

Free Trade Agreement (FTA): Possible Benefits and Challenges in Negotiating and Implementing FTA by Bangladesh

Mohammad Abu Yusuf¹, Rokeya Fahmida² & Kowser Nasrin³

ABSTRACT

Bangladesh is set to graduate from Least-Developed Country (LDC) status in 2026. After graduation from LDC status, Bangladesh will lose duty-free quota-free (DFQF) market access to export markets. Bangladesh's export performance and robust economic growth record in recent times will be threatened due to the loss of preferential market access. The objective of this paper is to find the possible benefits, challenges and needed policy interventions for Bangladesh to sign and implement Free Trade Agreement (FTA) under Regional Trade Agreement (RTA) Policy 2022. A qualitative research design was applied for the study/evaluation. A mixed method of data collection has been followed where data from both primary and secondary sources have been collected. The study reveals that FTA results in preferential market access for exportable goods, attracting Foreign Direct Investment (FDI) and economic development. Lack of negotiation skills, possible revenue loss involved with FTA, resistance by industry groups, the unwillingness of counterparts to sign FTA with Bangladesh and geo-political sensitivity are major challenges at negotiation stage. Limited product basket, inadequate compliance and Non-Tariff Barriers (NTBs) are the major challenges at the implementation stage. Enhancement of negotiation skills, lower dependence on customs duty and generation of more revenues from other sources, political commitment, obtaining private sector support through inclusive approach, and proper coordination among agencies are found necessary for the successful negotiation of FTAs while diversification of export basket and facilitation of trade, and improved standards and certifications for compliance are vital to confronting implementation challenges.

Keywords: Duty-free Quota-free, FDI, FTA, Least Developed Country, Non-Tariff Barrier, Product diversification, Regional Trade Agreement, Rules of Origin

INTRODUCTION

Bangladesh is a Least Developed Country (LDC). Its balance of trade is negative with an import volume of USD 87 billion⁴ in 2021-22 and an export volume of USD 60.97 billion in 2021-22 (Export Promotion Bureau 2022). Export is important for Bangladesh

¹Additional Secretary, Finance Division, Ministry of Finance (email: ma_yusuf@hotmail.com)

²Director, Bangladesh Public Administration Training Centre, Savar, Dhaka

³Deputy Secretary, Finance Division, Ministry of Finance

to earn foreign exchange in meeting import bills, repay foreign debt and have adequate reserves to meet contingencies. Although Bangladesh exports a number of items, the ready-made garments (RMG) sector contributes more than 80% of total exports.

Bangladesh's export earnings have increased manifold over the last two decades due mainly to the duty-free quota-free (DFQF) facility given to Bangladesh as a least developed country (LDC) by trade partners. Thirty-eight developed countries including the USA, the EU, Turkey, Australia, Japan, Norway, Russia etc. provide DFQF market access to Bangladesh. Such DFQFs are the main contributing factor to Bangladesh's significant growth in exports (EPB 2022). But other factors such as customs bonded warehouse facility, comparative advantage in labor-intensive production and revealed comparative advantage⁵ than India and Vietnam were other export promotion factors.

Bangladesh is set to graduate from LDC status in 2026. After graduation, Bangladesh would lose preferential market access and other LDC-specific support measures. The loss of preferential market access is considered as the main impending challenge. In order to continue preferential market access, Bangladesh has issued regional trade agreement (RTA) policy in 2022 to sign free trade agreements. This Policy has elaborated the process to be followed in the successful negotiation of a new generation FTA containing among others, investment, IPR, trade facilitation, government procurement, e-commerce and environment (GOB 2022).

The article proceeds in six sections, beginning with Introduction in section 1. Section 2 contains literature review, followed by research design and methods of data collection in section 3. The findings on possible benefits and challenges of signing FTA and needed policy interventions to overcome the challenges are highlighted in section 4. Section 5 details analysis of research findings. Section 6 concludes the article.

LITERATURE REVIEW

Regional Trade Agreements (RTA) refers to any reciprocal trade agreement between two or more partners. These agreements need not have to be in the same region (WTO, n.d. 1). RTAs can be in any of the five broad forms: Preferential Trading Arrangements (PTAs), Free Trade Areas (FTAs), Customs Union (CU), Common Market (CM) and Economic Union (EU) (Raihan & Ashraf, 2017 p.2). Among these forms, FTA is the most popular form of RTA. FTA provides better market access through the reduction of barriers to trade and investment, brings FDI, improves business environment, leads to higher productivity and welfare through more efficient

⁴Goods exported: US\$52.08; Services, Merchanting and goods procured in ports export: US\$8.89 billion

⁵Bangladesh stands at the top in 11 of the HS 61 clothing products among selected countries. In many of the HS 61 clothing products, Bangladesh has a higher revealed comparative advantage compared to India and Vietnam (Kathuria 2018)

allocation of resources (Duong et al. 2021, Hitoshi 2009, OECD 2021). Atkin et al. (2018) found lower prices and greater product variety after setting up of supermarkets by foreign investors which consequently increased the consumer welfare by 6%. An FTA provides businesses and consumers improved access to a wider range of competitively priced goods and services, import of increased quality products, new technologies. FTA also results in trade creation (Berlingieri et al. 2018, Clausing 2001, Khanna 2014).

