

# ASSESSMENT OF BANGLADESH AUSTRALIA FTA POTENTIALITY

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### INTRODUCTION

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The year 2014 marked the 42th anniversary of the establishment of diplomatic relations between Australia and Bangladesh. The basis of Australia-Bangladesh relations hinges primarily on economic and political pursuits, and mutual interests. Besides the Australian humanitarian and development assistance program, two-way imports and exports linkages are the key elements in the bilateral relationship. However, during the past two decades, Australia has been a small development partner of Bangladesh compared to Japan, USA, UK, Germany, and People's Republic of China. At the onset of the new millennium, Australia's aid, trade, and investment linkage with Bangladesh still remains limited. After 42 years relation, the strong development of trade, investment, aid relations is crucial.

In this study we mainly concentrate on the evaluation of the economic impact of the Bangladesh Australia FTA for the Bangladesh and Australia (ex ante analysis of the FTA though it is appeared as potential study).

### ECONOMIC AND GEOGRAPHIC ANALYSIS OF BANGLADESH AND AUSTRALIA

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Bangladesh is a low-lying, riverine country located in South Asia with a largely marshy jungle coastline of 710 km (441 mi) on the northern littoral of the Bay of Bengal. It has a largely homogenous society with a liberal democracy. Bangladesh is endowed with abundant supply of natural gas, water and its soil is very fertile. The Bangladesh is endowed with abundant supply of natural gas, water and its soil is very fertile. The population is 156.594 million belongs to trainable, enthusiastic, and hardworking and low-cost (even by regional standards) labor force suitable for any labor-intensive industry. The GDP, GDP per capita, GDP growth rate, Inflation rate and trade (% of GDP) are accordingly US\$ 97,261.98 million, US\$ 621.11, 6.01%, 7.53% and 46.29%. The geography of Australia encompasses a wide variety of biogeographic regions being the world's smallest continent but the sixth-largest country in the world. It is located in Oceania between the Indian Ocean and the South Pacific Ocean. The population of Australia is 23 million. Australia is a stable, democratic and culturally diverse nation with a highly skilled workforce and one of the strongest performing economies in the world. The Australian economy has been one of the best performing in the developed world, particularly during the global financial crisis (GFC). The Australian economy is now in its nineteenth consecutive year of economic growth. The GDP, GDP per capita, GDP growth rate, Inflation rate and trade (% of GDP) are accordingly US\$ 8, 67,152.31 million, US\$ 37,488.91, 2.51%, 2.45% and 40.99%.

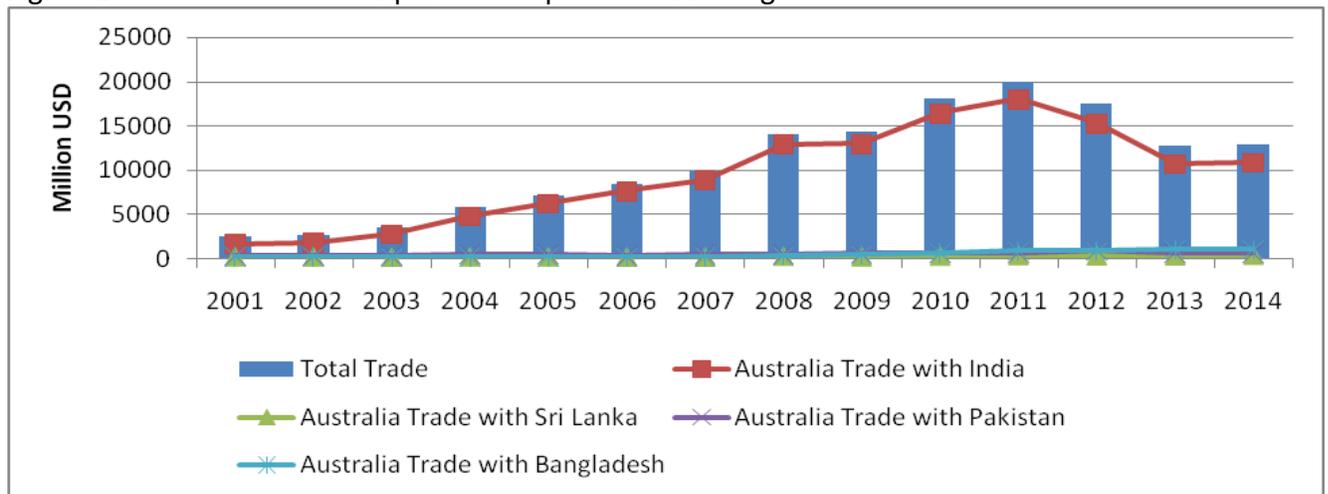
## OVERVIEW OF BANGLADESH AND AUSTRALIA FTA

