CPD Occasional Paper Series

REGIONAL CUMULATION FACILITY U NDER EC-GSP: STRATEGIC RESPONSE FROM SHORT AND MEDIUM TERM PERSPECTIVES

Paper 9

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The present paper, ***Regional Cumulation Facility Under EC-GSP: Strategic Response From Short and Medium Term Perspectives***, has been prepared under the programme on ***Trade Policy Analysis and Multilateral Trading System***. The authors of the paper are Professor Mustafizur Rahman, Research Director, CPD and Dr Debapriya Bhattacharya, Executive Director, CPD. The Trade Policy Analysis programme of the CPD aims at strengthening institutional capacity in Bangladesh in the area of trade policy analysis, negotiations and implementiations. The programme, *inter alia*, seeks to project the civil society's perspectives on the emerging issues emanating from the proces of globalisation and liberalisation. The outputs of the programme will be available to all stakeholder groups including the government and policymakers, entrepreneurs and business leaders, and trade and development partners.

The programme has received support from the ***Canadian International Development Agency*** (CIDA) and is being implemented in collaboration with the ***Centre for Trade Policy and Law*** (CTPL), Ottawa, Canada.

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REGIONAL CUMULATION UNDER EC-GSP: STRATEGIC RESPONSE FROM SHORT AND MEDIUM TERM PERSPECTIVES

In the recent past, the issue of whether Bangladesh should avail of EU-GSP under the regional cumulation (RC) facilities has emerged as a highly contentious one. The interests of the influential export-oriented RMG sector and the emerging textile industries appear to be in direct and immediate conflict over this particular policy choice. Since the matter is related to the strategic interest of the country's apparel exports in the medium and long term, it calls for a close scrutiny.

Dynamics of Exports to EU

The issue of RC is important for Bangladesh as it relates to exports to a region which has become increasingly important to Bangladesh over the recent past. Over the past years the EU as a group has become the foremost trading partner of the country. Bangladesh exported $ 2.46 billion worth of commodities to the 15 EU member countries in 1998/99 which was 46.50 per cent of its total annual exports, which was a significant rise from the 32.4 per cent posted a decade earlier (Table 1). Amongst the 15 EU member countries, Germany topped (11.8 per cent) the list in terms of market share followed by UK (9.3 per cent) and France (6.5 per cent).

Table 1: Distribution of Bangladesh's Export by Destination

(Percentage)

Country	1989/90	1994/95	1995/96	1996/97	1997/98	1998/99	1998/99, Jul-Dec)	1999-2000, Jul-Dec)
USA	29.18	34.10	30.85	32.41	37.38	37.03	36.91	39.97
Japan	3.65	0.28	3.11	2.58	2.18	1.75	1.86	1.87
EU	32.41	41.21	46.80	44.97	43.47	46.36	46.30	43.87
Of which:								
France	4.09	5.56	7.03	7.08	7.14	6.50	6.33	6.10
Germany	5.55	8.65	9.51	9.69	9.90	11.77	11.97	11.28
Italy	8.62	6.08	5.33	4.61	5.24	5.08	5.49	3.99
Netherlands	2.50	3.94	4.72	4.72	4.57	4.74	4.73	5.12
UK	6.38	9.17	10.76	9.91	8.53	9.25	9.34	8.74
Others	34.77	24.41	19.24	20.03	16.97	14.86	14.93	14.28
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Total export (million US$)	1523.71	3472.56	3882.42	4418.28	5161.20	5312.86	2560.70	2744.50

Source: Computed from Export Promotion Bureau's data

Box 1 depicts the crucial-role EU has come to play as a market for most of the important export items of Bangladesh. As may be seen from the Box, that EU group of countries ranks first amongst Bangladesh's export destinations for almost all commodities.

Box 1: Bangladesh's Export to EU by Commodity (1998/99)

Commodity	Share in Export	Rank
Knit RMG	69.15%	1
Woven RMG	46.56%	2
Leather	35.61%	1
Frozen Food	35.27%	1
Total Export	**46.36%**	**1**

Chart 1 and Chart 2 reveal the growing share of the EU in the global market of Bangladesh and suggest that the export momentum to EU has been maintained over the post-UR era as well. For both knit and woven-RMG EU's importance is secularly rising over the recent years, a fact which has important implications from the perspective of the RC discourse. As Chart 3 and Chart 4 show in case of woven-RMG EU's share matches those of USA, whilst in case of knit-RMG EU accounts for more than two-third of Bangladesh's global exports of the product.