There is a growing trend of signing RTAs in the world. Till date, 577 trade agreements are notified (796 in force and inactive) to the World Trade Organization. Limited progress of trade liberalization under WTO contributed to the proliferation of FTAs to speed up liberalization (Lindberg & Alvstam 2012). But Bangladesh's performance in negotiating and signing FTA is less than satisfactory reflected in Table 2. The Theory of Competitive Advantage underpins the signing of FTA for gaining competitive advantage. FTAs reduce non-tariff obstacles, provide access to the international market and offer a competitive advantage to goods, services and investments and ultimately leading to higher per capita growth (Alghabbabsheh et al. 2022). However, FTAs may create trade diversion where less efficient supplies within a trading block may replace more efficient suppliers outside of the trading block. Given Bangladesh's high import tariffs (average 15.5%), signing an FTA with a large supplier will not only cause a huge loss of import revenue; it will also result in huge trade diversion (Mirdha 2022). Highlighting the downsides of PTAs/FTAs Bhagwati (2008) argues that free trade agreements may put smaller countries in a disadvantageous position as they find themselves bullied by the bigger "hegemons," such as the United States and European Union, to accept conditions contrary to their interest. One of his strongest examples of this is the inclusion of "agendas" such as labor and environmental standards and intellectual property enforcement that are unrelated to trade. These downsides of FTAs are applicable to Bangladesh as well. Bangladesh has been facing an uneven negotiation stance due to the demands for the inclusion of labour, environmental, and IP issues in the agreement by partner countries as disclosed by a majority of the respondents. Signing and notifying an FTA however, does not necessarily imply increased trade between the free trade agreement countries. The example of SAFTA is a case in point. Although SAFTA was expected to improve intraregional trade by 35%, The volume of trade and interstate mobility among SAFTA countries remained one of the lowest. Intraregional trade in South Asia accounts for about five percent of the region's total trade which is 50 percent in East Asia and the Pacific (World Bank 2018). Reasons for the low level of intraregional trade include: (1) man-made trade barriers and concomitant higher costs of trade within South Asia (2) Inclusion of major tradable items in Members' negative lists. (3) Interstate mobility is hampered by visa rules and (4) connectivity costs, and (5) a broader trust deficit (World Bank 2018, ADB 2009).

FTAs also pose threats to domestic industries by bringing 'increased competition' from imports. Improved coordination with domestic industry groups, the use of a

bottom-up approach to FTA consultations and a cautious opening will protect interests of domestic firms (Kawai & Wignaraja 2011).

Challenge in Negotiating an FTA

Possible loss of revenue due to the elimination of duty on imports is often seen as a barrier (The Financial Express 2012). Lack of adequate resources, and absence of diplomatic missions in the partner country often stall FTA negotiations. Resource diversion i.e. resources originally allocated to a certain negotiation are subsequently diverted to conduct other negotiations, and multiple parallel FTA negotiations by a country also reduce the success of FTA negotiation (Hamanaka 2020). Trade negotiation between high-and low-MFN tariff countries is also a threat to success in negotiation. As the country with low MFN tariff does not have any scope to undertake further cuts in duty rates, and the counterpart country also does not face a higher duty to put its request for further duty cut, the country with a lower MFN tariff does not have any bargaining chips. For example, if a negotiation is being conducted between Bangladesh and Singapore and Bangladesh already has say 5% MFN duty on goods 'X' for which Singapore has export interests to Bangladesh, there is no urgency for Singapore to request for duty cut on this item as the MFN duty rate is already very low. Bangladesh also cannot offer any meaningful duty cut on this item in return for a duty cut by Singapore on an item where Bangladesh has export interests to Singapore. The literature review suggests that Bangladesh is far behind compared with peer countries in signing of FTA as seen in Table 1.

Table 1: Number of RTAs/FTAs Notified to the GATT/WTO on 30 June 2022

WTO Member/country	Number of RTAs
Bangladesh	5
Cambodia (LDC)	7
Nepal (LDC)	3
Bhutan	4
Pakistan	10
Myanmar (LDC)	8
The Lao PDR (set to graduate in 2026)	9
Papua New Guinea (PNG)	6
Philippines	11
Solomon Islands (LDC)	6
Sri Lanka	6

Source: WTO, n.d. 2

The reasons for such underperformance in signing FTAs by Bangladesh with major export destinations are yet to be identified through any systematic research. This study aimed to explore the benefits of signing FTAs under RTA Policy 2022 with Potential Partners, the challenges in negotiating and signing FTAs and the interventions needed

to be successful in signing and implementing FTAs.

RESEARCH DESIGN AND METHODS OF DATA COLLECTION

Design

A research design involves collection, analysis and interpretation of relevant data. Qualitative semi-structured interviews were undertaken in August 2022 as this method helps researchers to generate ‘a detailed understanding and thick description of the phenomenon of interest’ (Shah & Corley 2006 p.1822). Signing of FTA involves complex and arduous process, and it involves many stakeholders. Qualitative data collected through interviews and FGD were preferred as such data aids in understanding the complex issue of negotiating FTA by coming in direct contact with diverse stakeholders (Creswell & Clark 2007).

Data Collection Sources and Techniques

The researchers used both primary and secondary sources for data collection. Data from primary sources were collected through in-depth interviews and Key Informant Interviews (KIIs) with relevant high-level officials. Following purposive sampling, interviews were conducted with officials/stakeholders. Informed Consent of the respondents was obtained before conducting interviews.

In-depth Interview

Fourteen in-depth interviews were conducted. The interviewees were purposefully selected based on their experiences, and interests in FTAs. Nine interviews were conducted in person while five interviews were conducted over the telephone during August 10-23, 2022. The in-depth interviews allowed the researcher to probe and get responses to the research questions.

The KIIs

In addition to the In-depth Interviews, five key informant interviews (KIIs) were conducted with senior officials of the Ministry of Commerce (MoC) and other relevant agencies of the government. They are knowledgeable and experienced in FTA negotiation and implementation of FTAs. KIIs were undertaken because they are the main source to obtain data and insight directly that cannot be obtained from others (Lee & Wakabayashi 2013). The KIIs provided a big-picture idea of the potential benefits and key challenges of FTAs.

Questionnaire

For conducting interviews, two sets of open-ended questions were used: One was used for In-depth interviews and the second one was used for conducting the KIIs.

