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Rules of Origin Effect: Bangladesh's Performance under Australian Preferential Scheme[†]

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Trade preference schemes of developed countries to least developed countries (LDCs) are important parts of foreign trade policy of advanced nations. For LDCs, availing trade preferences is also important for the success of their export-oriented economic growth and integration to the global economy. However, such measures of trade liberalization from developed countries are clouted by protectionist measures like stringent rules of origin to avail preference, which tend to nullify the welfare-enhancing outcomes of trade preference. With a relatively less protectionist regime, Australia has been providing duty-free and quota-free market access to all products from all LDCs since 2003. Nevertheless, despite being a least developed country, Bangladesh could not get the desirable benefits from Australian trade preference scheme over the last few years. The case of Bangladesh's poor performance under Australian scheme consequently aims to observe whether rules of origin have any effect on meager preference utilization as registered by Bangladesh.

Field of research: International Trade

1. Introduction

1.1. Background

Multilateral agreements on trade in goods under the World Trade Organization (WTO) system have an agreed framework endorsed by Member countries of WTO with a basis of four basic rules, protection to domestic industry through tariffs, binding of tariffs, Most Favoured Nation (MFN) treatment and treating the industries of other countries alike the domestic industries (ITC/CS, 1999). The MFN treatment rule under the WTO system stipulates that a Member country could not discriminate goods from different trading partners by imposing differential tariff rates. There are two major areas of exception of the MFN rule, in case of offering preferences in bilateral or regional trade agreements, and on imports from developing countries (ITC/CS, 1999). The preferential offer in bilateral or regional trade agreements is reciprocal in nature, which means all parties in the agreement would provide different trade preferences to each other that are superior to MFN preferences applied on other countries outside any such agreement. But the preferences offered for developing countries, in many cases duty- and quota-free access in the market of a developed country, are non-reciprocal in nature. Non-reciprocity signifies that developing countries do not need to provide any preference in

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return to the developed country that is offering trade preference (Gillies & Moens, 1998).

Following the spirit of providing non-reciprocal trade preference, Australia has been granting duty-free and quota-free access to exports from least developed countries (LDCs) in its market since 1 July 2003 (DFAT, 2003). As similar trade preference scheme of the European Union (EU) does not offer duty-free access to some agricultural exports from LDCs, and some LDCs' textiles and clothing products are excluded from the scheme of the United States (US), the Australian Department of Foreign Affairs and Trade (DFAT) claimed that Australian scheme is more comprehensive than the schemes of other developed countries due to the ample coverage of all products from all LDCs (DFAT, 2003). Such fact of the Australian trade preference scheme might lead to the argument that the Australian market would be easily accessible by all LDCs in comparison to markets in the US and the EU, and there would be a notable export growth of LDCs in Australian market on account of trade preference. However, the data from Australian Bureau of Statistics implies that exports from LDCs to Australia decreased in the first year of inception of Australian trade preference scheme for LDCs. The exports slightly increased in the following year. While the LDCs exports increased up to 2006 but the performance so far in 2007 shows a declining export trend. In terms of total Australian imports, the share of imports from LDCs has been decreasing since 2005 even after the presence of trade preference scheme. Although developing countries are not enjoying similar preferences in Australia, their exports to Australia have been increasing since 2000 up to the end of the year 2006 (Table 1). Among the LDCs, Bangladesh has the largest gross national income and the highest export income from manufacturing products (UNCTAD, 2005). The country has been maintaining a good performance record of export growth in various trade preference schemes of developed countries. For that reason, in the WTO negotiations, it has been observed that Bangladesh's negotiation agenda concentrates on availing enhanced market access through trade preference and relaxation of rules associated with such preference (Zohir & Nath, 2005). However, in the first year of inception of trade preference scheme, consistent with the declining trend of export from LDCs, Bangladesh also registered an export decline in Australia during the July 2003 to June 2004 period. Exports from Bangladesh have marginally increased in the following year but could not show a bright prospect in the year in progress (Table 1).

1.2. Scope and Organization of the paper

The paper aims to scrutinize whether rules of origin criteria in Australian trade preference scheme act as non-tariff barrier through offsetting the desired benefits to be gained from trade preference offered or not. Although there might be other deterring factors of availing trade preference, considering its little scope, this paper does not aim to observe the effects of those factors as the main endeavor is on getting an idea about the flexibility of rules of origin in Australian trade preference scheme through presentation of the case of Bangladesh's performance under Australian scheme. Section two of the paper

discusses the effect of Australian trade preference scheme on existing trade pattern between Australia and Bangladesh. Subsequent to a review of literature in section three related with rules of origin, section four attempts to critically analyze the effect of rules of origin in availing trade preference of Australia by Bangladesh through highlighting the associated complexities faced by Bangladesh.

