Statement of M. Humayun Kabir, Ambassador of Bangladesh on "The End of Multifibre Agreement: Impact on Developed and Developing Countries' at the USDA on 31 January 2008.

Mr. Walter J Armbuster, President of Farm Foundation
Dr. Karen S. Hamrick, USDA Research Service
Distinguished Panelists, Ladies and Gentlemen,

First of all I would like to thank the Farm Foundation and the USDA for inviting me to share our thoughts on the impact of the end of multifibre agreement: Impact on Developed and Developing countries." We consider the issue as a topical one, and hence deserves due attention and consideration from the US government, business and the members of public about the need to create a level playing field for the most disadvantaged members of the international community, who survive on a limited number of export products. In my brief presentation, I shall try to focus on the impact of the end of multifibre agreement on the apparel industry in Bangladesh and the challenges they are likely to face in the coming days.

The post MFA period was mixed blessings for the global apparel suppliers and consumers. For the consumers, it meant that they could have better and cheaper products at a competitive price. For some of the buyers, it opened up the global market without any major distortion. The big challenge however came for some of the suppliers from the developing countries, particularly those from the LDCs, which emerged as apparel suppliers to the global market by taking advantage of the quota system. In most cases, they built up a labour intensive apparel industry, which offered new opportunity of livelihood for millions of impoverished people. Bangladesh is one such country which has come a long way in the Textile and Clothing business during the last two and a half decades. The new market reality emerging after the elimination of quota in the post MFA period has posed a dramatic challenge to this growing industry. Industry experts have been predicting serious consequences as the market opened up after the expiry of Agreement of Textile and Clothing on 1 January 2005. Fortunately, proving itself as a 'puzzle,' "Bangladesh is still in the game."

Let me briefly touch upon what the apparel industry has done to the economy of Bangladesh? Garment industry, as is popularly known in Bangladesh has done transformed the industrial and employment landscape in Bangladesh in many ways. Indeed, the apparel industry has served as an engine of economic growth in Bangladesh pioneered the sustained growth of the manufacturing sector, which now comprises 30 percent of the fast restructuring Bangladesh economy. It has also been spearheading the export growth in the economy of Bangladesh. Currently, apparel earns 76 percent of Bangladesh's export revenue. Currently, apparel sector contributes 9.5 percent of GDP and directly employs 2 million workers, 80 percent of whom are women. Indirectly, it employs about 15 million people. Indeed, 70 percent of business at Chittagong port is garment related, while about 40 percent of employment in the Banking sector is derived from handling garment related documentation. These figures have to be seen against the backdrop of 40 percent of the country's 60 million is unemployed, while two thirds of the jobs stem from the relatively less productive agriculture sector. About 40 percent of the people live under the poverty line. It should be underscored that besides offering employment opportunities, employment in the apparel sector has contributed significantly to the empowerment process for a huge number of women in Bangladesh, which has significantly contributed to building a veritable social shield against the rise of any kind of extremism in the society.

What is the structure of Bangladeshi apparel industry? Firstly, one significant advantage that Bangladesh enjoys is the availability of relatively inexpensive labour force. Even, according to some estimates, compared to regional level Bangladesh has distinct advantage here. Low labour cost is not an unmixed blessing though; it comes with a price, which is low productivity. However, recent efforts have improved the situation somewhat, although the industry has yet to go a long way in this regard. Further up the chain, shortage of good middle management is again a blind spot for the industry. This perpetuates the tendencies to commoditize the products, and prevented the development of a more modern corporate culture, which can give a chance to sustain the pressure from the more advanced competitors. This handicap has also been acknowledged by the business leaders.

Secondly, Bangladesh depends on a limited number of items. Indeed, 92 percent of export revenue comes from 7/8 items. Indeed, this has been in a way strength of the apparel industry in Bangladesh. According to some analysts, being a producer of basic woven products, such as shirts and pants, Bangladesh apparel industry enjoys some advantages. However, in recent years, knit products have contributed handsomely to the export revenue. Thirdly, lack of homegrown raw materials is a big challenge for Bangladesh in a liberalized market. This problem is more acute in the woven sector. According to several estimates, woven sector can procure roughly 30 percent of its raw materials from the domestic market. Market experts calculated that in 2007, Bangladesh will need nearly 3 billion meters of fabric, but the domestic industry cannot supply more than 1.3 billion meters. Fabric being bulk of the cost in apparel business dependence of imported fabric not only takes away a large part of the cost, it also increases the lead time and in the process increases industry vulnerability.