Chart 1: Structure of Export by Destination: FY 1995

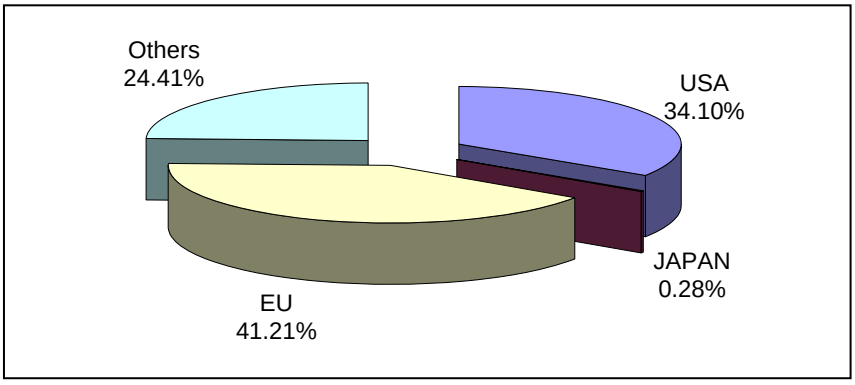


Chart 2: Structure of Export by Destination: FY 1999

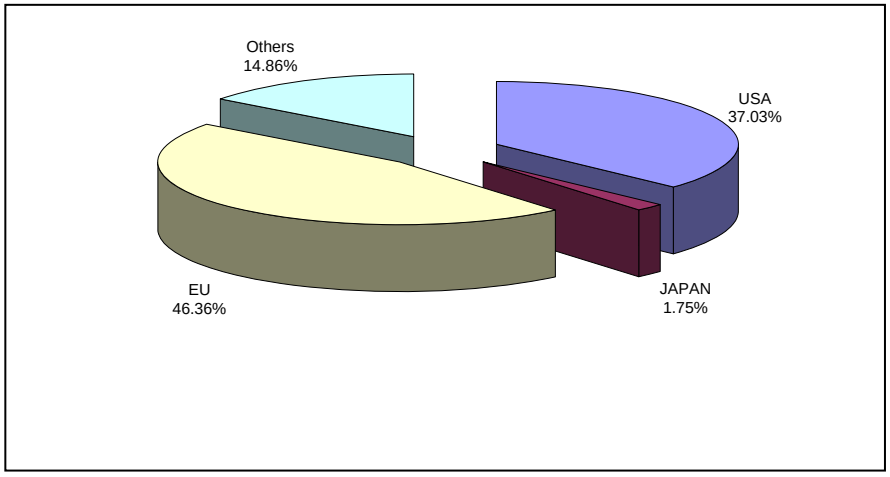


Chart 3: Structure of Knit-RMG Export: FY 1999

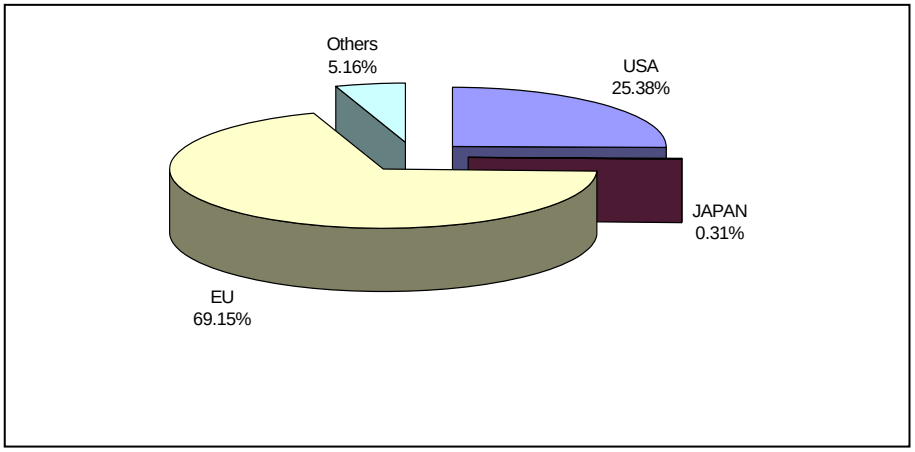
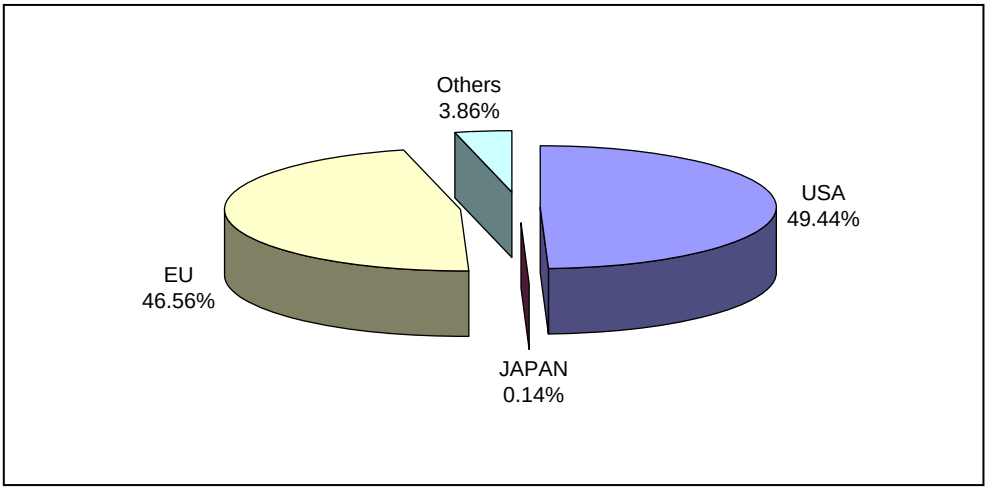