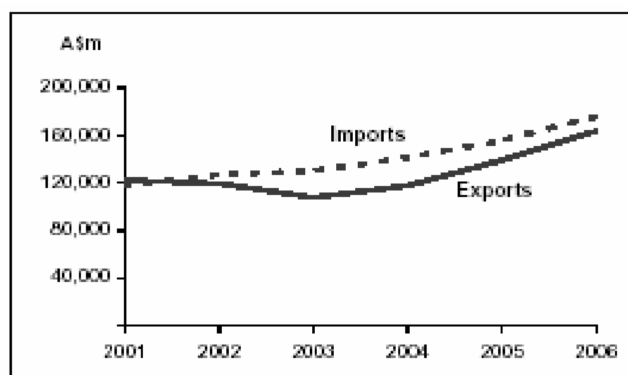
2. Australia-Bangladesh Trade: Effect of Trade Preference

2.1. Position of Bangladesh in Australia's Global Trade

Among the all LDCs, Bangladesh had the 2nd largest share of exports in Australia before receiving duty- and quota-free access to Australia. However, the broader picture demonstrates that Bangladesh did not have importance as a trading partner for Australia by acquiring 21 percent share of LDCs' 0.17 percent export share in Australia before the introduction of Australia's trade preference scheme for LDCs (Table 1).

Australia's global trade scenario (Figure 1) shows that Australia's global export decreased in between 2001 and 2003, which was also in case of its exports to Bangladesh at a higher declining rate (Figure 2). Since 2004, Australia's global exports have been increasing. But with Bangladesh, its exports increased in between 2003 and 2004, and decreased in between 2004 and 2006. The scenario of Australia's total imports and its imports from Bangladesh shows that Australia's total imports have been increasing since 2001, whereas its imports from Bangladesh have been remaining almost constant since 2001.

Figure 1: Australia's global trade

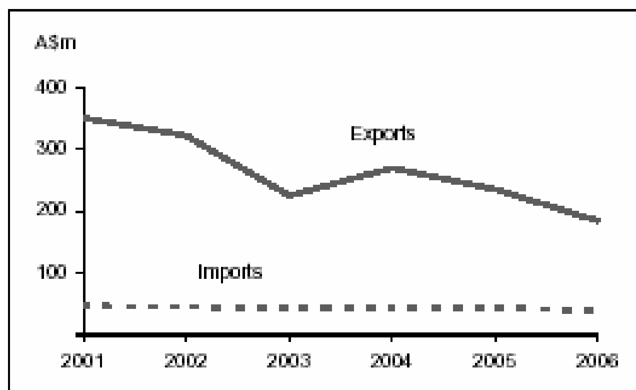


Source: DFAT, 2007a

Evidences from Figure 1 and 2 suggest that Bangladesh does not have a persistent trade relationship with Australia like its major trading partners. From the viewpoint of Australia, Bangladesh ranked as 47th as Australia's export destination with 0.1 percent share of Australia's total exports, and 66th as Australia's import source with almost 0 (zero) percent share of Australia's total imports in 2006. Overall Bangladesh ranked as 58th of Australia's global trading partner with 0.1 percent share of Australia's total trade in 2006 (DFAT,

2007b). From Bangladesh's point of view, in terms of exporting, Australia might be considered as an insignificant country as 0.3 percent of Bangladesh's total export went to Australia in 2005, and Australia was the 21st export destination of Bangladesh. But Australia ranked as 18th as Bangladesh's import source by supplying 1.9 percent of Bangladesh's total imports (DFAT, 2007b). It is therefore explicable why both Bangladesh and Australia are indifferent when they are registering export decrement in their markets as trading partners.

Figure 2: Australia's import and export trade with Bangladesh



Source: DFAT, 2007b

2.2. Effect of Trade Preference

Considering the preceding trade pattern between Bangladesh and Australia, the introduction of non-reciprocal trade preference scheme in 2003 expected a better outcome through an upward trend of imports from Bangladesh. However, Australian non-reciprocal trade preference could have almost no impact on this situation. Table 1 and Figure 2 show that Bangladesh has not registered significant export growth in Australia despite enjoying duty- and quota-free access to Australia since mid-2003. Moreover, Bangladesh is also losing its dominance in LDCs' exports (Table 1). While, Bangladesh is performing better in other preference-giving countries, it might be argued that Bangladesh's exports have diverted from Australia despite the Australian scheme due to the effects of various factors, arguably including the rules of origin.

