



**Government of the People's Republic of Bangladesh  
Bangladesh Regional Connectivity Project (BRCP-1)  
Ministry of Commerce**

**Review of Bilateral Trade Agreement and Way Forward**

**Republic of Korea**



**August 2023**



**The Institute for Policy, Advocacy,  
and Governance (IPAG)**



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**e.Gen Consultants. Ltd.**

# **Government of the People's Republic of Bangladesh**

Bangladesh Regional Connectivity Project – 1  
Ministry of Commerce  
Level 12 (Westside), Prabashi Kallyan Bhaban, 71-72 Eskaton Garden Road  
Dhaka- 1000, Bangladesh.

## **Review of Bilateral Trade Agreement and Way Forward Republic of Korea (ROK)**

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## Preamble

This report has been prepared by The Institute for Policy, Advocacy, and Governance (IPAG) in joint venture partnership with e. Gen Consultants Ltd. in accordance with the terms of reference of the **‘Consultancy/ Research firm for Review of Bilateral and Regional Trade Agreements suggested by Ministry of Commerce in FY2021-22 (National)’** under the BRCP project 1. The study has been prepared to identify the reforms in institutional, infrastructural, and legal capacity, and present prioritized recommendations for necessary improvement in the bilateral trade between Bangladesh and the Republic of Korea, improve Bangladesh’s trade policies to make it more trade friendly and curb the negative impact that might be incurred by the 2026 LDC graduation. We have initiated a review of existing bilateral agreements with the Republic of Korea to provide policy feedback to the government for advancing the concept of cooperation in trade, transport, and transit facilitation of Bangladesh. These will also promote policy advocacy for issues related to traders and facilitate policy coherence between national development priorities and bilateral trade expansion.

The core objectives of the project such as conducting a comparative analysis of bilateral trade agreements/policies, reviewing current tariff and non-tariff barriers, reviewing the process of harmonization of trade-related agencies’ policy/regulations, and identifying trade diversification prospects have been placed at the forefront of this study among others. Additionally, scope of Preferential Trade Agreements (PTA), Free Trade Agreements (FTAs), Economic Partnership Agreements, and regional trade blocs have been weighed along with export promotion, trade facilitation for advancing the concept of cooperation in trade, transport and transit facilitation between Bangladesh and Republic of Korea. Drawing references from the scope and objectives of the project, the study was designed to assist in preparing recommendations for trade facilitation and diversification by first analyzing existing trade agreements; analyzing the trade volume; reviewing the existing tariff structure and non-tariff measures and assessing the institutional and infrastructural capacity based on the data that has been collected. Bangladesh and the Republic of Korea’s relationship is quite amicable and currently, at a growing stage.

We are hopeful that the policy recommendations this study will bring forward will be beneficial for policy makers and other stakeholders in supporting trade expansion and diversification of Bangladesh’s exports.



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**Md. Mijanur Rahman**  
Project Director (Joint Secretary)  
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This work would not have been possible without the valuable input we received during the data collection period from relevant stakeholders involved in Key Informant Interviews (KIIs) and Focus Group Discussions (FGD).

Given the consistent guidance we have received throughout the duration of this project, we were able to ensure that the study design is closely knit with the current scenario of bilateral, trade agreement, tariff and non-tariff measures, prospects for export diversification and the current state of trade harmonization in Bangladesh in retrospect to the government institutions responsible for trade facilitation and negotiations. Besides, the research provided us with an opportunity to reflect on the existing trade practices in Bangladesh and how they may be improved via inspiration from international best practices to ease the process of LDC Graduation in 2026.



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**Md. Abdul Karim**  
Team Leader

## Acronyms and Abbreviations

AI	Artificial Intelligence
APTA	Asia-Pacific Trade Agreement
AREC	Act on the Registration and Evaluation of Chemicals
ASYCUDA	Automated System for Customs Data
BEPZA	Bangladesh Export Processing Zone Authority
BFTI	Bangladesh Foreign Trade Institute
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BLPA	Bangladesh Land Port Authority
BRCP-1	Bangladesh Regional Connectivity Project 1
BSTI	Bangladesh Standards and Testing Institution
B TTC	Bangladesh Trade and Tariff Commission
CEPA	Comprehensive Economic Partnership Agreement
CGE	Computable General Equilibrium
CPTU	Central Procurement Technical Unit
D-8	Developing-8
DFQF	Duty-Free Quota-Free
EBA	Everything But Arms
EDCF	Economic Development Cooperation Fund
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ERL	Eastern Refinery Limited
EU	European Union
FBCCI	Federation of Bangladesh Chambers of Commerce and Industries
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP	Generalized Scheme of Preferences
GTAP	Global Trade Analysis Project
GVC	Global Value Chain
HIES	Households' Income and Expenditure Survey
ICT	Information and Communications Technology
IDA	International Development Association
IoT	Internet of Things
IP	Intellectual Property
IPR	Intellectual Property Rights
ISM	International Support Measure
K-CCA	Korea Chemical Control Act
KCCI	Korea Chamber of Commerce and Industry
KEPZ	Korean Export Processing Zone
KII	Key Informant Interview
KITA	Korea International Trade Association

K-OSHA	Korean Occupational Health and Safety Act
KOTRA	Korea Trade-Investment Promotion Agency
KSA	Korean Standards Association
LDC	Least Developed Countries
LPI	Logistics Performance Index
MAFRA	Ministry of Agriculture, Food and Rural Affairs
MFDS	Ministry of Food and Drug Safety
MFN	Most Favored Nation
MoC	Ministry of Commerce
MOE	Ministry of Environment
MOEF	Ministry of Economy and Finance
MOEL	Ministry of Employment and Labour
MOF	Ministry of Oceans and Fisheries
MOS	Ministry of Shipping
MOTIE	Ministry of Trade, Industry, and Energy
MRA	Mutual Recognition Agreement
NBR	National Board of Revenue
NTB	Non-Tariff Barriers
OECD	Organization for Economic Co-operation and Development
PTA	Preferential Trade Agreement
R&D	Research & Development
RCA	Revealed Comparative Advantage
RCEP	Regional Comprehensive Economic Partnership
RMG	Ready Made Garment
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SAM	Social Accounting Matrix
SAPTA	SAARC Preferential Trading Arrangement
SMART	Software for Market Analysis and Restrictions on Trade
SME	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary Measures
SSP	Socio-economic Pathways
TAO	Tariff Analysis Online
TBT	Technical Barriers to Trade
TFA	Trade Facilitation Agreement
TIR	Transport International Routier
ToR	Terms of Reference
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TRS	Time Release Studies
UN	United Nations
UN COMTRADE	United Nations Commodity Trade Statistics Database
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WB	World Bank





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## Executive Summary

This is the country report for the Republic of Korea (ROK), which has been prepared by The Institute for Policy, Advocacy, and Governance (IPAG) in joint venture partnership with e. Gen Consultant Ltd. for the assignment '**Consultancy/Research Firm for Review of Bilateral and Regional Trade Agreements Suggestions by the Ministry of Commerce in FY2021–22 (National)**' which is under the umbrella of Bangladesh Regional Connectivity Project 1 (BRCP-1) jointly being implemented by Bangladesh Land Port Authority (BLPA), National Board of Revenue (NBR), and Ministry of Commerce (MoC). BRCP-1 is jointly financed by the Government of Bangladesh and the International Development Association (IDA) – a member of the World Bank Group. The assignment aims to deepen the understanding of scopes for trade facilitation and export promotion considering LDC graduation as Bangladesh stands to lose duty-free access to the richer economies of the world, concessional credits from the multilateral development institutions, and exemption from intellectual property rights enforcement. Therefore, Bangladesh must ensure a planned graduation. The scope of this study is to understand the current scenario of bilateral trade between Bangladesh and the Republic of Korea, non-tariff barriers and their implications, trade diversification prospects, institutional, infrastructural, and legal gaps in trade management and negotiation; review the bilateral trade agreements and policies, and make appropriate recommendations.

The Republic of Korea and Bangladesh have a close and friendly trade relationship that is based on mutual respect, cooperation and development. The two countries established diplomatic relations in 1973 and have exchanged many state visits since then. The Republic of Korea and Bangladesh have signed several bilateral agreements to facilitate trade, investment and cooperation in various sectors. The Republic of Korea is the fifth largest source of FDI for Bangladesh, with most of its investments in the manufacturing sector. ROK has also provided development assistance to Bangladesh through grants and loans for various projects such as the Bangabandhu Bridge, the Padma Bridge Rail Link Project and the Matarbari Power Plant Project.

Chapter 1 of the report provides a brief overview of the project by introducing its key concepts, rationale, objectives, and the scope of the study. This chapter provides a brief overview of the Republic of Korea and Bangladesh's trade relationship, current exports, and the status of current agreements between the two countries. Prior to LDC graduation, Bangladesh must navigate bilateral trade agreements with important partners to limit substantial revenue loss and remain competitive in the international market, thus, an evaluation of Bangladesh's existing trade agreements with the Republic of Korea before Bangladesh's LDC graduation is necessary. Therefore, this study aims to assess the current trade relationship between the Republic of Korea and Bangladesh in order to identify reforms and address gaps in current agreements, trade policies and practices which will provide feedback to the government of Bangladesh and support in advancing cooperation in trade, transport, and transit facilitation in the future.

Chapter 2 looks into the research methodology and tools of data collection such as document review, key informant interviews (KIIs) and focus group discussion (FGD) that have been utilized to collect both primary and secondary data. As Bangladesh graduates to a middle-income country, it is the best time for the country to explore new routes of trade, and strengthen existing trade relations, in addition, the UN has highly recommended Bangladesh to explore the possibility of Free Trade Agreements (FTAs). Three types of quantitative economic modelling techniques have been used for FTA Analysis: (i) Computable General Equilibrium (CGE) Model (ii) Software for Market Analysis and Restrictions on Trade (SMART) Model (iii) Gravity Model for FTA analysis. Moreover, CGE is the best model to investigate the economy-wide impact analysis. The main benefit associated with CGE models is that they offer a theoretically sound and detailed framework for trade policy analysis. The CGE model conducted for this study indicates that an FTA will have a positive impact on the imports and exports of both countries. Moreover, this is further supported by the gravity model. In addition, the scope of a Comprehensive Economic Partnership Agreement (CEPA) between the two countries has been analyzed in detail.

In Chapter 3, the current trade relationship between ROK and Bangladesh is thoroughly examined including the current agreements which are in place. In addition to this, the regional trade relations of both Bangladesh and the Republic of Korea, as well as trade volumes, have also been assessed in this chapter. As per Bangladesh Bank and Export Promotion Bureau (EPB), in FY 2021-22 total exports from Bangladesh to ROK was approximately US\$ 530.2 million whereas total imports were US\$ 1172.5 million. Chapter 4 contains a review of the current trade agreement and highlights changes/ revisions to the agreements.

Chapter 5 illustrates the export diversification prospects of Bangladesh and identifies the top 10 products which hold the most potential for export to the Republic of Korea. A thorough study of Bangladesh's export priorities, Revealed Comparative Advantage (RCA), export strengths, Republic of Korea's top imports, and even top exports of Bangladesh revealed products that exhibit promising export potential. The analysis has revealed that products such as footwear, high-end apparel, jute, light engineering, and frozen fish have strong export potential to the Republic of Korea.

A comparison of trade policies and practices of both Bangladesh and the Republic of Korea has been presented in chapter 6 of the report. Trade policy components such as trade agreements, tariff structure, non-tariff measures, intellectual property rights, the flow of Foreign Direct Investments (FDI), investment incentives, and provisions for Special Economic Zones and Export Processing Zones, have been examined and compared in detail in this chapter. A thorough examination of trade policies and practices has led to the identification of gaps in processes that can be addressed to ensure efficient trade facilitation.

Chapter 7 showcases the results of the economic modelling/ simulation and also includes recommendations on CEPA. While assessing the prospects of CEPA, components such as foreign

direct investment (FDI), trade in services, and Micro, Small, and Medium Enterprises (MSMEs) were taken into consideration.

Chapter 8 provides comprehensive findings from the primary survey using tools such as Key Informant Interviews (KIIs) and Focus Group Discussions (FGD). The pool of informants included personnel from government institutions, think tanks, export-oriented private companies, and trade associations, among others. KIIs have been conducted with senior officials from the Ministry of Commerce, Export Promotion Bureau (EPB), National Board of Revenue (NBR), Bangladesh Land Port Authority (BLPA) as well as private companies. The FGD was held with the Federation of Bangladesh Chambers of Commerce and Industries, Dhaka (FBCCI) along with the H.E. Delwar Hossain, Ambassador of Bangladesh to the Republic of Korea and Dr Md. Mizanur Rahman who is the commercial counsellor at the Embassy of Bangladesh in the Republic of Korea.

In Chapter 9, the recommendations have been drawn from an in-depth analysis of primary survey findings and desk research. Recommendations have been provided on measures that may be taken to improve current trade agreements and the trade harmonization process, instil good trade practices and trade and investment diversification prospects, address gaps in an institutional, infrastructural, and legal capacity, as well as tariff and non-tariff measures following which, a concise conclusion has been provided in chapter 10.

Institutional, and infrastructural weaknesses as well as procedural hindrances act as barriers to Bangladesh realizing its full export potential. Lack of export diversification, longer clearance times, as well as licenses and permits, and inadequate digitalization are reasons behind the country's failure to properly support trade facilitation. A stakeholder analysis of mandates and interests has revealed a gap between organizations responsible for trade policy formulation, such as the Ministry of Commerce and National Board of Revenue. Differences in mandates and expectations of the trade negotiating and harmonization agencies have led to coordination and implementation gaps. Bangladesh has a high import tariff structure, and the country is dependent on customs duty for revenue (customs duties currently make up about 29% of the government's total revenue). CGE simulations conducted under this study have indicated that Bangladesh's exports and imports will increase with a bilateral tariff elimination and reduction. As Bangladesh graduates from its LDC status, the country needs to gear up for signing FTAs, and regional trade agreements to overcome the shocks after graduation, however, trade negotiators in Bangladesh lack negotiation skills. In addition, trade negotiation teams in most countries include lawyers who specialize in international trade law, however, trade negotiation teams in Bangladesh don't have any legal representatives. There are gaps in infrastructure at Bangladesh's main seaport in Chittagong, affecting port efficiency. The most reported obstacles Bangladesh faces in border trade include excessive documentation, delays in receiving authorization, inconsistent procedures and regulations, and expectations of informal payments.



Major reform is necessary in policy space and infrastructure for Bangladesh to enhance export diversification, competitiveness, and trade. However, in the policy space, institutional capacity building on the economic fundamentals of international trade, and cost-benefit analysis are necessary for officials from the Ministry of Commerce involved in trade negotiation, arrangement, and management. From an economic perspective, most economists would recommend that even developing nations should, in general, set their tariff rates quite low. While high tariffs can give protection to certain domestic industries, consumers pay in terms of either higher prices and/or lower quality of goods. With low tariffs, however, high-productivity domestic manufacturers can adopt technologies from abroad and sell to export markets that are far richer and grow larger, while low-productivity manufacturers become smaller or are forced to exit the market – increasing the overall competitiveness of the economy. Bangladesh has a high import tariff structure, and in 2016, even after major policy changes, Bangladesh's average applied tariff rate was the highest in South Asia and much higher than those of the countries in Southeast Asia. Tariff rationalization is of utmost importance for Bangladesh to boost exports, as high tariffs act as trade barriers for the signing of PTAs and FTAs. In addition, Bangladesh must export its export basket.

Infrastructural gaps must be addressed since these gaps increase Bangladesh's cost of doing business. Automation is urgent in NBR, customs procedures, port management, and certification processes. Certification processes must be simplified, and privatized, if necessary; risk-based testing should be introduced; processing time should be cut down, cold storage should be introduced at various ports to aid Bangladesh's trade facilitation efforts. As per the export policy for 2021–2024, there is export potential in garment accessories, light engineering, jute and agro products, active pharmaceutical ingredients and reagents, shoes, and pharmaceuticals, among others. This study has found that export potential lies in many products, including jute, light engineering, pharmaceuticals, motorcycles, electronic goods (refrigerators, televisions), agro-products, and high-value garment products, among others. Bangladesh can take inspiration from its neighbouring countries when it comes to good trade practices such as cutting down red tape, digitizing processes, cargo management, implementing a national single window to improve ease of doing business, streamlining customs procedures, and improving border compliance.

## 1. Introduction

Bangladesh has witnessed a remarkable decline in poverty, progress in employment, greater access to health and education, enhanced basic infrastructure, and significant progress in achieving food security. Bangladesh's export business substantially contributes to the growth of its GDP and economy. Bangladesh maintains amicable trade relations with several countries among which, some of Bangladesh's important trading partners include Japan, Turkey, European Union, South Korea, Nepal, India, Bhutan, Sri Lanka, Thailand, China, and India.

The trade relationship between the Republic of Korea and Bangladesh began to flourish in the early 1980s. Following Bangladesh's independence in 1971, the two countries established diplomatic relations in 1973, paving the way for collaboration in various fields. Republic of Korea recognized Bangladesh's potential as a growing market and a source for raw materials, particularly in textiles. The trade relationship grew steadily throughout the 1980s and 1990s, with Republic of Korea becoming one of Bangladesh's significant export destinations for garments and other products. The relationship was further strengthened through bilateral agreements, investments, and mutual interests in sectors like construction, technology, and infrastructure. The government of ROK has supported development projects in Bangladesh particularly in priority areas such as health, ICT, education, skills training, water treatment, energy, and transport through institutions such as Korea International Cooperation Agency (KOICA) and Economic Development Cooperation Fund (EDCF). In addition, the South Korean government has also given preferential market access to Bangladeshi products covering 95 per cent of tariff lines.

The Republic of Korea is the fifth largest FDI source country for Bangladesh with an accumulated FDI stock of over US\$ 1.3 billion. Although the Korean companies started investing in Bangladesh in the early 1980s mainly in textile and apparel sectors, Korean investors have now started investing in diverse sectors, including leather and leather products, consumer electronics, mobile phones, home appliances, automobiles, ICT, infrastructure etc. Presently, more than 150 Korean companies have significant presence in Bangladesh.

Currently, the Republic of Korea has also provided development assistance to Bangladesh through grants and loans for various projects such as the Bangabandhu Bridge, the Padma Bridge Rail Link Project, and the Matarbari Power Plant Project. On that note, as of 2023, Bangladesh and Republic of Korea has signed a new Economic Cooperation Development Fund stating USD 3 Billion soft loan for Bangladesh from 2023-2027.

### 1.1 Rationale of the Study

The review of trade agreements is important for Bangladesh now because the country is expected to graduate from the least developed country (LDC) status in 2026. This means that it will lose some of the preferential market access and trade benefits that it currently enjoys as an LDC, such as the

European Union's Generalised System of Preferences (GSP) which allows duty-free access for Bangladeshi exports to the EU market.

To maintain its competitiveness and export growth, Bangladesh needs to explore, negotiate and sign bilateral trade agreements and play a more active role in regional and sub-regional initiatives such as BIMSTEC, SAFTA, SAARC, among others. Bilateral as well as regional agreements can help reduce tariffs and non-tariff barriers, increase market access, diversify export products and destinations, and enhance regional integration. Bangladesh has already signed its first PTA with Bhutan and is negotiating agreements with important trading allies such as Nepal, Sri Lanka, Japan, China, among others.

Therefore, MoC must evaluate Bangladesh's existing trade agreements with existing trading partners to strengthen trade relations, realign both countries' priorities, and formulate active policies. Additionally, the revaluation of trade agreements will also provide feedback to the government of Bangladesh and support in advancing cooperation in trade, transport, and transit facilitation which is vital before LDC graduation.

## 1.2 Objective of the Study

The overarching objective of the study is to support the Ministry of Commerce in understanding the existing status of the trade scenario with important trading partners through a review of trade agreements which will promote policy advocacy for trade-related issues and create synergy between national development priorities and trade growth, in turn, expanding trade. The review of existing agreements with Republic of Korea will give an understanding of the current state of the bilateral trade situation of Bangladesh with Republic of Korea, findings of good practices, gaps in current practices, ways to expand trade, steps to facilitating an enabling environment when it comes to trade harmonization, deeper understanding of import and customs related policies as well as guidelines developed at a global level.

## 1.3 Scope of the Study

The scope of the study is mentioned below:

1. Comparative analysis (quantitative using economic analysis and further validated through qualitative data) of bilateral trade agreement/ policies of Bangladesh and what is the current status of the Bangladesh Bilateral Trade development, incentives and tariff structure with Nepal, Bhutan, Sri Lanka, Republic of Korea, Thailand, Vietnam, Indonesia and regional trade with SAFTA.
2. What agency is authorized for trade negotiations and under which ministry/ authority and how harmonization of trade-related agencies' policy/ regulations is taking place?
3. Review the list of trade diversification prospects of at least 10 diversified products and product wise strategies in these countries as potential export destinations by using Economic Modelling.

4. What are the international good practices utilized by the different countries to facilitate better trade policy instruments to expand trade and development; Good practices should reflect applicable comprehensive policy guidelines for the promotion of trade.
5. Is there any possibility for a Comprehensive Economic Partnership Agreement (CEPA) with these countries including the potential service and investment sector can be utilized?
6. Overall suggestions on what kind of reform changes can be made in the bilateral and regional trade agreements to expand trade between the countries.
7. Identify the major institutional weakness for trade negotiation and management in Bangladesh including implementation gaps and procedural hindrances identified.
8. Review the current scenario of tariff and non-tariff measures in Bangladesh and its institutional framework, infrastructure facilities, and legal structure to facilitate trade in bilateral and regional trade agreements.
9. Identify the specific items which have the potential for exports from the country and are subject to SPS/ TBT measures of the importing countries.
10. Identify the reforms in institutional, infrastructure, and legal capacity and present prioritized recommendations for necessary improvement in the bilateral trade of the countries and SAFTA to face the LDC graduation challenges.

## 2. Methodology

### 2.1 Document Review

Keeping this research in consideration, the team of consultants reviewed both primary and secondary documents.

**Primary Documents:** Primary documents included trade agreement, policy papers, associated statistics, KII and FGD transcripts.

**Secondary Documents:** Secondary documents included journal articles, news articles, and commentaries by trade experts, among others.

### 2.2 Key Informant Interview

Under the scope of the study, qualitative data has been collected in the form of KII. The sample size is 10, and the 10 key informants have been selected by the National Trade Expert/ Trade Economist in consultation with the Team Leader using the purposive sampling technique for each study.<sup>1</sup> The sample consists of government officials from various ministries and their subdivisions, trade agencies, exporters & importers, as well as think tanks. The list of participants who were involved in this study has been provided in Annex 2.

### 2.3 Focus Group Discussions

The consultant team carried out the FGD in mixed groups and ensured women participants. The preferred size of the group was between 6 – 8 participants as opposed to a group size of 10 – 12 because if the FGDs incorporate too many experts, it might put forth varying opinions, and divert from the subject matter. For this report, an FGD was conducted with the Federation of Bangladesh Chambers of Commerce and Industries, Dhaka (FBCCI) along with the H.E. Delwar Hossain, Ambassador of Bangladesh to Republic of Korea and Dr Md. Mizanur Rahman who is the commercial counselor at the Embassy of Bangladesh in Republic of Korea. The FGD transcript has been shared in Annex 3.

### 2.4 Economic Modelling/ Simulation/ Analysis

#### 2.4.1 Modeling Framework for FTA analysis

Bangladesh is actively exploring its FTA options. , Bangladesh has signed its first PTA with Bhutan, and is also actively considering FTAs with Korea, Bhutan, Sri Lanka, Malaysia, Thailand, Vietnam, and India. A robust potential costs and benefits assessment of an FTA with a sequential FTA strategy with domestic trade policy reform is critical for its long-term market access plan. Three types of quantitative modeling techniques have been used in this study and detailed methodologies have been discussed in the following sections.

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<sup>1</sup> Purposive sampling, also commonly referred to as judgmental, selective, or subjective sampling, is a type of non-probability sampling in which a researcher's own judgement is applied to select members of the population to participate in a study.

1. **Computable General Equilibrium (CGE) Model:** For CGE modeling, Bangladesh SAM 2014 and GTAP version 10 databases will be used for macroeconomic impact analysis. We will develop a baseline for 2030 incorporating GDP and productivity shocks as shown in the inception report and then will run some policy shocks to explore potential impact after graduation.
2. **Software for Market Analysis and Restrictions on Trade (SMART) Model:** The World Bank's SMART model will be used for robustness check and sector static analysis. World Bank's WITS dataset will be used for the SMART model.
3. **Gravity Model:** A structure gravity model will be used for FTA analysis. The impact of SAFTA, APTA, BIMSTEC, EU GSP and bilateral impact will also be explored. The main data sources will be UN COMTRADE (Trade), WB (WDI), Centre d'Etudes Prospectives et d'Informations (CEPII) for distance and other gravity data, and TAO-WTO (Tariff) data will be used for structural gravity analysis for counterfactual impact analysis.

#### 2.4.2 General Equilibrium Modelling for Impact Analysis

The most comprehensive modeling techniques for estimating the economy-wide impacts of trade policy involve computable general equilibrium (CGE) modeling of the global trade analysis project (GTAP) database and model. The detailed structure of the GTAP database, assumptions, model, equations, closures, elasticity, and parameters, are presented in Hertel (1997).<sup>2</sup> Gilbert et al. (2018) provides a detailed systematic literature review of CGE and discuss the strength and limitations of the CGE model in the international trade model. The GTAP framework structure includes regional households, governments, different sectors and their nests, and global sectors across countries and how they are linked.

In this study, we use the MyGTAP program and model developed by (Walmsley & Minor, 2013), a customized extended version of the standard GTAP model (Hertel, 1997). This MyGTAP interface allows us to incorporate country-specific data and investigate the impacts of different domestic policies on the household level, which is essential for country-specific analysis. We assume a single regional household in the GTAP model. However, in the MyGTAP model, we eliminate the single 'regional' household that allows the incorporation of private households and a government agent where their expenses are directly related to the income received from endowment factors and taxes (Walmsley & Minor, 2013).<sup>3</sup> In the MyGTAP framework, the government collects income from taxes and duties revenue and foreign aid and spends this income on public consumption outlay, transfers to households, foreign aid outflow, and subsidies. The model incorporates remittances, foreign aid, capital, and government income. It also permits incorporating additional factors of production and multiple private households. Similarly, private households receive and accumulate their income from factors of

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<sup>2</sup> T Hertel, "Global Trade Analysis: Modeling and applications," 1997, Accessed June 29, 2022, <https://econpapers.repec.org/bookchap/gtagtapbk/7685.htm>.

<sup>3</sup> P Minor and T Walmsley, "MyGTAP Data Program: A Program for Customizing and Extending the GTAP Database," GTAP Working Paper No. 79, 2013, Accessed June 29, 2022, <https://gtap.agecon.purdue.edu/resources/download/6660.pdf>.

production, transfers from the government and other households, and foreign remittances. This earned income could be spent on different sectors, including consumptions, transfers, remittances outflow, and savings.

### 2.4.3 Data Extension and Aggregation to MyGTAP

The main features of the MyGTAP framework allow us to incorporate country-specific data on households and endowment factors. We integrate the Bangladesh social accounting matrix (SAM) data prepared from households' income and expenditure survey (HIES) with the GTAP Version 10 dataset (Angel et al., 2019), applying the MyGTAP program ([Minor & Walmsley, 2013](#)). The latest Bangladesh social accounting matrix is available for 2012 and was updated in 2014.

We have segregated the 141 regions in the GTAP 10 dataset into 20 areas (as suggested by the MoC) and the 65 sectors into ten aggregate sectors. Our regional aggregation emphasizes countries that are the leading trading partner of Bangladesh, including the United States and European Union, China, India, Thailand, Malaysia, Nepal, Bhutan, Vietnam, and Turkey. We have also segregated the 65 GTAP sectors into ten sectors considering Bangladesh SAM. A complete mapping is required between the sectors of the Bangladesh SAM with GTAP sectors and with the aggregated regions. We then used the household consumption and ownership weights acquired from the SAM (2014) and incorporated them into the MyGTAP model. The ten newly aggregated sectors are mapped to the corresponding sectors in the Bangladesh SAM to define each household's consumption share of the 10 GTAP sectors. We also incorporate income and consumption data for ten households based on the income level of Bangladesh's rural and urban regional households. These earnings were then allocated to each of the ten households according to factor ownership shares. Household incomes were then adjusted for net foreign income, remittances, and capital depreciation, as suggested by [Minor & Walmsley \(2013\)](#).

