Bangladeshi Exports to the European Union:
Exploring Opportunities for Diversification

August 2024

FRIEDRICH EBERT STIFTUNG
FES Bangladesh

RAPID

Bangladeshi Exports to the European Union: Exploring Opportunities for Diversification

August 2024

Acknowledgement

This report has been prepared by Research and Policy Integration for Development (RAPID) with support from the Friedrich-Ebert-Stiftung (FES) Bangladesh. The study team comprises Mohammad Abdur Razzaque, Jillur Rahman, Rakin-Uz-Zaman, Sumaeya Akhter, Deen Islam and Abu Eusuf.

The RAPID study team benefited from the comments and feedback received during a technical dissemination of the draft study report, held on 11 September 2023. Comments provided by Mr Tapan Kanti Ghosh, former Senior Secretary, Ministry of Commerce, Government of the People's Republic of Bangladesh; H.E. Mr Charles Whiteley, Ambassador and Head of Delegation of the European Union to Bangladesh; Mr Md. Abdur Rahim Khan, Additional Secretary, Ministry of Commerce; and Ms Ferdaus Ara Begum, Chief Executive Officer, Business Initiative Leading Development (BUILD), as part of the panel discussion, are gratefully acknowledged. The RAPID team is also grateful to Mr Felix Kolbitz, former Resident Representative of FES Bangladesh, and Mr Shadhan Kumar Das, Programme Advisor of FES Bangladesh, for their unwavering support throughout the project.

Any limitations and/or views expressed in this report are solely those of the authors and should not be attributed to FES Bangladesh.

Table of Contents

List of Tables

List of Figures

List of abbreviations

ADB	Asian Development Bank
AIT	advanced income tax
BRCA	bilateral revealed comparative advantage
BSTI	Bangladesh Standards and Testing Institution
CBAM	Carbon Border Adjustment Mechanism
CETP	central effluent treatment plant
CID	Center for International Development
EBA	Everything but Arms
ECGS	Export Credit Guarantee Scheme
EDF	Export Development Fund
EPB	Export Promotion Bureau
EPI	Export potential indicator
ESG	Environmental, Social, and Governance
FDI	foreign direct investment
GAP	good agricultural practices
GSP	Generalised System of Preferences
GVC	global value chain
HACCP	Hazard Analysis and Critical Control Points
IFC	International Finance Corporation
ITC	International Trade Centre
LDC	least developed countries
LPI	logistics performance index
MFN	most-favoured-nation
MMF	man-made fibre
MNEs	multinational enterprises
NBR	National Board of Revenue
NPR	nominal protection rate
NRCA	normalised revealed comparative advantage
NTP	National Tariff Policy
RCA	revealed comparative advantage
SME	small and medium-sized enterprises
SPS	sanitary and phytosanitary
TTI	total tariff incidence
UNDP	United Nations Development Programme
VAT	Value-added tax
WITS	World Integrated Trade Solutions

Executive Summary

Background

The European Union (EU), as an integrated market, has been the single largest destination for Bangladesh's exports. Taking advantage of the EU's generous Generalised System of Preferences (GSP) scheme for the least developed countries (LDCs), Everything but Arms (EBA), Bangladesh rapidly expanded its exports from less than $2 billion in FY01 to $25.2 billion in FY23. However, more than 92 per cent of the EU-bound exports comprise apparel or readymade garment (RMG) items. Such an overwhelming reliance on a single broad export category can pose a serious challenge, as any shocks to the sector could severely impact export revenues. Furthermore, within the apparel sector, Bangladesh's exports are concentrated in cotton-based garment items against the current global market trend of man-made fibre-based clothing products. This paper delves into Bangladesh's export diversification opportunities in the EU market, both within the garment sector as well as beyond it, while expanding the exports of non-RMG sectors.

Bangladesh-EU trade relationship and the Proposed EU GSP 2024-34

The EU accounts for 45 per cent of Bangladesh's export earnings. Apart from apparel products, Bangladesh also exports such products as footwear, home textiles, frozen fish, bicycles, etc. But it is the apparel products that have overshadowed the significance of other sectors. In the past decade, Bangladesh has risen as the EU's second-largest apparel supplier, capitalising on China's declining market share in the same product. While the market share of China dwindled from 44 per cent in 2010 to 29.2 per cent in 2022, Bangladesh saw its share double to 22 per cent during the same period.

It is widely regarded that the duty-free market access and relaxed rules of origin provisions granted to LDCs have contributed significantly to the apparel export success of Bangladesh in the EU. Bangladesh is scheduled to graduate from the group of least developed countries in November 2026 while still retaining LDC-related trade preferences in the EU for an additional three-year period until November 2029. Following graduation, Bangladesh will have the opportunity to apply for the EU GSP+ scheme—the second-best preferential tier within the EU GSP framework after EBA—providing duty-free access for 66 per cent of EU tariff lines. To be eligible for GSP+ preferences, a country must meet two sets of pre-specified conditions known as vulnerability criteria and sustainable development criteria. However, even if Bangladesh meets those two criteria, EU safeguard measures associated with textiles and clothing imports would exclude Bangladesh's apparel exports from benefiting from duty-free market access. This is because Bangladesh has a much larger apparel market share than what is specified in the proposed EU GSP scheme, which was supposed to come into effect from the beginning of 2024, but its adoption has been deferred with the existing GSP regime to continue until the end of 2027. This delay has opened an important window of opportunity for Bangladesh to engage with the EU to relax the GSP+ provisions for clothing exports.

Identification of potential products for export expansion and diversification

The EU market offers tremendous export diversification opportunities both for the RMG as well as non-RMG sectors. Apparel products are categorized into two types: cotton and non-cotton apparel. Bangladesh has been the largest cotton apparel supplier to the EU since 2015, with the country's market share in the same category rising to about 35 per cent in 2022. The global trend is, however, shifting towards non-cotton items, predominantly man-made fibres-based clothing products, as non-cotton apparel currently captures close to 60 per cent of all global exports. In contrast, less than 30 per cent of Bangladesh's apparel products are in the non-cotton category. Amongst others, the massive dependence on EU-bound cotton apparel has made Bangladesh's exports concentrated in such items.

Non-cotton items are dominated by man-made fibres-based products that many consumers prefer for offering characteristics like moisture-wicking, wrinkle resistance, and ease of day-to-day usage. These fibres promise durability, longer lifespan, and easier maintenance, appealing to today's practical consumers. Environmental policies, especially in regions like the EU, are steering the textile industry towards sustainable fibres. Man-made fibre-based apparels have several sustainability advantages, including polyester items' requiring less water than cotton and their perceived smaller ecological footprints in terms of soil erosion and land use. The global focus is also shifting towards recycled fibres, with polyester leading the recycled fabric market. Therefore, not expanding exports of man-made fibre (MMF) items could shrink export opportunities in the future.

There exists a vast potential to boost the export of non-cotton apparel in the EU. In this particular segment, Bangladesh is currently the second-largest exporter, but it holds only a 12 per cent market share, significantly lagging behind China's dominating 41 per cent. It is anticipated that the market shares currently enjoyed by China will shrink, leaving plenty of space for other countries to fill in. If Bangladesh can manage to secure duty-free access in apparel products for an extended period (i.e., beyond 2029) after LDC graduation, this can lead to a much stronger export response in MMF apparel.

The potential for non-RMG exports is also massive. In the EU's total import outlay of $7 trillion, the share of apparel is just 2.9 per cent. That is, Bangladesh's exports are virtually non-existent in non-RMG items that are imported into the EU. It is somewhat perplexing as various analyses indicate the country's having comparative advantages in many items where current exports are limited.

Assessing export potential

Economists often use the so-called Revealed Comparative Advantage (RCA) in assessing the comparative advantage of a country in exporting products. This study uses the same approach to assess export potential from Bangladesh emanating from different sets of products under four scenarios: (i) products for which Bangladesh has revealed comparative advantage (RCA) in the EU market (thus Bangladesh should be able to expand exports), (ii) products for which Bangladesh has RCA in the rest of the world but not in the EU (i.e., these are the products where Bangladesh can try building RCA in the EU), (iii) products with no RCA for Bangladesh but for comparator countries such as India, China, and Vietnam, have bilateral RCA (therefore, Bangladesh could build export competitiveness in some of these products), and (iv) products currently not exported from Bangladesh but have high export potential based on their similarity to currently exported items (that is, based on what is known as product-space proximity to current export products).

Using the above assessment framework, this study identifies more than 600 products (at the HS 6-digit level) that can generate additional export revenues for Bangladesh. These products fall within such sectors as agriculture, engineering goods, leather goods and footwear, non-leather footwear, home textiles, fish and shrimp, ready-made garments, etc.

It is possible to illuminate the magnitude of export potential. A pertinent approach in this context involves adopting a methodology formulated by the International Trade Centre (ITC). This quantitative method estimates the potential export value in a target market by considering the exporters' supply capabilities, the prevailing demand in the pertinent market, and the conditions for market access. The ensuing potential export values are subsequently juxtaposed with actual export revenues, unveiling latent opportunities. Implementing this technique reveals that Bangladesh harbours an untapped export potential in the EU amounting to $19 billion (in contrast to the $25 billion realised from the EU in 2023). The unexploited export potential for non-apparel items stands at an estimated $2.5 billion.

Germany, as an export destination for Bangladesh, shows the most significant absolute disparity between potential and actual exports, indicating an opportunity for additional export earnings of $3.8 billion. In other words, approximately 35 per cent of the potential remains untapped in the market of Bangladesh's largest EU partner country. Elsewhere among EU partners, unutilised export potential for Bangladesh includes 38.5 per cent in France, 36 per cent in Spain, 43 per cent in Poland, 47 per cent in Italy, and 53 per cent in the Netherlands.

According to the ITC methodology, apparel items predominantly characterise the unexploited export potential, with over one-third of the apparel export potential remaining untapped. Bangladesh currently exploits just 48 per cent of its export potential in footwear amongst non-apparel items, suggesting potential for an additional $570 million in export earnings from these products. In terms of other categories, leather goods exhibit an untapped export potential exceeding 70 per cent, home textiles 40 per cent, and fish and shrimp 60 per cent.

When the existing export base is small, quantitative exercises will show relatively small export potential, which can be quite unrealistic as well. For the same reason, the suggestion of just $2.5 billion worth of potential exports from Bangladesh's non-RMG sector to the EU's vast market is somewhat misleading. Therefore, a useful approach could be to use Bangladesh's current market share in individual items and then consider a reasonable expectation about their future market share. This is somewhat subjective in nature but can offer useful directions for the significance of policy and firm-level efforts for export expansion. The most promising export products have been chosen from the ones that have already been identified for this study. These products were selected based on factors such as the size of the EU market, the growth of imports into the EU, Bangladesh's current exports, and Bangladesh's share of the EU. An analysis of the most promising 45 products based on their expected market share found that Bangladesh has the potential to generate an additional $8.6 to $22.5 billion from these products.

Preference margins after LDC graduation

When Bangladesh's market access conditions in potential export diversification items and tariff preferences in the EU for the identified products are examined, the significance of securing GSP+ after LDC graduation becomes clear. For the identified potential agricultural products, Bangladesh currently enjoys zero tariff rates, while under GSP+, the same tariff rate on average will be 2.7 per cent. Despite the increase, when compared with the EU MFN rate, the GSP+ scheme will provide Bangladesh with a margin of preference (compared with MFN tariff), on average, of 6.1 percentage points. Apart from agriculture, almost zero tariff rates will be applicable under the GSP+ schemes for other potential sectors. This implies that Bangladesh's current market access under GSP+ will continue even after 2029 for the identified potential goods.

However, it is worth noting that if the safeguard measures (as in the proposed GSP 2024-34) are maintained, RMG and home textile products will not receive any tariff preference. Instead, they will face an average MFN tariff of about 12 per cent, which will put significant pressure on Bangladesh's competitiveness, potentially hurting the export diversification prospect within the RMG sector.

Constraints and challenges for export diversification

The study has identified various constraints and challenges that act as barriers to export diversification. These include the following:

Information and knowledge disparities regarding the export destination: The lack of comprehensive market information is a prevalent obstacle for many current and most potential exporters, limiting their capacity to venture into new markets and comprehend vital exporting conditions such as demand, quality requirements,

and competitive dynamics. This challenge is particularly evident when aiming to expand exports to regions like the EU.

Many firms, especially SMEs, are not yet prepared for export: Most small and medium-sized enterprises (SMEs) in Bangladesh are reliant on outdated manual technologies, affecting their productivity and competitiveness, especially in comparison to countries like China and Vietnam, which have widely adopted advanced technologies across various industries. SMEs in Bangladesh are also not familiar with the standards demanded by importing countries, and their ability to comply with those requirements and/or make improvements is extremely limited.

Scarcity of skilled labour: Bangladesh faces a substantial challenge in the form of a skilled labour shortage, particularly in sectors such as light engineering, leather goods, footwear, and garments, leading to a noticeable skills gap. In the Ready-Made Garments (RMG) sector, the demand for non-cotton-based apparel, such as man-made fibre products, is growing faster than the availability of skilled workers capable of operating modern machinery.

Limited access to finance for export-oriented firms: Bangladeshi firms, particularly small and medium-sized enterprises (SMEs), face challenges in accessing finance. These challenges are exacerbated for SMEs, as they often lack sufficient collateral and encounter complex loan application processes.

Trade logistics inefficiencies: Inefficiencies within Bangladesh's trade logistics network led to elevated costs and extended lead times, diminishing the country's global market competitiveness.

Infrastructural constraints: Bottlenecks in infrastructure hinder Bangladesh's competitive edge in exports, especially for emerging export products. Challenges such as weak infrastructure, congestion along economic corridors, and inefficient container handling contribute to increased trading costs and protracted lead times.

Governance issues: Governance challenges, including inadequate enforcement of labour standards and infrastructural shortcomings in sectors like tanneries, create an inhospitable business environment. These issues adversely affect industrial production for exports, leading to compliance barriers and diminished product quality.

Policy-induced anti-export bias: It is driven by protectionist measures that favour domestic import-competing sectors, resulting in higher protection through a combination of customs duties and additional taxes. High protection for domestic import-substituting industries makes local sales more lucrative than exports, discouraging investment in export-oriented sectors.

Low quality and lack of standards in the domestic market: Taking advantage of the lack of standards in the domestic market, many industries primarily target local sales, which hampers firms' readiness for export, often resulting in products that fail to meet international standards.

Limited participation in the global value chain (GVC): Bangladesh's limited engagement in GVC has hindered its efforts to diversify exports, necessitating a shift to more comprehensive participation in value chains for accessing new markets and technologies, increasing value addition, and bolstering its competitive edge in the global market.

Policy recommendations:

General recommendations

Promoting export opportunities in the EU through the dissemination of market-specific information is critical: To promote export opportunities in the EU, potential exporters should be made aware of export market-specific information, especially in non-RMG sectors, including product-specific tariffs, rules of origin, and the required standards and certification procedures.

Attracting FDI can play a pivotal role in promoting export diversification: Foreign Direct Investment (FDI) brings capital, introduces advanced technologies and managerial expertise, and opens access to global markets. All this can contribute to improved export competitiveness.

Moving up the global value chain for RMG exporters and integrating non-RMG exporters with the EU supply chain are important for boosting exports: Upgrading industrial capacity and technological capabilities is key for Bangladesh to enhance its competitiveness in the EU market and integrate more effectively into global value chains, especially with a focus on non-RMG products, by connecting with the EU supply chain and major brands to unlock higher export potential.

Enhancing the capacity of standards authorities and institutions to provide the globally recognised certification and necessary testing facilities to exporters should be regarded as a priority: Strengthening the capacity of standards authorities, such as the Bangladesh Standards and Testing Institution (BSTI), can help ensure compliance with stringent testing and standard requirements for exporting to advanced economies like the EU.

Technological improvements will be critical for improving the productivity and product quality of the non-RMG sectors with the potential for export diversification: Improving productivity and product quality through advanced technology adoption will enhance Bangladesh's export competitiveness.

Removing anti-export bias and rationalising tariffs are crucial for export expansion: Strategically adjusting high tariffs and para-tariffs to promote domestic manufacturing sectors and deal with anti-export bias is important for boosting investment into the export sector.

Promoting exports will require exporting firms to adopt sustainable production practices and comply with Environment, Social and Governance (ESG)-related standards: Sustainable practices and ESG compliance are increasingly important for attracting foreign investors and meeting the demands of Western consumers. Enhancing sustainability will boost the competitiveness of exporting firms and facilitate compliance with the EU's supply chain due diligence.

Recommendations for Ensuring Favourable Terms of Market Access after LDC Graduation

It is extremely important to proactively engage with the EU to secure favourable terms during the post-LDC graduation phase: With the EU extending the existing GSP scheme, Bangladesh has an opportunity to negotiate for more favourable provisions, including the relaxation of strict rules of origin that stipulate a 50 per cent value addition requirement for non-RMG goods and easing safeguard measures against the apparel sector, which can boost export diversification drive and help with a smooth LDC graduation of Bangladesh.

Time-bound actions must be taken to ensure conformity with international conventions/standards: Bangladesh must take time-bound actions to ensure adherence to 32 international conventions and standards required for qualifying for GSP+. Effective implementation of the conventions is the key concern.

Sector-specific recommendations:

To address sector-specific obstacles, targeted interventions are essential, and the following policy recommendations are tailored to each sector:

- Non-cotton-based apparel sector: To strengthen the non-cotton-based apparel industry, low-cost financing options should be introduced, along with other measures to deal with such challenges as skill shortages and limited foreign direct investment.
- Agricultural products: Enhancing the quality of agricultural products and meeting EU market standards are critical factors in improving export supply response.
- Fish and shrimp sector: Expanding export supply capacity through high-yield shrimp species cultivation, implementing a zoning system for shrimp farming, enhancing laboratory facilities, aiding SME processing plants, establishing a certification system for sustainable production, and promoting research and development will improve the competitiveness of the shrimp industry.
- Leather, leather goods, and footwear sector: Prioritising environmental standards, securing leather working group (LWG) accreditation, and adopting blockchain technology for traceability can enhance the sector's competitiveness and meet sustainability requirements for EU exports.
- Engineering sector: Establishing a competent authority for global certification for light engineering products, facilitating the supply of materials at competitive prices, offering shipment subsidies for heavy and large products, investing in vocational training, promoting innovation and R&D, enforcing intellectual property rights, adopting green technologies, and creating a dedicated export processing zone will enhance the competitiveness and sustainability of the engineering industry.

Emerging developments in the EU, such as the Carbon Border Adjustment Mechanism (CBAM) and Corporate Sustainability Due Diligence, impose new compliance requirements on exporters. These measures necessitate that Bangladesh develop robust capacities to meet stringent environmental and social standards. Enhancing sustainability practices and transparent supply chain management will ensure compliance and position Bangladesh as a responsible trading partner, catering to the growing demand for eco-friendly and ethically produced goods.

LDC graduation should be seen as an opportunity for Bangladesh to address shortcomings and build stronger capacities. This transition offers a chance to upgrade technologies, improve labour skills, and adopt international standards, enhancing overall export readiness. Strategic investment in infrastructure, regulatory frameworks, and innovation can mitigate the loss of preferential trade benefits. Effective utilisation of LDC graduation can lead to diversified exports, greater value addition, and a more resilient economy, strengthening Bangladesh's position in global trade.

Bangladeshi Exports to the European Union: Exploring Opportunities for Diversification

I. Background

The European Union (EU), as an economic bloc, has been the single largest destination for Bangladesh's exports, accounting for nearly half of the country's merchandise exports. Bangladesh's utilisation of the EU's Everything But Arms (EBA) initiative, which provides duty-free and quota-free access to products from least developed countries (LDCs), has resulted in a significant expansion of exports to the EU: from a mere $2 billion in FY01 to a sizeable $25.2 billion in FY23. European markets represent over 80 per cent of Bangladesh's trade preferences, positioning the EU as the primary source of preferential trade benefits. However, Bangladesh's exports are predominantly reliant on a single broad category of products: readymade garments or apparel. While approximately 84 per cent of Bangladesh's exports are in apparel, the corresponding proportion for the EU exceeds 90 per cent. This overwhelming reliance on readymade garments for exports, especially to a significant partner like the EU, poses significant challenges. Overdependence on a single product category exposes a country to sector-specific shocks. For instance, a global downturn in apparel demand or industry-specific challenges could severely impact Bangladesh's overall export revenue. Diversifying exports can lead to more stable revenues, as different products might have varying demand and supply shock cycles. This balance can ensure consistent export and economic growth even if one sector faces challenges. Export diversification can also result in faster expansion in exports, leading to better utilisation of domestic resources, promoting sectors with higher value addition, and creating jobs across multiple sectors.

Bangladesh's historical reliance on trade preferences from the EU is on the verge of undergoing a significant transformation. This transformation is being driven by a confluence of diverse factors, each with potentially far-reaching implications. Firstly, Bangladesh is poised to graduate from the group of Least Developed Countries (LDCs), a development milestone which will lead to the phasing out or reduction of the special LDC-specific trade preferences that Bangladesh currently enjoys with the EU. As the EU negotiates trade agreements with other countries as well, the competitive advantage that Bangladesh once held due to these preferences might diminish.

Furthermore, the EU's ambitious Green Deal, accompanied by its carbon border adjustment mechanism (CBAM), places stringent environmental criteria on imports.[1] This demands not only compliance with environmental standards but also the need for exporters like Bangladesh to incorporate sustainability into their practices. Simultaneously, the focus on environmental, social, and governance (ESG) compliance has become a critical factor in trade relations, amplifying the importance of responsible and sustainable business practices. Despite its challenges, this changing scenario presents an opportunity for Bangladesh to diversify its exports by venturing into eco-friendly products, sustainable textiles, and other green commodities. By aligning its export strategy with global sustainability trends, Bangladesh can cater to a growing market segment that values eco-friendly products, thereby securing a competitive edge in the EU market.

[1] The carbon border adjustment mechanism (CBAM): The EU is set to levy charges on imports based on their carbon content, effectively ensuring that products imported into the EU comply with similar carbon pricing mechanisms as those produced domestically. The CBAM at the initial stage is focused on sectors with high greenhouse gas emissions, such as cement, steel, aluminium, fertilisers, and electricity. Apparel is currently not included in the initial phase of CBAM implementation. However, there have been discussions and considerations regarding the potential expansion of CBAM coverage to include additional sectors in the future, including apparel.

The evolving geopolitical landscape, marked by shifting trade dynamics and global value chains, is another significant factor. The EU's recognition of the need to diversify its trade away from China opens up new opportunities for countries like Bangladesh to enhance their presence in EU markets. This shift is driven by concerns over over-reliance on a single trade partner and the desire to secure resilient and diverse supply chains. To capitalise on this, Bangladesh must diversify its export structure to offer a wide range of products that cater to the diverse needs of the EU market. By doing so, it can position itself as a reliable sourcing alternative, attracting foreign direct investment. Furthermore, as global value chains evolve, Bangladesh can integrate itself into these networks by offering a variety of products and services. This diversification can ensure that Bangladesh remains resilient against global trade shifts and can consistently enhance its presence in EU markets.

Considering the above transformative forces, it becomes increasingly essential for Bangladesh to adapt and strategies effectively. Navigating this changing landscape necessitates a comprehensive understanding of the emerging challenges and opportunities in the Bangladesh-EU trade relationship. By proactively addressing these issues, Bangladesh can not only protect its existing trade interests but also explore new avenues for export diversification within the EU market.

With its extensive and diverse consumer base, the EU offers a plethora of export market opportunities. This vastness and variety inherently suggest that diversification should be a more straightforward endeavour for countries looking to expand their export portfolios. For Bangladesh, which has maintained a prolonged presence in the EU market, there exists an added advantage. This longstanding association has fostered a deep-seated familiarity with the market dynamics, preferences, and consumer behaviours of the EU. Such familiarity can significantly smooth the path for introducing a wider range of products, as it reduces the uncertainties typically associated with entering new market segments. Consequently, leveraging this market knowledge, Bangladesh should be well-positioned to boost its export diversification, capitalising on the myriad opportunities the EU presents.

