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**Sinking into Vulnerability**  
*Erosion of Non-Reciprocal Preferences in WTO-NAMA:*  
*The Case of Bangladesh*

Rashed Al Mahmud Titumir  
M Iqbal Ahmed

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

## Authors

Rashed Al Mahmud Titumir

M Iqbal Ahmed

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### Unnayan Onneshan – The Innovators

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

Tel: + (88 - 02) 8158274

Fax: + (88 - 02) 8159135

E-mail: [info@unnayan.org](mailto:info@unnayan.org)

Web: [www.unnayan.org](http://www.unnayan.org)

## SUMMARY

The erosion of non-reciprocal preference, envisaged to result from the possible MFN liberalisation, has received least attention in the non-agricultural market access (NAMA) negotiations. Though never been given in the full-fledged manner as was sought, non-reciprocal trade preference extended to the developing and least developed countries (LDCs) including those of the ACP countries have helped foster their export base. Evidence shows that many of the ACP countries and LDCs including Bangladesh have benefited from the non-reciprocal trade preference.

The paper attempts to measure the extent of the erosion of preference Bangladesh may incur in the EU and USA market. The erosion of preference has been estimated in response to proposals made in NAMA negotiations.

The impact estimated on the basis of traditional measure of preference erosion, which shows that the magnitude of erosion of preference to be faced by Bangladesh in the EU market as a result of MFN tariff cut is quite significant based upon the value of coefficients. This is mainly due to the fact that a considerable amount of exports from Bangladesh gets duty free market access due to high GSP utilization capacity. Other than woven garments, all other main exportable commodities, especially, knit garments, would be in comparative disadvantageous position as a result of MFN tariff cut. Almost 81 per cent of the total knit exports to the EU get duty free market access due to high GSP utilization capacity. Therefore, knit garments would likely to face severe competition from other competitive countries like China and India.

The present report proposes three-pronged measures to address the erosion of preferences. *First*, the eroded preferences will be offset by a compensatory budgetary support by the preference giving country, in addition to their bilateral aid budget, and will not be tied with any reform-related conditionalities, while the recipient country will earmark the amount for addressing her supply side constraints. *Second*, the developed country members shall provide incentives to the exporters of products to their markets originating from the LDCs to enhance the market share of the LDCs. *Third*, The developed members shall provide bilateral aid to government and relevant sectors to ensure compliance with standards such as SPS provisions and other technical barriers to trade as well as establish a global fund to enhance the export capacity of the LDCs.

## INTRODUCTION

The erosion of non-reciprocal preference, envisaged to result from the possible MFN liberalisation, has received least attention in the non-agricultural market access (NAMA) negotiations. The meagre export base of the least developed countries (LDCs) in the world trade in its most part can be attributed to non-reciprocal trade preferences. The resulting loss of preference margin due to reduction in tariff under the WTO-NAMA may plunge the LDCs into vulnerability. The Hong Kong Ministerial recognizes the challenges that the LDCs may face relating due to shrinking non-reciprocal preferences, yet it fail to provide any direction on the problem of erosion of preference.

The paper attempts to measure the extent of the erosion of preference Bangladesh may incur in the EU and USA market. The erosion of preference has been estimated in response to proposals made in NAMA negotiations.

### **Relevance of Non-reciprocal Tariff Preference: An Illustration**

One of the non-reciprocal trade preferences given by the developed countries to their developing and least-developed counterparts is tariff preference. When exporters in one country are granted preferential tariff treatment they may export more to the preference giving country than they could have under MFN tariffs. This may improve market access and spur export growth.

The tariff preference is explained using three countries -- Country *A*, Country *B* and Country *Y* - and a traded-good. Country *A* is the importer of the good while Country *B* (economically backward and has least-efficient production capacity) and Country *Y* (relatively efficient producer) are the exporters of the good. In the absence of no-tariff preference both the Country *B* and Country *Y* export the tradable good to the Country *A* at a fixed price. Given the level of production efficiency, Country *Y* would be export more to Country *A* compared to Country *B*. Now suppose in a situation in which Country *A* provides Country *B* tariff preference which is less than the MFN tariff rate or zero tariff facility in order to help the latter to boost its export capacity while the country *Y* continue to face MFN tariff rate. Under the circumstances, given the Country *A*'s import demand for the good, Country *B* will be able to export more of the commodity as far as price competitiveness is concerned. The introduction of tariff preference thus shifts relative price of exports in favour of Country *B*. The demand for import of Country *A* will shift from Country *Y* to Country *B*.

Under the basic assumption of the perfect competitive world, one may argue that there may be a net welfare loss due to such diversion of trade as relative loss of tariff revenue of Country *A* and fall of export in Country *Y* may offset the export gain of Country *B*. The calculation of detailed welfare loss, however, is subject to rigorous analysis. Arguably, the diversion of exports may also lead to the world in a sub-optimal level of output causing from an inefficient allocation of resources. The world trade is far from such idealised version.

If the world is interested to enhance the access of economically deprived countries into global markets, there is no denying that such can be achieved through reallocation of resources in favour of these countries. This can be done in the form of extending support – direct and indirect – to the poorer countries even though such transition may cause sub-optimal level of output and negative allocation of resources. The world needs to comply with such transition because of the primordial dynamics of the international trade, which is a product of unequal exchange, further worsened by the continued practice of rigged rules of international trade in the 20<sup>th</sup> century. Therefore, giving up of short-run cost is a necessity to bring order in the long run.

### **Concerns relating to Erosion of Preference**

Preference erosion is defined as the decrease in the margin between the preferential tariff rate and the envisaged MFN tariff rate to be established, following the multilateral tariff liberalisation under the NAMA.

Though never been given in the full-fledged manner as was sought, non-reciprocal trade preference extended to the developing and least developed countries including those of the ACP countries have helped foster their export base. Evidence shows that many of the ACP countries and LDCs including Bangladesh have benefited from the non-reciprocal trade preference. For example, LDCs enjoy preferential market access in most of the developed countries under the various Generalised System of Preference (GSP) schemes. The GSPs have played an important role in providing LDC products a competitive edge as the products originating from the LDCs face lower tariffs in the markets of developed countries due to the GSPs. In Bangladesh, the readymade garment industry, employing now 1.9 million workers and contributing 75 per cent of the total export earning, has benefited due to the EU-GSP scheme, besides exploiting captive market under the multilateral fibre arrangement. Backed by the EU-GSP scheme the share of the Bangladesh exports to the EU market has increased to 53 per cent in 2004 from 39 per cent in 1990-91. However, due to the stringent rules of origin criteria Bangladesh cannot effectively utilise the existing GSP facility. In 2004, the GSP utilisation rate was 60 per cent for all products. This as a result has scaled down her export potential in the EU market. The less-than-full utilisation of GSP is also evident in LDCs. The rate of utilisation of preferential treatment by LDCs was respectively 54 per cent and 53 per cent in the EU and Japan in 2003.<sup>1</sup>

Against this backdrop, the apprehension is that unless an alternative policy support is put up, the envisaged MFN liberalisation as a result of current NAMA negotiations would debilitate the export competitiveness of the LDCs because the benefits enjoyed under the GSP facilities, no matter how limited it is, is likely to be eroded significantly.