**Closures:** Model closure statements define which variables are endogenous and which are exogenous. The standard GTAP closure has been considered for this analysis. Hertel & Tsigas (1997) and Burfisher (2016) discuss the detailed structure of GTAP closure and how to modify the closure for a detailed analysis. Changing the model's standard closure statement requires swapping exogenous variables for endogenous variables. In this study, we assume that there is perfect competition in all sectors. Production factors, i.e., capital and labor, are believed to be fully mobile between sectors, whereas land and natural resources are treated as sluggish to move (Burfisher, 2016). A static balance of trade is a country that allows domestic savings to adjust to maintain a fixed ratio between trade balance and national income. Government spending is assumed as a constant share of government income. The expected rate of return drives investment as in the standard GTAP model, and total domestic savings is by the sum of private household savings and the government budget. Hence, the trade balance is endogenous.

The global bank in the GTAP model uses receipts from the sale of a homogeneous savings commodity to individual regional households to purchase shares in a portfolio of restricted investment goods. The size of this portfolio adjusts to accommodate changes in global savings. Therefore, the worldwide closure of this model is neoclassical (Hertel, 1997).

A summary of the Bangladesh social accounting matrix and database used in this study is described in Table 1. Table 1 shows Bangladesh's structure and share of different economic sectors in 2014, as shown in the SAM. Grains and crops are the top categories in agriculture, contributing 11.3 percent of value addition. On the other hand, in the industry sector, textile and clothing is the top category that contributes 7.6 percent of the economy. The apparel sector is also highly export-oriented. Bangladesh heavily relies on importing in the heavy manufacturing sectors, which is about 41 percent of total imports, especially intermediate capital goods. About 87 percent of exports come from the textiles and clothing sectors, while imports by this sector are about 20 percent, as shown in the SAM.

Aggregated Sectors	Value - added	Export on total output	Export share	Import share on Output	Import share
1. Grains and Crops	11.12	0.39	0.86	8.5	8.15
2. Livestock, Fisheries and Meat Products	1.34	0.07	0.31	2.45	0.32
3. Mining and Extraction	6.8	0.16	0.10	1.92	0.68
4. Processed Food	1.45	1.53	1.57	17	9.12
5. Textiles and Clothing	7.16	51.68	87.06	17.6	20.1
6. Light Manufacturing	1.88	2.41	1.84	23.3	9.43
7. Heavy Manufacturing	1.02	1.17	1.26	59.1	41.22
8. Utilities and Construction	17.02	-	-	-	-
9. Transport and Communication service	28.31	2.87	6.3	4.99	4.65
10. Other Services	23.9	0.25	0.7	4.88	6.33
<b>Total</b>	<b>100</b>		<b>100</b>		<b>100</b>

Table 1 Structure of the Bangladesh Economy in the Updated SAM 2014 (%) - Source: SAM (2014)

#### 2.4.4 SMART Model for FTA Analysis

The SMART model focuses on the changes in imports to a particular market when there is a change in trade policy. The demand side of the market in SMART is based on the Armington assumption that commodities are differentiated by their country of origin. This assumption implies that, for a particular commodity, imports from one country are an imperfect substitute for imports from another country. Thus, even though an FTA entails preferential trade liberalization, import demand does not completely shift to a source from within the FTA. The SMART model also assumes that consumers' demand is decided in a two-stage optimization process that involves allocating their spending by commodity and by national variety.

At the first stage, consumers decide how much to spend on the commodity given changes in the price index of this commodity. The relationship between changes in the price index and the impact on import demand for this commodity is determined by a given import demand elasticity. At the second stage, the chosen level of spending for this commodity is allocated among the different national varieties,



depending on the relative price of each variety. The extent of the between-variety response to a change in the relative price is determined by the substitution elasticity. Different countries compete to supply (export to) the market and the model simulates changes in the composition and volume of imports into that market after a tariff reduction or another change in trade policy. The degree of responsiveness of each foreign exporter's supply to changes in the price is known as export supply elasticity. The SMART model, by default, assumes that the export supply elasticity of each foreign country is infinite, which implies that each foreign country can export as much of the goods as possible at a certain price. This assumption may be appropriate for an importing country whose import quantity is too small to affect the prices of foreign exporters (i.e., the price-taker assumption). If changes in the country's import quantity can have a price effect on the foreign exporter, SMART can operate with a finite export supply elasticity, but the value of this parameter must be found and incorporated into the analysis.

SMART requires the following data, which can be extracted from WITS or imported from alternative sources of information, for the simulation of an FTA: (i) the import value from each foreign partner, (ii) the tariff faced by each foreign partner, (iii) the import demand elasticity for the commodity, (iv) the export supply elasticity for the commodity, and (v) the substitution elasticity between varieties of the commodity.

#### 2.4.5 Gravity Modelling for Partial Equilibrium Impact Analysis

The gravity model of international trade, first proposed by Tinbergen (1962)<sup>4</sup>, has been extensively used for trade policy analysis over the decades. One of the most well-known structural gravity models is that developed by Anderson & van Wincoop (2003), in which a multilateral resistance term (henceforth, MRT) for estimating bilateral trade cost. In their seminal work, Anderson & van Wincoop (2003) show that trade flows between two countries not only depend on bilateral trade measures but also multilateral measures. This structural gravity model has been used extensively in trade policy analysis to estimate bilateral trade cost. For example, Anderson & Yotov (2012) and Head & Mayer (2014) show the empirical success of gravity with aggregate data. Aichele et al. (2014) and Anderson et al. (2015) demonstrate different sectoral level gravity estimates. Pfaffermayr (2019), Yotov et al. (2016), Santos & Tenreyro (2011) show how maximum likelihood estimation techniques can be used in estimating international trade flows. Nevertheless, Novy (2013) recognizes that a shift in bilateral trade measures does not only affect international trade but also domestic trade. This means that if a country's tariffs or NTMs increase, some trade can be diverted to international markets, and some may be diverted to the national economy.

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<sup>4</sup>  $X_{ij,t} = A_t Y_{i,t}^{\alpha_1} Y_{j,t}^{\alpha_2} D_{ij}^{\alpha_3}$ ,  $\alpha_1 > 0, \alpha_2 > 0, \alpha_3 < 0$ , where  $X_{ij,t}$  is the value of export, import or trade from country  $i$  to  $j$ ,  $Y_{i,t}$  and  $Y_{j,t}$  are the GDP's of countries  $i$  and  $j$  in period  $t$ ;  $A_t$  is a period-specific constant term; and  $D_{ij}$  presents bilateral distance between the importing and exporting countries or bilateral trade costs indices.  $MRT_i$  and  $MRT_j$  corresponds to multilateral resistance terms for country  $i$  and country  $j$  respectively.

We will use the PPML estimation technique for gravity estimation. Santos Silva & Tenreyro (2006) show the PPML estimator outperforms other linear and nonlinear estimators across a wide range of heteroskedastic and measurement errors in the data<sup>5</sup>.

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<sup>5</sup>  $E(e_{rp}^k | Y_r^k, Y_p^k, Y^k, \tau_{rp}, \Pi_r^k, \rho_p^k) = E(\ln e_{rp}^k | Y_r^k, Y_p^k, Y^k, \tau_{rp}, \Pi_r^k, \rho_p^k) = 0$

## 3. Trade Agreements, Relations, and Volume

### 3.1 Trade Agreements and Relations

#### 3.1.1 Bilateral Agreement between Bangladesh and Republic of Korea

**Agreement on Trade and Economic Cooperation** between Bangladesh and Republic of Korea was signed in 1973 which is the only bilateral trade agreement between the two countries to date.<sup>6</sup> It specifies both parties to give each other the most favored nation treatment and specifies the exchange of scientific and technical skilled personnel for economic development and enhancement. The list of products specified in the agreement is mentioned in the table below.

Schedule A: Exports from Republic of Korea	Schedule B: Exports from Bangladesh
1. Canned fish	1. Raw Jute
2. Canned fruits	2. Jute manufactures
3. Dried Sea products	3. Newsprints
4. Raw silk yarn	4. Writing and printing paper
5. Rubber tires and tubes	5. Low grammage paper
6. Plywood	6. Rayon yarn
7. Cotton textiles	7. Cellophane
8. Fishing nets	8. Hardboard
9. Wool textiles	9. Particle board
10. Synthetic textiles	10. M.S Rod
11. Glass products	11. M.S.P late
12. Iron and steel products	12. M.S Billets
13. Pharmaceutical products	13. Frozen shrimps and frog legs
14. Farming machinery	14. Mild steel heavy plate
15. Ginseng and its products	15. Drugs and medicines
16. Silkworm eggs	16. Animals and human hair
17. Anthracites	17. Electric goods
18. Fertilizers	18. Crushed bones
19. Rubber contraceptives	19. Chemicals
20. Silk fabrics	20. Molasses
21. Textile machinery	21. Tea and tea- waste
22. Sewing machine	22. Hides and Skins
23. Sewing machine	23. Tanned and semi- tanned leather
24. Electric transformers	24. Fish frozen and dry
25. Electric wires and cables	25. Processed shrimp
26. Radio receivers	26. Raw silk
27. Ships and boats	27. Spices
28. Spectacles and spectacle frames Musical instruments	28. Specialized textiles
29. Outer and under garments	29. Handicrafts and handloom products
30. Paper and paperboard	30. Cotton waste
31. Cement	31. Oil cakes
32. Refrigerators	
33. T.V. sets	
34. Electric fans	

<sup>6</sup>Ministry of Commerce - Government of the People's Republic of Bangladesh. "Bilateral Trade Agreement Other than SAARC Countries," mincom.gov.bd, Accessed July 6, 2022, [https://mincom.portal.gov.bd/sites/default/files/files/mincom.portal.gov.bd/page/973880a5\\_4749\\_4345\\_9687\\_529c657681a2/Bilateral-Trade-Agreement-other-than-the-SAARC-countries.pdf](https://mincom.portal.gov.bd/sites/default/files/files/mincom.portal.gov.bd/page/973880a5_4749_4345_9687_529c657681a2/Bilateral-Trade-Agreement-other-than-the-SAARC-countries.pdf).

Schedule A: Exports from Republic of Korea	Schedule B: Exports from Bangladesh
35. Automobile accessories 36. Office and stationery goods 37. Synthetic resins 38. Optical manufactures	

Table 2 Schedules from Trade Agreement

Bangladesh has been enjoying DFQF treatment from Republic of Korea since 2007<sup>7</sup>. However, while the DFQF scheme covered 36.1% of exports in 2007, in 2018, the Republic of Korea n government granted an exclusive scheme to Bangladesh under which about 75% of the total tariff lines were opened for products from Bangladesh by Republic of Korea as duty-free and quota-free access. In the following year, the coverage of these products was increased to 80% as well as the inclusion of 253 new products. The Republic of Korea n government even accepted waived tariff of 32 products out of 64 that the Bangladesh government requested for zero-tariff preference. More products are to be added to this exclusive scheme and there are even talks of both countries joining in a bilateral trade agreement following Bangladesh’s graduation from the LDC.<sup>8</sup>

### 3.1.2 Regional Trade Agreements

Republic of Korea is participating in only one regional trade agreement with Bangladesh which is the **Asia Pacific Trade Agreement (APTA)**. APTA is the oldest preferential trade agreement in the Asia Pacific region – signed in 1975 by Bangladesh, India, Republic of Korea, Lao PDR, and Sri Lanka. China and Mongolia joined the agreement in 2001 and 2013, respectively. The agreement was previously known as the Bangkok Agreement until it was renamed in 2005. APTA covers a market of 2.92 billion people who accounts for US\$ 14.62 Trillion in terms of GDP as per the fiscal year 2015-2016. APTA held three rounds of negotiations by 2005 to confirm 306 items exclusively for LDC countries like Bangladesh, more than the general 1367 items.

This year, Bangladesh has decided to move forward with RCEP after the Bangladesh Trade and Tariff Commission (BTTC) conducted a study where the benefits of joining RCEP outweighed the perceived shortcoming.<sup>9</sup> Other than APTA, Bangladesh is also a part of regional trade agreements and blocs, namely, the South Asian Free Trade Area (SAFTA 2004), SAPTA 2006, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and Preferential Tariff Arrangement-Group of Eight Developing Countries under the Developing-8 (D-8).<sup>10</sup>

<sup>7</sup> Asia-Pacific Research and Training Network on Trade Working Paper Series, no 62, March 2009, “Duty - free market access in the Republic of Korea: Potential for least developed countries and Bangladesh,” www.unescap.org, Accessed July 8, 2022, <https://www.unescap.org/sites/default/files/AWP%20No.%2062.pdf>.

<sup>8</sup> Embassy of the Republic of Korea in People’s Republic of Bangladesh, “Korea’s Trade with Bangladesh,” May 31, 2009, overseas.mofa.go.kr, Accessed July 6, 2022, [https://overseas.mofa.go.kr/bd-en/brd/m\\_2128/view.do?seq=617198&srchFr=&%3BsrchTo=&%3BsrchWord=&%3BsrchTp=&%3Bmulti\\_itm\\_seq=0&%3Bitm\\_seq\\_1=0&%3Bitm\\_seq\\_2=0&%3Bcompany\\_cd=&%3Bcompany\\_nm](https://overseas.mofa.go.kr/bd-en/brd/m_2128/view.do?seq=617198&srchFr=&%3BsrchTo=&%3BsrchWord=&%3BsrchTp=&%3Bmulti_itm_seq=0&%3Bitm_seq_1=0&%3Bitm_seq_2=0&%3Bcompany_cd=&%3Bcompany_nm).

<sup>9</sup> The Daily Star, “Bangladesh Moves to Join RCEP,” July 2022, <https://www.thedailystar.net/business/economy/news/bangladesh-moves-join-rcep-3081516>.

<sup>10</sup> Asia Regional Integration Center, “Preferential Tariff Arrangement-Group of Eight Developing Countries Free Trade Agreement,” Accessed September 26, 2022, <https://aric.adb.org/fta/preferential-tariff-arrangement-group-of-eight-developing-countries>.

## 3.2 Trade Volume

### 3.2.1 Bilateral Trade Volume

In May 2022, Republic of Korea exported \$303M and imported \$43M from Bangladesh, resulting in a positive trade balance of \$260M whereas Bangladesh exported \$65.9M and imported \$193M from Republic of Korea, in April 2022.<sup>11</sup> As per data from the Export Promotion Bureau (EPB), the volume of exports from Bangladesh to Republic of Korea grew from 238 million US\$ in FY17 to almost 399 million US\$ in FY21, whereas in FY21 Korea's exports to Bangladesh were 1126 million US\$ (almost 3.5 times more) allowing Republic of Korea to enjoy a trade surplus. The Republic of Korea economy closed the 2021 year on an economically robust note, with GDP up 4.1% year-on-year (y/y) in the fourth quarter of 2021.<sup>12</sup> Republic of Korea's economy grew at 4.0%, helped by solid consumption expenditure combined with surging exports. Merchandise exports reached a record high of US\$ 645 billion in 2021, rising by 25.8% y/y.<sup>13</sup> Additionally, Republic of Korea's exports grew at a faster-than-expected, proving global demand remains resilient in the face of war in Ukraine and a slowing economy in China.<sup>14</sup> On the other hand, Bangladesh has a competitive garment industry owing to its relatively cheap labor, international aid helps to cover financing needs, moderate level of public debt, favorable demographics: a third of Bangladeshis are below the age of 15, and improving financial inclusion through microfinance and mobile services.<sup>15</sup> Korea has an upper hand in terms of what it has to offer in the bilateral trade deals, for starters its technological prowess, infinite infrastructural and industrial skills. The following table shows the trade balance between Bangladesh and Republic of Korea from 2009 to 2021.

Fiscal Years	Export to Republic of Korea	Import from Republic of Korea	Trade Balance
2009-2010	140.28	837.01	-696.73
2010-2011	163.68	1123.60	-959.92
2011-2012	209.71	1550.71	-1340.99
2012-2013	250.49	1295.90	-1045.41
2013-2014	344.81	1198.90	-854.09
2014-2015	269.03	1214.90	-945.87
2015-2016	280.09	1145.00	-864.91
2016-2017	238.23	1274.94	-1,036.71
2017-2018	254.84	1273.78	-1,018.94
2018-2019	37.85	1314.69	-1,276.84
2019-2020	352.82	1030.33	-677.51
2020-2021	398.87	1126.60	-727.73

Table 3 Trade balance between Bangladesh and Republic of Korea; Source: EPB/ Bangladesh Bank/ Terms of Reference

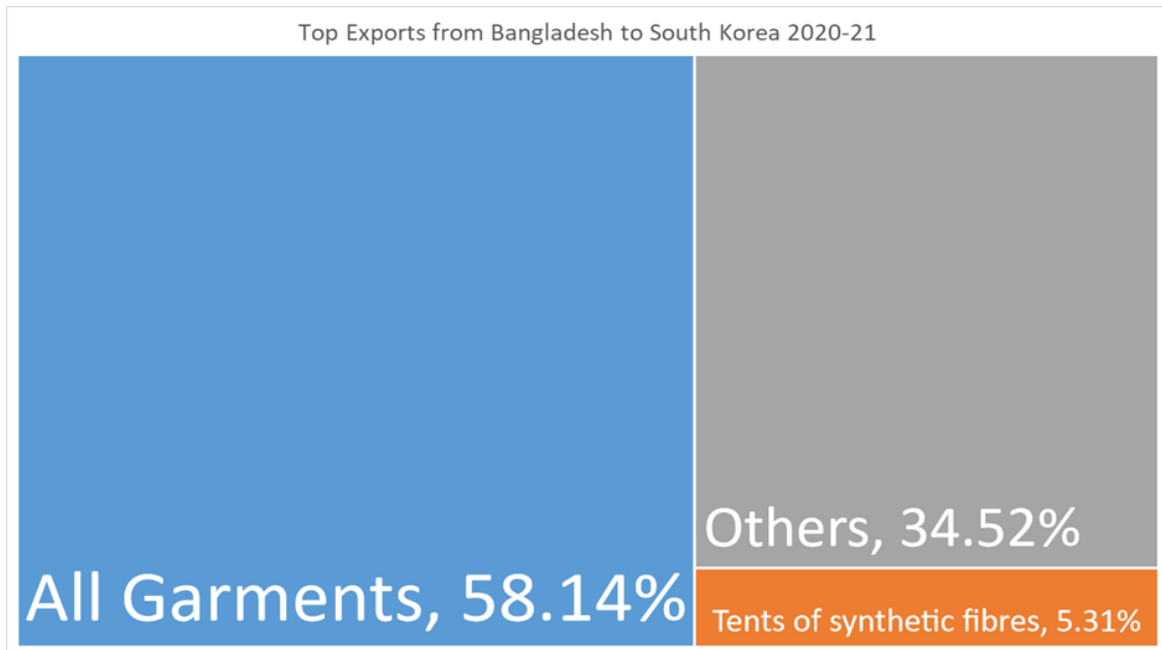
<sup>11</sup>OEC - The Observatory of Economic Complexity, "South Korea (KOR) and Bangladesh (BGD) Trade | OEC," oec.world, Accessed July 6, 2022, <https://oec.world/en/profile/bilateral-country/kor/partner/bgd#:~:text=About,-%23permalink%20to%20section&text=Overview%20In%20May%202022%20South,%2432.1M%20to%20%2443M>.

<sup>12</sup> IHS Markit, "South Korean Economy Boosted by Strong Exports," ihsmarkit.com, February 21, 2022, <https://ihsmarkit.com/research-analysis/south-korean-economy-boosted-by-strong-exports-feb22.html>.

<sup>13</sup> IHS Markit, "South Korean Economy Boosted by Strong Exports," ihsmarkit.com, February 21, 2022, <https://ihsmarkit.com/research-analysis/south-korean-economy-boosted-by-strong-exports-feb22.html>.

<sup>14</sup> Sam Kim and Hooyeon Kim, "Korea's Export Gains Point to Resilience in Global Demand," Bloomberg, www.bloomberg.com, Accessed July 6, 2022, <https://www.bloomberg.com/news/articles/2022-06-01/korea-s-exports-accelerate-suggesting-resilient-global-demand>.

<sup>15</sup> Coface, "Bangladesh / Economic Studies," www.coface.com, Accessed July 6, 2022, <https://www.coface.com/Economic-Studies-and-Country-Risks/Bangladesh>.



*Figure 1 Top Exports from Bangladesh to Republic of Korea, Source: Export Promotion Bureau*

As per data from Export Promotion Bureau, top exports to Republic of Korea from Bangladesh mainly consists of textiles and apparel. Between 2016 and 2021, textiles and apparel dominated the export basket to Republic of Korea with footwear (sports) being of the top ten export items between 2016 and 2020 (detailed overview given in the figure below).

About nine of the top ten exports to Republic of Korea from Bangladesh are readymade garments representing 58.14%. The other product is textile raw material accounting for 5.31% of exports while remaining export products account for 34.52%.

2020 - 2021		2019 - 2020		2018 - 2019		2017 - 2018		2016 - 2017	
HS Code	USD	HS Code	USD	HS Code	USD	HS Code	USD	HS Code	USD
610910: T-shirts, singlets and other vests, of cotton, knitted or crocheted	398665718	610910: T-shirts, singlets and other vests, of cotton, knitted or crocheted	352815414.7	610910: T-shirts, singlets and other vests, of cotton, knitted or crocheted	370646121.3	610910: T-shirts, singlets and other vests, of cotton, knitted or crocheted	254841996.9	610910: T-shirts, singlets and other vests, of cotton, knitted	238234018.4
611030: Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	72,993,835.71	611030: Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	60,406,149.20	620342: Men's or boys' trousers, breeches, etc, of cotton	66,781,894.06	620342: Men's or boys' trousers, breeches, etc, of cotton	44,385,073.47	620342: Mens/boys trousers and shorts, of cotton, not knitted	34,788,686.29
620342: Men's or boys' trousers, breeches, etc, of cotton	34,433,383.76	620342: Men's or boys' trousers, breeches, etc, of cotton	29,859,618.32	611030: Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	43,264,499.52	620342: Men's or boys' trousers, breeches, etc, of cotton	37,212,800.57		30,102,304.62
611020: Jerseys, pullovers, etc, of cotton, knitted or crocheted	29,410,536.38	611020: Jerseys, pullovers, etc, of cotton, knitted or crocheted	29,021,447.29	271012: Other kerosene type jet fuels	21,788,323.12	611020: Jerseys, pullovers, etc, of cotton, knitted or crocheted	16,549,271.27	640419: Footwear o/t sports,w outer soles of rubber/plastics& uppers of tex mat	16,083,972.08
620193: Men's or boys' anoraks, wind-cheaters, etc, of man-made fibres	28,692,938.85	620193: Men's or boys' anoraks, wind-cheaters, etc, of man-made fibres	26,268,746.91	620462: Women's or girls' trousers, breeches, etc, of cotton	24,470,827.37	620462: Women's or girls' trousers, breeches, etc, of cotton	13,558,903.87	410449: Hides and skins of bovine "incl. buffalo" or equine animals, in the dr	13,905,940.68
620343: Men's or boys' trousers, breeches of synthetic fibres	23,296,570.64	620343: Men's or boys' trousers, breeches of synthetic fibres	16,034,310.89	611020: Jerseys, pullovers, etc, of cotton, knitted or crocheted	18,210,936.98	630622: Tents of synthetic fibres	11,944,322.75	620462: Womens/girls trousers and shorts, of cotton, not knitted	12,529,456.85
621050: Women's or girls' garments made up of fabrics of 59.03, 59.06 or 59.07	21,166,893.47	621050: Women's or girls' garments made up of fabrics of 59.03, 59.06 or 59.07	15,660,860.92	611020: Jerseys, pullovers, etc, of cotton, knitted or crocheted	15,696,469.71	611030: Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	10,316,077.55	630622: Tents, of synthetic fibres	11,697,945.69
620343: Men's or boys' trousers, breeches of synthetic fibres	18,370,792.98	620343: Men's or boys' trousers, breeches of synthetic fibres	12,779,515.28	620343: Men's or boys' trousers, breeches of synthetic fibres	13,479,493.54	410449: Tanned or crust ... in the dry state other than full grains, unsplit, grain splits	9,919,493.49	611020: Pullovers, cardigans and similar articles of cotton, knitted	10,671,522.46
620462: Women's or girls' trousers, breeches, etc, of cotton	11,612,916.32	620462: Women's or girls' trousers, breeches, etc, of cotton	10,095,065.62	640419: Sports footwear, with rubber or plastic soles and textile uppers	10,052,603.63	640419: Sports footwear, with rubber or plastic soles and textile uppers	9,617,868.62	621050: Womens/girls garments nes/of impregnatd,ctd,cov,etc,textile woven fab	8,020,741.92
620293: Woman's or girls' anoraks, wind-cheaters, etc, of man-made fibres	6,675,539.02	620293: Woman's or girls' anoraks, wind-cheaters, etc, of man-made fibres	8,962,081.81	620193: Men's or boys' anoraks, wind-cheaters, etc, of man-made fibres	8,632,971.07	620520: Men's or boys' shirts of cotton, not knitted	8,752,831.21	620520: Mens/boys shirts, of cotton, not knitted	7,231,702.02
621133: Men's or boys' garments of man-made fibres, nes	6,307,601.90	621133: Men's or boys' garments of man-made fibres, nes	8,707,593.82	611090: Jerseys, pullovers, etc, of other textiles, nes, knitted or crocheted	7,337,939.62	610990: T-shirts, singlets, etc, of other textiles, nes, knitted or crocheted	5,678,768.65	611030: Pullovers, cardigans and similar articles of man-made fibres, knitted	6,324,842.44

Table 4 Exports from Bangladesh to the Republic of Korea, Source: Export Promotion Bureau

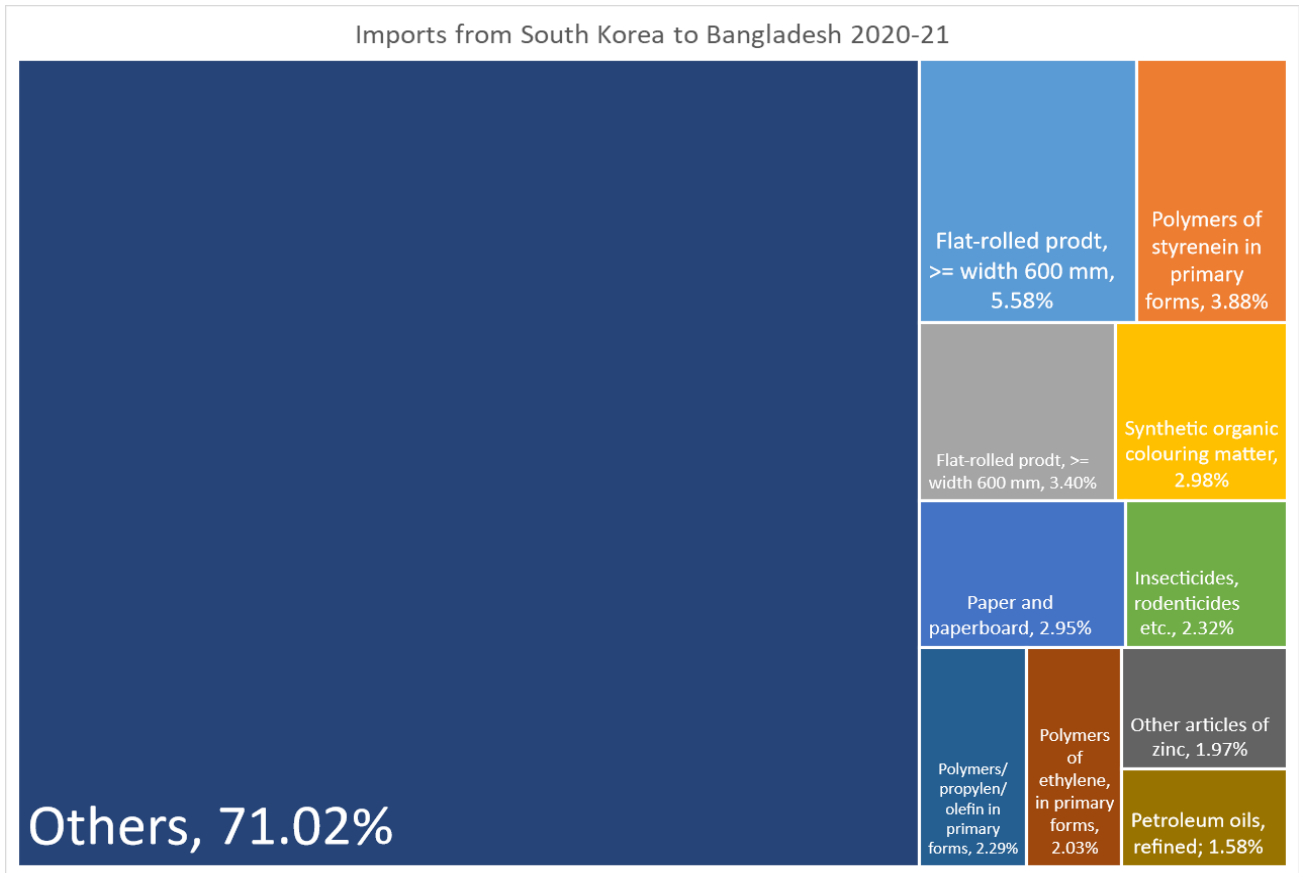


Figure 2 Top Imports from the Republic of Korea to Bangladesh, Source: Bangladesh Bank

Bangladesh imports various products from Republic of Korea. In FY21, polymers, petroleum, paper, insecticides, and organic coloring matter were among the top ten imports from Republic of Korea which comprised less than 30% of the import basket. The trend was similar between 2016 and 2020 as shown in the figure below with aluminum foil, and unwrought zinc also being among the top imports.

