

**Market Access and Livelihood Security:**  
*A strategy to ensure sustainability of the RMG sector*



**Make Trade Fair Alliance**

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This paper is prepared by INCIDIN Bangladesh for MTF alliance by review of existing literature, a rapid assessment of the RMG sector involving entrepreneurs and consultation with the workers representatives of the RMG sector, and finalized through a consultation meet with civil society actors (involving economists, development activists, workers' representatives and media personnel) on 29<sup>th</sup> April 2003.

## LIST OF ACRONYMS

BGMEA	Bangladesh Garments Manufacturers and Exporters Association
BTMA	Bangladesh Textile Mills Association
EBA	Everything but Arms
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
LDC	Least Developed Countries
MFA	Multi-fiber Arrangement
NAFTA	North American Free Trade Agreement
RC	Regional Cumulation
RMG	Readymade Garments
RoO	Rules of Origin
SAARC	South Asian Association for Regional Cooperation
TNC	Transnational Corporation
USTDA	United States Trade and Development Act
WTO	World Trade Organization

## Executive Summary

In Bangladesh, the RMG sector has emerged as the major export sector (75.67 percent of the total export of the country) and now has a large share of employment (especially that of female workers: it employs 1.5 million workers of which 85-90 percent are women). Therefore, Bangladesh has to consider a strategy that deals with the immediate risks as well as with the long-term sustainability of this sector. Therefore,

***In the short term;*** the government should focus on negotiating with the EU on the RoO relaxation in GSP utilization provisions to deal with immediate risk of losing market after phasing out of MFA, and

***In the long term;*** the government should assist in development of the backward linkage for the RMG sector.

The paper strongly argues in favor of relaxation of RoO as a short-term measure to deal with the imminent crisis facing the Bangladeshi RMG sector. It is expected that relaxed RoO would lead to growth in the RMG sector. The paper equally stresses on the need of having a long-term national strategy to promote backward linkage industries. For the long term strategy the BGMEA and the BTMA need to work together. The government and the third sector (i.e., the civil society actors as a whole) can play a facilitating role to engage the BGMEA and the BTMA to develop this collective strategy for the post-MFA regime. Thus, we need a *mixed strategy* in which on the one hand, we campaign for relaxation of RoO while on the other, we mobilize international support in developing the textile sector.

However, retention or expansion of market access does not automatically imply that the benefits of trade (or of additional export) will reach the workers. The government has to ensure that the benefit of trade reaches the poor (i.e. the workforce of RMG sector). To ensure that the efforts made by both the government and the development activists at global level do not only benefit the business, the development activists propose the following:

- ***Firstly, in case of any export/market access gained for the RMG sector, the government has to ensure that a portion of the net export earnings of the RMG sector is earmarked for the RMG workers' welfare.*** The government in its trade policy should earmark a certain proportion of the net export earnings (such as 5%<sup>1</sup>) exclusively for the workers welfare. This will ensure that the benefit of trade reaches the workers.
- ***Secondly, the focus of government support to the textile and the RMG sector should set priority on delivering direct benefits to the workers.*** The government resources and support should contribute in directly benefiting the workers and thereby contribute in building a sustainable industrial culture (better work environment, higher productivity, legal protection etc.). This in turn will also benefit the business by creating a better human rights record for Bangladesh RMG.

<sup>1</sup> Proposed by the workers representatives of the RMG sector during a consultation meet organized by INCIDIN Bangladesh, Dhaka, 26 April, 2003.

- **Thirdly, the government has to ensure that the workers of the RMG sector have access to their rights and legal protections.** In case of legal protection and rights, emphasis should be on the implementation of the national labor laws and the ILO conventions. The government needs to *institutionalize trade unions* by offering protection to the workers (who are predominantly women and facing harassment/risks of illegal termination for joining trade unions) so that they can freely be associated with these bodies.
- **Fourthly, both the national manufacturers and their international counterparts (the buying houses and the retailers) jointly need to perform their ‘corporate responsibilities’ towards the workers.** In this regard, if the RMG sector ultimately suffers a backlash effect of implementation of the ATC, the retrenched workers of this sector should have access to compensations. These compensations should be mobilized both nationally and globally under the corporate responsibilities as well as within the provisions of the WTO structure.

In this regard there is a strategic advantage through EBA (“everything but arms”) initiative of the EU (EU-EBA), taken in June 2000, providing duty-free, quota-free access to all products from the LDCs. It is an appropriate time for the call for RoO relaxation by EU because; the EC will review the EU-EBA in 2005. It opens up scope of bringing in amendments. Thus to make EU-EBA work for a country like Bangladesh, now is the appropriate time for us to put forward a case of RoO relaxation as a prospective area of amendment. The RMG workers and development activists hope that in the upcoming EU symposium on trade in textile and clothing (May 2003), the government would also reflect the long term interests of both the RMG workers and the manufacturers.

