



Event Summary : Virtual Technical Consultation

**Towards a Transformed and
Revitalized Trade and Economic
Partnership with the EU: Issues and
Priorities for Bangladesh**

22 August 2022 | Monday | 03:00 pm (BST)

Organized by



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Research and Policy Integration for Development (RAPID) and Friedrich-Ebert-Stiftung (FES) Bangladesh jointly organised a virtual technical consultation titled “Towards a Transformed and Revitalised Trade and Economic Partnership with the EU: Issues and Priorities for Bangladesh” on August 22, 2022. The zoom event was attended by government officials, private sector representatives, experts from academia, and members of the news media. Several key points came out during the discussion regarding the potential for economic partnership between the EU and Bangladesh.

Towards a Transformed and Revitalized Trade and Economic Partnership with the EU: Issues and Priorities for Bangladesh

22 August 2022 | Monday | 3:00-4.30 p.m. (BGD Time)  Meeting ID: 832 0335 3141, Passcode: 447406

Chief Guest	Guest of Honour	Moderator	Trigger Presentation	
 Mr. Tapan Kanti Ghosh Senior Secretary, MoC, GoB	 Dr. Delwar Hossain Member, BPSC Professor, IR, DU	 Dr. Mustafizur Rahman Distinguished Fellow, CPD	 Dr. M A Razzaque Chairman, RAPID Director, PRI	
Panellists				
 Dr. Amena Mohsin Professor, IR, DU	 Dr. Mostafa Abid Khan Former Member, BTTC	 Dr. Syed Muntasir Mamun DG (Int. Trade & Investment), MoFA	 Mr. Rizwan Rahman President, DCCI	 Mr. Md. Abdur Rahim Khan Additional Secretary, MoC
 Ms. Salma Akhter Professor, Sociology, DU	 Dr. Mahfuz Kabir Research Director, BISS	 Dr. Lailufar Yasmin Professor, IR, DU	 Mr. Md. Humayun Kabir Joint Secretary, MoLE	 Mr. Mohammad Jahirul Quayum Deputy Secretary, MoF

 

At the outset of the consultation, **Dr. Mustafizur Rahman**, Distinguished Fellow of CPD and moderator of the event, welcomed guests and panelists along with everyone. On behalf of RAPID, **Dr. M Abu Eusuf**, Executive director of RAPID and Professor of Development Studies at Dhaka University, delivered his welcome remarks.

Mr. Shadhan Kumar Das, the Programme Coordinator of FES Bangladesh, also delivered his welcome remarks and highlighted the importance of attaching priority to transforming trade and economic partnership with the EU.

Dr. M A Razzaque, Chairman of RAPID, delivered the trigger presentation. He noted that the current Bangladesh EU Trade and Economic Cooperation are changing fast. Exports to the European Union are about 45% of the country's total merchandise export being the source of 80 percent of preferences. The share of Bangladesh in extra-EU extra apparel imports has grown taking advantage of the European Union trade performances. The European Union has become a significant development partner providing development assistance providing 10% of all overseas development assistance (ODI) to Bangladesh. Over the past five years, EU institutions and individual human countries contributed \$2.3 billion in foreign aid and extended budgeted support for social protection and the Rohingya refugee crisis. The European Union is also a significant source of foreign direct investment receiving nearly \$254 million FDI net inflow in 2021 with \$3.5 billion in the last 5 years.

Dr. M A Razzaque also noted that Bangladesh's EU relationship is now set to see major developments. Other developing countries are entering trade negotiations and trade agreements with the European Union that are going to affect Bangladesh's trade prospects. Bangladesh will also be affected by the upcoming EU Green Deal and Environmental, Social, and Governance (ESG) with the European Union. So, those are the issues Bangladesh needs to deal with and prepare for in the coming days. He also highlighted emerging development like LDC graduation in 2026 and the new EU GSP scheme. The European Commission has already proposed a new GSP draft for the 2024-34 period. But in essence, Bangladesh will continue to retain the current level of market access until 2029. Then, Bangladesh can apply for GSP+ based on both vulnerability criteria and sustainable development criteria. Bangladesh already qualifies for the vulnerability criteria and needs to fulfill the sustainable development criteria by ratifying and implementing 32 international conventions (20 have already been ratified and others are being assessed). However, effective implementation remains an issue in Bangladesh.

Dr. M A Razzaque pointed out another key issue for Bangladesh with the drafted EU GSP regime proposals getting adopted as is. Even if Bangladesh qualifies for the GSP+, the textile and clothing exports could face EU safeguard measures leading to no tariff concessions or preferences paying on average 11.6% MFN tariffs. While sectors like essential leather and leather goods can benefit from GSP+ (5% MFN tariff to Zero), Bangladesh will also face stricter rules of origin (RoO) requirements increasing minimum value addition from 30% to 50% for non-clothing exports. RoO for the clothing and apparel will change to a double stage from the single stage which is likely to put pressure on the woven garments sector in particular.

