

Rapid Assessment
On the
Concerns of the RMG Manufacturers
about Relaxation of RoO and Future of
RMG Sector in Bangladesh¹



Make Trade Fair Alliance

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¹ *INCIDIN Bangladesh carried out a rapid assessment in April 2003 to develop a policy proposal for the government regarding campaign in EU conference on Textile in Brussels in May 2003.*



LIST OF ACRONYMS

BGMEA	Bangladesh Garments Manufacturers and Exporters Association
BTMA	Bangladesh Textile Mills Association
EBA	Everything but Arms
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GOB	Government of Bangladesh
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
USTDA	United States Trade and Development Act
WTO	World Trade Organization



Section 1

Awareness on the RoO among the RMG Manufactures

The findings of the rapid assessment² reveal that 77.8 percent of the ready-made garments (RMG) entrepreneurs are aware of the issues concerning the debate over the rules of origin (RoO) while the others (22.2 percent) are aware of the basics of the concept and its implications for the RMG sector.³

The level of awareness is significantly higher among the sample RMG entrepreneurs on the issues of the RoO compared to such issues as MFA phasing out⁴ or other aspects of the WTO, as recorded in the previous surveys.

This reveals that the issues of the RoO are practical concerns for the RMG sector and in one way or another, the sample manufacturers are aware of the implications.

Section 2

Motivation for Relaxed RoO

The sample of the rapid assessment reflects that predominantly (82.9 percent)⁵ 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).⁶

Those who are in favor of or in opposition to the relaxation of RoO mention that they are aware of both positive and negative implications of the measures. They are of the opinion that the benefits of relaxed RoO will outweigh the negative impacts of such measures.

² Please see Annex-I for methodology.

³ Please see Annex-II; Table-1.

⁴ 87.5 percent of the entrepreneurs are either unaware or confused about MFA. Please see “The Multi-fiber Arrangement and Its Effects on the Textile and Clothes in the Third World: A Case Study of Bangladesh”, Dr. Bhattacharjee, D. and Dr. Hashem, A., BSSF-Support Center, 1995, page-254: Table-7.05.8.

⁵ Please see Annex-II; Table-2.

⁶ Please see Annex-II; Table-2.1. However, the rapid assessment also reveals (the findings are not presented in the Annex) that those who are against relaxation of RoO, take the position because they fear it would destroy the textile sector, stop the prospect of backward linkage, lead to unemployment in textile sector, make RMG unsustainable etc.



Section 3

Impacts of Relaxed RoO

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.⁷ 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. Their list of apprehensions includes:

- Loss of employment (55 percent)
- Loss of market (50 percent)
- RMG will not be sustainable (40.0 percent)
- Loss of investment (35 percent)
- Less value addition by RMG (15 percent)⁸

It needs to be noted that despite these probable negative impacts, the majority of the sample RMG manufactures favors a relaxed regime of the RoO.

Section 4

Backward Linkage and the RMG sector

Almost the entire sample of the RMG manufacturers (97 percent) strongly recommend in favor of developing backward linkage industries (especially textile).⁹ 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. The RMG manufacturers identify that development of backward linkage would reduce lead time (55.9 percent), decrease production costs (52.9 percent), help expansion market access (52.9 percent), add more value (38.2 percent), generate more profit (35.3 percent), help comply the RoO (29.4 percent), increase employment (29.4 percent) and make RMG more competitive (20.6 percent). Some of them express optimism that there is a scope of mobilizing capital (11.8 percent) and even of attracting FDI (5.9 percent).¹⁰ This optimism basically reflects a need.

When the sample of the RMG manufacturers are invited to identify the enabling conditions for developing a backward linkage sector, they list government subsidy (53.1 percent), introduction of new technology (50.0 percent), government lobby for international support (46.9 percent), commitment of BGMEA (46.9 percent), development of national policy (31.3 percent), development of efficient workers (25.0 percent), strict implementation of RoO (21.9 percent), commitment of BTMA (18.8 percent) and attraction of FDI (9.4 percent).¹¹

⁷ Please see Annex-II; Table-3.