Focus Group Discussion

An FGD was held with officials selected based on purpose. Two additional secretaries, three joint secretaries and two deputy secretaries from the FTA and Export wings of the MoC attended the FGD. The researcher moderated the FGD discussion. Participants in FGD were encouraged to express their points of view on the research questions. The researchers took notes during and just after the FGD when memories were fresh.

Relevant secondary documents such as journal articles, research reports, book chapters, seminar papers and publications of international bodies were reviewed for secondary information. Collection of data from both primary and secondary sources and from different levels of officials helped authenticity i.e., triangulation in data collection.

DATA ANALYSIS

Coding techniques have been used to organize large amounts of data (text) from interview transcripts. Coding is a method that enables one to organize and group similarly coded data into categories because they share some characteristic- the beginning of a pattern. First, each unit of data was assigned its own unique code (initial codes). Initial codes were identified from the texts. Then the initial codes were clustered together according to similarity and regularity called Pattern coding. Then the pattern codes were organized as Themes/Concepts following the coding manual (Saldana 2013) and knowledge gathered from the BPTAC Research Consultant Team of 102-SSC. The data were analyzed by applying the coding units.

FINDINGS OF THE STUDY

Possible Benefits of FTA under RTA Policy 2022

The possible benefits of FTA were gleaned from In-depth interviews (IDIs) with selected respondents, Key Informant Interviews (KIIs) and FGDs. The benefits of signing FTAs with trade partners as reported by IDIs include:

- One hundred percent (100%) of the KIIs stated that getting duty-free market access to goods and services was the main motive for signing FTAs.
- Fifty percent (50%) of respondents stated that FTAs attract FDI. In this respect, the essence of observations by respondents is: “FTAs give Bangladeshi exporters wider market access resulting in higher exports to FTA signing countries. FTA strengthens the FOREX position of the country and helps diversify products and markets.”
- About a third of the respondents mentioned that FTAs contribute to economic growth through enhanced trade and investment opportunities.

- Twenty percent of respondents noted that FTAs expedite reforms to meet commitments under FTA. In this regard, one respondent mentions that our Income Tax Law and Proposed Customs Act are yet to be enacted although a decade is almost gone” (Respondent 7).

With regard to the possible benefits of signing FTAs with trade partners, The KIIs reported that:

- FTAs with the major trade partners are necessary to overcome the immediate shocks of loss of market access to export markets after graduation from the LDC status (KII 2)
- New generation FTAs containing goods, trade in services, investment, labour, e-commerce would pave the export of services and attract FDI in Bangladesh. Such FDIs bring technology, help diversify products and markets and jump tariff wall of counterparts (KII 3).
- Bangladesh is engaged in negotiation with India, Indonesia, Nepal, Sri Lanka, Japan, Malaysia and a few other countries to sign FTA to sustain existing duty-free exports and find access to new markets (KII 2)
- FTAs with export partners will help poverty reduction by increasing exports. Our long pending reforms regarding procedural and domestic regulatory affairs will get momentum with the signing of FTA (KII 4)
- Proposed CEPA with India would boost both Bangladesh and India’s export earnings, GDP and investment (KII 5).

Despite their optimistic views in favour of signing FTAs, two KIIs however, took a different position stating that FTAs may result in few adverse effects such as trade diversion and procedural delays. One informant said that firms had to disclose sensitive information to the certificate issuing body to get Rules of Origin (ROO) certificate.

The main tone of the Focus group discussion was that FTA provides market access through reduced or duty-free export facilities, brings FDI, increases productivity, results in economic development and consumer welfare (FGD, 2022).

An analysis of the findings from IDIs, KIIs and FGD suggests a few common benefits of signing FTAs such as market access for exportable goods, paving export opportunities for services trade, attracting FDI, and promoting economic development. In the case of Bangladesh, FTAs are expected to create or sustain market access for Bangladesh’s exportable goods such as garments, leather items, jute and jute goods, agro-processed items, medicines, handicrafts in the post LDC graduation regime when there will be little or no DFQF facility. Such market access would widen export basket of Bangladesh. FTAs will also bring FDIs for Bangladesh because usually FTAs promote economic activity between countries.

Challenges During Negotiation of FTA

A majority (70%) of respondents suggested that the main challenge in negotiating FTA is the potential revenue loss and the reservations taken by the National Board of

Revenue (NBR) in agreeing to reduction of import duties. In this regard, a key respondent from the NBR observes:

About 30% of our total NBR revenue comes from import duty. NBR takes a conservative approach in agreeing to eliminate/reduce duty in signing FTA. For example, in negotiating PTA with Indonesia, NBR (nothi no. 1(3)/Shu: Aaa:baa: chu/Indonesia/2010/231 dt.09.12.2020) objected to duty elimination request for 250 tariff lines out of a request for 335 tariff line on revenue loss ground (Respondent 15)

About 60% respondents observed that domestic industry opposition against duty elimination is a major challenge to negotiate. One respondent put in:

In one instance during 2009/10, Bangladesh agreed to give duty-free facility to import Ferro Silicon from Bhutan. After signing the PTA, Bangladesh was forced to sit with Bhutan diplomatically and was able to convince them in taking out the item from duty-free list. (Respondent 4)

About 50% of the respondents stated after considerable progress in negotiation, FTA negotiation could not be concluded due to the unwillingness of the partner to include our export item in duty free list. In this regard, a focus group participant noted that, in the last stage of negotiation with Indonesia, signing of FTA became uncertain as they did not offer tariff preferences for RMG items, our main export item; rather Indonesia put RMG in their sensitive list (Respondent no 02. A KII noted:

New generation FTAs are comprehensive ones. Developed countries want inclusion of Investment, IPR, Government Procurement, Labour Rights, Environmental Issues in addition to tariff reduction. These are difficult for us to agree on (KII 9)

Lack of interest on the part of large countries/trade partners to sign FTA with Bangladesh also emerges as a great challenge in negotiation of FTA successfully. We at times, cannot provide DFQF access for export items of counterparts. For instance, Brazil & Argentina wanted duty free market access for their beef meat to Bangladesh; we could not agree as this will harm our livestock sector (KII-1). The participants in the FGD shared most of the challenges pointed out by the interviewees. However, one participant in the FGD added the following: “Lack of Best Alternative to a Negotiated Agreement (BATNA)” is a challenge for Bangladesh (FGD 2022).

