Impact of the Initiatives of World Trade Organisation on Export of Ready Made Garments from Bangladesh

Thesis submitted for the award of the Degree of
DOCTOR OF PHILOSOPHY
In the Department of Marketing, University of Dhaka

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CERTIFICATE

This is to certify that the thesis entitled ***"Impact of the Initiatives of World Trade Organisation on Export of Ready Made Garments from Bangladesh"*** submitted by **Md. Moshiul Azam,** for the award of the degree of **DOCTOR OF PHILOSOPHY** in the faculty of Business Studies, University of Dhaka, Bangladesh, is a piece of bona fide research work carried out by him under my supervision and it has not been submitted previously to this or any other university for the award of any degree, diploma, associate ship or any other similar titles.

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February, 2018	Co-Supervisor	Supervisor

DECLARATION

I hereby declare that the thesis entitled ***"Impact of the Initiatives of World Trade Organisation on Export of Ready Made Garments from Bangladesh".*** Record of bona fide work carried out by me under the guidance and supervision of **Dr. HaripadaBhattacharjee,** Professor, Department of Marketing, University of Dhaka, Bangladesh, and **Dr.Morshed Hasan Khan** Professor, Department of Marketing, University of Dhaka, Bangladesh, for the award of the degree of **Doctor of Philosophy** in the faculty of Business Studies. I further declare that this thesis has not been submitted earlier for the award of any degree/diploma of any university.

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February, 2018

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Dedicated to my parents, teachers and my family

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Glossary of Acronyms and Abbreviations

ABI	Argentina, Brazil and India
ACP	African, Caribbean and Pacific
ADD	Anti- Dumping Duty
AGOA	African Growth and Opportunity Act
AMTAC	American Manufacturing Trade Action Coalition
ASEAN	Association for South East Asian Nations
ATC	Agreement on Textiles and Clothing
ATPA	Andean Trade Preference Act
ATPDEA	Bangladesh Trade Promotion and Drug Eradication Act
BDXDP	Bangladesh Export Diversification and Development Project
BGMEA	Bangladesh Garment Manufacturers and Exporters
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BTMA	Bangladesh Textile Mills Association
CBA	Collective Bargaining Agency
CBI	Caribbean Basin Initiative
CBTPA	Caribbean Basin Trade Partnership Act
CBW	Central Bonded Warehouse
CEPZ	Chittagong Export Processing Zone
CGE	Computable general Equilibrium

CPD	Centre for Policy Dialogue
CVD	Countervailing Duty
DC	Developing Country
DEPZ	Dhaka Export Processing Zone
DF	Degree of Freedom
EBA	Everything-But- Arms
EO	Export-Oriented
EPB	Export Promotion Bureau
EU	European Union
EPZ	Export Processing Zone
FOB	Free and Board
FTA	Free Trade Areas/Free Trade Agreement
FY	Financial Year
GAFTT	Global Alliance for Fair Textile Trade
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of Preferences
GTAP	Global Trade Analysis Projects
IAF	International Apparel Federation

ICAC	International Cotton Advisory Committee
IF	Integrated Framework
ILO	International Labor Organisation
IMF	International Monetary Fund
LC	Letter of Credit
LDC	Lest Developed Country
MFA	Multi-fiber Arrangement
MFN	Most Favored Nation
MTN	Multilateral Trade Negotiations
MTS	Multilateral Trading System
NAFTA	North America Free Trade Agreement
NAMA	Non- agricultural Market Access
NGMA	Negotiations Group on Market Access
NGO	Non-Governmental Organisation
NTB	Non-tariff Barriers
OI	Oxfam International
OPT	Offshore Processing Trade
PMAP	Post-MFA Action Plan
PTA	Preferential Trade Agreements
PTS	Primary Textiles Sector

RCA	Revealed Comparative Advantage
RMG	Readymade Garments
ROI	Return On Investment
RoO	Rules of Origin
RTA	Regional Trading Arrangements
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
S&D	Special and Differential
S&DT	Special and Differential Treatment
SPSS	Statistical Package for Social Science
SSA	Sub-Saharan Africa
TA	Technical Assistance
T&C	Textile and Clothing
TIFA	Trade and Investment Framework Agreement
TRIPs	Trade Related Intellectual Property Rights
TRRPD	Trade Related Research and Policy Development
TU	Trade Union
UNCTAD	United Nations Conference on trade and Development
UNDP	United Nations Development Program
URA	Uruguay Round Agreement

US	United States
USITC	United States International Trade Commission
US-TDA	United States Trade and Development Act
VER	Voluntary Export Restriction
WTO	World Trade Organisation

1.1: Introduction

The Multi-fiber Agreement (MFA) was approved by the General agreement on Tariff and trade (GATT) in 1974 to regulate most of the world trade in textile and clothing. The primary objective of GATT was to institute a system of non-discriminatory free trade based on negotiated range of tariff structures. As per decision in the Uruguay Round, MFA was abolished from 1st January, 2005.

Taking advantage of MFA quotas, Bangladesh's export of apparel items, popularly known as readymade garments (RMG) in the country has flourished. Almost an unknown commodity in the 1970s and early 1980's RMG exports rose to its position of prominence within a short span of time. The growth of clothing export of Bangladesh was largely attributed to the reserved market status in North America under the MFA and to a generous Generalized System of preference (GSP) facility that allowed duty-free and quota-free market access for T & C products of LDCS to the European Union.

Till the conclusion of Uruguay Round multilateral trade negotiations, international Trade in Textile and Clothing (T&C) was outside the ambit of the GATT rules. Developed countries were able to obtain special concessions in the various rounds of GATT. It allowed them to significantly restrict entry of T&C from the developing countries in their markets.

The argument most often put forward was that low cost supplies from the developing countries would lead to market disruption, and undermine 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. It deflected the growth trajectory of the sector in which many developing countries enjoyed a natural comparative advantage. As is supported by accumulated evidences, manufacturing of T&C has been classically the mother lode industry lode industry for many developed countries.

History of economic development supports this position as after food, clothing has been the next important demand by consumers and source of employment for large number of workers.

The four phases of fifty years of restrictive practices in global trade in T & C has been chronologically depicted in **Table-1.1**

- Immediate Post-Second WW II Period: Voluntary Export Restraint
- 1961 Short Term Arrangements (STA)
- 1962 Long Term Arrangements (LTA)
- 1974-1994: Multi-Fiber Agreement (MFA)
- At the conclusion of Uruguay Round 1995

  First Extension- 1977

  Second Extension-1982

  Third Extension-1986

  Fourth Extension-1991

  Number of members-44

  Countries Maintaining QR-4 (USA, Canada, EU and Norway)

Source: IMF report on RMG misleading: BTMA, July 21, 2014.

Curiously, at the time of putting in place Long Term Arrangement (LTA) in 1962 the USA's import penetration rate in textile and clothing was only 6% and 2% respectively. Spinanger (1998) rightly observed that, such low level could trigger such a massive response is perhaps surprising. But it is indicative of the protectionist attitude the developed countries have traditionally maintained with respect to their textile and clothing sector.

Competition has always been intense in the T&C sector. In this sector, low wage, inferior technology and mass production had given the developing countries an edge over important segments of the global market. Enforcement of the MFA, with its important quotas injected an important element of distortion in the global trade in T&C.

More developing countries appeared in the global scenario as producers of T&C. It was of major concern to the industrialized countries also as 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 jurisdiction of restrictions virtually all types of T&C. The main point was that the exporting countries could capture the rents originating from the restricted supplies.

Though in return they had to agree 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. It was put into effect in 1974.Initially it was negotiated for a period of four years. Later the MFA came to dominate the global trade in T&C for about two decades. Between the periods of 1974-1994, trade in T&C had mostly been negotiated bilaterally by governments through rules articulated in the MFA

As stated in MFA preamble, the MFA attempted to reconcile the following objectives:

(a) Reduction in the proliferation of restrictive measures in textiles products, and
(b) 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 in trade in T&C within an agreed and predictable framework. It has tried to reconcile two conflicting objectives as stated in its preamble. In fact, the MFA provided a multilateral umbrella under which Governments of the developed countries could restrict imports of T&C. It threatened their domestic interest, which, in essence, manifested GATT illegal. A synopsis of various deviations of the MFA from the GATT rules is presented in Table-2.

Table 1. 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 affect only one supplying country.
Recourse to safeguard actions required compensation to be made by the importer in favor of the exporter.	No compensation was provided for the supplying country.

Source: IMF report on GATT: Aug 11, 1994.

The 1986 Protocol of Extension made the MFA more restrictive with extension of restraints covering imports of non-cotton fibers. It also brought within the ambit of all the relevant

players (MFA also included a non-GATT member, China). As of 1993, 44 countries were members of MFA. Eight of these countries were categorized as 'importers', while the others were categorized as 'exporters' subject to bilateral restraint agreements. Four developed countries, viz, USA, EU, Canada and Norway were maintaining quotas on imports of T&C at the time of signing of the Uruguay Round.

At the time of signing of the EU, the USA maintained quotas on imports from 47 countries, 37 of which were WTO members, Canada maintained quotas on apparel exports from 21 countries.

Quota restrictions 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.
It is to be noted here that the MFA and countries such as Japan governed not all trade in T&C 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 (Abdullah, 2008).

1.2: The Basic Economic of the MFA

The key feature of the quotas imposed under the MFA is that they are imposed only by a subset of countries, and only on exports from a subset of exports. For an individual exporter, the impact of these quotas is to restrict access to the MFA importer markets, and to encourage diversion of it's from these restricted markets to other, unrestricted, markets. An important feature of this policy regime is that the importers allow the exporters to allocate the quotas, and hence to benefit from the higher prices in the restricted markets. This is perhaps because the original system of quotas from which the MFA evolved was of such doubtful legality under the GATT.

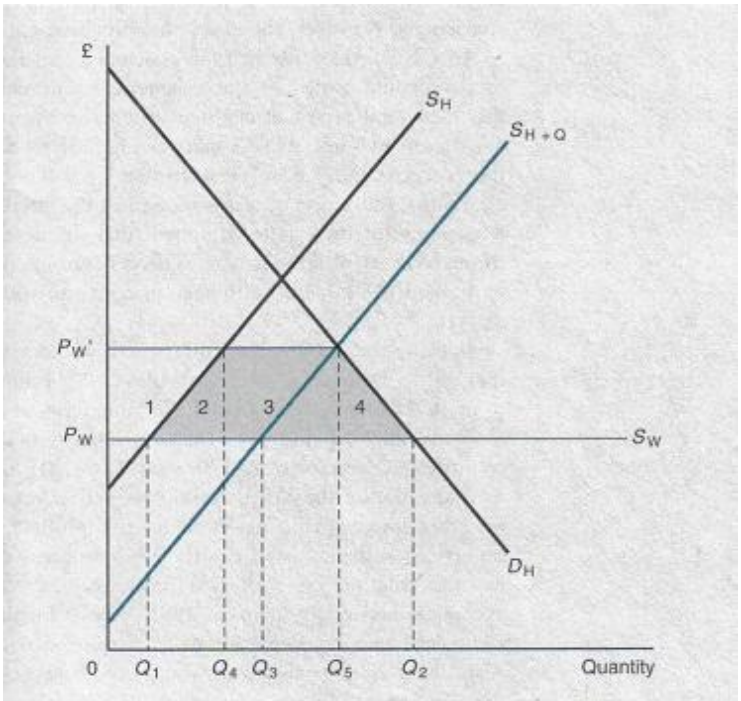
The Multi-Fiber Agreement was set up in 1974 as a set of formal quota agreements and restrictions, governing textiles and the clothing trade between developing countries and the developed world. The MFA replaced the 1964 Agreement in International Trade in Cotton Textiles. There are a number of reasons cited for the introduction of the MFA, although the

most widely accepted is that of the developed world using it as a form of protectionism to secure their own textile industries against the threat posed by low-cost competition from less developed countries.

'However, by giving quotas to individual nations, it also gave them a guaranteed share of the rich countries.' (BBC News, 2004) This is in contrast to some other justifications for the MFA, for example 'a major aim of the multi-fiber agreement has been to provide greatest scope for newly industrialized countries to increase their share of world trade in textile products whilst at the same time maintaining some stability for textile production in the developed economies.' (Griffiths and Wall, 1997)

The quotas, operated under the Agreement on Textiles and Clothing (ATC), were originally introduced under the MFA. A key feature of these quotas is that they are imposed only by a subset of countries and only on exports from a subset of exporters. (Hamilton, 1990) Another important feature is that the importers allow exporters to allocate the quotas and hence potentially to benefit from the higher prices in the restricted markets. (Martin, Manole and Van Der Mensbrugghe, 2004).

Figure-1: The following supply and demand diagrams outline the theoretical effects of imposing quotas such as the MFA.

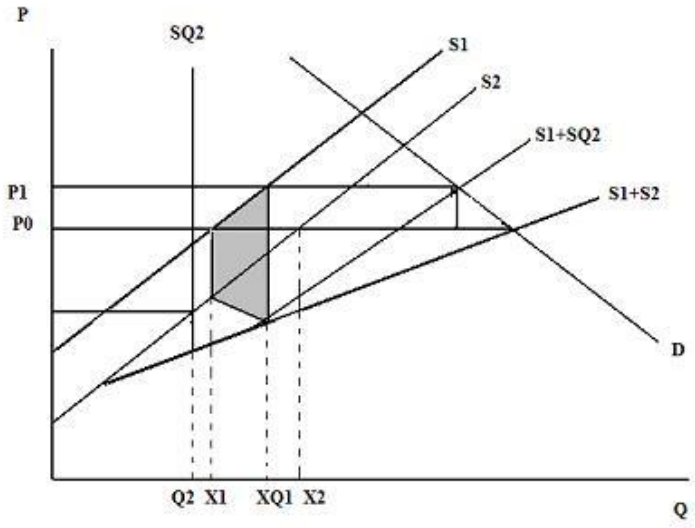


(Taken from Griffiths & Wall, 1997)

The diagram assumes that world supply is perfectly elastic, and represented by point Pw, the point of production assuming free trade. Production of clothes and textiles in the developed economy is represented by 0Q1; and the level of demand for these products is represented by 0Q2. There is clearly a difference between the level supplied and demanded at this price; therefore, the developed world needs to import Q2-Q1 from the developing world economies. Assume now the introduction of the MFA, which is represented by the implementation of a quota, Q3-Q1, limiting imports from the developing economies to the developed world. The total supply into the developed economies is now represented by SH+Q, which results in a price rise from Pw to Pw', and a reduction in demand from 0Q2 to 0Q5. In turn, the level of imports from the developing nations is reduced by the amount Q3 – Q1.

The imposition of the MFA therefore, leads to a situation of reduced consumer surplus, indicated by area 1+2+3+4. There is however, an area of producer surplus, indicated by area 1 on the diagram, although the quota leaves a net welfare loss represented by area 2+3+4.
This diagram explains the principles of the MFA as a quota system, and its effects. However, the MFA operates under a system where some countries are restricted and others are not. The following diagram looks at the effects of this situation.

Figure: 2



(Adapted from Faini, De Melo and Takacs, 2001)

The assumptions for this diagram are as follows: there are two countries exporting an identical textile product. D represents the demand curve for developed countries, and S1 and S2 are supply curves for two developing countries exporting to the developed country. If free

trade existed, then P0 would be the equilibrium price, and each country would export at levels X1 and X2 respectively, where their supply curves intersect at P0. The MFA is now used to introduce an export quota on country 2, placing a cap on the number of imports, reflected by level Q2. Country 2's supply curve now becomes vertical at the level of the quota, because they cannot export further goods beyond this point. The total level of supply to the developed world now becomes S1+SQ2, raising the equilibrium price to P1. The level of exports from the country without a quota now increases to XQ1, to compensate for the loss of exports from the other country.

This diagram shows the inefficiencies created by implementing the MFA, through its restriction of imports from low-cost countries, shifting production to higher costs countries. If the MFA were removed, allowing the developing countries to produce at a cheaper rate then the production savings are represented by the grey area on the diagram. Therefore, consumers in developed countries pay more for their goods, and LDCs, subject to quotas, cannot generate the level of export earnings which they otherwise could.

There is an argument that developing countries actually benefit through the MFA, because they receive 'quota rents', meaning they receive higher prices than they would be guaranteed in a free market, as shown by area 1 on the first diagram above. However, this is not likely to be a valid argument given that a study by Balassa and Michalopoulos (1985) showed that the value of lost output, as highlighted by the diagrams, exceeds the quota rent by 9 times to the US, and by 7 times to the EU. In addition, 'quotas on imports of textiles in the US have restricted the supply of certain apparel products and increased their price by as much as 70%' (Tanzea, 2000 cited in Hill).

It is therefore argued that 'the bilateral quotas that make up the MFA arbitrarily divide up markets and prevent trade flows from efficiently allocating production and efficiently distributing goods among consumers in different countries.' (Faini, De Melo and Takacs(2001).

In 1994, as part of the Uruguay Round of multilateral trade negotiations, it was decided that the MFA should be phased-out by January 1st 2005, as part of the Agreement on Textiles and Clothing. This was to ensure that the clothing and textile industry become better aligned with the principles of WTO, and the promotion of free trade.

The basic economic implications of the MFA for an individual exporter can be summarized in the simple diagram drawn from Martin and Supachalasai (1990) and presented as figure 1. To keep the diagram simple, we base it on the widely-used Armington's assumption that the products produced by the exporter of interest are differentiated from those produced by other countries. This allows us to draw well-defined import demand curves for the country's products in the restricted markets ($D_{R)}$.and in the unrestricted markets (Du). The horizontal summation of these two demand curves gives the global demand (D_T) for the exports from the exporter under consideration. In the absence of any quota restrictions, as in Figure 1, the intersection of this total demand curve, and the export supply curve from the country in question, will yield the uniform price at which exports are sold.

Figure: 3: Market equilibrium in the absence of quotas

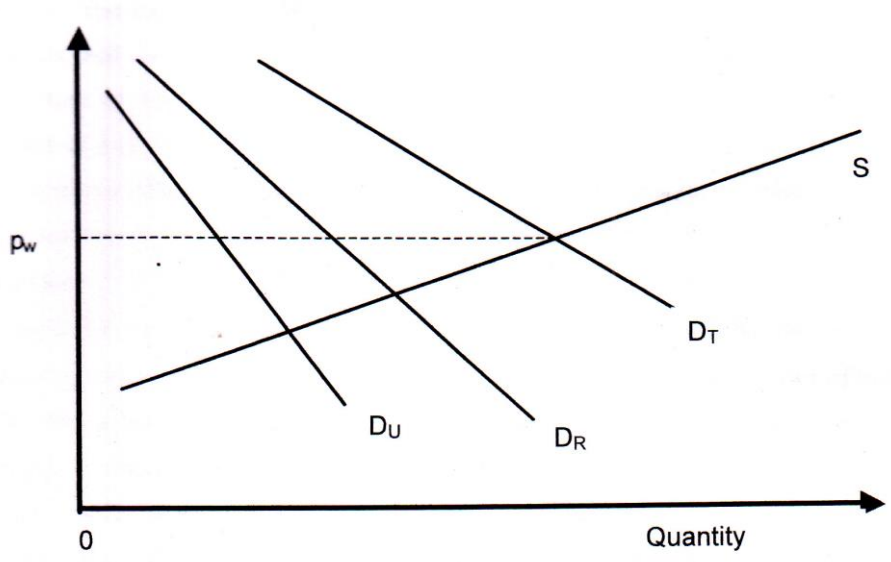
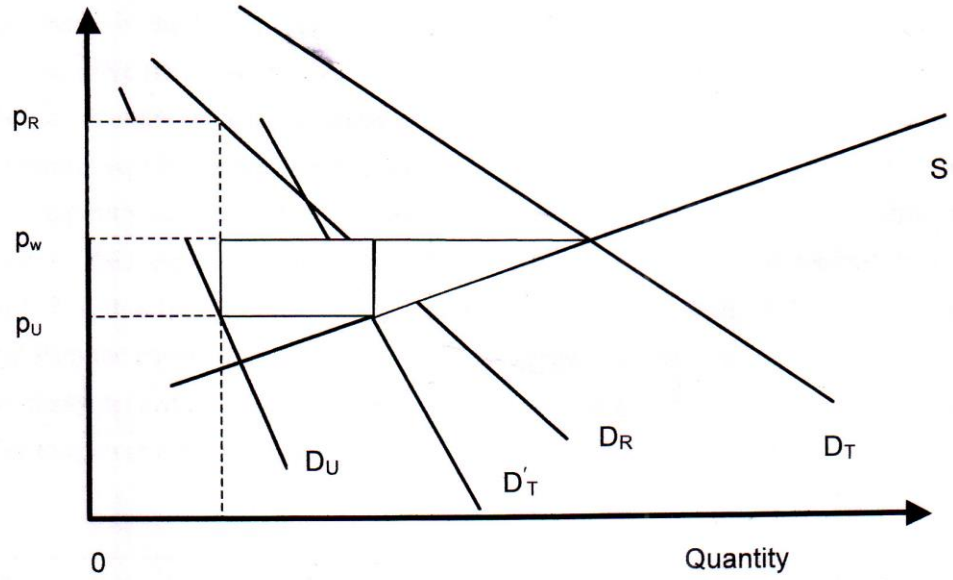


Figure: 4: Market equilibrium in the presence of quotas



In the undistorted equilibrium represented in Figure 3, the same price applies in both the 'restricted' (the restriction, of course, comes about in Figure 4) and unrestricted markets, and the allocation of exports between the two markets depends only on the magnitude of demand in those markets. When quotas are introduced in the restricted market as shown Figure 4, the quantity exported to this market declines. Because of the restrictions, the price received for exports to the restricted market increases from P_W to P_R. However, the price received for exports to the unrestricted market declines from P_W to P_U (which is the new world price/marginal price). Note also that the overall demand curve facing the country (D'_T) becomes steeper, and hence less elastic, because of the zero elasticity of demand in the restricted market. Because the marginal price of output falls, the volume of output in the industry unambiguously declines. Whether static welfare increases or decreases depends upon whether the gain in the restricted market export market as compared with the situation in figure 3 (represented by the crosshatched area in Figure 4) outweighs the losses in the unrestricted markets (represented by the vertically shaded area in Figure 4).

The overall impact of the MFA on a country's welfare cannot, of course, be determined simply by the static welfare impacts in Figure 3. A major problem with gains that accrue in the form of rents is that they set off what Bhagwati has termed Directly Unproductive (DUP) activities in which enterprises and individuals use real resources in the pursuit of the quota rents. Krishna and Tan (1998) point out that the systems of quota allocation used in the South

Asia countries encourage such activities. Quota allocations are frequently based on historic export performance, creating an incentive for firms to increase their exports to unrestricted third markets even when these are not directly profitable, thus increasing the losses accruing in unrestricted markets. A further source of loss with the quota rents is losses to exporters through rent sharing. When export quotas are finely defined, some major importers appear to acquire sufficient market power to be able to appropriate some of the quota rents.

While Figure 4 provides a basis for evaluating the partial impact of quotas on a single country's exports, it is inadequate as a basis for evaluating the overall impact of the MFA on a country because it does not take into account the impact of restrictions on other countries' exports. Restrictions on other countries' exports tend to increase the demand for exports from the country of interest. It is clearly possible that some exports might benefit in the short term from these arrangements if they are less restricted than other countries. Traditionally, small suppliers have tended to have an advantage in that they were less likely to trigger quotas than major suppliers such as India or China. However, in recent years, the key gainers in terms of restricted market access have been relatively large suppliers such as Mexico, Turkey and the Central European countries that have benefited from regional preferences granted by the major importers.

One very crude indicator of the restrictiveness of the quotas for a particular country is the share of its exports directed to quota markets. If all countries were broadly similar, one might expect the share of exports directed to quota and non-quota markets to be roughly the same. Since each country's MFA quota levels are based on more or less arbitrary historical factors, there are good reasons to anticipate that they will result in barriers whose export tax equivalents vary considerably between exporter-importer pairs. Under these circumstances, the shares of export revenues from restricted and unrestricted markets can be expected to vary. The more competitive a country, relative to its quota allocation, the greater is likely to be the share of its revenues that it receives from sales outside the restricted markets. A better indicator, where this is available, is the export tax equivalent of the MFA quotas that restrict exports from one supplier to a particular market.

All of the analysis to this point has been comparative static in nature. When we take a dynamic perspective on the problem, the costs of the MFA are potentially more serious. A key feature of an outward-oriented development process seems to be the identification of

industries where relatively high levels of productivity can be achieved. Bernard and Jensen (1999) find that it is the expansion of such industries, rather than learning by doing within industries that appears to account for the bulk of the potentially formidable gains associated with export growth. Where superior technology can be introduced into an economy with low productivity in other sectors, and hence low factor price, such a sector is, at first, extremely profitable. When the policy environment is sufficiently accommodating, and the infrastructure adequate, such a leading sector can grow extremely rapidly. The growth rates achieved by the clothing export industry in Bangladesh, where exports are said to have grown by around 28 percent since 1985, highlight this phenomenon.

The presence, or the continuing threat, of export quotas reduces the opportunity for developing countries to use the relative ease of adopting new technology in the clothing sector as a first step on the ladder of economic development. At the other end of the product life cycle, it encourages economies like Hong Kong, whose natural comparative advantage in this labor-intensive industry has largely gone, to continue in production because of the quota rents that are available to incumbent exporters (Kathuria et al 2001).

1.3: Quota-Free World Economic Order

The MFA quota system was introduced in 1974 as a temporary measure to protect the textile industries of the developed market from the aggression of developing countries' suppliers. This quota was renegotiated four times, leading to final expiration in 1994 with the establishment of the Agreement of Textile and Clothing (ATC) under WTO as a transitional agreement that would help to integrate textiles and clothing (T&C) into multilateral trade regimes. This non-transparent bilateral MFA quota system has provided many developing countries with both preferential market access and protection from global competition .For many of them, there would not have any textile and garment sector without quotas. Following table demonstrates the role played by quotas in the economies of some South and Southeast Asia. In countries such as Bangladesh, Cambodia, Pakistan, Sri Lanka and Nepal, quotas constitute a very high percentage of total merchandise exports.

While the quota system guaranteed export revenue in most of these countries, this provided very limited incentive to invest in physical, human and capital resources in these countries. Consequently they remained largely inefficient. The end of MFA means that such quotas are

no longer available, requiring producers and exporters to retain and gain markets by achieving international competitiveness. Most studies conducted to estimate the possible impact of quota elimination have predicted major structural and socioeconomic dislocations in many developing countries. With the intensification of competition under WTO discipline, the most competitive suppliers (China, India and Pakistan) are likely to further consolidate their positions at the cost of the less competitive countries, studies added. Thus the evaporation of the captive market facilities generated by MFA has certainly left Bangladesh RMG industry precarious and vulnerable. Trend in exports following quota integration at different stages supports this proposition (Hussain, M.G., 2004). Studies conducted by the World Bank(WB), International Monetary Fund (IMF),WTO, US-ITC,UNDP, Gherzi Textile, etc. have envisaged Bangladesh to face severe consequence in terms of job losses and reduced export earnings because of her efforts to enhancing competitiveness has remained elusive.

World export of woven and knit apparels together has attained a simple 8.7 percent annual growth during the period from 2001 to 2015, while China was able to maintain it at around 21 percent. Her share to the total world export of these products has witnessed a steady growth from 17.39 percent in 2001 to 24.64 percent in 2015 (Table 5 below). This extraordinary growth in China's export is believed to be associated with her capacity to take advantages of the integration of quotas at different stages at the cost of many developing countries.