⁸ Please see Annex-II; Table-3.1.

⁹ Please see Annex-II; Table-4.

¹⁰ Please see Annex-II; Table-4.1.

¹¹ Please see Annex-II; Table-4.2.



It is important to note that, after government subsidy and new technology, a large portion of the RMG entrepreneurs emphasize on the commitment of the BGMEA (46.9 percent) more than that of the BTMA (18.8 percent) in ensuring development of the backward linkage sector. This reflects that the RMG entrepreneurs are well aware that they need to play a decisive role in establishment of backward linkage industries. In other words they do not perceive the task of developing backward linkage sector as the sole responsibility of the government and the BTMA.

Section 5

The RMG Sector and the SAARC Cumulation

The rapid assessment finds that the sample RMG entrepreneurs are well aware (84.8 percent) of the issues and controversies concerning the *SAARC Cumulation*.¹² Significantly, although a large majority of the sample entrepreneurs (65.7 percent) opine that Bangladesh RMG will be sustainable under the SAARC cumulation (if current requirements are fulfilled by the local RMG sector), a third of them (34.3 percent) oppose that concept¹³. 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.¹⁴ This indicates that a good number of RMG entrepreneurs identify the need of backward linkage-based long term competitiveness to survive the post MFA era. In fact a portion of the RMG entrepreneurs (14.3 percent) clearly mentions that the SAARC cumulation may lead to a complete collapse of the textile sector of the country.¹⁵

Section 6

Impact of Strict RoO on the RMG Sector

The majority (59.4 percent) of the sample entrepreneurs is concerned with the loss of market as a direct consequence of strict implementation of the RoO. A direct corollary to the lost market appears to be massive retrenchment of workers. 46.9 percent of the respondents hold this opinion. Significantly, a third (31.3 percent) of the sample entrepreneurs are apprehensive that only the big manufacturers would be able to survive in case of a rigid regime of the RoO.¹⁶

Almost three quarters (72.7 percent) of the sample entrepreneurs suggest development of backward linkage as the strategic option of surviving under a stringent RoO regime. More than half (57.6 percent) of the RMG entrepreneurs sees a strong role of the government in developing the backward linkage sector (especially that of textile). A relatively smaller

¹² Please see Annex-II; Table-5.

¹³ Please see Annex-II; Table-5.1.

¹⁴ Please see Annex-II; Table-5.2.

¹⁵ Please see Annex-II; Table-5.2.

¹⁶ Please see Annex-II; Table-6.



section (33.3 percent) perceives the development of backward linkage only in terms of dyeing and finishing.¹⁷

Though the proportion is small (12.5 percent), there is a section of entrepreneurs who are optimistic about Bangladesh RMG even under strict compliance of RoO.¹⁸ On the other hand, almost the same proportion (12.1 percent) is extremely pessimist in case of a stringent RoO regime.¹⁹

Section 7

Coming Together for Sustainability

One of the significant findings of the rapid assessment is that the overwhelming majority (82.4 percent) of the sample RMG entrepreneurs identifies a need of a joint initiative of the BGMEA and the BTMA in facing the challenges of post-MFA competition.²⁰ In other words, the entrepreneurs are willing to go beyond the short term profit maximization strategy and contribute towards building a sustainable RMG sector by building a stronger textile sector (as the backward linkage). This is where the rapid assessment finds optimism in resolving the current conflicts between the BGMEA and the BTMA over the SAARC cumulation.

