

FTAs to help boost domestic revenue

Shahiduzzaman Khan | Published: January 30, 2021 21:34:04

Bangladesh is yet to sign even a single free trade deal with any country until now. Signing of free trade agreements is very much needed for the country. Yet the authorities are apparently not that much serious about it.

The first such agreement was supposed to be signed with Sri Lanka last year. Unfortunately, it did not happen. The government said earlier that the agreement with Sri Lanka would be signed soon as both the countries had already completed a joint feasibility study and examined pros and cons of the matter.

Sri Lanka is in an advantageous position in value-added apparel industry, shipping lines and deep-sea port, financial services, ICT and skilled technical people in different sectors.



On the other hand, Bangladesh enjoys advantages in the apparel sector, skilled workforce in the garment sector, agricultural products, processed foods and migrant workers.

Bangladesh would be immensely benefited if the FTA is signed with Sri Lanka, as a portion of its exports and imports of goods are done through the Colombo port.

Now the question is what FTA means. It is an agreement between two or more countries to reduce or remove trade barriers and bring closer economic integration. FTA offers lower or zero tariff on exports and imports of goods and components assigned under FTA.

The country's commerce minister has recently stressed the need for signing an FTA with Beijing aiming to narrow the yawning trade gap between Bangladesh and China. Bangladesh and China have a huge trade gap. The country has increased export to China in recent years and if the exports continue to grow, it will be able to boost its export to US\$2.0 billion within two or three years.

Presently, as a least developed country, Bangladesh gets duty-free market access to European Union, Canada, Australia, Japan and some other countries. The country also gets duty-free access to Indian and Sri Lankan markets under the South Asian Free Trade Agreement (SAFTA).

The truth is that the country's future trade benefits would largely depend on bilateral free trade agreements as it may lose duty-free facilities once it graduates to a middle-income nation in the next few years. Without FTAs, the country will invariably lose its competitive advantages to other countries.

Bangladesh needs to sign comprehensive trade agreements with its major partners in order to retain preferential access to key international markets after graduating from the least developed country (LDC) status, according to experts.

Only the EU will provide a three-year grace period, during which Bangladeshi exports will enjoy duty-free access to the market, following the country's graduation in 2024.

Therefore, the signing of preferential trade agreements (PTAs) or free trade agreements (FTAs) with other developed nations might ease the burden of export taxes to some extent.

Although the process of signing PTAs with Bhutan and Nepal is already underway, Bangladesh needs to sign such agreements with higher-income countries like the EU, the USA and Canada.

The country should begin trade negotiations immediately in order to secure the zero-duty benefit after graduation. The government should also increase

its revenue generation from internal sources as the signing of trade agreements will erode tax collection.

And since these are major sources of income for the government, the country does not feel the need to encourage the signing of FTAs. Bangladesh also needs to strengthen its laws on intellectual property rights, labour, banking and insurance in order to enjoy the real benefits of the CEPA.

The signing of FTAs or PTAs with high-income nations is always beneficial as the country needs to increase its export basket. Regional markets are important and therefore, signing PTAs with Bhutan and Nepal is a good initiative.

Besides, Bangladesh must negotiate with India to get the same treatment as the Maldives. Under SAFTA Article 12, the Maldives was allowed to have the same market access benefits as an LDC after graduating in 2011.

To address such an issue, a high-powered trade representative or negotiator's office should be formed to launch proactive trade engagements with major trade partners.

Meantime, economists and business leaders have suggested that Bangladesh sign free trade agreements with Asean member states for boosting exports to the bloc, and ease investment regulations to draw foreign investments.

They also recommended rigorous efforts to diversify its products and their marketing overseas as the country will face stiff competition after its graduation as a developing country by 2027 when the European market will withdraw its tariff concession.

In a presentation, analysts, said in 2019, Bangladesh had export earnings as meagre as \$846 million from Asean states against an import bill of roughly \$9 billion. They said Bangladesh could gain significantly by integrating into Asean markets. It is high time to look into Southeast Asia, they added.

The signing of the Regional Comprehensive Economic Partnership (RCEP) made up of 10 Southeast Asian countries, as well as South Korea, China, Japan, Australia and New Zealand, means that intra-regional trade and investment would be boosted significantly in the region, they added.

As Bangladesh is not part of the free trading bloc, there are risks of reduction in exports to Asean countries and of the rich countries of the bloc limiting investments to the regional countries.

Therefore, Bangladesh needs to be proactive in signing FTAs with Asean, improve its infrastructure, ease investment regulations and remove bureaucratic red tape, they added.

By 2030, it is anticipated that Asean as a bloc would be the 4th largest economy in the world and to enter that market Bangladesh should negotiate signing an FTA with a Rules of Origin clause favourable to the Asean states.

If the FTA is signed, this will be Bangladesh's first free trade deal with a country. Normally, Bangladesh, as a least-developed country, enjoys duty-free export benefit to many countries, but Sri Lanka, as a developing country, does not get such trade privileges. The FTA will boost Bangladesh's exports, while Sri Lanka will be able to buy goods of global standards at lower prices from Bangladesh.

It may be mentioned that Bangladesh Garment Exporters Association (BGMEA) itself has identified eight sectors for diversification of products and recommends forming an export diversification council as the country to date has been heavily dependent on the apparel sector for export earnings.

Many advocated for a pro-active and comprehensive trade policy, taking lessons from Bangladesh's competitors that are doing better in terms of drawing foreign investments and boosting exports. The country should appoint trade representatives overseas to promote trade and woo foreign investments.

When there are talks of signing FTAs, the National Board of Revenue says it reduces revenue. Signing FTAs would actually help boost domestic revenue in the long run. In order to reach that goal, the country needs targeted and coordinated action, not scattered ones.

According to official data, readymade garments are still the major export item to the Asean market, and that can still be increased. The second position is held by pharmaceutical products, and export of these drugs can be boosted significantly if the drug companies are allowed to set up offices in the destination countries.

szkhanfe@gmail.com