It is thus apparent that the lack of sincerity in negotiating FTAs, (for fear of revenue loss, opposition by domestic industries due to fear of competition with foreign goods) exclusion of export interest goods from duty free coverage and inability to offer duty concessions on items demanded by negotiating partners are the major constraining factors in signing FTAs.

CHALLENGES DURING IMPLEMENTATION OF FTA

Limited export basket, inadequate standards and certifications and capacity constraints in meeting compliance requirements of buyers have been cited as the main challenges

by the respondents. The following are some of the excerpts of the respondents.

A majority of KIIs (90%) cited limited export baskets as the major challenge after signing of FTA. In this regard, a respondent observed:

Our basket of exportable goods is limited. Six items cover about 92 % of total exports. These are: RMG, Home textiles, Leather and leather goods, Jute and jute goods, Agro-processed items, and Frozen food. China gave us duty free facility for 98% of tariff lines. But we could hardly utilize the preferences due to limited export basket (Respondent 1)

Poor standards and certification regimes were also identified a major challenge in exporting goods under FTA. Elaborating on Inadequate standards and Sanitary and Phytosanitary (SPS) certifications, another KII notes:

We cannot take full benefits of FTA due mainly to poor food safety standards, lack of internationally accredited testing lab certifications and lack of good agricultural practices. For example, Sweden recently suspended import of Bangladeshi puffed, and chinigura rice dueto the presence of two chemicals – carbendazim and tricyclazole, elements found in pesticides –exceeding the allowable limits (Respondent 7).

A KII from the public sector shared his view:

There are high import duties and para-tariffs on manufactured goods like footwear, ceramic, toys, plastics etc. Manufacturers of these goods see more profit from selling in the domestic market than exports. Such anti-export bias is a hindrance to product diversification. (KII 3)

With regard to our services sector, a majority of the respondents (60%) said there is a lack of synchronisation among rules of different government agencies while one-third of the respondents noted that they do not know which service sectors are ready to open. In addition to the aforesaid responses, two respondents stated Bangladesh cannot fully utilize DFQF market access due to NTBs including non-acceptance of certificates issued by Bangladeshi labs and BSTIs.

POLICY INTERVENTIONS

The following policy suggestions have been found from the in-depth interviews, KIIs and FGD:

Reduction of NBR dependence on Import duty: A majority of the IDIs, KIIs and participants in the FGD observed that the dependence of NBR on import duty has to be largely reduced to get NBR on board to agree to FTA signing. Import duty has to be gradually rationalized to reduce it. The common tone of the respondents was that NBR must generate more revenues from direct tax and VAT to be agreeable for signing FTA. Collection from Non-Tax Revenues (NTR) will also have to be scaled up.

Product diversification: A majority of the respondents from the KIIs and FGD emphasized product diversification to get maximum benefits from FTAs (KII 1). For

product diversification, culture of R&D, more public money for R&D, providing Customs bonded warehouse facility to all export sectors, equitable tax measures and technical facility in the form of Common Facility Centre (CFC) will be essential.

Coordination: A majority (66%) of respondents stated that agencies do not coordinate with each other to overcome the challenges in implementing FTAs. Coordination among government agencies is needed to bring NBR, MoC, MoI and MoA on board and sign and benefit from FTAs.

Rationalisation of Tariff Regime: About two-thirds of the participants stated that Bangladesh should first rationalize its tariff regime before signing FTA. The gradual rationalization of tariff regime downward will make it easy for the industry and revenue department to absorb the sudden shock on domestic industry protection or revenue loss respectively.

Political Commitment: With regard to the lobby and opposition by industry groups, two-thirds of the respondents asked for strong political commitment to proceed with FTA for the greater interest of the country. The private sector respondent (from the FBCCI) however opined that inclusion of private sector experts in the negotiation team and enhanced credibility of the public officials in upholding business interests will be key to overcoming industry opposition.

In addition to the aforesaid policy interventions, a negligible percentage of respondents emphasized the necessity of setting up origin management systems for origin claims and FTA facilitation centre.

Overall, a majority of the respondents felt that Bangladesh should widen export baskets and diversify products and markets. They also emphasized capacity development of trade agencies including BSTI, DAE, testing laboratories and private sector to meet compliance requirements. Testing Labs have to be set up by the private sector and accredited by BAB to access export markets. Based on the findings, the following conceptual framework has been designed. This framework largely conforms to literature.