The experience of Seattle explicitly reveals that, for effective campaign in the international trade sphere, the human rights activists have to be on board. The development sector and the trade unions can work to mobilize these forces in favor of Bangladesh RMG sector. The government can play a vital role in making sure that the workers and the development activists see that their concerns are reflected in the policy proposals at home and at global forums. This will create a common interest of the labor, business and the third sector to work together with the government, and enable the government to attain its objectives both nationally and internationally.

## Section 1

### The Rules of Origin (RoO) and Their Justification

According to the GATT Agreement on the RoO, “rules of origin shall be defined as those laws, regulations and administrative determinations of general application applied by any Member to determine the country of origin of goods provided such rules of origin are not related to contractual or autonomous trade regimes leading to the granting of tariff preferences going beyond the application of paragraph 1 of Article I of GATT 1994.

Rules of origin referred to in paragraph 1 shall include all rules of origin used in non-preferential commercial policy instruments, such as in the application of: most-favored-nation treatment under Articles I, II, III, XI and XIII of GATT 1994; anti-dumping and countervailing duties under Article VI of GATT 1994; safeguard measures under Article XIX of GATT 1994; origin marking requirements under Article IX of GATT 1994; and any discriminatory quantitative restrictions or tariff quotas. They shall also include rules of origin used for government procurement and trade statistics.<sup>2</sup>

The objective of the RoO Agreement, negotiated during the Uruguay Round of the GATT, is to institute a set of uniform non-preferential RoO for the WTO member countries, and it is limited to non-preferential RoO as established under definition and coverage. The origin of goods may be determined on the basis of (a) substantial transformation, (b) change in character, (c) change in use, (d) change in the tariff classification and (e) change in the identity of the good<sup>3</sup> (Silveira, 2000).

Various regional groupings have RoO compliance requirements of their own. As for example, in order to gain preferential access to the European Union (EU) market for apparels, the exporters have to ensure compliance with the RoO requirements<sup>4</sup>. Appropriate certificates need to be issued to testify compliance.

The official justifications of the RoO include: (a) encouraging the backward linkage sectors in the beneficiary countries (b) preventing abuse of the preferential treatment given to developing countries and LDCs, (c) providing advantage to suppliers of raw materials of the beneficiary countries, and (d) attracting foreign direct investment (FDI) to the concerned sector.

The argument behind the RoO is that if there were no RoO requirements, the benefits would have accrued to the countries that have adequate supply capacities but intend to use the LDCs only for the purpose of re-export or for minimal value-addition, in an attempt to enjoy preferential treatment. At the same time, the RoO do provide some protection to the domestic industries of the importing countries, for example the apparel industry in the EU, by putting restrictions on the import of apparels under preferential treatment.

<sup>2</sup> It is understood that this provision is without prejudice to those determinations made for purposes of defining "domestic industry" or "like products of domestic industry" or similar terms wherever they apply.

<sup>3</sup> As for example, change from producer good to consumer good.

<sup>4</sup> The zero-tariff, quota-free preferential market access for Bangladesh's export of apparels to the EU was subject to strict RoO requirements. The EU-RoO requires compliance with conversion requirements.

## Section 2

### Relaxation of the RoO and Gains for Bangladesh

According to a simulation study conducted by the Centre for Policy Dialogue (CPD, 2002), if the RoO remain unchanged, aggregate export of Bangladesh would change by only about \$52 million. According to the same study, export of apparels to the EU would increase by only about 0.78% or \$8.1 million.<sup>5</sup> If the RoO are changed, allowing export under global accumulation, export of apparels to EU is expected to rise by about 10%. This study does make a case for further relaxing the RoO. But let us see how much Bangladesh actually gained from different phases of revised RoO.

Between 1980 and 1996, the conversion requirements for woven and knit garments were mostly two-stage and three-stage respectively. During this period average GSP utilization rate of Bangladesh for apparels exported to the EU experienced a gradual rise to 41.2% (EC documents). This rise can be attributed to two factors: development of backward linkage activities, and as was found later, corrupt implementation of the RoO criteria. In 1996 Bangladesh faced EU sanctions because of fraudulent activities in issuing compliance certificates. Subsequent strict implementation of the RoO resulted in a steep fall in the average GSP utilization rate from 41.2% in 1996 to 19.9% in 1997. Later on, between 1997 and 1998, there were derogation of conversion requirements to two-stage and one-stage (for knit and woven garments respectively) under a quota ceiling. The conversion requirements were changed afterwards to two-stage for both knit-and woven garments and this two-stage requirement (yarn to fabrics and fabrics to apparels) is currently in practice. Under these revised RoO there was a significant rise in the GSP utilization rate of Bangladesh in export of apparels to the EC countries.<sup>6</sup> The rate rose up from 19.9% in 1997 to about 31.2% in 1999, 39.9% in 2000 and 45.0% in 2001. This rise was recorded despite imposition of a quota. Relaxation of RoO did play a role in this impressive rise of the GSP utilization rate, but at the same time role of the developing backward linkage sector cannot be undermined, especially after imposition of the two-stage conversion requirement.