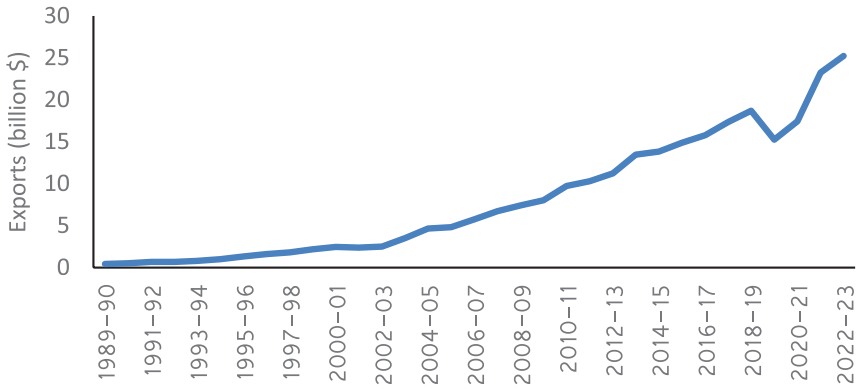
Against the above backdrop, this study aims to identify the potential export items targeting the EU with the objective of helping diversify Bangladesh's export basket. It uses disaggregated trade data to identify the products to drive diversification and analyse their export potential. This study comes up with a set of recommendations for shaping the future of Bangladesh's exports and trade relations with the EU.

II . Bangladesh-EU trade relationship and the Proposed EU GSP 2024-34

2.1 Trends of Bangladesh's exports to the EU

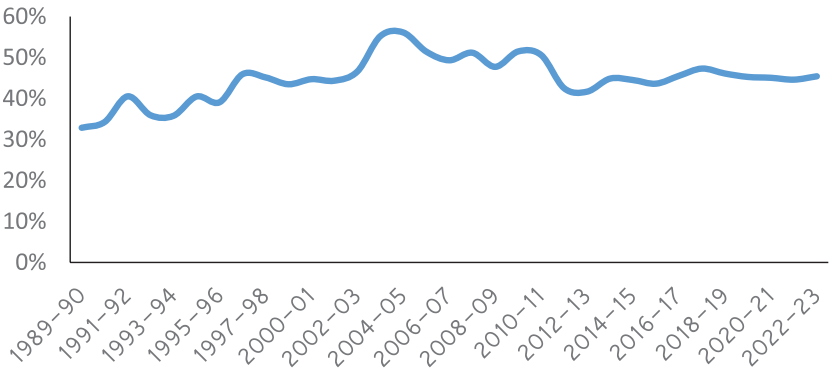
Bangladesh, as the largest exporter among the least developed countries, witnessed significant growth in its exports to the EU. From less than $0.5 billion in FY90, Bangladesh's exports to the EU reached $25.2 billion in FY23, demonstrating an average annual growth of 12 per cent over the past two decades. Despite the adverse effects of the Covid-19 pandemic during FY21 (i.e., July 2020 to June 2021), Bangladesh registered a remarkable recovery in FY22, with a staggering 33 per cent growth compared to the previous year (Figure 1). EU's share in Bangladesh's merchandise exports stood at 45 per cent in FY23 (Figure 2). However, when compared to the total EU imports of $7.3 trillion, Bangladesh's share represents just a paltry 0.5 per cent of the EU's total merchandise imports.

Figure 1: Bangladesh's export to the EU (billion $)



Source: Author's presentation using data from Export Promotion Bureau (EPB), Bangladesh

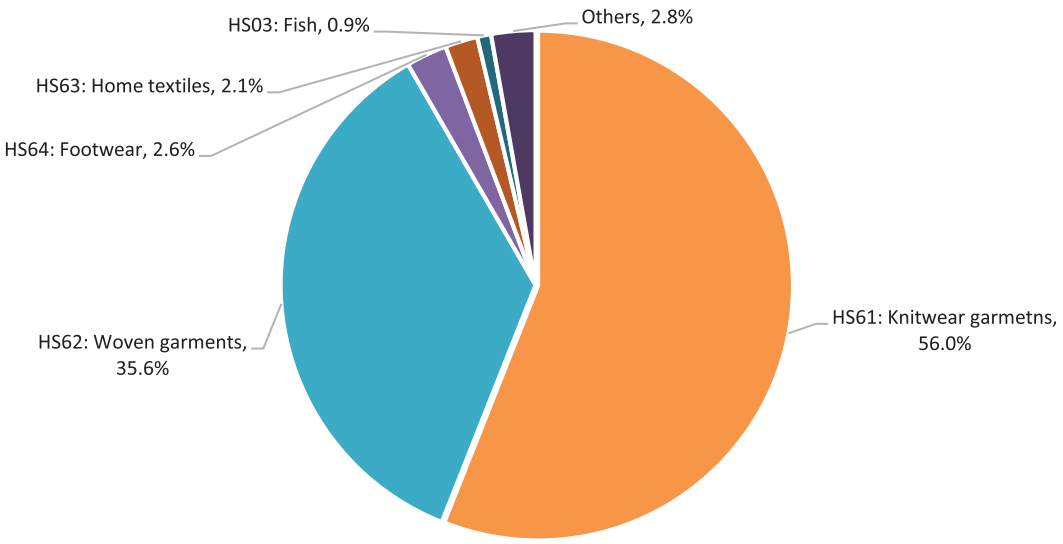
Figure 2: EU's share in Bangladesh's merchandise exports (%)



Source: Author's estimation using data from the EPB.

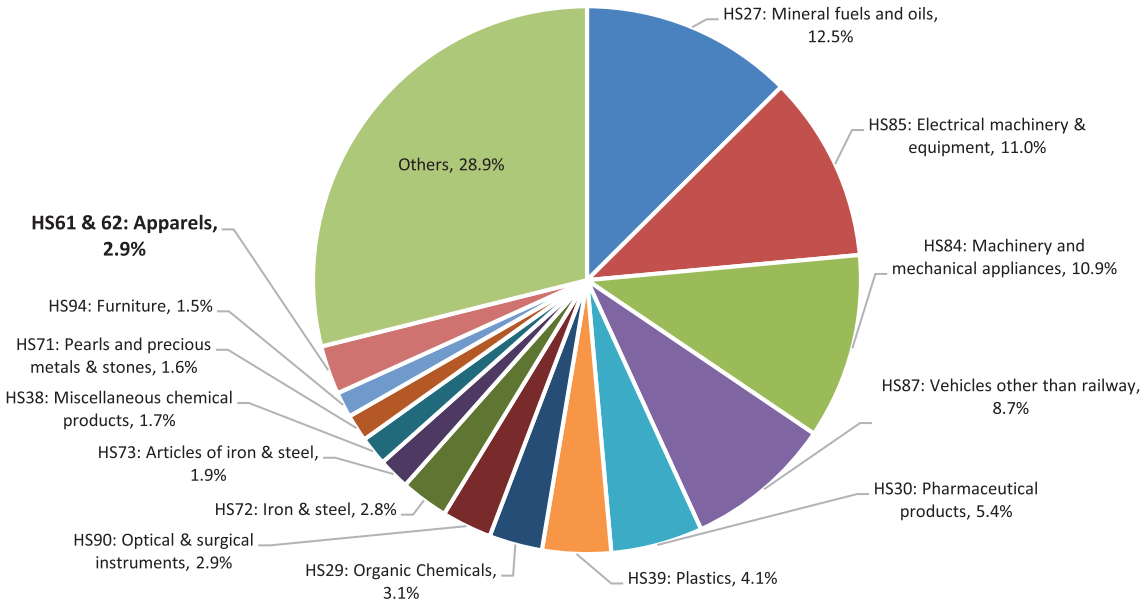
Approximately 92 per cent of Bangladesh's exports to the EU comprise apparel products, including woven and knitwear garments (Figure 3). Other notable export items include footwear (2.6%), home textiles (2.1%), and fish (0.9%). In contrast, the EU's imports, which are the largest globally, have a high degree of diversification, with apparel products accounting for only 2.9 per cent of all merchandise imports (Figure 4). The EU's most significant imported products include mineral fuels and oils (12.5%), electrical machinery and equipment (11%), machinery and mechanical appliances (10.9%), and vehicles other than railways (8.7%). The diverse EU market, combined with the duty-free preference for all imports from Bangladesh, offers opportunities for export diversification.

Figure 3: Bangladesh's export composition to the EU, FY22



Source: Authors' presentation using data from EPB.

Figure 4: EU's import composition in 2022

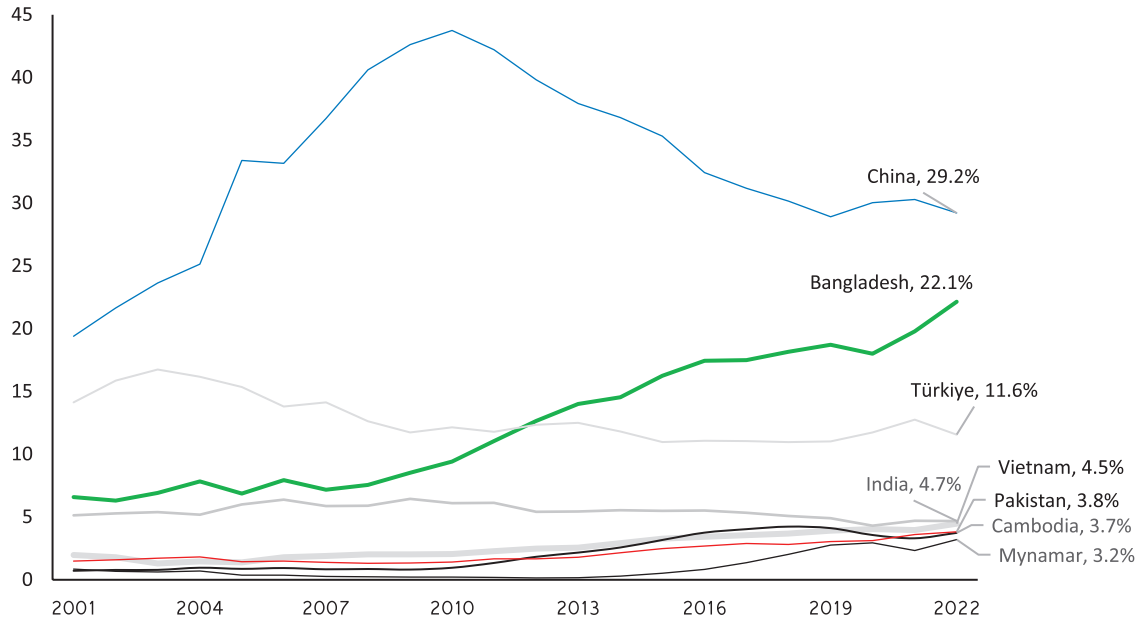


Source: Authors' presentation using data from ITC Trade Map.

Over the past decade, Bangladesh has emerged as the second-largest source of apparel products in the EU. This growth has been facilitated by a decline in China's market share, which decreased from about 44 per cent in 2010 to 29.2 per cent in 2022. Bangladesh has successfully capitalised on this decline in China's presence, doubling its own share to 22 per cent by 2022 (Figure 5). This growth can be attributed to the duty-free unilateral trade preferences granted to least developed countries (LDCs). In comparison, other

prominent competitors of Bangladesh, such as India and Vietnam, held a market share of around 4.5 per cent in 2022.

Figure 5: Apparel market shares of selected countries in extra-EU imports (%)



Source: Authors' presentation using data from EU Comext.

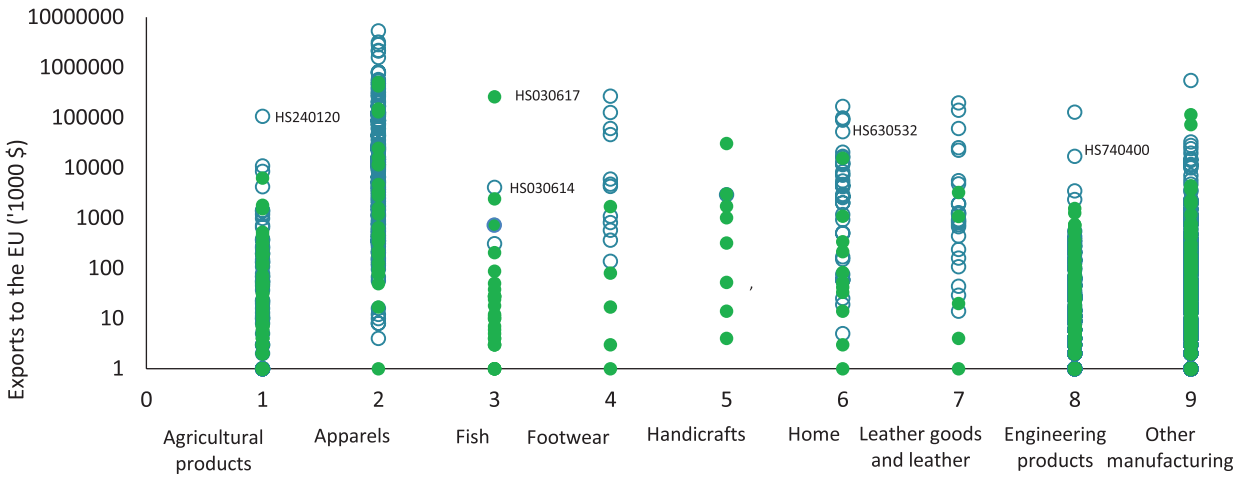
The European Union is a dynamic market where different countries with varying levels of competitiveness, development, innovation, and productivity compete with each other. In this process, many products are born, some sustain, while others become extinct. Through product birth, death, and survival analysis, a country's ability to compete with others can be evaluated. To facilitate Bangladesh's drive towards export diversification, sustaining and augmenting export flows for various products are essential. A granular examination of products categorised under the Harmonised System (HS) at the 6-digit level reveals that in 2022, Bangladesh successfully exported a diverse range of 588 distinct products (illustrated by the blue dots in Figures 6 and 7). Notably, among these products, 228 items accounted for export values surpassing the $1 million mark within the EU market for the same year, while 132 products recorded export values exceeding $10 million.

It is important to note that the top 60 products demonstrating remarkable resilience in the EU market are primarily in the apparel and home textiles categories (as shown in Figure 6). However, beyond textiles, a selection of agricultural commodities, chemical products, footwear, and home textile articles also established a foothold, achieving export values exceeding $1 million in the EU market.

The green dots in Figure 6 represent products not exported to the EU in 2005 but successfully exported in 2022. Between 2005 and 2021, 732 such new products emerged. However, their share in total exports to the EU in 2022 was only 5.5 per cent, indicating challenges for these new products to grow despite the considerable increase in their numbers. Key new products that emerged include men's overcoats of man-made fibres (HS 620140), women's overcoats of man-made fibres (HS 620240), frozen shrimp and prawns (HS 030617), men's overcoats of cotton (HS 620130), women's overcoats of cotton (HS 620230), hats and other headgear (HS 650500), tricycles and scooters (HS 950300), basketwork of vegetable plaiting materials (HS 460219), and others (Figure 6).

Meanwhile, 308 products, classified under the HS 6-digit code and exported to the EU in 2005, were no longer exported in 2022 (represented by red dots in Figure 7). These products, which have effectively 'gone extinct' from the EU export basket, constituted 4.6 per cent of Bangladesh's exports to the EU in 2005. Fifteen of these discontinued products had export values exceeding $1 million in 2005. Despite no longer being exported to the EU market, many of these products maintain a presence in other markets. In 2022, export items that did not survive in the EU market generated $19 million for Bangladesh from other markets.

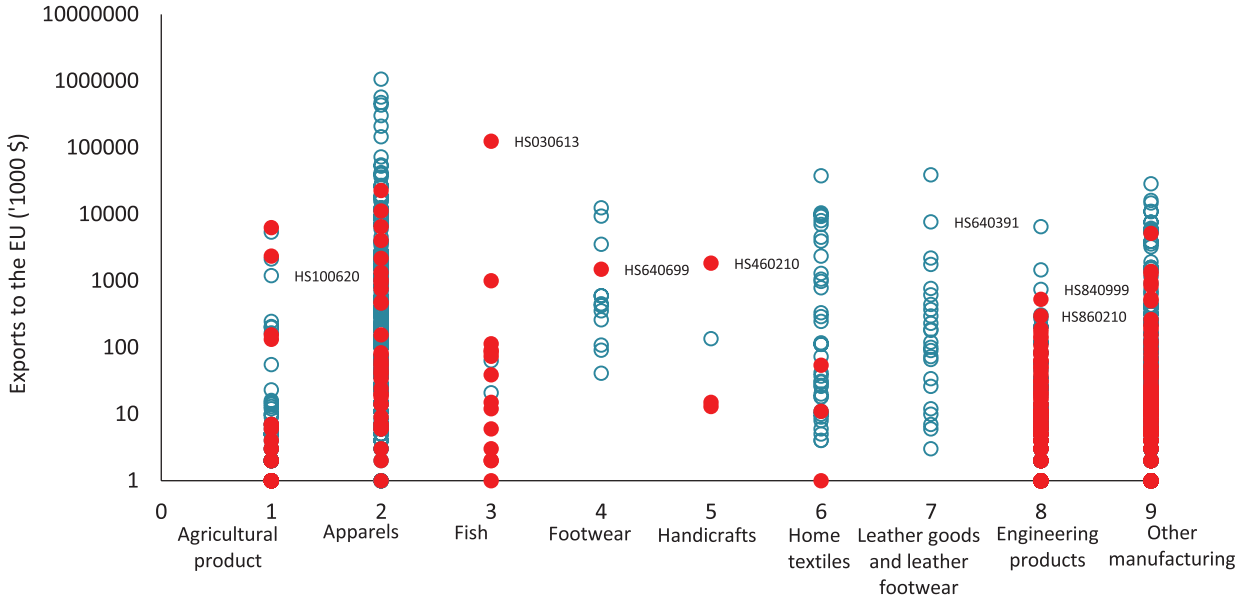
Figure 6: Product survival and births in the EU market, 2005-22 (End year)



Source: Authors' analysis using data from ITC Trade Map.

Note: Green dots indicate new products (at HS 6-digit level) that did not exist in 2005. Blue dots represent products that exist in both periods.

Figure 7: Product survival and births in the EU market, 2005-22 (Start year)



Source: Authors' analysis using data from ITC Trade Map.

Note: Red dots indicate export items (at HS 6-digit level) that are extinct. Export values are for the start year.

2.2 The Proposed EU GSP Regime: Export Opportunities as an LDC and Beyond

The current Generalised Scheme of Preferences (GSP) in the EU was set to expire in December 2023 and was supposed to be replaced by a new GSP regime for 2024-2034. The full text of the relevant legislation was made available in September 2021. It seems that the EU Parliament and the Council needed more time for its adoption. As a result, its adoption has been deferred to until the end of 2027.[2] Without this adoption, LDCs would not be affected at all to continue with their current privileges. However, GSP beneficiaries in other categories, i.e., in GSP+ and Standard GSP, would have to forgo the preferences. This delay has created an important opportunity for Bangladesh to engage with the EU and advocate for relaxing some of the GSP+ provisions under the proposed scheme, as outlined below.

As an LDC, Bangladesh currently enjoys duty-free market access for nearly all items in the EU, along with relaxed rules of origin (RoO) requirements. Bangladesh is set to graduate from the group of least developed countries in November 2026 but will retain LDC-related trade preferences in the EU for an additional three-year period, until November 2029. Following graduation, Bangladesh can apply for GSP+, the second-best preferential tier after Everything but Arms (EBA), which grants duty-free access for 66 per cent of the EU tariff lines.

To be eligible for GSP+ preference, Bangladesh must meet two criteria: vulnerability criteria and sustainable development criteria. The vulnerability criterion requires the eligible country to have a non-diversified economy, where the country's seven largest sections of GSP-covered imports account for more than 75 per cent of its total GSP-covered imports to the EU over the past three consecutive years.[3] On the sustainable

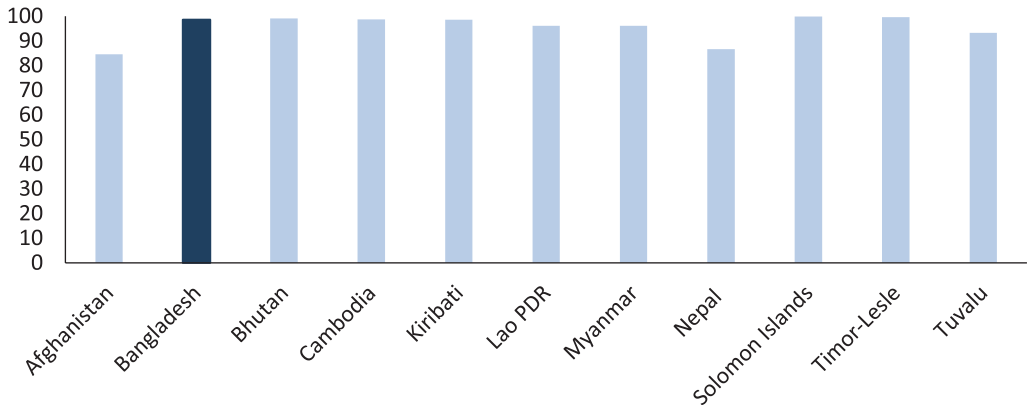
[2] Through a resolution in July 2023, the EU Parliament extended the currently existing EU GSP scheme until 31 December 2027. https://www.europarl.europa.eu/doceo/document/INTA-PR-751608_EN.pdf

[3] It is important to note that the proposed GSP scheme removes the import-share condition from the GSP+ vulnerability criterion to ensure a smoother transition and continued access to GSP+ status as countries graduate from their LDC status. This will certainly help Bangladesh to qualify for the GSP+ scheme, if the other criteria are met. Previously, Bangladesh would not qualify the import share criterion.

development criterion, a beneficiary country is required to ratify and effectively implement 32 international agreements and conventions related to human rights, labour rights, environmental protection, climate change, and good governance.[4]

Bangladesh has already fulfilled the vulnerability criterion, as the seven largest sections of GSP-covered imports account for more than 75 per cent of its total GSP-covered imports to the EU. Figure 8 illustrates the share of the seven largest GSP-covered sections in total exports to the EU for various countries, including Bangladesh. In terms of the other criteria, Bangladesh has ratified 20 out of the 32 conventions and has accessed the remaining 12. To qualify for GSP+, it will be necessary for Bangladesh to ratify the remaining conventions and effectively implement all 32 conventions.

Figure 8: Share of the country's seven largest GSP-covered products to the EU (%)



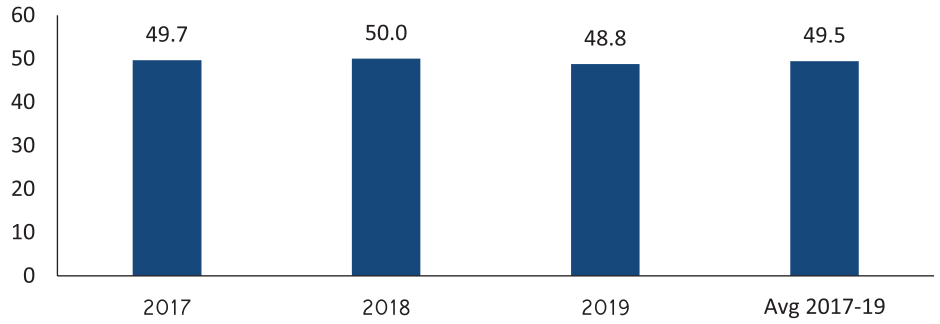
Source: Razzaque (2022).

Even if Bangladesh qualifies for GSP+ after complying with international conventions, it faces a significant hurdle due to EU safeguard measures concerning textile and clothing imports. According to the proposed EU GSP 2024-2034 provisions on "Safeguards in the Textile, Agriculture, and Fisheries Sectors" (Article 29 of the proposed EU GSP), clothing products from a GSP+ beneficiary will not receive preferential access if their share of these products exceeds 6 per cent of total EU imports of similar products and surpasses the product graduation threshold in a calendar year.

Bangladesh's current exports under GSP section S-11b (clothing items) are far above the 6 per cent market share threshold in the EU. Under these circumstances, the share of these products as a percentage of EU GSP-covered imports cannot exceed 37 per cent to qualify for tariff preferences. However, Bangladesh's share constitutes nearly half of all GSP-covered clothing imports into the EU (Figure 9). As a result, if the proposed GSP rules remain unchanged, Bangladesh will be in a unique position of qualifying for GSP+ but with its clothing items (S-11b) ineligible for preferential treatment, resulting in them paying most-favoured-nation (MFN) duties. This means Bangladesh's clothing exports to the EU, which make up over 90 per cent of its total exports to this market, will face tariffs of around 12 per cent compared to the current zero duty under EBA and GSP+ and 9.6 per cent under Standard GSP. However, for other products, Bangladesh may still access GSP+ tariff preferences.