Several rounds of negotiations have already recognised that a formula approach is a key to reducing tariffs, and reducing and eliminating tariff peaks, high tariffs, and tariff escalation of industrial products. The Annex B of the Hong Kong Ministerial has stressed that the Negotiating Group should continue its work on a non-linear formula applied on a line-by-line basis through less than full reciprocity in reduction commitments. The desirable objective, as stated in the Annex, of the NAMA negotiations is that of full bindings of unbound tariff lines. There is a sense of feeling that all unbound tariff lines should be subject to formula cuts though some members have made reservations as they termed some of the unbound tariff lines with high applied tariff rates are sensitive. As stated in paragraph 7 of the framework all tariffs in particular sector to be eliminated based upon the sectorals negotiations. Besides the Annex also has pinpointed the paragraph 5 in NAMA Framework that includes the following elements:

the product coverage shall be comprehensive without a priori exclusions; tariff reductions or elimination shall commence from the bound rates; and all non-*ad valorem* duties shall be converted to *ad valorem* equivalents on the basis of a methodology to be determined<sup>2</sup>.

Taking all these into accounts a tariff reduction would lead to substantial erosion of preference depending upon the magnitude of the depth of tariff cuts. Though the paragraph 5 of the NAMA frameworks states that tariff reductions or elimination shall commence from the bound rates the issue has not been discussed in the Hong Kong Ministerial and therefore no conclusion has been made in this regard. So there is a scope that tariff reductions may take place from the applied rate, at least for some products. If the tariff reductions whatsoever take place from bound rates, tariff reduction commitments are expected to lead to a lowering of MFN tariffs since the spread between bound rates and applied rates for most of the industrial products imported by the developed countries are not significant. So any reduction whether it is commencing from the bound rates and/or applied rate would have an adverse implications for the LDCs in terms of erosion of preference.

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<sup>1</sup> UNCTAD, 2003.

<sup>2</sup> Concerning the product coverage a list of non-agricultural products [given in the WTO document JOB(05)/226/Rev.2.] though this is remained under question whether the exercise would be an agreed list or simply guidelines. Agreement was also reached to convert *non-advalem* duties into *ad valorem* ones. However, other elements of the formula such as commencing of tariff cuts from the bound rates, the base year, the nomenclature, reference period of the import data have not witnessed any progress since the adoption of July Framework.

### ESTIMATION OF EROSION OF PREFERENCE

The value of preference for the receiving country is measured by the margin of preference, which is determined by the difference in percentage points between the MFN and the preferential tariff rates. The estimation of erosion of preference merely based on the preference margin, however, would be misleading, as it does not take into account whether preference-receiving country has been able to fully utilise the preference it is supposed to receive.<sup>3</sup> It also ignores the fact that the preference receiving country may not have the capacity to export the products for which they are getting special treatment.

Therefore it is important to take into account the trade-weighted value of preference margin as the value of the preference, which is defined as the preference margin per unit of imports multiplied by the import value on a bilateral basis. The preference margin is defined as the weighted average tariff rate applied to the rest of the world and the preferential rate applied to the beneficial country, where weights are represented by trade shares in the preference giving market.

The preference margin also needs adjustment with the preference utilisation rate, in which the preference margin is weighted by the volume of export that actually benefits from the given preference. The calculation is based on bilateral import values.

In the Hong Kong Ministerial members have agreed a Swiss formula with different coefficients for developed and developing countries for tariff cuts. During the informal discussions, many members expressed their negotiating stance on the basis of an approach with two coefficients. In this context, the coefficients, which were mentioned for developed members fell generally within the range of 5 to 10, and for developing members within the range of 15 to 30, although some developing country members proposed lower coefficients for developed country members and higher coefficients for the developing members. On the other hand, some developed country members put forward a coefficient of 10 for developing members.

The present study concentrates on possible erosion of preference to be faced by Bangladesh, for which the EU and the USA are two major markets constituting about 90 per cent of her total export. Therefore, we take into account the developed country markets, especially, the EU, where a substantial amount of exports get non-reciprocal trade preference under the existing GSP scheme. The implications of the erosion of preference in the US markets are also discussed.

The mathematical expression of the non-linear Swiss Formula as proposed during the Tokyo Round is given as

$$t_i = a * t_{0i} / a + t_{0i} \quad i=1,2,\dots,n$$

where,  $t_{0i}$  and  $t_i$  are respectively the initial and final MFN tariff rate scheduled in the HS tariff code of different commodities and  $a$  is the coefficient.

Rearranging the formula,

$$A = t_{0i} / a + t_{0i}$$

where  $A$  is the rate of reduction defined as  $t_i/a$ . a lower value of coefficient would lead to a higher tariff rate cut and opposite would happen for a higher value of coefficient.

Import-weighted tariff rate is calculated accordingly

$$T_{0w} = \frac{\sum w_{0i} * t_{0i}}{n}$$

where  $T_{0w}$  and  $T_{1w}$  are respectively import-weighted average tariff rate of the base year and the final year, and

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<sup>3</sup> Multilateral Solutions to the Erosion of Non-Reciprocal Preferences in NAMA, Working Paper, WTO, October 2005.

$$i=1,2,\dots,n$$

$$T_{1w} = \frac{\sum w_{ii} * t_{ii}}{n}$$

We have simulated MFN tariff cut of the importing countries and estimate the impact of this cut on the value of preferences to be incurred by Bangladesh. Preference erosion is calculated as the change in the value of preference before and after the MFN cut. The simulations undertaken here only include estimates of preference margins after adjusting the preference utilisation rate.

