.[4] Potential export values are compared with actual export earnings to reveal untapped opportunities.

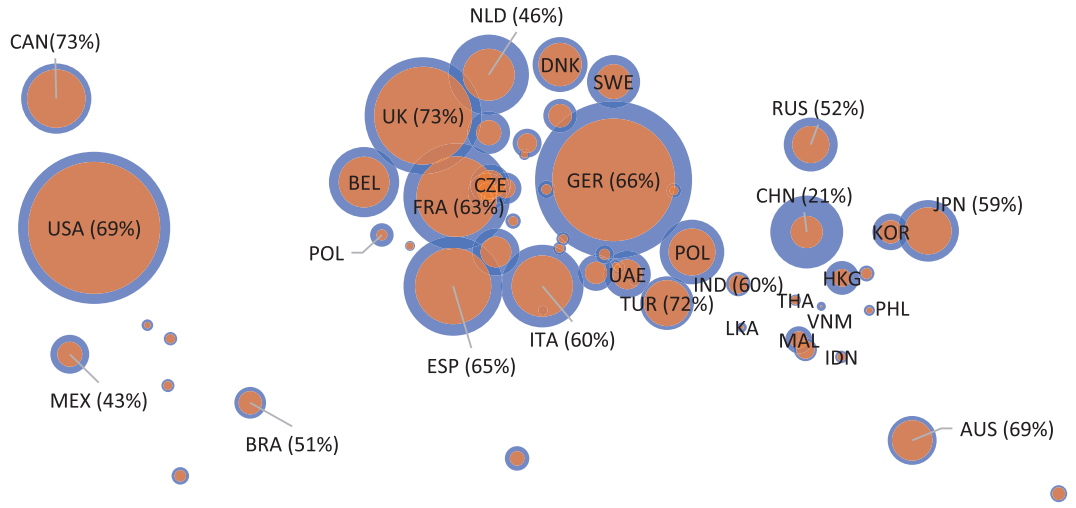
Applying the ITC methodology reveals that in different destination countries Bangladesh has an untapped apparel export potential worth US$17.4 billion, which is more than half its current export earnings from the sector. For the EU, it is estimated that the existing level of exports is short of an additional $11.3 billion potential, of which more than 90 per cent is apparel. The potential and actual exports of apparel products are summarised in Figure 13 where the numbers in parenthesis show the proportion of the actual exports as a percentage of actual plus unexploited export opportunities. The highest absolute difference between potential and actual exports is for Germany, leaving room for additional export earnings of $2.2 billion. That is, currently about 34 per cent of the potential is unexploited in Bangladesh's largest EU partner country market. Among other EU partners, only 46 per cent of potential

Figure 12. EU market shares and Bangladesh's export growth by products at HS 6-digit level



Note: Bubble sizes correspond to Bangladesh's exports to the EU in 2017. The biggest bubble represents an export value of US$3.8 billion whereas the smallest one indicates $13 million.
Source: Authors' presentation using data from the ITC.

Figure 13. Export potential of Bangladesh's RMG products



Note: The size of the blue bubbles indicates Bangladesh's total export potential to the target market, while the size of the orange bubbles indicates actual exports. The difference between the size of the blue and orange bubbles represents the total unrealised potential. The figures in the parenthesis indicate the proportion of the export potential currently utilised.
Source: Authors' presentation using data from the ITC export potential map.

is utilised in the Netherlands. Bangladesh's other major EU markets – France, Italy, Spain, and the UK – also have sizeable unexploited market potential.[5]

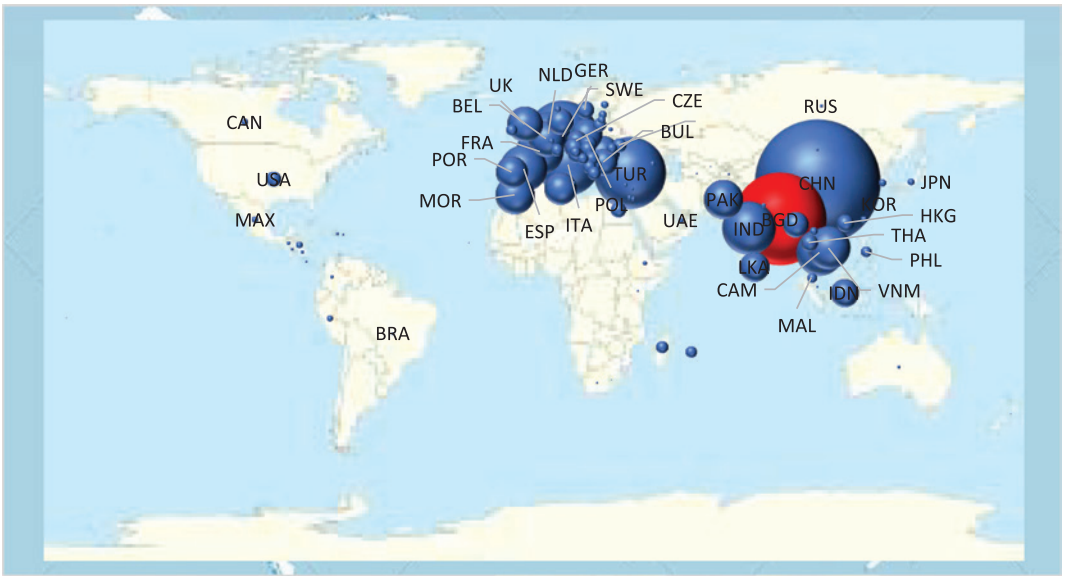
Turning to non-EU countries, the USA offers the biggest unrealised apparel export potential for Bangladesh, estimated at $1.9 billion, i.e. only 69 per cent of all potential is being utilised in its largest exporting destination. It is estimated that Bangladesh is using just 21.4 per cent of its potential in China and 60 per cent in India.

3. Graduation from Least Developed Country status and EU market prospects for readymade garments

The EU accounts for almost 45 per cent of global apparel markets. In 2017, the combined EU-28 imports stood at US$178.3 billion, of which $116 billion (i.e. 65 per cent) worth of clothing items were sourced from extra-EU suppliers. China, the global export leader, captures about one-quarter of the market share (Figure 14); it exported $39.3 billion in 2017. Bangladesh is the second largest exporter, having a 12 per cent market share. Turkey and Germany ranked respectively third and fourth largest suppliers in the EU, each capturing about 7 per cent market shares. Among others, Italy supplied 5.5 per cent, India 4 per cent, Cambodia, France and Spain 3 per cent each, Vietnam and the Netherlands 2.6 per cent each, and Pakistan shipped 2.1 per cent.

A comparison over time of extra-EU competing suppliers' market shares shows a striking diminishing relative significance of China. Between 1990 and 2010, China's market share rose steadily from less than 7 per cent to just below 31 per cent. However, over the next 7 years it fell by almost 9 percentage points. A close look at Table 1 and Figure 15 reveal Bangladesh's capturing of much of China's declining market presence. During 2000–10 Bangladesh's market share rose from about 3.5 per cent to 6.5 per cent, but then it accelerated further to increase to more than 12 per cent, i.e. a 5.5-percentage point rise in 7 years. Apart from Bangladesh, as can be inferred from Table 1, Cambodia, Myanmar, Pakistan and Vietnam have also seen their shares rising since 2010.

Figure 14. Major apparel exporters to the EU



Note: The bubble size represents the market share in the EU.
Source: Authors' presentation using data from the ITC.

But none of them shows dynamism comparable to that of Bangladesh.

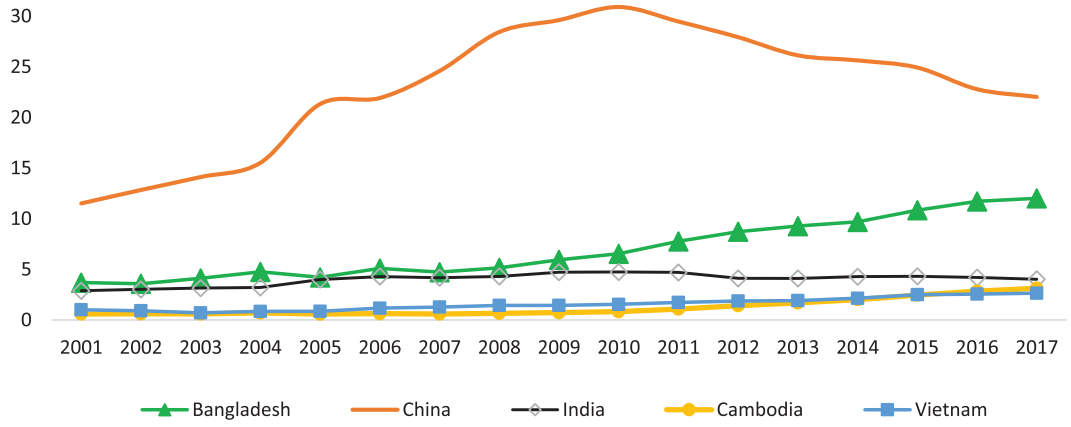
It needs to be pointed out that such a robust export performance by Bangladesh has been greatly aided by the EU's derogation of ROO requirements for clothing under the EBA, as mentioned earlier. The earlier stringent ROO criterion of double transformation for duty-free access proved to be a binding constraint. As Figure 16 shows, between 2001 and 2010, Bangladesh's market share in woven garments (HS 62) virtually stagnated. After allowing single transformation, the market share of woven products expanded rapidly: from just above 4 per cent in 2010 to more than 10 per cent in 2017. Because of strong domestic backward linkages, ROO did not appear to be a major problem for knitwear and thus Bangladesh

Table 1. Share of extra-EU partners in total apparel imports in the EU (%)

Country	1990	1995	2000	2005	2010	2015	2017
China	6.84	7.12	11.09	21.32	30.90	24.92	22.02
Bangladesh	0.49	2.08	3.53	4.20	6.54	10.84	12.01
Turkey	7.49	6.82	7.25	9.20	8.24	7.49	7.26
India	2.48	3.43	2.88	3.99	4.74	4.31	4.02
Cambodia	0.00	0.08	0.41	0.59	0.82	2.45	3.13
Vietnam	0.11	0.58	1.08	0.86	1.54	2.50	2.65
Pakistan	0.70	0.91	0.84	0.95	1.12	1.84	2.13
Morocco	1.33	3.39	3.17	2.68	2.15	1.99	2.08
Tunisia	1.95	3.28	3.49	2.76	2.21	1.53	1.45
Sri Lanka	0.47	0.97	1.41	1.21	1.47	1.33	1.24
Indonesia	1.04	2.01	2.67	1.58	1.34	1.08	1.08
Myanmar	0.00	0.03	0.42	0.22	0.12	0.31	0.91
Hong Kong	7.59	6.65	4.96	2.53	0.43	0.54	0.40
Thailand	1.45	1.21	1.48	1.07	0.89	0.44	0.40
Egypt	0.11	0.29	0.37	0.45	0.43	0.35	0.32
United States	0.65	0.93	0.53	0.39	0.38	0.37	0.32

Sources: UN COMTRADE and the ITC.

Figure 15. EU apparel market shares by selected suppliers (%)



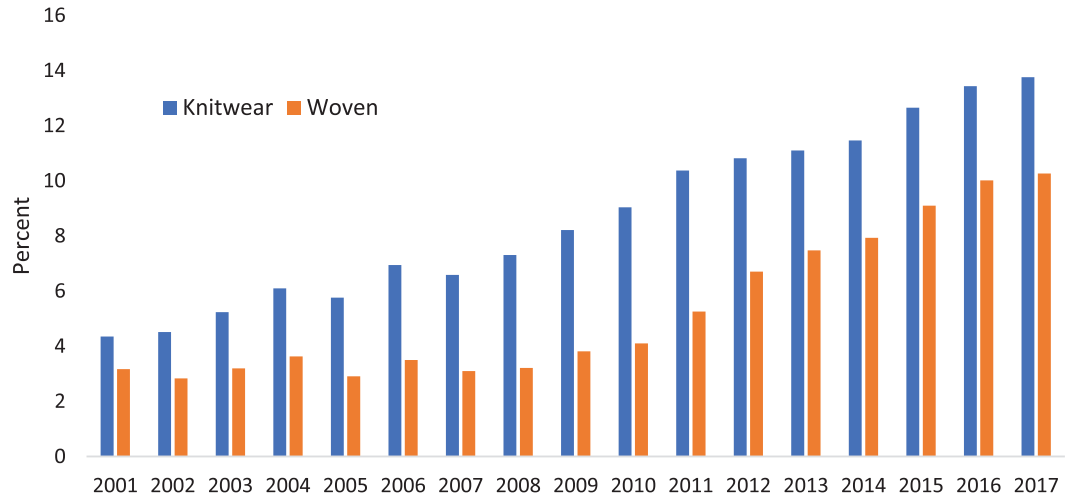
Source: Authors' presentation using data from UN COMTRADE and the ITC.

has been able to maintain a steady growth in market share in this category as well (from 9 per cent in 2010 to 13.7 per cent in 2017).

