Chapter 1

Bangladesh's Apparel Exports to the EU: Adapting to Competitiveness Challenges Facing LDC Graduation*

1.1 Introduction

In 2018, Bangladesh for the first time met the criteria for graduation from the group of least developed countries (LDCs) as assessed at the Triennial Review conducted by the Committee for Development Policy (CDP) of the United Nations Economic and Social Council (ECOSOC). It is expected to fulfil the criteria again in a second consecutive Triennial Review in 2021, paving its way to 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 development transition.[1]

Indeed, Bangladesh has made great strides in terms of economic development. Since the early 1990s, it has grown at an annual average rate of more than 5 per cent, with a more robust comparable growth rate over the past 10 years, of 6.5 per cent. Its per capita gross national income (GNI) since 1995 has risen more than five-fold, from about US$300 to $1,751. Over the same timeframe, the proportion of population living in poverty has more than halved, from over 50 per cent to 24.3 per cent. Dependence on foreign assistance has 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 achieved faster progress on various social and human development indicators.[2]

The UN has since 1971 recognised LDCs as highly disadvantaged in their development process. These countries are characterised as being caught in a low-income trap, facing the risk of failing to overcome poverty and deprivation; predominantly dependent on primary commodities for domestic production and exports, with extremely inadequate opportunities for diversification; and critically reliant on foreign aid, owing to limited economic activities accompanied by unfavourable fiscal (internal) and current account (external) balances. To respond 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 preference 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 the latter's

Everything But Arms (EBA) initiative designed for LDCs. As such, LDC graduation implies that Bangladesh will not be eligible for LDC-specific benefits. Since the EU is the country's largest export destination, the preference erosion in this market will likely have implications.

The impressive socio-economic development of Bangladesh has greatly been facilitated by its export growth. Over the past decades, taking advantage of privileged market access in the EU, apparel exports, locally known as readymade garments (RMG), have exhibited remarkable expansion, generating jobs for 4 million workers, of whom around 60 per cent are women. The industry has become integrated within the clothing global value chain (GVC), with local producers using both domestic and imported raw materials for renowned international brands and other buyers targeting 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 enabling a move up the value chain. 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 case study is to consider the likely impact of loss of EU tariff preferences on Bangladesh's exports, as resulting from LDC graduation. In particular, it aims to identify main competitors, analyse market shares and assess the potential for trade shifts; and to present exporters' and buyers' perceptions on the issues as gathered through a quick and short survey, to ascertain the apparel export sector's competitiveness challenges in light of the graduation prospect. In terms of the approach and methodology, the case study utilises the Commonwealth Secretariat's "A Guide to Graduating from LDC Status" (Keane, 2018) to analyse the graduation implications from a GVC perspective. This includes using quantitative data and analysis as well as qualitative assessments based on exporters' and buyers' perceptions.

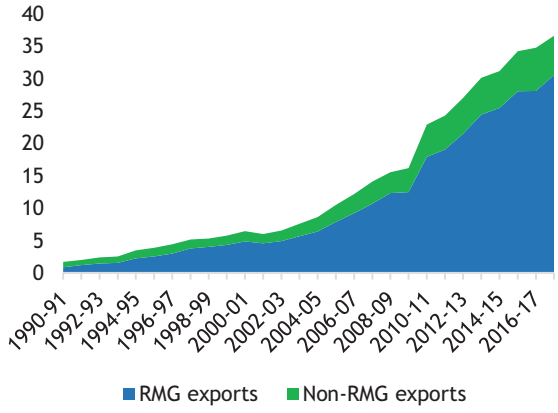
The case study is organised as follows. After this introduction, Section 1.2 provides a brief review of Bangladesh's apparel exports, highlighting the importance of the EU market. Section 1.3 identifies the major competitors in the EU market and analyses the possible impact of graduation on apparel exports. Section 1.4 sheds light on the competitiveness issues from a GVC perspective, while considering perceptions of exporters and buyers. Section 1.5 provides a brief discussion of some broad elements of adaptation strategies in dealing with any adverse consequences. Section 1.6 concludes.

1.2 Bangladesh's apparel exports and the importance of the EU market

1.2.1 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 FY2018. This would imply an average annual export growth rate of close to 12 per cent against 6 per cent for world merchandise exports. In the process of export expansion, RMG emerged

Figure 1.1 Bangladesh's exports (US$ billions)



Source: Authors using data from EPB.

as a flagship export, generating receipts from about $1 billion in 1990 to above $30 billion in 2018 (Figure 1.1). While many countries, particularly in Sub-Saharan Africa, failed to move export production away from primary commodities and other mineral resources to manufacturing, Bangladesh exhibited dramatic shifts, with 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 RMG from virtually nothing to more than 80 per cent (Figure 1.2). 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, even though the sector was by then growing to a considerable size (Figure 1.3). The expansion rate appears to have lost some momentum and become less stable in recent years, particularly since 2014/15. This is largely because of an unprecedented

Figure 1.2 Change in shares of apparel and non-apparel exports in total exports (%)

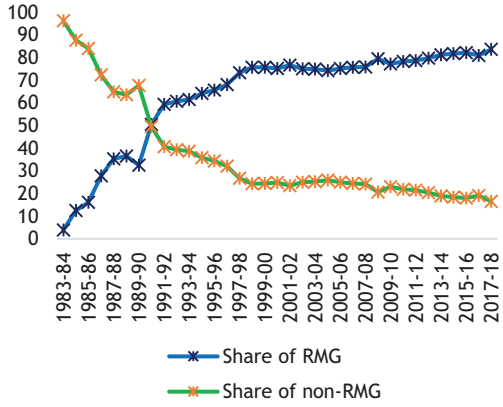
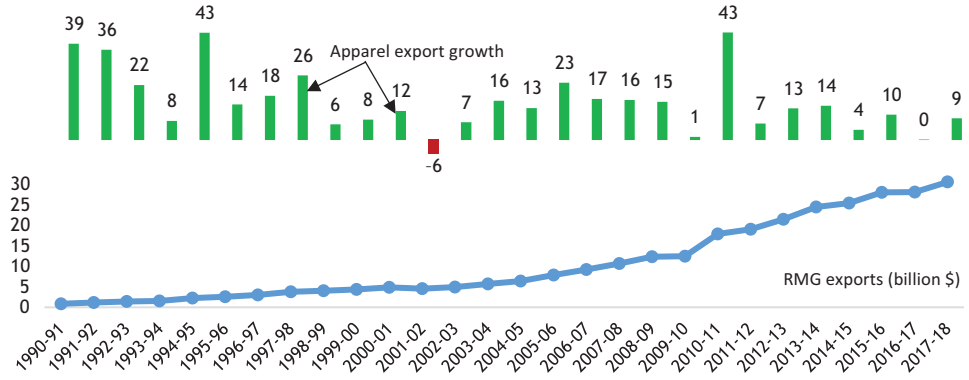


Figure 1.3 RMG exports and growth rates



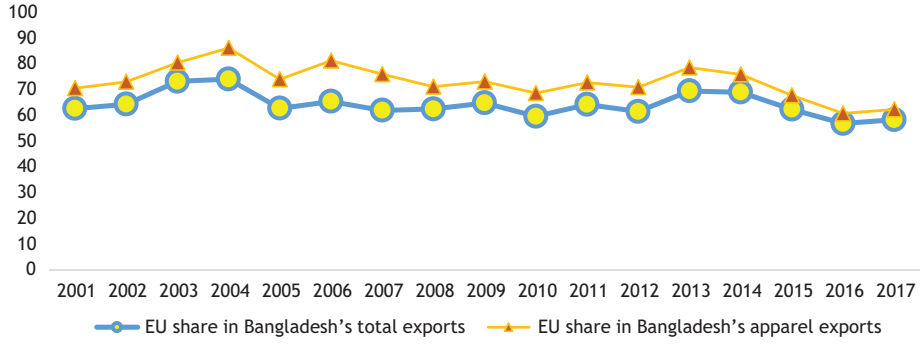
Source: Authors using data from EPB.

slowdown in global trade that has affected the export performance of an overwhelming majority of global economies (Razzaque, 2018b).[3]

1.2.2 Significance of the EU as Bangladesh's export market

The EU has been the largest export market for Bangladesh. In FY2018, more than US$21 billion worth of products was destined to the EU, of which $19.6 billion (i.e. 92 per cent) came from apparels 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 1.4). Since the early 2000s, the EU's significance in Bangladesh's totally and apparel exports has remained steady. In terms of individual markets, the USA is the biggest single export destination, with a share of 16.3 per cent of Bangladesh's merchandise export earnings, followed closely by Germany (16.1 per cent). Other important markets are the UK (10.9 per cent), Spain (6.7 per cent), France (5.5 per cent), Italy (4.3 per cent), the Netherlands (3.3 per cent), Canada (3.1 per cent), Japan (3.1 per cent) and Poland (2.6 per cent). Information on total and apparel exports to each EU member state and their respective shares in Bangladesh's overall exports earnings is given in Annex Table A1.

Figure 1.4 The EU's share in Bangladesh's total and apparel exports



Source: Authors using data from ITC.