In the past few decades, the rapid growth of the Republic of Korea has been mostly driven by exports of manufactured electronic goods and telecommunications apparatus, which has gotten the country a name as a top global producer and innovation hub. The nation enjoys dominant positions in several major global industries, such as nuclear power, consumer electronics, and biotechnology, and aims to become a major player in several other areas, including smart-grid technology, the Internet of Things (IoT), and robotics.<sup>16</sup>

<sup>16</sup> HKTDC Research, "Korea: Market Profile," research.hktdc.com, October 11, 2021, <https://research.hktdc.com/en/article/MzU3OTc3NTU0>.



Top Ten Imports from South Korea to Bangladesh from 2016 - 2021									
2020-21		2019-20		2018-19		2017-18		2016-17	
HS Code : Product	USD	HS Code : Product	USD	HS Code : Product	USD	HS Code : Product	USD	HS Code : Product	USD
<b>Total</b>	<b>1,126,603,000</b>	<b>1,030,325,000</b>	<b>1,314,691,000</b>	<b>1,273,775,000</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>1,274,943,000</b>
720800: Flat-rolled prod., >= width 600 mm, hot-rolled	62,824,000	51,807,000	890800: Vessels & other, breaking up	342,290,000	890800: Vessels & other, breaking up	326,686,000	890800: Vessels & other, breaking up	257,266,000	
390300: Polymers of styrene in primary forms	43,688,000	27,154,000	720800: Flat-rolled prod., >= width 600 mm, hot-rolled	59,064,000	720800: Flat-rolled prod., >= width 600 mm, hot-rolled	57,010,000	720800: Flat-rolled prod., >= width 600 mm, hot-rolled	75,822,000	
720900: Flat-rolled prod., >= width 600 mm, clad, plated	38,307,000	26,269,000	790100: Unwrought zinc	48,528,000	790100: Unwrought zinc	53,516,000	720900: Flat-rolled prod., >= width 600 mm, clad, plated	51,946,000	
320400: Synthetic organic colouring matter	33,565,000	27,765,000	104810: Paper and paperboard, coated matter	46,862,000	104810: Paper and paperboard, coated	48,313,000	320400: Paper and paperboard, coated	40,789,000	
104810: Paper and paperboard, coated	33,251,000	36,454,000	390300: Polymers of styrene in primary forms	41,196,000	740300: Refined, copper alloys.	42,206,000	321500: Printing ink, writing draw/other ink	36,166,000	
380800: Insecticides, rodenticides etc.	26,163,000	16,772,000	320400: Synthetic organic colouring matter	32,580,000	390100: Polymers of ethylene, in primary forms	34,363,000	740300: Refined, copper alloys.	35,798,000	
390200: Polymers/propylene/olefin in primary forms	25,830,000	28,045,000	390200: Polymers/propylene/olefin in primary forms	29,998,000	390200: Polymers/propylene/olefin in primary forms	33,759,000	390300: Polymers of styrene in primary forms	29,816,000	
390100: Polymers of ethylene, in primary forms	22,886,000	22,978,000	390100: Polymers of ethylene, in primary forms	25,104,000	320400: Synthetic organic colouring matter	28,905,000	390200: Polymers/propylene/olefin in primary forms	28,912,000	
790700: Other articles of zinc	22,143,000	42,150,000	520100: Cotton not carded or combed	23,728,000	390300: Polymers of styrene in primary forms	28,561,000	390100: Polymers of ethylene, in primary forms	28,115,000	
271000: Petroleum oils, refined	17,787,000	49,614,000	760700: Aluminium foil, backed/not backed	23,567,000	760700: Aluminium foil, backed/not backed	21,594,000	320400: Synthetic organic colouring matter	27,084,000	

Table 5 Top Imports from Republic of Korea to Bangladesh, Source: Bangladesh Bank

### 3.2.2 Global Trade Volume

The following tables represent the top ten countries in terms of export for both Bangladesh and the Republic of Korea in FY20, FY21 and FY 22. Top destinations for export from Bangladesh include USA, Germany, Britain, Spain, among others whereas top destinations for export from South Korea include China, USA, Viet Nam, Hong Kong, among others.

Bangladesh		
Country	2021 (in million US\$)	2022 (in million US\$)
United States	6974.008	10417.718
Germany	5953.507	7590.970
Great Britain	3751.270	4828.082
Spain	2343.988	3166.370
France	1962.141	2711.056
Poland	1503.636	2139.241
Italy	1308.622	1702.292
INDIA	1279.669	1991.390
Netherlands	1277.443	1775.005
Japan	1183.638	1353.852

Table 6 Top Export Destinations for Bangladesh, Source: Export Promotion Bureau

Republic of Korea			
Country	In million USD (2020)	Country	In million USD (2021)
China	131,000	China	158,000
US	75,000	US	95,900
Vietnam	48,000	Vietnam	56,600
Hong Kong	31,000	Hong Kong	38,200
Japan	25,100	Japan	30,100
Chinese Taipei	17,400	Chinese Taipei	25,800
India	12,100	India	16,000
Malaysia	11,700	Singapore	15,800
Singapore	11,000	Mexico	12,300
Mexico	10,600	Germany	12,100

Table 7 Top Export Destinations for the Republic of Korea, Source: The Observatory of Economic Complexity

## 4. Review and Analysis of Trade Agreements/Treaty

Our trade experts have analyzed the agreement and the following table includes suggested changes for the agreement.

Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
<b>Article - 1</b>	<p>The two Contracting Parties shall take all appropriate measures, in conformity with the laws and regulations in force in their respective countries, to maximize trade between the two countries, regarding the goods and commodities as mentioned in the Schedules "A" and "B" attached to this Agreement. The Schedules "A" and "B" shall constitute an integral part of this Agreement.</p>	N/A	<p>The schedules A and B may be updated since the products exported from both countries have changed significantly over the years. The schedules should take into consideration the current trade patterns of the countries. Outdated product schedules reflect that the agreements have not been updated as and when necessary. Moreover, it doesn't reflect current export/import demands. Product schedule from Bangladesh to ROK may include footwear, high end apparel, jute, and light engineering since Bangladesh shows good export potential in these products.</p>	N/A

Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
<b>Article - 2</b>	<p>As stated, provision in the Agreement</p> <p>1. Each party shall accord to the commerce of the other party the most-favored-nation treatment, with respect to:</p> <ul style="list-style-type: none"> <li>a. taxes, custom-duties, and charges of any kind imposed on or in connection with importation and exportation or imposed on international transfer of payments for imports and exports.</li> <li>b. the method of levying such duties and charges;</li> <li>c. all rules and formalities in connection with the importation and exportation;</li> <li>d. all application of internal taxes or other internal charges of any kind imposed on or in connection with imported or exported goods;</li> <li>e. all laws, regulations and requirements affecting internal sale, offering for sale, purchase, distribution, utilization, or use of imported goods within the territory of each country;</li> <li>f. the application of any form of control on means of payments or regulations on the international exchange that are established or will be established in the future.</li> </ul> <p>2. The provisions of paragraph (1) above shall not, however, apply to any advantages and privileges which either party accords or will accord to the bordering countries to facilitate frontier trade;</p> <ul style="list-style-type: none"> <li>a. advantages and privileges resulting from any customs union or free trade zone or regional arrangements of which either party is or may become a member;</li> <li>b. advantages accorded by virtue of multilateral economic agreement designed to liberalize international commerce;</li> <li>c. preferences accorded by either party to the goods and commodities which are imported under aid program extended to either party by any foreign</li> </ul>	<p>Unchanged</p>	<p>N/A</p>	<p>N/A</p>

Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
	<p>government, its corporations or its associations or the United Nations or its Specialized Agencies;</p> <p>d. prohibitions or restrictions imposed for the protection of public health or preservation of public morals or for the protection of plants or animals against diseases, degeneration, or extinction.</p>			
<b>Article - 3</b>	<p>1. Payment of all transactions under this Agreement shall be made in United States dollars, pound sterling or in other convertible currencies as may be agreed upon by both Contracting Parties.</p> <p>2. Such payments shall be effected in conformity with the laws and regulations relating to exchange control in force in either of the two countries</p>	Unchanged	N/A	N/A
<b>Article - 4</b>	<p>The two Contracting Parties shall promote economic co-operation in those fields which will contribute to the development of their economic and shall accord each other, in accordance with the laws and regulations of the Contracting Parties, necessary facilities no less favorable than those accorded to any third country in respect of capital investments including credit, joint ventures and other forms of economic co-operation.</p>	N/A	<p>A joint working committee may be formed with representatives from both countries to propose measures aimed at promoting and expanding trade between the two countries. The committee may decide to meet bi-annually/ annually in either of the capital of both countries.</p>	N/A
<b>Article - 5</b>	<p>The two Contracting Parties shall facilitate the exchange of scientific and technical trainees and skilled personnel particularly for the economic development and</p>	N/A	<p>A joint working committee may be formed to develop plans and create a pool of</p>	N/A

Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
	enhancement of the living standards of each country.		experts/ trainers in connection to the transfer of technical knowledge for economic development. Joint working groups will lead to dedicated effort towards enhancing trade relations between the two countries.	
<b>Article - 6</b>	The two Contracting Parties shall favorably consider the issuance of permit for the entry, the sojourn, and the conduct of all kinds of commercial, industrial, financial, or other business activities to the nationals of either of the two countries for the purpose of developing the industrial potential and the trade between the two countries.	Unchanged	N/A	N/A
<b>Article - 7</b>	The two Contracting Parties agree to explore the ways and means and take necessary steps for the most convenient and economic transportation of commodities between the two countries.	N/A	A joint working committee may be formed with representatives from both countries to discuss most efficient trade routes and reduction of non-tariff barriers.	N/A
<b>Article - 8</b>	Mercantile ships of both countries, while entering, staying in or leaving the posts of either country, shall enjoy the most-favoured-nation treatment granted by their respective laws, rules, and regulations to ships under any third country's flag. This principle shall not, however, apply to ships engaged in the coastal trade.	Unchanged	N/A	N/A

Chapter	As stated, provision in the Agreement	Unchanged	New Inclusion/ Change	Drop
<b>Article - 9</b>	To facilitate the implementation of this Agreement, the two Contracting Parties shall consult together in respect of any matter arising from, or in connection with, the operation of this Agreement at the request of either party.	N/A	A joint working committee may lead to discussions between both parties resulting in improvements made to the agreement.	N/A
<b>Article - 10</b>	<p>This Agreement shall come into force on the date of signature and shall remain valid for a period of one year from such date and thereafter for successive periods of one year unless either party denounces it by three months' notice in writing before the end of the period of validity.</p> <p>This Agreement may be revised by mutual consent. Any revision or termination of this Agreement shall be without prejudice to any rights or obligations occurring or incurred under this Agreement prior to the effective date of revision or termination.</p>	N/A	A longer validity period may be considered in case a joint working group is established since updates and modifications will be continuously discussed/ made to the agreement within the validity period. Since the two countries have been trading for years, and have plans of further building this relationship, a longer validity period may be more suitable.	N/A

Table 8 Review and Analysis of Trade Agreements and Treat

## 5. Top Products for Trade Diversification

The tree map indicates that top imports from Republic of Korea consists of crude petroleum, integrated circuits, petroleum gas, among others. After a thorough analysis of data, which is presented in detail below, the following items have potential for export to Republic of Korea. Detailed observations along with explanations are provided in and under Tables 7, 8 and 9.

- Footwear
- High-end apparel
- Jute
- Refined petroleum
- Vertical Integration (light engineering electronics, car parts, semi assemblies)
- Frozen fish (from KIIs)

Top Ten Imports of the Republic of Korea from the World <sup>17</sup>						
HS4	Product	Bangladesh's Export to Republic of Korea (in million US\$)	% of Total Export to Republic of Korea	Bangladesh's export to the world (in million US\$)	Total addressable Market (in million US\$)	% of Total Import from the World to Republic of Korea
2709	Crude Petroleum	0.000	0.00%	0.000	42198.478	9.47%
8542	Integrated Circuits	0.000	0.00%	0.000	38607.872	8.66%
2711	Petroleum Gas	0.000	0.00%	0.034	16330.440	3.66%
2710	Refined Petroleum	0.000	0.00%	20.711	12949.127	2.91%
9010	Photo Lab Equipment	0.000	0.00%	0.000	10880.134	2.44%
2701	Coal Briquettes	0.000	0.00%	2.563	8328.590	1.87%
8525	Broadcasting Equipment	0.000	0.00%	0.009	6268.446	1.41%
8473	Data processing equipment	0.000	0.00%	0.098	6170.350	1.38%
2601	Iron Ore	0.000	0.00%	0.000	5942.592	1.33%
8517	Telephone	0.000	0.00%	0.836	4874.355	1.09%

Table 9 Comparison of Exports to Republic of Korea and the World, Source: Export Promotion Bureau

<sup>17</sup> The table includes Bangladesh's export volume to South Korea (in millions of US\$) of the ten top imports (of South Korea from the world), % Of the total export from Bangladesh to South Korea for these top imports, Bangladesh's export to the world (in million US\$) of these ten products, Total Addressable Market in South Korea, and % Share of these ten products in the total share of South Korea's imports.



The table above looks at the top imports of ROK and whether Bangladesh exports any of the top ten products to ROK or to the world to draw an analysis of potential export markets. Our analysis are as follows:

- Among the top ten imports of Republic of Korea, Bangladesh does not export any.
- However, in the case of refined petroleum, Bangladesh exports over 20 million US\$ worth of this product to the world, and since there is demand for this product in Republic of Korea, Bangladesh can try exporting this product to Korea as the total addressable market for this product is roughly 13,000 million US\$. Though Bangladesh does not produce petroleum, it imports crude petroleum, primarily and produces refined petroleum through its sole refinery, Eastern Refinery Limited (ERL), a subsidiary under the Bangladesh Petroleum Corporation. ERL has the capacity to annually process 1.3 million metric tons of crude oil.<sup>18</sup>

A similar analysis has also been conducted in table 8 using Bangladesh's priority sectors for export (as per Export Policy 2021 – 2024) to assess the demand for the products in Republic of Korea 's markets and understand where the current trade volume stands for these products.

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh's Export to Republic of Korea (in million US\$)	% of Total Export to Republic of Korea	Bangladesh's export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total addressable Market (in million US\$)	% of Total Import from the World to Republic of Korea
<b>Textiles</b>							
6109	T-shirts, singlets	76.851	19.28%	6615.483	17.07%	841.738	0.19%
6104	Non-Knit Active Wear	6.200	1.56%	2026.833	5.23%	587.551	0.13%
6110	Pullovers, cardigans	69.220	17.36%	4051.830	10.45%	1080.493	0.24%
6307	Textile	0.171	0.04%	116.932	0.30%	862.319	0.19%
6304	Bedspreads	0.066	0.02%	8.875	0.02%	76.533	0.02%
6210	Garments made up of textile felts	8.308	2.08%	378.420	0.98%	272.529	0.06%
6211	Men's, boys' garments	11.386	2.86%	310.887	0.80%	521.601	0.12%
6111	Babies Garments	0.647	0.16%	546.111	1.41%	35.505	0.01%
5303	Jute and other textiles	3.114	0.78%	138.148	0.36%	2.738	0.00%
5209	Denim cotton >85%	0.000	0.00%	53.439	0.14%	92.702	0.02%

<sup>18</sup> Banglapedia, "Petroleum Products," en.banglapedia.org, Accessed July 6, 2022, [https://en.banglapedia.org/index.php/Petroleum\\_Products](https://en.banglapedia.org/index.php/Petroleum_Products).

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh's Export to Republic of Korea (in million US\$)	% of Total Export to Republic of Korea	Bangladesh's export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total addressable Market (in million US\$)	% of Total Import from the World to Republic of Korea
5211	Denim cotton	0.000	0.00%	17.059	0.04%	10.870	0.00%
<b>Machinery, mechanical appliances, and electrical machinery</b>							
8415	Air Conditioner	0.000	0.00%	6.231	0.02%	604.107	0.14%
8528	Television, monitors, projectors	0.000	0.00%	6.439	0.02%	1350.213	0.30%
8418	Refrigerators, household	0.000	0.00%	12.268	0.03%	759.907	0.17%
8414	Compressors for refrigerating equipment	0.000	0.00%	5.438	0.01%	2451.937	0.55%
<b>Vehicles, aircraft, vessels, and associated transport equipment</b>							
8711	Motorcycles	0.000	0.00%	0.152	0.00%	452.032	0.10%
8712	Bicycles, other cycles, not motorized	0.000	0.00%	130.886	0.34%	173.410	0.04%
8714	Bicycle parts	0.000	0.00%	12.170	0.03%	136.352	0.03%
<b>Miscellaneous manufactured articles</b>							
9403	Furniture, metal	0.154	0.04%	18.361	0.05%	1264.188	0.28%
<b>Pharmaceutical Products</b>							
3004	Medicaments	0.314	0.08%	140.225	0.36%	3558.562	0.80%
3002	Blood, toxins, cultures, medical use	0.000	0.00%	0.276	0.00%	2707.596	0.61%
3003	Medicaments, in bulk	0.019	0.00%	26.575	0.07%	119.891	0.03%
3005	Medical dressings	0.000	0.00%	0.048	0.00%	214.829	0.05%
<b>Miscellaneous manufactured articles</b>							
9404	Articles of bedding	2.452	0.61%	31.431	0.08%	489.637	0.11%
<b>Prepared foodstuffs</b>							
2106	Food preparations	0.000	0.00%	0.767	0.00%	1411.516	0.32%
2202	Non-alcoholic beverages	0.000	0.00%	29.407	0.08%	88.571	0.02%
2009	Fruits Juices	0.000	0.00%	61.693	0.16%	236.480	0.05%
<b>Animal or vegetable fats and oils</b>							

Bangladesh's Priority Sectors (as per Export Policy 2021 – 2024)							
HS4	Product	Bangladesh's Export to Republic of Korea (in million US\$)	% of Total Export to Republic of Korea	Bangladesh's export to the world (in million US\$)	% of Total Export from Bangladesh to the World	Total addressable Market (in million US\$)	% of Total Import from the World to Republic of Korea
1507	Soya-bean oil crude	0.000	0.00%	19.166	0.05%	288.039	0.06%
<b>Vegetable Products</b>							
1006	Rice	0.000	0.00%	13.799	0.04%	369.182	0.08%
0713	Peas	0.000	0.00%	0.011	0.00%	64.963	0.01%
810	Fruits, fresh	0.000	0.00%	4.063	0.01%	170.040	0.04%
0710	Frozen vegetable mixtures	0.027	0.01%	4.767	0.01%	270.489	0.06%
0711	Vegetables	0.064	0.02%	55.881	0.14%	20.365	0.00%
<b>Plastics and Rubbers</b>							
3901	Polyethylene	0.000	0.00%	4.872	0.01%	628.742	0.14%
3920	Sheet/film not cellular	0.000	0.00%	7.098	0.02%	2130.560	0.48%
3906	Acrylic polymers	0.000	0.00%	5.026	0.01%	252.872	0.06%
3908	Polyamide	0.000	0.00%	2.989	0.01%	385.677	0.09%
3904	Polyvinyl chloride	0.000	0.00%	1.736	0.00%	397.145	0.09%
<b>Footwear</b>							
6402	Footwear, rubber or plastic	6.592	1.65%	93.567	0.24%	681.386	0.15%
6404	Footwear, not sport	5.495	1.38%	220.305	0.57%	842.990	0.19%
6403	Sports footwear	5.799	1.45%	569.882	1.47%	895.572	0.20%
<b>Live animals</b>							
0301	Ornamental fish, live	0.001	0.00%	6.321	0.02%	N/A	N/A

Table 10 Comparison of Existing and Possible Exports to Republic of Korea and the World, Source: Export Promotion Bureau

From the table above, the following deductions can be made.

- Republic of Korea's imports from Bangladesh mainly include textiles and apparel, Bangladesh may explore the possibility of introducing high-end apparel and increasing the volume of exports in this category.
- Republic of Korea only imports a small fraction of the total exports in footwear from Bangladesh (less than 1% of demand is being met by Bangladesh). As Bangladesh already

has an existing market share in footwear exports to Republic of Korea, Bangladesh can try to increase the export volume of footwear to Republic of Korea as the total addressable market for just footwear (sports) is around 900 million US\$. The exports of leather footwear in Bangladesh amounted to 538.98 million US \$ (2021-2022), implying a growth of 27.86% compared to previous years.<sup>19</sup>

- Companies such as Walton in Bangladesh are exporting electronics to neighboring countries (Nepal) and gaining quick market share proving that Bangladesh has good export potential in electronics and light engineering. Bangladesh can take inspiration from Viet Nam in this case. 40% of Viet Nam’s total exports come from electronics after Samsung made its largest South Asian R&D center in Hanoi which led to skill development of local people as the center employs more than 1500 workers. Viet Nam follows an open international trade regime, and allowing foreign investors to bring the technical skills, brand names and access to markets.

## 5.1 Revealed Comparative Advantage

The following table shows Bangladesh’s bilateral RCA with Republic of Korea.

HS Code	Product	Bangladesh's Export to Republic of Korea (in million US\$)	Export of commodity from the world to Republic of Korea (in million US\$)	RCA
<b>Textiles</b>				
52	Cotton	0.004	1002.12	0.01
53	Vegetable textile fibers	7.178	119.74	74.54
61	Apparel and clothing accessories; knitted or crocheted	177.573	3909.31	56.49
62	Apparel and clothing accessories; not knitted or crocheted	157.575	6490.69	30.19
63	Textiles, made up articles	8.207	962.70	10.60
<b>Machinery, mechanical appliances, and electrical machinery</b>				
84	Machinery and mechanical appliances	0.452	51630.53	0.01
85	Electrical Machinery (recorders, television, parts, and accessories)	0.267	89700.24	
<b>Vehicles, aircraft, vessels, and associated transport equipment</b>				
87	Vehicles	0.027	16692.52	0.00
<b>Miscellaneous manufactured articles</b>				
94	Furniture, bedding, mattresses	1.410	3366.42	0.52
<b>Pharmaceutical Products</b>				
30	Pharmaceutical products	1.572	7093.61	0.28

<sup>19</sup> World Footwear, “Bangladesh: Leather Exports Continue on Growing Mode,” World Footwear, www.worldfootwear.com, July 6, 2022, <https://www.worldfootwear.com/news/bangladesh-leather-exports-continue-on-growing-mode-7690.html>.

Prepared foodstuffs				
21	Miscellaneous edible preparations	0.019	2215.85	0.01
20	Preparations of vegetables, fruits, nuts, or other parts of plants	0.001	1181.69	0.00
22	Beverages, spirits, and vinegar	N/A	1218.67	N/A
Animal or vegetable fats and oils				
15	Animal, vegetable or microbial fats and oils	0.002	1260.92	0.00
Vegetable Products				
7	Vegetable and certain roots and tubers	0.015	654.11	0.03
8	Fruits and nuts	N/A	1719.17	N/A
10	Cereals	0.000	3662.09	0.00
Plastics and Rubbers				
39	Plastics and articles thereof	1.097	11516.98	0.12
64	Footwear and parts of such articles	11.782	3265.08	4.49
Live animals				
3	Fish and crustaceans	1.379	4705.26	0.36

Table 11 Bilateral RCA with Republic of Korea, Source: UN Comtrade Data (2019)

From the table above, the following deductions can be made:

- RCA value stands at 74.54 for Jute, and in FY 21, Republic of Korea imported nearly 10 million US\$ worth of vegetable textile fibers from Bangladesh.
- Bangladesh has a high RCA value for apparel and textiles, and the country's export basket to Republic of Korea is dominated by these products.
- Similarly, footwear is among the top ten exports from Bangladesh and Republic of Korea, and as per the RCA calculation above, Bangladesh has export strength in this product.

The following table shows Bangladesh's bilateral RCA with Republic of Korea of the top 10 exporting products from Bangladesh.

HS Code	Product	Bangladesh Top Exports to Republic of Korea (in million US\$)	Export of the commodity of the world to Republic of Korea (in million US\$)	RCA
610910	T-shirts, singlets and other vests	63.89	550.14	144.42
611030	Jerseys, pullovers, etc.	40.94	426.45	119.37
620342	Men's or boys' trousers, breeches, etc.	41.21	291.19	176.00
611020	Jerseys, pullovers, etc., of cotton, knitted or crocheted	20.69	378.07	68.06
620193	Men's or boys' anoraks, windcheaters	13.64	779.49	21.76
630622	Tents of synthetic fibers	6.78	45.10	187.02

620343	Men's or boys' trousers, breeches of synthetic fibers	15.57	419.80	46.11
620462	Women's or girls' trousers, breeches	21.87	321.85	84.50
620293	Woman's or girls' anoraks, windcheaters	3.49	690.74	6.28
621133	Men's or boys' garments of man-made fibers	1.70	221.14	9.58

Table 12 RCA of the Top 10 Bangladeshi Export products to Republic of Korea, Source: UN Comtrade Data (2019)

From the table above, it can be observed that all the top ten exports have an RCA value greater than 1 indicating export strength and comparative advantage. The export basket to Republic of Korea is mainly dominated by garments products which is already an export strength for Bangladesh.

## 6. Trade Policies and Practices

### 6.1 Trade Policy Formulation

The following table shows the stakeholders involved in trade policy formulation and governance for Bangladesh and Republic of Korea.

Country	Stakeholder
Bangladesh	Ministry of Commerce (MoC)
	National Board of Revenue (NBR)
	Ministry of Law, Justice, and Parliamentary Affairs
Republic of Korea	Ministry of Trade, Industry and Energy
	Ministry of Economy and Finance

Table 13 Trade Policy Organization

Country	Stakeholder Group	Stakeholder Interest	Mandate
Bangladesh	Ministry of Commerce (MoC)	<p>The focal point for bilateral, regional, and multilateral trade negotiations.</p> <p>Various agencies under the MoC oversee the implementation of trade-related policies, regulations, and remedies such as the Bangladesh Trade and Tariff Commission and the Export Promotion Bureau (EPB).</p> <p>Various ministries are involved in the implementation of trade-related issues<sup>20</sup>.</p>	Takes a lead role in the formulation, implementation, and coordination of policies and activities related to international trade
	National Board of Revenue (NBR)	Decides on the level of tariffs, para-tariffs, and other duties through the pre-budget consultation process and	Takes a lead role in tariff setting

<sup>20</sup> Different ministries and departments involved in implementation of trade related issues are: Ministry of Agriculture; Ministry of Finance; Bangladesh Bank; Ministry of Industries; Bangladesh Standards and Testing Institute; Bangladesh Small & Cottage Industries Corporation; Department of Patent Designs, and Trademarks; Ministry of Post and Telecommunications; Ministry of Civil Aviation and Tourism; Privatization Commission; Board of Investment; Bangladesh Export Processing Zones Authority (BEPZA); Ministry of Power, Energy and Mineral Resources; Ministry of Shipping (MOS); Ministry of Health; Planning Commission; Central Procurement Technical Unit (CPTU)/Implementation Monitoring and Evaluation Division; Ministry of Textiles and Jute; Ministry of Fisheries and Livestock; Ministry of Food and Disaster Management; Ministry of Environment and Forest; and Ministry of Communications.

