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Post-MFA Issues and Challenges: Social Dimension

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Enhancing Employment & Global Competitiveness through Decent Work:
Post-MFA Challenges and Opportunities
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Abbreviations & Acronyms

EBA	Everything But Arms
AP	Action Plan
ATMI	American Textile Mills Institute
BDXDP	Bangladesh export Diversification Project
BGMEA	Bangladesh Garments Manufacturers and Exporters Association
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BRAC	Bangladesh Rural Advancement Council
BTTLMEA	Bangladesh Terry Towel and Linen Manufacturers & Exporters Association
CBI	Caribbean Basin Initiative
DCCI	Dhaka Chamber of Commerce
DWRP	Displaced Workers' Rehabilitation Programme
EEF	Equity and Entrepreneurship Fund
EPB	Export Promotion Bureau
EU	European Union
FY	Financial year (July-June)
GATT	General Agreement on Trade and Tariff
GDP	Gross Domestic Products
GEREC	Garments Employee Retraining & Employment Cell
GSP	Generalized System of Preferences
GTAP	Global Trade Analysis Project
GTZ	German Technical Cooperation
ILO	International Labour Organization
IMF	International Monetary Fund
ITC	International Trade Corporation
LDC	Least Developed Countries
MFA	Multi Fibre Arrangement
MGF	Matching Grants Facilities
MOC	Ministry of Commerce
NAFTA	North American Free Trade Agreement
NCC	National Coordination Council
NGO	Non-government Organization
OTEXA	Office of Textile and Apparels
PMAP	Post MFA Action Programme
PTS	Primary Textile Sector
RMG	Readymade Garments
ROO	Rules of Origin
SECEP	Small Enterprises Capacity Enhancement Programme
SEDF	Southasia Enterprise Development Facility
SFLI	Support to Forward Linkage Industries
SHS	Support to Handloom Sector
SM	Square meters
SMEs	Small and Medium Enterprises
SPTS	Support to Primary Textile Sector
SQDP	Skill & Quality Development
SSA	Sub-Saharan Africa
T&C	Textile & Clothing
TDA	Trade and Development Act
TOR	Terms of Reference
TRADE	Tariff Reduction Assistance for Developing Countries
UNDP	United Nations Development Programme
USA	United States of America
VAT	Value added Tax
WTO	World Trade Organization

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EXECUTIVE SUMMARY

I. An Assessment of post-MFA situation of RMG sector

01. For the last two decades, readymade garments (RMG) industry has been very effectively used in Bangladesh as an engine of growth and poverty alleviation through generation of employment and income. It is the largest sector after agriculture providing employment. It accounts for about 11 percentage points of GDP and about a quarter of gross value addition in the manufacturing sector with a 30 percent share of the total investment in the country. The foreign exchange reserve of the country largely depends on the RMG exports. The sector employs roughly 1.8 million workers in around 4,000 factories. Majority of the workers are women from the socially disadvantageous groups. Several ancillary industries and services such as consumer goods, energy & power, transportation, freight forwarding & clearance, banking, insurance, etc. have also been set with the provision of another 2 million jobs. RMG now (2005) accounts for more than three-fourths of our global export receipts.

02. The RMG sector of Bangladesh proliferated during the last two decades under the auspices of MFA quota restrained market access enjoyed to major advanced countries such as USA and Canada, and GSP facilities provided by the EU. The enabling environment (e.g., bonded warehouse facilities, import under back-to-back letter of credit, import duty exemption on capital machineries and raw materials, easy loan, etc.) created by the government also played important role in the expansion of the industry. In 1985-86, our export of RMG was $131 million providing employment to 0.20 million workers. By 2004-05, this has rose to $6.6 billion with 1.8 million employment. This overwhelming dependency on RMG, coupled with excessive reliance on imported raw materials and a weak linkage industry has made the sector fragile and vulnerable in the aftermath of quota termination from January 1, 2005. Given the fact that about 2.2 million people are entering the job market every year, any negative impact of quota withdrawal would bear catastrophic implication on our social fabric, export earnings and growth.

03. Dismantling of MFA quota system has brought about formidable challenge as well as unlimited opportunities to Bangladesh. There have varying predictions as to what may happen once quotas are gone. Studies so far conducted on the impact assessment on Bangladesh's export, employment, market share, investment and income are primarily based on extrapolation from the performance under previous stages of quota phase out. Most of these studies predict a doomsday scenario. But these works lack comprehensive research effort, thus leading to only postulates with directions known but magnitude not. In terms of retrenchment of workers, the predictions range from a modest 300,000 to as much as 1.0 million. Some believes that the threat of applying the safeguard clause against China will not permit the buyer to put all the eggs in one basket. Yet some other studies made conditional predictions - the impact would likely be negative unless the government and the industry did little to address the conditions that hamper export competitiveness.

04. During the first six months of 2005 (January-June) following quota withdrawal, export of T&C products grew at a rate of 5.9 percent compared to the corresponding period in 2004. Export of these products grew by 12.48 percent in 2004-05 compared to 2003-04 with knitwear products by 31.26 percent, woven products by 1.70 percent and other T&C products by 0.52

percent. However, in the second half of FY2005 (January-June 2005) after expiry of MFA showed a decline of 1.35 percent compared to first half of FY2005 (July-December) despite a rise in knitwear export. The reason of this marginal fall in export in the last half of FY2005 may be attributed to seasonal variation and comparison between non-comparable time series data (between Jan-Jun and Jul-Dec periods).

05. The above export performance showed that T&C industry in Bangladesh has faced up to the challenge of global competition during the first six months of post-MFA period. Dire predictions about the sector have not altogether come true. Many predicted contraction of exports even before the actual withdrawal of quota, i.e., from the first half of FY2005. In contrast, knitwear exports have continued its positive contributions (25.3%) during the first half of 2005 over the corresponding period in 2004 thus suggesting the sub-sector's relatively greater international competitiveness. The woven sub-sector is however experiencing a slow down (-4.72%) during the same period, showing its vulnerability to post MFA challenges and calls for urgent attention to enhance its competitiveness in the international market.

06. Marketwise T&C exports of Bangladesh to all major destinations except USA have registered a rise during first six months of 2005. Export of knitwear has shown an upward trend in all major export destinations including USA despite the absence of any preferential treatment in US market. Whereas exports of woven sub-sector declined with the withdrawal of quota in all major destinations including EU and Canada despite the duty free excess in those markets. A 7.17% drop in export of T&C products to the US market during the first half of 2005 over the corresponding period in 2004 indicates that in the absence of quota and preferential treatment, these Bangladeshi products (except knitwear) could not face competition from other exporters.

07. Despite predictions of loss of jobs ranging from 300,000 to 1 million as a consequence of MFA phase out, there are no reports of job losses during the first six months of post MFA phase out. Government allocated an amount of Taka 200 million in the last year budget (2004-2005) to retrain and rehabilitate the retrenched workers of the garment industry. Government established a cell in the Export Promotion Bureau for registering such retrenched workers. But no retrenchment was reported during January – June 2005 and as a result there was no utilisation of the fund allocated for the purpose.

08. In the post-MFA era issues of social compliance has come to the forefront along with other elements of competitiveness. This has been triggered by the tragic incident of Spectrum Garment Factory at Savar, Dhaka in which many workers lost their lives, suffered injuries due to the collapse of the factory building. There has been a growing recognition for urgently addressing the issues of social compliance and this prompted the government to initiate dialogues with all stakeholders, employers associations, labour unions, buyer's representatives, social organisations and development partners to build a consensus on a road map for improving the social compliance in RMG sector.

II. Government Response to combat post-MFA challenges

09. Taking note of the apprehension of probable retrenchment for garments workers with the cessation of the quota system, the government allocated 20 crore in the budget of 2004-2005 in order to impart training on alternative employment skills and providing credits for self employment. An Action Plan (AP) is being formulated to utilise that money. In the AP, 40% fund is earmarked for retraining the workers and employees on alternative skills and the

remaining 60% for providing micro credits under a revolving fund to be maintained and disbursed through BRAC and Karmasangsthan Bank (Employment Bank). BRAC, NGO Affairs Bureau, Ministry of Youth & Sports, Ministry of Women & Child Affairs, and Karmasangsthan Bank are selected for implementing the AP.

10.0 The government has taken steps to improve the port and customs clearance procedure, investment on infrastructure development, lowering the interest rates (to 7%) on export credits, elimination of taxes on utilities and electricity, loan rescheduling facilities without down payments on stock lots, reduction in insurance premium, exemption of VAT against gas, water and electricity bills, freight forwarding, etc., reduction of port charges, diversify products and markets, and so on. It may be mentioned that most of these steps culminate from the recommendations made by the National Co-ordination Council headed by the Principal Secretary of the Honourable Prime Minister.