Figure 1.5 Share in Bangladesh's exports by partner countries (%)

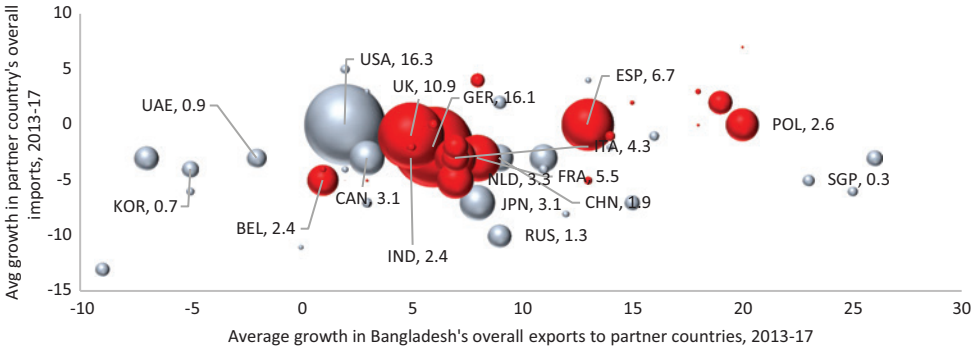
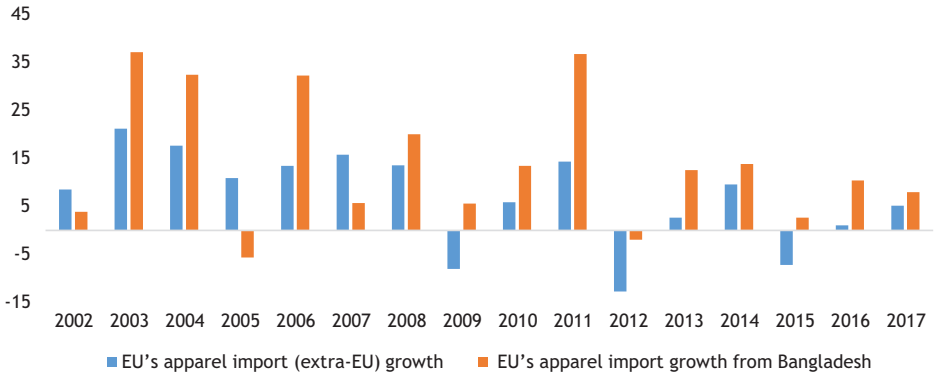


Figure 1.5 shows that, although the overall import growth of most EU member states (measured on the vertical axis) was either close to zero or negative in the five-year period of 2013–2017, their imports from Bangladesh (as shown in Figure 1.5 measured on the horizontal axis) in a large majority of cases grew at a considerable pace. Imports to Spain and Poland, for example, from world markets were virtually stagnant (the average 2013–2017 growth rate being zero), but their comparable import growth from Bangladesh was 13 and 20 per cent, respectively. The top five EU partners of Bangladesh together account for about 45 per cent of total exports and almost half of apparel exports. The notable growth of Bangladesh's exports to the EU and the latter's large shares in Bangladesh's exports make the EU the most critical trading partner of Bangladesh.

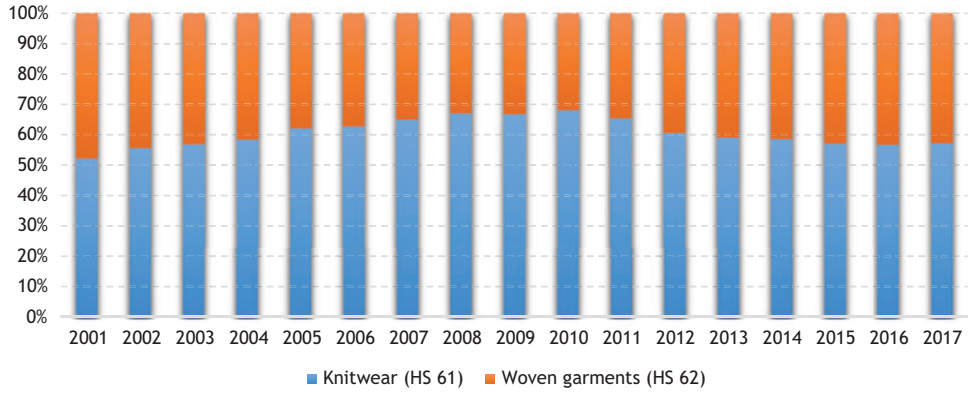
Bangladesh's exports are driven mainly by RMG: over the past decade, its average yearly growth to the EU has been 12 per cent (Figure 1.6). During the same period, EU apparel imports from the world have grown at a rate of 2.4 per cent per year. It is worth pointing out that, immediately after the global financial crisis of 2008, whereas EU imports of apparels from the extra-EU countries declined by more than 8 per cent

Figure 1.6 EU's appareal import growth (%)



Source: Authors using data from ITC.

Figure 1.7 Structure of Bangladesh's apparel exports to the EU



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

in 2009, imports from Bangladesh posted 5 per cent growth. A similar pattern was observed during the relatively recent trade slowdown period of 2015–2016.

Bangladesh's apparel exports to the EU are dominated by knitwear items under the Harmonised System (HS) of product classification category 61, which accounted for a share of about 57 per cent in 2017 (Figure 1.7). 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 apparels, this would imply the use of domestically produced fabrics 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, and therefore found it difficult to utilise EU preferences. On the other hand, the knitwear segment has strong domestic backward linkages to spinning factories, thus knitwear products fared better than woven garments. The derogation of EU ROO in 2011 allowed for single transformation for LDC clothing exports. This generated a reinvigorated supply response from the woven garment sector, raising its share in exports.

About 21 per cent of the total knitwear shipment of Bangladesh in FY2018 was destined for Germany, followed by 12.5 per cent to the UK (Figure 1.8). Slightly less than 10 per cent is exported to the USA. Meanwhile, more than a quarter of woven garment exports under HS 62 are USA-bound. Among 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 1.9).

An analysis of data at a more disaggregated level shows that Bangladesh's single most important (in terms of exports 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 (US$3.8 billion) from this item result from the EU (Figure 1.10). In this particular product, Bangladesh has an EU market share of about 25 per cent. For the largest woven garment – men's or boys' suits, jackets, blazers, trousers, overalls, breeches and shorts of cotton (HS 62034200) – the biggest single market is the USA,

Figure 1.8 Countries' share in Bangladesh's knitwear (HS 61) exports (%)

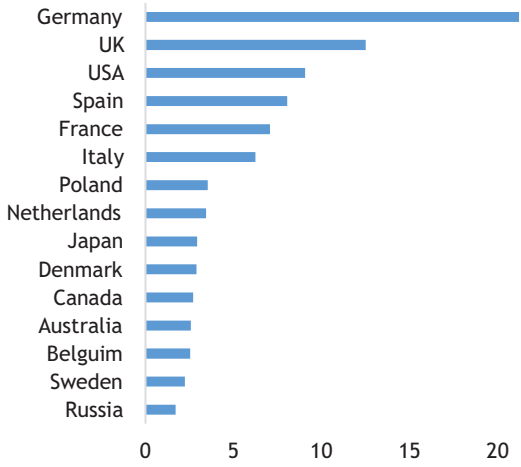
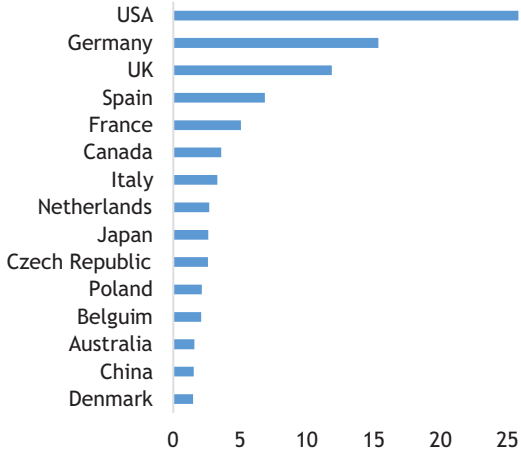


Figure 1.9 Countries' share in Bangladesh's woven garments (HS 62) exports (%)

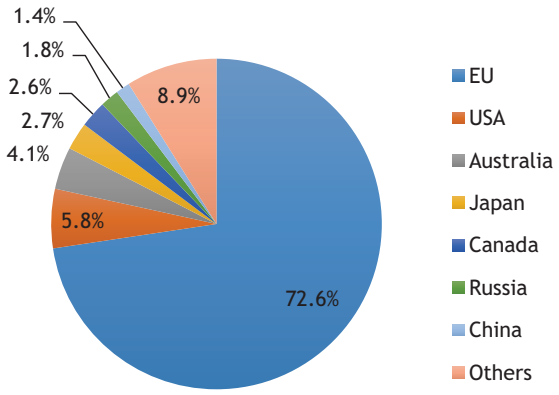


accounting for about 30 per cent of all exports. However, the combined EU member states' share is far greater, at about 50 per cent of Bangladesh's export earnings of this product (Figure 1.11). The other major RMG exports to the EU markets are men's or women's shirts, jerseys, pullovers, shorts made of cotton and fibre, etc. Annex Table A4 provides a list of top 20 Bangladeshi RMG items (at the CN 8-digit level) exported to the EU and their respective market shares.

1.2.3 Further export potential in the EU

Although the EU has been the largest export destination, there is evidence of further export potential for Bangladesh that it could exploit taking advantage of the tariff-free market access. Unutilised export potential by destination market can be determined by making use of a methodology recently developed by the International

Figure 1.10 Partners' share in Bangladesh's exports of HS 61091000



Source: Authors using data from EPB.

Trade Centre (ITC) (Decreux and Spies, 2016). The ITC Export Potential Indicator (EPI) identifies products in which an exporting country has already proved itself to be internationally competitive and in which it is likely to have good prospects of export success. The potential export value in a target market is estimated based on exporters' supply capacity, demand conditions in the market of interest and market access conditions.[4] Potential export values are compared with actual export earnings to reveal untapped opportunities.

Application of the ITC methodology reveals that, in different destination countries, Bangladesh has untapped apparel export potential worth US$17.4 billion, which is more than half of current export earnings from the sector. For the EU, it is estimated that the existing level of exports has an additional $11.3 billion potential, of which more than 90 per cent is in apparels. Figure 1.11 presents export market shares overall across trading partners. Figure 1.12 presents the specific products which account for most exports destined to the EU. Finally, Figure 1.13 summarises potential and actual exports of apparel products, with the numbers in parentheses

Figure 1.11 Bangladesh's export partners share of HS62034200

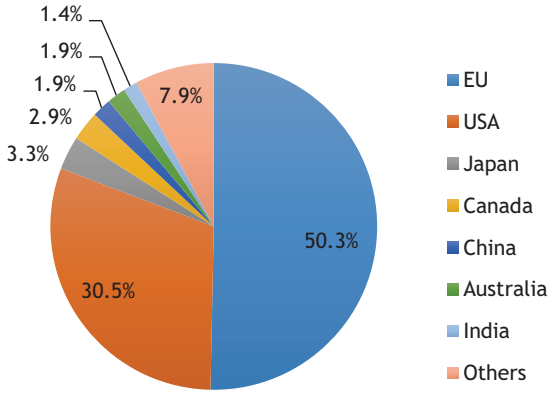
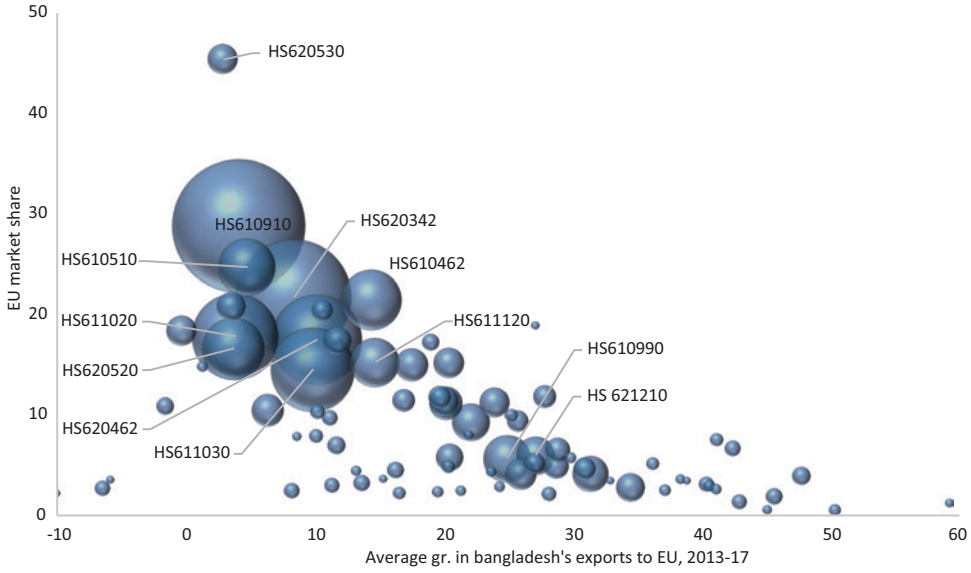