Fourthly, while vertical integration is offering advantages to China and India, Bangladesh apparel sector is still fragmented on its production process. Yet, full adjustment and compliance with the international labour standards is a big task that remains to be fully completed. Bangladesh also has a mixed reputation that helps and hinders business. While the product quality earns good name, broader negative perception also affects the garment sector. “The apparel industry receives stellar ratings for its quality and capabilities, which are unfortunately overshadowed by the bad publicity and assumed sovereign risk attached to the country. We have to battle against perceptions, but for us quality is now a given.” recently reported one garment owner.

What factors helped Bangladesh to survive?

Ladies and gentlemen,

Despite initial bumps after the phase out of MFA, the apparel industry in Bangladesh has somehow managed to absorb the initial shock and adjusted itself to navigate in the relatively open business environment. Good quality of its products and long lasting supportive business relationship with the leading buyers in Europe and the US has helped Bangladesh apparel industry to survive thus far. Indeed, even after MFA phase out when the market condition became uncertain, Bangladeshi garment factories continued to receive orders from big buyers, due mainly to their past reliability as business partner. In some cases, buyers look at Bangladesh as an alternative source apart from the powerful suppliers. Apparently, big buyers such as Wal-Mart, H&M, Levis, Nike etc do not intend to leave the country overnight. At this stage, that helps Bangladesh industry to survive and in some cases thrive.

Some degree of modernization also took place in the apparel sector in Bangladesh as well. Many factories upgraded their technology leading to higher productivity; capital investment in technology in the denim sector has made good returns possible. That perhaps made Bangladesh the largest denim supplier to European market. They also improved their management skills to make the production efficient and cost effective.

The rapid growth of knitwear as an export component was the most significant restructuring of the industry. From a total share in garment export earnings of 25 percent in 1997 knitwear export rose nearly half of the export in 2006-2007. In volume terms, knitwear now accounts for more than 60 percent of Bangladesh’s apparel export. Indeed, certain policy changes by the government helped the knit sector in reducing its lead time. Since December 2005, the import of yarn and raw cotton import was allowed from India through land ports, which directly benefited the knitwear sector.

In the post MFA period, existing trade preferences and opening of new markets continued to facilitate export of Bangladeshi apparel to major export markets. For example, in the EU Bangladesh continues to benefit from the EBA initiative adopted in 2001. In principle, this means that Bangladesh's exports to the EU benefits from duty free access, but in fact strict Rules of Origin and value addition rules stymie the growth potential.

Safeguard measures imposed on China by the European Union through 2007 and by the United States through 2008 have provided some opportunity for all apparel producing countries to maintain a relatively larger share of the global market than they would have otherwise managed. The evidence from Canada however provides a cautionary note for Bangladesh and other producers. Bangladesh's share of the overall Canadian market has declined from 7.7 to 6.9 percent over the past two years. Canada is, by the way, only major market for Bangladesh which has not imposed interim safeguard measures on China. Experience of Bangladesh in the US market during 2002 also suggests similar trend. During that period, import of baby clothes from China by the US quadrupled while import from Bangladesh fell by 16 percent. Other types of apparel showed similar trend. Bangladesh lost 33 percent of its export market for 29 products removed from quota on 1 January 2002.

The competitiveness of Bangladesh's apparel sector in the post MFA period has also been guarded in part by the flexible exchange rate regime. Bangladesh embarked on a free floating exchange rate system in March 2003. The depreciation of Taka coincided with the phasing out of the MFA regime. A comparison of nominal exchange rates of currencies of several major Asian suppliers vis a vis US dollar shows that only taka has depreciated particularly during the 2004-2006 period. The Chinese Yuan and Indian Rupee had appreciated during the same period. However, recent trend of Taka appreciating may adversely affect the competitiveness of Bangladesh garment in the global market.

Building a partnership among the government, business and the international organizations on the eve of the expiry of ATC also helped to prepare the industry to deal with the post MFA challenges. Under the guidance of a Task Force, chaired by the Commerce Minister, a post MFA Action Plan was developed with six components, which included quality and skill development, and capacity enhancement among others. The business leaders responded aggressively to achieve those goals, and as apart of that process set up a Compliance Cell in January 2004 in addition to collaborating with ILO to upgrade labour relations and working conditions in the factories. A working Group was set up with representatives from the World Bank, DFID, South Asian Development Fund, BGMEA, BKMEA, ERD, Ministry of Textile and Jute and the Ministry of Foreign Affairs. On their part, the workers joined hands by adopting the Dhaka Declaration to deal with the post MFA situation.

Trends and challenges?