11.0 Trade plays as an important engine in poverty alleviation and growth. Given our overwhelming dependency on the T&C sector in employment and income generation, it is essential that the government and the industry work closely to improve latter's competitiveness. The Nine-Eleven terrorist attack on USA has left a deep scar on our T&C industry in the form of drastic work order reduction - 1250 lay-off and about 500,000 job losses. This should be used as an indication of possible negative impact of quota cessation. Taking lessons from this, the government has taken necessary steps in order to mitigate potential further lay-offs and joblessness during the quota free regime. A national strategy (PMAP- Post MFA Action Programme) is being developed for building safety nets among those still working in the industry through upgrading their skills and efficiencies to increase productivity required for enhancing competitiveness. Under PMAP, the government, in collaboration with the stakeholders and development partners, will organise restructuring programmes such as training on alternative jobs for retrenched workers and employees, training for improvement of skills and quality for the on-the-job workers and employees, training on merchandise management, inventory management and marketing. The programme will be spread over a period of five years and is expected to start from 1 January 2006. The projected cost of the programme is $40 million.

III. Government Initiatives to improve the social compliance standards

12.0. There is a huge need for improvements in social compliance in RMG industries including rights at work, occupational safety and security, labour welfare and improvement in working condition. The issues the social compliance needs to be addressed urgently. However, the implementation of improvement programme has to be in phases and realistic with the socio-economic condition of Bangladesh. The compliance of local labour law in RMG industry should be the starting point for this improvement programme.

13.0. With the above objective in view, the Government has initiated a process of dialogue amongst all RMG sector stakeholders and to institutionalise the process, a high level forum titled "Social Compliance Forum for RMG" has been formed. The forum is headed by the Commerce Minister with representation from relevant government ministries/departments, employers association (BGMEA, BKMEA, BTILMEA), ILO, UNDP and other development partners, buyers and labour unions. The forum will provide policy guidelines for meeting requirements of social compliance and review the progress of compliance. The forum will also make effort to bring all stakeholders to a consensus on owning and implementing jointly-drawn time bound action plans – short, long and medium term for addressing the issues of social compliance and standards. Two issue-based task forces on occupational safety and labour standards and a Compliance Monitoring cell have been formed to identify the problems and monitor the progress thereof, and to support the Forum with necessary secretarial services.

IV. Conclusion

14.0 Post-MFA era presents both challenges and opportunities for the RMG sector of Bangladesh. There is no doubt that there will be heightened competition in the global markets from more efficient suppliers. To sustain and enhance Bangladesh's share all stakeholders, government, industry, individual firms, workers union and social organisations will have to get behind right policies and actions that help Bangladesh become more competitive. Bangladesh can not simply afford to lose this battle as this sector has made a remarkable contribution to industrial employment, women empowerment and poverty reduction.

Post-MFA Issues and Challenges: Social Dimension

By
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INTRODUCTION

The export-led growth of Bangladesh during the two last decades is characterised by the phenomenal expansion of the readymade garments (RMG) industry. Its immense contribution towards eradication of poverty through generation of income and employment can hardly be exaggerated. The proliferation of the RMG industry is governed by the presence of the MFA (Multi-Fibre Arrangement) quota regime that provided an envelope to gain access to lucrative developed markets of USA, Canada, and EU. Excessive dependence on imported raw materials, lack of diversification in terms of product variety and export destination (mostly catering the needs of EU, USA and Canada) have patterned our industry most vulnerable in the aftermath of MFA quota termination.

2.0 Bangladesh was enjoying quota-restrained market access in most advanced countries including the USA, EU and Canada from 1974 in the format of MFA under GATT. EU introduced EBA (Everything But Arms) initiative from 2001 allowing Bangladesh (all LDCs) duty-free and quota-free market access subject to the fulfilment of the rules of origin criteria for GSP (Generalised System of Preference) facilities. Norway and Canada lifted quota and tariff from 2002 and Australia and New Zealand allowed similar preferential treatment to Bangladeshi RMG exports in 2004. Bangladeshi RMG products do not enjoy any duty concession[3] in US market.

CHALLENGES & OPPORTUNITIES DEFINED

3.0 The MFA quota regime dismantled from January 1, 2005 has entailed removal of restrictions for trade in textiles and clothing (T&C), offers a formidable challenge as well as unlimited opportunities to Bangladesh on the globalisation front. There have varying perceptions about these challenges and opportunities. Many predict that Bangladesh (including many other suppliers) will witness a wave of exports to most advanced markets from China (and also India), whose manufacturers benefit from strong linkage industries, cheap labour and huge economies of scale. The fate of RMG industry relies upon the condition whether Bangladesh would exist in the face of stringent competition among the apparel exporting countries in the quota free global market. That destiny is not free from anxiety if the 3rd phase quota removal (2002) of the US market is scrutinised, when 29 categories were freed from quota restriction. A study conducted by American Textile Mills Institute (ATMI) reveals that China's export has grown robustly in those categories, while Bangladesh lost 46 per cent of its business in 2003. US-based International Trade Corporation (ITC) also explored that in a special category (baby's wear), the export of China increased 826 per cent while that of Bangladesh decreased 18 per cent.

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[2] Md. Ghulam Hussain is the Joint Secretary at the Ministry of Commerce.

[3] In general, according to the US GSP rules, textile and clothing do not qualify.

4.0 As textile quotas were bilateral and restrictiveness varied from country to country, quota removal might alter the competitiveness of individual exporting countries. In other words, Countries facing more restrictive quotas would see improved competitive position (China) and countries facing less restrictive quotas in the export market might face much difficulties to keep their market share unhurt (Bangladesh as seen above).

5.0 Again many think that if the lead-time could be curtailed and the cost of doing business in Bangladesh could be minimised, then the industry would grow and so is the export of RMG. Many experts believe that the depressing effects of the quota cessation would be felt at the second half of 2005 earliest or in early 2006. This is primarily because of the threat of the use of safeguard measures by USA[4] and EU on the one hand and the buyers are not putting all the eggs in one basket, on the other.

6.0 Between 1990 and 2002, world trade in T&C increased at a yearly rate of 3.2 percent and 5.3 percent respectively. Projecting growth of T&C at the same rate over similar span in the future, trade in T&C would rise from $353 billion to $596 billion (textile $222 billion and clothing $374 billion). On the other hand, the developing countries registered annual growth of 5.3 percent and 6.0 percent in the trade of textile and clothing respectively during the period 1990-2002. If developing countries could maintain this rate of growth, their share in overall trade increases to $368 billion ($127 billion in textiles and $241 billion in clothing), representing a gain of $179 billion over 2002, which many developing countries, big and small, can benefit from[5].

FORECASTS & SUMULATIONS

7.0 Several studies have so far been conducted to assess the impact of quota withdrawal on exporting developing countries. These studies and forecasts can be classified in three groups: (a) CGE models based on GTAP (Global Trade Analysis Project) database; (b) interview-based analysis and anecdotes from private sector sources; (c) and projections based on trade flows, tariff margins and fill-rate of existing quotas[6]. All these works lack a comprehensive research effort, thus leading to only postulates with directions known but magnitude not. Some studies predicted doomsday situations for many countries including Bangladesh, some were optimistic, and some other studies were based on assumptions which were controversial. The studies on the impact of quota removal on Bangladesh's exports, employment, market share, investment and income are primarily based on extrapolation from the performance under previous stages of quota integration.

8.0 Most forecasts assume that China (and India) will be the winner of quota withdrawal. The high rate of utilisation of textile quotas, massive investment in the textile sector, big production potential, enormous competitive strength, high productivity as well as comparatively

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[4] USA has already taken resort to this safety clause. 11 categories (332, 432, 632, 338, 339, 347, 348, 352, 638, 639 and 652) are put on quantitative limits of 7.5% annually.

[5] "Trade in textiles and Clothing - Some hard facts and the way forward" by Munir Ahmed, Executive Director, International Textiles and Clothing Bureau at a conference organized by Foreign Trade Association, 12 October 2004 in Brussels.

[6] International Trade in Textiles and Clothing and Development Policy Options, Policy Paper, Regional Centre in Colombo, UNDP.

low wage level will have positive effect on Chinese exports. Recent upsurge of Chinese T&C products in US and EU market supports this view. However, the accession protocol of China to the WTO provides for a special textile safeguard clause, which can be applied if needed, indeed as a last resort. Another group believes that China will not be the absolute winner --- there will hardly be a trader who gives up reliable relations with a supplier, which have grown over many years only because another supplier offers the same products a few cents cheaper. Besides, the new monitoring of the observation of certain quality and social standards, which would then become necessary, could ruin these cost advantages.[7]

9.0 Most predictions on Bangladesh is conditional- the impact would likely be negative unless the government and the industry did little to address the conditions that hamper export competitiveness. According to Birmbaum, D[8], countries like Bangladesh with a vibrant garment industry will need to invest much more on indirect cost facilities (e.g., efficient communication and sourcing information, etc.) to improve.

10.0 Let us now examine some of these studies in brief.

Gherzi Study[9]

11.0 There are around 4,000 RMG factories in Bangladesh. Most of these factories belong to medium and small (SMEs) group. Roughly 200 factories are big and may be regarded as compliant. It is reported that about 1,900 factories are sick[10]. By and large, the industry is lagging far behind compared to its competitors in other countries. An analysis carried out by Gherzi reveal a weak, below average position on most counts for Bangladesh (Table 1 below).