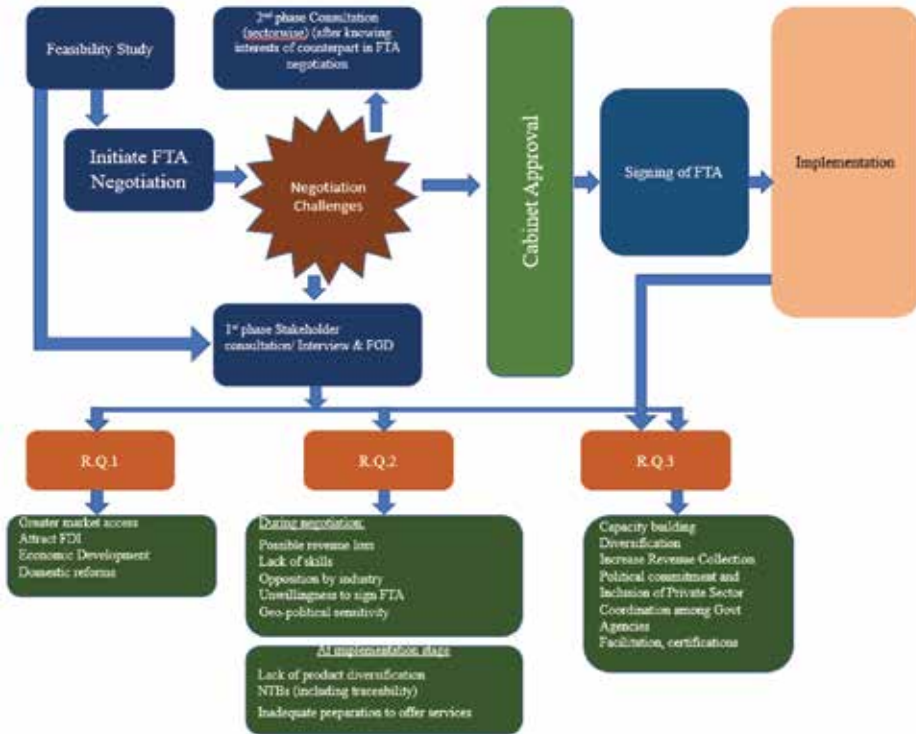


Figure 1: Conceptual Framework

ANALYSIS OF FINDINGS

Potential Benefits of FTA

Following coding techniques as discussed in the methodology section, the following potential benefits of FTA have been found. These are shown below in coding analysis format in Figure 2.

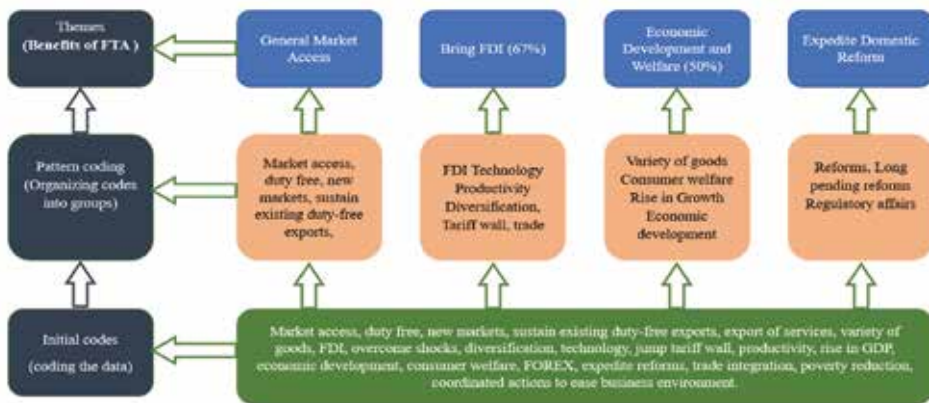


Figure 2: Thematic Analysis of Potential Benefits of FTA

The perceived benefits of FTA as found through interviews and focus group discussions are shown in Figure 3.

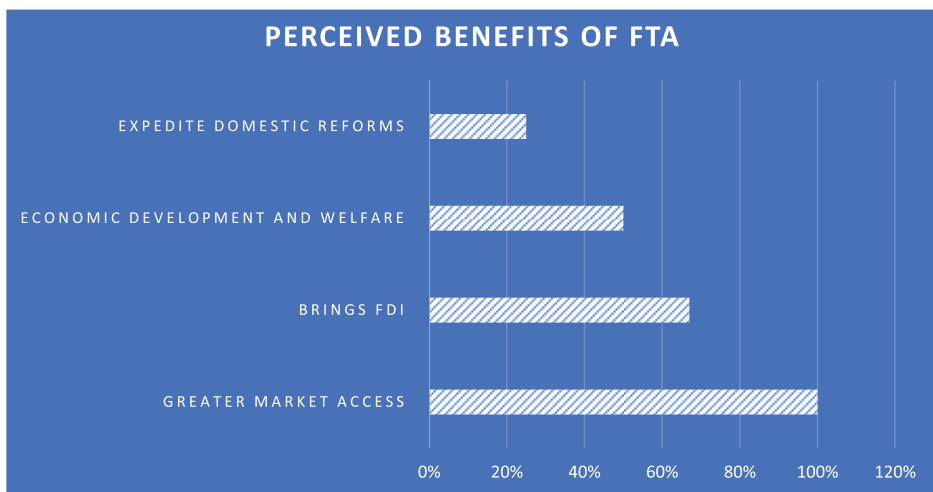


Figure 3: Perceived Benefits of FTA
Source: Interview and FGD findings, 2022

These benefits are Greater Market Access, bringing FDI, promoting economic development and expediting domestic reforms. These findings on benefits of FTA are largely in agreement with the literature (Berlingieri et al. 2018, Kawai & Wignaraja 2011, Alghabbabsheh et al. 2022, Khanna 2014, Eckhardt & Wang 2021). However, for Bangladesh, the urgency shown by the authority to sign FTAs is largely motivated by the desire to sustain duty-free market access by making up the feared preference erosion after graduation from LDCs status in 2026. In this regard, it seems pertinent to mention that Bangladesh often faces difficulty in signing FTA because partner countries demand FTAs to cover not only goods and services but also to cover investment, competition, IPR, labour and environment. Bangladesh is not yet fully ready to offer market access or concessions in these areas. Bangladesh currently has few limited scope trade agreements such as PTA with Bhutan and D-8 Member countries, but no bilateral FTAs. The only FTA is the regional one called SAFTA.

CHALLENGES DURING NEGOTIATION

The following are the major challenges (Table 2) that Bangladesh faces during negotiation of FTAs.

