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EXPERIENCE WITH IMPLEMENTATION OF WTO-ATC AND IMPLICATIONS FOR BANGLADESH

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The present paper has been prepared under the programme on ***Trade Policy Analysis and Multilateral Trading System*** of the CPD. The programme aims at strengthening the national institutional capacity in the area of trade policy analysis, negotiations and implementation. The programme, *inter alia*, seeks to project the civil society's perspectives on the emerging issues emanating from the processes 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.

The present paper titled ***Experience with Implementation of WTO-ATC and Implications for Bangladesh*** has been prepared by Dr Debapriya Bhattacharya, Executive Director, CPD and Professor Mustafizur Rahman, Research Director, CPD which was presented at the dialogue organised by the Centre in collaboration with Centre for Trade Policy and Law, Ottawa on the theme of *Implementation of WTO-ATC: Current Status and Implications for Bangladesh* held at CIRDAP Auditorium, Dhaka on September 30, 2000.

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EXPERIENCE WITH IMPLEMENTATION OF WTO-ATC AND IMPLICATIONS FOR BANGLADESH

Section I Introduction

Bangladesh's apparel sector has been able to sustain a momentum of robust growth for over a decade and half now. Real growth rate of exports of the ready made garments (RMG), at 12%, was more than double than that of GDP over the matched period. By any reckoning this should be recognised as a quite remarkable record. As is well known, throughout the 1980s the global trade in textiles and clothing (T & C) was taking place within the ambit of the multi-fibre arrangement (MFA) which imbued trade in T & C with regulated discipline and gave it a certain degree of predictability.

Within the MFA regime, with its *relative predictability*, the RMG sector of Bangladesh registered a rise from a $ 1.0 million business in 1978 to a $ 4.2 billion one, equivalent to 76% of total export of the country, within the span of about two decades. The apparel sector currently accounts for about a-fourth of value addition, a-third of employment in the manufacturing sector and about a-fifth of annual investment in the country. (Bhattacharya and Rahman, 2000)

About 1.5 million workers are presently employed in the 2800 factories which have come up in the sector, with attendant positive externalities in the form of increased economic activities in such areas as banking, insurance, packaging, real estate, hotels and tourism, linkage and recycling, consumer goods, utility services and transportation. A rough estimate shows the sector currently supporting about $ 2.0 billion worth of economic activities (Bhattacharya and Rahman, 1999). 80 per cent of garment accessories worth about $ 0.5 billion are now locally produced in the country. At present out of every dollar of incremental export from Bangladesh about 85 cent is contributed by the RMG sector.

It is widely believed that the future of Bangladesh's apparel sector stands at cross roads. With the negotiation of the *Agreement on Textiles and Clothing* (ATC) during the *Uruguay Round* (UR) and the subsequent integration of the ATC into the WTO system, both the context and the critical features of trade in T & C are set to undergo important changes. The early signals transmitted by the emerging trading regime, with its *wake up calls* and *warning bells*, already indicate that important structural shifts, both in terms of markets and sourcing, is to expected both in the near future and also in the medium to long term.

Of all the agreements negotiated in the course of the UR the ATC is perhaps the singlemost important Agreement from the perspective of Bangladesh. This is also true for a number of other developing countries and least developed countries (LDCs).[1] Given the potential impact of the ATC on the future of Bangladesh's apparel sector and in view of implementation of the first two stages of the phase out of the MFA it is perhaps very logical that Bangladesh should take a close look at the ATC within a framework of *retrospect and prospect* in order to assess the possible impact of the ATC on future performance of Bangladesh's apparel sector and in order to design future strategies to cope with the emerging challenges. It is from this perspective that at the present juncture, the export-oriented apparel sector of Bangladesh stands at cross roads.

In the above context, this paper is an attempt to review the implementation of the ATC, study its implications for the future of Bangladesh's apparel sector and look at some of the possible strategic response which Bangladesh could design in order to address the emerging challenges in the global apparel market. Accordingly, following Section I which lays out the backdrop of the discussion, Section II looks at the evolution of MFA and its transition to ATC and presents a brief outline of some of its major features; Section III reviews the status of implementation of the first two phases of the integration of the Multi-Fibre Agreement (MFA) into the ATC and the future projections of integration; Section IV looks at the implications of the implementation of ATC for Bangladesh's export-oriented apparel sector; Section V presents an analysis of some of the major non-ATC related developments which are expected to impact on future performance of Bangladesh's apparel sector; Section VI looks at some of the strategic responses which Bangladesh could pursue in view of the evolving global scenario in the trade in T & C.

[1]As a matter of fact according to GATT Secretariat in 1994 the most important product category in industrial exports (excluding fuels) for the 88 developing countries participating in the Uruguay Round was textiles and clothing (22%), followed by electric machinery (14%) and metals (11%). Out of the 54 developing countries producing textiles and clothing for 34 countries the important of T & C in their total exports was either high (21-50% - 18 countries) or very high (51-100% - 12 countries).

Section II From MFA to ATC

2.1 Background of the MFA

Before the UR international trade in T & C has traditionally remained outside the ambit of the GATT rules. Developed countries were able to obtain special concessions in the various rounds of GATT which allowed them to significantly in restrict entry of T & C from the developing countries. The argument most often put forward was that low cost supplies from the developing countries led to market disruption, and undermined the viability of the domestic textile industries of the developed countries. This exclusion to the GATT rule, obtained through considerable pressure on other GATT members, was in effect a critical move which deflected the growth trajectory of a sector in which many developing countries enjoyed a *natural comparative advantage*. As is supported by accumulated evidence, manufacturing of T & C has been the classical first stage in the industrialization of many of the currently developed countries.

Box-1 graphically presents the fifty years of restrictive practices in the trade in T & C which has essentially passed 4 phases.

Box 1: Trade in Textiles/Apparel: 50 Years of Restriction

- ❖ Immediate Post-Second WW II Period: Voluntary Export Restraint
- ❖ 1961 Short Term Arrangements (STA)
- ❖ 1962 Long Term Arrangements (LTA)
- ❖ 1974-94 : Multifibre Arrangement (MFA)
    - First extension - 1977
    - Second extension - 1982
    - Third extension - 1986
    - Fourth extension - 1991

1994: Number of Members - 44
9 : Countries maintaining QR - 4*

Note: *USA, Canada, EU and Norway

Source: Compiled from various GATT Documents

At the time of putting in place the LTA in 1962 the USA's import penetration ratio in textile and clothing was only 6% and 2% respectively. Spinanger (1998) rightly observes that, that such low levels could trigger such a massive response is perhaps surprising, but indicative of the protectionist attitude the developed countries has traditionally tried to maintain with respect to their textile and clothing sector.

Competition has always been intense in this particular sector where low wage, low technology and mass production had given the developing countries an edge over important segments of the global market. Given this context, the enforcement of the MFA, with its import quotas injected an important element of distorting in the global trade in T & C. As more developing countries appeared in the global scenario as producers of T & C, and what was of major concern to the industrialised countries, as also exporters, the developed countries thought it prudent to go for a comprehensive package of restraints in the form of quotas on imports. If earlier restraints were limited mainly to cotton textiles, the new restraint attempted to bring within its web of restrictions virtually all types of T & C. The selling point was that the exporting countries could capture the results originated from restricted supplies, although the price they had to agree to pay was that the exporting countries had to accept the quantitative limits dictated to them under bilateral quota agreements. This framework, a classic example of *managed trade*, which popularly came to be known by its acronym, the MFA, was put into effect in 1974. Although initially it was negotiated formally for a period of 4 years, in the end the MFA came to dominate the global trade in T & C for about two decades. Between 1974-94, trade in T & C had mostly been negotiated bilaterally but governed by rules articulated in the MFA.

As stated in its preamble, the MFA attempted to reconcile two objectives: (a) reduction in the proliferation of restrictive measures in textile products and (b) the avoidance of disruptive effects in individual markets in both importing and exporting countries. It is sometimes argued that the MFA at least brought the restrictive measures on trade in T & C within an agreed and predictable framework and has tried to reconcile two conflicts objectives as stated in its preamble. In truth the MFA provided a multilateral umbrella under which developed countries governments could restrain imports of T & C which threatened their domestic interest. A synopsis of various deviations by MFA from GATT rules is displayed in Box-2.

Box 2: Departure of MFA from GATT Rules

GATT	MFA
• GATT allows safeguard actions which are applied equally against imports from all sources	• MFA allowed restrictions that affects only one supplying country
• Recourse to safeguard actions required compensation by the importer to the exporter	• No compensation was provided for the supplying country

Source: Based on GATT Secretariat (1994)

The 1986 Protocol of Extension made the MFA more restrictive with extension of restraints covering imports of non-cotton fibres and also brought within the ambit of all the relevant players.[2] Four developed countries which included USA, EU, Canada and Norway were maintaining quotas on imports of T & C at the time of signing of the UR. As of 1993, 44 countries were members of MFA. Eight of these were categorised as 'importers' whilst the others were categorised as 'exporters' subject to bilateral restraint agreements.

It is to be noted here that not all trade in T & C was governed by MFA and countries such as Japan and Switzerland did not take resort to quotas. However, all major importers had import quotas in place and developed countries negotiated MFA-type restrictions even with non-MFA members. Thus, the muscle power, vested in the MFA in terms of its capacity to regulate the global trade in T & C, was quite substantial. [3]

[2] MFA also included a non-GATT member-China.
[3] If intra-EU trade is included the corresponding shares of textile and clothing would be about 15 per cent and 44 per cent respectively.

Table 1: Number of Bilateral Restraint Agreements Applied Under the MFA: November 1994

Importer / Exporter	United States	Canada	European Union	Norway	Finland	Austria
Developing Economies						
of which:	28	21	15	13	7	6
Least-Developed Economies	2	2	0	0	0	0
Transition Economies	4	4	0	4	0	0

Source: GATT Secretariat 1994.

At the time of signing of the UR the USA maintained quotas on imports from 47 countries of which 37 were WTO members. Canada maintained quotas on apparels exports from 37 countries, the EU maintained 209 quotas for exports from 21 countries. QRs imposed by the USA varied with respect to exporting countries, product group and specific categories within the product groups. The quota items constituted, with 1990 as the base year, 61.9% of US imports of T & C and 59.1% of EU imports of T & C. As table-1 shows, Bangladesh was one of the two LDC members of the GATT export of T & C from which were subject to quota in both the US and Canadian market. Number of categories under quota for Bangladesh were 21 in the US[4] and 10 in Canada. Imports under quota accounted for about 70 per cent of Bangladesh's exports to the US and Canadian market. Bangladesh's apparels did not face quota restriction in the European market.

2.2 The Dismantling of the MFA

Even within the restrictive regime of the MFA the growth in the share of the developing countries, underpinned by their comparative advantages, could not be kept under check. Under this backdrop the developing countries were keen to liberalise trade in T & C.

Table-2 shows the structural shifts in the export of T & C in the world market. Between 1973 and mid-1990s, a period when the rules of the game were being set up

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[4] Number of categories under quota was actually 31. Number of restricted categories would be 21 if *merged quotas* were considered.

under MFA provisions, the share of developing countries belonging to the top 13 exporters of T & C in the global trade registered an increase from 18.7 per cent to 31.3 per cent; the corresponding increase in the shares for textiles and clothing were from 13.7 per cent to 30.4 per cent and from 29.0 per cent to 32.0 per cent.