From Bangladesh's experience a direct positive correlation can be detected between the RoO requirements and compliance capacity on the one hand, and between the compliance capacity and the GSP utilization rate on the other. Thus the contribution of the compliance compulsions to domestic capacity enhancement should not be missed.

<sup>5</sup> Export of textile stands to make some gains due to factor substitution.

<sup>6</sup> In 1997, the EC granted Bangladesh an exclusive derogation. Under this revised RoO, the EC allowed Bangladesh SAARC and ASEAN accumulation for export of apparels for the period October 1997 and December 1998 (Ministry of Commerce, 2000).

## Section 3

### The RoO, the RMG and the Textile Sectors

The ready-made garments (RMG) exporters in Bangladesh are strongly in favor of relaxing the RoO requirements as this allows receiving of GSP treatment. Relaxation of the RoO in the form of regional cumulation (RC) would allow zero-tariff access even when fabrics are imported from other SAARC countries like India and Pakistan, since under RC facility the two-stage requirement would be fulfilled.

The sample of the rapid assessment reflects that predominantly (82.9 percent) the RMG manufacturers are in favor of relaxed RoO. The advantages of relaxed RoO, as are identified by the RMG manufacturers, involve both retention and expansion of market access. The list of probable benefits of a relaxed RoO regime includes:

- Prospect of growth of the RMG sector (67.9 percent)
- Expansion of market access (50.0 percent)
- Retention of market (46.4 percent)
- Attainment of SAARC RC (10.7 percent)
- Attraction of FDI to the RMG sector (7.1 percent).

Source: *Rapid Assessment on the Concerns of the RMG Manufacturers about Relaxation of the RoO and Future of the RMG Sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

The textile manufactures for obvious reasons is against any sort of relaxation of RoO, fearing that it would lead to a negative impact on consumption of local inputs in RMG sector. From this understanding and urgency they opposed RC facility. The immediate interpretation of RC (in this case SAARC cumulation) would be that if for zero tariff access to EC Bangladeshi RMG producers can use imported fabrics under the provision of RC, it would contribute in making the regional competitors (India and Pakistan) of textile sector much more competitive vis-à-vis Bangladeshi textile sector. This is because it will make the imported fabric much more competitive in comparison to local fabrics.

For the local domestic producers in the textile sector, comparative stringent imposition of RoO meant, over the years, greater market access (locally) and competitiveness against the global and regional competitors. EC's two-stage conversion requirement, over the years, provided the local textile sector an opportunity to grow as the government supported domestic backward linkage activities, and the local RMG sector also depended on the local textile to utilize GSP opportunity. However, RC would free the local RMG producers from the compulsion of using local fabric which in turn would lead to a collapse (or contraction) of the backward linkage industry (i.e. the textile industry).

The BGMEA argues that if RMG exporters are allowed zero-tariff access under RC, it would lead to a significant growth of the sector. As such the RC at first appeared as a success for Bangladeshi RMG sector, and the government was moving in favor of RC. The reasons were twofold- firstly, it held the potentiality in enhancing competitive edge for Bangladesh's RMG export, and secondly, it would relieve the government from continuing a very expensive cash bonus scheme (25 percent cash subsidy) for the textile sector. However, the government did not go through the plan.

The policy discussion on RC for the first time revealed that the government has to take the leading role in uniting the RMG and textile sectors of Bangladesh within a long-term strategy, while she tries to meet the global challenges introduced by WTO. In the next section we will try to establish the rationale of a joint strategy for RMG and textile sector in meeting the global challenges.

## Section 4

### Finding a Common Ground for the RMG and the Textile Sectors

Before considering relaxation of the RoO, one important aspect of the RC provisions needs to be noted.<sup>7</sup> Paragraph 1 of Article 72a lays down the rules that determines the country of origin of the final product:

*"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).*

The important aspect of this RC provision is that *"the value-added there (e.g. in Bangladesh) is greater than the highest customs value of the products used originating in any of the other countries (e.g. India) of the regional group (e.g. SAARC)"*. This is significant when we consider that at present Bangladeshi RMG sector, using imported fabrics is capable of adding only 25-30 per cent of the total export value. Thus if fabrics are imported from India, Bangladesh's value addition (25%) will be much less than that of the local value addition of India (75%). Thus, according to Paragraph 1 of Article 72a, Bangladesh will not receive GSP treatment at a rate of 100 per cent duty drawback on 12.1 per cent tariff, which Bangladesh deserves as an LDC.