Series of studies have noted the changing nature of apparel business in the global market. Although expansion of share of major exporters was somehow contained under the MFA regime, almost all experts agree that there will be fewer countries accounting for a larger share of total apparel and textile exports. It is therefore not surprising to note that Chinese share of total global export was 20 percent for Textile and 28 percent for clothing in 2003 and it is anticipated to grow to 50 percent for the clothing in 2009. A recent US AID study on the Impact of the end of MFA quotas on Common market of Eastern and Southern Africa (COMESA)'s Textile and Apparel Exports under AGOA perhaps correctly observed that three trends will shape the textile and apparel business in the future, namely, consolidation, integration and price decline. More consolidation at the supplier sources as well as at the retail level may take place, with corresponding development of growing integration at the supply chain level. All these factors will inevitably build up pressure on the price level. It has been seen that in the post MFA world, price decline by 10-20 percent has occurred within a year. For a country like Bangladesh, which suffers from fragmentation of their industry, is likely to suffer most from such an eventuality. Yet again Bangladesh's significant structural handicap, such as higher transportation as well as other costs, is a drag on its competitiveness. USITC own analysis concluded that "the status of Bangladesh as an overall supplier to US market is uncertain." Although some firms considered Bangladesh as 'competitive alternative to China for mass produced, low end apparel' but they also noted the challenges it faced.

As the consumers are becoming more focused on fashion and design, the apparel industry will continue to face more challenges. This might be more visible in fragmented European market, and needless to say that smaller supplier like Bangladesh will find it difficult to adjust to such quick changes in design and fashion.

Yet another factor that is now coming to the fore is the concept of socially responsible buying. This would mean that in response to buyers' demand the retailers will also insist on strict compliance with labour laws and full respect to workers rights. In fact, compliance issue has now at least two dimensions, one is respecting the national labour laws and to adhere to the global norms for workers rights. This brings the issue of compliance to the forefront.

Another challenge or advantage is the emergence of regional trading blocs, within which apparel trade like any other trade will be conducted. In fact, one statistics shows that about 50 percent of trade currently takes place with the trading blocs around the world. Sometimes, these blocs hinder the flow of trade with countries outside such blocs.

How the United States could Help Bangladesh?

The United States is one of the two largest destinations for Bangladesh's apparel products. About 30 percent of apparel export from Bangladesh comes to the United States. Although since 2005 Bangladesh has somehow maintained its small market share in the US textile and clothing market, Bangladesh's competitiveness in this sector remains extremely fragile. Attention is drawn to the report entitled 'Trading Apparel: Developing Countries in 2005,' which catalogued 17 factors that determine competitiveness. In that Bangladesh low labour cost comes fifth after other factors, such as stability in the host country, quality of infrastructure, policies on investment and trade and telecommunication infrastructure, among others. Furthermore, in the absence of either having vertical integration of its production process or the possibility of moving up the value chain in the short term, the apparel sector in Bangladesh will face serious challenge in the event safeguard measures imposed on China are withdrawn by the end of 2008. As evidence has shown earlier, with its limited capacity, Bangladesh like many other modest suppliers will not be able to withstand the pressure from large competitors.

In this context, while the decision on any safeguard measure is within the purview of the US government, we believe that it would be extremely helpful if the US Congress could consider the passage of the New Partnership for Development Act 2007 (HR 3905), which has been introduced by Congressman Jim McDermott. So far, around two dozen Congressmen have co-sponsored the bill. The bill envisages offering duty free access of products from all the least developed countries, including Bangladesh and those from AGOA to the US market. It also proposes to offer support to the LDCs for developing capacity building in various sectors of their economies. Bangladesh believes that passage of the Bill will create a level playing field for the least Developed Countries to compete in the US apparel market. It would worthwhile to mention that affording the LDCs such an opportunity will help the US to fulfill its earlier promises and in the process create new market in the developing countries. For the United States, this might mean two things: one could be rewarding Bangladesh for its performance and in the process support social stability. It may be noted that Bangladesh now pays around $500 million in tariff to the US against an export of $3 billion, while the United Kingdom pays around $400 million against its export of around $53 billion. The other would be to capitalize on business benefit by the United States from a growing middle class in Bangladesh among its 150 million people.

Some may raise the question about how the passage of NPDA bill will affect the employment opportunities in the US. Our feeling is that ongoing restructuring of the global textile and clothing business both destroys and creates jobs in the economy. This is true of all countries, including the United States. If the LDCs get duty and quota free access to the United States, they will perhaps take a small slice from the existing apparel import; but they may open up a new possibility of business for the cotton and other products from the United States. Economic activity may not be zero sum game; it could be win- win situation for all of us. Free trade has already proved that it can bring benefit for many if not all.

I thank you, and wish all success for the seminar.