2015 was regarded as the watershed year for the global textile and clothing (T&C) Industry. It has seen a new order- an unprecedented surge of international trade in T&C flowing from the east to the west, with China leading the way in terms of volume and value. Also entering the way was the drop of unit prices, and a persisting pressure on compliance. Since the middle of 2015, the staggering growth of China's T&C exports of some categories to the EU and USA had drawn mammoth attention of printed media. For example, China's export of t-shirts and flax yarn to the EU rose 187 and 56 percent respectively in the first half of 2015 from a year earlier. These increases and significantly hurt not only EU's domestic T&C manufacturing industry but the T&C manufacturers of other developing countries. These led to trade disputes between China and the EU and ultimately intensive negotiations have boiled down to the use of safeguard by the EU up to 2007 against export of 10 sensitive categories. The agreement signed between China and the EU provides a window for adaptation for

products in developing countries whose T&C exports to the EU were being displaced by a surge in imports from China.

On the other hand, China's export of some categories such as cotton trousers, cotton knit shirts and synthetic filament fabric, etc. to the US market have experienced more than 1,000% growth when the MFA quotas were still in effect. This forced USA to take resort to safeguard measure against China's export of 34 categories.

It is widely believed that the safeguard imposed in the EU and US markets have protected sourcing from developing countries including Bangladesh. This means, when these safeguard measures will be withdrawn, the real pressure on the developing countries' RMG industry would begin to emerge. Under this circumstance, exporting developing countries must position themselves with appropriate adjustment programs to face the changed situation of a quota-free competitive world.

A recent evaluation of IMF reveals that Bangladesh will face greater competition in its two largest garments markets (USA and EU) with the expire of the safeguard measures. This prediction of IMF is based on the erosion over the past two years in Bangladesh's market share in Canada, being the only country which did not impose any restriction on Chinese exports. Bangladesh's share to Canadian market declined from 7.4 to 6.0 percent over the last two years. Bangladesh must try to overcome this problem through addressing setbacks related to infrastructure, governance, business climate, lead-time, labor standards and compliance (ILO,2016).

1.4: End of MFA Quotas

Undeniably, it forces the sector to actively search for measures to improve its competitive position by undergoing necessary adjustments fast. At the same time, the policy and physical environment under which the industry operates has to improve, if it is to retain or enhance its share in export markets. The cost of inaction or policy mistakes could be heavy. Hence, the urgency to explore strategic options and put them into operation. **The RMG sector has become the lifeline of the Bangladesh economy**.

For jobs, income, and exports, some 3 million people, directly, depend for their livelihood on this industry, which accounts for 40% of industrial employment. It is strategic importance to strengthen its competitiveness through appropriate early actions, and to resist pressures to retain policies that are not in the overall interest of the nation. The sector has played a far greater role in Bangladesh's growth performance and employment generation than what might be inferred from this sector's low share in GDP. This very dynamic sector has become the main source of direct and indirect employment, foreign exchange earnings, which in turn helped finance a growing share of imports of vitally important capital goods and essential inputs. It has created significant additional positive externalities, including by being an important training ground for a growing number of new entrepreneurs.

There is indeed an urgency to act fast in addressing the priority policy and institutional constraints to improving Bangladesh's overall competitiveness and that of the RMG sector. All economically sensible options to further improve competitiveness of the RMG sector. All economically sensible options to further improve competitiveness of the RMG sector need to be pursued. Bangladesh cannot afford to (and should not) let the RMG sector lose its international competitiveness. The fact that RMG exports make up over 80 percent of the total export basket gives rise to certain vulnerabilities under the post-MFA global regime. Export concentration, in and of itself,presents a diversification challenge. But with the phase out of the MFA, and the consequent competitiveness pressures on the RMG sector, export diversification takes on new meaning for Bangladesh which must count on superior export performance in the medium-to longer term for sustained high growth and reduction of poverty, if the RMG targets on poverty and human development are to be attained. ***The post-MFA external environment is beyond the sector's control.***

But domestic policies and the physical environment can be shaped, for positive results. Given Bangladesh's export concentration in RMG, a two-pronged approach is essential to meet the post-MFA challenge: (a) addressing and removing overall constraints to export competitiveness to unleash forces of export diversification; (b) focusing on the key policy and institutional constraints relating specifically to the textile-RMG sector in order to seize opportunities for market expansion abroad and job creation at home. World Bank's (2005a) just completed Growth and export Competitiveness Study was a response to the first challenge.

The present study relates to the second and tries to identify the critical constraints to competitiveness of RMG sector and recommends strategic policy options available with the public and private sectors to ensure competitiveness of RMG exports in order to retain and augment Bangladesh's market share in the global marketplace.

2.1: Introduction

The World Bank (2015) report examined export competitiveness challenges in a broader context, and was able to identify the generic as well as product specific constraints that undermine export competitiveness-due to policy, institutional and infrastructural bottlenecks. The study revealed a number of key cross-cutting "Behind-the-border" constraints to export competitiveness. These include weaknesses in economic governance and transport-telecom-port infrastructure; high cost of finance; cumbersome import regime and dysfunctional duty drawback system; product quality, consistency and standardization problems, poor labor skills and low productivity. The present study takes on board of findings and critical recommendations of that report before charting out a menu of strategic options for the RMG sector under the post-MFA regime. **This chapter prepared on the basis of factor analysis. Methodology is presented in Chapter four**.

2.1.1: A globally competitive RMG sector is also key to poverty reduction

Bangladesh's Poverty Reduction Strategy Paper (PRSP) emphasizes acceleration of pro-poor growth as the route to halving the proportion of population living below the poverty line by 2015 a key MDG target. Job-creating export expansion, based on the nation's comparative advantage, is the fulcrum on which rests such a strategy for accelerating growth with poverty reduction. No other substantial manufacturing sector offers greater opportunity to increase employment for a given volume of investment than the RMG sector, Hence, the justification for a special focus on this sector.

2.1.2 *Trade in textile and clothing (T&C) products has been managed under Multi-Fiber Arrangement (MFA) since 1974*

The hallmark of MFA was quota restrictions on imports into developed country markets of T&C products from a number of developing countries. The 1994 Agreement on Textile and Clothing (ATC), reached with the establishment of the WTO, stipulated phasing out all quota restrictions under MFA by 31 December 2004 and the full integration of T&C products into the multilateral trade disciplines. Accordingly, the quota restrictions were withdrawn by all countries by the agreed date, and T&C entered the uncharted waters of quota-free trade. In order to formulate the strategic options for Bangladesh, it is essential that we have good perspective of the changed global scenario-markets and supply sourcing-and their implications for Bangladesh RMG industry.

2.1.3: The world export of apparel more than doubled between 1993 and 2015, rising from about $90 billion to $288 billion

Low and middle income countries shared in this expansion the most, their apparel exports rising from $53 billion to $123 billion, ending with a 70% share of global exports. While countries like China and India were restrained, these countries (which included Bangladesh) benefited from the quota system as well as preferential access granted to many LDCs (e.g. by EU under GSP and Everything but Arms, and, recently, by USA under AGOA).

2.1.4: Preferential market access and ATC led to the allocation of important economic and human resources for export production

And thus to welfare gains (or losses), but it also led to increasing the dependency of developing countries such as Bangladesh on these trade preferences. Since EU and US were the major markets protected by quotas, it is expected that the main effects of quota abolition will be felt in EU, US and the countries exporting to these markets.

Data reveal that although the sector is relatively a small share of GDP, Bangladesh is vulnerable to external shocks due to export dependence on one product category-apparel.

The freeing up of trade in T&C products have important output, employment and trade implications for both developed and less developed countries. When analyzing the end of ATC, it is useful to consider three groups of countries:

- developed countries that quotas to control of textiles and apparel (USA, European Union and Canada);
- countries whose exports of textiles and apparel were constrained by quotas (China, India, Pakistan); and
- a group of developing countries that used the quota system as an opportunity to develop and promote their export of textiles and apparel (e.g. Bangladesh, Sri Lanka, Cambodia, Vietnam).

So what is likely to happen after the conclusion of ATC? A computable general equilibrium model, GTAP (Global Trade Analysis Project), was used (World Bank 2005) to determine the possible outcomes globally, as well as for Bangladesh. Because of the high dependence Bangladesh has on RMG exports, there is a strong presumption that quota abolition will have

negative impact on its exports with serious output and employment consequences domestically.

The CGE technique using the most recent data available provides estimates of the impact on economic welfare of these countries considered under three scenarios:

- Quota abolition for apparel and textiles;
- Imposition of safeguards by US and EU on top of quota abolition; and
- Imposition of an export tax of 2 percent on apparel and textiles by China on top of quota abolition.

A fourth scenario is also explored: to see the potential impact on Bangladesh of duty-free access of its exports into the US market.

Though quota abolition was initially desired by all developing countries (first scenario), the impressive growth of apparel and textiles industry in China and the obvious quota constraints on Chinese exports (Martin, Manole and Van Mensbrugghe, 2004) led producers from developed and some developing countries to ask for safeguards measures from the US and EU which was then incorporated into China's WTO accession agreement. China proposed an alternative voluntary restraint measure: an export tax on apparel and textile sector.

2.1.5: The model results clearly reveal the benefits of quota abolition

In terms of money-metric measures of economic welfare, aggregate to over $16 billion, with principal beneficiaries being US, EU25 and China. As expected, Bangladesh loses out to the tune of $370 million, but gains from any safeguards against China as well as Chinese export taxes. Much of the welfare changes emerge from changes in allocative efficiency and in terms of trade.

However, it must be kept in mind that the comparative static results of the model are not necessarily contemporaneous but takes place over a period of three to four years, assuming Bangladesh is not addressing the competitiveness challenge through appropriate measures. The adverse impacts, if any, would thus occur with a lag, leaving time and scope for corrective action for countries like Bangladesh who stand to lose out, if nothing is done.

Following quota abolition, the reconfiguration of export and import flows between regions and countries results in changes in employment of unskilled labor which is the principal category of workforce engaged in textile and apparel industry across countries. The implications for employment changes show that Bangladesh could suffer significant employment losses-17 percent in Apparel and5 percent in textiles sector India and perhaps Pakistan achieve notable gains in South Asia. The Chinese workforce appears to be the major winners as demand for textile and apparel, including those of their linkage industries, rises sharply with opening up of global markets.

2.1.6: Model predictions versus actual performance

MFA quotas were phased out at the end of December, 2004. The GTAP model used predicted export shocks and economic welfare losses for Bangladesh, albeit with a lag. The immediate post-MFA period has revealed this trend. RMG exports from Bangladesh in the post-MFA world did not decline; rather, data show that export growth during January-July 2015 was substantial with a growth of 13%, with knit garments registering phenomenal growth of 31%. Indeed, performance in the hitherto quota restricted market of USA revealed inherent strength of the Bangladesh industry relative to its competition. During Jan-July, 2015, Bangladesh was clearly a winner with China, India and Sri Lanka, while countries like Hong Kong, Taiwan and Malaysia lost out, Knitwear exports to US jumped 70% during Jan-Jun 2015 and BKMEA reports that order books are full.

Yet, this should give no reason for complacency, as major challenges lie ahead: China and Indian textile and garment sector has undergone major technology uplift and policy reform to put India amongst leading contenders in garment exports; and inherent weaknesses in policy continue to plague the woven garment sub-sector, whose share in exports is 56%, though declining. EU buyers are looking at neighboring Turkey, Tunisia and Morocco, as makers of garments using EU fabrics to meet the demands of lean retailing and quick deliveries.

2.1.7: The China Factor

There is widespread concern that the end of MFA would allow the more competitive countries, such as China, to develop the entire range of textile industries from cotton to ready-made garments in order to take advantage of the new trading regime. The surge in China's import of textile and clothing related machinery appears to corroborate this concern.

Between 2000 and 2003, China's import of textile and clothing machinery increased from about $2 billion to more than $5 billion.

This is being interpreted as suggestive of China's desire to increase its market share very substantially China is known to produce high quality fabric. The modernization of the textile industry through large scale investment will allow it to further improve upon quality to meet the standards demanded by the global market. Availability of domestic quality fabric will enable the RMG products in China to meet tighter delivery schedules. With an increase in China's share of the global market, there will be an incentive for migration of textile capacity to China. Some exports are predicting that China may capture as much as 50 per cent of the global export market.8 [Signs are emerging that China could indeed greatly increase its market share. Chinese customs data for exports to USA show that exports of major apparel products (8 product groups) increased by massive 546 per cent during the first month after quota abolition over the corresponding month of the previous year. During January 2015 China shipped more cotton trousers and cotton knit shirts to USA than it had done in the whole of last year. Such large increase was made possible by very large price cuts, 25 per cent on average and in excess of 39 per cent for half of the 8 products (Press Release, National Council for Textile Organizations, March 7, 2005,www.ncto.org.) US textile lobby is fiercely campaigning to have safeguard measures imposed on most of these products.

The anxiety about the dominance of efficient Chinese producers in post-MFA world is reflected in the WTO protocol on the accession of China. It contains a transitional product-specific safeguard mechanism that allows WTO members to impose restrictions on imports from China if such imports are regarded disruptive of the market (Article 16). There is also a textile safeguard provision valid till 2008. This provision has already been invoked by USA and EU to restrict imports of certain categories of apparel of Chinese origin. The safeguard provision introduces certain amount of uncertainty about the prospect of unlimited market access of Chinese exports.

This should work out well for other countries including Bangladesh. Since there is substantial risk in relying on only Chinese T&C products, retailers and importers in developed countries would be inclined to diversify their sourcing to include several other competing countries. Bangladesh must ensure that it remains one of the major sources of clothing products. However, it should not be lost sight of that although the safeguard actions may provide

temporary respite; they cannot be relied upon for the long term growth of the industry; that will depend ultimately on competitive strength. If the Chinese price reflects disappearance of quota premia- which ranged from 25% to 45%-- then other countries will in the long term have to match the Chinese price cuts in order to maintain their market shares.

2.2: The Domestic Context: Challenges to Overcome

In this section, we examine how the Bangladesh RMG sector is positioned vis-à-vis the domestic economy and the coping mechanisms at hand for facing the onslaught of post-MFA global competition. The sheer size of RMG sector, which accounts for more than three quarters of total exports, implies that Bangladesh will have to count on its superior performance in the medium to long term if the Millennium Development Goal (MDG) targets on poverty and human development are to be attained.

Bangladeshi exporters including the RMG exporters face enormous challenges to their competitive advantage. Given the problem of export concentration in RMG, and the fact that the sector provides employment for nearly two million workers, mostly women, it appears to be vulnerable to the MFA phase out. There is genuine concern about the competitiveness of Bangladesh RMG products relative to those from China, India and some other developing countries due to the sector's relatively low productivity, perception of poor product quality and long lead times.

2.2.1: Many of the weaknesses of the RMG sector are due to cross - cutting infrastructure and governance related problems

The World Bank study noted earlier emphasized the need to address these urgently in order to improve the efficiency of the entire economy, and thereby enhance the export competitiveness of the RMG as well as other export industries. The productivity of the RMG sector is also constrained by a lack of adequately skilled manpower. Compliance with various social, ethical, health and environment related standards demanded by buyers are putting extra strain on the competitive strength of the sector. These issues have been analyzed in detail by a study commissioned by the Ministry of Commerce (Gherzi*et al* 2002). The IFC-commissioned report by Dr. Martelli Associates (1999) looked at the entire supply chain of the T&C industry, i.e. from spinning to garmenting, and came up with very similar conclusions. These studies, especially Gherzi*etal*, also made a detailed study of the forward

linkage activities and pointed out the weaknesses of the industry in this respect. There does not seem to be many irreconcilable differences regarding broad policy options to address the cross-cutting and some of the sector specific issues such as compliance. However, there seem to be a number of yet unresolved issues related to backward linkage, lead time, central bonded warehouse and accessing GSP through regional accumulation. We take a closer look at the economic arguments behind these issues in order to arrive at informed policy options.

2.2.2: The fact of the matter is that Bangladesh has come to rely heavily on its garment sector for jobs, income and foreign exchange

From its current position among the leading garments exporting nations of the world, Bangladesh cannot afford to be sidelined, as the economy-wide effect of this could be traumatic. It is, therefore, absolutely essential that every effort be made to not only retain its current competitive edge in the RMG sector but to enhance it by constantly improving productivity through, among other things, skill development, application of cutting edge technology, courting foreign investment, and taking advantage of scale economics in production and exploiting any opportunities offered by bilateral, regional or multilateral trade concessions.

2.2.3: No doubt unfolding global economy will impose harsh disciplines on the economy; but there will be also opportunities for competitive sectors

To the extent Bangladesh garment exports have been sheltered from competition in the past they will face the full force of competition from other low-cost suppliers such as China, India, Pakistan, and Vietnam. To the extent Bangladesh has been restricted by quotas and tariff barriers, or it has gained in competitive strength, it will benefit from greater opportunities than have hitherto been available in the US market.

2.3: Implications of Quota Abolition

The phasing out of MFA on 31 December 2004 market the abolition of quota restrictions on exports of textile and apparels from some developing country WTO members by the developed countries:

This will undoubtedly have important effects on both the exporting and importing countries; however, the effects are likely to be more far reaching and widespread in countries that have excessive reliance on textile and apparels for export earnings or industrial employment.

Since, Bangladesh depends excessively on RMG for export earnings (over 78 per cent) and about half of its industrial employment originates in RMG, it is potentially very vulnerable to any adverse outcome due to the possible changes in the current market structure. To ensure that the RMG sector can withstand the shock of quota abolition, both the industry and the government will have to respond with appropriate policy reforms and measures, It is quite conceivable that with such response, the challenges of MFA Phase-out can be turned into an opportunity that would lead to greater expansion of the sector as well as other linkage industries.

2.3.1: The effects of quota abolition will, in the final analysis, depend on the competitive strength of the sector

If it has already attained international competitiveness, or can quickly attain it, then the abolition of the quota regime will turn out be a welcome event that will promote further expansion of the industry. On the other hand, if it is lagging in terms of competitiveness it will find its market share eroded due to encroachment on its market share by more efficient producers from other countries.

2.3.2: Most analysis regards Bangladesh as 'vulnerable'

A reason for this prediction is the fear that large efficient producers of textiles and clothing such as China, which were quota restricted in developed country markets, in particular USA and EU, will severely undercut prices that will drive out the less efficient producers from these markets. The large quota premium on Chinese exports would permit a large undercutting of prices following quota abolition. Some predict that China could secure as much as 50 per cent of the market share. Market developments with respect to apparel items that were freed from quota restrictions in EU and USA in 2002 as part of ATC are usually cited as early indications of what may happen in 2005 and beyond. Prices of imports of quota-decontrolled apparel items from China fell by 44 per cent in the USA and by 42 per cent in EU. US imports from China in the decontrolled categories rose by 290 per cent while EU's role by 162 per cent. US imports from rest of the world declined by 14 per cent during the same period. In January 2015, Chinese apparel exports to USA surged by over 500% with prices declining by over 25-40%, Such export performance, if it were to continue, bodes ill for vulnerable economies such as Bangladesh.

2.3.3: The Chinese price reduction reflects the elimination of quota premium

Since the quota premium is an estimate of the excess of export price over cost, it gives a rough indication of the competitive strength of the producers of the exporting country. If quota restrictions are removed, producers could reduce price by this amount and still maintain output at the quota level. Any lesser reduction will witness an increase in sales in the hitherto quota-restricted market. Hence, much attention has been paid to quota prices in the empirical studies on the impact of MFA phase out on the RMG sector of various countries.

2.3.4: A brief assessment of Bangladesh's RMG exports to its main quota market (USA) is in order

In the USA, Bangladesh RMG exports faced quotas like everybody else and got no GSP benefits. Moreover, these exports are subject to high tariffs.In value terms, about 46 percent of Bangladesh's exports of clothing products are subject to an ad-valorem duty of 14-1-20 percent. Another 13 percent faces tariffs higher than 25 percent. High tariffs considerably reduce Bangladesh's Competitive strength in the US market since as many as 72 African and Caribbean countries get zero-tariff access in the US market under African Growth and Opportunity Act (AGOA) 2000 while Mexico gets the same under North American Free Trade Area (NAFTA). In order to formulate strategic options for Bangladesh's RMG exports, it is useful to make an assessment of the changing US market where it faces intense competition. The United States International Trade Commission's 2004 Report on Textile and Apparel; Assessment of the competitiveness of Certain Foreign Suppliers to the US Market presents the likely effects of MFA quota removal in US marketon Bangladesh vis-à-vis its three major competitors viz. China, India and Pakistan. The report also lists what might be the key contributing factors. As described earlier, during the Jan-July, 2005 period, Bangladesh exports have fared better than analysts' predictions so far. If Bangladesh were to get zero-tariff access into the US market-if the proposed US TRADE Act were to be enacted-estimates suggest that its exports could double over the next three years.

2.3.5: The final impact of quota abolition on individual countries depends on an array of factors in a complex way

When all these factors play out, a new equilibrium price will be established in the market. A country's exports increase or decline will depend on its cost relative to this new price. Hence, the key to success in the post MFA regime is to reduce cost relative to other countries, i.e. to be competitive. Reducing cost relative to other countries is particularly important in view of

the fact many of these countries are reorganizing their textile and RMG industry through appropriate policies. New investment, technological improvement, forward and where possible backward linkages and conducive business environment in order to exploit the opportunities that will present themselves with the full integration of the industry into multilateral trade agreements. Any country that lags behind in the global competition race will be penalized by a reduction of its market share. Bangladesh must ensure that its RMG industry is up among the winners in this race, and this can be achieved only by reducing costs and satisfying the demand of the customers in terms of lead time, design, quality and standards (The World Bank, 2005).

2.3.6: Bangladesh has achieved a global reputation as a reliable supplier of low-value basic items of apparel

Despite binding quota restrictions in the US market in the past. Bangladesh has remained a supplier of the cheaper products as it apparently has comparative advantage in the production of the less expensive clothing. Bangladeshi exports are among the least expensive; only Pakistan offers cheaper prices across a range of products. Of special interest are the prices of export products of China and India, which are regarded by many as the principal threat to Bangladesh and other apparel exporting countries. Contrary to the general perception, Chinese products are seen to be far more expensive than the products of Bangladesh and other countries. Indeed the unit values of the Chinese products are on average thrice as expensive as the unit values of the Bangladeshi exports.

2.3.7: The end of MFA presents both challenges and opportunities for the RMG sector of Bangladesh

There are many uncertainties about new market developments in the coming months. What is certain is that there will be heightened competitive pressure with the more efficient producers attempting to capture a larger share of the global market. Signs of this are already visible. To sustain and enhance Bangladesh's share, all stakeholders including the government, industry and individual firms will have to quickly respond to the emerging situation with the right policies and actions in order to become more competitive. As stated at the outset, the cost of inaction or inaction or policy errors could be served. Delays to adopt the right polices, or remove the constraints, can only raise the cost of missed opportunities and reduce the competitive strength of the sector that has made a remarkable contribution to industrial employment, woman empowerment and reduction of poverty. It would be unfortunate if the

growth potential of the sector is stifled or the hard earned gains whittled away because of policy failures. More important, it would be a grave mistake to take any policy and/or institutional action that might undermine the RMG sector' export competitiveness and any existing trade policy distortion that is harming this sector's competitiveness would need to be removed urgently.

2.3.8: In the post-MFA world, lead time has emerged as a crucial determinant of competitiveness or attractiveness of the vendor to the buyer in apparel trade

Several new developments in the retail business have contributed to a sharp decline in the lead time in USA and Europe. Bangladesh woven RMG manufacturers have one of the longest lead times amongst competing countries. The principal reason for the long lead time is the unavailability of local woven fabric. There is little prospect of changing the situation in the short to medium term given the very large investment requirement and an adverse international market situation characterized by over-capacity and low prices. Hence, some innovative scheme needs to be put in place to shorten the lead time. One such scheme is the establishment of central bonded warehouses CBW). CBW can reduce the lead time of local manufacturers to the level of competing countries. However, to reap the full benefits of CBW, these would have to be complemented by good processing facilities. Appropriate policies to set up CBW, these would have to be complemented by good processing facilities. Appropriate policies to set up CBW with adequate safeguards against leakages, such as that suggested by the National Coordination Council, should be implemented to ensure that the local woven RMG manufacturers do not lose out to competitors because of the long time.

2.3.9: There is a suggestion that the government should actively pursue policies to quickly increase the capacity of the woven PTS such that they can meet the entire demand for woven garments. To make this possible, the argument goes, the protective measures for the PTS should be maintained. Some caution in needed in resorting to such a course. The government in any country is not in the best position to judge or accurately forecast the success of a particular business and hence, it will not always correctly choose winners. It is more likely to bend to lobby pressure. The best course for policy action for a government is accordingly to take an even handed approach to all industries by removing any constraints to fair market competition. Studies have been completed in most South Asia countries in order to formulate a strategic vision for the apparel-textile sectors under the post-MFA regime. In these studies, the potential for the apparel sector to lead the thrust for textile growth has been recognized.

So is the case in Bangladesh. This brings up the strategic importance of domestic policies to ensure a smooth supply of raw material/inputs to the apparel sector at international prices.

2.3.10: Past experience suggests that trade preference given to the LDCs by the developed world can play an important role in promoting their exports

Currently RMG products from Bangladesh are not eligible for the duty-free access to the US market, but such access is available to the exporters of African, Caribbean and several other countries. The slow growth of exports to the USA (relative to EU) is partly explained by this lack of preferential access. Efforts should be made to ensure that the bill to secure duty-free access to the US market for the exports of several least developed countries including Bangladesh, now under consideration of the US lawmakers, is passed. The support of international organizations should be courted to achieve this result.

2.3.11: Most of the woven RMG exports to EU do not qualify for duty-free entry as they do not meet the rules of origin.

If these rules were relaxed, such as by reducing the process requirement from two to a single stage or by applying a sufficiently liberal value addition criterion, the woven exports would qualify for the duty-free access. This would give a boost to the sector for more rapid expansion. Currently the EU is considering adopting a simple value addition criterion that would help the beneficiary countries to better utilize the GSP facilities. The government, together with industry, should mount a campaign to convince EU authorities that the criterion actually adopted is sufficiently liberal to allow the woven manufacturers to avail duty-free access.

2.3.12: Under the existing rules of origin exports of RMG products made from imported fabric could access duty-free facility under EBA only through regional accumulation

If the value addition criterion actually adopted is not sufficiently liberal, the option of accessing duty-free facility through accumulation should be kept open. Accumulation will not reduce the opportunities for the expansion of the domestic woven textile industry given that it supplies only a small fraction of the market demand. Significant expansion of RMG production can only drive up the demand for domestic fabric providing the needed stimulus to the primary textile sector.

2.3.13: Comprehensively facing the post-MFA Challenge requires actions on the part of Government, private sector collective bodies and individual firms

Clearly, some of the required actions identified in the report are in the nature of public goods (e.g. textiles protection policy) and hence are best death with by government through public policy, including public investment; some are club goods (e.g. promoting social compliance) and are best addressed by the private sector collective bodies (BGMEA, BKMEA, and BTMA); while some others are private goods (e.g. striving for cost competitiveness) and should be addressed by individual firms. Only then will the overall outcome exceed the sum of these constituent endeavors and what might have been a zero-sum game becomes a positive sum game.