Table 1

Market performance

Factor	B'desh	Camb -odia	China	India	Pakis-tan	Sri Lanka	Vietn-am
Delivery reliability	2 to 4	4 to 5	3	3	2 to 5	3 to 4	3
Active marketing	4	5	3	3 to 4	3 to 5	4	4
Active selling	4	5	3	3	4	4	na
Perceived market image	4	4	3	3	4	3	na
Own product styling	5	5	2	3	4	3	na

Source: Gherzi Textil Study

Note: 1= Excellent; 2= Good; 3= Average; 4= Less than average; and 5= Weak or poor

12.0 Thus the Gherzi study identified serious flaws for Bangladesh in retaining the required competitiveness level in post-MFA era. To overcome Bangladesh's weakness in staying competitive, the report suggested 14 strategic recommendations some of which are related to human development, some to infrastructure development and the rest to management and

[7] Opening Speech by Ferry den Hoed, president of the Foreign Trade Association, "Textile Trade After 2004: Competition or new Dirigisme? at the Conference held on 12 October 2004 in Brussels.

[8] Birnbaum, David. (2004), "Winners and Losers 2005: The Fashiondex, Inc. Available at http://www.fashiondex.com.

[9] MOC conducted this study in 2003 through Swiss firm Gherzi Textil Organization with funding from the World Bank.

[10] According to BGMEA Sick Apparel Community (BSAC), there are 1,900 sick RMG factories in the country.

governance related issues. Although the Gherzi study did not make any quantitative impact assessment of quota withdrawal, it commented that if the industry & government would take appropriate measures as suggested in 14 strategic recommendations, country's export earnings from RMG could be up to $10 billion whereas non-action and status quo might lead to export fall in RMG to US $2 billion from US $5.5 billion.

IMF Study

13.0 Based on assessment of quota restrictiveness, export similarity across countries and Bangladesh's supply constraints, the IMF[11] study concluded that "Bangladesh could face significant pressures on its balance of payments, output and employment when the quotas are eliminated". Using a simulation model, the study estimated employment to contract between 2.1 percent and 7.7 percent, and GDP to contract between 0.30 percent and 4.1 percent.

WTO Simulation

14.0 The study conducted by WTO[12] calculated the probable impacts on quota withdrawal for the exporting countries including Bangladesh. Using an econometric simulation model, the study predicted that in the US market share in Bangladesh's clothing would decline from 4 percent in 2004 to 2 percent in post-ATC period. The study also predicted that as Bangladesh enjoys duty free market access in the EU countries, market share of Bangladesh for apparel products would rise there from existing 3 to 4 percent.

US TDA 2000 & EBA, etc.

15.0 In a global market place when LDC countries like Bangladesh have to compete vis-à-vis Sub-Saharan Africa (SSA) & Caribbean Basin Initiative (CBI) countries[13], with import tariff rates on T&C in the USA remaining at very high levels (roughly 16.5% for Bangladesh). It is a battle of survival because these 72 TDA (US Trade and Development Act 2000) beneficiary countries have bargained for Zero tariff provision already. Bangladesh's competitive advantage is seriously undermined relative to the preferences received by these countries. Bangladesh needs to have a level-playing field for competition to survive and absorb the potential adverse impact of the MFA phase-out.

16.0 Razzaque[14] has estimated that tariff free access to the US market could result in an additional export volume of US$530 million and generate employment opportunities for 180,000 people of which 144,000 would be female. While discussing on the impact of NAFTA on Bangladesh, he also estimated that the zero tariff access granted to Mexico caused a downward pressure on Bangladesh’s prices - the resultant loss of welfare is estimated to be US$250 million for the year 2000. This means, TDA 2000 might have caused further welfare losses for Bangladesh.

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[11] "The End of Textile Quotas: A case Study of the Impact on Bangladesh", Montfort Mlachila and Yongzheng Yang, Policy development and Review Department, IMF.

[12] H.K. Nordas "The global textile and clothing industry post the agreement on textiles and clothing", World Trade Organization, Geneva, Switzerland.

[13] Zero tariff provided to SSA and CBI countries in the US Trade and Development Act 2000.

[14] Dr. Abdur Razzaque, "Sustaining RMG Export growth after MFA Phase-out: An Analysis of Relevant Issues with Reference to Trade and Human development”, UNDP, Dhaka, Bangladesh, March 2005.

17.0 The purpose of providing preferential access to developing countries is often frustrated because of the presence of arduous rules of origin (ROO) requirements. EU has granted duty free access to all LDCs including Bangladesh under its GSP scheme. But the obligatory ROO requirements greatly limit our exports as woven apparel industry is predominantly dependent on imported raw materials. The two-level GSP has expired recently, and EU has proposed a new and much simpler system of preferences for 2006-08. Bangladesh is yet to apply formally for a derogatory GSP.

18.0 Bangladesh also enjoys duty-free access to Canada, Australia, Norway and New Zealand. Use of these market access facilities, except Canada, is not substantial. The Canadian value added criteria for obtaining zero tariff treatment has fixed the local value addition at 25 per cent. This has resulted in 54.55 percent growth in 2002-03 to $170 million from $110 million in 2001-02, 67.10% growth in 2003-04 to $284 million from $170 million, and 13.73 percent growth in 2004-05 to $323 million from $284 million. Bangladesh experienced negative growth (-4.74%) in exports to EU in 2004-05 (Table 2 below). This comparison between Canada and EU suggests that Bangladesh should try for Canada-type simplified ROO for EU market. Needless to mention that only a flexible ROO as provided by Canada could really benefit LDCs like Bangladesh.

Table 2
Bangladesh's Exports to EU and Canada

Country	2001-02	2002-03	2003-04	2004-05
EU	2853	3282	4280	4077
Growth	-	15.04%	30.41%	-4.74%
Canada	110	170	284	323
Growth	-	54.55%	67.10%	13.73%

Source: Computed from EPB data

IMPORTANCE OF T&C IN THE ECONOMY

19.0 The contribution of T&C to the total merchandise exports of Bangladesh has grown from a meagre 2 percentage points in late 70's to 76 percentage points in 2004-05. This industry rose to a position of eminence within a span of roughly two decades under the auspices of MFA regime. The huge contribution of the sector to the economy could be summarised in terms of its contribution to total merchandise exports receipts (>3/4), direct employment of 1.8 million-85 percent of which are females, investment share of 30 percent. Centring the RMG many more ancillary industries (viz., bank, insurance, transportation, freight forwarding & clearance, housing, utility services, consumer goods, etc.) have also been set up as a supportive sector. The sector accounts for about 11 percent to the GDP and about a quarter of gross value addition in the manufacturing sector. The foreign exchange reserve of the country largely depends on the RMG sector, which also plays a stabilising role in terms of macroeconomic balance of the country.

20.0 For designing a strategy to face the post-MFA challenges, it is important to identify factors that inhibit the export prospects of the RMG industry. Particular attention should be given to the supply side constraints and the compliance issues that has drawn widespread attention in EU following the Spectrum accident. It is also important to analyse the export trends of different categories of RMG that were freed from MFA. In the following paragraphs, first we shall try to draw an inference based on export data on the third and final phases of MFA quota elimination and then discuss about the steps taken by the government to face the challenge.

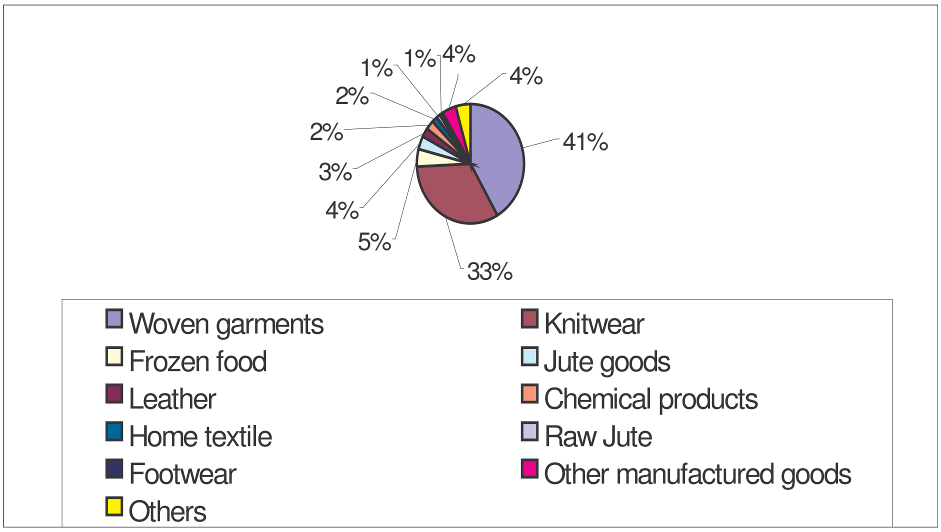
21.0 Bangladesh exported goods worth $8,654.52 million in 2004-05. This is 13.83 percentage points higher than last year's export. T&C products still continue to remain as the single largest export category accounting for more than three-fourths of the total export. Of the T&C products, woven garment is in the top of the list with more than two-fifths share to the total export. This is followed by knitwear with one-third share. No other commodity's share could reach double digit (Table 2 below). The domineering presence of T&C in our export has made it fragile and vulnerable.

