Report No. 38

IMPLEMENTATION OF WTO-ATC: CURRENT STATUS AND IMPLICATIONS FOR BANGLADESH

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The Centre for Policy Dialogue (CPD)*, established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together ministers, opposition front benchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.*

In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include The Independent Review of Bangladesh's Development (IRBD), Governance and Development, Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System and Leadership Programme for the Youth. The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.

As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of the dialogue organised by CPD which was held at the CIRDAP Auditorium, Dhaka on September 30, 2000 on the theme of ***Implementation of WTO-ATC: Current Status and Implications for Bangladesh.***

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Dialogue on
Implementation of WTO ATC: Current Status and Implications for Bangladesh

i) The Dialogue

The dialogue on *Implementation of WTO ATC: Current Status and Implications for Bangladesh* was organised by the Centre for Policy Dialogue (CPD) in association with the Centre for Trade Policy and Law (CTPL), Ottawa, Canada. The dialogue was held as part of CPD's ongoing programme on *Trade Policy and Multilateral Trading Regime* which focuses on identifying the challenges emerging from the process of globalisation and seeks to design coping strategies for Bangladesh in particular, and LDCs in general. The dialogue was held on September 30, 2000 at the CIRDAP auditorium. Two Research Papers on *Experience with Implementation of WTO-ATC and Implications for Bangladesh* prepared by the CPD and *The WTO, ATC and Textiles and Clothing in a Global Perspective: What's in it for Bangladesh?* prepared by the CTPL were presented at the dialogue. The CPD study was prepared by a team led by Dr. Debapriya Bhattacharya, Executive Director, CPD and Professor Mustafizur Rahman, Research Director, CPD. The paper prepared by the CTPL was prepared and presented by Dr. Dean Spinanger, Head, Research Group, Kiel Institute of World Economics. The dialogue was participated by representatives from various stakeholder groups including senior government officials, private sector representatives, academia and NGOs (list of participants is annexed*)*. Professor Rehman Sobhan, Chairman CPD moderated the dialogue. Mr. Abdul Jalil, Hon'ble Minister for Commerce, Government of Bangladesh attended the dialogue as *Chief Guest* while Mr. A K M Zahangir Hossain, Hon'ble State Minister for Textiles, Government of Bangladesh attended as *Special Guest*.

The dialogue dwelt on the implications of the Multi-Fibre Arrangement (MFA) phase out on future performance of Bangladesh's apparel sector and provided valuable policy inputs to the GOB and private sector representatives on various important issues in the context of the emerging structural changes in the global textile/apparels market in the context of the phasing out of the MFA by 2005. Experience and evidence was shared between experts, policy makers and private sector representatives. The present dialogue report provides a summary of the two keynote papers and the major issues which came under discussion at the dialogue.

ii) Resume of the Keynote Presentations

Presentation by Dr. Dean Spinanger,
Head, Research Group, Kiel Institute of World Economics, Germany

Dr Dean Spinanger, in his key note presentation on *The WTO, ATC and Textile and Clothing in a Global Perspective: What in it for Bangladesh*? highlighted trends in Bangladesh's RMG exports and examined the medium to long term prospects of Bangladesh's export-oriented garment industries. Dr. Spinanger specifically focused on the possible impact of the removal of the MFA. In his presentation, Dr. Spinanger raised several questions pertaining to future of Bangladesh's Ready Made Garment (RMG) sector. Firstly, how can Bangladesh RMG sector maintain its international competitiveness? Secondly, what will happen in the future when all T&C exporting countries will have access to Industrial Country (IC) markets within the context of a quota-free regime? Thirdly, will Bangladesh still be able to sustain its market share, which had increased by 200% between 1990 and 1998, which helped the country to rise from 35th to 16th rank among global apparel exporters? According to Dr. Spinanger, answers to these questions should be sought on an urgent basis since in less than five years time the Agreement on Textiles and Clothing (ATC) will reintegrate all textile and clothing products to the most favored nation (MFN) principles of the WTO. The Agreement on Textile and Clothing (ATC) will eliminate all quotas which have been applied by ICs to their T&C imports from developing countries (DCs) ever since the Multifiber Arrangement (MFA) was instituted in 1974.

Pointing to the impressive success of the Bangladesh's RMG sector Dr. Spinanger mentioned that among the top two dozen major exporters of clothing products in 1998 none had been able to demonstrate a faster growth rate compared to what Bangladesh had been able to achieve since 1980, and since 1990 no major Asian apparel exporter posted higher growth rates compared to Bangladesh. Dr. Spinanger drew on the findings of his research and stated that Bangladesh had benefited from the quota system in various ways and went on to build up and develop her garment sector. In the context of the rather small contribution of garment manufacturing in terms of local value additions, efforts had been underway in Bangladesh to stimulate investments in the basic textile manufacturing in the weaving and spinning subsectors, he added. However, he was of the view that at present spinning and weaving was not in a position to compete with the imported raw materials; as a result these subsectors required a subsidy to maintain the modest share they have in the supply of inputs for the RMG sctor.

Dr. Spinanger opined that in view of the possibility of withdrawal of some of the incentives which are currently available after 2004, lack of raw materials and the high costs of finance in Bangladesh will no doubt put the spinners and weavers at a disadvantage in relation to their competitors. As a result, backward linkage activities in textiles are not considered viable at present. He further noted that only a few foreign investors had moved to Bangladesh to invest in backward linkage activities compared to some other developing countries in South and Southeast Asia and also Latin America. Nonetheless, it appear that a favourable climate prevails in the knitting and fabric processing sectorts. Such units has proved to be profitable, and investment in this sector considered to be viable. To overcome the situation, improvement in technical know-how would need to be introduced alongside any investments in production equipment and services. Highlighting the need for better-qualified technical and managerial personnel to achieve the best results, he viewed that the responsibility to solve weaknesses and inadequacies at the firm lay mainly with the private sector. Entrepreneurs should take steps to invest in the development of human resource skills at all levels, and provide additional training for middle management in particular.

Tracking the T&C industry in Bangladesh, Dr. Spinanger informed the dialogue participants that till the early 1980's India and Sri Lanka were the major South Asian suppliers of RMG to USA and the Western Europe. However, subsequent to the onset of political problems in Sri lanka and a persistent anti-export environment in India, Western buyers and Eastern producers became gradually interested in Bangladesh as a possible source of apparel products. At present, the industry (having 2750 units in 1998), is largely in domestic hands - more than 95 % of the garment factories are fully owned by Bangladeshi companies or families. The sector is responsible for earning 73 % of the country's gross foreign currency income; employs 1.5 million people directly; and another 10 to 15 million people benefit indirectly. Outputs of the Bangladesh's RMG sector consists of garments from woven fabric, goods made from circular knitted fabrics and a growing production of sweaters made on hand operated - flat bed machines. About 15 companies/groups, which are the major holders of quotas have fabric-sourcing capabilities and are capable of producing in excess of 10,000 doz. garments per month. There are around 400- 500 thousands sewing machines in the industry, of which 70 % is used to produce exported garments. Large and medium sized companies have more than 200 machines. However, there is a general lack of technical skill and sophistication in the country. Wastage is high and capacity utilisation of the sector is quite low. There is no good training institution in the country which was capable of imparting the skills at a high enough level in Bangladesh. However, the workforce is reliable and adaptable and responds well to training. There has been no major labour unrest among the workforce.

As a result of inadequate production processes and methods, productivity, and thus efficiency, is still relatively low in Bangladesh. The inefficiencies are compensated by wage levels, which have remained low in the past decade. Compared to the other major competing countries where garments are produced, Bangladesh scores well in terms of her competitive strength. Bangladesh's garment firms currently enjoy a minimum of 30 % to 40% labour cost advantage over China, and it is 30% lower than in India. However, that advantage can evaporate quickly in the course of rapid currency devaluations of these two countries, which are not matched by Bangladesh, Dr. Spinanger cautioned. In addition, as regards the diversity and quality of output, Dr. Spinanger informed that the major share of garment production is made up of T-shirts, polo shirts, sweaters, woven shirts, trousers and shorts, anoraks and parkas. Menswear is predominant. The bulk of the items produced by the RMG industry are destined for the low to lower-middle end of the market. These goods are procured because of the low price and the consideration of quality is not a high priority. Bangladesh's export market oriented RMG products are, thus, in the same category as those produced by the main competitors such as India and China.

Dr. Spinanger thought that quality control systems were still weak in Bangladesh. Some of the shortcomings might have been due to a lack of machine maintenance, since there was a dearth of good sewing mechanics.

