

CPD Occasional Paper Series

**USA Trade and Development Act 2000:
A Response from Bangladesh Perspective**

Paper 6

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Price Tk. 60.00

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June, 2000

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The present paper published under the CPD Occasional Paper Series is entitled *USA Trade and Development Act 2000: A Response from Bangladesh Perspective* and is prepared by Dr Debapriya Bhattacharya, Executive Director, CPD and Professor Mustafizur Rahman, Research Director.

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USA Trade and Development Act 2000: A Response from Bangladesh Perspective

I THE CONTEXT

On January 24, 2000, the *United States Congress* initiated an Act titled *Trade and Development Act of 2000* (TDA2000). The legislation was approved in both houses of the Congress with strong bipartisan support (Senate 77-19; 309-110). It was signed into law by the US President Bill Clinton on May 19, 2000.

The *Trade and Development Act 2000* consists of the *African Growth and Opportunity Act* and the *United States-Caribbean Basin Trade Partnership Act* as well as *other trade measures*. The Act aims to introduce a new trade and investment policy for *Sub-Saharan Africa* (SSA), expand trade benefits to countries in the *Caribbean Basin Initiative* (CBI), enhance the *Generalised System of Preferences* (GSP), and strengthen the *US trade adjustment assistance* (TDA) programmes. The TDA2000 provides preferential trade access, *especially in textile and apparel sectors*, to the countries of Africa and Caribbean Basin.

The TDA2000 calls for careful scrutiny as it has important implications for the global trading regime. The TDA2000 may have particular consequences for apparel exporting countries such as Bangladesh, which is exporting under quota restrictions and is exposed to tariffs on its export to the US market. Thus, Bangladesh needs to track the potential fallouts of the TDA2000, *inter alia*, for the following reasons:

- (a) USA accounted, in the fiscal year 1999, for more than *a quarter* (25.4%) of knit-RMG exports and about *half* (49.4%) of woven-RMG exports from Bangladesh. Bangladesh cannot afford to ignore changes in the trading regime of a market which absorbs about \$ 1.75 billion worth of its exports.
- (b) The TDA2000 provides duty-free and quota-free access to 48 countries of Africa and 24 countries of Caribbean Basin for exporting textile and apparel products to the US markets, provided they meet certain eligibility criteria. Some of the beneficiary countries are Bangladesh's competitors in the US apparel market.

- (c) The TDA2000 comes at a time when Bangladesh is discussing with the US government (USG) the expansion of its quota at a rate (30%) faster than what is stipulated under the integration plan of the *Multi-Fibre Arrangement* (MFA) into the *Agreement of Textile and Clothing* (ATC). The TDA2000 provides an opportunity to countries such as Bangladesh to seek an interpretation of particular provisions in the ATC which allows more flexibility in the phase-out of the MFA.
- (d) The TDA2000 extends preferential treatment to countries, a majority of which belong to the group of "Least Developed Countries".¹ Bangladesh, for quite some time now, has been actively campaigning in various multilateral platforms, including the WTO, for providing of such favourable treatment to *all* LDCs.
- (e) The TDA2000 also extends duty free treatment to *a whole range of commodities other than textiles and apparels*. A number of these commodities are also of current export interest to Bangladesh (e.g. footwear and handbags)

In view of the above documents, Bangladesh need to *assess* the emerging situation subsequent to the enactment of TDA2000 and *respond* with appropriate policy and institutional measures.

The *Bangladesh Garments Manufacturing and Exporters Association* (BGMEA) has already voiced concerns regarding the possible negative impact of TDA2000 on the country's export performance. The Government of Bangladesh (GOB) seems to have also taken note of the issue.

¹ The designation of a country as "least developed" by the United Nations is based on conformity with a number of agreed economic and social criteria. These are: (1) per capita GDP of \$765 or less (US\$, annual average, 1992-1994); (2) Augmented physical quality of life index (APQLI) of 47 or less (APQLI is a composite index comprising of 4 indicators including life expectancy at birth, per capita calorie intake, adult literacy rate, combined primary and secondary school enrolment ratio); (3) Economic diversification index (EDI) of 26 or less (EDI is a composite index, comprising 4 indicators which include share of manufacturing in GDP, proportion of labour force in industry, per capita electricity consumption per year, export concentration index); (4) population of 75 million or less.

A country will qualify for inclusion in the list of LDCs if (1) it meets all four formal criteria; or if (2) it meets the population and per capita income criterion, and meets the APQLI or the EDI criterion, and is land locked, is a small country with a population of 1 million or less, and suffers from frequent severe climatic risks such as drought, floods and cyclones. Other indicators, such as the natural endowment index, export of petroleum share, ODA, etc. could also be taken into consideration.

In this context, the present paper is *an initial attempt* on behalf of the Centre for Policy Dialogue (CPD) to understand the various ramifications of the TDA2000, particularly with respect to Bangladesh. Accordingly, following the introductory section (Section I) which lays out the backdrop of the issue, various provisions of the TDA2000 have been reviewed in Section II. The implications of the Act for Bangladesh have been analysed in Section III. The concluding section (Section IV) puts forward a number of measures which might provide a basis for Bangladesh's response strategy to the TDA2000. The present report also includes an *Annex* which provides the highlights of the TDA2000.

II TDA2000: THE SALIENT FEATURES

An overview of the major features of the *US Trade and Development Act of 2000* has been provided in the *Annex* to the present paper. In the following paragraphs we mention briefly some of the key provisions of the two major sub-components of the TDA2000, *viz. Africa Growth and Opportunity Act (Title I)* and the *United States Caribbean Basin Trade Partnership Act (Title II)*. Given the critical importance of the apparel trade in Bangladesh's export basket, the provisions relating to textiles and clothing have been particularly highlighted in the discussion.