Section 8

Confirming Workers' Gains in Trade

The sample RMG entrepreneurs are aware of the fact that a regime of either relaxed or tightened RoO is eventually going to take a toll on the lives of the RMG workers by contracting employment opportunities.²¹ As a consequence to that the sample entrepreneurs morally accept the workers' claim over the gains from trade. However, rather than ensuring the workers' rights in the form of trade unions (11.4 percent) and formal job contract (17.1 percent), the entrepreneurs are interested to invest in provisions of social services for the workers. Their plan for workers' wellbeing encompasses the areas of health care (71.4 percent), better work environment (60.0 percent), better wage (54.3 percent), insurance (22.9 percent), and crèche for babies of the female workers (11.4 percent). It is worth noting that there is a minority without any well-directed plans for the workers.²²

¹⁷ Please see Annex-II; Table-6.1.

¹⁸ Please see Annex-II; Table-6.

¹⁹ Please see Annex-II; Table-6.1.

²⁰ Please see Annex-II; Table-7.

²¹ Please see Annex-II; Table-3.1 and 6.

²² Please see Annex-II; Table-8.



Section 9

Concluding Remarks

As is evident from the tables, the sample RMG entrepreneurs are in favor of relaxed RoO as a short term remedy, but they are also aware of the havoc it can play on the textile sector and on the RMG sector in the long run. For survival of the RMG sector in the long run, in harmony with the textile sector, the sample entrepreneurs are of the opinion of the BGMEA and the BTMA working together, with support from the government. In such an environment, the sample entrepreneurs are also eager to social and economic needs of the workers.



Annex-I

Methodology



Methodology of the Rapid Assessment

Informal Survey:

For the rapid assessment an informal survey has been designed and implemented. The rationales behind choosing the method of informal survey are as follow:

- The rapid assessment required quantitative information regarding a relatively homogeneous population within a short span of time.
- The rapid assessment required quantitative data about opinion, assessment and recommendations of the sample within a short span of time.

Under these conditions, informal survey has been found to be quite effective means of data collection. This is because informal survey has the advantage of generating required quantitative data within a short period of time with limited economic and personnel resources. Moreover, non-random sampling errors are usually low in informal surveys leading to a better quality of overall data trends.

Sample size:

The sample size for the informal survey usually ranges between 30 and 50 people. As such for the purpose of this rapid assessment, 36 ready-made garments (RMG) manufacturing establishments are selected. Out of these 36 establishments, 9 (25 percent) are involved in knitting and the remaining 27 (75 percent) are involved in woven garments manufacturing. In total 36 individuals from these 36 establishments are interviewed. The interviewee pool consists of 1 Executive Director, 20 Managing Directors, 11 Directors, and 4 Managers.

Questionnaire:

The interviewees are interviewed with a structured questionnaire consisting of mainly open-ended questions. The close-ended questions are of 'yes/no' type, and the open-ended questions are designed to seek opinions, assessments and suggestions.



Annex-II

Quantitative Annex



Table: 1
Awareness on RoO issues

Awareness about RoO	% distribution of the entrepreneurs (N=34)
Complete	77.8
Partial	22.2
Total	100

Table: 2
Opinion regarding relaxed RoO

Opinion regarding relaxed RoO	% distribution of the entrepreneurs (N=34)
In favor of relaxed RoO	82.9
Against relaxed RoO	17.1
Total	100

Table: 2.1
Motivation for relaxed RoO

Motivation for relaxed RoO	% distribution of the entrepreneurs (N=28)
Help grow the RMG sector	67.9
Help expand market access	50.0
Help retain market	46.4
To attain SAARC RC	10.7
Attract FDI to the RMG sector	7.1
Total (multiple response)	250



Table-3
RMG producers' concern about impacts of RoO relaxation on textile

If concerned for textile	% distribution of the entrepreneurs (N=36)
Yes	72.7
No	27.3
Total	100

Table-3.1
Concern about negative impacts of relaxed RoO on RMG

Impacts of relaxed RoO on RMG	% distribution of the entrepreneurs (N=28)
Loss of employment	55.0
Loss of market	50.0
RMG will not be sustainable	40.0
Loss of investment	35.0
Less value addition by RMG	15.0
Total (multiple response)	195.0