Table 2: Structure of and Shifts among Leading Textile and Clothing Exporters: 1965-96

Countries	**Shares**				**Change in Shares**			
	1965	**1973**	**1983**	**1996**	**65-73**	**73-83**	**83-96**	**73-96**
	Textile and Clothing							
Total	79.2	72.7	67.2	65.3	-6.5	-5.5	-1.9	-7.4
Ics	64.6	54.0	40.1	34.0	-10.6	-13.9	-6.1	-20.0
DCs	14.6	18.7	27.1	31.3	+4.1	+8.4	+4.2	+12.6
	Textile							
Total	78.9	72.5	67.3	71.5	-6.4	-5.2	+4.2	-1.0
Ics	64.8	58.8	48.4	41.1	-6.0	-10.4	-7.3	-17.7
DCs	14.1	13.7	18.9	30.4	-0.4	+5.2	+11.5	+16.7
	Clothing							
Total	80.1	73.1	67.1	59.6	-7.0	-6.0	-7.5	-13.5
Ics	63.9	44.1	30.1	27.6	-19.8	-14.0	-2.5	-16.5
DCs	16.2	29.0	37.0	32.0	+12.8	+8.0	-5.0	+3.0

Note: Based on top 13 textile and clothing exporting countries in 1996

Source: Spinanger (1998)

As many developing countries including some of the LDCs started to make foothold in the markets of developed countries the MFA started to be increasingly being perceived as stumbling block to the fullest realisation of the potentials of the developing countries as exports of T & C. Dismantling of the MFA became a common demand of many developing countries during the UR. The developed countries also realised that MFA, put in place as a temporary measure, and as a deviation from the GATT principles, was not sustainable from a long term perspective. There were also other pressing issues which influenced the negotiating position of the developed countries in the course of the UR. It was being increasingly realised by the developed countries that any comprehensive agreement during the UR was not possible if in exchange for inclusion of new issues such as trade in services and intellectual property rights, which many developing countries were extremely reluctant to concede, concrete commitments were not made by the developed countries in terms of liberalising global trade in T & C. The result of the negotiations in the trade in T & C was finally articulated in the ATC negotiated during the UR. Ministers in Punta del Este carried negotiations in the area of T & C with the following objective: *Negotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade.* The ATC was expected to be a principal source of benefit for developing countries from the Uruguay Round. In fact, as is mentioned in WTO's Annual Report 1998, at that time it was expected that "*more than one-third of the total benefits from the round are expected to derive from liberalization of textile and clothing".* The central objective of the ATC was to phase out the restrictions under the MFA in a multi-stage process. In the end it was negotiated that the MFA would be integrated in the WTO through a phased procedure which would cover ten years.[5]

The GATT Secretariat in its projections made in 1994 envisaged a phenomenal growth in world trade in textiles and apparel once the restraining rein of the MFA was phased out. Annual growth rate was projected to rise from 1.2 per cent to 4.3 per cent for textiles, and 4.1 per cent to 8.6 per cent for apparel by the year 2005. As table-3 shows, global trade in textiles and apparel together was expected to rise from approximately US$ 199.5 billion in 1992 (base year) to between US$ 289.2 and 469.9 billion by 2005. The table indicates that the global trade in apparel was expected to rise from around US$ 105.6 billion (in 1992) to between US$ 178.9 and 307.9 billion by 2005, and that of textiles from US$ 93.9 billion to between US$ 110.3 and 162.0 billion over the same period.

[5] It should be of high interest to note here that, whilst under the Special and Differential (S & D) clauses of the UR developing countries and LDCs were allowed flexibility in implementing the various agreements ranging from 3-8 years, the developed countries themselves were able to extract under the ATC a relatively long period of 10 years to enable them to readjust their T & C sector!

Table 3: Expected Annual Growth Rate of World Trade in Textiles and Clothing (1992-2005)

Projections	1992 (billion $)	2005 (billion $)	Growth Rate (percentage change)	Annual Growth Rate During 1992-2005 (%)
Version 1				
Textiles	93.9	110.3	17.5	1.2
Clothing	105.6	178.9	69.4	4.1
Total	199.5	289.2	45.0	2.9
Version 2				
Textiles	93.9	111.4	18.6	1.3
Clothing	105.6	197.6	87.1	4.9
Total	199.5	309.0	54.9	3.4
Version 3				
Textiles	93.9	162.0	72.5	4.3
Clothing	105.6	307.9	191.6	8.6
Total	199.5	469.9	135.5	6.8

Source: GATT (1994).

2.3 The Agreement on Textiles and Clothing (ATC): Salient Features

The Agreement on Textiles and Clothing consists of a Preamble, nine Articles and an Annex and came into force on the day of commencement of the WTO. The ATC replaced the MFA with a clear-cut objective of the ultimate removal of MFA and other quotas which restricted trade in textile and clothing prior to January 1, 1995. The ATC envisaged two routes for the progressive liberalization of trade in T & C:

a) integration of textile and apparel products in to GATT 1994 in a progressive manner, over a period of ten years and in four stages and
b) the application of growth rate factors to existing MFA and non-MFA quantitative restrictions on products not yet integrated.

It was planned that both (a) and (b) would proceed simultaneously and would complement one another. By the end of the transition period, the whole sector will be integrated into GATT and there will be no extension of the Agreement.

The ATC is a transitional Agreement, built on following key elements:

- Product coverage
- Measures covered by ATC
- A programme for integration of textile and clothing products into GATT 1994
- A liberalization process to progressively enlarge existing quotas
- A special Safeguard Mechanism to deal with the products not covered by integration during the transition period
- Provisions including rules on circumvention, their administration and other procedures affecting this sector
- Establishment of Textile Monitoring Body

Product Coverage

The product covered by ATC are listed in the Annex of the Agreement. The Annex covers T & C products defined by Harmonized Commodity Description and Coding System (HS) codes at the six digit level. The list of textile and clothing products covered by the agreement comprises of: (1) products within Section XI of the HS Code except raw silk, raw wool, raw cotton and other vegetable fibres and (2) other products in HS Chapter 30, 39, 42, 64, 65, 99, 70, 87, 88, 91, 95 and 96, which contain textile materials in any form.

However, the Annex stipulates that any safeguard measure under Article 6 may be taken with respect to particular product and not on the basis of the HS classification. Moreover, it stipulates that no safeguard action under Article 6 shall be taken with respect to handloom products, historically traded textile products such as jute, coin, sisal and some other products and also products made of pure silk. For these products Article XIX of GATT 1994 will be applicable. This exclusion list is important for Bangladesh since it covers items of interest such as jute and handloom products.

Measures Covered by the Agreement

The provisions of the ATC was to be applicable to the followings

- All MFA restrictions maintained between the GATT 1994 contracting parties and which were in place on the day before the date of entry into force of the WTO Agreement (Article 2.1)
- All restrictions on textile and clothing products (other than restrictions maintained under MFA) not consistent with GATT 1994 (Article 3.1)
- Safeguard actions to be taken by the WTO Members with respect to the products covered by the Annex, except those integrated in GATT 1994 (Article 6.1)

Thus, the Agreement applies to those MFA restrictions which were in place between GATT 1947 contracting Members and all restrictive measures maintained by GATT contracting Members outside the MFA.

Integration Programmes

As it has been explained in the last section, the ATC covers both MFA and non-MFA restrictions applied by the GATT contracting states prior to the date of entry into force of the WTO Agreement. The ATC stipulates that all types of restrictions that are not consistent with GATT 1994 has to be eliminated within 10 years from January 1, 1995. However, integration programme for the countries which maintained MFA restrictions and those which opted for the safeguard option is different from that for the countries maintaining restrictions outside the MFA.

Integration Programme for MFA Restrictions

The ATC requires that all restrictions maintained within bilateral agreements under MFA, which were in force on the day before the entry into force of the WTO Agreement, shall, within 60 days following the date of entry of the WTO Agreement into force, be notified to the WTO in detail, including the restraint levels, growth rates and flexibility provisions. This was expected to bring transparency in the integration process.

Moreover, Article 2.4 stipulates that the restrictions notified would be deemed to constitute the totality of such restrictions applied by the respective Members on

December 31, 1995 and no new restrictions in terms of products or Members of the WTO shall be introduced except under the provisions of the ATC based on relevant GATT 1994 provisions. Restrictions not notified within 60 days of the date of entry into force of the WTO Agreement was to be terminated with immediate effect.

The integration process is laid down in Article 2, which stipulates that the integration process will cover all products listed in the Annex of the Agreement, not only the products under MFA restrictions. The process is to be carried out progressively in four stages within a span of ten years. The extent of integration at each stage is to be expressed as a percentage of total volume of 1990 imports of textile and clothing products by the respective importing Member. The four stages are defined in Box-3.

Box 3: Schedule of Phase out of GATT

Stage	Date of Implementation	Percentage of 1990 Imports of T & C Products to be Integrated into GATT
Stage 1	January 1, 1995	16%
Stage 2	January 1, 1998	17%
Stage 3	January 1, 2002	18%
Stage 4	January 1, 2005	49%

Source: GATT Secretariat (1994)

It was for each of the importing countries to decide for itself which products it wanted to integrate at each of the four stages of integration. However, the products to be integrated at each stage must encompass products from all the four groups: tops and yarns, fabrics, made up T & C.[6]

Integration Programme for Countries Maintaining Non-MFA Restrictions:

Under the provisions of Article 3, Member countries who maintained unilateral or bilateral restriction other than MFA were obligated to phase out these restrictions, within the same period, if these are not justified by GATT 1994. Accordingly, Article 3 obligates the Member countries to notify all such restrictions, whether or not justified under GATT, to the Textile Monitoring Body (TMB). Unlike the case of

[6] There was however no specific percentage mentioned for each of these four types of products, and as subsequent integration plans would show, quota imposing developed countries took fullest advantage of this ambiguity.

MFA type restrictions, the Member countries were free to present their own programme of integration of T & C products under non-MFA, restrictions within a period of 10 years.

Liberalisation Process to Progressively Enlarge Existing Quotas

The Agreement provides for a programme to progressively enlarge existing MFA quotas carried over from the MFA on January 1, 1995 until the time as the products are integrated into GATT. The ATC stipulates that the growth rates applicable to each MFA quota in place prior to January 1, 1995 are to be notified and increased annually as per following rates:

Box 4: Expansion of Quota During MFA Phase-out

Period	**Increase of Growth Rate**
Stage 1 1 January 1995 to 31 December 1998	16 percent
Stage 2 1 January 1998 to 31 December 2001	25 percent
Stage 3 1 January 2002 to 31 December 2004	27 percent

Source: GATT Secretariat (1994)

Furthermore, Article 2.18 requires that with respect to small suppliers, increase of quota growth rates be advanced by one stage i.e small suppliers be provided minimum 25 percent increase in growth rates at stage 1 and growth rates be increased at the rate of minimum 27 percent from stage 2 onwards.

Special Safeguard Mechanism to Deal with the Products Not Covered by Integration during the Transition Period

As trade in textile and clothing was going to be governed by the ATC, which would replace the MFA since January 1,1995, questions were raised as to how the trade in T & C products that are not integrated into GATT and are not subject to any quota restrictions, would be governed during the transition period. In this context, a provision of Transitional Safeguard Mechanism was included in Article 6, which intends to protect Members against damaging surges in imports of such products during the transition period. The countries maintaining MFA quotas as well as the Members not maintaining MFA restrictions but who opted for the Safeguard

Mechanism could apply this. The Safeguard Mechanism provided for in Article 6 is similar to the MFA safeguard mechanism. However, the transitional safeguard mechanism obligates that the restrictive means invoked on any product pursuant to this provision may be maintained for upto three years without extension or until the product is integrated in GATT, whichever comes first. Furthermore, the Article stipulates that if the restriction is in place for more than one year the growth rate shall be no less than 6 percent, which is similar to the initial MFA Protocol signed in 1974.

Other Provisions Including Rules on Circumvention, Their Administration and Other Procedures Affecting Textile and Clothing Sector

Article 5 of the ATC contains rules and procedures concerning circumvention of the quotas through transshipment, re-routing, false declaration of origin or falsification of official documents. Article 4 stipulates that all MFA restrictions and those applied under Article 6, shall be administered by the exporting Members. Furthermore the Article calls for achieving improved access to markets for textile and clothing products, ensuring that the application of the other policies such as antidumping, safeguard etc. be fair and equitable.

Creation of Textile Monitoring Body (TMB)

In order to supervise the implementation of the ATC, to examine all measures taken under the ATC and their conformity and to take necessary actions in this regard a Textile Monitoring Body (TMB) was established pursuant to Article 8. It is a *quasi-judicial* standing body which consists of a Chairman and Ten Members discharging their function on *ad personam* basis and taking all decisions by consensus. In practice, the TMB is represented by both importing and exporting countries as the Members are appointed from an agreed grouping of WTO Members.

Section III Status of Implementation of ATC

An issue of intense debate in the present context is how the ATC is going to impact on export performance of the weaker economies in the context of a quota-free trading regime. A brief review of the literature, however, reveals that there were considerable differences of views amongst experts and economists about the nature of the economic consequences for the developing countries originating from the elimination of the MFA. A number of studies suggested that the vast majority of the developing countries stand to gain from the removal of trade restrictions on T & C, with some gaining proportionately more than the others through increased market share and the rent transfer effect of bilateral quotas. As against this view there were others who were of the opinion that the distribution of welfare gains from trade liberalization in T & C would be very skewed. According to estimates carried out by proponents of this view China, Indonesia and South Asian countries stand to gain more compared to Latin America and sub-Saharan Africa. The higher-cost exporting countries (e.g. Hong Kong SAR, South Korea and Taiwan, Province of China), which controlled the largest share of exports to developed country markets under the MFA, were expected to cede ground to lower-cost suppliers (e.g. China and India). However, there was also an apprehension that the relatively new and low-cost sources (e.g. Bangladesh and Sri Lanka) would be squeezed out of the market because of their small size, lack of product diversification and low productivity. [Hertel, T. (ed.) (1996) and Yang, Y., Martin, W. and Yanagishima, Y. (1997)].