Table 1: Merchandise imports of Australia

Imports in million Australian dollars								
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007***
Bangladesh (BGD)	71	47	44	43	43	45	39	36
LDC	243	191	213	229	215	272	306	238
Developing Countries (DC)	36554	37539	48274	50732	58538	68321	83227	83167
OECD Countries	66239	65522	82644	82046	85708	90307	96785	97769
Total	116954	117745	127665	129984	121871	133474	176087	178145
Import ratios in percentage								
BGD/LDC	29	25	21	18	20	17	13	15
LDC/Total	0.2	0.16	0.17	0.18	0.18	0.2	0.17	0.13
DC/Total	31	32	38	39	48	51	47	47

*Projected from 5 months data of January – May, 2007
Source: Calculations based on the data available in the Australian Bureau of Statistics database, ABS (2007)

3. Rules of origin: Literature Review

Rules of origin as a part of non-reciprocal and reciprocal preferential trade arrangements are discussed in different literatures. Rules of origin are defined by WTO (2006) as the ‘laws, regulations and administrative procedures which determine a product’s country of origin’. Australian Productivity Commission (2004: XV) also defined it as ‘the criteria used to determine where a good has been made for the purpose of ensuring that only the products of countries which are a party to a preferential trade agreement (PTA) obtain concessional entry under the agreement’. Rules of origin guarantee that trade preferences are granted to the actual products from preference-receiving countries. It eliminates the chance of trade deflection, as in order to evade tariff, non-beneficiary countries cannot transship their products to preference-giving countries through the preference-receiving countries. Stringent rules of origin also ensure that substantial processing occurs in preference-receiving countries so that products from non-beneficiary countries do not enjoy the main benefits of tariff reduction due to the mere processing of considerable amount of imported products in a beneficiary country (Productivity Commission, 2004). As domestic content requirement of rules of origin can protect the intermediate good industries of LDCs from import competition, developed countries have been using such rules in trade preference schemes for development of LDCs’ industries in export sector and backward linkage industries of export sector (Grossman, 1981). However, there is no multilateral trade agreement on rules of origin under the WTO system and it is up to the countries to decide rules of origin in a preferential agreement which are unilaterally set by preference-giving developed countries while offering non-reciprocal trade preference (Brenton, 2005; Productivity Commission, 2004).

Apparently it seems that rules of origin are for benefits of grantor and grantee countries of trade preference schemes. However, rules of origin increase the trading cost and allow hidden protectionism (Bisley, 2004). It has been perceived that developed countries try to protect some sensitive domestic industries in the guise of using rules of origin. This is evident from different cases when most significant export items of LDCs are subjected to restrictive rules of origin by developed countries to deter those products from having any benefits of trade preference.

In the context of non-reciprocal trade preference for LDCs, Hoekman (2005: 214) criticized the 'restrictive and cumbersome rules of origin' criteria of trade preference schemes in the US and the EU. He identified rules of origin as an obstacle that reduce the value of trade preference, as associated administrative requirements and red tape result reduction of investment in spite of trade preference. Australian Productivity Commission (2004: 53) found the empirical evidence that, rules of origin have a 'major independent impact on trade and market access', as it 'reduce the utilization of available preferences under' preferential trade scheme and divert 'resources from their most efficient uses. Moreover, inconsistent nature of rules of origin across the different non-reciprocal trade preference schemes of developed counties is observed by Hoekman *et al.* (2005) as a barrier to take decision on building supportive industries of export sectors. Beneficiary countries might get preference under particular rules of origin of one country, which would not be possible in case of a different set of rules of origin in another developed country due to the absence of supportive industries of export sectors. Brenton and Ikezuki (2005: 227) also argued that complex rules of origin requirements in developed countries' trade preference schemes hinder the advantages of exporters from LDCs by increasing their cost, as such requirements enforce 'the additional costs of sourcing inputs and designing production structures to ensure compatibility with the rules of origin' and 'the costs of demonstrating conformity with the rules, in terms of documentation, accounting, and obtaining the relevant certificate'. Brenton (2005) observed that despite its offering of duty- and quota-free access to LDCs' products, the scheme of EU has very restricted and complex product-specific rules of origin to identify the originality of LDCs' products. This leads to low exploitation rates of preferences by beneficiary countries of European Union's scheme, as these countries divert their exports to countries where rules of origin are less restrictive.