### SIMULATION OF MFN TARIFF AND ESTIMATE OF EROSION OF PREFERENCE

Several simulation exercises have been conducted on MFN tariff rate cut by the EU and the US markets to estimate the possible loss of preference to be faced by Bangladesh in her exports due to NAMA negotiations. Simulations were undertaken on the basis of four different coefficients (3, 5, 7 & 10) to calculate the MFN tariff cuts in two markets. It is important to note that base for cutting MFN is yet to be decided though the July Framework stressed bound rate as the ideal for basis of cut. Since the difference between the bound tariff rate and the applied tariff rate on products that the EU imports from Bangladesh is small, we can assume that margin of error is low. Also there was no development as regards the base year, the HTS nomenclature and the reference period of the import data. The actual estimates of the erosion of preference can be derived once the coefficient is determined at the WTO.

The preference erosion is estimated as the difference of the value of the preference before and after the MFN liberalisation. The value of the preference has been calculated from the value of the total MFN import duty and preferential import duty of the import value in a given period. The value of the total MFN import duty is calculated considering the import-weighted average tariff rate and the value of the preferential import duty is calculated after taking the preference utilisation rate into account.

#### EU market

We have taken the 2004 as base year for the data related to export, tariff rate and the preference utilisation rate. In 2004, Bangladesh's export to the EU was Euro 4,082.78 million or equivalent to about US\$ 5,103.5 million (the average exchange rate was US\$1.25 per Euro in 2004), which is 53 per cent of the total export from Bangladesh. The EU imported a total of around 1202 HS-8 digit items, of them 210 were MFN duty-free. More than 91 per cent of the total export constituted from RMG – knit and woven garments, which respectively account for 59 per cent and 41 per cent.

Given the EU tariff line at HS-8 digit level and taking into account the weighted-average import duty on all Bangladeshi products in the EU market was 11.78 per cent. In case of RMG the import duty was 11.96 per cent. For woven and knit garments the duties were respectively 11.91 per cent and 12 per cent.

**Table: BD Exports to the EU**

| Products    | BD Exports to EU (US\$ in mn) | Import Duty (US\$ in mn) | Weighted-Avg. Import Duty (%) | MFN Duty Free Export (US\$ in mn) | Export Under Preferential Treatment (US\$ in mn) | Export Excluding the Preferential Treatment (US\$ in mn) | TX-PX-MFN DF X(US\$ in mn) |
|-------------|-------------------------------|--------------------------|-------------------------------|-----------------------------------|--|--|----------------------------|
| All         | 5103.5                        | 600.82                   | 11.78                         | 15.36                             | 3062.1   | 2041.4   | 2,026.04                   |
| RMG         | 4648.48                       | 555.94                   | 11.96                         | --                                | 2672.67  | 1975.82  | 1975.82                    |
| Woven HS 62 | 1916.86                       | 228.22                   | 11.91                         | --                                | 460.05   | 1372.18  | 1456.81                    |
| Knit HS 61  | 2731.63                       | 327.72                   | 12.00                         | --                                | 2212.62  | 519.01   | 2212.62                    |

Source: Export data have been taken from the website of the EU Export Help Desk.

Note: The given values are converted from Euro to US dollar by taking into account the average exchange rate in 2004 as 1Euro=1.25 US dollar. Import duty, weighted-average import duty, export under preferential treatment are author's own estimate.

The EU has given Bangladesh duty-free market access for all products except arms under the GSP scheme, which lately extended as EBA (Everything But Arms) initiative. The GSP facility is seen as a major reason for Bangladesh's tremendous success in exports, especially, RMG to the EU today.

However, due to lack of adequate supply capacity and the stringent EU RoO Bangladesh is not being able to realise the full potential benefit of the preferential treatment provided by the EU. About 80 per cent of the total RMG exports entered EU without GSP for a decade as Bangladesh could not been able to comply with the RoO criteria. Bangladesh RMG could never avail GSP more than 15 per cent of its total woven exports to the EU for a long time, while 40 per cent of its total knit exports received GSP till 1998<sup>4</sup>. However, most of the exports of frozen food and leather/leather products received GSP in the EU.

The GSP utilisation rate for all products that Bangladesh exports to the EU in that year was 60 per cent while the utilisation rate for woven and knit garments were 24 per cent and 81 per cent respectively. The following table shows the Bangladesh's GSP utilisation rate in the EU market.

**Table: GSP Utilisation Rate (%) of Bangladesh's Export into the EU Market**

| Year | All Products | Woven | Knitted |
|------|--------------|-------|---------|
| 2002 | 61           | 24    | 81      |
| 2003 | 58           | 23    | 79      |
| 2004 | 60           | 24    | 81      |

*Source: Office of the EC Delegation in Bangladesh*

Given the GSP utilisation rate of 60 per cent for all products, Bangladesh received duty-free market access for her imports worth US\$3062.1 million. For the remaining US\$2041.44 million of exports, Bangladesh face MFN applied tariff rate. Given the import-weighted average tariff rate on all Bangladeshi products in the EU market the value of import duties that were imposed on Bangladesh products was US\$251.18 million.

Now considering the situation of no preferential treatment by the EU i.e. if Bangladesh were not provided the EU GSP facility, all the products were subject to the MFN tariff rate. In that case some US\$601.19 million import duty would have been imposed on Bangladeshi products. Therefore, one can estimate the value of the preference by subtracting the import duties in the presence of preferential treatment from the one when no preferential treatment is available. Our estimate shows that value of the preference that Bangladesh received in 2004 is equivalent to US\$360.72 million.

In this context, one can presumably argue that the margin of preference would reduce further as a result of MFN tariff cut by the developed countries. The following exercises give some illustrations of the magnitude of erosion of preference to be incurred by Bangladesh in the EU market under different circumstances. We have assumed that the GSP utilisation rate remains the same over the years unless the preference giving country relaxed the RoO criteria. Here we also assumed that supply-side capacity of Bangladesh remains constant.

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<sup>4</sup> The data is taken from the office of EC Delegation in Bangladesh.