The Australian Government focuses on negotiating FTAs with selected partners where these offer the prospect of significant gains ahead of what will be achievable in the WTO process. So far, Australia has signed WTO-consistent FTAs with some important trading partners: New Zealand, the U.S., Singapore, Thailand, Chile, and ASEAN-New Zealand. At present, Australia is negotiating bilateral FTAs with Japan, China, Malaysia, the Republic of Korea, and the Gulf Cooperation Council (GCC). In addition to this Early this year, Australia participated in Trans-Pacific Partnership (TPP) discussions along with Brunei, New Zealand, Peru, Singapore, the United States and Vietnam. Currently Australia is under FTA consideration with India. At the same time Bangladesh is also keen and potential for the development relation with Australia. As a SAARC country, Bangladesh should have some feasibility study in FTA with the potential countries like Australia.

## AUSTRALIA TRADE WITH SAARC COUNTRIES

Australia India FTA is under consideration as India is the large economy. Australia' export and import under SAARC countries are very minimal Compared to Australia's World Export. Australia's major trading partner with SAARC region is India. The major share of trade captures by the India. Apart from this Sri Lanka, Pakistan and Bangladesh has very minimal trade relation with Australia. As a neighboring country of India, Bangladesh may augment trade with Australia by using its geographic, economic and demographic advantage. The export and import trend of Australia with SARRC region are represented in Figure1.

Figure 1: Trend of Australia export and import to SARRC region

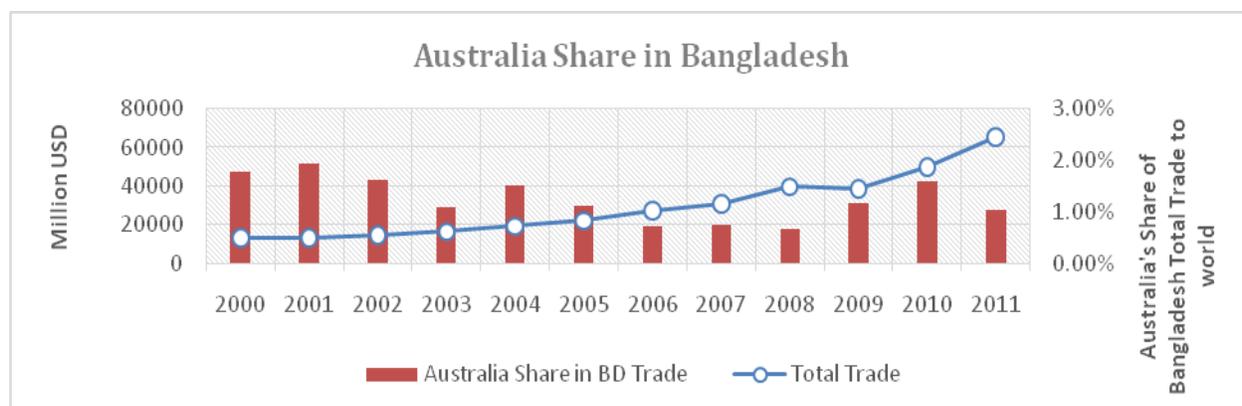


Source: Authors collection from ITC Trade Map

## BANGLADESH TRADE RELATION WITH AUSTRALIA

With a share of 1.03% Australia is the 17<sup>th</sup> important export partner of Bangladesh external trade and 19<sup>th</sup> import partner of Bangladesh. Australia trade share to Bangladesh total trade is very minimum 1.03% compared to EU, USA and other countries (Figure 2).