Table 3
Export share by broad commodities

Products	Share (%) to total
Woven garments	41.58
Knitwear	32.58
Frozen food	4.86
Jute goods	3.55
Leather	2.55
Chemical products	2.28
Home textile	1.80
Raw Jute	1.11
Footwear	1.01
Other manufactured goods	4.32
Others	4.36
Total	**100.0**

Source: EPB

Chart 1
Share of Commodities to Export



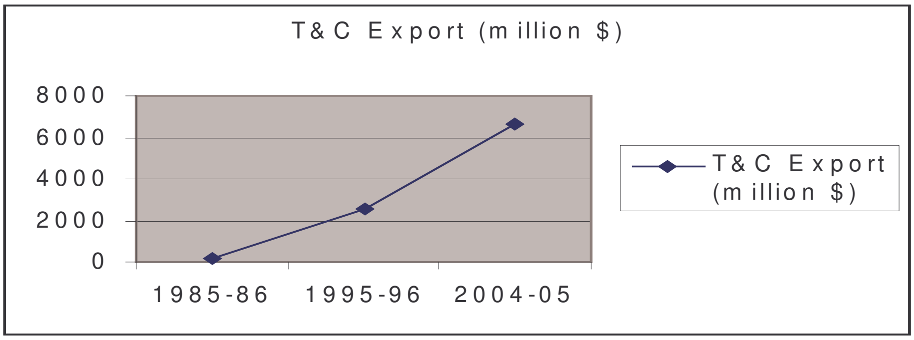
22.0 Bangladesh has successfully established herself as a prominent supplier in the global textile trade. Her export has registered phenomenal growth over last twenty years. In 1985-86, our export earning from T&C was $131 million. This has grown to $6.6 billion in 2004-05. The number of industries rose from a trivial 6 to around 4,000, presently providing jobs to about 1.8 million workers large majority (85%) of whom are females belonging to socially disadvantageous groups (Table 4). It is thus far the largest formal sector generating 40 percent employment, and supporting about 10 million people indirectly. The following Chart 2 shows a steep rise in our T&C exports since 1995. Bangladesh was able reap maximum benefit of quota restrained MFA regime following the successful negotiations of the Uruguay Round.

Table 4
Growth of T&C over the years

Year	T&C Export (million $)	Share to total export	Employment (million)
1985-86	131	16.0%	0.20
1995-96	2,547	65.6%	1.30
2004-05	6,624	76.5%	1.80

Source: EPB

Chart 2
Growth of T&C Export of Bangladesh



Performance during Post MFA

23.0 In 2003-04 (July-June), the total T&C export was US$ 5,686 million, out of which US$ 3,538 million was from the export of woven garments and US$ 2,148 million from knitwear products. In other words, RMG (strictly defined as sum of woven and knitwear) accounts for about 96 percent of the total T&C exports of Bangladesh. The following table reveals that in 2004-05, the growth of the sector is almost singularly orchestrated by knitwear (31.26%), followed by other T&C products that include home textiles, headgear, fabrics, etc. Indeed, export of woven garments also showed a trivial upsurge of 1.7 percent in 2004-05 (Table 5).

Table 5

Bangladesh's export of T&C Products

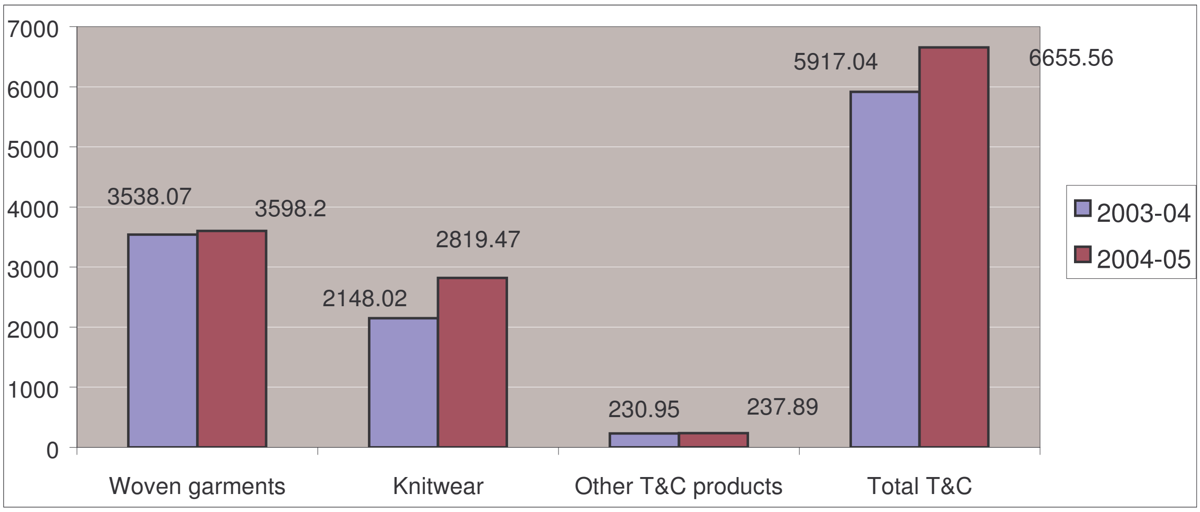
(Figures in million US$)

Product type	2003-04	2004-05	% change
Woven garments	3538.07	3598.20	1.70
Knitwear	2148.02	2819.47	31.26
Other T&C products	230.95	237.89	3.01
Total T&C	5917.04	6655.56	12.48

Source: EPB

Chart 3

Bangladesh's Export of T&C in Million US$



24.0 During the first 6 months of 2005 (January to June) following quota withdrawal, export of T&C products grew to $3,302.24 million from $3,118.12 million in 2004, thus registering a growth by 5.9 percent (Table 7). Indeed, this is quite impressive albeit dire predictions made by several studies and experts (narrated above). There has been a very inspiring growth in the export of knitwear to all major destinations (EU, USA and Canada). However, export of woven apparels to those destinations has dropped to $1,77.57 million in 2005 from $1,862.46 million in 2004 declined (Table 6).

Table 6

Bangladesh Export of T&C Products to the World

Country	Jan-Jun 2004				Jan-Jun 2005			
	Woven	**Knit**	**Others**	**Total**	**Woven**	**Knit**	**Others**	**Total**
EU	999.41	979.02	71.25	2049.68	801.63	1199.11	78.13	2078.87
USA	715.96	87.56	37.38	840.90	636.43	121.70	22.51	780.64
Canada	104.51	36.01	7.46	147.98	88.17	60.65	5.57	154.39
Others	42.58	28.36	8.62	79.56	248.34	35.67	4.33	288.34
Total	1862.46	1130.95	124.71	3118.12	1774.57	1417.13	110.54	3302.24

Source: Computed from EPB data

25.0 Despite an impressive growth (38.93%) registered by knitwear to the United States during the first half following quota termination, the overall export of T&C to the United States was down by (-) 7.17 percent. This is because the knitwear base was still narrow - the share being just over 15 percentage points. The remarkable growth of other T&C products (262%) to other countries (excluding EU, USA & Canada) was also not enough to offset the loss incurred in the US market. However, it can be presumed at this stage that if the present export growth trend (51.14%) of knitwear continues till the end of 2005, this should be able to make up the loss incurred in exporting of woven products. In other words, the trade creation effect of knitwear products on income and employment should be able to compensate the loss of woven

Table 7

Growth (%) of T&C by Country/Region[15]

(Jan-Jun 2005 period over previous period)

Country	Woven	Knitwear	Others	Total T&C
EU	-19.79	22.48	9.66	1.43
USA	-11.11	38.93	-39.78	-7.17
Canada	-15.64	68.43	-25.34	4.33
Others	483.23	25.78	-49.77	262.42
Total	**-4.72**	**25.30**	**-11.36**	**5.90**

Source: EPB

apparels. The loss (-4.72%) incurred in the exports of woven apparels in value terms also implies that either we are receiving less for same exports or there may be loss of jobs in the sector (Table 7). We shall try to examine this at a latter stage.

EXPORT TO THE US MARKET

26.0 Only 2 textile categories (331 & 847) exported by Bangladesh were made free at the Third Phase of the integration in 2002. According to Office of Textile and Apparels (OTEXA), US Department of Commerce, during the three years following the integration (2002 to 2004), US import (in value terms) of category 331 from China rose by 154.82%, while the same from Bangladesh was (-) 42.15% down. Again, in case of category 847, China's export to USA rose by 1,050% while Bangladesh's export dropped by (-) 65.28%. Similarly, US import (in million square meters) of category 847 from China rose by 1,780% while the same from Bangladesh was down by (-) 43.71%. A higher growth rate in quantity exported than value received by China implies that she has received less for more exports. For Bangladesh, these losses in export both in value and quantitative terms have led to predictions by many experts of a gloomy situations following complete quota cessation in 2005 (Table 8).