In the EU, extra-EU suppliers compete among themselves as well as with individual EU Member States exporting to other fellow members. While considering only extra-EU imports into the EU, more than one-third of total extra-regional imports of RMGs are shipped from China (Figure 17). Bangladesh is the source of about 18 per cent, whereas Turkey and India respectively export 11.2 per cent and 6.2 per cent of total extra-EU imports of RMGs to the EU. Annex Table A4 and Figure A1 provide information on countries' extra-EU market shares.

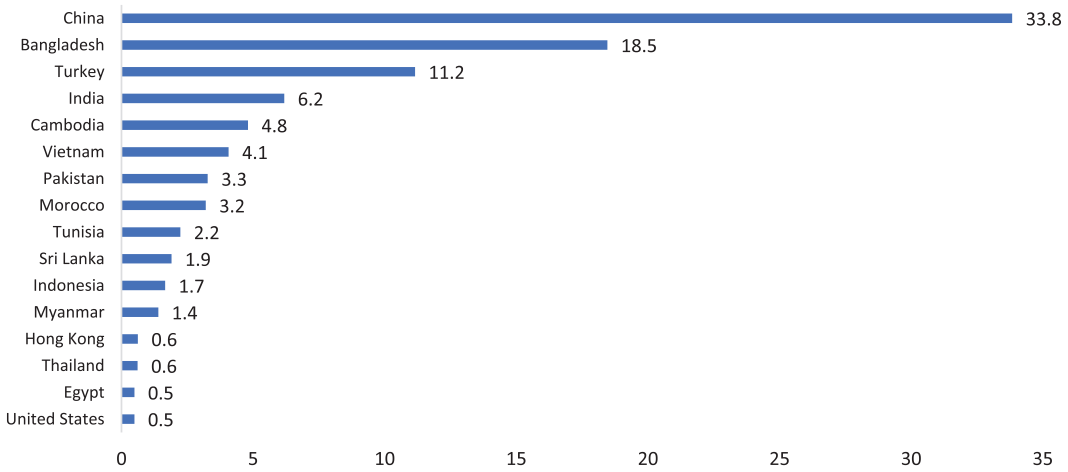
The market shares of major extra-EU partners for their respective top exporting items at HS 6-digit level are provided in Figure 18. Bangladesh's most important 5 and 20 products account for 22.2 per cent and 18.5 per cent of EU imports in the same products respectively. The relatively high concentration implies that Bangladesh is highly competitive in these items. But it would also suggest that there is scope for diversification into new items within the apparel sector. China's top 5 items hold about one-third of EU imports of those products, whereas its top 20 products together represent about 22 per cent market share. India's shares in its top five and 20 products are 3.3 per cent and 4.2 per cent respectively, which are lower than its overall apparel market share. This implies that India's reliance on its major items is much less than those of Bangladesh and China. It could also suggest a lack of competitiveness in items that are associated with the highest export revenues.

Figure 16. Bangladesh's EU market shares in knitwear (HS 61) and woven garments (HS 62) (%)



Source: Authors' presentation using data from the ITC.

Figure 17. Share in extra-EU RMG imports, 2017 (%)



Source: Authors' presentation using data from the ITC.

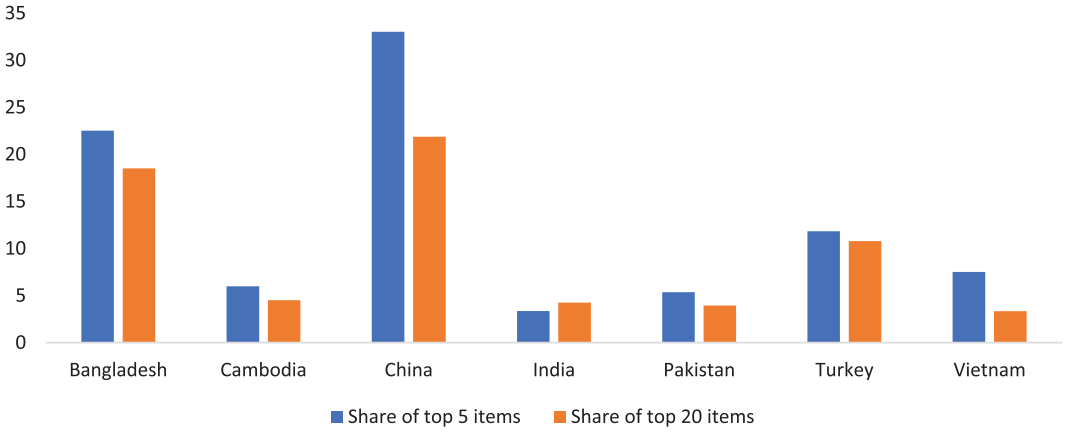
The impact of graduation from least developed country status on Bangladesh's readymade garment exports to the EU

EU import regimes in apparel

The EU provides trade preferences to support developing countries under its Generalised Scheme of Preferences (GSP). The EU's GSP is based on the WTO's Enabling Clause that allows developed nations to grant unilateral and non-reciprocal tariff preferences to support developing countries in their development process. The current GSP regime in the EU offers three different preference arrangements: (i) a general arrangement (Standard GSP); (ii) a Special Incentive Arrangement for Sustainable Development and Good Governance (GSP Plus); and (iii) an EBA arrangement for the group of LDCs. A summary of these preference regimes is provided in Table 2.

Bangladesh, as an LDC, gets duty-free quota-free market access under EBA. When Bangladesh graduates from LDC status, it will lose LDC-specific preferential market access and ROO. Tariff preferences provide significant competitive advantage particularly when most favoured nation (MFN) tariff rates are high. Although tariffs are generally low in developed countries including those in the EU, certain sensitive sectors continue to be protected by high tariffs. Therefore, depending on beneficiary countries' export composition, preferential treatment may or may not be a source of competitive advantage. The textile and clothing sector attract relatively high MFN tariffs, and

Figure 18. EU market shares of competitiors by their respective top 5 and 20 items (%)



Note: Shares in the EU market have been calculated for each country for their respective major exporting items at HS 6-digit level.
Source: Authors' presentation using data from the ITC.

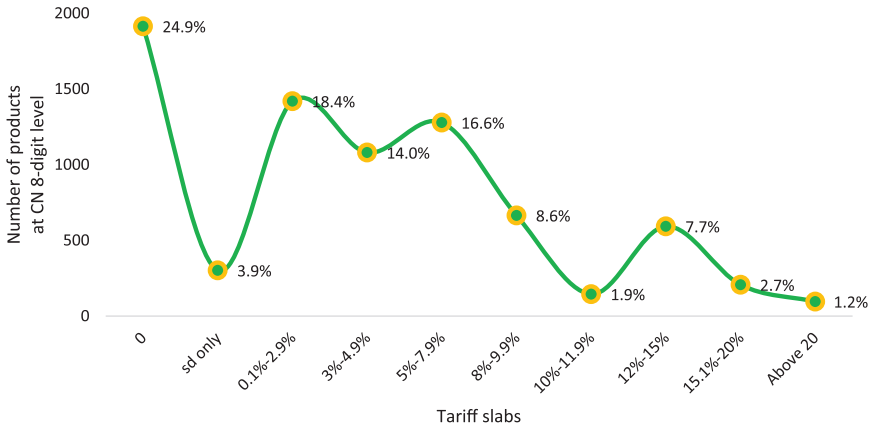
Table 2. EU GSP provisions

	Standard GSP	GSP Plus	EBA
Indicators	Low- or lower middle-income countries	Vulnerable (in terms of export diversification, export and import volumes) Standard GSP beneficiaries that have ratified the 27 GSP Plus-relevant international conventions	LDCs
Number of beneficiaries	18	9	49
Non-sensitive goods	Duty reduction for around 66% of all EU tariff lines	Duty suspension for around 66% of all EU tariff lines	Duty suspension for all goods with the exception of arms and ammunition
Sensitive goods: **– specific duty** **– ad valorem duty**	Duty reduction: – 30% – up to 3.5 percentage points	Duty suspension	Duty suspension
Rules of origin (important provisions only)	Double transformation for textile and clothing items. For all other products a minimum local value added of 50%	Double transformation for textile and clothing items. For all other products a minimum local value added of 50%[6]	Single transformation for textile and clothing items. For all other products a minimum local value added of 30%

Sources: Various documents available on the European Commission website.

therefore Bangladesh has substantially benefited from the EBA arrangement for LDCs. An analysis of EU tariff structures (Figure 19) shows that about one-quarter of EU tariff lines at CN 8-digit level have an MFN duty rate of zero per cent (i.e. 25 per cent of all products imported by the EU provide duty-free access to suppliers from all countries). Another 4 per cent are subject to specific duties only. In about 25 per cent of tariff lines, MFN duty rates of 5–9.9 per cent are applied, while just 4 per cent of products attract more than 15 per cent tariff rates. The MFN tariffs on textile and clothing items are mostly in the range of 10–12 per cent with 88.9 per cent apparel products attracting such tariffs of 12 per cent.

Figure 19. MFN tariff structure in the EU



Note: The percentages correspond to proportions of tariff lines. Some products with MFN tariffs are also subject to specific duties. In this exercise, these products are placed under the relevant ad valorem tariff slabs only. Sd, specific duty.
Source: Authors' presentation using the EU tariff schedule.

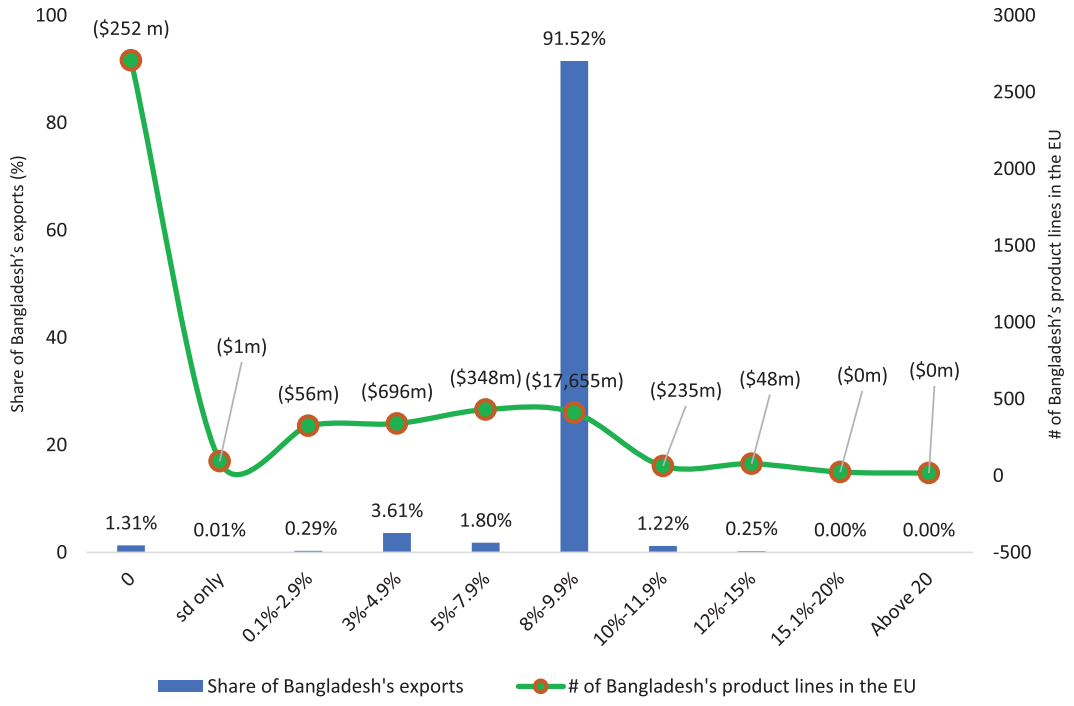
Graduating LDCs can apply for perhaps the second best (after the EBA scheme) preferential regime, GSP Plus, which grants duty-free access to 66 per cent of EU tariff lines. However, the eligibility criteria for it stipulates that a beneficiary country (i) has ratified and effectively implemented 27 international conventions on labour rights, human rights, environmental protection and good governance; (ii) has a share in GSP-covered imports of less than 6.5 per cent of GSP-covered imports of all GSP countries; and (iii) has at least 75 per cent of its total GSP imports coming from the seven largest sections of GSP-covered imports. Bangladesh fulfils condition (iii) and is likely to fulfil condition (i), but is way above the threshold import share under condition (ii).[7] Therefore, given the existing GSP rules, Bangladesh might not qualify for GSP Plus. In that case, the least attractive Standard GSP would be its only option.