There were apprehensions that phasing out of the MFA could prompt the flow of foreign direct investment from quota restricted to non-quota restricted or less restricted countries. This implied that elimination of MFA could lead to a reverse flow of investment from relatively new suppliers (such as Bangladesh) since the sourcing of T & C products may tend to gravitate back to the larger and more efficient exporters (e.g. Hong Kong SAR, South Korea and Taiwan Province of China) (Dowlah, 1998).

As was mentioned earlier, one of the major features of the ATC was the gradual phasing out of MFA and a progressive integration of textile and clothing products into GATT 1994. The four quota imposing countries have already integrated part of the T

& C products under the two stages of the phase-out of the MFA, in 1995 and 1998. The USA has already come up with its plan of integration for the subsequent two phases as well. A review of implementation of ATC over the first two stages could throw some light on the relative validity of the perceptions of both the supporters and detractors of the ATC.

Table 4: The First and Second Stages of ATC Integration Program by Canada, US, EU, and Norway

(Percentage)

Stages		**In Volume (Percentage of Total 1990 Imports)**					**In Value***
	Integration Stages	**Tops & Yarns**	**Fabrics**	**Made-ups**	**Clothing**	**Total**	**Total**
Canada	1	9.60	4.33	1.28	1.14	16.36	13.04
	2	0.64	2.09	14.30	0.24	18.61	16.70
	Total	10.24	6.42	15.58	1.38	**34.97**	**29.74**
USA	1	8.46	1.65	4.19	1.92	16.21	6.62
	2	8.00	2.51	4.54	1.98	17.03	10.73
	Total	16.46	4.15	8.73	3.90	**33.24**	**17.35**
EU	1	4.39	8.14	3.48	0.38	16.40	8.7
	2	11.63	2.22	2.06	2.09	17.99	12.92
	Total	16.01	10.36	5.54	2.47	**34.39**	**21.62**
Norway	1	3.51	11.95	0.65	0.15	16.26	7.40
	2	6.58	2.38	11.14	4.16	24.26	16.55
	Total	10.09	14.33	11.80	4.31	**40.52**	**23.95**

* UNCTAD Secretariat estimates.

Table-4 gives a succinct description of the implementation of ATC over the first two stages by the four quota imposing countries.

3.1 First Stage of Integration

As was mentioned earlier, the ATC stipulated that the MFA maintaining countries had to integrate a minimum of 16% of 1990 imports of T & C in the first phase. The four quota imposing countries have already integrated T & C products according to the provisions articulated in the ATC. The share of each of the four product groups integrated in the various phases has differed across countries. Table 4 shows the country-wise percentage share of each of the groups at the first stage of integration.

The table brings out some interesting facts. It is easy to deduce from the table that at the first stage, the integrating countries have included clothing and made up textile products at the minimum level. For instance, inspite of the share of clothing in 1990 imports of USA being the highest, USA integrated only 1.92 per cent out of 37.81 per cent which constituted the share of clothing in her imports of T & C. The other way of looking at the information provided by table-4 is that the share of clothing in total integration under the first stage was only 11.8% inspite of the fact that in 1994 apparel constituted 37.84 per cent of US import. In terms of volume, integration under the first stage conformed with what was required under the ATC i.e., 16.2%. However, in terms of value the share was only 6.62 per cent (table-4). Only 8.46 per cent of yarns has been integrated at the first stage out of the 22.38 per cent which constituted share of yarn in US total imports in 1994. As is shown by table-4 the other quota imposing countries have also followed a similar track.

It is interesting here to note the observations made by the TMB with respect to the first stage of integration programme which was made in the context of the preparation for the Singapore Ministerial Conference.

- With exception of Canada affecting one product, the products integrated at the first stage were not, prior to their integration into GATT 1994, subject to quantitative restrictions under the MFA;
- The integration programmes submitted by the Members concerned for the first stage met the requirement of Article 2.6. However, the share of tops and yarns and fabrics in integration programmes was significantly higher than that of made-up textiles products and clothing;
- The products integrated were concentrated in the relatively less value added range. As a result, share of the products integrated expressed in value terms was actually much lower than that expressed in volume;
- Overall increase in access to the markets of four MFA restriction maintaining countries had been limited in the first stage of integration, with one exception, that of Norway.

In the above context the TMB concluded: *It can be inferred that there have been no significant changes in the market access conditions of T & C products as a result of* *the first stage of integration programme. Concerns were raised by several Member countries to the effect that if the pattern of selection of the products to be integrated in the second and third stages reproduce that of the first stage, the implementation of the integration of the textiles and clothing sector into GATT 1994 on January 1, 2005 would prove difficult.*

3.2 Second Stage of Integration

As stipulated by Article 2.8 (a) of the ATC Member countries had to integrate a minimum of 17% of 1990 import of T & C products in the second stage, which came into effect on January 1, 1998. Accordingly, Canada, EU, Norway and the USA integrated textile and clothing products which amounted to at least 17% of 1990 imports of the respective countries. Table 4 shows the pattern of products integrated by the four countries in the second stage.

Interestingly, inspite of the observations by the TMB made with respect to the first stage of integration, the pattern of selection of the products for the second stage by USA and EU was nowhere radically different from that of the first stage. However, there were substantial changes in the pattern of selection of products by Norway and Canada in the second stage. The majority of the products included by Canada at the second stage are made up textile products. In the second stage Norway also included mainly clothing and made up textile products. However, some of the products or categories integrated by these two countries had earlier been under restrictions. As a result of the implementation of the second stage of integration these restrictions were eliminated as of 1 January, 1998. On the basis of the notification submitted by the USA pursuant to Article 2.1 it can be ascertained that only 11 categories that were under restriction were included in the second stage. The European Union (EU) included 12 categories in the second stage of integration with respect to which EU had earlier maintained restrictions. As a result, restrictions on these categories were eliminated on January 1, 1998.

As regards Canada, the products integrated at the second stage initially included only one product which was subject to restriction, namely, handbags of textile material imported from a single country, Korea. However, in a supplementary notification

Canada included tailored – cotton shirts with effect from July 1, 1997. This item was subject to restriction upon importation from 22 countries including Bangladesh.

The products covered by Norway in the second stage of integration did not include any products which were subject to any prior restriction.

3.3 Future Plan and Projection of Integration

Amongst the four countries maintaining restrictions under MFA, only the United States have submitted a plan of integration for the third stage. According to the plan, the USA is going to integrate 18.11% of 1990 imports on January 1, 2002. The pattern of products to be integrated in the third stage are shown in Table-6.

Table 5: Pattern of Selection of Products in US Third Stage of integration

Group	Share in total imports of TC In 1990	Share in products to be integrated in third stage
Tops and Yarn	3.25	17.97
Fabrics	3.91	21.55
Clothing	**2.56**	**14.11**
Made-up Textile	8.41	46.36
Total	18.13	100.00

Source: Calculated on the basis of USA notifications to TMB

From the information provided in table-5 it can be ascertained that the US choice of products for the third stage reflects the same attitude which informed the first two stages. Thus, the major part of clothing products on which restrictions are currently at their highest, will be integrated only to the extent of 2.56 per cent out of the 18.13 per cent to be brought under derestriction under the third stage. In the Third stage of integration the USA will include 27 categories which are subject to restrictions under MFA.

Table 6: US Integration Programme of Textile and Clothing in the Fourth Stage

Product Group	Share in 1990 Total Imports of T&C	Share of the Fourth Stage Integration in1990 Total Imports of T&C	Fourth Stage Integration as Percentage of Total 1990 Import of the Group
Tops and Yarn	22.38	2.64	11.80
Fabrics	21.03	12.21	58.06
Clothing	**37.81**	**31.31**	**82.81**
Made up Textiles	18.78	2.55	13.57
Total	100.00	48.71	-

Source: Calculated on the basis of the USA notifications to the TMB

As can be seen from the table-6, 82.81 per cent of 1990 total imports of clothing are left to be integrated at the fourth stage.

3.4 A Review of the Integration into ATC from a Developing Country Perspective

Following observations could be made with regard to the ATC programme of integration which has so far been implemented, and also as regards the ones planned for future implementation.

- The imports of 1990, the base year for computing quota phase out, has been expressed in volume terms. In effect this has ultimately lowered the share of value added products, specifically clothing and made up textiles, in relation to their share in value terms.
- Restrictions maintained by the four countries have mainly focused on apparel. As a result, integration programmes defined by the ATC in terms of volume provides the quota imposing countries an opportunity to integrate clothing or value added products on at the cask stage.
- Article 2.6 only stipulates that the integrated products shall encompass products from four groups: tops and yarns, fabrics, made-up textile products and clothing, but does not specify the proportion of each of the groups at each stage of integration. As a result there remains scope for integrating clothing at later stages. This is what has actually happened.
- There are also differences of unit in which the countries notified volume of 1990 import of textiles and clothing. USA and Canada notified 1990 import of textiles and clothing in Square Meter Equivalents (SMEs), whereas European Union and

Norway notified the same in tonnes and kilograms respectively. Uses of different units in expressing import volumes has affected the calculation of the share of imports of each of the groups.

- As can be seen from table, despite expressing imports of T & C in volume, clothing constitutes a major portion of imports of this sector in USA and European union. The integration scheme leaves ample scope to restrict imports of clothing till the last stage, since the quota imposing countries would try to integrate items outside quota restriction during the earlier phases.

It is clear that the USA plan of integration is scheduled in such a way that many of the products, which were subject to quota, will be quota-free at the very end of the transition period. It is worthwhile to note that 47.32% out of the 61. 91% (equivalent to 77.0%) of imports, which were subject to quota restriction prior to the date of coming into force of the WTO Agreement, are envisaged to be integrated on 1 January 2005.

Although the plan of integration of EU in the third stage is not available at the moment, a rough estimate (table-7) shows that similar to the USA, EU is also going to eliminate restrictions on clothing at the very last stage. 56.72% out of 59.08% of 1990 imports which were subject to quota restriction prior to the date of coming into force of the WTO Agreement are at present continues to be subject to restrictions in the EU market right now.

Table 7: Projected EU Integration in the Third and Fourth Stage

Group	**Share in 1990 Total Imports of T&C**	**Share of Third and Fourth Stage Integration in 1990 Total Imports of T&C**	**Last Two Stages Integration as Percentage of Total 1990 Import of the Group**
Tops and Yarn	29.28	15.00	51.23
Fabrics	23.76	17.16	72.22
Clothing	**28.68**	**26.38**	**91.98**
Made-up textile	18.28	8.12	44.42
Total	100.00	66.66	-

Source: Projections based on past EU notifications to the TMB

It is evident from projections presented in table-7 that 92 per cent of 1990 total import of clothing is left by EU for the third and fourth stage.

While anticipating Canada's plan of integration in the last two stages it may be noted that Canada maintained quota restrictions on 32 categories (17 textiles and 17 clothing). Out of these 32 categories restrictions on only 3 categories (2 for textiles and 1 for clothing) have been withdrawn. The first two stages of integration by Canada included only a small percentage of imports of clothing. Here also restrictions on clothing sector will be withdrawn at the very last stage.

Only in case of Norway, based on her communication to TMB, it can be assumed that there will be significant derestrictions of imports of clothing at the third stage.

Section IV Bangladesh's Apparel Sector in the Light of Implementation of ATC

About 70% of Bangladesh's exports to USA had faced restricted entry under MFA quota. Of the 106 apparel items which were imported by the US, Bangladesh faced quota restrictions on 21; the number of such restrictions in Canada were in 9 categories (table-8). Many of the restricted categories were important export items from the Bangladesh perspective. Some of the major categories under quota restrictions are given in Box-5.