Country	Stakeholder Group	Stakeholder Interest	Mandate
		is focused on duty collection and revenue.	
	Ministry of Law, Justice and Parliamentary Affairs	Provides legal advisory services to other ministries, divisions, departments, and organizations of the Government	Vets trade policy before cabinet approval
Republic of Korea	Ministry of Trade, Industry and Energy	<p>The focal point to coordinate the nation's industries.</p> <p>MOTIE is committed to providing a foundation for economic growth by combining its efforts to fulfil its wide range of responsibilities in the areas of commerce, investment, industry, and energy.<sup>21</sup></p>	In charge of regulating some economic policy, especially concerning the industrial and energy sectors. The ministry also works to encourage foreign investment in Korea. <sup>22</sup>
	Ministry of Economy and Finance	<p>Oversees the financial policies of the Republic of Korea n government. It publishes a monthly report on the national economy, known as the "Green Book."</p> <p>MOEF has enforcement functions as well. It oversees the National Tax Tribunal and the Financial Intelligence Unit.<sup>23</sup></p> <p>Committed to developing a strong economy and building growth engines through the concerted efforts of its offices and bureaus.</p>	Works to ensure macroeconomic and financial stability, effective policy coordination, efficient allocation of national resources, fiscal soundness, rational tax policies, and robust international cooperation. <sup>24</sup>

Table 14 Stakeholders involved in Policy Formulation

<sup>21</sup> Ministry of Trade, Industry and Energy - Republic of Korea, "Introduction | Ministry of Trade, Industry and Energy," english.motie.go.kr, Accessed July 6, 2022, <https://english.motie.go.kr/en/am/introduction/introduction.jsp>.

<sup>22</sup> DBpedia, "Ministry of Trade, Industry and Energy (South Korea)," dbpedia.org, Accessed July 6, 2022, [https://dbpedia.org/page/Ministry\\_of\\_Trade,\\_Industry\\_and\\_Energy\\_\(South\\_Korea\)](https://dbpedia.org/page/Ministry_of_Trade,_Industry_and_Energy_(South_Korea)).

<sup>23</sup> DBpedia, "Ministry of Trade, Industry and Energy (South Korea)," dbpedia.org, Accessed July 6, 2022, [https://dbpedia.org/page/Ministry\\_of\\_Economy\\_and\\_Finance\\_\(South\\_Korea\)](https://dbpedia.org/page/Ministry_of_Economy_and_Finance_(South_Korea)).

<sup>24</sup> Devex, "Ministry of Economy and Finance (MOEF - South Korea)," devex.com, Accessed July 6, 2022, <https://www.devex.com/organizations/ministry-of-economy-and-finance-moef-south-korea-129173>.



While Bangladesh has the Ministry of Commerce and another sub-division under the Ministry of Finance for setting the tariffs (NBR) followed by a separate Ministry for handling the legal implications on passing new trade policies, In Republic of Korea, the Ministry of Trade, Industry, and Energy (MOTIE) and the Ministry of Economy and Finance is responsible for the formulation and implementation and does not necessarily involve the Ministry of Justice for vetting trade policies.<sup>25</sup> When MOTIE articulates trade policies and makes policy conclusions, it refers to relevant stakeholders like the following:

- Representatives from other government ministries (such as the Ministries of Economy and Finance; Agriculture, Food and Rural Affairs; Justice; and Land, Infrastructure, and Transport);
- Stakeholders from the private sector such as the Korea Chamber of Commerce and Industry (KCCI), and the Korea International Trade Association (KITA); and
- Public research institutes including government-funded think tanks (such as the Korea Institute for International Economic Policy, the Korea Institute for Industrial Economics and Trade, the Korea Development Institute, the Korea Economic Research Institute, and the Korea Rural Economic Institute).

MOTIE holds Foreign Investment Advisory Council discussions together with the Korea Trade-Investment Promotion Agency (KOTRA), and foreign firms are allowed to direct the Government on foreign investment policy.<sup>26</sup> KOTRA has positively assisted Korea's rapid export-led economic development via various trade promotion activities such as foreign market surveys and business matchmaking.<sup>27</sup> KOTRA also runs Invest KOREA, the national investment promotion agency. The main activities undertaken by KOTRA are:

- Facilitating International Trade
- Promoting Foreign Investment
- Powering Business Success Through Information
- Bolstering a Trade-Investment Infrastructure
- Providing Buyers Virtual Access to the Korean Market<sup>28</sup>

Similarly, in Bangladesh, the Ministry of Commerce (MOC) is the principal organization in the preparation, execution, and management of policies and activities relating to international trade in goods and services.<sup>29</sup>

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<sup>25</sup> World Trade Organization, "Trade Policy Review – Republic of Korea," September 8, 2021, WT/TPR/S/414, wto.org, Accessed July 6, 2022, [https://www.wto.org/english/tratop\\_e/tpr\\_e/s414\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s414_e.pdf).

<sup>26</sup> World Trade Organization, "Trade Policy Review – Republic of Korea," September 8, 2021, WT/TPR/S/414, wto.org, Accessed July 6, 2022, [https://www.wto.org/english/tratop\\_e/tpr\\_e/s414\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s414_e.pdf).

<sup>27</sup> ATPF Asian Trade Promotion Forum, "Trade Promotion Organization in Asia," www.atpf.org, Accessed July 6, 2022. <https://www.atpf.org/en/org/korea.html#:~:text=KOTRA%2C%20initially%20the%20Korea%20Trade,market%20surveys%20and%20business%20matchmaking>.

<sup>28</sup> ATPF Asian Trade Promotion Forum, "Trade Promotion Organization in Asia," www.atpf.org, Accessed July 6, 2022. <https://www.atpf.org/en/org/korea.html#:~:text=KOTRA%2C%20initially%20the%20Korea%20Trade,market%20surveys%20and%20business%20matchmaking>.

<sup>29</sup> World Trade Organization, "Trade Policy Review – Republic of Korea," February 6, 2021, WT/TPR/S/385, wto.org, Accessed July 6, 2022, [https://www.wto.org/english/tratop\\_e/tpr\\_e/s385\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s385_e.pdf)

It is the epicenter for bilateral, regional, and multilateral trade negotiations. Execution of trade-related strategies and guidelines are directed by the following organizations under the MOC:

- Bangladesh Tariff Commission, dealing, inter alia, with trade remedies.
- Export Promotion Bureau (EPB);
- The National Board of Revenue (NBR), under the Ministry of Finance, takes the lead role in tariff-setting.
- Ministry of Agriculture
- Ministry of Health and Family Welfare
- Ministry of Fisheries and Livestock
- Ministry of Industries
- Ministry of Cultural Affairs
- Ministry of Post
- Telecommunications and Information Technology
- Ministry of Civil Aviation and Tourism
- Ministry of Shipping
- Ministry of Road Transport and Bridges

There are institutional weaknesses when it comes to trade negotiations and management in Bangladesh. 40% of the KII respondents have stated that there is a lack of skilled negotiators, and trade experts, and no retention of institutional memory as government officials get rotated between various ministries. Development of strong trade negotiators and effective trade bodies is crucial, and professional training and capacity building can help in this regard.

A stakeholder analysis of mandates and interests has revealed a gap in understanding and objectives between organizations responsible for trade policy formulation. NBR has a mandate to investigate trade agreements, and concessions but only from a customs revenue gain/ loss point of view while MoC is responsible for looking at trade arrangements from a holistic point of view. Differences in mandates and expectations of the trade negotiating and harmonization agencies have led to coordination and implementation gaps. About 40% of the KII respondents have stated that there is a lack of coordination and gaps in the harmonization process when it comes to trade policy formulation, management, and negotiation.<sup>30</sup>

Trade negotiation teams from most countries typically include lawyers who specialize in international trade law. Countries which include lawyers in their teams include India, Sri Lanka, Singapore, Thailand, Nepal, and the Republic of Korea. The lawyers help to ensure that the country's interests are well represented and that the resulting trade agreements comply with international law and the country's own legal framework. This is a gap which Bangladesh can immediately address since the trade negotiation team of Bangladesh doesn't consist of a legal representative.

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<sup>30</sup> The sample size for KII for the first phase of study involving countries Nepal, Bhutan, Sri Lanka, and South Korea is 20 participants. This number represents responses received from 20 participants.

## 6.2 Trade Policy Objectives and Incentives

Korea moved to the "Korean New Deal" policy in July 2020, intending to deal with the global crisis and be fully ready for the post-COVID-19 era. The goals of the Korean New Deal were to change the economy for the better by making it greener, with more digital amenities and robust safety nets, executed through fiscal backing for pump priming and enhanced regulations to endorse the private sector.<sup>31,32</sup>

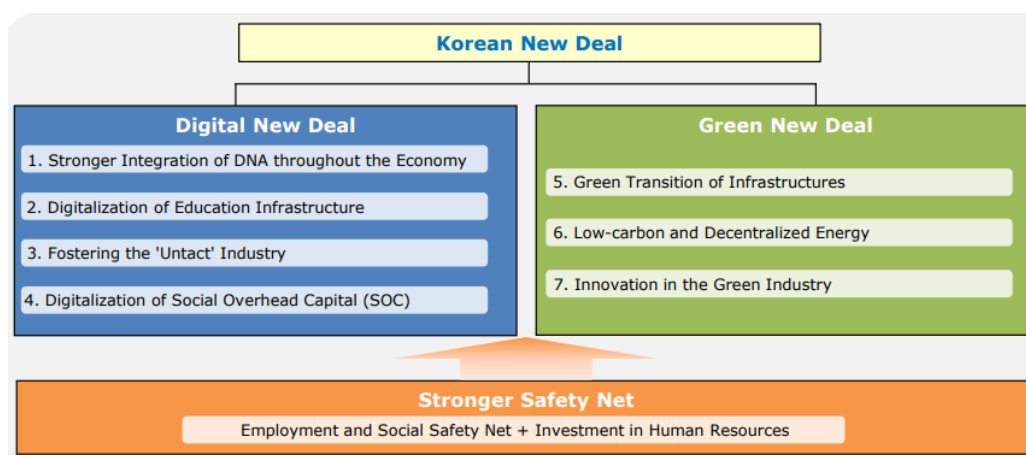


Figure 3 Korean Deal in a Flowchart

In the case of Bangladesh, the Export Policy, 2021-2024, was made effective from March 23, 2022. The Policy aims to reach annualized export earnings of US\$ 80 billion between the years 2021-2024. With a key focus on post-LDC-Graduation challenges, research, and development, curbing the impact of COVID-19 over export sectors, and the fourth industrial revolution. The Policy focuses on boosting trade by tapping into 14 priority sectors with products of high-value potential. For new export items to be added to the list of current exports, value addition needs to hit the 30% benchmark for acquiring export incentives. Exporters can also borrow up to 90% of the amount stated in the confirmed contract or the irrecoverable letter of credit from commercial banks, under the guidance of Bangladesh Bank.<sup>33</sup>

The government of Bangladesh provides incentives to selected export sectors which includes textiles, hand-made products, jute produces, agricultural and agro-processed goods, leather goods, furniture, plastic goods, frozen fish, motorcycles, among others. Most of these products are already in Bangladesh's Export Priority List. The rate of subsidy for these items ranges from 4 – 20 percent. Under the provisions of the Value Added Tax Act, 1991, and the Customs Act, 1969, all duties and taxes paid on inputs/ raw

<sup>31</sup> IEA, "Korean New Deal - Digital New Deal, Green New Deal and Stronger Safety Net," [www.iea.org](http://www.iea.org), July 16, 2021, <https://www.iea.org/policies/11514-korean-new-deal-digital-new-deal-green-new-deal-and-stronger-safety-net>.

<sup>32</sup> World Trade Organization, "Trade Policy Review – Republic of Korea," September 8, 2021, WT/TPR/G/414, [wto.org](http://wto.org), Accessed July 6, 2022, [https://www.wto.org/english/tratop\\_e/tpr\\_e/g414\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/g414_e.pdf).

<sup>33</sup> The Financial Express, "Bangladesh's New Export Policy Attaches Highest Priority to 14 Sectors," The Financial Express, [thefinancialexpress.com.bd](http://thefinancialexpress.com.bd), Accessed July 3, 2022, <https://thefinancialexpress.com.bd/trade/bangladeshs-new-export-policy-attaches-highest-priority-to-14-sectors-1648435929>.

materials used for the manufacturing of exported goods is subject to refund. Export potential sectors in Bangladesh (*include high value-added reRMGs and garment accessories; software and IT-enabling services, information communication technology (ICT) products; pharmaceutical products; ships and ocean-going fishing trawlers; footwear and leather products; jute products; plastic products; agro-products and agro-processed products; furniture; home textiles and terry towelling; home furnishings; and luggage*) enjoy benefits and facilities such as project loans at reduced rates, subsidies for utility services, air transportation facilities on priority basis, income tax rebates, duty free import of equipment, assistance in the production and marketing of products, among others.

The Republic of Korea, on the other hand, uses export subsidies to cover fruit, flowers, vegetables, kimchi, ginseng, livestock, grain and processed food, and traditional liquor. The subsidies are used to reduce exporters' marketing/logistics costs in alignment with the Framework Act on Agriculture, Rural Community, and Food Industry (Article 59). The raw materials that are used for exports are exempt from customs duties, following which a customs drawback scheme provides refunds. Additionally, Korea Trade and Investment Promotion Agency (KOTRA) continues to support exporters with promotional activities. Korean exporters continue to benefit from promotional activities such as business matchmaking services of the state-owned Korea Trade and Investment Promotion Agency (KOTRA). Export loans of up to 100% of the contract value are available from government-owned Export-Import Bank of Korea, given that the ratio of the minimum foreign exchange earning does not fall below 25%. Moreover, the Korean Trade Insurance Corporation, K-SURE under MOTIE provides export credit insurance against non-payment risks as per the Trade and Insurance Act, 1968<sup>34</sup>.

### 6.3 Investment and Export Promotion

According to UNCTAD's 2021 World Investment Report, FDI to the Republic of Korea declined by 4% to US\$ 9.2 billion in 2020 from US\$ 9.6 billion in 2019. FDI stocks increased to US\$ 265 billion, up from US\$ 135 billion in 2010.<sup>35</sup> Although the country was among the first to contain the pandemic and economic growth remained strong, a sharp decline in cross-border M&As caused a drop in FDI. Despite the overall decline, FDI inflows continued to be robust in some sectors, particularly in sectors related to artificial intelligence (AI), big data, cloud computing, as well as electric cars, and biotechnology. In 2020, Inflows of FDI pledged to these industries grew by 9.3% to US\$ 8.4 billion.<sup>36</sup> According to data from Organization for Economic Co-operation and Development (OECD), Japan, the US, the Netherlands, and the UK hold

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<sup>34</sup> World Trade Organization- Government of the People's Republic of Korea. "TRADE POLICY REVIEW", www.wto.org, Accessed April 7, 2023. [https://www.wto.org/english/tratop\\_e/tpr\\_e/s414\\_rev1\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s414_rev1_e.pdf)

<sup>35</sup> Foreign investment in South Korea, "Foreign Investment in South Korea," santandertrade.com, Accessed July 6, 2022, <https://santandertrade.com/en/portal/establish-overseas/south-korea/foreign-investment#:~:text=According%20to%20UNCTAD's%202021%20World,USD%20135%20billion%20in%202010.>

<sup>36</sup> Foreign investment in South Korea, "Foreign Investment in South Korea," santandertrade.com, Accessed July 6, 2022, <https://santandertrade.com/en/portal/establish-overseas/south-korea/foreign-investment#:~:text=According%20to%20UNCTAD's%202021%20World,USD%20135%20billion%20in%202010.>

most of the FDI stock. Investments have been mainly oriented towards manufacturing, finance and insurance, trade, hospitality, real estate, information and communication, and transportation.

Since the 1990s, along with trade openness, Korea has worked to improvise its foreign direct investment (FDI) strategies and regulatory norms, additionally, it has contributed to the expansion of significant monitoring and measurement tools.<sup>37</sup> Republic of Korea remains an attractive destination for foreign direct investors due to its stable and continuous economic development and the country's speciality in communication, advanced technologies, and new information. Though, the absence of overall transparency in rules and regulations remains the main issue for potential foreign investors.<sup>38</sup>

The Bangladesh Export Processing Zones Authority (BEPZA) falls under the jurisdiction of the Prime Minister's Office under which, Bangladesh has a sum of 8 Export Processing Zones (of which Chittagong EPZ is the largest EPZ). EPZs in Bangladesh were ideally formed to increase the financial growth of the country, primarily through industrialization. Hence, BEPZA has embraced an Open Door Policy to attract new ventures to Bangladesh. Korean Export Processing Zone KEPZ was the foremost private EPZ in Bangladesh which was inaugurated in October 1999 under the agreement of the Bangladesh government and Youngone Corporation of the Republic of Korea.<sup>39</sup> Republic of Korea presently has the highest number of investors – 71, who have put their money in export processing zones (EPZs) in Bangladesh.<sup>40</sup> It is a principal global manufacturer of outdoor/athletic clothing, textile, footwear, and gear, and has business operations and manufacturing units in 14 different countries including Bangladesh.<sup>41</sup> Seventy-two corporations in Republic of Korea have invested in eight EPZs of Bangladesh so far.<sup>42</sup>

As of 2020, Korea is the fifth largest investor in Bangladesh. Korea is the largest foreign investor in EPZs with 75 companies operating in the EPZs.<sup>43</sup> Korea is providing duty and quota-free access to the Korean market to 95 percent of Bangladeshi products since 2012.

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<sup>37</sup> OECD, "Championing Trade Openness and Investment," [www.oecd.org](http://www.oecd.org), October 25, 2021, <https://www.oecd.org/country/korea/thematic-focus/championing-trade-openness-and-investment-18917177/>.

<sup>38</sup> Foreign investment in South Korea, "Foreign Investment in South Korea," [santandertrade.com](http://santandertrade.com), Accessed July 6, 2022, <https://santandertrade.com/en/portal/establish-overseas/south-korea/foreign-investment#:~:text=According%20to%20UNCTAD's%202021%20World,USD%20135%20billion%20in%202010.>

<sup>39</sup> Embassy of the Republic of Korea in People's Republic of Bangladesh, "Ambassador Lee Jang-Keun Visited Korean Export Processing Zone (KEPZ) in Chittagong (04 Nov)," [overseas.mofa.go.kr](http://overseas.mofa.go.kr), Accessed July 6, 2022, [https://overseas.mofa.go.kr/bd-en/brd/m\\_2123/view.do?seq=760791](https://overseas.mofa.go.kr/bd-en/brd/m_2123/view.do?seq=760791).

<sup>40</sup> The Business Standard, "South Korean Investors Ahead of Others in EPZs," [www.tbsnews.net](http://www.tbsnews.net), November 21, 2021, <https://www.tbsnews.net/economy/south-korean-investors-ahead-others-epzs-332413>.

<sup>41</sup> Textile Today, "Korean EPZ, a Successful Eco-Friendly Project, Shows That Investing in BD Is Beneficial," [www.textiletoday.com.bd](http://www.textiletoday.com.bd), August 23, 2021, <https://www.textiletoday.com.bd/korean-epz-a-successful-eco-friendly-project-shows-that-investing-in-bd-is-beneficial/>.

<sup>42</sup> The Financial Express, "Korean Kido Group to Invest \$31.17m in Adamjee EPZ," The Financial Express, [thefinancialexpress.com.bd](http://thefinancialexpress.com.bd), Accessed July 6, 2022, <https://thefinancialexpress.com.bd/economy/bangladesh/korean-kido-group-to-invest-3117m-in-adamjee-epz-1636372138>.

<sup>43</sup> The Daily Star, "South Korea-Bangladesh Agree on Joint Effort to Boost Bilateral Trade." [www.thedailystar.net](http://www.thedailystar.net), February 10, 2021, <https://www.thedailystar.net/business/news/korea-bangladesh-agree-joint-effort-boost-bilateral-trade-2042545>.

## 6.4 Customs Clearance

Easy and steady “Trade Facilitation” is determined not only by active customs management but also by the efficacy of apt authorities, telecommunications, quality of infrastructures, and competent logistics. Vastly competent logistics facilities support effective product movement, guarantee product safety, and delivery speed, and decrease trade costs between countries.<sup>44</sup> **Korea’s customs clearance performance stands valued at almost all international standards and is appraised as the cutting edge of best practice.** Its trade facilitation expansions encompassed complete incorporation of WTO Trade Facilitation Agreement (TFA) rules and transparency notices, the extension of e-clearance inspection to all imports by authorized economic operators, and the consideration of blockchain technologies. Even during COVID-19, Republic of Korea took extensive trade-facilitating capabilities including the speeding up of customs clearance, tax relief measures, and the operation of Customs Clearance Support Centers. According to a report published by OECD, the 2021 Services Trade Restrictiveness Index of Korea is relatively low compared to other countries and lower than the OECD average, indicating an open regulatory environment for trade in services.<sup>45</sup>

The logistics performance by the World Bank is the weighted average of a country based on the efficiency of the clearance process, quality of trade and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, and ability to track consignments. In 2018, Bangladesh ranked 100th contrary to this,<sup>46</sup> in the same year, Republic of Korea ranked 25<sup>th</sup>. Republic of Korea has been in the top 25 countries from 2014 to 2018, riding on massive capacity investments made, in almost all sectors. This statistic shows the global ranking of Bangladesh and Republic of Korea 's logistics industry based on the World Bank logistics performance index (LPI) from 2007 to 2018.

Bangladesh	Year	LPI Rank	LPI Score	Republic of Korea	Year	LPI Rank	LPI Score
	2014	108	2.09		2014	21	3.67
	2016	87	2.66		2016	24	3.72
	2018	100	2.58		2018	25	2.51 <sup>47</sup>

Table 15 The Logistics Performance Index; Source: <https://lpi.worldbank.org/international/scorecard/line/56/C/KOR/2018/R/EAP/2018//OEC/2018#chartarea>

<sup>44</sup> Kong-Woo La and Jin-Gu Song, “An Empirical Study on the Effects of Export Promotion on Korea-China-Japan Using Logistics Performance Index (LPI),” SSRN, papers.ssrn.com, March 6, 2020, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3533633](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3533633).

<sup>45</sup> OECD, “OECD Services Trade Restrictiveness Index (STRI): Korea – 2021,” January, 2022, <https://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-country-note-kor.pdf>.

<sup>46</sup> Arvis, Jean-Francois et. al., “Connecting to Compete: Trade Logistics in the Global Economy,” 2018, The World Bank, Accessed June 29, 2022, <https://openknowledge.worldbank.org/bitstream/handle/10986/29971/LPI2018.pdf>.

<sup>47</sup> World Bank Group, “Country Score Card: Korea, Rep. 2018,” lpi.worldbank.org, Accessed July 6, 2022, <https://lpi.worldbank.org/international/scorecard/radar/254/C/KOR/2018/C/DEU/2018#chartarea>.

The Republic of Korea has been signatory to the United Nation’s Transport International Routier (TIR) Convention since January 1982. The TIR Convention is known to represent a well-protected system that ensures reduction in physical checks, simplify Customs documentation, and improve the deployment of customs personnel<sup>48</sup>. Bangladesh is not a signatory country of the TIR, however, the TIR aims to facilitate free movement of goods under customs control across the international borders and an agreement like this would be quite helpful in terms of customs and transit harmonization among the BBIN countries.

## 6.5 Intellectual Property Rights

Both Bangladesh and Republic of Korea are signatories of World Intellectual Property Organization (WIPO) and the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement of the World Trade Organization (WTO).

Bangladesh has several legislations that oversee the protection of Intellectual Property (IP). The Patents and Designs Act 1911, The Copyright Act 2000, The Trademarks Act 2009, The Geographical Indications Goods (Registration and Protection) Act 2013, and the Plant Varieties Protection Act 2019 have all been ordained to lower the risks of commercialization and unfair competition. Moreover, in Bangladesh, the Directorate of Patents, Designs, and Trademarks in partnership with WIPO, initiated a discussion on National Intellectual Property Rights (IP) policy and the previously implemented IP Policy in 2018. Again, in 2019, the National Board of Revenue implemented the ‘Intellectual Property Rights of Receipts of Imports: Rules of Implementation 2018’.

In the Republic of Korea, intellectual property is protected under the Korean Copyright Act and patents are regulated under two acts, the Patent Act, and the Utility Model Act. Industrial designs are regulated under the Design Act whereas trademarks are regulated under the Trademark Act. Moreover, The Unfair Competition Prevention and Trade Secrets Protection Act is to protect the rights of patent owners and ensure their innovation is not affected by unfair competition.<sup>49</sup>

## 6.7 Tariff Structure

The simple average MFN tariff of Bangladesh and Republic of Korea are given in the table below

Simple average MFN applied	Total	Agricultural products	Non-agricultural products
<b>Bangladesh (2019)</b>	14	17.5	13.4
<b>Republic of Korea (2020)</b>	13.6	56.8	6.6

Table 16 Simple Average MFN of Bangladesh and Republic of Korea, Source: World Tariff Profiles (2021) by WTO

<sup>48</sup> “Tir-Convention.” GEFCO, www.gefco.net. Accessed April 7, 2023. <https://www.gefco.net/en/glossary/definition/tir-convention/>

<sup>49</sup> Intellectual Property Office, UK, “Intellectual Property Rights in the Republic of Korea,” Accessed September 26, 2022, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/456362/IP\\_rights\\_in\\_Korea.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/456362/IP_rights_in_Korea.pdf).



The following tables analyze the tariff structure (both MFN and preferential tariff under SAFTA) for the top ten exports of Bangladesh to Republic of Korea and the top ten imports from Republic of Korea to Bangladesh for the year 2020 – 2021.

Bangladesh's Top 10 Exports to Republic of Korea (2020 – 2021)					
HS6 Code	HS2 Code	Product Name	Volume of Export (in US\$ million)	MFN Applied Tariff (%)	Preferential Tariff (%)
610910	61	T-shirts, of cotton, knitted or crocheted	72.99	13	0 (For LDC)
611030	61	Jerseys, pullovers	34.43	13	0 (For LDC)
620342	62	Men's or boys' trousers, breeches	29.41	13	0 (For LDC)
611020	61	Jerseys, pullovers	28.69	13	0 (For LDC) 0 (For Bangladesh)
620193	62	Men's or boys' anoraks, windcheaters	23.30	13	0 (For LDC)
630622	63	Tents of synthetic fibers	21.17	13	0 (For LDC) 0 (For Bangladesh)
620343	62	Men's or boys' trousers, breeches of synthetic fibers	18.37	13	0 (For LDC)
620462	62	Women's or girls' trousers	11.61	13	7.8 (APTA Countries) 0 (For LDC) 0 (For Bangladesh)
620293	62	Woman's or girls' anoraks, wind-cheaters,	6.68	13	6.5 (APTA Countries) 0 (For LDC)
621133	62	Men's or boys' garments of man-made fibers	6.31	13	0 (For LDC) 0 (For Bangladesh)

Table 17 Tariff Imposed on Top Ten Exports of Bangladesh to Republic of Korea, Source: Export Promotion Bureau and Trade Map (2022) access on 18 June 2021; <https://www.trademap.org/Index.aspx>

Bangladesh's Top 10 Imports from Republic of Korea (2020 – 2021)					
HS6 Code	HS2 Code	Product Name	Volume of Import (in US\$ million)	MFN Applied Tariff (%)	Preferential Tariff (%)
8502	85	Electric generating sets	46.61	1	0.65 - 0.85 (APTA) 0 (SAFTA) [Not for all products]
5402	54	Synthetic filament yarn	11.15	1 - 10	3 – 3.50 (SAFTA)
8537	85	Boards, panels	7.46	1 - 10	-
7612	76	Aluminum cask, drum, cans, boxes, etc.	4.64	5 - 10	0 - 3 (SAFTA) [Not for all products]
4821	48	Paper/board labels of all kinds	4.11	25	5 (SAFTA)
2710	27	Petroleum oils	4.04	10 - 25	5 (SAFTA) [Not for all products]
3507	35	Enzymes	3.78	0 - 10	0 - 3 (SAFTA) [Not for all products]
5806	58	Narrow woven fabrics	3.19	25	



Bangladesh's Top 10 Imports from Republic of Korea (2020 – 2021)					
HS6 Code	HS2 Code	Product Name	Volume of Import (in US\$ million)	MFN Applied Tariff (%)	Preferential Tariff (%)
2713	27	Petro coke, bitumen etc.	2.91	5 – 10 BDT 4500 per MT	8 (APTA) 0 - 3 (SAFTA) [Not for all products]
3402	34	Organic surface-active agents	2.72	5 - 25	3 - 5 (SAFTA) [Not for all products]

Table 18 Tariff Imposed on Top Ten Imports from Republic of Korea to Bangladesh, Source: Bangladesh Bank and Trade Map (2022) accessed on 18 June 2021; <https://www.trademap.org/Index.aspx>

One of the ways for Bangladesh to improve trade with Republic of Korea will be to tap the top imports of Republic of Korea and diversify the existing export basket as analyzed in Section 6.3.1. The following table shows the top ten products which the Republic of Korea imported in 2019 and the corresponding tariff on those products.