Dr. Spinanger thought that the major contributing factor to the rapid expansion of Bangladesh garment exports was the preferential treatment afforded by the EU under the Generalised System of Preference (GSP) scheme, and the substantial quotas made available in the US market, coupled with impositions of quota restrictions by the MFA on its main competitors, mainly India and China.

Bangladesh is better known for its inexpensive knitwear and the export-oriented knitwear manufacturing sub-sector. This subsector is growing at a much faster rate than the woven sub-sector. In this connection Dr. Spinanger mentioned that EU was Bangladesh’s largest export market due to the duty-free and quota-free access to this market, even though EU GSP was subject to stringent rules of origin regulations. The value of Bangladesh’s apparel exports to the EU had grown substantially. The level of product diversification of Bangladesh’s exports to the EU market had remained rather limited. A large majority of Bangladesh’s garment exporters were only able to produce basic qualities to cater to the low end of the market. As a result, Bangladesh's RMG was achieving low to lowest average prices.

In his analysis, Dr. Spinanger reflected that Bangladesh was no doubt price competitive in manufacturing at the low end of the market. In order to remain price competitive, Bangladesh had been forced to significantly reduce her profit margins in recent years. Increases in efficiency did not keep in line with increases in wages. In fact, margins in the industry, particularly for smaller and medium sized companies, are on average just below 5% which would be insufficient for the average firms to survive in the medium term even in a quota protected global scenario, he noted. Most of the operations in the garments industry were totally production oriented. Companies did not sell the finished products but merely offered only manufacturing capacities, i.e. cutting and sewing. As a result, Bangladesh's garment exporters were highly dependent on intermediaries (agents and importers) whose major role consisted of supervising and financing business transactions in the garment sector. The intermediaries generally imposed prices which were significantly lower compared to those accruing from direct business. Thus, margins realised by the respective garment manufacturers were relatively low.

While discussing the evolution and loopholes of ATC, Dr. Spinanger pointed out that, the Uruguay Round (UR) Agreement on Textiles and Clothing (ATC) which laid down the framework and the procedures to phase out the Multi-Fibre Arrangement (MFA) by the year 2005, was initially hailed as a major negotiating achievement. Nonetheless, it didn't take long before scepticism crept into the evaluation, particularly after the first tranches of liberalised product categories – containing no relevant items under quota restrictions – were submitted to the WTO by the USA, the EU and Canada. Furthermore, the ATC soon began to be viewed as way of faking liberalisation for as long as possible. Besides, there were also various other distortions which affected an efficient allocation of resources in a world economy.

The problems, he continued, evolved from the initial UR mandate to reach an agreement on trade in T&C products, because it was worded very generally. Nevertheless, the final results of the negotiations sounded to be good and positive. After all, the MFA was to be phased out in four tranches over a ten-year-period (1/1/95–31/12/2004) and the liberalization process for all members was binding and final; i.e. there was to be no postponement of the quota phase-out process beyond the year 2004. However, in the real world of protecting one's interests, the "modalities" to "permit the eventual integration" of T&C products into MFN treatment obviously allowed too much leeway. It was not stipulated that T&C products not under quota or other restraints would be reintegrated into MFN principles at relatively faster pace. Hence the number of ATC products put up for liberalisation was larger than the number specified in the UR Agreement. The volume treatment of ATC products ensured that the economic value of the products liberalised was only loosely correlated with the actual amount liberalised.

Dr Spinanger also pointed out the sorry state of liberalisation in the EU and USA, and mentioned that both EU and USA in general strived to keep out the relatively competitive T&C exporters out of their markets for as long as possible. This was particularly true for clothing. Since most of these apparel exporters happened to be located in Asia, it was these countries which were affected by the lower growth rates and lower degrees of liberalisation in the markets of the developed countries. More specifically, according to him, the EU appeared to have pacified its Mediterranean member countries and EU-Rim countries by not liberalizing products which are exported by these countries. Since such products tended to overlap with products from Asia, protection vis-à-vis these products continued to be maintained, he further noted.

Besides the WTO framework, there were other factors which had impacted on T&C trade flows. With over 100 regional trading arrangements (RTAs) in force and reported to the WTO as of June, 1998, and also a number of other regional arrangements which were in force but not notified to the WTO, are other factors which would negatively or positively affect global trade. Along with the RTAs, there was another measure, which could basically achieve a similar impact on trade flows - the introduction of Offshore Processing Trade (OPT) legislation. Dr Sinanager contented that there was a significant impact arising out of the OPT legislation as well as the existence of regional trade agreements within and around Europe. It could not be questioned that there was an overall shift in trade in the 1990s away from Asian suppliers to those located on the European Rim (EURORIM), whereby the Eastern European countries (EURO-East) profited more than those on the Mediterranean Rim (EURO-Med). Another factor which would be positively influencing the EU imports of clothing products from these countries was the possibility of using textile inputs from Turkey for OPT production in EURO-East countries. The abrupt shift in imports favouring the East Asian countries (primarily China) subsequent to 1990 resulted in a sharp increase in the share of these countries in exports to EU. This surge was a quickly arrested when Sweden joined the EU in 1995; since then the East Asian countries experienced a relative decline in their share to reach levels existing prior to 1991, he noted.

Dr. Spinanger argued that similar massive shift out of sources enjoying preferential treatment to ones which were more efficient clothing producing countries was in fact experienced by Canada in 1997/98, after it had unilaterally removed quotas on several clothing articles. Hence his message was that the quota system established under the MFA and now being eliminated in the context of the ATC has generated important changes in market sourcing which had little to do with comparative advantages and much to do with market sharing based on the availability of quotas, and such a state of affairs will not continue after the MFA was eliminated.

While clarifying OPT legislation he mentioned that US had been profiting from imports of clothing products from its southern neighbours for almost as long as Germany did, when it began stressing trade with countries east of the former "Iron Curtain". In both cases it was initially the existence of OPT legislation which was later enhanced through RTAs. Time constraints played a far more crucial role in determining where and how production should be located and structured. The crucial question, relevant also in the case of EU, would be to determine whether or not trade flows would basically remain unchanged after all trade restrictions were removed.

According to Dr. Spinanger, the share imports of clothing from South Asia went up across all major EU countries, the USA and Canada, but not in Japan. Data reveal that in case of Bangladesh exports to EU countries and the US have increased noticeably since 1990. At that point in time when Bangladesh was just beginning to make itself known in world T&C markets – it was hit by quota restraints in those markets. As it was pointed out, it had indeed benefittd from the quota. In recent years, Bangladesh has benefitted substantially, particularly from the relatively lenient treatment in the EU in the form of quota-free and also duty free access under EU GSP. However, he continued, there were factual indications that when quotas are eliminated altogether countries such as Bangladesh may be negatively affected as a result of which production could shift to locations such as China.

As was revealed in case of Sweden, when it eliminated all quotas on T&C products in 1991, a major shift took place favouring China; countries in Southeast Asia and South Asia could not reap the benefits from this. However, when quotas were re-imposed in 1995, when Sweden joined the EU, the shift away from East Asia was quite moderate. As was also revealed a few years ago when Canada unilaterally removed quotas on shirts/blouses, there was again a massive shift in imports towards China, and particularly there was considerable shift away from Bangladesh. Dr. Spinanger posed the question: “Is this what is going to happen when quotas are no longer a necessary condition to export to IC markets (i.e. as of Jan. 1, 2005), and China has become a member of the WTO, enjoying thereby all the MFN benefits?” He further asked, “what are the essential steps for Bangladesh to take in order to ensure that it does not miss the boat when quotas no longer are a factor in determining where buyers purchase T&C products and/or where investors establish production facilities?”

Dr. Spinanger sought answers to these questions using the result of a survey carried out in Hong Kong amongst 14 major T&C producers/traders in Hong Kong with activities throughout Asia and around the world. He informed the dialogue participants that availability of quotas, state of politics, stability in the host country, availability of good quality transportation infrastructure, quality of telecom infrastructure in the host country, labour costs, education and training of workers, and policy consistency with WTO rules that affect trade and investment were major issues which must be interpreted as being the essential factors shaping investment and sourcing decisions.