The above discussions clearly suggest evaluating the initiatives taken by the WTO in order to increase export of RMG from Bangladesh. Generally speaking, this type of evaluative study has not been comprehensively studies up until, in Bangladesh. Such analysis is essential for two reasons; First, in the export list, Bangladesh is heavily depended on single (RMG) commodity. Any adverse impact by the WTO initiatives may here stupendous impact to the Socio-economic condition. Second, assuming that policy makers are concerned with initiatives of the WTO with respect to RMG, but question which needs to answer is that to what extent, these policies will safeguard the industry from any external shocks. This study is a modest attempt to answer these two questions.

Review of Literature

Many research studies, articles relating to various aspects of RMG (Ready Made Garments) and WTO have been published home and abroad. A critical review of some of the important research studies/articles have been made in this study.

Nath (2002) analyzed the provisions of agreement on trade related investment measures in the context of interest conflicts of different trading nations of the world, particularly the countries investing or hosting investment and exploring possibilities of coalition of interests among the nations.

Mukherjee (1998) attempted at analyzing the GATT Uruguay Round and Trade in Services from the perspective of developing countries. The GATT Agreements have raised strong public reaction in different quarters of the world. The study is concerned with trade in services as contained in the General Agreement on Trade in Services (GATS) which constitutes an integral part of the GATT Uruguay Round. The study provided a systematic analysis of GATS in relation to the developing countries. The study concluded with a set of recommendations and policy suggestions.

Rahman and Mohiuddin (2000) attempted to reveal the standing of Bangladesh both in references to domestic policies that assumed WTO regulations as inevitable, as well as, the participation in the context of global debates on WTO where Bangladesh like a typical LDC argues against the crisis of 'marginalization'.

Annabi et al (2006) examined the impacts of WTO agreements and domestic trade policy reforms on production, welfare and poverty in Bangladesh. A sequential dynamic computable general equilibrium (CGE) model, which takes into account accumulation effects, is used allowing for long run analysis. The study presented five dimensions for which the major findings are: (i) the Doha scenario has negative implications for the overall macro economy, household welfare and poverty in Bangladesh; (ii) Free world trade has similar, but larger impacts; (iii) Domestic trade liberalization induces an expansion of agricultural and light manufacturing sectors, far outweigh those of free world trade when these scenarios are

combined; and (v) Remittances constitute a powerful poverty reducing tool given their greater importance in the income of the poor.

Raihan and Razzaque (2007) addressed various issues related to several important multilateral trade negotiations under WTO and the regional trading agreements under SAFTA and their potential implications on the Bangladesh economy. They estimated the impacts of different scenarios of the negotiations on Non-agricultural market access (NAMA). It appears that the NAMA scenarios, in general, will lead to large preference erosion for Bangladesh's RMG exports in EU and Canadian Markets, where Bangladesh now has Duty Free Quota Free (DFQF) access. However, NAMA scenarios also lead to large gain for Bangladesh in the USA market. They suggest Aid for Trade to be incorporated in the national growth and development strategy of Bangladesh. For that matter a better relationship between Bangladesh and aid giving agencies has to be fostered, particularly to promote employment creation objective.

Messerlin (2004) examined three related concerns: (i) how quickly large developing economies can become intensive users of antidumping measures, an evolution raising concerns about China's recent antidumping enforcement; (ii) how China could minimize its exposure to foreign antidumping cases , a recipe for both improving trade outcomes and for China's taking a leading role in reforming WTO antidumping ; and(iii) the opportunities that the Doha Round of trade negotiations offer to China for negotiating stricter disciplines both on WTO contingent protection and on the use by China's trading partners of the special provisions included in China's accession protocol.

Ianchovichina and Martin (2004) tried to estimate the impact of China's accession to the WTO. China is estimated to be the biggest beneficiary (US$31 billion a year from trade reforms in preparation for accession and additional gains of $10 billion a year from reforms after accession), followed by its major trading partners that also undertake liberalization, including the economies in North America, Western Europe, and Taiwan. Accession will boost manufacturing sectors in China, especially textiles and apparel, which will benefit directly from the removal of export quotas. Developing economies competing with China in third markets may suffer small losses. Accession will have important distributional consequences for China, with the wages of skilled and unskilled non-farm workers rising in

real terms and relative to those of farm workers. Possible policy changes, including reductions in barriers to labor mobility and improvements in rural education, could more than offset these negative impacts and facilitate the development of China's economy.

Bhuyan (1997) examined stronger rules and disciplines under the WTO that strengthen the world trading system and bring benefits to all member countries. He basically examined agreements on safeguards, anti-dumping, subsidies, dispute settlement mechanism of WTO.
World Bank (2005) examines the factors that have brought Bangladesh such impressive success as a producer and exporter of RMG in a quota-based trading regime. The report explores the likely threats to that success as the post MFA (Multi Fiber Arrangements) trade regime becomes intensely competitive. The report sets out a number of strategic options for the sector to pursue, building of past achievements and inherent competitive advantages, in order to compete successfully in textile and apparel markets under new and very demanding conditions.

Rahman et al (2008) recommend a set of policy measures, identified on the basis of analyses based on the survey information, which Bangladesh will be required to put in place if the current growth momentum of the export oriented RMG sector is to be sustained. Major policy recommendations were related to such areas as scaling up of RMG units, advanced product and process modification capacity, manufacturing of high-end products, and so on.

Spinanger (2000) examined the features of the WTO framework shaping the trade in textile and clothing products. He also reviewed what China's entry into the WTO might mean for Bangladesh as well as dealing what other issues might be hindering Bangladesh's competitiveness in world markets. He concludes with suggestions on strategies aimed to continue Bangladesh's success in selling clothing products to the world in light of changing playing fields.

Chowdhury et al (2009) reviewed the literature on RMG, presented recent data on the sector performance and evaluated future trends in the international and domestic industry. They recommended some suggestions to help both the policy makers, marketers of the RMG industry in Bangladesh to adopt and implement effective measures to improve the industry condition.

Chowdhury (1987) examined the origin and growth of RMG industry along with its problems and prospects.

Abdullah and Chowdhury (2005) tried to find out the current level of productivity in selected RMG (woven) factories. They also identified few factors such as wage, working hours, overtime payment, machine layout, absenteeism, and performance appraisal, safety measures that influence the labor productivity in those factories.

Abdullah (1997) attempted to assess the present status of the RMG sector. He identified possible threats to the Bangladesh garments in the international market. The study also suggested strategies to overcome the challenges.

Abdullah (2008) analyzed the RMG sector to understand the underlying strength and find out reason behind its phenomenal success. The research findings show that labor should be given special attention by the stakeholders while taking policy initiatives. Labor force holds the key to the survival and subsequent success of the RMG sector and the industries can flourish further by improving labor efficiency.

Siddiqi (1982) reviewed the potential of readymade garment industry in Bangladesh. He described the characteristics of RMG industry and analyzed its problems and prospects.

Hossain (1999) observed that the RMG industry in Bangladesh does not follow any standard cost accounting procedure for determining the costs of the relevant factors and activities. RMG industry in Bangladesh usually follows 'cost plus pricing' method in pricing its products for export. Rahman and Ahmed (2006) examined an in-depth analysis of the impact of globalization on RMG sector of Bangladesh. They identified the present scenario of the RMG sector, their possible strengths, weakness, opportunities, and threats in the context of globalization. They recommend for future prospects of growth and survival of this sector.

The first comprehensive study on RMG export was conducted by Bhattacharjee in (1993) which identified the factors affecting RMG export. He identified several factors including competitive advantage and of scale being the prominent variables. Bhattacharjee's study was

basically the pioneering in the two sense, it discoursed and assessed how this sun-rise industry of Bangladesh could encounter the issue of comparative advantage and international competitiveness in the world market- a reality of the till the date. (Export decision of garments manufacturers in Bangladesh). The results reported in this paper indicated that the key factors affecting the export decision of garment products were the national export policy, comparative marketing distance, lack of export commitment, exogenous economic constraints and competitive rivalry.

Hossain and Brar (1988) tried to examine worker perceptions toward unionism as well as the determinants of earnings of garment workers. A majority of the workers perceived that unionization would help them attain higher wages and greater job security as well as improved working conditions. Schooling and experience were found to be the major determinants of earnings in the garment industry.

Rashid and Rahaman (2008) argued that implementation of customer relationship management (CRM) will increase the competitive advantages of the firm. They identified different dimensions of CRM and examined its relevance in the RMG sector.

Haque (2002) examined socio-economic status of women in RMG industry. He also investigated certain issues such as shut down of factories, negative impact of the US trade legislations and women workers life.

Hossain and Aktar (2010) compared the data on the socio-economic background of the women workers drawn from large, middle and small factories. The socio-economic aspects of the female workers have been compared according to the classification of factories by number of employees and their responses to some of the problems faced by them on the job. The research findings surface many grievances among the female workers in terms of maltreatment, poor working conditions and meager and irregular payment of salaries and benefits especially in the smaller ones. The study also tracks the expenditure of the female workers in different house hold necessities and highlights their struggle for existence.

Rahman and Anwar (2007) examined the future sustainability of RMG sector by using the Porter famous theory of national competitive advantage. They also attempted to give some

insight into the areas as to where impending gaps exist, why they need to be filled and how RMG can be made even a better export performing sector.

Chaudhary et al (2008) examined the effects of multi-fiber arrangement (MFA) quota elimination on Indian fiber market. The partial equilibrium Indian fiber model was developed using a theoretically consistent framework and incorporated regional supply response, substitutability between cotton and man-made fibers, and appropriate linkage between cotton and textile sectors. Baseline projections were developed for supply, demand and prices of cotton, man-made fibers and textiles under a set of exogenous assumptions. The effects of MFA textile quota eliminations were introduced into the model by conducting three scenarios, i.e. increasing textile exports by 10, 20 and 30 percent from the baseline level. The results suggest that on an average, cotton imports rise by 4 to 8 percent annually, while the man-made fiber exports from India decline with the opening of textile markets in the developed countries.

Bakht et al (2009) assessed the profitability and productivity of the knitwear industry in Bangladesh taking into account the sector's role in poverty reduction. Using firm level data collected in 2001, rate of return and total factor productivity were used to gauge the extent and determinants of the profitability of the industry. In addition, stochastic frontier analysis was used to assess variability in productivity. The estimation results indicate high profitability of the knitwear firms on average. In Bangladesh, the dynamic development of the industry has entailed great diversity in efficiency in comparison with the garment industries of other developing countries. Although there is a significant scale effect in profitability and productivity, no supporting evidence was found for the positive impact on competitiveness of industrial upgrading in terms of usage of expensive machinery, vertical integration, and industrial agglomeration.

Fukunishi (2009) argued that poor productivity performance is one of the critical causes of stagnation in the African manufacturing sector, but firm level empirical support is limited. Using original firm data from the garment industry, Kenyan and Bangladeshi firms were compared in terms of their technical efficiency and their contribution to competitiveness represented by unit costs. They estimated that there is no significant gap in the average technical efficiency of the two industries, although unit costs differ greatly between them.

Ahmed and Peerlings (2009) applied a CGE model to analyze the effects of better addressing worker's rights in Bangladesh's textile and apparel industries. Results show that an increased minimum wage for unskilled, low and medium skilled workers has negative impacts for these workers in aggregate and also for the economy in terms of export, GDP and welfare.

Ashraf (2009) reviewed the inherent complexities in negotiating a minimum wage for the entry level workers in the RMG industry in Bangladesh. He claimed that the workers' pressing demand for a restructured salary package and their violent protests are the outcome of a number of critical factors: factory owners' noncompliance with international labor standards, the lack of strong trade unionism, and the absence of an effective early warning system for the RMG sector. The paper concluded that the wage debate is illustrative of the fact that development, governance and business management do not necessarily follow a traditional linear mode of economic growth and efficiency. There are always rooms for uncertainty and hence the foresight horizon of the policy makers needs to be equipped with a well articulated early warning system. The efficiency of such a forecasting and early warning system would largely depend on promoting decent work conditions, gender equality, and labor standards in the RMG sector, while ensuring higher productivity and competitive edge for the investors and the multiple stakeholders in the RMG sector.

Rahman and Laiju (2007) concentrated on internal migration in order to demonstrate that migration from the rural to urban areas are having a positive effect on the overall economy , greater and better job opportunities are being available for the migration population. They basically highlighted the migration of rural women. They identified the possible causes behind such migration as well as how this migration is positively contributing towards our economy rather than becoming a burden to our economy.

Helleiner (1992) observes that policy on exports and trade policy more generally are extremely important. But they are only a part of development strategy. Openness' is not the panacea that some suggest: and trade policy involves much more than the degree of anti export bias. Ohiorhenuan (1998) defines globalization as the broadening and deepening linkages of national economies to a worldwide market of goods, services and especially capital.

Quddus and Rashid (2000) argues that the garment industry in Bangladesh provides an excellent example of how recent trends in globalization have opened up huge opportunities for poor developing nations to participate in the global economy for rapid economic development. The Bangladesh apparel export sector began in the late 1970s and presently stands as a multi-billion-dollar monument to the country's participation in the global economy. He also points out that organized labor in the United States has been a major force behind the multi-fiber agreement and has been preparing for its expiration in 2005 by seeking other means to defend its home turf. The apparel export industry in Bangladesh was threatened with the loss of U.S markets, the major outlet for its products.

Zohir (2001) observes that in order to overcome external constraints Bangladesh will have to take steps to access market through (a) seeking duty free access and (b) have to comply with non-tariff barriers. She suggests that retraining program for the affected workers should be undertaken.

Arndt et al (2002) observes that the Bangladesh economy and household incomes are clearly linked with the global economy, particularly through food grain trade and the RMG sector. Efforts to alleviate poverty and raise the incomes of the poor should not neglect these linkages, particularly in case where these poverty alleviation interventions are large enough to have major effects on the real exchange rate and female labor earnings.

Daniels, J.D.et al (2002) comment that regional organizations complement the efforts to the various global link masters. However, their primary concerns are specialized issues with particular regional significances. Specifically, both the WTO and regional groups primarily try to promote freer flows of goods and services. Nonetheless, regional economic integration movements might actually help the WTO to achieve its objectives by dealing more flexibly, with important issues that are beyond the mission of the WTO but that help create more links among more nations.

Nath (2002) observes that the least developed countries like Bangladesh must get prepared to make their own stand collectively in view of the identification of the areas if their interests and areas of benefits out of the negotiation.

Pollak (2002) describes that WTO agreement on agriculture commits governments to improve market access and reduce trade-distorting subsidies in agriculture. However a combination of pressure when the agreement was written and manipulation mean, that the world market in agricultural commodities is not fair at all but is actually heavily slanted in favor of the rich northern countries. In particular while many poorer countries have liberalized and removed subsidies (sometimes with disastrous consequences) the US and the EU have not.

Ali (2003) describes those women labors are contributing in the national economy. Their participation is a breakthrough in the economic sphere, improving their status and recognition of the participation. Overwhelming changes are being market in the two lives i.e. who are working and who are not working. Women labors in Bangladesh are now able to participate in the decision making process. They have morally boosted up and turned to become of value although their earnings are too small and cannot fulfill the basic needs.

Brooks. Fan and Sumulong (2003) observe that the GATT/WTO addresses some issues by means of the GATS, TRIMs and TRIPs agreements. They advocate for a comprehensive framework for investment within the WTO will intensify in coming years in order to ensure coherence and consistency between trade and investment policies.

Islam (2004) depicts that Singapore issues in FTA's were associated not only with assistance for LDC members but also provides for flexibility and scope for slippage in implementation.
Mahmud (2003) describes that the removal of the MFA quotas can threaten to increase competition in the global garments industry and thus limit Bangladesh's growth. The strength of the industry depends on the export quotas dictated by the MFA and preferential access in the major Western markets. Moreover, other export industries are unlikely to take its place if the garment industry shrinks; excluding the garment industry, the growth of the large-scale manufacturing industries was a meager 4 percent annually in the 1990s.

Islam and Karim (2004) depict that a lions is share of export earning in Bangladesh is gained from Ready-made Garments (RMG) and these items are mostly demanded by the Latin American and European countries. Global features are frequently changing and give result to

unexpected events every day. If for any reason or under any circumstance those nations demand for Bangladesh RMG product falls, nothing will be left for Bangladesh except severe crisis in foreign exchange reserve which is still below 200 crore dollars, which is insufficient to face any external shock. Another striking feature of RMG products is very low domestic value addition. They argue that the nature of trade biasness toward garments industry prevails and put emphasis on higher value addition so that the sector can survive under free business environment after 2004 when quota facility would be completely withdrawn. They also demanded for broadening of trade base so that in case of any turn in global demand the country's export sector can survive.

Nova (2004) comments that the MFA which has governed the global apparel trade for three decades will be phased-out on December 31, 2004 with serious negative consequences for many countries and for the enforcement of codes of conduct. These codes of conduct are: a) The loss of the best factories; b) Refusal to pay legally mandated severance; c) China's ban on fundamental worker rights; d) Downward pressure on working conditions.

Paul (2004) argues that patent protection laws are important to technology sellers. There are advantages in providing patent rights in biotechnology, Intellectual property rights (IPR) may also be used in bargaining for improved access to the overseas market for a notion's export.

Rahman (2004) argues that despite theoretical increase in opportunities, the rescinding of the quotas will present numerous challenges for small economies. In fact, earlier phases of MFA quota rollbacks reinforce the apprehensions of many garment-reliant countries. Bangladesh's trouser exports, for instance, suffered significantly, while China's more than doubled after its 2001 accession to the WTO. What will actually happen this around, once the quotas are completely gone, hinges on a number of factors.

Khan (2004) observes that anti-globalization activities and first world protectionists, together with the3 ending of MFA quotas in 2005, will lead to a loss of jobs for female garment's workers, and perhaps even to a worsening of working conditions as producers try to cut costs to deal with global competition. At that time, Bangladesh as a country may turn to nature gas to replace its export revenue, but the garment workers will have no place to turn to beyond low paying domestic work.

Siddiqi (2004) comments that even in this age of globalization and free trade, on-compliance to WTO rules and (Non-tariff barriers) NTBs are very common. Although the application of NTBs is usually not permitted under WTO rules, some importing countries use them on technical and political grounds.

Wallich (2004) argues that the impact of the phase out of MFA quotas on Bangladesh's exports of ready-made garments (RMG) is subject to wide margins of uncertainty. Bangladesh is likely to lose share in the US market, where competitors such as China and India have been constrained by quotas. Bangladesh will continue to have competitive advantage in the European and Canadian markets, which account for two-thirds of exports and where it has tariff access. A "central" estimate suggests RMG exports could level off, or even fall slightly, in the next two years, compared to strong growth in the 1990s, shaving about, 4 percent year from GDP growth. This could be accompanied by loss of jobs, many of them among women.

Ahmad (2005) observes that Bangladesh does not have any competition law. He suggests that at first a national level competition law for Bangladesh. Moreover, Bangladesh needs to frame laws in other areas such as consumer protection, public procurement, import policy, industrial policy, and TRIPS etc. Bangladesh can consult the rich wealth materials available in Japan in this context.

Oxfam's report (2005) shows that the WTO is the new battleground where poor countries are being forced to reduce tariffs on imports. The moves cold increase their vulnerability, destroy farming communities, threaten food security and plunge millions into deeper poverty. Oxfam's report includes the following recommendations: (a) Any new WTO deal must allow developing countries to regulate imports of products which threaten to undermine their farmers' livelihoods: (b) Rich countries must stop negotiating bilateral trade deals to force open developing country markets; (c) The IMF and the World Bank must stop forcing poor governments to cut their tariffs across the board; (d) developing country governments should ensure that their farm polices to promote poverty reduction. But Oxfam's report may not be effective as developed nations always motivated through their self interest. They are always

in favor of capital flight from underdeveloped nations to the developed nations i.e. capital outflow from peripheral to the centre.

Wever (2005) comments that there are bad foreign-owned factories in Dhaka and Jakarta, and rapacious middlemen in the Kenyan coffee trade; for sure also western governments have been shamelessly hypocritical in protecting their own markets, and the WTO has yet to prove itself a true friend to the poor. The author also reconciles that in principle, free trade and fair trade can go hand in hand, and offer the best chance of a slice of the pizza of prosperity.

Islam and Swierczek (2003) analyze the impact of technological change on job satisfaction of women garment workers in Bangladesh. The study revealed that the overall impacts of technological change on women workers are fairly associated to the job satisfaction factors as a whole. Factors include fair pay, bureaucracy, conflicts, and information sharing are significantly related to the overall impact of workers.

Sarker (1997) investigated the conditions of the workers from dual angle. One is social perspective and the other is economic perspective. The study is based on the survey of 1000 workers of selected 20 garment factories in different regions of Bangladesh. The prime conclusion of this study was that the standard of living of the garment workers is still in precarious condition. They were not free from the vicious circle of poverty and face extreme difficulties in obtaining their basic needs for survival even.

Majumder and Begum (2006) reviewed the existing literature on export oriented RMG industry. In addition, new qualitative evidence from case studies has explored the gender implications and resulting social changes of individual workers, their families and society. Findings of the study shows that women's employment in the export oriented RMG industry of Bangladesh has narrowed down the gender gap in many spheres like employment, income, social prestige, control over income, decision making etc.

Rahman (1995) examined the extent of benefits enjoyed by Bangladesh under the various generalized system of preference (GSP) schemes and analyzed the twin issues of impact of GATT on the GSP benefits and the emerging related problems that need to be resolved by Bangladesh during post GATT phase. The article puts forward some concrete measures that

need to be undertaken to offset the potential negative impacts of GATT provisions on Bangladesh external sector performance.

Ahmad and Ahmed (1994) attempted to describe the achievements of the Uruguay Round and forecast its likely adverse impact on RMG exports from Bangladesh and suggested some measures to overcome these effects.

Quddus and Rashid (2000) presented a comprehensive analysis of the apparel export industry of Bangladesh. They focus primarily on the role of the entrepreneurs, the men and women who have led the industry over the years. Based on a sample of forty randomly selected factory owners, a profile of the garment entrepreneur presented. In addition, they use a political economy approach to analyze the forces underlying the local and global clothing markets. They also discuss future challenges for the industry and the policy makers as the present structure built under the GATT rules come to an end in the year 2005.

Siddiqi (1994) argued that the future is not as bleak as it sounds. If Bangladesh can take certain measures, it should continue to do as good as is now doing. It needs to restructure its textile and RMG industries with appropriate backward and forward linkages, and improve substantially its labor productivity and management efficiency. It must implement a well formulated cost reduction and product diversification strategies. Supportive policy packages from the government will have to be broadened and made more effective. He concluded that the government must opt for high quality political and business diplomacy to cope with the other possible forms of non-tariff barriers.

Abdullah (2004) identified certain key global challenges which our RMG sector will undoubtedly be facing as the MFA phases out by the end of 2005. He suggested certain tentative but urging solutions to meet the upcoming challenges. However, the article didn't aim to prioritize the solutions in any way. Moreover, since there is no one solution to any one problem rather a combination of approaches to be taken to overcome the upcoming challenges, the study is expected to impart a general platform for implementing the tentative solutions.

Abdullah (2008a) examined the evolution of RMG industry in Bangladesh and it also casts light on the contributory factors behind this phenomenal growth. The study revealed that

brave entrepreneurial efforts, availability of low cost labor force have been the primary causative factors behind the triumphant development of the RMG industry in Bangladesh. The MFA initially had been a blessing for our RMG industry to flourish. However, with the MFA being bought to an end, our RMG sector is now posed towards a new challenge in the new millennium. In order to cope with the challenges, our RMG industry ought to strategically walk by enhancing productivity, developing strong backward linkages and diversifying its production.

Abdullah (2005) attempted to analyze productivity trend in some selected RMG units. He also attempted to identify in which areas the companies are emphasizing, whether there is deficiency in any area, whether to take any corrective measures, and whether the companies are prepared to face the quota free market or not.

Abdullah and Hossain (2004) identified some crucial steps, which Bangladeshi RMG sector can adopt in order to face the post Multi Fiber Agreement (MFA) challenges which are commencing from the year 2005 and beyond.

Mohiuddin (2008) attempted to identify the prospects of Bangladesh's readymade garments (RMG) industry in the post MFA period by analyzing the current scenario, strength and weakness of Bangladesh's RMG and potential competitiveness in the world market in the coming years. The investment in backward linkages industry, market diversification, favorable government policies, improve governance and infrastructure, preferential access to markets and above all the local entrepreneurial agility have kept the Bangladesh's RMG industry vibrant in post MFA era.

Jesmin (2008) highlighted the potentials of Bangladesh's export to the EU market by analyzing the country's strengths and weaknesses, threats and opportunities. Low labour costs, a near self-sufficiency in knit fabrics, duty free access and mass production in basic garments are the major competitive factors for Bangladesh. By properly addressing certain weaknesses and overcoming some challenges, Bangladesh can further strengthen its position in the EU market.

Sharma and Prashaant (2009) attempted to analyze the export performance the Indian textile industry after the abolition of the multi-fiber agreement with the help of advanced statistical techniques such as cluster analysis and regression. The variables taken for the statistical analysis are quality, training of employees, finances, and funds and technological up gradation.

Chowdhury et al (2006) focused on RMG sector and Bangladesh's accession to the WTO. Due to the expanding growth of RMG sector of the country, large number of women workers are employed in formal labor market, which represents a social revolution for the country. The labor wage is relatively low in Bangladesh. Post Multi-fiber Agreement (MFA) era was started from January 2005. After post MFA era , if the garments sector cannot compete with other countries like China, India, Vietnam, Cambodia or Sub-Saharan countries , then unemployment rate will further increase in the domestic economy. Purchasing power will decline and investment may collapse. There is a need to reduce the anti –export bias in the trade regime, improve the investment climate, removing corruption, continue prudent financial policies, bringing political stability, removing growth of militants and terrorist activities, as well as cost effective measures to assist the RMG sector and its workers.

Kathuria et al (1999) suggested South Asia as a whole would gain from the abolition of the quotas. The restrictions curtail the ability of countries to generate sorely needed employment opportunities in these labor intensive sectors.

Haider (2007) tried to explain the clear scenario of RMG sector in Bangladesh. The RMG industry of Bangladesh started in the late 1970s. The industry has contributed to export earnings, foreign exchange earnings, employment creation, poverty alleviation and the empowerment of women. The export quota system and the availability of cheap labor are the two main reasons behind the success of the industry. In the 1980s the RMG industry of Bangladesh was concentrated mainly in manufacturing and exporting woven products. Since the early 1990s, the knit section of the industry has started to expand. Shirts, T-shirts, trousers, sweaters and jackets are the main products manufactured and exported by the industry. Bangladesh exports its RMG products mainly to the United States of America and the European Union. These two destinations account for more than 90 percent share of the country's total earnings from garment exports. The phase out of the export quota system from

the beginning of 2005 has raised the competitiveness issue of the Bangladesh RMG industry as a top priority topic. The most important task for the industry is to reduce the lead time of garment manufacturing. The improvement of deep level competitiveness through a reduction in total 'production and distribution' time will improve surface level competitiveness by reducing lead time. In contrast, the establishment of a central or common bonded warehouse will improve surface level competitiveness by reducing lead time. Second, Bangladesh needs to improve the factory working environment and various social issues related to the RMG industry. International buyers are very particular about compliance with codes of conduct. Third, issues related to product and market diversifications as well as upgrading products need to be addressed with special care. The development of the port and other physical infrastructure, the smooth supply of utilities, a corruption free business environment and political stability are some priority concerns for the Government to consider in its efforts to attract international buyers and investors.