Chart 4: Structure of Woven-RMG Export: FY 1999



Preferential Treatment under the EC-GSP

Bangladesh has been enjoying preferential market access in EU countries since July 1971 under the EC-GSP scheme.[1] Textiles/apparels was brought under the scheme at a later stage, in the early 1980s. The inclusion of T&C in the EC-GSP was an important development for the nascent apparel industry of Bangladesh. Even after the commitments made in the UR, tariff rates for apparel in the EU, averaging about 12.5 per cent, continued to be one of the highest.[2] Preferential treatment under the EC-GSP scheme allows EU importers to claim duty drawback (equivalent to the full tariff equivalent of 12.5 per cent) on imports of apparel from Bangladesh. This has allowed Bangladesh to have a firm foothold in the EU market which now accounts for 35 per cent of her total global

[1] In all Bangladesh receives preferential treatment under 17 GSP schemes, of which the one provided by the EC is one of the most important from trade perspective.
[2] Inspite of across the board tariff reduction by the EU countries, reduction commitments by EU during the UR were the lowest for textiles, leather products and frozen food, all of which are items of important trade interest for Bangladesh.

apparel exports. Bangladesh has been able to increase her share in the EU RMG market from 1.50 per cent in 1993 to 3.44 per cent in 1999, while the share of knit-RMG increased from 0.80 per cent to 4.36 per cent during the matched period.

Availability of GSP, however, hinges on compliance of stringent Rules of Origin (ROO) criteria.[3] Prior to 1996, Bangladesh was required to comply with *three-stage* and *two-stage* conversion requirements for accessing EC-GSP. These were subsequently revised, as can be seen from Table 2.

Table 2: Rules of Origin for EU-GSP

Year	**1980-96**	**1996-98**	**1998-2000 (Sept)**	**2000 (Oct)**
		Derogation to		*Under Regional Cumulation*
Woven-RMG	2 Stage	2 Stage	2 Stage	2 Stage
Knit-RMG	3 Stage	1 Stage	2 Stage	2 Stage
		(Under quota)		

Note: Stage 1: Conversion of Cotton toYarn (Spinning)
Stage 2: Conversion of Yarn to Fabrics (Weaving)
Stage 3: Conversion of Fabrics toRMG (Cutting and Making)

Table 3: EC-GSP Utilisation by Bangladesh

(in million ECU)

Indicators	1986	1991	1995	1996	1997
Total Exports eligible for GSP					
Covered by GSP	180	616.633	1208.116	1404.054	1700.854
Received GSP	111	267.588	521.932	678.910	465.519
GSP utilisation (%)	61.66%	43.40%	43.20%	48.35%	27.37%
Agricultural Export					
Covered by GSP	63	73.163	102.475	104.341	80.277
Received GSP	37	55.866	87.772	98.199	77.178
GSP utilisation (%)	58.73%	76.36%	85.65%	94.11%	96.14%
Industrial Products					
Covered by GSP	29	52.884	95.749	117.412	122.885
Received GSP	22	42.380	85.150	93.895	89.801
GSP utilisation (%)	75.86%	80.14%	88.93%	79.97%	73.08%
Textiles and Clothing					
Covered by GSP	20	490.586	1009.892	1182.301	1497.692
Received GSP	3	169.342	349.010	486.816	298.540
GSP utilisation (%)	15%	34.52%	34.56%	41.18%	19.93%
Total export to EC	**236**	**656.801**	**1259.80**	**1474.362**	**1771.641**
Total export of duty free products (MFN basis)	*NA*	*39.386*	*46.565*	*64.056*	*54.919*