Table 8: Bangladesh Apparel Exports Under Restriction at the Beginning of MFA Phase Out: 1994

Quota Market	USA	Canada	EU
No of categories for which quota was in place in 1994	21	9	No quota

Box 5: Major Categories of Bangladesh's Export Interest Under Restriction in USA

- 340 (M&B cotton shirts, not-knit)
- 347 (M&B cotton trousers, breeches & shorts)
- 348 (W&G cotton trousers, slacks, shorts)
- 352 (cotton underwear)
- 647 (M&B MMF trousers, breeches & shorts)
- 648 (W&G MMF trousers, slacks, shorts)

Exports under quota had provided Bangladesh with a guaranteed market and an *artificial* opportunity to fend off competition from other countries, some of which would perhaps have greater competitive strength under a quota-free, market driven regime. The phenomenal growth of Bangladesh's RMG sector over the last decade is visible from table 9.

Table 9: Structure of Bangladesh's T & C Exports

(million USD)

Year	Woven Garments	Knitwear	Specialised Textiles	Textile fabrics	Tents	Total Textile and Clothing
1990-91	735.621	131.199	23.196			890.016
1991-92	1,064.004	118.569	18.431			1,201.004
1992-93	1,240.481	204.545	29.008			1,474.034
1993-94	1,291.646	264.136	31.833	0.284	4.406	1,592.305
1994-95	1,835.087	393.261	32.883	3.852	12.083	2,277.166
1995-96	1,948.814	598.319	41.265	5.873	14.448	2,608.719
1996-97	2,237.947	763.296	51.958	8.068	14.455	3,075.724
1997-98	2,843.327	940.307	58.205	25.960	21.451	3,889.250
1998-99	2,984.740	1,035.360	76.320	26.238	25.846	4,148.505

Source: Compiled from EPB data

Bangladesh faced restricted market access in apparels in only two of the four quota enforcing countries, the United States and Canada. As far as Bangladesh is concerned, market access is restrained on thirty one categories in the U.S. market and nine categories in the Canadian market. 70 per cent of exports to these two markets were carried out under quota. Average quota utilization in the USA and Canada had been on an average 85 per cent and 65 per cent respectively, although in some of the categories which are of high export importance to Bangladesh, the fill rates in recent years had been quite high, ranging between 90 per cent and 100 per cent. It is in this context that the implementation of the ATC needs to be looked at from the perspective of Bangladesh.

As can be seen from table-9 Bangladesh's exports of apparel had been robust throughout the 1990s. However, if apparels export during pre and post-MFA period is compared a deceleration in the rate is indeed visible (table-10) Average growth rate has came down from about 30 per cent over the five years preceding the UR to about 15 per cent over the five years following the UR. However, this does not appear to have been caused by the integration of the MFA into the ATC. This is borne out by table-11 which shows that most of the important categories of interest to Bangladesh are yet to be integrated into the ATC. As far as Bangladesh is concerned, under US programme of integration major categories of apparels such as categories 347/248, 340/640, and 647/648 which are of high export interest to USA markets accounting for about three-fourths of exports to US markets will be integrated in to the ATC only at the fourth stage of MFA phase-out. (table-11). Market structure of the apparel export between quota (US) and non-quota (EU) also does not show any significant change between the pre and post-UR periods (table-12). Recent export performance of the regional competitors in the US market also does not show any clearly discernible trend (table-13). As a matter of fact, an analysis of the market share presented in table-14 shows that the share of Bangladesh's apparel export in the US market has indeed gone up between 1993 and 1999. This is true both for woven as well as knit-RMG. In US market the share of woven-apparel has gone up from 3.04 per cent to 4.04 per cent. There was a sharp rise in the share of knit-RMG, from 0.39 per cent to 1.53 per cent, which shows a growing competitive strength of Bangladesh's export-oriented knit-sector in the global market. The growing presence of knit-RMG in EU market is all the more visible, its share registering a rise from 0.80 per cent to 4.36 per cent of total EU imports. Only in the Canadian market did the share of woven-RMG came down from 2.91 per cent to 2.01 per cent between 1993 and 1999, although the share of knit-RMG went up from 0.98 to 2.81 per cent over the corresponding period.

The analysis presented in Section III bears out that, in the US and Canada as well as in EU, the integration schemes are back loaded: in value terms the major part of the trade in T & C will be integrated only in the last stage of the implementation of the ATC, on January 1, 2005. It was also pointed out that of the four major T & C items apparels as a group, in its overwhelming part in value as well as volume terms, is scheduled to be integrated only at the last stage.

Table 10: Growth Rate of Apparels from Bangladesh During Pre and Post - MFA

Export	Woven-RMG	Knit-RMG	All RMG
Exports in FY 1991 (in million $)	736.0	131.0	867.0
Exports in FY 1995 (in million $)	1835.0	393.0	2228.0
Exports in FY 2000 (in million $)	3081.0	1268.0	4349.0
Average Growth Rate			
1991-95	23.15%	35.18%	29.68%
1996-2000	11.25%	27.11%	14.55%

Note: For knit-RMG the growth rate is between 1992 and 1995.
Source: Computed from EPB Data

Table 11: Categories of Apparels Exported by Bangladesh Under US Integration Programme

Category	Stage 2	Stage 3	Stage 4
Apparels	239,359 459,659	359,659 859	344/348,647/648 340/640,352/652
Made-up	369,469,669	369,666,669	666

Source: Analysis of US Programme of Integration.

Table 12: Structure of Apparels Sector Exports of Bangladesh

	Woven RMG	Knit-RMG	Total RMG
To USA			
1994-1995	49.5	24.9	45.2
1998-1999	49.4	25.4	41.8
To EU			
1994-1995	45.1	68.2	49.1
1998-1999	46.6	69.2	53.6

Source: Computed from EPB Data

Table 13: Growth of Clothing Exports to USA: Selected Regional Countries

Country	Woven (HS 62)		Knit (HS 61)	
	1997/98	**1998/99**	**1997/98**	**1998/99**
Bangladesh	14.7	-0.2	7.8	10.3
India	8.8	3.3	16.3	-2.6
Pakistan	0.3	3.4	14.5	11.4
Sri Lanka	8.5	-3.6	7.6	0.1

Source: Islam, S (2000).

Table 14: Dynamics of Share of Bangladesh Apparels in Quota-Markets

Quota Markets	USA			EU			Canada		
	W	K	T	W	K	T	W	K	T
1993	3.04	0.39	2.07	2.03	0.80	1.50	2.91	0.98	2.15
1999	4.06	1.53	2.91	2.71	4.36	3.44	2.01	2.81	2.40

Note: W - Woven; K - Knit; T - Total RMG.

Source: United Nations Year book of International Trade Statistics

Categories integrated under the first two stages did not include items which had any significant importance in the US market. Only 2 categories for which Bangladesh faces quota restrictions in the US market derestricted on 1 January, 2002. These are gloves (331) and silk trouser, shorts etc. (847). Thus for all practical purpose, for Bangladesh the regime of apparel market has so far remained mostly unchanged. As can be seen from table-15, consequently, quota fill rate of major categories have continued to remain robust.

Table 15: Quota Fill Rate of Major Categories of Bangladesh's RMG Exports to US: 1999

Merged Category	**Total Export** (million US$)	**Fill Rate**
347/348	236.946	100.0
*359	198.558	-
340/640	191.137	87.3
341	121.146	87.4
352/652	96.854	95.6
*659	92.358	-
647/648	90.613	95.0

* Categories not under quota

Source: Major Shippers' Report, OTEXA; Textile Status Report, US Treasury

4.1 The Wake Up Call

Although implementation of the first two stages ATC integration schemes did not have any negative impact on the performance of Bangladesh's export oriented apparel sector, there is little scope for complacence. Some of the emerging signals should serve as wake-up call for her. It is to be expected that in the coming days the comparative advantages enjoyed till now by Bangladesh will be put to major test in the global market. In a quota free regime it is the relative competitive strength of countries which, to a large extent, will determine market access capacity. It is from this perspective that some of the key challenges related to Bangladesh's export oriented apparel sector is examined here.

4.2 Supply Side

The Global Perspective

Availability of Fabrics

The structure of global supply of fabrics is also going to change subsequent to the quota abolition. A number of traditional producers of fabrics, driven to the global textile market under a quota-constrained regime, will divert a significant part of their own textile production to their own domestic RMG sector. This may have important implications in terms of both the supply as well as the price of fabrics in the global market. Some studies, however, have indeed questioned the underlying arguments of this hypothesis and envisage no serious threat to the global fabric supply situation. In any case, in all probability the traditional sourcing of inputs for Bangladesh's apparel sector is likely to undergo significant changes in the post-MFA phase, and the issue and logic of putting in place backward linkage industries should be carefully studied keeping such a perspective in mind.

The Domestic Context

It is possible to identify three major areas which puts a severe constraint on Bangladesh's competitive strength in the global RMG markets and undermines its potential as a export sector. Specifically, these are *absence of backward linkages, inadequate enterprise level capability development, and weak institutions and policies.*

Weak Competitiveness of Spinning and Weaving

The cotton and spinning subsectors have enormous problems of inefficiency, wastefulness, outdated machinery, lack of modernization, low productivity, low quality, inefficient management etc. The sector also depends heavily on imported cotton and fabrics from Sudan, United States, Pakistan, Thailand, Hong Kong and India, which decreases the competitive edge of Bangladesh textile over some of its cotton producing competitions (IFC, 1998).

With quotas being gradually phased out and the preferential treatments coming under threat, Bangladesh can maintain the current vibrant growth of apparel exports only through enhancement of backward linkage in the textile sector. Dependence on imported raw materials also necessiates a prolonged lead time for fulfilling an export order by Bangladeshi exporters. The lead time for the RMG export varies between 120-150 days for Bangladesh, whereas the corresponding period for Sri Lanka is about 19-45 days and for India it is only about 12 days. Making progress towards building a competitive backward linkage industry by the year 2005 is an immediate challenge for Bangladesh having long term consequence. The total amount of investment needed for this backward linkages will be US$ 1.5 billion in order to put in place. 242 new spinning mills, 475 new weaving mills of 200 looms each, 475 new dyeing and finishing mills, 1,000 new knitting units and 0.2 million new hand-looms by the year 2005. Attaining this goal will be a daunting task for Bangladesh.

Low Value Addition and Limited Product Diversification

A major weakness of the apparel sector is its low value-added contribution and limited product diversification. Since the backward linkage in the woven-RMG sector is negligible, the local value addition has so far been very small, only 25 per cent to 30 per cent of value of gross exports. The situation has remained largely unchanged over the last two decades. As a result, though the apparel sector provides 76 per cent of Bangladesh's gross exports, it earns only 40 per cent of the net export earnings (Rahman and Razzaque, 1998). Currently only 210 million metres of fabrics are supplied by the local textile mills which is around 4 per cent of the total country demand of 2.4 billion square metres. In the higher value-added knitting industry where value addition ranges between 40-60%, the percentage of value addition is lower compared to the country's competitors since Bangladesh has to rely, to a large extent, on imported yarn.

Low Productivity

Another major shortcoming of the apparel sector is the low productivity of its workers. Table 16 shows that Bangladesh labour productivity is much lower when compared with that of Sri Lanka, South Korea and Hong Kong SAR. Therefore, efforts must be made to enhance productivity of the RMG workers to supplement the low labour cost. This will call for new investment in modern technology in the RMG industry.

Table 16: Inter-country comparison of productivity in the RMG industry

Country	Person Minutes Per Basic Operation
United States	14.00
Hong Kong SAR	19.75
South Korea	20.75
Sri Lanka	24.00
Bangladesh	25.00

Source: Reza, Rashid and Rahman (1998).

Bangladesh's apparel sector, as was pointed out, caters mainly to the lower end segment of the international market. Only through diversification of apparel products and by moving into more value-added, high-priced, high-fashioned products could Bangladesh enhance its value addition capacity substantially. Projections made by the textile ministry indicate that, if sufficient investment is made in the spinning and weaving subsectors, Bangladesh could build a competitive export-oriented RMG sector with strong backward linkages in the textiles sector. However, this would require a pro-active industrial policy capable of mobilising adequate levels of investments by the year 2005.

In-house Technological Capability

As was mentioned above, one of the critical factors which could translate the *comparative advantage* that Bangladesh has in cheap labour into *competitive advantage* at retail price level was technology. This is clearly borne out by a recent study (Rahman, 1999) which found close correlation between the various technological capability correlates and the efficiency and performance indicators of the RMG firms in terms of capital-output, labour-output, profitability, value addition and other related indicators. The degree of association between capital deepening and output and profitability performance was found to be very high amongst the surveyed firms. Here the top 25 percentile group of firms demonstrated a clear advantage over the middle 50 percentile and the lowest 25 percentile. For example, profit per unit of capital was found to be 0.70 for the top 25 percentile group whereas the corresponding figures for the other two groups were 0.56 and 0.12. The trend does not change when performance of the enterprise is measured in terms of investments in machineries only. Here the profit per unit of capital was found to be 0.70, 0.53 and 0.19 for the above mentioned three groups of firms. Profit performance was also highly correlated to the degree of sophistication of the machineries used by the particular RMG unit. In this case profit per unit of value addition was much higher for the top 25 percentile group (0.134) compared to the other two groups (0.107 for both groups).