Table 2: Challenges during FTA negotiation

Challenges	% of Respondents
Possible Revenue Loss and reservations by NBR	100%
Industry Opposition	70%
Lack of Negotiation Skills and BATNA	67%
Unwillingness to sign FTA by counterparts	60%
Geo-political sensitivity	40%
Export destinations and import sourcing are different	35%

Source: Primary data, 2022

Possible Revenue Loss: The possible revenue loss of the NBR and its consequent conservative position against duty elimination under FTA is the biggest challenge in FTA negotiation. This is a typical finding in the case of Bangladesh not supported by literature.

Industry Opposition: Industry group opposes negotiation of FTA for the //fear of facing import competition. They do not want their sector to be opened under FTA because of their fear of “renewed competition” after the signing of FTAs. This finding is at variance with literature review. The reason may be that Bangladeshi domestic industries are long shielded from import competition by high import tariffs and they do not want to face competition from foreign goods.

Lack of Skills and BATNA: Trade negotiators of Bangladesh lack skills, experience and training in international trade negotiations especially in negotiating

new generation FTAs. The frequent rotation of officials in FTA wing of the Ministry of Commerce, Bangladesh appears to be a contributing factor towards lack of institutional memory and poor negotiation skills. Additionally, given the reality of trade in goods only (with low ability to offer services, IPR protection, labour and investment etc.), Bangladesh has a low BATNA. It is argued that how parties perceive the alternatives to a negotiated settlement affects their behaviour (Odell 2009).

Unwillingness of partners to sign FTA: The study finds that potential partners at times show their unwillingness to sign FTA due to lack of trade complementarity and reluctance to open a particular sector. For instance, Charles Whiteley, the EU Envoy to Bangladesh, believes a Free Trade Agreement (FTA) between the EU and Bangladesh is unlikely anytime soon. It is not imminent because ‘the degree of complexity, the wide-ranging nature, the development stage of our trade relations with Bangladesh is not yet at the stage of any genuine interest on the EU side to negotiate an FTA’ (The Business Standards 2022).

Geo-Political Sensitivity: Geo-Political issues at times discourage to negotiate FTA. For instance, signing FTA with India may be politically sensitive domestically due to lack of trust. Signing FTA by Bangladesh with Russia may not be seen positively by the USA. This challenge featured prominently in this study has scant reference in literature.

Export Markets and Import Sourcing Countries are Different Destinations- Bangladesh’s main export destinations are USA, EU, and few other countries. On the other hand, India and China are its major sourcing countries. Due to the lack of mismatch between destinations of Bangladesh exports and sourcing country of Bangladesh imports, Bangladesh cannot strike a balance through ‘give and take’ approach in negotiating FTA. This is because the givers (importers of Bangladesh Goods) and takers (exporters to Bangladesh) are different.

CHALLENGES DURING IMPLEMENTATION OF FTA

Coding Analysis of findings suggests that lack of product diversification, NTBs, inadequate preparation to the services sector and anti-export bias are the major implementation challenges.

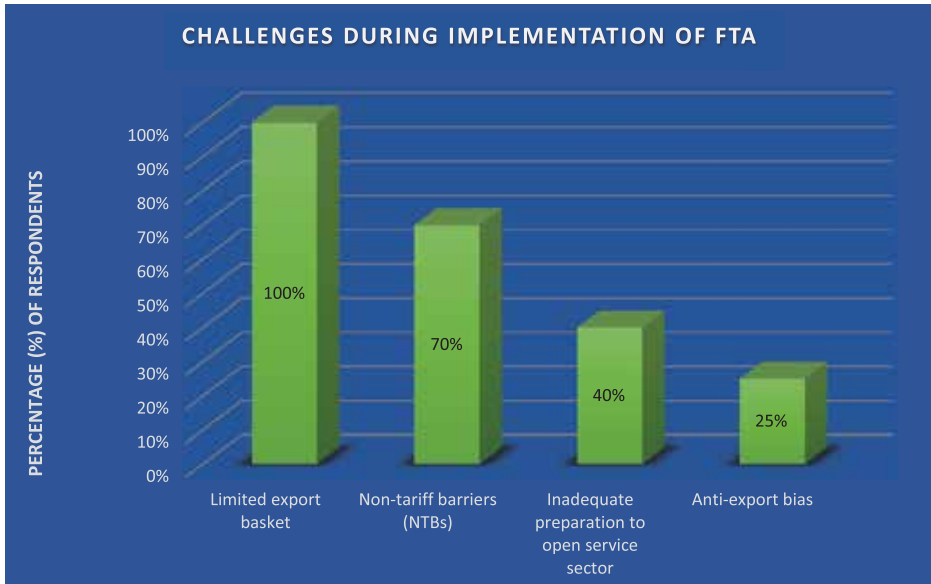


Figure 4: Challenges in Implementation of FTAs

Source: Developed by authors from primary data

Limited Export Basket: Limited export basket is the main challenge during implementation of FTA. More than 80% of Bangladesh exports constitute of garments items. Only 6 items cover 92% of total exports. Lack of diversification and anti-export bias seem to have resulted in limited export items.

NTBs: Domestic NTBs and NTBs by counterparts act as barriers to reaping the benefits of FTAs. Lack of ability of Bangladeshi exporters to meet SPS requirements of buyer countries, delay in the promulgation of proper Statutory Regulatory Orders (SROs) as per provisions of FTA also pose threats to exploit the duty preferences and make the exportable products unacceptable to the foreign importers.

Inadequate preparations to benefit from preferential access to our services: Regulations of different departments contradict at times and are not synchronized to open the services sector. More importantly, even if Bangladesh is given access to export services, she lacks accreditations, certifications, and skills to export services. Our doctors and nurses' qualifications are not accepted in developed countries.

Anti-Export Bias: This study finds (25% of respondents) that Bangladesh trade policy provides adequate protection to manufacturers through high import tariffs. Manufacturers have propensity to cater to domestic market rather than to export as earning revenue by serving domestic market is lot easier than exporting.