Source: Compiled form Various EC document

[3] The ROO in the EU requires compliance with conversion requirement (a different heading under 4 digit HS level as in case of textiles) or value addition requirement depending on the commodity. In the US, on the other hand, the ROO are mostly on value addition requirement with value addition varying from commodity to commodity.

EC ROO previously in place called for a *three-stage* conversion for woven-RMG and *two stage* conversion for knit-RMG. Since Bangladesh did not have strong backward linkages, her capacity to avail of the GSP facility was severely limited[4]. As Table 3 shows, in spite of significant growth in value of exports over the recent years, the overall *GSP utilisation rate of Bangladesh has deteriorated* perceptibly from 43.2 per cent in 1994/95 to only 27.3 per cent in 1996/97. This has been mainly due to Bangladesh's inability to comply with the three-stage and two-stage conversion requirement of EC for the knit-RMG and the woven-RMG exports respectively. In order to enhance the scope of GSP availability, Bangladesh had been asking for flexibility in the EC ROO. The issue of ROO came into prominence following allegations by EC to the effect that Bangladeshi exporters were claiming GSP on the basis of certificates of origin which did not comply with EC ROO.[5] A short term solution was reached in accordance with which EC agreed to a derogation to "two-stage" and "one stage" for knit and woven-RMG respectively which would be realised under certain quota limits. Later on, the EC ROO was revised to allow unlimited quota-free entry to EC markets under *two-stage* conversion requirements both for woven and knit-RMG. This is the ROO which is currently operative for apparels export to EC markets under EC-GSP.

The GSP utilisation rate for knit-RMG has registered considerable improvement since 1999, thanks to EC's change of rules of origin which now allows imported yarn for knit to qualify for GSP. A rough estimate indicates that the utilisation rate would currently stand at 35-40 per cent of total exports to EC.

Regional Cumulation Under EC-GSP

As stipulated by Articles 72, 72a and 72b of EC Customs Code, although the GSP ROO are, in principle, based on the concept of 'a single country of origin' in certain cases this rule could be *liberalised* so as to permit imported inputs from other beneficiary countries to be regarded as local content, thus easing compliance with the ROO requirements. Accordingly, under EC GSP scheme, *partial* cumulation is also permitted, subject to certain conditions, *on a regional basis*. Such regional cumulation allows that, materials or parts imported by a member country from another member country of a regional grouping will be considered as originating products of the country of manufacture and not as third-country inputs. In the concrete case of Bangladesh, if for example, SAARC regional cumulation was allowed for ROO, Bangladeshi exporters could claim preferential treatment under EC GSP scheme even if the fabrics were imported from India (or for that matter from Pakistan) and the two-stage requirement under EC ROO (yarn to fabrics to RMG) were met

[4] Bangladesh's domestic supply of fabrics for the woven-RMG accounts for about 12-14% of the total demand, although in case of knit the share currently stands at about 60 per cent.

[5] Bangladesh was asked to return about $ 60 million which EC customs authorities had paid on duty drawback to importers.

not *locally*, but *regionally*. Such regional cumulations are currently allowed by EC to countries belonging to three regional groupings, *viz.* the Association of South-East Asian Nations (ASEAN), Central American Common Market (CACOM) and the Andean Group. For Bangladesh, implementation of the RC would mean that Bangladesh's RMG exporters could claim EC GSP even when the fabric was imported from a third country as long as it belonged to the regional group. Thus, sourcing fabrics from any SAARC country would allow Bangladesh to avail of the EC-GSP facility.

For availability the GSP under regional cumulation, the two interested groups need to come to a mutual agreement, and the cumulation-seeking regional body must be mandated by each of the member countries to seek such facilities from the EU.