China in WTO

Of special interest of Bangladesh is to monitor the possible accession of China into the WTO. As is seen from Table 17, China is a major competitor in the global market in most of the important categories where Bangladesh's RCA is greater than 1 (one). The quota utilisation performance of China in 1999 in some of the important (for Bangladesh) categories, such as 338, 339, 640, 341 and 342 was better in case of China compared to Bangladesh. An investigation into potential implications of China's accession to WTO for future performance of Bangladesh's RMG sector should be carried out on an urgent basis.

Table 17: Comparative Quota Utilization Status of Some Selected Categories

(as on 31 December 1999)

Category	Bangladesh	China	India	Pakistan	Sri Lanka	Myanmar	Laos P.R.
331	88.3	75.4	-	67.8	61.9	-	-
338/339	88.8	94.8	96.3	88.0, 83.9	85.9	-	-
340/640	87.3	78.8, 97.8	99.5	83.7	88.7	48.1	41.5
341	87.4	93.3	93.0	24.6	77.0, 71.6	-	-
342/642	80.7	87.2	85.7	38.0	88.9	34.8	-
347/348	100	97.1	87.3	92.7	93.6	70.4	-
352/652	95.6	96.1	-	52.0	71.5	-	-
363	80.5	62.8	93.9	90.4	73.7	-	-
369-S	90.3	4.9	60.1	75.1	99.9	-	-
638/639	89.9	93.5	-	75.3	78.5	-	-
647/648	95.0	81.1, 93.3	76.3	65.7	77.8	85.5	-

Source: U.S. Customs Service Textile Status Report; US Treasury Website.

Evidently Bangladesh will be required to monitor, on a continuous basis, the shifting dynamics of the comparative advantages in the global apparel market. Whilst the country did not enjoy revealed comparative advantage (RCA) in almost any of the categories of apparels in the early 1980s, at the moment RCA is greater than one in a number of categories, the top five being men’s shirts (8441), head gears and fittings (8484), knitted undergarments (8461), other garments (8429) and trousers (8423) (Islam, 2000). It is interesting to note at least three aspects of this dynamics: RCAs change over time and Bangladesh will need to continuously keep track of these, and take appropriate measures to maximize the opportunities and take corrective measures; secondly, the categories having RCA>1 belong to the lower segment of the market and Bangladesh needs to graduate from this level along the value addition China; thirdly, chain, the emerging major competitor in the global market, also has RCA higher than one in the common categories; under a quota-free regime China will be best-placed to penetrate Bangladesh's traditional markets, a prospect which Bangladesh can ignore only at its peril.

4.3 Opportunities and Advantages

However, Bangladesh can also claim to certain advantages which if consolidated and enhanced through appropriate policy support, could lead to strengthened integration into the global market in the context of the ATC.

Global Perspectives

Strong Buyer-Supplier Relationship

Bangladesh has experienced almost 15 years of phenomenal growth of the RMG sector. During this long period of time she has developed a strong buyer-supplier relationship in some of the niche markets. It is also to her credit that she was able to enter the highly quality-conscious United States and EU markets. This traditional relationship, and emphasis on product quality may serve as an added advantage for Bangladesh in the post-MFA period. Bangladesh has also recently been able to make some inroads into the highly quality-conscious Japanese market.

Good Prospects for Knitwear

In the knitting sector, Bangladesh has become very competitive due in part to the GSP facitlities in the European Union market, but not necessarily limited to it. According to the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), the cost of yarn production per kg. in the private sector of Bangladesh is only US$ 1.48, whereas in India it is US$ 1.78, in Pakistan US$ 1.60, in Japan US$ 2.38, in Korea US$ 1.73 and in Thailand US$ 2.74. This is a critical advantage in terms of competitiveness with which Bangladesh will enter the post-MFA period (IFC 1998). In the post-MFA period, exports may be further increased by taking advantage of the lower tariff rates which will prevail in importing countries as agreed by the ATC member countries. These rates will be reduced by 10.9 per cent in the United States and 16.5 per cent in the EU countries. Since these two markets account for the lion's share of Bangladesh RMG exports, including knitwear, there is a realistic opportunity for Bangladesh to increase her knit-RMG exports. Both price and quality are critical factors here. The EU market is currently accessed by some high-cost member countries. Under the changed scenario it is very likely that there will be rapid erosion of the market shares of these countries. Countries such as Bangladesh are well placed to replace those countries.

The Domestic Context

Wage Rate Advantage

The wages paid to RMG workers in Bangladesh are the lowest even by the South Asian regional standards. As price is related to the cost of production and the cost is heavily weighted by labour costs, the major advantage of Bangladesh has traditionally enjoyed comparative advantage due accruing from lower labour costs. The labour costs in the textile industry (compiled by Warner International) show that the average hourly wage rates for Bangladesh, India, Pakistan and Sri Lanka were respectively US$ 0.23, US$ 0.56, US$ 0.49 and US$ 0.39. The rates were even higher in the ASEAN countries, being US$ 0.43 for Indonesia, US$ 1.18 for Malaysia, US$ 0.78 for the Philippines, US$ 3.56 for Singapore, and US$ 1.04 for Thailand. But they were only US$ 0.35 for China. Future projections also indicate that Bangladesh will be able to maintain this low wage rate advantage in the future (Reza, Rashid and Rahman,1998). However, it is only through translating the lower labour cost induced competitive advantage that Bangladesh will be able to translate her potential opportunities into real opportunities. The key factor here is technology.

The Emerging Textile Industry

Notwithstanding all apprehensions, a new generation of textiles units seems to be in the offing. Information on import of capital machinery supports this contention as can be seen from table 18). It is important to note that whilst imports of machineries for textile industry had been falling over the last few years, imports of machineries for garment industry have registered some growth during corresponding years. The combined share, representing total imports of machineries for the textile and apparel sectors, however, remained almost at the same level over the corresponding period. The growth in the imports of machineries for the textile and RMG sector, sustained for over the last five years, transmits a positive signal in terms of the entrepreneurial confidence in the future of the textile and apparel sectors of the country. The structure of the imported machineries also indicate that some positive changes are indeed taking place in the process and product technology of the RMG units.

Credit disbursement structure of bank and the fact of growing imports of textile machineries are also confidence building signals transmitted from the producer's side. The major challenge for the Bangladesh is to design adequate policies in support of these signals.

Table 18: Import of Apparel Machineries

(% of total capital machineries imports)

Item	FY 90/91	FY 94/95	FY 97/98	FY 98/99	FY 99/00 Jul-May
Machineries for Textile Industry	48.6	28.8	39.0	26.2	21.2
Machineries for Garment Industry	10.4	10.0	14.4	16.8	19.9

Note: The import figures are as reflected by L/C settlements in the corresponding years
Source: Calculated from Bangladesh Bank data.

In the final analysis Bangladesh's global market access will depend on her competitiveness in the global market. The viability of backward linkage textile sector is expected to play the most critical role in this respect. A separate study undertaken by the CPD is looking at this issue by comparing the domestic resource cost (DRC) within a dynamic setting.

Section V Non-ATC Related Developments Having Implications for Bangladesh's Apparel Sector Performance

5.1 Anti-dumping Duty on Shop Towels

One important development which could have serious implications for Bangladesh's future exports to US market is the recent re-imposition of Anti-dumping[7] duty on Bangladesh shop towel[8] export by the USA. Such anti-dumping duty were earlier imposed in 1990 with subsequent detrimental impact on exports of this particular items to US market. Export of shop towel, came down from 0.90 million Kg in 1990 to only 0.54 million Kg in 1991 and 0.48 million Kg in 1992. The ADD was imposed on the basis of a complaint by Roger Milliken and Co. a giant US manufacturer having a 60% control over the US towel market. In 1999 the US Department of Commerce (USDOC) undertook a review of the case on the basis of notice of intent submitted by Roger Milliken and Co. The review covered imports from all manufacturers and exporters of shop towels from Bangladesh on the basis of a notice of intent filed on behalf of Roger Milliken and Co. As a result the complaint, and in view of inadequate response from respondent interested parties (Bangladesh Shop Towel Exporters), the USDOC concluded that dumping was likely to continue or revocation of the anti-dumping order would likely to lead to continuation or recurrence of dumping.

Accordingly, the dumping margin was set at the following rate: Eagle Star Textile Mills - 42.31%, Sonar Cotton Mills - 27.2% and all other 4.60%. This represents a re-imposition of duties first imposed in 1991, when Milliken & Co originally filed an anti-dumping case against all Bangladeshi shop towel exporters. The issue here is whether the reimposition of the ADD on shop towel exports from Bangladesh was done on the basis of fairness, or whether the ADD was applied as a protectionist measure.

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[7] Anti-dumping duty, a trade regulating device, is a special extra customs duty, imposed on imported goods found to be sold for export at less than their price in domestic market of the exporter (dumping).

[8] Cotton shop towels are absorbent industrial wiping cloths made from a loosely woven fabrics and are currently classified under item numbers 6307.10.2005 and 6307.10.2015 of the Harmonised Tariff Schedule of the United States

With regard to the scope of the Order, the DOC action to re-impose the original dumping margins against all Bangladesh exporters may appear to be fully consistent with the provisions of its law and regulations. At the same time it appears to be at variance with the WTO Agreement which, among other things, enables the authorities of an importing country to base its decisions on the best information available at the time. The decision to prolong anti-dumping finding and reimposition of duty represents a step backwards if the spirit of the ADD is kept in the perspective. Previous annual administrative reviews as is evidenced by table-19 had found that two exporters, i.e. Grayfab and Hashem, were not considered to have dumped their products between 1991 and 1996 and ADD was not imposed on these firms during this period. Dumping margins were set at zero rates for these two exporters for these years. In case of Khaled Textile Mills, the dumping margin had also been set at zero for the period from 3.1.94 until 2.29.96. According to the US ADD rules, normally an anti-dumping order may be revoked after at least three years of zero dumping margins. However, in none of these cases did US administration terminate its anti-dumping procedures. Instead, the last sunset order of 1999 reestablished anti-dumping duties on all six exporters from Bangladesh at the level when the first anti dumping action was taken by US against Bangladesh exporters in 1991. This reintroduction of ADD against Grayfab, Hashem and Khaled Mills at the rate of 4.6% in spite of the more recent zero margin duties allowed by the US department itself sends an ominous signal.

The manner in which the abovementioned the anti-dumping measures have been applied against Bangladesh once again reemphasises the need for vigilance against possible use of measures such as ADDs as protectionist barriers. The fact that Bangladeshi exporters were unable to prepare the documents as required by US laws and submit these to USDOC also highlights the enhanced need for trade related capacity building in an era when trade related issues are becoming increasingly complex and intensive in legal interpretations.

Table 19: Anti-dumping duty Imposed by USA on Bangladesh Exports of Shop Towels:

	Initial ADD		First Review	Second Review	Third Review	Sunset Review
	Preliminary Sept/ 91	Final March/ 92	Final 1994	Final 1995	Final 1996	Final 1999
Eagle Star	26.63%	42.31%	42.31%	42.31%	42.31%	42.31%
Sonar	12.49%	2.72%	8.30%	42.31%	27.31%	27.2%
Khaled	13.17%	4.60%	9.61%	9.61%	0.00%	4.6%
Shabnam	13.17%	4.60%	0.15%	1.74%	0.00%	4.6%
Grefab	13.17%	4.60%	0.00%	0.00%	0.70%	4.6%
Hashem	13.17%	4.60%	0.01%	0.00%	0.00%	4.6%
All Others	13.17%	4.60%	4.60%	4.60%	4.60%	4.6%

Source: BTTLMEA

5.2 US TDA2000: Possible Implications for Bangladesh's EO RMG

Yet another development of recent times which might have important implications for Bangladesh’s export sector in terms of its future performance is the *US Trade and Development Act of 2000* (USTDA 2000), which was announced in on January, 2000 and will be effective from October, 2000. USTDA 2000 provides preferential trade accesses, especially for the textiles and apparel sectors, to the countries of the Sub Saharan Africa(SSA) and the Caribbean Basin(CBI) under the *African Growth and Opportunity Act* and the *United States-Caribbean Trade Partnership Act* respectively.