Table 8

US Imports of category 331 & 847 from selected countries

Category	Country	2001	2004	Growth in 2004 over 2001

[15] Absolute data are provided at Annex I.

Value in million US $				
331	World	111.81	110.12	-1.51%
	China	19.52	49.76	154.92%
	Bangladesh	1.21	0.70	-42.15%
847	World	304.51	1179.81	287.5%
	China	89.89	1034.86	1050%
	Bangladesh	22.81	7.92	-65.28%
Quantity in million Square Meters				
331	World	130.34	159.24	22.18%
	China	15.43	80.88	427.17%
	Bangladesh	3.12	2.70	-13.46
847	World	52.92	294.79	457.05%
	China	13.89	262.57	1790.35%
	Bangladesh	6.04	3.40	-43.71%

Source: OTEXA web page, US Department of Commerce.

27.0 Bangladesh enjoyed quota on 30 categories (including merged ones) of T&C products till the end of December 2004. Available comparable data on exports of Bangladesh and her major competitors China and India for the first five months of the post-MFA period and the corresponding period of the previous year are produced at Table 9 below. It can be seen from the table that Chinese export of these 30 quota categories together to the US market in quantity (square meters equivalents) and value terms rose by 119 and 169 percentage points respectively during the first five months of 2005 over the corresponding period in 2004. The analogous growth in these categories were 15.69 percent and 32.44 percent respectively for India and 25.68 percent and 32.59 percent for Bangladesh. A rise in export value twice the quantity in relative terms means that India was receiving better price ($2.036 in 2004 and $2.328/SM in 2005) than other competing countries. This may be that India has moved to exporting higher end products. It can also be seen that China's growth of deregulated categories was startling.

Table 9

U.S. General Imports of T&C from selected countries

(Quantity in million square meters & value in million $)

Country	Type	Quantity Jan-May 2004 (SM)	Quantity Jan-May 2005 (SM)	Value Jan-May 2004 ($)	Value Jan-May 2005 ($)	% change quantity	% change value
China	All T&C	4220	6189	5053	8164	46.67	61.56
India	All T&C	788	988	1511	1961	25.28	29.80
Bangladesh	All T&C	439	533	731	904	21.50	23.62
China	Quota	746	1634	1333	3583	118.86	168.80
India	Quota	526	609	1071	1418	15.69	32.44
Bangladesh	Quota	276	347	548	727	25.68	32.59
China	Non-quota	3473	4556	3720	4580	31.16	23.13
India	Non-quota	107	145	127	157	35.81	23.60
Bangladesh	Non-quota	163	186	183	177	14.40	-3.28

Source: Office of Textile & Apparels, US Department of Commerce (compiled & adapted)

CHINA THREAT

28.0 Despite a 3 years' cushion provided to other exporting countries through the inclusion of the safety clause in China's accession to WTO, many exporting countries are finding their market share eroding sharply. Relatively higher increase (112%) in quantity of T&C products exported to the US market during the post-MFA period (1st five months) than in value (69.87%) received means that China is exporting these products at lower costs (Table 10 & 11). It can be seen from Table 8 that China's share to the US market in square meters of T&C products exported was almost doubled during the post MFA period. It is also seen that the whole US incremental quantum (1016 million SM) of T&C was fully absorbed by China (1073 million SM)

Table 10

China's Export of T&C Products in million Square Meters to USA

Category	2003	2004	Jan-May 2004	Jan-May 2005	% change 2004	% change Jan-May 2005
World	18620	19656	7280	8296	5.56	13.96
China	2286	2966	958	2031	29.75	112.00
Share of China	12.28	15.09	13.16	24.48	22.88	86.02

Source: Office of Textile & Apparels, US Department of Commerce (compiled & adapted)

29.0 In value terms, US import of T&C products rose by 6.31 percent during the post MFA period. During the same period, China's export of T&C products in value terms rose by 69.87 percent. During the first five months of 2004, China's share to the US T&C market was 15.01 percent. This went up to 22.89 percent - a 52.50 percent growth over the corresponding previous period Table 11). China was able to absorb 92.19 percent of the incremental value of the T&C imported by USA during the post-MFA period.

Table 11

China's Export of T&C Products in million US$ to USA

Category	**2003**	**2004**	**Jan-May 2004**	**Jan-May 2005**	**change 2004**	**change Jan-May 2005**
World	62904	66870	24198	26950	6.31%	11.37%
China	8688	10721	3631	6168	23.40%	69.87%
Share of China	13.81%	16.03%	15.01%	22.89%	16.08%	52.50%

Source: Office of Textile & Apparels, US Department of Commerce (compiled & adapted)

NEED FOR A CONTINGENCY STRATEGY

30.0 Table 12 below reveals that during the first six months of 2005 (January-June) following quota withdrawal, export of T&C products grew at a rate of 5.9 percent compared to the corresponding period in 2004. Export of these products grew by 12.48 percent in 2004-05 compared to 2003-04 with knitwear products by 31.26 percent, woven products by 1.70 percent and other T&C products by 0.52 percent. Although knitwear registered quite impressive growth rates (double digit) during 2003 and 2004 ((highest 24% in the second half), its growth has come down to a trivial 1.06 percent during the first six months of 2005 over the last half of

2004. Woven and other T&C products registered negative growths during the first half of 2005 over the immediate preceding period by (-) 2.69 percent and (-) 9.10 percent respectively. Thanks to the 7.36% growth attained during the first half of FY2005 (Jul-Dec) that helped keep the overall loss from the export of T&C at minimum (-1.35%). However, the marginal fall (-1.35%) in the second half of FY2005 (January-June 2005) after expiry of MFA over the first half of FY2005 (July-December) despite a trivial (1.06%) rise in knitwear export could be attributed to seasonal variations and comparison between non-comparable time series data (Table 12).

Table 12
Export trend of T&C products
(Million US$)

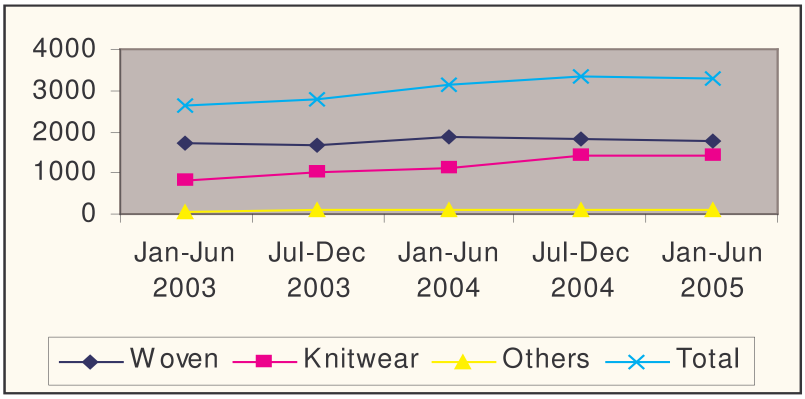
Products	**Jan-Jun 2003**	**Jul-Dec 2003**	**Jan-Jun 2004**	**Jul-Dec 2004**	**Jan-Jun 2005**
Woven	1723.14	1675.61 (-2.76%)	1862.46 (11.15%)	1823.63 (-2.09%)	1774.57 (-2.69%)
Knitwear	833.16	1017.07 (22.07%)	1130.95 (11.20%)	1402.34 (24.0%)	1417.13 (1.06%)
Others	70.93	106.24 (49.78%)	124.71 (17.39%)	121.60 (-2.49%)	110.54 (-9.10%)
Total	2627.23	2798.92 (6.54%)	3118.12 (11.40%)	3347.57 (7.36%)	3302.24 (-1.35%)

Source: EPB

Note: Figures in parentheses represent growth over immediate preceding periods.

31.0 The above export performance showed that T&C industry in Bangladesh has faced up to the challenge of global competition during the first six months of post-MFA period. Dire predictions about the sector have not altogether come true. Many predicted contraction of exports even before the actual withdrawal of quota, i.e., from the first half of FY2005. In contrast, knitwear exports have continued its positive contributions (25.3%) during the first half of 2005 over the corresponding period in 2004 thus suggesting the sub-sector's relatively greater international competitiveness. The woven sub-sector is however experiencing a slow down (-4.72%) during the same period, showing its vulnerability to post MFA challenges and calls for urgent attention to enhance its competitiveness in the international market (Chart 4).