Regional Cumulation for SAARC Countries

The issue of RC for SAARC countries was first mooted in early 1990s when a Memorandum of Understanding (MOU) was signed between EU and SAARC which called for fostering greater economic cooperation between the two regional groupings. When in 1997 the SAARC Secretariat first sought the opinion of Bangladesh regarding SAARC RC, a committee was set up by the Ministry of Commerce to advise on the issue. *The committee concluded that it was not in Bangladesh's best interest to seek regional cumulation facility for the time being*. However, in July, 2000 it was revealed, to a total surprise of the major stakeholders, that the Ministry of Commerce in its letter of 23 November, 1999 has informed the SAARC Secretariat that Bangladesh was agreeable to the suggestion of the SAARC Secretariat to go for regional cumulation.

According to EC RC rules, the regional countries have to send a unanimous decision to Brussels seeking preferential treatment under the relevant provision. With Bangladesh's approval this requirement was fulfilled and EC was accordingly notified about the joint plea of seven SAARC member countries by the SAARC Secretariat on November 29, 2000. Following this, the EU Council of Ministers gave its approval to the SAARC request and recorded its decision through the gazette notification of July 26, 2000. The changed rules are set to be effective from October, 2000.

Box 2 depicts the major milestones in the evolution of the debate over RC.

Box 2: SAARC Regional Cumulation: The Journey

- 1996 SAARC - EU MOU signed
- 1997 The proposal of SAARC Cumulation is first flouted
  Bangladesh constitutes a consultative Body which recommends against acceptance
- 1999, August, 27: SAARC Secretariat once again asks for GOB's opinion
  November, 05: Reminder sent by SAARC Secretariat
  November, 23; Reply sent to the effect that Bangladesh was aggreable to SAARC RC
- 2000, January: Approval of EU Council of Ministers
  July, 26: Gazette Notification
  October 1: Operationalisation

The Debate

The opaque manner in which the decision to agree to SAARC cumulation was undertaken and subsequently communicated to the SAARC Secretariat has a lot of question marks as regards *transparency* of the decision making process and the involvement of multi-stakeholders in such processes. It was also not clear what developments have led to change of a position earlier agreed upon through a consultative process. As would be expected the Bangladesh Garments Manufacturers' and Exporters' Association (BGMEA) and the have come up with Bangladesh Textile Mills Association (BTMA) diametrically opposite views. The BGMEA's view is that because local capacity is inadequate, the bulk of the raw materials for RMG have to be imported. Under the current EC ROO (two stage conversion locally) the bulk of Bangladesh's exports of apparel to EC are not eligible for preferential treatment under EC GSP. If RC was allowed, Bangladesh's RMG could enhance its competitiveness in the global market. The BTMA's position is that under government patronage, and thanks to indigenous entrepreneurial involvement, over the recent past the backward linkage industries in the textile has been gradually coming up in a modest way. Protection and promotion have played a crucial role in this emergence. Such protections need to be continued for further growth of the textile sector. The apprehension of BTMA is that once Bangladesh agrees to RC, comparative advantage of the local textiles will be lost since exporters will be able to avail preferential treatment under EC GSP even when they import fabrics from regional countries. As a result, local textile industry's growth will be retarded.

The Arithmetic of GSP Under RC

It needs to be noted that in case of non-apparel exports to the EC (e.g. frozen food, jute, jute goods, ceramics and leather products), Bangladesh is in a position to comply with EC ROO. Moreover, in case of the overwhelming part of the knit-RMG exports, as was mentioned earlier, the

country is at present in a position to ensure GSP compliance. It is only for woven RMG exports (about 85 per cent) that Bangladesh can not comply with EC ROO provision.

Figure 1: Cost Analysis of Men's Trouser (Cotton) Per Dozen

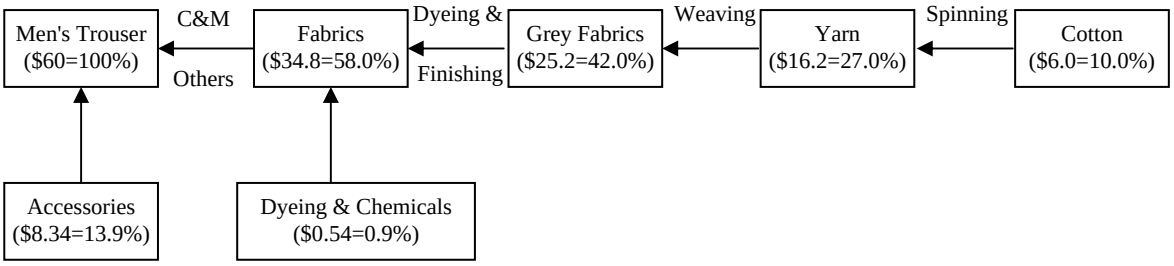


Table 4: Rate of Value Addition for Selected Categories of Woven-RMG

Type	V. A for RMG from Imported Fabrics	V. A for RMG from Imported Grey Fabric	V. A for RMG from Imported Yarn
Half-Sleeve Shirt	38.7%	44.7%	55.0%
Full-Sleeve Shirt	36.5%	42.9%	54.1%
Men's Trouser	27.8%	43.6%	58.6%
Ladies' Trouser	27.3%	43.6%	69.2%