Figure 20 shows the distribution of Bangladesh's exports over EU tariff rates under the Standard GSP scheme with a view to ascertaining market access implications after graduation from LDC status. It becomes obvious that applying the Standard GSP regime on Bangladesh's current export structure would result in a dramatically changed situation from the present duty-free access for all products to almost all exports being subject to some tariffs.[8] In fact, about 92 per cent of all Bangladesh's exports will fall under an average tariff of 8–9.9 per cent. An examination of the tariff schedule reveals that, for 98 per cent of Bangladesh's apparel exports, EU MFN tariff rates are around 12 per cent. Under the Standard GSP scheme these tariffs will be slightly reduced to 9.6 per cent, while with the GSP Plus scheme tariff-free access is given for the same products. That is, under GSP Plus Bangladesh's apparel exports will enjoy the same tariff preferences as they would under the EBA scheme. However, EBA ROO are more relaxed and less stringent that those of GSP Plus.[9]

Tariff implications for export earnings

The Commonwealth Secretariat has proposed an analytical framework to study the potential implications of tariffs arising from graduation from LDC status for a graduating country's exports (Commonwealth Secretariat, 2018). The prescribed partial equilibrium model comprises two steps: first, it estimates the impact on exports due to price changes emanating

Figure 20. EU tariff rates under Standard GSP and Bangladesh's exports



Note: The figures in parenthesis show absolute values of Bangladesh's exports associated with specific tariff slabs. Some products with MFN tariffs are also subject to specific duties. In this exercise, these products are placed under the relevant ad valorem tariff slabs only. Sd, specific duty.
Source: Authors' presentation using data from the EU Comext database.

from forgone tariff preferences in the destination market; and, second, it estimates the possible increase in demand for goods exported by non-graduate countries as they become more competitive relative to the graduating country in question.[10]

The advantage of this model is its simplicity – the data requirements are minimum, and the simulation is quite simple. Being a partial equilibrium model means that it uses only one sector while disregarding its interactions with others – a feature that general equilibrium models (GEMs) deal with. However, in contrast to general equilibrium models, this approach employed here can make use of highly disaggregated trade and tariff data.[11] Therefore, the Commonwealth Secretariat's framework provides a good basis for undertaking an initial assessment in identifying the potential trade-related effects. The potential impact of graduation from LDC status in this model is transmitted through the following path:

- Price effects – an increase in the price of goods because of graduation, which increases tariffs.
- This will result in potential substitution between exports from graduate and non-graduates countries.
- The results are dependent on market share elasticities and therefore the extent of price sensitivities.

The potential caveats of this approach are that it assumes constant import price elasticities, i.e. if the price of a given item declines, each producer adapts in the same way regardless of different adaptation measures within the structure of production. In any case, the potential shifts in exports may depend on producers' supply capacities and competitiveness, which are not captured in this market share-based approach.

The model

The trade effect of graduation from LDC status can be estimated by comparing the unit price received by the preference-receiving country with that of the MFN exporters:

$$P_k^i = P_k^W(1+m_k^i) \quad \text{or} \quad m_k^i = \frac{P_k^i}{P_k^i} - 1$$

where P_k^i is the unit price of product k received by country i (i.e. preference recipient), and P_k^W is the world unit price of the same product. It is assumed that markets are perfectly competitive and there is no product differentiation. The above equation can be expressed as:

$$P_k^i = P_k^W(1+T_k^{MFN} - T_k^i)$$
$$m_k^i = T_k^{MFN} - T_k^i)$$

where T_k^{MFN} is ad valorem equivalent MFN tariff for product k, and T_k^i is the export-weighted preferential tariff faced by country i. The percentage changes in exports as a result of changes in the price of exports is given by:

$$\frac{\Delta X}{X} = \frac{\Delta P}{P} + \varepsilon \frac{\Delta P}{P}\left[\frac{\Delta P}{P} + 1\right]$$

where X is exports and ε is price elasticity of demand for exports. The formula can be utilised to estimate the effect of abolishing tariff preferences resulting from graduation from LDC status. As a country graduates from the group of LDCs, its tariff preference regime changes, as it has to pay a higher tariff. The changes in export revenue as a result of graduation can be estimated from the following equation:

$$\frac{\Delta X}{X} = \mu_k^i \frac{\Delta m_k^i}{1+m_k^i} + \varepsilon\left(\mu_k^i \frac{\Delta m_k^i}{1+m_k^i}\right)\left(\mu_k^i \frac{\Delta m_k^i}{1+m_k^i} + 1\right)$$

where, $\mu_k^i = \dfrac{\Delta m_k^i}{m_k^i}$ indicates the changes in preference margin. The first component in the above equation computes the changes in unit price resulting from changes in tariff preference. The second component calculates the impact on export revenue for the given changes in price.

At the second step, to compute the trade-shift effects it is assumed that the declining exports from the graduate country will be proportionally distributed to the other competitors (i.e. non-graduates) based on their market shares. The implicit assumption here is that there is no product differentiation among the suppliers and that non-graduates' exports will increase proportionally (i.e. cross-price elasticity of demand is 1). Therefore, the market share approach is used to estimate how other countries' exports will be impacted.

Estimation results

The model is estimated using a total of 339 CN 8-digit products that were exported to the EU

Table 3. Potential loss of apparel export earnings due to an increase in tariff

Price elasticity of demand	Potential decline in RMG exports (million $)	
	If Bangladesh gets Standard GSP preference	If Bangladesh faces MFN tariff
0.5	800.8	1,001.0
1	1,601.6	2,002.0
1.5	2,402.4	3,003.0
2	3,203.2	4,004.0

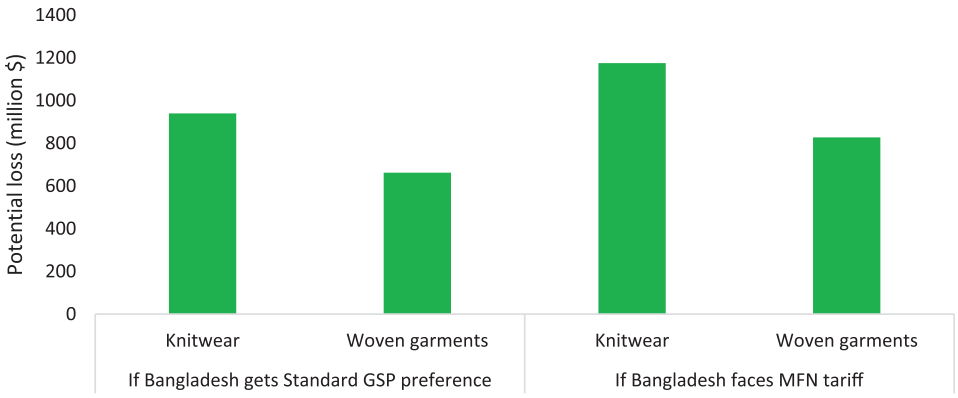
Source: Authors' estimation.

during 2015–17. The EU tariff rates at this level of disaggregation are used in the analysis for individual products. The impact is estimated based on the average exports during the last 3 years and their shares in total EU imports. Export implications have been estimated using two post-graduation scenarios: Bangladesh's receiving Standard GSP benefits and being subject to MFN tariffs.

Table 3 summarises the results. The estimations are based on alternative values for the price elasticity of demand: between 0.5 and 2. Under the unitary price elasticity of demand, the estimation suggests that replacing duty-free access with the Standard GSP regime would result in a loss of export earnings for Bangladesh of US$1.6 billion – 9.5 per cent of average export revenues from the EU during 2015–17. The resultant loss would be higher than $2 billion in the unlikely case of Bangladesh facing the MFN tariff rates. It is estimated that the forgone export receipts from knitwear would be greater than those from its woven counterparts (Figure 21). Under Standard GSP, while the export loss due to woven garments would be lower than $700 million, the comparable figure for knitwear would be close to $1 billion. The most important reason behind higher potential losses of knitwear compared with woven garments is the higher average tariff rate applied on the former.[12] In any case, as reflected in the EU Comext database, Bangladesh exports more knitwear than woven products. With values of the price elasticity of demand higher than 1, the estimated forgone exports are bigger. If we were to choose, our preferred estimate would have been in line with the unitary price elasticity of demand. Annex Table A4 provides export implications by the top 20 individual export items.[13] It shows that Bangladesh's single most important export items, CN 61091000 (knitted or crocheted T-shirts), alone could suffer a decline of close to $300 million. The currently large export base and the hike in the tariff both interact to generate this big impact.

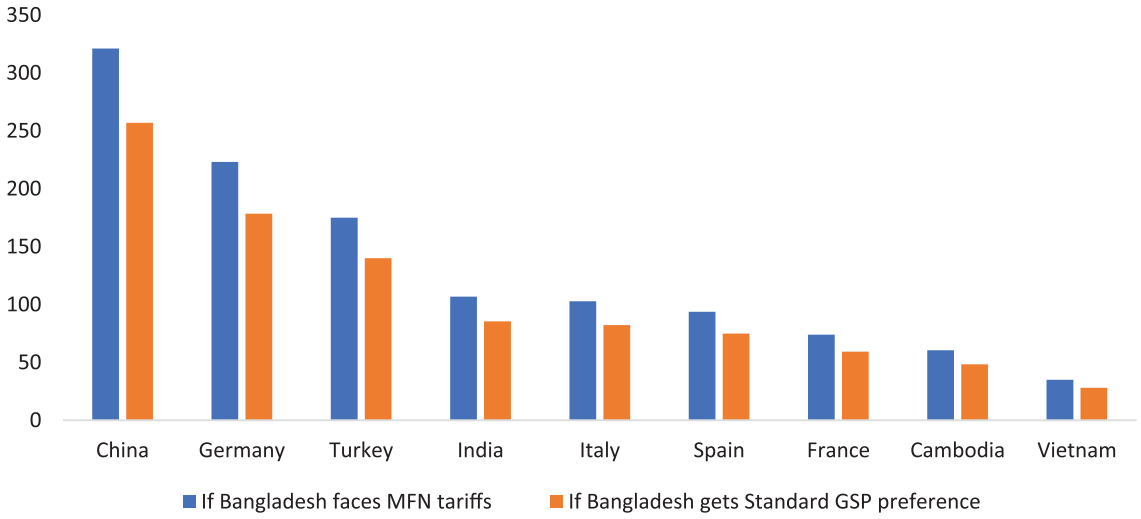
While the limitations of the partial equilibrium model have already been highlighted, it is also worth pointing out a few other issues. First and foremost, modelling exercises (including GEMs) cannot capture the implications arising from the changes in ROO provisions. Graduation out of LDC status will be associated with more stringent requirements (e.g. double transformation in clothing and 50 per cent domestic value added in other products) for getting Standard GSP preferences. Second, it is not clearly understood how the rents from tariff preferences are distributed between exporters and importers, which can have implications for price changes. Finally, it is assumed that undifferentiated products can be readily supplied from other countries. In reality,

Figure 21. Potential loss of knitwear and woven garment export earnings due to an increase in tariff



Source: Authors' estimation.

Figure 22. Potential increase in competitors' apparel exports when all competitors are considered (million $)



as products are differentiated, individual countries might be able to exert some market power on the model-based estimates.

Notwithstanding the caveats, the estimates presented here are comparable with other assessments undertaken elsewhere using different methodological approaches. The United Nations Conference on Trade and Development (UNCTAD) estimated a 5.5–7.5 per cent fall in Bangladesh's total exports due to the loss of preferential access after graduation (UNCTAD, 2016). Rahman and Bari (2019) derived a 7.8 per cent decline in Bangladesh's total exports (equivalent to $2.7 billion). However, there is no study that – like this one – has used product-specific disaggregated data to consider the implications arising from the EU market.

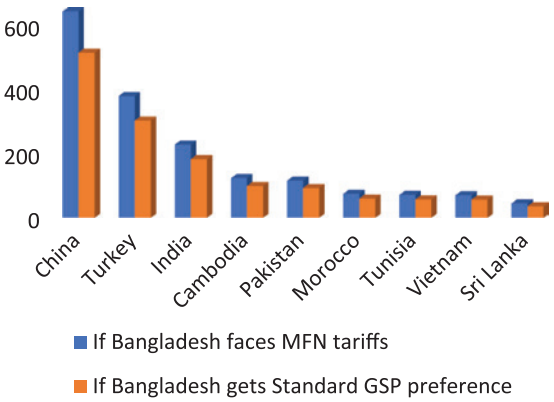
Potential trade shifts

The decline in the EU's imports of apparel from Bangladesh will be compensated by the increases in imports from other countries. This is done using the market share approach, i.e. distributing graduate countries' forgone exports among all exporters in the EU based on their current market shares. Potential shifts in exports are analysed under the assumption that import demand elasticities and cross-price elasticities are one.

Being the largest supplier, China gains most: about 16 per cent of Bangladesh's export loss. When the latter obtains the Standard GSP, China's export gains will be about $0.25 billion, which is quite small in terms of its total exports (Figure 22). Germany would be the second largest gainer followed by Turkey, India, Italy and Spain. After graduation, if Bangladesh is subject to MFN tariffs, all competitors' gains slightly increase.