Chart 4:
Bi-annual growth of T&C Products by product groups
(Million US$)



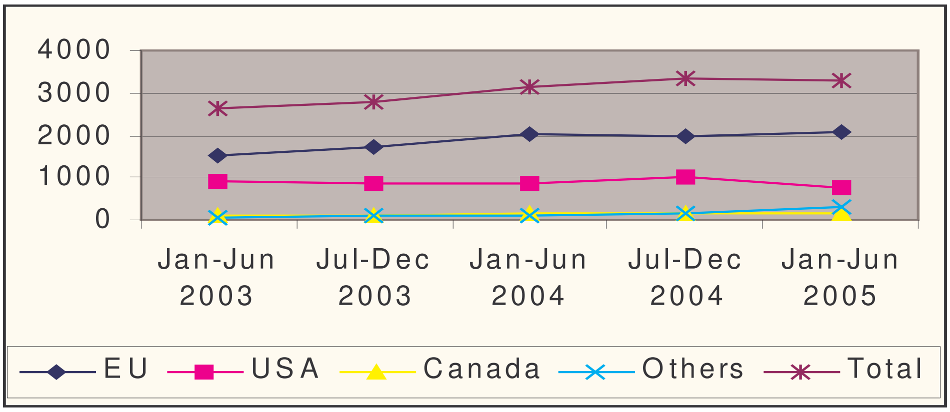
32.0 Marketwise T&C exports of Bangladesh to all major destinations except USA have registered a rise during first six months of 2005. Export of knitwear has shown an upward trend in all major export destinations including USA despite the absence of any preferential treatment in US market. Whereas exports of woven sub-sector declined with the withdrawal of quota in all major destinations including EU and Canada despite the duty free excess in those markets. A 7.17% drop in export of T&C products to the US market during the first half of 2005 over the corresponding period in 2004 indicates that in the absence of quota and preferential treatment, these Bangladeshi products (except knitwear) could not face competition from other exporters (Table 13 & Chart 5).

Table 13
Export of T&C by destinations
(Million US$)

Countries	Jan-Jun 2003	Jul-Dec 2003	Jan-Jun 2004	Jul-Dec 2004	Jan-Jun 2005
EU	1527.57	1726.39 (13.02%)	2049.68 (18.73%)	1998.24 (-2.51%)	2078.87 (4.04%)
USA	914.96	862.13 (-5.78%)	840.90 (-2.46%)	1016.90 (20.93%)	780.64 (-23.23%)
Canada	109.33	123.54 (13.0%)	147.98 (19.78%)	168.30 (13.73%)	154.39 (-8.27%)
Others	75.37	86.96 (15.38%)	79.56 (-8.51%)	164.13 (106.3%)	288.34 (75.68%)
Total	2627.23	2798.92 (6.54%)	3118.12 (11.40%)	3347.57 (7.36%)	3302.24 (-1.35%)

Source: EPB
Note: Figures in parentheses represent growth over immediate preceding periods.

Chart 5:
Bi-annual growth of T&C Products by country/region
(Million US$)



33.0 Comparison between bi-annual export data of RMG products in million dozens exported representing pre- and post quota period are presented at Table 14 below. The second half of the year 2004 has witnessed an impressive 11.26 percent growth in exports in millions of dozens, while the same in value terms was 7.77 percent (Table 12 above). This means, we received less for increased exports. The same trend continued during the first six months of the quota-free regime in which the rate of fall in exports in quantity exported was less (-0.48%) than the rate of fall in value (-1.35%) of exports of RMG.

Table 14

Export of Woven and Knit Products in million dozens

Period/description	**Jul-Dec 2003**	**Jan-Jun 2004**	**Jul-Dec 2004**	**Jan-Jun 2005**
Export quantity	86.41	95.68	106.45	105.94
Growth in quantity	5.47%	10.73%	11.26%	-0.48%

Source: EPB

34.0 What should be the objective of the contingency strategy? These may be of twofold:
(a) to retain the existing market share; and
(b) to expand and diversify markets?

35.0 Both of these require diversification of products and markets, enhancing export competitiveness and export performance. These can be accomplished through addressing both the supply and demand induced constraints. National Co-ordination Council (NCC) has already put policy recommendations on trade facilitation, enhance labour productivity, create investment funds, improving the infrastructure, governance, and so on. It is recognised that faster port and customs clearance, computerised documentation and processing, rationalisation of fees and taxes, streamlining bureaucratic procedures, minimising corruption opportunities, adoption of measures to reduce input costs on power and transport, enhancement of delivery logistics would contribute to improving lead times and virtual proximity to key markets[16]. Adequate efforts should also be taken to diversify the range of apparel production or move to niches of apparel categories, and export diversification. Easy access at nominal cost to credit and duty exemption for capital machinery imports may act as incentives for those who want to invest for diversification. The spill over effects on other sectors that depend on T&C should be monitored. Appropriate facilitating and bailing out strategy (easy access to credit) should be in place to rescue the firms hit by contraction in the T&C sector.

INITIATIVES TO COMBAT THE CHALLENGE

36.0 It has been mentioned earlier that several studies predicted doomsday scenarios for Bangladesh RMG industry under a quota-free regime. But their varying predictions in respect of loss of employment and income are perplexing and as such far from precision required to designing a strategy to mitigate the problem. The actual loss of export receipts during the first six months of post-quota period over the second half of 2004 appears to be marginal ($51.08 million). Whatever is the magnitude of loss, this fall in our export earning, at least partially, is attributable, inter alia, to our inability to take maximum advantage of the GSP benefit provided by EU. On the top of these, issues relating to compliance and standard are getting dominance

[16] International Trade in Textiles and Clothing and Development Policy Options, Policy Paper, Regional Centre in Colombo, UNDP.

as ever among the buyers on the one hand and a declining state in prices offered has reduced T&C exporters' abilities to compete, on the other.

37.0 It has been mentioned earlier that several studies have so far been carried out in the country on the competitiveness, enabling environment, backward linkage with the textile industry, labour standards, living conditions of the workers, potential of absorption of female workers in other industries and so on. Support to the industry by the government and NGOs include, inter alia, reproductive health education and services, functional literacy, gender and labour rights education and awareness, alliance building, media campaign, improvement of labour standards, fire monitoring, shelter support, skill training and micro finance support targeting the retrenched workers (BRAC), etc. Ministry of Commerce has initiated dialogue with the development partners and the NGOs directly with a view to strengthen and avoid duplication of fragmented initiatives taken by them.

38.0 Many NGOs and development partners have launched projects in collaboration with the stakeholders and ministries. These include ILO with BGMEA on improving labour standards; UNDP with the Ministry of Commerce on productivity improvement and compliance; GTZ with the Ministry of Commerce on Value chain analysis and occupational safety and security aspects; GTZ with BKMEA on compliance monitoring; matching grants facilities (MGF) under Bangladesh Export Diversification Project of the World and the Ministry of Commerce for capacity to export more; Southasia Enterprise Development Facility (SEDF) in association with BUET offered training courses in the area of floor management, factory productivity, etc.; SEDF with BGMEA on productivity improvement and value chain analysis; KATALYST with the producers on jamdani sari, EU with NITRAD and so on.

39.0 Let us now examine the major mitigating initiatives of the government to combat the post-MFA threat.

BDXDP Training Programme

40.0 One of the major findings of the Gherzi study was that the Bangladeshi garment workers, managers and many of the entrepreneurs lack the requisite qualities to compete at the world market and as such future survival of this sector depends much on the qualitative improvement of the products and timely supply of the products. Therefore an enormous expansion of training at all levels is required in the garment industry including management, marketing, technical and operative stages. These will in turn help meet the needs of a modern and regenerated industry.

41.0 Taking into consideration of the uncertainty in RMG export scenario and the prediction of Gherzi study, Ministry of Commerce undertook some actions in 2004. A training programme was undertaken for upgrading the skills of workforce employed in the RMG sector. The programme was known as "Skill and Quality Development Programme" (SQDP). Unspent money worth US$ 41,000 of BDXDP was used for training of employees starting from floor workers to production managers. Training sessions were imparted for 832 T&C workers and employees on three disciplines namely, (a) productivity management; (b) quality management; and (c) issues related to compliance, safety and occupational standards. Six selected training providers were involved in imparting the programme. These were:

(a) College of Textile Technology;
(b) DCCI Business Institute (DBI);
(c) BGMEA Institute of Fashion & Technology;
(d) BRIDDHI - A Seat of Learning; and
(e) Young Consultants

Garments Employees Retraining and Employment Programme (GEREP)

42.0 Taking note of the apprehension of probable retrenchment for garments workers with the cessation of the quota system, the government allocated 20 crore in the budget of 2004-2005 in order to impart training on alternative employment skills and providing credits for self employment. An Action Plan (AP) is being formulated to utilise that money. In the AP, 40% fund is earmarked for retraining the workers and employees on alternative skills and the remaining 60% for providing micro credits under a revolving fund to be maintained and disbursed through BRAC and Karmasangsthan Bank (Employment Bank). BRAC, NGO Affairs Bureau, Ministry of Youth & Sports, Ministry of Women & Child Affairs, and Karmasangsthan Bank are selected for implementing the AP. The overall lead is taken by Ministry of Commerce. A cell named "Garments Employee Retraining & Employment Cell" (GEREC) has been created at the office of Export Promotion Bureau (EPB) for implementing the programme. Director General (Textile), EPB is the Chief Coordinator of the cell. The Cell is presently engaged in the development of a database on RMG factory locations, workers, employees, etc. However, as there were no reported lay off or retrenchment in the RMG sector in 2004-05, the fund so received could not utilised. Indeed, similar budgetary arrangements has been made in 2005-06 budget to alleviate any retrenchment emergency.