Figure 1: Australia's Trade share to Bangladesh Total trade



Source: Authors collation from ITC trade Map

Australia Import from Bangladesh compared to world import is negligible. Bangladesh export share to Australia total import is .13%. There is a room for expansion in Australian Market (Table 1).

Table1: Bangladesh export share to Australia Import

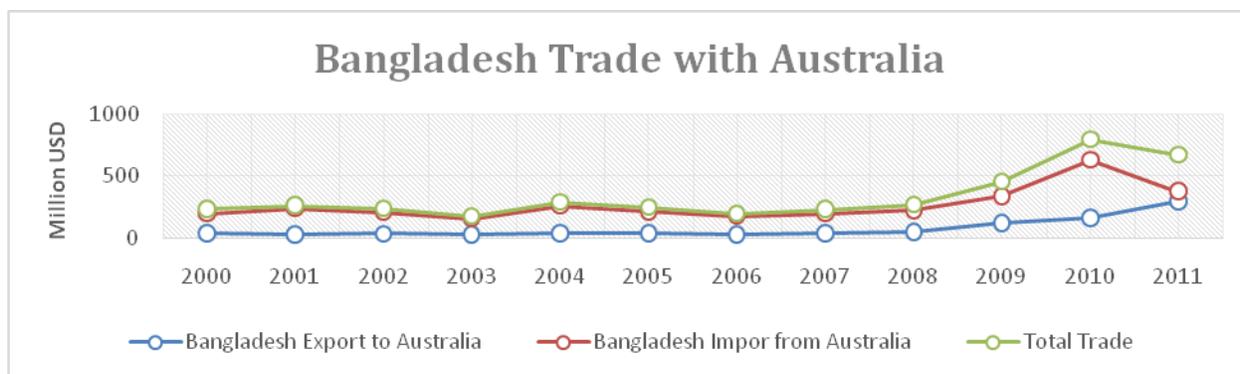
Particulars	Million USD						
	2005	2006	2007	2008	2009	2010	2011
Australia Import from World	118921.9	132650.8	155656.8	191583.9	158941.1	188740.7	234205.8
Bangladesh Export to Australia	32.43	23.35	36.49	44.33	116.00	161.17	295.05
	0.03%	0.02%	0.02%	0.02%	0.07%	0.09%	0.13%

Source: Authors collection from World Integrated Trade Solution WITS

Bangladesh exports to Australia in 2011 at the amount US\$ 295 million (A\$ 461 million in 2013) and Bangladesh imports from Australia at the amount US\$ 378.75 million (A\$ 516 million in 2013) in the same year.<sup>1</sup> The negative trade balance indicates that Bangladesh has trade deficit with Australia (Figure 3).

Figure 3: Bangladesh Trade with Australia from 2000 to 2011

<sup>1</sup> World Integrated Trade Solution (WITS) available at [www.wits.worldbank.org](http://www.wits.worldbank.org)



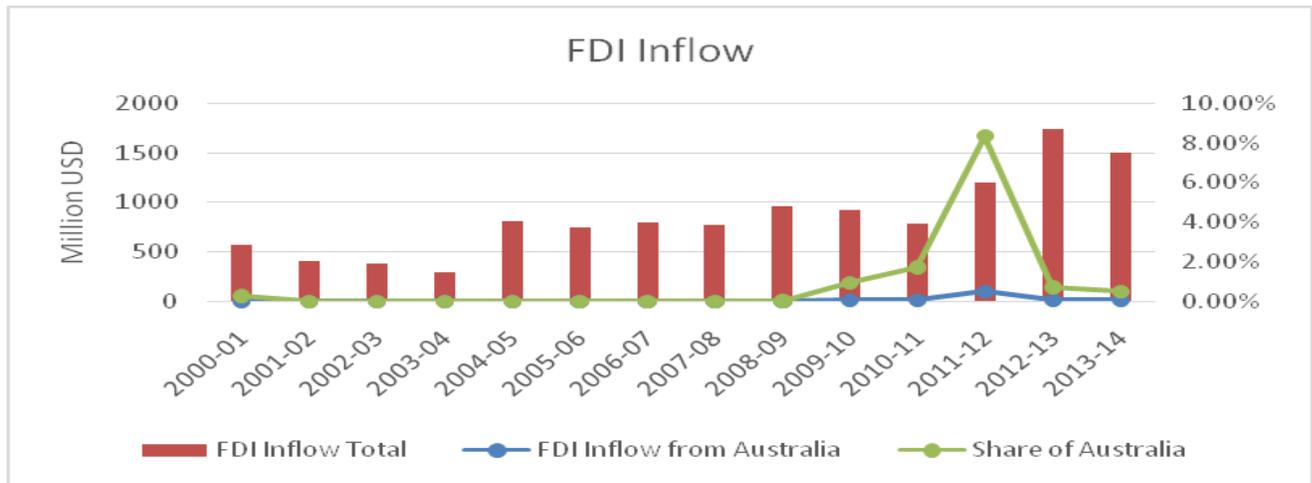
Source: Authors collection from World Integrated Trade Solution