Figure 1.12 EU market shares and Bangladesh's exports growth by products at HS-6 digit level

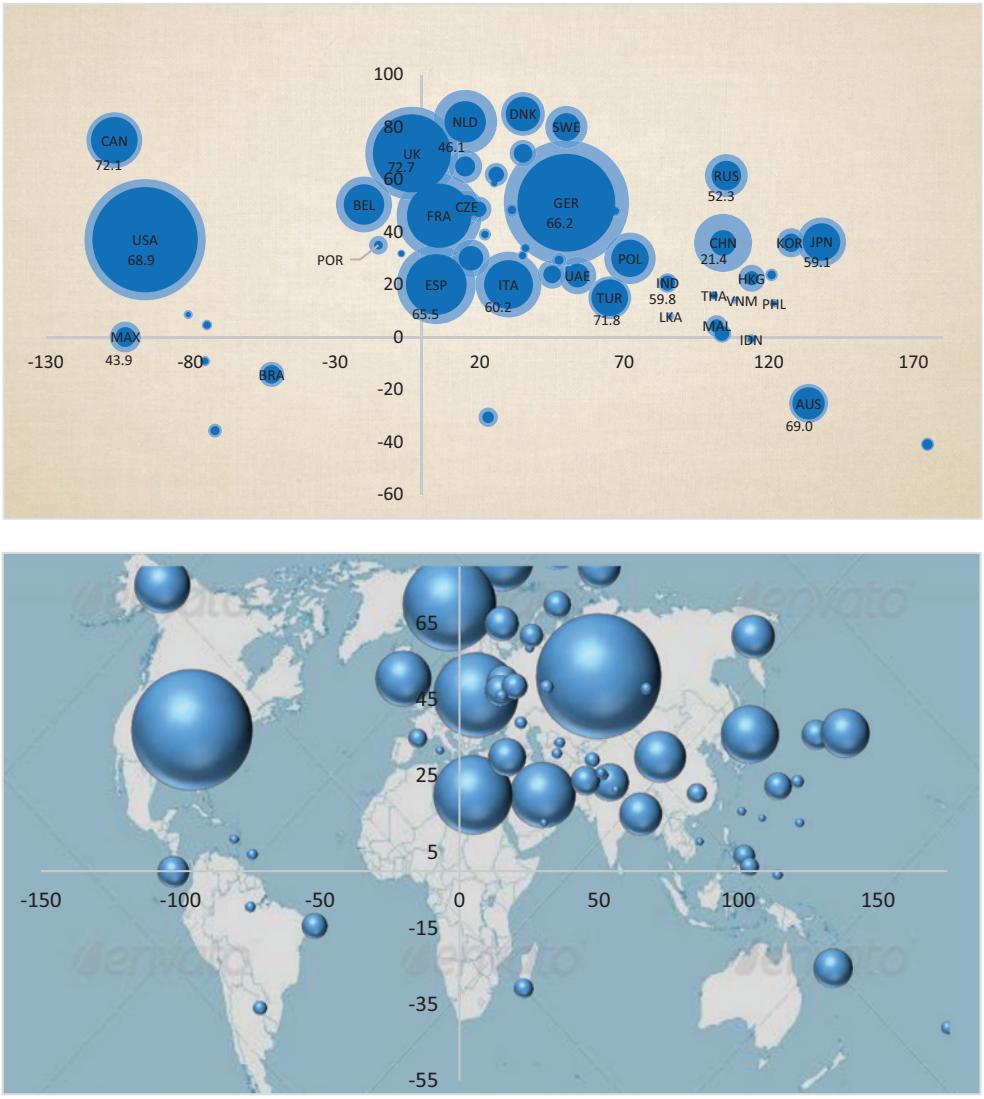


showing the proportion of actual exports as a share of actual plus unexploited export opportunities. The highest absolute difference between potential and actual exports is found for Germany, leaving room for additional export earnings of $2.2 billion. That is, currently about 34 per cent of the potential in the largest EU partner country market of Bangladesh is unexploited. Among other EU partners, only 46 per cent of potential in the Netherlands is utilised. Bangladesh's other major EU markets, France, Italy, Spain and the UK, also show sizeable unexploited market potential.[5] Turning to non-EU countries, the USA offers the biggest unrealised apparel export potential for Bangladesh, estimated at US$1.9 billion – that is, only 69 per cent of all potential is being utilised in the largest exporting destination. It is estimated that Bangladesh is using just 21.4 per cent of potential in China and 60 per cent in India.

1.3 LDC graduations and EU market prospects for ready-made garments

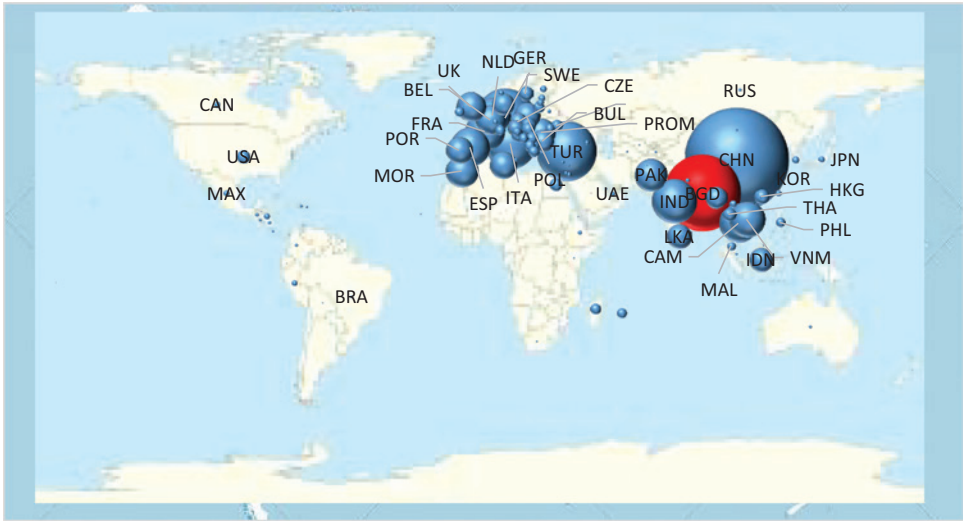
The EU accounts for almost 45 per cent of global apparel markets. In 2017, the combined EU-28 imports stood at US$178.3 billion, of which $116 billion (i.e. 65 per cent) worth of clothing items was sourced from extra-EU suppliers. China, the global export leader, captures about a quarter of the market share (Figure 1.14); it exported $39.3 billion in 2017. Bangladesh is the second largest exporter, with a 12 per cent market share. Turkey and Germany ranked third and fourth largest suppliers in the EU, respectively, each capturing about a 7 per cent market share. 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 2.1 per cent.

Figure 1.13 Export potential of Bangladesh's RMG products



An over time comparison of extra-EU competing suppliers' market shares shows a striking development of a diminishing relative significance for 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 seven years, it fell by almost 9 percentage points. A close look at Table 1.1 and Figure 1.15 reveals Bangladesh capturing much of China's falling market presence. During 2000–2010, 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 – that is, a 5.5 percentage point rise in seven years. Apart from Bangladesh, Table 1 shows us, Cambodia, Myanmar, Pakistan and Vietnam have also seen their shares rising since 2010. But none of them shows dynamism comparable with that of Bangladesh.

Figure 1.14 Major exporters of RMG in EU markets



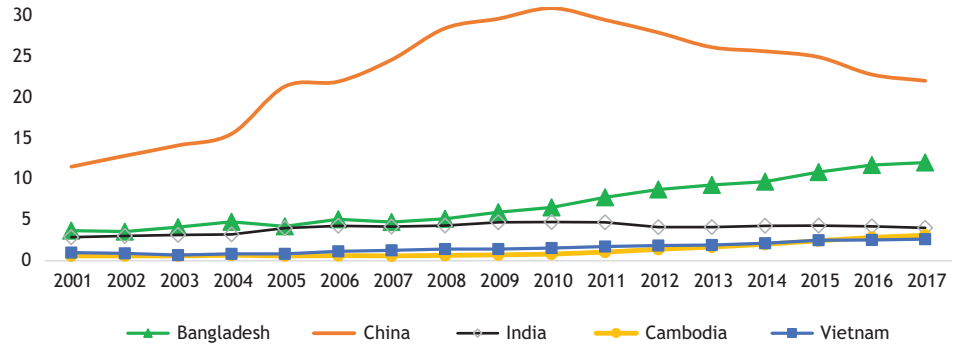
It is necessary to point out that Bangladesh robust export performance was greatly aided by the EU's derogation of ROO requirements for clothing under EBA, as mentioned earlier. The earlier stringent ROO criterion of double transformation for duty-free access proved a binding constraint. Between 2001 and 2010 Bangladesh's market share in woven garments (HS 62) virtually stagnated (Figure 1.16). After single transformation was allowed, 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

Table 1.1 Share of extra-EU partners in total apparel imports in the EU (%)

	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
USA	0.65	0.93	0.53	0.39	0.38	0.37	0.32

Source: UN Comtrade and ITC.

