

# Govt plans direct air link with Myanmar

## Bid to boost exports

JASIM UDDIN KHAN

The government plans to introduce direct flight services with Myanmar to increase exports especially of pharmaceutical products to the southeastern Asian neighbour.

The commerce ministry will prepare a position paper soon to this effect and forward it to the council of advisers for approval.

The ministry will also make proposals for resuming border trade with Myanmar to facilitate trade.

A meeting with the related ministries, which include civil aviation and shipping, will be

convened soon to discuss the issue, sources said.

Myanmar is the country's third largest export destination for pharmaceutical products, ministry sources said.

Bangladesh exported pharmaceutical products worth \$1.7 million in 2005-06 against \$1.4 million in 2004-05 to Myanmar.

Bangladesh is currently exporting pharmaceutical products to 63 countries.

Bangladesh's ambassador in Yangon recently wrote to the government to consider introducing direct flight services and resuming border trade with Myanmar.

A recent visit of Foreign Adviser

Iftekhar Ahmed Chowdhury to Myanmar also focused on expanding trade between the two countries. During the visit, the two countries also discussed introduction of direct flight services and resumption of border trade.

During the visit, issues relating to foreign currency crisis and lack of banking facilities in Myanmar were also discussed. The problems hinder trade between the two countries.

The potential of trade between the two neighbours could not be utilised fully due to lack of direct flight services and stoppage of border trade operations, an exporter said.

## Int'l investors' confce ends on high note

### STAR BUSINESS REPORT

The first-ever international investors' conference ended yesterday with foreign institutional investors showing keen interest to invest in the country's pharmaceuticals, financial services and textiles sectors.

Along with local participants, managers in charge of billions of dollars of investment attended the two-day conference to learn about the Bangladesh's economy and its potential capital market.

Some 40 foreign institutional investors including world reputed Morgan Stanley, Fidelity Investments, Sumitomo Mitsui and Smith Asset Management and around 200 local institutions took part in the conference at Dhaka Sheraton Hotel. Citigroup and Dhaka and Chittagong stock exchanges jointly organised the conference titled 'Bangladesh - The New Investment Frontier'.

## Last leg of safe workplace fair begins

### STAR BUSINESS REPORT

In a bid to create awareness of safety, health and environment issues among the workers and factory owners, different safety-related products are being displayed at a two-day safe workplace and safety equipment fair in Dhaka.

The show, the third and final one of a series of 'Safe Workplace Fair 2007', began on Silverdale School premises at Wari in the capital yesterday and will remain open for all between 10am to 7pm today.

Strategica in cooperation with Better Business, a subsidiary of Katalyst, is organising the show. The Daily Star is the media partner of the event.

# Citigroup wants to help Bangladesh develop domestic bond market

## A top official talks to The Daily Star

SARWAR A CHOWDHURY

A larger domestic bond market can reduce a country's dependency on short-term foreign currency borrowing and also help the country accelerate its economic activities, said a high official of Citigroup's Hong Kong chapter.

One of the problems in Asian countries is that the countries are too dependent on short-term foreign currency borrowing which is dangerous for the nations, Jeremy Amias, managing director and head of Asia Pacific Fixed Income, Currencies and commodities of Citigroup, said in an exclusive interview with The Daily Star in Dhaka yesterday.

"Development of a domestic bond market should be the priority of a country and a proper domestic bond market can speed up financial system of a country like Bangladesh. Along with a strong economic growth Bangladesh has a good size of young and well-educated population. However, Bangladesh needs to do little bit more to attract international investor community," he said.

"As I am professionally experienced with fixed income, I expect a larger bond market and mechanism for issuing more corporate bonds in the market," Amias said, adding that Citigroup wants to help Bangladesh develop a proper domestic bond market which will be driven by the domestic investors and organisations.

Terming the country's stock market very small and existing bond market very tiny, Amias said the government should issue more bonds. In Vietnam, the bond market is worth about five billion dollars while the Bangladesh's existing bond market is about one billion dollar, he added.

Amias said he would like to see the country's capital market more matured and liquid. "I would also like to see more companies go to the country's capital market through initial public offering (IPO)."

He also stressed the size of the offerings to ensure participation from large funds.

Amias is also in favour of foreign investment in the domestic bond market. Like China and India, Bangladesh rules do not also allow foreign investment in domestic bond market. But, he said, the country should follow more open systems, which will bring benefit for the country in the long term.