[4] The new proposals also update the sustainable development criterion by expanding the list of international conventions to 32 (from the current list of 27). The new international conventions and agreements added to the GSP list include, the Paris Agreement on climate change 2015 (replacing the Kyoto Protocol); the Convention on the Rights of Persons with Disabilities (CRPD); the Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict (OP-CRC-AC); ILO Convention No 81 on Labour Inspection; ILO Convention No 144 on Tripartite Consultation; and the UN Convention against Transnational Organized Crime.

Figure 9: Bangladesh's exports under GSP section S-11b (% of GSP-covered imports in the EU)



Source: Razzaque (2022).

Aside from this, the rules of origin (RoO) will become stricter after LDC graduation. Post-graduation, to qualify for trade preferences (whether GSP+ or Standard GSP), clothing items must undergo a double transformation (i.e., preference-seeking countries must prove they can produce fabrics domestically and that these fabrics are used in garment production). For non-apparel exports, the minimum value addition requirement will increase from the current 30 per cent for LDCs to 50 per cent. However, if the safeguard provision remains, Bangladesh's apparel will not need to meet the RoO criteria, as it will be subject to the MFN duty rate.

Given this situation, it is crucial for Bangladesh to implement effective policies aimed at strengthening sectors beyond apparel. These measures are essential to safeguard Bangladesh's exports to the EU from encountering significant challenges once the preferential treatment associated with its LDC status ends. The first step to effectively support these non-apparel sectors is to identify the sectors and products with untapped potential for increased exports to the EU. Subsequently, developing practical policies is necessary to support these sectors and help them expand their presence in the EU market.

III. Identification of Potential Products for Export Expansion and Diversification

Diversifying exports is crucial for Bangladesh to ensure sustainable economic growth and resilience. Relying heavily on a limited range of products or sectors exposes the country to potential market volatilities and industry-specific downturns. By broadening its export portfolio, Bangladesh can mitigate these risks, tap into new global demand trends, and maximise its economic potential, ensuring a more balanced and robust growth trajectory. The European Union, with its expansive and diverse consumer base, offers a significant opportunity for Bangladesh to drive export diversification. The vastness of the EU market provides a receptive audience across a wide array of product categories and sectors. By leveraging its longstanding trade relationship with the EU, Bangladesh can introduce new products, capitalising on existing market familiarity and trust. This not only expands Bangladesh's trade footprint in the EU but also fosters innovation and development in new sectors domestically. When considering Bangladesh's export composition, diversification can be understood in two ways: diversification within the ready-made garments (RMG) sector and diversification into non-RMG sectors. The following sections provide detailed explanations of each concept.

Diversification within the RMG sector

The ready-made garment (RMG) export industry is primarily divided into two broad categories: cotton and non-cotton. The non-cotton category comprises apparel made from man-made fibres and blended fibres.

Bangladesh's RMG exports to the EU are primarily concentrated on cotton-based apparel. Since 2015, Bangladesh has been the largest supplier of cotton apparel to the EU, with the country's market share in this category rising to approximately 35 per cent in 2022. However, in the non-cotton apparel segment, Bangladesh, despite being the second-largest exporter, holds only a 12 per cent share, significantly lagging behind China, which commands a dominant 41 per cent share (Figure 11).

Figure 10: Cotton apparel market share in extra-EU imports (%)

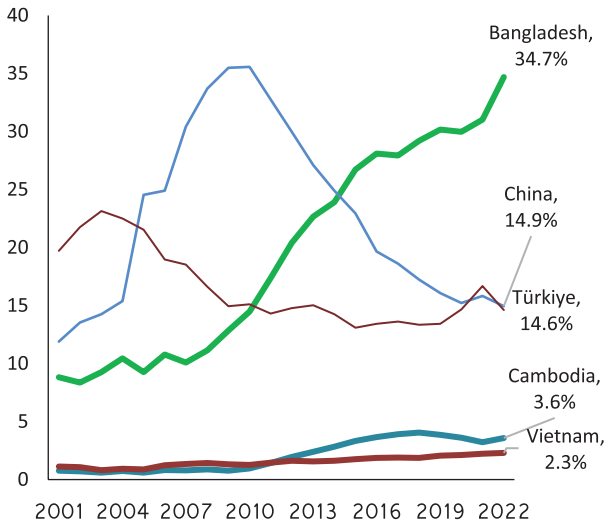
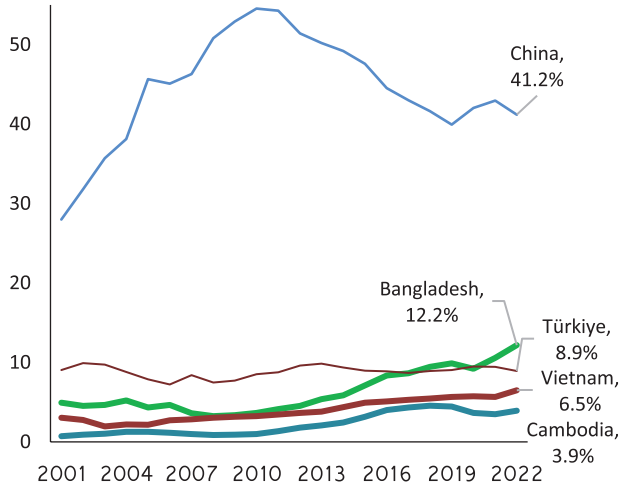


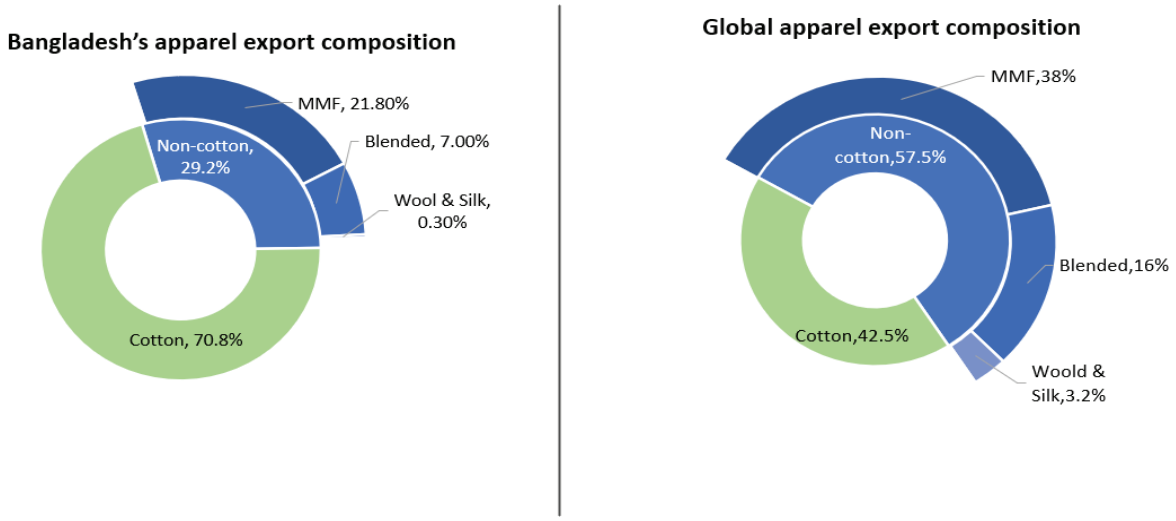
Figure 11: Non-cotton (MMF & blended) apparel market share in extra-EU imports (%)



Source: Authors' presentation using data from EU Comext.

However, global trade is primarily dominated by non-cotton apparel. According to global apparel export data, about 58 per cent of apparel exports consist of non-cotton items, while the remaining 42 per cent are cotton apparel. In contrast, around 71 per cent of Bangladesh's ready-made garment (RMG) exports are cotton apparel, while only 29 per cent are non-cotton. The non-cotton segment primarily consists of man-made fibre (MMF) products, which consumers prefer due to their unique characteristics such as water and wrinkle resistance, recyclability, and durability. Modern consumers find these fibres attractive because they offer longevity, extended lifespans, and minimal upkeep. Sustainable fibres are also gaining traction in the textile sector due to environmental regulations, particularly in the EU. One sustainability advantage of MMFs is their relatively smaller ecological footprint, with less land use and soil erosion compared to cotton products. The market for recycled fabrics is primarily dominated by polyester as global interest shifts towards recycled fibres. As a result, export opportunities may remain untapped if exports of MMF products are not increased.

Figure 12: Bangladesh and global apparel export composition



Source: Authors' presentation using data from ITC Trade Map.

Bangladesh's heavy reliance on cotton apparel exports poses significant risks. Since cotton is a natural fibre, any environmental disruptions could reduce Bangladesh's competitiveness in the global apparel market, leaving its ready-made garment (RMG) exports vulnerable. Furthermore, to capitalise on evolving consumer preferences towards non-cotton-based apparel, Bangladesh must diversify its RMG exports. Within the EU markets, Bangladesh has performed well, ranking as the second-largest supplier of non-cotton RMG. There is potential to expand this segment's market share, especially with China's declining presence. By maximising the existing duty-free market access privileges in the EU, which will remain until 2029, Bangladesh could increase its export of non-cotton apparel. However, challenges may arise post-2029 due to the EU's safeguard measures on textiles and apparel.

Diversification of the non-RMG sector

The Government of Bangladesh has acknowledged the vulnerabilities associated with limited export diversification and has identified priority sectors for diversification efforts, including pharmaceuticals, leather and leather goods & footwear, engineering goods, agriculture, textiles, and handicrafts. By leveraging existing EU preferences and those expected to be available post-LDC graduation, Bangladesh can stimulate growth in non-RMG sectors. It is also crucial to recognise the potential for diversification within the RMG sector itself and enhance the sector's backward and forward linkages in export earnings. Therefore, transitioning towards high-value-added garment products remains a priority for Bangladesh.

Based on traditional trade theories, sectors that utilise abundant local factors and inputs tend to produce competitive export items. Additionally, the size of the destination market significantly influences the economies of scale for exporting firms. With these factors in mind, this study identifies HS 6-digit level products that hold the most potential for expanding exports and diversifying Bangladesh's export basket to the EU. The following approaches are used to identify potential non-RMG export sectors:

1. Products for which Bangladesh has a revealed comparative advantage (RCA) in the EU market (based on bilateral RCA)
2. Products for which Bangladesh has an RCA in the rest of the world but not in the EU (based on normalised RCA)

3. Products with no RCA or NRCA for Bangladesh, but comparator countries have bilateral RCAs in the EU (bilateral RCA of comparator countries)

4. Products currently not exported from Bangladesh but have high export potential based on their product-space proximity to currently exported items.

3.1 Bangladeshi products with bilateral RCA in the EU

The revealed comparative advantage (RCA) of a country for product is defined as the ratio of the product's share in the country's total export to the product's share in the world's total export (Balassa,1965),

$$RCA = \frac{X_{i,j}/X_j}{X_{i,w}/X_w} \quad \ldots \quad (1)$$

Where $X_{i,j}$ and $X_{i,w}$ are the export of commodity i from the country and the world, respectively, while X_j and X_w are the total exports of country j and the world, respectively. Instead of using this general formula of RCA, bilateral RCA (BRCA) is used to identify Bangladesh's export items having strong RCA in the EU. The bilateral RCA as follows,

$$RCA = \frac{X_{i,EU}^{BGD}/X_{EU}^{BGD}}{M_i^{EU}/M^{EU}} \quad \ldots \quad (2)$$

Here $X_{i,EU}^{BGD}$ is Bangladesh's export of product i to the EU and X_{EU}^{BGD} is Bangladesh's total export to the EU. M_i^{EU} is the EU's import of product i and M^{EU} is the EU's total import. This bilateral RCA provides modified measures of Bangladeshi products' relative strength in the EU market. A value of bilateral RCA greater than one indicates Bangladesh's bilateral comparative advantage in the EU market. From the estimated bilateral RCA for each HS 6-digit product that Bangladesh exported to the EU in 2021, there are 274 products identified. However, as some of these products' market size is small, three threshold values are considered to identify the most important items. The identified products are largely categorised in the following sectors: home textiles, leather goods and footwear, handicrafts, agriculture, fish and others. As the study is also interested in exploring diversification opportunities within the RMG sector, some potential RMG products have been identified through this exercise (Table 1).

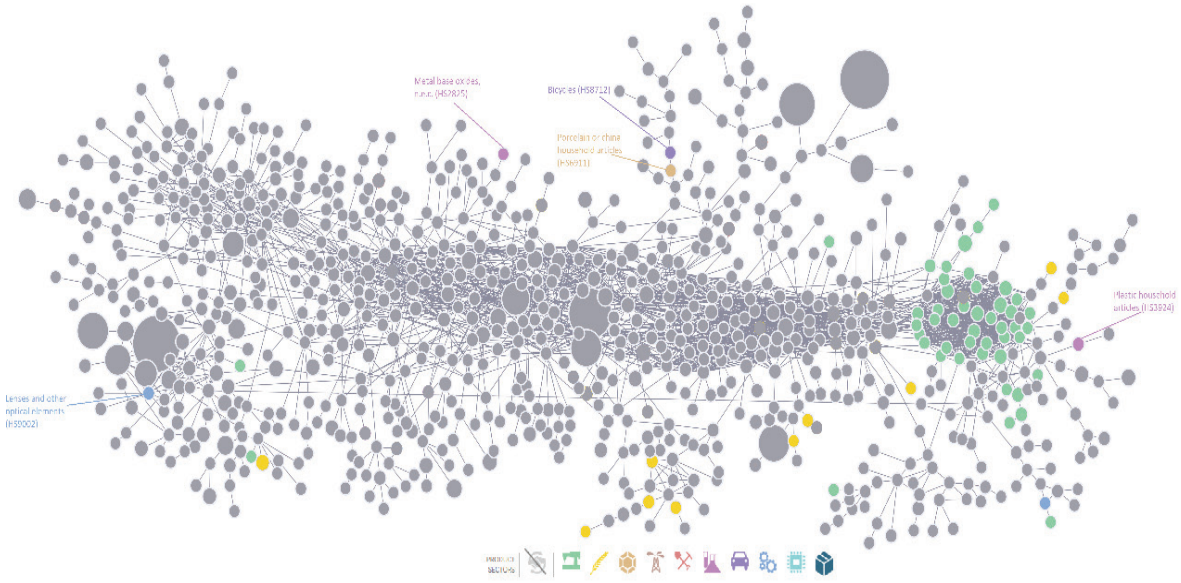
Table 1: Bangladesh's products with BRCA in the EU at the HS 6-digit level

Category	No. of products EU Market size >$20 million	No. of products EU Market size>$50 million	No. of products EU Market size>$100 million
Home textile	26	23	21
Leather and leather goods & footwear	13	11	10
Handicrafts	6	5	3
Agriculture	5	4	4
Fish	4	4	3
Other products	26	22	14
RMG	166	146	120
Cotton based apparel	46	44	38
Non-cotton apparel	120	102	82
Total	246	215	175

Source: Authors' analysis using data from ITC Trade Map.

Figure 13 represents the Bangladesh product space. In international trade, the product space refers to a network or graphical representation of the relationships between the various products that countries export. This tool visualises the structure of a country's export basket and reveals its diversification potential. The concept is significant because it offers insights into possible pathways for a country's economic development and diversification. By analysing the product space, it becomes possible to identify products that a country could potentially develop, given its current export capabilities. The proximity between products in this space indicates how easily a country can shift from producing one product to another, thereby supporting strategic planning for economic growth. The product space shows that Bangladesh currently operates predominantly in the RMG cluster (represented by the green dots in Figure 13). The scattered yellow dots indicate agricultural products in which Bangladesh has a revealed comparative advantage (RCA). Some isolated dots representing engineering, electronic, and chemical goods highlight Bangladesh's export potential in these clusters.

Figure 13: Bangladesh's product space map based on bilateral RCA value



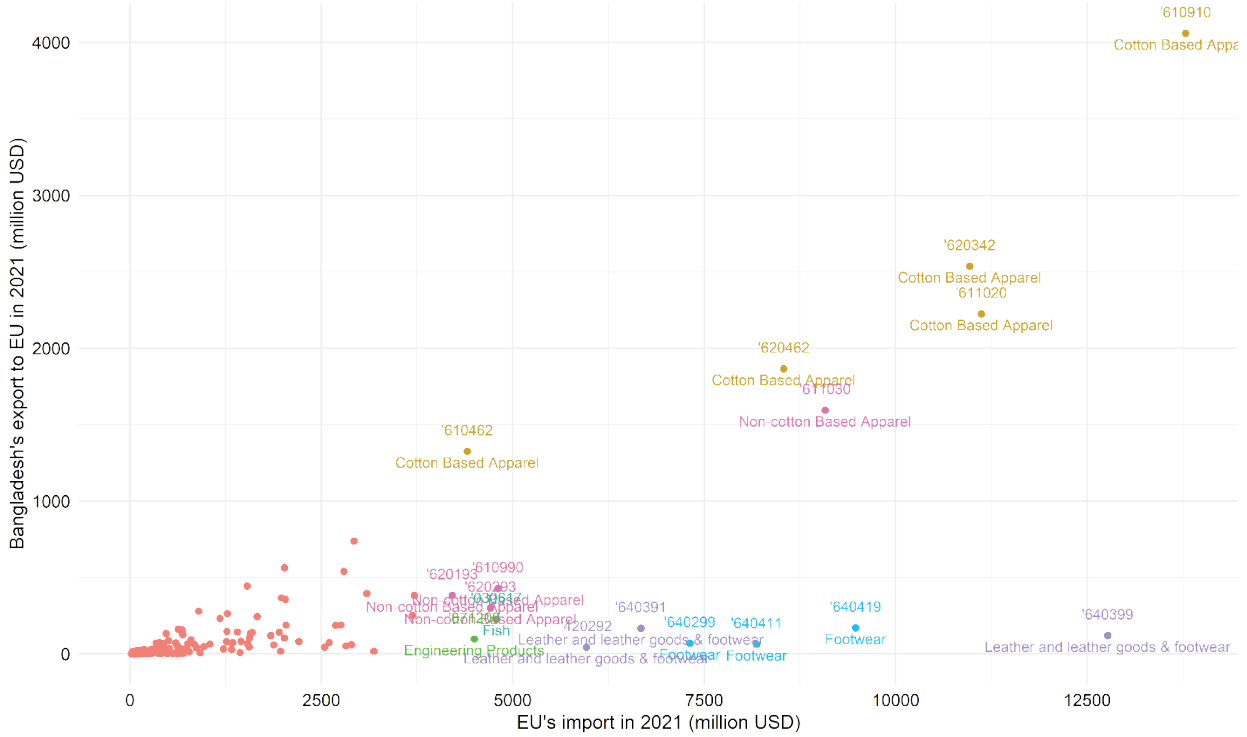
Source: Authors' presentation based on bilateral RCA analysis and product space map.

Figure 14 illustrates the mapping of products in which Bangladesh has a revealed bilateral comparative advantage (BRCA). The x-axis represents the EU's imports of these products at the HS 6-digit level, while the y-axis shows Bangladesh's exports. Products positioned further to the right on the graph indicate significant market size and demand for those specific products within the EU. Likewise, products in the upper portion of the y-axis graph demonstrate Bangladesh's higher export levels for those particular products.

The graph reveals that Bangladesh has substantial untapped export potential in the EU market. For instance, product HS 610910, which encompasses cotton-based apparel, saw around $4 billion in exports from Bangladesh to the EU in 2021. However, the EU market size for this product amounts to about $13 billion, indicating significant opportunities for further export growth. In addition to RMG products, there is also considerable demand for leather footwear. For instance, product HS 640399 has an EU market size exceeding $12.5 billion, while Bangladesh's current exports of these products remain relatively low. Moreover, other products like man-made fibre (MMF)-based apparel, footwear, engineering goods, and fish also demonstrate substantial untapped potential in the EU market. This analysis underscores Bangladesh's ability to capitalise on this potential by diversifying its export basket. Additionally, diversification within the

RMG sector itself is crucial due to its significant untapped potential. By seizing these opportunities and leveraging its revealed comparative advantage, Bangladesh can further enhance its export earnings.

Figure 14: Bangladesh's exports items with BRCA in the EU



Source: Author's illustration based on BRCA analysis using data from ITC Trade Map.

3.2 Bangladeshi products with normalised RCA in the world

There are several products for which Bangladesh has RCA in the rest of the world; however, Bangladesh's export of those products to the EU is not substantial. Since Bangladesh is competitive in the non-EU world market for these products, there could be an opportunity to expand the export of these products to the EU market, taking advantage of EU GSP privileges. Normalised RCA (NRCA) values for all export items are calculated to identify these products. To calculate NRCA, first, a neutral value is calculated using the following formula:

$$N_i = X_i * X^{BGD}/X \qquad \ldots\ldots \qquad (3)$$

Here, Xi is the world's total export of i product, X^{BGD} is Bangladesh's total export, X is the total world export. The NRCA for each product is thus calculated as follows:

$$NRCA_i^{BGD} = \frac{X_i^{BGD} - N_i}{X} \qquad \ldots\ldots. \qquad (4)$$

Here, X_i^{BGD} is Bangladesh's total export i product. Positive NRCA implies Bangladesh has a comparative advantage in i product, whereas negative NRCA implies Bangladesh has a comparative disadvantage.

$NRCA_i^{BGD}>0$ implies Bangladesh has a comparative advantage in product i in the world market. From the NRCA analysis, 420 items were identified, which has positive comparative advantage in the year 2021. Among these products, some already have BRCA in the EU. Without duplication, the number of unique products is found to be 151 products, with a market size of at least $20 million in each case.

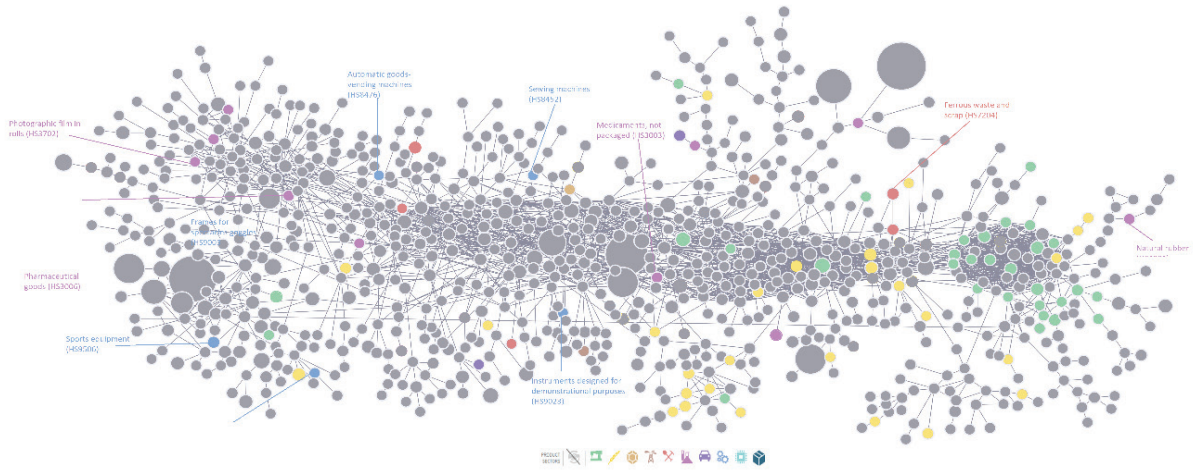
Table 2: Bangladesh's products with positive NRCA but no BRCA in the EU

Category	No. of products EU Market size >$20 million	No. of products EU Market size>$50 million	No. of products EU Market size>$100 million
Agriculture	23	20	18
Leather and leather goods & footwear	14	14	13
Engineering Products	12	9	9
Man Made Fibre	10	8	5
Cotton & Cotton products	9	6	3
Fish	6	4	3
Other products	38	31	27
RMG	14	10	8
Cotton based apparel	1	1	-
Non-cotton apparel	13	9	8
Total	126	102	86

Source: Authors' analysis based on NRCA analysis using data from ITC Trade Map.

Figure 15 represents the product space of those products in which Bangladesh has positive NRCA in the world but no BRCA. In this map, such product clusters associated with metals and machinery goods are found. Although Bangladesh does not have BRCA in these products in the EU, with proper support and the exploiting of the GSP benefits of the EU, exports of these products can be increased in the EU.

Figure 15: Bangladesh's product space map based on NRCA value



Source: Authors' presentation based on NRCA analysis and product space map.