HS6 Code	HS2 Code	Products	Total Addressable Market (in million US\$)	MFN Duties (%)	Preferential Tariff (%)
270900	27	Crude Petroleum	42198.48	3	1.5 (APTA countries)
854211	85	Integrated Circuits	38224.82	Not Found	-
271111	27	Petroleum Gas	14193.75	3	0.0 (For Bangladesh) 0.0 (LDC Countries) 2.1 (APTA countries)
271000	27	Refined Petroleum	12949.13	Not Found	-
901020	90	Photo Lab Equipment	10870.40	0	-
270112	27	Coal Briquettes	7284.47	0	-
852520	85	Broadcasting Equipment	6259.35	0	-
847330	84	Data processing equipment	6099.22	0	-
260111	26	Iron Ore	5332.60	Not Found	-
851790	85	Telephones	4783.83	Not Found	-

Table 19 Top Ten Imports of Republic of Korea and Corresponding Tariff, Source: <https://oec.world/en/profile/country/npl?latestTrendsFlowSelectorNonSubnatLatestTrends=flow1&depthSelector1LatestTrends=HS6Depth> and Trade Map (2022)

## 6.7 Non-Tariff Measures

Korea's non-tariff barriers (NTBs) to trade involve:

- Import prohibitions.
- Quantitative restrictions.
- Tax measures.
- State-trading operations (mainly in agriculture and livestock).
- Discriminatory government procurement practices and standards requirements.<sup>50</sup>

During the FGD, H.E Mr. Delwar Hossain mentioned that SPS measures are very stringent in the Republic of Korea. The average MFN tariff on agricultural products is 56.8% while it is only 6.6% for non-agricultural commodities indicating that the Republic of Korea does not encourage the import of agricultural products.

### *TBT Measures*

Some of the new or amended Acts in the Republic of Korea that emerged in the few years take into account the various TBT measures imposed on the country's imports. For instance, the revised Act on the Registration and Evaluation of Chemicals (AREC) claims to register all chemical substances, manufactured in or imported to Korea in amounts exceeding one ton in annual volume, with the Ministry of Environment (MOE) by 2030. All new substances manufactured in amounts below 100 kg only require a notification to the MO.

Also, the revised Korean Occupational Health and Safety Act (K-OSHA) 2021 requires chemical substance manufacturers and importers to submit material safety data sheets to the Ministry of Employment and Labor (MOEL). Likewise, the Chemical Control Act (K-CCA) regulates the distribution, handling, disposal, and overall market access of chemicals. Moreover, in December 2018, Korea issued the Act on the Promotion of Saving and Recycling of Resources (Recycling Act), focusing on the packaging of consumer, packaging evaluation, gradation, and labeling with respect to recyclability.

### *SPS Measures*

The Ministry of Agriculture, Food and Rural Affairs (MAFRA), Ministry of Food and Drug Safety (MFDS), and Ministry of Oceans and Fisheries (MOF) are the organizations in charge of overseeing the SPS measures in Republic of Korea by entailing regulatory acts to ensure stringent SPS measures. Animal health is regulated by the Act on the Prevention of Contagious Animal Disease whereas plant health is regulated via the Plant Protection Act. Similarly, the Aquatic Creature Disease Control Act regulates the health of live sea creatures. Food safety is regulated through three different Acts:

#### I. Food Sanitation Act

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<sup>50</sup> Michael Daly and Sergios Stammas, "Tariff and Non-Tariff Barriers to Trade in Korea," n.d. World Trade Organization, Accessed July 6, 2022, <https://www.e-jei.org/upload/VU33YBFM5LYJFL9G.pdf>.

II. Livestock Products Sanitary Control Act

III. Functional Health Foods Act

Authorities responsible for overseeing SPS measures:

Country	Authorities involved in SPS measures	Country	Authorities involved in SPS measures
<b>Bangladesh</b>	Ministry of Commerce (MoC) <sup>51</sup>	<b>Republic of Korea</b>	Ministry of Agriculture, Food and Rural Affairs <sup>52</sup>
	BSTI (Bangladesh Standardization and Testing Institutions) <sup>53</sup>		Ministry of Food and Drug Safety <sup>54</sup>
	Ministry of Health and Family welfare <sup>55</sup>		Ministry of Oceans and Fisheries <sup>56</sup>
	Ministry of Agriculture and attached Departments <sup>57</sup>		
	Ministry of Fisheries and Livestock and attached Departments <sup>58</sup>		
	Ministry of Environment and Forest <sup>59</sup>		

Table 20 Authorities overseeing the SPS measures in Bangladesh and Republic of Korea

<sup>51</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sassec.asia, Accessed December 15, 2022, <http://www.sassec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>52</sup> UNESCAP, “Sanitary and Phytosanitary Measures,” December 13, 2016, GTI UNESCEP Seminar, Republic of Korea, Accessed December 1, 2022, [https://www.unescap.org/sites/default/files/Session%202.3.%20Lee%20Eune%20Sub\\_ROK.pdf](https://www.unescap.org/sites/default/files/Session%202.3.%20Lee%20Eune%20Sub_ROK.pdf).

<sup>53</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sassec.asia, Accessed December 15, 2022, <http://www.sassec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>54</sup> UNESCAP, “Sanitary and Phytosanitary Measures,” December 13, 2016, GTI UNESCEP Seminar, Republic of Korea, Accessed December 1, 2022, [https://www.unescap.org/sites/default/files/Session%202.3.%20Lee%20Eune%20Sub\\_ROK.pdf](https://www.unescap.org/sites/default/files/Session%202.3.%20Lee%20Eune%20Sub_ROK.pdf).

<sup>55</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sassec.asia, Accessed December 15, 2022, <http://www.sassec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>56</sup> UNESCAP, “Sanitary and Phytosanitary Measures,” December 13, 2016, GTI UNESCEP Seminar, Republic of Korea, Accessed December 1, 2022, [https://www.unescap.org/sites/default/files/Session%202.3.%20Lee%20Eune%20Sub\\_ROK.pdf](https://www.unescap.org/sites/default/files/Session%202.3.%20Lee%20Eune%20Sub_ROK.pdf).

<sup>57</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sassec.asia, Accessed December 15, 2022, <http://www.sassec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>58</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sassec.asia, Accessed December 15, 2022, <http://www.sassec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

<sup>59</sup> Mafruha Sultana, “SPS and TBT issues: Perspective Bangladesh”, 2013., Ministry of Commerce, Bangladesh, sassec.asia, Accessed December 15, 2022, <http://www.sassec.asia/uploads/events/2013/SPS-Nov2013/SPS%20and%20TBT%20Issues%20-%20Perspective%20Bangladesh.pdf>

## 6.8 Trade Facilitation Measures

The Trade Facilitation Agreement (TFA) is one of the key WTO agreements to simplify and harmonize the export and import processes to reduce trade costs. Bureaucratic delays, customs inefficiency, and “red tape” pose a huge burden for trading goods across borders. The WTO has reckoned that the full realization of the TFA could slash trade costs by an average of 14.3 percent and improve global trade by up to US\$1 trillion (S\$1.36 trillion) per year, with the biggest gains in the poorest countries.<sup>60</sup>

A detailed trade facilitation update is presented in the following table. Bangladesh has only implemented 5 TFA measures and 22 are partially implemented. There are another 17 trade facilitation measures that are in the planning stage and nine measures are not implemented at all. On the other hand, the Republic of Korea has fully implemented 42 TFA measures, while 7 are partially implemented.

## 6.9 International Good Practices

Bangladesh has a lot to learn from its neighboring countries regarding good trade practices. The following table lists out some good practices which Bangladesh can take inspiration from.

Country	Practice	Benefit
India	<u>Indian Customs EDI System (ICES)</u>	<i>The government of India has introduced several reforms to make the customs clearance process more efficient. An important one is ICES, an end-to-end, paperless, and online customs clearance system. It's a part of the government's broader DIGIT (Digital, Information rich, Green, Inter-operable, Transport) ecosystem aimed at improving the speed and transparency of customs clearance. Prior to the introduction of ICES, customs clearance in India involved lengthy manual processes that were not only time-consuming but also prone to errors and inconsistencies. With ICES, the customs process has become streamlined and largely paperless, leading to faster clearance of goods. For instance, customs clearance for most commodities can be completed within a day if the documentation is correct.</i>
	<u>Turant Customs Initiative</u>	<i>India introduced the "Turant Customs" initiative in 2020 for faceless, contactless, and paperless customs measures. Under Turant Customs, every bill of entry filed by importers or customs brokers is processed electronically by a virtual group irrespective of where it was filed in India. This results in uniform assessment across the country. Turant Customs further improves the clearance process by making it faceless and contactless. It eliminates human intervention, making the process faster and more efficient. Moreover, it reduces corruption and favoritism,</i>

<sup>60</sup> World Trade Organization, “Trade Facilitation,” wto.org, Accessed July 3, 2022, [https://www.wto.org/english/tratop\\_e/tradfa\\_e/tradfa\\_e.htm](https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm).

		<i>ensuring that goods are evaluated fairly and objectively, irrespective of where they're imported in India.</i>
	<u>Make in India Initiative</u>	<i>India, in recent years, has made significant strides in improving the ease of doing business by cutting red tape, digitizing processes, and introducing investor-friendly policies. The government launched the "Make in India" initiative in 2014 to attract foreign companies to manufacture their products in India. Apple, for instance, started manufacturing certain models of the iPhone in India, which would not only help Apple reduce the price of iPhones in India but also avoid import tariffs.</i>
	<u>Intellectual Property Rights</u>	<i>India ranks first among the South Asian countries in terms of its IPRs protection in trade. India has a comprehensive legal framework for IPRs, covering patents, trademarks, designs, copyrights, geographical indications, plant varieties, and layout designs of integrated circuits. India also has a dedicated ministry for commerce and industry that oversees the administration and enforcement of IPRs through various offices and agencies.</i>
<b>Sri Lanka</b>	<u>Single Window system</u>	<i>The Sri Lanka Customs launched a Single Window system, which allows traders to lodge information with a single body to fulfill all import or export-related regulatory requirements. Instead of dealing with multiple government bodies, this system simplifies the process for traders, thus reducing time and costs associated with trade. Sri Lanka's Single Window system allows traders to lodge information with a single body to fulfill all import or export-related regulatory requirements. This simplifies trade documentation and reduces bureaucratic delays.</i>

Table 21 International Good Practices

## 7. Economic Modelling Results

### 7.1 Baseline development for long term dynamic simulations

We developed a baseline global growth and trade projection over 2012–2031 where we incorporated the GTAP version 10 dataset into the GTAP version 7 model. The population, labor force, and GDP per capita growth have been exogenously used to forecast the projection. We examine three shared socio-economic pathways (SSP) to estimate the long-term projections as shown in the table below.<sup>61</sup> However, we use SSP2 (middle of the road) for policy shocks, which has been recommended by most of the CGE papers. The model assumes standard GTAP closures and a macroeconomic trade balance. Then, as suggested by the MoC, we ran different simulations of removing tariffs, non-tariff barriers, and trade facilitation between Bangladesh and its trading partners to look at other policy options for Bangladesh after it graduates.

	Y2012-2016	Y 2017-2021	Y2022-2026	Y2027-2031
<b>SSP1</b>				
Population	0.99	0.88	0.67	0.47
GDP Growth Rate	6.40	7.18	7.15	7.08
Population (Aged 15-64)	1.94	1.63	1.03	0.59
GDP Per Capita	5.36	6.25	6.43	6.57
<b>SSP2</b>				
Population	0.99	0.88	0.67	0.47
GDP Growth Rate	6.55	7.03	6.10	5.26
Population (Aged 15-64)	1.94	1.60	1.04	0.76
GDP Per Capita	5.36	5.89	5.14	4.49
<b>SSP4</b>				
Population	1.01	0.91	0.69	0.47
GDP Growth Rate	6.42	6.60	5.05	3.57
Population (Aged 15-64)	1.88	1.54	0.90	0.47
GDP Per Capita	5.36	5.64	4.33	3.08

Table 22 Baseline Growth Projections (% change) Average of Bangladesh Source: Trade Expert's estimations

Observing the existing bilateral tariff structure between the two countries, the highest tariffs for Korean imports are placed on textiles and wearable apparel, at 19.6%. The tariff on light manufacturing goods is also at 17.8%. On the other hand, Korea imposes 12% tariffs on processed foods and nearly 9.8% on textiles and wearable apparel.

<sup>61</sup> "SSP Database," tntcat.iiasa.ac.at, Accessed June 29, 2022, <https://tntcat.iiasa.ac.at/SspDb/dsd?Action=htmlpage&page=10>.

	Bangladesh's tariff importing from Korea	Korean Tariff importing from Bangladesh
1 GrainsCrops	0.711	0.633
2 MeatLstk	13.4	2.15
3 Extraction	1.8	4.16
4 ProcFood	13.6	12.0
5 TextWapp	19.6	9.78
6 LightMnfc	17.8	3.35
7 HeavyMnfc	11	0.352

Table 23 Bilateral Tariff Structure Source: GTAP version 10

This study has simulated two scenarios: (i) all bilateral tariff eliminations between Bangladesh and Korea; and (ii) improvement of trade facilitation by 25 per cent. Here, the iceberg trade costs "ams" import-augmenting "technical change" variable has been used to represent trade facilitation. The parameter " $ams(i,r,s)$ " has been introduced to handle bilateral services liberalization as well as other efficiency-enhancing measures that serve to reduce the effective price of goods and services imports. The introduction of this variable facilitates the simulation of efficiency improvements such as customs automation or e-commerce. When  $ams(i,r,s)$  is shocked by 25 per cent, 25 per cent more products become available to domestic consumers, given the same level of exports from the source country. Effective import prices (pms) drop by 25% so that producers still make the same amount of money from their sales.

Analyzing the implications this has over the real GDP of each country, we predict Republic of Korea's real GDP will increase by 0.01% and Bangladesh's will increase by 0.05% if we solely eliminate tariffs. If we consider NTM through increased trade facilitation by 25 percent, Bangladesh's GDP may increase by 1 percent, and Korea will experience positive GDP growth. Broadly, this suggests that both countries' national welfare is positively impacted by the FTA. To understand this, we can look at the FTA's impacts on the export and import values of other countries that engage in trade with Bangladesh and Korea. For instance, overall Chinese and Indian exports are shown to decrease by 0.01% each. Given that China and India are two of Bangladesh's biggest trading partners, we can infer trade diversion because of the FTA. Here, the FTA acts as a distortionary measure that shifts trade away from efficient markets.

An FTA between Bangladesh and Korea would positively impact the volume of overall imports and exports of both countries. However, there is a significant disparity in this effect. Korean exports and imports are slated to increase by 0.03% and 0.13%, respectively. Contrastingly, Bangladesh's exports and imports balloon by 1.43% and 2.13%, respectively, if we eliminate tariffs only. If we consider NTM with a tariff, then Bangladesh's imports will increase substantially.

In terms of sectoral impacts for Bangladesh, the FTA significantly boosts output and exports of processed foods by 0.84 and 11.04%, respectively. Other industries that export more include textiles and apparel, and light and heavy manufacturing goods. While outputs increase by 0.56% for textiles and wearable apparel, they decrease for light and heavy manufacturing goods. Furthermore, overall output decreased for the

extraction, meat, and livestock sectors. So, the hypothetical FTA, while good for some industries, has varying effects on Bangladesh’s economy and could do more harm than good.

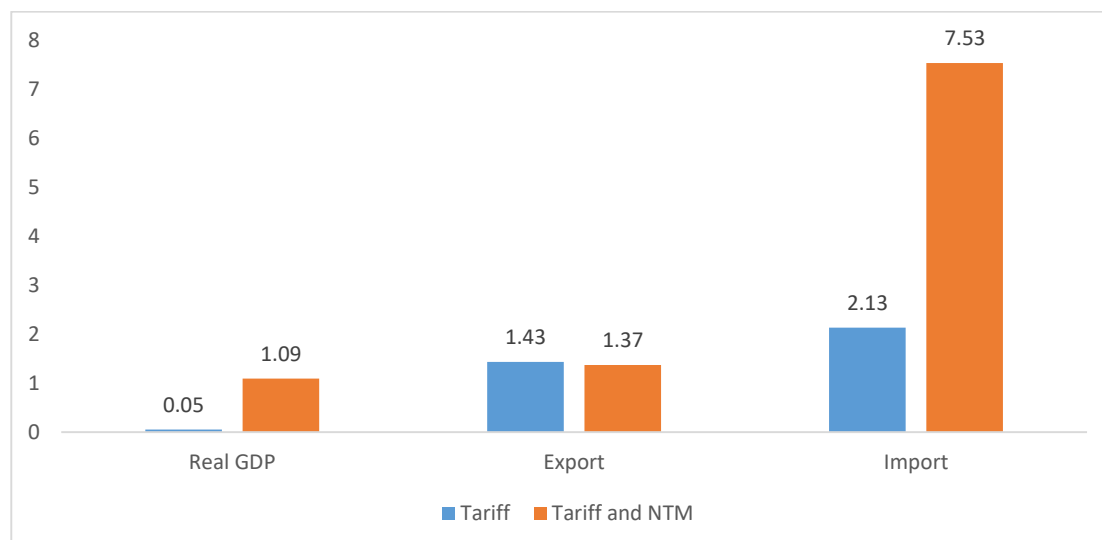


Figure 4 Macroeconomic Impact of Bangladesh -Korea FTA (% Change) in 2031 Source: Authors Calculation

	Output	Export	Import
Grains Crops	0.02	-0.29	0.02
Meat Lstk	-0.22	-0.37	-0.22
Extraction	-0.05	-0.95	-0.05
Proc Food	0.84	11.04	0.84
Text Wapp	0.56	1.32	0.56
Light Mnfc	-1.91	3.51	-1.91
Heavy Mnfc	-2.58	1.2	-2.58
Util Cons	0.69	-0.16	0.69
Trans Comm	-0.21	-0.38	-0.21
Oth Services	-0.26	-0.71	-0.26

Table 24 Impact on Bangladesh’s Sector Output, Export, and Import (% Change) in 2031 Source: Authors Calculation

## 7.2 Gravity Modelling for FTA Impact Analysis

As per the gravity model in Annex 1, the value for Trade FTA Creation and Diversion are significant when it comes to the Republic of Korea and Bangladesh. Therefore, indicating that FTA between Bangladesh and South may prove to be beneficial in nature. Details of the gravity model analysis have been shared in Annex 1.



## 7.3 Analysis on Comprehensive Economic Partnership Agreement (CEPA)

Comprehensive Economic Partnership Agreement (CEPA) is a comprehensive agreement with several facets covering almost every area under trade, investment, and economic activity. While many CEPAs only contain investment, trade in goods, and trade in services, a few CEPAs also address issues like intellectual property rights, human resource development, small and medium-sized enterprises (SMEs), information and communication technology (ICT), travel, hospitality, and transportation, as well as mutual recognition agreements/arrangements (MRA), technical support, and capacity building. For instance, the Regional Comprehensive Economic Partnership (RCEP) is a CEPA which has been signed to create an economic partnership agreement between the ASEAN Member States and ASEAN's FTA Partners that is contemporary, comprehensive, high-quality, and mutually advantageous.

Studying the feasibility of a Comprehensive Economic Partnership Agreement (CEPA) with ROK would involve several issues and considerations for Bangladesh. For this purpose, ROK's Trade and Economy, bilateral trade, investment with Bangladesh including other areas of concern such as sector-specific advantages, and the potential for market access have been analyzed and taken into consideration.

### 7.3.1 Foreign Direct Investment (FDI)

According to the UNCTAD's World Investment Report 2020, FDI inflows to Bangladesh fell by 56% to USD 1.6 billion in 2019 (compared to USD 3.6 billion in 2018). The decrease mirrors an adjustment from a record level in 2018. The export-oriented clothing industry is still an important recipient of FDI, with major investors from the Republic of Korea, Hong Kong and China. Total FDI stock was estimated at USD 16.4 billion in 2019 by the UNCTAD. The main investors in the country are China, South Korea, India, Egypt, the United Kingdom, the United Arab Emirates and Malaysia. According to latest available data from Bangladesh Bank, FDI flows rose by 5.36% on the year to USD 1.65 billion in July-October 2019. Bangladesh Bank statistics shows that by the end of June 2020, total inward FDI inflow from South Korea in Bangladesh was US\$ 86.4 million. Sector-wise FDI Inflows (Net) in Bangladesh from South Korea can be seen from the table below. It can be observed that in FY 2019-20, most of the inward FDI from South Korea is mainly captured by Textile & Wearing, Cement, Trading and Banking sectors. Following figure shows FDI Inflows (Net) in Bangladesh from South Korea in FY 2018-19 and FY 2019-20.

FDI Inflows (Net) in Bangladesh from South Korea (Values in Million US\$)		
Sector	2018-19	2019-20
Other sectors	-25.0	3.1
Fertilizer	0.0	-
Construction	0.0	0.1
Gas & Petroleum	-	-
<b>Textile &amp; wearing</b>	<b>0.0</b>	<b>68.1</b>
Telecommunication	-	-

Power	11.9	0.0
Metal and Machinery Products	0.0	0.0
NBFI	0.0	-
Cement	-	4.8
Trading	-	5.6
Agriculture and Fishing	-	-
Food	.01	-
Chemicals & Pharmaceuticals	0.0	0.0
Leather & Leather Products	1.7	-5.4
Computer Software & IT	0.0	0.0
Banking	14.1	10.1
<b>Total Net FDI Inflows</b>	<b>2.8</b>	<b>86.4</b>

Table 25 FDI Inflows (Net) in Bangladesh from South Korea, Source: Bangladesh Bank

Following figure shows the FDI Outflows (Net) in Bangladesh from South Korea which indicates that there is no FDI Outflows (Net) in Bangladesh from South Korea.

Table FDI Outflows (Net) in Bangladesh from South Korea (In million USD)					
Country	2015-16	2016-17	2017-18	2018-19	2019-20
		<b>Financial Intermediaries</b>			
SOUTH KOREA	0.0	0.0	0.0	0.0	0.0

Table 26 FDI Outflows (Net) in Bangladesh from South Korea, Source: Statistics Department, Bangladesh Bank

### 7.3.2 Trade in Services

According to the data of Import Payments and Export Receipt of Services from Bangladesh Bank it shows that the total Export Receipt of Services during the years 2018-19 and 2017-18 amounted to US\$ 5857.14 Million and US\$ 4184.40 Million respectively, reflecting a 39.98% increase in dollar terms. Whereas the total Import Payments of Services during the years 2018-19 and 2017-18 amounted to US\$ 6823.2 Million and US\$ 6086.6 Million respectively, reflecting a 12.1% increase in dollar terms. Of them South Korea contributes US\$ 121.4 million in 2018-19 and US\$ 107.8 million in 2017-18 as export receipt and US\$ 96.6 million in 2018-19 and US\$ 76.6 million in 2017-18 as import payment.

Composition of Bangladesh's bilateral export of services to South Korea shows that Bangladesh's mostly exported services include Government services, business services, Travel, Transportation, Telecommunications, Construction services etc. Of them Government goods and services, n.i.e. alone captures 45.3% percent Bangladesh's bilateral export to South Korea while Construction services and other business services covered 34% and 17.2% percent respectively.

Export of Services from Bangladesh to South Korea (Values in Million US\$)					
Major Components/Year	2015-16	2016-17	2017-18	2018-19	2019-20
<b>3. Services</b>	<b>515.1</b>	<b>90.3</b>	<b>107.8</b>	<b>121.4</b>	<b>131.1</b>
3.1 Manufacturing services on physical inputs owned by others	0.0	0.0	0.3	0.3	0.1
3.2 Maintenance and repair services	0.1	0.2	0.3	0.1	0.1
3.3 Transportation	8.8	10.3	9.9	10.8	11.5
3.4 Travel	1.5	3.0	6.0	7.2	5.4
3.5 Construction services	5.2	12.6	12.4	34.0	32.4
3.6 Insurance services	0.0	0.0	0.0	0.0	0.0
3.7 Financial services (Other than insurance)	1.1	3.4	1.9	1.3	0.6
3.8 Charges for the use of intellectual property n.i.e.	0.0	0.0	0.0	0.0	0.0
3.9 Telecommunications, computer and information services	12.4	8.3	5.2	5.1	6.0
3.10 Other business services	458.4	13.9	18.3	17.2	21.4
3.11 Personal, cultural, & recreational	0.0	0.2	0.5	0.1	0.0
3.12 Government goods and services, n.i.e.	27.6	38.4	53.1	45.3	53.4

Table 27 Export of Services from Bangladesh to South Korea, Source: Bangladesh Bank

The composition of Bangladesh's bilateral import of Services shows that Bangladesh's mostly imported service includes transportation, travel, business services, construction services, Telecommunications, computer and information services etc. Transportation service alone captures nearly 57.2 percent of Bangladesh's bilateral import from South Korea while travel, other business services and Construction services covered nearly 31.10 percent.

Import payments of services to South Korea (Values in Million US\$)					
Major Components/Year	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
<b>3. Services</b>	<b>736.9</b>	<b>120.0</b>	<b>76.6</b>	<b>96.6</b>	<b>97.2</b>
3.1 Manufacturing services on physical inputs owned by others	0.0	0.0	0.0	0.0	0.0
3.2 Maintenance and repair services	0.0	0.0	0.0	0.0	0.0
3.3 Transportation	57.5	59.0	52.4	57.2	47.7
3.4 Travel	2.7	3.1	3.3	3.6	2.9
3.5 Construction services	3.2	8.7	1.7	4.8	19.3
3.6 Insurance services	0.2	0.4	0.1	0.1	0.0
3.7 Financial Services (Other than Insurance)	1.0	2.3	2.2	0.7	0.4
3.8 Charges for the use of intellectual property n.i.e.	0.7	0.2	0.1	0.0	0.0
3.9 Telecommunications, computer and information services	0.2	5.6	0.2	2.5	0.3
3.10 Other business services	670.3	37.9	15.5	26.3	24.4
3.11 Personal, cultural, & Recreational	0.0	0.2	0.0	0.2	0.3
3.12 Government goods and services, n.i.e.	1.1	2.8	1.0	1.1	1.7

Table 28 Import Payments of Services to the Republic of Korea, Source: Bangladesh Bank

The Economy of Bangladesh is heavily dependent on Workers Remittance from abroad. The following figure shows the Remittance Inflow from world from FY 2009-10 to FY 2019-20 which clearly states that

there is an increasing trend in global remittance inflow which was nearly 11 billion in FY 2009-10 and increased to 18 billion in FY 2019-20. Highest growth has been witnessed in FY 2017-2018(17%). Needless to mention that in FY 2019-20 higher growth (11%) was observed although it was the time of pandemic.

Remittance Inflow from world from FY 2009-10 to FY 2019-20		
Year	Remittances In million US\$	Growth
2020-2021*	10,894.10	-0.40
2019-2020	18,205.01	11%
2018-2019	16,419.63	10%
2017-2018	14,981.69	17%
2016-2017	12,769.45	-14%
2015-2016	14,931.18	-3%
2014-2015	15,316.91	8%
2013-2014	14,228.26	-2%
2012-2013	14,461.14	13%
2011-2012	12,843.43	10%
2010-2011	11,650.32	6%
2009-2010	10,987.40	13%

Table 29 Remittance Inflow from world from FY 2009-10 to FY 2019-20, Source: Bangladesh Bank

Statistics of Wage Earners Remittance inflows show that South Korea is a major source of inward worker's remittance. In FY 2019-20, inward remittance from South Korea into Bangladesh was US\$ 177.8 million while it was only US\$ 64.8 million in FY 2015-16. A positive growth can be observed with the highest growth of 58.04 % in FY 2019-20. Analysis of wage earners' remittance inflows received from the top 30 countries suggests that South Korea is in 12<sup>st</sup> position. The trend of outward worker's remittance from Bangladesh to South Korea is declining as can be seen from the following table.