Amias' views were echoed by Ifty Islam, managing director, Global Macro Strategy, Fixed Income of Citigroup, UK. He said there is no doubt that there are huge opportunities for making funds available from the capital market of Bangladesh.

He said Bangladesh just needs a proper domestic market with adequate infrastructure, right financial instruments, government bonds and corporate bonds. If the requirements are fulfilled, the five-billion-dollar local market will turn into a 20-billion-dollar market, he hoped.

Heihachiro Okamoto, managing director, Foreign Equity Sales, Equity Department of Nikko Citigroup in Japan, also expressed the same hope and said Japanese people are making money from the stock markets shifting themselves from the banking instruments.

Five years ago, the Japanese invested in a bigger way in the Chinese stock markets followed by investing in the Indian and Vietnam stock exchanges, he said. Now Japanese people look for the next destination, he added.

"Pakistan and Bangladesh are our next investment targets, but I had no



Jeremy Amias

idea about Bangladesh earlier. By participating in the investors' conference here I understand the people here are very keen to attract more foreign investment," he said.

Silmat Chishti, the coordinator for the conference, said, "I am very thrilled by the enthusiasm from both domestic and foreign investors as well as regulators. I am confident that a better future awaits the Bangladesh capital markets." Chishti has recently been assigned in Dhaka from Citigroup's Equity Capital Markets in Hong Kong.

Terming the Japanese investors' willingness to invest in Bangladesh a very good news, Abu Chowdhury of Emerging Markets Partnership, a global asset management fund, said the whole world wants Japanese investment in capital markets.

"We manage \$ 8 billion funds in the infrastructure worldwide. We have invested \$40 million in two power plants of Bangladesh very recently and we would like to do more investment here," Chowdhury said.

The Citigroup's managing directors and the global fund managers gathered in Dhaka to attend the first-ever investors' conference titled 'Bangladesh - The New Investment Frontier' organised by globally acclaimed financial services company Citigroup and Dhaka and Chittagong stock exchanges at Dhaka Sheraton Hotel. The conference ended yesterday.

Talking about the conference, Mamun Rashid, managing director of Citibank NA and Citigroup country officer-Bangladesh, said the conference was organised to let the foreign institutional investors know about the potential of the country's capital market and make them confident for taking decisions to invest here and at the same time create interest among the domestic investors and the entrepreneurs to take the capital market route for their growth and business expansion.

# Why US should design an LDC-friendly duty-free, quota-free offer list

DR MUSTAFIZUR RAHMAN

A global duty-free, quota-free (DF-QF) market access for all exports from all LDCs has been a longstanding demand of the LDCs in the context of the multilateral trade negotiations in the WTO. LDCs went to the Hong Kong Ministerial Conference of the WTO in December 2005 hoping that a decision to this effect would at last be agreed upon by the members of the WTO. However, as is by now well known, in spite of the best efforts of the LDCs and their friends, the Hong Kong Ministerial Decision could not rise up to the expectations of the LDCs. In the end, the Ministerial Decision on DF-QF market access (Annex 36F of the Ministerial Decision) went as far as only 97% of the tariff lines exported by the LDCs to the developed country markets. The expectation of LDCs that the so-called 'advanced developing countries' will also agree to join the DF-QF initiative was frustrated by the mention of only those 'developing countries in a position to do so'. Moreover, the decision's potential impact was significantly undermined by the stipulation that in implementing the DF-QF decision interests of 'other developing countries in similar situation' whose export interest could potentially be jeopardized by the decision would also be taken into cognizance.

As a matter of fact, what was of practical interest to the LDCs in the context of the DF-QF decision was to gain zero-tariff market access to the US market, since in all other developed country markets (including the EC and Canada) LDCs already enjoy zero-tariff access under the GSP schemes in place. Consequently, it was in essence preferential access to the US market that could have provided the LDCs with additional benefit to what they had already been receiving under various bilateral initiatives.

As Bangladesh's export to US market clearly evince, the 97% decisions, with a possible 3% 'exclusion' list (about 310 tariff lines in US) could virtually exclude all the tariff lines exported by Bangladesh. Thus, any cleverly crafted exclusion list could leave Bangladesh with no gains whatsoever in the US market, and, by implication, no gains at all from the DF-QF decision (barring perhaps marginal gains in the Japanese market, which in any case is not a major trading partner of Bangladesh and other LDCs).