2.1 The Beneficiaries

The TDA2000 extends benefits to a total number of 72 countries.² The *African Growth and Opportunity Act* identifies 48 countries³ and the *United States-Caribbean Basin Trade Partnership Act* covers 24 countries.⁴

The TDA2000 brings within its fold 34 of the 48 LDCs (as categorised by the United Nations) which covers more than two-thirds of all the LDCs; while 33 of those LDCs are from SSA, there is only one (Haiti) from CBI. Of special interest here is to note

² In fact, the total number of countries is 74 as the Title III of TDA2000 extends "normal trade relation status" to Albania and Kyrgyzstan.

³ The Africa Act essentially refers to sub-Saharan African countries as it excludes five countries of the continent, *viz. Algeria, Egypt, Libya, Morocco and Tunisia.*

⁴ The countries of Caribbean Basin not covered by the TDA2000 are Bermuda, Cayman Islands and Cuba.

that TDA2000 extends special treatment to the "Lesser Developed Countries"⁵ of the SSA region regarding the use of third country fabrics. Thus, in all 43 countries of the SSA region (i.e. excepting Gabon, Mauritius, Namibia, Seychelles and South Africa) are entitled to the special benefits extended to the "Lesser Developed Countries" under the Act which is to be effective till 2004.

2.2 Preferential Access Period

According to the TDA2000, duty-free and quota-free access of textile and apparels products for the designated countries to the US markets will be effective for eight years, i.e. between *October 2000 and September 2008*. This treatment provides the beneficiary countries at virtual with *parity NAFTA*, albeit subject to certain conditions.

As we will see later, the derogation provided to the *Rules of Origin (ROO)* with respect to textiles and apparel exports for the *Lesser Developed Countries* of the SSA region will be available for a period of *four years with effect from October 2000*. This period basically coincides with the remaining time for the total phase-out of MFA provided under the ATC.

2.3 Eligibility Criteria

The countries listed in the TDA2000 do not, however, automatically become eligible for preferential treatment. Concessional market access is available to the countries subject to stringent *rules of origin (ROO)* and limits. The eligibility requirement encompasses "basic eligibility criteria" of GSP⁶ including the *Harkins-Helms Amendment*.⁷ In addition to the GSP criteria (as well as satisfaction of the US President about meeting certain eligibility criteria specific to Africa)⁸, the potential beneficiary countries have to comply with the following requirements while exporting textiles and apparel products:

⁵ TDA2000 has identified a special group of African countries as "Lesser Developed Countries" with less than \$ 1500 annual per capita income. Thus, this group includes 33 "Least Developed Countries" (LDCs) of the SSA as per the UN categorisation as well as 10 more SSA countries.

⁶ These include commitment to foster open trade, avoid certain acts that discourages investment, and take appropriate steps to afford internationally recognized workers rights.

⁷ These include fulfilment of international commitments to eliminate the worst forms of child labour (e.g. slavery, indentured servitude and child prostitution).

⁸ These include promotion of market economies, democratic societies and open trading system, economic policies to reduce poverty and a system to combat corruption and bribery.

- Apparel articles have to be assembled in the beneficiary countries *from US made fabrics from yarns wholly formed and cut in the United States*;
- Apparel articles cut in the beneficiary countries *from US made fabrics made from yarns wholly formed in the United States*, if such articles are assembled in those countries *with thread formed in the United States*.

The TDA2000 also provides for region specific eligibility criteria.

- In case of African countries, apparel articles assembled in the beneficiary countries *from their own fabrics made from yarns originating either in the United States or one or more beneficiary countries* are eligible. Under this category, in the first year beginning on October 1, 2000, the total import of such items shall not exceed 1.5 per cent of the aggregate square meter of all apparel articles imported into the United States in the preceding twelve month period. The percentage will increase by equal increments in the following seven-year period so that the percentage does not exceed 3.5 percent in the period beginning October 1, 2007.
- In case of Caribbean countries, apparel articles knit to shape (other than socks) in a beneficiary country *from yarns wholly formed in the United States* are eligible. The articles also include the knit items (other than T-shirts) cut and wholly assembled in the beneficiary countries *from their own fabrics or US made fabrics from yarns formed in the United States*. The volume of imports to be extended benefits will be restricted to 250 million square meters during the one year period beginning on October 1, 2000 and will increase by 16 percent compounded annually in each succeeding one year period through September 30, 2004. For the next four years each, the amount will be equal to the amount reached on September 30, 2004. The volume ceiling on import of T-shirts is set at 4.2 million dozens in the first year. The same rule of calculation applied to knit items is also applicable for this category.

2.4 Special Provision for LDCs

As mentioned earlier, the TDA2000 contains provisions for *Special Treatment*, reflected in the relaxed rules of origin criteria, for “the Lesser Developed Countries” of the SSA region (countries with per capita income of less than \$1500 per annum). This group of countries will enjoy the same duty-free and quota-free access of their

apparel exports to the United States markets, subject to the other conditions, but will be *entitled to use fabrics produced in third country for a period of four years, i.e. till September, 2004*. The added benefits would give the designated " Lesser Developed Countries" a head start in developing their infrastructure to produce for the world market.

2.5 Penalty Provisions

The TDA2000 provides for *Penalty Provisions* in case of preferential exports not conforming to the eligibility criteria. In cases where it is perceived by the US government that the exporter was engaged in transshipment, the particular exporter will face penalties including suspension of benefits for five years. Transshipment occurs, according to the TDA2000, when preferential treatment is claimed on the basis of false material information concerning the country of origin, manufacture, processing or assembly of the article.

2.6 Safeguard for US Textile/Apparels Industry

The TDA2000 has an important *Safeguard Clause* which allows the USA to suspend preferential trading facilities to any textile/apparels product. If domestic producers of apparel articles competing with those imported under the Act petitions for relief from surges in imports in particular categories that threaten serious injury to the domestic industry producing the apparel article in question. Under the circumstances the tariffs could be re-imposed.