If the resultant export gains are limited to extra-EU suppliers only, China's exports rise by more than $0.5 billion (Figure 23). Turkey and India together capture another $0.5 billion, with the former increasing its exports by $302 million and the latter by $183 million. Cambodia and Pakistan each get an additional $100 million exports, while the comparable rise in Vietnam's exports is estimated at $56 million followed by Sri Lanka's $36 million. If export gains are disaggregated by knitwear and woven

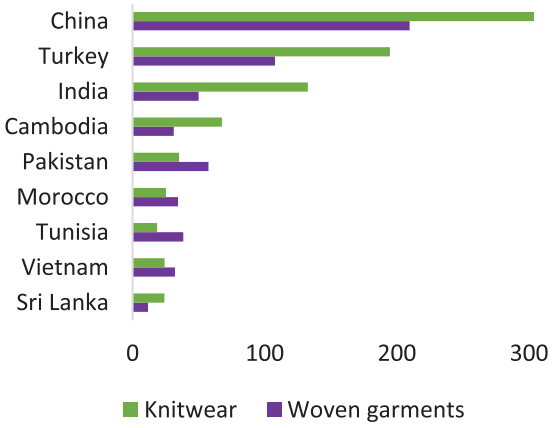
Figure 23. Potential increase in competitors' apparel exports if only extra-EU competitors are considered (million $)



Note: The price elasticity of demand and cross-elasticity of demand are assumed to be 1.
Source: Authors' estimation using data from the EU Comext database.

apparel, China, Turkey, India and Cambodia will benefit considerably from increased exports of knitwear: China's additional earnings from knitwear would be above $300 million under the scenario in which Bangladesh would pay Standard GSP rates, and the comparable gains by exporting woven products would be just above $200 million (Figure 24). In the case of woven products, Bangladesh's comparators – Pakistan, Morocco, Tunisia and Vietnam – would gain. If Bangladesh is subject to MFN tariffs, each competitor's exports will rise further.

Figure 24. Potential rise in extra-EU competitors' knitwear and woven garment exports if Bangladesh pays Standard GSP tariff rates (million $)



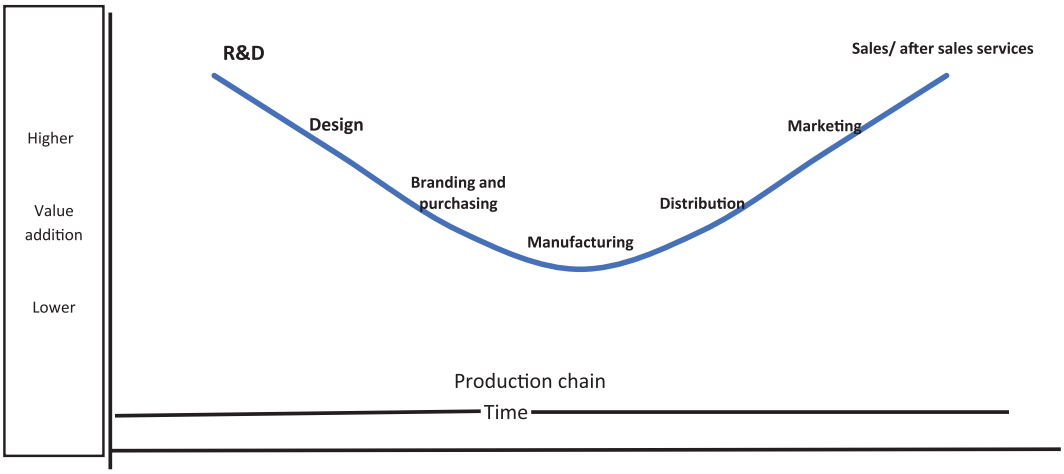
4. Assessing competitiveness: global value chain perspectives

Global value chain-led trade

Bangladesh's RMG exports have been facilitated by what is known as global value chain (GVC)-led production and distribution mechanisms. In an overwhelming majority of traded goods, if not all, export market prospects in today's world are critically dependent on a country's positioning in the GVC network in respective consumers' products. The value chain captures the entire range of activities (including production and services) that are needed to bring a product from its conception to end use and beyond. This includes activities such as design, production, marketing, distribution and support to the final consumer.[14] Fundamental changes have taken place in global trade in which the traditional concept of an entire production process being undertaken by one firm in one country has been replaced by the GVC-led process characterised by various service providers' presence in different countries catering to the needs of final consumers. This GVC mechanism thus involves cross-border fragmentation of production processes, which entails specialisation in a narrower range of tasks by firms organised within global production networks (Razzaque and Keane, 2016). Given the limited productive capacity of many developing countries, integrating with GVCs may provide new trade opportunities for local firms to gain access to new markets through specialising in a single task. However, the specific location of a country/firm on the GVC map can greatly influence the amount of value-added a country is capable of exporting that is embodied in (gross) exports and its capacity to reap a bigger slice of the total added value created within the entire production process associated with the product (Der Marel, 2015). The value addition out of export earnings is important, as it comprises workers' wages, entrepreneurs' profits and other costs associated with supplying orders.

It has become a typical feature of the GVC-led trade that firms located in a developing country focus mainly only on manufacturing activities, while research and design (R&D) for product development is provided by global big brands or importers in developed countries, raw materials are sourced from a third-party country, and marketing and after-sales services are provided by others in the countries where consumers are located.[15] This phenomenon is often represented by what has come to be known as the 'smile curve' (Figure 25). One issue is that the manufacturing stage within the smile curve

Figure 25. The 'smile curve' – stages in the global value chain



Source: Adapted from Mudambi (2008).

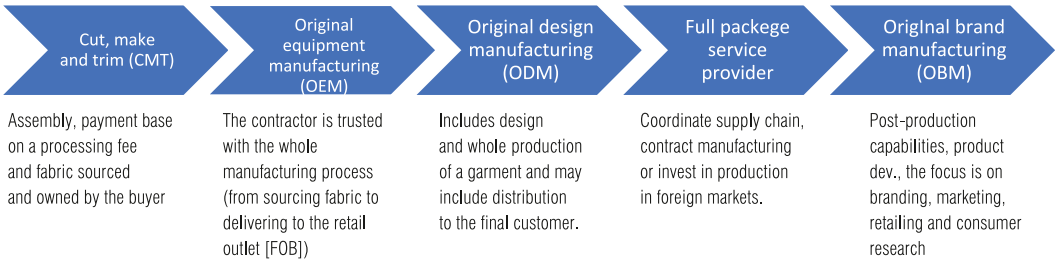
process is known to be generating very little value in proportion to the final retail prices of the products.[16] In general, activities related to R&D, design, brand development and marketing occupy relatively greater shares in overall industry value added. It is, however, true that at the early stage it is very difficult to become specialised in these activities. With increased integration into GVCs, the likelihood of moving up in certain segments of the value chain increases as exporters grow contacts, acquire relevant technologies and develop human resources to perform high-value-added service tasks such as designing, branding and marketing. The participation of foreign direct investment (FDI) firms in export production can greatly facilitate a country's moving up the value chains, as these firms enjoy close contacts with brands, buyers and retailers in the importing countries. They often have in-depth R&D capacities and are sometimes either directly or closely associated with global retail businesses.

Although not directly related to firm-level capabilities, the issues of labour and environmental standards, among others, have become critical success factors in GVC participation (Kaplinsky et al., 2003). International brands and retailers subject to close scrutiny by consumers' groups and NGOs in terms of their procurement practices aim to avoid sources that cannot comply with various production, labour and environmental standards.

Bangladesh in apparel value chains and the issue of competitiveness

Bangladesh's apparel production process is mainly related to manufacturing, i.e. to process intermediate inputs to turn them into final consumer products. This stage of the global supply chain is the most labour intensive in nature and, being a labour-abundant country, Bangladesh has a huge natural comparative advantage. Among the principal apparel business models (Figure 26), Bangladesh is mostly involved in two low-value stages of cut, make and trim (CMT) and original equipment manufacturing (OEM)/free on board (FOB) (Hassan, 2014).

Figure 26. Trend towards greater value addition



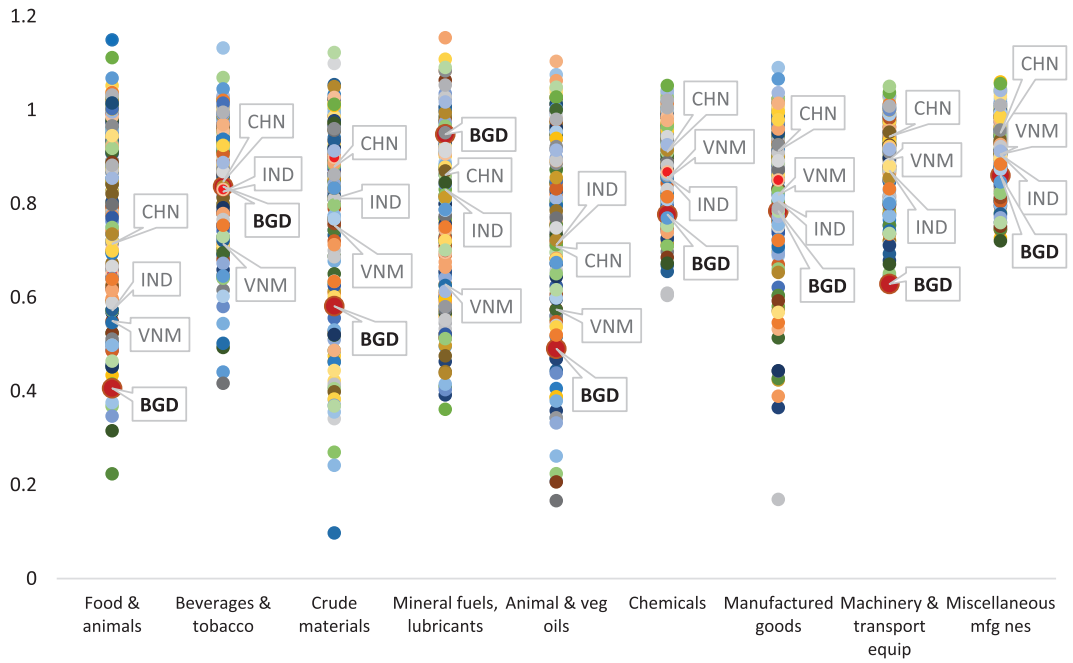
Sources: Adapted from ITC (2016) and based on Gereffi and Frederick (2010) and Cornelia (2012).

Under CMT arrangements, buyers procure the materials from their known sources in any third country and send them to the manufacturer on a free-of-cost basis and pay only for cutting and sewing woven or knitted fabric or apparel knitted directly from yarn. On the other hand, under the OEM/FOB system, the manufacturer is responsible for all production activities, including CMT activities, as well as finishing. Therefore, the manufacturing firm must have the capabilities for procuring the necessary raw materials and for undertaking the trimming needed for production (Fernandez-Stark et al., 2011). In this case, the prices quoted by factories include raw material costs plus CMT charges, i.e. the price of fabrics and accessories including cutting and making charges. Bangladesh's apparel export business generally does not fall under other high-value added models such as original design manufacturing (ODM) and original brand manufacturing (OBM).

Given the value chain segments in which Bangladesh operates, CMT and OEM, it is generally recognised that profit margins cannot be very high.[17] The question is then how much more competitive Bangladesh can be if it has to lose its tariff preferences in the EU market post graduation. A comparison of prices obtained by different suppliers to the EU could shed some light on this, but drawing any meaningful conclusions would be far from straightforward for at least two reasons. First, prices are generally absent in international trade analysis. While economists can use fairly disaggregated trade data (e.g. at HS 8- or 10-digit levels), the computed unit value prices still suffer from aggregation and measurement unit problems.[18] The second difficulty relates to product differentiation. Products supplied by different countries may differ substantially in quality, and cross-country comparisons, even using highly disaggregated data, cannot fully account for this. Prices of various broad items (such as T-shirts) from various brands and retailers are not available in a systematic manner. Even if available, the retail prices would be very different from those obtained by firms in developing countries.