Rahman and Raihan (2003) focused on the features of economic reforms in China, China's trade patterns and the implications of its accession to the WTO. They also focused on the impact of China's accession on global apparel markets and issues of concern for Bangladesh's export-oriented RMG sector. Moreover, they presented category specific analysis of the relative competitive situations of China and Bangladesh in terms of price competitiveness, revealed comparative advantage, productivity etc.

4.1: Objectives of the Study

The specific objectives of the study are:

1. To analyze the contribution of the MFA in the growth of the industry and the effects of the termination of the MFA.

2. To study whether the economy of Bangladesh can be able to outweigh the threats of Post MFA era.

3. To get an overview of the current status of RMG in Bangladesh and its contribution in export earnings, employment and GDP.

4. To examine the major WTO policies and issues those are important for RMG sector in Bangladesh.

5. To examine the trade patterns of some selected countries and their implications of its accession to the WTO

4.2: Methods and Materials

The study basically uses the information available from secondary sources and data and information partially generated from primary survey. Information generated in the study cover all the three relevant and interrelated levels: macro, sectoral and enterprise levels. The study has tried to capture the distinctive features of ongoing restructuring in two major sub-components in the apparels sector: knit and woven. Information required for the study was generated at different levels: secondary information collected from different sources, debriefing of garment factory owners, focus group discussions with entrepreneurs and employees, and base line survey of both entrepreneurs and employees.

4.3: Secondary Information

To capture the current state of global apparel market as well as domestic export-oriented apparel manufacturing sector, a thorough review of the available secondary information was made. Secondary information included published reports, monographs, books, websites, articles, data bases, newspaper reports etc.

4.4: Primary Data

Based on the secondary information collected through the review process and debriefings of knowledgeable people, we prepare draft questionnaire. Based on draft questionnaire, we went for pilot survey. Based on pilot survey, necessary corrections were made when finalize the questionnaire. Moreover, debriefing of a number of entrepreneurs and focus group discussions (FGDs) with factory workers have provided important insights on the structure of the RMG sector, its dynamics and changes in terms of economic, technological and social aspects which helped to finalize the baseline survey questionnaire.

4.5: Sample Selection

We conducted in-depth and semi-structured interviews with 30 factory owners (from 30 medium and large factories, sub-contractors for export and direct exporters) and 200 middle managers; as well as with the immediate past president of the BKMEA. Factory owners were selected on the basis of convenience sampling procedure and middle managers were selected on the basis of judgmental sampling procedure. All data were collected from various garments factories located in Dhaka. Most interviews were conducted in English, while some were conducted in both Bangla and English.

4.6: Focus Group Discussions (FGDs)

An interview was conducted through FGDs. In a number of sample enterprises, entrepreneurs did not allow on the workers to talk with the survey team. In such cases, FGDs were conducted either outside of those units (in their homes) or some other RMG units outside of the sample.

We conducted five focus group discussions with a total of 30 factory workers-men and women-with the idea that workers would feel more comfortable discussing various issues. Factory workers were selected on the basis of purposive sampling procedure from various garments factories located in Dhaka. The focus groups were conducted in Bangla and then translated to English for analysis.

4.7: Data Analysis

The collected data were edited for eliminating different type of inconsistencies. For analyzing data, we employ SPSS, Mini Tab and E-Views software. Collected data were analyzed with appropriate statistical and econometric tools.

4.8: Factor Analysis

Factor analysis is a generic name given to a class of multivariate statistical methods whose primary purpose is to define the underlying structure in a data matrix. Broadly speaking, it addresses the problem of analyzing the structure of the interrelationships (correlations) among a large number of variables (e.g. test scores, test items, questionnaire responses) by defining a set of common underlying dimensions, known as factors. With factor analysis, the researcher can first identify the separate dimensions of the structure and then determine the extent to which each variable is explained by each dimension. Once these dimensions and the explanation of each variable are determined, the two primary uses for factor analysis – summarization and data reduction-can be achieved. In summarizing the data, factor analysis derives underlying dimensions that, when interpreted and understood, describe the data in a smaller number of concepts than the original individual variables. Data reduction can be achieved by calculating scores for each underlying dimensions and substituting them for the original variables.

4.8.1: The Factor Model

The observable random vector X, with p components, has mean μ and covariance matrix. The factor model postulates that X is linearly dependent upon a few unobservable random variables F_1, F_2,……,F_m, called common factors, and p additional sources of variation $\varepsilon_1,\varepsilon_2,\ldots\ldots..,\varepsilon_p$, called errors, or, sometimes , specific factors. In particular, the factor analysis model is

$X_1-\mu_1= \ell_{11} F_1+\ell_{12} F_2+\ldots\ldots..+\ell_{1m}F_m+\varepsilon_1$

$X_2-\mu_2= \ell_{21} F_1+\ell_{22} F_2+\ldots\ldots..+\ell_{2m}F_m+\varepsilon_2$

: : :

$X_p-\mu_p= \ell_{p1} F_1+\ell_{p2} F_2+\ldots\ldots..+\ell_{pm}F_m+\varepsilon_p$

The coefficient $\ell_{ij}$is called the loading of the ith variable on the jth factor. Note that the ith specific factor $\varepsilon_i$is associated only with ith response X_i. The p deviations $X_1-\mu_1$, $X_2-\mu_2,\ldots\ldots..,X_p-\mu_p$ are expressed in terms of p+ m random variables $F_1,F_2,\ldots,F_m$, $\varepsilon_1,\varepsilon_2,\ldots\varepsilon_p$which are unobservable(Johnson and Wichern,2007).

4.9: Regression Analysis

Regression analysis is a statistical technique that can be used to analyze the relationship between a single dependent (criterion) variable and several independent (predictor) variables.

The objective of regression analysis is to use the independent variables whose values are known to predict the single dependent value selected by researcher.

Specifically, the linear regression model with a single response takes the form

$Y = \beta_0 + \beta_1 z_1 + \ldots\ldots\ldots + \beta_r z_r + \varepsilon$

[Response] [mean (depending on $z_1, z_2, \ldots\ldots\ldots\ldots, z_r$)] + [error]

The classical linear model regression model states that Y is composed of a mean, which depends in a continuous manner on the z_i's , and a random error ε, which accounts for measurement error and the effects of other variables not explicitly considered in the model. The values of the predictor variables recorded from the experiment or set by the investigator are treated as fixed. The error is viewed as a random variable whose behavior is characterized by a set of distributional assumptions. The term 'linear' refers to the fact that the mean is a linear function of the unknown parameters $\beta_0, \beta_1, \ldots\ldots\ldots\ldots, \beta_r$. (Johnson and Wichern, 2007).

4.9.1: Coefficient of Determination (r^2)

It is the most commonly used measure of the goodness of fit of a regression line. It is the ratio of the sum of squares regression to the total sum of squares, as shown in the following equation:

r^2= Explained Sum of Squares (ESS)/ Total Sum of Squares (TSS)

Verbally, r^2 measures the proportion or percentage of the total variation in Y explained by the regression model. It tells what proportion of the variation in the dependent variable, or regress and, is explained by the explanatory or re-gressor or independent variable. This value indicates the percentage of total variation of dependent variable explained by independent variable. When the regression equation contains more than one independent variable, the r^2 value represents the combined effect of the entire variate in prediction. The r^2 value is simply the squared correlation of the actual and predicted values. However, the 'strength' of the relationship between dependent and independent variable is represented by r^2, which is, of course, always positive. If the regression model is properly applied and estimated, the researcher can assume that the higher the value of r^2, the greater the explanatory power of the regression equation, and therefore the better the prediction of the dependent variable. An important property of r^2 is that it is a non-decreasing function of the number of explanatory

variables or regressors present in the model; as the number of regressors increases , r^2 almost invariably increases and never decreases. This r^2 lies between 0 and 1; the closer it is to 1, the better is the fit. It is a summary measure that tells how well the sample regression line fits the data. Two properties of r^2 may be noted:

1. It is a nonnegative quantity.
2. An r^2 of 1 means a perfect fit. On the other hand, an r^2 of zero means that there is no relationship between the regress and the regressor.

4.9.2: Adjusted Coefficient of Determination (Adjusted R^2)

Modified measure of the coefficient of determination that takes into account the number of independent variables included in the regression equation and the sample size. Although the addition of independent variables will always cause the coefficient of determination to rise, the adjusted coefficient of determination may fall if the added independent variables have little explanatory power and / or if the degrees of freedom become too small. This statistic is quite useful for comparison between equations with different numbers of independent variables, differing sample sizes, or both. The term adjusted means adjusted for the df (degree of freedom) associated with the sums of squares (SS) entering into coefficient of determination (r^2).

4.9.3: Coefficient of Correlation (r)

It is a measure of the degree of association between two variables. It is a measure of linear association between two variables and it lies between -1 and +1, with +1 indicating a perfect positive relationship, 0 indicating no relationship, and -1 indicating a perfect negative or reverse relationship. When the coefficient of correlation(r) is used to assess the relationship between dependent and independent variables, the sign of the correlation coefficient (+r,-r) denotes the slope of the regression line.

4.10: Standard Error of the Estimate'

The standard error of the estimate is another measure of the accuracy of our predictions. It is the square root of the sum of the squared errors divided by the degrees of freedom. Its

represents an estimate of the standard deviation of the actual dependent values around the regression line; that is, it is a measure of variation around the regression line. The standard error of the estimate can also be viewed as the standard deviation of the prediction errors and thus becomes a measure to assess the absolute size of the prediction error. It is also used in estimating the size of the confidence interval for the predictions.

5.1: Introduction

The Readymade garment (RMG) industry of Bangladesh has expanded from 3% in 1984 to 82% in 2016 (to the export list of Bangladesh) - a dramatic increase over the last three decades. Traditionally, the jute industry dominated the industrial sector of the country until the 1970s. Since the early 1980s, the RMG industry has emerged as an important player in the economy of the country and has gradually replaced the jute industry. The RMG industry is the only multi-billion-dollar manufacturing and export industry in Bangladesh. Whereas the industry contributed only 0.001 percent to the country's total export earnings in 1976, its share increased to about 82 per cent of those earnings in 2016.

The turnover of the RMG sector has reached US$ 22.5 billion in 2014-15 fiscal year which is almost 82% of Bangladesh's total export earnings. Over the two and half decades of journey, the RMG industry has experienced many ups and downs on its way due to liberalization of world trade. 3.6 million People are directly involved in the RMG sector where less-privileged women account for more than 85%.

Garments workers act as an important source of income for families and households that are landless, under-educated and without alternative means of generating wealth. Around 4 million people are depending on this sector directly and indirectly. This substantial growth requires a flawless examination must encompass embrace the changes in world trade, polices of the host country, role playing by the international agencies advocating mainly by the WTO to encourage free trade. The WTO is the international trade agency earlier popularly known by GATT. This organization has recently taken many initiatives to bolster world trade with minimum tariffs and NTBs. Before being the WTO, free trade was initiated different umbrellas, namely, Multi-Fiber Agreement (MFA), Subsequently GSP and finally GATT. After the abolisher of GATT, the WTO came into being in 1995 which rules the international trade. Since its inception, WHO has taken many steps to rule the trade and formulated polices/initiatives to help the resource-poor nations in accelerating their presence into world market. Despite criticisms, fact is that, the WTO now rules world trade but Bangladesh is unaware the impact its rule on the RMG-the single commodity on which Nation relies. The impact of such initiatives/rules has been the subject matter of the present thesis. Some important issues related to the RMG industry of Bangladesh are noted in table given below:

Table 5.1: Important issues related to the Bangladesh ready-made garment Industry

Year (s)	Issue
1977-1980	Early period of growth
1982-1985	Boom days
1985	Imposition of quota restrictions
1990s	Knitwear sector developed significantly
1993-1995	Child labour issue and its solution
2003	Withdrawal of Canadian quota restriction
2015	Phase-out of export-quota system

Source: Compiled by the author from Quddus and Rashid, Mainuddin and databases of the Bangladesh Garment Manufacturers and Exporters Association, and the Export Promotion Bureau, Bangladesh.

Currently, there are more than 5,400 RMG firms in Bangladesh (BGMEA,2016). More than 95 percent of those firms are locally owned with the exception of a few foreign firms located in export processing zones. The RMG firms are located mainly in three main cities: the capital city Dhaka, the port city Chittagong and the industrial city Narayangonj. Bangladesh RMG firms vary in size.

Based on Bangladesh Garment Manufacturers and Exporters Association (BGMEA) data, Mainuddin (2000) found that in 1997 more than 75 per cent of the firms employed a maximum of 400 employees each. Garment companies in Bangladesh form formal or informal groups. The grouping helps to share manufacturing activities, to diversify risks; horizontal as well as vertical coordination can be easily found in such group activities (Haider, 2007).

Ready-made garments manufactured in Bangladesh are divided mainly into two broad categories: woven and knit products. Shirts, T-shirts and trousers are the main woven products and undergarments, socks, stockings, T-shirts, sweaters and other casual and soft garments are the main knit products. Woven garment products still dominate the garment export earnings of the country. The share of knit garment products has been increasing since the early 1990s; products currently account for more than 52 percent of the country's total RMG export earnings (BGMEA, 2016). Although various types of garments are manufactured in the country, only a few categories, such as shirt, T-shirts, trousers, jackets and sweaters constitute the major production-share (BGMEA 2016). Economies of scale for

large-scale production and export-quota holdings in the corresponding categories are the principal reasons for such a narrow product concentration (Haider, 2007).

Though Bangladesh Readymade Garment Industry is not enjoying the quantitative restriction (quota system) benefit under Multi Fiber Agreement (MFA), still has greater market access to USA and EU holding to limit the exporters of many countries like China, India, Pakistan, Indonesia etc. the giants in garment exports. It is needless to say that the ending of quantitative restriction has a chain reaction across the world. Exporters who were under quota restriction will have freedom to sell unlimited amounts of garments. The buyers of garments also will have freedom to select their preferred supplies. They will demand greater varieties, shorter lead-times and increased product development. As a result the market will be more dynamic with greater competition between suppliers.

Naturally Bangladesh will have to face many challenges posed in terms of total globalization and trade liberalization. The garment industries of Bangladesh will have to face very high competition from China, Pakistan, India, Cambodia, Sri Lanka, Vietnam and other Southeast Asian countries that are much more developed in their textile and fabric sector. The number of low price apparel producing countries will increase due to the fact that the readymade garments industry is to some extent easy, less invested industry and also economic primer for developing economics. Countries with raw cotton origin and self-sufficient backward linkage will be able to efficiently supply apparel products to the US market –now availed of by Bangladesh (Chowdhury et al, 2009).

5.2: Trends of Apparel Export

The growing contribution of RMG to export earnings increased with all other sectors being comparatively static. In the Financial Year (FY) 2015-16 export earnings of RMG sector was 12496.72 million US dollar, which constituted 77.12 per cent of the total exports for the corresponding year. Starting with only few factory units during 1980's, the RMG sector now includes 5463 factory units. The level of employment has reached approximately 3.6 million. Women workers account for about 85 per cent of this employment. At present, the country is the 2nd largest apparel supplier to the USA and EU countries. However, at present RMG sector in Bangladesh is facing a debacle due to various national and international reasons. Among them, drastic fall in demand for Bangladeshi apparels in USA after attack on WTC

tower on 11th September and phasing out of MFA in January 2005 are the most important ones.

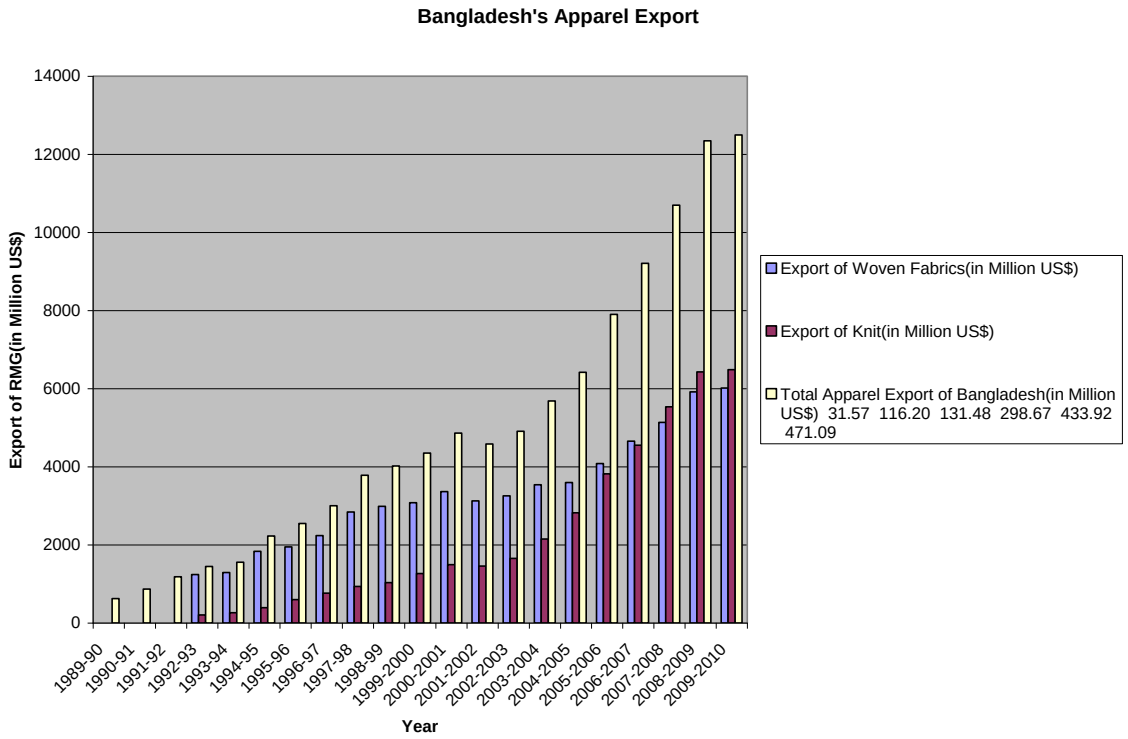


Figure 5.1: Bangladesh's Apparel Export

First export consignment of apparels left Bangladesh in 1987. Although this involved export of knitwear apparels, subsequently in the early days, it was woven wear that dominated the export basket. Later on, secured market under the quota regime and preferential market under EU-GSP and EU-EBA helped Bangladesh expand its apparels export significantly. Along with this, there was also a considerable shift in the product structure, from woven to knitwear apparels. Export of apparels increased from a mere of US$ 10 million per year during the first half of the 1980s to US$ 300 million over the second half of the 1980s and crossed the US$ 1 billion mark in the first half of the 1990s. Under the ATC signed under the GATT Uruguay Round negotiations, while the quota facility was phased out in three stages, Bangladesh's export was not affected during the first two phases since most of the quota-derestricted items under these two phases were not of export interest to Bangladesh. Even following China's accession to the WTO in 2001, Bangladesh's export posted a higher growth of 15.7 per cent in 2004 compared to 11.7 per cent 2001.

5.3: Regression Analysis

Variables Entered/Removed(b)			
Model	**Variables Entered**	**Variables Removed**	**Method**
1	X(a)	.	Enter
a All requested variables entered.			
b Dependent Variable: Total Apparel Exports(Y)			

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.938(a)	.880	.875	1337.755
a Predictors: (Constant), X (Year)				

Here total apparel exports (Y) are dependent or regress or explained variable and year (X) is the predictor or regressor or independent variable. According to this regression model, the value of r^2 of 0.880 means that about 88 percent of the variation in the total apparel exports is explained by year. Since r^2can at most be 1, the observed r^2suggests that the sample regression line fits the data very well. The coefficient of correlation (r) of 0.938 shows that the two variables, total apparel exports and year, are highly positive.

Coefficients(a)						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	**(Constant)**	-2327.606	529.547		-4.395	.000
	X	447.228	33.054	.938	13.530	.000
a Dependent Variable: Y						

The value 447.228 is the regression coefficient (b) of the independent variable (Year).
Thus, the predicted value for each observation is the intercept (-2327.606) plus the regression coefficient (447.228) times its value of the independent variable (Y= -2327.606+447.228X). The standardized regression co-efficient, or beta value, of .938 is the value calculated from standardized data. With only one independent variable, the beta coefficient equals the

coefficient of correlation and the squared beta coefficient equals the coefficient of determination.

The standard error of the coefficient (33.054) is the standard error of the estimate of b (447.228). A smaller standard error implies more reliable prediction. Thus we would like to have small standard errors and therefore smaller confidence intervals. This standard error is also referred to as the standard error of the regression coefficient.

The column of t values measures the significance of the partial correlations for variables not in the equation. If this t value does not exceed a specified significance level, the variable will not be allowed to enter the equation. The tabled t value for a significance level is .00. Looking at the column of t- values in the table, we note that t values of the independent variable (year) is 13.530 which exceed the required value 2.

Table 5.2: Growth of the Industry and Employment

Year	Number of Garment Factories	Employment in Million Workers
1983-84	134	0.040
1984-85	384	0.115
1985-86	594	0.198
1986-87	629	0.283
1987-88	685	0.306
1988-89	725	0.317
1989-90	759	0.335
1990-91	834	0.402
1991-92	1163	0.582
1992-93	1537	0.804
1993-94	1839	0.827
1994-95	2182	1.200
1995-96	2353	1.290
1996-97	2503	1.300
1997-98	2726	1.500
1998-99	2963	1.500

1999-2000	3200	1.600
2000-2001	3480	1.800
2001-2002	3618	1.800
2002-2003	3760	2.000
2003-2004	3957	2.000
2004-2005	4107	2.000
2005-2006	4220	2.200
2006-2007	4490	2.400
2007-2008	4743	2.800
2008-2009	4925	3.500
2009-2010	5063	3.600
2010-2011	5150	3.600
2011-2012	5400	4.000
2012-2013	5876	4.000
2013-2014	4222	4.000
2014-2015	4296	4.000
2015-2016	4328	4.000
2016-2017	4482	4.00

Source: Data Source EPB, Compiled by BGMEA (2017)

Comparison of exports of apparels by different countries, the pre-phase out completion year and the first post-phase out completion year reveals that Chinese export of apparels was US$ 57 billion in 2015, a growth rate of 44 per cent over the preceding year. China's export was about 9.8 times higher than that of Bangladesh for the year 2015.

India exported US$7.5 billion worth of apparels in 2014, which had sharply increased to US$ 9.3 billion in 2015. Exports of other countries in 2015, such as Sri Lanka, Cambodia, Pakistan and Indonesia, were within the range of US$3 billion to US$4 billion with a growth rate between –1.0 and 10.0 per cent. According to the growth of apparel export of Cambodia, Indonesia, and Sri Lanka was higher compared to Bangladesh in 2015.

Indeed, some studies had earlier projected about the opportunities to be created for selected developing countries as a result of quota derestriction. For example, Francois and Spinanger

(2001) made the projection that quota phase out would substantially raise an opportunity for textile and clothing exports from South Asia and there will be a shift in demand away from countries such as Mexico and Turkey towards Asia.

Exports of Sub-Saharan Africa would also drop, according to them. Avisse and Fouquin (2001) estimated that output share of Asia could increase from 12 per cent to 18 per cent, while Chinese export could rise by 87 per cent and South and South East Asia's export could increase by as much as 36 per cent.

Latin America and NAFTA would lose 39 per cent and 27 per cent of their market share respectively. The shifting of sources was related to changing strategies of leading buyers where they would be interested to concentrate in a limited number of countries for supplying bulk-scale order. Major apparel manufacturing countries are undertaking strategies to attract leading buyers by offering them bulk scale production and supply choice in one location. Indeed, the post MFA scenario had vindicated some of these projections.

Table 5.3: RMG Export of Some Selected Asian Countries

Countries	**Percentage change in 2005 over 2016**
Bangladesh	4.60
China	44.40
India	39.20
Sri Lanka	5.00
Cambodia	10.60
Pakistan	-1.30
Indonesia	8.30

Source: UNCOMTRADE

5.4: Market Concentration

Bangladesh exports 90 per cent of its apparels to the US and the EU markets. About 60 per cent of apparels exported to the EU enjoyed preferential market access in EU under the EU-GSP and the EBA. In the EU market, about US$ 4.4 billion worth of product was exported in

2005, which accounted for 63 per cent of total export of Bangladesh. Because of its ability to export enjoyed considerable comparative advantage in the EU market.

In the USA, on the other hand, Bangladesh's export was US$3.4 billion in 2015; woven products had the larger share (74 per cent) drawing benefits from the secured access under quota regime. Except these two markets, Bangladesh has exported about 5 per cent of its apparel to Canada, mainly to the duty-free market access facility under the revised Canadian GSP**.**

Among the major apparel exporting countries, China has been able to substantially increase its export both in the EU and the US and the US markets. In the EU market, Chinese exports increased from US$14 billion in 2004 to US$32 billion in 2015,while in the US market its export increased from US$ 11 billion to US$ 16 billion. Lead apparel importers of EU and US have targeted China as a major source of their apparel products since China is able to offer a "Full package" deal. Export from India has also increased in the US and EU markets by a sizable amount mainly in woven product; export from Indonesia has also increased in the US market mainly in woven products. Cambodia, Sri Lanka and Pakistan's knit exports have increased in the EU market, indeed higher rates compared to Bangladesh. However, the USA still becomes the major market. Among the EU countries, Germany is the biggest importer of Bangladeshi apparel.

Table 5.4: Knitwear Export to Major Markets in FY 2009/2016

(Value in '000' US$)

Country	Knitwear	Percentage
Germany	1282769	19.78
USA	891610	13.75
UK	725735	11.19
France	691995	10.67
Netherlands	528567	8.15
Spain	384553	5.93
Italy	379039	5.85
Canada	283860	4.38
Turkey	182516	2.82

Denmark	178240	2.75
Belgium	155790	2.40
Sweden	129887	2.00
Ireland	80164	1.24
Australia	60413	0.93
Japan	53060	0.82
Switzerland	52110	0.80
Poland	44556	0.69
Mexico	35884	0.55
Brazil	33331	0.51
Norway	30537	0.47

Source: Export Promotion Bureau

5.5: Product Composition

The woven and knit products have almost equal shares in the export basket of Bangladesh. Bangladesh exported US$4.6 billion worth of woven products and US$3.8 billion worth of knit products, the shares in total being 56 per cent and 44 per cent respectively. By FY2015-16, the share of knit products has further increased to 48 per cent; indeed, FY2016, earnings from knitwear have crossed the share of woven products in total earnings from apparels, for the first time in Bangladesh's history.

In FY 2009-10, Bangladesh exported US$ 6 billion worth of woven products and US$ 6.5 billion worth of knit products, the shares in total being 48 per cent and 52 per cent respectively. Rising share of knit products in the overall apparel export of Bangladesh is one of the major emerging features of the country's post- MFA performance. Since per unit labor use in knit factories is lower than that in woven factories, an increasing share of knitwear products in the export basket would have a declining employment impact for Bangladesh. However, a major component of the knitwear sector is the sweater sub sector manufacturing of which requires relatively larger numbers of workers. Additionally, because of the particular nature of work in sweater factories, male laborers are preferred there. Thus, an increase in the share of sweaters in the export basket is likely to create more employment, especially for male workers in that particular sub sector.