Dr. Spinanger assumed the political situation in Bangladesh as little different from that of competing countries. He thought that in the particular instance of Bangladesh the infrastructure issue, both in terms of transportation as well as for telecommunications, needs to be rapidly improved. He was of the opinion that Bangladesh must strive to ensure a relatively short period to cater to the work orders of the buyers since the regional trade agreements in the Americas and Europe provide some of Bangladesh's competitor countries locational advantages which is difficult for Bangladesh to beat. With regard to telecommunications, adequate facility must be available which was capable of keeping the T&C industry at par with its competitors or even ahead of them. This was important in view of the fact that the T&C sector is coming under the domain of e-commerce in a big way and a fast rate and if Bangladesh cannot cater to the new demands, she will be avoided by the buyers. Training of workers and management may be expected to take a relatively lay period. The immediate issue of importance was to ensure that all those measures which hinder access to markets, investment and business, are eliminated speedily. These are the main constraints which deter investment to Bangladesh. While Bangladesh have profited from the existence of quotas, their removal will put the country to the ultimate test. Whereas price was important in past, in the future issue of the just in time delivery of apparels will become very important. Fashion seasons are expected to become much shorter in the coming days than they are now. If Bangladesh does succeed in addressing the above issues, there is a good opportunity for her to continue to demonstrate good performance. Failing this, Bangladesh's robust performance of the recent past would give way to deceleration in growth rate and loss of competitiveness in the global market.

Presentation of the paper by Dr. Debapriya Bhattacharya, Executive Director, CPD and Professor Mustafizur Rahman, Research Director, CPD

The keynote paper on *Experience with Implementation of WTO-ATC and Implications for Bangladesh* prepared by Dr. Debapriya Bhattacharya and Professor Mustafizur Rahman was presented by Dr. Bhattacharya. The paper reviewed the experience with implementation of the ATC till now and the possible implications of the ATC in terms of future performance of Bangladesh's apparel sector. Focusing on the evolution of MFA and its transition to ATC and highlighting some of its major features, Dr. Bhattacharya reviewed the status of implementation of the first two phases of integration of the MFA into the ATC and future projections of integration, identified the implications of the implementation of ATC for Bangladesh's export-oriented apparel sector and presented some of the major non-ATC related developments which are expected to impact on future performance of Bangladesh's apparel sector. Dr. Bhattacharya also identified some of the strategic responses which Bangladesh could pursue in view of the evolving global scenario in the trade in T&C.

Drawing on the remarkable record of the apparel sector which had been able to sustain a momentum of robust growth over a decade and half and point out that the real growth rate of exports of Readymade Garments (RMG) was about three times higher than that of the GDP over the matched period, Dr Bhattacharya observed that the emergence and growth of the Bangladesh RMG in the main, happened within the ambit of the Multi-Fibre Arrangement MFA. The MFA imbued trade in Textile and Clothing (T&C) with regulated discipline and gave it a certain degree of predictability. Within the MFA regime, with its relative predictability, exports from the RMG sector of Bangladesh registered a quantum leap from a meagre $ 1.0 million in 1978 to $4.2 billion in 2000. The sector currently accounted for 76% of total export of the country. Out of every dollar of incremental export from Bangladesh about 85 cent was currently contributed by this sector, Dr Bhattacharya pointed out. About 1.5 million workers are presently employed in the 2800 RMG factories and through linkage effects and multiplier impact the RMG currently generates about $2.0 billion worth of domestic economic activities.

Emphasising on the restrictive nature of trade in textiles/apparels for the last fifty years, Dr Bhattacharya mentioned that Bangladesh has traditionally operated within the discipline of *Bilateral Restraint Agreements* applied under the MFA. Between 1965 and 1996 the structures of textile and clothing suppliers has shown a progressive improvement as far as the developing countries were concerned; their shares of textile and clothing has improved remarkably. In 1965 developing countries’ share was 14.6% and in 1996 it has gone up to 31.3%. Dr. Bhattacharya mentioned that the ATC which envisaged two routes for the progressive liberalisation of trade in textile and clothing: a) integration of textile and apparel products into GATT 1994 in a progressive manner, over a period of ten years and in four stages; and b) the application of growth rate factors to existing MFA and non-MFA quantitative restrictions on products not yet integrated. Dr Bhattacharya mentioned that under first and second stages of integration programme by Canada, US, EU and Norway (only these four countries which maintained quota restrictions at the time UR), Norway’s integration was the maximum (as a percentage of the total imports in 1990), on the other hand, Canada, USA & EU integrated almost same percentage of total 1990 imports. Although this conformed with ATC provisions in the volume terms, it was below the stipulated levels in value terms.

As regards the ATC programme of integration which has so far been implementated and also with respect to the ones planned for future implementation, Dr. Bhattacharya made following observations:

- The imports of 1990, the base year for computing quota phase out, has been expressed in volume terms. In effect this has ultimately lowered the share of value added products, specifically clothing and made-up textiles, in relation to their share in value terms.

- Restrictions maintained by the four countries have mainly focused on apparels. As a result, integration programmes defined by the ATC in terms of volume provides the quota imposing countries an opportunity to integrate clothing or value added products only at the last stage.

- Article 2.6 only stipulates that the integrated products shall encompass products from four groups: tops and yarns, fabrics, made-up textile products and clothing, but does not specify the proportion of each of the groups at each stage of integration. As a result there remains scope for integrating clothing at later stages. This is what has actually happened.

- There are also differences of unit in which the countries notified volume of 1990 import of textiles and clothing. USA and Canada notified 1990 import of textiles and clothing in Square Meter Equivalents (SMEs), whereas European Union and Norway notified the same in tonnes and kilograms respectively. Use of different units in expressing import volumes has affected the calculation of the share of imports of each of the groups.

- The integration scheme leaves ample scope to restrict imports of clothing till the last stage, since the quota imposing countries would try to integrate items outside quota restriction during the earlier phases.

In identifying the implications of the implementation of ATC for Bangladesh's export-oriented apparel sector, Dr. Bhattacharya mentioned that Bangladesh faced restricted market access in apparels in two of the four quota enforcing countries, the United States and Canada. As far as Bangladesh is concerned, market access is restrained on 21 categories in the U.S. market and nine categories in the Canadian market. Consequently, 70 per cent of exports to these two markets from Bangladesh were carried out under quota. Average quota utilisation in the USA and Canada had been on an average 85 per cent and 65 per cent respectively. However, in some of the categories which are of high export importance to Bangladesh, the fill rates in recent years had been near saturation, ranging between 90 per cent and 100 per cent, Dr. Bhattacharya observed.

Emphasising that the implementation of the ATC needed to be examined from the perspective of Bangladesh, Dr. Bhattacharya noted that during pre and post–MFA the foreign exchange earnings increased from US$ 867 million in 1991 to US$ 4349 million in 1999, and the growth rate in 1991-95 was 29.7% and for the period 1996-2000 was 14.6%. He mentioned that the share of total RMG exports has increased in the EU market at the margin and the observation remained valid for both woven and knit RMG. This was indicative of, on the one hand, saturation of quota regime in the US market, and on the other hand, competitive strength of Bangladesh RMG in the non-quota market. Based on the analysis of the market share it was found that the share of Bangladesh in the US apparel market had indeed gone up between 1993 and 1999. It was revealed that in the US market the share of woven apparel went up from 3.04% to 4.04% and this was complemented by a sharp rise in the share of knit-RMG from 0.39 to 1.53%, on the other hand the growing presence of Bangladesh in the EU market was more visible: Bangladesh's share went up from 0.80% to 4.36% of total EU imports over the corresponding period.

The presentation also showed that in the US and Canada as also in the EU, the integration schemes were back loaded: in value terms the major part of the trade in T&C would be integrated only in the last stages of the implementation of the ATC, on January 1, 2005. It was also pointed out that of the four major T&C items, apparels as a group, in its overwhelming part in value as well as volume terms, was scheduled to be integrated only at the last stage. Categories integrated under the first two stages did not include items which had any significant importance in the US market as far as Bangladesh was concerned. Only two categories for which Bangladesh faced quota restrictions in the US market were de-restricted on 1 January 2002. These are gloves (331) and silk trousers etc. (847). Thus, for all practical purpose, for Bangladesh the quota regime of apparel market had so far continued to remain mostly unaffected.

In the context of quota fill rate of major categories of Bangladesh's RMG exports to US, Dr Bhattacharya mentioned that saturation of quota coupled with growth performance in non-quota items was an indication about the potential market penetration power of Bangladesh in the post-MFA context. Although, implementation of the first two stages ATC integration schemes did not have any negative impact on the performance of Bangladesh export oriented apparel sector, there was in fact little scope for complacence, he opined. Rather, he thought that the back loaded integration scheme may hit the country with full force in 2005 and the comparative advantages enjoyed till now by Bangladesh would be put to major test in the global market. Highlighting the positive restructuring of the T&C export sector which Bangladesh is undergoing through both intra-sectoral product diversification and the incremental growth in the quota free markets, Dr. Bhattacharya noted that in a quota free regime, relative competitive strength of countries to a large extent would determine market access capacity.