**Table: Final Tariff Rate After MFN Tariff Cut Applying Different Coefficient in the EU Market**

|                  | Weighted-avg. Import Duty (%) | Import Duty (in US\$ mn) | Coefficient | Final Tariff Rate after MFN Cut (%) | Reduction (%) |
|------------------|-------------------------------|--------------------------|-------------|-------------------------------------|---------------|
| <b>Aggregate</b> | 11.78                         | 600.82                   |             |                                     |               |
| Case I           |                               |                          | 3           | 2.38                                | 80.38         |
| Case II          |                               |                          | 5           | 3.49                                | 71.23         |
| Case III         |                               |                          | 7           | 4.36                                | 64.06         |
| Case IV          |                               |                          | 10          | 5.38                                | 55.65         |
| <b>RMG</b>       | 11.96                         | 555.94                   |             |                                     |               |
| Case I           |                               |                          | 3           | 2.4                                 | 79.93         |
| Case II          |                               |                          | 5           | 3.52                                | 70.57         |
| Case III         |                               |                          | 7           | 4.41                                | 63.13         |
| Case IV          |                               |                          | 10          | 5.44                                | 54.52         |
| <b>Woven</b>     | 11.91                         | 228.22                   |             |                                     |               |
| Case I           |                               |                          | 3           | 2.34                                | 80.35         |
| Case II          |                               |                          | 5           | 3.52                                | 70.45         |
| Case III         |                               |                          | 7           | 4.4                                 | 63.06         |
| Case IV          |                               |                          | 10          | 5.43                                | 54.41         |
| <b>Knit</b>      | 12                            | 327.72                   |             |                                     |               |
| Case I           |                               |                          | 3           | 2.4                                 | 80.00         |
| Case II          |                               |                          | 5           | 3.53                                | 70.58         |
| Case III         |                               |                          | 7           | 4.42                                | 63.17         |
| Case IV          |                               |                          | 10          | 5.45                                | 54.58         |

### Case I: Coefficient 3

First, taking into account the coefficient 5 we have applied the Swiss Formula on EU MFN tariff rate  $t_i$ , where  $i = 1, 2, \dots, 1202$ , of those products which were imported from Bangladesh in 2004. This would give the possible tariff rate cut of the respective tariff lines. Given the import value of the base year we have then calculated the import-weighted average tariff rate from the new MFN tariff rate. Our estimates suggest that as a result of MFN tariff rate cut using the coefficient 3, the import-weighted average tariff rate would be reduced to 2.38 per cent from 11.78 per cent.

Now taking into account the Bangladesh's export to EU in 2004 and assuming that there is no preferential treatment, the import duties that would have been imposed on Bangladeshi products were 601.19 million while in the presence of preferential treatment, in which assuming that the preference utilisation rate remains the same, the amount of import duties that would have been imposed on Bangladeshi products were equivalent to US\$ 240.48 million. The value of the preference would have been equivalent to US\$360.72 million. The gross preference erosion, which is the difference between the value of preference before and after the MFN cut, would be US\$ 287.84 million. As a result of the reduction in MFN tariff the import duties on Bangladeshi products would be US\$ 191.89 million less. Thus the net preference erosion would be US\$95.95 million.

Since bulk of the Bangladesh's export to the EU constitutes ready made garments (RMG), it is important to take note on the impact of MFN tariff cut on the exports of woven and knit garments. The amount of RMG exported from Bangladesh to the EU was US\$4648.48 million. Since Bangladesh could not fully utilise the EU GSP scheme due to stringent RoO, the effective GSP

utilisation rate for RMG is 57.5 per cent, meaning US\$2672.67 million of RMG exports have had the preferential market access. The remaining US\$1975.82 million are subject to MFN tariff rate. Given that weighted average import duty on RMG is 11.96 per cent, the import duties that actually had been imposed on Bangladeshi RMG were US\$236.31 million in 2004. If there were no preferential treatment, the import duties would have been to the tune of US\$555.96 million. As a result, the estimated value of preference is equivalent to US\$319.65 million.

Now if we apply the coefficient 3 on RMG products, the weighted average import duty would be reduced to 2.4 per cent from 11.96 per cent. As a result in the absence of preferential treatment the import duties would amount to US\$11.56 million while in presence of preferential treatment the import duties would be US\$47.42 million, giving the value of preference equivalent to US\$64.14 million.

As a result of MFN tariff cut the gross erosion of preference would be US\$ 255.51 million. However, since the tariff rate would also come down to 2.4 per cent, the import duties that would be imposed on Bangladeshi RMG products would be US\$ 188.89 million less. Thus the net preference erosion is US\$66.62 million.

Since the GSP utilisation rate is highest in case of knit garments, the erosion of preference would be substantial. This is discernable from the above table. Considering the situation of no tariff cut the value of preference Bangladesh received from the EU on knit items is equivalent to US\$265.51 million, which is nothing but difference between the import duties in the absence of preferential treatment and presence of preferential treatment. In case of MFN tariff cut to 2.4 per cent from 12 per cent the value of preference would be reduced to US\$53.1 million, giving the erosion of preference equivalent to US\$212.41 million. Since the actual import duty that would be imposed on Bangladeshi products would be US\$49.82 million less, the net preference erosion would be US\$162.59 million.

However, the scenario is different in case of woven garments. In this case the gross preference erosion would be US\$52.13 million whereas gain from MFN tariff cut would be equivalent to US\$131.32 million. Therefore the net preference erosion, as a result of tariff cut would be negative, which is equivalent to US\$79.19 million.

## **Case II: Coefficient 5**

Assuming that coefficient that would be applied in the Swiss Formula is 5, the weighted average import duty on all Bangladeshi products in the EU market would come down to 3.49 per cent, giving 71.2 per cent tariff rate cut. With this tariff cut the actual import duty would scale down to US\$71.24 million, higher than the amount resulted from the previous tariff cut. This is due to the fact that greater the value of coefficient lower the tariff cut. The gross erosion of preference would be US\$253.85 million in this case. Likewise, here too the net preference erosion would be US\$84.62 million.

The same exercise if applied on RMG products means that weighted-average import duty on RMG products would dip in to 3.52 per cent from 11.96 percent. The net preference erosion would be US\$58.81 million.

If we disaggregate the RMG products into woven and knit garments the cut in tariff rates would be 3.52 per cent and 3.53 per cent respectively. Like the previous case, the MFN tariff cut would be beneficial for Bangladesh's woven export as the gain from tariff cut would be higher than the loss of preference. The gross erosion of preference would be US\$45.7 million whereas the import duties to be imposed on woven items would be US\$115.13 million less. This gives a negative erosion of preference equivalent to US\$69.43 million.

In case of knit items the net erosion of preference would be US\$143.45 million as shown in the following table.

### **Case III: Coefficient 7**

Applying  $a=7$  in the Swiss Formula the EU average import duty on all Bangladeshi products would be reduced by 64 per cent to 4.36 per cent. Other things remaining the same, the value of preference would come down to US\$133.51 million, causing erosion of preference equivalent to US\$227.21 million. Since the import duty on Bangladesh products would also come down by about US\$151.47 million the net erosion of preference would be US\$65.32 million.

Similarly the average import duty on RMG products would be reduced to 4.41 per cent and that of knit and woven garments to 4.42 per cent and 4.4 per cent respectively. In case of knit items the net preference erosion would be US\$128.38 million while in case of woven garments the net erosion of preference would be negative which is equivalent to US\$62.15 million.