Figure 16 captures the products in which Bangladesh has NRCA in the world market but no BRCA in the EU. The X-axis represents the EU's import in 2021, while the Y-axis depicts Bangladesh's total export of these products. The graph reveals that the EU has a high demand for engineering products, agricultural products, leather goods, and leather footwear. Despite this high demand, Bangladesh's total exports of such products are small. For example, HS 740400, which represents engineering products, has a market size of around

$13 billion in the EU. However, Bangladesh's total export of this product amounts to less than $100 million. Similarly, HS 230400, which represents agricultural products (animal fodder), demonstrates a demand of over $10 billion in the EU, while Bangladesh's total export of this product is approximately $100 million. Diversifying opportunities in these products could be greater as Bangladesh shows its revealed comparative advantage in these areas. However, Bangladesh's current exports of these products to the EU are extremely low, and in some cases, exports have not taken place at all.

Figure 16: Bangladesh's products with positive NRCA

Source: Authors' illustration based on NRCA analysis using data from ITC Trade Map.

3.3 Products with no RCA for Bangladesh but comparator countries have bilateral RCA in the EU

Several products that Bangladesh exports in smaller quantities lack RCA in the EU or NRCA globally. However, "comparator" countries with their current economic structures and technological states, including China, India, Indonesia, Sri Lanka, and Vietnam, demonstrate RCA for these products in the EU. Given the inherently labour-intensive nature of the production processes involved in these products, these countries' RCA in the EU presents potential opportunities for Bangladesh to enhance and diversify its existing export portfolio.

To identify those products, the bilateral RCA of the five comparator countries is calculated. Then, those products were identified in which Bangladesh has a market presence. Further criteria were used to pinpoint these products by using a threshold of at least $1 million in exports in 2021 from at least three comparator countries. In some cases, competitor countries' products are based on natural resources available in their own countries but not in Bangladesh, such as mineral goods like oil and precious metals, which were also dropped. To avoid duplication, Bangladesh's products, which have BRCA in the EU and NRCA in the world market, are excluded as well. Finally, 34 products are selected with a market size of over $20 million in the EU (Table 3).

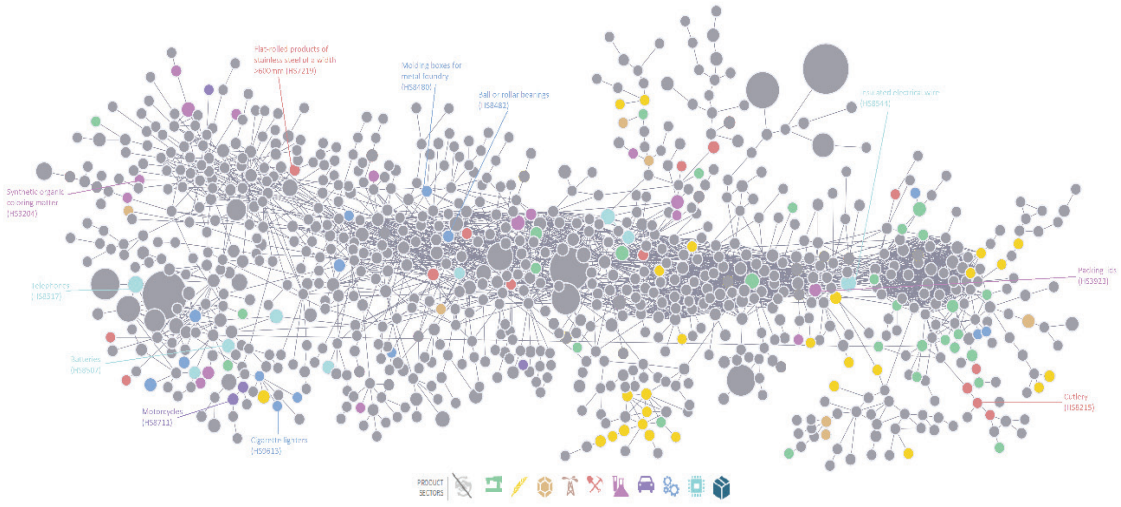
Table 3: Comparator country's products with BRCA in the EU

Category	No. of products EU Market size >$20 million	No. of products EU Market size>$100 million
Leather and leather goods & footwear	6	5
Engineering Products	5	5
Agriculture	4	4
Plastic	3	3
Man Made Fibre	2	2
Home Textile	1	1
Carpet	1	1
Other products	11	10
RMG	1	1
Cotton-based apparel	1	1
Total	34	32

Source: Authors' estimation based on comparator countries' BRCA using data from ITC Trade Map.

Figure 17 shows the product space that will look like when the above potential products are added to the export basket, i.e., it maps those products in which Bangladesh's comparator countries have RCA in the EU, and Bangladesh has a market presence globally.

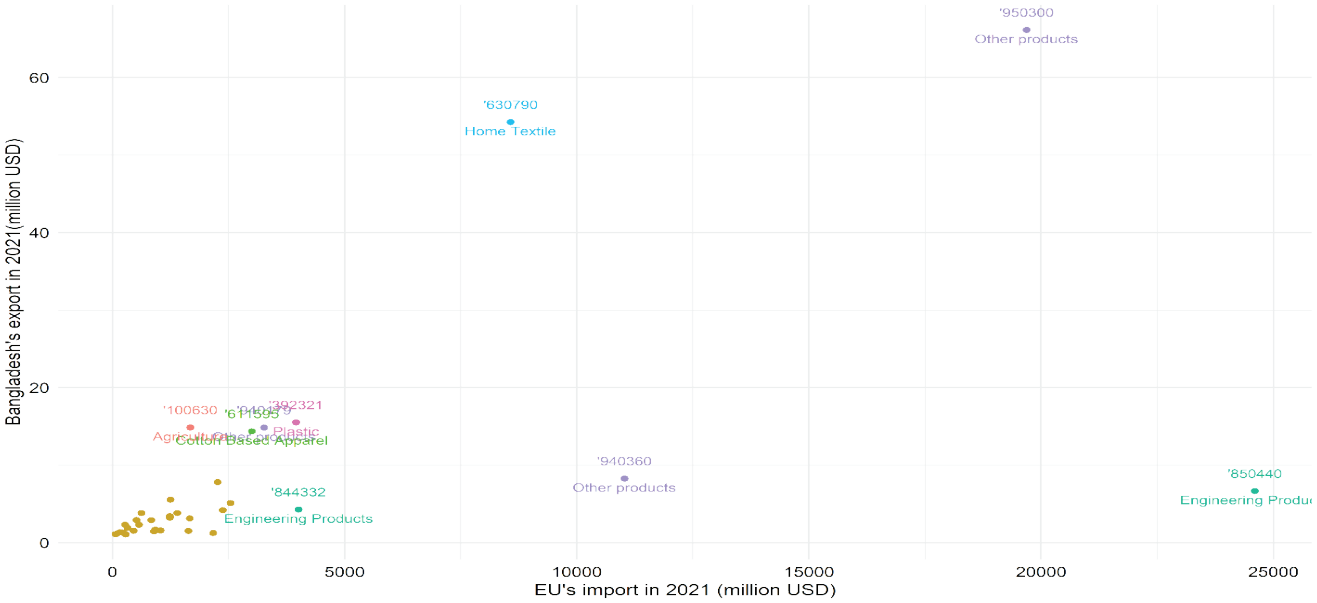
Figure 17: Product space map based on comparator countries RCA in EU



Source: Authors' presentation based on comparator countries' BRCA.

Figure 18 mapped potential products for diversification, encompassing home textiles, engineering products, toys (categorised as other products), agricultural products, plastic products, and cotton products, which are distinguished by a significant characteristic: Bangladesh's total exports in these categories remain relatively low, despite of global considerable market size of these products. However, as Bangladesh already has a market presence for these products, exports of these products can be significantly expanded with the appropriate policy support. By implementing targeted policies and providing necessary support, Bangladesh has the potential to enhance its competitiveness and increase its market share in these promising sectors.

Figure 18: Products with comparator countries BRCA in the EU



Source: Authors' illustration Authors' estimation based on comparator countries' BRCA using data from ITC Trade Map.

3.4 Potential new products of Bangladesh for the EU based on product space analysis

In the EU market, numerous products are not currently exported by Bangladesh but hold enormous potential. New potential export items can be found among products that share similar production processes and activities with those for which Bangladesh possesses a solid RCA. Even if the short-term exportation of these products is not feasible, the implementation of favourable policies and support can contribute to their flourishing in the medium to long term. The identification of these products involves comparing their product-space proximities to those with a strong RCA in Bangladesh and assessing the opportunity gains, measured in terms of the product complexity index, that would arise from their exportation.

The product-space proximity is measured as "distance," which is defined as the weighted proportion of products connected to a good that a country is not exporting (see equation 1). The weights are given by proximities, and the distance is normalised by dividing the total proximities connecting a new product (p) to all the products that a country (c) is not currently exporting by the sum of proximities between all products and product p (Hausman et al., 2014). If country c exports most of the goods connected to product p, the distance will be close to 0, but if country c only exports a small number of products connected to product p, the distance will be large, close to 1. Housman et al. (2014) define this distance (d_{cp}) as,

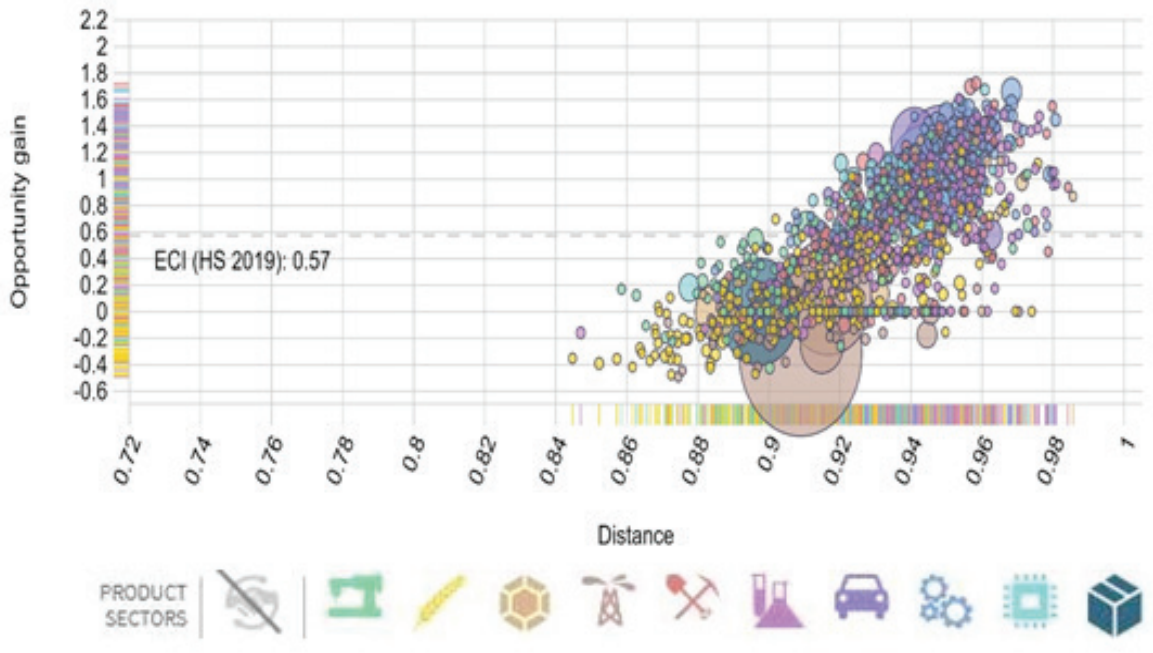
$$d_{cp} = \frac{\sum_{p\prime}\left(1-M_{cp\prime}\right)\phi_{pp\prime}}{\sum_{p\prime}\phi_{pp\prime}} \quad \ldots. \quad (1)$$

Where M_{cp} =1 if country c exports p, 0 otherwise, and $\phi_{pp\prime}$ is a measure of proximity between product and defined as,

$$\phi_{pp\prime} = \frac{\sum_{c}\left(M_{cp}M_{cp\prime}\right)}{\max(k_{p,0},k_{p\prime,0})} \quad \ldots. \quad (2)$$

Where $k_{p,o}$ is the ubiquity of product p. On the other hand, opportunity gain quantifies the contribution of a new product in terms of opening up the doors to more and more complex products. Opportunity gain can be considered the value of the option to move into more complex products. The Center for International Development (CID) at Harvard University computes the distance and opportunity gains of various potential export items for several countries.[5] For this analysis, data on distance and opportunity gains of potential export items for Bangladesh in 2019 are used. Figure 16 shows the distance and opportunity gains of all potential export items for Bangladesh in 2019.[6]

Figure 19: Bangladesh's feasible opportunities for diversification



Source: The ATLAS of economic complexity, CID, Harvard University.[7]

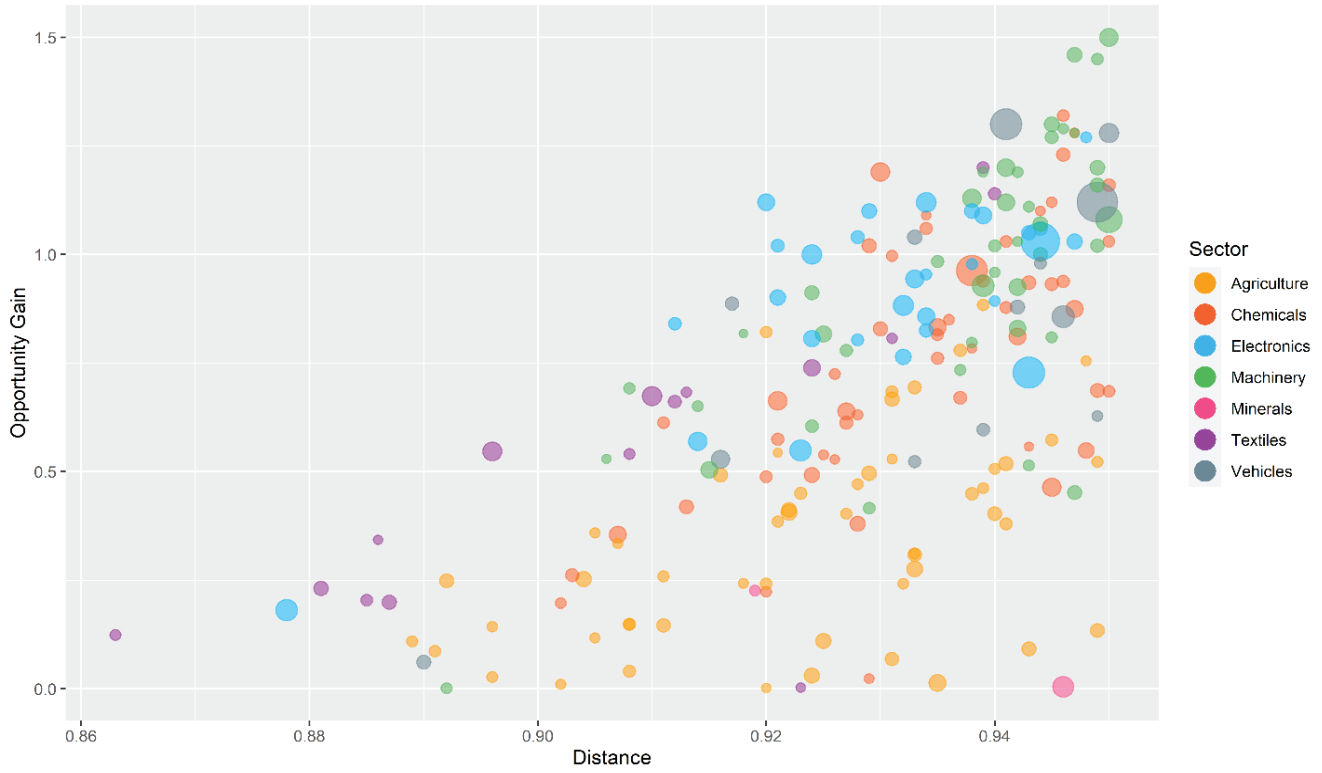
Figure 19 shows that Bangladesh has many potential products for expanding its exports. However, not all these products are feasible as they come with costs and are associated with different types and levels of resource endowments. Moreover, different products offer varying magnitudes of opportunity gain. To identify the potential products that Bangladesh can transition into with reasonable gains, the products were filtered based on three criteria: positive opportunity gains, a distance less than 0.95, and a market size greater than $5 billion. Additionally, a value judgement was made regarding Bangladesh's capability to produce these goods. Following this, 205 products were identified and plotted in Figure 20. The majority of these new products fall into categories such as electronics, vehicles, machinery, and agricultural products. The size of the bubble represents the market size. This analysis indicates that Bangladesh's engineering products have significant potential for export diversification. However, the potential of agricultural products should not be underestimated. While they offer lower returns than engineering products, they are easier to produce, given the shorter distance. Tables 4 and 5 summarise the potential product categories by market size and distance.

[5] Data on distance and opportunity gains, along with many other trade statistics, are publicly available at: https://atlas.cid.harvard.edu/

[6] Data upto 2020 is available on the website. As 2020 is correspond of COVID 19 pandemic, 2019's data is used for the analysis

[7] This exercise has been undertaken using:
https://atlas.cid.harvard.edu/explore/feasibility?country=22&queryLevel=location&year=2019&productClass=HS&startYear=1995&product=undefined&target=Product&partner=undefined

Figure 20: Potential new export items for Bangladesh



Source: Authors' analysis based on Atlas Economic Complexity Database.

Table 4: Potential export items for Bangladesh at HS 4-digit level categorised by market size with distance less than 0.95

Sector	No. of products with a market size >$5 billion billion	No. of products with a market size >$10 billion	No. of products with a market size >$20 billion
Agriculture	53	32	17
Chemicals	51	37	18
Machinery	42	26	18
Electronics	29	25	21
Textiles	15	9	5
Vehicles	13	12	8
Minerals	2	1	1
Total	205	142	88

Source: Authors' analysis based on Atlas Economic Complexity Database.

Table 5: Potential export items for Bangladesh at HS 4-digit level categorised by distance with a market size of more than $5 billion

Sector	No. of products with a distance <0.90	No. of products with a distance < 0.925	No. of products with a distance <0.95
Agriculture	5	26	53
Chemicals	-	10	51
Machinery	1	8	42
Electronics	1	9	29
Textiles	6	12	15
Vehicles	1	3	13
Minerals	-	1	2
Total	14	69	205

Source: Authors' analysis using data from ATLAS economic complexity database.

A summary of potential identified sectors

From the above analysis, this study has identified several potential sectors, including RMG, agriculture, fish, engineering products, leather goods and footwear, footwear, home textile and others. These sectors were selected based on factors such as Bangladesh's comparative advantage, the size of the EU market, the RCA of comparator countries, and Bangladesh's potential capability to produce the identified products.

3.5 Analysis of Export Market Prospects in the EU

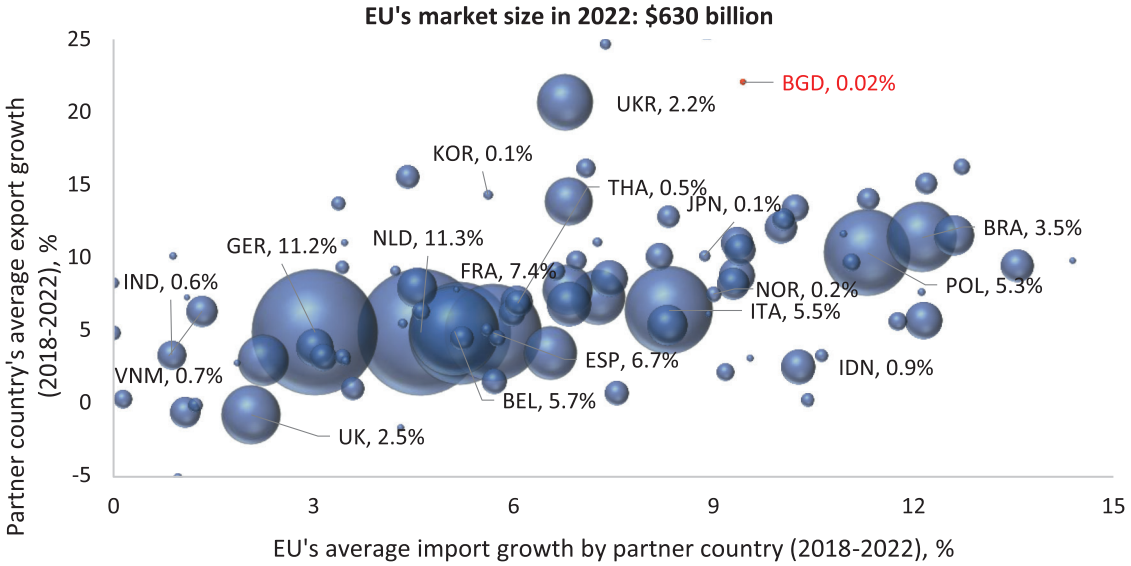
The export potential of the identified items is also influenced by the characteristics of the destination market. When analysing a specific market, it is essential to compare a country's performance with other suppliers to assess the market prospects. In evaluating Bangladesh's market prospects for the selected items in the EU, a straightforward approach recommended by the International Trade Centre (ITC) is used. This approach considers three key factors: i) the export growth rates of competing countries in the destination markets, (ii) all competing countries' export growth in the global market, and (iii) competing countries' market share in the same destination market. By examining these factors, a comprehensive evaluation of Bangladesh's market prospects for the selected items in the EU can be obtained.[8]

Agriculture

Bangladesh exported $155 million worth of agricultural products (HS 01-24, excluding HS 03) to the EU in 2022, a minuscule fraction (0.02%) of the EU's overall imports of such products, which totalled over $630 billion in the same year. The Netherlands and Germany both capture the largest share of more than 11 per cent, while France (7.4%), Spain (6.7%), Belgium (5.7%), Italy (5.5%), and Poland (5.3%) are the major suppliers. During 2018-2022, Bangladesh's agricultural products exports to the EU posted a positive growth rate of about 9 per cent with a minimal base. India and Middle Eastern countries are major destinations for Bangladesh's agricultural exports. Given the size of the EU market, there are ample opportunities to export more. Just a 1-per cent market share would result in an additional $6.3 billion in export earnings. Bangladesh is known to possess a comparative advantage in the production of agricultural products, including vegetables, tobacco, nuts, seeds, taro, etc.

[8] Annexe A contains a comparable analysis for sector-specific highly prospective items (HS 6-digit level).

Figure 21: Bangladesh's competitors of agricultural products in the market (intra- plus extra EU supplies)

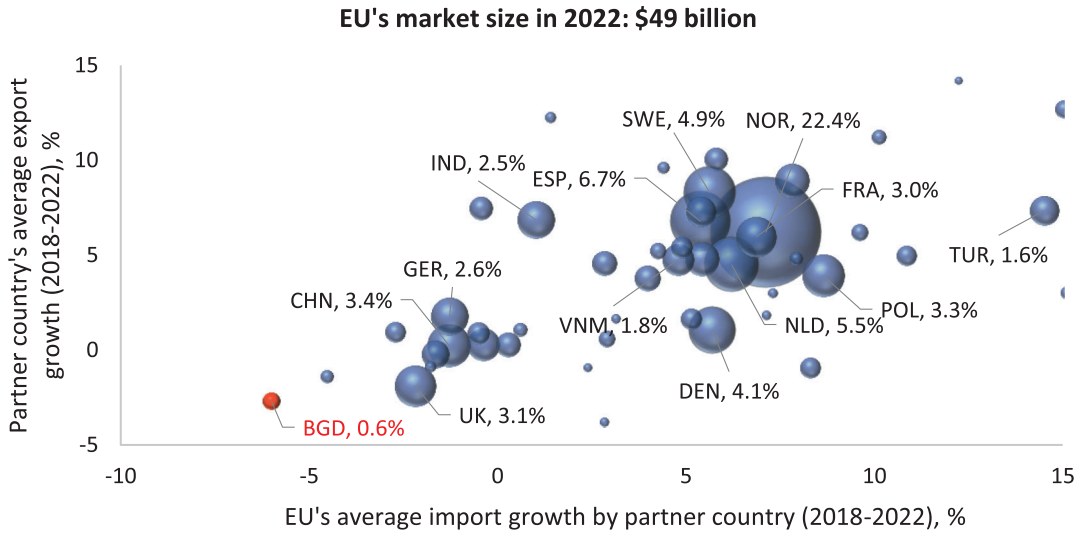


Source: Authors' analysis using data from ITC Trade Map. Note: Bubble sizes represent market shares. Countries are indicated as BEL – Belgium, BGD – Bangladesh, BRA – Brazil, FRA – France, GER – Germany, IDN – Indonesia, IND – India, ITA – Italy, JPN – Japan, KOR – Korea, Republic of, MYM – Myanmar, NOR – Norway, NLD – Netherlands, POL – Poland, THA – Thailand, UK – United Kingdom, UKR – Ukraine, USA – United States of America, VNM – Vietnam.