Pointing to some of the recent developments in the global T&C trading regime which are not directly related to the ATC, Dr. Bhattacharya observed that such developments have accentuated the challenges Bangladesh would face during the run-up to the complete phase out of the MFA. These developments are: (i) imposition of anti-dumping duties in the USA on exports of shop towels from Bangladesh; (ii) enactment of US Trade and Development Act 2000 providing concessional treatment to Caribbean and Sub-Saharan countries; (iii) imminent prospect of accession of China to WTO and (iv) concurrence of Bangladesh to the *regional cumulation* provision of the EU GSP,

As Regards *Anti-Dumping Duty* (ADD) imposed by USA on Bangladesh's export of shop towels, the recent move represented a re-imposition of duties first imposed in 1991. Questioning the justification of duties, Dr. Debapriya mentioned that the operative issue was whether the re-imposition of the ADD on shop towels exports from Bangladesh was done on the basis of fairness, or whether the ADD was applied as a protectionist measure. With regard to the scope of the order of the US Department of Commerce (USDOC) action to reimpose the original dumping margins against all Bangladesh exporters, he observed that at a first glance this may appear to be consistent with the provisions of the US law and regulations. However, it appears to be at variance with the WTO Agreement which, among other things, asks the authorities of an importing country to base its decisions on the best information available at the time, told Dr. Bhattacharya.

The decision to prolong anti-dumping finding and reimpose the duty represents a step backwards if the spirit of the ADD in the WTO is kept in the perspective, Dr. Bhattacharya stated. Previous annual administrative reviews had found that two exporters, i.e. *Grayfab* and *Hashem*, were not considered to have dumped their products between 1991 and 1996 and ADD was not imposed on these firms during this period. Dumping margins were set at zero rates for the two exporters for these years. In case of *Khaled Textile Mills*, the dumping margin had also been set at zero for a two year period. Informing that according to the US AD rules, normally an ADD order may be revoked after at least three years of zero dumping margins, he informed the dialogue participants that in none of these cases did US administration terminate its anti-dumping procedures. Instead, the last sunset order of 1999 reestablished anti-dumping duties on all six exporters from Bangladesh at the level which existed when the first anti dumping action was taken by US against Bangladesh exporters in

1991. This reintroduction of ADD against *Grayfab*, *Hashem* and *Khaled Mills* at the rate of 4.6%, in spite of the more recent zero margin duties allowed to them by the US DOC itself, sends an ominous signal and once again reemphasises the need for vigilance against possible use of measures such as ADDs as protectionist barriers. The fact that Bangladeshi exporters were unable to prepare appropriate documents as required under US laws and submit these to USDOC also highlighted the enhanced need for trade related capacity building at a time when trade related issues are becoming increasingly complex and intensive in legal interpretations, Dr. Bhattacharya stated.

As regards US Trade and Development Act 2000 and its possible implications for Bangladesh's export oriented RMG, Dr Bhattacharya observed that the introduction of US TDA 2000 would enable countries in Sub-Saharan Africa (SSA) and Caribbean Basin (CBI) a quota free regime in the USA market whilst Bangladesh would be constrained by quota limits in foreseable future. As a result, competition might be expected to intensify for some of the low priced items within the same categories where Bangladesh's export performance has traditionally been robust. Dr. Bhattacharya was of the opinion that once these countries are allowed to access US markets at zero tariff, the comparative advantage situation could be expected to undergo important changes.

Referring to imminent prospect of accession of China to WTO, Dr Bhattacharya emphasised on the competitiveness of Bangladesh's RMG sector which should be investigated for future performance of Bangladesh's RMG on an urgent basis. Turning to the quota utilisation performance of China he mentioned that quota fill rate of some of the important (for Bangladesh) categories, such as 338, 339, 640, 341 and 342 were better in case of China compared to Bangladesh in 1999. He cited three aspects which needed to be looked at urgently: first the change over time of the Revealed Comparative Advantage (RCA); Bangladesh would need to continuously keep track of the RCAs. Secondly, categories for which Bangladesh had RCA> 1 belonged to the lower segment of the market and it was required of Bangladesh to graduate from this level; and thirdly, the prospect of increased competition from emerging major suppliers of apparels in the global market. Thus, under quota free regime China would perhaps be best placed country to penetrate Bangladesh's traditional markets, a prospect which Bangladesh could ignore only at its peril.

Informing that the *Regional Cumulation* provision of EU-GSP was related to the strategic interest of Bangladesh's apparel exports in the medium and long-term scenario, Dr Bhattacharya called for a close scrutiny of this development. The rules of origin for EU-GSP had always been stringent. Previously, the ROO called for a two-stage conversion for woven-RMG and three-stage conversion for the knit-RMG; following derogation this became two-stage for woven-RMG and one-stage (under quota) for knit-RMG (under a quota system). Currently the ROO requires two-conversion stage for both the categories. Preferential treatment under EU-GSP allowed importers in the EU member countries to claim duty drawback on imports of apparel from Bangladesh (equivalent to the full tariff equivalent of 12.5%). Dr. Bhattacharya mentioned that Bangladesh has been allowed to have a firm foothold in the EU market which currently accounted for 35 percent of her global apparel exports and she has also been able to increase her share in the EU market from 1.50 percent in 1993 to 3.44 percent in 1999. As regards the utilisation of the EC-GSP, Dr Bhattacharya mentioned that in spite of significant growth in value of exports over the recent years, the overall GSP utilisation deteriorated from 43.2% in 1994/95 to only 27.3% in 1996/97. The major constraining factor was Bangladesh's inability to comply with the three-stage and two-stages conversation requirement of EC for the knit-RMG and the woven-RMG exports respectively.

Mentioning that the regional cumulation of SAARC countries impacted on the domestic sector's backward linkage activities, Dr Bhattacharya pointed out that a SAARC-EU MOU was signed in 1996. In 1997 a consultative body, constituted by Ministry of Commerce, did not accept regional cumulation. However, later on in November, 1999 Bangladesh informed SAARC Secretariat that it was ready to accept regional cumulation. Dr Bhattacharya illustrated the value addition criteria for obtaining preferential treatment under regional cumulation. He observed that major woven apparel product exported by Bangladesh would receive zero tariff access under regional cumulation because of value addition regional cumulation provisions under the EU-GSP.

The Dr. Bhattacharya pointed out that the local value addition of most of Bangladesh's RMG products which used imported fabrics was about 25-30% of the total price. If fabric is imported from India, local value addition of India, at about 75%, would be substantially higher compared to that of Bangladesh, at 25%. Paragraph 1 of Article 72a of the EU GSP stipulates that the preferential margin in this case would be determined at the level enjoyed by India (15% of the existing tariff) and not by Bangladesh (100% of the existing tariff).

Dr. Bhattacharya mentioned that the ATC objectives of progressive phase out of quota restrictions was to a large extent unrealised since only 3% of total products that were under quota in 1990 have so far been integrated in the course of the first two stages, Dr Bhattacharya pointed out that as it stands now, there is very little possibility that a more protracted MFA phase out could be agreed upon by the WTO members. Firstly, opening up agreed provisions will be very difficult to push through in the WTO; secondly, whilst many developed countries would rather welcome such a move, most of the (non-LDC) developing countries would vehemently oppose such revisions. Under the circumstances, it will be in Bangladesh's best interests to build up a case for an early and accelerated implementation of the MFA for the LDCs. This would mean, firstly, bringing forward the phase-out for the LDCs by one stage which would provide the LDCs quota-free access from January 2002 when Stage 3 of the ATC comes into force. In addition, Bangladesh could also ask for duty-free access which in effect would mean claiming EU-parity in the US market (since Bangladesh's export is already allowed quota-free access in EU, and the recent EU initiative will also allow Bangladesh a virtual duty-free access in the EU). Bangladesh would need to clearly articulate her claim for special treatment in the WTO during the review process of the ATC and will need to build up a strong case in support of her demand. Such demand could include (i) demand for a review of the ATC integration scheme, (ii) demand for implementation of the draft Seattle Declaration; and (iii) call for an extension of the market access under US TDA2000 on bilateral as well as on LDC basis. Dr. Bhattacharya observed that Bangladesh should use the S&D status given to LDCs in the WTO to argue for special treatment under the ATC. She should also forcefully point out that the *Integrated Framework* initiative has not delivered much. She should also play the China card. The above arguments must be presented in a coherent manner to ensure Bangladesh's enhanced market access in both USA, EU and Japan.

iii) Discussion

Imposition of Non-Tariff Barriers

Drawing attention of the dialogue participants to the challenges facing the LDCs in the global market. Mr. Jamaluddin, former Director General, FBCCI mentioned that during the period of implementation of the ATC, the international community had forthcoming in facilitating the process of integration of the LDCs. Terming the US Trade and Development Act 2000 (USTDA 2000) inconsistent with the WTO principles, he opined that this issue ought to be raised in the WTO. Mr. Jamaluddin observed that the United States has threatened to cancel the GSP facilities provided to Bangladesh and has reimposed anti- dumping duty on one of the exportables from Bangladesh. The ADD was imposed despite the fact there was a provision to the effect that such anti dumping duty could not be imposed on the LDCs. Along with the domestic constraints, Bangladesh is facing difficulties originating from both domestic as well as global constraints rules those are being imposed from the international community. He further complained that Bangladesh is yet to receive any assistance for domestic capacity building under the Integrated Framework (IF) initiative.