The major exporting items of Bangladesh mainly exports to Australia knitwear (61% of total export), woven wear (23%) and home textile items (11%). The major competitors in Australian Market are China, India, Thailand, Vietnam etc. Simultaneously Bangladesh imports from Australia dairy products (3% of total export), edible vegetables (14%), cereals (15%), fertilizers (25%) and cotton (29%). The cumulative growth rate of these is quiet high in these imported products. As an major developed countries the Australia imports from world is almost US\$ 2,34,205.82 million where Bangladesh shares a small fraction of 0.13% of total import to world. Thus Bangladesh has the scope of extending and enhancing the export to Australia. Figure 1 comes up with Australia’s trade share in Bangladesh total trade.

### AUSTRALIA INVESTMENT SCENERIO

Bangladesh's investment policies remain friendly to foreign investment. The Foreign Private Investment (Promotion and Protection) Act, 1980 governs the legal framework for foreign investments in Bangladesh. Foreign investors enjoy the same incentives as domestic entrepreneurs in respect of tax holidays, accelerated depreciation allowances, concessional duties on imported capital machinery and other measures, as contained in the Industrial Policy 2010. Bangladesh has bilateral agreements for avoidance of double taxation with Belgium, Canada, China, India, Singapore, Sri Lanka, Sweden, Thailand, the Netherlands, and the United Kingdom. Negotiations are ongoing with Australia, Cyprus, Finland, Indonesia, Myanmar, Nepal, Turkey, the United States, and Uzbekistan. There is no limitation pertaining to equity participation by foreign investors; investments can be undertaken independently or through joint ventures with local or public participants. FDI inflows in Bangladesh from Australia is presented by Figure 4. In spite of all these facilities the investment by Australian is very minimal of total FDI inflow to Bangladesh. The FDI stock is very high at the end of the June is US\$ 915.02 million. The major sectors for investment are petroleum and LNG. On the other hand Australia has continued to pursue liberalization of its foreign investment regime to reduce compliance costs and improve Australia's competitiveness as a place to invest. Proposals by foreign investors to invest in Australian businesses now need to be notified only when they involve acquisitions of 15% or more in a business worth \$A 231 million or more, indexed annually for inflation. Despite FDI outflow of Bangladesh is restricted.