The implementation challenges revealed in this study are peculiar to Bangladesh and not alluded to literature.

SUGGESTIONS FOR POLICY INTERVENTIONS

Analysis of the findings using coding system (as briefly discussed in methodology section) makes it clear that there are six major areas where policy interventions are needed for successful negotiation and implementation of FTA. Table 3 highlights the possible policy interventions.

Table 3: Suggestions for Policy Intervention

Policy Interventions	% of Respondents
Capacity building of negotiating team	55%
Reduce dependence on Import duty by NBR and Increase revenue from alternative sources	40%
Political commitment and inclusion of private sector in negotiation	55%
Product and market diversification	67%
Facilitation of trade, improved standards and certifications	40%
Coordination among Government Agencies	60%

WAY FORWARD TO ADDRESS CHALLENGES DURING NEGOTIATION OF FTA

Capacity Building of Negotiation Teams

Retention of officials in FTA wing for longer tenure, honing their negotiation skills and exposure will result in better outcomes in FTA negotiation. Experience in FTA negotiation will help them to know the interests of the counterpart, identify alternatives and find a common ground for successful outcome in FTA negotiation.

Increase Revenue from Direct Tax, and NTR

NBR needs to develop capacity to increase revenue from direct taxes, expansion of tax net and plug tax evasion. An integrated NBR where VAT, Customs and Income Tax Authority will have access to the same information of taxpayers, will help prevent duty/tax evasion and increase Tax: GDP ratio. Increased collection of direct Tax and Non-Tax Revenue (NTR) may ease NBR’s concurrence for FTA. Additionally, tax exemptions and holidays have to be gradually reduced to augment the revenue collection of the NBR.

Political Commitment and Inclusion of Private Sector

Adequate political commitment to negotiate FTA is inevitable to conclude FTA. Inclusion of private sector in negotiation process has been advocated for successful negotiation of FTA. If the private sector gets the credible message that global market will be opened for their products after FTA, their opposition to FTA would lessen.

POLICY SUGGESTIONS TO ADDRESS IMPLEMENTATION CHALLENGES

Diversification of Products and Market

All the respondents emphasized the importance of diversification of products and markets to utilize the benefits of FTA. Attracting FDI, incentives for innovation and extension of customs-bonded warehouse facilities to all export sectors have been cited to be the main way to promote product diversification. Diversification is also needed within the RMG sector because 65% of total RMG exports are concentrated in 5 items (FGD held on 21 Aug 2022). Realising the importance of innovation for product diversification, the FBCCI has asked the government for Tk. 100 crore to set up an innovation centre (Haq 2022). Setting up such facility at 50:50 ratios may provide better results and ownership. Providing customs-bonded warehouse facilities to other export sectors with similar facilities given to the RMG sector and bringing FDI are critical for product diversification.

Facilitation of Trade, Standards and Certifications

Bangladesh faces number of NTBs in exporting goods. This study reveals that the NTBs have to be confronted through better compliance of SPS measures, implementation of Trade Facilitation Measures and capacity development of trade agencies. The study also suggested that obtaining required product certifications and meeting quality standards of FTA partners would promote exports. This is consistent with the literature (Tröster et al. 2019). The significance of product certifications for exports can be explained with an example. International certification namely Leather Working Group (LWG) certificate is a must to export leather goods to the USA, EU and other markets. Seventeen conditions are to be fulfilled to get LWG certificate. Bangladesh is yet to get this LWG certificate.

Coordination among Government Agencies

Coordination and alignment of different laws/regulations of different Ministries are inevitable to implement FTA. Regulations concerning FDI and services trade have to be streamlined to ease regulatory burden and improve overall investment climate. For example, Bangladesh has legal restrictions on more than 40% foreign ownership in freight forwarding licenses (SRO-18-ain/2008/2174/shulkadt. 23 Jan 2008). This restriction on FDI in logistics sector needs to be reconsidered to attract FDI.

It is also possible to convert low BATNA into high BATNA by attracting FDI, skill development and technology from agents of export diversification such as from Japan and South Korea. This will promote export diversification of Bangladesh, and capacity of Bangladesh to be more comfortable in negotiating FTAs.

CONCLUSION

This study reveals negotiation skills, huge potential revenue loss, industry opposition by the private sector, non-forthcomingness of FTA partner countries, lack of readiness to sign comprehensive FTA and low level of ‘Best Alternative to a Negotiated Agreement’ are the main challenges in FTA negotiation. Implementation challenges include lack of product diversification and non-tariff barriers. These are new insights in the context of Bangladesh. Given Bangladesh’s poor track record in signing FTA, it seems critical to look into the successive development policies of the target countries (for signing FTA) for a considerable period of time and analyze the policy shift of these countries.

This study provides some policy implications to overcome the challenges in negotiation stage of FTA and in implementation stage of FTA. Capacity development of the negotiation teams, reduction of dependence on import duties by NBR through generation of more revenues from direct tax and VAT, obtaining private sector support through inclusive approach and a whole of government approach are imperative for successful conclusion of FTA. Bangladesh also needs to undertake reforms for ease of doing business and gradually enter into intellectual property rights regime to attract trade partners to sign FTA. Diversification of export basket and improvement in capacity for compliance including meeting SPS requirements, and mutual recognition of certificates will help overcome challenges at implementation stage.

Future research on the identification of service sectors that Bangladesh may offer for opening, reasons for Bangladesh’s poor track record in concluding FTAs and possible measures to overcome the challenges in signing FTA would provide significant insights for the policymakers.