According to current GSP provisions under EC preferential regime, LDCs are eligible to receive 100 per cent duty rebate while the rate of the duty rebate is 15 per cent for developing countries. In that case, the GSP margin for Bangladesh will be calculated at the rate of developing country (such as India and Pakistan), which means 15 per cent duty drawback on 12.1 per cent tariff rate instead of 100 percent duty rebate leading to a net duty rebate of about 1.8 per cent (15 per cent of 12.1 per cent). In other words, Bangladesh RMG exports to EC market will still be less attractive to EC importers as they will still have to pay a duty of 10.3 per cent on any such Bangladesh imports. Thus, net benefits of RC will not be very significant for Bangladesh given the present provisions of RC.

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<sup>7</sup> Rahman, M. and Bhattacharya, D. (2002) provide the details of this argument.

It is important to identify that a half of the entrepreneurs are also aware that the SAARC cumulation will not work for Bangladesh in its present form because of strict RoO requirements based on the prerequisite of higher value addition than that of the input exporting country.

Source: *Rapid Assessment on the Concerns of the RMG Manufacturers about Relaxation of the RoO and Future of the RMG Sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

Thus, Bangladesh cannot really comply with the requirements of RC. Before we can really address the issue of RC, it needs to be ensured that

- either the EU requirement of value addition for RC in general is lowered,
- or specific flexibility regarding value addition for SAARC RC is negotiated

Even if Bangladesh can negotiate on the above areas, we need to keep in mind that any arrangement on the basis of RoO can be short lived and erratic<sup>8</sup>, especially after phasing out of MFA in 2005. So we need to work on some long-term strategies that can ensure sustainability of our RMG sector by developing the backward linkage industries.

Although the majority favors relaxation of the RoO, interestingly, almost three quarters (72.7 percent) of the sample RMG manufacturers register their concerns regarding the probable negative impacts of relaxation of the RoO on the textile sector.<sup>9</sup> The RMG manufacturers are apprehensive that any major relaxation of the RoO may negatively affect the RMG sector in the long run by affecting the textile sector.

Source: *Rapid Assessment on the Concerns of the RMG Manufacturers about Relaxation of the RoO and Future of the RMG Sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

Another aspect of the issue lies in the sphere of backward linkage development. One major idea behind emergence of RoO is development of the backward linkage sector. This is evident from the fact that market access for Bangladesh increased in terms of GSP utilization rate despite tightening of RoO. This, in a way, supports the fact that Bangladesh can benefit from development of backward linkage. At the same time, it is obvious that the RMG sector benefits from relaxation of RoO.

Almost the entire sample of the RMG manufacturers (97 percent) strongly recommend in favor of developing backward linkage industries (especially textile).<sup>10</sup> The arguments in favor of the backward linkage development are directly linked with their concerns towards developing a long term strategy for the RMG sector.

Source: *Rapid Assessment on the Concerns of the RMG Manufacturers about Relaxation of the RoO and Future of the RMG Sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

It is important to note that the scheme of cash incentive for the textile sector in a way helps to ensure that the RMG sector would be able to meet the RoO's conversion requirements to utilize GSP. This reveals that the two sectors (RMG and textile) have a common ground with respect to GSP utilization.

<sup>8</sup> Starting from 1996 till 1998 for EU the RoO changed three times

<sup>9</sup> Please see Annex-II; Table-3.

<sup>10</sup> Please see Annex-II; Table-4.

Moreover, it is obvious that given the present supply capacity of Bangladeshi textile, a large part of the fabrics for EU-RMG had to be sourced from outside. Based on this argument, one may argue that there is a need to have relaxed RoO so that Bangladesh RMG can utilize as much as zero-tariff under RC. Those who go for such argument fail to see that, if the national capacity in terms of fabric declines and increased dependency on external sourcing becomes a reality, then the RMG exports would be solely dependent on relaxed RoO which in any case cannot be taken as a long-term phenomenon.

40 percent of the sample RMG manufacturers are apprehensive that in the long run by under a relaxed RoO regime, Bangladesh RMG will not be sustainable, since such a regime would negatively impact the backward linkage sector.

Source: *Rapid Assessment on the Concerns of the RMG Manufacturers about Relaxation of the RoO and Future of the RMG Sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

Thus for the RMG sector it is evident that relaxation of RoO can be a short term remedy, but for long-term sustainability potential of backward linkage has to be at least retained and preferably expanded.

