Most woven garments made in Bangladesh have low domestic value added content, and, therefore, do not qualify for EU GSP facilities. According to one estimate, Europe is the destination of about 35 percent of Bangladesh's woven exports, of which only 40 percent receive GSP benefits. A significant proportion of Bangladesh's apparel exports to the EU are subject to the MFN duty, which is averaged around 12 percent. Before phase out of the MFA, it was thought that Bangladesh would not have any problem in the EU market because of the GSP tariff preference. However, failure to satisfy EU rules of origin made a large proportion of woven garments ineligible for DF entry.

Another factor that contributed positively to Bangladesh's export competitiveness is the depreciation of its currency. Bangladesh maintained a managed exchange rate regime for more than 20 years, and then embarked on a freely floating exchange rate system in May 2003. Though the taka remained stable initially for a year and a half, it experienced significant depreciation.

The depreciation of the taka coincided with the phasing out of the MFA regime. A comparison of nominal exchange rates of several Asian currencies vis-à-vis US dollar shows that only Bangladesh taka depreciated, particularly during 2004-06. The Chinese yuan and Indian rupee had somewhat appreciated during the same period. Even after adjusting for the changes in domestic price levels, it was observed that the real exchange rates of taka vis-à-vis all these currencies depreciated significantly since the MFA phase-out. The considerable depreciation of the Taka in the post-MFA period, and the restraints on Chinese exports by the EU and the US, has either enhanced or at least protected the international competitiveness of Bangladesh exports and thus helped it in enlarging its share of global apparel trade.



Bangladesh will face the real test of its RMG sector's export competitiveness in January 2009, when EU and US safeguard measures on imports from China expire. For surviving and thriving in the forthcoming intense global competition, Bangladesh has to raise productivity in its textile and apparel sectors by adopting advanced production and management methods and technologies, developing skills of its workforce, and improving labour-management relations.

Simultaneously, the government should create a hassle-free business environment and reduce cost of doing business by removing administrative bottlenecks; improving the functioning of infrastructural facilities -- telecommunication network, ports, road, rail and waterways; ensuring uninterrupted and adequate supplies of electricity, gas and water; raising the efficiency of the country's financial sector and ensuring rule of law and macro-economic stability.

Further, if DFQF market access for Bangladesh products including RMG can be attained in the markets abroad, particularly in the US and neighbouring India and China within the WTO framework or under any regional trading arrangement, exports will increase at a much higher rate, and the county will move to a higher trajectory of economic development.

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