Table-4
Assessment on the need for developing backward linkage in RMG sector

If there is a need for developing backward linkage in RMG	% distribution of the entrepreneurs (N=36)
Yes	97.0
No	03.0
Total	100

Table-4.1
Reasons for developing backward linkage in RMG sector

Reasons for backward linkage in RMG	% distribution of the entrepreneurs (N=34)
It will reduce lead time	55.9
It will decrease production costs	52.9
It will help to expand market access	52.9
It will add more value	38.2
It will generate more profit	35.3
It will help comply RoO	29.4
It will increase employment	29.4
It will make RMG more competitive	20.6
It will create scope of mobilizing capital	11.8
It will attract FDI	5.9
Total (multiple response)	332.4

Table-4.2
Suggestions for developing backward linkage in RMG sector

Suggestions for developing backward linkage in RMG	% distribution of the entrepreneurs (N=34)
Government's subsidy	53.1
Introduction of new technology	50.0
Government lobby for international support	46.9
Commitment of the BGMEA	46.9
Development of national policy	31.3
Development of efficient workers	25.0
Strict RoO	21.9
Commitment of the BTMA	18.8
Attract FDI	9.4
Total (multiple response)	303.1



Table-5
Awareness on SAARC cumulation

If aware of SAARC cumulation	% distribution of the entrepreneurs (N=36)
Yes	84.8
No	15.2
Total	100

Table-5.1
Assessment of impacts of SAARC cumulation on sustainability of RMG sector

IF aware of RMG sustainability under SAARC cumulation	% distribution of the entrepreneurs (N=35)
Yes	65.7
No	34.3
Total	100

Table-5.2
Understanding on SAARC cumulation

Understanding on SAARC cumulation	% distribution of the entrepreneurs (N=28)
It will help RMG sector	50.0
It is not applicable for Bangladesh RMG	50.0
It means regional sourcing with GSP	28.6
The government stopped it	21.4
It will increase RMG exports to EU	17.9
It will destroy textile sector	14.3
Textile sector stopped it	10.7
Total (multiple response)	192.9



Table-6
Assessment of impacts of tightened RoO on RMG sector

Impacts of tightened RoO on RMG sector	% distribution of the entrepreneurs (N=33)
Loss of international market share	59.4
Loss of employment	46.9
Increase in production costs	37.5
Only the big factories will survive	31.3
RMG sector will manage to survive	12.5
Total (multiple response)	187.5

Table-6.1
Suggestion for survival of RMG sector in a tightened RoO regime

Suggestion for survival of RMG sector in a tightened RoO regime	% distribution of the entrepreneurs (N=33)
Develop backward linkage	72.7
Government subsidy	57.6
Introduce dyeing and finishing (at least)	33.3
No way to survive	12.1
Total (multiple response)	175.8

Table-6.2
Individual plan for sustainability in a tightened RoO regime

Individual plan of the RMG producers in a tightened RoO regime	% distribution of the entrepreneurs (N=32)
Train workers	39.4
Move for proactive marketing	36.4
Introduce dyeing and finishing	30.3
No plan/idea at hand	27.3
Improve work environment	24.2
Total (multiple response)	157.6



Table-7
Concern for a joint strategy of the BGMEA and the BTMA

If the BGMEA and the BTMA should develop joint strategy	% distribution of the entrepreneurs (N=35)
Yes	82.4
No	17.6
Total	100

Table-8
Plans regarding workers wellbeing

Plans regarding workers wellbeing	% distribution of the entrepreneurs (N=35)
Health care facilities	71.4
Better work environment	60.0
Better wage	54.3
Insurance	22.9
Job contract (formal employment)	17.1
Workers union	11.4
Crèche for babies of the female workers	11.4
No plan	5.7
Total (multiple response)	254.3