Data show that among the Asian countries, Bangladesh is ranked just below China in the case of knitwear export and after China and India in the case of woven wear export.In view of quota phase out, Asian apparel exports faced a mixed experience in terms of export of the various categories of products to different markets. Among the seven Asian countries, only China and India have experienced a positive level of growth in both woven and knitwear categories in both US and the EU. Bangladesh has achieved a positive growth in all categories of products except for woven in the EU market. Sri Lank, on the other hand, experienced a positive growth only for knit products in the US market, while Cambodia, Pakistan and Indonesia have experienced a positive growth in both categories of products in the two markets. The environment in the global market for apparels is becoming increasingly competitive.

5.6: Major Items of Export

Major apparel items exported from Bangladesh are shirts, trousers, jackets, T-shirt and sweater which comprise more than 80 per cent of total export. Although apparel export is concentrated in these five items, there have been some changes in the relative importance of individual items. Data show that share of high value products like T shirt increased about 11 per cent over fifteen years. Moreover, the share of Car coats significantly increased to a level of 91 percent. The share of Jacket, another high-value product increased around 20 percent over this period. Meanwhile, the share of Brassieres, girdles, and braces increased 43 percent. Within the apparels sector, Bangladesh has been able to accomplish product diversification. RMG sector has been able to extend its product line from T-shirts, pajamas, ordinary shirts, shorts, caps, women's and children's wear to shirts of complicated designs and jackets; and some brand items have also emerged where the value was added to both the export earnings and the local value retention.

Table 5.5: Main Woven Garments Exported from Bangladesh

FY 2007/08 to 2015/16 **(Value in Million US$)**

Woven Garments	2015-16	2007-08	% Change
M/B Over/Car coats	39.75	42.39	-6.23
W/G Over/Car coats	28.39	21.48	32.2
M/B Suits/Jacket, Blazer	3007.29	2512.74	19.68
W/G Suits/Jacket, Blazer etc	1299.74	1181.52	10.01

M/B Shirts	1000.16	915.6	9.24
W/G Blouse, Shirts	219.9	205.84	6.83
M/B Singlet's & Vest	49.39	44.61	10.73
W/G Singlet's, Vest &Petti.	60.02	55.21	8.72
Babies Garments	63.61	63.3	0.49
Gmts made up of fabrics	5.15	3.65	41.04
Tracksuits, swimwear	45.31	49.85	-9.11
Brassieres, girdles, braces	84.66	59.15	43.12
Handkerchief	0.52	0.72	-28.28
Shawls, scarves, mufflers	0.55	0.98	-43.83
Ties, bowties, cravats.	0.17	0.3	-41.32
Gloves, mittens & mitts.	0.55	0.93	-40.84
Other clothing access.	13.33	9.02	47.83

Source: Export Promotion Bureau.

5.7: Contribution in GDP

The Bangladesh RMG industry, with its woven and knit sub-components, is a predominantly export oriented sector, with 95 percent of the woven and 90 percent of the knit exports being directed to foreign markets. This sector contributed 77 percent of the total Bangladesh export. RMG export was equivalent to 17.5 percent of Bangladesh's GDP over the year.

Table 5.6: Share of RMG Export in the Country's GDP (Value in Million US$)

Year	GDP at Current Price	RMG Export	GDP RMG Export Ratio	RMG Export as Percentage of GDP
1983-84	19636	31.57	0.00	0.16
1984-85	21644	116.20	0.01	0.54
1985-86	21170	131.48	0.01	0.62
1986-87	23759	298.67	0.01	1.26
1987-88	25604	433.92	0.02	1.69
1988-89	27710	471.09	0.02	1.70
1989-90	30477	624.16	0.02	2.05
1990-91	30975	866.82	0.03	2.80

1991-92	31335	1182.57	0.04	3.77
1992-93	32031	1445.02	0.05	4.51
1993-94	33853	1555.78	0.05	4.60
1994-95	37940	2228.35	0.06	5.87
1995-96	40726	2547.13	0.06	6.25
1996-97	42319	3001.25	0.07	7.09
1997-98	44034	3783.64	0.09	8.59
1998-99	45713	4020.23	0.09	8.79
1999-2000	47125	4352.39	0.09	9.24
2000-2001	46934	4860.56	0.10	10.36
2001-2002	47374	4583.89	0.10	9.68
2002-2003	51914	4912.10	0.09	9.46
2003-2004	56498	5686.00	0.10	10.06
2004-2005	60381	6417.67	0.11	10.63
2005-2006	61975	7900.80	0.13	12.75
2006-2007	68443	9211.23	0.13	13.46
2007-2008	79564	10699.80	0.13	13.45
2008-2009	89358	12347.77	0.14	13.82
2010-2015	100077	12496.72	0.12	12.49
2015-2016	388484.47	28090.00	0.13	13.83

Source: BGMEA (2016), BGMEA Annual Report.

5.8: Competitiveness of the Ready-Made Garment Industry

Emerging under the "quota" regime in the late 1970s, Bangladesh's RMG sector has developed spectacularly over the last three decades and has emerged as a major apparel exporting country in the world market. However, that quota system came to an end in 2004. Therefore, the competitiveness issue needs to be addressed, with special attention given to the long-term sustainability of the industry.

The term "competitiveness" itself is a broad concept. Its meaning, implications, adaptation and achievement vary from firm to firm, industry to industry, or country to country. Michael E. Porter is a pioneer of the "competitiveness theory" (Porter,1990) at the national or macro level (Cho and Moon, 2000). Firm/industry-level (micro level) competitiveness depends on

various parameters. However, the literature provides no universal agreement on the definition of competitiveness. For example, some researchers consider the labor cost, unit cost, exchange rate, interest rate, prices of material inputs and other price or cost-related quantitative factors for measuring the competitiveness of a manufacturing firm/industry (Edwards and Golub, 2004; Fukunishi, 2004; Cockburn and others, 1998; and Edwards and Schoer, 2002).Some other researchers consider product quality, innovativeness, design, distribution networks, after-sales service, transaction costs, institutional factors relating to the bureaucracy of export procedures and other non-price factors for measuring the competitiveness of a manufacturing firm/industry (Abdel-Latif, 1993; Chen and others, 1999; and Sachwald, 1994). The influences of both price and non-price factors on the competitiveness of a firm/industry are reflected by market share and profit (Toming,2006). This study attempts to incorporate price, non-price and result (for example, market share) factors in order to address the international competitiveness of the Bangladesh RMG industry.

The majority of the competitiveness-related research studies focus on the "competitive performance" or the "factors influencing competitive performance". The studies consider product price, market share and other indicators to measure competitive performance, while considering wages, costs, productivity and other issues as factors influencing competitive performance. However, Fujimoto (2001) puts special emphasis on the "capability" factor that influences the competitive performance of a firm. According to him, improvement in the "capability" of a firm enhances its "competitive performance". This improvement takes time, but it ensures the long-term sustainability of a firm. In contrast, improving only "competitive performance" and not "capability" may not be sufficient to ensure the long-term development of the firm.

This study addresses the competitiveness issue from two broader dimensions: surface-level and deep-level competitiveness. Surface-level competitiveness reflects the "competitive performance" of a firm or industry that is directly observable to consumers. Deep-level competitiveness reflects the "capability" of a firm or industry that is not directly observable to consumers. An improvement in the deep-level performance enhances the performance at the surface level. The severe competition under the quota-free trading environment pressures the RMG industry of Bangladesh to enhance its surface-level competitiveness at the earliest convenient time. However, the long-term sustainability of the industry demands enhancement

of deep-level competitiveness. Therefore, the future development of the industry will depend on how much importance will be given to which factors/dimensions, and how the individual firms will respond and how government policies will influence the industry. Hence, the discussion of the competitiveness of the Bangladesh RMG industry requires simultaneous consideration of both the surface and deep dimensions. In particular, this study uses (a) export value, product price, market share and lead time as surface-level indicators, and (b) linkage expansion, factory environment, product/ market composition, and "production and distribution" time as deep-level indicators for measuring the international competitiveness of the Bangladesh RMG industry.

5.9: Competitiveness of the Bangladesh Ready-Made Garment Industry

The United States was the main export destination for Bangladesh RMG products in the early 1990s followed by the European Union, but the European Union has surpassed the United States over time. These two destinations generate more than 90 percent of the total RMG export earnings of Bangladesh (BGMEA and the Export Promotion Bureau websites; and Quotas and Rashid, 2000). The shares of other importers, such as Australia, Canada, China, Japan and the Russian Federation as well as countries in the Middle East, in the total RMG export earnings of Bangladesh are minimal. This section of the paper focuses on surface-level competitive performance of the Bangladesh RMG industry in the United States and the European Union markets only. In addition, the performance of China and India along with Bangladesh as RMG suppliers to international markets is also considered for comparative analysis.

Bangladesh has experienced some product diversification in its export garments to the United States market in recent years compared with the early 1990s. However, the country's performance in upgrading its products is not significant with regard to the United States market (Haider, 2006). The country experienced a sharp increase in the export of garment products to the United States market in the 1990s, but faced declines in export earnings from that country in 2002 and 2003, followed by slow increases since 2004. The exports of India also increased rapidly in the 1990s, although that country experienced comparatively slow progress in the last few years. However, the RMG exports of China to the United States have increased at a startling rate over the years. For example, the textile and garment export earnings of China, India and Bangladesh from the United States were $3.6 billion, $0.8

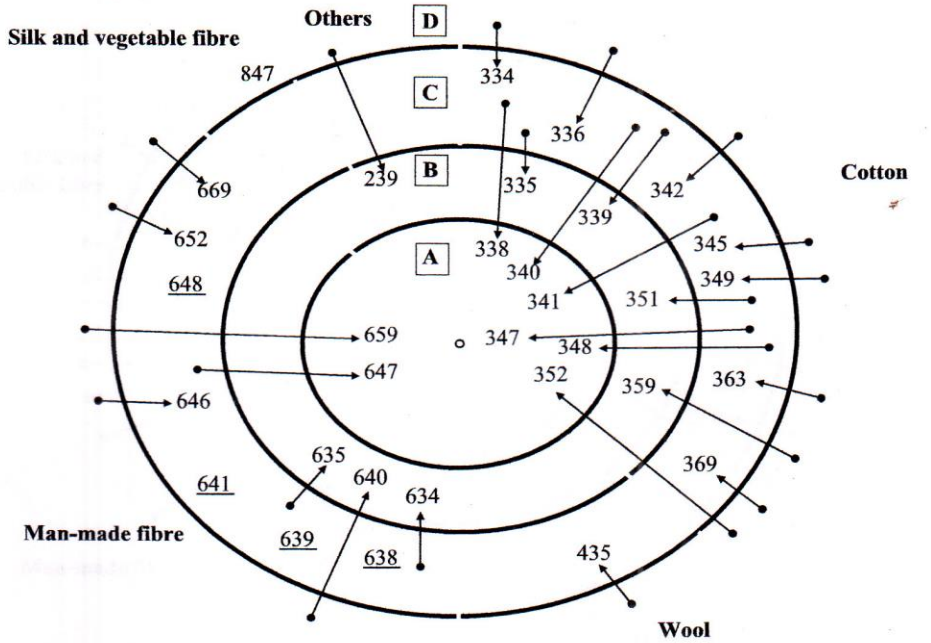
billion and $0.4 billion respectively in 1990, and increased to $22.4 billion, $4.6 billion and $2.5 billion respectively in 2010. Such rapid expansion in the exports of China represents a major challenge to other exports.

Bangladesh exported a total of 99 types of products in the textile and garment category to the United States in 2005, but most of the category's contribution was minimal. For India and China, the number of textile and garment product categories exported in the same year to the United States was 161 and 167 respectively.

Category 340 (cotton non-knit shirts, man and boy) was the highest contributor to the export earnings of Bangladesh from the United States, amounting to $332 million in 2005. The export earnings of only eight categories crossed the $100 million export benchmark in the same year for the country. A total of 16 categories of exports crossed the $50 million benchmark and 31 categories crossed the $10 million export benchmark.

Figure: 5. 2: Textile and garment exports to the United States from Bangladesh

(United States dollars)

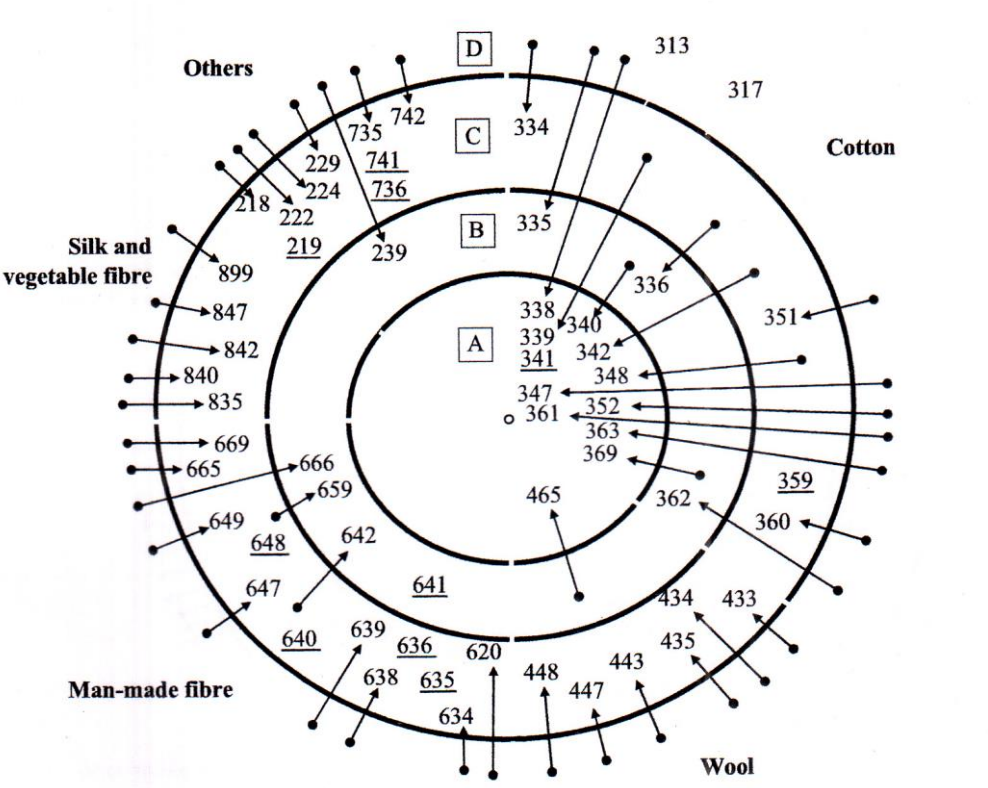


A: More than $100 million B: $50 million to $100 million C: $10 million to less than $50 million D: Less than $10 million	The 2005 position corresponds to the circle where the category's number is located. The 1990 position, if the same as for 2005, is indicated by an underline; if it is different, it is indicated by a small circle. The arrows represent the magnitude and direction of change over time.

Source: Compiled by the author based on data of the Office of Textiles and Apparel, United States Department of Commerce.

For India, the highest contributor was category 369 (miscellaneous cotton manufactures), accounting for $439 million in export earnings from the United States. Also in the same year, a total of 12, 20 and 56 categories crossed the $100 million, $50 million and $10 million export benchmarks respectively.

Figure 5.3: Textile and garment exports to the United States from India

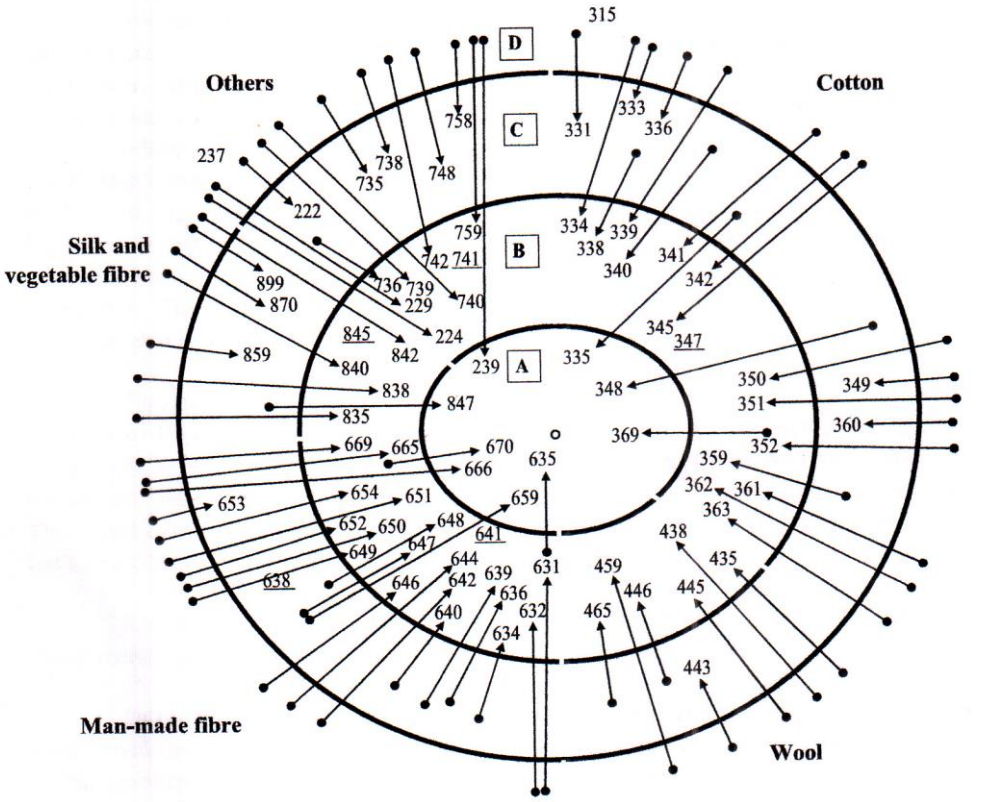


Source: Compiled by the author based on data of the Office of Textiles and Apparel, United States Department of Commerce.

However, the scenario differed significantly for China. The highest contributor for China in the United States market was category 670 (man-made fiber flat goods handbags/luggage), which amounted to $2,066 million in 2005. In the same year, 9,6278 and 124 categories crossed the $500 million, $100 million, $50 million and $10 million export benchmarks respectively.

Figure 5. 4: Textile and garment exports to the United States from China

(United States dollars)



A: More than $500 million
B: $100 million to $500 million
C: $50 million to less than $100 million
D: Less than $50 million

The 2005 position corresponds to the circle where the category's number is located. The 1990 position, if the same as for 2005, is indicated by an underline; if it is different, it is indicated by a small circle. The arrows represent the magnitude and direction of change over time.

Source: Compiled by the author based on data of the Office of Textiles and Apparel, United States Department of Commerce.

The market of India seems to be more diversified compared with that of Bangladesh , and the market of China is significantly more diversified compared with that of Bangladesh or India. Figure 1 to 3 also indicate that the exports of Bangladesh are concentrated mainly in cotton or man-made fiber-related products. In contrast, the trade of China and India is diversified in all the fiber groups.

Bangladesh has experienced both quantitative and qualitative changes in exporting garment products to the European Union market during the period 1996-2015. The textile and garment export earnings of Bangladesh from the European Union increased from1.2 billion euros in 1996 to 3.7 billion euros in 2015. For India and China, the corresponding earning increased

from 3 billion and 5.3 billion euros in 1996 to 5.3 billion and 21.1 billion euros in 2015 respectively.

Garment products generate the major share of Bangladesh's export earnings from the European Union. However, both textile and garment products in China and India contribute to the export earnings from the European Union. For example, garment products on average generated more than a 95 percent share of the total textile and garment exports to the European Union from Bangladesh during the period 1996-2015. The corresponding shares for India and China stand at below 75 percent and 80-90 percent respectively.

The top five product groups contributed 76 percent of the total garment export earnings of Bangladesh from the European Union in 1996, and that share increased to 82 percent in 2015. The corresponding changes for India and China were from shares of 62 percent and 34 percent in 1996 to 54 percent and 45 percent in 2015 respectively. This trend demonstrates that product diversification in Bangladesh is lower than that of India and China in exporting garments products to the European Union market.

Knit garments from Bangladesh have gained remarkable access to the European Union market during the period 1996-2015. Duty- and quota-free access of garment products manufactured under "two-stage local transformation" (yarn to fabrics, and fabrics to garment) have accelerated the exports of knit garment products from Bangladesh to the European Union. As the knit textile sub-sector is relatively less capital intensive and requires relatively simple technologies, it managed to undergo rapid expansion, benefiting from the European Union Generalized System of Preferences. The woven part of the category has failed to utilize that facility owing to a lack of sufficient backward linkages. In contrast to the European Union, both knit and non-knit products have entered the United States market simultaneously, as no special tariff or tax reduction incentive was available there for the import of garment products from Bangladesh.

The product-mix of garment products exported from Bangladesh to the European Union has changed significantly during the period 1996-2015. The share of shirts in total garment exports from Bangladesh to the European Union decreased, whereas the shares for overcoats, jackets, sweaters, suits and some other garment products have increased in recent years. These changes demonstrate that Bangladesh is achieving some level of product

diversification in exporting garment products to the European Union. In addition, a gender analysis indicates that Bangladesh has achieved some upgrading of its products recently in terms of exporting garment products to the European Union. Garments for females are treated as upgraded products compared with garments for males, since they add more value on average. The earnings of Bangladesh from the export of garments for females to the European Union has increased during the period 1996-2015 (Haider, 2006).

China and some other competitors of Bangladesh have implemented sharp price-cutting policies in exporting garment products over the last few years, but Bangladesh has failed to respond effectively to such policies. China was able to drop the export price of 29 garment categories by 46 per cent on average in the United States within a year, from $.23 per sq. meter in December 2001 to $ 3.37 per sq. meter in December 2012.

However, all other suppliers were able to drop the price by only 2 per cent, from $3.5 per sq. meter to $3.41 per sq. meter during the same period. By the end of 2012, China had under-priced all other exporters to the United States in 22 out of 29 garment categories and it had underpriced others in 26 out of 29 categories by March 2003 (American Textile Manufacturers Institute, 2013). Moreover, China rapidly managed to be price competitive in the European Union and other major international markets. For example, the average unit export price of garment products integrated in the third stage of the Multifibre Agreement phase-out decreased from 11,600 euros per ton in 2001 to 9,500 euros per ton in 2012 for Bangladesh in the European Union, whereas the corresponding decrease for China in that market was from 13,500 euros to 8,800 euros per ton (European Commission, 2013). Bangladesh needs to respond to such price-cutting polices of its rivals in order to remain competitive in the quota-free global market.

Lead time refers to the required for supplying the ordered garment products after the export has been received. In the 1980s, the usual lead time in the usual lead time in the garment industry was 120-150 days for the main garment supplier countries of the world; it has been reduced to 30-40 days in the current decade. However, in this regard the Bangladesh RMG industry has improved little; for example, the average lead time is 90-120 days for woven garment firms and 60-80 days for knit garment firms. In China, the average lead time is 40-60 days for woven and knit products respectively; in India, it is 50-70 days and 60-70 days for the same products respectively.

Shortening the lead time is the most urgent priority task for Bangladesh. The best way is to develop domestic backward linkages with the aim of reducing "production and distribution" time. Such a strategy would contribute to enhancing the deep-level performance of the industry and would have a positive impact on surface-level performance. An alternative solution would be to establish a central or common bonded warehouse in the private sector for storing raw materials usable in the export-oriented garment industry, with special incentives such as duty-free import. While such a solution is the fastest way to improve surface-level competitiveness by reducing lead time, it carries the risk of delaying deep-level competitive performance-enhancing initiatives and the long-term development of the industry (Haider, 2006).

5.10: Competitiveness of the Bangladesh Readymade Garments Industry

While the export-quota system cushioned the Bangladesh RMG industry enabling it to remain competitive as prominent garment supplier in international markets until 2004, the phase-out of this system has posed a big challenge for the industry. The industry needs to find proper strategies to remain competitive in international markets. Meeting compliance standards, and product/market diversification are some important strategies for the industry to improve deep-level competitiveness.

5.11: Compliance Issues

Compliance means adherence to certain recognized standards. Social compliance ensures working conditions of the manufacturing unit from social, political and economic points of view. It is a code of conduct that takes into account minimum labor standards, occupational safety measures and environmental concerns. Minimum labor standards cover wages, working hours, over time, safety, job security, right to form trade union, and also social security. It also ensures non-violation of human rights. Social benefits are socially responsible management which includes bonus, cash incentive, working condition, maternity leave, medical facilities, arrangement for food including safe drinking water, prayer place, transportation, festival bonus, etc.

Compliance should be for both labor welfare and occupational safety. For safety, use of aprons, dust masks, eye masks, ear protectors, gum boots smoke detector and early rehearsed fir fighting arrangement are very important. Social environment related to labor rights,

product safety and intellectual property rights are considered to be in increasing importance now-a-days (Khan F.R., 2006). Social compliance and productivity have close relations, because without good working conditions, minimum wage, etc., the workers cannot be expected to improve their skill to produce more or quality products.

Compliance does carry some inherent risks and additional costs for the industry. Experiences with the elimination of child labor from Bangladesh RMG industry reveal that compliance initiatives are not necessarily and properly remunerated by the buyers. There are about one thousand buyers operating in Bangladesh. The compliance requirements among these buyers very widely and most buyer have their own set of codes. These codes are also changing. Many factories have multiple buyer orders running at the same time, making it difficult for producers to always comply with buyer requirements (Iftekar, 2005).

The problems associated with compliance in Bangladesh may be grouped as (a) regulatory inadequacies; (b) non-enforcement of laws; (c) lack of adequate physical facilities and governance, and (d) other problems (ILO, 2007).

The product and market composition of garments from Bangladesh requires special attention to ensure the long-term sustainability of the Bangladesh RMG industry as a prominent supplier in the global market. The export-quota system diverted the attention of some international garment suppliers from quantitative expansion to qualitative improvement of exportable garment products. China and other competitor countries took that opportunity, but Bangladesh failed to do likewise. The country stands far behind in the race to upgrade products compared with its rivals. Bangladesh is still focused on manufacturing lower-end products, although recently the country has emerged slowly from being a lower-end producer towards becoming a middle/high-end producer, from being a simple male-wear producer to become a producer of fashionable female wear. Strengthening the process of upgrading products is very important for the Bangladesh RMG industry if it is to enhance its competitiveness. As with China and other prominent garment suppliers, Bangladesh needs to address both the qualitative and quantitative expansion of its RMG industry simultaneously in order to sustain the business in the long run. The country needs to be capable of adjusting its manufacturing capacity to frequent changes in customer demand. In addition to upgrading products, the country should try to achieve product and market diversification in order to diversify risks, gain access to new market/buyers and increase export volume.

5.12: Impact of the Global Recession on the Readymade Garment Industry

In the fiscal year 2008-09 Bangladesh exported US$ 12.35 billion worth RMG posting a mere 15.4% growth. As the RMG sector is heavily export oriented, its success and the well being of our people lies mainly in the economic prosperity of countries like the USA and the European Union which are being rocked by the financial crisis. We have held our ground where as the non-RMG sectors suffered seriously. Bangladesh is the 4th largest RMG export (WTO 2009) in the world, so sustaining our position is an important factor. Any negative growth is an indication for concern.

The fight is an uphill struggle as the obstacles are pilling up. On top of that price of apparel has been under tremendous pressure as prices remain stagnant (even falling) whereas cost of inputs increased, more values are being added to products, and overall cost of doing business increased leading to the cutting & making prices go down by around 20%.