Figure 1.15 EU apparel market share by selected suppliers (%)



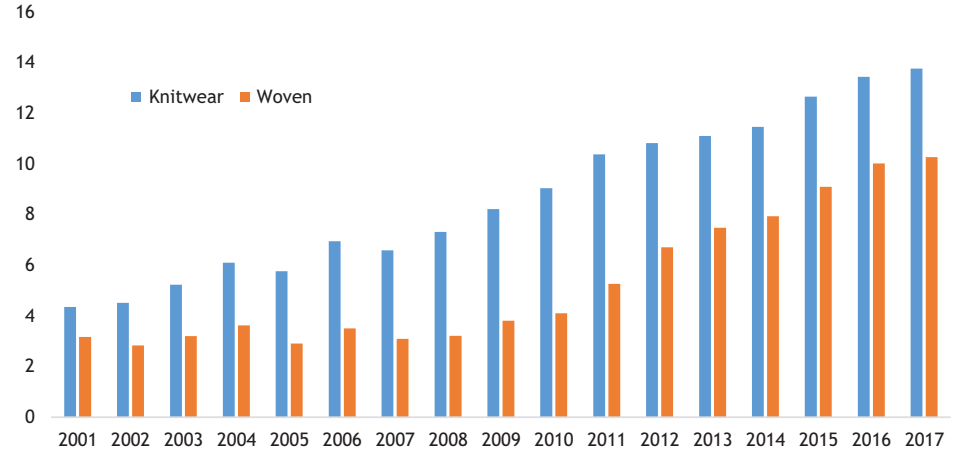
Source: Authors' using data from UN Comtrade and ITC.

in knitwear, and thus Bangladesh has been able to maintain 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 RMG are shipped from China (Figure 1.17). 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 RMG to the EU. Annex Table A4 and Annex Figure A1 provide the information on countries' extra-EU market shares.

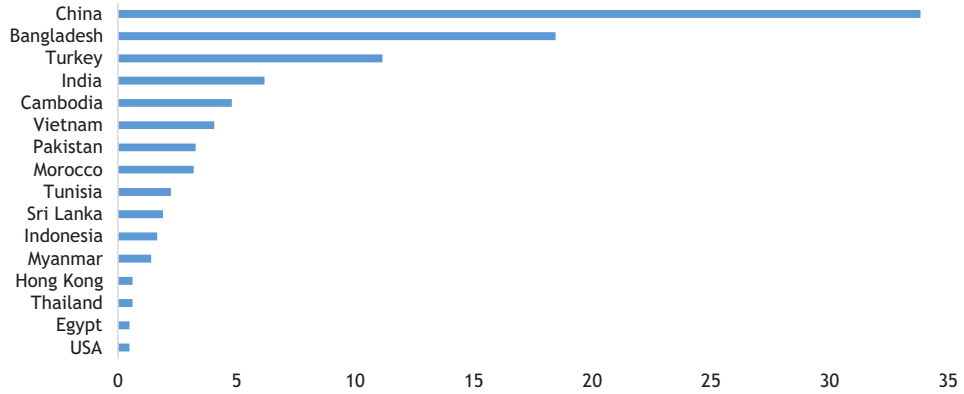
Figure 1.18 provides the market shares of major extra-EU partners for their respective top exporting items at HS 6-digit level. Bangladesh's most important five and twenty products account for, respectively, 22.2 per cent and 18.5 per cent of EU imports

Figure 1.16 Bangladesh's EU market share in knit (HS 61) and woven garments (HS 62) (%)



Source: Authors using data from ITC.

Figure 1.17 Share in extra-EU RMG imports, 2017 (%)



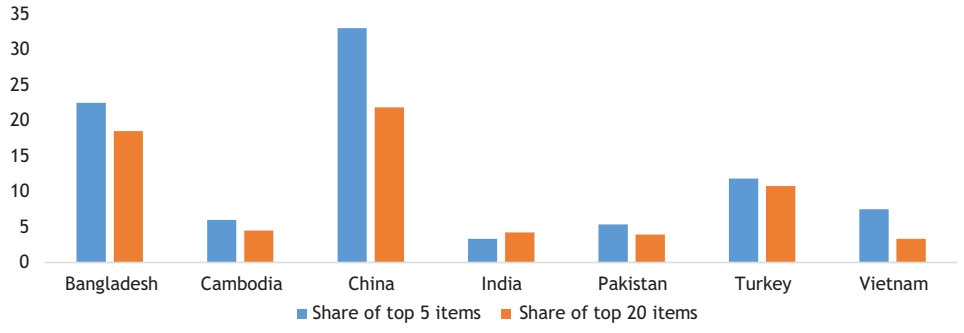
Source: Authors using data from ITC.

in the same products. The relatively high concentration implies that Bangladesh is highly competitive in these items. But it would also suggest scope for diversification to new items within the apparel sector. China's top five items hold about one third of EU imports of those products whereas its top twenty products together represent about a 22 per cent market share. India's share in its top five and twenty products are, respectively, 3.3 per cent and 4.2 per cent, which are lower than its overall apparel market share. This implies that India's reliance on its major items is much less than that of Bangladesh and China. It could also suggest lack of competitiveness in items that are associated with most export revenues.

1.3.1 EU import regimes in apparels

The European community provides trade preferences to support developing countries under its Generalised Scheme of Preferences (GSP). The EU's GSP is based

Figure 1.18 EU market share of competitiors by their respective top five and twenty items (%)



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

on the WTO's Enabling Clause, which allows developed nations to grant unilateral and non-reciprocal tariff preferences to support the developing countries in their development process. The current GSP regime in the EU offers three different preference arrangements: 1) a general arrangement (Standard GSP); 2) a Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+); and 3) the Everything but Arms (EBA) arrangement for the group of LDCs. Table 1.2 summarises these preference regimes.

Bangladesh, as an LDC, gets duty-free quota-free (DFQF) 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 the EU, certain sensitive sectors continue to be protected by high tariffs. Therefore, depending on beneficiary

Table 1.2 EU GSP provisions

	Standard GSP	GSP+	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+– 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
ROO (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%.	Single transformation for textile and clothing items. For all other products a minimum local value added of 30%.

Source: Various documents as available on the European Commission website.

countries' export composition, preferential treatment may or may not be a source of competitive advantage. The textile and clothing sector attracts relatively high MFN tariffs and, as such, Bangladesh has benefited substantially from the EBA arrangement for LDCs. An analysis of EU tariff structures (Figure 1.20) shows that about a quarter of EU tariff lines at CN 8-digit level have an MFN duty rate of 0 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 is 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 10–12 per cent, with 88.9 per cent apparel products attracting such tariffs of 12 per cent.

Graduating LDCs can apply for perhaps the second best (after the EBA scheme) preferential regime, GSP+, which grants duty-free access to 66 per cent of EU tariff lines. However, for this scheme, a beneficiary country must 1) have ratified and effectively implemented 27 international conventions on labour rights, human rights, environmental protection and good governance; 2) have a share in GSP-covered imports of less than 6.5 per cent of the GSP-covered imports of all GSP countries; and 3) have at least 75 per cent of its total GSP imports coming from the seven largest sections of GSP-covered imports. Bangladesh fulfils condition 3 and is likely to fulfil condition 1 but is way above the threshold import share under condition 2.[6] Therefore, given the existing GSP rules, Bangladesh may not qualify for GSP+. In this case, the least attractive Standard GSP would be the only option.

It becomes obvious that application of the Standard GSP regime to 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.[7] In fact, about 92 per cent of all Bangladesh's exports will fall under an average tariff of 8–9.9 percent (Figure 1.19). 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 Standard GSP, these tariffs will be slightly reduced, to 9.6 per cent, whereas, with GSP+, tariff-free access is given for the same products. That is, under GSP+, Bangladesh's apparel exports will enjoy the same tariff preferences as in EBA. However, EBA ROO are more relaxed and less stringent that those in GSP+.[8]

1.3.2 Tariff implications for export earnings

The Commonwealth Secretariat has proposed an analytical framework to study the potential implications of tariffs arising from LDC graduation for a graduating country's exports (Keane, 2018). The prescribed partial equilibrium model comprises two steps: first, it estimates the impact on exports owing to price changes emanating from forgone tariff preferences in the destination market; and second, it estimates the possible increase in demand for goods exported by non-graduates as they become more competitive relative to the graduating country in question.[9]

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 it uses only one sector while disregarding its interactions with others – a feature that

Figure 1.19 MFN tariff structure in the EU and number of product lines

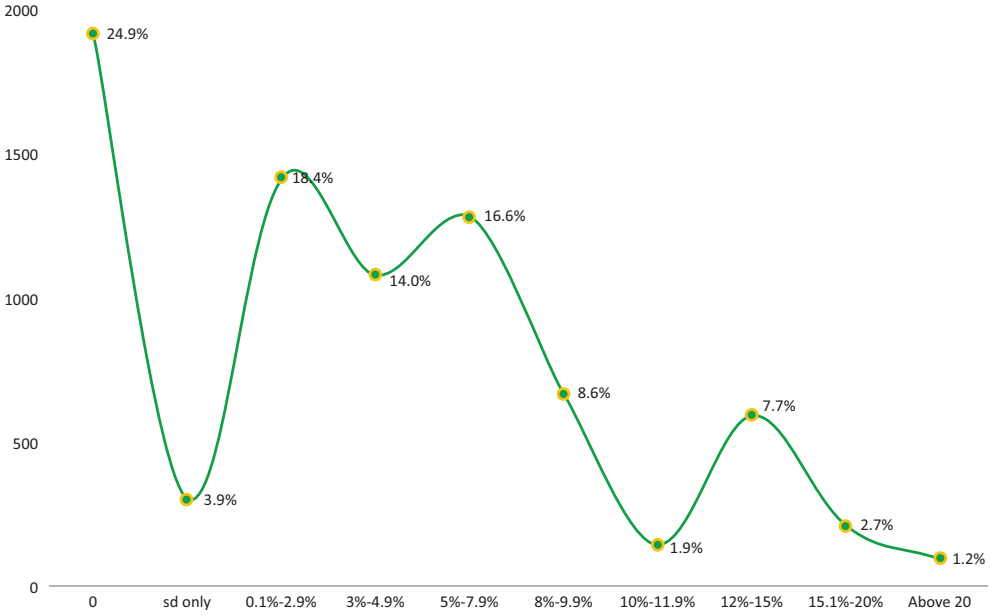
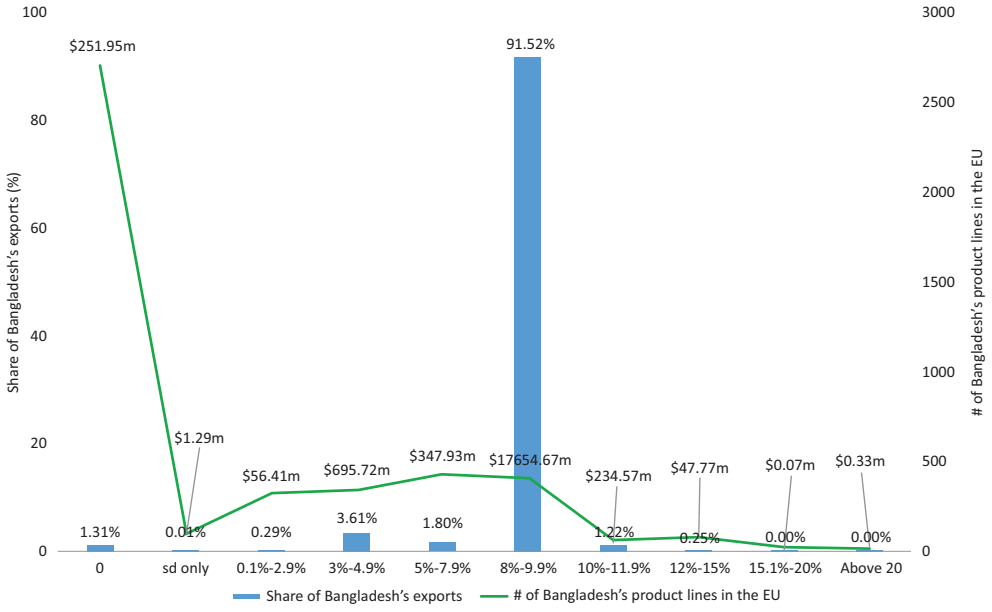