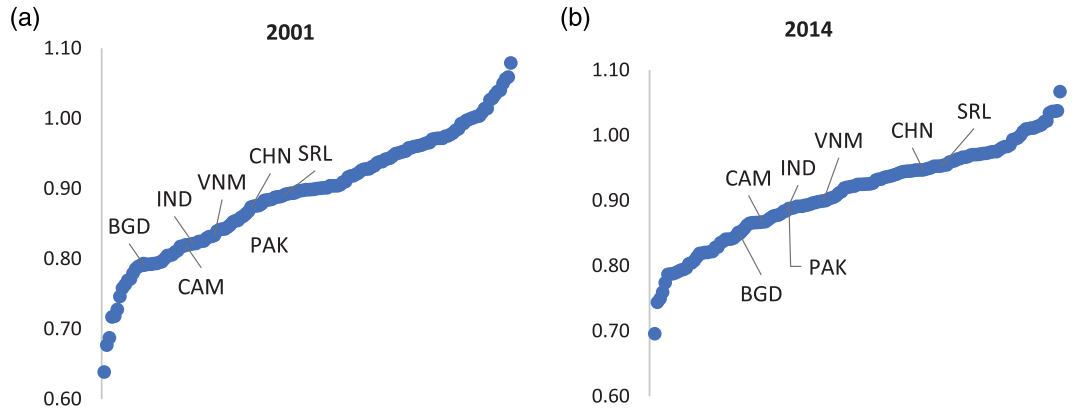
While Bangladesh is developing capacity in making relatively high-priced garment products sold by many global brands, until now it has mainly been known as a source of low-cost garment items in bulk.[19] There is also a general perception that not only in garments but also in all major export items, Bangladesh lags behind its main competitors in terms of product quality. An analysis using one of the most comprehensive export quality database prepared by the International Monetary Fund (IMF) and UK

Figure 27. Quality of export goods by SITC-1 digit sectors



Note: Authors' presentation using the IMF export quality database.

Figure 28. (a) and (b): Quality ladder for clothing



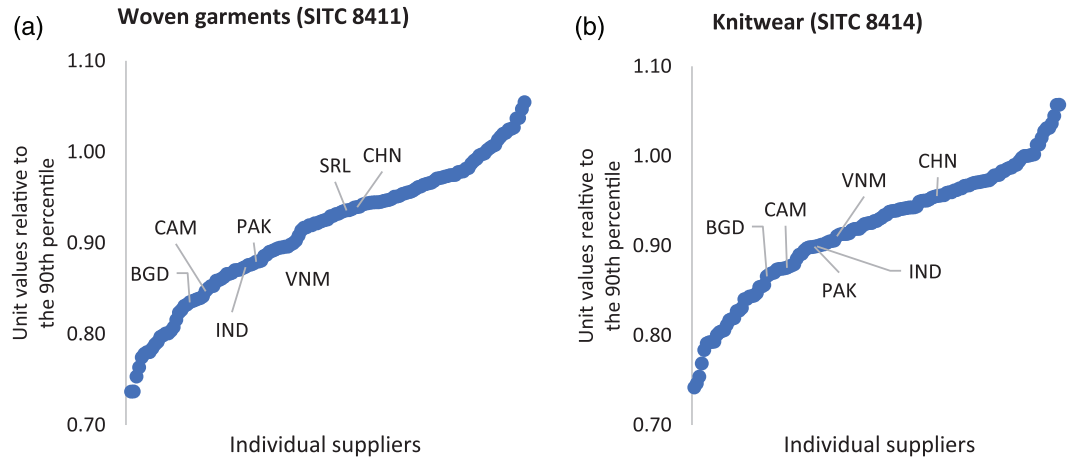
Source: Authors' presentation using data from the IMF export quality database.

Aid seems to confirm this view.[20] As Figure 27 shows, at the SITC 1-digit level, Bangladesh's export quality is lower than those of China and India in all but one Standard International Trade Classification (SITC) 1-digit level of product classifications.[21] In most categories, Vietnam's unit prices are also higher than those of Bangladesh. In the case of the manufactured goods category, which includes much of the country's apparel exports, Bangladesh is around the 80th percentile – behind China, Vietnam and India.

From the aforementioned database, it is also possible to compare export quality for clothing items. The information thus obtained for different countries can be used to generate a 'quality ladder', measuring the relative quality of a country's exports against all other countries that export clothing (Reis and Farole, 2012). A close look at Figure 28(a) and (b) reveals Bangladesh's moving up the quality ladder between 2001 and 2014.[22] However, other comparators, such as China, India, and Vietnam, have also moved up and appear to have made faster progress. When export quality is analysed separately for woven and knitwear items, it again becomes evident that Bangladesh is outperformed by its principal competitors (Figure 29 (a) and (b)).

The above quality-adjusted unit values used do not make any distinction between Bangladesh's exports to various destination markets, although it is most likely that the above patterns would also be reflected in the EU market. Following Reis and Farole (2012), export quality in the EU can be approximated by unit value prices. Comparisons of trends in unit values over the period from 2000 to 2017 for overall apparel exports, knitwear products and

Figure 29. (a) and (b): Quality-adjusted unit value prices of woven and knitwear garments



Source: Authors' presentation using data from the IMF export quality database.

woven garments using export data exclusively for the EU show Bangladesh's having generally lower prices compared with other major competitors (Annex Figure A3). For Bangladesh's two single most important export items (CN 62034235 and CN 62034231), its unit value prices in most recent periods are almost at par with those of China (Annex Figure A3).[23]

Bangladesh's competitive strengths: buyers' and exporters' perceptions

A large number of international buyers comprising globally established brands as well as intermediaries source apparel from Bangladesh.[24] In various global surveys, Bangladesh appears to be an important destination for sourcing low-cost garments.[25] Despite Bangladesh's ability to supply in bulk and having a record as a consistent export performer, working conditions and workers' safety has been a concern for many buyers.[26] It is generally recognised that working conditions have improved in recent times (Moazzem and Sehrin, 2016), providing a renewed relationship between factories and buyers.

Box 1: Gathering perceptions of buyers and exporters

In an attempt to better appreciate the competitiveness challenges facing Bangladesh, the perceptions of buyers and exporters were gathered, as part of this particular study, through a purpose-built short survey. Given the scope of this current work, administering a detailed questionnaire-based survey was not possible. Rather, the approach was to conduct some short and focused key informant interviews based on a pre-specified and semi-structured checklist. The checklist was developed following the Commonwealth Secretariat's methodological guidelines for assessing firms' capabilities suitably adjusted to consider the specific case of Bangladesh. The interviews were conducted face to face, over the phone and through email correspondence. Representatives of five buyers/buying houses based in Dhaka and ten garment factory owners were interviewed. The questions that were kept in the interview checklists included participants' perceptions on the price and quality of Bangladeshi apparel; future market prospects; buyers' relationships with existing suppliers and their medium-term sourcing strategies; and general competitiveness issues facing Bangladesh including potential loss of duty-free access.

In the interviews, the buyers' representatives regarded Bangladesh as competitive and an important source of suppliers. All the respondents indicated that supplying in large volumes is one of the key strengths of Bangladesh. On a scale of 1 (being highly dissatisfied) to 5 (highly satisfied), the average score assigned was 4 for the volume supplied. The same score 4 was also recorded for prices offered by Bangladeshi suppliers. Clearly, competitive pricing and large volume delivery were critical strengths of the industry. In all other indicators, such as product variety and range, reliability and delivery, the average score was a 3. However, one of the biggest buyers of Bangladeshi products participating in the survey provided a maximum score of 5 in each area of supplying in large quantities, reliability and delivery promptness.

When explicitly asked if the demand for Bangladesh's products was price driven or quality driven, most buyers' representatives suggested the former. However, there were differing views indicating improving quality as well as the importance of retaining the niche market where quality is often dictated by consumers' purchasing power. The buyers' representatives did not agree with the popular notion that the prices of Bangladesh's products are unusually low compared with those of rival suppliers. They were of the view that global export markets were competitive and prices for Bangladeshi goods reflected that reality. Almost all buyers thought that low labour costs will continue to remain an important source of comparative advantage for Bangladesh.

In the discussion on the potential impact of loss of tariff preferences in the EU, the buyers' representatives generally agreed that there would be some impact on relative competitiveness, but they could not offer any insights about its impact on export performance. Some respondents were of the view that predicting market outcomes about 10 years in advance would not be practical, as export markets were quite dynamic and business models including countries' moving along the value chain or managing the supply chains could experience profound changes determining competitiveness in the medium to long term. In the short to medium term (over 2–5 years), most buyers do not see any significant changes in sourcing practices involving Bangladesh. One

representative, who procures for the US market, expected a 25 per cent growth in his business with Bangladesh over the next 5 years or so. Another respondent representing a major brand (and a big buyer) suggested that the buyer concerned is satisfied with the products it is purchasing from Bangladesh and could not be sure what could be alternative sources of supplies.

Exporters' responses were mixed, although more than half of them expressed concerns about the prospect of weakened competitiveness arising from erosion of EU preferences. Although the sample size was small, it appeared that large firms were relatively less worried about their business prospects. However, according to two-fifths of the respondents, profitability was already at such a low level that accommodating a margin of lost tariff preference as big as 10–12 per cent would pose an extremely difficult challenge.[27]

Two relatively small firm owners were of the view that many European buyers were procuring from Bangladesh as they did not have to pay tariffs in the EU. They thought that in the absence of such benefits those buyers would look for alternative sourcing options. According to them, rather than Bangladeshi suppliers, it is the importers who benefit from tariff preferences. Therefore, graduation from LDC status could erode Bangladesh's attractiveness as a supplier among the buyers.

Along with tariff preferences, the relaxed and more generous EU ROO could also go away following graduation from LDC status. Under the existing EU ROO regime, non-LDCs are required to fulfil 'double transformation' to access GSP preferences. Most respondents reported that such a condition for knitwear garments should not be a major problem in accessing any future GSP preferences that might be available, as Bangladesh currently has the domestic capacity to produce yarn. However, for the woven garment sector using domestically produced fabrics for garment making to access any preferences could be a challenge.

Almost all garment manufacturers interviewed thought that the prices obtained by Bangladesh were unusually low as against of those of competitors. Some respondents thought that many firms would undercut prices to secure orders, and this tendency has generally reduced prices across the industry. As mentioned above, this view is, however, not supported by buyers' perceptions.

Several respondents thought that despite any preference erosion-induced weakened competitiveness, it might not be easy to replace supply sources from Bangladesh. According to them, the country has now developed a very large capacity and the associated economies of scale that benefit buyers. When Bangladesh and Cambodia graduate from LDC status, only African countries will enjoy large tariff advantages. Although several African suppliers, such as Ethiopia, Lesotho and Madagascar, have developed as apparel exporters, they have very small supply-side capacity.

Some respondents pointed out that wages are steadily rising in China, and its industrial upgradation strategy will transform the country into a major exporter of technology-intensive goods and services, generating more exporting opportunities for Bangladesh and others in labour-intensive manufacturing sectors including apparel. Wages in Bangladesh are increasing too, but lower labour costs compared with many other developing countries will be an advantage.

5. Adaptation strategies

Even without referring to any specific magnitude of potential loss of export earnings or market share, it can be concluded that graduation from LDC status is likely to dent Bangladesh's competitiveness in the EU. Bangladesh thus has a significant task ahead to prepare for its graduation. The adaptation strategies should include various policy options at the national level and changes/improvements in firm-level business and operational practices. It is not possible to discuss all the associated issues in detail here given the scope of this paper. However, a few possible broad areas of intervention are flagged below.

Exploring the most attractive future trade policy regime in the EU

For Bangladesh, the most challenging impact of graduation from LDC status will be transmitted through the loss of duty-free market access in the EU. However, the graduation process and the available EU trade policy regimes mean that there is scope for being strategic and for Bangladesh's undertaking proactive initiatives in mitigating any adverse consequences, including weakened competitiveness of apparel exporters.

The political processes within UN systems and its development partners generally emphasise smooth graduation and transition processes, although there is not much clarity regarding how other international support measures, such as bilateral and multilateral aid and technical assistance, can be of help and will actually be made available. However, in the case of preferential market access, it is expected that, once Bangladesh graduates, most likely to be in 2024, it will remain eligible for duty-free market access in the EU for another 3 years.[28] Post graduation it may be possible to look for an alternative EU trade policy regime that is more generous and attractive to exporters than just the Standard GSP or MFN options.[29]

Although under the existing rules Bangladesh might not qualify for GSP Plus, the European Commission's current GSP regime will apply until 2023 and is likely to be replaced by a new regime. Therefore, proactive engagement with the European Commission and other stakeholders could be undertaken to influence any future changes in the EU GSP regime that would benefit Bangladesh. In the light of the fact that several other LDCs are in the process of graduation, coordinated efforts could enhance the chance of graduating LDCs having an extended transition period from EBA and/or more liberal GSP Plus provisions including continuation of the EBA ROO for graduating LDCs.

If GSP Plus or an equally favourable scheme cannot be secured, striking a free trade agreement could be an option if the EU were interested. Although the market size in Bangladesh may appear to be too small for the EU to consider it for a negotiated deal, it is growing rapidly. Given the medium-term growth outlook, Bangladesh's economy is set to grow to more than US$500 billion by 2025. According to recent PricewaterhouseCoopers projections, Bangladesh will be the 28th largest economy by 2030, in terms of GDP measured in purchasing power parity (PPP) dollars.[30] Another important feature that makes Bangladesh an attractive partner for a free trade agreement is its robust economic growth accompanied by a highly protected trade policy regime. Indeed, it has been shown that, except for just one, there is no country that has applied average tariff rates higher than Bangladesh and yet achieved a higher average growth rate (Razzaque, 2017). A growing market shielded by high tariffs provides preferential partners with a large competitive advantage (over others who do not have such preferential access) and thus should be of interest to many countries.