### **Case IV: Coefficient 10**

The similar exercise also shows that the average tariff rate would be reduced for all products including that of RMG when the coefficient 10 is applied. However, in this case the reduction would be lower than the previous cases as it can be seen from the table below that average tariff rate for all products would be reduced to 5.38 per cent and RMG to 5.44 per cent. The average tariff rate for knit and woven items would hover around 5.45 per cent and 5.44 per cent respectively.

As it is shown in the following table the net erosion of preference for all products would be equivalent to US\$65.32 million while in case of RMG the net loss of preference would be US\$45.43 million. If we disaggregate the RMG products the net erosion of preference for knit garments would be US\$110.93 million while the net erosion of preference for woven garments would be negative equivalent to US\$53.62 million.

**Table: Calculation of Erosion of Preference in the EU Market**

*Value US\$ in Mn*

|                      | Total Export | Preferential Export | Export Excluding Preferential Export | Import weighted Avg duty (%) | Import duty in the absence of preference | Actual Import Duty | Value of Preference | Erosion of Preference | Import Duty to Reduce | Net Preference Erosion | Net Preference Erosion as % of Total Exports |
|----------------------|--------------|---------------------|--------------------------------------|------------------------------|--|--------------------|---------------------|-----------------------|-----------------------|------------------------|--|
| <b>Aggregate</b>     |              |                     |                                      |                              |  |                    |                     |                       |                       |                        |  |
| Present              | 5103.5       | 3062.1              | 2041.4                               | 11.78                        | 601.19                                   | 240.48             | 360.72              |                       |                       |                        |  |
| Tariff cut when a=3  | 5103.5       | 3062.1              | 2041.4                               | 2.38                         | 121.46                                   | 48.59              | 72.88               | 287.84                | 191.89                | 95.95                  | 1.88   |
| Tariff cut when a=5  | 5103.5       | 3062.1              | 2041.4                               | 3.49                         | 178.11                                   | 71.24              | 106.87              | 253.85                | 169.23                | 84.62                  | 1.66   |
| Tariff cut when a=7  | 5103.5       | 3062.1              | 2041.4                               | 4.36                         | 222.51                                   | 89.01              | 133.51              | 227.21                | 151.47                | 75.74                  | 1.48   |
| Tariff cut when a=10 | 5103.5       | 3062.1              | 2041.4                               | 5.38                         | 274.57                                   | 109.83             | 164.74              | 195.97                | 130.65                | 65.32                  | 1.28   |
| <b>RMG</b>           |              |                     |                                      |                              |  |                    |                     |                       |                       |                        |  |
| Present              | 4648.48      | 2672.67             | 1975.82                              | 11.96                        | 555.96                                   | 236.31             | 319.65              |                       |                       |                        |  |
| Tariff cut when a=3  | 4648.48      |                     | 1975.82                              | 2.4                          | 111.56                                   | 47.42              | 64.14               | 255.51                | 188.89                | 66.62                  | 1.43   |
| Tariff cut when a=5  | 4648.48      |                     | 1975.82                              | 3.52                         | 163.63                                   | 69.55              | 94.08               | 225.57                | 166.76                | 58.81                  | 1.27   |
| Tariff cut when a=7  | 4648.48      |                     | 1975.82                              | 4.41                         | 205                                      | 87.13              | 117.86              | 201.79                | 149.17                | 52.61                  | 1.13   |
| Tariff cut when a=10 | 4648.48      |                     | 1975.82                              | 5.44                         | 252.88                                   | 107.48             | 145.39              | 174.26                | 128.82                | 45.43                  | 0.98   |
| <b>Woven</b>         |              |                     |                                      |                              |  |                    |                     |                       |                       |                        |  |
| Present              | 1916.86      | 460.05              | 1372.18                              | 11.91                        | 228.3                                    | 163.43             | 64.87               |                       |                       |                        |  |
| Tariff cut when a=3  | 1916.86      |                     | 1372.18                              | 2.34                         | 44.85                                    | 32.11              | 12.75               | 52.13                 | 131.32                | -79.19                 | -4.13  |
| Tariff cut when a=5  | 1916.86      |                     | 1372.18                              | 3.52                         | 67.47                                    | 48.3               | 19.17               | 45.7                  | 115.13                | -69.43                 | -3.62  |
| Tariff cut when a=7  | 1916.86      |                     | 1372.18                              | 4.4                          | 84.34                                    | 60.38              | 23.97               | 40.91                 | 103.05                | -62.15                 | -3.24  |
| Tariff cut when a=10 | 1916.86      |                     | 1372.18                              | 5.43                         | 104.09                                   | 74.51              | 29.58               | 35.3                  | 88.92                 | -53.62                 | -2.80  |
| <b>Knit</b>          |              |                     |                                      |                              |  |                    |                     |                       |                       |                        |  |
| Present              | 2731.63      | 2212.62             | 519.01                               | 12                           | 327.8                                    | 62.28              | 265.51              |                       |                       |                        |  |
| Tariff cut when a=3  | 2731.63      |                     | 519.01                               | 2.4                          | 65.56                                    | 12.46              | 53.1                | 212.41                | 49.82                 | 162.59                 | 5.95   |
| Tariff cut when a=5  | 2731.63      |                     | 519.01                               | 3.53                         | 96.43                                    | 18.32              | 78.11               | 187.41                | 43.96                 | 143.45                 | 5.25   |
| Tariff cut when a=7  | 2731.63      |                     | 519.01                               | 4.42                         | 120.74                                   | 22.94              | 97.8                | 167.72                | 39.34                 | 128.38                 | 4.70   |
| Tariff cut when a=10 | 2731.63      |                     | 519.01                               | 5.45                         | 148.87                                   | 28.29              | 120.59              | 144.93                | 34                    | 110.93                 | 4.06   |

The impact estimated on the basis of traditional measure of preference erosion, which shows that the magnitude of erosion of preference to be faced by Bangladesh in the EU market as a result of MFN tariff cut is quite significant based upon the value of coefficients. This is mainly due to the fact that a considerable amount of exports from Bangladesh gets duty free market access due to high GSP utilization capacity. Other than woven garments, all other main exportable commodities, especially, knit garments, would be in comparative disadvantageous position as a result of MFN tariff cut. Almost 81 per cent of the total knit exports to the EU get duty free market access due to high GSP utilization capacity. Therefore, knit garments would likely to face severe competition from other competitive countries like China and India. On the other hand, only 24 per cent of the total woven exports are subject to duty free due to poor GSP utilization rate. So gain from tariff cut would be higher than the existing preferential treatment for woven items.