III TDA2000: IMPLICATIONS FOR BANGLADESH'S APPAREL EXPORTS

3.1 Apparel Exports from SSA and CBI Countries to US Market

Between the two groups of countries covered under the TDA2000, it is the Caribbean countries which are more important as a source of apparels import by the USA (see Table 1). *In 1999, the total value of apparels export to the USA by the CBI countries amounted to US\$ 8.92 billion, accounting for 14.0% of the US market*. The major exporters from this group of countries are Dominican Republic (\$ 2385.19 mln.), Honduras (\$ 2164.23 mln.), El Salvador (\$ 1363.49 mln.), Guatemala (\$ 1243.5 mln.), Costa Rica (\$ 831.36 mln.), Jamaica (\$ 344.96 mln.), Nicaragua (\$ 277.36 mln.) and Haiti (\$ 249.82 mln.). Theoretically, apparel exports of all these countries, provided they can satisfy the eligibility criteria, will enjoy quota-free and duty-free access to the US market.

As may be seen from Table 1, the apparels export performance of the Dominican Republic, Honduras, El Salvador and Guatemala (more than a billion dollars each in 1999) matched that of Bangladesh to the US market in the corresponding period. Exports from Costa Rica were more than \$ 800 million.

Table 1
Exports of Apparels to USA
by Bangladesh, Sub-Saharan and Caribbean Countries (1999)

(US\$ in million)

Country	Value		Volume	
	in Million Dollars	Share in %	in Million M2	Share in %
Total US Market	63743.903	100.00	28,615.43	100.0
Bangladesh	1753.85	2.75	910.519	3.18
CBI Countries	8917.82	14.00	3570.874	16.52
Dominican Republic	2385.19	3.74	900.252	3.15
Honduras	2164.23	3.40	958.257	3.35
El Salvador	1363.49	2.14	641.243	2.24
Guatemala	1243.50	1.95	332.99	1.16
Costa Rica	831.36	1.30	370.03	1.29
Jamaica	344.96	0.54	148.803	0.52
Nicaragua	277.36	0.44	69.381	0.24
Haiti	249.82	0.39	127.35	0.45
Sub-Saharan Countries	606.74	0.95	151.767	0.53
Mauritius	232.18	0.36	38.95	0.14
South Africa	112.95	0.18	45.383	0.16
Lesotho	110.76	0.17	25.804	0.09

Note: The figures include both the apparel and non-apparel exports under MFA

Source: US Department of Commerce, Office of Textiles and Apparel

In contrast to the Caribbean countries, *the total apparel export for SSA countries to the US, in 1999, was US\$ 0.61 billion, i.e. they commanded only 0.95% of the US market.* Among the SSA countries, the highest quantum of exports originated from Mauritius (\$ 232.18 mln.) followed by South Africa (\$ 112.95 mln.) and Lesotho (\$ 110.76 mln.).

According to the *Special Treatment Provision* extended to the "Lesser Developed Countries" of the SSA region Lesotho (\$ 110.76 mln.), Madagascar (\$ 46 mln.), Kenya (\$ 39 mln.), Swaziland (\$ 23 mln.), Zimbabwe (\$ 19 mln.) etc. would be entitled to use third-party fabrics till September 2004. These countries (except

Lesotho) do not belong to the group of LDCs as per the UN categorisation. Extending preferential treatment to this particular sub-group of countries similar to those provided to the LDCs of the region is an important departure proposed in TDA2000. Although at present these countries are not prominent exporters of RMG, from a dynamic perspective, such preferential treatment could stimulate emergence of export-oriented RMG sectors in these countries in the near future.

However, in order to assess the potential impact the TDA2000 may have on Bangladesh's apparel exports to the USA, one would need to examine the composition of the country's apparel exports at a disaggregated level and locate the item-wise overlaps with its potential competitors from SSA and the CBI countries.

3.2 Disaggregated Comparison of Apparels Exports from SSA and CBI Countries

Results of a comparative disaggregated analysis of apparel exports basket of Bangladesh with respect to SSA and CBI countries have been reported in Table-2 and Table-3. Table 2 presents the export value of different categories of apparels for which Bangladesh's export values exceeds \$ 30 million annually. On the other hand, Table 3 depicts items of relatively low export intensity, i.e. for which Bangladesh's exports do not exceed \$ 30 million per category.

Table 2 reveals that there are *at least 15 categories* of apparels (at three digit level of disaggregation) of "high" export interest to Bangladesh (more than \$ 30 million annual export receipt per category) which also figure prominently in the export baskets of the major clothing exporting countries from SSA and CBI. These include non-knit shirts (340), cotton trousers (347), knit-shirts (338), baby garments (239), various cotton apparel (359), coats (634), slacks (348) etc. The CBI countries which closely proximate Bangladesh's export structure in this respect are Dominican Republic, Guatemala and Honduras. None of the SSA countries compete significantly in all categories of clothing which are of high export interest to Bangladesh.

According to Table 3, there are *18 apparel categories* which are of relatively "low" export interest to Bangladesh (i.e. between \$10-30 million annual export receipts per category). Important items of this group of apparels include knit-blouse (339 & 639), dress gown (350), playsuit (237) etc. Mauritius seems to be the only country which is active in all those export categories.

Table 2

Export Performance of SSA and CBI Countries in 15 Items of “High” Export Interest to Bangladesh (1999)
(Categories for which exports from Bangladesh exceed \$ 30 million)