Fish and Shrimp

Bangladesh's exports of fish (HS 03) in the EU market stood at $272 million in 2022, 0.6 per cent of the $49 billion market. Norway is the dominant supplier of fish, capturing a market share of 22 per cent, while Spain (6.7%), the Netherlands (5.5%), Sweden (4.9%), and Denmark (4.1%) are other major sources of such products. Bangladesh's export growth of fish in the EU market is on the decline, which is a matter of concern. However, exports of frozen shrimps and crabs, frozen carp fish, cold-water shrimps, and prawns can be enhanced greatly.

Figure 22: Bangladesh's competitors of fish in the EU market (intra- plus extra EU supplies)

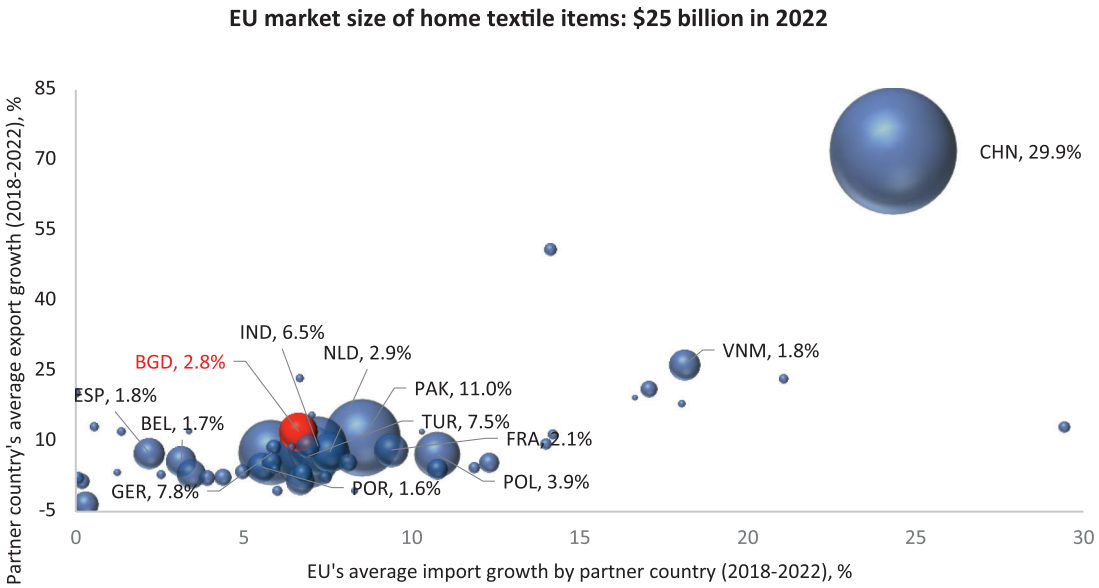


Source and note: Authors' analysis using data from ITC Trade Map. Note: Bubble sizes represent market shares. Countries are indicated as BGD – Bangladesh, CHN – China, DEN – Denmark, ESP – Spain, FRA – France, GER – Germany, IND – India, NLD – Netherlands, NOR – Norway, POL – Poland, SWE – Sweden, TUR – Turkey, UK – United Kingdom, VNM – Vietnam.

Home textile

Bangladesh's home textiles (HS 63) exports in the EU market stood at $678 million in 2022, which is 2.8 per cent of the $25 billion market. China is the dominant supplier of home textiles, capturing a market share of around 30 per cent, while Pakistan (11%), Germany (7.8%), Turkey (7.5%), and India (6.5%) are other major sources of such products. While the EU's overall imports of home textiles increased by 18 per cent during 2018-2022, Bangladesh experienced average export growth to the EU just over 6 per cent during the same period.

Figure 23: Bangladesh's competitors of home textiles in the EU market (intra- plus extra EU supplies)

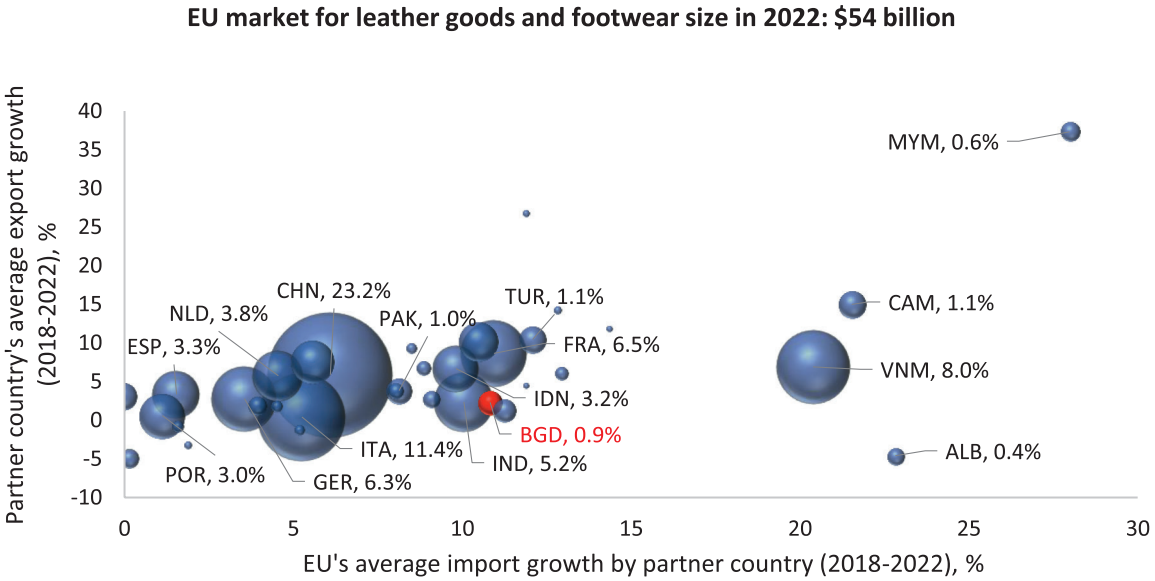


Source: Authors' analysis using data from ITC Trade Map. Note: Bubble sizes represent market shares. Countries are indicated as BGD – Bangladesh, BEL – Belgium, CHN – China, ESP – Spain, FRA – France, GER – Germany, IND – India, NLD – Netherlands, PAK – Pakistan, POL – Poland, POR – Portugal, TUR – Turkey, VNM – Vietnam.

Leather goods and leather footwear

Leather goods and leather footwear (HS 42-43 and HS 6403) can potentially expand Bangladesh's exports by leveraging its domestic supply capacity. Bangladesh's exports of leather goods and leather footwear to the EU were $473 million in 2022. Bangladesh's share in the EU's $54 billion imports of such products was less than 1 per cent. Major suppliers in this market include China (23.2%), Italy (11.4%), Vietnam (8%), France (6.5%), Germany (6.3%), and India (5.2%). From 2018 to 2022, the EU's imports of these products increased by an average of 3.5 per cent per year, while imports of the same products from Bangladesh increased by 2.3 per cent. Major suppliers such as China and Italy experienced increases of 5.9 per cent and 0.4 per cent, respectively, in their exports of these products to the EU, while exports from Vietnam and France ranged from 6-8 per cent. Between 2018 and 2022, while Bangladesh's export growth of leather goods and footwear averaged about 11 per cent, the growth in exports to the non-EU world was only 2 per cent. Therefore, there appears to be a dynamic in the export of these items, and the export supply response should be sustained.

Figure 24: Bangladesh's competitors of leather goods and leather footwear in the EU market (intra- plus extra EU supplies)

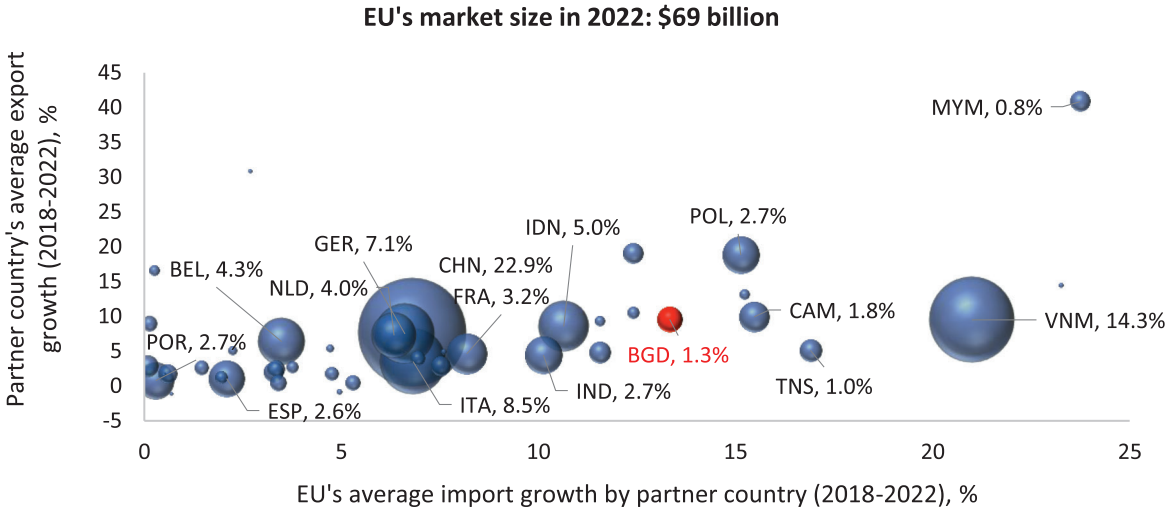


Source Authors' analysis using data from ITC Trade Map. Note: Bubble sizes represent market shares. Countries are indicated as ALB – Albania, BGD – Bangladesh, CAM – Cambodia, CHN – China, ESP – Spain, FRA – France, GER – Germany, IDN – Indonesia, IND – India, ITA – Italy, MYM – Myanmar, NLD – Netherlands, PAK – Pakistan, POR – Portugal, TUR – Turkey, VNM – Vietnam.

Other Footwear

Despite the significant volume of $872 million in footwear (HS 64) exports from Bangladesh to the EU in 2022, the country's market share in the EU's total footwear imports of $69 billion amounted to a mere 1.3 per cent. Major suppliers in this market include China (23%), Vietnam (14.3%), Italy (8.5%), Germany (7.1%), and Indonesia (5%). From 2018 to 2022, the EU's imports of leather footwear rose by 5.9 per cent per year on average, while imports of the same products from Bangladesh increased by over 13 per cent. The observed export trends highlight the significant potential for Bangladesh to expand its footwear exports by leveraging favourable market access conditions.

Figure 25: Bangladesh's competitors of footwear in the EU market (intra- plus extra EU supplies)

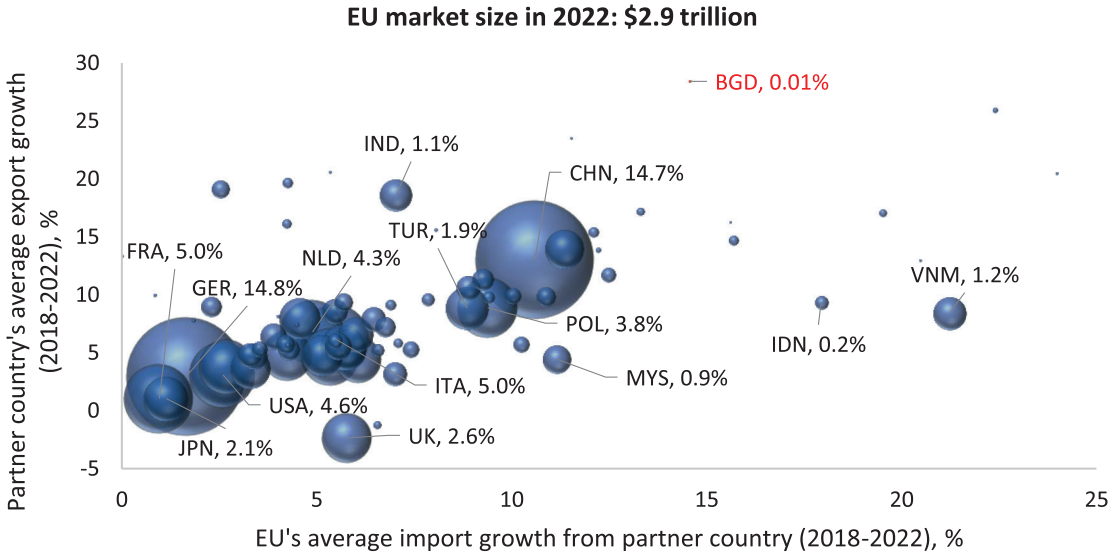


Source: Authors' analysis using data from ITC Trade Map. Note: Bubble sizes represent market shares. Countries are indicated as BGD – Bangladesh, BEL – Belgium, CAM – Cambodia, CHN – China, ESP – Spain, FRA – France, GER – Germany, IDN – Indonesia, IND – India, ITA – Italy, MYM – Myanmar, NLD – Netherlands, POL – Poland, POR – Portugal, TNS – Tunisia, VNM – Vietnam.

Light Engineering products

Bangladesh exported only $167 million worth of engineering products (HS 71-88) to the EU in 2022, a meagre fraction (0.01%) of the EU's overall imports totalling over $2,845 billion. Germany captures the largest share of 14.8 per cent, while China (14.7%), France (5%), Italy (5%), the USA (4.6%), and the Netherlands (4.3%) are the major suppliers. During 2018-2022, Bangladesh's engineering products exports to the EU posted a positive growth rate of around 15 per cent, albeit from a very small export base. Bicycles are the main light engineering products that Bangladesh exports to the EU.

Figure 26: Bangladesh's competitors of engineering products in the EU market (intra- plus extra EU supplies)

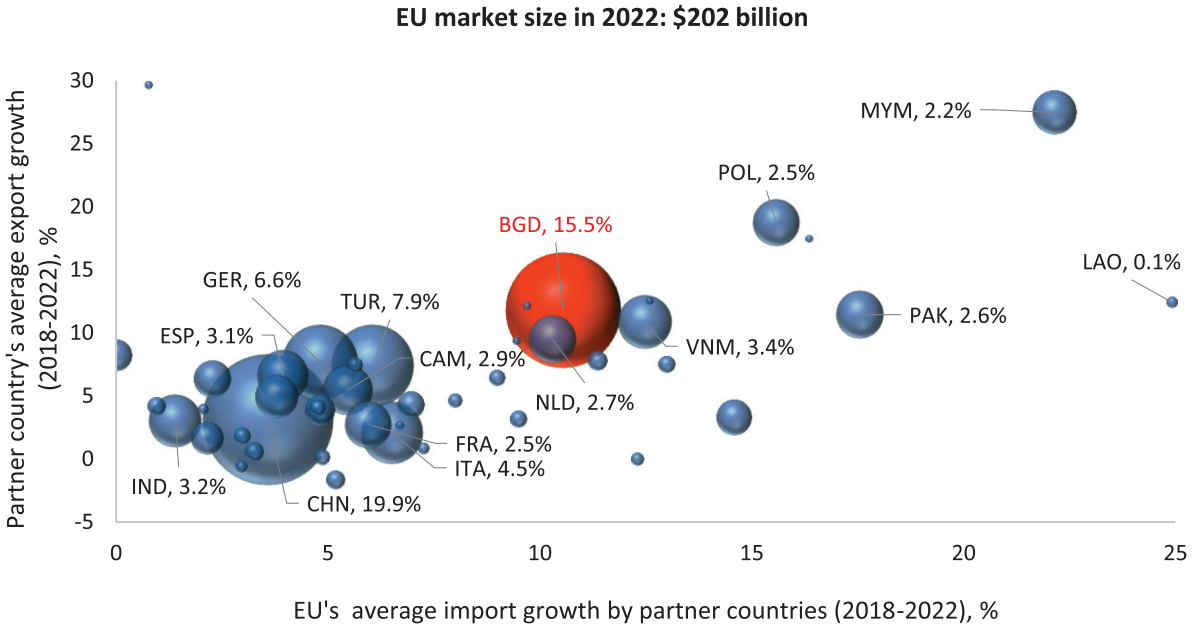


Source: Authors' analysis using data from ITC Trade Map. Note: Bubble sizes represent market shares. Countries are indicated as BGD – Bangladesh, CHN – China, FRA – France, GER – Germany, IDN – Indonesia, IND – India, ITA – Italy, JPN – Japan, MYS – Malaysia, NLD – Netherlands, POL - Poland, TUR – Turkey, UK – United Kingdom, USA – United States of America, VNM – Vietnam.

Ready-made Garments (RMG)

Bangladesh is the second-largest supplier of RMG (HS 61-62) to the EU. The country exported $31.2 billion worth of RMG to the EU in 2022, accounting for 15.5 per cent of the EU's overall imports. China (19.9%) is the dominant supplier of RMG, while Turkey (7.9%), Germany (6.6%), Italy (4.5%), Vietnam (3.4%), and India (3.2%) are other major sources of such products. Bangladesh posted a positive growth rate of 11.8 per cent during 2018-2022. All other leading suppliers registered positive growth at the same time.

Figure 27: Bangladesh's competitors of RMG in the EU market (intra- plus extra EU supplies)



Source: Authors' analysis using data from ITC Trade Map. Note: Bubble sizes represent market shares. Countries are indicated as BGD – Bangladesh, CAM – Cambodia, CHN – China, ESP – Spain, FRA – France, GER – Germany, IND – India, ITA – Italy, LAO – Lao People's Democratic Republic, MYM – Myanmar, NLD – Netherlands, POL - Poland, TUR – Turkey, VNM – Vietnam.

3.6 Estimated export potential in the EU

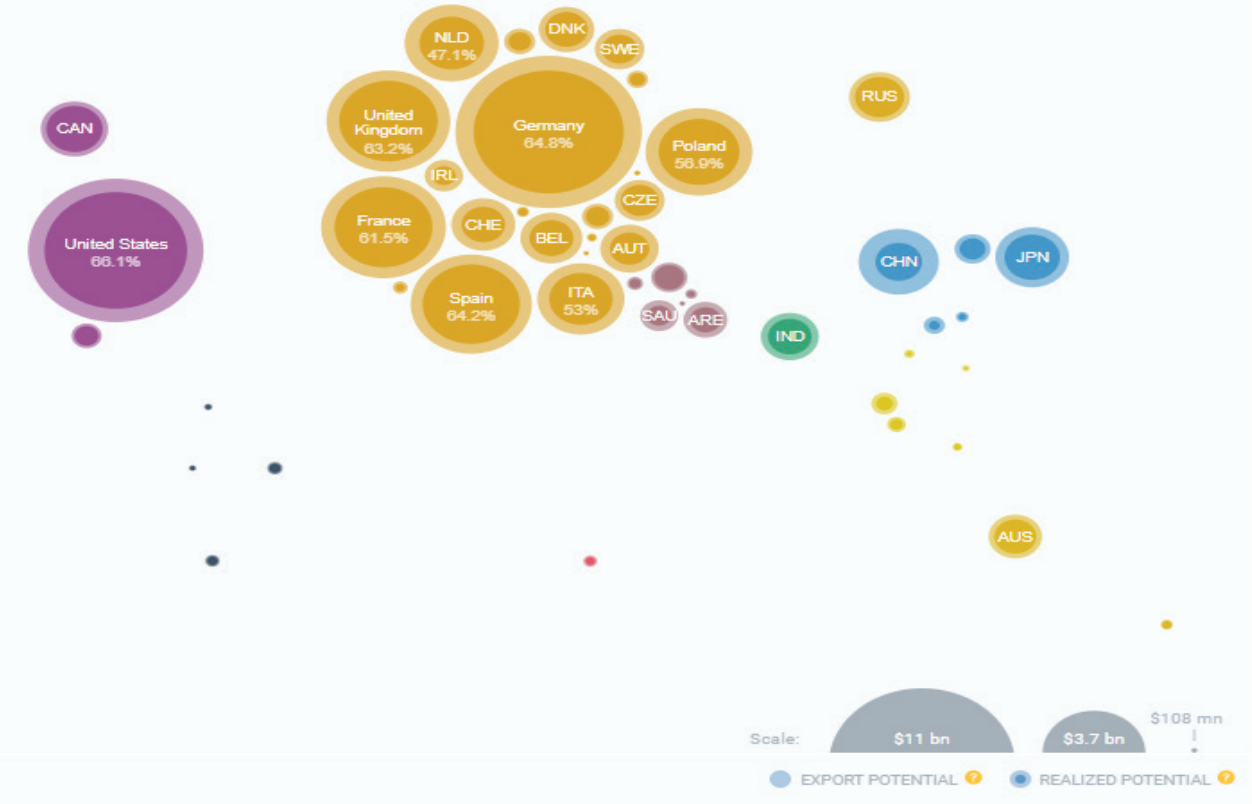
Model-based estimation using ITC Export Potential Map

Although the EU has been its largest export destination, there is evidence of further export potential for Bangladesh by taking advantage of trade preferences. Unused export potential by destination markets can be determined using a methodology developed by the International Trade Centre (Decreux & Spies, 2016). The ITC Export Potential Indicator (EPI) identifies goods for which an exporting nation has already demonstrated its ability to compete on a global scale and which have promising prospects. The potential export value in a target market is estimated based on the exporters' supply capacity, the demand in the

market of interest, and market access conditions.[9] Potential export values are compared with actual export earnings to reveal untapped opportunities.

Applying the ITC methodology, it is found that Bangladesh has an untapped export potential in the EU worth $19 billion, which is approximately 70 per cent of the current EU-bound exports from Bangladesh. Currently, 59 per cent of the estimated export potential in the EU is being utilised. Bangladesh has unutilised export potential of around $2.5 billion for non-apparel items. The highest absolute difference between potential and actual exports is for Germany, leaving room for additional export earnings of $3.8 billion. That is, currently, about 35 per cent of the potential is unexploited in Bangladesh's largest EU partner country market (Figure 28). Among other EU partners, Bangladesh has 38.5 per cent unutilised export potential in France, 36 per cent in Spain, 43 per cent in Poland, and 47 per cent in Italy. Only 47 per cent of potential is utilised in the Netherlands.

Figure 28: Export potential of Bangladesh in selected destination countries

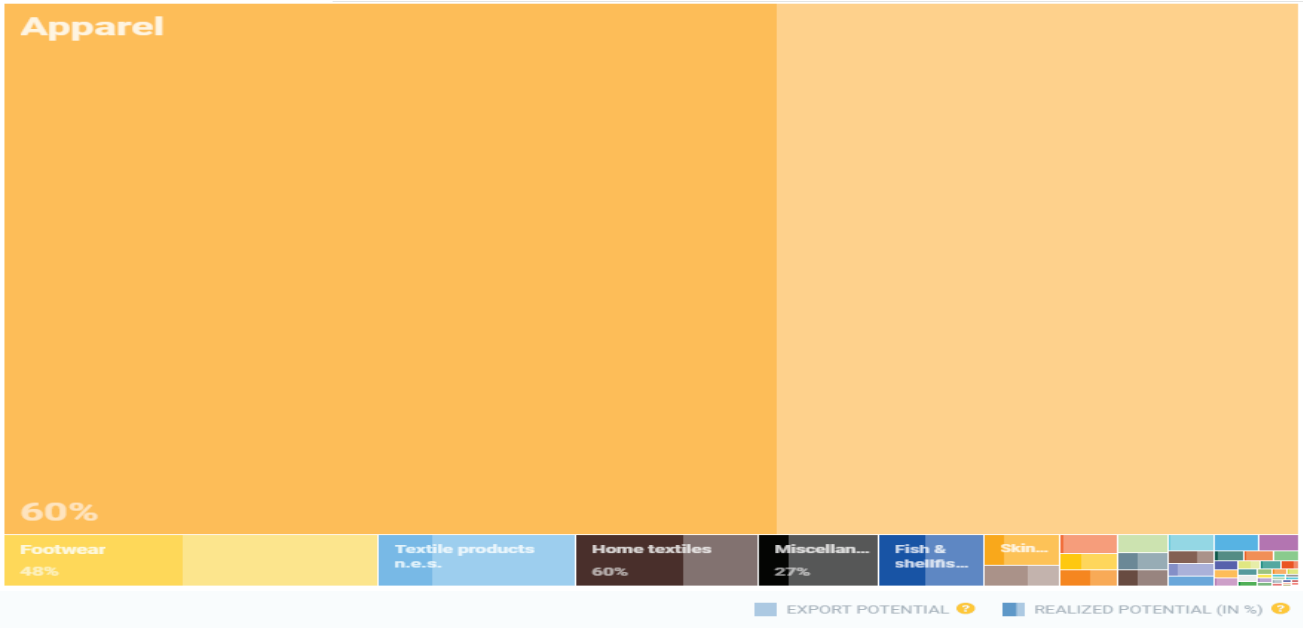


Source: Data and chart generated from the ITC Export Potential Map.