Source: Report of Committee Set-up to Review SAARC RC Proposal, 1997

As may be seen from the Table 4, in case of no major woven apparel groups is Bangladesh in a position to get zero-tariff access to EC markets if she imports fabrics or grey fabrics.[6] Only if she imports yarn could Bangladesh claim RC; but under two stage ROO she is already allowed zero-tariff access to EC markets at present and does not need to go for RC.[7]

Figure 1 graphically depicts the cost structure of a typical item (i.e. men's trousers) which supports the contention, that single largest value addition will not accrue to Bangladesh if she imports fabrics for cutting and making.

The Missed Point

One important aspect of the provisions which appear to have been ignored by both proponents and opponents of RC relate to two subtle, but important conditions which inform preferential treatment under RC. Paragraph 1 of Article 72a lays down the rules according to which the country of origin of the final product shall be determined:

[6] The other way to increase local value addition would have been to import grey fabric and convert these into high fashion fabrics by adding higher value addition at the stage of dyeing and finishing. This opportunity should not be lost sight of from the dynamic perspective. In such a case local value addition would be higher than value addition in the country from where such grey fabrics would be imported.

[7] The changed EC ROO, to two stage conversion requirement, thus, in a way has made RC unnecessary for Bangladesh.

"When goods originating in a country which is a member of a regional group are worked or processed in another country of the same regional group, they shall have the origin of the country of the regional group where the last working or processing was carried out provided that:

(1) the value-added there is greater than the highest customs value of the products used originating in any of the other countries of the regional group, and
(2) the working or processing carried out there exceeds that set out in article 70 (insufficient working or processing) and, in the case of textile products, also those operations referred to at annex 16 [of the ECCC]."

When the above-mentioned conditions are not satisfied, the products shall have the origin of the country of the regional group which accounts for the highest customs value of the originating products coming from other countries of the regional group (article 72a, paragraph 2).

As far as SAARC Regional Cumulation was concerned, the conditions set out for accessing EC GSP under RC are of crucial importance to Bangladesh.

As is known, local value addition of Bangladesh's RMG products which use imported fabrics is about 25-30 per cent of the total value of exports. If fabrics are imported form India, local value addition of India, at about 75 per cent, will be substantially higher compared to that of Bangladesh, at 25 per cent. According to Paragraph 1 of Article 72a, since the conditions laid down in Item 1 of the Article is not satisfied, Bangladesh will not receive GSP treatment at a rate for which she is eligible as a LDC, i.e., 100 per cent duty drawback on 12.5 per cent tariff. In that case, the GSP margin for Bangladesh will be calculated at the rate which is eligible for India or Pakistan which fall into the category of "developing country" (i.e. 15 per cent duty drawback on 12.5 per cent tariff rate).[8] Thus, RMG made in Bangladesh from imported fabrics from India/Pakistan will be eligible for a duty waiver of about 1.9 per cent (15 per cent of 12.5 per cent). EC importers will still have to pay a duty of 10.6 per cent. Thus, actual effective margin to be accrued under RC will not be very significant for Bangladesh in the present context.

However, as analysis presented above indicates, even if RC becomes operative, *the additional margin to be accrued to Bangladeshi exporters of RMG will be insignificant, under 2 per cent of the export value*. On the other hand, *RC may create disincentive for the local spinning and weaving industries*. Under the circumstances, *agreeing to the RC may not have been a well advised move by the Government of Bangladesh*.

Thus, RC does not provide the exporter with any substantial price advantage. It is true that since the bulk of the fabrics has to be imported, as of now it is to the exporter's immediate benefit even if the margin of difference is pretty thin. In fact, in the short run it may indeed boost the RMG exports provided there is enough regional supply capacity of textiles. However, it appears that

[8] According to current GSP provisions under EC preferential regime, LDCs are eligible to receive 100 per cent duty rebate whilst the rate of the duty rebate is 15 per cent for developing countries.