## Section 5

### Strategies for Long Term Sustainability

As discussed earlier, in the past Bangladesh was able to increase its export market share and augment domestic value addition through establishment of backward linkage industries under domestic policy support as well as revision of RoO (i.e. two-stage conversion). To replicate and better the past success, the policy makers need to focus on two basic issues (a) ensuring initiatives that allow easier access of export of apparels from Bangladesh in the short term and (b) ensuring support to domestic backward linkage activities in the long term.

To benefit from RC facility, one *short-term* option could be lobbying for global RoO i.e., allowing market access at zero-tariff irrespective of origin of raw materials. An alternative could be a revision of the EU-RoO, allowing for two-stage and one-stage conversion for knit-and woven-RMG respectively. Another alternative could be change of the RoO from the 'stages of conversion' to the 'value-addition' criterion. A 25%-30% value addition requirement would provide Bangladesh's export of apparels a zero-tariff access to the EU market. On the other hand, as a *long-term* option, increase in the local value addition can be considered. This would provide access to EU market with the full advantage of the tax-rebate (zero-tariff market access).

While considering these policy options, we need to remember that without taking the textile sector on board, the RMG sector cannot be sustained in the long run (i.e. building capacity of competitiveness with or without the RoO relaxation). At the same time, we need to remember that in a post-MFA regime Bangladeshi RMG export will come under stiff competition. As the quota provision will no longer be there, market access will be determined either by bilateral/ regional treaties or by a simple rule of competition. This, together with little capacity in GSP utilization, will make Bangladesh susceptible to hazards of global competition more than many other LDCs. Furthermore, one has to remember that Bangladesh is not a member of any of the high profile bi-lateral, regional or any sort of preferential treatment treaties (such as USTDA-beneficiary countries that are enjoying both quota-free and duty-free access, countries enjoying preferential treatment under bilateral-FTAs e.g. Vietnam under US-Vietnam FTA, Mexico under NAFTA, and Turkey under EU-Turkey FTA). Bangladesh will have to compete with them. At the same time Bangladesh will have to compete with countries like China and India who have strong backward linkages.

In Bangladesh, the RMG sector has emerged as the major export sector (75.67 percent of the total export of the country)<sup>11</sup> and now has a large share of employment (especially that of female workers: it employs 1.5 million workers of which 85-90 percent are women<sup>12</sup>). Therefore, Bangladesh has to consider a strategy that deals with the immediate risks as well as with the long-term sustainability of this sector. The government and the third sector (i.e., the civil society actors as a whole) can play a facilitating role to engage the BGMEA and the BTMA to develop a collective strategy for the post-MFA regime. Only this can ensure that

<sup>11</sup> Faces in transition: A study on the probable impacts of phasing out of MFA upon the livelihood security of the female workers of the RMG sector in Bangladesh, INCIDIN Bangladesh, Dhaka, September, 2001.

<sup>12</sup> The RMG sector of Bangladesh and its female workers: Awaiting a new global movement, INCIDIN Bangladesh, Dhaka, 31 May, 2002

phasing out of MFA does not lead to any human catastrophe or economic crisis (such as loss of employment of a large section of female workers or loss of export remittance). Thus:

***In the short term;*** the government should focus on negotiating with the EU for the RoO relaxation in GSP utilization provisions to deal with immediate risk of losing market after phasing out of MFA, and

***In the long term;*** the government should assist in development of the backward linkage for the RMG sector.

The paper, therefore, strongly argues in favor of relaxation of RoO as a short-term measure to deal with the imminent crisis facing the Bangladeshi RMG sector. It is expected that relaxed RoO would lead to growth in the RMG sector. The paper equally stresses on the need of having a long-term national strategy to promote backward linkage industries.<sup>13</sup> Thus, we need a *mixed strategy* in which on the one hand, we campaign for relaxation of RoO while on the other, we mobilize international support in developing the textile sector.

To ensure that the short-term relaxation of the RoO does not lead to a total collapse of the textile sector, the government has to ensure that the existing capacity of the textile sector is also utilized, even if a regime of relaxed RoO is initiated. As for example, under an effective RC (which may require 25%-30% value addition), a proportion of the total export can utilize local fabric, and this proportion can gradually be increased with investment, efficiency, and capacity utilization coming to play a positive role in the growth of the textile sector making it competitive at the end. In other words, the BGMEA and the BTMA have to come to an agreement on short-term sharing of costs of building a sustainable base for the RMG sector.

One of the significant findings of the rapid assessment is that the overwhelming majority (82.4 percent) of the sample RMG entrepreneurs identify a need of a joint initiative of the BGMEA and the BTMA in facing the challenges of post-MFA competition.