The TDA 2000 provides *duty free* and *quota free* access to 72 countries of SSA and CBI, of which 48 countries are from Africa and 24 countries are from Caribbean Basin for exporting textile and apparel products to the US market, provided they fulfill certain eligibility criteria. These initiatives include 33of the 48 countries belonging to the group of LDCs. Since Bangladesh is a major player in the US market in terms of exports of apparel products worth about $ 1.75 billion in 1999, and the TDA is envisaged to provide zero-tariff zero-duty access to some of her important contributors, the issue calls for a closer role.

The stringent ROO is an issue which need to be kept in the purview but the fact that these have been made flexible for countries with less than $ 1500 of per capita annual in come, till 2004, is of particular concern to Bangladesh's interest. Here we look at the relative export performance of Bangladesh and the SSA/CBI countries at a disaggregate level and attempt to project some of the future implications of USTDA 2000.

In 1999, total custom value of the textile/apparels exported to US market from Bangladesh was $1.75 billion, of which $1.6 billion came from apparel products and $75.16 million from non-apparel sector. Total custom value of the apparels exported from CBI countries was $8.8 billion; exports from SSA countries were worth $584.38 million. Exports from Mexico, which has been a member of NAFTA since January, 1994 was $7.54 billion (Annex Table-1). As the table shows, some of the CB countries such as Gueatemala, Honduras, El Salvador and Dominican Republic are important exporters to the US market. Data shows that over time Bangladesh was able to get a firm foothold in a number of categories in the US market. Interestingly this is true for both quota and in part, to non-quota categories. (Annex Table-2)

Three specific items have been selected under the *Quota Category* and two under the *Non-Quota Category*. Under *Quota Category*, two of the three items belong to woven apparels and the rest one belongs to knit apparel. The products have been identified in accordance with their importance in Bangladesh's exports to US market. In 1999, highest amount of custom value ($66.8 million) came from exports of the product with HTS code of 6205202065 (*Men's or Boys' shirts, not crocheted, of cotton).* Bangladesh's highest share was in export of HTS code 6208210020 (*Women's or Girls' night dresses and pajamas, not knitted or crocheted, of cotton)* with an export of $ 22.4 million; highest export form knit came from HTS code 6110202065 *(Sweaters, Pull Overs and Similar Articles)* with an export of $ 40.9 million. Two products of export importance to Bangladesh selected from the *Non-Quota Category* were HTS code 6204622010 (*Women's and Girls' bib and braceoveralls*) with export of $ 57.1 million and highest share and unit price amongst non-quota category and HTS code 6211420070 *(Women's and Girls' tracksuits of cotton)* with an export value of $ 2.4 million which had the second highest unit price amongst all items under non-quota categories.

An examination of Bangladesh's exports to US market at the abovementioned desegregated levels reveals a number of interesting issues. As Annex Table-3 shows, Quota fill rates for categories of importance to Bangladesh are very high both for Bangladesh as well as most of the major competitors from the CB such as Dominican Republic and Guatemala. This would mean that under a quota-free regime for CB countries, whilst Bangladesh will be constrained in future by quota limits, these countries have an opportunity to expand their exports to US market. The quota fill rate shows that for a number of categories, Bangladesh fulfills the quota limits by catering mainly to items which have relatively low unit prices. Quota fill rates of some of her competitors, in contrast, show that the exporters from this countries are catering to the relatively high priced items within the same quota category, with relatively low fill rates in items with their lower prices (Annex Table-4). Under a quota-free regime the exporters may be expected to move into their latter group of items within the same category. As a result competition may be expected to intensify for some of the low priced items within the same categories where Bangladesh's export performance has traditionally been robust. Thirdly, investigation into disagreegated levels of unit prices indicate that Bangladesh has moderate advantage in terms of prices over competitors such as Guatemala, Honduras, El Salvador and Dominican Republic. Once these countries are allowed to access US markets at zero-tariff, the comparative advantage situation can be expected to undergo important changes. Zero-tariff will allow Bangladesh's competitors from the region to access US market at lower price.

The above discussion indicates that the scenario under which Bangladesh has in the past experienced quite robust growth of apparel export in the US market can be expected to change to its disfavour. This is one more reason why Bangladesh put up a strong case for quota-free entry to US market ahead of the plan of integration envisaged under the US integration plan submitted to the TMB.

Section VI Strategic Issues and Responses

6.1 Regional Cumulation

Of late the issue of whether Bangladesh should avail of EU GSP under the regional cumulation facilities has become a highly contentious issue. The interests of the dominant RMG sector and the emerging textile sector appear to be in direct conflict over this particular policy choice. Since this issue is related to the strategic interest of the RMG sector in the long term, it calls for a close scrutiny.

Bangladesh has been enjoying preferential market access in EU countries since July 1971 under the EC-GSP scheme. Textiles/apparels was brought under the scheme at a latter stage, in the early - 1980s. The inclusion of T & C 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%, continued to be one of the highest.[9] Preferential treatment under the EU GSP scheme allows EU importers to claim duty drawback (equivalent to the full tariff equivalent of 12.5%) on imports of apparel from Bangladesh. This has allowed Bangladesh to have a firm foothold in the EU market which now account for 35 per cent of her total global apparel exports. Bangladesh has been able to increase her share in the EU market from 1.50 to 3.44, most notably from 0.80 to 4.36 in the export of knit-RMG.

Availability of GSP, however, hinges in stringent Rules of Origin (ROO) criteria.[10] 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-20.

[9] 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.

[10] 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 verying from commodity to commodity.

Table 20: GSP Utilisation by Bangladesh

(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

Table 21: Rules of Origin for EU GSP

Year	**1980-96**	**1996-98**	**1998-2000 September**	**2000 October-**
		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: Stages are:

Stage 1: Cotton-Yarn (Spinning)
Stage 2: Yarn-Fabrics (Weaving)
Stage 3: Fabrics-RMG (Cutting and Making)

EC ROO called for a 3 stage conversion for Knit-RMG and 2 stage conversion for Knit-RMG. Since Bangladesh did not have strong backward linkage, her capacity to avail to the GSP facility was severely limited (table-20).[11] As Table 20 shows, over the recent years, *GSP utilisation rate of Bangladesh has deteriorated* significantly - from 43.2% in 1994/95 to only 27.3% in 1996/97. This has been mainly due to

[11] 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%.

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 from Bangladesh respectively. 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 indicate that the utilisation rate would currently stand at 35-40 per cent of total exports to EC. 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 false certificates of origin.[12] 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. Table-21 provides the dynamics of the change in EC ROO over the recent past.

Regional Cumulation Under EC GSP

As stipulated by articles 72, 72a and 72b of EC Customs Code, although the GSP rules of origin 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 context, thus easing compliance with the ROO requirements. Thus under EC GSP scheme, partial cumulation is 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 the same 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 and the two stage requirement under EC ROO (yarn to fabrics to RMG) were met not *locally*, but regionally. Such regional cumulations are currently allowed by EC to countries belonging to three regional

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

groupings which are Association of South-East Asian Nations (ASEAN), Central American Common Market (CACOM) and the Andean Group. For Bangladesh RC would mean that Bangladeshi exporters could claim EC GSP even when the fabric was imported from an outside country as long as it belonged to the regional group. They accessing fabrics from India would allow accessing EC market at zero-tariff.

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 the member countries to seek such facilities from the EU.

Regional Cumulation for SAARC Countries

The issue of RC for SAARC countries was first noted in early 1990s when a 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 its attitude to SAARC RC a committee was set up by the Ministry of Commerce to address the issue. The committee's recommendation was that it was not in Bangladesh's interest to ask for regional cumulation. The issue came up once again in July, 2000 when it was revealed 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 the regional countries have to send a unanimous decision to Brussels seeking preferential treatment under RC. With Bangladesh's approval this requirement was fulfilled and EC was notified accordingly about the joint plea of 7 SAARC member countries by the SAARC Secretariat on November 29, 2000. Following this EU Council of Ministers gave its approval to the SAARC request. The EU notified the cumulation rules by its gazette notification of July 26, 2000. The changed rules are set to be effective from October, 2000.

Box 6: SAARC Regional Cumulation: The Journey

- 1996 SAARC - EU MOU signed
- 1997 The proposal of SAARC Cumulation in 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 aggregate to SAARC RC
- 2000, January: Approval of EU Council of Ministers
  July, 26: Gazette Notification
  October: Expected to be operationalised

The Debate

Box-6 depicts the major milestones in the development of the debate over RC. 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 (BTMA) have come up with Bangladesh Textile Mills Association 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. This will act as a result of which local textile industry's growth will be retarded.

The Strategy

One important aspect of the RC discourse wlhich appear to have been ignored by both its proponents and its opponents is that there are 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:

"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%, will be substantially higher compared to that of Bangladesh, at 25%. According to Paragraph 1 of Article 72a, since the conditions laid down in point 1 of the Article is not satisfied, Bangladesh will not receive GSP treatment at a rate which is applicable for her i.e., 100 per cent duty drawback on 12.5% tariff since Bangladesh is a LDC. The GSP margin for Bangladesh will be calculated at the rate which is eligible for India (I.E., 15% duty drawback on 12.5% tariff rate, since India is a developing country).[13] Thus, RMG made in Bangladesh from imported fabrics from India will be eligible for a duty waiver of about 1.9 per cent (15 per cent of 12.5 per cent). EC importer will still have

[13] 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.

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. Thus, from a short-run perspective RC does not provide the exporter with any substantial 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. However, it appears that 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.

The Arithmetic of GSP Under RC

It is also to be noted that in case of non apparel exports to the EC such as frozen food, jute, jute goods, ceramics and leather products Bangladesh is in a position to comply with EC ROO. In case the overwhelming part of the knit-RMG exports, as was mentioned earlier, Bangladesh is at present in a position to ensure compliance. It is only for woven RMG exports (about 85%) the Bangladesh can not comply with EC ROO provision. 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 smart move by Bangladesh.

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

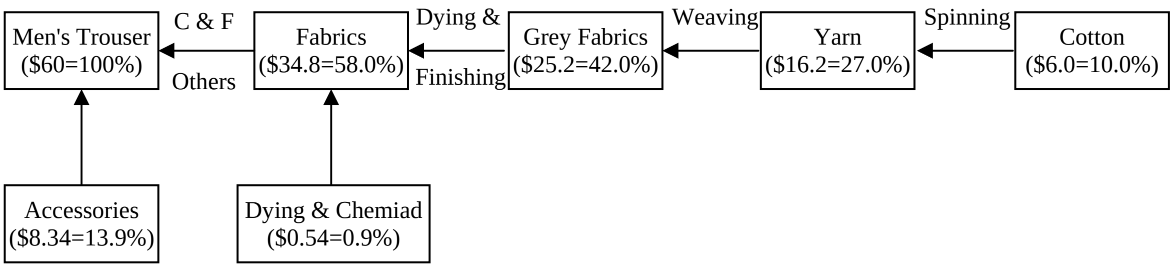

Table 22: Rate of Value Addition for Selected Categories of Woven-RMG

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 can be seen from the table-22, 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.[14] Only if she imports yarn (column 3) can 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.[15]

The Long-run Issue

As was mentioned earlier, Bangladesh's textile sector has been receiving substantial government support in the form of fiscal and monetary incentives. Imports of capital machinaries have been made duty free. Data for import of capital machinaries and credit disbursement shows that in recent years a new generation of textile units are coming up. as table-23 shows, over the years between 1995 and 1999 about $ 0.5 bln. 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.

[14] 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 dye-ing and finishing. This opportunity should not be lost sight of from the dynamic perspective. In such a case local V. A. would be higher than V. A. in the country from where such grey fabrics would be imported.

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

Table 23: Dynamics of Imports of Textile Related Machenaries

(in million taka)

4 digit code	Type of Machinaries	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.

Yet another major incentive provided by 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. As is evidenced by table-24, 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 $ 100.0 million has been earmarked for the development of the sector. As table-23 shows, the share of the amount back to back L/C in the total export has been increasing secularly

Table 24: Share of Imports Under Back to Back L/C for the RMG Sector and Amount of Cash Subsidy Under CCS

(mln USD)

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

In recent years, local availability of inputs for the export-oriented RMG industries has registered some increase which testifies to increasing backward linkage activities taking place in the sector. 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 needed for both establishing new capacity and renovating installed capacity (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.

Given the above context, it was an imperative that the textile sector ought to have been consulted in any decision on regional cumulation.