Wage Earners Remittance inflows and Outflows from South Korea from FY 2015-16 to FY2019-20 (Values in Million US\$)				
Fiscal Year	Inflow	Growth in %	Outflow	Growth in %
2019-20	177.8	58.04	1.4	(22.22)
2018-19	112.5	16.82	1.8	(-25.00)
2017-18	96.3	19.33	2.4	(-29.41)
2016-17	80.7	24.54	3.4	(-2.86)
2015-16	64.8	-	3.5	-

Table 30 Wage Earners Remittance Inflows and Outflows from ROK from FY 2015-16 to FY2019-20, Source: Bangladesh Bank Data

### 7.3.3 Micro, Small, and Medium Enterprises (MSMEs)

As a significant measure to bolster the growth of small and medium-sized enterprises (SMEs), the Small and Medium Business Administration in South Korea underwent restructuring in 2017 and was transformed into the Ministry of SMEs and Startups. In 2017, the Small and Medium Business Administration underwent

restructuring and expansion, resulting in the establishment of the Ministry of SMEs and Startups (MSS). The primary aim of this transformation is to enhance the competitiveness of SMEs and micro enterprises while providing support for innovation initiatives.

According to the trade policy review of ROK, 2021 (WT/TPR/S/414/Rev.1), Korea holds the highest proportion of small and medium-sized enterprises (SMEs) among OECD countries, particularly in terms of firms with less than 250 employees. Additionally, Korea has a significant percentage of its workforce employed in micro firms with less than 9 employees, which is also one of the highest among OECD nations. From 2015 to 2018, SMEs accounted for 99.9% of all companies, experiencing a 12.7% increase in the number of firms, and contributed to 83.1% of employment, witnessing a 6.7% rise in the number of employees in Korea. Due to the concentration of SMEs in labor-intensive sectors, they play a crucial role in job creation.<sup>62</sup>

The South Korean government has implemented various policies and programs to support SMEs and encourage their growth. As of 2017, Korea had a comprehensive support system for SMEs, consisting of 288 central government programs and over 1,000 programs at the local government level. The central government's expenditure on these programs in 2017 was estimated to be approximately 0.8% of the country's GDP. In terms of credit guarantees, Korea allocated 3.8% of its GDP in 2016, making it the second-largest spender among OECD economies. Both the Bank of Korea (BOK) and the Financial Supervisory Service (FSS) adhere to the same definition of SMEs, considering an establishment as an SME if its total assets are less than KRW 500 billion and its average or annual sales meet the specified thresholds outlined in the Article 2 of the Framework Act on Small and Medium Enterprises and Article 3 of its enforcement decree (IMF, 2019).<sup>63</sup> Some key initiatives taken by South Korea include:

**Small and Medium Business Administration (SMBA):** The SMBA is a government agency responsible for formulating and implementing policies to support SMEs. It provides a wide range of services including financial support, business consulting, training programs, market access support, and technological assistance.

**Financial Support:** The government provides financial assistance to SMEs through different channels. This includes low-interest loans, credit guarantees, and venture capital funding. The Korea Credit Guarantee Fund (KODIT) offers credit guarantees to SMEs, helping them secure loans from financial institutions.

**Business Incubation Centers:** The government has established business incubation centers across the country to support the growth of innovative startups and SMEs. These centers provide infrastructure, mentorship, networking opportunities, and access to funding.

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<sup>62</sup> Trade Policy Review, South Korea, 2021

<sup>63</sup> Trade Policy Review, South Korea, 2021

**R&D and Innovation Support:** The government promotes research and development (R&D) and innovation in SMEs by providing grants, subsidies, and tax incentives. The Korea Institute of Industrial Technology (KITECH) and the Korea Institute of Science and Technology (KIST) are among the institutions offering R&D support.

**International Market Access:** The government supports SMEs in expanding their business to international markets through trade missions, export promotion programs, and assistance in accessing global supply chains. The Korea Trade-Investment Promotion Agency (KOTRA) plays a vital role in facilitating international trade for SMEs.

The CEPA recognizes the importance of SMEs/MSMEs in economic partnership and seeks to provide them with the necessary support, opportunities, and resources to thrive in the international trade environment. A separate chapter addressing the issue of Micro, Small, and Medium Enterprises (MSMEs) is considered in the Comprehensive Economic Partnership Agreement (CEPA) through various provisions and measures. As discussed, Bangladesh didn't cover this issue in any FTA, but South Korea has covered this issue in most of the FTAs or CEPAs. There is ample potential through addressing this issue in the future for deeper bilateral engagement. According to the SME Foundation of Bangladesh's statistics, the MSME sector of Bangladesh accounts for 80% of employment within the industrial sector and contributes 25% to the country's GDP. The progress of this sector indicates that Bangladesh is on course to achieve the government's target of a 32% contribution to GDP by 2024.<sup>64</sup>

Considering the socio-economic reliance on the MSMEs both in case of South Korea and Bangladesh, it is evident that both countries can cooperate with each other through promoting the growth and development of MSMEs and enhance their participation in deepening their partnership. In this connection, with a view to facilitating improved market access for MSMEs some provisions such as, reducing or eliminating tariff barriers, streamlining customs procedures, and simplifying trade facilitation measures could be covered in future agreements/arrangements under CEPA. In this way MSMEs will be given the opportunity to expand their reach and access new markets and new products. Further, provisions regarding capacity building and providing technical assistance specifically targeted at MSMEs could be initiated. These kinds of initiatives may enhance their competitiveness, productivity, and ability to comply with regulatory requirements, enabling them to take advantage of the opportunities created by the agreement. In addition, there may be some dedicated articles or sections to address the specific needs and challenges faced by the MSMEs. Such provisions may cover inter alia, access to finance, intellectual property rights protection, e-commerce facilitation, and dispute resolution mechanisms tailored to the scale and resources of the MSMEs. Furthermore, this kind of comprehensive cooperation of sharing information which include sharing best practices, exchanging market information, fostering business networks, and establishing platforms for dialogue between MSMEs and relevant stakeholders would be a new opportunity for this sector. Finally,

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<sup>64</sup> Hossain, S. (2022, June 27). Small enterprises are the pillars of sustainable growth in Bangladesh. Dhaka Tribune. <https://www.dhakatribune.com/business/2022/06/27/small-enterprises-are-the-pillars-of-sustainable-growth-in-bangladesh>

the CEPA recognizes the significance of MSMEs in the economic partnership and seeks to provide them with the necessary support, opportunities, and resources to thrive in the international trade environment as can be seen in the Regional Comprehensive Economic Partnership (RCEP) agreement which is the first Free Trade Agreement (FTA) involving all ASEAN countries that includes a specific chapter dedicated to Small and Medium Enterprises (SMEs). The primary aim of this Chapter 14 (Small and Medium Enterprises) of the RCEP Agreement is to enhance information sharing and cooperation, enabling SMEs to effectively utilize and benefit from the opportunities presented by this Agreement.<sup>65</sup> Needless to mention that South Korea is a member of RCEP Agreement. In this context, it can be summed up that Bangladesh may have immense potential to adapt these lessons from South Korea to suit Bangladesh’s specific context and challenges. By leveraging the South Korean experience and tailoring it to Bangladesh’s needs, the country can enhance the growth, competitiveness, and sustainability of its MSME sector, leading to economic development, job creation, and poverty reduction.

### 7.3.4 SMART Simulation

A partial equilibrium analysis was conducted using SMART online platform of World Integrated Trade Solution. For ROK, the latest available data was found for the year 2018, but for Bangladesh, 2018 data was not available although data for 2019 and 2016 was available. In this circumstance, the latest available data of both the countries are used. The scenario was designed such that both countries are eliminating the entire tariffs imposed on all products for one another-meaning a full-fledged FTA. Key findings have been discussed below.

#### Impact on Bangladesh’s import- bilateral and global

The simulation shows that total bilateral import will increase by US\$ 377.65 million among which US\$ 276.73 million will be as a result of trade creation (this shows the net increase of global import as well) and US\$ 100.92 million will come from trade diversion from other countries. Exports from India, Japan, Hong Kong, China, Thailand, and Singapore are likely to suffer in excess of US\$ 5 million trade diversion in Bangladeshi market. A summery analysis of trade impact is shown in the table below.

Row Labels	Trade Creation (in million US\$)	Trade Diversion (in million US\$)	Net Effect (in million US\$)
South Korea	276.73	100.92	377.65
India	0.00	-30.12	-30.12
Japan	0.00	-16.56	-16.56
Hong Kong, China	0.00	-9.46	-9.46
Thailand	0.00	-6.59	-6.59
Singapore	0.00	-5.70	-5.70
Vietnam	0.00	-4.87	-4.87
Indonesia	0.00	-3.02	-3.02

<sup>65</sup> The Regional Comprehensive Economic Partnership Agreement: a new paradigm in Asian regional cooperation? (2022, May 23). Asian Development Bank. <https://www.adb.org/sites/default/files/publication/792516/rcep-agreement-new-paradigm-asian-cooperation.pdf>



Row Labels	Trade Creation (in million US\$)	Trade Diversion (in million US\$)	Net Effect (in million US\$)
Malaysia	0.00	-2.96	-2.96
Germany	0.00	-2.53	-2.53
Belgium	0.00	-2.35	-2.35
Italy	0.00	-2.03	-2.03
Finland	0.00	-1.84	-1.84
United States	0.00	-1.56	-1.56
Netherlands	0.00	-1.29	-1.29
Turkey	0.00	-1.15	-1.15
Russian Federation	0.00	-1.12	-1.12
France	0.00	-1.12	-1.12
Canada	0.00	-1.10	-1.10
Spain	0.00	-1.09	-1.09

Table 31 Impact on FTA of Partner Countries

**Consumer Surplus and Welfare:** Total consumer surplus will be about US\$ 24.72 million.

**Impact on revenue:** It was observed that if Bangladesh eliminates the entire tariff for South Korea, the country will incur revenue loss of about 142.47 million US\$ worth of money (approximately 1,211 Crore Taka using exchange rate of BDT 85/USD). It was observed that most of the revenue loss incurred in the vehicles and iron and steel sector.

However, the SMART analysis undermines the possible impact on bilateral export since the initial tariff is low. But the possible benefit could be understood by estimating the adverse impact of Bangladesh's graduation from LDC status (when LDC specific GSP facilities will be no longer available) on bilateral export. Unfortunately, SMART online platform does not allow such facility.

Findings from the CGE model even suggest that an FTA is beneficial with South Korea. Yet overall impact of trade liberalization is also favorable for Bangladesh in some aspects, but liberalization of protected sectors may prove to be unfavorable for the economy in case of Bangladesh.

At present, Bangladesh as an LDC has been enlisted as a beneficiary for preferential duties under South Korea's preferential scheme and different FTAs and getting duty free access. After graduation, Bangladesh has to be excluded from the 'preferential treatment for LDCs' provided by South Korea. In this context, Bangladesh will have to face MFN duty after its graduation from LDC status. Statistics retrieved from WITS shows that the weighted average MFN duty on Bangladesh's export to South Korea 9.07 in 2018, which clearly indicates that Bangladesh will face higher duty after graduation in those products which are not covered under APTA general preference. Besides, sectoral analysis suggests that Bangladesh will have to face average MFN tariff of 9% in 1,013 HS lines of Textiles, 12.5% in 321 HS lines of Clothing, 7.6% in 367 HS lines of Leather, rubber, footwear and travel goods, 16.7% in 540 HS lines of Fish and fishery products.

Bangladesh is an LDC and expected to be graduating in 2026. On the other hand, South Korea is a high-income developing economy. So, there is a wide difference in terms of level of development and size of



economies and trade. In addition, Bangladesh is getting preferential access under APTA LDC's scheme. Analysis of the concession provided by South Korea under APTA for Bangladesh shows that this concession list covers 951 HS lines of which 864 HS lines have 100 percent margin of preference which will not be available after 2026.

While South Korea is a significant trading partner and has a highly developed economy, negotiating a CEPA with South Korea may pose challenges. South Korea has a strong industrial base and is globally competitive in several sectors. As such, Bangladesh may face challenges in securing meaningful market access and ensuring balanced trade terms. Additionally, the disparity in economic size and technological capabilities between the two countries may create challenges in negotiating a mutually beneficial agreement.

In summary, negotiating an agreement with South Korea could be more challenging due to the economic disparities and competitive factors. A detailed feasibility study would be required to assess the potential benefits, costs, and implications of negotiating a CEPA with this country, considering their individual economic profiles, trade relations, and policy objectives.

**Remarks:** There is no denying that Bangladesh will have some form of benefit from the FTA with South Korea once it graduates from the LDC status given the higher MFN duty and more complicated rules of origin in South Korea for exports from Bangladesh and the relatively higher MFN tariff in Bangladesh for major imports from Bangladesh. Bangladesh will be able to maintain its export growth with comparatively larger revenue implications because of the FTA. The inclusion of other issues like services, investment, intellectual property rights, labor, trade facilitation, government procurement, state trading enterprises, e-commerce, competition policy, state-owned enterprises and designated monopolies, environment, SMEs, and trade remedy measures in the agreement, however, may be difficult to comply given South Korea's FTA strategy. Considering all these it can be suggested that instead of CEPA, Bangladesh could first try for negotiating a Free Trade Agreement with South Korea. After successful completion of the FTA, Bangladesh may think of further integration with South Korea in the future.

### 7.3.5 Possible Impact on Export Trade after Graduation on Bangladesh

A report "Trade impacts of LDC graduation"<sup>66</sup> published by the WTO in May 2020 analyzed the market access for each of the 12 least-developed countries (LDCs) including Bangladesh that are on the path towards graduation. This analysis is based on the LDCs' export structure for 2016-2018, hence the disruptions in exports caused by the COVID-19 was not reflected in this report. According to the report Bangladesh exported on average more than US\$ 42 billion of merchandise from 2016 to 2018 in the global market. In addition, 'partial equilibrium estimates' was used to analyze the impact on exports. The simulations indicate an expected fall in the exports of Bangladesh to South Korea (by -27.53% per cent) where Bangladesh's initial exports 318,903 thousand US\$ were considered and change in exports found -

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<sup>66</sup> Trade impacts of LDC graduation. (2022). [https://www.wto.org/english/news\\_e/news20\\_e/rese\\_08may20\\_e.pdf](https://www.wto.org/english/news_e/news20_e/rese_08may20_e.pdf)

87,781 thousand US\$ due to graduation from LDC whereas the aggregate results indicate that the projected total reduction in exports from Bangladesh is about US\$ 5.37 billion. Moreover, The Effective tariff change was estimated 7.94%. It considers the increase in tariff rates due to the loss of LDC-specific preferences as well as preference utilization by graduating LDCs. As Bangladesh is one of the higher preference utilization countries in South Korea which results in a higher effective increase in tariffs as a higher fraction of exports will be exposed to changes in tariff rates after graduation. The following table shows the top 12 export products of Bangladesh and increase in tariffs (percentage points due to preference loss) in South Korea following graduation. It is evident from the table that these sectors will have to face higher impact after graduation. This report also shows that the shift to APTA will cause tariff increases ranging from 4 to 12 per cent in the Republic of Korea.

## 8. Findings from Primary Survey

The following findings have been obtained through primary data collection in the form of 10 KIIs and one FGD. The findings have been placed under the appropriate scopes as mentioned in the ToR:

Scope	Findings
<p><b>Scope-1: Overall status of bilateral relations:</b></p>	<p>Only one respondent addressed the overall status of bilateral relations between Bangladesh and ROK. They further opined that imports from ROK have increased over time.</p> <p>Three respondents, among whom two were government officials, were aware of the agencies involved in trade negotiations.</p> <p>While one respondent identified a lack in coordination among agencies overseeing and facilitating trade negotiation, two respondents stated that there were gaps in the harmonization process. Moreover, according to two respondents, there is a necessity for a specific agency or group to be involved in trade negotiations.</p> <p>While probing for policy guidelines regarding trade negotiations, a respondent who was working as a government official mentioned how “The RTA policy formed by the government looks into addressing trade negotiation, expansion, and reforms among others.”</p> <p>Besides, in the opinion of one respondent, all products should not be included in an FTA. On that note, during the FGD, participants addressed how NBR needed to prioritize NTBs over tariffs when negotiating, also, FTA and PTA for ROK was unnecessary. Yet only one KII respondent felt that there was a need for the private sector’s involvement in the trade negotiation process.</p>
<p><b>Scope-2: Trade negotiation</b></p>	<p>FGD: WTO implementation program-there are 38 measures, Bangladesh government has made sub-committees to address different sectors such as agriculture and industry.</p> <p>The ten KII respondents recommended various prospects for trade diversification with ROK which included seafood, biscuits and bread, agro-processed meat, flowers, plastic, leather, light engineering, and pharmaceuticals. However, majority of the respondents sided with the diversification of Bangladesh’s apparel industry, to boost trade with ROK.</p>
<p><b>Scope-3: Prospects of Trade Diversification</b></p>	<p>Alternate recommendations provided by KII respondents for boosting trade included tourism, ICT, exporting manufactured goods, and utilizing skilled manpower.</p>

<p><b>Scope-4: International best practices</b></p>	<p>For improving land port systems in Bangladesh and maintaining international standards, one participant recommended that Bangladesh follow “Freight of Cost” and “Free on Board” practices like developed countries. Whereas another respondent asserted on the need for Bangladesh to avail GSP preferences. However, a government official stated that the Export Promotions Bureau is striving to adopt the electronic certification for Europe guideline.</p> <p>Another respondent opined how Bangladesh should learn from ASEAN and strengthen SAFTA by focusing on the overall participants, not just India. Also, Bangladesh and other SAFTA members need to go into RCEP like ASEAN.</p> <p>During the FGD, one participant involved at the government level recommended looking into the best practices used by South Korea and adopting them in Bangladesh. Another participant recommended conducting a full-fledged feasibility test and citing opinions of government officials and business community members prior to moving forward with an FTA or PTA with ROK.</p>
<p><b>Scope-5: Prospects for Comprehensive Economic Partnership Agreement (CEPA)</b></p>	<p>One KII respondent identified ASEAN as a potential market whereas four respondents stated that Bangladesh has prospects of entering CEPA or RCEP, however, one of the respondents also stated that even though there are prospects, CEPA would not bring in opportunities. However, one respondent said that Bangladesh should go forward with an FTA instead for diversifying its market. As per one respondent, CEPA with South Korea will be beneficial for computer programmers and software engineers.</p> <p>Participants from the FGD stated that RCEP will be sufficient for Bangladesh and ROK and going into an FTA with ROK is not necessary.</p>
<p><b>Scope-6: Reforms in existing trade agreements</b></p>	<p>KII respondents suggested adopting a trade strategy, utilizing foreign diplomacy to bring about reforms, and the diversification of Bangladesh’s existing export basket.</p> <p>Respondents also suggested that Bangladesh undergo internal changes to be at par with international market standards. Besides, based on personal observations, a respondent suggested that Bangladesh consider the demands of the other countries while reforming trade agreements. A respondent also stated that the government needs to revisit its existing policies prior to ensuring reforms.</p>
<p><b>Scope-7: Major institutional and infrastructural gaps in trade negotiation and trade management</b></p>	<p>Respondents identified lack of experienced negotiators and trade-specific jobs followed by a loss of institutional memory due to the frequent rotation of government employees. Similarly, limited coordination among trade agencies was also raised as a concern. Additionally, respondents pointed towards gaps in infrastructural and port facilities as a source of major gaps in trade negotiation and trade management. In fact, one respondent stated how people in charge of land ports in Bangladesh are not aware of the rules that are applicable.</p> <p>Respondents also raised concerns regarding discrepancies in customs and clearance procedures, limited resources and skilled manpower, gaps in areas of research and development, and how government officials should consider including younger people in trade negotiations to ensure “future leaders”. Lastly, one respondent believed the burden of responsibility falls disproportionately on government the and the private</p>

	sector of Bangladesh should take initiative to build knowledge and remain updated on prospects of enhancing trade.
<b>Scope-8: Barriers to trade</b>	Barriers to trade cited by KII respondents were high import duties, limited resources and capacity, maintenance of hygiene standards, TBT, NTMs, compliance of FSSJ Certification, time-consuming testing procedure at Bangladeshi land ports, CAROTER, Rules of Origin, and the absence of a tariff policy.  FGD participants placed emphasis on the role of NBR and how the agency should address NTBs instead of overly focusing on the tariff structure.
<b>Scope-9: export products subject to SPS/TBT measures</b>	Products recommended by respondents that should be subject to SPS/TBT measures include food, chemical, medicines, spices, cooking oil, seafood, and agriculture products. Additionally, one respondent asserted the need for issuance of clearance certificate by BSTI.
<b>Challenges and recommendations</b>	As per a participant in the FGD who happened to be a commercial counselor, South Korea is hesitant to move forward with an FTA with Bangladesh since they are unsure of Bangladesh's preparation.  Findings from both KII and FGD reflect a need for a feasibility study before moving forward with an FTA with South Korea.

## 9. Analysis and Recommendations

The table below depicts the analysis and recommendations for this report that have been formed by synthesizing the overall findings for this study.

<u>Findings:</u>	
<u>Recommendations:</u>	
<p style="text-align: center;"><i>Review of Current Trade Agreement (Scope of work from ToR: 1, 6)</i></p> <ul style="list-style-type: none"> <li>The Trade and Economic Cooperation agreement between Republic of Korea and Bangladesh has not been updated since it was signed in 1973, but the government of ROK granted an exclusive scheme to Bangladesh in 2018.</li> <li>The APTA agreement had an exclusive deal for LDC nations among the APTA members – Bangladesh. Several additional tariff waivers were in place for the LDC Bangladesh – particularly in the industries that Bangladesh has been flourishing, such as the RMG sectors. The Korean government has also granted exceptions in tariff rates on a bilateral basis only to Bangladesh upon the country’s request. This mostly represents the RMG products from Bangladesh. This has been driving the increasing exports of Bangladesh to the Republic of Korea consistently since 2016-17 and why 9 out of the top 10 products exported to Republic of Korea are RMG products.</li> </ul>	<ul style="list-style-type: none"> <li>The product schedule in the trade agreement can be updated, and more specific points of collaboration and bilateral cooperation can be added to the agreement. The MoU between Sri Lanka and Bangladesh explicitly mentions areas of cooperation, and a similar approach can be taken with the agreement between Republic of Korea and Bangladesh.</li> <li>An FTA between Republic of Korea and Bangladesh can be a way forward, ahead of Bangladesh’s LDC graduation through the inclusion of a new list of products that diversify Bangladesh’s export potential in addition to the products that were previously waived under the LDC status since that status of Bangladesh is to be lifted from 2026. There might be a lengthy negotiation process required with ROK regarding this since their own RMG industry may be threatened by Bangladesh’s RMG export to Republic of Korea. <b>The economic modelling (both CGE and gravity) results indicate a positive impact on the volume of imports and exports of both countries with the signing of an FTA. However, results vary across different sectors. While the processed food sector and textiles may see a boost in exports, the output will decrease for the meat and livestock sector, and light and heavy manufactured goods.</b> An FTA may prove to be challenging between the countries because countries with similar economic determinants (GDP, size, and distance) are likely to benefit the most from such agreements.<sup>67</sup> On the other hand, the ‘natural trading partners’ hypothesis suggests that trade agreements among countries that trade intensively already are more likely to be trade-creating. At the same time, PTAs allow domestic production to be</li> </ul>

<sup>67</sup> Leonardo Baccini, “The Economics and Politics of Preferential Trade Agreements,” Annual Review of Political Science 22 (May 28, 2019): 75–92. <https://doi.org/https://doi.org/10.1146/annurev-polisci-050317-070708>.



Findings:

Recommendations:

replaced by imports from more efficient firms, and sometimes more efficient non-member countries implying a welfare loss.

- **A suggestion made during the FGD discussion was Bangladesh's participation in RCEP where Republic of Korea is a member rather than striking a bilateral trade deal with Republic of Korea as it will not bring fruitful results. Moreover, bilateral trade agreements can prove to be time-consuming.**

*Trade Negotiating Agency and Harmonization Process (Scope of Work from ToR: 2)*

- A stakeholder analysis of mandates and interests has revealed a gap between the organizations responsible for trade policy formulation. In the case of Bangladesh, NBR has a mandate to investigate trade agreements, and concessions but from a customs revenue gain/ loss point of view. While it may be true that some trade concessions can lead to net negative values financially, but from can be net positive from a holistic economic point of view. While MoC is responsible for looking at trade negotiations and arrangements from a holistic point of view, there seems to be a gap in terms of capacity in carrying out a comprehensive economic cost-benefit analysis of potential trade agreements and concessions (considering both financial costs and overall economic benefits) for the whole economy. Two respondents out of 10 made similar statements about the lack of harmonization and priorities between policy formulation agencies.

- Two KII respondents and several FGD participants mentioned that MoC lacks experts who can handle trade bilateral trade negotiations. There are only a handful of people (2-3) within the government agency who have the required expertise needed for FTA negotiation, and there is no retention of institutional memory as either (i) government service is a transferable job, (ii) or due to retirement. Moreover, there is no dedicated person with MoC for formulating policies.

- Creation of expert positions: trade economists with an advanced degree (Ph.D. in trade economics or relevant area) in the ministry capable of carrying out cost-benefit analysis and holistic simulation of hypothetical trade agreements or concessions.
- Creation of efficient task forces/ working groups with members from agencies such as MoC, NBR, EPB, BFTI, private sector's chamber of commerce, and think tanks, among others to jointly discuss, and approve trade procedures, and policies.
- Creation of a pool of trade experts within the MoC. These experts will be trained in trade policy formulation, negotiation, and specialized knowledge of trade. Even with the government's rotation policy and retirement issues, experts from this pool can be used. Moreover, a policy must be set in to retain institutional memory and make skills transferrable.
- Enhancing negotiating skills of the policymakers/ experts for yielding better outcomes in trade agreement discussions.
- Training programs for ministry officials to teach basic economic fundamentals behind international trade.
- Adoption of an evidence-based approach to decision-making when it comes to trade policies.

### Findings:

- One respondent stated that the private sector should be involved in the policy formulation, trade negotiation, and management process. The government has a mandate of involving private stakeholders in a discussion process too, however, private stakeholders are not being properly included.

### Recommendations:

#### *Trade and Investment Diversification Prospects (Scope of work from ToR: 3, 9)*

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|---|---|
| <ul style="list-style-type: none"> <li>• Several KII respondents have stated that processed food (frozen/ processed agro products) can be good diversification trade prospects for Bangladesh.</li> <li>• EPB is focused on boosting Walton's exports in the electronics sector. Walton has started exporting to neighboring countries of Nepal and Bhutan where the products have gained popularity quickly.<sup>68</sup></li> <li>• Relevant stakeholders discussed and agreed upon deepening bilateral relationships in sectors such as pharmaceuticals, ICT, and biotech.<sup>69</sup></li> </ul> | <ul style="list-style-type: none"> <li>• From the economic modelling, it was found that the FTA between the two countries will significantly boost output and exports of Processed Foods by 0.84% and 11.04% respectively. However, the tariff imposed on agricultural food products by the the Republic of Korea is very high, indicating that the country does not encourage the import of agricultural goods. The average MFN tariff on agricultural products is 56.8% in the Republic of Korea. Responses from FGD have validated this too.</li> <li>• Given the Republic of Korea 's exemplary progress in electronics, Walton has already established a research center in Republic of Korea in partnership with the Korean Standards Association (KSA). Bangladesh can either directly export to retailers or be a provider for other electronics companies there that export all over the world worth US\$ 159.68 billion. Bangladesh can have a slice of that by being initially a third-party manufacturing partner.</li> <li>• Bangladesh has good export potential in vertical integration (light engineering, semi assembles, electronic parts). Bangladesh can take inspiration from Viet Nam in this case as Viet Nam houses the largest R&amp;D center of Samsung which has led to export boost of electronics for the country. By allowing foreign brand names to</li> </ul> |
|---|---|

<sup>68</sup> The Business Standard, "EPB Assures Walton of Support to Increase Export," www.tbsnews.net, May 21, 2022, <https://www.tbsnews.net/economy/corporates/epb-assures-walton-support-increase-export-424258>.

<sup>69</sup> Dhaka Tribune, "3 Sectors Identified for Boosting Bangladesh-Korea Trade Ties," archive.dhakatribune.com, June 19, 2021, <https://archive.dhakatribune.com/business/economy/2021/06/19/3-sectors-identified-for-boosting-bangladesh-korea-trade-ties>.



**Findings:**

**Recommendations:**

import from Bangladesh, the country will not only gain an increase in export volume but also gain a highly skilled workforce.

- As per data from the Export Promotion Bureau in FY21, Bangladesh only exported roughly 0.3 million US\$ worth of pharmaceutical products. The Republic of Korea exported 7.76 billion US\$ of pharmaceutical products in 2020, and as H.E Ambassador Mr. Delwar Hossain mentioned in the FGD that Republic of Korea lacks raw materials and imports raw materials to prepare finished products. With the API industry park opening in Bangladesh soon, Bangladesh can export re-agents to Republic of Korea to produce pharmaceutical products or even expand the export of pharmaceutical products by offering competitively priced products.
- Bangladesh was the 8th largest footwear producer (423 million pairs) and the 9th largest consumer market (366 million pairs), and leather is one of the country's export priorities. Republic of Korea only imports a small fraction of the total exports in footwear from Bangladesh (less than 1% of demand is being met by Bangladesh). The country may try to expand exports in leather footwear to the Republic of Korea since the country has penetrated this market.