BGMEA's projection of a 20 per cent growth in RMG exports to EU, which was perhaps estimated on the assumption of a 100 per cent duty rebate, does not reflect the real situation.

Strategic Options

Any strategic decision as regards ROO must, of necessity, take into account the fact that over the pas years Bangladesh has been pursuing a policy of conscious support for the development of the backward linkage industries in the textile sector of the country. The objectives of this allocative decision which has important implications for distribution of scarce resources of the country should be kept in the perspective.

Building Backward Linkages

Bangladesh realises that for sustainability of the country's apparels export sector, the country needs to build its cost-competitive capacities in the textiles sector. To this end, Bangladesh's textile sector in recent past has been receiving substantial government support in the form of fiscal and monetary incentives.

Duty-free Import of Capital Goods

Import of capital machinaries for export oriented industry has been made duty free. Data for import of capital machinaries and credit disbursement show that in the recent years a new generation of textile units are coming up. Table 5 reports that between 1995 and 1999 about $0.5 billion worth of machinaries were imported by Bangladeshi entrepreneurs. In FY 2000 the amount of L/Cs opened for import of capital machinaries for textile sector was to the tune of about $90 million.

Table 5: Dynamics of Imports of Textile Related Machineries

(in million taka)

4 digit code	Type of Machineries	Imports by Category					
		FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	Total FY 95-99
8445	a. Machine for preparing textile fibre	861.0	2862.0	2613.0	2467.0	1593.0	10396.0
8446	b. Weaving machine (looms)	420.0	1272.0	936.0	286.0	430.0	3344.0
8447	c. Knitting machine (stitch-bonding)	479.0	1049.0	673.0	736.0	637.0	3574.0
8448	d. Auxiliary machine for extrude-draw machines (text.)	222.0	302.0	377.0	288.0	303.0	1492.0
	Total	1982.0	5485.0	4599.0	3777.0	2963.0	18806.0

Source: Compiled from ETAC Data Base, NBR

Cash Compensation Schemes

Yet another major incentive provided by the Government of Bangladesh (GOB) for promotion of the backward linkage industries is the cash incentive under the *cash compensation scheme* (CCS). Under the CCS the suppliers of fabrics to the local export-oriented RMG units receive a cash incentive equivalent to 25 per cent of the value of exported apparel. The CCS is made available to

the deemed exports of fabrics in lien of duty drawback facility. As is evidenced by Table 6, in FY 1999 alone GOB has given a cash subsidy equivalent to $102 million to the backward linkage industries. In the budget for FY 2000, another $100 million has been earmarked for the development of the sector. As Table 6 shows, while the amount of the back to back L/C in the total export has been increasing, its share in total exports is decreasing secularly – indicating growing domestic supply capacity.

Table 6: Share of Imports Under Back to Back L/C for the RMG Sector and Amount of Cash Subsidy Under CCS

(in million US$)

Financial Year	Apparel Export	Import of fabric under back-to-back LC	Share of Back-to back LC in total Export	*Cash Subsidy*
1991-92	1,182.573	745.11	63.01%	***0.64***
1992-93	1,445.026	874.39	60.51%	***0.58***
1993-94	1,555.782	1,033.39	66.42%	***1.94***
1994-95	2,228.348	1,522.73	68.33%	***7.21***
1995-96	2,547.133	1,432.72	56.25%	***10.77***
1996-97	3,001.243	1,651.80	55.04%	***18.38***
1997-98	3,783.634	1,888.08	49.90%	***49.68***
1998-99	4,020.100	1,728.44	42.99%	***95.87***

Source: Export Promotion Bureau and Bangladesh Bank

A number of other information also testifies that the backward linkage activities are giving momentum to the T&C sector of the country. The spinning capacity in the country has increased from 59.8 million kg in 1991/92 to 109.9 million kg in 1996/97, and further to 200.0 million Kg in 1999/2000 (BTMA, 2000). Since 1995, about 1.2 million spindles have been added to the domestic capacity. As was mentioned earlier, about 60 - 70 per cent of inputs for knit-RMG are currently supplied locally. The share of local fabrics for woven-RMG has increased from 4 per cent at the beginning of the 1990s to about 12-15 per cent at present. Some dyeing and finishing units are also being set up. According to a study conducted by the Ministry of Textiles, the establishment of an adequate backward linkage for the RMG sector will need setting up of 135 spinning mills, 360 weaving mills, 327 dyeing and finishing mills, 1000 knitting units and 0.2 million new handlooms. The total investment cost for bringing this new capacity on-stream is estimated to be $1.8 billion which will be required for establishing new capacities and renovating installed capacities (World Bank, 1995). Although in recent years the private sector has been showing some interest to cater to this growing demand, a lot of grounds would need to be covered for Bangladesh to have the abovementioned local capacity. Besides, the issue of the viability of particular segments of the

backward linkage activities in the context of the globalised market for inputs will also need to be taken into account.