## US Market

The USA is the second largest export destination of Bangladesh products constituting about 28 per cent of her total export, more than 80 per cent of those are from readymade garments. The gain in export in the USA market was resulted from quota-free market textile and clothing trade regime under the MFA that was abolished on December 31, 2004. The world's largest economy also provides an array of non-reciprocal trade preferences to the developing and least-developed countries. Bangladesh as an LDC only gets benefits of GSP and GSP plus schemes in the US market. However, unlike the EU market the preference given by the USA to Bangladesh is less generous as the preferential treatment is not applied for all products, with approximately 50 percent of tariff lines completely excluded. Certain articles such as textiles and clothing, and leather and leather goods, in which Bangladesh has particular export interests are ineligible for the schemes. As a result, bulk of the Bangladesh's exports in to the US market is subject to MFN tariff rates. It is expected that the magnitude of erosion of preference would be not as significant as is in the EU market. Presumably, Bangladesh could gain in the US market from the possible MFN tariff cut under the NAMA current negotiations, as it would facilitate the market access since most of Bangladeshi products face tariff peaks. For example, the cut in import duties on textile and clothing items would enhance her competitiveness vis-à-vis Caribbean and Sub-Saharan countries, which enjoy duty-free market access under the AGOA and CBI initiatives. However, the magnitude of the gain remains under question as far as her export competitiveness vis-à-vis the advanced developing countries' export competitiveness is concerned.

**Table: Bangladesh's Exports to the USA**

| Products    | BD Exports to US Duty (US\$ in mn) | Import Duty (US\$ in mn) | Weighted -Avg. Import Duty (%) | MFN Duty Free Export (US\$ in mn) | Export Under Preferential Treatment (US\$ in mn) | Export Excluding the Preferential Treatment (US\$ in mn) | TX-PX-MFN DF X (US\$ in mn) |
|-------------|------------------------------------|--------------------------|--------------------------------|-----------------------------------|--|--|-----------------------------|
| All         | 2303.87                            | 329.13                   | 14.28                          | 230.29                            | 20.31  | 2,283.56   | 2,053.27                    |
| RMG         | 1,871.47                           | 313.3                    | 16.74                          | --                                | 0.00   | 1,871.47   | 1,871.47                    |
| Woven HS 62 | 1372.18                            | 216.62                   | 15.79                          | --                                | 0.00   | 1372.18  | 1372.18                     |
| Knit HS 61  | 499.29                             | 96.71                    | 19.37                          | --                                | 0.00   | 499.29   | 499.29                      |

*Source: Export data have been taken from the official website of US ITC.*

*Note: Import duty, weighted-average import duty, export under preferential treatment are author's own estimates.*

Nevertheless it is imperative to look at the impact of MFN liberalization on the existing preference that is being enjoyed by Bangladesh. In 2004, Bangladesh's exports to the USA were US\$2,303.87 million. The USA imported a total of around 571 products defined at the HS-8 digit level. Of them, Bangladesh has received preferential treatments i.e. GSP and GSP plus facilities of 118 products, the export value of which is very insignificant constituting US\$20.31 million or 0.88 per cent of the total exports. The remaining US\$2283.56 million exports are subject to MFN tariff rate. The value of import duty that was imposed on Bangladeshi products was US\$329.13 million with weighted-average import duty of 14.41 per cent. It is important to note that this export value also included the MFN zero duty items, which are 100 in numbers and worth US\$ 210.93 million. In other words, under the MFN zero duty Bangladesh exported 100 items, value of which is US\$210.93 million.

If we disaggregate the commodities, the RMG, namely, knit and woven garments defined respectively in HS Chapter 61 and 62, is the main exportable item constituting 81.2 per cent or US\$ 1,871.47 million of the Bangladesh's total exports in the United States. Of them, the knit garment (HS 61) accounts for US\$499.29 million and the woven garment (HS 62) US\$1,372.18 million. The value of import duty that was imposed on RMG products was US\$313.32 million with weighted-average import duty is 16.74 per cent. The weighted average import duty on knit and woven garments was respectively 19.37 per cent and 15.79 per cent, respectively. The US government provides no preferential treatment to Bangladesh in case of the RMG export i.e. all the RMG products are subject to MFN tariff rate.

We assume that the Bangladesh can fully utilize the GSP facility in the US market. The value of export that Bangladesh received under GSP facility in the US market is insignificant, which is US\$20.31 million or 0.88 per cent of the total export. Nevertheless, if there were no preference for Bangladesh in the US market the amount of import duty that the USA would have been able to impose on Bangladesh's total export is US\$332.05 million. Therefore the value of preference that Bangladesh as an LDC enjoyed in 2004 was US2.93 million, which is very insignificant. Apparently, it gives an indication that the resultant impact of MFN tariff cut would not cause a significant impact as far as erosion of preference is concerned. The following simulation exercise gives an outline of the possible impact of tariff cut, applying four different coefficients, of Bangladesh exports in the US market.

**Table: Final Tariff Rate After MFN Tariff Cut Applying Different Coefficient in the US Market**

|                  | Weighted-avg. Import Duty (%) | Import Duty (in US\$ mn) | Coefficient | Final Tariff Rate after MFN Cut (%) | Reduction (%) |
|------------------|-------------------------------|--------------------------|-------------|-------------------------------------|---------------|
| <b>Aggregate</b> | 14.41                         | 329.13                   |             |                                     |               |
| Case I           |                               |                          | 3           | 2.48                                | 83            |
| Case II          |                               |                          | 5           | 3.71                                | 74            |
| Case III         |                               |                          | 7           | 4.71                                | 67            |
| Case IV          |                               |                          | 10          | 5.9                                 | 59            |
| <b>RMG</b>       | 16.74                         | 313.32                   |             |                                     |               |
| Case I           |                               |                          | 3           | 2.54                                | 85            |
| Case II          |                               |                          | 5           | 3.85                                | 77            |
| Case III         |                               |                          | 7           | 4.94                                | 70            |
| Case IV          |                               |                          | 10          | 6.26                                | 63            |
| <b>Woven</b>     | 15.79                         | 216.62                   |             |                                     |               |
| Case I           |                               |                          | 3           | 2.52                                | 84            |
| Case II          |                               |                          | 5           | 3.8                                 | 76            |
| Case III         |                               |                          | 7           | 4.85                                | 69            |
| Case IV          |                               |                          | 10          | 6.12                                | 61            |

| <b>Knit</b> | 19.37 | 96.71 |    |      |    |
|-------------|-------|-------|----|------|----|
| Case I      |       |       | 3  | 2.6  | 87 |
| Case II     |       |       | 5  | 3.97 | 80 |
| Case III    |       |       | 7  | 5.14 | 73 |
| Case IV     |       |       | 10 | 6.6  | 66 |