Source: *Rapid Assessment on the Concerns of the RMG Manufacturers about Relaxation of the RoO and Future of the RMG Sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

This, however, is a national concern and the international trade regime has little part (if at all) to play in this respect. On the other hand, without this national consensus, we can only move for relaxation of the RoO at international forums such as EU. This is because without the joint commitment of the BGMEA and the BTMA to develop a backward linkage sector and motivation to look beyond immediate costs-benefits, we cannot call for international support in developing a backward linkage sector. No one will consider the case, if we are not able to show how textile sector can be developed under a flexible regime of RoO.

<sup>13</sup> Though some argue that dyeing and finishing are adequate, the paper makes a case of developing comprehensive backward linkages in the RMG sector; at least two-stage conversion capacity.

## Section 6

### The RoO and the Concerns of RMG Workers

The issue of the RoO is primarily treated in relation to the question of market access. At present, when the RMG sector of Bangladesh is anticipating challenges in a post-MFA regime, the question becomes vitally important for the sole existence of this sector. In this regard, both the workers (by at least retaining their employment) and the entrepreneurs (by at least retaining their external markets) may be benefited from a relaxation of RoO. This argument indicates that the issue of market access has an impact on the livelihood security of the RMG workers (who are mostly female).

The RMG workers representatives feel that the RMG workers are together with the entrepreneurs (i.e. the BGMEA) regarding expanding the market access of Bangladesh RMG.

Source: *Consultation with the workers representatives regarding RoO relaxation and future of RMG sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

In terms of working condition, rights and wage level, it cannot be concluded that over the period of growth the RMG sector either invested in or contributed towards poverty alleviation of the workers of the sector.

The RMG workers leaders identify that the RMG sector entrepreneurs have not contributed in improving the workers' livelihood security during the years of growth of the sector. They opine that even today the entrepreneurs are less interested to talk about workers' rights and well-being. However, the importance of workers wellbeing for a sustainable RMG sector is now clear to a large section of the entrepreneurs. Therefore, to make trade work for the RMG workers, now is the time of designing means of channeling trade benefits to the workers.

Source: *Consultation with the workers representatives regarding RoO relaxation and future of RMG sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

As such, the quality and extent of empowerment of the female workers of the sector can be questioned. However, one cannot but recognize the economic power originating from the employment of the female workers in the RMG sector. If, as projected in a study, .35-.40 million workers of the RMG sector become unemployed as a result of MFA phasing out, at least 1.6 million members of poverty stricken households face further economic hardship.<sup>14</sup>

The workers' representatives feel that relaxed RoO would benefit the RMG workers, who are predominantly female, to retain employment as relaxed RoO would at least help retain if not expand market access of the RMG sector.

Source: *Consultation with the workers representatives regarding RoO relaxation and future of RMG sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

<sup>14</sup> The Human Toll of Globalization: Impacts on the female workers of RMG sector in Bangladesh; INCIDIN Bangladesh; Paper presented at the Annual Conference 2002, "Globalization and Bangladesh Economy" of Bangladesh Economic Association, Dhaka, 7 March 2002.

This establishes a strong case for demanding relaxation of RoO not merely as a means of ensuring market access but also as a means of protecting the workers livelihood security. However, if one is motivated to contribute to the livelihood security of the female garments workers of the country, one needs to realize that;

- Relaxation of RoO is only a short term solution. Without building a sustainable base for RMG sector (with adequate depth in backward linkage to survive in a comparatively stringent RoO regime), the risk of collapse of the sector and therefore unemployment of the workers will remain.
- Retention or expansion of market access does not automatically imply that the benefits of trade (or of additional export) will reach the workers.

At the same time, the workers' representatives are worried that relaxed RoO may decrease the prospect of building a strong backward linkage sector and thereby it will undermine the long-term sustainability of the RMG sector.

Source: *Consultation with the workers representatives regarding RoO relaxation and future of RMG sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

For the government, projected unemployment and macroeconomic implications associated with the fall of the RMG sector explicitly has become an area of concern. This is because with the fall of the RMG sector the government may face with:

- 0.35-0.4 million workers ( in total) unemployed
- 0.31-0.36 million female workers out of job (46.6% of these workers contribute a significant part of their income to the families)
- Reduced export earnings (6.19% of total export earnings)
- Low foreign exchange reserve ( US \$ 1.06 billion)
- Low export growth within the sector<sup>15</sup>

The estimations reflect two basic features; *firstly*, the RMG workers (90% of which is women) will suffer more in terms of loss of livelihood than that of the entrepreneurs. *Secondly*, the fall of the garments sector may lead to a multiplier effect leading to a major recession. This clearly indicates a crisis in terms of political unrest and instability as well as societal wellbeing and human rights situation. Probably this has also triggered proactive interventions from the government.