That the DF-QF decision failed

to meet the expectations of the LDCs was quite evident even at Hong Kong. Indeed, recognizing this frustration, and in an attempt to assuage the visible LDC dissatisfaction, the Chair of the Ministerial Meeting, in his concluding speech, mentioned that the DF-QF decision was a 'Framework' and that the developed countries would subsequently design their country-specific offers by taking cognizance of LDC interests.

The DF-QF decision was to take effect as of January 1, 2008 or the conclusion of the Round, whichever was earlier. In view of the emerging scenario in the multilateral negotiations, many developed countries have now embarked upon the task of preparing their national lists in view of the DF-QF decision. What is of importance to Bangladesh, and other LDCs, is that the US has recently decided to initiate the preparatory work for designing her offer list in the context of the DF-QF decision. In April 2007 both the United States Department of Commerce (USDOC) and the United States International Trade Center (USITC) sought submissions from interested parties as regards the DF-QF initiative. The USDOC sought submission with regard to justification of the DF-QF treatment for the LDCs; the USITC sought opinion as regards 'Probable economic effect of providing DF-QF treatment for imports from LDCs on (a) industries from the US producing like or directly competitive products and (b) on US consumers'. Several submissions were made in this context including some from Bangladesh articulating the logic and justification of a generous US offer list. As would be expected, there were also some submissions, mostly from various US textile/apparels lobbies, which opposed any such move.

In view of the ongoing US exercise to craft a DF-QF offer list, it is important that Bangladesh and other LDCs use all their persuasive skills to influence a decision favouring the LDCs. The following sections present arguments as to why the US should design an LDC-friendly DF-QF list, why such an initiative was not likely to have any tangible adverse impact on the US producers, and why it will be the US consumers who will stand to benefit most, from such an initiative.

**Why the US Should Design a Generous DF-QF List for LDCs**

- Total number of products imported by the US at HS 8 digit

level was about 10265. Thus, the 3% 'exclusion list' could possibly include 308 items of export by the LDCs. Theoretically, the exclusion list could include almost all exports from LDCs such as Bangladesh at HS 8 digit level since most of the exports from Bangladesh are apparel items and these are also heavily concentrated in a few 8 digit level items. Thus, even a 97% DF-QF list, although it will include thousands of additional items to the existing GSP scheme of the USA, could leave almost all items currently exported by Bangladesh and other LDCs to the US market. Thus, it is of crucial importance to the LDCs that the 97% DF-QF list now being designed by the US include items which accounts for at least a certain percentage in terms of the value of exports accrued to the LDCs. Evidently, if this was not assured, the entire purpose and the very objective of the WTO Decision DF-QF will be totally defeated and the LDCs will feel that the DF-QF decision was just an eye-wash.

- In 2005 about 125 items of Bangladesh entered US at GSP-zero tariff; in addition, another 108 items received MFN-zero tariff (together 233 items out of a total of 602 items exported by Bangladesh to the US). However, these (GSP plus MFN zero-tariff) accounted for only about 10% of Bangladesh's total export to the USA. This would indicate that rest of the items of export from Bangladesh, accounting for about 90 percent of the export value, had to enter the US market by paying import duties. Indeed, import duties on Bangladesh's exports charged at US customs in 2005 was about USD 420 million (several times higher than the bilateral US aid to Bangladesh in that year). If major items of export interest to Bangladesh are not selected from the duty paid list (602 - 233 = 369 items in 2005), Bangladesh will hardly gain from the DF-QF to be offered by the US. These items mainly relate to apparels that are not included in the present US GSP Scheme. It is to be noted in this context that apparels account for 85% of Bangladesh's export to the US. Bangladesh's apparels face an effective US import duty of about 14%. If the DF-QF initiative is to result in commercially meaningful market access in the US, the 97% list will have to include items of export interest to Bangladesh. It will be only logical that those items account for at least 80% of the export value of Bangladesh and other LDCs. This

will need to be increased to 100% under a time-bound schedule so that the DF-QF initiative gets in full meaning. This would require duty-free access for our apparels exports to the US market.

- It is to be noted in this context that under the ongoing NAMA (Non-Agricultural Market Access) negotiations, the average tariffs in the developed countries are expected to come down significantly. Since tariffs on most export items of interest to LDCs (i.e. tariffs on apparels in EU, Canada and other markets) are subject to tariff peaks (high tariffs), the expected cut would be steep under the Swiss formula (higher the tariff, deeper the cut). These tariffs will be drastically reduced and as a result there will be significant erosion of preferential margins under the existing GSP schemes with respect to items for which LDCs currently receive GSP preferential treatment in those markets. Only a generous DF-QF list designed by the US will compensate for this preference erosion in those other developed country markets.