Dr. M A Razzaque also focused on the implications for EU ODA prospects with LDC graduation. The EU individual member states do not consider LDC status for their aid allocation except for Germany. For Germany, some of the grants are likely to transform into constitutional loans for Bangladesh. Now, there are initiatives within the EU to allocate 0.15% to 0.20% of the EU's gross national income (GNI) to ODI for the LDCs by 2030. However, a major concern would be

growing debt stock. For ODA, the larger concern should not be decreasing ODA, but managing our balance of payments against the ODA commitments.

Dr. M A Razzaque also noted the growing competition with other countries that are negotiating trade agreements with the EU. Vietnam has recently got an FTA deal with India, Singapore, and Indonesia negotiating FTAs. With increasing FTAs, Bangladesh's trade preferences could get eroded and competitiveness could get undermined because of that. Under the EU Vietnam FTA deal enforced in August 2020, tariffs on Vietnam will be reduced over 7 years from 10% to 0% by 2027. With rising tariffs for Bangladesh under the proposed GSP scheme. On the other hand, the nation is likely to face tremendous competitive pressure, particularly regarding textiles and clothing exports.

Dr. M A Razzaque also presented the significance of the EU Green Deal and ESG compliance for Bangladesh. The EU is going to collect information from all importers regarding the emissions embedded into their goods during 2023-25 under the EU green deal. From 2026 onwards, EU importers will have to pay for those emission-embedded goods. Six sectors will be the initial subject to this carbon border adjustment mechanism- cement, iron and steel, aluminium, fertiliser, and electricity. If the coverage of the carbon border adjustment mechanism is expanded into the apparel sector, Bangladesh could face major consequences due to having no comparable domestic market as that of comparator countries like China, India, and Vietnam. They have already established their domestic carbon market. The EU is promoting Environmental, social, and governance (ESG) in trade and investment through rules and regulations. with 90% of European consumers sensitive to the sourcing and sustainability of goods. Long-term sourcing decisions are increasingly being subject to ESG factors like workplace safety, labor conditions, and environmental compliance which need improvements in Bangladesh to achieve the European standards. Corporate sustainability and supply chain regulations are being passed to ensure due diligence and ESG compliance where companies will be liable to ensure human rights and mental protection within the entire supply chain including issues such as child labor, inadequate health and safety at work, and worker exploitation.

Dr. M A Razzaque recommended developing a national-level consensus on these emerging issues and the policy shifts that are taking place in the European Union. Bangladesh already has mapped out long-term development plans such as the 8th five year plan, Perspective Plan 2041, and Delta Plan 2100, but significant discussions need to take place on how to deal with those aligning the current shifting landscape with national development plans. He suggested a longer-term strategy or an action plan that includes reform and financing options concerning the EU trade and business prospects. Adapting ESG-related compliances in both exporting and domestic sectors is going to be the determining factor of export success in the future. Domestic ESG adoption can lead to diversifying products for exports by increasing accessibility and permission in new markets. Bangladesh should move ahead fast for a trade and investment deal with the EU paving the opportunity for making the appropriate reforms required. He concluded with the statement that the significance of the

European Union cannot be overemphasised and this is high time to give this issue adequate attention.

After the trigger presentation, Moderator of Dr. Mustafizur Rahman, Distinguished fellow of CPD, welcomed everyone to the panel discussion. The first panelist to present his opinions was **Mr. Rizwan Rahman**, President of the Dhaka Chamber of Commerce and Industry. He emphasised the need for market diversification, as Bangladesh must not concentrate its export in one major market. Bangladesh can try to get included in the Regional Comprehensive Economic Partnership (RCEP) initiated by China, as RCEP by default has an FTA with the EU. So being a member of RCEP would mean that Bangladesh will also enjoy FTA while trading with the EU. He emphasised the need to develop strong negotiation skills and the capacity to broker the best deals for Bangladesh.

Dr. Mostafa Abid Khan, Former Member of the Bangladesh Trade and Tariff Commission, highlighted that Bangladesh needs to set sight beyond LDC graduation to pursue a long-term strategy for trade in its aspiration to reach Upper Middle-Income Country (UMIC) by 2031. He noted that Bangladesh has not yet been able to diversify its products into the EU market. Product diversification would be necessary to keep the trade competitiveness of Bangladesh. For facing such challenges, he recommends taking up gradual policy reforms for the future of the nation.