POST MFA ACTION PROGRAMME

43.0 To address the post-MFA challenges in broader perspectives and thus to retain the market share in RMG exports and to expand and diversify the exportable and the export markets, a post-MFA Action Programme (PMAP) has been prepared by the Ministry of Commerce. The programme is scheduled to be implemented in 5 years starting from January 1, 2006 with an approximate cost of US$ 40 million. PMAP has six components, namely -

(a) Skill and Quality Development Programme (SQDP).
(b) Displaced Workers Rehabilitation Programme (DWRP).
(c) Small Enterprises Capacity Enhancement Programme (SECEP).
(d) Support to Primary Textile Sector (SPTS).
(e) Support to Handloom Sector (SHS).
(f) Support to Forward Linkage Industries (SFLI).

44.0 Let us touch upon these components in brief as below.

*(a) Skill and Quality Development Programme (*SQDP)

45.0 The objective of SQDP is to help industry acquire higher skill and knowledge required for maintaining and consolidating the present market share, diversify the industry for shifting from making lower-end products to medium- and higher-end value added products, enhancing productivity and competitive strengths. The programme will be carried out through imparting training programmes on several disciplines, such as:

(a) compliance issues and occupational safety;
(b) productivity management;
(c) quality management;
(d) merchandising management;
(e) inventory management;
(f) marketing; and
(g) banking, port & customs procedure.

46.0 The component would provide training to about 32,990 workers, supervisors, managers, marketing executives, store-keepers, top management, etc. involved primarily in the RMG sector (woven and knit). The cost of imparting courses on these disciplines will be around $3.0 million. A sub-component of 3 years duration involving about $4.0 million will be executed by SEDF. SEDF has already started working with BGMEA. The sub-component includes activities on productivity improvement through factory diagnostics and technical training programmes and undertaking of value chain analysis.

*(b) Distress Workers Rehabilitation Programme (*DWRP)

47.0 Prophecy on the magnitude of retrenchment of workers in the RMG sector vary among studies. The most cynical study forecasts this to be half of the force presently employed, while the modest one foresees around 300,000 job-cuts. Whatever may be the case, the fact of much concern is that there has no formal sector where this large workforce (most of whom are female) could be employed. Most of these workers are not in a position to go back to the place they come from particularly to rural areas. The social and economic ramification of this may be disastrous. Considering this, several independent programmes have been suggested for rehabilitating the retrenched workers. These are :

(a) imparting training on different trades such as handicraft, nursing, hotel catering, small business and entrepreneurship, tailoring, agro-processing, food processing, labelling, design & printing, packaging, etc.;

(b) provide micro credit to them for starting new business or enterprise, export-oriented productions at nominal interest rates under revolving funds; and

(c) provide training on skills required in the knit and primary textile sector.

48.0 Based on the nature and type of works to be performed, execution of the component requires creation of sub-components and identification of task providers or implementers. It appears that many ministries either have similar ongoing projects or experience on similar project execution. These are: Women and Children Affairs, Labour, Social Welfare, Civil Aviation, Textile & Jute, Health & Family Planning, Industries, etc. Besides, development partners (ILO, UNDP, etc.), Bangladesh Bank, NGOs, and the stakeholders will be integrated in the component. Experiences of some leading NGOs (BRAC, Nari Uddog) in imparting training courses and creating alternative job opportunities should be appreciated and utilized to make the programme successful.

49.0 The DWRP component will run for 5 years at an estimated cost of $11.0 million. As no funding commitment has yet been received from any development partners, the government has decided to utilise Taka 20 crore provided in FY06 for implementing the activities under this component. It is also decided that 40% of the fund shall be used in imparting training on alternative income generating trades and the rest 60% shall be used to provide credit under a revolving fund. Ministry of Commerce will take the lead in implementing the component.

© *Small Industries Capacity Enhancement Programme (***SECEP)**

50.0 In the RMG sector, the small and medium (SMEs) factories are vulnerable as these are either less efficient, or financially incapable of restructuring the industry with the changed needs of free trade. Many of these firms are dependent on sub-contracting. The SECEP entails helping of these SMEs to prepare themselves to face the probable post-MFA shock by enhancing the standard and skill in different areas. The formation of strategic partnerships, merger and acquisition can help these SMEs from being closed down and thus accumulate strength and enhance their bargaining ability. This in turn may contribute in increased export earnings, employment generation and regenerate economy. The programme will also help in upgrading technology, create technology awareness thereby increase productivity and quality. The programme will be implemented in 5 years time at a cost of $6.0 million only.

(d) Support to Primary Textile Sector (SPTS).

51.0 Besides imparting specialized training for improving productivity, the component will help attain technological development in the textile sector, thereby upgrading quality and increasing capacity to cope up with changing market needs. 28,400 workers, supervisors, designers, mangers, executives, and top management will be provided training on several skills such as productivity, quality, international marketing, office automation and management, social accountability, labour standards, safety standards, factory conditions, health care, and bargaining rights. The programme will cost $5.0 million. Ministry of Textile and Jute will be the lead ministry while most of the planned activities will be implemented through NITRAD.

(e) Support to Handloom Sector (SHS)

52.0 The programme will provide training to the weavers, artisans, designers involved in the handloom sector to improve design, quality, and develop capacity to produce in response to changing market needs. 10,000 workers will be provided training on different disciplines. A national design and development centre will be established in Dhaka. The programme will cost $3.0 million.

(f) Support to Forward Linkage Industries (SFLI).

53.0 The programme will help establish all forward linkage industries and service providers in upgrading their efficiencies as well as help penetrate in new markets and assist obtain duty free access to the US market. The programme will cost $1.0 million.

54.0 *Following a general request made by the Ministry of Commerce through the PMAP Steering Committee on possible intervention of the development partners in different components of the PMAP, the LCG sub-group chairman in last June has informed its (as a group) unwillingness to intervene in the PMAP.*

NCC and other measures taken by Government

55.0 In the wake of quota withdrawal from 2005 and the perceived uncertainty, the industry leaders were continuously demanding steps by the government on various trade facilitation aspects. A National Co-ordination Council (NCC) headed by the Principal Secretary of the Hon'ble Prime Minister was formed in July 2004 to make recommendations. The following recommendations of NCC received government approval:

(i) encourage new investment in PTS, debt-equity ratio may be fixed at 70.30 or may be adjusted at a comfortable ratio;

(ii) export-oriented textile industry may be given rebate on electricity and gas tariffs, provided they are not defaulters in paying the bills to respective authorities;

(iii) provide fund for skill development training to the different levels of existing manpower for improving productivity, quality and design of textile products. This fund may be utilised in providing training through NITTRAD and existing textile industries under Ministry of Textile & Jute;

(iv) encourage local design, capacities and technological development in textiles, the existing Equity and Entrepreneurship Fund (EEF) of Bangladesh Bank should also be available to local designers and technologists in textiles and clothing;

(v) effective measures should be taken to stop unauthorised import and bond leakage of textile products; and

(vi) special Economic Zone should be created with Effluent Plant facilities for accelerated growth of PTS.

56.0 Meanwhile, the government has undertaken several trade facilitation measures in order to reduce cost of doing business especially for fully export oriented RMG industries. These are:

(i) *Loan rescheduling without down payment* - Overdue loans of RMG exporters against stock lot can be rescheduled by banks without any down payment on condition that sale proceeds received from stock lot would be adjusted with the credit account. Previously exporters had to make 10-15% of down payment for such rescheduling;

(ii) *Reduction of Insurance Premium* - Insurance premium rates for RMG export related activities against coverage such as earth-quake, cyclone, floods, etc. have been brought down by 10%-30% depending on the nature of insurance cover;

(iii) *Exemption of VAT* – For 100% export-oriented RMG industries, the Government has exempted VAT to the extent of 80% for against gas bills, 60% against water and electricity bills and 100% against service charges of freight forwarders, shipping agents and C&F agents;

(iv) *Reduction in port usage charges* - Chittagong Port Authority has provided 30% concession in port usage charges exclusively for export-oriented RMG enterprises;

(v) *Concessionary interest rates on export credits* - The interest rate on export credits has been fixed at 7%. Moreover, nationalised commercial banks (NCBs) were directed to reduce their project loan rate from 12.5% to 9% against textile related projects;

(vi) *Simplification of customs & port procedure*- Necessary steps have been taken in Chittagong Port and Customs House for reducing the number of steps involved in the clearance of goods (imported) from 24 to 14. Customs and the Port authority are processing the export documents within 3 hours limit of noting. A sub-committee headed by the Joint Secretary, Ministry of Shipping continuously monitoring this.