REFERENCES

- Alghabbabsheh, TG, AlSaif, SS, Islam, MS, AlShammari, TS & Mahmoud, A.M 2022 ‘Have bilateral free trade agreements (BFTAs) been beneficial? Lessons learned from 11 U.S. BFTAs between 1992 and 2017,’ *PLoS One*, vol. 17, no. 4, p.e0264730. doi:10.1371/journal.pone.0264730.
- Atkin, D, Faber, B & Gonzalez-Navarro, M 2018, ‘Retail Globalization and Household Welfare: Evidence from Mexico,’ *Journal of Political Economy*, vol. 126, no.1, pp. 1-73. doi:10.1086/695476
- Asian Development Bank, 2009 *Study on Intraregional Trade and Investment in South Asia*.

- Berlingieri, G, Breinlich, H & Dhingra, S 2018, 'The impact of trade agreements on consumer welfare—evidence from the EU common external trade policy,' *Journal of the European Economic Association*, vol. 16, no. 6, pp. 1881-1928.
- Bhagwati, J 2008 *Termites in the Trading System: How Preferential Agreements Undermine Free Trade*, New York: Oxford University Press.
- Clausing, KA 2001 'Trade creation and trade diversion in the Canada–United States free trade agreement,' *Canadian Journal of Economics*, vol. 34, no. 3, pp. 677-696.
- Creswell, J & Clark, VLP 2007, *Designing and Conducting Mixed Methods Research*, Thousand Oaks, CA: Sage Publications Ltd.
- Duong, M, Holmes, MJ & Strutt, A 2021, 'The impact of free trade agreements on FDI inflows: the case of Vietnam,' *Journal of the Asia Pacific Economy*, vol. 26, no. 3, pp. 483-505.
- Eckhardt, J, & Wang, H 2021, 'China's new generation trade agreements: Importing rules to lock in domestic reform?,' *Regulation & Governance*, vol. 15, no. 3, pp. 581-597.
- Export Promotion Bureau (EPB) 2022, *Market Access Facilities*, <<http://www.epb.gov.bd/site/page/7bd7d4d7-cdba-4da3-8b10-f40da01e49b6/Market-Access-Facilities>> Accessed 04 September 2022.
- Government of Bangladesh (GOB) 2022, 'Regional Trade Agreement (RTA) Policy, 2022 Ministry of Commerce Notification', *Bangladesh Gazette*, Additional Number, 12 June, Bangladesh Government Press
- Hamanaka, S 2020, 'Why breakup? Looking into unsuccessful free trade agreement negotiations,' *International Politics*, vol. 57, no. 4, pp.634-662.
- Haq, M 2022 'FBCCI asks Tk. 100 crore to set up innovation centre,' *Daily Bonik Barta*, 13 August.
- Hitoshi, DH 2009 'Impacts of free trade agreements on business activity in Asia: The case of Japan', *Asian Development Bank Working Paper No. 143*, Tokyo: Asian Development Bank Institute. Available at <<https://www.adb.org/sites/default/files/publication/155998/adbi-wp143.pdf>>
- Kathuria, LM 2018 'Comparative advantages in clothing exports: India faces threat from competing nations,' *Competitiveness Review*, vol. 28, no. 5, pp. 518-540.
- Khanna, V 2014 'S'pore. US toast 10-year success of bilateral FTA: Agreement has demonstrated that free trade, investment benefit all countries: Tommy Koh,' *The Business Times*, 30 October.
- Lee, Y & Wakabayashi, M 2013, 'Key informant interview on antimicrobial resistance (AMR) in some countries in the western pacific region,' *Global Health*, vol. 9, no. 34, pp. 9-34.
- Kawai, M & Wignaraja, G (Eds.) 2011, *Asia's Free Trade Agreements: How is Business Responding*, UK: Edward Elgar Publications Ltd.

- Lindberg, L & Alvstam, CG 2012, 'The ambiguous role of the WTO in times of stalled multilateral negotiations and proliferating FTAs in East Asia,' *International Negotiation*, vol.17, no. 1, pp.163-187.
- Mirdha, RU 2022, 'CEPA with India Should be Partially Reciprocal,' *The Daily Star*, 27 July.
- Odell, J 2009, 'Three Islands of Knowledge about Negotiation in International Organizations,' *Journal of European Public Policy*, vol: 17, pp. 619-632. 10.1080/13501761003748534.
- OECD 2021, 'Sustainability impact assessments of free trade agreements a critical review,' *OECD Trade Policy Paper*, November.
- Raihan, S & Ashraf, F 2017, *Review of Bangladesh's Engagement in Preferential Trading Arrangements*, Available at <<https://www.unescap.org/sites/default/files/DA9-1%20Bangladesh%20PTA%20review%20-%20Raihan%20&%20Ashraf.pdf>>
- Saldana, J 2013, *The Coding Manual for Qualitative Researchers*, London: Sage Publications Ltd.
- Shah, SK & Corley, KG 2006, 'Building better theory by bridging the quantitative–qualitative divide,' *Journal of Management Studies*, vol. 43, no. 8, pp. 1821-1835.
- The Business Standards 2022, *No chance of FTA with Dhaka anytime soon: EU envoy*, 27 October.
- The Financial Express 2012, *NBR raises objections to FTA with KL*, 8 October.
- Tröster, B, Grumiller, Grohs, H, Raza, W, Staritz, C, & Von Armin, R 2019, 'Combining trade and sustainability? The free trade agreement between the EU and Vietnam,' *ÖFSE (Austrian Foundation for Development Research) Policy Note*, vol. 29, no. 20, pp 1-5.
- World Bank 2018, *South Asia can Triple Regional Trade by Removing Trade Barriers*, September 19, Available at <<https://www.worldbank.org/en/news/press-release/2018/09/19/>>
- WTO, n.d. 1, Available at <https://www.wto.org/english/tratop_e/region_e/scope_rta_e.htm>
- WTO n.d. 2, Available at <https://www.wto.org/english/tratop_e/region_e/region_e.htm>