Productivity Commission (2004) argued that except for the wholly obtained or produced mineral and agricultural products, rules of origin for other manufactured products across different developed countries cover dissimilar tests to determine the country of origin. Due to limitations associated with each of those tests, countries from time to time use two or more tests simultaneously which imposes unnecessary burden on preference-receiving countries. It was found in the studies of Brenton and Manchin (2003) and Brenton (2003) that, LDCs under the non-reciprocal trade preference scheme of the EU, prefer to pay MFN tariff to avoid the compliance costs and a major portion of LDCs' eligible exports to receive duty-free access are indeed paying MFN tariff. In this case, non-reciprocal trade preference scheme fails to

achieve the desired outcome and it is meaningless for LDCs' exporters. Stephenson (1997) observed this detrimental for consumers of preference-giving developed countries who have to bear the costs of inefficiencies resulted from cumbersome rules of origin in their countries. To get the anticipated welfare from preferential trade, Brenton (2003) therefore argued for simple, consistent, predictable, non-varying and non-protectionist rules of origin which allow cumulation form the cheapest sources with large allowable margin of acceptance. Even if the last phase of production occurs in any country, developed or developing, Lloyd (2002) proposed that products from developing countries should get tariff preference in developed countries if the substantial added values in production are added by producers of developing countries by using inputs of developing countries. These simple rules of origin could provide the opportunity to cumulate production values of developing countries and allow developing country producers to relocate their production at the most efficient location. Brenton (2005) further argued that as low as 10 percent value-added rules of origin requirement, reduced from the present requirement of 40 to 50 percent, might be simpler, more transparent and easier to manage by authorities in the preference-giving countries. Moreover, global cumulation instead of imposing regional cumulation could simplify the complexity of rules of origin from both receiver and donor countries' viewpoints.

4. Rules of Origin in Australian Scheme and Complexities for Bangladesh

4.1. Rules of Origin: Bangladesh Experience

Bangladesh already has been experiencing substantial difficulties in meeting rules of origin criteria of different trade preferences. In the EU, woven garments produced in Bangladesh could not meet the domestic value-added content requirement of EU scheme, as the sector is highly dependent on imported inputs. This might result the declining export share of woven garments in total export of Bangladesh over the last few years. However, knitwear products have registered increasing export share in total export of Bangladesh over the last few years as these products could generally meet the high domestic value-added content requirement of the EU scheme (ADB, 2006). In the EU market, Bangladesh's readymade garment export could utilize 55 percent preferences in 2002 due to the rules of origin requirement (Bhattacharya *et al.,* 2004a). It is considered that Bangladesh would be able to overcome the problem of rules of origin requirement in the EU scheme through regional cumulation by using inputs from South Asian countries (or, SAARC countries) as permitted by the EU. In this regard, in its new GSP proposal, the EU offered the 'super regional cumulation' to cumulate materials from the South Asian countries and Southeast Asian countries together for getting trade preference. For a better result, it is argued that global cumulation should be allowed rather than allowing SAARC cumulation, as countries in South Asia or Southeast Asia might not be efficient as material sources (ADB, 2006; Bhattacharya *et al.,* 2004a; The World Trade Review, 2004.). Despite having some waivers of cumulation from selected countries, Bangladeshi

businesses also have similar complain against the rules of origin of Japan like the EU, which act as a deterrent to increasing exports from Bangladesh to Japan (Bhattacharya *et al.,* 2004b).

4.2. Rules of Origin in Australian Scheme: A Critical Analysis

In Australian trade preference scheme for LDCs, rules of origin for duty-free entry mentions that, if products are unmanufactured raw materials from LDCs, those products would enjoy duty-free entry (Australian Customs Service, 2003). But to enjoy similar privilege, manufactured products face cumbersome rules of origin which would be explained later through a hypothetical mathematical calculation. In terms of value addition and last processing country requirements, the rules of origin for LDCs are very much similar like rules of origin of other Australian schemes, Australian System of Tariff Preferences (ASTP) and South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA). However, the qualifying area for LDCs is different and wider than Australia's earlier schemes. In the Australian scheme for LDCs, rules for manufactured products while enjoying duty-free entry are stipulated *per se*:

> (a) the last process in the manufacture of the goods was performed in an LDC; and (b) the allowable factory cost of the goods is not less than 50 per cent of the total factory cost of the goods (Australian Customs Service, 2003: 1).