Mr. Md. Humayun Kabir, Joint Secretary, Ministry of Labour and Employment, noted that, given the emerging circumstances, having a proper due diligence gap assessment is very important. It is necessary to ensure proper enforcement of the existing laws and provisions. Focusing on labour-related issues, the EU, as an important trade and development partner, has been engaged to uphold labour rights and workplace safety in the country focusing on various dimensions. The cooperation and support from the EU will be crucial in the coming years to achieve the SDG targets and be a developed country by 2041. For environmental, social, and governance compliance, EU countries have seen many new directives such as the due diligence act of France and the supply chain due diligence act of Germany. This indicates a clear transformation from selective criteria-based compliance to comprehensive compliance applicable for direct and indirect suppliers comprising the entire supply chain. In recent years, Bangladesh has passed laws necessary for reforms in the labour sector including amendment of the Bangladesh Labour Act, enactment of EPZ Labour Act, adoption of labour rules, policies on occupational health and safety, and elimination of child labour. Simplifying the trade union registration system and ensuring workplace safety with the support from brands and buyers are being prioritized with increased manpower, budget, and logistics for the Department of inspection for factories and establishments. The action plan can contribute a lot to shaping the future EU-Bangladesh trade relationship by improving labour rights regularly monitored by the EU. However, with the present level of development, the transformation in the EU trade and investment under the next GSP regime will require specific actions, particularly concerning due diligence and GSP regulations. Effective enforcement and monitoring will also be crucial. Logistics and capacity building in the public and private sector is of great importance with effective stakeholders while social dialogue and engagement will play a vital role.

Dr. Amena Mohsin, Professor, International Relations, Dhaka University, pointed out that the EU-Bangladesh relationship is not just about negotiating concessions and preferences, but also about humanity - dealing with environmental concerns. And Bangladesh must contribute to that process. The relationship with the EU must focus on social, cultural, and political dimensions rather than focusing strictly on economic factors. With changing geopolitical landscape, strategic distancing in political relations along with sharpened negotiation skills is necessary for Bangladesh. There needs to be a focus on how 'geo-social' changes have happened in terms of climate, the Covid Pandemic, and recent crises. Bangladesh must ensure connectivity with the EU, especially regarding the human resources sector.

Mr. Mohammad Jahirul Quayum, Deputy Secretary, Ministry of Finance, emphasised continuous and active participation with EU counterparts regarding the new provisions in GSP. He pointed out that after the Rana plaza tragedy in 2013, Bangladesh could avoid the potential EBA suspension through active engagement with the EU and other stakeholders including enterprises and academia. With continuous engagement with the different actors in the EU including policymakers, Parliament members, and trade partners. There is a need to keep in mind that both the EU and Bangladesh are benefitting from such trade. Maintaining relationships with the civil society organizations in Europe is also very important for their influence in policy-making. BGMEA has been very supportive in this regard with a focus on rebranding the organization on the sustainability front as they are keeping pace with the dynamic world order. He recommended that Bangladesh needs to strengthen the backward linkages, production capacity and identify new products for export.

Dr. Syed Muntasir Mamun, Director General (International Trade and Investment), Ministry of Foreign Affairs, emphasised having an assessment of how the EU may evolve in the future not only in trade aspects but also in technology and innovation. He further noted that besides capacity building, the focus should be also given to raising awareness on the issues affecting bilateral relations. He recommended looking at the EU strategy paper for Bangladesh between 2007 and 2013 that shows the focus on sustainable human and social development, good governance, human rights, Economic, trade, and development to diversify industrial pace and improvement for business, environment, and disaster management, and food security and nutrition. He expressed that IT development like AI and blockchain would be key to future trade development and growth in terms of the creative economic space. Building on the RMG model, the nation needs to focus on new technologies and innovations to diversify export items that have high growth potential.

Dr. Mahfuz Kabir, Research Director, Bangladesh Institute of International and Strategic Studies, expressed the need to prepare for the FTA deal with curbing carbon emissions to continue export possibilities in the EU and retaining ODA. Bangladesh also needs to develop a diversified database regarding the carbon emissions from manufacturing sectors. He also emphasized the need to make decisions regarding FTA and RCEP as the deadline is unlikely to delay any further. Even if Bangladesh manages to get GSP+ preferences, it is not a long-term solution. Free trade agreements are highly necessary for long-term technical support cooperation with possible new investments in different sectors

of the country identifying potential growth areas. Bangladesh also needs to conduct investigations on the potential impacts of FTA with the European Union and make a quick decision regarding negotiating the trade like barriers, investment, and technical cooperation. He suggested that effective special economic zones would incentivize EU investment in high-end sectors like automobiles, electronics, and software.