- The current preferences enjoyed by the Caribbean and Sub-Saharan LDCs under the CBI and USFTA 2000 will not be significantly and adversely affected if the DF-QF offer list of the USA is designed according to the above expectations. The non-ACP, non-AGOA LDCs constitute basically 15 LDCs in the Asia-Pacific region. Apparels is the key export of the LDCs in the region, with Bangladesh and Cambodia being the major exporters. At HS 8 digit level, apparels exported from this region belong to mostly mass-produced, lower end, low value-added items. Majority of these items (at disaggregated 8 digit level) do not compete with apparels coming from AGOA and CBI LDCs. The apprehension that including apparels items in the US DF-QF list is likely to harm exporters from AGOA and CBI LDCs is thus hardly justified. A generous offer will only put non-AGOA, non-CBI LDCs at parity with the ACP-AGOA LDCs.

- The mention in the Annex F of the DF-QF decision to the effect that the interest of 'other developing countries in similar situation' should not be adversely affected by the DF-QF initiative needs to be judged in the context of the spirit advocated by the WTO. LDCs are a separate category of countries recognized by the UN and the WTO. These countries are accorded special treatment pre-

cisely because they are LDCs, weak economies. Thus, any perceived 'adverse impact' on non-LDCs developing countries should not deter the US from providing incremental benefits to this particular substrata of developing countries. The US DF-QF list ought to be prepared without prejudging the outcome, and without speculating as regards the possible outcomes which is extremely difficult to project and foresee without first implementing the initiative. In case there is a negative outcome as a result of DF-QF treatment accorded to the LDCs, the global community and the USA could think of other or similar measures in support of those adversely affected countries. The DF-QF decision does not exclude such possibility.

- It should also be noted that stretching the 'adverse impact' argument could lead to a situation where even China could argue that LDCs should not be given DF-QF for apparels, because this might have adverse implications for China's export interest in the USA! Surely, this can not be a logical argument and acts against the very spirit of the special and differential treatment for LDCs as regards which there is a consensus among all WTO members. Besides, if such notions are accepted, LDCs could also argue that the NAMA negotiations should not consider deeper cuts for industrial goods because this will lead to higher preference erosion for LDCs. Admittedly, WTO non-LDC members are not going to accept such arguments! And accordingly, in designing the DF-QF list the US should not be influenced by this provision of the Decision.

- As is well known, the US has been pursuing and promoting policies towards poverty alleviation in various forms and forums. The US is also supporting global endeavors to halve poverty by 2015 (MDG 1). In all the Asia-Pacific LDCs, export-oriented sectors tend to be highly labor intensive and have strong trade-poverty alleviation nexus. Thus, a generous DF-QF list by the US will also be in line with the US declared policy of promoting and fostering efforts of LDCs to 'trade out of poverty'.

**How it will Impact on US Consumers and Producers**

- Import tariffs on various apparel items exported by the LDCs to the US market currently ranges between 10% and 20% for major apparel items. Indeed, import weighted tariff on apparels

exported by Bangladesh to the US market averages about 14%. Any reduction in import tariffs on apparels will have significant positive effect on retail prices in US and, to that extent, will benefit the US consumers who will be able to buy apparels at lower prices.

- As was mentioned above, Bangladesh and Cambodia are the only two major apparel exporting LDCs that do not receive duty-free access to US market. Indeed, Bangladesh (45.6% in 2005 and 47.3% in 2006) and Cambodia (32.0% in 2005 and 33.9% in 2006) account for almost 80% of US import of apparels from LDCs. Thus, by and large any possible impact on US producers of apparels will depend on the impact on US producers originating from any possible DF-QF treatment to apparels imported from Bangladesh and Cambodia (accounting for almost 90% of apparels exported by non-AGOA, non-CBI LDCs to the US market).

- In 2005 US Global trade in apparels was carried out in 167 items defined at 3 digit category level. Out of these, the LDCs exported 139 categories: Bangladesh exported 99 categories and Cambodia exported 98 categories in 2005. In 2005 US import of apparels from LDCs was USD 5,393.68 million (USD 6334.37 million in 2006). Total import of USA over the corresponding period was USD 91352.31 million in 2005 (USD 95,101.9 million in 2006). LDCs thus accounted for only 5.9% (6.7% in 2006) of all US imports of apparels from the world. By any measure, share of LDCs in total US imports is thus not significant. Consequently, providing DF-QF preferential market access to this group of countries is not likely to have major adverse impact on US producers.