Part (a) of this section of rules allows the producers from LDCs to conduct their final processing in any LDC to claim trade preference. In its preferential trading arrangements, Australia uses two-tiered test to identify country of origin. It needs preference-receiving countries to prove that products exported from these countries have undergone a local manufacturing process by meeting the condition of regional value content threshold (Productivity Commission, 2004). This is indicated in part (b) mentioned above, which warrants for allowable factory costs to be equal or more than 50 percent of the total factory costs. Total factory costs are treated as the sum of material costs, labor costs and overhead costs (Productivity Commission, 2004). However the term, 'allowable factory cost', is rather ambiguous, as it seems that there would be two distinctive parts of total factory costs, allowable and unallowable factory costs. The rules mention that the 'allowable expenditure on materials is the value of materials originating within a qualifying area (less the value of any inputs to those materials that originate outside the qualifying area)' (Australian Customs Service, 2003: 2). Therefore, it could be noted that there are some other countries which are within qualifying area, or allowable, in calculating allowable material costs to calculate allowable factory cost. In the Australian trade preference scheme, along with LDCs, Developing Countries (DCs), Forum Island Countries (FICs) and Australia are treated as countries within the qualifying area. Materials from all other countries would be treated as materials from non-qualifying area, or unallowable, while calculating the allowable factory costs. Table 2 attempts to show the complexity of calculation to determine whether a product is eligible to receive duty-free access under the rules of origin of a non-reciprocal trade preference scheme. It is assumed in the calculation that a shirt is produced in Bangladesh and the producer is

checking whether his product would receive duty-free access while exporting to Australia.

Table 2: Calculation to determine the eligibility to meet rules of origin

List of all materials or components including inside containers	**Name, address and facsimile No. of supplier of materials**	**Country of manufacture of materials**	**Cost of material or component**			
			Qualifying		**Non Qualifying**	
Cotton fabric		India	4.00			
Buttons		USA			2.00	
Pins		China	0.05			
Thread		Australia	0.10			
Label – textile		Sri Lanka	0.10			
Label – Cardboard		Bangladesh	0.70			
Cardboard carton		Fiji	0.20			
Total cost of materials (per unit)			A	5.15	E	2.00
Factory labour cost (per unit)			B	3.00		
Factory overheads cost (per unit)			C	1.50		
Total allowable expenditure (A+B+C)			D	8.65		
Total factory cost (D+E)			F	10.65		
Calculation of specified percentage of total factory cost: (D * 100)/F = (8.65 * 100)/10.65 = **81.22%**						

Source: Adapted from the Pacific Islands Forum Secretariat (2006)

From the calculation of above table, it could be seen that Bangladeshi producer could easily meet the 50 percent value addition criteria by sourcing materials from developing countries (India, China and Sri Lanka), forum island country (Fiji) and Australia, which are under the qualifying area. However, under the complex rules of origin, this calculation is not so simple and needs further modification. This is due to another rule related to sourcing materials from developing countries. This rule of Australian scheme mentions that the 'total value of materials originating in DCs that are not LDCs that can be included in the allowable expenditure on materials is limited to 25 per cent of the total factory cost of the goods' (Australian Customs Service, 2003: 2). In the above table, total value of materials originating in DCs that are not LDCs (India, China, Sri Lanka and Fiji) is 4.35, which is 41 percent of total factory cost (10.65). As this is over 25 percent of the total factory cost, the Bangladeshi producer needs a revised calculation. The producer determines that 25 percent of the total factory cost is 2.6625, which he can consider as value from qualifying area, and the rest 1.6875 (=4.35-2.6625) should be put as non-qualifying cost. Total allowable expenditure consequently stands as 7.9625 (=2.6625+0.10+0.70+3.00+1.50), which is about 75 percent of total factory cost (earlier it was 81.22 percent when producer ignored the complex provision). If any LDC is totally dependent on materials from qualifying developing countries other than LDCs and its labor cost and overhead cost are very low, it would be difficult for that LDC to meet rules of origin criteria to

get duty-free access in Australian market as the percentage of allowable factory cost would go down substantially. This is also the case of Bangladesh, where cheap labor is abundant but materials needed for manufacturing are scarce. Especially in case of producing RMG products, it has been found that rate of value addition is very low if the producers use imported fabrics (UNCTAD/CS, 2001). Producers can meet the value addition criteria comfortably if they just have to use imported yarn. Hence, stringent rules of origin indirectly impose the condition that LDCs must develop backward linkage industries that can produce fabrics and yarn to avail the opportunity of trade preference. Moreover, if materials from qualifying area use imported products outside the qualifying area (e.g. Indian cotton fabric using cotton from the US), exporters from LDCs have to identify that value of imported products and deduct it from their calculations.