(vii) *Rationalization of freight forwarders' fees* – Government has fixed up the freight forwarders charge at Taka 1250 only;

LOBBY FOR DUTY-FREE ACCESS TO US MARKET

57.0 United States has granted duty free access to 72 Caribbean and Sub-Saharan African countries under US Trade Development ACT (TDA) 2000. Unfortunately non-inclusion of 16 least developed countries (including Bangladesh) representing Asia and the pacific region has left them at an uneven platform of competition with these countries. As for Bangladesh, her T&C products are subject to an average 16.5 percent import duties in the US market against zero duties from these TDA beneficiary countries. Bangladesh is lobbying along with the left-out LDCs to obtain similar preferential treatment in US market. In February 2005 a bill named "Tariff Relief Assistance for Developing Economies (TRADE) ACT 2005 has been introduced at the US Congress. BGMEA has taken the lead in organizing the left-out LDCs. The government has also put all out efforts for passing the bill at the Congress.

FORMATION OF SOCIAL COMPLIANCE FORUM for RMG

58.0 During the quota period price, quality and lead-time played dominant role in T&C trade. Following quota elimination, the issue of compliance has become very important. The Spectrum accident in Bangladesh received widespread negative propaganda particularly in the sensitive European market. Buyers, labour movement organizations and as well as consumers are expressing concerns over the factory conditions, labour standards, workers' rights, safety and health conditions, etc. On the top of these, there are pressures from individual buyers for complying with their additional requirements. To address these issues in a concerted way and obviously for the sake of the industry vis-à-vis the economy, it has become imperative to have a contingency strategy designed jointly by the government, employers and other stakeholders (labour unions, development partners, NGOs, civil society, labour support organizations, etc.) with time-bound objectives to mitigate the negative impacts of T&C contraction. At this stage, let us now examine the steps taken by the government to mitigate the adverse impact of quota elimination as well as to reap benefits of quota-free world.

59.0 The government has formed a high level forum titled "Social Compliance Forum for RMG" recently. The objective of forming the Forum is to institutionalise the process of dialogue amongst all stakeholders for providing policy guidelines for meeting various requirements on social compliance including occupational safety, labour welfare and improvement of working conditions in the export-oriented RMG industries. The 25-member Forum is represented by concerned ministries/departments, stakeholders (BGMEA, BKMEA, BTTLMEA), development partners, ILO, UNDP, and labour unions. The Commerce Minister heads the forum. The Forum shall have meetings at least once every three months. The TOR (Terms of Reference) of the forum is as follows:

(a) to review existing policies on social compliance especially occupational safety and workforce welfare aspects and to provide guidelines for necessary policy reforms;

(b) to provide necessary guidelines to issue-specific Taskforces, Compliance Monitoring Cell and relevant ministries/departments/stakeholders on compliance standards (benchmarks);

(c) to review and monitor compliance status in the RMG sector; and

(d) to organize capacity enhancement measures/programmes for/through focal points created at relevant ministries/departments.

60.0 The first meeting of the forum was held on 31 July 2005. It was decided in the meeting that (a) representatives from NGOs and civil societies would be co-opted in the forum, (b) 2 issue-based task forces on occupational safety and labour welfare respectively would be formed, and (c) a Compliance Monitoring Cell to provide secretarial services to the Forum and Task Forces would be established at EPB.

61.0 Following the above decision of the Forum, two issue-based Task Forces have already been formed. The Task Force on occupational safety is headed by the Additional Secretary, Ministry of Home, and the Task Force on labour welfare is headed by the Secretary, Ministry of Labour & Employment. The TOR of these Task Forces are as follows:

(a) to take a stock of national rules and regulations on compliance and safety (building, fire, environment, security and the like) and make available to the relevant ministries/departments/ stakeholders through the Forum;

(b) to review the activities of concerned inspection agencies related to social compliance in the RMG sector;

(c) to monitor, report and recommend compliance and safety measures to the Forum;

(d) to formulate short term and long term action plans on compliance in the RMG sector of Bangladesh and submit to the Forum; and

(e) to monitor the progresses made with respect to compliance in the RMG sector.

62.0 The Task Forces shall convene meetings at least once in every two months.

63.0 The Compliance Monitoring Cell has also been created at the EPB with the Director General (Textile) as its Convenor. The objective of the Cell is to monitor the activities relating to social compliance including safety and security, labour welfare and improvement of working conditions in the export-oriented RMG industries in Bangladesh. EPB shall provide necessary staff and logistic support to the Cell. UNDP would provide necessary technical assistance to the Cell. The TOR of the Cell is as follows:

(a) provide secretarial support services to the 'Social Compliance Forum for RMG' and issue- specific taskforces on compliance issues;

(b) monitor the compliance position of all RMG units, review and report to the Forum on regular basis;

(c) keep regular contacts with the international buyer groups on compliance issues;

(d) raise awareness on social compliance among those involved in RMG production and export process;

(e) verify reports on RMG units submitted by the inspecting agencies;

(f) seek, consult and gather information from related ministries/departments/ stakeholders including international buyers on compliance and safety related issues/aspects;

(g) classify status of the individual RMG units on the basis of the degree of their fulfillment of compliance/ occupational safety conditions;

(h) create database on RMG industry (on ownership, locations, products, production capacity, number of employees and workers, etc); and

(i) other activities as suggested by the 'Social Compliance Forum for RMG'.

CONCLUSION

64.0 Bangladesh Garments Manufacturers & Exporters Association (BGMEA) and Bangladesh Terry Towel & Linen Manufacturers & Exporters Association (BTTLMEA)[17] are apprehending that Bangladesh may face tougher situation in the post-MFA era, as backward linkage industries of the country are yet to take shape (roughly 20% raw materials need could be met). Prevalent understanding reveals that if Bangladesh's garment industry continues to compete in the low value market, it will lose market shares to larger, more efficient and better-capitalised garment manufacturers in India and China. This means, the industry must move up to the medium and higher-value garments sector positioning its flexibility to meet smaller orders as an advantage (as most of our factories fall within the group of SMEs). This calls for appropriate and value-added restructuring of the industry to remain afloat in the international competition in the coming years.

65.0 During the quota regime, price, quality and lead-time dictated businesses. Following the withdrawal of quota, compliance and other occupational and safety standards are receiving increasing concern of buyers and consumers abroad. The government of Bangladesh has also

[17] Although the other large but growing association BKMEA holds an opposite view.

realized the importance of these, and to address them has formed "Social Compliance Forum for RMG". Related government ministries/departments, stakeholders, and representatives from development partners, labour union organizations, buyers, NGOs and civil societies represented the forum. The industry is also focusing more on the capacity to meet the varying standards of compliance requirements.

66.0 Trade plays as an important engine in poverty alleviation and growth. Given our overwhelming dependency on the T&C sector in employment and income generation, it is essential that the government and the industry work closely to improve latter's competitiveness. The Nine-Eleven terrorist attack on USA has left a deep scar on our T&C industry in the form of drastic work order reduction, 1250 lay-offs and about 500,000 job losses. This should be used as an indication of possible negative impact of quota cessation. In order to mitigate potential further lay-offs and joblessness during the quota free regime, a national strategy (PMAP) is being developed for building safety nets among those still working in the industry through upgrading their skills and efficiencies to increase productivity required for enhancing competitiveness. Under PMAP, the government, in collaboration with the stakeholders and development partners, will organise restructuring programmes such as training on alternative jobs for retrenched workers and employees, training for improvement of skills and quality for on the job workers and employees. Steps are also taken to improve the customs clearance procedure, investment on infrastructure development, elimination of taxes on utilities and electricity, lowering insurance premium, steps to diversify markets, and so on.

67.0 The safety clause of the accession of China to WTO provides 3 years window to the exporting countries (including Bangladesh) an opportunity to restructure and streamline their T&C industries towards a greater competitive environment. Meanwhile, more than one-fourth time has already elapsed, and very little has been done to prepare and implement a comprehensive strategy for intervention. The impact of quota termination on Bangladesh T&C industry vis-à-vis the economy is yet to be felt or ascertained, but portent signals are sceptical as well as deceptive. Nevertheless, it will be observed with much curiosity how Bangladesh seizes the horizon of unrestrained opportunities and at the same time faces the challenges of quota termination.

68.0 The T&C products of Bangladesh enjoy preferential market access to most developed markets except USA. Bangladeshi T&C products carries roughly 16.5 percent duties at the import stage in the US market. USA provided duty-free access to 72 Sub-Saharan Africa (SSA) and Caribbean Basin Initiative (CBI) countries under its "Trade And Development Act 2000" (TDA 2000). All the least developed countries but the 16 from the Asia and Pacific region did not qualify for getting benefit of this Act. This left these 16 poor countries at an uneven platform for competition with the TDA beneficiary countries. Recently (Feb 2005) the "Tariff Reduction Assistance for Developing Economies (TRADE) Act 2005" has been introduced in the US Congress. Bangladesh is working with other LDCs for the passage of the bill.

69.0 It is perhaps premature to arrive at any conclusion based on this export trend at this stage, but the portent signals are sceptical as well as deceptive. The extraordinary performance of the T&C by 12.48 percent during 2004-05 albeit consecutive floods, political disturbances, price cuts in CM (Cutting & making), presence of a prolonged recession, etc. has perhaps made us a little bit relieved. But there has no scope for complacent. Nevertheless, it will be observed with much curiosity how Bangladesh seizes the horizon of unrestrained opportunities and at the same time faces the challenges of quota termination.

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