Mr. Samsul Islam, former Commerce Minister, GOB also thought that it was unfortunate that a LDC such as Bangladesh should be a victim of anti-dumping measures. He emphasised that Bangladesh should take initiatives to disseminate the knowledge on the various provisions of the WTO. This was required in order the maximise the gains from the WTO system.

Mr. Al Hossainy, former Chairman, PSC pointed out that one aspect of the problem which was not covered in the presentations was the non-triff barriers which were inhibiting Bangladesh’s global performance. It was obvious that no WTO member countries would like to give up their interest voluntarily; it was also difficult to assess how much co-operation or assistance Bangladeh would receive from the international community. Bangladesh would need to fight for her own interest. Non-tariff barriers in the international trade should not be lost sight of and accordingly Bangladesh should put in place adequate safeguard measures to with stand the negative impacts arising out of such barriers.

Structural Impediments and Imposition of Labour Standards

Mr. Jamaluddin pointed out that under the ATC the LDCs are to be given enhanced market access. Even though Bangladesh has phased out child labour from its RMG industries, the developed countries are imposing additional measures such as labour standard requirements as a precondition for exports. Mr. Al-Hossainy also mentioned the case of child-labour which Bangladesh has taken care of. However, there remained many other formidable difficulties, which inhibit Bangladesh's market access. Developing countries are required by the developed countries to comply with stringent health and nutritional standards which Bangladesh and other LDCs find difficult to comply with. There are also domestic problems such as in order to get customs clearance between structural rigidities, lack of adequate power and energy, low capacity of the ports; 42 and 72 signatures were still required.

As regards the issue of child labour, Mr. Samsul Islam, former Commerce Minister, GOB mentioned that one part of the problem originates in the US. When buyers come to visit the industry they frequently ask whether the factory have adequate, toilet facilities, exits etc for the labour force. He thought that Bangladesh as a developing country was doing her best to address these issues and some encouragement from the developed countries was still needed to stimulate the behaviour of the local entrepreneurs.

Mr. Towfique Hasan, Director (Textile), EPB was of the opinion that developing countries have deregulated more speedily compared to the developed countries. Many facilities are provided to the developing countries on paper which the reality was that most of these remained unattained. Whenever LDCs try to enter into the developed world with their goods and services they face restrictions like child labour, labour standards, sanitary and phyto-sanitary standards. In the United States, specially in the Agriculture sector, about a million children were working and consequently US was violating its own law. The United States was in effect unilaterally negotiating on the issue of China’s entry to the WTO. There are many other members in the WTO belonging both developed and developing world and the USA cannot be allowed to take decision on behalf of all interested parties.

Mr. Shamsul Islam observed that USA was demanding that Bangladesh should have trade union in EPZ. However, if the LDCs introduce labour unions in: they should lose the support of investors such as Japan, whilst if they do not they might incur the wrath of the US. Indeed, such dilemmas are very confusing to LDCs like Bangladesh. He continued by saying that LDCs had always been asking positive measures from the developed countries, however, these have hardly been granted. Mentioning that India was preparing herself keeping her eyes on the year 2005 and was taking appropriate steps to raise efficiency in the textile sector. Towards this India has created a 40 thousand crore rupee fund for technological upgradation of some of the export-oriented sectors. As such, Bangladesh needed to prepare with a vision to withsatnd challenges that are emerging, he opined.

Market Access

Professor Muzaffar Ahmed of IBA pointed out the various reasons because of which countries tend to deny market access. He observed that Dr. Spinanger also raised some of these points in his keynote presentation. According to Professor Ahmed, customs procedures in Bangladesh which were costly as well as time consuming were one of the major barriers to easy access to global markets. He also mentioned that intellectual property right infringement has also been used to deter LDCs such as Bangladesh from accessing the global market. Yet except in case of the film industry there has not been raised any such questions about the issue of infringements has not been raised in case of any sector in Bangladesh. Prof. Ahmed observed that many developed countries complain about high tariff rates in the developing countries inspite of the fact that the majority the latter group of countries have reduced their tariff barriers rather sharply. Interestingly, Prof. Ahmed observed, developed countries also complain about industrial subsidies in the developing countries. The fact of the matter was that in recent years countries such as Bangladesh have been withdrawing subsidises from their industries.

A question was raised by a number of dialogue participants as regards the concept of LDC which according to them had been strategically redefined and changed to bar a number of developing countries from reaping the benefits of quota free and duty free access to markets of the developed countries. All countries within the LDCs should be eligible for benefits that are provided to LDCs as a group. Yet the US, in its Trade and Development Act 2000, has changed the definition of LDC in such a manner as to ensure that only a certain number of countries, mostly from the sub-Saharan African and Caribbean region, would be allowed to access the preferential treatment. A number of participants expressed concern that this particular policy stance has exposed Bangladesh's RMG sector to a situation which poses serious threat to her competitive strength.

Implications of Regional Cumulation Provision

As regards the implications of regional cumulation provision under the EC GSP, Mr. Jamal Uddin thought that if Bangladesh could import the yarns and fabrics at competitive price she would be able to enhance her export. Mentioning that what Bangladesh was asking for was global cumulation, he was of the view that the regional cumulation gave Bangladesh an opportunity to attain price competitiveness in the markets of the European Union. Since the domestic capacity was meeting only 10 to 15 percent of the total demand, it would be wise to go for import from regional countries. He expressed his reservations about faster integration as articulated by Dr Bhattacharya in his presentation. According to him, faster integration would be useful only when it will be only for the LDCs.

Regarding the acceptance of the SAARC cumulation, Dr. Muinul Islam, Director General, BIBM mentioned that there were not sufficient discussion on the issue in the country and also there was hardly any preparation to face the consequences. He thought that the SAARC cumulation would bring short-term benefit to Bangladesh, however, at the same time, it had the potential to hamper the growth of the country's backward linkages.

Mr. Zillul Hai Razi, Economic and Information Officer, Delegation of EC, Dhaka presented a chronological review of the issue of regional cumulation. He mentioned that the proposition of SAARC cumulation was first floated in 1997. It was in May 1998 when one of the directors of SAARC Secretariat in Kathmandu wrote a letter to EC asking for regional cumulation. The answer was given to him that the request should come from all the seven members. In January 1999 there was meeting of SAARC Commerce Ministers in Sri Lanka where the proposal was placed and approved. Mr. Razi pointed out that Bangladesh does not have an adequate anti-dumping law in this country. Mentioning that Bangladesh does not need a regional cumulation when it imports yarn, Mr. Razi observed that it was clearly shown in the paper that Bangladesh could not have 51% value addition in textile if she imports fabrics from India. However, regional cumulation could be beneficial for the IT sector or other commodities.

As regards Regional Cumulation**,** Professor Mustafizur Rahman, Research Director, CPD argued that since Bangladesh's value addition was less than the value addition of the country of import the preferential marginal to be actually engaged by her in EU was insignificant. If Bangladesh imports fabrics from India the value addition will in the production of RMG will be higher in India than in Bangladesh. As Article 72 A.1 of the EU rules of origin says, the GSP will be calculated according to the eligibility of the country where the value addition is maximum. The GSP eligibility of India in Eu, as a developing country was only 15%. The GSP margin, which Bangladesh if she accesses the fabric from India, will be according to the eligibility of India since value addition in India will be higher. India as a developing country is eligible for not 100% rebate, but 15% on the EU tariffs. The current tariff rate in EU is 12.5%. In case the exporter accesses the fabrics for the importer would get the 100% rebate i.e. equivalent to the full tariff of 12.5%. If the computer imports the fabric from India the rebate for the EU importer will be equivalent to 15% of 12.5% which is only about 2%. He thought the understanding of BGMEA was that under regional cumulation EU importers would be able to access zero-tariff access, all of the 12.5% tariff imposed on textiles. If in fact the margin is only 2%, it would be better to give the protection to our local industry and not go for regional cumulation.