Almost similarly, the development sector is motivated to work with the RMG sector, primarily to ensure an improved and sustainable livelihood for the workers of the sector. The question of market access is seen interlinked with the concerns for workers livelihood. In this regard, the development activists and the government stand together.

When in the upcoming EU Conference on textile, the government presents its concerns for the RMG sector; the development activists stress on reflection of the workers' concerns along with that of the entrepreneurs. The development activists underscore the need of going beyond a mere short term solution. They urge also to work on a sustainable solution both for the entrepreneurs and the workers. At the same time, to ensure that the efforts made by both

<sup>15</sup> *ibid.* INCIDIN Bangladesh, Dhaka, 7 March 2002

the government and the development activists at global level do not only benefit the business, the development activists propose the following:

- **Firstly, in case of any export/market access gained for the RMG sector, the government has to ensure that a portion of the net export earnings of the RMG sector is earmarked for the RMG workers' welfare.** The government in its trade policy should earmark a certain proportion of the net export earnings (such as 5%<sup>16</sup>) exclusively for the workers welfare. This will ensure that the benefit of trade reaches the workers. This will also lead to a better image of the RMG sector and create another element of sustainability. This amount should be developed into a *workers' welfare fund*, which should be invested in (a) social infrastructure building such as low cost housing for the (female) RMG workers, schools for the (female) workers' children and health care facilities for the (female) workers and their dependents etc., (b) delivery of services such as health care, crèche etc. and (c) compensations such as to the retrenched/illegally terminated/ injured/ incapacitated workers, who are also predominantly female<sup>17</sup>.
- **Secondly, the focus of government support to the textile and the RMG sector should set priority on delivering direct benefits to the workers.** The government resources and support should contribute in directly benefiting the workers and thereby contribute in building a sustainable industrial culture (better work environment, higher productivity, legal protection etc.). This in turn will also benefit the business by creating a better human rights record for Bangladesh RMG. Such supports from the government should be targeted towards health care, housing, transportation, education and job focused training for both the RMG and the textile workers. This would project a much more humane image of Bangladesh RMG at the global level among the buyers and the consumers<sup>18</sup>.
- **Thirdly, the government has to ensure that the workers of the RMG sector have access to their rights and legal protections.** The workers are still awaiting formal 'letter of employment', absence of which is undermining their basic rights as workers of a formal sector like the RMG. The workers representatives and the workers in general are nevertheless, optimistic about the betterment of work environment and labor situation based on the positives changes taking place within the sector. They also share these optimisms with the buyers' representatives and global workers rights associations. It is now beyond dispute that, this type of support of the RMG workers is essential for the sector, if it plans to survive the post-MFA global trade regime. This emphasizes that the entrepreneurs should be much more responsible and sincere to build on these positive changes in the work environment and labor situation. In case of legal protection and rights, emphasis should be on the implementation of the national labor laws and the ILO conventions. The need for a 'code of conducts' should not replace the national labor laws and the ILO conventions, rather any code of conduct should primarily focus on implementation of the national labor laws and the ILO conventions. The government needs to *institutionalize trade unions* by offering protection to the workers (who are predominantly women and

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<sup>16</sup> Proposed by the workers representatives of the RMG sector during a consultation meet organized by INCIDIN Bangladesh, Dhaka, 26 April, 2003.

<sup>17</sup> Proposed by the workers representatives of the RMG sector during a consultation meet organized by INCIDIN Bangladesh, Dhaka, 26 April, 2003.

<sup>18</sup> Proposed by the workers representatives of the RMG sector during a consultation meet organized by INCIDIN Bangladesh, Dhaka, 26 April, 2003.

facing harassment/risks of illegal termination for joining trade unions) so that they can freely be associated with these bodies<sup>19</sup>.

- **Fourthly, both the national manufacturers and their international counterparts (the buying houses and the retailers) jointly need to perform their ‘corporate responsibilities’ towards the workers.** In this regard, if the RMG sector ultimately suffers a backlash effect of implementation of the ATC, the retrenched workers of this sector should have access to compensations. These compensations should be mobilized both nationally and globally under the corporate responsibilities as well as within the provisions of the WTO structure<sup>20</sup>.