*Source: Author's own Estimate*

### **Case I: Coefficient a=3**

If we apply the Swiss Formula with coefficient 3, the weighted-average import duty on all Bangladeshi products in the US market would come down to 2.48 per cent from the existing 14.41 per cent, giving a significant reduction of 83 per cent. Taking the 2004 export value as steady state, in the absence of the GSP facility, US\$56.63 million import duty would have been imposed on Bangladeshi products. However, given GSP utilization rate the value of import duty would have been US\$56.63 million. As a result, the value of preference would have been equivalent to US\$0.50 million. Thus the gross preference erosion would be US\$2.43 million. However, as a result of MFN tariff cut, which would bring down the average import duty to 2.5 per cent, import duty on Bangladeshi products would be US\$272.49 million, lower than that of existing duty. Therefore, the net erosion of preference would be negative, which is equivalent to (-)US\$270 million. Thus, Bangladesh's gain from MFN tariff cut would be higher than that of no cut situation.

If we apply the same coefficient in case of RMG, the weighted-average import duty would come down to 2.54 per cent from 16.74 per cent. The reduction of average import duty in case of knit and woven garments would be respectively by 87 per cent and 84 per cent and would stand at 2.6 per cent and 2.52 per cent. Since Bangladesh does not receive any preferential market access for her RMG exports there is no way to erode preference under any circumstance of tariff rate cut. Instead the tariff cut in RMG products would facilitate market access, putting Bangladesh at an advantageous position vis-à-vis the African and Sub-Saharan countries, which currently enjoys preferential market access in the USA.

### **Case II: Coefficient 5**

Taking coefficient 5 into account, the weighted average import duty on Bangladeshi products in the US market would come down to 3.71 per cent, giving 74 per cent tariff rate cut. With this tariff cut the actual import duty would scale down to US\$84.7 million, higher than the amount resulted from the previous tariff cut. This is due to the fact that greater the value of coefficient lower the tariff cut. The gross erosion of preference would be US\$2.18 million in this case. Likewise, here too the net preference erosion would be negative as shown in the following table.

The weighted-average import duty on RMG products would dip in to 3.85 per cent from 16.74 percent when the coefficient is 5. If we disaggregate the RMG products into knit and woven garments the cut in tariff rates would be 3.97 per cent for the former and 3.8 per cent for the latter. Under such circumstances, the actual import duty on RMG would have been US\$241 million less than the existing US\$313 million.

### **Case III: Coefficient 7**

The US average import duty would be reduced by 67 per cent to 3.71 per cent when the coefficient 7 is applied in the Swiss Formula. Other things remaining the same, the value of preference would come down to US\$0.96 million, causing erosion of preference equivalent to US\$1.97 million. However, the overall tariff cut would offset the loss of preference as the import duty on Bangladesh products would come down to about US\$107 million.

Similarly the average import duty on RMG products would be reduced to 4.94 per cent and those of knit and woven garments to 5.14 per cent and 4.85 per cent respectively. Thus the tariff cut in the US market would give Bangladesh a competitive edge for her RMG exports compared to those countries, which now enjoys preferential treatment under ACP and AGOA initiative.

#### **Case IV: Coefficient 10**

The similar exercise also shows that the average tariff rate would be reduced for all products including that of RMG when the coefficient 10 is applied. However, in this case the reduction would be lower than the previous cases as it can be seen from the table below that average tariff rate for all products would be reduced to 5.9 per cent and RMG to 6.26 per cent. The average tariff rate for knit and woven items would hover around 6.6 per cent and 6.3 per cent respectively if the coefficient 10 were applied in the tariff cut formula.

## Calculation of Erosion of Preference in the US Market

Value US\$ in Mn

|                      | Total Export | Preferential Export | Export Excluding Preferential Export | Import weighted Avg duty (%) | Import duty in the absence of preference | Actual Import Duty | Value of Preference | Erosion of Preference | Import Duty to Reduce | Net Preference Erosion |
|----------------------|--------------|---------------------|--------------------------------------|------------------------------|--|--------------------|---------------------|-----------------------|-----------------------|------------------------|
| <b>Aggregate</b>     |              |                     |                                      |                              |  |                    |                     |                       |                       |                        |
| Present              | 2,303.87     | 20.31               | 2,283.56                             | 14.41                        | 332.05                                   | 329.13             | 2.93                |                       |                       |                        |
| Tariff cut when a=3  | 2,303.87     | 20.31               | 2,283.56                             | 2.48                         | 57.14                                    | 56.63              | 0.50                | 2.43                  | 272.49                | -270.07                |
| Tariff cut when a=5  | 2,303.87     | 20.31               | 2,283.56                             | 3.71                         | 85.47                                    | 84.72              | 0.75                | 2.18                  | 244.41                | -242.23                |
| Tariff cut when a=7  | 2,303.87     | 20.31               | 2,283.56                             | 4.71                         | 108.51                                   | 107.56             | 0.96                | 1.97                  | 221.57                | -219.60                |
| Tariff cut when a=10 | 2,303.87     | 20.31               | 2,283.56                             | 5.9                          | 135.93                                   | 134.73             | 1.20                | 1.73                  | 194.40                | -192.67                |
| <b>RMG</b>           |              |                     |                                      |                              |  |                    |                     |                       |                       |                        |
| Present              | 1,871.47     | 0                   | 1,871.47                             | 16.74                        | 313.28                                   | 313.28             | 0                   | 0                     |                       |                        |
| Tariff cut when a=3  | 1,871.47     | 0                   | 1,871.47                             | 2.54                         | 47.54                                    | 47.54              | 0                   | 0                     | 265.75                | -265.75                |
| Tariff cut when a=5  | 1,871.47     | 0                   | 1,871.47                             | 3.85                         | 72.051                                   | 72.051             | 0                   | 0                     | 241.23                | -241.23                |
| Tariff cut when a=7  | 1,871.47     | 0                   | 1,871.47                             | 4.94                         | 92.45                                    | 92.45              | 0                   | 0                     | 220.83                | -220.83                |
| Tariff cut when a=10 | 1,871.47     | 0                   | 1,871.47                             | 6.26                         | 117.15                                   | 117.15             | 0                   | 0                     | 196.13                | -196.13                |
| <b>Woven</b>         |              |                     |                                      |                              |  |                    |                     | 0                     |                       |                        |
| Present              | 1,372.18     | 0                   | 1,372.18                             | 15.79                        | 216.67                                   | 216.67             | 0                   | 0                     |                       |                        |
| Tariff cut when a=3  | 1,372.18     | 0                   | 1,372.18                             | 2.52                         | 34.58                                    | 34.58              | 0                   | 0                     | 182.09                | -182.09                |
| Tariff cut when a=5  | 1,372.18     | 0                   | 1,372.18                             | 3.8                          | 52.14                                    | 52.14              | 0                   | 0                     | 164.52                | -164.52                |
| Tariff cut when a=7  | 1,372.18     | 0                   | 1,372.18                             | 4.85                         | 66.55                                    | 66.55              | 0                   | 0                     | 150.12                | -150.12                |
| Tariff cut when a=10 | 1,372.18     | 0                   | 1,372.18                             | 6.12                         | 83.98                                    | 83.98              | 0                   | 0                     | 132.69                | -132.69                |
| <b>Knit</b>          |              |                     |                                      |                              |  |                    |                     |                       |                       |                        |
| Present              | 499,29       | 0                   | 499,29                               | 19.37                        | 96.71                                    | 96.71              | 0                   | 0                     |                       |                        |
| Tariff cut when a=3  | 499,29       | 0                   | 499,29                               | 2.6                          | 12.98                                    | 12.98              | 0                   | 0                     | 83.73                 | -83.73                 |
| Tariff cut when a=5  | 499,29       | 0                   | 499,29                               | 3.97                         | 19.82                                    | 19.82              | 0                   | 0                     | 76.89                 | -76.89                 |
| Tariff cut when a=7  | 499,29       | 0                   | 499,29                               | 5.14                         | 25.66                                    | 25.66              | 0                   | 0                     | 71.05                 | -71.05                 |
| Tariff cut when a=10 | 499,29       | 0                   | 499,29                               | 6.6                          | 32.95                                    | 32.95              | 0                   | 0                     | 63.76                 | -63.76                 |