Undertaking a bilateral trade arrangement with such a major partner as the EU will be a mammoth task for a country such as Bangladesh, which has very limited trade negotiation capacity and does not have any bilateral free trade agreement with any other country. In the run up to graduation from LDC status, serious attention should be given to consider all options for securing favourable market access in the EU and mobilising capacities for immediate proactive engagements with all relevant stakeholders.

Industrial upgradation for moving up the global value chain

One element that an adaptation strategy should include is industrial or economic upgrading to move up the value chain. This may not be feasible on a large scale, but many leading firms will have the necessary capabilities for product and process upgradation. Product upgrading involves producing complex items, while process upgrading requires advancing production methods in combination with using a skilled workforce. Bangladesh has some capacity in the textile industry, and improving that capacity may help the garment sector upgrade into higher segments of the value chain. Currently, a small number of firms are offering product design to their buyers. This capacity can be promoted further.

A review of country experiences by Fernandez-Stark et al. (2011) reveals that, in the case of upgrading into design and branding, a strong commitment to growing the industry by both the public and private sectors is needed to develop the necessary talent and establish a national brand. They also found that successful

workforce development in the later stages of the value chain leveraged knowhow in the developed world by engaging foreign universities in countries successful in the apparel sector to help design curriculum for local training programmes and by hiring foreign consultants to help develop in-house talent. According to Fernandez-Stark et al. (2011), instead of relying solely on learning through experience, fostering collaboration with successful training institutions in the developed world can speed up firm-level learning for upgrading. A shortage of specialised professionals and skilled workers in Bangladesh is known to be a serious problem for export-oriented firms including the apparel sector. Industrial upgradation therefore must consider the need for developing the necessary human resource base.

Industrial upgradation will also imply promoting competitiveness through technological capacity building. Deepening of capital-intensive production processes and automation have already marked garment-making activities in Bangladesh. Nevertheless, there is evidence to suggest that, in comparison with countries such as Cambodia, China, India and Vietnam, the level of capital intensity in Bangladesh's garment industry is much lower.[31] As export production technologies seem to converge, there is considerable scope for improved labour productivity driven by more technology-intensive production processes.[32]

Ensuring compliance as expected from credible suppliers for global consumers

Compliance will remain a major factor in growing export business in the apparel sector. Unfavourable working conditions and labour issues attract widespread global attention, and global brands will always avoid the factories that cannot adhere to acceptable standards. As mentioned above, various initiatives in recent years have been implemented to improve workplace safety standards and the working environment (Moazzem and Sehrin, 2016). The progress made in these areas should be consolidated, and efforts must continue to make further improvements. It is also important to take greater ownership of these issues to maintain good practices in a sustainable manner. During the perception survey, some factory owners mentioned not receiving higher prices or bigger orders despite making progress on compliance issues. However, better workplace standards and practices should be seen as part of a long-term investment and business growth strategy.

Attracting foreign direct investment in the readymade garment sector

FDI can be a big boost for export growth and effective integration into GVCs. In establishing direct contact and business relationships with global brands and retailers producing high-value items, FDI can be instrumental. FDI firms are known to secure higher unit value prices for export products. Skill upgrading, improving productivity, positive spillover effects arising from knowledge and technology transfers and better management practices are some of the direct impacts of participating in FDI. The spillover effects can also benefit local firms, facilitating their industrial upgrading and enhanced participation in GVCs. Among other things, a weak investment climate and a high cost of doing business discourage FDI in Bangladesh. Since 2000, average yearly FDI as a proportion of GDP in China, Cambodia, India, and Vietnam has been 2.3 per cent, 7.8 per cent, 1.7 per cent and 5.4 per cent respectively, while the comparable figure for Bangladesh has been less than 1 per cent.[33] Attracting foreign investment in Bangladesh's RMG sector should thus constitute a policy priority in its preparation for graduation from LDC status.

Tackling excessive cost of doing business to boost competitiveness

There are certain areas in which Bangladesh can transform its current challenges into opportunities to boost external competitiveness. The issue of excessive cost of doing business in Bangladesh is widely acknowledged. A weak and inadequate infrastructure in conjunction with inefficient inland road transport and trade logistics contribute to longer lead times and a high cost of doing business, undermining competitiveness.[34] Congestion in the country's main economic corridor, the Dhaka–Chattogram highway, limited containerisation and inefficient handling and management of containers, intricate customs processes, and an inadequate port infrastructure all add to trading costs.[35] This reduces trade volumes and domestic value added (which includes wages and profits). Within this reduced value added, for an export-oriented apparel sector, there are

two-way shipping costs involved: import of raw materials and then export of final products. The implication is that excessive trading costs make it increasingly difficult for apparel-exporting firms to compete in world markets.[36] Improvements in these areas thus may substantially help to recoup a part of the lost trade preferences.

6. Conclusion

The impending graduation from LDC status represents a major transition in terms of development for Bangladesh. For a country of more than 160 million people and a land area half the size of the UK, confronting daunting challenges of frequent natural disasters, political unrest and weak governance, to make this transition possible is nothing less than an amazing achievement (Razzaque, 2018b). This is global recognition of the socio-economic development that Bangladesh has been able to achieve.

Graduation also gives rise to concerns about potentially sizeable economic costs due to the loss of access to various support measures associated with LDC status. The available support measures encompass a range of concessions, commitments and provisions made by development partners across the fields of development finance, trade and technical assistance. Of this, the most important consequence will be the loss of trade preferences in the EU.

Taking advantage of duty-free market access and relaxed ROO provisions, Bangladesh's apparel exports to the EU have risen to more than US$20 billion. In the global clothing value chain landscape, Bangladeshi firms operate mainly in the low value-added segment of cutting and making of apparel, and the principal source of its competitive advantage is the low costs of labour. The loss of duty-free access could thus adversely impact the country's competitiveness and export prospects. In international trade, higher tariffs imposed against a country's suppliers are generally associated with their lower exports, and tariff preferences tend to enhance the export response of the preference-receiving countries. In this context, applying a partial equilibrium model, which was developed as part of the Commonwealth Secretariat's analytical framework to understanding the potential implications of graduation from LDC status, shows that the loss of tariff preferences in the EU could result in a potential export loss of more than $2 billion for Bangladesh.

It is worth pointing out that there are certain caveats to the methodological approach and results reported. Analytical frameworks are simplified representations of the realities, failing to capture many complex interactions involving the demand and supply sides. When the MFA quotas were abolished from global trade in 2005, many analysts predicted huge business losses for Bangladesh – in sharp contrast to an eventual acceleration of its export growth. Considering post-graduation prospects, the argument can be put forward that even without any preferential treatment Bangladesh has managed to succeed in the US apparel market. Furthermore, trading is also about building networks and relationships. Therefore, long-established supply sources in Bangladesh may not be replaced overnight. If EU importers have benefited from Bangladesh's duty-free access, they might not have alternative and equally lucrative sourcing opportunities elsewhere. Other LDCs and developing countries enjoying EBA or GSP Plus preferences currently do not have such large supply-side capacities as Bangladesh.

That notwithstanding, there is no denying that loss of preferences will put serious pressure on Bangladesh's competitiveness. There are certain measures Bangladesh can consider to mitigate any potential adverse consequences. These include looking for an extended transition period (from EBA arrangements) for graduating LDCs, possible options and strategies for securing the GSP Plus scheme, widely regarded as the most favourable EU preferential scheme after EBA, a negotiated bilateral trade deal with the EU, etc. On the supply side, industrial upgradation within apparel value chains including technological upgradation in Bangladesh's garment industry, attracting FDI and ensuring compliance with workplace standards would help. Finally, the cost of doing business

is considered excessively high in Bangladesh because of such factors as infrastructural bottlenecks, inefficient customs processes, incompetent port management and trade facilitation measures, dysfunctional inland transport and weak governance. Any improvements in these areas will contribute to the improved competitiveness of exporting firms.

In future, informed policymaking and Bangladesh's preparation for smooth graduation may be aided by several timely and gap-filling analytical studies. These include, among others, analyses of the distribution of rents from tariff preferences between suppliers and importers with a view to better appreciating the likely impact on export competitiveness following graduation and the role of preferential treatment in GVC positioning; exporters' pricing strategies with and without preferences (e.g. a comparative analysis of EU and US markets) to gauge competitiveness pressures; the scope of industrial upgradation that is realistically feasible within GVCs for promoting export competitiveness; industrial restructuring that is taking place in China and its likely implications for the global apparel market shares of different suppliers; automation and deepening of capital-intensive techniques and the implications for development outcomes and industry competitiveness; and the implications of different types of possible post-graduation trading arrangements with the EU.

Notes

1 Graduation from LDC status requires a country to meet development thresholds under at least two of the three pre-defined criteria (of per capita income, human asset and economic vulnerability) in two consecutive triennial reviews. Bangladesh qualified for graduation by satisfying all three thresholds. It is to be noted that there is also a provision for the 'income-only' graduation rule under which, if the 3-year average per-capita gross national income of an LDC has risen to a level at least double the graduation threshold, the country could be eligible for graduation regardless of its situation under the other two criteria.

2 A summary of Bangladesh's major socio-economic achievements leading to graduation from LDC status can be found in Razzaque (2018b).

3 World merchandise exports declined by a staggering US$2.5 trillion in 2015 (from the previous year), and then again fell by more than $500 billion in 2016. As many as 183 countries had experienced reduced export earnings in 2015 (compared with the previous year), while for 112 countries export earnings similarly declined in 2016. Given such a gloomy global landscape, Bangladesh did much better by securing modest growth in exports in both years.

4 The EPI has three components: exporters' supply capacity for a product, demand conditions and bilateral 'easiness to trade'. An exporter's supply capacity is estimated as a dynamic version of market share, in which expected economic growth is considered to augment the exporter's capacity, and product-specific trade balance measured by the export–import ratio and global margin of preference, which encompasses information on tariff preference. Demand conditions are captured through partners' projected imports, which are determined by projected GDP and population growth, margin of preference in the target market, and distance advantage, which compares suppliers' geographical distances with the target market. The easiness to trade between two countries is computed based on the actual trade relative to hypothetical trade estimated by supply and demand conditions. If easiness to trade between countries is greater than 1, countries find it easier to trade between themselves relative to world markets. The export potential is then calculated by multiplication of estimated supply capacity, demand conditions and bilateral easiness to trade. Potential exports are estimated for disaggregated products at HS 6-digit level. The aggregate export potential of a country in a target market is the sum of product-level export potentials.

5 Although Bangladesh enjoys duty-free access, there could be various reasons for its not being able to exploit the EU market fully. These include underdeveloped trade infrastructures, difficulties in complying with standards, quality and preferences of consumers and any other barriers in developing relationships with buyers/importers.

6 There is some lack of clarity on these provisions for GSP Plus.

7 Just one of the 27 international conventions has not yet been ratified by Bangladesh. As regards condition (ii), Bangladesh's current share in all GSP-covered imports is more than 16 per cent, which is much higher than the 6.5 per cent threshold. Finally, more than 90 per cent of Bangladesh's exports to the EU is in woven and knit garments, comprising just one section of GSP-covered imports.

8 According to one estimate, 96 per cent of Bangladesh's exports to the EU enjoyed tariff-free access under the EBA scheme in 2016 (European Commission, 2018a and 2018b). The most likely cause of the remaining 4 per cent of exports not availing themselves of the preference was not fulfilling the ROO provisions.

9 The local value added to qualify for preferential treatment would increase from 30 per cent to 50 per cent for all products. In the apparel sector, currently LDCs can qualify for EBA facilities under single transformation of products (e.g. from fabric to clothing), but under GSP Plus treatment products must go through double transformation (i.e. from cotton to fabric to clothing).

10 The second step thus involves the graduate country's lost market share being distributed among the non-graduates.

11 Developing an appropriate GEM can be very time-consuming as well. One popular approach is to use the Global Trade Analysis Project (GTAP) computable general equilibrium model. But, in the GTAP model, just one aggregate sector of textile and apparel is used, unlike the trade data at the highly disaggregated level used here.

12 This analysis does not consider the fact that graduation from LDC status could lead to more stringent ROO impacting woven garments, as discussed earlier in the paper.

13 This is one key advantage of partial equilibrium models in which the implications of individual products can be evaluated.