[9] The Export Potential Indicator (EPI) has three components: exporters' supply capacity for a product, demand conditions and bilateral 'easiness to trade'. An exporter's supply capacity is estimated as a dynamic version of market share, in which expected economic growth is considered to augment the exporter's capacity, and product-specific trade balance measured by the export–import ratio and global margin of preference, which encompasses information on tariff preference. Demand conditions are captured through partners' projected imports, which are determined by projected GDP and population growth, margin of preference in the target market, and distance advantage, which compares suppliers' geographical distances with the target market. The easiness to trade between two countries is computed based on the actual trade relative to hypothetical trade estimated by supply and demand conditions. If easiness to trade between countries is greater than 1, countries find it easier to trade between themselves relative to world markets. The export potential is then calculated by multiplication of estimated supply capacity, demand conditions and bilateral easiness to trade. Potential exports are estimated for disaggregated products at HS 6-digit level. The aggregate export potential of a country in a target market is the sum of product-level export potentials.

Figure 29 summarises the proportion of the actual exports as a percentage of actual plus unexploited export opportunities. Apparel items once again overwhelmingly dominate the unutilised export potential (over one-third of apparel export potential remains unexploited). Bangladesh only utilises 48 per cent of footwear export potential among non-apparel items, meaning there could be opportunities for an additional $570 million in export earnings. Among others, leather goods have untapped export potential of more than 70 per cent, home textiles 40 per cent, fish and shrimps 60 per cent.

Figure 29: Bangladesh's export potential in the EU, by products



Source: Authors' presentation using ITC Export Potential Map.

3.7 Estimated export potential based on expected market share

When the existing export base is small, quantitative exercises will show relatively small export potential, which can be quite unrealistic as well. For the same reason, the suggestion of just $6 billion worth of potential exports from Bangladesh's non-RMG sector to the EU's vast market is somewhat misleading. Therefore, a useful approach could be to use Bangladesh's current market share in individual items and consider a reasonable expectation about their future market share. This is somewhat subjective in nature but can offer useful directions for the significance of policy and firm-level efforts for export expansion. The most promising export products have been chosen from the ones that have already been identified for this study. These products were selected based on factors such as the size of the EU market, the growth of imports into the EU, Bangladesh's current exports, and Bangladesh's share of the EU. Table 6 lists 15 possible items from the bilateral RCA list, their current market share in the EU, and expectations about future market share. This assessment results in additional export revenue of $3.9 to $8.3 billion.

Table 6: Estimation of export potential of selected products based on RCA

HS code	Category	EU market size (million $)	EU import growth (%)	BGD's average export to EU (million $)	BGD share in EU (%)	Expected share (%)	Expected export (million $)
610910	RMG	13,590.0	2.5%	4322	32%	40% to 45%	1,114 to 1,794
640399	Leather goods and Footwear	13,022.0	2.3%	136	1%	5% to 10%	515 to 1,166
620342	RMG	10,957.2	1.2%	2745	25%	30% to 35%	542 to 1090
611020	RMG	10,683.3	4.7%	2249	21%	25% to 30%	422 to 956
640419	Footwear	9,635.5	9.6%	187	2%	5% to 10%	295 to 776
392410	Plastic	3,054.7	1.5%	16	1%	3% to 8%	76 to 229
630260	Textile	1,490.3	1.5%	71	5%	7% to 12%	34 to 108
630221	Textile	1,461.4	0.9%	136	9%	12% to 17%	39 to 112
871200	Engineering Product	4,433.2	4.1%	93	2%	5% to 10%	129 to 350
611120	RMG	2,801.6	2.9%	716	26%	30% to 35%	124 to 264
640291	Footwear	2,540.2	3.8%	45	2%	5% to 10%	82 to 209
691110	Ceramic	1,297.5	2.1%	27	2%	5% to 10%	38 to 103
611420	RMG	1,040.1	10.4%	210	20%	25% to 30%	50 to 102
640299	Footwear	7,621.7	5.6%	88	1%	3% to 8%	141 to 522
610462	RMG	4,120.7	8.6%	1294	31%	40% to 45%	355 to 561
Total							3,956 to 8,343

Source: Authors' analysis using data from ITC Trade Map.

Table 7 lists a few prospective goods where Bangladesh has a competitive edge elsewhere but not in the EU. Based on the aforementioned criteria, these ten goods were chosen. Bangladesh has a competitive advantage in these products but only has a small market share in the EU. If Bangladesh can increase its share by a small percentage, it could gain an extra $281 to $884 million.

Table 8 lists the products where Bangladesh's comparator countries have a comparative advantage over Bangladesh in the EU, as Bangladesh has neither an RCA nor an NRCA in these categories. However, Bangladesh has at least a $1 million global export market footprint in these products. Bangladesh might generate an additional $541 to $1,730 million in export revenue if it could only improve its market share to 1 per cent to 3 per cent.

Table 7: Estimation of export potential of selected products based on NRCA

HS code	Category	EU market size (million $)	EU import growth %	BGD's average export to EU (million $)	BGD share in EU (%)	Expected share (%)	Expected export (million $)
740400	Engineering Product	11,472	2.3%	14.3	0.0%	1% to 3%	100 to 330
420221	Leather and Leather Goods	4,156	6.1%	18.1	0.1%	1% to 3%	23 to 107
420222	Leather and Leather Goods	3,635	4.0%	15.6	0.1%	1% to 3%	21 to 93
70190	Agriculture	2193	5.1%	0.0	0.2%	1% to 3%	22 to 66
720711	Engineering products	1582	3.2%	0.0	0.2%	1% to 3%	16 to 47
70999	Agriculture	1459	7.2%	1.5	0.5%	1% to 3%	13 to 42
151590	Agriculture	1057	6.5%	0.0	0.6%	1% to 3%	11 to 32
950629	Others	985	14.1%	0.0	1.4%	3% to 7%	30 to 69
871000	Engineering products	776	20.7%	0.0	0.0%	1% to 3%	7.7 to 2.3
30289	Fish	696	3.7%	0.0	0.5%	1% to 3%	7 to 21
Total							251 to 830

Source: Authors' analysis using data from ITC Trade Map.

Table 8: Estimation of export potential of selected products based on comparator countries BRCA

HS code	Category	EU market size (million $)	EU import growth (%)	BGD's average export to the EU (million $)	BGD share in the EU (%)	Expected share (%)	Expected export (million $)
850440	Engineering Product	25299.9	9.1%	0.1	0%	1% to 3%	253 to 759
392321	Plastic	3823.1	2.7%	10.9	0%	1% to 3%	27 to 104
630790	Textile	14607.4	54.6%	28.3	0%	1% to 3%	118 to 410
390761	Plastic	3312.6	16.7%	0.2	0%	1% to 3%	33 to 99
611595	RMG	2897.5	5.0%	11.6	0%	1% to 3%	17 to 75
851822	Engineering Product	2455.3	6.7%	1.7	0%	1% to 3%	23 to 72
030743	Fish	2342.0	3.6%	0.1	0%	1% to 3%	23 to 70
100630	Agriculture	1873.6	5.4%	1.5	0%	1% to 3%	17 to 55
850431	Engineering Product	1550.9	1.5%	0.0	0%	1% to 3%	15 to 47
550320	MMF	1329.6	0.8%	0.0	0%	1% to 3%	13 to 40
							541 to 1,730

Source: Authors' analysis using data from ITC Trade Map.

Table 9 encompasses ten complex potential products that Bangladesh presently exports but at low volumes. If Bangladesh could achieve a market share of 1 per cent to 3 per cent in each of these products, the potential export earnings from this subset of 10 items could increase by $3.8 to $11.6 billion. Considering the 45 identified potential products, Bangladesh could enhance its exports by $8.6 to $22.5 billion.

Table 9: Estimation of export potential of complex products (HS 4-digit level) identified through product space

HS code	Category	EU market size (million $)	EU Import growth	BGD's Average export to the EU (million $)	BGD share in the EU (%)	Expected share (%)	Expected export (million $)
8708	Parts of motor vehicles	154,509.6	2%	0.03	0%	1% to 3%	1,545 to 4,635
8542	Electronic integrated circuits	64,714.3	9%	0.02	0%	1% to 3%	647 to 1,941
8507	Batteries	38,366.62	32%	0.04	0%	1% to 3%	384 to 1,151
3926	Other articles of plastic	33,308.33	5%	3.21	0%	1% to 3%	330 to 996
9401	Seats	31,220.74	3%	0.36	0%	1% to 3%	312 to 936
9503	Toys	18,427.29	6%	55.96	0%	1% to 3%	128 to 497
1905	Bakery products	17,272.1	7%	1.71	0%	1% to 3%	171 to 516
2309	Animal feed	17,225.85	9%	0.00	0%	1% to 3%	172 to 517
8534	Electronic printed circuits	8,326.393	4%	0.04	0%	1% to 3%	83 to 250
8532	Electrical capacitors	6,047.154	10%	0.00	0%	1% to 3%	60 to 181
						Total	3,832 to 11,621

Source: Authors' analysis using data from ITC Trade Map.

3.8 Market access conditions of potential export items in the EU after LDC graduation

In this analysis, Bangladesh's market access conditions in potential export diversification items and tariff preferences in the EU for the identified products are examined. Table 10 provides a summary of different tariff rates and preference margins under the three tiers of the EU GSP.[10] For identified potential agricultural products, Bangladesh currently enjoys zero tariffs in the EU market. If Bangladesh can avail GSP+, it will face an average tariff rate of 2.7 per cent, resulting in a margin of preference (compared with MFN tariff) of 6.1 percentage points. Apart from agriculture, zero tariff rates will be applicable for almost all potential sectors under the GSP+ scheme. This implies that Bangladesh's current tariff preference for the identified potential goods will continue even after 2029. However, it is crucial to note that if the safeguard measures (as in the proposed GSP 2024-34) are maintained, the RMG and home textile products will not receive any tariff preference. Instead, they will face MFN rates ranging from 10 to 12 per cent (Table 10). Thus, it shows the significance of GSP+ for Bangladesh after LDC graduation.

[10] The margin of preference is the difference between the MFN rate and the tariff rate under a specific tier.

Table 10: Tariff rates and margin of preference under three schemes of EU GSP for identified potential products (%)

Category	MFN	Stan-dard GSP	GSP+	EBA	Margin of preference (Percentage points difference from MFN rate)		
					EBA	GSP+	Standard GSP
Agricultural products	8.8	5.6	2.7	0.0	8.8	6.1	3.2
Engineering goods	2.0	0.6	0.1	0.0	2.0	1.9	1.4
Fish	9.3	5.3	0.1	0.0	9.3	9.2	4.0
Home textile	9.9	7.9	0.0	0.0	9.9	9.9	2.0
Leather and leather goods and footwear	5.1	2.0	0.2	0.0	5.1	4.9	3.1
Other footwear	13.9	9.3	0.0	0.0	13.9	13.9	4.6
RMG	11.8	9.5	0.0	0.0	11.8	11.8	2.3
Cotton-based apparel	11.5	9.2	0.0	0.0	11.5	11.5	2.3
Non-cotton apparel							
Other products	4.3	2.5	0.0	0.0	4.3	4.3	1.8

Source: Authors' analysis using data from WITS.

IV. Constraints and Challenges for Export Diversification

There exist significant opportunities for enhancing both RMG and non-RMG exports to the EU, characterised by robust demand and favourable market access conditions. Unfortunately, various constraints are impeding the country from fully utilising this potential. Extensive research, encompassing stakeholder consultations and key informant interviews, has shed light on the barriers restraining Bangladesh's ability to capitalise on the EU market opportunities. These barriers primarily stem from policy and political economy factors and supply-side issues that directly impact the productive capacity and competitiveness of firms. This section provides a brief discussion of these barriers.

Information and knowledge gap regarding the export destination

Lack of information is one of the common problems of export expansion for Bangladeshi exporters. Limited resources for market research and information gathering hinder potential exporters from actively seeking market opportunities, leading to challenges in understanding evolving demand, potential competitors, and regulatory requirements for a specific market like the EU. These problems are more serious for non-RMG sectors than the RMG sector, as the RMG sector has been successful in establishing Bangladesh as a global brand for apparel products and has established a strong market linkage. Many non-RMG manufacturers point out that they do not have much idea about the destination country's market size, demand, quality and standard requirements, supply chain mechanisms, and potential competitors. The lack of this information acts as a strong barrier to entry into a new export market.

Policy-induced anti-export bias

Anti-export bias arises when government policies or regulations discourage exports. In Bangladesh, domestic import-competing sectors benefit from high protection through customs duties and extensive para tariffs. Elevated protectionist measures, including import tariffs and trade taxes, encourage producers in Bangladesh to focus on the domestic market over exports because of the higher profitability. There is

now a broad acknowledgement of the inherent policy bias that deters exporters.

Ideally, the nominal rate of protection for import-competing sectors should be determined solely by customs duties. However, in practice, additional taxes such as supplementary duty (SD), regulatory duty (RD), advance income tax (AIT), and value-added tax (VAT) are primarily levied on imports in Bangladesh. This results in heightened protection for import-substituting industries. The average nominal protection rate for products identified as potential drivers of export diversification in this study ranges from 12 to 73 per cent. Meanwhile, the total tariff incidence (TTI) on imported goods is considerably higher, ranging from 37.5 to 123.4 per cent (Table 11).

Table 11: Average duty rate on selected product category in Bangladesh (%)

Category	Applied CD	Applied SD	Applied VAT	Applied RD	AIT	NPR	TTI
Fish	23.9	2.2	7.9	2.9	4.9	36.1	49.8
Agriculture	19.0	14.1	9.9	4.0	4.6	35.0	65.8
Engineering goods	12.3	12.3	14.3	1.3	7.8	25.6	61.0
RMG	24.4	41.9	15.0	0.2	5.0	66.4	113.7
Home textile	25.0	12.1	15.0	3.0	5.0	40.0	74.9
Leather and leather goods	11.6	3.6	9.5	0.9	4.8	16.2	38.9
Other Footwear	25.0	30.3	15.0	3.0	5.0	59.1	101.7
Leather footwear	25.0	45.0	15.0	3.0	5.0	73.0	123.4

Source: Authors' analysis using data from National Board of Revenue (NBR), 2023.

Note: CD= Customs Duty, SD= Supplementary Duty, VAT= Value Added Tax, AIT= Advanced Income Tax, RD= Regulatory Duty, NPR= Nominal Protection Rate, TTI= Total Tax Incidence.

Moreover, with domestic standards being lower than export standards, the incentive to cater exclusively to the domestic market is amplified. While the chosen sectors thrive in the domestic market, the policy-induced anti-export bias hampers global competitiveness by discouraging the production of high-quality products and enhancing productivity.

Furthermore, Bangladesh leans heavily on import tariffs for domestic resource mobilisation, drawing nearly one-third of its domestic revenue from trade taxes. Efforts to rationalise tariffs and address the anti-export bias have been stymied by concerns over potential revenue losses and opposition from import-competing sectors. This continued dependence on tariff revenues perpetuates the anti-export bias.

Discriminatory export incentive structures discouraging exports

The insufficient export incentives for non-RMG sectors have hindered the expansion and diversification of Bangladesh's export portfolio. In the 1990s, RMG exporters benefited from a 25 per cent cash incentive on their exports. However, this support gradually decreased, with current rates ranging between 5-10 per cent. Recently, non-garment exports have received cash incentives of 10-20 per cent. Yet, aside from leather, frozen shrimp, and fish, few sectors have a substantial export base that can leverage these incentives for significant export growth and diversification. Non-RMG sectors also encounter challenges in obtaining duty-free intermediate inputs. While they might not be sizable enough to maintain bonded warehouses, the alternative methods for reimbursement on duties paid for imported raw materials intended for export are often inefficient and dysfunctional. Additionally, these exporters face constraints in accessing finance.

Low quality and lack of standards in the domestic market

Adhering to international standards and ensuring product sophistication play a crucial role in achieving export success. However, in Bangladesh, apart from the RMG sector, most industries primarily focus on the domestic market for their sales. Consequently, the significance of international quality comparisons is often overlooked, and the enforcement of standards in the local market remains inadequate. Consequently, numerous firms find themselves unprepared for exporting, particularly to advanced economies, due to the nature of their current product offerings. Agricultural and food processing exporters and entrepreneurs, for example, have reported the presence of high urea pesticides in processed food intended for the domestic market, which fails to meet international standards. Unfortunately, there is currently no regulation governing the maximum urea content in the domestic market. This scenario is not unique to these industries alone; it is a common issue across various sectors.

Box 1: A dominant firm is facing challenges in exporting shrimp in the EU market

Apex Foods, a leading shrimp exporter in Bangladesh, has faced considerable challenges in the European Union (EU) market. Mr Mominuddin Ahmed Khan, the company's Executive Director, shed light on the obstacles that have hindered the sector's growth in recent times. The dwindling production and quality of tiger shrimp in Bangladesh have posed sourcing challenges. While there's a growing market for affordable Vannamei shrimp, Bangladesh is only starting to tap into this potential.

Bangladeshi shrimp exporters grapple with EU trade regulations and stringent compliance standards related to food safety, quality, and labelling.

The shrimp industry in Bangladesh faces stiff competition from dominant players like India, Vietnam, and Thailand. Bangladeshi exporters are affected by inadequate infrastructure, outdated technology, and limited resources, making it tough to compete globally. Elevated logistics and transportation expenses further diminish the competitiveness of Bangladeshi exporters compared to their peers.

To bolster exports to the EU, Bangladeshi exporters need to align with EU standards rigorously. This encompasses compliance with residue limits, microbiological standards, temperature guidelines, traceability, sustainability, and acquiring certifications like GAP. Strengthening traceability and securing certifications such as ASC, MSC, and HACCP are pivotal to meeting international standards, thereby elevating the global standing of Bangladeshi shrimp.

Investing in shrimp processing, research, and enhancing logistics is essential to improve shrimp quality and yield. Minimising transportation expenses and fostering robust ties with EU stakeholders can elevate competitiveness. Emphasising sustainable and ethical practices throughout the supply chain is also crucial. Assisting small to medium shrimp producers is vital, as lapses in individual operations can ripple across the sector.

Box 2: The regulations and standards to be maintained for exporting to the EU

Industry	Regulations to be maintained	Standards requirement
Agriculture and processed food	• Agricultural Market Act 1958 General Food Law Regulation (EC) No 178/2002 • The EU animal health law Regulation (EU) 2016/429	• Hazard Analysis and Critical Control Points (HACCP) • Heath certificate issued by the country of origin • Specific Marketing Standard (SMS) • General Marketing Standard
Shrimp and Fish	• General Food Law Regulation (EC) No 178/2002 • The EU animal health law Regulation (EU) 2016/429	• Hazard Analysis and Critical Control Points (HACCP) • Pre-notification to Import of Products, Animals, Food, and Feed system (IPAFFS) • Health certificate issued by the country of origin
Leather and footwear	• Registration, Evaluation, Authorisation, and Restriction of Chemicals (REACH) • Directive 94/11/EC • European Ecolabel Regulations 1999 • Regulation on Personal Protective Equipment EU 2016/425	• An importer must register with HSE if the import volume is over one tonne • The finished products have equal or lower levels of azo dyes, chromium VI, and dimethyl fumarate (DMF) • Labelling, self-testing products, and providing a warning to the consumers
Light engineering	• Registration, Evaluation, Authorisation, and Restriction of Chemicals (REACH) • Low Voltage Directive (LVD) and the Electromagnetic Compatibility (EMC) Directive	• Declaration of conformity • Record of related conformity assessment procedures • Associated production control documentation

Challenges associated with export readiness among firms, particularly SMEs

Apart from a few, most firms in the identified industries use manual and traditional technology, resulting in low productivity and low-quality products at higher costs. This lack of technological adaptation is prevalent across various sectors, hindering their competitiveness and growth potential. Comparator countries like China and Vietnam have been leveraging the use of advanced technology.

In the engineering sector, for example, comparator countries use advanced technologies like Computer-Aided Design (CAD), Computer Numerical Control (CNC), and 3D printing to manufacture intricate and high-quality products with precision and accuracy. In contrast, most engineering firms in Bangladesh still employ manual production techniques due to the high costs associated with adopting modern technologies. Additionally, the scarcity of skilled workers capable of operating this advanced machinery further discourages firms from embracing technological upgradation. The leather sector also faces technological constraints, particularly in terms of outdated and inefficient tannery equipment and machinery. Traditional leather processing methods employed by most tanneries result in low-quality products, excessive waste generation, and diminished productivity. Furthermore, many footwear companies lack the technological advancements utilised by competitor countries to reduce lead times. Consequently, renowned brands often prefer working with footwear manufacturers based in countries like Vietnam and China, which possess the necessary technological infrastructure.

Shortage of skilled labour

One of the significant challenges faced by export-oriented firms in Bangladesh, be it in the RMG or non-RMG sectors, is the shortage of specialised professionals and skilled workers. This issue is particularly critical in sectors like light engineering and leather footwear, where there exists a substantial mismatch between the skills possessed by the available workforce and the skills demanded by employers.

The demand for non-cotton-based apparel, particularly those made from man-made fibres, is on the rise in the RMG sector. However, garment owners are facing difficulties in finding skilled employees who can operate and maintain the modern machinery required for producing non-cotton-based apparel. The production process for these garments significantly differs from that of cotton-based apparel, posing a challenge for industry stakeholders. One of the main issues highlighted by industry leaders is the lack of necessary skills among newly graduated employees. The training they receive is often based on primitive machinery, which does not equip them adequately for working with the advanced technologies involved in producing non-cotton-based apparel. As a result, employers are compelled to invest a significant amount of time and resources in training these employees to meet the industry's requirements.

Box 3: Struggles with outdated technology and unskilled labour in Engineering sectors

Salma Engineering Workshop, founded by Md. Abdur Rahman, in 1980, specialised in the production of engine cracks, grinding machines, liners, and various machinery. Throughout the years, the company expanded its product range to meet the demands of the local market. The owner acknowledges that the workshop's workers have acquired experience over time, as they did not receive any formal institutional training. Despite the presence of training facilities under the World Bank's "Export Competitiveness for Job" project, the owner finds the training provided insufficient to meet industry requirements. He believes that the curriculum of the training programme is outdated and fails to adequately enhance the skills and quality of the workers.

Salma Engineering Workshop faces intense competition from cheap imported products from China and India. However, due to a lack of knowledge in operating advanced machinery and limited working capital, the company continues to rely on outdated technologies. While the workshop has gradually introduced machinery and equipment into its production process, most of these additions have been self-made.

The owner highlights a critical issue in the workforce: the workers lack the necessary knowledge and skills to adapt to new technologies and effectively operate the machinery and equipment. Consequently, the industry has witnessed minimal advancements in its manufacturing processes. Unfortunately, there is a lack of collaborative efforts within the industry to improve product quality and develop new products.