Figure 4: FDI Inflow from Australia

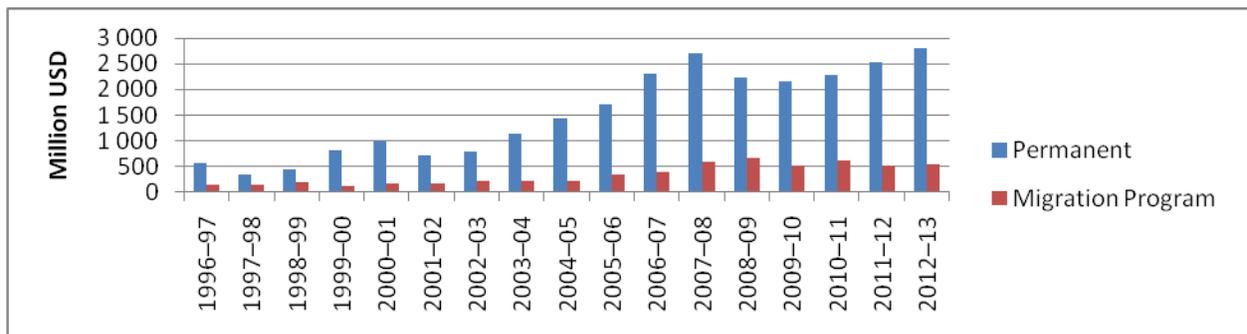


Source: Author’s collection from data available at Bangladesh Bank

### MIGRATION STATUS AND REMITTANCE

Bangladesh the 2<sup>nd</sup> largest foreign exchange earning source of Bangladesh is remittance. The movement of natural person is not counted under mode of WTO service agreement. Australia is the destination of most of the Bangladesh. A Bangladeshi people life in Australia on permanent basis in FY2012-13 is 2,798 (Figure 1). Data statistics collected by Department of Immigration and Border Protection defines permanent population consists of those persons who while already in Australia on a temporary basis are granted permanent residence status and those persons who arrive from overseas and are entitled to stay permanently in Australia. Besides, Migration program is offered to those who wanted to settle Australia. The number of Bangladeshi male per 100 females and estimated residential population is 35160.

Figure 5: Migrated and permanent Bangladeshi residents status

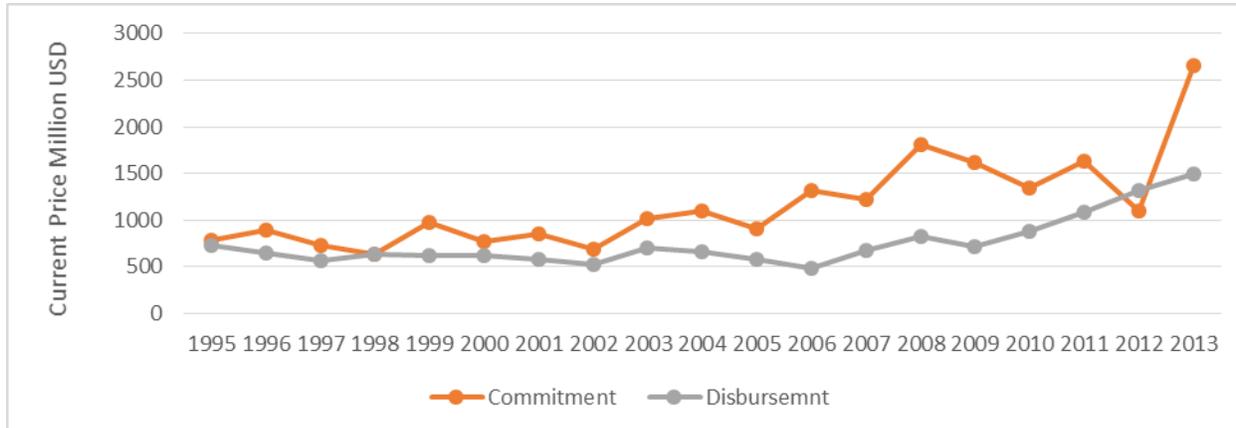


Source:

## DEVELOPMENT COOPERATION BETWEEN BANGLADESH AND AUSTRALIA

Bangladesh has five bilateral agreement with Australia. Among these agreement, MoU on Development cooperation between Bangladesh and Australia signed in 1999. Under the development cooperation, the Direct Aid Program (DAP) is a flexible small grants program funded by the Australian Government through Department of Foreign Affairs and Trade – Australian Aid and managed by the Department of Foreign Affairs and Trade. The aim of the DAP is to advance developmental objectives and address humanitarian hardship in developing countries. DAP is available on a not-for-profit basis to individuals, community groups, NGOs and other entities engaged in development activities in countries that are eligible for overseas development assistance. The development cooperation contains the commitment and disbursement assistance to Bangladesh (Figure 6).