Future Steps as Regards Regional Cumulation

As was mentioned, under the CCS the textile sector receives a subsidy equivalent to 25 per cent. If RMG exporter avails of local fabric the effective GSP margin he gets is equivalent to 12.5 per cent of the export value (equivalent to the EC tariff). If the RMG entrepreneur goes for sourcing of raw materials from any of the SAARC countries, even if RC comes into effect, his effective preferential margin remains limited to only about 2 per cent. *Under the circumstances, RC can not be a disincentive for the RMG entrepreneur to avail of local fabrics.* When the fabrics are accessed locally, the entrepreneur has an up front advantage equivalent to 37.5 per cent of the export value (25 per cent + 12.5 per cent) compared to an entrepreneur who will go for SAARC cumulation and receive a duty rebate of 2 per cent and no subsidy under the CCS. The difference will still be about 35.5 per cent between those sourcing fabrics locally and those seeking RC. Thus, local sourcing would still remain cost-effective even if Bangladesh opts for RC providing.[9]

One danger here though is that since available evidence suggests a high degree of under utilisation of in the weaving industry of India, suppliers could take resort to *export to Bangladesh at dumping prices*. This may result in disadvantage for the local entrepreneurs in Bangladesh who are involved in the textile sector.[10]

However the pitfalls in this respect are two-folds. First, even if the local fabrics are cost-effective under the current dispensations, there is not enough supply capacity to meet the growing export demand. Accordingly, Bangladesh RMG exporters have to satisfy themselves to a large extent by importing fabrics for the regional countries. Secondly, the fiscal burden of cash incentives remains staggering. In order to serve its purported purpose the CCS has to be made time bound. It would have been ideal if the effectualisation of RC provisions and discontinuation of the CCS would have coincided.

Under the circumstances, creating an opportunity for additional margin under the RC may not have been a very well advised step in the present context. A study currently being under implementation

[9] It should be noted that the duty rebate under the GSP is received by the importer of the apparel in the importing country whilst the subsidy under the CCS is accrued to the local supplier of the input and fabrics. However, in both these cases the combined effect provides the exporter an edge over potential competitors.

[10] As a precautionary step for seeking ROO in future Bangladesh should enact an effective Anti-dumping law to address any such emerging issue.

at CPD is looking into the long term issues related to the viability of Bangladesh's textile sector by taking account of the related variables in a dynamic setting.

Keeping the Option in the Perspective

Regional cumulation could prove to be beneficial for products where the prospect of backward linkage is not of immediate concern. For example, for the assembling of electronics items sourced from the region this could provide an additional market edge. From the long-term perspective, high value addition-intensive dyeing and finishing activities within the the country could result in relatively higher value addition within the country compared to country of origin of imported inputs. This would allow virtual duty free entry to EU markets under RC.

Restart Negotiation

As of now, Bangladesh could start renegotiating with the SAARC Secretariat as regards a review of the regional cumulation. An *exclusion list* could be worked out for submission to EU which could include textiles. For this to happen, Bangladesh will now have to take initiative to restart negotiations with the SAARC member countries, more specifically with India, on a bilateral basis.

Consultation with the Stakeholders

One of the major weaknesses of the GOB which can be identified as regards the way the issue of RC was handled is the lack of transparency in dealing with the issue. The GOB should have discussed all the dimensions, ramifications and implications of such a decision with the relevant business associations in the private sector, as well as relevant government institutions and agencies. It is a wrong perception to assume that the exporters lobby and that of the import substituting industry will *by definition* be at loggerheads on this issue[11]. A participatory dialogue on the issue could perhaps have enabled GOB to reach an appropriate decision acceptable to all important stakeholders.

[11] Already the multistakeholders in the private sector involving business interests in textile and apparel sectors have formed a committee which was constituted with a view to articulate a common agenda for the development of the backward linkage textile sector. This committee comprises of 17 members from 5 business association: BGMEA, BTMA, BKMEA, Terry Towel Association and Specialised Textile Mills Association.