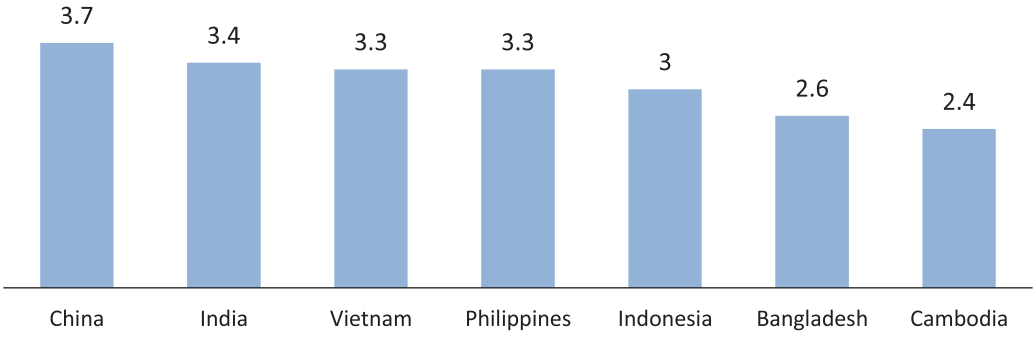
Access to finance for export-oriented firms

Access to finance plays a critical role in enabling firms to invest in new technologies, expand production, and meet the demands of foreign markets. However, in Bangladesh, numerous firms, especially those in the export sector, face significant challenges in accessing finance. In recent times, the support from the Export Development Fund (EDF) has significantly been reduced due to the foreign exchange reserve crisis. Studies on export diversification have consistently identified the lack of access to finance as a key constraint. This issue disproportionately affects small and medium-sized enterprises (SMEs). Many SMEs struggle to provide the necessary collateral to secure loans from banks, impeding their ability to invest in equipment, expand production capacity, and recruit skilled workers. Additionally, the complex procedures involved in loan applications further hinder access to finance.

Trade logistics

Bangladesh's export diversification strategy is significantly impeded by trade logistic issues, posing a serious threat to its economic growth. The inefficiency in trade logistics leads to high costs, as industries in Bangladesh bear substantial expenses for logistics, ranging from 4.5 per cent of leather shoe sales to 47.9 per cent of horticulture sales (Herrera Dappe et al., 2019). Furthermore, unreliable and congested logistics systems contribute to prolonged lead times, further hindering the country's competitiveness in the global market. Bangladesh lags behind its competitors like China, India, and Vietnam in terms of logistic performance, as indicated by the World Bank's Logistic Performance Index (LPI) (Figure 30). Despite efforts, Bangladesh has made limited progress in improving trade logistics between 2012 and 2018 across various dimensions, including customs, transport infrastructure, international shipments, logistic competence, tracking and tracing, and timeliness.

Figure 30: Logistic Performance Index 2023



Source: World Bank (2023). Note: The index values range from 1-5 to indicate worst to best.

Among the export sectors, agriculture suffers disproportionately due to inefficient trade logistics. Improper handling of perishables, inadequate transportation, insufficient storage facilities, and a lack of cold storage facilities contribute to exorbitant post-harvest losses in Bangladesh's fruit and vegetable industry. It is estimated that reducing the current post-harvest losses by approximately 75 per cent would result in yearly savings of around $1.875 billion. Addressing trade logistic challenges and enhancing the agricultural supply chain can lead to substantial improvements in cost efficiency, quality preservation, and overall export competitiveness for Bangladesh (Siddiq & Basher, 2020).

Limited participation in the global value chain (GVC)

Bangladesh's limited participation in global value chains (GVCs) has constrained its export diversification prospects. While the country has achieved commendable success in the ready-made garment (RMG) sector, its engagement in GVCs remains largely confined to this industry. This narrow focus has hindered the exploration and development of other potential export sectors. By not integrating more comprehensively into GVCs, Bangladesh misses out on opportunities to access new markets, technologies, and knowledge, which are essential for diversifying its export basket.

Furthermore, limited GVC participation means Bangladesh often remains at the lower end of the value chain, primarily involved in basic manufacturing and assembly tasks. This position results in lower value addition and makes the country vulnerable to external shocks and competition from other low-cost producers. To truly harness the benefits of export diversification, Bangladesh needs to climb up the value chain, diversify its GVC participation, and invest in sectors beyond RMG, ensuring a more balanced and resilient export portfolio.

For a non-RMG firm to participate in EU-based GVCs would signify a transformative leap in standards, quality, and compliance. The European Union is characterised by stringent regulations, high consumer expectations, and a competitive market landscape. Engaging in an EU-based GVC would necessitate the firm to elevate its production standards, adopt sustainable and ethical practices, and ensure strict adherence to EU regulations, especially concerning product quality, safety, and environmental impact. Moreover, it would provide the firm with exposure to cutting-edge technologies, advanced business practices, and a vast network of suppliers and buyers. This participation would not only enhance the firm's global competitiveness but also position it to tap into the lucrative European market, fostering innovation, capacity-building, and long-term growth.

Infrastructural bottlenecks

Bangladesh faces significant challenges in its export competitiveness due to infrastructural bottlenecks that particularly affect less-established export products. Despite notable efforts to address electricity shortages in recent years, the energy crisis resulting from the Russia-Ukraine war has caused disruptions in the manufacturing industry, with scheduled electric grid shutdowns impacting production. Additionally, weak infrastructure like road transportation and trade logistics further compounds the issue. The main economic corridor experiences congestion, limited containerisation, inefficient container handling and management, lengthy customs processes, and inadequate port infrastructure. These factors contribute to higher trading costs and longer lead times, affecting the efficiency of export activities.

In the context of Bangladesh, acquiring intermediate inputs from abroad prior to manufacturing export orders often leads to excessively long delays due to multiple factors, including two-way shipping of goods, inadequate port infrastructure, and inefficient inland transportation. Stakeholders in the leather, footwear, and engineering sectors have expressed concerns about unnecessary delays at the port. Even the clearance of leather crust samples and other materials for export purposes can take more than a month at the port, causing significant delays for exporters.

Issues with governance

Governance issues in Bangladesh contribute to an unfavourable business environment and weak regulatory practices, including ineffective enforcement of labour standards, which have negative implications for industrial production for exporting purposes. One prominent example of governance challenges is evident in the tannery sector. The relocation of the tannery industry from Hazaribagh to Savar was expected to address various sectoral issues, such as congestion, waste disposal challenges, health concerns in densely populated areas, and limited expansion opportunities due to space constraints. However, even after the relocation, the central effluent treatment plant (CETP) designed to handle wastewater remains partially operational, creating compliance barriers for leather exporters. Moreover, the capacity of the CETP is insufficient, exacerbating problems during peak seasons. The absence of a central dumping yard, dysfunctional drainage system, and poor road conditions within the estate further impede production activities. As a result, domestically produced leather suffers from poor quality, significantly impacting its export potential.

Similarly, many non-RMG sectors face challenges stemming from a shortage of industrial infrastructure, dispersed firms, and limited access to utilities. The high cost of doing business within this environment hampers the sector's expansion. Weak regulatory capacity and enforcement mechanisms also contribute to inadequate environmental and health safety standards, which adversely affect the quality of final products and working conditions.

RMG and textiles will not get tariff preference in the EU's post-graduation schemes

Bangladesh is confronted with a distinctive challenge stemming from the EU's proposed GSP 2024-34 framework, particularly concerning its apparel and textile exports. Despite potentially meeting the criteria for GSP+ benefits, Bangladesh's RMG and textile sector would be excluded from these advantages. Instead, it would face a considerably higher tariff rate of 10 to 12 per cent in the EU, a complete contrast to the current zero tariff rate. This sharp increase in tariffs threatens to significantly diminish the country's competitiveness in the export market, making its products more expensive for EU consumers and potentially reducing demand for Bangladeshi textiles and apparel. With the EU's dynamic market, favourable access there would significantly accelerate the diversification effort of non-cotton-based apparel, and success in the EU could also pave the way for success in other markets.

EU Policy Regimes

The EU's Carbon Border Adjustment Mechanism (CBAM)

The EU Green Deal is a significant initiative aimed at achieving carbon neutrality in the European Union by 2050. A key component of this deal is the introduction of a Carbon Border Adjustment Mechanism (CBAM), which seeks to incorporate the cost of carbon dioxide (CO2) emissions in both domestically produced and imported goods. The CBAM regulation would initially require importers of certain energy-intensive goods to pay a levy in respect of their imports that corresponds to the price of emissions allowances under the EU Emissions Trading System. Under the CBAM, the reporting obligations started from October 1, 2023, while the actual payment of the carbon charges will kick in as of 2026. The objective of the CBAM is to ensure fairness and equal treatment among trading partners, adhering to principles of non-discrimination and national treatment. The mechanism aims to create a level playing field by internalising the carbon cost and promoting a more sustainable and climate-friendly economy. While Bangladesh may not be significantly impacted in the initial stages of the EU's CBAM, as the product coverage is limited (to six sectors viz., steel, cement, fertilisers, electricity, aluminium, and hydrogen), it is anticipated that the scope of these measures will expand, potentially encompassing the apparel sector and other sectors as well. Unless Bangladesh prepares well from now, CBAM could disproportionately impact Bangladesh given that such competitors as China, India, Vietnam, etc., have taken measures such as significantly expanding their power generation from renewable resources and introducing a domestic carbon market to initiate the process of internalising the carbon cost domestically. This will aid their preparation for exporting under CBAM. Given the current small base of non-RMG exporters, it is most likely that their export competitiveness might take a bigger hit if the scope of CBAM expands in the near future.

Environmental, Social and Governance (ESG) compliance and implication for trade and investment

The EU is leading the way in incorporating environmental, social, and governance (ESG) compliance into global trade and investment regimes. ESG criteria are now being used by investors to identify risks and opportunities, and major financial institutions are rapidly integrating ESG criteria into their products and portfolios. The mainstreaming of ESG issues in the financial industry is influencing the business plans and financing of multinational enterprises (MNEs). Consumers are also increasingly prioritising sustainable consumption, with a significant percentage of customers considering the sustainability of products in their purchasing decisions. These trends highlight the growing importance of ESG issues in international commerce and corporate activities, signalling that future export success will depend on ESG compliance.

The emerging trend seems to suggest that the future performance of both RMG and non-RMG exports will be largely dependent on ESG compliance. It is expected that the RMG sector will be able to withstand the challenges. With many green garment factories, Bangladesh has already taken a considerable stride

forward, although several additional ESG challenges, such as excessive water usage, weak labour standards, inadequate waste management, etc., continue to confront the sector.

While Bangladesh's largest and most significant export industry, the RMG sector, is under scrutiny, ESG standards for other sectors—whether in the import-competing or export-oriented sectors—are widely regarded to be much worse. In such a situation, unless considerable consideration is paid to enhancing ESG compliance, promoting exports might be difficult. That is, export diversification to the EU could be more difficult if the relevant standards of environmental and social governance are not complied with.

EU's sustainability and supply chain regulations[11]

The adoption of the Directive on Corporate Sustainability Due Diligence by the European Commission has significant implications for businesses operating globally. Under the directive, companies are legally obligated to uphold human rights and environmental protection throughout their entire supply chain. The law aims to prevent forced labour, child labour, workplace safety violations, worker exploitation, and environmental harm such as greenhouse gas emissions, pollution, and biodiversity loss. Covered companies are required to conduct due diligence to identify and address any negative impacts on human rights and the environment resulting from their operations and business relationships. This includes engaging with affected parties, establishing codes of conduct, implementing policies for environmental and human rights due diligence, and investing in infrastructure to ensure compliance. Companies must also align their business strategies with the goal of limiting global warming to 1.5°C, as outlined in the Paris Agreement. The directive is expected to initially apply to around 13,000 EU companies and 4,000 non-EU companies. While micro, small, and medium enterprises are not directly affected, they may face indirect implications as larger companies require them to review their supply chains and demonstrate compliance with due diligence requirements.

This law in the EU and individual member states has implications for businesses in developing countries that supply the EU. Compliance with EU due diligence extends to all business relationships along the supply chain, including the indirect suppliers. Monitoring the entire supply chain for environmental, climate, and human rights violations is required. As the EU is a crucial export destination and source of investment for Bangladesh, compliance with these laws can boost export and investment opportunities.

Most non-RMG firms in Bangladesh face significant challenges in adhering to sustainable practices and due diligence requirements. The primary reasons for this include limited awareness, inadequate infrastructure, and the absence of a robust regulatory framework that emphasises sustainability. Many of these firms operate on thin margins and perceive investments in sustainable practices as additional costs rather than long-term investments. Furthermore, the lack of technical know-how and limited access to resources and training often hinder these firms from adopting global best practices. The absence of a culture emphasising sustainability, coupled with the pressure to deliver products at competitive prices, often pushes these non-RMG firms to prioritise immediate gains over long-term sustainable practices.

This difficulty in compliance poses a substantial threat to Bangladesh's export diversification prospects. As global markets, especially in the West, are increasingly emphasising sustainability and ethical production, non-compliance can lead to reduced market access, loss of business opportunities, and potential reputational risks. Firms that fail to meet international sustainability and due diligence standards may find themselves excluded from global value chains, facing import restrictions, or losing out to competitors who prioritise and invest in sustainable practices. In an era where consumers and businesses are becoming more

[11] More discussion on this issue can be found in a previous RAPID study (Razzaque & Rahman, 2022).

conscious of environmental and ethical considerations, Bangladesh's non-RMG firms' inability to adapt could significantly hamper the nation's broader export diversification ambitions.

V. Policy Recommendations

The EU provides generous market access to both LDCs and developing nations through its GSP scheme. Bangladesh will continue to benefit from the EU's most generous trade preference scheme, the GSP programme designed for LDCs, until 2029. After LDC graduation, if Bangladesh qualifies for GSP+, many potential non-RMG exporters will continue to enjoy significant trade preferences in the EU. Building on the identification of potential sectors and their export prospects, as well as the challenges of exporting to the EU, this section outlines a set of policy recommendations aimed at overcoming constraints and facilitating the export growth of these potential products. The recommendations are organised into three key areas: general policy recommendations, sector-specific priority issues, and ensuring market access after LDC graduation.

5.1 General Recommendations

Promoting export opportunities in the EU through the dissemination of market-specific information is critical

Exporters often lack awareness of the preferential market access opportunities available to Bangladesh in the EU and other markets, and their limited technical expertise hinders effective market analysis for their products. Asymmetric information is particularly challenging in non-RMG sectors. To address these issues, exporters should be provided with comprehensive information on preferential market access, including product-specific tariffs, rules of origin, cumulation rules, SPS measures, and the required tests and certification procedures. Institutions such as the Export Promotion Bureau (EPB) and the Bangladesh Foreign Trade Institute (BFTI) can help non-RMG firms to assess export market prospects and firm-level competitiveness.

Attracting FDI can play a pivotal role in promoting export diversification in Bangladesh

FDI not only brings in capital but also introduces advanced technologies, managerial expertise, and access to global markets. Over the years, multinational corporations have established operations in Bangladesh, tapping into the country's competitive advantages, such as its vast labour pool and strategic location. These investments have led to the creation of new industries and expanded the country's export basket beyond traditional items. For instance, the entry of global apparel brands has transformed Bangladesh into a leading garment exporter, and similar trends are emerging in sectors like electronics, pharmaceuticals, and information technology, where FDI is driving innovation and broadening export horizons.

Moreover, FDI facilitates the integration of local firms into global value chains (GVCs), a crucial step for export diversification. As foreign investors establish links with local suppliers, they often transfer knowledge, best practices, and standards that elevate the capabilities of domestic firms. This capacity-building enables local enterprises to meet the stringent quality requirements of international markets, paving the way for diversified exports. Furthermore, FDI often acts as a catalyst for infrastructural development and policy reforms as governments seek to create an enabling environment for foreign investors. Such improvements indirectly benefit the broader export ecosystem, making Bangladesh more competitive on the global stage and furthering its diversification agenda.

Moving up the global value chain for RMG exporters and integrating non-RMG exporters with the EU supply chain are important for boosting exports

The position of a country within the global value chain (GVC) is pivotal for its export prospects. GVCs, which encompass the entire lifecycle of a product from conception to consumption, have transformed traditional trade models. Instead of a single firm handling the entire production, GVC-driven trade divides production tasks across borders. While Bangladesh's apparel sector is integrated into the GVC, primarily in the low value cut, make, and trim (CMT) stages, it is essential for the country to ascend the value chain by enhancing its textile capacities and offering product design services to buyers.

On the other hand, Bangladesh's non-RMG sectors have yet to make significant inroads into the GVC. For these sectors, especially small and medium enterprises (SMEs), integration into the GVC is crucial to unlock their export potential. To further bolster exports to the EU, these non-RMG firms should also forge ties within the EU supply chain, encompassing major brands, retailers, and service providers. Non-RMG firms should be assisted in establishing contacts with foreign firms and brands.

Enhancing the capacity of existing standards authorities and institutions to provide the globally recognised certification and necessary testing facilities to exporters is a priority

Exporting products to advanced economies like the EU requires meeting stringent testing and standard requirements, which can pose challenges for exporters. This study identifies some priority sectors that need various testing certificates to export to the EU. However, the difficulty in conducting these tests acts as a deterrent, causing many potential exporters to focus on domestic sales rather than the international market. To address this issue, it is crucial to enhance the capacity of the Bangladesh Standards and Testing Institution (BSTI). Currently, the BSTI offers standard and testing facilities for only a limited range of products, forcing exporters to rely on foreign testing services. Therefore, there is a need to urgently invest in strengthening the capacity of the BSTI to provide comprehensive certification and testing services for export to various destinations.

Technological improvements will be critical for improving productivity and product quality in the non-RMG sectors with potential for export diversification

The use of outdated technology in many firms hampers the production of high-quality goods and results in decreased productivity. The adoption of advanced technology is crucial to improve productivity and competitiveness. While the garment industry in Bangladesh has embraced capital-intensive production processes and automation, other sectors like agriculture, fish, leather and footwear, and light engineering lag behind. There should be scope for policy support to facilitate technological adaptation. Technical support services can be provided to local manufacturers so they can learn about the need for technological catch-up and the prospect of vast EU market opportunities.

Equal access to incentives for all export sectors should be ensured to boost export diversification

To promote export diversification and ensure equal opportunities for all sectors, discrimination between the RMG and non-RMG industries needs to be eliminated. Extending bonded warehouse facilities to all sectors is essential, as many non-RMG sectors serve both domestic and foreign markets. All exporting firms, regardless of their sales distribution, should have access to bonded warehouse facilities, allowing import duties to be collected based on the proportion of goods produced for export and domestic consumption. This would enable non-traditional sector exporters to receive cash assistance and access duty drawback schemes. Additionally, non-apparel sectors should have equal access to export credit guarantee schemes

and other financing initiatives. Simplified access to utilisation declaration for non-apparel sectors should be ensured to streamline the process and save time.

Addressing anti-export bias is crucial for promoting non-RMG exports and export diversification

Domestic tariff-induced protection in Bangladesh has made local sales for non-RMG exports, like footwear and leather goods, more profitable than exports. This phenomenon of anti-export bias has hindered export diversification. This issue has recently been given due policy attention through the adoption of the National Tariff Policy (NTP) 2023. The NTP aims to address the problem by allowing duty-free imports for exports and rationalising the tariff structure.

Effective implementation of the National Tariff Policy (NTP) 2023 is pivotal for Bangladesh's export diversification ambitions. The current domestic tariff-induced protection system has skewed profitability towards local sales, especially for non-RMG exports, thereby stymieing diversification efforts. With its provisions for duty-free imports for exports and emphasis on reducing the anti-export bias, the NTP offers a roadmap to rectify this imbalance. However, without rigorous execution of the policy's guidelines, Bangladesh risks perpetuating the existing challenges, especially as it approaches its LDC graduation. Ensuring the NTP's directives are faithfully carried out is essential to unlock new export avenues, diversify the country's export base, and solidify its position in the global trade landscape.

Access to affordable financing is crucial for expanding and achieving economies of scale within Bangladesh's export sectors

Limited access to financing constrains the growth and diversification of the export sector, especially for emerging exporters and SMEs. While the Export Development Fund (EDF) and Export Credit Guarantee Scheme (ECGS) offer trade financing at reduced rates, covering both pre- and post-shipment financing and risk insurance payment, the efficacy and uptake of these programmes by diverse export firms warrant scrutiny. Drawing insights from nations like India, Indonesia, and Vietnam could guide the evolution of more effective export credit agencies in Bangladesh. Furthermore, engaging with the trade finance market and leveraging programmes from institutions like the Asian Development Bank and World Bank or IFC can expand coverage and reduce borrowing expenses.

Improving trade logistics in order to facilitate trade will help reduce trade costs, thus improving export competitiveness, especially for non-RMG sectors

Bangladesh faces significant challenges in trade logistics due to weak and inadequate infrastructure, resulting in high costs and longer lead times. Compared to competitors like China, Vietnam, and India, Bangladesh's average turnaround time at ports is relatively long, indicating room for improvement. The Indian government has invested since 2015 to enhance trade infrastructure, including roads, railways, and technology systems, aiming to improve trade efficiency and speed. Technology, such as a supply chain visibility platform and cargo tracking system, has played a crucial role in reducing delays. Bangladesh can learn from these initiatives and implement similar measures to improve delay times. Attracting foreign direct investment (FDI) can also contribute to enhancing trade logistics by facilitating knowledge and technology transfers and improving management practices. Improving the business environment to attract FDI should be a priority for the government.

Establishing a domestic carbon market and formulating and implementing carbon reduction policies should be a top priority in expanding exports to the EU

The international trading landscape is experiencing the introduction of carbon taxes on imports, with the EU implementing its CBAM in October 2023. While Bangladesh may not be significantly affected initially, there

is a possibility that the scope of these measures will expand to include the apparel sector. This, combined with the potential loss of tariff preferences resulting from LDC graduation and increased competition from countries like Vietnam, poses challenges for Bangladesh's export industry. To address these challenges, Bangladesh should prepare for the implications of carbon tax measures and consider implementing a green tax as a policy initiative. Establishing a domestic carbon market can help reduce greenhouse gas emissions, enhance climate resilience, and adapt to changing circumstances in the EU market. It is crucial for Bangladesh to take proactive measures to navigate these emerging challenges.

Promoting exports will require exporting firms to adopt sustainable production practices and comply with ESG-related standards

The importance of climate change and sustainable development is growing in international trade and investment attraction. Western consumers are increasingly prioritising sustainable consumption, and foreign investors are actively seeking sustainable projects. Consequently, ESG compliance has become crucial for investors and EU-linked global supply chain leaders. Compliance scrutiny will continue to rise as climate campaigns gain momentum. While non-compliance issues persist in Bangladesh's clothing industry, non-garment export industries and import-competing sectors face even greater challenges. For future export success, sustainable production practices and adherence to ESG-related compliances are vital. Enhancements in these areas will boost the competitiveness of exporting firms and facilitate compliance with the EU's supply chain due diligence. Bangladesh can also seek support from the EU to make adjustments and build capacity in these aspects.

5.2 Sector-specific recommendations

It is extremely important to implement targeted interventions to address the unique obstacles faced by specific sectors. This section outlines key policy recommendations tailored to these sectors.

Non-cotton-based apparel sector

In the non-cotton-based apparel sector, Bangladesh stands on the cusp of a significant opportunity. The global market for non-cotton apparel is growing faster than that of cotton-based products, yet Bangladesh's potential to seize the non-cotton apparel market remains constrained by a lack of backward linkage capacity. To truly harness this potential, it is imperative for Bangladesh to address the associated challenges on a priority basis. First and foremost, introducing low-cost financing options can encourage investment in backward linkage sectors, mainly in the production of man-made fibres and fabrics. It is also important to ensure that all non-cotton intermediate inputs are available to exporters duty-free. The skills gap in this industry must be addressed as well, given that moving into non-cotton apparel will require technology-intensive production processes. By integrating contemporary non-cotton apparel manufacturing techniques and offering hands-on training with cutting-edge machinery, the requisite skills to meet global industry standards can be developed.

Agricultural products

Promotion of Good Agricultural Practices (GAP) and Cold Chain Development: Minimising pesticide use in agriculture is essential to ensure low pesticide residues in raw materials for the food processing industry. Raising awareness about alternative pest management techniques and the repercussions of excessive chemical use can help improve the export supply capacity. Supporting the adoption of GAP can elevate the quality of agricultural products, making them compliant with the standards of European markets. Moreover, establishing robust cold-chain infrastructures is a precondition for improving the standards required for exports. Current limitations in testing capabilities also hinder compliance with international

standards. Enhanced testing infrastructure can ensure that agricultural exports meet stringent quality and safety requirements, thereby increasing market access and acceptance, especially in the European Union. Investment in modern testing laboratories and certification processes will not only elevate the credibility of Bangladesh's agricultural exports but also foster trust among buyers.