***International good practices (Scope of Work from ToR: 4, 10)***

- Bangladesh has only implemented five TFA measures and 22 are partially implemented. 17 trade facilitation measures are in the planning stage and nine measures have not been implemented at all. One of the respondents has also emphasized the implementation of trade facilitation measures as it may help move forward with FTA negotiations, and finalization.
- Bangladesh can take inspiration from its neighboring countries when it comes to good trade practices. India has improved ease of doing business by cutting red tape, and digitizing processes. Singapore is making changes in cargo and container management to decrease time required for imports, and border compliance. Sri Lanka, Thailand have already implemented a single window system for faster and streamlined custom procedures.
- Speed up the implementation of the TFA measures. One of the participants of the FGD mentioned that a National Trade Facilitation Committee has been formed for streamlining the measures.

### Findings:

- Time Release Studies (TRS) of Chittagong and Benapole Port were conducted in 2013 and 2014 respectively.<sup>70</sup> One of the respondents mentioned the lack of data which has proven to be a barrier in carrying out necessary studies.
- Implementation of a national single window will cut through costs, make trade more efficient and effective, and reinforce control. Two respondents have emphasized the implementation for Bangladesh, and the positive results.
- Risk-based inspections are becoming increasingly common. In September 2017, China implemented a national trade single window, which includes its own risk-management module. This risk-management module has enabled risk-based inspections and, as a result, the overall process of export and import customs clearance has become faster. Similarly, in December 2018, Oman integrated a risk-assessment system into the national Single Window, Bayan, to streamline customs clearance and physical inspections, reducing the time to comply with border requirements for imports and exports. Uzbekistan also launched a risk management system.
- Inadequate infrastructure is one of the main burdens in international trade, and it can severely impact trade facilitation. The importance of infrastructure is most evident when considering the efficiency of ports—their ability to ensure timely cargo transfers is a vital dimension of their competitiveness.
- Border compliance especially phytosanitary inspections may take up a lot of time especially for agricultural products. Enhanced inspections and procedures are required for these processes to be carried out efficiently.

### Recommendations:

- More studies/ time release studies should be commissioned by the government of Bangladesh as it is proven to provide comprehensive data on the speed of clearance control and border efficiency of border control-both factors are critical for evaluating the impact trade reforms have on trade facilitation.
- The government of Bangladesh has already decided to implement a national single window financed by the World Bank which is being led by NBR. Once the system is implemented, it is expected to enhance trade operations by significantly reducing the time and cost of trading. However, the FGD participants pointed out that the National Single Window was supposed to start in 2016, but now has been delayed till 2023, and to address such cases, concrete plans should be drawn up before implementation.
- Bangladesh may take inspiration from KOTRA, Republic of Korea's investment and trade promotion organization. KOTRA has positively assisted Korea's rapid export-led economic development via various trade promotion activities such as foreign market surveys and business matchmaking. While Bangladesh has Export Promotion Bureau (EPB) to create opportunities for manufactures, organize trade fairs, and introduce new market destinations to local traders, KOTRA has offices around the globe to promote, connect Republic of Korea traders of all sizes to various international markets. Bangladesh may adopt such an approach, learn from KOTRA's success, and perform matchmaking to connect Bangladeshi traders to international markets.
- KII and FGD responses have stated that Bangladesh port and custom clearance lacks automation, which is leading to inefficient port management, making trade paper-heavy, and increasing cost of doing business.

<sup>70</sup> Rama Dewan and A.H.M. Shafiqzaman, "Implementation Status of Bangladesh Towards Paperless Trade Facilitation," Trade Facilitation – WTO, unescap.org, Accessed June 29, 2022, <https://www.unescap.org/sites/default/d8files/Bangladesh-Presentation.pdf>.

Findings:

Recommendations:

- In Bangladesh, border compliance takes up a lot of time especially testing time for inspections. Risk- based inspection has to be adopted to cut down time, lab officials have to be rigorously trained, systems have to be automated to make the process more efficient.

*Possibility of CEPA*

- **Four respondents stated that CEPA can be explored by Bangladesh. However, they have also stated that to implement CEPA, Bangladesh needs to improve its tax regime and enable a trade-friendly environment.**

- Bangladesh may try for CEPA/ MRA/ participation in RCEP as recommended by many study participants.
- Republic of Korea is one of the most innovative nations around the world and highly advanced. Bangladesh can benefit from Korea's electronics industry as Korea's electronics industry is a result of export-driven take-offs involved with rapid technological shifts and utilization of low-cost labor. A CEPA with the Republic of Korea can bring in investments in electronics, hi-tech sectors, and technology education for Bangladesh. There are already KOICA-funded vocational training centers in Dhaka, Chattogram, Rajshahi, the National Institute of Advanced Nursing Education and Research, and 100 IT labs in secondary schools in Dhaka. **However, the lack of IP rights in Bangladesh can prove to be a barrier as the country currently has no framework or legislation for supporting innovations and technology transfers.** Even in the existing legislation ambiguities are hindering IP implementation. Further, there is no specialized court to deal with IP matters. **Strong IP protection in the legal system is a prerequisite to attracting high-tech investments.** Advanced economies such as Republic of Korea have a strong interest in IP rights protection globally so that their firms can collect the maximum rents from their intangible assets. Developing countries have an interest in implementing IP rights protection that is strong enough to attract foreign investment, including in hi-tech sectors. But much of the benefit of an open development strategy comes from advanced technologies diffusing to domestic firms. Evidence from advanced and emerging economies supports the idea of domestic suppliers accessing new

**Findings:**

**Recommendations:**

<p>NBR's focus on meeting revenue targets can hinder rather than facilitate trade if revenue considerations are not counterbalanced by overall long-term cost-benefit considerations for the whole economy. Research studies indicate that implementing key trade facilitation measures will increase national revenue collection.<sup>71</sup> Tariff rationalization and modernization are crucial for Bangladesh to remain competitive. The corporate tax structure in Bangladesh is 30% whereas it is only 20% in neighboring countries like Viet Nam, Sri Lanka, Cambodia, Laos, and even India.<sup>72</sup> Moreover, two KII respondents as well as FGD participants have stated that the tax regime in Bangladesh is not very friendly. Several participants of the FGD emphasized NBR's reluctance towards tariff reduction. Efficiency gains from economically beneficial tariff reduction can potentially offset the direct loss of tariff revenue through increased consumption as in higher VAT. NBR does not seem to have the in-house capacity to analyze these direct vs. indirect effect trade-offs.</p> <ul style="list-style-type: none"> <li>• NBR's current system of rotating Customs officials within the Customs, Revenue, and value-added Tax (VAT) agencies is incompatible with retaining a cadre of trained officials in Customs functions. The scenario is like other government agencies as most of them have a rotation process.</li> </ul>	<p>knowledge and resources from foreign markets and buyers, where Global Value Chain (GVC)-mediated access to foreign research and development (R&amp;D) is shown to boost innovation.</p> <ul style="list-style-type: none"> <li>• While ROK is a significant trading partner and has a highly developed economy, negotiating a CEPA with ROK may pose challenges. ROK has a strong industrial base and is globally competitive in several sectors.</li> </ul>
<p><b><u>Institutional, Infrastructural and Legal Capacity</u></b></p> <ul style="list-style-type: none"> <li>• A follow-on activity could work with NBR to adopt a policy of realistic targets for revenue collection and promote a culture of facilitating trade rather than maximizing revenue and including more trade experts to conduct an economic cost-benefit analysis of trade agreements and concessions. NBR also needs to create an in-house capacity/position of trade economist with a minimum Ph.D. in economics from a reputed university.</li> <li>• A group of experts can be created for the Ministry of Commerce who will be trained in trade negotiation, and even with the government's rotation system, the trade experts can be easily replaced.</li> <li>• Rigorous capacity building of staff at the Ministry of Commerce is required in terms of conducting economic cost-benefit analysis, negotiating in bilateral trade discussions, and management of trade agreements as the agency lacks skilled trade experts.</li> <li>• Resources to automate procedures should be committed to ensuring that customs offices are gradually upgraded. Incorporating ICT mechanisms is an important component of the harmonization of customs procedures and practices.</li> </ul>	

<sup>71</sup> World Trade Organization, "World Trade Report 2015 – Speeding Up Trade: Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement," wto.org, Accessed June 29, 2022, [https://www.wto.org/english/res\\_e/booksp\\_e/world\\_trade\\_report15\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_trade_report15_e.pdf).

<sup>72</sup> The Financial Express, "Rational Tariffs, Ensuring Quality Products, Better Dealmaking Emphasised," The Financial Express, [thefinancialexpress.com.bd, Accessed June 29, 2022, https://thefinancialexpress.com.bd/trade/rational-tariffs-ensuring-quality-products-better-dealmaking-emphasised-1646194900](https://thefinancialexpress.com.bd/trade/rational-tariffs-ensuring-quality-products-better-dealmaking-emphasised-1646194900).

**Findings:**

- The NBR has introduced an automated customs system through the **Automated System for Customs Data** (ASYCUDA) World. However, as per a study by BFTI,<sup>73</sup> many important components of the software remain unused. The main features of the system used include declaration processing, selection of lane, assessment of goods, payment and release of goods, and log register of users.<sup>74</sup>
- Automation is lacking in a lot of areas such as the exchange of SPS certificates, limited internet connection, and frequent disruptions to customs and other trade control agencies at the border crossings.
- Inefficient port management is increasing Bangladesh's cost of doing business. Bangladesh's main seaport in Chittagong which is considered the heart of the country's export-import trade has weak port logistics leading to supply chain disruptions. The World Bank and S&P Global Market Intelligence have ranked Chittagong port as Asia's least efficient trade hub.<sup>75</sup>
- Even though major progress has been in trade facilitation in Bangladesh such as the introduction of the Bangladesh Trade Portal, MoC either does not have the capacity to constantly make necessary updates to the website or necessary and timely updates are not being made. The FGD participants have stated that the Bangladesh Trade Portal has only been newly introduced, and they do not find the required resources or information expected from such a website. Women entrepreneurs would prefer an information desk rather than a

**Recommendations:**

- A system should be put in place by MoC to regularly update, maintain the trade portal, and even inform the necessary stakeholders, and if needed educate stakeholders such as the chamber of commerce on the use of the website. Centers/ knowledge booths can be set up for women entrepreneurs in conjunction with the Bangladesh Women Chamber of Commerce.
- Substantial infrastructure improvement is needed at ports in Bangladesh to facilitate the supply chain of exports and importers.
- Bangladesh doesn't have any legal representative in its trade negotiation team, and this is a gap which can be immediately addressed.

<sup>73</sup> Bangladesh Foreign Trade Institute, "The Scoping Study on Paperless Trade Reform in Bangladesh," August, 2017, Bangladesh Foreign Trade Institute (BFTI), Accessed June 29, 2022, [https://bfti.org.bd/pdf/Final\\_The%20Scoping%20Study%20for%20PROKAS%20Programme.pdf](https://bfti.org.bd/pdf/Final_The%20Scoping%20Study%20for%20PROKAS%20Programme.pdf).

<sup>74</sup> Khairuzzaman Mozumdar, "Challenges of Customs Automation in Bangladesh and Future Prospects," November 26, 2009, UNESCAP, Accessed June 29, 2022, [https://artnet.unescap.org/tid/projects/tforum\\_bang.pdf](https://artnet.unescap.org/tid/projects/tforum_bang.pdf).

<sup>75</sup> The Business Standard, "CTG Port Asia's Least Efficient for Container Handling: World Bank," www.tbsnews.net, May 26, 2022, <https://www.tbsnews.net/bangladesh/ctg-port-asias-least-efficient-container-handling-world-bank-427602>.



Findings:

Recommendations:

website as many of them are not comfortable with using websites. Furthermore, women traders face primary barriers such as lack of access to finance, lack of information, knowledge, and export opportunities.

- Trade negotiation teams from most countries typically include lawyers who specialize in international trade law. Countries which include lawyers in their teams include India, Sri Lanka, Singapore, Thailand, Nepal, and South Korea. The lawyers help to ensure that the country's interests are well represented and that the resulting trade agreements comply with international law and the country's own legal framework.

Non-Tariff Measures:

- Bangladesh needs to develop its institutional capacity, ease custom clearance process, and improve export related compliance. BSTI is limited in terms of human resources, adequate facilities and has limited or cold storage capacity (respondents have stated). For exports, BSTI must issue phytosanitary certificates and testing may take up to 7 days.<sup>76</sup> Testing capacity of both government and private institutions is limited.
- As per the Import Policy Order, all edible substances imported into Bangladesh must undergo testing, and currently, there is no risk-based testing being done. There is no risk-based testing for radioactivity tests too as Bangladesh requires all food products to be tested for radioactivity levels. Two respondents have mentioned that there is a lack of risk assessment and concrete policies.

- Bangladesh can consider developing an automated risk management system to identify high-risk shipments for scrutiny and low-risk shipments to facilitate trade by allowing them to flow through the border without any impediments.<sup>78</sup>
- Bangladesh should introduce risk-based testing to ease pressure on BSTI and cut down testing time on imports.
- Focus can be given to building the capacity of labs in terms of testing through the development of manuals.
- To speed up the testing and certification process, private institutions can be allowed to inspect, test, and issue certificates.

<sup>76</sup> Clifford Zinnes et. al., "Bangladesh Trade Facilitation Project" Baseline Evaluation," August 12, 2021, NORC at the University of Chicago, USDA, Accessed June 29, 2022, [https://pdf.usaid.gov/pdf\\_docs/PA00XRG9.pdf](https://pdf.usaid.gov/pdf_docs/PA00XRG9.pdf).

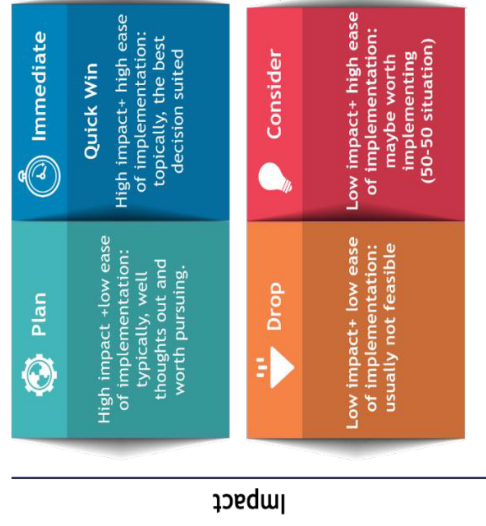
<sup>78</sup> World Bank Blogs, "COVID-19 Highlights Need for Digitizing and Automating Trade in South Asia," blogs.worldbank.org, August 14, 2020, <https://blogs.worldbank.org/endpovertyinsouthasia/covid-19-highlights-need-digitizing-and-automating-trade-south-asia>.

<u>Findings:</u>	<u>Recommendations:</u>
<ul style="list-style-type: none"> <li>• There are limited cold storage options, and ports do not have enough storage space. Two of the respondents have stated the urgency of increasing the capacity of cold storage for perishable goods.</li> <li>• Plant Quarantine Wing must check containers visually at the entry point for permits and phytosanitary certificates for pests and diseases, based on which certificates are issued. However, different locations of the wing have different approaches based on their capacity.</li> <li>• Trade in Bangladesh is paper-heavy and not automated. With the absence of an adequate computerized system, Bangladesh is not realizing the full economic benefits of trade facilitation.<sup>77</sup> Staff lacks the capacity for new techniques, approaches, and customs practices and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>• Systems can be developed to automate lab reports and certificates to cut down processing time, especially by reducing the time required to release agricultural goods and streamlining the process.</li> <li>• Introducing and increasing the capacity of cold storage at the border will support expanding the trade of perishable goods.</li> <li>• Joint dialogues can be held between Republic of Korea and Bangladesh to discuss NTBs and draw out recommendations.</li> </ul>

Table 32 Findings and Recommendations

<sup>77</sup> Asian Development Bank, "Regulatory Impact Analysis Report on the Current Customs Regulatory Framework in Bangladesh," April 28, 2014, adb.org. Accessed June 29, 2022, <https://www.adb.org/sites/default/files/publication/179665/ria-customs-bangladesh.pdf>.

The following diagram shows the classification of recommendations/ opportunities into the following matrix: quick wins and possible prospects. Quick wins can be targeted first as these opportunities come with high impact and high ease of implementation too. Next, the focus should be on the possible prospects which will have a high impact but will require appropriate planning, resources, and time.



**Ease of Implementation**

Figure 5 Impact vs Ease of Implementation

Plan	Immediate (Quick Win)
<ul style="list-style-type: none"> <li>Automation of customs procedures.</li> <li>Planning trade diversification prospects with Republic of Korea, especially in leather footwear, vertical integration.</li> <li>Encouraging Republic of Korea n investment in hi-tech sectors.</li> <li>Utilizing the current MoU and arranging for capacity building of port officials and gathering knowledge on port efficiency techniques.</li> <li>Systems to be brought in to automate lab reports and certificates.</li> <li>Capacity building and building human resources at BSTI, and other testing facilities such as Plant Quarantine Wing.</li> <li>Full implementation of a national single window.</li> </ul>	<ul style="list-style-type: none"> <li>Product List Update in the bilateral trade agreement between Bangladesh and Republic of Korea.</li> <li>Assessing the possibility, pros, and cons of participating in RCEP instead of an FTA as it may not prove to be beneficial in absolute terms.</li> <li>Hiring and placing more trade economists in both NBR and MoC to conduct a cost-benefit analysis of tariff reductions and adopting other trade facilitation measures.</li> <li>Creation of tasks forces composed of government agencies and private stakeholders to jointly discuss and approve trade policies.</li> <li>Commissioning more time-release studies at sea and land ports to identify infrastructural gaps and time delays.</li> </ul>



<ul style="list-style-type: none"> <li>• Increasing the capacity of cold storage at ports.</li> <li>• Improvement of port efficiency and making infrastructural changes to facilitate the supply chain.</li> <li>• Creation of a pool of trade experts with specialized knowledge and rigorous capacity building in trade negotiation, and management skills.</li> </ul>	<ul style="list-style-type: none"> <li>• Introduction of risk-based testing to ease pressure on BSTI and cut down processing time.</li> <li>• Privatization of certification process and testing.</li> <li>• Implementation of all TFA measures.</li> <li>• Joint dialogues between Bangladesh and Republic of Korea to ease NTBs.</li> <li>• Inclusion lawyers in Bangladesh's trade negotiation team.</li> </ul>
<b>Drop</b>	<b>Consider</b>
-	<ul style="list-style-type: none"> <li>• CEPA with Republic of Korea in hi-tech sectors to boost domestic knowledge.</li> </ul>

Table 33 Categorization of Recommendation

## 10. Conclusion

Republic of Korea and Bangladesh are capable of forging stronger ties that can benefit both nations. In that regard, the research touched upon several components that entail an efficient, diversified, and resilient economy for a country like Bangladesh. Using a mixed method approach, research data was collected from numerous stakeholders and secondary sources, using which a few notable observations have been drawn.

An FTA between Bangladesh and Republic of Korea may prove to be beneficial, and Bangladesh may wish to initiate discussions with Republic of Korea regarding it. The CGE model conducted for this study indicates that an FTA will have a positive impact on the imports and exports of both countries. Korea exports and imports will increase by 0.03% and 0.13% whereas Bangladesh's exports and imports will rise by 1.43% and 2.13%. An FTA with Republic of Korea shows the most promise in terms of percentage increase in exports and imports compared to Nepal, Bhutan, and Sri Lanka. The simulation also predicts that output and export of processed food will increase while output for meat and livestock sectors will decrease. Moreover, this is further supported by the gravity model which indicates that an FTA between the two countries will have a positive outcome.

Similarly, 40% of the KII respondents stated Bangladesh can opt for a Comprehensive Economic Partnership Agreement (CEPA) with Republic of Korea. In addition, the respondents also stated that for CEPA to be effective, Bangladesh will first need to address its strict tax regime. CEPA may be an option, especially for the electronics industry of Bangladesh since Republic of Korea is one of the most innovative nations in the world. Bangladeshi company, Walton, has already established a research center in Republic of Korea in partnership with the Korean Standards Association (KSA). A CEPA with Republic of Korea can encourage investments in electronics, hi-tech sectors, and technology education for Bangladesh. However, the lack of IP rights in Bangladesh may act as a hurdle. However, prior to moving forward with an FTA or CEPA, it is essential that both countries consider updating the existing bilateral agreement on Trade and Economic Cooperation. On the other hand, South Korea is a significant trading partner and has a highly developed economy, negotiating a CEPA with South Korea may pose challenges. South Korea has a strong industrial base and is globally competitive in several sectors. Therefore, the best route for Bangladesh would be to negotiate a FTA first, and then move into deeper engagement with South Korea.

Desk research has revealed that about 9 out of the top 10 export products to Republic of Korea from Bangladesh is readymade garments which takes up about 60% of the export basket, hence, there is a need for diversification. On that note, 30% of the KII respondents have identified seafood (frozen) as a means of export diversification whereas 20% of the respondents leaned towards leather being an addition to the export basket. Additionally, a calculation of bilateral Revealed Comparative Advantage (RCA) indicates that Bangladesh has export strength in jute products, textiles, and footwear.

On the other hand, Republic of Korea only imports a small fraction of the total exports in footwear from Bangladesh (less than 1%) and in 2020, Republic of Korea imported 896 US\$ worth of leather footwear, becoming the 14th largest importer of leather footwear in the world making the leather footwear market an untapped export potential for Bangladesh. Moreover, there are prospects of export diversification in vertical integration (light engineering, car parts, mobile phone, semi assembles).

However, there are measures that need to be taken for Bangladesh to achieve export diversification and build stronger alliances with other countries such as Republic of Korea. The country is yet to address certain gaps at policy, institutional, infrastructural, and legal levels to build resiliency for becoming a middle-income country.

While there are 54 trade facilitation measures, Bangladesh has fully implemented only 5 and is planning implementation for 22. Further, 17 measures are in the planning stage, and 9 have not been implemented. On the other hand, Republic of Korea is way ahead of Bangladesh having fully implemented 42 measures with only 7 in the partial implementation stage. KII findings have revealed that full implementation of all trade facilitation measures will also support FTA negotiations and finalization and have also indicated that Bangladesh is focusing on the implementation of trade facilitation measures, following which, sub-committees have been formed to handle, and expedite the implementation process. To support the process, a concrete document stating the allocation of tasks and operation within concerned representatives may be utilized to speed up the implementation of all trade facilitation measures.

Bangladesh must focus on improving logistical performance to be able to boost trade with the global market. Bangladesh ranked 100th whereas Republic of Korea ranked 25th in the logistics performance indicator by the World Bank in the same year. Bangladesh can learn from Republic of Korea in customs, and logistics through working group meetings, idea sharing program, joint dialogues, among others. Additionally, Republic of Korea's customs clearance performance stands valued at almost all international standards and is appraised as the cutting edge of best practice.

Bangladesh may take inspiration from Korea Trade-Investment Promotion Agency (KOTRA), Republic of Korea's investment and trade promotion organization which has positively assisted Korea's rapid export-led economic development via various trade promotion activities such as foreign market surveys and business matchmaking. While Bangladesh has Export Promotion Bureau (EPB) to create opportunities for manufactures, organize trade fairs, and introduce new market destinations to local traders, KOTRA has offices around the globe to promote, connect Republic of Korea traders of all sizes to various international markets. Bangladesh may adopt such an approach, learn from KOTRA's success, and perform matchmaking to connect Bangladeshi traders to international markets.

Findings have implied that paper-heavy trade, lack of automation in certification processes, limited internet connection and cold storage options, frequent disruptions in customs procedures, and inept trade control agencies at the border crossings add to port inefficiency. As per the KII findings, 45% of the respondents

have stated that there is an infrastructural lack and port inefficiency which can be improved. Similarly, data from World Bank and S&P Global Market Intelligence indicates that Bangladesh's main seaport in Chittagong is Asia's least efficient port. Automation in NBR, customs procedures, port management, and BSTI/ standards certification processes would be beneficial.

Delving into the study from an institutional level, a stakeholder analysis of mandates and interests conducted by the team has revealed a gap between organizations responsible for trade policy formulation. About 40% of the KII respondents have stated that there is a lack of coordination and gaps in the harmonization process when it comes to trade policy formulation, management, and negotiation.<sup>79</sup>

To address these gaps, institutional capacity building in trade economics and trade negotiation can be arranged for ministry officials on the economic fundamentals of international trade on economic cost-benefit analysis. Further, trade economist positions (with Ph.D. in economics) can be created inside MoC with expertise in cost-benefit analysis of trade negotiations. Such expertise can be hired or existing personnel from the Ministry can be sent overseas to acquire Ph.D. level training in economics. In addition, task forces can be created from members of trade agencies, think tanks, and the private sector to discuss, and approve trade policies.

The findings from the Computable General Equilibrium (CGE) simulations conducted under this study have implied that revenue targets can hinder trade if revenue considerations are not counterbalanced by overall long-term cost-benefit considerations for the whole economy. The simulations have also shown that a bilateral tariff elimination and reduction will increase Bangladesh's exports and imports. In fact, 25% of the respondents have stated that Bangladesh has a high import tariff structure, lacks proper tariff policy, and needs tariff rationalization and modernization which is hindering trade promotion. Therefore, Tariff modernization and rationalization are crucial as they can support Bangladesh's export diversification and LDC graduation.

Furthermore, the lack of Intellectual Property (IP) rights legal framework in Bangladesh may become a hindrance to investment very shortly. As strong IP protection in the legal system is a prerequisite to attracting high-tech investments, Bangladesh must develop a concrete legal framework to protect its innovative aspects of trade.

The review of existing agreements provided a depiction of the bilateral trade situation of Bangladesh with Republic of Korea, and the findings shed light on good practices, steps to facilitating an enabling environment when it comes to trade harmonization, and a deeper knowledge of import and customs related policies as well as guidelines that were developed at a global level. Through research, it was possible to acquire an understanding of the existing status of the trade scenario with important trading partners such as the Republic of Korea. Following the careful review of trade agreements, it was possible to draw

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<sup>79</sup> The sample size for KII for the first phase of study involving countries Nepal, Bhutan, Sri Lanka, and South Korea is 20 participants. This number represents responses received from 20 participants.

recommendations using which, the Government of Bangladesh may promote policy advocacy for trade related issues and create synergy between national development priorities and trade growth, in turn, expanding trade.

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## Annex 1: Gravity Model

### Gravity Modelling for FTA Impact Analysis:

The gravity model of international trade, first proposed by Tinbergen (1962), has been extensively used for trade policy analysis over the decades.<sup>80 81</sup> One of the most well-known structural gravity models is that Anderson & van Wincoop (2003) developed a multilateral resistance term for estimating bilateral trade costs.<sup>82</sup> In their seminal work, Anderson & van Wincoop (2003) show that trade flows between two countries depend on bilateral and multilateral measures. This structural gravity model has been used extensively in trade policy analysis. For example, Anderson & Yotov (2012) and Head & Meyer (2014) show the empirical success of gravity with aggregate data.<sup>83 84</sup> Agnosteva et al. (2014), Aichele et al. (2014) demonstrate different sectoral level gravity estimates.<sup>85 86</sup> Pfaffermayr (2019), Yotov et al. (2016), and Santos Silva & Tenreyro (2011) speak about how to use likelihood estimation techniques in estimating international trade flows.<sup>87 88 89</sup> The  $MRT_i$  and  $MRT_j$  is the inward and outward multilateral resistance variable of Anderson & van Wincoop (2003), which can be easily included in the basic gravity equation as a set of fixed importer ( $MRT_i$ ) and exporter effects ( $MRT_j$ ) to estimate the impact of time-invariant country-specific characteristics.<sup>90 91</sup>

$$\ln X_{ij}^t = \alpha + \beta_1 \ln Y_i^t + \beta_2 \ln Y_j^t + \beta_3 \ln D_{ij}^t + \gamma_1 \text{TradeCreate}_{ij}^t + \gamma_2 \text{TradeDivert}_{ij}^t + \delta_1 MRT_i + \delta_2 MRT_j + \text{Years} + u_{ij}^t \quad (1)$$

<sup>80</sup> J. Tinbergen, "Shaping the World Economy: Suggestions for an International Economic Policy," 1962, New York, USA: The Twentieth Century Fund.