5. 12.1: Addressing the Challenges

High export concentration on a few markets is a major source of vulnerability for Bangladesh's RMG exports. The United States and the EU as a region holds 88.37 share of our total apparel exports. Bangladesh exported only US$49.29 million to Australia in 2015 Fiscal Year which is mere 0.40% share of our RMG export but there is ample scope to expand. Therefore we have to rightly put emphasis on market diversification agenda. Market diversification has been the top priority of the BGMEA. BGMEA is concentrating on expanding the market share of the high potential markets like Australia, Japan, Mexico and Brazil.

The share of RMG in the total export in now 82% in fiscal year 2015-2016. The share of RMG export to GDP is increasing faster than other sectors and the economy of Bangladesh has been getting increasingly exposed to globalization, particularly in terms of exports and imports so it becoming very sensitive as the fate of the economy and a bulk of the work forces fate is tied to the RMG sector.

In the long term, productivity can be greatly increased by adopting a culture that values and rewards the development of skilled labor. BGMEA in collaboration with GTZ has been running a Productivity Improvement Cell to improve productivity at factory and worker level.

We have also launched a quality Improvement Program with TECHNOPAC in collaboration with GTZ. Also, the Govt. can make it easier for the smaller factories to undertake a program of modernization that can increase productivity of the industry as a whole.

5. 12.2: Role of BGMEA

Starting in 1983 BGMEA has been playing a dynamic role to protect and promote the industry and the community to respond to the changing global business context. With 5000 members BGMEA is the largest trade body representing the RMG industry. Some of the successes have set unprecedented examples in the history of Bangladesh's industrial sector, for instance elimination of child labor, empowering women, poverty eradication, and leading to an industrialized economy.

BGMEA has greatly been contributing to the development of Social Sector of the country which is acclaimed by national and international reputation including the appraisement of the United States Department of labor (USDOL) for the last decade. Such success is deep-rooted at the wholehearted response of BGMEA to the US law (1992) banning importation of goods made by child labor.

BGMEA with the support of ILO, UNICEF and US Embassy in Bangladesh successfully eliminated child labor from the RMG industry in 1995, and rehabilitated them through special schooling and earn-and-learn program. BGMEA is committed to ensure that the labor law of the country is being followed. Sensitive issues such as maternity leave, payment of minimum wages, overtime, appointment card, ID card are being addressed by the BGMEA. BGMEA is also operating a number of projects and programs to ensure improved healthcare, workplace safety and labor rights of the garment workers in consonance with the Labor Standards set by the Govt. and ILO.

BGMEA believes in its corporate social responsibilities, both in the industry and outside the industry. Therefore with its own resources BGMEA has been involved in a number of social welfare activities.

- BGMEA runs 11 health centers with its own resources in Dhaka and Chittagong We have been running 11 health centers at Dhaka and Chittagong to provide free treatment and medicines and advocacy on reproductive health issues and HIV-AIDS for our garment workers. BGMEA is also going to establish two hospitals for the garment workers, one at Dhaka and another in Chittagong.

- BGMEA has made Group Insurance scheme mandatory for the garment workers working in the member factories in May 2002.

- BGMEA started free labor arbitration facilities for garment workers in 1998 under the chairmanship of a retired judge. More than 2800 cases have been resolved and we have paid 33.32 million taka as compensation so far.

- BGMEA made mandatory for all its Member factories to follow the Building Code to set up factories.

- To encourage primary education for the workers' children BGMEA has been providing stipends to the meritorious children of workers. At the same time we provide special awards to the factory staffs for outstanding performance.

- BGMEA is running four free schools for the workers' children and spouse of the RMG sector.

- BGMEA has started food rationing program for workers from the August 27, 2009.

- To mark the World Sight Day-2009 BGMEA is association with Grameenphone, Islamia Eye-Hospital and Sight savers International organized free eye camps for the garment workers in the five garment industries at Ashulia and Savar area on 8th Oct. 2009 and gave free

treatment on eye related diseases to the workers. BGMEA also distributed free spectacles to the workers.

- BGMEA has been running skills development programs for the RMG industry in collaboration with Government and Development partners through 33 training centers in different regions of the country. People living in the Monga affected Char areas are given special priority through this program. They are trained on different machine operating courses free of cost including free food and accommodation, and after successful completion of training they are placed in RMG factories.

- So far 12000 people are trained and placed in factories. Shortly two more centers will be launched in Tungipara and Kotalipara, Besides the BGMEA Institute of Fashion and Technology (BIFT) has been working dedicatedly to develop mid-management professional for the RMG industry since in 2000.

- BGMEA & GTZ jointly signed a MoU on Social Compliance Improvement Project. The overall objective of this collaboration is to improve the social compliance status in the SIDR and flood victims.

- Recently BGMEA handed over a cheque of Tk. 2.5 million and winter cloths to the Hon'able Prime Minister of Bangladesh.

5. 12. 3: Role of BKMEA

Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA) was formed in 1996 by the all-out efforts of few knitwear manufacturers. Soon after the formation it undertook activities to look after the interest of the knitwear sector of the country. Today it is an association of about 1700 knitwear manufacturers and exporters that represent the largest export earning sector of the country.

BKMEA has grown enormous network in home and abroad. The members are the core strength and primary network of BKMEA. Besides, BKMEA works closely with national and

International bodies and maintains close relationships with all stakeholders. On areas of common interest, it also works with similar organizations like, International Apparel Federation (IAF), Global Alliance for Fair Textile Trade (GAFTT) and American Manufacturing Trade Action Coalition (AMTAC). To boost up trade and to enhance cooperation between countries, BKMEA has signed agreement with concerned associations like China Yunnan Light & Textile Industry Association on June 10, 2005, Botswana Manufacturers & Exporters Association on October 8, 2009 etc.

Presently Bangladesh is the 3rd largest knitwear exporter in the world just after China and Turkey. To lead the world apparel market, BKMEA is putting diligent efforts to diversify export market, and ensure better market access of the country's knitwear products to EU, USA, China, South Africa, Japan and other countries.

To promote the sector, BKMEA is implementing development projects with German Technical Cooperation (GTZ) and other international organizations in this regard. The association has signed MoU with GTZ on March 16, 2005 and Metro Group, Germany on 26 April, 2010. The development works include: enhance productivity and improve social compliance status of its member factories, promote workers welfare through centralized day care center health care center, prepare sector related research and publication, organize trade promotion missions and fairs in home and aboard. BKMEA has strong relationship with Govt. to formulate strategies and national policies on sector related and other socio economic important issues. BKMEA is run by a 27-member Board of Directors led by the President. The Board of Directors is elected for a 2-year period. To run the association efficiently, different committees are also working.

BKMEA was formed to address the following agenda.

- ✓ Protect the Interest of the Sector
- ✓ Promotion & Development of the Market
- ✓ Capacity Building of the Sector
- ✓ Social Compliance Status Enhancement
- ✓ Basic Rights Education and Awareness Raising

(http://www.bkmea.com/at_a_glance.php)

6.1: Introduction

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

The result is assurance. Consumers and producers know that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services that they use. Producers and exporters know that foreign markets will remain open to them.

The result is also a more prosperous, peaceful and accountable economic world. Virtually all decisions in the WTO are taken by consensus among all member countries and they are ratified by members' parliaments. Trade friction is channeled into the WTO's dispute settlement process where the focus is on interpreting agreements and commitments, and how to ensure that countries' trade policies conform to them. That way, the risk of disputes spilling over into political or military conflict is reduced.By lowering trade barriers, the WTO's system also breaks down other barriers between peoples and nations.

At the heartof the system - known as the multilateral trading system — are the WTO's agreements, negotiated and signed by a large majority of the world's trading nations, and ratified in their parliaments. These agreements are the legal ground-rules for international commerce. Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody's benefit.

The agreements were negotiated and signed by governments. But their purpose is to help producers of goods and services, exporters, and importers conduct their business.The goalis to improve the welfare of the peoples of the member countries.

6.2: The Multilateral Trading System—Past, Present and Future

The World Trade Organization came into being in 1995. One of the youngest of the international organizations, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War.

So while the WTO is still young, the multilateral trading system that was originally set up under GATT is well over 50 years old. The past 50 years have seen an exceptional growth in world trade. Merchandise exports grew on average by 6% annually. Total trade in 2000 was 22-times the level of 1950. GATT and the WTO have helped to create a strong and prosperous trading system contributing to unprecedented growth.

The system was developed through a series of trade negotiations, or rounds, held under GATT. The first rounds dealt mainly with tariff reductions but later negotiations included other areas such as anti-dumping and non-tariff measures. The last round, the 1986-94 Uruguay Round led to the WTO's creation.

The negotiations did not end there. Some continued after the end of the Uruguay Round. In February 1997 agreement was reached on telecommunications services, with 69 governments agreeing to wide-ranging liberalization measures that went beyond those agreed in the Uruguay Round.

In the same year 40 governments successfully concluded negotiations for tariff-free trade in information technology products, and 70 members concluded a financial services deal covering more than 95% of trade in banking, insurance, securities and financial information.
In 2000, new talks started on agriculture and services. These have now been incorporated into a broader agenda launched at the fourth WTO Ministerial Conference in Doha, Qatar, in November 2001.

The work program, the Doha Development Agenda (DDA), adds negotiations and other work on non-agricultural tariffs, trade and environment, WTO rules such as anti-dumping and subsidies, investment, competition policy, trade facilitation, transparency in government procurement, intellectual property, and a range of issues raised by developing countries as difficulties they face in implementing the present WTO agreements.The deadline for the negotiations is 1 January 2005.

6.3: The Organization

The WTO's overriding objective is to help trade flow smoothly, freely, fairly and predictably.

It does this by:

- ✓ Administering trade agreements
- ✓ Acting as a forum for trade negotiations
- ✓ Settling trade disputes
- ✓ Reviewing national trade policies
- ✓ Assisting developing countries in trade policy issues, through technical assistance and training programs
- ✓ Cooperating with other international organizations

6.4: Structure

The WTO has nearly 150 members, accounting for over 97% of world trade. Around 30 others are negotiating membership.

Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the WTO, and was extremely rare under the WTO's predecessor, GATT. The WTO's agreements have been ratified in all members' parliaments.The WTO's top level decision-making body is the **Ministerial Conference** which meets at least once every two years.

Below this is the **General Council** (normally ambassadors and heads of delegation in Geneva, but sometimes officials sent from members' capitals) which meets several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body.At the next level, the **Goods Council, Services Council and Intellectual Property (TRIPS)** Councilreport to the General Council.

Numerous **specialized committees, working groups** and **working parties** deal with the individual agreements and other areas such as the environment, development, membership applications and regional trade agreements (WTO, 2011).

6.5: The Process of Globalization

In strict sense, the process of globalization started with the end of the Second World War. Establishment of the United Nations comprising all peace loving nations and subsequent formation of the World Bank and the International Monetary Fund (IMF) was indeed

necessitated by the fact that no country in the post 'great own' era could economically survive let alone prosper with its own, isolated efforts. Conclusion of the much-vaunted General Agreement on Tariff and Trade (GATT) followed by a series of rounds of trade talks was another step towards globalization. As it was finally transformed into the World Trade Organization or WTO which, by now, regulates trade, commerce and other trade related regulations of almost all countries of the world.

6.5.1: GATT, WTO and the UNCTAD

Globalization or internationalization, whatever we may call it, left both positive and negative consequences on members of world bodies. In most cases however richer countries have gained more benefits compared to their poorer counterparts. Due to weak position and absence of effective trade legislations, the latter began to suffer. The annual sessions of the 'Contracting Parties to GATT' (such as the Tokyo Round of 1979) afforded an opportunity for multilateral tariff negotiations which produce tariff schedules: these becoming binding contractual commitments when adopted by the meeting of the 'contracting Parties' and, by virtue of the Most Favored Nation Clause, tariff concessions registered with one Party becoming available to all Parties. Quantitative restrictions on imports are in principles forbidden, but exceptions exist for agriculture and for 'Parties' experiencing balance-of – payments difficulties or desiring to protect infant industries in a developing country.

Although it appeared as an inevitable force of the global economy GATT has not been able to fully satisfy the demands of the developing countries like Bangladesh. Hence their insistence on the need for another global forum like that of the United Nations Conference on Trade and Development, UNCTAD.' Actually in 1964 a new Part IV on Trade and Development was added to the GATT, but no system based on reciprocal concessions and bargaining could prove wholly satisfactory to developing countries whose bargaining power is basically weak. .However, they derived considerable benefit from GATT and constituted over one-half of the membership totaling 85 States in 1979.

After commencement of the WTO in mid 1990, this international trade body began to heavily regulate global affairs. Many developing countries joined WTO with long-felt suspicion overseeing its inherent nature of prioritizing commodity to labor. Countries like Bangladesh and India had prolonged debate in their national houses before formally joining the WTO.

Even the admission of China to the WTO was uncertain until late 2001, when it was finally accepted as a member to the global body at its Doha Summit of trade ministers.

6. 5. 2: The Regional Groupings

The advent of regional organizations like European Union, North American Free Trade Area (NAFTA), and Association of South East Asian Nations (ASEAN), Asia Pacific Economic Cooperation (APEC) so on and so forth brought the countries of the world under more tight clutches of globalization. However, after nearly half a century of conventional development strategies aimed at improving human prospect, the number of people living below poverty line continued to grow in many parts of the world, especially in the developing countries, thanks to the profiteering character of major players of the global economy. Rapid expansion of information technology rendered the poorly educated and uneducated population of developing countries virtually handicapped. As far as welfare of the workers is concerned, the world bodies have remained almost calm and cool. The trade negotiations in different times have focused less on the protection of rights of workers, particularly those of the third world countries. The dominance of the IMF and the World Bank in setting up standards for valuation of currencies, WTO's endeavors to stress tariff restrictions for numerous commodities have overshadowed the concerns for protection of workers' rights. Although the ILO has adopted volumes of conventions on ensuring legal interest of workers, those have been shelved up with mere signing by State Parties, Ratification of the core labor standard is still a far cry in many countries, which obviously jeopardize the interest of workers and weakens the social safety net of the concerned countries. Due to tougher competitions in the international market, labor is still seen as a mere means of production. Rights of workers have always been seen as a forgotten agenda.

6. 5. 3: The North- South Disparity

Apart from the rights issues, international trade and business and the increasing dominance of some of the developed nations are giving rise to disparity between the richer and the poorer nations. The much-talked about North and South are still persisting wee, both conceptually and virtually. Almost all the poorer countries of the world fare geographically located in the South while the rich nations stand in the North. The need for a North-South Dialogue has long been felt, however, the initiatives so far have been halted by hegemonistic trade

negotiations and subsequent policies by the richer nations. Formation of the G-7 (now G-8, with Russia included) has widened the conceptual gap between the North and the South.
In early 2000, the United States Congress finally passed a bill which grants 48 countries in Sub-Saharan Africa as well as those in the CBI essentially the same privileges as NAFTA countries, provided yarn and fabric are of US origin or, to a certain degree, of local origin, and that certain social and labor standards are met. This enactment certainly will leave a positive impact so far as the US interests and a partial working condition requirements are concerned. But this, no doubt, will worsen the existing situation in some developing countries such as Bangladesh that have been deliberately excluded from the country list. For, this has directly or indirectly encouraged the fact that 'wealth' is very unevenly distributed both within national societies and among them. Economic equality may be relatively more closely approximated in a few countries, but inequality is the rule. The Scandinavian countries and China are examples, at different levels of living standards, of countries that may have eliminated the great extremes of affluence and deprivation among their citizens.

One general difference, however, between the industrialized and the pre-industrial societies is in the size of the segment of the population that lives in conditions of dire poverty. In a pre-industrial society a small elite perhaps 5-10 percent, generally lives either comfortably or extravagantly by twentieth century standards. The remainder of the population lives far below the standard of minimum essentials that befit human dignity. In the industrial societies, on the other hand, the amenities of social and economic well being are widely distributed among a large segment of the population.

In the world as a whole the discrepancies between rich and poor are similar to the contrasts of wealth and poverty within a pre-industrial nation. If all states are divided into two classes, developed and developing, the developed one-fourth of the world population enjoys the benefits of possessing about 78 per cent of the gross world product, while in the developing world three times as many people must survive on the remaining 22 per cent of the world's wealth.

It is worth mentioning here that most garment industry manufacturer countries are located in the South, while the consumer or the buyer countries are in the North. With Japan and USA also being garment producers and buyers simultaneously, their control over the international apparel market and its relevant things have also been tightened (Firoze and Haque, 2002).

6.6: WTO Negotiations on the Non-agricultural Market Access (NAMA): Implications for the Bangladesh Economy

WTO negotiations with respect to the non- agricultural commodities (all those are not covered under the negotiation on agriculture, sometimes referred to as industrial or, manufactured goods) center around the enhancement of Non- Agricultural Market Access(NAMA), and are, therefore, proceeding towards the elimination or the reduction of bound tariff rates, bringing unbound tariff rates under binding commitments which will be subject to formula cuts, and identifying and removing Non-tariff Barriers (NTBs). The consensus on NAMA modalities, reached so far, include the use of a 'Swiss-type' formula for the reduction in the bound tariff rates, consideration of a non-linear mark-up approach for establishing base rates of the unbound tariff rates, special and differential treatments for the developing countries in terms of allowing them 'less than full reciprocity' of commitments, and to keep LDC above any commitment to undertake tariff cuts.

It is important to note that though the LDCs are exempted from tariff cuts under the NAMA negotiations, they are likely to experience both positive and negative impacts on their economy if NAMA negotiations are implemented. On the positive side, because of tariff cuts by the developed and developing countries, LDCs are likely to have greater market access in many of these countries. However, on the negative side, LDCs may suffer from possible preference erosion in countries (for example in the EU) where they are currently enjoying duty-free and quota-free (DFQF) market access. As an LDC, Bangladesh is also concerned about these potential losses and gains.

Against these backdrops, this chapter tries to analyse the current status of the NAMA negotiations with respect to the types of the formula for industrial tariff cut and the possible impacts that the variants of existing formulas can have at the global and country level. In particular, this chapter explores the impacts of different NAMA negotiations on the economy of Bangladesh. In this regard, this study also estimates the possible extent of preference losses/gains for Bangladesh if NAMA negotiations are implemented.

6.7: Negotiations on NAMA: Background and the Current State of Art

Trade negotiations in the Uruguay Round, under the broad title of Non-agricultural Market Access (NAMA), achieved a progress in terms of reducing developed country's average tariff rates from 6.3 per cent to 3.8 per cent, and an increase in developing country's binding

coverage from 21 per cent to 73 per cent. Under the ongoing Doha Round, the negotiations on NAMA incorporate the reduction or elimination of overall industrial tariff rates as well as the reduction or elimination of tariff peaks and tariff escalation, and also the removal of the non-tariff barriers (NTBs). In line with the work programs, set in article 16 of the Doha Ministerial declaration, negotiations on NAMA were launched in January 2002 with the creation of a Negotiations Group on Market Access (NGMA). The sectors which should be covered for the formula approach for tariff reduction, as proposed by the NGMA in 2003, include (1) electronics and electrical goods, (2) fish and fish products, (3) footwear, (4) leather goods, (5) motor vehicle parts and components, (6) stones, gems, and precious metals, and (7) textiles and clothing.

The July 2004 package moved onward with a framework for establishing modalities for NAMA negotiations and the 6th ministerial Declaration in Hong Kong in December 2005 set out the mandate to use a 'Swiss type' formula for the reduction in the bound tariff rates. However, there have been intense debates, and a number of proposals have been put in place with respect to the value and the number of coefficient used in the tariff-cut formula, and no consensus has yet been reached.

According to the July 2004 framework, NAMA tariff reduction should have comprehensive product coverage, should commence from bound rates, and all non-ad-valorem duties are to be converted to ad-valorem equivalents and to bind them in ad-valorem terms. Although the tariff reductions are to be on the bound tariff rates, the implication will have bearings on the applied rates too, as in most of the developed countries MFN applied tariffs and bound tariffs don't have wide spreads for industrial commodities.

The rationale for applying a formula cut approach for tariff reduction includes the willingness of making the process transparent, efficient, equitable and predictable. There were intensive discussions among the member countries regarding the development of modalities as NAMA, and finally they reached a consensus on applying the formula approach, and the negotiation so far proceeded, the formula will be a 'Swiss type with coefficients'.

One of the key features in the NAMA negotiations so far is that LDCs are 'exempted to increase their binding commitments substantially'. The July package proposed enhanced DFQF access provisions for non-agricultural products originating from the LDCs to

counterattack the effects of tariff cuts by the developed and developing countries. On the other hand, for the developing countries, the differential treatment has been set out with flexibilities in terms of:

(a) Applying less than formula cuts to up to 10 percent of the tariff lines provided that the cuts are no less than half the formula cuts and that these tariff lines do not exceed 10 percent of the total value of a Member's imports; or
(b) Keeping, as an exception, tariff lines unbound, or not applying formula cuts for up to 5 percent of tariff lines provided they do not exceed 5 percent of the total value of a Member's importer's

Additionally, participants with a binding coverage of non- agricultural tariff lines of less than 35 per cent are considered to be exempted from tariff cuts and are expected to increase binding coverage to 100 per cent.

6.8: The Tariff Cut Formulas

The Hong Kong Ministerial Declaration has specified the mandate to apply a 'Swiss formula with coefficients' for tariff cut under NAMA negotiations. Before the declaration, the negotiation evolved around some linear formulas with single or multiple coefficients, as well some tiered and non-linear formulas with constant and multiple coefficients, proposed by different countries and country-groups. India, at the initial stage of the negotiation, proposed a linear formula with two coefficients: 50 per cent tariff cut for the developed countries and 33 percent cut for the developing countries. China proposed a non-linear formula with variable coefficients dependent on the simple average of the base rates. The proposal by the USA incorporated a non-linear formula applicable in two phase: in phase one (2005-2010), tariffs of 5 percent or below would be eliminated and tariffs above 5 percent are subject to a Swiss formula, and in phase two (2010-2015), tariffs will be brought to zero using a linear cut formula. The European Commission proposal was to reduce all tariffs and their dispersion by compressing them into a rang-influential enough in reducing peak tariffs and tariff escalation. Finally, the Korean proposal suggested a linear cut formula depending upon the trade weighted average. Afterward, there have been a number of proposals by some group of countries which suggested some modification of the original Swiss formula with constant co-efficient (box 5.1, equation 1).The proposal by US, and Norway suggested the application of

fixed number of two coefficients to the Swiss formula. However, China, Columbia and Mexico proposed the use of four coefficients in the same formula. The March 2005, Argentina, Brazil and India (ABI formula) suggested incorporating the tariff average in the multiple coefficient Swiss formula. Finally, the Caribbean countries proposed a constant value in the ABI version of the Swill formula which changes from country to country to country, based on the level of development (higher the development level lower the coefficient) (box 6, equation 3).

Box: 6: Different Variants of Swiss Formula

The original 'Swiss formula' is a non-linear with a single coefficient, However European Commission has proposed some conditional flexibilities for the developing countries, The formula, originally proposed, is the following:

$$T_1 = [B^* T_o] / [B + T_o] \text{ ----------(1)}$$

Where T_1= Final bound tariff rate

T_o= Base tariff rate

B= Fixed constant

The basic feature of the formula is that the higher is the initial (base) tariff rate the deeper will be the tariff cut. This led to a concern for the developing countries since their bound tariff rates are much higher than those of the developed countries. As a result they would have to undergo a steeper tariff reduction process.

The second variant of the Swiss formula (equation 2) is the one with a fixed number of coefficients, the number of coefficients should be two as suggested by the US land, Norway, and four as suggested by Chile, Columbia and Mexico.

$$T_1 = [B_1^* T_o] / [B + T_o] \text{ ----------(2)}$$

Where, B_1= 1,2,3,------

Finally, the formula suggested by Argentina, Brazil and India (ABI), and the Caribbean countries is as follows:

$$T_1 = [\{(B+C_j)^* T_a\}^* T_o] / [\{B+C_j)^* T_a\} + T_o] \text{ ----------(3)}$$

Where, T_1=Average bound rate of member countries

C_1= Constant value which changes from country to country, based on the level of development, higher the development, lower the coefficient, as suggested by the Caribbean countries

andC_j=0 for the ABI formula.

The agenda set out in the Hong Kong Ministerial Declaration in December 2005 agreed on applying some 'Swiss' formula with coefficients' that would ensure 'less than full reciprocity of the developing countries as compared to the developed countries. This commitment made the proposed formulas by the US, EU, China and Korea redundant, and only the ABI and Caribbean formulas sustained after this consideration. A recent study by Ranjan (2006) highlights that the US's proposal of the values of the coefficients to be 10 and 15 for the developed and the developing countries respectively does not guarantee the 'less than full reciprocity' principle to be adopted. On the other hand, the ABI formula has its competency with the Hong Kong Declaration, and in addition to this, the use of average tariff rates as coefficients allows the existing tariff structure being taken into account in designing the new tariff structure, and therefore, sounds more realistic and adaptable Furthermore, the Caribbean formula incorporates the internal need for tariff in a country in terms of a source of revenue and domestic protection, and therefore, in addition to the ABI formula, can be considered for negotiation.

6.9: The Concerns over Possible Preference Erosion for LDCs

The general rule of the WTO is to apply agreements on a non-discriminatory basis among countries (the Most Favored Nation provision). However, from the broader development perspectives WTO negotiations allow the developing and the least developed countries some special and differential treatment (S&DT) with respect to the degree of trade liberalization and market access facilities. In terms of tariffs, the preferential provision is that for developing and the LDCs products, the developed country markets allow less than MFN tariff facilities and therefore there arises a preferential margin between the two rates, In European Union market, under 'Generalized System of Preference (GSP)' and Everything-But-Arms (EBA) provision, commodities originating from LDCs enjoy zero tariff market access. However, the limiting factor is the Rules of Origin (RoO) requirements, i.e. to take advantage of the zero tariff facility, a certain level of domestic value addition is required. Among some other non-reciprocal preferential trading arrangements for developing and least developed countries, there are the Caribbean Basin Trade Partnership Act, the Andean Trade Promotion and Drug Eradication Act, the African Growth and opportunity Act (U.S); and the Cotton convention (EU).

These S&DT provisions for the developing and the LDCs are supposed to result in preference erosion (defined as the decrease in the margin between a preferential tariff rate and the MFN tariff rate originating from multilateral tariff liberalization) with the tariff cuts by the developed and advanced developing countries under the NAMA negotiation. If MFN tariffs are reduced by these developed margins in these economics for their limited, low-value-added manufacturing exports, will suffer from their limited, low-value added manufacturing exports, will suffer from the possible erosion of these preferences. Similarly, with industrial tariff reduction on an MFN basis, the preferential treatments that many LDCs are enjoying under the various Regional Trading Agreements (RTAs), will be eliminated.