Figure: Disbursement of Development Assistance of Australia to Bangladesh (1995-2013)



Source: Authors collection from QWIDS: OECD

## AUSTRALIA GSP PREFERENCE

Australia introduced a non-reciprocal preferential tariff scheme “Australian System of Tariff Preferences (ASTP)” in 1966 (28 March 1966) under which specified manufactured and semi-manufactured products could be imported from developing countries free of duty or at reduced rates of duty but generally subject to quota limitations. After a renovation, In 2003, the Government of Australia extended a new and more generous preference program “duty-free and quota-free (DFQF) entry” to imports from the 49 countries designated by the United

Nations as "least-developed countries" (LDCs) and East Timor (treated as an LDC) with effect from 1 July 2003. Australian GSP includes two categories of lists of countries, including developing countries and LDCs. Total 165 countries are enlisted as the beneficiary countries of Australian GSP. Among these, 50 countries are treated as LDCs. Product coverage and tariff treatment in the Australian GSP Scheme depend on the schemes, it offers for the group of countries: GSP-40: GSP scheme for less developing countries in Part 3 of Schedule 1, GSP-41: GSP scheme for developing countries in Part 4 of Schedule 1, GSP-42: GSP scheme for Hong Kong, Republic of Korea and Taipei Chinese, GSP-43: GSP scheme for Malaysia and DFQF treatment for LDC. This preferential scheme for LDCs offers duty free treatment to all LDCs in case of all tariff lines. A summary of product tariff coverage may be seen at Table 1.

**Table1: Product coverage of the EU 2014 GSP scheme**

Regime	Treatment	GSP Treatments				LDC <sup>5</sup>
		GSP-40 <sup>1</sup>	GPS-41 <sup>2</sup>	GPS-42 <sup>3</sup>	GPS-43 <sup>4</sup>	
MFN	Zero	2,944	2,944	2,944	2,944	2,944
	Non-Zero	99	2,439	3,060	2,435	
GSP	Zero	2,903	189	164	193	3,241
	Non-zero	239	613	17	613	
		6,185	6,185	6,185	6,185	6,185

*Source: Authors' calculation using Australia HS 2012 combined nomenclature available at the WTO.*

Australia provides duty-free and quota-free (DFQF) access for all products originating in the listed LDCs. Preferences for textiles, clothing and footwear, chemicals, fruit juice and certain foods were eliminated in July 1, 1993 for all beneficiaries except LDCs and the South Pacific Island Territories. After these preference Bangladesh utilization rate to EU GSP is more than 94% under EBA scheme but Bangladesh cannot utilize duty free preference of Australia. Australian rules of origin for tariff preference schemes are applied following the "Rules of origin of preference claim goods: Division 1A, Part VIII" of Australian *Customs Act 1901*. Thus, under the ASTP, the rules of origin provide that,

- The final process of the imported good must have been carried out in the beneficiary country,
- At least 50 percent of the total cost of the final product must consist of labor/material from one or more developing countries (or Australia).

In case of LDCs (following rule announced for LDCs in June 2003), an LDC can include input from other LDCs, developing countries, Pacific Forum Island countries and Australia (the designated "qualifying area") in calculating the 50 percent local content. Within this, non-LDC developing

country content is subject to a maximum of 25 percent of manufacturing costs. Manufacturers are required to keep cost records and make a declaration as to origin.

## TRADE ANALYSIS INDICATORS

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FK Index can be used to measure the similarity between Australia and Bangladesh trade with respect to the Rest of The world. If the countries have similarity in trade and production structure bilateral trade liberalization is likely to result in trade creation whereas if the structure of trade is dissimilar bilateral trade liberalization would result in trade diversion. If the index is 1 then it shows that the share of export out of total exports going to destinations is identical across Australia and Bangladesh whereas if this index is zero then the exports are completely divergent.

Table 2: Finger Kreining Index

Index	2009	2010	2011
Finger Kreining	0.08	0.08	0.07

Source: Authors calculation from World Integrated Trade Solution (WITS)

The export similarity of Bangladesh with Australia is not very significant it varies 0.07 to 0.08. The insignificance of export structure makes trade diversion more than trade creation. The vertical intra industry trade will be as the similarity of trade is different and after FTA it may continue like that.

## SMART MODEL FOR TRADE EFFECT

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The study utilizes the SMART model to do a partial equilibrium analysis to stimulate the tariff reduction scenarios. One of the advantages of using SMART is that the model has the ability to analyze the effects of trade policy reforms in the presence of imperfect substitutes and is more adequate than the homogeneous goods model examining tariff preferences as it avoids corner solutions. The model is used to analyze the tariff effect of a single market on aggregate and disaggregate levels. Trade creation and trade diversion are two major effects that are mainly measured by using the model. All the sectors at 2 digit levels have been selected for the countries to see the trade effect especially trade creation and trade diversion. Bangladesh gets duty free entry to the Australian Market while Australia faces MFN duty to entry in Bangladesh. SMART is a single country simulation. We get two scenarios to analyze the tariff reduction impact.