14 This definition of GVC is taken from https://globalvaluechains.org/concept-tools.

15 Bangladesh's apparel exports are a prime example of GVC-led trade.

16 The issue of low-value additions as a proportion of overall GVC-led final product retail prices has also attracted a lot of attention in the context of primary commodities' supply chains. It is generally recognised that a majority of developing countries including LDCs and sub-Saharan African countries have failed to add more value by processing their primary exports and moving up the GVCs within which they specialise. Some commodity exporters are thought have become trapped in captive value chains (Nissanke and Mavrotas, 2010; Keane, 2012). It has been argued that participating in the lower end of GVCs may lead to a 'hollowing-out' of the manufacturing sector. This disadvantageous process is also known as 'immiserising growth' (Kaplinsky, 2005), a phenomenon recognised within the case study GVC literature of the 1990s but ignored by the current GVC discourse.

17 Data on firm-level costs by various activities and profit margins are not available. Industry sources and key informants suggest that it is the high volume of orders that make it possible for most firms to operate even with a small margin per unit.

18 For instance, the measurement units are often in kilogram and square metre equivalents. For garment items, prices in these units generally will not make much sense. Empirical work using these data mainly focuses on determining the changes in variations in these data rather than comparing the prices across countries. Another problem with these data is that they can be very noisy over time given, among other things, the possible substantial changes in quality mixes even within a specific category.

19 http://fashion2apparel.blogspot.com/2017/02/top-10-retailers-fashion-brands.html

20 This IMF and UK Aid database on export quality can be found here: https://www.imf.org/external/np/res/dfidimf/diversification.htm. The estimation methodology (Henn et al., 2013) employed derives quality from unit values of disaggregated products. First, trade prices are modelled as the function of unobservable quality, exporters' level of development, and distance between exporters and importers. In the second step, a quality augmented gravity equation is specified. Then from step one the quality relationship is substituted into the specification in the step two equation, which is then estimated separately for individual products. Finally, the regression coefficients are used to calculate quality estimates.

21 At SITC-4, the broad category defined as 'mineral fuels, lubricants, and related materials', Bangladesh is shown to have unit values higher than those of China, India and Vietnam. Bangladesh is not a major exporter in the category and thus the higher unit prices reflect a very small quantity of a high-quality product.

22 The export quality database of IMF and UK Aid provides information only until 2014.

23 It needs to be pointed out that the data used for the EU-specific unit value analysis do not explicitly consider varying qualities. However, following Reis and Farole (2012) the measurement of the relative quality has been defined as the unit value of any product relative to the 90th percentile unit value of the same product across countries. The 90th percentile of the unit values is considered the world standard. Higher values of the index correspond to higher quality levels. The closer a country's position to the origin of the quality ladder, the lower the quality and vice versa. The total length of the quality ladder shows the potential for further quality improvement of a specific product.

24 Some of the biggest brands that produce in Bangladesh include Benetton, C&A, Carrefour, H&M, J.C. Penney, Levi's, Gap, Walmart, Target, Tesco and Zara.

25 For example, see the *Global Sourcing Survey 2018* by Asia Inspection: https://s3.asiainspection.com/images/news/2018Q1/AI_Q1_2018_Barometer_survey_results_Jan2018.pdf (accessed 6 November 2018).

26 Since the collapse of a factory building (Rana Plaza) in 2013, killing more than a thousand workers, two western buyers' platforms – Accord and Alliance – have been involved in working with the government, industry associations, workers and local and international NGOs, and development partners to improve workplace safety in Bangladesh's RMG sector.

27 They explained that their current profitability per season is very low. It is only because they receive orders for three seasons that they can stay afloat.

28 This is as per the provision stipulated in Article 17, paragraph 2 of Regulation (EU) No. 978/2012 of the European Parliament and of the Council dated 25 October 2012.

29 As mentioned earlier, if Bangladesh does not qualify for GSP Plus, it will be eligible for the Standard GSP scheme, which is much less attractive. The Standard GSP tariff rate on apparel in most cases will be 9.6 per cent (as against zero in all apparel-related tariff lines under EBA and GSP Plus) in comparison with an MFN rate around 12 per cent. Moreover, the eligibility

of most developing countries for Standard GSP means there cannot be any gains in competitiveness.

30 In 2030 Bangladesh's GDP is projected to reach PPP US$1.34 trillion, while by 2050 it is expected to grow further to PPP $3.06 trillion to become the 23rd largest economy in the world. Along with its overall economic growth, Bangladesh is experiencing a rapid expansion of the middle class and, with it, rising disposable incomes and a high propensity to spend on a new and wide range of products and services. According to one estimate in 2017, the consumer goods sector grew 9 per cent to $3.4 billion.

31 Razzaque and Dristy (2018) estimate that as against Bangladesh's employing 142 workers in producing garment items worth US$1 million, China and Vietnam each require just 48 workers for the same size of export production. The comparable numbers of workers for India and Cambodia are 59 and 75 respectively.

32 This could, however, imply that employment opportunities in the sector would diminish. In fact, the impact of automation and more capital-intensive production processes have already been experienced. For instance, as Razzaque and Dristy (2018) point out, between 2010 and 2016 Bangladesh's clothing exports more than doubled from $12.5 billion to $28 billion, but jobs in the sector grew only marginally from 3.6 million to 4 million. In future, the garment industry will have to grow at a much faster rate to generate a modest expansion in employment.

33 The FDI stock as a percentage of GDP for Bangladesh, 6 per cent, is far lower than that of its comparators: for instance, the FDI stock for Cambodia increased from about 10 per cent in 1995 to more than 80 per cent in 2016, while Vietnam's share increased from around 28 per cent to more than 55 per cent.

34 The lead time – the number of days from the confirmation of any orders to goods delivered to port and turned over to the freight forwarding company – is also an important determinant of competitiveness in the apparel export sector.

35 World Bank (2016) provides a detailed analysis of these issues.

36 It should be pointed out that in the World Bank's ease of doing business index, Bangladesh ranks among the worst performing countries (176th out of 190 countries in the index for 2019).

Annex

Table A1. Bangladesh's total and RMG exports to the EU

Economy	Total exports (million $)	RMG exports (million $)	Share of RMG to total exports (%)	Share in Bangladesh's total exports (%)	Share in Bangladesh's RMG exports (%)
Germany	5,890.72	5,579.51	94.72	16.06	18.22
UK	3,989.12	3,724.26	93.36	10.88	12.16
Spain	2,457.98	2,277.77	92.67	6.7	7.44
France	2,004.97	1,851.93	92.37	5.47	6.05
Italy	1,559.92	1,454.04	93.21	4.25	4.75
Netherlands	1,205.37	935.38	77.6	3.29	3.06
Poland	965.22	864.85	89.6	2.63	2.82
Belgium	877.9	705.57	80.37	2.39	2.30
Denmark	693.29	667.95	96.35	1.89	2.18
Sweden	579.33	533.09	92.02	1.58	1.74
Czech Republic	497.39	492.29	98.98	1.36	1.61
Ireland	175.81	169.88	96.62	0.48	0.55
Portugal	86.63	68.83	79.45	0.24	0.22
Slovakia	84.97	84.15	99.03	0.23	0.27
Slovenia	65.74	57.52	87.49	0.18	0.19
Greece	57.93	50.34	86.9	0.16	0.16
Austria	36.47	27.72	76.02	0.1	0.09
Finland	33.13	29.92	90.32	0.09	0.10
Romania	24.96	19.46	77.94	0.07	0.06
Croatia	16.58	15.28	92.17	0.05	0.05
Hungary	6.44	2.72	42.32	0.018	0.009
Malta	6.2	6.16	99.28	0.017	0.020
Lithuania	6.11	3.78	61.93	0.017	0.012
Cyprus	4.86	1.37	28.19	0.013	0.004
Bulgaria	4.35	3.25	74.67	0.012	0.011
Estonia	1.45	1.26	86.88	0.004	0.004
Latvia	1.38	0.75	54.38	0.004	0.002
Luxembourg	0.29	0.29	100	0.001	0.001
Bangladesh's total exports to EU	**21,334.51**	**19,629.31**	**92.01**	**58.18**	**64.12**
Bangladesh's total exports	**36,668.17**	**30,614.76**	**83.49**	**100**	**100**

Source: Authors' presentation using data from the EPB.

Table A2. Major export items of Bangladesh to the EU

HS code	Product description	Bangladesh's exports to EU (million $)	Bangladesh's total exports (million $)	Share in Bangladesh's exports by product (%)	Share in Bangladesh's RMG exports to EU (%)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	3,833.4	5,235.8	73.2	17.90
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	2,912	5,399.6	53.9	13.60
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	1,777.9	3,095.7	57.4	8.30
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted	1,618.9	2,393.5	67.6	7.56
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted	1,528.1	2,096.7	72.9	7.13
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets	841.5	1,851.5	45.5	3.93
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted	793.6	1,015.7	78.1	3.71
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets)	708.3	942.9	75.1	3.31
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats)	526.2	767.2	68.6	2.46
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	493.2	760.6	64.8	2.30
621210	Brassieres of all types of textile materials, whether or not elasticated, including knitted or crocheted	319.8	473.3	67.6	1.49
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	309.4	567.3	54.5	1.44
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted)	279.4	395.2	70.7	1.30
610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted	238.9	373.5	64	1.12
610442	Women's or girls' dresses of cotton, knitted or crocheted (excluding petticoats)	236.8	314.9	75.2	1.11
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	225.3	426.3	52.8	1.05

(*Continued*)

Table A2. Major export items of Bangladesh to the EU (*Continued*)

HS code	Product description	Bangladesh's exports to EU (million $)	Bangladesh's total exports (million $)	Share in Bangladesh's exports by product (%)	Share in Bangladesh's RMG exports to EU (%)
620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	212	400.6	52.9	0.99
610342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted	202.7	350.9	57.8	0.95
610610	Women's or girls' blouses, shirts and shirt-blouses of cotton, knitted or crocheted	197.1	279.9	70.4	0.92
620530	Men's or boys' shirts of man-made fibres (excluding knitted or crocheted, nightshirts, singlets)	196.6	318.5	61.7	0.92

Source: Authors' presentation using data from the ITC.

Table A3. Selected countries shares in extra-EU apparel imports, 1990–2017 (%)

	1990	1995	2000	2005	2010	2015	2017
China	13.26	13.80	19.99	35.61	45.95	37.84	33.84
Bangladesh	0.96	4.03	6.36	7.02	9.72	16.46	18.46
Turkey	14.52	13.22	13.06	15.36	12.25	11.38	11.15
India	4.80	6.65	5.18	6.67	7.05	6.55	6.18
Cambodia	0.00	0.16	0.74	0.98	1.21	3.72	4.81
Vietnam	0.22	1.13	1.95	1.43	2.29	3.80	4.07
Pakistan	1.35	1.76	1.51	1.58	1.67	2.80	3.28
Morocco	2.57	6.56	5.71	4.48	3.20	3.02	3.20
Tunisia	3.79	6.35	6.28	4.62	3.28	2.32	2.24
Sri Lanka	0.90	1.88	2.54	2.03	2.19	2.02	1.90
Indonesia	2.02	3.90	4.81	2.64	1.99	1.64	1.66
Myanmar	0.00	0.06	0.75	0.37	0.18	0.47	1.40
Hong Kong, China	14.72	12.89	8.93	4.23	0.63	0.83	0.62
Thailand	2.81	2.34	2.66	1.78	1.32	0.67	0.61
Egypt, Arab Rep.	0.22	0.57	0.66	0.75	0.63	0.53	0.49
United States	1.26	1.80	0.96	0.65	0.56	0.57	0.49

Source: UN COMTRADE and ITC.