Figure 1.20 EU tariff and Bangladesh's exports under standard GSP



general equilibrium models (GEMs) deal with. However, in contrast with GEMs, the approach employed here can make use of highly disaggregated trade and tariff data.[10] Therefore, the Commonwealth Secretariat framework provides a good basis for undertaking an initial assessment in identifying potential trade-related effects. The potential impact of LDC graduation in this model is transmitted in three ways:

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

A potential caveat of this approach is that it assumes constant import price elasticities – that is, 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. Besides, the potential shifts in exports may depend on producers' supply capacities and competitiveness, which this market-share based approach does not capture.

The trade effect of LDC graduation can be estimated by comparing the unit price received by the preference-recipient 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:

$$P_k^i = P_k^W\left(1 + T_k^{MFN} - T_k^i\right)$$

$$m_k^i = (T_k^{MFN} - T_k^i)$$

where T_k^{MFN} is ad valorem equivalent MFN tariff for product k and T_k^i is exported 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 LDC graduation. As a country graduates from the group of LDCs, its tariff preference regime changes, as it will have to pay a higher tariff. The changes in export revenue as a result of graduation can be estimated from the equation below:

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

where, $\mu_k^i = \frac{\Delta m_k^i}{m_k^i}$ 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 will be proportionally distributed to the other competitors (i.e. non-graduates) based on their market share. The implicit assumption here is that there is no product differentiation among the suppliers, and 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.

1.3.3 Estimation results

The model is estimated using 339 CN 8-digit products exported to the EU in 2015–2017. The analysis uses EU tariff rates at this level of disaggregation for individual products. The impact is estimated based on average exports over the past three years and their share in total EU imports. Export implications are estimated using two post-graduation scenarios: Bangladesh's receiving Standard GSP benefits and being subject to MFN tariffs.

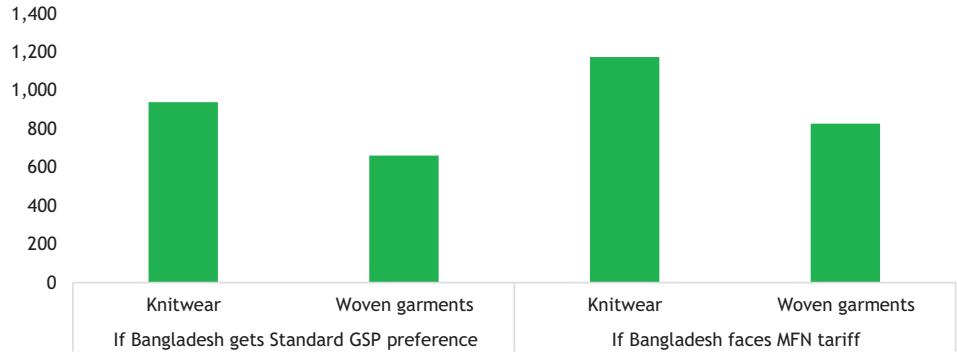
Table 1.3 summarises the results. The estimates are based on alternative values of the price elasticity of demand: between 0.5 and 2. Under the unitary price elasticity of demand, the estimation suggests that replacing duty-free access with the Standard GSP regime would result in a loss of export earnings for Bangladesh of US$1.6 billion – 9.5 per cent of average export revenues from the EU during 2015–2017. The loss would be higher than $2 billion in the unlikely case of facing MFN tariff rates. Forgone export receipts from knitwear would be greater compared with those from its woven counterparts (Figure 1.21). Under Standard GSP, while export loss from woven garments would be lower than $700 million, the comparable figure for knitwear would be close to $1 billion. The most important reason for higher potential losses in knitwear is the higher average tariff rate applied on the former.[11] Besides, as the EU Comext database reflects, Bangladesh exports more knitwear than woven products. With values of the price elasticity of demand higher than 1, the estimated

Table 1.3 Potential loss of apparel export earnings owing to tariff rises

Price elasticity of demand	Potential decline in RMG exports (US$ millions)	
	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.

Figure 1.21 Potential loss of knitwear and woven garment export earnings owing to tariff rises (US$ millions)



Source: Authors' estimation.

forgone exports are bigger. If we were to choose, our preferred estimate would have been with the unitary price elasticity of demand. Annex Table A4 provides export implications by individual top 20 export items.[12] It shows that the single most important export items of Bangladesh, CN 61091000 (knitted or crocheted T-shirts), could alone suffer a decline of close to $300 million. The currently large export base and the rise in tariff hike interact to generate this big impact.

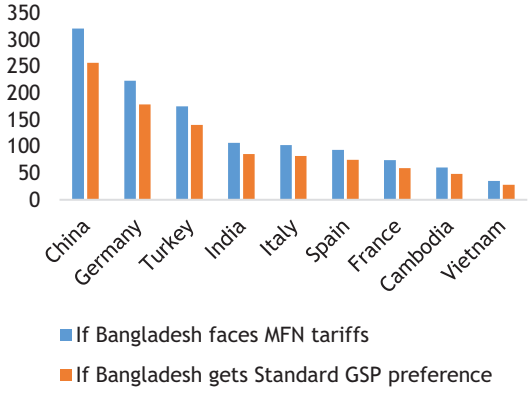
The limitations of the partial equilibrium model have been highlighted, but it is worth pointing out a few other issues too. First and foremost, modelling exercises (including GEMs) cannot capture the implications of the changes in ROO provisions. Graduation out of LDCs will be associated with more stringent requirements (e.g. double transformation in clothing and 50 per cent domestic value addition in other products) for obtaining Standard GSP preferences. Second, it is not clearly known how the rents from tariff preferences are distributed between exporters and importers, which can have implications for price changes. Finally, it is assumed that non-differentiated products can be readily supplied from other countries. In reality, as products are differentiated, individual countries may be able to exert some market power, affecting the model-based estimates.

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

1.3.4 Potential for trade shifts

The decline in the EU's imports of apparels from Bangladesh will be compensated for by the increases in imports from other countries. This is done using the market share

Figure 1.22 Potential increase in competitors' apparel exports when all competitors are considered (US$ millions)



approach – that is, distributing the graduate's forgone exports among all exporters in the EU based on their current market shares. Potential shifts in exports are analysed under the assumptions of import demand elasticities and cross price elasticities being one.

Being the largest supplier, China gains most: about 16 per cent of Bangladesh's export loss. When the latter obtains Standard GSP, the export gains of China will be about a quarter of a billion dollars, which is quite small in terms of its total exports (Figure 1.22). Germany would be the second largest gainer, then Turkey, India, Italy and Spain. After graduation, if Bangladesh is subject to MFN tariffs, all competitors' gains increase slightly.

If the resultant export gains are limited to extra-EU suppliers only, China's exports rise by more than a half a billion dollars (Figure 1.23). Turkey and India together capture another half a billion dollars, with the former increasing its exports by US$302 million and the latter by $183 million. Cambodia and Pakistan each can obtain an additional $100 million in exports while the comparable rise in Vietnam's

Figure 1.23 Potential increase in competitors' apparel exports if only extra-EU competitors are considered (US$ millions)

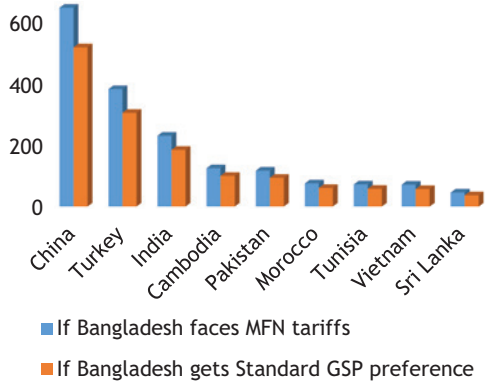


Figure 1.24 Potential rise in extra-EU competitors' knitwear and woven garments exports if Bangladesh pays Standard GSP tariff rates (US$ millions)

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

exports is estimated at $56 million. Sri Lanka gains $36 million. If export gains are disaggregated by knitwear and woven apparels, China, Turkey, India and Cambodia will benefit highly from increased exporting of knitwear: China's additional earnings from knitwear would be above $300 million under the scenario where Bangladesh would pay Standard GSP rates, and the comparable gains by exporting woven exports would be just above $200 million (Figure 1.24). In the case of woven apparels, Bangladesh's comparators, Pakistan, Morocco, Tunisia and Vietnam, would gain. If Bangladesh is subject to MFN tariffs, each competitor's exports will rise further.

1.4 Assessing competitiveness: A global value chain perspective

1.4.1 Global value chain-led trade

Bangladesh's RMG exports have been facilitated by the so-called 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 consumer products. The value chain captures the entire range of activities (including production and services) 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.[13] Fundamental changes have taken place in global trade, whereby 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 need 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).