In this context Mr. Jamal Uddin pointed out that there was a large information gap as to the actual margin of the preference under the SAARC cumulation. This gap existed both between the industry and the people, as also between the government and the people. He did not agree that SAARC cumulation was a good thing for Bangladesh, because it might be harmful for the backward linkage. The Bangladesh government agreed to SAARC cumulation without the knowledge of the major stakeholders, he commented.

Mr. Fazlul Huq, Additional Secretary, Ministry of Commerce contested the views of other participants on the issue of RC. He pointed out that regional cumulation was not dealt with in secret. The issue was raised on November 16th and 17th in 1995 during the meeting of SAARC Committee on Economic Cooperation, which was held at the secretariat level. The issue was also raised in a meeting under the chairmanship of the Secretary, Commerce which was participated by the Bangladesh Garment Manufacturers and Exporters Association, Bangladesh Knitwear Exporters and Manufacturers Association and by Bangladesh Textile Mills Association. Among other things, it was decided that a request would be made for SAARC Cumulation to the SAARC Secretariat along with an ASEAN Cumulation. This issue was also raised during the meeting of the SAARC committee on Economic Cooperation and then again in the meeting of the SAARC Commerce Ministers held in Dhaka (February 1999) as also in the meeting of the Foreign Ministers held in Sri Lanka in March 1999.

However, the issue was contested by BGMEA and Bangladesh Textile Mills in a meeting which was held under the chairmanship of the Secretary Commerce and was attended by all the major stakeholders. It was later on decided that Bangladesh should have an in-depth study. This study has already been commissioned and an in-depth report was expected by October, 2000. Some of the related issues will be put on the agenda of the LDC Conference to be held in Brussels in May 2001, Mr. Huq informed.

Mr. Shamsul Islam maintained that SAARC cumulation caused some confusion and misunderstandings. He hoped that the evaluation committee which is working on the issue would ensure that the interests of garments industry is safeguarded adequately. China’s entry would be of some disadvantage to us but Bangladesh will need to address the attendant challenges in similar manner as India. The success of the textile industry and the RMG in Bangladesh will depend on efficiency, cost minimisation and cost effective procurement of raw materials, he opined.

Success in Quota Free Regime Questioned

With reference to Dr Bhattacharya's presentation, Mr. Razi delved on the issue of Bangladesh’s prospects in the quota free market of EU. EU was not a quota-free area; however, it was quota-freed for Bangladesh whilst Bangladesh's competitors have to trade under certain restrictions. Thus, success in the EU could not be termed as a success under a quota-free regime, he stressed.

Professor Rahman emphasised the argument that Bangladesh should bring forward the fourth stage to the third stage i.e. January 1, 2002. Asking for zero quota in the US market as of January 2002 means that Bangladesh wants EU-parity in the US market within an environment where other countries will have their quota beyond 2002 and till 2005. This will allow Bangladesh to reap the benefits of the quota free regime for three years and will enable her to prepare for the post-2005 regime.

Rules of Origin and GSP Utilisation

Mr. Razi delineated that there are two kinds of rules of origin - one for normal trade and another for preferential trade. Mr. Razi pointed out that there was derogation between 1996 and 1998 while the classic GSP continued. The GSP utilisation had been about 16% in 1986 and about 20% in 1997 although Bangladesh has been talking a lot about backward linkages. It was rather surprising that GSP utilisation had been about 40-45% in 1997 and later on reported to be 20%. Something was wrong as regards issuance of certificates of origin which was subsequently challenged by EU authorities. There is a possibility to access GSP under the standard system even by importing grey fabric if dying and printing is done within the country.

Professor Rahman clarified that GSP utilisation came down from initially stated 45% to 20% because the rules of origin certificates for accessing the GSP facilities were not complied with and subsequently about 25000 GSP ROO certificates were cancelled. As a result EU importers were asked to return $61 million which they had received earlier as tariff rebates. It can be assumed that after 1997, though there was no data available, the utilisation rate must have gone up since there had been some restructuring within the RMG exports to the EU market because of the shift from woven to knit RMG. As is known, in case of knit RMG Bangladesh was able to comply with the EU GSP rules of origin since local value addition was about 50-60%. Thus, in the knit sector GSP utilisation rate must be going up at present and it may be around 40% now, Professor Rahman indicated.

Cash Compensation

Professor Rahman observed that the cash compensation scheme (CCS) which Bangladesh's textile producers are getting at 25% currently may not be sustainable in the long run. About 102 million dollars were allocated this year for the CCS and 100 millions dollars were allocated in FY 1999. This is a considerable fiscal burden and in the ultimate analysis only competitive strength could guarantee the survival of Bangladesh's textile sector.

Backward Linkage

Mr. Towfique Hasan quoted from a paper prepared by Dr Bhattacharya earlier where it was mentioned that Bangladesh needed 1.5 billion USD to meet the requirements of the RMG in backward linkage activities beyond 2004. Bangladesh would need to set up 475 textile mills. Government was not in a position to provide such a huge amount of money. Under the circumstances the private sector must be asked to come forward. However, there is a liquidity crisis in the banking sector. SAARC cumulation will give Bangladesh a benefit of two percent, as has already been said. In view of the fact that in absence of SAARC cumulation we will get nothing, is it not a better option to go for that 2% by accepting RC he asked. When in 1997 one-stage derogation was provided and two-stage derogation was provided with the quota limit, Bangladesh could only fulfil 33% of the quota. There had been much talk about backward linkage and the need for infrastructural development etc, however, no one come forward with a concrete proposal. Bangladesh's textile sector account for 12 to 15 percent fabrics required for domestic RMG industry. The rest 88% has to be bought either from India or somewhere else. If the fabric is imported from SAARC countries and we get a 2% preferential margin/why not take it? If the integration process is to be accelerated from 2005 to 2002 to take advantage of the emerging market situation why not take the advantage even if the advantage is 2%? he asked. There was a series of meetings before the decision to go for RC was taken and all important stakeholders were present including the BGMEA and BTMA. However, now everyone is saying they were unaware of the issue and confusion about whether to go for SAARC Cumulation or not, he exclaimed.

On the question of backward linkage, Mr. Jamal Uddin noted that Bangladesh has done pretty well in the knitwear sector. Productivity was relatively high and the sector is economically viable. However, as it was explained earlier, the woven sector needed considerable support, specially financial. It was not sure where the money is going to come from and who is going to pay. There is an uncertainty here. Financial support has to be mobilised to save the country's industry.

Geographical Proximity and Trading Advantage

Professor Ahmed pointed out that locational advantage was an important factor of competitiveness. Countries, which are on the periphery of a common market, receive relatively more benefit. And notwithstanding the technology, countries which are adjacent to the EU or the USA stand to benefit. E-Commerce will not be able to change this since this is a question of physical transport, not receiving an order. The garments factories are prepared to take untrained and unskilled person and give them on job training. An average working life for a garment worker is usually five years and during this time the health of the workers who are mostly female, undergo such deterioration that she is unable to further. This is another aspect of the story – not only imparting training to workers but the need to maintain the workforce in the long run after they have been trained.

Progress in Textile and Need for Strengthened Promotion

Professor Moinul Islam pointed out that the woven-RMG sector has not performed satisfactorily. Bangladesh as a LDC should have received some preferential treatment which were missing because of our lack of effort and absence of dynamism in our economic policy.

He raised yet another point as regards subsidy. Bangladesh is not subsidising the development of sectors she is supposed to promoting. Countries which wanted their industries to flourish had extended support to those industries; Bangladesh has not done so for her textile industry. Time has come now when the government, banking sector and the private sector have got to put their heads together and see how quickly Bangladesh could develop a viable textile sector.

Reactive Negotiation and Slow Integration

Participants had mach to say on the negotiating strategies pursued by Bangladesh. For example, Professor Moinul Islam mentioned that the Commerce Ministry had not pursued a proactive trade strategy, rather his feeling was that compared to the earlier period some deceleration in the effort was observed. The country's negotiating position has become more reactive than proactive.