Country	Baby Garments /ACC	Knit Shirts MB	Non-Knit Shirts M	Non-Knit Blouse WG	Cotton Trouser MB	Slacks WG	Cotton Nightwear and Pajamas	Cotton Underwear	Other Cotton Apparel	Other Coats M	Coats WG	Knit Shirts M	Trousers M	Slacks WG	Other Apparel MMF
	Q-239	Q-338	Q-340	Q-341	Q-347	Q-348	Q-351	Q-352	Q-359	Q-634	Q-635	Q-638	Q-647	Q-648	Q-659
Bangladesh	56.55	64.93	182.13	121.15	167.05	69.90	36.16	87.53	198.56	61.96	37.50	47.23	58.69	31.92	92.36
Costa Rica	51.46	48.63	26.03		154.06	45.61	8.09	156.37	1.90	1.97	2.57	4.19	13.25	9.25	25.55
Dominican Republic	47.50	129.22	24.50	2.79	462.77	222.21	42.45	278.93	40.42	5.89	13.67	38.76	168.48	45.05	73.58
Guatemala	33.46	143.52	83.16	14.59	148.59	116.70	16.06	17.59	8.12	11.15	45.01	8.19	12.58	54.60	10.16
Honduras	43.14	520.59	125.05	3.63	161.07	105.46	10.94	436.74	5.27	6.43	3.70	115.05	47.48	17.17	14.97
Jamaica		37.31	11.76		12.52	10.33	0.71	123.10	1.33				4.27		10.67
El Salvador	20.68	248.19	74.94	5.78	42.26	62.98	19.26	289.78	6.31	6.44	15.10	65.25	16.49	21.84	12.38
Mauritius		18.87	44.93	5.31	62.65	51.38	0.63					3.08	0.27		0.69
South Africa		20.91	6.83		14.11	11.05	2.00			0.93		1.33			
Lesotho		8.30			40.36	25.21						0.75			

Note: MB – Men and Boys
 WG – Women and Girls
 MMF – Man Made Fibre

Source: US Department of Commerce, Office of Textile and Apparels

Table 3

Export Performance of SSA and CBI Countries in Items of “Low” Export Interest to Bangladesh (1999)
(Categories for which export from Bangladesh range between \$ 10 – \$ 30 million)

Country	Playsuit, Sansui	Other Coats MB	WG Cotton Coats	Cotton Dresses	Knit Blouse	Cotton Skirts	Cotton Sweater	Dress, Gown	Pile Towels	Other Cotton Manufactures	Dresses	Knit Blouse W	Non-Knit. Blouse W	Down Coats M	Other Manufactures MMF	Flat Goods	S/V Woven Shirts	S/V Trousers M
	Q-237	Q-334	Q-335	Q-336	Q-339	Q-342	Q-345	Q-350	Q-363	Q-369	Q-636	Q-639	Q-641	Q-653	Q-669	Q-670	Q-840	Q-847
Bangladesh	28.33	13.06	12.22	14.40	24.88	14.43	11.77	11.77	15.95	25.88	13.48	22.79	17.17	14.66	16.56	16.38	25.14	13.27
Costa Rica					9.22			0.68				3.68	5.29					
Dominican Republic	0.099	3.65	1.12	2.88	121.85	6.44		5.60		3.54	9.98	24.63	9.25		15.47	26.15	0.04	20.17
Guatemala	1.60	5.23	3.18	7.89	227.18	7.52	0.92	6.52		1.58	50.71	17.29	35.72		1.30		1.22	1.78
Honduras	6.41			3.09	209.88	1.12		2.19			8.89		6.73		1.27	1.98		
Jamaica					15.36			0.67										
El Salvador	0.92		2.99	9.85	99.13	5.85	3.05	4.90	14.18	0.76	42.50	20.16	13.70			3.77	0.39	2.10
Mauritius	0.35		1.60	1.41	14.78	4.56	0.90					5.79						
South Africa		3.41			22.76		0.77								1.00			
Lesotho			0.28		32.47							1.34						

Source: US Department of Commerce, Office of Textiles and Apparel

Supply Capacity

It is possible that many of the SSA and CBI countries will acquire a competitive edge in the US market within the context of a quota-free duty-free regime. However, the extent to which they will be able to utilise this opportunity will depend on their *supply capacity*. In this context, *the quota fill rates of major items of the competing CBI and SSA countries may be used as a proxy indicator of their current supply capacities.*

Table 4
Fill Rates of Major Items of Bangladesh and CBI Countries

(as on 31/12/1999)

Countries	Cotton Knit Shirts Q-338/339	Non-Knit Shirts Q-340/640	Cotton Trousers Q-347/348	Nightwear/ Pajamas Q-351/651	Underwear Q-352/652
Bangladesh	88.8	87.3	100	81.1	95.6
Costa Rica		32.6 (2.8) ¹	87.1 (63.9)		
Dominican Republic		59.4 (19.1)	89.6 ² (96.8)	83.8 (84.6)	
Guatemala		74.7 (32.4)	91.4 (85.9)	96.1 (40.9)	
Jamaica	23.4 ³ (52.8)	15.8 (15.9)	6.2 ⁴ (16.6)		14.1 (83.9)
El Salvador		85.2 (22.5)			
Mauritius	87.4	42.7	99.6	3.8	0.1

¹ Figures in parentheses represent quota fill rate under "Guaranteed Access Level" category.

² Quota Fill Rate in merged categories 347/348/647/648

³ Quota Fill Rate in merged categories 338/339/638/639

⁴ Quota Fill Rate in merged categories 347/348/647/648

Source: US Customs Service Textile Status Report

As may be observed from Table 4 that the fill rates of certain countries for specific products have approached saturation level in 1999. For example, Costa Rica, Dominican Republic and Guatemala for *cotton trousers (347/348)*, Guatemala and El Salvador for *non-knit shirts (340/640)*, and Dominican Republic and Guatemala for *nightwear /*

pajamas (351/651).⁹ It may be further noted from Table 4 that Mauritius is having high quota filling rate, particularly for *cotton trousers* and *cotton knit-shirts*.

In fine, our analysis reveals that there is a handful of CBI countries which compete with Bangladesh for US markets in a number of apparel items of high export interest to Bangladesh. Incidentally, the quota fill-in rates of these countries with respect to a number of these items are also quite high. Accordingly, availability of a quota-free and duty-free regime will allow them to expand their apparel exports to US markets which may lead to trade diversion in favour of the CBI countries in the short run from other sources (including Bangladesh). However, in the medium term (2-4 years), if the SSA countries can put together the necessary production facilities, then these countries may also emerge as competitors for Bangladesh in apparel exports to US markets. How effective these potential competitors will be will depend on the price competitiveness of their exports.