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% + 12.5%) 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 it is cost-effective for the RMG entrepreneur to import fabric rather than source it locally. Since the GSP margins are expected to come down in the coming days, and the burden of such huge subsidies can not perhaps be sustained for indefinite period, there appears to be no other alternative for the local textile industry to survive than to be cost-effective in the long-run. 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. Under the circumstances creating an opportunity for additional margin under the RC may not have been a very smart step in the present context. A study currently being under implementation 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 country could result in relatively higher value addition within the country compared to country of origin imported inputs which would allow virtual duty free entry to EU markets under RC.

What is to be Done Now

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 and Bangladesh, on bilateral basis.

Consultation with Multi 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 lobby exporters and that of the import substituting industry will be definition by at loggerheads on this issue.[16] An open and transparent dialogue could perhaps have enabled GOB to reach an appropriate decision acceptable to all important stakeholders. The option of an acceptable *time-bound* decision could also perhaps have been reached.

6.2 ATC: A Strategic View

The first two stages of implementation of the ATC negotiated during the UR has given rise to a lot of concern amongst T & C exporters belonging to the group of the developing countries and LDCs. As has been noted in the paper, integration programmes of both the major importers, USA and EU, have been backloaded i.e., most of the items of interest to developing countries and LDCs will be integrated only in the last stage of MFA phase out, on January 1, 2005.[17] As a result, at the halfway point of ATC implementation, the major trends in the implementation programmes announced by the four Members indicate the followings:

a) the process has contributed little towards realizing the ATC objectives of progressive phase out of quota restrictions since only 3% of total products that were under quota in 1990 have been integrated in the first two stages.
b) the percentage of integration at each stage has been minimal.

[16] 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.

[17] A recent study indicates that in the first two stages of the integration the US has so far eliminated 2 quotas, EC has eliminated 14 out of a total of 219, Canada has eliminated 29 out of 295 quotas and Norway has done away with 51 out of 54 quotas.

In essence, little has been gained in terms of meaningful expansion of market access for the developing countries as a group. As a result, the ATC has come under increasing scrutiny and criticism. For Bangladesh this has double edge. Whilst a quota free regime is fraught with many uncertainties the phase out till now has also not been very beneficial for her. Under the circumstances articulating her stand as regards ATC has become an issue of heightened interest for Bangladesh.

Bangladesh's Options

As it stands now there is very little possibility that a more protracted MFA phase out could be agreed upon by WTO members. Firstly, opening up agreed provisions will be very difficult to push through in the WTO; secondly, whilst many developed countries would rather welcome such a move, most of the (non-LDC) developing countries will vehemently oppose it. Under the circumstances, it appears that it will be in Bangladesh's interest to build up a case for an early implementation of the MFA. This would mean bringing forward the phase-out for the LDCs by one stage and, provide the LDCs quota-free access at least from 1 January, 2002 when the third stage of the phase out is initiated. In addition, Bangladesh could claim for duty-free access. In effect this would mean claiming EU-parity in the US market since Bangladesh's exports already allowed quota-free access in the EU market, and the recent EU declaration will also allow Bangladesh duty free access in the EU. Bangladesh would need to clearly articulate her claim for special treatment in the WTO during the review process of the ATC and will need to build a strong case in support of her demand.

Demand a Review of the ATC

The ATC provides for a major review of the operations of the agreement to be conducted by the Council for Trade in Goods (CTG) before the end of each stage of the integration process. ATC empowers the CTG to take such decisions, by consensus, as it deems appropriate to ensure that the balance of rights and obligations in the Agreement is not upset. According to paragraph 2.11 of the ATC, *the respective programmes of integration shall be notified in detail to the TMB at least 12 months before their coming into effect.* Although the USA has submitted plan of integration for the third and fourth stages, existing rules do allow USA to revise the plan. In this light, Bangladesh should, on an urgent basis, start bilateral negotiations with the major importers for the next stage of integration.

According to paragraph 2.10 of the ATC, *nothing in the agreement prevents a member from integrating products earlier than provided for in an integration programme already in place.* But any such integration will take effect at the beginning of an agreement year contingent on at least three months prior notification. So there is little scope, at this point of time, for mid-phase negotiation for the ongoing phase, which ends on 31 December 2001. So the thrust of Bangladesh's strategy should be concentrated on the third phase.

Provision 2 of Article 1 of ATC stipulates that Members agree to use the provisions of paragraph 18 of Article 2 and paragraph 6 (b) of Article 6 in such a way as to permit meaningful increases in access possibilities for small suppliers and the development of commercially significant trading opportunities for new entrants in the field of textiles and clothing trade. A footnote further states *'to the extent possible, exports from LDC members may also benefit from this provision'.* Bangladesh should seize on this caveat and build up a case for quota-free access to the US market.

Demand implementation of the Draft Ministerial Declaration

The concerns, criticisms and debates on the ATC implementation process were documented in the *Major Review of the Implementation of the Agreement on Textiles and Clothing in the First Stage of the Integration Process* which was adopted by the General Council on 16 February 1998. Later on, these concerns were reiterated in the various proposal statements submitted by many countries to the WTO in the drafting stage of the Seattle Ministerial Declaration. One of the most persistent voices which has been taking a highly critical stand on the ATC has been that of the *International Textile and Clothing Body* (ITCB), which is an organisation of 24 developing countries, who are major exporters of T&C products. The group also include Bangladesh.

Many of the demands raised by institutions such as ITCB and also by other stakeholders in the various countries were incorporated in the Draft Ministerial

Declaration (19 October 1999) for the Seattle session; paragraph 21(e) of the Draft, under the heading *Textiles.* The following proposals have been put on the table.

- importing (developed, restraining) countries shall, on the first day of the 3rd stage month when the WTO Agreement comes into effect (January 5, 2002) 3rd stage, integrate products which accounted for not less than 50 percent of the total volume of the Member's 1990 imports.[18]

- The importing countries to apply growth-on-growth for stage three with effect from 1 January, 2000 instead of 1 January, 2002
- A moratorium shall be applied by importing countries on anti-dumping actions until two years after the entire textiles and clothing sector is integrated into the GATT.
- Any change in rules of origin shall be examined in the Council for Trade in Goods (CTG) for its possible impact on market access of exporting countries, before it is applied.
- The growth rate in quotas for small suppliers shall be substantially increased.
- The restraining countries should apply the methodology employed by the EU in implementing the growth-on-growth for small suppliers and extend the same treatment to least developed countries.
- Any resulting growth rates lower than 6 percent should be increased to that percentage.
- In order to avoid double jeopardy to the exporting countries concerned, restraining Members should agree not to initiate anti-dumping actions against products under quota restrictions. And to lend certainty to trade, they should not take such actions during a period of two years after the elimination of quota.

The draft submitted by the EU at the Seattle did in fact called for allowing zero-tariff and quota free access to all products of LDCs. Since the Seattle Ministerial failed to come up with an unanimous Ministerial Declaration, the only option remaining for the

[18] The initial demand of the developing countries was that developed, restraining countries integrate, on January 1, 2002, not less than 50 percent of the Member's 1990 total volume of imports *that were under specific quota limits.* There seems to have been significant watering down of this demand at the time when this was included in the Draft Declaration. The ITCB has vehemently criticised this manuveour.

developing countries is to pursue strong negotiations on both *bilateral* and *multilateral* basis.

Taking Advantage of US TDA2000 and Calling for Extension of the Facility on Bilateral Basis

The recently announced USTDA provides a duty-free and quota-free access to 33 of the 48 LDCs. The stringent ROO under the USTDA has been made flexible for not only the LDCs in the Sub-Saharan and the Caribbean but also for other developing countries of these regions having per capita income less than $ 1500 per annum. As has been noted earlier in this paper, the Act may have negative implications for Bangladesh's exports of RMG to US markets since in many categories, even at 10 digit level of disaggregation, Bangladesh has to compete with a number of countries from the region. Building up a case on possible *(unintended)* negative impact of the TDA2000 on Bangladesh's future export performance, the GOB could urge the government of USA to extend the zero-tariff and quota-free facility in case of exports of Bangladeshi apparels on a bilateral basis. At a minimum, Bangladesh could strengthen her argument for quota expansion (to 30%) in the US market (in place of 17% as envisaged under the second stage of MFA phase-out). Bangladesh has been arguing for such an expansion for quite some time and the TDA2000 strengthens the validity of Bangladesh's request. Bangladesh should forcefully argue that such *divide and rule* policy is a digression from the spirit of WTO and the three Ministerial which has traditionally taken into consideration the LDCs as a homogenous group.

Call for Extension of the Facility on LDC Basis

Since the TDA2000 already distinguishes the LDCs as a distinctive group, there is a strong case for Bangladesh to argue that the United States should extend similar preferential treatment to *all* the LDCs. Currently 33 of the 48 LDCs (according to the UN definition) are covered by the Act. The left out LDCs belong to the Asia-Pacific region, a relatively poor region in the world, where a number of countries such as Bangladesh and Nepal have strong interest in apparels sector. Bangladesh could argue that the LDCs are a recognised group in international fora and making a division amongst this group, as US TDA in effect does, is against the spirit of this recognition.

Failed Seattle Ministerial

Bangladesh should point out that the draft declaration for the Seattle Meeting has made a tentative suggestion for zero tariff access for the LDCs. In fact, the EU paper did call for such a facility to be extended to LDCs. EU has already declared that it will allow a virtual duty free access to imports from LDCs. Bangladesh could claim quota-free access to US market on the ground of the failure of the Seattle Ministerial, and subsequent declaration of the EU.

High Import Tariffs on Apparels

Although average tariff rates in developed countries have came down from 6.3 per cent during pre-UR period to about 3.8 per cent after the UR, tariff rates in the T & C sector has continued to remain at very high levels. This is clearly visible from table-25.

Table 25: Tariff Rates of Selected Apparel Categories

Bangladesh's Exports exceeding $ 30 million		Bangladesh's Exports between 10-30 million	
Items	Avg. Tariff Rate (%)	Items	Avg. Tariff Rates (%)
Knit-shirts MB	22.2	Dresses	13.5
Non-knit Blouse WG	19.77	Coats MB	17.8
Cotton Trousers MB	16.6	Cotton Coats WG	8.9
Non-knit Shirts M	21.03	Knit Blouse	20.77%

Source: BGMEA (2000)

Such high tariffs obviously undermine Bangladesh's competitive strength. Bangladesh could argue that whilst it is understandable that the US needs to continue to keep high tariffs on T & C products to provide protection to domestic industries its domestic industries will not be significantly affected if zero-tariff access is provided to LDCs such as Bangladesh which together account for only an insignificant part of total US import.

Take the Issue to Multilateral Fora including the WTO

In the course of the preparatory work for the Seattle Ministerial of the WTO, the LDCs had been arguing that they be given zero-tariff access to the markets of the developed countries. As was mentioned, the draft proposal submitted by the EU did contain such a provision. The most notable exception, at that time, in supporting the said proposal had been the USA. In view of the subsequent developments and the enactment of TDA2000, the case for zero-tariff and quota-free market access for all the 48 LDCs has now acquired substantially greater prominence for perusal at the WTO. In this respect, Bangladesh should utilise all other inter-governmental platforms for propagating the case for granting zero-tariff access to the LDCs. It should particularly make a strong plea in this regard at the forthcoming *Third UN Conference on the LDCs* to be hosted by the EU in Brussels in 2001.

Argue for Inclusion of S&D Status for LDCs in the ATC

The ATC allows for meaningful increases in access possibilities for small suppliers and the development of commercially significant trading opportunities for new entrants in the field of textiles and clothing trade. The LDCs could demand zero-tariff and quota-free access to all developed country market on the basis of the *letter and sprit* of Article I of the ATC. Now that the United States has provided this facility to two-thirds of the LDCs, it should be urged upon to take initiative to bring about suitable amendments to ATC in the WTO in order that such facilities be also extended to all the LDCs.

Recent EU Move Favouring the LDCs

Bangladesh could also argue that in a recent move the European Commission has proposed opening its markets to all goods except arms from the world's poorest countries.[19] The plan would mean going beyond all previous EC commitments by extending duty and quota-free access for 919 tariff lines[20] leaving out only 25 lines related to the arms trade. As the predominant trade power, USA should also provide such facilities to LDCs and ATC could be a platform to do it.