Mr. Al Hossainy recommended that a study should be undertaken to best articulate Bangladesh's future strategy in view of the ATC. In this regard he thought that since CPD has developed expertise on the related issues, CPD may be vested with the responsibility of working this out, specially focussing on what should be the negotiating issues in the next meeting in the Brussels. CPD has prepared a similar paper for the Seattle Ministerial and a similar exercise should be repeated. This is particularly so since the officials who were in charge of the Ministry of Commerce tend to get transferred by the time they master the complex issues and new ones are not in a position to contribute anything useful or substantial. There was a need to engage consultants, competent people to prepare the paper for the government and bridge up this important gap.

In negotiations two aspects should be taken note of. One was the content argument, that WTO is a rule based organisation. The weaknesses and strengths of the rules need to be analysed and position articulated by taking cognisance of this. The other aspect is the capability of the people who represent Bangladesh in the negotiating meeting. There are many competent ministers and competent officials and but they need to prepare themselves thoroughly to conduct the negotiations. The government must have dialogues with people concerned, since the exercise involves the interest of not only the government but also other stakeholders and from civil society organisations could also play an important role.

Need for Government Support
Mr. Jamal Uddin wondered whether the rapid development of the RMG sector has proved to be beneficial for the country. It seemed to him that people who are connected with this industry haven't done their job properly - be it the government, or the BGMEA or other stakeholder groups. He pointed out that Bangladesh RMG sector operates on the lower segment of the international market. Bangladesh has not been able to penetrate the higher, relatively more profitable sectors of the market. China and some of the countries of South-East Asia region have moved up market very rapidly. Bangladesh is still struggling with her shirts and knitwears which have little value addition. He was surprised and pleased to learn from Dr Bhattacharya's presentation that not only Bangladesh had utilised nearly the full limit in the US market but also had performed well in the non-quota segment of the market. And this indicates the inherent strength of Bangladesh's RMG sector, he opined. Despite many problems, the fact that this industry without any active support from the government has been able to stand on its own in the international market is indeed very commendable, he noted.

Emphasising that without RMG Bangladesh has no economic future, Mr. Jamaluddin further mentioned that this sector grew out of some very small entrepreneurs- whose experience in the business was rudimentary. Perhaps one of the reasons of the success of the sector was it had very little government interference. Now that it has become successful, there is too much government interference in the sector.

Mr. Fazlul Huq assured that the government and the Ministry of Commerce is fully aware of what is happening in the textile and clothing sectors. The development of these sectors must incorporate the effort of both the government and the private sector. Government was in continuous consultation with the private sectors and other stakeholders in this respect. He mentioned that the process of consultation and suggestions accruing from this process could ensure continued contribution of the textile and clothing sector in the development of Bangladesh's economy even after 2004. The ministry of commerce was implementing a component of the project which is known as *Matching Grant Facility* (MGF). The main purpose of the facilities provided under the project worth 24 million US dollars was to create and strengthen the capacity of the private sector including the RMG. Millions of dollars have been granted to the RMG sector from this fund. One Fashion Institute has been created with government assistance which would try to improve the quality of RMG product and help exporters penetrate the markets of developed countries. The MGF component has created a lot of enthusiasm among the RMG entrepreneurs. There will be lot of capacity building through this project, he hoped.

Mr. Jamal Uddin thought if Bangladesh was able to achieve 30% local value additions in the woven sector in less then 4 years it would not be a bad performance. It would take anything between 3 to 4 years for woven factories and composite textile mills to come into production. A 25% value addition had been possible because of government patronage and financial infusion of the private sector. The banks had also been very helpful. Infusion of bank finances should be accelerated and the sector should be provided with more financing by the government The need for support of the government and the banking sector starts even before one starts producing. Although BGMEA did not admit it, they know it by this time that if the fabric is imported from India the net benefit to our buyers in Europe will be equivalent to only 2%. So advantage enjoyed by European buyers was not very significant.

Mr. Al Hossainy drew the attention of dialogue participants by pointing out that it was the non-tariff, non-financial factors which hinder the growth of this industry e.g. political factor, law and order situation, the banking sector. He thought that banking rules, regulations, and interest rates - has acted against the interest of the export-oriented entrepreneurs. At 14% to 16% interest rate no export industry cold manage to survive. After one has taken a term loan from banks to set up a RMG industry, he is subsequently confronted with major problems including problems related to port, political pressure, transport bottlenecks and customs clearance etc. Those who invested money in industries later on tend to regret. If the government is determined to remove some of these obstacles, the textile-RMG industry of Bangladesh would be able to stand on its own feet, he thought.

Need for a Comprehensive Plan

In order to improve the situation, Dr Zaidi Sattar of World Bank suggested that we should reduce the costs. This could be done by either increasing productivity and/or bringing down cost. Why don’t we allow the private bonded warehouse system to operate for the RMG sector? he enquired. Bring the goods to private warehouse under bond and deliver the goods. Why don’t we allow deep-sea port? There are so many problems and everybody is coming with papers but no body is coming up with particular suggestion how these problems can be solved. Now is the time to do something concrete.

Mentioning that many governments were responsible for fostering fundamental distortions in the world market for textile and clothing through GATT in consistent trade policy, Mr. Dennis Browne, Senior Associate, CTPL observed that Developing Countries were now asked to remove distortions, bring textiles and clothing within the disciplines of the GATT and, WTO and allow their markets to be a more or less even playing field as far as trade was concerned. He continued saying that any senior *arrogant* official from a developed country might argue that Bangladesh has done rather well out of the distortion in the system. In fact, Bangladesh was relatively more successful since she benefited more from the distortion. Since Europe removed the quota from Bangladeshi exports and retained the quotas on her competitors, Bangladesh did extremely well. In other markets, Bangladesh had guaranteed market access because of the quotas. Thus, he argued, it could not be claimed that Bangladesh had not benefited from market distortion.

Mr. Browne understand why Bangladesh has recommended to maintain the distortions. This was for her own benefit. Since, it is unfair to require a less developed country to adjust as quickly as a developed country, the developed countries could also be sympathetic to Bangladesh's concerns. He observed that the rich countries with all kinds of safety and adjustment mechanism in highly sophisticated economies needed ten years to phase out relatively inefficient industries that have been known for decades to be inefficient. So, it was not surprising that the LDCs also required some assistance, he opined.

However, stating the latest review of the Bangladesh Trade Policy by the WTO which clearly documented all the hurdles faced by Bangladesh in the export market, Mr. Browne was convinced that the real problems are mostly of Bangladesh's own made. For example, customs clearance required a host of signatures. He could remember one incident when the trade minister of India blamed the public officials for the barriers of trade. He believed that it was true also to some extent for Bangladesh. In the question of retaining distortion in LDCs' favour he said that developed countries might agree to consider proposal when LDCs put up a comprehensive plan that shows how they are going to modernise customs facilities and deal with the systemic bottlenecks and infrastructure problems. He was of the opinion that there was a need to come to the table with two hands, one hand for a plan on how LDC's own problems are going to be addressed and the other hand articulating the very reasonable demand for some special treatment. He suggested that Bangladesh was more likely to get what she was asking for under those circumstances.

iv) Comments

Comments by Mr. Abdul Jalil
Hon'ble Minister for Commerce,Government of Bangladesh

Extending his appreciation to the Centre for Policy Dialogue (CPD) for organising a dialogue on an issue of crucial national and global importance, Mr. Abdul Jalil, Hon'ble Minister for Commerce, GOB stated that the Ministry of Commerce has forged a good working relationship with the CPD. The Minister mentioned that the CPD, at the Ministry’s request, has produced a number of policy papers such as Bangladesh’s response to US Trade and Development Act 2000 and the provision of SAARC Regional Cumulation with respect to EU-GSP. He hoped that the dialogue would service the need of the Ministry of Commerce and the Government of Bangladesh at a time when Bangladesh was actively searching for an appropriate strategy to cope with the liberalisation of trade in textile and clothing in the global market.

Emphasising the critical bearing of the WTO-ATC on Bangladesh’s economy, particularly on the export of apparel products from Bangladesh, the Minister observed that Bangladesh was not a traditional manufacturer and exporter of apparel articles. However, developments in this sector over the past few years have brought about phenomenal growth in the export sector and is currently contributing importantly to the national economy. He noted that export earning from the apparel sector currently stands at well over US$ 4 billion, accounting for more than 70% of Bangladesh's total export earnings. In the 1990s apparel sector was able to register a robust real growth rate of about 12% per annum; about 1.5 million workers, 85% of them women, are currently working in the 3000 Ready Made Garments factory. A vibrant backward linkage sector in the textile was coming up which was providing employment opportunities to many of our people and contributing much to the national economy, he added.