Fish and shrimps

To improve the competitiveness of the shrimp industry in Bangladesh and meet the increasing demand for shrimp products in international markets, it is important to undertake the following measures:

- Cultivating high-yield shrimp species, such as Vannamie shrimp, can reduce production costs and enhance the competitiveness of Bangladeshi shrimp in the global market.
- Enhance laboratory facilities and technology access: Improving laboratory facilities for shrimp quality testing and granting processing plants access to cutting-edge technology will enable the production of high-quality shrimp products that meet international market standards.
- Providing assistance to small and medium-sized processing plants: Offering financial and technical support, including credit facilities, training programmes, and technical assistance, to SME processing plants will help improve their productivity and competitiveness.
- Establishing a certification system for sustainable and socially responsible shrimp production: Implementing a certification system for sustainable and socially responsible shrimp production will boost consumer confidence and increase demand for Bangladeshi shrimp in international markets.
- Promoting research and development: Encouraging research and development activities, establishing research institutions, and fostering partnerships with academic and research organisations will drive innovation and product diversification in the shrimp processing industry.

Leather, leather goods, and footwear

Prioritising environmental standards in the leather goods manufacturing sector, particularly in the tanning process for crust leather, should be of utmost consideration if exports to the EU are to be expanded. Environmental and sustainability requirements have now become more important than ever. Securing accreditation from the Leather Working Group (LWG) should be a key consideration in ensuring compliance with international standards and expanding exports to the EU. Additionally, adopting blockchain technology can enhance the traceability of leather goods and footwear items, enabling stakeholders to track the origin and production process of materials and fostering transparency and accountability in the supply chain.

Light engineering sector

It is important to invest in supply-side capacity. The range of products needs expanding. Enhancing certification capacity to ensure compliance with environmental standards and meet international requirements is another key issue. Many firms also complain about the lack of availability of raw materials for production and their cumbersome import clearance procedures. Investing in vocational training and technical education will help develop a skilled workforce, while promoting innovation, R&D, and enforcing intellectual property rights will drive growth and enhance the industry's reputation. The adoption of green technologies and the creation of a dedicated export processing zone for the

light engineering industry will further support sustainability and provide the necessary infrastructure for its development.

5.3 Recommendations for ensuring favourable terms of market access after LDC Graduation

Bangladesh must actively engage with the EU to secure favourable terms for the post-LDC graduation phase.

- After graduation and a three-year transition period, Bangladesh will lose the EBA benefits, which might be replaced by GSP+ or standard GSP. GSP+ would provide more liberal market access for non-RMG sectors that have the potential to contribute to export diversification.
- The EU has now extended the operation of the existing EU GSP scheme until the end of 2027. This provides a useful window of opportunity for Bangladesh to engage with the EU to seek favourable provisions, including:
    - Removal of Article 29 (safeguard measures on textiles and clothing) to enable Bangladesh to continue with duty-free market access in apparel even after LDC graduation under the EU GSP+ scheme.
    - Relaxation of rules of origin provisions for non-RMG sectors, as a value addition of 50 per cent as a precondition for duty-free access for non-LDC beneficiary countries is too stringent, especially in the current era of GVC-led trade where countries specialise in tasks or a particular process in the overall production.

Bangladesh must take time-bound actions to ensure conformity with international conventions/ standards

Bangladesh must take time-bound actions to ensure adherence to 32 international conventions and standards required for qualifying for GSP+. Ratification is not a major problem, while the critical issue is their effective implementation.

VI. Concluding remarks

The EU market has always held significant importance for Bangladesh, both due to its sheer size and the trade preferences it offers. These trade preferences have provided Bangladeshi exporters with a competitive edge, facilitating access to a vast consumer base. However, despite these advantages, Bangladesh has not fully capitalised on the potential for export diversification within the EU market. While RMG exports to the EU have flourished, other sectors have lagged behind, unable to make significant inroads into this lucrative market.

With Bangladesh's imminent graduation from the least developed countries (LDC) category, the urgency for export diversification has never been more pronounced. This transition will bring about shifts in trade dynamics and preferences, making it imperative for Bangladesh to broaden its export base. Given the renewed policy focus on export diversification, the EU market, with its vast consumer base and historic trade ties with Bangladesh, can act as a catalyst. By leveraging deeper trade relations and tapping into diverse demands of the EU market, building a more diversified and resilient export basket constitutes one important policy priority in Bangladesh. The EU market presents significant opportunities to diversify exports both within the RMG sector and by expanding exports from non-RMG sectors.

This study highlights several constraints and challenges impeding export diversification. A key barrier is the lack of comprehensive market information, which limits exporters' ability to enter new markets and understand essential conditions such as demand, quality requirements, and competitive dynamics, particularly in regions like the EU. Many small and medium-sized enterprises (SMEs) are not yet prepared for export due to outdated technologies that hamper productivity and competitiveness, as well as unfamiliarity with international standards. The scarcity of skilled labour, especially in sectors like light engineering, leather goods, footwear, and garments, exacerbates this issue, as the demand for skilled workers in non-cotton-based apparel production outstrips supply.

Access to finance is another significant challenge, particularly for SMEs that lack sufficient collateral and face complex loan application processes. Inefficiencies in trade logistics, including high costs and extended lead times, further diminish Bangladesh's competitiveness in the global market. Amongst others, weak infrastructure and congestion, increase trading costs and lead times. Governance issues, including inadequate enforcement of labour standards and infrastructural shortcomings in sectors like tanneries, create an inhospitable business environment, affecting industrial production and compliance with international standards.

Policy-induced anti-export bias, driven by measures favouring domestic import-competing sectors, discourages exports through higher protectionist customs duties and taxes. The low quality and lack of standards in the domestic market also hamper export readiness, as many industries target local sales with products that fail to meet international standards. Finally, Bangladesh's limited participation in the GVC hinders export diversification, necessitating more comprehensive engagement in value chains to access new markets and technologies and increase value addition, thereby bolstering its competitive edge in the global market.

Addressing the aforementioned constraints is crucial for driving export diversification in Bangladesh. Enhancing access to comprehensive market information, updating technologies, and ensuring exporters are familiar with international standards will improve their export readiness. Investing in skilled labour, particularly for non-cotton apparel production, will help meet growing global demands in man-made fibre-based apparel. Improving access to finance for export-oriented firms, streamlining trade logistics, and strengthening infrastructure will enhance competitiveness. Tackling governance issues and reducing policy-induced anti-export bias will create a more supportive business environment. Ensuring high product quality and standards and increasing participation in global value chains will open new markets and enhance value addition, ultimately bolstering Bangladesh's position in the EU market.

Emerging developments in the EU, such as the Carbon Border Adjustment Mechanism (CBAM) and Corporate Sustainability Due Diligence, impose new compliance requirements on exporters. These measures demand stringent adherence to environmental and social standards, which necessitates that Bangladesh develop robust capacities in these areas. To remain competitive in the EU market, Bangladeshi exporters must enhance their ability to meet these standards through improved sustainability practices and transparent supply chain management. Building such capacities will not only ensure compliance but also position Bangladesh as a responsible and sustainable trading partner, catering to the growing demand for eco-friendly and ethically produced goods.

Finally, LDC graduation should be viewed as an opportunity for Bangladesh to address existing shortcomings and build stronger capacities. This transition offers a chance to upgrade technologies, improve labour skills, and adopt international standards, thereby enhancing overall export readiness. By strategically using this period to invest in infrastructure, streamline regulatory frameworks, and foster innovation, it is possible to

mitigate any loss of preferential trade benefits. Effective utilisation of LDC graduation can lead to diversified exports, greater value addition, and a more resilient economy, ultimately strengthening Bangladesh's position in the global trade landscape.

VII. References

Balassa, B. (1965), Trade Liberalisation and Revealed Comparative Advantage, The Manchester School, 33, 99-123.

Bangladesh Customs. "Bangladesh Customs, National Board of Revenue (NBR)." Bangladeshcustoms.gov.bd, bangladeshcustoms.gov.bd/trade_info/duty_calculator. Accessed June 2023.

Decreux, Y., & Spies, J. (2016). Export Potential Assessments – a methodology to identify export opportunities for developing countries. Retrieved June, 23, 2018.

Export Promotion Bureau. Epb.gov.bd, 10 July 2023, epb.gov.bd/site/view/epb_export_data/2022-2023. Accessed 6 Sept. 2023.

François Arvis, J., Ojala, L., Shepherd, B., Ulybina, D., & Wiederer, C. (2010). Home | Logistics Performance Index. Worldbank.org; World Bank Group. https://lpi.worldbank.org/

Herrera Dappe, M., Kunaka, C., Lebrand, M., & Weisskopf, N. (2019). Moving Forward: Connectivity and Logistics to Sustain Bangladesh's Success. In World Bank (Vol. 9). https://doi.org/10.1007/s13162-019-00159-3

International Trade Centre (ITC). "Trade Map - Trade Statistics for International Business Development." Trademap.org, www.trademap.org/Index.aspx. Accessed May 2023.

Magacho, G., Espagne, E., & Godin, A. (2022, March). Impacts of CBAM on EU trade partners: consequences for developing countries. Www.afd.fr; Agence Française de Développement. https://www.afd.fr/en/ressources/impacts-cbam-eu-trade-partners-consequences-developing-countries

Rahman, J., and Eusuf. A. (2022). Promoting Exports of Light Engineering Products. Paper prepared for the Ministry of Commerce, Bangladesh.

Razzaque, M.A. (2022). Graduation from LDC status: trade preference and development financing implications for Asia-Pacific countries. United Nations Development Programme (UNDP) Bangkok Regional Hub, Bangkok.

Razzaque, M. A., & Rahman, J. (2022, September). Towards A Transformed and Revitalized Trade and Economic Partnership with the EU. Friedrich Ebert Stiftung, Bangladesh.

Razzaque, M.A., Akib, H., and Rahman, J. (2020a). Bangladesh's Graduation from the Group of LDCs: Potential Implications and Issues for the Private Sector. In M.A. Razzaque (Ed), Navigating New Waters: Unleashing Bangladesh's Export Potential for Smooth LDC Graduation, pp. 231-66. Dhaka: Bangladesh Enterprise Institute.

Siddiq, A., & Basher, M. (2020). Dysfunctional horticulture value chains and the need for modern marketing infrastructure: The case of Nepal. ADB report. ADB, June, 5–8. https://www.adb.org/sites/default/files/publication/534711/dysfunctional-horticulture-value-chains-nepal.pdf

WITS. Worldbank.org, 2021, wits.worldbank.org/WITS/WITS/Default-A.aspx?Page=Default. Accessed June 2023.

World Bank. (2023). The Logistics Performance Index and Its Indicators. https://lpi.worldbank.org/international/global

Annex A

Table A1: Export prospects of some highly potential products to the EU market

Product category	HS Code	EU's share in world imports (%)	Major source countries and their market shares in the EU (%)	Average import growth from partner country (2018-2022), %	Overall export growth of Bangladesh and other countries (2018-2022), %
Cotton apparel	610910	43.3%	Bangladesh (34.8%), Turkey (9.7%), Germany (7%), India (6.1%), China (4.8%), Portugal (3.2%)	Bangladesh (10.2%), Turkey (5.3%), Germany (10%), India (2.5%), China (4%), Portugal (4.6%)	Bangladesh (10%), Turkey (3.3%), Germany (8.2%), India (4.6%), China (4.3%), Portugal (2.9%)
	620342	46.7%	Bangladesh (26.6%), Pakistan (11.9%), Turkey (9.8%), Germany (8.6%), China (5.4%), Tunisia (5.1%)	Bangladesh (4.5%), Pakistan (5.4%), Turkey (3.2%), Germany (6.5%), China (-5.6%), Tunisia (2.7%)	Bangladesh (5.5%), Pakistan (5.8%), Turkey (4.4%), Germany (0.9%), China (-1.4%), Tunisia (17%)
	620462	43.1%	Bangladesh (24.9%), Turkey (17.1%), Pakistan (7.9%), China (7.4%), Germany(6.3%), Spain (5.6%)	Bangladesh (8.8%), Turkey (6.4%), Pakistan (7.6%), China (-9.6%), Germany(6.1%), Spain (12.9%)	Bangladesh (8.5%), Turkey (4.9%), Pakistan (9.1%), China (-1.1%), Germany(2.6%), Spain (4.4%)
	611020	37.4%	Bangladesh (22.9%), China (13%), Turkey (11.7%), Germany (6.5%), Pakistan (4.8%), Cambodia (4.7%)	Bangladesh (15.4%), China (0.6%), Turkey (14.1%), Germany (12.8%), Pakistan (21.3%), Cambodia (11.4%)	Bangladesh (14.7%), China (5.8%), Turkey (11.3%), Germany (8.7%), Pakistan (23.1%), Cambodia (73%)
Non-cotton apparel	621210	35.1%	China (27.4%), Bangladesh (10.1%), Sri Lanka (7.4%), Vietnam (6.6%), Germany (6%), Indonesia (3.6%)	China (0.4%), Bangladesh (9.6%), Sri Lanka (7.2%), Vietnam (9.4%), Germany (3.3%), Indonesia (2.7%)	China (4.8%), Bangladesh (8.6%), Sri Lanka (1.2%), Vietnam (21.4%), Germany (2.1%), Indonesia (11%)
	611710	37%	China (49.6%), Italy (9.7%), Germany (6%), Turkey (3.4%), Bangladesh (3%), Netherlands (2.9%)	China (-1.9%), Italy (-0.3%), Germany (-2.6%), Turkey (-2.7%), Bangladesh (21.9%), Netherlands (-1.1%)	China (-0.01%), Italy (2%), Germany (-5.3%), Turkey (4.6%), Bangladesh (21.5%), Netherlands (7.3%)
	621020	43.4%	China (32.1%), Bangladesh (11.4%), Vietnam (9.6%), Myanmar (8.5%), Netherlands (5%), Germany (4.5%)	China (86.3%), Bangladesh (547.9%), Vietnam (282.3%), Myanmar (120.9%), Netherlands (302.5%), Germany (118.2%)	China (11.7%), Bangladesh (495.9%), Vietnam (295.7%), Myanmar (11.4%), Netherlands (398.2%), Germany (98.8%)
	620590	39.5%	Bangladesh (25.6%), China (11.2%), Turkey (9.7%), Italy (6.3%), Germany (5.9%), India (5.3%)	Bangladesh (21.2%), China (18.4%), Turkey (24.2%), Italy (11.9%), Germany (11.9%), India (13.7%)	Bangladesh (11.7%), China (2.6%), Turkey (10.2%), Italy (21.2%), Germany (10.6%), India (-20.8%)

Product category	HS Code	EU's share in world imports (%)	Major source countries and their market shares in the EU (%)	Average import growth from partner country (2018-2022), %	Overall export growth of Bangladesh and other countries (2018-2022), %
Home textiles	630221	64.1%	Pakistan (41.4%), Turkey (13%), Bangladesh (11.1%), Germany (8.2%), India (4.2%), China (3.8%)	Pakistan (8.4%), Turkey (0.7%), Bangladesh (6.7%), Germany (5.9%), India (-2.9%), China (7.5%)	Pakistan (7.8%), Turkey (-0.8%), Bangladesh (6.2%), Germany (5%), India (6.1%), China (4.7%)
	630492	38.1%	India (32.8%), China (20.5%), Germany (6.3%), Pakistan (5.6%), Romania (4.9%), Bangladesh (4.4%)	India (7%), China (-0.9%), Germany (4.2%), Pakistan (3.7%), Romania (7.9%), Bangladesh (18%)	India (0.9%), China (4.5%), Germany (1%), Pakistan (105%), Romania (71.8%), Bangladesh (20.5%)
	630710	44.6%	China (43.1%), Germany (11.5%), Netherlands (8%), Belgium (4.1%), Poland (3.3%), Bangladesh (0.8%)	China (10.4%), Germany (2.5%), Netherlands (4.5%), Belgium (5.4%), Poland (8.3%), Bangladesh (16%)	China (7.9%), Germany (9%), Netherlands (6.4%), Belgium (6.4%), Poland (10.9%), Bangladesh (0.2%)
Agriculture	070190	5.8%	France (35.1%), Germany (22.4%), Netherlands (12.5%), Spain (5.2%), Belgium (4.9%)	France (8.5%), Germany (10.8%), Netherlands (12.7%), Spain (4.9%), Belgium (0.6%)	France (9%), Germany (4.4%), Netherlands (14.5%), Spain (8.1%), Belgium (2.7%)
	230400	32.1%	Brazil (32.3%), Argentina (30.6%), Netherlands (8%), Germany (7.1%), Slovenia (2.6%)	Brazil (8.3%), Argentina (5.1%), Netherlands (7.5%), Germany (8.5%), Slovenia (18%)	Brazil (17.6%), Argentina (-1%), Netherlands (1.6%), Germany (9.3%), Slovenia (-2.7%)
	160521	15.5%	Vietnam (24.4%), Netherlands (10.3%), Norway (8.3%), Denmark (7.6%), Belgium (5%), Bangladesh (0.9%)	Vietnam (1.2%), Netherlands (-3.4%), Norway (27.7%), Denmark (7.4%), Belgium (-1.2%), Bangladesh (2.1%)	Vietnam (42.6%), Netherlands (-3.2%), Norway (-8.1%), Denmark (-2.1%), Belgium (-4.9%), Bangladesh (0.1%)
Engineering goods	740400	35.3%	Germany (15.6%), France (11.6%), Netherlands (9.3%), USA (7.8%), UK (5.3%), Bangladesh (0.1%)	Germany (15.5%), France (17.2%), Netherlands (10.2%), USA (23.9%), UK (7.5%), Bangladesh (10.9%)	Germany (8.5%), France (13%), Netherlands (5.5%), USA (15.2%), UK (13.4%), Bangladesh (12.8%)
	850440	34.5%	China (38.9%), Germany (11.5%), Netherlands (5.2%), Hungary (3.8%), Italy (2.8%), Bangladesh (0.001%)	China (27.6%), Germany (17.2%), Netherlands (23.4%), Hungary (32.5%), Italy (20.2%), Bangladesh (382%)	China (15.5%), Germany (11.4%), Netherlands (17.2%), Hungary (32.1%), Italy (21.5%), Bangladesh (137.9%)
	871200	41.7%	Germany (16.7%), Netherlands (11.1%), Taiwan (9.8%), Cambodia (9.3%), China (4.8%), Bangladesh (2.7%)	Germany (8.4%), Netherlands (7%), Taiwan (-1%), Cambodia (11%), China (21.4%), Bangladesh (30.8%)	Germany (7.6%), Netherlands (1.6%), Taiwan (5.3%), Cambodia (20.8%), China (6.6%), Bangladesh (20%)
Fish	030633	5.6%	UK (51.3%), Ireland (19.6%), France (15.8%), Netherlands (5%), Norway (2.5%)	UK (12.6%), Ireland (16.3%), France (16.6%), Netherlands (28.3%), Norway (-0.4%)	UK (4.1%), Ireland (20.2%), France (42.4%), Netherlands (38.2%), Norway (16.1%)
	030289	38.3%	Spain (13%), France (12.6%), Denmark (10.8%), UK (7.9%), Netherlands (7.1%)	Spain (0.8%), France (0.6%), Denmark (25.1%), UK (1.3%), Netherlands (4.8%)	Spain (-7.6%), France (4.2%), Denmark (6.6%), UK (3.2%), Netherlands (10.2%)
	030199	16.3%	Sweden (43.8%), Spain (11.2%), Denmark (9.8%), France (7.9%), Germany (5.3%)	Sweden (100.8%), Spain (22.7%), Denmark (63.4%), France (0.7%), Germany (115.4%)	Sweden (-0.3%), Spain (13.5%), Denmark (-2%), France (5.2%), Germany (-10.1%)

Product category	HS Code	EU's share in world imports (%)	Major source countries and their market shares in the EU (%)	Average import growth from partner country (2018-2022), %	Overall export growth of Bangladesh and other countries (2018-2022), %
Leather and leather footwear	640391	43%	Vietnam (12.8%), China (12.7%), Germany (8%), Portugal (7.3%), Italy (7.2%), Bangladesh (2.7%)	Vietnam (12.2%), China (8.9%), Germany (9%), Portugal (0.7%), Italy (4.3%), Bangladesh (1.5%)	Vietnam (26.1%), China (7.6%), Germany (4.6%), Portugal (1.3%), Italy (5.1%), Bangladesh (13.5%)
	420291	16.1%	China (13.6%), Italy (12.5%), India (10.6%), France (9.3%), Germany (9.1%), Bangladesh (0.9%)	China (6.7%), Italy (-1.3%), India (2.6%), France (7.4%), Germany (-17.5%), Bangladesh (-14.3%)	China (41.8%), Italy (8.7%), India (79.6%), France (5.9%), Germany (0.1%), Bangladesh (0.4%)
	420329	38.5%	China (23.2%), Pakistan (22.7%), India (21.6%), Germany (4.7%), Netherlands (2.6%), Bangladesh (0.2%)	China (-4.1%), Pakistan (4.2%), India (1%), Germany (4.4%), Netherlands (0.9%), Bangladesh (7.6%)	China (-4.7%), Pakistan (12.6%), India (4.9%), Germany (-0.7%), Netherlands (4.6%), Bangladesh (9.8%)
Chemical	281410	28.3%	Algeria (25.2%), Trinidad and Tobago (14.8%), Netherlands (12.2%), Russian Federation (8%), Germany (7.6%)	Algeria (75.8%), Trinidad and Tobago (69.7%), Netherlands (41.9%), Russian Federation (20.4%), Germany (63.9%)	Algeria (73.7%), Trinidad and Tobago (47.9%), Netherlands (51.1%), Russian Federation (16.5%), Germany (57.1%)
	284700	41.1%	Belgium (20.6%), Germany (18.9%), Netherlands (11.5%), France (8.9%), Austria (8.4%)	Belgium (14.6%), Germany (14.8%), Netherlands (16.6%), France (9%), Austria (13.5%)	Belgium (10.9%), Germany (8.4%), Netherlands (5.4%), France (1.2%), Austria (17.4%)
	281511	19.9%	France (15.8%), Germany (11.3%), Russian Federation (10.2%), Belgium (10%), Netherlands (7.6%)	France (3%), Germany (24.9%), Russian Federation (22.3%), Belgium (37.9%), Netherlands (22.3%)	France (3.4%), Germany (7.4%), Russian Federation (-0.5%), Belgium (5.7%), Netherlands (19%)

Source: Authors' analysis using data from ITC Trade Map.

About the authors:

Mohammad Abdur Razzaque is an economist specialising in international trade and development issues. With extensive experience in senior leadership and consultancy roles, he has worked on global trade issues, bilateral and regional trade agreements, and export competitiveness. He previously served as the Head of International Trade Policy at the Commonwealth Secretariat, London, UK, and taught at Dhaka University economics department. He has led numerous policy research and capacity-building projects across various global regions and written extensively on international trade issues. Currently, he serves as Chairman of Research and Policy Integration for Development (RAPID).

Jillur Rahman is Deputy Director at RAPID and Assistant Professor of Economics at Jagannath University.

Rakin-Uz-Zaman is a Senior Research Associate at RAPID. He completed his BSS and MSS in Economics from Bangladesh University of Professionals.

Sumaeya Akhter is a Research Associate at RAPID. She completed her BSS and MSS in Economics from Jagannath University.

Deen Islam is Research Director at RAPID and an Associate Professor of Economics at the University of Dhaka. He obtained his PhD in economics from Boston University.

Abu Eusuf is Executive Director of RAPID and Professor in the Department of Development Studies at Dhaka University. He holds a PhD in Development Policy and Management from the University of Manchester.

About the study: https://bangladesh.fes.de

Imprint

Friedrich-Ebert-Stiftung (FES) Bangladesh
Banani P.O. Box No. 9051
Dhaka, Bangladesh
Email: bangladesh@fes.de

NGO Affairs Bureau Registration Number: 2773
dated: 18 March 2013

Responsible:
Dr Felix Gerdes, Resident Representative

Contact/Order: bangladesh@fes.de

Designed and Printed by:
S R Printing and Supply, Dhaka

Friedrich-Ebert-Stiftung (FES) was established in 1925 and is the oldest political foundation in Germany. It is named after Germany's first democratically elected president, Friedrich Ebert (1871-1925). Its mission is based on the basic values of social democracy: liberty, justice & solidarity.

The Friedrich-Ebert-Stiftung (FES) Bangladesh office was opened in 2013. In Bangladesh, FES aims to promote socially and ecologically sustainable economic policies, participation and international cooperation. We do so through research, training, discussions and exchange of knowledge together with our partners. We approach potentials and challenges of developments in Bangladesh at national, regional and international levels. We do this to link debates worldwide and create opportunities for stimulating exchanges on multiple levels to foster regional and global alliances.