3.3 Influence of TDA2000 on Cost Competitiveness

All other things remaining unchanged two major factors will underwrite the prospect of enhanced price competitiveness of the apparel exports for SSA and CBI countries to the US markets following the adoption of TDA2000. *First*, the magnitude of tariff concession obtained through the TDA2000. *Second*, the price implication of sourcing inputs from the USA (for meeting eligibility criteria). These two issues have been discussed below.

Tariff Rates

Since the post-Uruguay Round tariff rates in many of the apparel categories continue to remain high so that advantages accruing from zero-tariff access to US markets is substantial. As Table 5 indicates the current average tariff on items of high export interest to Bangladesh is to the tune of 20-22%. For low export value items, an area of comparative advantage for Bangladesh, there are also tariff rates above 20%.

⁹ Unfortunately, information on fill rates of Honduras, an important competing source of export for Bangladesh could not be retrieved from the relevant website.

Accordingly, a more than 20% tariff concession will definitely put non-partner countries under the TDA2000 (Bangladesh including) into a severely disadvantageous position.

Table 5
Tariff Rates of Selected Apparel Categories

Bangladesh's Exports exceeding \$ 30 million		Bangladesh's Exports between 10-30 million	
Items	Avg. Tariff Rate (%)	Items	Avg. Tariff Rates (%)
Knit-shirts MB	22.2	Dresses	13.5
Non-knit Blouse WG	19.77	Coats MB	17.8
Cotton Trousers MB	16.6	Cotton Coats WG	8.9
Non-knit Shirts M	21.03	Knit Blouse	20.77%

Source: BGMEA

Sourcing of Fabrics and Yarn

The above mentioned analysis shows that both quota free as well as zero-tariff access will provide a number of Caribbean countries with a competitive edge over Bangladesh. It should, however, be noted that the rules of origin requirement under the TDA2000 will act as a deterrent in terms of accessing these facilities by most of the Caribbean (and SSA) countries since traditionally both yarn and fabrics are sourced by these countries from outside the USA.

However, information provided in Table 6 reveals that a number of apparel exporting countries from the CBI are already sourcing a large amount of their yarn and fabrics from the USA. For example, Dominican Republic and Honduras imported fabrics from the USA in 1999 amounting to \$ 144.32 million and \$ 128.84 million respectively. Import value of yarn from USA by these two countries were also substantial - \$ 35.6 million and \$ 39.37 million respectively. Unfortunately, lack of immediate access to information on the total value of fabrics and yarn import of these countries did not allow us to ascertain the share of USA in these imports.

It is maintained that the USA is not the globally cheapest source of fabrics and yarn. Is there an opportunity for the SSA and CBI countries to source their inputs from the USA and to still remain competitive in the US market vis-à-vis other countries such as

Bangladesh? In order to come to a definitive conclusion in this respect one needs to have information on price differential by source; unfortunately, such data is for the moment, not available to CPD. Nevertheless, it may suggested that if such input price differentials are less than 20%, then the beneficiary countries under the TDA2000 have a fair chance in increasing their market share of apparel exports to the USA. If one adds the locational advantage of the CBI countries such prospect becomes brighter.

Table 6
Fabrics and Yarn Imports from the US by Selected Countries (1999)
(US\$ in Million)

Countries	Fabric Imports from the USA	Yarn Imports from USA
Bangladesh	13.21	-
Costa Rica	58.95	14.80
Dominican Republic	144.32	35.65
El Salvador	41.73	6.30
Guatemala	46.06	6.56
Haiti	9.85	1.53
Honduras	128.84	39.37
Jamaica	16.54	1.87
Nicaragua	1.703	0.65

Source: US Department of Commerce, Office of Textiles and Apparel

IV TDA2000: DEFINING BANGLADESH'S POSITION

The analysis presented in the preceding sections suggests that the *US Trade and Development Act 2000* is going to influence, by design or by default, the future apparel export performance of Bangladesh in the US market. Beneficiaries of the TDA2000, CBI countries particularly, are major exporters of apparels to the US and there is a strong overlap of the category composition of their apparel exports with that of Bangladesh. Moreover, these countries have demonstrated high quota utilisation rates in cases of items of high export interest to Bangladesh. A zero-tariff (implying in many case more than 20% tariff preference) and quota-free access for the apparel products of the CBI (and SSA) countries will definitely pose a formidable export challenge to Bangladesh in the near future.

Some of the effects of the TDA2000 may be felt in the short run in terms of trade diversion in favour of the CBI countries, while, in the medium run (2-4 years) such competitive pressure may also emanate from SSA countries. Under the circumstances, Bangladesh may evolve and pursue a multi-layered approach to face the emerging challenges posed by TDA 2000. A number of elements involved in designing our response have been briefly discussed below. *It cannot be overemphasised that close cooperation between the Government of Bangladesh (GOB) and the Bangladesh Garments Manufacturers and Exporters Association (BGMEA) in designing and implementation of each of these steps is absolutely essential.*

(a) Need for a Conclusive Assessment

Building on the findings of the present brief, an *impact study* may be carried out as early as possible. The study may be commissioned by the BGMEA. The study may take a detailed look at the price competitiveness issue subsequent to the TDA2000. The supply and demand aspects may also be included in the proposed study.

(b) Call for Extension of the Facility on an LDC Basis

The GOB and the BGMEA should point out that providing certain *non-LDC* countries of SSA the same treatment (in terms of preferential access to inputs) as LDCs of SSA, whilst not agreeing to provide similar treatment to non-African LDCs goes against the fundamental norms of fair trading and is divisive. This argument substantially strengthens the demand of the LDCs outside the purview of TDA2000 to be given similar preferential treatment by the US government. Currently 33 of the 48 LDCs (according to the UN definition) are covered by the Act. The excluded LDCs belong to the Asia-Pacific region,¹⁰ a relatively poor region in the world, where a number of countries such as Bangladesh and Nepal have strong interests in the apparels sector.