Ms. Salma Akhter, Professor, Sociology, Dhaka University, pointed out the necessity to be careful about the ESG violations that can impact the consumers, civil society, and human rights. She noted that Bangladesh's export to the USA and EU has increased significantly with a projection of \$100 billion in RMG export by 2030. However, low payment, longer working hours and the working environment has impeded ESG compliance. Also the RMG factories under subcontract have two major concerns that need to be addressed: Sexual harassment issues as well as labour rights. Going forward, Bangladesh needs to have a concrete measures to improve the situation in this context.

Dr. Lailufer Yasmin, Professor, International Relations, Dhaka University, emphasised that trade analysis with the EU can not be done without taking the political analysis into account. Bangladesh has to take advantage of the fact that it is a part of the Indo-Pacific region. Bangladesh can promote itself as a lucrative destination for the EU for trade purposes. Bangladesh needs to look at the examples of other nations. Japan is establishing a minister for Economic Security with intermingled strategies and economic issues. Such an step can also be taken in the context of Bangladesh. She also underscored the need to focus on improving country's bargaining position regarding environment and climate change issues.

After the panel discussion, Dr. M A Razzaque provided a few clarifications for the participants' and panelists' discussion. He emphasised EU has been a major trading partner and it is highly unlikely to find a substitute export market of a similar size for Bangladesh. He also pointed out that China is likely to lose 8%-10% of its market share and Bangladesh is in a position to profit from that. He also suggested that focusing on the non-garments sector along with abiding by ESG compliance will help us attain FDI. Bangladesh can also take lessons from Vietnam as to how they have attracted FDI through its policy reforms.

The Guest of Honour, **Dr. Delwar Hossain**, Member of BPSC and Professor of Dhaka University, presented his thoughts regarding the topic. He underscored having a long-term strategic relationship with the EU to deal with emerging issues from a development perspective. He noted that in international trade under a capitalist system of the global economy, there is a drive for increasing export without regard to imports. This drive by every nation can lead to an 'export dilemma' similar to the security dilemma discussed in international relations. He opined that there are two main determinants for Bangladesh trade. The first is to maintain the growth that Bangladesh has achieved over the last decade which some call a growth miracle. Facing the graduation process from a least developed country to a developing country by 2026 with the significant impact of the COVID-19 global pandemic, Bangladesh needs to think about its economic and non-economic challenges. Secondly, the Russia-Ukraine war is changing the landscape of relations and geo-political interests in the world. With economic considerations overtaken by security interests by geopolitics, there is a

need to look at how different countries are responding to the Taiwan and Ukraine crisis. With more intensification of polarization among the great powers and particularly between the US and China, the two largest nations, this has to be factored in for trade, investment, and development issues as globalisation or interdependence cannot be ignored.

Dr. Delwar Hossain also noted that there are five 'pillar' nations of trade for Bangladesh to focus on. Aside from the EU, China, India, the US, and the UK are major trade partners for Bangladesh along with important bilateral trade partnerships with South Korea, Turkey, Indonesia, and Hong Kong. Impact on trade with all such nations have to be considered when Bangladesh thinks about the future of partnership, negotiation, or bargaining with the EU. He noted that Bangladesh needs to think about the EU's expectations in this productive mutually beneficial bilateral partnership EU and vice versa. With a strong domestic market and large population, Bangladesh is not like Vietnam or other export-dependent nations with a lower ratio of trade in GDP. Continuing dialogue and regular delegations between Bangladesh and the EU are likely ways to increase trade and face challenges in the future. He also focused on a long-term strategy to deal with trade partners, particularly the EU. Bangladesh needs to gather more knowledge and understanding of its strengths and options for effective negotiation with the EU that would help the regional economy.

The Chief Guest, **Mr. Tapan Kanti Ghosh**, Senior Secretary of the Ministry of Commerce, gave his valuable insights on the topic. He expressed that Bangladesh has a long and multifaceted relationship with the EU with continuous support from EU delegations. However, Bangladesh must consider other potential markets. Along with the EU, Bangladesh also needs to focus on the potential Asian market to export our goods soon. Product Diversification is a must to tackle the upcoming challenges. Currently, the government is working with the EU to understand several issues of ambiguity related to the newly proposed GSP draft. He also expressed the need for implementing policy reforms in Bangladesh for future development and ESG compliance. He noted that ESG is highly aligned with our long-term national plans. Therefore, Bangladesh is deeply interested in implementing the necessary changes required to comply with EU regulations. However, this is an ongoing process and may take up time and need for study into the impact of such measures, the Secretary noted.

Moderator Dr. Mustafizur Rahman concluded the webinar with expressing his thanks and gratitude to everyone including the guests, panelists, and participants for providing their valuable input.