There is a need of clearly defining the ‘corporate responsibility’ in terms of its goal and implementation process, mechanism and bindings. The consultation meet with the civil society actors proposes that the *corporate responsibility*:

- Should have the primary goal of improving the workers’ situation and livelihood security at the source countries (i.e. the less developed countries like Bangladesh where the final products are manufactured by the big corporate houses of developed economies).
- Should hold the corporate actors of the developed economies (such as TNCs of the USA, EU which are earning the largest share of profit from the trade in RMG) jointly responsible along with the local manufacturers for investing in improving the workers’ situation and livelihood security at the source countries.
- Should compel the TNCs to invest a certain portion of their corporate profit to the source countries (with poor labor standards) to enable them to comply with/improve labor standards, instead of the present practice of withdrawing capital from a source country in the face of allegation of poor labor standards
- Should compel the TNCs to let their shareholders and consumers know what they are doing (in terms of investment) to improve the labor standards in source countries and regularly report on the status/progress.

Source: *Consultation Meet* with the civil society actors on the draft policy proposal, INCIDIN Bangladesh, Dhaka, April 2003.

The government needs to highlight that if the international trade regime offers special and differential treatments to the RMG sector, the business sector will not be able to bypass the concerns of the labor. This will create allies in the west (among the human rights activists and labor rights groups as well as among international buyers) and add value to government’s proposal.

In the home ground this will satisfy the interest of workers, who for obvious reasons require more attention from the government. This is not a time to be divided, the government has to work along with the business sector (push the BGMEA and the BTMA to work within a strategic alliance) and trade unions (ensuring that the workers interests are legally and formally represented), to carry weight to its arguments at the international arena.

<sup>19</sup> Proposed by the workers representatives of the RMG sector during a consultation meet organized by INCIDIN Bangladesh, Dhaka, 26 April, 2003.

<sup>20</sup> Proposed by the workers representatives of the RMG sector during a consultation meet organized by INCIDIN Bangladesh, Dhaka, 26 April, 2003.

## Section 7

### Strategic Concerns for Bangladesh

The paper concludes that both the government and the development sector would gain by the policies proposed to gain market access. These are<sup>21</sup>:

- Short term negotiation for relaxation of RoO as a means of market access
- And pushing the BGMEA and the BTMA to negotiate a strategy of developing backward linkage (even if RoO is relaxed) as a means of long term sustainability.

In this regard there is a strategic advantage through EBA. Under the “everything but arms” initiative of the EU (EU-EBA), taken in June 2000, duty-free, quota-free access to all products from the LDCs, on a non-reciprocal basis, is to be implemented by the end of the multilateral negotiations, or by 2005 at the latest. EBA is much more stable because unlike the EU-GSP EBA has no time-limit<sup>22</sup>. But, as far as textiles/apparels export by the LDCs (such as Bangladesh) is concerned the EBA retained the RoO requirements as it has been in case of GSP. It is an appropriate time for the call for RoO relaxation by EU because; the EC will review the EU-EBA in 2005. It opens up scope of bringing in amendments. Thus to make EU-EBA work for a country like Bangladesh, now is the appropriate time for us to put forward a case of RoO relaxation as a prospective area of amendment.

The trade union leaders hope that in the upcoming EU symposium on trade in textile and clothing (May 2003), the government would reflect the interests of both the RMG workers and the manufacturers.

Source: *Consultation with the workers representatives regarding RoO relaxation and future of RMG sector in Bangladesh*, INCIDIN Bangladesh, Dhaka, April 2003.

There has to be some measures to ensure that at national level there is a collective cost sharing mentality among the BGMEA and the BTMA in bearing the burden of establishing a worthy backward linkage for RMG. This alone would enable government to mobilize resources both nationally and internationally for the needed growth in backward linkage sector(s).

At the same time, the paper focuses on the concerns of the workers of the RMG sector. The government also has to ensure that the benefit of trade reaches the poor (i.e. the workforce of RMG sector). In this regard the government may;

<sup>21</sup> The arguments and propositions are made in details in section-5 of the present paper.

<sup>22</sup> Under GSP duty free and quota-free market access to LDCs in the EU member countries is subject to renewal and revision.

- direct government' resources and supports in social capital and services benefiting the workers;
- earmark a proportion (at least 5 % as proposed by the workers association) of net export earning under any bi-lateral or regional trade treaty expanding market access of the RMG sector;
- ensure that the workers of the RMG sector have access to their rights and legal protections; and
- oversee that both national manufacturers and their international counterparts (the buying houses and the retailers; TNCs) jointly perform their 'corporate responsibilities' towards the workers.<sup>23</sup>

The experience of Seattle explicitly reveals that, for effective campaign in the international trade sphere, the human rights activists have to be on board. The development sector and the trade unions can work to mobilize these forces in favor of Bangladesh RMG sector. The government can play a vital role in making sure that the workers and the development activists see that their concerns are reflected in the policy proposals at home and at global forums. This will create a common interest of the labor, business and the third sector to work together with the government, and enable the government to attain its objectives both nationally and internationally.

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<sup>23</sup> The arguments and propositions are made in details in sectin-6 of the present paper.