Table 6.1: Tariffs under Preferential Schemes

Preferential Agreement	Average Tariff Rate (all HS-6 products)	Average Tariff Rate (tariff peak products)
Canada	4.3	28.2
GSP	4.4	22.8
LDCs I/	8.3	30.5
MFN		
European Union	3.6	19.8
GSP	0.9	12.4
Non-ACP LDCs	7.4	40.3
MFN		
Japan	2.3	22.7
GSP	1.7	19.0
LDCs	4.3	27.8
MFN		
United States	2.4	16.0
GSP	1.8	14.4
Non-AGOA LDCs	5.0	20.8
MFN		

Note:1 Does not reflect the recent Canadian initiative with regard to LDCs' exports; for example under the revised GSP (2002) apparels exports enjoy zero-tariff access to the Canadian market under an LDC-friendly RoO criteria of 25 percent local value addition requirement.
Sources: Hoekmanetal (2002) and IMF staff estimates as quoted in Subramanian (2004)

From the analysis of preferential margins currently enjoyed by the LDCs in developed country markets, it is evident that the MFN applied rates are high for the LDC products of export interest, and therefore the formula cut approach resulting in higher reductions of the high tariff rates would have significant implication in terms of preference erosion for the LDCs. One possible dimension of preference utilization is that it could fall if the existing preference margin is not sufficient enough to cover the administrative costs including those to fulfill the RoO requirements, and therefore there is an additional possibility of loss of market access for the LDCs; or at least the NAMA negotiation may not be able to provide additional

market access for LDC industrial products. It is estimated that compliance costs including red tape, paperwork for restrictive rules of origin, and other administrative burdens impose the equivalent of a 4 percent tariff and as many developed country tariffs on industrial products are equal to or even less than 4 percent, a further reduction will not be beneficial in enhancing real market access (Francois *et al*, 2005).

There are several studies regarding the estimation of the extent of preference erosion that might occur with the tariff cuts proposed under NAMA negotiations. A study estimated that the net gain for the developing countries, as a whole, would be US$ 2 billion in terms of the value of adjusted preference margins if the Quad plus Australia were to reduce MFN tariffs on non-agricultural products using a Swiss formula with a coefficient of 10. However, significant gains and losses underlie the net figure, with the 10 largest losing developing countries (excluding LDCs) from non-reciprocal preference erosion being the Dominican Republic, Honduras, Kenya, Mauritius, Saint Lucia, EI Salvador, Guatemala, Namibia, Nicaragua and Swaziland. On the other hand, for the LDCs there is a net loss of US$ 170 million under the same liberalization scenario, where only two LDCs, Nepal and Maldives experience a gain (Low *et al*, 2005)

In terms of preferential market access provisions and utilization, the European Union market has been considered as the most significant by almost all relevant studies. The zero tariff facilities provided under the Everything But Arms (EBA) provision in EU for developing and least developed countries allow them to enjoy preferential treatment and therefore MFN liberalization may make them vulnerable to preference erosion. However, the assessment of vulnerability to preference erosion in terms of preference utilization rate identified 33 countries including only 11 LDCs, and 21 sectors as vulnerable to preference erosion in the EU market (Curran *et al*, 2006). The study highlighted clothing as the most affected sector for the LDCs.

A study on Bangladesh by Rahman and Shadat (2006), using the estimation of preference margins and utilization of preferences methodology, estimated the amount of preference erosion under different scenarios of Swiss formula tariff cuts in the EU market. Bangladesh, like any other LDCs, will face two opposite directional effects-one due to Swiss formula tariff cut under NAMA (LDCs being exempted), and the other with MFN tariff cut under NAMA (LDCs being exempted), and the other with MFN tariff reduction, where the former

will result in preference erosion and the latter to some recovery. The study estimated the not preference erosion taking into account both the effects. For Example, with a Swiss coefficient of 0.3, net preference erosion on all products is US$ 53 million; if the value of the coefficient is 0.5 net preference erosion is US$ 316.8 million, and if the coefficient is taken to be 0.8, the preference erosion amounted to be US$ 24.3 million. Again, disaggregated estimate for woven and knit RMG exports from Bangladesh reveals the fact that due to non-compliance with the RoO requirements, there will be net preference gain in the woven RMG sector, whereas for the knit RMG sector, which is now enjoying almost 90 percent of the GSP facilities, net preference erosion will outperform the gains. Similar simulation exercise for the USA market show that import tariffs on Bangladeshi commodities will be reduced by US$ 122.9 million, US$ 87.8 million and US$ 61.4 million with 0.3, 0.5 and 0.8 Swiss formula coefficients respectively, since Bangladesh is not enjoying zero tariff facilities for her principal (RMG)exports to USA. However, the problem with this methodology is that it is a partial equilibrium method and thus fails to take into account the general equilibrium effects, and the estimation uses the impact of tariff reduction on aggregate tariffs payable, without taking into consideration the resulting terms of trade shocks, and thereby changes in international demand for Bangladeshi commodities. Moreover, the study is based only on the RMG exports and preference utilization rates are assumed to remain constant.

Based on an econometric assessment of actual preferences utilization the estimates of preference erosion in the EU market for the LDCs and low income countries by Francois *et at* (2005) suggest an income gain of US$ 222.5 million in total. Bangladesh accounts for also a loss of US$ 101million and African LDCs suffer for a loss of US$ 458.3 million. For low income countries like India, there is a positive income effect of US$ 174 million. The magnitude of loss is show ever reduced substantially if all OECD countries reduce MFN tariff rates. This is because EU has been the most aggressive in giving preferential facilities as a development initiative. Again, being adjusted for the compliance costs including administrative costs and costs for fulfilling RoO requirements, the magnitude, and even in some cases, the direction of the income effect due to preference erosion is changed. For Example, for Bangladesh, the loss is reduced to US$ 77.2 million from US$ 267.9 million, and for African LDCs the huge negative figure turns out to be slightly positive.

All the study findings so far, conclude the possibility of preference erosion for the LDCs. Therefore, as a part of the NAMA negotiation, various proposals have surfaced to address the issue of preference erosion, including:

- The formation of a "competitiveness fund" or other development assistance so that countries affected by preference erosion can undertake adjustment programs; and this is considered as one of the basis for 'Aid for Trade' facilitation.

- To add a "correction coefficient" which is expected to improve margins of preference for products that enjoy nonreciprocal preferential access at present, along with longer staging for these products to preserve the margin of preference.

- There can be delayed or gradual reduction of tariffs on products that have significant export activity and margins of preference.

- An 'index of vulnerability' is proposed to be developed in order to identify products of special concern to particular countries especially LDCs.

- Among the 'trade solutions' to preference erosion, there can be multilateral trade concession schemes designed to protect the preference dependent countries, and

- Compensation of preference erosion through preferences in other countries (Raihan et al, 2007).

7.1: Introduction

At its inception in 1995, the World Trade Organization, a multilateral institution governing international trade in goods and services, enlisted 76 countries as member out of a potential total of 170 which fulfilled the preconditions for accession to the WTO. Although China is the world's eighth largest trading economy, (according to WTO statistics, excluding Hong Kong, China ranks eighth for world trade, after US, Germany, Japan, UK, France, Canada, Italy), it remained outside the WTO. (Update needed: China joined the WTO on Dec. 11, 2001.) China's accession to the WTO entailed a complex and lengthy process. The process of accession to the WTO is made is up of two components: (1) multilateral negotiations between the acceding country and a WTO working group on accession, which first reviews is the differences between the acceding country's trade regime and WTO rules, and then sets out the general terms of accession; and (2) bilateral negotiations between the acceding country and WTO members that establish the specific market access conditions for goods and services. These bilateral accords are then multi-lateralised in the *Protocol of Accession.*

Under the WTO's *Most Favored Nation* principle, any agreement between two members applies to all members. Initially, China agreed to apply WTO rules throughout its territorial boundaries, to make its trading regime transparent, and to maintain independent tribunals for review of administrative trade actions. Secondly, China agreed that it would hold several bilateral negotiations with other parties and would take the necessary steps in order to accede to the WTO. The absence of Permanent Normal Trade Relations (PNTR) (requires footnote explaining PNTR) agreements with the USA acted as a major barrier to China's accession. The US-China WTO bilateral agreement was signed on Nov.15, 1999, which, in effect, paved the way for the US to vote in favor of China's accession to the WTO. Earlier, China had already concluded bilateral negotiations with its other major trading partners: the EU, Brazil and India, Bilateral negotiations were also completed with other small trade partners such as Costa Rica, Ecuador, Guatemala, and Mexico. Over the last 15 years all critical milestones were achieved, and important agreements were signed by China, to ensure that it could accede to the WTO.

China's long march to the WTO has been closely followed by other member countries with great interest, and in some cases, great concern. On the one hand, many countries are optimistic that China's entry into a rule-based system will be beneficial to the global trading

system and there will be important positive externalities as a result. On the other hand, China's accession to the WTO is a source of concern for many countries, which perceive China as a threat to their presence in the global market. At first, many nations were worried that such a large, highly regulated economy would disrupt the WTO's rule-based economy, which is committed to the principles of free trade. Others believe that a global rule-based trading regime cannot truly evolve without the active involvement of China- Specialists who look at China's accession from an optimistic perspective, tend to agree that the expected changes in trading patterns arising out of China's accession may result in short-term economic losses for certain sectors in some countries. However, they stress that the dynamic benefits of China's WTO accession will outweigh these economic dislocation costs, particularly over the long-term (Groombridge 2000). Nevertheless, developed and developing countries and the least developed countries (LDCs) tend to have different perspectives on the short and medium to long-term impacts of China's accession to the WTO. It should be noted that in order to satisfy the WTO rules and obligations, China agreed to undertake a number of liberalizing and market-opining reforms. For example, US firms will subsequently enjoy unprecedented access to China's burgeoning market economy as a result of the ongoing reforms. According to the Goldman Sachs' estimate, China's accession to the WTO could lead to additional exports worth US $13 billion by 2005 (Groobridge 2000). Other economic are looking forward to finding their own niches in the Chinese market for their own goods and services.

As was mentioned earlier, many developing countries and LDCs are apprehensive about China's entry into the global trading system as a member of the WTO. Bangladesh, in many ways epitomizes this guarded approach to the issue. As is well known, Bangladesh's major strength in the external sector is the textiles and clothing sector, particularly the ready-made garments (RMG) sector. In the context to the Agreement on Textiles and clothing (ATC) negotiated during the Uruguay Round, Bangladesh's RMG sector is going to face formidable challenges in the global market specifically in view of the phasing out of the Multi-Fiber Arrangement (MFA) under the ATC. As the world's most important clothing exporter, accounting for more than 15 percent of the world's total apparel exports, China is perceived as a major threat to Bangladesh's apparel exports during the post-MFA era. The staged phase out of quotas by January 2005 is going to radically change the environment in which global trade in textiles and clothing will take place in the post-MFA era. The set of common exports from Bangladesh and China also includes other goods. Given this background, it is important

to have an in-depth study regarding the possible impact of China's accession to the WTO on Bangladesh's external sector performance, with a specific focus on Bangladesh's export-oriented RMG sector.

7.1.1: Impacts on China

A key feature of the period after 2001 concerns the effects of removing the quotas on apparel and textiles imposed on China and other developing economy exporters by major industrial country importers. These quotas are scheduled for abolition in January 2005 for all WTO members. Abolition gives a significant boost to the textile and apparel sectors in China, which had been one of the country's most rightly restricted by the quotas.

Output in these sectors rises 16 percent and employment 57 per cent. That in turn stimulates the production of plant-based fibers (mainly cotton), which increases by 16 percent. Output and employment in the other agricultural sectors, with the exception of livestock and meat, are expected to fall as unskilled agricultural labor moves into the textile and apparel sectors and unskilled non-farm real wages rise.

Oilseeds and sugar contract more than other agricultural sectors as a result of falling protection. Tariffs on oilseeds fall from 20 percent to 3 percent, and tariffs on sugar fall from 40 percent to 20 percent. Protection in other agricultural sectors is assumed to remain almost unchanged. The automobile and electronics sectors are assumed to remain almost unchanged. The automobile and electronics sectors also expand slightly, creating employment opportunities, particularly for skilled labor. Results suggest that approximately 6 million farm workers in China will leave their farm jobs as a result of WTO accession reform after 2001 in pursuit of employment in the nonagricultural sectors.

For most merchandise goods, real wholesale prices fall as a result of trade liberalization after accession. Retail prices reflect a uniform consumption tax increase of about 1.9 percent levied to compensate for the loss of tariff revenue. For some products, such as beverages and tobacco, automobiles, and sugar, the fall in real retail prices reflects a larger than proportionate drop in protection.

Increased demand for nonagricultural labor means higher real non-farm wages and higher returns to nonagricultural labor relative to agricultural labor. Removal of protection on some

agricultural sectors additionally lowers the attractiveness of farming and implies falling returns to farm labor and land. Real farm wages fall 0.7 percent, and the real rental price of land falls 5.5 percent. The decline in farm incomes and the rise in the real retail price of many non-farm products mean that some farmers may be hurt by WTO accession. Non-farm wages rise 1.2 percent and skilled labor wages rise 0.8 percent, implying that workers in urban centers- and farmers who are able to engage in non-farm employment- are more likely to be better off as a result of WTO accession.

Accession will make China a much bigger player in world markets through three channels- the rapid growth and structural change of its economy, the liberalization undertaken in preparation for WTO accession, and the liberalization undertaken after accession in 2001. The liberalization undertaken after 2001 contributes to an increase in China's share in world exports from 4.4 percent to 7.8 percent on completion of accession. Similarly, China's share in world import markets rises from 5.8 percent in 2001 to 6.4 percent in 2007. With the removal of textile and apparel quotas, apparel exports lead export expansion with an increase in export volume of about 106 percent, followed by textiles and automobiles. The dramatic fall in protection of beverages and tobacco results imports more than doubling, followed by increases in imports of food products, textiles, agricultural products, automobile parts, and commercial services.

7.1.2: China's Total Welfare Gain from WTO Accession is Estimated at $40.6 billion Per Year, or 2.2 Percent of Per Capital Real Income

Most of the gain ($31 billion) was realized following the massive liberalization between 1995 and 2001 and the ongoing restructuring of the automobile industry. The remaining reforms will lead to an additional welfare gain of $9.6 billion per year. The largest part of this gain in welfare will come from further merchandise trade liberalization ($4.7 billion, nearly half the $9.6 billion), followed by $2.4 billion (25 percent) from the removal of quotas on textiles and apparel$1.2 billion (12 percent) from services liberalization. Continuing automobile sector restructuring will generate $1.1 billion (11 percent), and the removal of agricultural export subsidies will provide only $ 275 million (3 percent) in additional benefits.

7.1.3: Impacts on China's Trading Partners

Among China's trading partners the largest absolute gains accrue to North America and the Western Europe, with close to half of the gains coming from elimination of the quotas they impose on China's exports of textiles and clothing- and thus elimination of the efficiency and rent transfers to China. North America, Western Europe, and Japan also gain from China's cuts in protection, which increase China's efficiency as an export supplier and its demand for their exports.

Taiwan's welfare gain from it's and China's accession to the WTO is estimated at $3.0 billion per year – the second largest gain relative to the size of the economy after China's. About half of the gain ($1.6 billion) was realized as a result of the liberalization in China and in Taiwan during 1997-2001. Remaining reforms will lead to an estimated real income gain of $ 1.4 billion a year after 2001. Other newly industrialized economies also benefit from China's accession. Most of these benefits are associated with trading liberalization and removal of quotas on textile and apparel, which translate into gains from terms of trade improvements after 2001.

The world as a whole and key developing economies that trade directly with China benefit from China's accession, but developing economies in Southeast Asia, South Asia, and Latin America that compete with China in third markets may lose from the removal of textile and apparel quotas after 2001. The losses will be largest for Vietnam- an economy that is following in China's footsteps and has a similar pattern of comparative advantage in labor-intensive products. The welfare loss for Vietnam is estimated as a 1.4 percent drop in per capita income .The loss to India is estimated to be considerably smaller as a share of per capita income, at 0.4 percent, whereas the percentage losses to other countries are very small.

7.1.4: China's Accession to the WTO and its Implications

Being one of the fastest growing economics in the world, China's entry in the global market both as an exporter and an importer, is going to have multidimensional implications for the Chinese economy and other economies. The implications may be better understood through an examination of the rationale for joining the WTO, as perceived by China itself, as well as examining the interests of developed countries in this undertaking.

The Chinese government projects that China's accession to the WTO would increase its GDP by USD 23.46 billion, or 1.5 percent by 2015. While estimating that some 10 million new jobs in agriculture, auto and other sectors will be created, Chinese economists also project the WTO membership will create 12 million jobs in other sectors such as textiles, toys, and footwear. According to projections, the textile and apparel sector is expected to experience rapid growth after China's accession to the WTO. China's entry into the WTO would not only permit expansion of labor intensive exports, but also imports will expand in accordance with the growth in exports.

7.1.5: Complementary Policy Reforms

Although the overall impacts of WTO accession on China's economy are generally positive, there are some concerns that decline in real returns to farm labor may exacerbate poverty in rural areas. Approaches that deal directly with these down China's trade policy reforms. Two policy tools that lend themselves to analysis within the model framework used here are relaxation of the barriers to labor migration from rural to urban areas and skills upgrading for workers in rural areas.

7.1.6: Impact of Reducing the Policy Barriers to Labor Mobility

Abolishing policy barriers to labor mobility from rural to urban areas-such as residence permits, differences in social insurance, and the inability to sell agricultural land-in conjunction with accession leads to a nearly 17 percent increase in real returns to rural to workers.

This contrasts sharply with the 0.7 percent reduction in real farm wages for accession without labor market reform. Rents to farmland would decline, with higher farm wages leaving a smaller residual return to farmland. Real urban unskilled wages would decline by an estimated 3.8 percent. Clearly, there would be scope for partial reform of these arrangements that could leave both farm and nonfarm unskilled workers better off than in the absence of labor market reform. Rents to farmland would decline, with higher farm wages leaving a smaller residual return to farmland. Real urban unskilled wages would decline by an estimated 3.4 percent. Clearly, there would be scope for partial reform of these arrangements that could leave both farm and non-farm unskilled workers better off than in the absence of labor market reform.

These results suggest that this reform would have significant impacts on the number of people leaving their farm jobs for jobs in the non-farm sectors and on the industry composition of China's economy. Some 28 million people would leave their farm jobs if the government removed the policy barriers to labor movement from rural to urban areas – several times the estimated 6 million people who would move as a result of WTO accession reforms alone between 2001 and 2007. The impact on the composition of Chinese industrial output would also be substantial.

This would allow not only apparel production to expand more but also metals, automobiles, electronics, machinery, other manufactures, and construction, all at the expense of reductions in some agricultural sectors.

7.1.7: Impact of an Increase in Skill Level

A key problem facing most rural workers is their low levels of education. One way to get a sense of the likely impacts of improving access to education is to consider the impact of resultant increases in the skill levels of rural workers on the performance of the Chinese economy. This experiment looks only at the impact of improvements in education on the skills of rural workers. It ignores any potential benefits to rural households from improvements in access to education for their children-such as reductions in school fees- and any changes in the government budget associated with increases in government spending on education.

An increase in the provision of education that would boost the annual growth rate for skilled labor from 4.15 percent to 5 percent and would lead to a decline in the annual growth rates for unskilled labor from 1.26 percent to 1.1 percent was considered. This was found to have important impacts on the structure of the Chinese economy. An increase in skilled labor leads to a stronger expansion, or a smaller contraction, in the manufacturing sectors that are skilled labor-intensive than does accession with labor market reform but no change in education spending. Metals, automobiles, electronics, and other manufactures all expand.

Although output in some sectors expands, the real wages of skilled workers fall as the supply of skilled workers increases and world prices of the outputs they produce decline. This contrasts with the case of accession alone, which results in an increase in the real wages of skilled workers. However, the real wages of generally much poorer unskilled workers rise

with increased education, with the wages of unskilled non-farm workers rising more than those of unskilled farm workers. Of course, those who are able to transfer from agricultural to nonagricultural employment as a result of increase educational opportunities are likely to be substantially better off.

Overall, it is clear that increased education spending will generally induce proper growth and decrease poverty. It certainly has the opportunity to substantially offset the adverse impacts on rural labor of the trade reforms associated with accession. Finally, increased education boosts the need for migration as demand for unskilled workers increases in large urban areas. An estimated 10 million farm workers are expected to exchange farm jobs for non-farm ones. The impact on consumer prices **is** small-with falling prices for farm products and rising prices for manufactured commodities.

7.1.8: Impact of Labor Market Reform and an Increase in Skill Levels

The combination of removing labor market barriers and increasing education spending creates the most favorable scenario for unskilled farm labor, leading to the largest increase in real farm wages (19.4 percent).Farm output contracts more than in the case of labor market reform alone, whereas skilled labor-intensive industries such as metals, automobiles, electronics, other manufactures, and services expand more than in the case of labor market reform alone or increased education spending alone. Under this scenario, an estimated 32 million farm workers would leave their farm jobs in urban areas.

These results suggest that to generate pro-poor growth over the next decade, the government should consider both removing policy barriers to labor movement and changing the composition of spending to favor education. Not only would these policies facilitate the transformation of China's economy toward services and high-tech manufacturing sectors, but they also have the potential to more than offset any negative impacts of accession on rural wages and incomes.

7.1.9: Conclusion

The analysis suggests that the reforming economics and their close trading partners will be the biggest beneficiaries of accession to the WTO. China is undertaking the greatest reform and will gain the most. The North American and Western European economics that abolish

their export quotas on textiles and clothing and increase their direct trade with China will gain the most in absolute terms. Taiwan will benefit substantially, both as a consequence of its own liberalization and through strengthened trade links with China. Japan will gain substantially because of increased export opportunities in China and China's increased competitiveness as a supplier. Other industrializing and industrialized economies that are China's largest trading partners will also be substantial gainers (Ianchovichina and Martin, 2004).

7.2: Impact on the Global Textiles and Clothing Industry

As we have seen China is a major player in the global apparel market. For Bangladesh, apparel is the single most important export sector. Thus, the issue of the possible consequences of China's entry into the global apparels market is of critical significance. In assessing the impact of China's accession to the WTO one has to consider two factors: (a) the impact of China's accession during the MFA phase out period, (b) the impact of the MFA phase out under the ATC.

Existing literature indicates that not only the US but also the Southeast Asian nations, who are China's primary competitors in labor-intensive manufacturing, will face short-term dislocation due to the competitive pressure. Developed countries protect their domestic market through the quota regime, which restricts global supply, and as a consequence, there is a quota premium that raises prices. Implementation of the ATC is expected to bring along a down ward pressure on price, which is expected to induce more demand leading to more supply of textiles and clothing. Once the quota regime is phased out, demand for textiles in the apparels producing countries is expected to go up as domestic apparels exporters will need more fabrics if they are to be competitive in the global market under a quota-free regime. Low-cost products such as China, having strong backward linkage in textiles will be in an especially advantageous position in the context of the evolving changes.

Increased competition due to the accession of China to the WTO and the MFA phase out will press the developed countries' producers to adopt new strategies including greater specialization, outward processing, etc. The strategy of outward processing may perhaps benefits some of the developing countries.

It is interesting to note that fearing an import surge in this sector resulting from Chinese membership in the WTO, the US negotiated provisions in the bilateral *accession agreement* for using safeguards with an expiring time frame of 2008. This apprehension should serve as a warning bell to countries such as Bangladesh. For example, the International Trade Commission (ITC) projects "much of this increase in China's exports of textiles and apparel comes at the expense of the other suppliers to the US market (Groombridge 2000). Though it is somewhat premature to speculate which countries will suffer most, still it is safe to argue that those countries which have weak competitive strength but have survived in the context of the MFA are likely to suffer. Due to the abolishing of quotas under the ATC in the first place, China would primarily be displacing other producers. Due to the price reduction in lower priced goods, the US economy will benefit significantly.

During the MFA era, the combination of strong protection with liberal preferences for some suppliers led to a diversion of imports by the developed countries to less protected, but possibly less efficient, developing country suppliers. So, the effects of the MFA phase lout and China's accession will be two–fold: on the one hand, the import pattern will shift substantively, and on the other hand, developing countries will also get an opportunity to supply high-value-added products of clothing.

Hertel et al. (1996) simulated the effect of the abolition of the MFA up to 2005 and found that the Asia exporters will gain from the implementation of the ATC.

7.2.1: Probable Impact of China's Accession on Bangladesh's External Sector

The framework of impact analysis of China's accession to the WTO should have two dimensions: one is the geography of the trade and the other is the product concentration in trade. Geographical dispersion of Bangladesh's trade is presented in Table 7 from which it is observed that more than 80 percent of Bangladesh's exports are concentrated only in two regions: the USA (39.53 percent) and the EU (44.45 percent), Compared to this, exports to China constitute a very insignificant proportion, only 0.2 percent to total exports.

In terms of product concentration, the top six export products from Bangladesh to US and EU markets are woven garments, knitwear, shrimp, raw jute, jute manufactures and leather, which account for more than 93 percent of exports to these two markets. Woven garments

and knitwear alone account for more than 85 percent to total exports to the US and the EU. The share of these two items was 87.8 percent of total exports from Bangladesh to the US and 85.01 percent of exports to the EU.

The six products mentioned above cover 79.72 percent of total exports to China. Major exports from Bangladesh to China mainly constitute shrimp, raw jute, jute manufactures and leather, however the value of exports in negligible. The volume of exports to China was only 10.56 million USD, which is about 23 times less than that of the US and around 25 times less than that of the EU.

As discussed above that the US and the EU are amongst the top five trading partners of China with a trade volume of 58.5 billion USD and 55.7 billion USD respectively, which together account for about one-third of China's total exports. It is evident from reliable data that articles of apparel and clothing accessories which fall under the ATC discipline, accounted for 41.3 billion USD of exports in 2010, which is 21.19% of the total exports of China over the corresponding year.

China's clothing exports are eight times higher than total exports of Bangladesh. China's share in world clothing exports increased from 9 percent in 1990 to 16.2 percent in 2010, which is a significant rise. Over the same period, Bangladesh's share increased from 0.6 percent to 2.1 percent. Although Bangladesh's market share growth rate in global clothing exports was higher than that of China, the fact of the matter is that, China did indeed start from a higher base, and in terms of absolute exports China's export growth is much more significant.

The above data as regards the relative comparative advantage, originates from the market shares of Bangladesh and China and corresponds to the period prior to China's accession to the WTO. China's cheap labor and higher productivity are factors to reckon with in the context of the future environment in which Bangladesh will need to compete following China's accession to WTO.

7.2.2: The US Market

The export performance of Bangladesh is apparels products was quite robust during the 1990s and disaggregated export figures proved that Bangladesh was able to register a

significant increase in the production of several product categories. Compared to many other developing countries Bangladesh's export growth rate was very high since 1990s.

Bangladesh has high quota fill rates, where China's QUR is low; similarly China has high QUR in 6 categories where Bangladesh has low QUR. It is to be noted that countries have discretion in fulfilling quotas from various items belonging to the same category. China, with its strong backward linkage, and relatively strong capacity in the production of high quality items tends to choose its quotas from higher (price-wise) product items in the categories. Thus, for example, though both China and Bangladesh post high QUR in certain categories, Bangladesh tends to utilize the quota from the lower end of the market while China does the same from the higher end of the market. This is evident from the average price of the products in the same category accrued to China and Bangladesh.

As a matter of fact, the average price of products exported to the US by China is found to be 50% higher than that of Bangladesh in most cases. Once quotas are phased out, China's current restrictions will be eliminated and it will then be allowed to export low priced items in the same category in addition to the current higher end items.

This is an important change which Bangladesh may expect once quota restrictions are withdrawn in the US market. On the other hand, both countries have high QUR which they share with some other countries.

In addition, the tariff rates applied to important export categories of Bangladesh are also considerably high in the US market. If Bangladesh fails to achieve any preferential treatment in the US market under a revised Generalized System of Preferences (GSP), in the context of the prevailing market access conditions, China's higher productivity will definitely give it a competitive edge in the US market.