(c) Call for Extension of the Facility on a Bilateral Basis

Building a case on the possible (unintended) negative impact of the TDA200 on Bangladesh's future export performance, the GOB could urge the USG to extend the

¹⁰ Excepting Haiti in the Caribbean Basin.

zero-tariff and quota-free facility in offered under the TDA to Bangladeshi apparels as well on a bilateral basis. Concurrently, Bangladesh could strengthen her argument for quota expansion (to 30%) in the US market (in place of 17% as envisaged under the second stage of MFA phase-out). Bangladesh has been arguing for such an expansion for quite some time and the TDA2000 strengthens the validity of Bangladesh's request.

(d) Take the Issue to Multilateral Fora including WTO

In the course of the preparatory work for the Seattle Ministerial of the WTO, the LDCs had been arguing that they be given zero-tariff access to the markets of the developed countries. As a matter of fact, the draft proposal submitted by the EU did contain such a provision. The most notable exception, at that time, in supporting the said proposal had been the USA. In view of the subsequent developments and the enactment of TDA2000, the case for zero-tariff and quota-free market access for all the 48 LDCs has now acquired substantially greater relevance in the discourses at the WTO.

In this respect, Bangladesh should utilise all other inter-governmental platforms for propagating its case. It should particularly make a strong plea in this regard at the forthcoming *Third UN Conference on the LDCs* to be hosted by the EU in Brussels in 2001.

(e) Argue for Inclusion of S&D Status for LDCs in the ATC

The ATC allows for meaningful increases in access possibilities for small suppliers and the development of commercially significant trading opportunities for new entrants in the field of textiles and the clothing trade. The LDCs could demand zero-tariff and quota-free access to all developed country markets on the basis of the *letter and spirit* of Article I of the ATC. Now that the United States has provided this facility to two-thirds of the LDCs, it should be urged upon to take a further initiative to bring about suitable amendments to the ATC in the WTO in order that such facilities be also extended to all the LDCs.¹¹

¹¹ A separate CPD Policy Brief is being prepared on this issue.

(f) Need for Increased Campaign in the USA

- (i) A joint high-level team could visit USA for presenting Bangladesh's case to the Congress and Department of Commerce, Office of Textiles and Apparel as well as to the US media.
- (ii) Bangladeshi diaspora living in the USA may be encouraged to approach their respective Congressmen and Senators to solicit support for Bangladesh's case. Indeed the Afro-American caucus in the USA played an important role in the passage of TDA2000 through Congress.
- (iii) Support of leading representatives of Bangladesh's *civil society* having strong networks and links in the USA may be enlisted for the cause.
- (iv) Services of a lobbyist may be availed in the USA to promote the case of Bangladesh in the US Congress.
- (v) Adequate preparation is to be made so that the Prime Minister can place the issue to the US President during her visit to Washington in next October.

Background Document for the Policy Brief

USA Trade and Development Act of 2000: Salient Features

The US Trade and Development Act of 2000 consists of the following six Titles:

<i>Title I</i>	<i>Extension of Certain Trade Benefits to Sub-Saharan Africa</i>
<i>Title II</i>	<i>Trade Benefits for Caribbean Basin</i>
<i>Title III</i>	<i>Normal Trade Relations for Albania and Kyrgyzstan</i>
<i>Title IV</i>	<i>Other Trade Provisions of the TDA2000</i>
<i>Title V</i>	<i>Imports of Certain Wool Articles</i>
<i>Title VI</i>	<i>Revenue Provisions</i>

Title I: Extension of Certain Trade Benefits to Sub-Saharan Africa (African Growth and Opportunity Act)

Background

The “African Growth and Opportunity Act” was introduced with an objective to promote stable and sustainable economic growth and development in Sub-Saharan Africa.¹² US policy makers perhaps were influenced by the thought that offering enhanced trade preferences and encouraging the reciprocal reduction of trade and investment barriers in the sub-Saharan countries would increase the benefits of trade and investment for the region and would also enhance commercial and political ties between the United States and sub-Saharan Africa.

Statement of the Policy

The major incentives to be provided to the sub-Saharan African countries under the Act are as follows:

- Encouraging increased trade and investment between the two counterparts.
- Reducing tariff and non-tariff barriers and other obstacles to trade between sub-Saharan Africa and US.
- Expanding US assistance to sub-Saharan Africa’s regional integration efforts.
- Negotiating reciprocal and mutually beneficial trade agreements including possibility of establishing free trade areas that serves the interests of both the parties.

¹² Sub-Saharan Africa includes almost all the countries of Africa except Algeria, Egypt, Libyan Arab Jamahiriya, Morocco and Tunisia.

- Strengthening and expanding the private sector in sub-Saharan Africa, especially enterprises owned by women and small businesses.
- Facilitating the development of civil societies and political freedom in sub-Saharan Africa.

Eligibility Requirements

According to the Act, a sub-Saharan country is eligible for the benefits if the country

- has satisfied the basic eligibility criteria of the *U.S Generalized System of Preferences (GSP)* which applies to all developing countries. Additional to this requirement, it must fulfil the conditions specified in the “Harkins-Helms Amendment” to eliminate the worst forms of child labour such as slavery, indentured servitude and child prostitution;
- has established or is in the process of establishing a market based economy that ensures rules-based trading system, protects private property rights and minimizes government interference in the economy by any means;
- has taken steps to eliminate different barriers to United States trade and investment;
- has undertaken economic policies to reduce poverty, introduced a system to combat corruption and bribery, increased the availability of health care and educational opportunities, expanded physical infrastructure, promoted the development of private enterprises and encouraged capital market development through micro-credit or other programmes;
- has the protection of internationally recognized worker rights including the right of association, the right to organize and bargain collectively, prohibition regarding the minimum age for the employment of children and acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health.

Who are the Beneficiaries?

Under the above mentioned criteria, the US Congress has determined the following 48 countries of sub-Saharan Africa to be eligible for the benefits:

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central Africa, Chad, Comoros, Democratic Republic of Congo, Republic of the Congo, Cote d’Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia and Zimbabwe.