<sup>81</sup>  $\ln X_{ij}^t = \alpha_t + \beta_1 \ln Y_i^t + \beta_2 \ln Y_j^t + \beta_3 \ln D_{ij}^t$ ,  $\beta_1 > 0$ ,  $\beta_2 > 0$ ,  $\beta_3 < 0$ , where  $X_{ij,t}$  is the value of export, import or trade from country  $i$  to  $j$ ,  $Y_{i,t}$  and  $Y_{j,t}$  are the GDP's of countries  $i$  and  $j$  in period  $t$ ;  $\alpha_t$  is a period-specific constant term; and  $D_{ij}$  presents bilateral distance between the importing and exporting countries or bilateral trade costs indices.

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<sup>86</sup> R. Aichele, G. Felbermayr & I. Heiland, "Going Deep: The Trade and Welfare Effects of TTIP," CESifo Working Paper No. 5150 (2014). [https://www.cesifo.org/DocDL/cesifo1\\_wp5150.pdf](https://www.cesifo.org/DocDL/cesifo1_wp5150.pdf).

<sup>87</sup> M. Pfaffermayr, "Gravity models, PPML estimation and the bias of the robust standard errors," *Applied Economics Letters*, 26(18), (2019): 1467-1471. <https://doi.org/10.1080/13504851.2019.1581902>.

<sup>88</sup> V. Y. Yotov, R. Piermartini, J. A. Monteiro & M. Larch, "An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model," 2016, United National Conference on Trade and Development (UNCTAD), [https://www.wto.org/english/res\\_e/booksp\\_e/advancedwtounctad2016\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/advancedwtounctad2016_e.pdf).

<sup>89</sup> J. M. C. Santos Silva & S. Tenreyro, "Further simulation evidence on the performance of the Poisson pseudo-maximum likelihood estimator," *Economics Letters*, 112(2), (2011): 220-222. <https://doi.org/10.1016/j.econlet.2011.05.008>.

<sup>90</sup> Here, a fixed effect is a binary variable that indicates whether or not an observation is of an individual country. For example, to construct a fixed importer effect for Bangladesh, we set a variable equal to 1 whenever the importing country is Bangladesh and zero otherwise.

<sup>91</sup> J. E. Anderson & E. van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle," *American Economic Review*, 93(1) (2003): 170-192. <https://doi.org/10.1257/000282803321455214>.

For the analysis of an FTA, we add two variables to the structured gravity equation of Anderson & van Wincoop (2003).<sup>92</sup> The first is an indicator variable (Trade Creation) for observations where both the importing and exporting countries are members of the FTA, while the second is an indicator variable (Trade Diversion) for observations where the importing country is a member of the FTA, but the exporting country is not. As the variable names suggest, the first variable measures trade creation, which are to be positive under the FTA, and the second, trade diversion, which is to be negative under the FTA. The following gravity model for evaluating an FTA is, therefore:

$$\begin{aligned} \ln X_{ij}^t = & \alpha + \beta_1 \ln \beta Y_i^t + \beta_2 \ln Y_j^t + \beta_3 \ln D_{ij}^t + SAFTA TradeCreation + SAFTA TradeDiversion + \\ & APTA TradeCreation + APTA TradeDiversion + BIMSTEC TradeDiversion + \\ & + EUGSP TradeCreation + EUGSP TradeDiversion + MRT_i + MRT_j + Years + U_{ij} \end{aligned} \quad (2)$$

We use the PPML estimation technique for gravity estimation. Santos Silva & Tenreyro (2006) show the PPML estimator outperforms other linear and nonlinear estimators across a wide range of heteroskedastic and measurement errors in the data.

$$\begin{aligned} X_{ij}^t = & \exp(\beta_1 \ln D_{ij}^t + SAFTA TradeCreation + SAFTA TradeDiversion + APTA TradeCreation + \\ & APTA TradeDiversion + BIMSTEC TradeCreation + BIMSTEC TradeDiversion + \\ & + EUGSP TradeCreation + EUGSP TradeDiversion + MRT_i + MRT_j + Years) * U_{ij} \end{aligned} \quad (3)$$

**Data:** We have updated the Yotov et al. (2016) dataset.<sup>93 94</sup> They have balanced panel data of 69 countries from 1986-2006. This dataset's data for Bangladesh, Nepal, and Sri Lanka was unavailable, which we have incorporated and updated using the latest available data till 2019. All-bilateral trade data is collected from UN Comtrade (2021), denominated in US dollars.<sup>95</sup> Data considering GDP and trade were collected from the World Development Indicators (WDI) of the World Bank (WDI, 2021).<sup>96</sup> Bilateral ad-valorem tariff data

<sup>92</sup> J. E. Anderson & E. van Wincoop, "Gravity with Gravitas: A Solution to the Border Puzzle," *American Economic Review*, 93(1) (2003): 170-192. <https://doi.org/10.1257/000282803321455214>.

<sup>93</sup> V. Y. Yotov, R. Piermartini, J. A. Monteiro & M. Larch, "An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model," 2016, United National Conference on Trade and Development (UNCTAD), [https://www.wto.org/english/res\\_e/booksp\\_e/advancedwtounctad2016\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/advancedwtounctad2016_e.pdf).

<sup>94</sup> V. Y. Yotov, R. Piermartini, J. A. Monteiro & M. Larch, "An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model," 2016, United National Conference on Trade and Development (UNCTAD), [https://www.wto.org/english/res\\_e/booksp\\_e/advancedwtounctad2016\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/advancedwtounctad2016_e.pdf).

<sup>95</sup> UN Comtrade, International Trade Statistics," 2021, <https://comtrade.un.org>.

<sup>96</sup> WDI (World Development Indicators), "Trade (% of GDP). [Data File]," 2021, World Bank, <https://databank.worldbank.org/source/world-development-indicators>.

was collected from the World Integrated Trade Solutions (WITS) of the World Bank (WITS, 2021).<sup>97</sup> Data regarding distance and other related variables were collected from CEPII (CEPII, 2021).

**Estimation Procedure:** First, we run various regressions from the OLS for the fixed effect model for panel data. We also use the PPML estimation technique, widely used in dealing with heteroskedasticity. Santos Silva & Tenreyro (2006) show the PPML estimator outperforms other linear and nonlinear estimators across a wide range of heteroskedastic and measurement errors in the data.<sup>98</sup> However, Santos Silva & Tenreyro (2011a) identify potential convergence shortcomings of the Poisson command in Stata when estimating the gravity equations recommended in Santos Silva and Tenreyro (2006).<sup>99</sup> To solve these problems, Santos Silva & Tenreyro (2011a) suggest constructing a subset of explanatory variables, dropping one variable, checking if there are any collinearities with dependent variables, and identifying if they can be included in the model.<sup>100</sup> Yotov et al. (2016) also suggest a reduced form of regression, dropping variables one by one and test-checking the model's fitness.<sup>101</sup>

Following this approach to deal with the convergence issue, we drop the average applied tariff rate from the model, finding collinearity with the dependent variable. We then check the MFN tariff, the weighted average applied tariff, and distance variables one by one and run the likelihood ratio (LR) test, which confirms that these variables are significant. The deviance goodness of fit (13.9) and Pearson goodness of fit (12.4) are also very high, indicating a good fitting model.

### Findings from the Simulations

**Regional Impact:** A gravity model was estimated with data from 71 trading partners from 1986–2019. The gravity model is estimated first without any FTA-related variables as shown in equation (1), and then with FTA-related variables as shown in equations (2-3). The trade agreements of SAFTA, APTA, BIMSTEC, and EU GSP/ (EBA) are then evaluated for FTA impact analysis.

The table below depicts PPML estimates which give more robust results as they allow control of heteroskedasticity. We observe a different pattern of coefficients while using PPML estimations compared to OLS. The OLS estimates show a higher value on the GDP and distance coefficients. In particular, the value of coefficients on the partner's GDP and distance drops when using the PPML estimator, which is

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<sup>97</sup> WITS (World Integrated Trade Solutions), "Tariff data by Country. [Data set]," 2022, <https://wits.worldbank.org/tariff/trains/country-byhs6product.aspx?lang=en>.

<sup>98</sup> J. M. C. Santos Silva & S. Tenreyro, "The Log of Gravity," *The Review of Economics and Statistics*, 88(4), (2006): 641-658. <https://doi.org/10.1162/rest.88.4.641>.

<sup>99</sup> J. M. C. Santos Silva & S. Tenreyro, "The Log of Gravity," *The Review of Economics and Statistics*, 88(4), (2006): 641-658. <https://doi.org/10.1162/rest.88.4.641>.

<sup>100</sup> J. M. C. Santos Silva & S. Tenreyro, "Poisson: Some Convergence Issues," *The Stata Journal: Promoting communications on statistics and Stata*, 11(2), (2011a): 207-212. <https://doi.org/10.1177/1536867X1101100203>.

<sup>101</sup> V. Y. Yotov, R. Piermartini, J. A. Monteiro & M. Larch, "An Advanced Guide to Trade Policy Analysis: The Structural Gravity Model," 2016, United National Conference on Trade and Development (UNCTAD), [https://www.wto.org/english/res\\_e/booksp\\_e/advancedwtoundctad2016\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/advancedwtoundctad2016_e.pdf).

consistent with Santos Silva & Tenreyro (2006).<sup>102</sup> For example, the coefficient estimate on the importing country's GDP is equal to 0.37, which implies that a 1.0 percent increase in the GDP of the importing country raises its imports by 0.37 percent. The MFN tariff rate estimate is a very high coefficient while the applied tariff coefficient is much lower; this indicates that MFN tariff significantly impacts trade.

The table below shows the tariffs, distance, and partner GDP coefficients under the gravity framework, which are statistically significant at the 1 percent level. The coefficient of partners' GDP is positive and highly significant, which implies that the country tends to import more from larger economies. Distance also negatively affects imports and is significant at the 1 percent level. Tariffs are still a considerable import barrier to Bangladesh, as shown by the relatively large coefficient for tariffs.

Regressions Explaining Regional Trade <sup>103</sup>		
	OLS	PPML
Ln GDP <sub>i</sub>	0.57 (11.5)**	
Ln GDP <sub>j</sub>	0.37 (17.44)**	
Ln Distance	-1.332 (31.43)**	-0.412 (6.8)**
Ln Applied Tariff	-2.87 (7.68)**	-1.98 (5.87)**
Adjusted R <sup>2</sup>	0.78	0.28
N	54,656	67,308

Table 34 Regression; Trade expert's estimation. Notes: Robust t-statistics in parentheses and \* p<0.05; \*\* p<0.01. All variables except dummies taken in the log. GDP and trade were taken in the model at current US\$ value. Tariffs were taken 1+tariff rate.

The table above depicts the regression estimates from estimating the gravity model formulated in equations (2&3). This estimation differs from the previous one because the variable for SAFTA trade creation and diversion are included. The results for GDP and distance are almost the same as the prior estimation. However, the estimated coefficient on *Trade Creation* is negative, and that for *Trade Diversion* is positive, which is the opposite of what was unexpected. Their signs and statistical significance suggest that SAFTA reduced intraregional trade and increased extra-regional trade. The percentage reduction in intraregional trade can be computed as  $e^{(-0.201)} - 1 = -18\%$ ,<sup>104</sup> while the percentage increase in extra-regional trade is  $e^{(0.310)} - 1 = 35\%$ . The change in extra-regional trade is double compared to intra-regional trade in South Asia. That the value of extra-regional trade in South Asian countries was about five times higher than that of intraregional trade in this period suggests that the net effect of SAFTA was an absolute rise in trade.

Suppose we dig into SAFTA's intra-regional and additional regional trade. In that case, South Asian countries mostly trade with non-South Asian countries, and intraregional trade is about 3 percent of its total

<sup>102</sup> J. M. C. Santos Silva & S. Tenreyro, "The Log of Gravity," *The Review of Economics and Statistics*, 88(4), (2006): 641-658. <https://doi.org/10.1162/rest.88.4.641>.

<sup>103</sup> The dependent variables in the tables are Ln trade for OLS and trade for PPML regressions.

<sup>104</sup> This formula is used to interpret the coefficient on an explanatory variable when the variable is an indicator (or dummy) variable, and the dependent variable is in logarithmic form.

trade. China is the leading importing partner of all South Asian countries. At the same time, the main export destinations are the EU, the USA, the UK, Japan, Canada, and Korea, which indicates that the SAFTA tariff eliminations were not very practical for intraregional trade in South Asia.

In terms of APTA the intra-regional trade creation increases by 16% which is  $(e^{0.151} - 1)$  while extra-regional trade also increased by 12%  $(e^{0.114} - 1)$ . It indicates that APTA has positively impacted intraregional trade compared to extra-regional trade. Under APTA, China, India, and Korea have been offering almost zero duties on imports from Bangladesh, and bilateral trade between member countries has increased significantly over the years. About BIMSTEC, the impact of trade creation is very low which is about 5 percent  $(e^{0.051} - 1)$ , and insignificant, while trade diversion is positive and much higher at 13 percent  $(e^{0.123} - 1)$ . Nevertheless, the strange trade creation and diversion results suggest either that preferential BIMSTEC tariffs were ineffective or specific problems in the model, such as omitted variables.

Concerning the EU GSP/EBA for Bangladesh, the intra-regional coefficient is much higher, which is 53 percent  $(e^{0.431} - 1)$ , while the extra-regional trade is negative at 19 percent  $(e^{-0.213} - 1)$ . This indicates that the EU GSP has a tremendous positive impact on intraregional trade with Bangladesh compared to extra-regional trade with other LDCs under the EBA. Bangladesh's export to the EU was about US\$ 7 billion in 2001, which increased to 27 billion in 2019 before the pandemic.

Regressions Explaining Regional Trade		
	OLS	PPML
Ln GDPi	0.57 (11.5)**	
Ln GDPj	0.37 (17.44)**	
ln Distance	-1.332 (31.43)**	-0.412 (6.8)**
ln Applied Tariff	-2.87 (7.68)**	-1.98 (5.87)**
SAFTA Trade Creation	-0.421 (6.11)**	-0.201 (2.04)*
SAFTA Trade Diversion	-0.72 (7.22)**	0.31 (2.98)**
APTA Trade Creation	0.181 (6.21)*	0.151 (4.67)*
APTA Trade Diversion	0.22 (4.83)*	0.114 (3.45)*
BIMSTEC Trade Creation	0.211 -1.25	0.0512 -1.05
BIMSTEC Trade Diversion	0.22 -1.71	0.123 -0.915
EUGSP Trade Creation	0.62 (14.1)*	0.431 (11.98)*
EUGSP Trade Diversion	-0.34 (7.21)*	-0.213 (6.73)*
Adjusted R2	0.88	0.21
N	54,656	67,308

Table 35 Regression, Trade expert's estimation. Notes: Robust t-statistics in parentheses and \*  $p < 0.05$ ; \*\*  $p < 0.01$ . All variables except dummies taken in the log. GDP and trade were taken in the model at current US\$ value. Tariffs were taken 1+tariff rate.



### 4.3.2 Bilateral Impact

We consider eight alternative scenarios using Bangladesh-USA, Bangladesh-India, Bangladesh-Nepal, Bangladesh-Sri Lanka, Bangladesh-Korea, Bangladesh-Vietnam, Bangladesh- Indonesia, Bangladesh-Thailand FTA to explore the potential counterfactual impact of bilateral FTAs. The results indicate that while the FTA with the USA may have a significant positive effect, the FTA with India is inconclusive as the estimates are insignificant. Trade creation and diversion effects of Bangladesh's FTA with other South Asian countries, including Nepal and Sri Lanka, are negligible.<sup>105</sup> While trade creation impacts are similar with Vietnam, Korea, Thailand, and Indonesia, trade diversion effects are significant in East Asian countries.

Potential FTA Partners for Bangladesh		
	OLS	PPML
Ln GDPi	0.57 (11.5)**	
Ln GDPj	0.37 (17.44)**	
ln Distance	-1.332 (31.43)**	-0.412 (6.8)**
BD-India FTA Trade Creation	0.192 (0.64)	0.098 (-1.27)
BD-India FTA Diversion	-0.211 (3.22)*	-0.16 (2.15)*
BD-USA FTA Trade Creation	0.127 (3.75)**	0.073 (2.95)**
BD-USA FTA Diversion	-0.021	-0.201
BD-Nepal FTA Trade Creation	0.06 (0.13)	0.01 (-1.1)
BD-Nepal FTA Diversion	-0.211 (1.22)	-0.16 (1.7)
BD-Sri Lanka FTA Trade Creation	0.02 (0.14)	0.04 (-0.9)
BD-Sri Lanka FTA Diversion	-0.21 (1.22)	-0.13 (1.65)
BD-Korea FTA Trade Creation	0.05 (1.2)	0.11 (1.9)*
BD-Korea FTA Diversion	-0.21 (1.22)	1.13 (2.65)*
BD-Thailand FTA Trade Creation	0.05 (1.1)	-0.11 (1.6)
BD-Thailand FTA Diversion	-0.02 (1.1)	1.3 (2.2)*
BD-Vietnam FTA Trade Creation	0.02 (0.14)	0.94 (1.6)

<sup>105</sup> Bhutan was removed from this analysis due to unavailability of time series data.



BD-Vietnam FTA Diversion	-0.21 (1.22)	1.13 (2.98)**
BD-Indonesia FTA Trade Creation	0.09 (1.2)	0.14 (1.73)
BD-Indonesia FTA Diversion	-0.18 (1.21)	0.53 (1.65)
Adjusted R2	0.63	0.19
N	54,656	67,308

Table 36 Potential FTA Partners, Trade expert's estimation. Notes: Robust t-statistics in parentheses and \*  $p < 0.05$ ; \*\*  $p < 0.01$ . All variables except dummies taken in the log. GDP and trade were taken at current US\$ value. Tariffs were taken 1+tariff rate.

Bangladesh's main export destinations are the EU, the USA, the UK, Canada, and Japan. Trade between Bangladesh and its neighbors is very low except for India, an important trading partner (Bangladesh Bank, 2021).<sup>106</sup> Bangladesh's export to India is only US\$1 billion and only a few million to other South Asian countries. Bangladesh and India cooperate in many forms, including in the SAFTA, APTA, BIMSTEC, and Bangladesh, Bhutan, India, and Nepal (BBIN) initiatives. However, Bangladesh imported 27 percent of its total imports from China and only 15 percent from India in 2021. Concerning adjacency, we note that Bangladesh's main borders are with India and Myanmar and that imports from neighboring countries are much lower than other trading partners (Basu & Debabrata, 2007; Kabir & Razzaque, 2020; Bangladesh Bank, 2020).<sup>107 108 109</sup> Bangladesh faces numerous NTMs, especially anti-dumping and regulatory measures to access the Indian market (Frederick & Staritz, 2020; Kabir & Razzaque, 2020).<sup>110 111</sup> India has prohibited the trade of wheat, ceramics, and electronics goods through land customs stations. Recently, India imposed anti-dumping duty on Bangladesh's jute products (Director General of Trade Remedies, 2019).<sup>112 113</sup> However, business with the Myanmar land border has been suspended for some time due to the Rohingya crisis.

On the other hand, the USA withdrew GSP on the RMG sector in 2013, significantly impacting Bangladesh's apparel exports to the USA market. Bangladesh's export to the USA was US\$8 billion in 2021 (Bangladesh

<sup>106</sup> Bangladesh Bank, "Major Country/Commodity-Wise Export Receipt [Yearly] [Data file]," 2021, <https://www.bb.org.bd/en/index.php/econdata/index>.

<sup>107</sup> Bangladesh faces numerous NTMs, especially antidumping and regulatory measures to access to the Indian market (Frederick & Staritz, 2020; Kabir & Razzaque, 2020).

<sup>108</sup> S. Basu & D. Datta, "India-Bangladesh Trade Relations: Problem of Bilateral Deficit," *Indian Economic Review*, 42(1), (2007): 111-129. <https://www.jstor.org/stable/29793878>.

<sup>109</sup> M. Kabir & M. A. Razzaque, "Promoting Bangladesh's Exports to India," In Razzaque M. A. (Ed.), *Navigating New Waters: Unleashing Bangladesh's Export Potential for smooth LDC Graduation*, 2020: (pp. 150-192). Dhaka, Bangladesh: Bangladesh Enterprise Institute.

<sup>110</sup> S. Frederick & C. Staritz, "Developments in the Global Apparel Industry after the MFA Phaseout," In Lopez-Acevedo, G., & Robertson, R. (Eds.), *Sewing Success? Employment, Wages and Poverty following the End of the Multi-Fibre Agreement*, (2012): 41-85. Washington, DC: World Bank Publications.

<sup>111</sup> M. Kabir & M. A. Razzaque, "Promoting Bangladesh's Exports to India," In Razzaque M. A. (Ed.), *Navigating New Waters: Unleashing Bangladesh's Export Potential for smooth LDC Graduation*, 2020: (pp. 150-192). Dhaka, Bangladesh: Bangladesh Enterprise Institute.

<sup>112</sup> Director General of Trade Remedies, "Shaping International Trade: Annual Report 2018-19," 2019, <https://www.dgtr.gov.in/sites/default/files/Annual%20Report%202018-19.pdf>.

<sup>113</sup> Director General of Trade Remedies (DGTR), Department of Commerce, New Delhi, [http://www.dgtr.gov.in/sites/default/%1Files/Jute\\_FF\\_NCV\\_20.10.16.pdf](http://www.dgtr.gov.in/sites/default/%1Files/Jute_FF_NCV_20.10.16.pdf).

Bank, 2021), where MFN tariff on RMG was about 11 percent.<sup>114</sup> Duty-free RMG exports in the USA market could have benefited the Bangladesh garments industry tremendously. Rahman & Strutt (2022) show that Bangladesh's export potential to the USA market is projected to be about 19 billion in 2030 if the USA eliminates the tariff on RMG importing from Bangladesh.<sup>115</sup>

## Conclusions

Bangladesh is set to graduate from the LDC category by 2026. The country aims to become an upper-middle-income country by 2031 and a developed nation by 2041. Graduating from the LDC status will mean that Bangladesh will lose its preferential market access. The country will face stricter competition for market access with Vietnam, India, Indonesia, China, and several others, as these countries have free trade agreements (FTAs) with many developed countries. Against this backdrop, Bangladesh is actively exploring its FTA options. Against this background, this study examines the impact of a free or preferential trade arrangement on Bangladesh using the gravity model. Trade creation and diversion impact are investigated by looking at the effects of SAFTA, APTA, BIMSTEC, and EU GSP on Bangladesh under the LDC category of the Everything But Arms (EBA) arrangement. We have also conducted an alternative counterfactual impact analysis of a potential FTA between Bangladesh and its major trading partners, including the USA, EU, India, and some South Asian and East Asian markets.

The analysis shows that SAFTA has been very ineffective for intra-regional trade creation but has contributed to trade diversion. The intraregional trade is about 4.5 percent of its total trade in 2021 (WDI, 2021). This result is also aligned with south Asian intra-regional trade.<sup>116</sup> On the other hand, the APTA has had a significant positive impact on both trade creation and diversion, indicating that APTA has been more effective than SAFTA for intraregional trade creation. The potential impact of the BIMSTEC on trade creation and recreation is insignificant.<sup>117</sup> However, the EU GSP (EBA) in Bangladesh has had a tremendous trade creation impact on bilateral trade, and Bangladesh has been prosperous in increasing its bilateral trade with the EU countries. This finding also indicates that any imposition of EU tariffs on imports from Bangladesh will adversely impact bilateral trade. The alternative counterfactual analysis shows that if Bangladesh signs an FTA with the USA, its exports will likely have a substantial positive impact. Still, an FTA with India may not increase bilateral trade between the two countries. Bangladesh's bilateral FTAs with small South Asian countries have no significant impact on trade creation and diversion, but FTAs with Southeast Asian countries will have a trade diversion impact.

However, an FTA not only removes trade barriers but also builds greater confidence and transparency among the partner states and reflects a positive image globally to attract foreign direct investment. Although

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<sup>114</sup> Bangladesh Bank, "Major Country/Commodity-Wise Export Receipt [Yearly] [Data file]," 2021, <https://www.bb.org.bd/en/index.php/econdata/index>.

<sup>115</sup> M. M. Rahman & A. Strutt, "Costs of LDC Graduation on Market Access: Evidence from Emerging Bangladesh," 25th Annual Conference on Global Economic Analysis, (2022).

<sup>116</sup> WDI (World Development Indicators), "Trade (% of GDP). [Data File]," 2021, World Bank, <https://databank.worldbank.org/source/world-development-indicators>.

<sup>117</sup> We have only used BIMTEC dummy for last three years as BIMTEC FTA is still under negotiation.

import duty is still a significant source of fiscal revenue for Bangladesh, eliminating tariffs could substantially benefit its economy and outweigh this temporary revenue loss. Tariff elimination is expected to boost the country's industrial productivity, lower production costs, and make the Bangladesh economy globally competitive. Moreover, the FTA strategy should be integrated into the national policy agenda, especially in the Fifth Five-Year Plan and the long-term Perspective Plan. Bangladesh should develop a dedicated FTA negotiation team to lead the FTA negotiations over the years. Coordination among different ministries is vital in bringing all stakeholders onto the same page when differing views are prominent among various stakeholders. Aside from these measures, the country needs to play an active role in the WTO to ensure preferential treatment after graduation.

## Annex 2: List of KII Participants

No.	Person	Position	Organization
1	Md. Delwar Hossain	Group Deputy Managing Director	Hameem Group
2	Farah Mahmud	Trade Officer	KOTRA
3	Sumaiya Zabeen	Deputy Chief	Bangladesh Trade and Tariff Commission, Ministry of Commerce
4	Md. Khairul Kabir Mia	First Secretary, Customs Intl Trade & Customs Exemption and Project Facilities	National Board of Revenue
5	Sudip Chowdhury	Consultant – IT, Customs Modernization, Trade Facilitation	Freelance Consultant
6	S M Tasneef Nafee	Project Manager, Sales and Marketing, Global Business Division (GBD) -Export.	Walton Hi-Tech Industries PLC
7	Sarwar Alam	Project Director, BRCP-1	Bangladesh Land Port Authority
8	Sadeq Ahmad	Deputy Secretary	Ministry of Commerce, FTA Wing
9	Dr. Md. Mizanur Rahman	Commercial Counselor	Embassy of Bangladesh
10	Nusrat Jabeen Banu	Additional Secretary	Ministry of Commerce, Export Wing

Table 37 List of KII Participants

## Annex 3: List of FGD Participants

No.	Person	Position	Organization
1	H.E. Delowar Hossain	Ambassador of Bangladesh to ROK	Embassy of Bangladesh
2	Dr. Md. Mizanur Rahman	Commercial Counselor	Embassy of Bangladesh
3	Mr. Md. Mizanur Rahman	Project Director (Joint Secretary) Bangladesh Regional Connectivity Project-1	Ministry of Commerce, GoB
4	Mr. Shamim Ahmed	President	Bangladesh Plastic Goods Manufacturers and Exporters Association (BPGMEA)
5	Mr. Manzur Ahmed	Advisor and Former Director	Federation of Bangladesh Chambers of Commerce and Industry (FBCCI)
6	Mr. Md. Munir Chowdhury	Trade Expert	Ministry of Commerce, GoB
7	Dr. Masudur Rahman	National Trade Expert	Institute for Policy, Advocacy, and Governance (IPAG)
8	Prof. Syed Munir Khasru	Chairman	Institute for Policy, Advocacy, and Governance (IPAG)
9	Ms. Shahtaj Mahmud	Program Coordinator	Institute for Policy, Advocacy, and Governance (IPAG)
10	Ms. Zulfa Kamal	Representative	Institute for Policy, Advocacy, and Governance (IPAG)

Table 38 List of FGD Participants

## Annex 4: List of Team Members

The studies have been implemented by The Institute of Policy, Advocacy, and Governance (IPAG) in joint venture partnership with e.Gen Consultants Ltd. The following table indicates the list of team members as was mentioned in the original proposal:

No.	Person	Position
1	Md. Abdul Karim	Team Leader
2	Mohammad Masudur Rahman	National Trade Expert 1/ Trade Economist 1
3	Mostafa Abid Khan <sup>1</sup>	National Trade Expert / Trade Economist 2
4	Margub Kabir	Legal Expert 1
5	Junayed Ahmed Chowdhury	Legal Expert 2
6	Tapan Chandra Banik	Research Associate 1
7	Altap Hossen	Research Associate 2

*Table 39 List of Team Members (as Proposed in the Technical Proposal)*

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<sup>1</sup> Mostafa Abid Khan has been replaced by Prof. Syed Munir Khasru approved by the Ministry on 3 May 2023.



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