Table A4. Product-wise loss in Bangladesh's exports to the EU

CN 8-digit code	Product description	Bangladesh's exports to the EU (million $)	EU imports from the world (million $)	Market share of Bangladesh	MFN tariff	GSP tariff	Potential decline in Bangladesh's exports (million $)	
							Under MFN	Under GSP
61091000	T-shirts, singlets and other vests of cotton, knitted or crocheted	3,146.8	12,831.2	24.5	12	9.6	–370.6	–296.5
62034235	Men's or boys' trousers and breeches of cotton (excl. Denim, cut corduroy, knitted or crocheted, industrial and occupational, bib and brace overalls and underpants)	956.5	4,309.0	22.2	12	9.6	–117.3	–93.8
61103099	Women's or girls' jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excl. Lightweight fine knit roll, polo or turtleneck jumpers and pullovers and wadded waistcoats)	978.4	7,662.7	12.8	12	9.6	–114.7	–91.7
62034231	Men's or boys' trousers and breeches of cotton denim (excl. Knitted or crocheted, industrial and occupational, bib and brace overalls and underpants)	861.0	5,942.8	14.5	12	9.6	–102.3	–81.9
62052000	Men's or boys' shirts of cotton (excl. Knitted or crocheted, nightshirts, singlets and other vests)	731.3	4,614.0	15.8	12	9.6	–90.8	–72.7
61102099	Women's or girls' jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excl. Lightweight fine knit roll, polo or turtleneck jumpers and pullovers and wadded waistcoats)	711.0	4,769.3	14.9	12	9.6	–85.3	–68.2
61046200	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excl. Panties and swimwear)	658.2	3,259.4	20.2	12	9.6	–76.1	–60.9

(*Continued*)

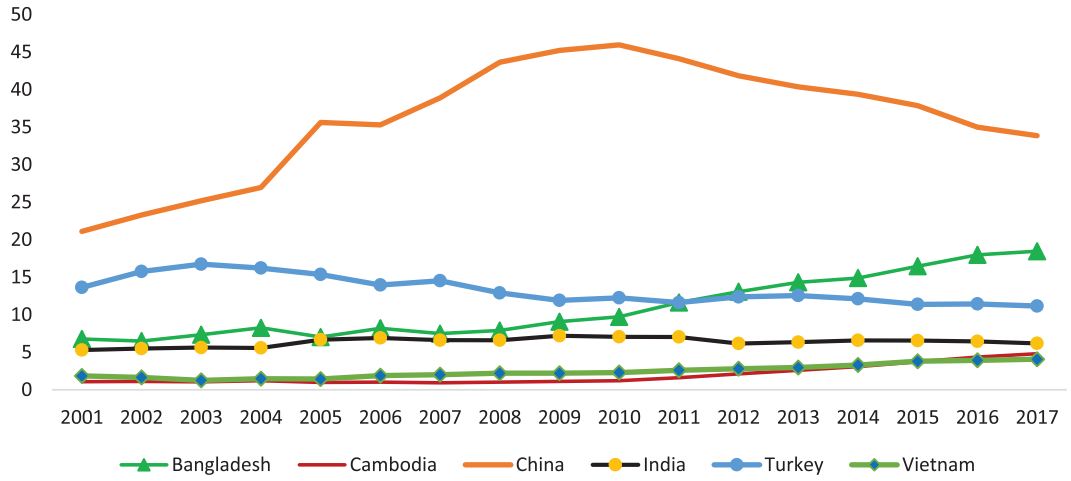
Table A4. Product-wise loss in Bangladesh's exports to the EU (*Continued*)

CN 8-digit code	Product description	Bangladesh's exports to the EU (million $)	EU imports from the world (million $)	Market share of Bangladesh	MFN tariff	GSP tariff	Potential decline in Bangladesh's exports (million $)	
							Under MFN	Under GSP
62046231	Women's or girls' cotton denim trousers and breeches (excl. Industrial and occupational, bib and brace overalls and panties)	627.5	4,540.8	13.8	12	9.6	–70.4	–56.3
61051000	Men's or boys' shirts of cotton, knitted or crocheted (excl. Nightshirts, t-shirts, singlets and other vests)	610.2	2,565.7	23.8	12	9.6	–70.3	–56.3
61102091	Men's or boys' jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excl. Lightweight fine knit roll, polo or turtleneck jumpers and pullovers and wadded waistcoats)	614.0	3,858.0	15.9	12	9.6	–69.4	–55.5
62046239	Women's or girls' trousers and breeches, of cotton (not of cut corduroy, of denim or knitted or crocheted and excl. Industrial and occupational clothing, bib and brace overalls, briefs and tracksuit bottoms)	577.3	3,416.7	16.9	12	9.6	–67.8	–54.3
62034290	Men's or boys' shorts of cotton (excl. Knitted or crocheted, swimwear and underpants)	436.5	1,520.2	28.7	12	9.6	–51.6	–41.3
61112090	Babies' garments and clothing accessories, of cotton, knitted or crocheted (excl. Gloves, mittens, mitts and hats)	438.9	2,965.2	14.8	12	9.6	–48.7	–39.0

61099020	T-shirts, singlets and other vests of wool or fine animal hair or man-made fibres, knitted or crocheted	368.8	5,777.2	6.4	12	9.6	–40.4	–32.3
61103091	Men's or boys' jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excl. Lightweight fine knit roll, polo or turtleneck jumpers and pullovers and wadded waist	286.4	1,729.2	16.6	12	9.6	–32.2	–25.8
61071100	Men's or boys' underpants and briefs of cotton, knitted or crocheted	210.4	1,731.8	12.1	12	9.6	–23.5	–18.8
62063000	Women's or girls' blouses, shirts and shirt-blouses of cotton (excl. Knitted or crocheted and vests)	173.6	2,171.2	8.0	12	9.6	–22.9	–18.3
62053000	Men's or boys' shirts of man-made fibres (excl. Knitted or crocheted, nightshirts, singlets and other vests)	168.1	439.2	38.3	12	9.6	–22.1	–17.7
62064000	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excl. Knitted or crocheted and vests)	223.2	4,515.8	4.9	12	9.6	–21.3	–17.0
61034200	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excl. Swimwear and underpants)	186.6	1,303.1	14.3	12	9.6	–20.6	–16.5
Top 20 products		12,964.4	79,922.6	16.2			–1,518.4	–1,214.8

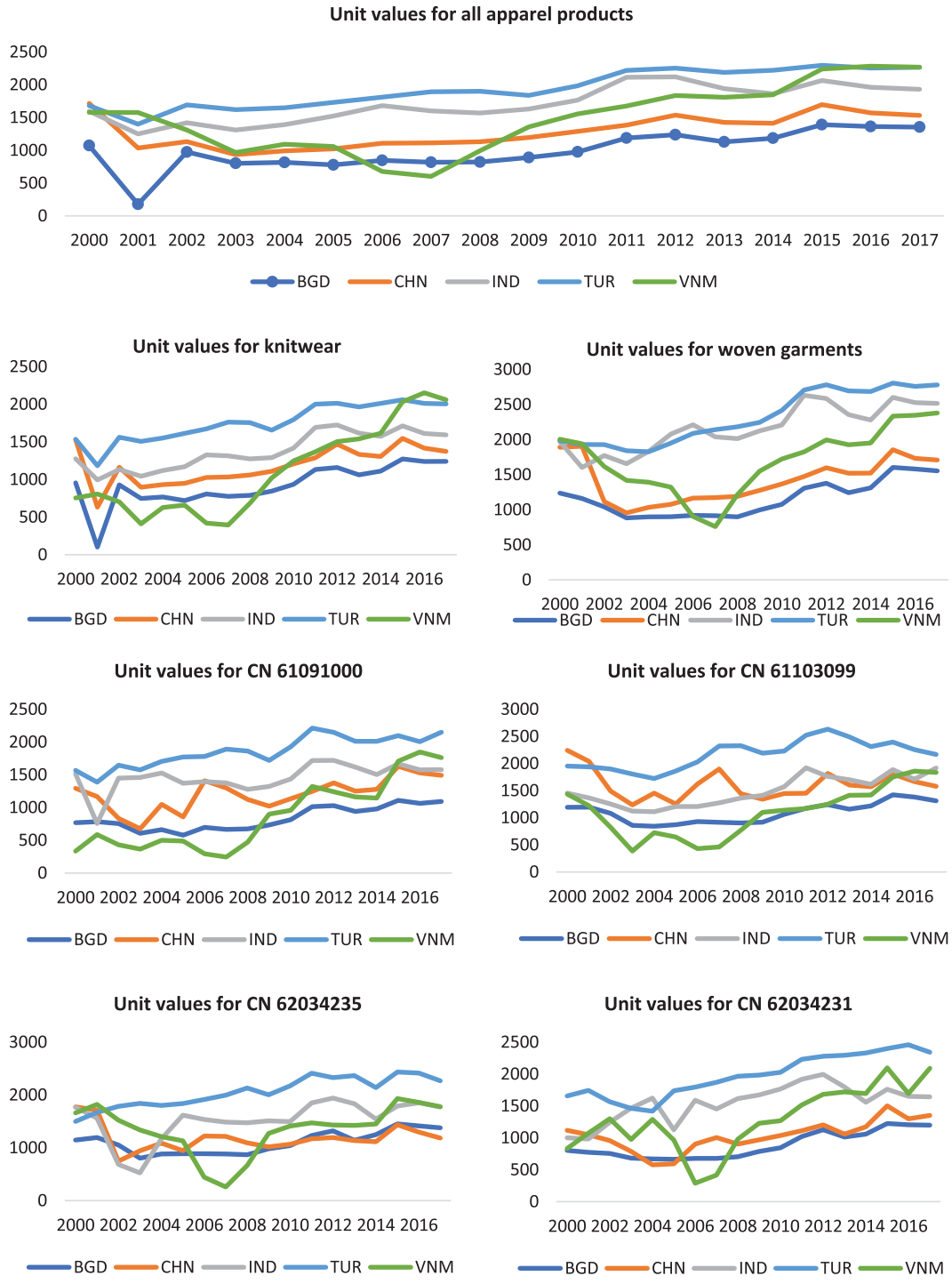
Source: Authors' presentation using data from the EU Comext database.

Figure A1. EU apparel market shares (extra-EU) by selected suppliers (%)



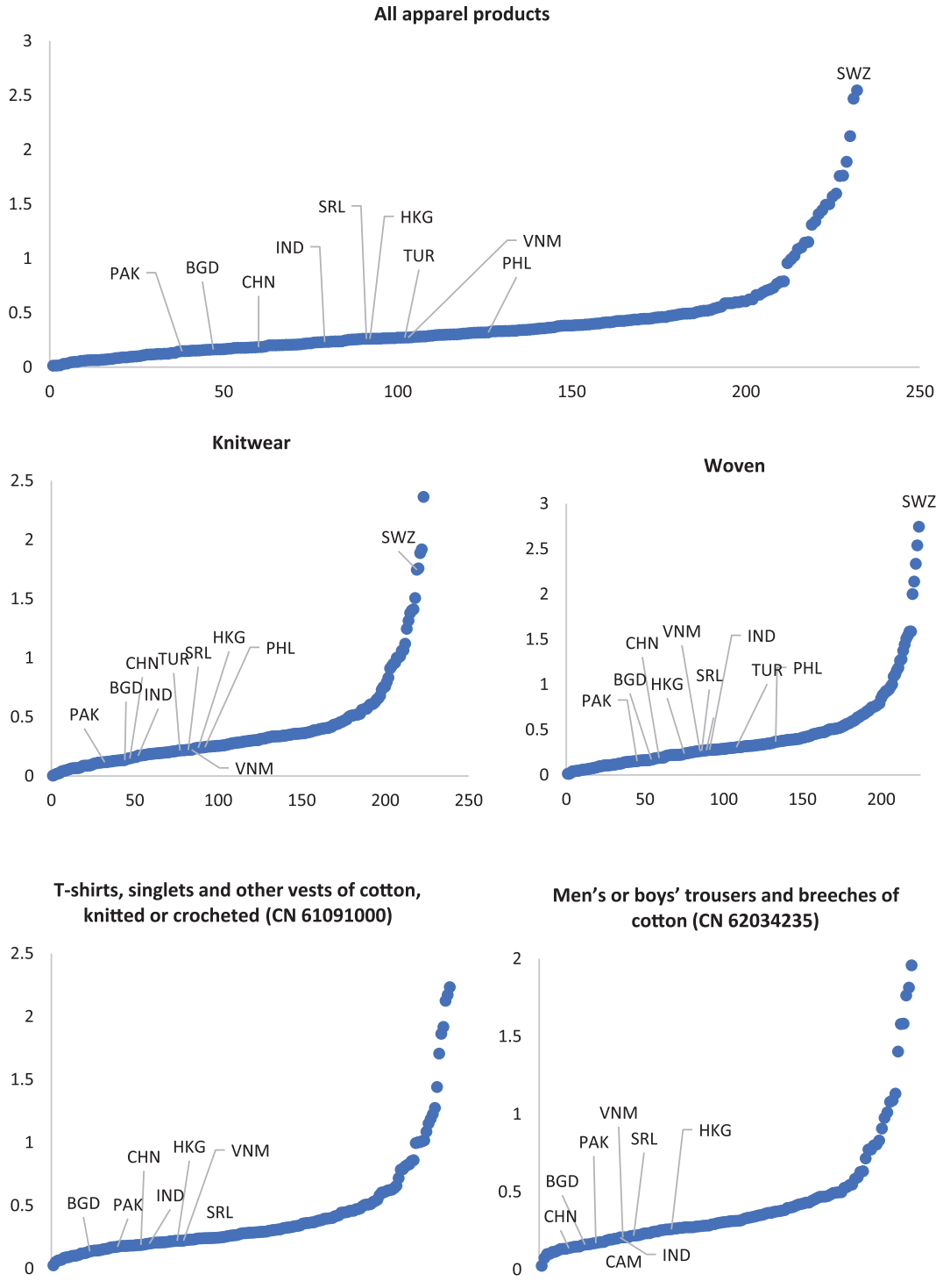
Source: Authors' presentation using data from the ITC.

Figure A2. Comparison of unit values for apparel products exported to the EU by different exporters



Source: Authors' presentation using data from the EU Comext database.

Figure A3. Quality ladders of apparel products in the EU market



Source: Authors' analysis using data from the Comext database

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