Trade Benefits

The benefits under the Act will be offered from October 1, 2000 and the treatment will continue until September 30, 2008. During that period, the eligible sub-Saharan countries will be entitled to receive the following benefits:

Preferential Access

Under the Act, the US Government will eliminate existing quotas applied under the *Uruguay Round Agreement* on Textiles and Clothing (which applied only to Kenya and South Africa and generally went unfulfilled). Moreover, the US Government will provide the beneficiary sub-Saharan countries duty-free and quota-free access to the following textile and apparel products:

- Apparel articles assembled in the beneficiary countries from US made fabrics made from yarns wholly formed and cut in the United States;
- Apparel articles cut in the beneficiary countries from US made fabrics made from yarns wholly formed in the United States, if such articles are assembled in those countries with thread formed in the United States.
- Apparel articles assembled in the beneficiary countries from their own fabrics made from yarns originating either in the United States or one or more beneficiary countries. Under this category, in the first year beginning on October 1, 2000, the total import of such items shall not exceed 1.5 percent of the aggregate square meter of all apparel articles imported into the United States in the preceding 12-month period. The percentage will increase by equal increments in the following seven-year periods so that the percentage does not exceed 3.5 percent in the period beginning on October 1, 2007.
- Apparel articles wholly assembled in Lesser Developed Countries (the countries having per capita income less than US\$ 1500 a year in 1998) regardless of the country of origin of the fabric used to make such articles. This special benefit will be extended through September 30, 2004.
- Apparel articles that are cut, sewn and assembled in the beneficiary countries from fabrics or yarns formed in a third country only if these materials are not available in commercial quantities in the United States.
- More items can be included for preferential treatment if the designated authority finds that such items cannot be supplied by the domestic industry in commercial quantities.

The Act would also extend duty-free treatment to other articles previously excluded from the *Generalized System of Preferences* (GSP), including Petroleum, watches, certain electronic and steel articles, footwear, handbags, flat goods, and glass products, among others.

Penalty Provisions

If it is found that an exporter has engaged in transshipment, then the US authority will deny all benefits for a period of 5 years to that exporter, any successor of that exporter, and any other entity owned or operated by the principal of the exporter. The event of transshipment will occur when preferential treatment has been claimed on the basis of material false information concerning the country of origin, manufacture, processing, or assembly of the article or any of its components.

Safeguard Clause

If the designated authority determines after examination that a domestic industry has been seriously damaged or threatened by the increased import of any article, then the US Government will suspend the preferential trading facilities for that commodity.

Other Provisions

The Act adds certain other provisions believed to be necessary to the success of the programme established under the *African Growth and Opportunity Act*. Those include:

- (1) encouraging the negotiation of trade-liberalizing agreements with interested Sub-Saharan Africa trading partners,
- (2) the permanent establishment of an Assistant United States Trade Representative for African Affairs,
- (3) a sense of the Congress resolution regarding the need for comprehensive debt relief for the world's poorest countries (most of which are in Sub-Saharan Africa),
- (4) targeting of U.S technical assistance to foster the goals of the conference agreement with respect to Sub-Saharan Africa,
- (5) encouraging the development of a special equity fund fostering investment in Africa at the U.S Overseas Private Investment Corporation,
- (6) directing the expansion of U.S Commerce Department initiatives designed to foster the development of African markets for U.S exports,
- (7) the donation of air traffic control equipment no longer in use in the United States to eligible Sub-Saharan Africa countries,
- (8) a sense of the Congress relating to efforts to combat desertification, and
- (9) authorization of a study regarding potential improvements in Sub-Saharan agricultural practices.

In addition to the above-mentioned provisions, the Act also contains two provisions toward the development of a comprehensive U.S strategy to assist Sub-Saharan African countries to combat the scourge of AIDS. The provisions include establishment of an HIV/AIDS Response Fund to provide for coordination of public and private sector efforts.

Title II: Trade Benefits for Caribbean Basin (United States Caribbean Basin Trade Partnership Act)

Background

Under the *United States-Caribbean Basin Trade Partnership Act*, the US Government has taken initiative to expand international trade with the Caribbean Basin region as an 'enduring solution for successful economic growth and recovery'. The US Administration believes that the enactment of such an Act would enable the Caribbean Basin countries to strengthen their economies in the wake of destruction by Hurricane Mitch. This legislation also fulfills commitments expressed over the past four years by the US Government to provide Caribbean Basin countries trade benefits additional to those they now receive under the *Caribbean Basin Initiative (CBI)*.

Eligibility Criteria

The CBI countries that meet the following requirements will be considered as the beneficiaries of the Act:

- undertake its obligations under the WTO;
- participate in negotiations toward the completion of the *Free Trade Area of the Americas (FTAA)* or another free trade agreement;
- provide protection of intellectual property rights according to the *Uruguay Round Agreements Act*;
- follow the conditions of the "Harkins-Helms Amendment" to eliminate the worst forms of child labour such as slavery, indentured servitude and child prostitution;
- provide internationally recognized worker rights such as the right of association, prohibition regarding the minimum age for the employment of children, working hours, wage limit etc.