- The US imported 2451.90 million sqm equivalent of apparels from LDCs in 2005. This represents only 4.80% of total global imports of apparels by the USA for that year. Thus, in terms of volume also, the LDCs account for only a small proportion of total US imports of apparels from the world market.

- US production of apparels in 2005 was 26815.36 million sqm. Imports to the US in 2005 (21975.76 million sqm), was equivalent to about 81.95% of US production. Surely reduction in tariff for a small segment of this import (4.80% as was mentioned above) was not likely to lead to any major disloca-

tion in US apparels market and would hardly cause any disruption in the US apparels production and marketing scenario.

- Of the total 167 category of T&C products traded globally current US domestic production was only in 57 categories (in 2005). Accordingly, any DF-QF treatment for all categories of apparels import from LDCs (which, as was mentioned earlier, exported 139 categories to the US in 2005) was likely to impact only to the extent that it will impact on the 57 categories that are currently produced in the USA. Import of the remaining 82 categories (139-57) from LDCs at zero tariff will not adversely impact on US producers since they did not produce those categories at all.

- US production of the aforesaid 57 categories was 26815.36 million sqm. This was only about 7% of total US production of these categories, not a significant share by any extent of imagination. Import from LDCs of the 57 categories produced by the US was 1894.24 million sqm in 2005. Accordingly, any DF-QF treatment to LDCs was not likely to have any tangible impact for the US producers. As a result, DF-QF treatment for apparels from LDCs is likely to have implications for only a small proportion of US production either in value term (7.93%) or in volume term (7.06%). Indeed, if we consider that other than Bangladesh and Cambodia almost all other LDCs already enjoy DF-QF facility in the US, this share (considering imports of the 57 similar category from Bangladesh and Cambodia) will come down from 7.06% of US production to 5.63% (in volume term if only Bangladesh and Cambodia are considered). Our estimate based on US textile/apparels data indicates that imports of the aforesaid 57 categories from non-LDC sources is equivalent to 74.8% of US domestic production (as against 7.06% for LDCs). Thus, any DF-QF to the LDCs will have hardly any significant affect for the (a) US producers of these 57 categories for which she has domestic supply side capacity; and (b) importers from other than LDCs who export to US market (AGOA, CBI, NAFTA).

- A similar picture also emerges if the analysis is carried out at a more detailed level. It is to be noted that top 20 export categories of exports from LDCs constitute 79.8% of US imports from these countries. However, what is of interest to note is that these 20

categories were only small players in the big US market in terms of both production and import. For example, category 348 (women's and girls trousers & breeches) which was the topmost export of LDCs to the US in 2005 (in value terms) involved an export of 171.6 million sqm; to compare import from non-LDC sources of these particular category was to the tune of 1260.6 million sqm i.e. 7.4 times the import from the LDCs. The total US market size for this product (local production + import from non-LDC + import from LDC) was equivalent to 1578.91 million sqm. Import from LDCs by the US (171.6 million sqm) thus involved only about one tenth (10.9%) of the total US demand for this category. Surely, this is not a significant proportion of the US market that could have serious implications for US production and import. This analysis could be carried out, with similar conclusion, for most of the other top 20 categories of export from the LDCs to the US market.

- The analysis presented above clearly indicate that import of apparels from the LDCs at zero-tariff is not going to adversely affect US domestic production of apparels in any tangible way. As a matter of fact, China has now emerged as the most competitive supplier for many of the categories which are also produced by the US. China has already consolidated her position as a major player in US market even with duty-paid entry to the market. It will be China which would have significant impact on US producers of apparels. This competitive pressure is expected to grow once the stipulated period for the safeguard clause in the ATC expires in 2008, and the special textile safeguard clause's mandate expires in 2012. In view of this, providing some relief to the LDCs, via DF-QF for apparels, was likely to generate competition for the Chinese apparel exporters rather than threatening the US producers.

In view of the above analyses, we would strongly argue that DF-QF market access for apparel exports from the LDCs will benefit the LDCs, generate gains for US consumers and will not hurt US producers in any significant manner. LDCs expect and demand a commercially meaningful DF-QF market access list from the US.