Non-Implementation of Initiatives Under the IF

Bangladesh should argue that the technical assistance (TA) programme which was supposed to be implemented under the integrated framework (IF) initiative of the 6 institutions including the World Bank and IMF is yet to culminate into any concrete measures even though Bangladesh has articulated her TA needs through a

[19] The *'Everything but Arms* Access Plan for Poorest Countries' was announced by the EC on 20 September, 2000.
[20] Three commodities, rice, sugar and banana will be integrated in stages.

comprehensive study which was presented at the Round Table Meeting (RTM) with participation of major donors. On this ground Bangladesh could seek special treatment within the WTO by way of faster integration into ATC.

Non-Inclusion of Bangladesh in the Recent Debt-Reduction Initiative

The recently announced debt reduction initiative which will substantially reduce debt of developing countries and LDCs do not include Bangladesh. Bangladesh, thus, is not claiming on the resources of developed countries and international financial institutions. Bangladesh could seek preferential treatment from the US on the ground that she has not been benefitted under debt cancellation programme.

One of the suggestion put forward by many developing countries is to call on USA to bring forward the integration scheme by one stage. This would mean virtual quota-free entry beginning 2002. Bangladesh could argue for this facility to be provided to the LDCs, as a special case.

Development such as early entry of China into the WTO could not be foreseen during the UR. China's entry is expected to have important implications for the LDCs. With respect to many apparels China is a major competitor of the LDCs. This added factor should be brought into play in arguing for a quota-free entry into the US market.

Inability to Claim US GSP Scheme

It should be pointed out that the major part of Bangladesh's export of woven-RMG to the US market are not currently eligible for preferential treatment under US GSP scheme, since Bangladesh is at present unable to comply with the US value addition criteria.[21] Thus, at minimum quota-free access to US market will, albeit only partially, offset the advantages enjoyed by countries with duty-free quota-free access or enjoying GSP facilities.

[21] US value addition criteria requires a 30 per cent local value addition for availing the GSP.

Annex Table 1: US Imports for Consumption in 1999

Country	Total Apparel * (Under MFA)		Category 62 **		Category 61 **	
	Custom Value (in million $)	Share %	Custom Value (in million $)	Share %	Custom Value (in million $)	Share %
Bangladesh	1,675.69	3.30	1,165.33	4.06	363.72	1.53
Mexico	7,537.90	14.84	4,427.41	15.44	3,310.74	13.97
Guatemala	1,233.37	2.43	714.23	2.49	520.09	2.19
El Salvador	1,328.78	2.62	392.80	1.37	935.54	3.95
Honduras	2,158.16	4.25	719.94	2.51	1,475.77	6.23
Dominican Rep	2,336.96	4.60	1,410.58	4.92	896.70	3.78
Jamaica	344.65	0.68	56.75	0.20	286.96	1.21
Mauritius	231.62	0.46	176.17	0.61	55.42	0.23
Costa Rica	819.30	1.61	441.70	1.54	380.50	1.61
All CBERA	8,803.50	17.33	4,047.40	14.12	4,772.52	20.14
All Sub-Sahara	584.34	1.15	386.31	1.35	197.71	0.83

Source: * US Major Shipping Report, OTEXA Web Site
** USITC Data Web Site.

Note: Category 62 broadly includes all articles of woven apparels and clothing
Category 61 broadly includes all articles of knit-apparels and clothing

Annex Table 2: Share in Percentage of Major HTS Category Products Exported to the US Market

Country	HTS Code 6205202065 (Quota) MFA Category: 340			HTS Code 6208210020 (Quota) MFA Category: 351			HTS Code 6110202065 (Quota) MFA Category: 338			HTS Code 6204622010 (Non Quota) MFA Category: 359			HTS Code 6211420070 (Non Quota) MFA Category: 359		
	1990	1995	1999	1990	1995	1999	1990	1995	1999	1990	1995	1999	1990	1995	1999
Bangladesh	7.70	6.69	8.50	8.50	11.96	16.52	1.24	1.61	2.66	0.6	6.05	38.75	1.79	8.63	5.29
Mexico	0.52	1.88	9.44	1.21	1.40	0.57	0.16	6.04	14.25	0.41	2.09	6.55	2.50	8.58	10.54
Guatemala	1.19	6.15	2.52	0.05	0.96	2.47	0.54	2.42	3.55	5.13	0.2	1.14	3.04	4.01	0.99
El Salvador	0.05	2.42	1.23	0.00	2.89	0.64	0.10	2.85	3.31	0.01	0.17	0.11	0.02	0.37	0.004
Honduras	0.58	4.33	3.00	0.00	0.75	4.86	0.14	4.83	10.38	0.48	0.09	0.00	0.14	0.20	0.001
Dom. Rep	2.31	1.54	0.61	3.63	3.52	2.53	3.49	2.46	2.17	0.00	0.00	0.02	2.24	0.70	0.00
Jamaica	0.77	0.52	0.67	0.29	3.38	0.24	0.71	1.30	0.83	0.00	0.00	0.00	0.05	0.00	0.00
Mauritius	1.05	3.46	0.73	0.18	0.01	0.05	1.35	0.77	0.68	0.00	1.17	0.33	0.00	0.42	0.00
Costa Rica	0.53	1.96	0.25	0.02	4.71	0.67	1.55	0.76	0.61	0.29	0.15	0.20	1.54	0.04	0.05

Source: Compiled from the USITC Data Web

Annex Table 3: Quota Fill Rate (%) in 1999

MFA Category	*HTS code*	Bangladesh				Guatemala				Dominican Rep.				El Salvador			
		Q limit(Doz.) Under MFA	Fill Rate	Quantity (Doz.) Exported Under HTS product	Fill Rate	Q limit(Doz.) Under MFA	Fill Rate	Quantity (Doz.) Exported Under HTS product	Fill Rate	Q limit(Doz.) Under MFA	Fill Rate	Quantity (Doz.) Exported Under HTS product	Fill Rate	Q limit(Doz.) Under MFA	Fill Rate	Quantity (Doz.) Exported Under HTS product	Fill Rate
338	6110202065	1,803,579	88.8	701,075	38.87					8,558,151	80.25	943,273	11.02				
340	6205202065	3,691,022	87.3	1,119,284	30.32	1,945,143	63.37	247,815	12.74	1,877,006	37.92	87,352	4.65	2,229,436	57.06	140,509	6.30
	6205202015			317,498	8.60			151,142	7.77			1,025	0.05			181,442	8.14
347	6203424015	3,135,706	100	616,587	19.66	3,780,833	88.79	374,693	9.91	12,222,369	95.225	2,858,933	23.39				
	6203424045			348,472	11.11			159,694	4.22			677,082	5.54				
	6203424050			856,812	27.32			149,769	3.96			958,667	7.84				
351	6208210020	840,202	81.1	403,109	47.98	556,999	76.25	37285	6.69	2,314,857	84.14	55,821	2.41				
	6208210010			55,818	6.64			8,430	1.51			745	0.03				
634	6201933000	596,876	75.4	350,989	58.80												
	6210405020			37,883	6.35												

MFA Category	HTS code	Mauritius				Jamaica				Costa Rica			
		Q limit(Doz.) Under MFA	Fill Rate	Quantity (Doz.) Exported Under HTS product	Fill Rate	Q limit(Doz.) Under MFA	Fill Rate	Quantity (Doz.) Exported Under HTS product	Fill Rate	Q limit(Doz.) Under MFA	Fill Rate	Quantity (Doz.) Exported Under HTS product	Fill Rate
338	6110202065	612,629	87.4	131,782	21.51	3,969,168	38.10	349,291	8.80				
340	6205202065	782,369	42.7	46,388	5.93	1,568,347	12.98	57,407	3.66	1,793,834	21.77	22,842	1.27
	6205202015			53,295	6.81			2,678	0.17			82,176	4.58
347	6203424015	1,158,004	99.6	141,646	12.23	3,585,783	12.01	60,942	1.70	3,645,005	77.56	711,174	19.51
	6203424045			42,243	3.65			192	0.01			133,755	3.67
	6203424050			256,057	22.11			813	0.02			248,142	6.81
351	6208210020												
	6208210010												
634	6201933000												
	6210405020												

Source: Compiled from US Customs Service Textile Status Report & USITC Data Web.

Annex Table 4: Unit Price Deviation from Average World Price*

Country	HTS Code 6205202065 (Quota) MFA Category: 340			HTS Code 6208210020 (Quota) MFA Category: 351			HTS Code 6110202065 (Quota) MFA Category: 338			HTS Code 6204622010 (Non Quota) MFA Category: 359			HTS Code 6211420070 (Non Quota) MFA Category: 359		
	1990	1995	1999	1990	1995	1999	1990	1995	1999	1990	1995	1999	1990	1995	1999
Bangladesh	-24.51	-16.49	-20.97	-14.85	-9.67	-16.04	-18.37	-1.19	14.55	-36.48	-30.22	-17.36	-39.83	-21.37	-1.24
	(41.74)	(62.83)	(59.72)	(46.81)	(58.32)	(55.60)	(45.13)	(57.01)	(58.31)	(57.09	(73.86)	(73.09)	(21.59)	(42.19)	(63.04)
Mexico	-0.26	14.17	-1.34	23.13	21.03	-3.41	-4.86	-24.17	-18.56	-38.94	-12.02	34.74	-19.96	-19.5	-21.05
	(65.99)	(93.49)	(79.35)	(84.79)	(89.02)	(68.23)	(58.64)	(34.03)	(25.20)	(54.63)	(92.06)	(125.19)	(41.46)	(44.06)	(43.23)
Guatemala	-22.71	-10.24	-0.57	-9.21	-3.38	18.32	-29.62	-9.53	9.66	-19.97	-44.81	44.16	-7.67	4.62	-2.08
	(43.54)	(69.08)	(80.12)	(52.45)	(64.61)	(89.96)	(33.88)	(48.67)	(53.42)	(73.60)	(59.27)	(134.61)	(53.75)	(68.18)	(62.20)
El Salvador	-9.05	-19.98	-12.03	-61.66	-17.63	-3.08	-46.21	-21.78	-12.54	-18.57	-40.64	45.25	-15.88	-8.80	84.08
	(57.20)	(59.34)	(68.66)	(0.00)	(50.36)	(68.56)	(17.29)	(36.42)	(31.22)	(75.00)	(63.44)	(135.70)	(45.54)	(54.76)	(148.36)
Honduras	-18.54	-3.16	-12.52	-61.66	-13.81	-30.61	-21.61	-21.88	-20.29	-52.64	-38.95	-90.45	-44.47	-9.27	-18.36
	(47.71)	(76.16)	(68.17)	(0.00)	(54.18)	(41.03)	(41.89)	(36.32)	(23.47)	(40.93)	(65.13)	(0.00)	(16.95)	(54.29)	(45.92)
Dom. Rep	-7.08	-9.49	-25.91	-4.64	-14.44	-10.05	-11.75	-25.41	-8.39	-93.57	-96.57	47.7	0.76	7.1	-64.28
	(59.17)	(69.83)	(54.78)	(57.02)	(53.55)	(61.59)	(51.75)	(32.79)	(35.37)	(0.00)	(7.51)	(138.15)	(62.18)	(70.66)	(0.00)
Jamaica	-5.24	4.73	10.78	-39.78	-26.73	-37.28	-11.4	-24.27	-7.14	-93.57	-104.08	-90.45	-1.84	-63.56	-64.28
	(61.01)	(84.05)	(91.47)	(21.88)	(41.26)	(34.36)	(52.10)	(33.93)	(36.62)	(0.00)	(0.00)	(0.00)	(59.58)	(0.00)	(0.00)
Mauritius	8.95	35.97	42.74	-11.51	-29.8	12.31	-1.81	-4.17	35.01	-93.57	-33.06	10.65	-61.42	-0.52	-64.28
	(75.20)	(115.29)	(123.43)	(50.15)	(38.91)	(83.95)	(61.69)	(54.03)	(78.77)	(0.00)	(71.02)	(101.10)	(0.00)	(63.04)	(0.00)
Costa Rica	0.52	29.04	4.22	13.97	-20.64	-18.76	-9.38	-14.47	-6.08	-23.3	31.59	60.26	-23.05	18.54	136.95
	(66.77)	(108.36)	(84.91)	(75.63)	(47.35)	(52.88)	(54.12)	(43.73)	(37.68)	(70.27)	(135.67)	(150.71)	(38.37)	(82.10)	(201.23)
World	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	(66.25)	(79.32)	(80.69)	(61.66)	(67.99)	(71.64)	(63.50)	(58.20)	(43.76)	(93.57)	(104.08)	(90.45)	(61.42)	(63.56)	(64.28)

Source: Compiled from the USITC Data Web

Note: Figures in Parentheses are the Actual Prices per Dozen

* Unit Price Indicates Price per Dozen

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