The Beneficiaries

Twenty-four countries and territories in the Caribbean and Central America benefit from the existing CBI programme, and are potential beneficiaries of the *Caribbean Basin Trade Enhancement Act (CBTEA)*. These are: Antigua, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

Trade Benefits

The trade benefits to the beneficiary countries will be extended from October 1, 2000 and the process will continue until September 30, 2008. The original *Caribbean basin Economic Recovery Act* excluded certain products as did the *Generalized System of Preferences* (GSP). The newly enacted Act would now extend preferential treatment to such articles subject to the special rules affecting textile and apparel products. Within the transition period, the beneficiary countries will be entitled to duty-free and quota-free access to the following textile and apparel items:

- Apparel articles assembled in the beneficiary countries from US made fabrics from yarns wholly formed in the United States.
- Apparel articles cut in the beneficiary countries from US made fabrics from yarns wholly formed in the United States, if such articles are assembled in those countries with thread formed in the United States.
- Apparel articles knit to shape (other than socks) in a beneficiary country from yarns wholly formed in the United States. The articles also include the knit items (other than T-shirts) cut and wholly assembled in the beneficiary countries from their own fabrics or US made fabrics made from yarns formed in the United States. The amount shall not exceed 250,000,000 square meter during the 1-year period beginning on October 1, 2000 and this amount will increase by 16 percent compounded annually in each succeeding 1-year period through September 30, 2004. For the next four years each, the amount will be equal to that amount reached on September 30, 2004. The amount restricted for the T-shirts is 4,200,000 dozens in the first year. The same rule of calculation is also applicable for this category.
- Apparel articles assembled in the beneficiary countries from fabrics or yarns formed in a third country only if these materials are not commercially available in the United States.
- More items can be included for preferential treatment if the designated authority finds that such items cannot be supplied by the domestic industry in commercial quantities.

Penalties

If the proper authority determines, based on evidence, that an exporter has engaged in transshipment with respect to textile or apparel articles from a beneficiary country, then it will deny all benefits under the Act to such exporter, and any successor of such exporter, for a period of 2 years. Under these circumstances, the US Government will request the concerned beneficiary country to take necessary steps to reduce transshipment. If the beneficiary country fails to take appropriate actions, the US Government will reduce the quantities of textile and apparel articles to be imported from that beneficiary country by the quantity of the transshipped articles multiplied by three.

Safeguard Clause

If the designated authority determines after examination that a domestic industry has been seriously damaged or threatened by the increased import of any article, then the US Government will suspend the preferential trading facilities for that commodity.

Other Provisions

The Act includes certain other provisions that the conferees determined would be helpful in fostering stronger trading links with the CBI region. Those include:

(1) providing duty-free treatment to certain beverages made with Caribbean rum and (2) encouraging annual meetings between the *United States Trade Representative* and trade ministers from beneficiary countries in the CBI region with a view toward initiating trade liberalising negotiations with interested beneficiary countries.

Title III: Normal Trade Relations for Albania and Kyrgyzstan

The TDA2000 extends normal trade relations status to Albania and Kyrgyzstan. Both have acceded to the *World Trade Organization* (WTO), as a result of which the United States is obliged, under the terms of its own participation in the WTO, to extend normal trade relations status under U.S law. That involves excluding them from the ambit of the *Jackson-Vanik Amendment* which applies to former member to states of the Soviet Union.

Title IV: Other Trade Provisions of the TDA2000

The other provisions included in the *Trade and Development Act of 2000* are as follows:

- ◆ directions to the *General Accounting Office* (GAO) to prepare a report on the effectiveness of current *trade adjustment assistance* (TAA) programmes and other federal and state job training programmes;
- ◆ provision of TAA benefits workers that were previously certified for such benefits in connection with the retirement of certain nuclear power facilities in Oregon; reliquidation at zero rate of duty of certain nuclear fuel rod assemblies; requirements that certain trade-related reports provided for under section 607 of the *Foreign Operations, Export Financing, and Related Appropriations Act, 1999*, the *International Financial Institutions Act*, and section 629 of the *Treasury and General Government Appropriations Act, 1999*, be forwarded to the *Senate Finance and House Ways and Means Committees*;
- ◆ implementation of rules of origin applicable to imports of certain flat goods made from silk, cotton, man-made and vegetable fibres in order to implement ad agreement reached with the European Union resolving a prior dispute regarding such rules of origin; establishment of a permanent chief agriculture negotiator in the Office of the *United States Trade Representative* (USTR);
- ◆ requirements that the USTR regularly rotate products identified on any list of goods subject to retaliatory sanctions resulting from a trade dispute;

- ◆ requirement that the Secretary of Labour, in consultation with the Secretary of Agriculture, report efficacy of current TAA programmes as they apply to American farmers and provide recommendations on means by which such programmes might be improved in order to effect their original intent that farmers be covered;
- ◆ directions to the *US Customs Service* to provide for weekly entry of merchandise produced in foreign trade zones to effect the intent of Congress as previously expressed in the *Customs Modernization Act*, which passed as part of the NAFTA implementing legislation in 1993; and
- ◆ clarification that section 307 of the *Tariff Act, 1930*, which authorizes the Customs Service to deny entry to imports manufactured with forced or indentured labour, includes forced or indentured child labour within its existing scope.
- ◆ The final provision of Title IV contains the conference agreement regarding the *Harkins-Helms Amendment* discussed above with respect to the benefits extended under Titles I and II of the conference agreement, as well as under the existing GSP programme.

Title V: Imports of Certain Wool Articles

Title V would, consistent with the policy statement on tariff inversions contained in the Senate bill, reduce the impact of certain tariff inversions affecting the manufacture of certain apparel from worsted wool fabric. Title V would reduce tariffs on imports of worsted wool fabric, certain worsted wool yarn, and fibre beginning January 1, 2000, for a period of three years. In addition, Title V would also allow for the refund of duties currently paid on such items based on amounts imported of those items by individual producers of the identified apparel items, the fabric, and the yarn during calendar year 1999. Title V would direct the creation of a fund for research and market development regarding production of improved wool fibre in the United States.

Title VI: Revenue Provisions

Title VI includes two revenue provisions. The first authorises the President to waive the application of section 901(j) of the *Internal Revenue Code* which denies foreign tax credit treatment to taxes paid to the local government on income earned in certain countries previously identified as supporters of international terrorism. The President's waiver authority is subject to two conditions – (1) the President must determine that such waiver is in the national interest of the United States and that will expand trade opportunities for the U.S. companies in such countries and (2) the President must report to the Congress in not less than 30 days before granting the waiver, setting out his reasons for granting the waiver.

The second revenue provision would accelerate the rum excise tax cover overpayments to Puerto Rico and the Virgin Islands currently provided under section 7652 of the *Internal Revenue Code*, subject to certain clarifications as to the conditions that apply to such payments.