Source: Author's own estimate

The impact estimated on the basis of traditional measure of preference erosion, which shows that Bangladesh hardly would face erosion of preference at any level of tariff cut in the US market. This is mainly due to the fact that the Bangladesh relies on US trade preferences to a limited extent as the existing US GSP facility is extended to LDCs on selected products. The bulk of her export to the reported country faces MFN duty and most of the tariff lines, especially, the RMG items in which Bangladesh has export interest are subject to tariff peaks.

The results of the exercise show that the value of preference erosion would be small. Instead the country would virtually gain following the MFN tariff cut, which would eliminate tariff peaks and tariff escalation. This is largely because the over all import duty on Bangladesh would be slashed down between US\$56 million and US\$135 million, from the US\$329.13 million in 2004, depending upon the value of coefficients applied in the Swiss Formula. This as a result would make Bangladeshi products more competitive in the US market compared to those Caribbean, African and Sub-Saharan countries, which currently enjoy duty-free facility under the US CBI, AGOA initiatives. The extent of gain for Bangladesh depends on the post MFN tariff cut export competition, as few of the advanced developing countries would be at most advantageous position as far as their export competitiveness is concerned.

If we look at the preference erosion at the selective product level, it shows that there would be no erosion, especially, for products like RMG – woven and knit – as these are at present excluded from the US GSP facility. Rather, the MFN tariff cut would make the Bangladeshi RMG products more competitive compared to those of the preferential receiving countries. The above simulation shows that the weighted-average import duty on RMG products would come down between 2.5 per cent and 6.5 per cent from the existing 16.74 per cent if the coefficient for the developed countries to be fixed between 3 and 10.

## MEASURES TO ADDRESS EROSION OF PREFERENCES

The current NAMA negotiations aiming at pacing up the MFN liberalisation *prima facie* created polarisation between developing and least-developed countries as their interests vary with respect to the possible MFN tariff rate cuts. While the former is seeking higher tariff cuts in developed countries' markets, the latter has expressed their concern regarding the resultant erosion of preferences.

Certainly the issue of preference erosion should be dealt with such a fashion that does not undermine or jeopardise the ongoing process of liberalisation. At the same time, the liberalisation process should not debilitate the current preference schemes being enjoyed by the developing and least-developed countries. Therefore, a concerted effort to find a solution is inevitable to address the vulnerabilities that LDCs likely to face as a result of MFN liberalisation. For that matter, a measure for offsetting the potential loss is expected.

A number of proposals have been placed to the WTO to address the issue. For example, Bangladesh on behalf of the LDCs has proposed to extend the existing preference scheme so as to ensure duty-free and quota-free market access for all LDC exports as well as developing such non-preferential preference scheme by developing countries<sup>5</sup>. Scope of enhancing existing preference, however, limited in the Hong Kong Ministerial prohibiting LDCs to get duty-free and quota-free market access for all products<sup>6</sup>. Other proposals on the table include scope of utilising existing preference; to mitigate the product coverage as proposed by Mauritius (TN/MA/W21/Add. 1, 15 July, 2003), Papua New Guinea (TN/MA/W/39, 2 July, 2003), ACP Group (TN/MA/W/53, 11 March, 2005); and to introduce compensatory measures to deal the erosion of preference as proposed by Ghana, Kenya, Nigeria, Tanzania, Uganda, Zambia and Zimbabwe (TN/MA/W/27, 18 February, 2003).

The present report proposes three-pronged measures to address the erosion of preferences. *First*, the eroded preferences will be offset by a compensatory budgetary support by the preference giving country, in addition to their bilateral aid budget, and will not be tied with any reform-related conditionalities, while the recipient country will earmark the amount for addressing her supply side constraints. *Second*, the developed country members shall provide incentives to the exporters of products to their markets originating from the LDCs to enhance the market share of the LDCs. *Third*, The developed members shall provide bilateral aid to government and relevant sectors to ensure compliance with standards such as SPS provisions and other technical barriers to trade as well as establish a global fund to enhance the export capacity of the LDCs.

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<sup>5</sup> See TN/MAW/22 of 8 January 2003, at the [www.wto.org](http://www.wto.org).

<sup>6</sup> Paragraph 36 (a) (ii) in Annex F of the Hong Kong Ministerial declaration states, "Members facing difficulties ... shall provide duty-free and quota-free market access for at least 97 per cent of the products originating from LDCs, defined at the tariff line level ..."