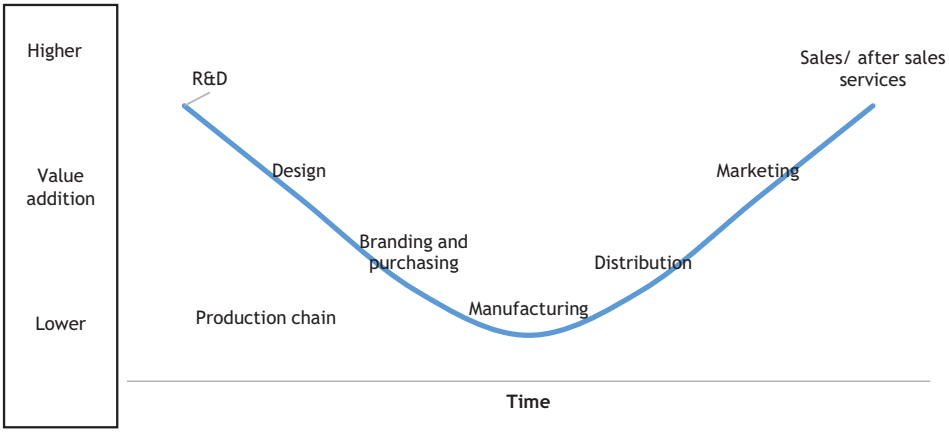
Given the limited productive capacity of many developing countries, integrating with GVCs may provide new trade opportunities for local firms to gain access to

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 value added creation within the entire production process associated with the product (Van Der Marel, 2015). The value added created out of export earnings is important as it comprises workers' wages, entrepreneurs' profits and other costs associated with filling the orders.

It has become a typical feature of GVC-led trade that firms located in developing countries focus mainly on manufacturing activities, whereas 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 countries where consumers are located.[14] One issue is that the manufacturing stage within the smile curve process (Figure 1.25) is known to be generating very small value in proportion to the final retail prices of the products.[15] 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 develop specialisation 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 services tasks such as designing, branding and marketing. Participation of foreign direct investment (FDI) firms in export production can greatly facilitate a country's moving up the value chain 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

Figure 1.25 The 'smile curve' – stages in a global value chain



Source: Authors elaboration of Mudambi (2008).

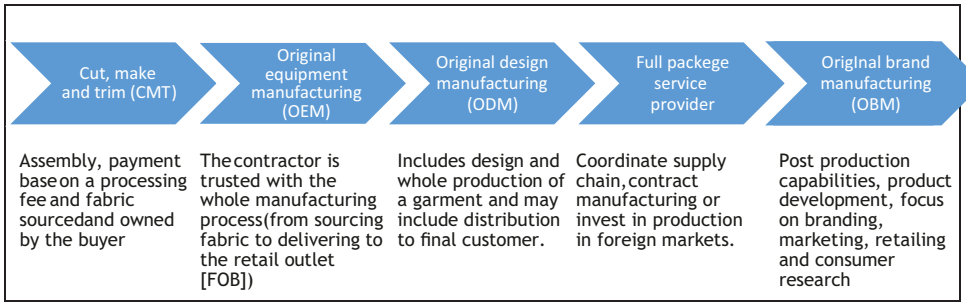
participation (Kaplinsky et al., 2003). International brands and retailers, subject to close scrutiny by consumer groups and non-governmental organisations (NGOs) about their procurement practices, aim to avoid sources that cannot comply with various production, labour and environmental standards.

1.4.2 Bangladesh in apparel value chains and the issue of competitiveness

Bangladesh's apparel production process is related mainly to manufacturing – that is, to processing intermediate inputs to turn into final consumer products. This stage of the global supply chain is the most labour-intensive in nature and, as a labour-abundant country, Bangladesh has a huge natural comparative advantage in it. Among the principal apparel business models (Figure 1.26), Bangladesh is mostly involved in two low-value stages of cut, make and trim (CMT) and original equipment manufacturing (OEM)/free on board (FOB) (Hasan, 2014). Under CMT arrangements, buyers procure the materials from their known sources in any third country and send them to the manufacturer on free-of-cost basis and pay only for cutting and sewing woven or knitted fabric or knit apparel directly from yarn. Under the OEM/FOB system, the manufacturer is responsible for all production activities, including the CMT activities, as well as finishing. Therefore, the manufacturing firm must have capabilities for procuring the necessary raw materials, and undertaking the trimming needed for production (Fernandez-Stark et al., 2011). In this case, the prices quoted by factories include raw materials costs plus CMT charges – that is, the price of fabrics and accessories including cutting and making charges. The apparel export business of Bangladesh 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.[16] The question is, then, how much more competitive Bangladesh can be if it has to lose tariff preferences in the EU market post-LDC 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

Figure 1.26 Trend towards greater value addition



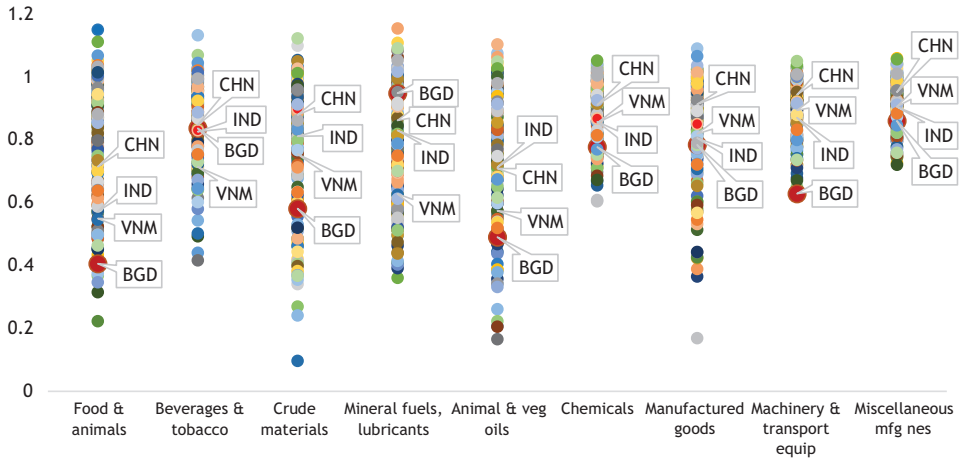
Source: Adapted from ITC (2016), based on Gereffi and Frederick (2010) and Cornelia (2012).

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.[17] The second difficulty relates to product differentiation. Products supplied by different countries could represent substantial quality differences, and cross-country comparisons, even using highly disaggregated data, cannot fully account for this. Prices on different broad items (such as T-shirts) from various brands and retailers are not available in a systematic manner. Even when available, the retail prices would be very different from those obtained by the firms in developing countries.

While Bangladesh is developing capacities in making relatively high-priced garment products sold by many global brands, until now it has been known mainly as a source for low-cost garment items in bulk.[18] 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 databases, prepared by the International Monetary Fund (IMF) and UKAid, seems to confirm this view.[19] As Figure 1.27 shows, at the Standard International Trade Classification (SITC) 1-digit level, Bangladesh's export quality is lower than those of China and India in all but one SITC 1-digit level of product classifications.[20] In most categories, Vietnam's unit prices are also higher than those of Bangladesh. In the case of manufactured goods, which include much of the country's apparel exports, Bangladesh is at around the 80th percentile – behind China, Vietnam and India.

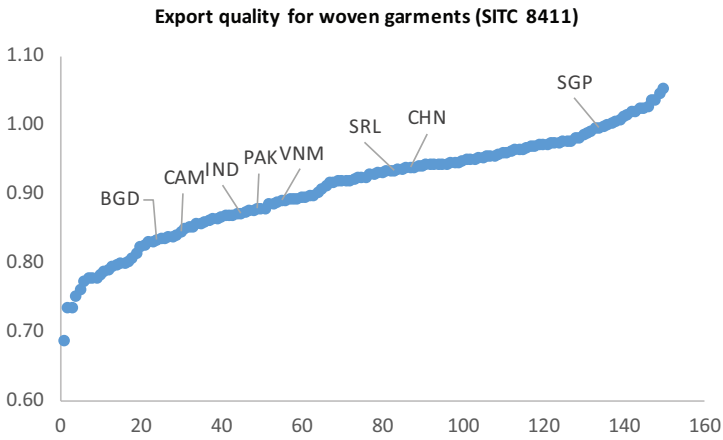
Using the aforementioned database, it is also possible to compare export quality for clothing items. The information obtained for different countries can be used to generate a "quality ladder", measuring the relative quality of a country's exports against all other countries that export clothing (Reis and Farole, 2012). Figure 1.28 shows Bangladesh moving up the quality ladder between 2001 and 2014.[21] However,

Figure 1.27 Quality of export goods by SITC-1 digit sectors



Source: Authors using data from IMF export quality database.

Figure 1.28



other comparators, such as China, India and Vietnam, also moved up, and appear to have made faster progress. When export quality is analysed separately for woven and knitwear items, Bangladesh is outperformed by its principal competitors.

Following Reis and Farole (2012), export quality in the EU can be approximated using unit value prices. Comparisons of trends in unit values over the period 2000–2017 for overall apparel exports, knitwear products and woven garments using export data exclusively for the EU show Bangladesh with 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 the most recent periods are almost at par with those of China (Annex Figure A3).[22]

1.4.3 Bangladesh's competitive strengths: Buyers' and exporters' perceptions

A large number of international buyers, comprising globally established brands as well as intermediaries, source apparels from Bangladesh.[23] In various global surveys, Bangladesh appears as an important destination for sourcing low-cost garment items.[24] Despite Bangladesh's ability to supply in bulk and its record of consistent export performance, working conditions and workers' safety have been a concern for many buyers.[25] Working conditions are generally recognised as improving in recent times (Moazzem and Sehrin, 2016), enabling a renewed relationship between factories and buyers.