4.3. Additional Complexities of Rules of Origin

Due to the complexities of rules of origin, compliance costs to meet the requirements of those rules become high. Such compliance costs are defined as ‘the ‘paperwork’ or ‘red tape’ costs associated with filling out forms in order to satisfy Customs requirements’. For this compliance, a producer has to employ someone to critically identify the origin requirements, he needs to keep records of all shipments of all products at a daily basis, he requires implementing new methods to prove country of origin and he needs to bear the costs of audits, as his records might necessitate inspection (Productivity Commission, 2004: 105). Documentation rule in the Australian scheme also stipulates these administrative procedures for importers to carry out. Actually, the entire documentations have to be done by the exporters of LDCs, as they know the production value chain of their products. In Australian scheme the rule is mentioning:

> Before claiming duty-free entry, importers need to obtain sufficient evidence that the goods meet the rules of origin for LDCs. For example, importers could obtain a declaration from the producer or manufacturer of the goods. A declaration from a supplier that is not the producer or manufacturer of the goods will not be sufficient evidence that the goods meet the rules of origin for LDCs (Australian Customs Service, 2003: 2).

Therefore, for exporters from LDCs, strict documentation rules not only increase their cost but also create uncertainty, as the Authority in Australia might not be satisfied with provided documents and the exporters would not be able to avail the trade preference. Bangladesh already had experiences of different administrative problems evolved from documentation of rules of origin requirement. Export Promotion Bureau is the authority in Bangladesh that certifies the letter mentioning that products are originated from Bangladesh so that those products could get tariff preference as last-processed products of an LDC. However, it was found that fraudulent certificates of country of origin were issued from Bangladesh (UNCTAD/CS, 2001). It could be argued that producers from non-beneficiary countries of trade preference schemes export their products to preference-giving countries with the help of fake certificate of origin to get duty- and quota-free access.

Such cases are more detrimental for LDCs as preference-giving countries tighten the documentation rule which would increase the exporting costs of producers from LDCs.

It is even hard for businesspeople in developed countries to comply with rules of origin, as Business New Zealand mentioned their experience in meeting rules of origin criteria while availing the preferential access in Australia under the free trade arrangement:

> … compliance requirements under the Rules of Origin are onerous and require vigilance and the production of considerable paperwork. This means that there are high compliance costs associated with developing and maintaining systems to determine actual costs on the date of shipment and for overall day-to-day monitoring. … The complexity of the Rules of Origin requirements, particularly around the local content requirement, causes considerable compliance costs for many manufacturers (Productivity Commission, 2004: 112).

If producers of developed countries' producers have such bleak experience in meeting rules of origin criteria of Australia, it is understandable that many producers of LDCs would be simply uninterested to avail Australia's preferential access.

The provision of 25% material sourcing of total factory cost from developing countries might also be a reason of disinterest of Australian investors to invest in Bangladesh and other LDCs, as it is not giving them the freedom to source most of the materials from other parts of the world that offer cheaper cost of the production than LDCs at the most stages of production. For investors with Australian market focus, such rules of origin criteria might not be a big issue as they are more concentrated on the tariff preference they could receive through investing in LDCs by using local contents of LDCs which might not be as efficient as contents of other developing countries (Productivity Commission, 2004). While being focused to Australian tariff preference and small Australian market, investors might be involved in uncompetitive production through using uneconomic materials from LDCs as stipulated by the rules of origin criteria. This would in turn make the companies globally uncompetitive, which might be the concern of most investors to refrain themselves from investing in LDCs. Hence, it could be argued that restrictive rules of origin in a non-reciprocal trade preference scheme might induce the investors of preference-giving country to invest in LDCs in order to serve their home country at the cost of becoming uncompetitive in global competition.