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### SCENARIO 1: BANGLADESH WITHDRAWS ALL TARIFF FOR AUSTRALIA

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If Bangladesh withdraws its entire tariff barriers to border with Australia, there will be huge trade creation in the Bangladesh market and demand for Australian commodities goes up. The major sectors where more trade will be created are dairy products (Chapter 4), edible fruits

(chapter 8), and cereals (chapter 10), iron (chapter 72), copper (chapter 74), zinc articles (chapter 79) etc. (Table3).

Table 3: Trade Creation and Trade Diversion from Bangladesh Perspective (Million US\$)

Chapters	Description	Trade Total Effect	Trade Creation Effect	Trade Diversion Effect
4	Dairy prod; birds' eggs; natural ho	12.92	6.48	6.43
10	Cereals	3.34	1.79	1.56
23	Residues & waste from the food indu	1.60	0.72	0.88
72	Iron and steel.	2.56	1.06	1.49
74	Copper and articles thereof.	1.88	1.15	0.73
78	Lead and articles thereof.	0.65	0.32	0.33
79	Zinc and articles thereof.	0.79	0.31	0.48
	Total	28.91	14.31	14.60

Source: Authors accumulation SMART Analysis Result

These are also the major importing items of Bangladesh and Bangladesh will import more on efficient producer. The total trade creation to Bangladesh is USD\$ 14.31 million that is only 4% of Bangladesh total import from Australia and negligible to compared to total import of Bangladesh from the World. As trade creation within Bangladesh is noteworthy but the trade diversion is more than trade creation. After FTA, trade will be diverted from the major countries are New Zealand, Germany, Denmark, Russia, Canada, UK, Korea, India and China. The amount of trade diverted to Australia from other trade partners of Bangladesh is US\$ 14.60 million that is 5% of the total export of Bangladesh to Australia.

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### SCENARIO 2: AUSTRALIA ZERO DUTY PREFERENCE TO BANGLADESH

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Following the single country simulation tool SMART, there is no trade creation observed in the Australian market for Bangladeshi commodities as Bangladesh gets duty free preference to Australian market and no trade diversion at all will be diverted to Bangladesh. Bangladesh is the 2<sup>nd</sup> lead exporter of RMG in the world. The RMG export in Australia is minimal. The major exporter of Bangladeshi item to Australian Market is India China Japan, Thailand, Singapore, Vietnam etc. As earlier we have seen that India is the largest exporter of Australia in South Asia and India is also in the beneficiary list of GSP preference in Australia though India has been provided GSP preference too. The preferential margin for India in Australia is average applied duty 3.2%. The after effect of FTA will be tremendous for Bangladesh. Austrade is helping business people to identify bottlenecks of export. Bangladesh exports may face brand name difficulties in Australian market as well as cost and distance may hamper export.

## CONCLUSION AND POLICY OPTION

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Thus the FTA between Bangladesh and Australia does not bring any fruitful outcome to Bangladesh rather it brings some changes to Australia as Australia may get some duty free preference to Bangladesh but the trade portion is minimal. Bangladesh should utilize the duty free preference to Australia. The export promotion in Australian market is vital with considerable compliance with rules of origin criteria. Simultaneously all other trade and border related issues especially cost, connectivity, lead time, quality of the product may enhance the export under preference. Bangladesh may take the opportunity to link with Australian dairy product value chain through linking with Australian dairy industry. Australia mainly recognized as a development partner of Bangladesh and second home of most of the Bangladeshi people. Australia can increase investment in Bangladesh through the Bilateral Investment Agreement. The development assistance of Australia may take place in Coal based power plant in Rampal and LNG terminal in Chittagong. In infrastructure development Australia may support Bangladesh in PPP development. By taking the advantage of Australia as the 3<sup>rd</sup> most popular international student destination, Bangladesh may sign MoU with top universities in Australia to enhance skilled man power.

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