In the interviews, buyers' representatives regarded Bangladesh as competitive and an important source of suppliers. All respondents said supplying in large volumes was one of the country's key strengths. On a scale of 1 (highly dissatisfied) to 5 (highly satisfied), the average score assigned was 4 on volume supplied. The same score was recorded for prices offered by Bangladeshi suppliers. Clearly, competitive pricing and large volume delivery are critical strengths of the industry. On all other indicators,

Box 1.1 Gathering perceptions of buyers and exporters

In an attempt to better appreciate the competitiveness challenges facing Bangladesh, perceptions of buyers and exporters were gathered as part of this study, through a purposively 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 methodological guidelines for assessing firm capabilities suitably adjusted to consider the Bangladesh case. Interviews were conducted face to face, over the phone and by email. Representatives of five buyers/buying houses based in Dhaka and ten garment factory owners were interviewed. The questions in the interview checklists included participants' perceptions on prices and quality of Bangladeshi apparels; 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.

such as product variety and range, reliability and delivery, the average score was 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 whether demand for Bangladesh's products was price- 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 were unusually low compared with those of rival suppliers. They were of the view that global export markets were competitive and prices for Bangladesh reflected that reality. Almost all buyers thought that low labour cost would 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 there would be some impact on relative competitiveness, but they could not offer any insights about the 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 are quite dynamic and business models, including countries' moving along the value chain or managing the supply chains, may experience profound changes, determining competitiveness in the medium to long term. In the short to medium term (over two to five 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 five years or so. Another respondent

representing a major brand (and a big buyer) suggested the concerned buyer was satisfied with the products from Bangladesh and could not be sure of alternative sources of supplies.

Exporters' responses were mixed, but more than half of them expressed concerns about the prospect of weakened competitiveness arising from EU preference erosion. 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 respondents, profitability is 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.[26]

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 benefited from tariff preferences. Therefore, LDC graduation could erode Bangladesh's attractiveness as a supplier among buyers.

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

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

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

Some respondents pointed out that wages were steadily rising in China, and its industrial upgradation strategy would lead it to transform into a major exporter of technology-intensive goods and services. This would generate more exporting opportunities for Bangladesh and others in labour-intensive manufacturing sectors, including apparels. Wages in Bangladesh are increasing too, but labour cost differences with many other developing countries will be an advantage.

1.5 Adaptation strategies

Even without referring to any specific magnitude of potential loss of export earnings or market share, it can be concluded that LDC graduation will likely dent Bangladesh's competitiveness in the EU. Bangladesh thus has a significant task ahead to prepare for it. 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. However, a few possible broad intervention areas are flagged below.

1.5.1 Exploring most attractive future trade policy regime in the EU

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

The political processes within UN systems and 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 in 2024, it will remain eligible to access duty-free market access in the EU for another 3 years.[27] Post-graduation, it may be possible to look for an alternative EU trade policy regime that is more generous and attractive to exporters rather than just considering the Standard GSP or MFN options.[28]

Although under the existing rules Bangladesh may not qualify for GSP+, 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 Commission and other stakeholders could be undertaken to influence any future changes in the EU GSP regime that would benefit Bangladesh. Given that several other LDCs are in the process of graduation, coordinated efforts could enhance the chance graduating LDCs having an extended transition period from EBA and/or more liberal GSP+ provisions, including continuation of the EBA ROO for graduating LDCs.

If GSP+ or an equally favourable scheme cannot be secured, striking a free trade agreement (FTA) could be an option, if the EU is interested. Although market size in Bangladesh may appear to be too small for the EU to find it worth considering for a negotiated deal, it is growing rapidly. Given the medium-term growth outlook, Bangladesh's economy is set to grow bigger than US$500 billion by 2025. According to recent PricewaterhouseCoopers projections, Bangladesh would be the 28th largest economy by 2030, in terms of GDP measured in purchasing power parity (PPP) dollars.[29] Another important feature that makes Bangladesh an attractive partner for an FTA is its robust economic growth, accompanied by a highly protected trade policy regime. Indeed, it has been shown that, except for just

one, no country had applied an average tariff rate higher than Bangladesh and yet achieved higher average growth (Razzaque, 2017). A growing market shielded by high tariffs provides preferential partners with a large competitive advantage (over others that 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 like Bangladesh, with very limited trade negotiation capacity and no bilateral FTA with any other country. In the run-up to LDC graduation, serious attention should be given to considering all options for securing a favourable market access in the EU and mobilising capacities for immediate proactive engagement with all relevant stakeholders.

1.5.2 Industrial upgradation for moving up the global value chains

One element of an adaptation strategy should include industrial or economic upgradation to move up the value chain. This may not be feasible at a large scale, but many leading firms will have the necessary capabilities for product and process upgradation. Product upgradation involves the production of complex items, whereas process upgrading requires advancing production methods in combination with using a skilled workforce. Bangladesh has some capacity in the textile industry, improved capacity of which can help upgrade the garment sector 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.

Review of country experiences by Fernandez-Stark et al. (2011) reveals that, in upgrading into design and branding, a strong commitment to industry growth by both the public and the private sectors is needed to develop the necessary talent and establish a national brand. They also find that successful workforce development for higher stages in the value chain have leveraged knowhow in the developed world by engaging foreign universities in successful apparel countries to help design curricula for local programmes and hiring foreign consultants to develop in-house talent. According to Fernandez-Stark et al., rather than relying solely on learning through experience, fostering collaboration with successful training institutions in the developed world can speed firm-level learning for upgrading. Shortage of specialised professionals and skilled workers in Bangladesh is known to be a severe problem for export-oriented firms, including the apparel sector. Industrial upgradation therefore must consider the need to develop the human resource base.

Industrial upgradation will also imply promoting competitiveness through technological upgradation. Deepening of capital-intensive production processes and automation has already marked garment-making activities in Bangladesh. Nevertheless, there is evidence that, in comparison with such comparators as Cambodia, China, India and Vietnam, the level of capital intensity in Bangladesh's garment industry is very low.[30] As export production technologies seem to converge, there exists considerable scope for improved labour productivity driven by more technology-intensive production processes.[31]

1.5.3 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 ensure adherence to various acceptable standards. As mentioned above, various initiatives in recent years have been implemented to improve work place safety standards and working environments (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.

1.5.4 Attracting foreign direct investment in the readymade garment sector

FDI can be a big boost to export growth and effective integration into GVCs. It can be instrumental in establishing direct contacts and business relationships with global brands and retailers in producing high-value items. FDI firms are known to secure higher unit value prices for export products. Skill upgradation, productivity improvement, positive spillover effects arising from knowledge and technology transfers and better management practices are some of the direct impacts of FDI participation. The spillover effects can also benefit local firms, facilitating their industrial upgradation and enhanced participation in GVCs. Among others, a weak investment climate and a high cost of doing business discourage FDI inflows into Bangladesh. Since 2000, while the yearly average FDI inflow 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, the comparable figure for Bangladesh has been less than 1 percent.[32] Attracting foreign investment into Bangladesh's RMG sector should thus constitute a policy priority in preparation for LDC graduation.

1.5.5 Tackling the cost of doing business to boost competitiveness

There are certain areas where 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. Weak and inadequate infrastructure in conjunction with inefficient inland road transportation and trade logistics contributes to longer lead times and a high cost of doing business, undermining competitiveness.[33] Congestions in the country's main economic corridor, the Dhaka-Chattogram highway; limited containerisation and inefficient handling and management of containers; intricate customs processes; and inadequate port infrastructures all add to trading costs.[34] 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.[35] Improvements in these areas thus can substantially help recoup a part of the lost trade preferences.

1.6 Conclusion

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

However, LDC graduation also gives rise to concerns about potentially sizeable economic costs as a result of 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 $20 billion. In the global clothing value chain landscape, Bangladeshi firms operate mainly in the low-value added segment of cutting and making of apparels, with the principal source of its competitive advantage being the low wage costs of labourers. 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 export response of the preference-receiving countries. In this context, application of a partial equilibrium model, developed as part of the Commonwealth Secretariat's analytical framework in understanding the potential implications of LDC graduation, shows that loss of tariff preferences in the EU could result in a potential export loss of more than US$2 billion for Bangladesh.

It is worth pointing out that the methodological approach and results reported have certain caveats. Analytical frameworks are simplified representations of the realities, failing to capture many complex interactions involving the demand and supply sides. When the Multi-Fibre Arrangement (MFA) quotas were abolished from global trade in 2005, many analysts predicted huge business losses for Bangladesh, in sharp contrast with an eventual acceleration in its export growth. Considering post-graduation prospects, an 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. As such, long-established supply sources in Bangladesh may not be replaced overnight. If EU importers have benefited out of Bangladesh's duty-free access, they may not have alternative and equally lucrative sourcing opportunities elsewhere. Other LDCs and

developing countries enjoying EBA or GSP+ preferences currently do not have such large supply-side capacities as Bangladesh.

Notwithstanding, there is no denying that loss of preferences will trigger serious pressure on Bangladesh's competitiveness. There are certain measures the country 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 GSP+, 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 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 transportation and weak governance. Any improvements in these areas can contribute to improved competitiveness of exporting firms.

Going ahead, informed policy-making and Bangladesh's preparation for smooth graduation can be aided by several timely and gap-filling analytical studies. These include, among others, analyses of distribution of rents between suppliers and importers from tariff preferences 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 pressure; 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 global apparel market shares by different suppliers; automation and deepening of capital-intensive techniques and implications for development outcomes and industry competitiveness; and implications for different types of possible post-graduation trading arrangements with the EU.

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Notes

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1 LDC graduation 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 achieved graduation qualification by satisfying all the three thresholds. An "income-only" graduation rule is also provided, under which, if the three-year average per capita gross national income (GNI) 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 LDC graduation can be found in Razzaque (2018a).

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

4 The EPI has three components: exporters' supply capacity of a product, demand conditions and bilateral "easiness" to trade. An exporter's supply capacity is estimated as a dynamic version of market share where 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 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 is enjoying duty-free access, there could be various reasons for its not being able to exploit the EU market fully. These include underdeveloped trade infrastructure, difficulties

in complying with standards, quality and preferences of consumers and any other barriers in developing relationships with buyers/importers.

6 Bangladesh has not ratified just one of the twenty-seven international conventions. As regards condition 2, Bangladesh's current share in all GSP-covered imports is more than 16 per cent – much higher than the 6.5 per cent threshold. Finally, more than 90 per cent of Bangladesh's exports to the EU are in woven and knit garments, comprising just one section of GSP-covered imports.

7 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). The most likely reason for the remaining 4 per cent exports' not availing of the preference is not fulfilling the ROO provisions.

8 The local value added to qualify for preferential treatment would increase from 30 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+ treatment products must go through double transformation (i.e. from cotton to fabric to clothing).

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

10 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. However, in the GTAP model, just one aggregate sector of textile and wearing apparel is used, unlike the trade data at a highly disaggregated level utilised here.

11 This analysis does not consider the fact that LDC graduation could lead to more stringent ROO, with impacts on woven garments, as discussed earlier.

12 This is one key advantage of partial equilibrium models, in which implications by individual products can be evaluated.

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

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

15 The issue of low value addition in proportion to 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 large 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.