4.4. Australia's Relaxation of Rules of Origin for LDCs

It could be argued that the rules of origin in Australian trade preference scheme for LDCs are liberal than other preferential agreements of Australia. In the Australia–New Zealand Closer Economic Relations Trade Agreement (CER), allowable factory costs are equal or more than 50 percent of the total factory costs as similar as Australia's preference for LDCs. But Australia is the only qualifying country in CER when New Zealand producers source their

materials (Productivity Commission, 2004). In the scheme for LDCs, Australia provides a wider opportunity of cumulation of material value from Australia and all LDCs without any restriction, and from all other developing countries with certain limit. Moreover, among the non-reciprocal preferential arrangements of all developed countries, Australia has been found to be involved in less restrictive rules of origin as estimated through restrictiveness index by the Australian Productivity Commission (2004), which shows that Australia's restrictiveness index is about 0.3 out of 1.0 in its non-reciprocal trade preference scheme for FICs. The rules of origin in SPARTECA and trade preference scheme for LDCs are similar in terms of 50 percent value addition requirement. But in comparison to FICs, LDCs have a larger qualifying area, as for FICs, the qualifying area consists the FICs, Papua New Guinea, New Zealand and Australia with 25 percent allowable material expenditure restriction for materials sourced from New Zealand (Pacific Islands Forum Secretariat, 1996). Therefore, it could be argued that, Australia's restrictiveness index would be below 0.3 in its non-reciprocal trade preference scheme for LDCs as this scheme allows a wider qualifying area than SPARTECA.

5. Conclusion

To wrap up the discussion, it could be concluded that Australia, like many other developed countries, is trying to assist LDCs through providing trade preferences and other financial aid. As a part of its foreign trade policy, it is understandable that Australia is keen to assist LDCs in achieving economic development and eradicating poverty. Some of those policies are highly motivated by domestic politics and geopolitics including national interests that may not always be conducive to the development of the LDCs. It is argued, geopolitical power dimension always dictates states to behave in a certain way based on its own level of development and power. With respect to Australian trade preference scheme, Australia intends to accept all products from all LDCs, but as a sovereign state it has its own rules and standards which LDCs have to follow in availing the opportunity Australia provides. Many of the LDCs might find themselves marginalized due to Australia's rules of origin or other technical standards in the trade preference scheme. But this is how Australia apparently keeps its domestic producers and other stakeholders contented at the expense of economic benefit for Australia as well as many LDCs. Like other developed countries, Australian government also has its own set of agendas, which might not economically assist the country, but help the government to be reelected.

As Australia is highly integrated with global economy, according to the arguments of Stephenson (1997), any trade restriction in its non-preferential trade preference scheme would de injurious for its consumers and domestic industries. Associated increment of overall transaction costs and loss of business productivity due to Australia's restrictiveness in preferential rules of origin therefore stimulated Professor Ross Gregory Garnaut to argue in front of the Foreign Affairs, Defense and Trade References Committee that,

> The rules of origin increase transaction costs and reduce business productivity. Of course that goes in exactly the opposite direction to

the developments associated with Australia's movement towards free trade in the past 20 years (Garnaut, 2003: 199).

However, it could be argued that regardless of the rules of origin issue, Bangladesh and other LDCs need to be more focused on Australian market as these countries are more interested in traditional export markets in North America and Europe. LDCs have to end their inability to properly exploit opportunities offered by trade preference schemes by diversifying their export items to meet the import demand of developed countries. As trade preference is a policy of another country, LDCs have to fix their limitations and formulate their own development policies before reaping up benefits from the favorable policy of another country. In this regard, Bangladesh needs to improve its institutions, infrastructures, regulatory and business practices to attain higher productivity and competitiveness.

Trade preference scheme is a positive step taken by Australia to remove disparities among developed and developing countries by creating the atmosphere of a healthy trade relation. Currently Australia and Bangladesh seem to rely on traditional economic perspective that trade preference would automatically strengthen trade relation between them. However, it could be argued that both countries need to work and think on the trade preference scheme from non-traditional perspectives by considering significant factors affecting the nature of trade preference scheme and export and investment growth. Australia, as the developed country, has more responsibility to facilitate its welfare-oriented step by building a different relation as development partner apart from purely building the relation only on economical or geopolitical ground with LDCs. Therefore, considering the poor capacity of Bangladesh and other LDCs, it could be argued that Australian trade preference scheme for LDCs would bring more benefits for these countries if Australia could adopt the simplest rules of origin for LDCs.

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