According to the Minister, such a remarkable achievement had been made possible due to a number of factors including low-cost workforce, dynamic entrepreneurship, proactive role of the government, quota-free export opportunity in the EU markets and MFA quota in the USA. Bangladesh's competitive strength in the quota-free EU market was greatly enhanced thanks to the generalised system of preference in the EU market, he noted. On the other hand, the MFA provided Bangladesh with an opportunity to build up a sizeable export base in the US markets, he added.

As regards the SAARC regional commutation issue which had recently come under discussion, the Minister mentioned that the government of Bangladesh was actively engaged in studying the possible implications of the recent changes in the rules of origin criteria for the EC in terms of competitiveness of the RMG sector in the EU market and its possible impact on the backward linkage activities in the textile sector. He underscored the importance of consultations with all important stakeholders for future steps to be pursued by Bangladesh in this regard.

The Minister observed that the full enforcement of the ATC, means a step-by-step liberalisation of the trade in textiles and apparel leading in the end to a quota-free global textile market. Since the global textile trade will be fully liberalised and shall be market-driven as of 1st January 2005, the most pertinent question in the context will be as regards the prospects of Bangladesh's textile and RMG sector in an open and highly competitive trade regime. According to the Minister, the crux of the issue rests with the fact that Bangladesh is not a fabric producing nation in the traditional sense of the term; over the years she had continued to remain highly dependent on imported fabrics and accessories. Noting that procurement of fabrics from overseas sources in an open global textile market would be difficult, since in the absence of quantitative barriers the fabric producing countries would be keen to utilise their fabrics for the purpose of their own export, the Minister observed that entrepreneurs of the country had indeed established some backward linkage industries in the textiles. The local textile sector can only partially meet the huge demand of the fabrics coming from the domestic RMG sector. Although, estimated around only 10% - 15% of the total requirement of woven apparel is currently being supplied by local producers, in case of knit producers were now able to meet 70% of the demand from domestic sources.

Nonetheless, emphasising the emergent challenges from an open textile regime where non-availability of local fabrics would be a critical factor and may pose serious threat to future prospects in the Bangladesh apparel sector, the Minister emphasised the need to take much more energetic steps to identify concrete areas of concern, look for possible solutions and identify the strategic policy responses for coping with the emerging challenges and in order to take the fullest advantage of the emerging opportunities.

In this context, the Minister mentioned that Bangladesh having excellent entrepreneurial ability, low-cost but skilled human resource and an ever improving infrastructure. What was required is increased investment for establishing effective linkages – both backward and forward. Accepting the fact that the backward linkage, being highly capital intensive, could not be expected to grow overnight, he was of the opinion that the forward linkage, being less capital intensive may prove to be a highly potential sector for investment. In this regard, the Minister stated that over the past years the government had provided a number of fiscal, financial and institutional incentives to encourage backward linkage industries in our country. The Minister mentioned that import of capital machineries is now duty-free and a 25% cash compensation scheme is in place to assist domestic suppliers of export-oriented inputs.

The Minister further added that under the close directive of the Prime Minister Sheikh Hasina, the government was pursuing an active economic diplomacy to get the US government to agree to include Bangladesh under the purview of the USA Trade and Development Act 2000 which allowed LDCs of Sub-Saharan Africa and the Caribbean regions zero-tariff and zero-quota access to the US market. Bangladesh and 14 other LDCs have not been extended this preferential treatment. Mentioning that the Prime Minister, in her upcoming visit to the USA at the invitation of the US President Clinton will take up the issue, Mr. Jalil hoped that her endeavours will be able to bring concrete results. He also added that other issues of critical interest to Bangladesh's export sector including availability of US GSP would also come under discussion during the upcoming summit. The Minister assured the dialogue participants that the present government would continue to support Bangladesh's flagship export sector as it takes on the difficult task of readjustment in the context of the ATC.

Comments by Mr. A K M Zahangir Hossain
Hon'ble State Minister for Textiles, Government of Bangladesh

Mr. A K M Zahangir Hossain, Hon'ble State Minister for Textiles, GOB expressed his deep appreciation to the CPD for undertaking the endeavour to share experience and evidence amongst experts, policy makers and private sector representatives on the implications of the MFA phase out on future performance of Bangladesh's apparel sector. He told the dialogue participants that Bangladesh has made an irreversible choice favouring the free market economy and it was important that she exploits the opportunities emerging from the globalised economy to the fullest.

Pointing to the fact that Bangladesh has achieved considerable success in putting in place new capacities in shinning, weaving, knitting, dyeing and finishing for producing yarn and fabrics for export oriented RMG, the Minister informed participants that a total of 57 modern spinning mills having annual production capacity of around 180.48 million KG had been set up between 1995 and 2000. The weaving capacity in the large mill sector in June 1994 was 6717 looms with a fabric production capacity of 148.50 million meters. Over the subsequent four years the capacity had increased to 9339 looms in 117 units having a production capacity of 3200 million meters. He hoped that within next two years Bangladesh will be able to fulfil 100% of domestic requirement and 40% of the requirements of the export oriented RMG. He thought that Bangladesh should take energetic steps to prepare for the challenges emerging from the process of globalisation. In this context both backward as well forward linkage activities should receive priority attention.

As regards the SAARC cumulation rules, the Minister stated that this might facilitate the RMG which is only one out of the six components of the clothing industry. Since, other components would not receive any direct benefit and might as well face difficulty because of this, the Ministry of Commerce had established a committee to study the issue in a comprehensive manner, the minister informed.

Highlighting the contradictions of globalisation with its attendant constraints faced by the developing countries, Mr. Jahangir expressed his disappointment and dismay at the position taken up by the developed countries in a number of issues. The developed countries are propagating liberalisation of trade and at the same time imposing severe restrictions on the developing countries when they try to export their commodities. US ban on Japanese products and fixed minimum price for agricultural products in the domestic market safeguard the interest of their own agricultural sector. Citing the example of EPZs in Bangladesh, he pointed out that though it was told that the trade unions of the developing world were doing harm to their economies, however, it was now being proposed that Bangladesh should allow trade unions to operate in the EPZs. He strongly urged upon the participants to make real contribution to identify constraints and strategies to face those new challenges. Bangladesh should be ready for this both at the policy making level, at the private sector level, at NGO level and at the civil society level in order to face a very complex and real problem which the country will need to encounter in the coming years as the world trading system evolved towards 2005.

Concluding Remarks by Professor Rehman Sobhan, Chairman, Centre for Policy Dialogue

Acknowledging the emphasis given in Dr Spinanger's paper on the specificity of the RMG industry in Bangladesh and the need to raise the level of efficiency and productivity, Professor Sobhan in his concluding remarks observed that these issues were in fact going to be very crucial in the run up to the MFA phase out. He emphasised that the issues were obviously going to be relevant if one gets into a much more competitive global environment under a quota-free regime. He underscored the need to identify a number of areas where in fact a quite definite interventions will actually be required.

Maintaining that regional co-operation was a very important issue for Bangladesh, Professor Sobhan informed the audience that there was a significant market shift in terms of sources of supply for the North American market away from Asia and towards Mexico. The Caribbean countries were also like to become active players following the recent Caribbean initiative. These were very concrete problems which need to be addressed both in terms of the broader trading regime associated with the WTO, and in terms of the way in which people engaged in this process. At the same time, Bangladesh's capacity to respond from the supply side to competitively respond to this challenges which is emerging because of changes in the rules of the game may be improved if we are given better opportunities under the global trading regime. However at the end of the day Bangladesh's export oriented sectors should come to terms with the fact that they will have to operate in a competitive market, he noted.

Moreover, Bangladesh will have to recognise that they will need to deal with some really heavy weight players such as China and India who will be operating now in the context of a quota-free global market. At present Bangladesh was giving a hundred million dollar subsidy to stimulate local supply when such supplies constituted only a fragment of the total supply. Can you imagine what the subsidy cost might be in the course of a two to three years if she will meet 80% of her intermediate import needs of yarn and fabric? Professor Sobhan asked. He asked someone to use an arithmetic using hundred million dollar as the base line to get an indication of what it might effectively cost Bangladesh. Sooner rather than later this will be an issue which will have to be addressed by the policymakers.

As a final thought, Professor Sobhan stated that principal players might manipulate the rules in order to maximise their own benefits by delaying the process of implementing their obligations within the system. There are already some important evidences supporting this apprehension, he cautioned. One may have a situation whether the United States and a number of other countries may find it necessary to extend the implementation of the phase out process because they will simply not be prepared to accept the huge implications of meeting all the intended obligations in the rule based trading system. Developing and least developed countries should not lose sight of such a development. A forward looking strategy must keep all the possible scenarios in the perspective, Professor Sobhan concluded.

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