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

17 For instance, the measurement units are often in kg and m^2 equivalents. For garment items, prices in these units generally will not make much sense. Empirical work using these data focuses mainly on determining the changes in variations in these data rather than comparing prices across countries. Another problem with these data are that they can be very noisy over time, given, among others, the possible substantial changes in quality mixes even within a specific category.

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

19 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, 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.

20 At SITC-4 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.

21 The IMF/UKAid export quality database provides information until 2014 only.
22 It needs to be pointed out that data used for the EU-specific unit value analysis do not explicitly consider varying qualities. However, following Reis and Farole (2012), 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 has been 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.
23 Some of the biggest brands that produce in Bangladesh are Benetton, C&A, Carrefour, H&M, JCPenney, Levi's, Gap, Walmart, Target, Tesco and Zara.
24 For example, see the Asia Inspection Global Sourcing Survey 2018, at https://s3.asiainspection.com/images/news/2018Q1/AI_Q1_2018_Barometer_survey_results_Jan2018.pdf accessed on 6 November 2018.
25 Since the collapse of 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, local and international NGOs and development partners to improve workplace safety in Bangladesh's RMG sector.
26 They elaborated that their current profitability per season was very low. They can stay afloat only because they receive orders for three seasons.
27 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.
28 As mentioned earlier, if Bangladesh does not qualify for GSP+, it will be eligible for the Standard GSP scheme, which is much less attractive. The Standard GSP tariff rate on apparels in most cases will be 9.6 per cent (as against zero in all apparels-related tariff lines under EBA and GSP+) in comparison with an MFN rate around 12 per cent. Moreover, eligibility of most developing countries in Standard GSP means there cannot be any gains in competitiveness.
29 In 2030, Bangladesh GDP is projected to reach US$1.34 trillion PPP, while by 2050 it would grow further to $3.06 trillion PPP to become the 23rd largest in the world. Along with the overall economic growth, Bangladesh is experiencing rapid expansion of the middle class, with its rising disposable incomes and high propensity to spend on a new and wide range of products and services. According to one estimate, in 2017 the consumer goods sector had grown 9 per cent to $3.4 billion.
30 Razzaque and Dristy (2018) estimate that, as against of 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, respectively, 59 and 75.
31 This could, however, imply that employment opportunities in the sector would diminish. In fact, the impact of automation and more capital-intensive production processes has already been experienced. For instance, as Razzaque and Dristi (2018) point out, between 2010 and 2016, Bangladesh's clothing exports more than doubled, from US$12.5 billion to $28 billion, but jobs in the sector grew only marginally, from 3.6 million to 4 million. Going forward, the garment industry will have to grow at a much faster rate to generate a modest expansion in employment.
32 FDI stock as a percentage of GDP for Bangladesh, at 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.
33 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.
34 World Bank (2016) provides a detailed analysis of these issues.
35 It may 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 2019).

Annex 1.1

Table A1.1 Bangladesh's total and RMG exports to the EU

Economy	Total exports (US$ millions)	RMG exports (US$ millions)	Share of RMG in total exports (%)	Share in total exports (%)	Share in 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' using data from EPB.

Table A1.2 Major export items of Bangladesh to the EU

HS code	Product description	Exports to EU (US$ millions)	Total exports (US$ millions)	Share in exports by product (%)	Share in RMG exports to EU (%)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	3,833.4	5235.8	73.2	17.90
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	2,912	5399.6	53.9	13.60
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	1,777.9	3095.7	57.4	8.30
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted	1,618.9	2393.5	67.6	7.56
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted	1,528.1	2096.7	72.9	7.13
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets	841.5	1851.5	45.5	3.93
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted	793.6	1015.7	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, incl. knitted or	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	279.4	395.2	70.7	1.30

(*Continued*)

Table A1.2 Major export items of Bangladesh to the EU (*Continued*)

HS code	Product description	Exports to EU (US$ millions)	Total exports (US$ millions)	Share in exports by product (%)	Share in RMG exports to EU (%)
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
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 using data from ITC.

Table A1.3 Selected countries' shares in extra-EU apparel imports (%)

	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
USA	1.26	1.80	0.96	0.65	0.56	0.57	0.49

Source: UN Comtrade and ITC.

Table A1.4 Product-wise loss in Bangladesh's exports to the EU

CN 8-digit code	Product description	Exports to EU (US$ millions)	EU imports from world (US$ millions)	Market share of Bangladesh	MFN tariff	GSP tariff	Potential decline in exports (US$ millions)	
							Under MFN	Under GSP
61091000	T-shirts, singlets and other vests of cotton, knitted or crocheted	3,146.8	1,2831.2	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
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

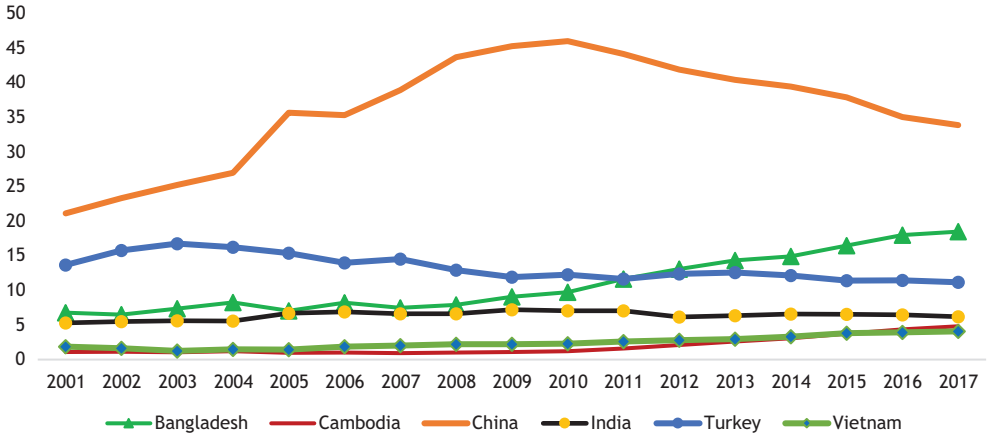
(*Continued*)

Table A1.4 Product-wise loss in Bangladesh's exports to the EU (*Continued*)

CN 8-digit code	Product description	Exports to EU (US$ millions)	EU imports from world (US$ millions)	Market share of Bangladesh	MFN tariff	GSP tariff	Potential decline in exports (US$ millions)	
							Under MFN	Under GSP
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	−12,14.8

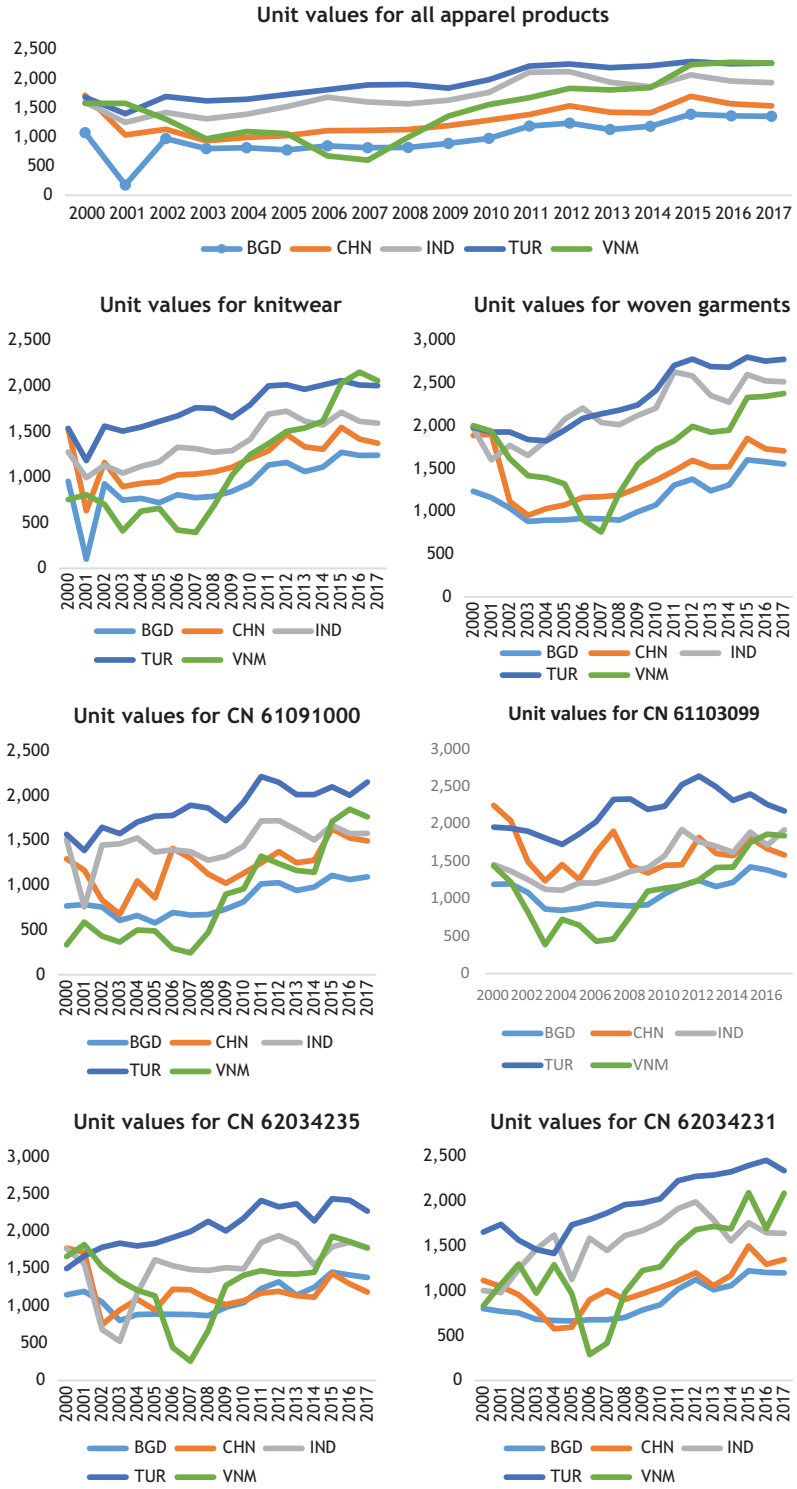
Source: Authors using data from EU Comext.

Figure A1.1 EU apparel market shares (extra-EU) by selected suppliers (%)



Source: Authors using data from ITC.

Figure A1.2 Comparison of unit values for apparel products exported to the EU by different exporters



Source: Authors using data from EU Comext.