7.3: Impact of China's Accession to the WTO on Bilateral Trade between China and Bangladesh

It has already been mentioned that Bangladesh's exports to China have been rather insignificant- only 10.61 million USD. The trend has been erratic. At the aggregate level exports to China have been on secular decline. Bangladesh's exports to China in 2007-08 were 108552.41 thousand US$, which fell drastically to a level of only 97621.28 thousand

US$ in 2008-09. At a disaggregated level, except for shrimp, jute manufacturing, and textile fabrics, exports of all other items have fallen quite significantly since the mid-1990s.

Bangladesh has already liberalized its impacts dramatically. Consequently, China's accession is not likely to have serious implications in terms of Bangladesh's import sourcing. However, in accordance with commitments undertaken as part of the accession agreement, China will need to reduce tariff and non-tariff barriers significantly. As a result access to Chinese markets will be eased. As part of the accession deal, China will cut average tariffs from 16.8 percent to 9.4 percent. The Tariff on agricultural products will be reduced to an average of 17 percent by the year 2014. This tariff reduction may potentially create scope for enhancing the export of shrimp, frozen food and raw jute from Bangladesh.

The US will apply the WTO Agreement on Textiles and Clothing (ATC) to China in the same manner as with other countries. However, it should be noted that under the US-China bilateral WTO accession agreement, a safeguard clause provides a mechanism to address possible market surges in the US consequent to China's accession. The mechanism allows the imposition of quotas if market disruption is significant. The safeguard mechanism remains in effect until December 31, 2008. In addition, the US will apply the WTO Agreement on Textiles and Clothing (ATC) to China in the same manner as with other countries.

The product specific safeguard mechanism address imports solely from China rather than from the entire world. The anti-surge safeguards will continue even after phase out of the MFA, until 2008. The threat of quotas may restrain China's apparels exports to the US, and thereby have some beneficial impact on Bangladesh's exports to the US market. However, it is perhaps logical to expect that in assessing any potential negative implication of China's incremental increase in exports to the US, the US government will be guided by geo-political considerations rather than whether it has hurt Bangladesh's particular interests or not.

7.3.1: Competitive Advantage

Although there is a general concern regarding Bangladesh's competitiveness over China, price competitiveness data computed for Bangladesh (US market unit price multiplied by the price deviation of major Bangladeshi products from average world price) leaves some scope

for optimism, at least for some particular products at the Harmonized Tariff Schedule (HTS) 10-digit level, in the short-run.

According to the estimates, Bangladesh has significant price advantage in some products (at the HTS 10-digit level) over other countries, except Pakistan. Bangladesh was able to increase its competitiveness situation with China in some of the apparel items. In these selected items, Bangladesh's prices are below world market prices, whereas China's prices are above the world average level. In a very few non-quota items, Bangladesh also enjoys price competitiveness over China. In the previously stated context, it is expected that Bangladesh will be able to continue to retain market share in the US at least in the case of the abovementioned apparel items.

The US plan to phase out quotas on Chinese exports of textiles and garments is a significant issue in this context. The data would suggest that quota withdrawal does not make Bangladeshi exports automatically price uncompetitive vis-à-vis China. However, from a dynamic perspective, the economies of scale accrued to China in the context of a quota-free regime may create a situation where Bangladesh's price advantage in those selected items may be eroded. It is important for Bangladesh to negotiate with the major trade partners under the ATC integration mechanism to accelerate the quota expansion facility for LDCs, which may provide Bangladesh with some added advantage during the run-up to the MFA phase out.

In the EU market, the situation is somewhat complicated as far as Bangladesh is concerned. In the EU market all the potential competing countries of Bangladesh have prices lower than the world prices for the selected apparel products. Bangladesh faces tough competition in items under HTS Code 62114210 from countries such as India, Pakistan and Sri Lanka. If the price competitiveness of Bangladesh and China is compared, in some major selected categories Bangladesh fares better compared to China-there is a general improvement in price competitiveness over China.

The prices in all categories other than HTS 62114210 are at least 50 percent lower than what is offered by China. It should be noted here, that the price competitiveness in apparel products at the eight-digit level does not have any great relevance. As these prices are average prices of all items in a particular category, the low average price would mean that

Bangladesh has concentrated its exports in the low priced items in that category, and China's higher average price might mean that China exports more costly items with high value addition. However, this comparison is useful in the sense that in that particular category there may be some products in which Bangladesh enjoys absolute price advantage over China.

There are two types of advantage enjoyed by Bangladesh over China in the EU market: Firstly, there is no quota in place, which is not the case for China which has to operate under a quota regime; secondly, Bangladesh enjoys duty free access in the EU market subject to compliance with the two-stage rules of origin requirement.

Though in both the US and the EU markets China has price disadvantage vis-à-vis Bangladesh in some categories, its share in both markets is increasing consistently. The reason for this is the wider product range which China is able to offer when compared to Bangladesh.

Moreover, the US-China & EU-China agreements clearly indicate that china will enjoy more favorable market access to these important markets in the future (this is not true). Under a quota-free regime China is expected to concentrate of expanding its share in the EU market following its accession to the WTO.

7.3.2: Productivity

International competitive advantage in product group is ultimately maintained and improved through continuous improvement in productivity. Though Bangladesh has an advantage in terms of cheap labor, the low productivity actually erodes the competitive strength in the product market.

Low productivity driven by a low level of technology also prevents movement up along the demand curve. Data show that the hourly wage rate in Bangladesh's garments sector was low compared to some selected countries, however, the country's productivity was significantly low compared to other countries.

As a result, Bangladesh was unable to translate its comparative advantage in cheap labor into competitive advantage in cheap products. Compared to China, the wage rate is 56% lower in

Bangladesh. It is difficult to comment on the current extent of wage/cost advantage enjoyed by Bangladesh over China since adequate data is not available. There is a possibility that the advantage may have narrowed down, partly because of a higher rate of devaluation in some of the competing countries.

It is evident from available projections that China's apparel market will expand at a more rapid pace after its integration into the WTO. The advantage of scale economies will increase productivity of Chinese labor further, which might threaten the market share of products even at the lower end of the demand curve for apparel products (Rahman and Raihan, 2003).

7.3.3: Labor Cost Comparison in US$ per Hour

With China's production costs now rapidly rising in yarn and US$ terms, there are strong reasons to compare labor costs in apparel manufacturing countries. The study released by U.S consulting from Jassin O'Rourke and published by Emerging Textiles.com reveals that seven Asian countries are now offers a labor cost comparison within each region of the planet from Latin America to Eastern European and Africa-Middle East, as reflected by our series of statistical tables. For the first time this year, U.S consulting firm Jassin 0'Rourke publishes its comparison of labor costs in apparel manufacturing countries. With China's costs so rapidly increasing, there are strong reasons to assess and compare labor costs in a large number of countries.

7.3.4: Bangladesh, Cambodia, Pakistan and Vietnam

According to Jassin O'Rourke, lowest labor costs are still in Bangladesh, at 22 US cents per hour or five times lower than in China's richest coastal areas. Labor costs include wages, social charges, and a series of bonuses. There may be very large differences in labor costs within a country as minimum wages may vary depending on economic zones. In addition to Bangladesh, Cambodia, Pakistan and Vietnam are other apparel exporters taking advantage of extremely low labor costs at 33 cents, 37 cents and 38 cents per hour, respectively. By contrast China's lowest labor costs are at 55 cents in the country's inland and remote areas while labor costs may now reach US$1.08 in certain areas of coastal provinces. Labor costs in Haiti therefore are 50% below highest Chinese costs and at the same level than lowest labor costs in China.

The dollar's decline resulted in a 10% increase in US$ China costs in the 15 months between February 2007 and May 2008. For the same reason, US$ costs were raised by 7.8% in India over the period and 9.2% in Thailand, according to Jassin O'Rourke. Labor costs are not the unique factor for sourcing decisions, as everyone is aware in the apparel business. Other factors include labor productivity (usually very high in China), quality and cost of available textile materials, energy prices, lead times, services offered to apparel importers or brands, import tariff rates in Europe or the United States, cost of freight, etc. (Mangenot, 2008).

7.3.5: Revealed Comparative Advantage (RCA)

As was pointed out earlier, apparel products exported from Bangladesh to overseas markets, particularly the EU and the US, cater mainly to the lower segment of the demand curve-which would imply that these products are not highly price sensitive. In the 1980s many developing countries such as Bangladesh and Sri Lanka did not have comparative advantage in most of the categories of clothing. However, over the course of time, these countries were able to capture significant market share in some of the low price items (Islam 2000).

According to the latest available information on revealed comparative advantage (RCA) for products in the US market, Bangladesh has RCA 1 in three 10-digit level items, 6205202065, 6208210020, and 6204622010. India has RCA1 in 6211420070 and Sri Lanka in 611020065.China's RCA is much lower than other countries in these items. Other than in the items, China's RCA is comparatively better than the competing countries. In the case of RCA is calculated for the 8-digit level product categories, where in many items within a category, different countries have different RCA in different products. However, higher RCA for a category can be explained as a better position for some items within a category. RCA estimates reveal that there are some products within particular categories where Bangladesh enjoys competitive advantage. In the EU market, Bangladesh has RCA 1 in two categories (62052000 and 61102010), whereas India, Pakistan and Sri Lanka have RCA 1 in one category (62082100, 62114210 and 62046231 respectively). China does not have RCA 1 in any of the aforementioned categories.

The major export product items export from Bangladesh to the US and the EU markets have a strong competitive advantage. However, the estimated RCA need to be considered in the context market distortion.

The analysis presented in the foregoing sections demonstrates that China's accession to the WTO has important implications for Bangladesh's export-oriented RMG sector. Bangladesh's RMG sector is handicapped because of weak backward linkage as a result of which competitiveness of the sector is seriously undermined. Lack of adequate backward linkage also means that Bangladeshi exporters require relatively long lead-time to respond to orders placed by potential buyers. In the context of a quota-free regime, following the phase out of the MFA in January 2005, much of the current market distortion will be removed. Consequently, countries with strong backward linkage in the textile sector will fare better under the market regime in a liberalized trading environment.

Our analysis has shown that Bangladesh has demonstrated competitive strength both in non-quota markets, as well as in the exports of some apparel items in the quota market. The RCA for the products in the US market shows that Bangladesh has RCA 1 in three 10-digit level items as distinct from China which has lower RCA in those items, which testifies to Bangladesh's competitive power vis-à-vis China in some segments of the global apparel market.

In the case of RCA in the EU market, the analysis also shows that Bangladesh does have RCA 1 in some of the categories, in which even China, India, Pakistan and Sri Lanka have RCA 1. It is possible to argue, in light of above information, that Bangladesh might be able to retain market share in some of the categories in EU and US markets even in the context of the phase out of the MFA regime.

The analysis shows that Bangladesh has significant price advantage in some products (at the HTS 10-digit level) over most of its major competitors. Bangladesh was able to prove its price competitiveness vis-à-vis China in some of the apparel items. As an analysis reveals, in the case of five selected items, Bangladesh's prices are below world market prices, whereas China's prices are above the world average level. In a very few non-quota items, Bangladesh also enjoys price competitiveness over China. In the above context, it is expected that Bangladesh will be able to continue to retain market share in the US, at least in the apparel items mentioned above. In the EU market, on the basis of comparison of price competitiveness positions for Bangladesh and China, it has been shown that in some major selected categories, Bangladesh fares better than China-there is a general improvement in the price competitiveness environment for Bangladesh over China. Our analysis of selected items

shows that, prices of four categories offered by Bangladesh, other than HTS 62114210, are at least 50 percent lower than what is offered by China.

However, several factors will need to be taken into account. Firstly, as countries are freed from quota restrictions, they are likely to try to penetrate hitherto unexploited markets. China would also be expected to produce apparel items on the lower end of the demand curve where it has been reluctant to go until now because of the peculiarities of the quota regime. Secondly, the price scenario in the global fabrics market is also expected to change in the context of the MFA phase out. RMG exporting countries which had been supplying fabrics in the global market will now be in a position to export more RMG products, rather than fabrics. This may push up the global price of fabrics, which may potentially undermine the competitive strength of fabrics-importing countries such as Bangladesh. Thirdly, our analysis has shown that although Bangladesh wage levels are relatively low compared to China, China's productivity is higher because of its capacity to blend labor and technology. From this perspective also, China is going to pose a serious competitive threat to Bangladesh during the post-MFA phase.

Analysis presented in this chapter shows that China's accession has serious implications for the export-oriented RMG sector of Bangladesh. Bangladesh will need to design appropriate strategies in order to address the emerging concerns originating from China's entry into the WTO. Admittedly, Bangladesh will need to immediately undertake the task of raising its competitive strength in the global apparels market if it is to ensure that the robust performance demonstrated by its export-oriented RMG sector is to continue during the post-MFA phase. Evidently both domestic supply side issues as well as global market access issues will need to be adequately addressed in order to ensure this.

7.3.6: Political Co-ordination between EU and the Chinese Textile and Clothing Sector

According to the Financial Times, Chinese textile and clothing producers very closely, one can identify two opposite coalitions of member states as far as the implementation of quotas on Chinese textiles and clothing is concerned, two coalitions that underscored the north-south divisions inside the EU.

The first consisted of Spain, Portugal, Italy, France and several new member states in eastern and central Europe. This condition was generally in favor of a protectionist textile and clothing import policy.

The second was made up of Sweden, the Netherlands, Denmark and Finland– from August 15, 2005 onwards-Germany (Financial Times, August16,2005).These countries had a small, efficient and relatively modern textile and clothing production capability, and most of the wage-intensive production in these member states was already outsourced to other countries.

In between these two coalitions were the United Kingdom and Germany even though Germany only has a relatively small and (by and large) competitive textile and clothing industry. The UK held the presidency of the EU from July 2005 and stayed neutral (this is a normal self-imposed constrain in the EU) in the ongoing debate between the two coalitions in the run-up to the presidency and during its period of office. In the first period Germany supported the protectionist coalition at some critical moments before the French referendum on May 29, 2005. As mentioned, however, Germany changed course due to new pressure from retailers' organizations at some point after the French referendum.

It is clear that Frances had a special interest in the question of EU quotas even though it had to some extent outsourced wage-intensive textile and clothing production. Already in April 2005, the French foreign minister, Michel Bamier, said that he wanted the EU "to act without delay" to save European textile and clothing jobs.

As mentioned, France (together with Italy) is the main producer of flax yarn which has suffered from the sharp increase in Chinese textile and clothing exports since January 1, 2005.Last but not least, the French government wanted to use restrictions on Chinese textiles and clothing as a signal in the domestic campaign on the EU's Constitutional Treaty that the EU was a wall against trade liberalization-not a champion of the same. For the French government, quotas on Chinese goods were also a signal to other groups (e.g. French farmers) that could potentially suffer from increased trade liberalization.

As predicted by rational choice theory, the position of member states vis-à-vis quotas was first and foremost determined by whether or not the state had national producers suffering from the surge of Chinese textiles and clothing into the EU after January1, 2005. The asymmetries of the national political systems outlined above are much more decisive than

diffuse welfare-economic losses or benefits for member states as a whole. However, these asymmetries can change due to extraordinary circumstances such as a referendum because the lobby-curve of the various interest groups changes at the same time. In addition, the position of Germany (which in this case seemed to regard itself to a certain degree as a defender of the common interest of the EU together with the commission) has to be evaluated.

Such an explanation has to broaden the picture of Germany's national interests and has to include an interpretation as to why Germany has so often in the history of European integration sacrificed its short-term interests for the sake of long-term general European interests. On the surface, factors influencing such an explanation should be sought outside the rational framework of this paper; the defeat in World War II and the road back to becoming a normal European country, the fact that Germany influence on the world scene occurs through the EU more often than for the UK and France because it is not a member of the UN's Security Council, the German interests in adhering to its alliance with France, and the constitutional constraints on German decision-makers which outlaw, for example, referendums. However, none of the above means that German politicians and bureaucrats are not under strong influence from organized interest groups as it also pointed out above. Therefore, the German behavior might still be interpreted within the rational choice framework, but in a fashion where promotion of its interests is functioning on a somewhat more complex background than for most other member states due to its semi-hegemonic role the EU.

In the area of trade policy, the general asymmetry which-according to rational choice theory-is always present in collective political decisions, is sharpened by the "suppliers" of decisions who often have independent reasons for reinforcing a complicated, protectionist trade policy because it enhances their power base. In rational choice theory it is recommended that institutions should be set up in order to place restraints on utility-maximizing actors, no matter whether they are interest groups or member states. These institutions should be designed with the aim of encouraging a larger degree of correlation between the particular interests and the common interests. At the same time, once created, institutions realize an interest of their own in enhancing power, size etc.

In European textile and clothing import policy, the most relevant institutions are the Commission and the Council of Ministers. The position of the Council of Ministers is a reflection of the positions of the member states analyzed in the last section. However, even though a consensus is often needed in the EU in order to adopt new trade agreements, analyses show that there is a remarkable amount of build-in consensus mechanisms in the decision-making process of the Council of Ministers that can safeguard this result.

The Commission plays a powerful role in the decision-making system of the EU's trade policy because of its (in international comparison) unique right and obligation to make proposals to the Council of Ministers, and due to its central role in the administration of the customs union of the EU. The Commission is headed by a group of politically appointed, but non-elected, commissioners. Moreover, the Commission is also a large bureaucracy. Its official aim in both its forms is- according to the treaty- to work for stronger European integration ("an over closer union among the peoples of Europe"). Success in achieving this aim should ensure greater prestige and power for the Commission and the commissioners.

In retrospect, according to various sources, the issue which was uppermost in the minds of the commissioners in the spring of 2005 was an increasingly negative French citizenry that was threatening to vote against the constitutional treaty in the upcoming referendum on May 29, 2005. The question of the surge in the exports of Chinese textile and clothing was overwhelmingly seen in this light. As late as April 2005 Peter Mandelson urged China to voluntarily slow shipments to the EU. He also signaled that he was unlikely to respond to the vocal demands from various member states to impose immediate limits on Chinese textile and clothing imports.

The French campaigners for a "no" vote also used the sharp rise in Chinese textile imports as a symbol of the perils of globalization, which they interpreted as a process driven by a free market, an Anglo-Saxon approach that they saw championed by the EU. On May 25, 2005 Peter Mandelson, in an effort to woo French voters by demonstrating decisive action, action decided to cut short talks with Chinese trade officials and initiate action at the WTO which could lead to the re-imposition of quotas on some of the Chinese textile and clothing exports to the EU. Despite this, the French referendum resulted in a "no" vote on the Constitutional Treaty. Nevertheless, a political process and already been set in motion as far as an agreement with the Chinese government on quotas was concerned.

There is plenty of blame to go around concerning the Shanghai Agreement. The Commission was criticized for letting more than a month slip between signature and implementation. Member state governments (including the protectionist ones) were blamed for handling out too many import licenses. Mandelson was also accused of taking the situation too lightly by not coming back from holiday to deal with the crisis. Part of the problem was also said to be that the Commission rushed into the Shanghai Agreement.

The general director of Euratex, William Lankin, supported this view and claimed, "In management terms the agreements could have been better thought." Additionally Peter Mandelson acknowledged that the system of quotas of the Shanghai Agreement had a "serious glitch".

However, in this paper it has been argued that rational explanations can replace the culture of blame. The Commission did act in what it perceived to be the common interest of the EU-taking into consideration the upcoming French referendum (Nedergaard, 2009).

The relatively long period before the Shanghai Agreement was implemented can be interpreted as the commission's way of dealing with the fact that its raison deter had to a certain political extent disappeared after the French referendum. In connection with this, the commission used a rather advanced method to safeguard the possibility of future adaptation of the Shanghai Agreement. This consisted of placing the EU in a situation where the new pressure from retailers enforced the needed adaptation.

7.3.7: Trade Dispute with the EU and US were Properly Resolved

The textile trade dispute with the EU and US, involving US$ 9 billion worth of products and 1 million Chinese employments, was a focus of attention and top concern for the sector in 2005. The textile agreements that China had reached with the EU and US on June and November 2005, allowed China further growth in the products of concern, and provided exporters and importers with stable and predictable trading environment.

7.3.8: Major Changes in Trading Partners

In 2005, China's textile and clothing industry exported to 218 countries/regions in the world, with 21 markets buying more than US$ 1 billion and 74 markets buying more than US$ 100

million. Meanwhile, the country imported from 148 countries/regions, with 13 suppliers selling more than US$ 100 million. The strategy of "Market Diversification" continued to be implemented in the sector.

The US and EU replaced Japan and Hong Kong as the top two biggest markets for Chinese textile and clothing, flowed by Japan, Hong Kong and Russia. Exports to the US market enjoyed the fastest growth at 70.5%, and exports to the EU scored a similar increase of 56%. China's exports to Russia, Canada, India, Pakistan, Vietnam, Indonesia, among others, enjoyed a growth rate above 30% in 2005.

Due to the introduction of export tariffs on textile and clothing products by the Chinese government at the beginning of 2005, as well as the shift of shipments to the US and EU, exports to previously quota-free regions were affected in the first half of 2005. Exports to Japan only increased 5.6%, and Hong Kong even suffered a loss of 14.5%. However, starting from the third quarter of 2005, the momentum of exporting to the US and EU was curbed and exports to Japan and Hong Kong picked up. It could be expected that with the re-imposition of quotas by the US and EU, Japan and Hong Kong's share in China's exports will soon be resumed in 2006.

China's largest suppliers to textile & clothing imports for 2005 were Japan, Chinese Taipei, South Korea and Hong Kong, along with the other 8 countries/ regions that exceeded US$ 100 million of export value to China. Noticeably, Pakistan, the US, the EU, Vietnam and the Philippines have increased their exports to China by more than 20%.

7.3.9: Continued Growth in General Trade and Slowdown of Processing Trade

General trade has been maintaining faster growth for the recent four years with annual growth rate above 20%. In 2005, exports by general trade (exports of products made of domestic materials) increased by 24.5%, and accounted for 69% of China's total textile & clothing exports. Exports by processing trade (exports of products made of imported materials) grew 12%, representing 26.5% of the total.

Imports by general trade (imports of products for domestic consumption) reached US$2.1 billion, up 21.6% and taking up 12.1% of total imports. Imports by processing trade for

further processing and re-exports totaled US$ 14.6% billion, down 0.7% and accounting for 85% of the total.

The shares of export and import by general trade in the total both showed a modest increase of around 2 percentage points. The decreasing share of processing trade has reflected the successful upgrading of China's yarn and fabric sector. This structural change in trade pattern also signaled China's fast-expanding domestic market demand for higher-end textile and clothing imports.

7.3.10: Private Companies Topped as Biggest Export Group

With the development of the market-oriented economy, Chinese private enterprises have been enjoying fast growth for recent years. That fact is particularly prominent in the textile and clothing industry.

In 2005, there were altogether more than 58,000 companies engaged in textile and clothing trade in China, a 17% increase in the number of companies. Among them, the number of exports increased by 20% to 46,000, and the number of importers rose by 8% to around 30,000.

Among exporters, 52% are privately-owned domestic companies, which enjoyed growth and increased by 42.5% in export value. Foreign-funded enterprises came at the second place, accounting for 37% of the total. The number of companies with state-owned shares decreased by 11% and only took up 10% of the total. When we look at the imports, foreign-funded companies accounted for 71% of total import value, showing that the major business model for this type of company is assembly with imported materials.

7.3.11: Eastern Coastal Areas Remained as Export Base

Textile and clothing trade highly concentrates in China's eastern coastal region, where manufacturing cluster has been well developed. Zhejiang Province remained at the top of the export list, with more than US$20 billion worth of exports, followed by Guangdong, Jiangsu, Shanghai and Shandong. The big five represented 77.2% of total exports each exceeding US$10 billion in export value. In 2005, 25 provinces and municipalities in China recorded an

export value of more than US$100 million, indicating the extensive geographic coverage of the sector and its importance to China's manufacturing.

In terms of imports, Guangdong, Shanghai, Jiangsu, Shangdong and Zhejiang ranked top 5, representing 85% of the country's total imports in 2005, and each exceeding US$1 billion in import value. Guangdong Province alone, where processing trade dominates, accounted for 45% of China's total textile and clothing imports. 10 provinces and municipalities in China reached an import value of more than US$100 million.

7.4: Favorable Factors

China-US and China-EU textile agreements have ensured a smooth transition to post-quota era and created a foreseeable and stable trading environment for Chinese textile and clothing industry in the 2-3 years to come. The agreements are helping recover the normal trade flows between China and the US and the EU which were disrupted by the uncertainty and chaos that safeguards measures had aroused, while allowing a steady growing market share of Chinese textile and clothing in the US and EU. Apart from that, the voices of some of the developing countries that had been complaining about China's exports could go lower, since the agreements also provided these countries with an extra period for adjustment and adaptation.

Global economic growth is forecasted to be around 3% in 2016, indicating that there will be a stable market demand for Chinese textile and clothing. China's major markets show positive signs of growth: Japan remains on its way to recovery; the US maintains fast growth: and the EU keeps steady increase, although at a lower level.

The economic globalization will continue to bring about more opportunities and possibilities for Chinese textile and clothing companies to develop international cooperation in the fields of sourcing, manufacturing, innovation, brands, marketing & etc.

The continuous and robust economic growth in Chinese generates huge domestic market potentials for China's textile and clothing industry, the ultimate momentum for the industry to thrive. It is projected that China's economic growth rate in 2006 will be well above 9%, and will remain over 8% for the next five years. With its 1.3 billion populations, China has

now become world's biggest fiber consumption market, with its fiber consumption per capita rising from 4.1 kg in 1980 to 14 kg in 2005.

China's market opening moves in the implementation of its WTO commitments have provided remarkable opportunities for world's textile and clothing companies, In 2006, China's overall commodity tariff rate is 9.9%. Specifically, the average tariff for textile and clothing is 11.4%, 9.6% for textile and 16% for clothing respectively. Apart from significant tariff cuts, China had also opened up its foreign trade and distribution sectors in 2004, allowing foreign companies to conduct international trade and distribution activities in China. These measures have attracted an increasing number of international fashion brands who moved quickly to set up their stores and distribution channels in China.

The comprehensive competitiveness of Chinese textile and clothing industry, including capacity, quality, price, delivery time, labor cost, service, availability of raw materials, efficiency, management, infrastructure &etc., although facing the danger of losing edge to some competitors, remains to be quite attractive to foreign buyers for the time being.

7.5: Unfavorable Factors

Trade protectionism in various forms continues to be a major threat to the industry, such as anti-dumping and safeguard measure, especially after 2007/08. After China reached the textile agreements with the US and EU, trade fractions with developing countries have become more prominent. In addition, the emerging tendency to put the issue into Doha round talks needs to be warned against.

Lack of brands and less value added production are severe problems that the industry has to tackle with internally. Although the industry is big in its size of exports, its growth could be mainly attributed to quantitative growth of low-end products, the price of which is a major means of competition. Due to lack of branding and designing capabilities, the sector can only make money from manufacturing, which accounts for a merely 10% of the total value that is added throughout the supply chain. This has been regarded as a major problem that could curb the industry from further upgrading in longer term.

Rising costs in labor, raw materials and energy are adding extra burden on exporters. For example, China is now 20-30% higher than Vietnam, Sri Lanka and Cambodia in labor costs, which undoubtedly make it less competitive. Parallel with the improvement of the living standard of farmers in rural areas where most of the textile workers come from, previously abundant supply of labor became to show signs of shortage. Soaring oil prices, as well as increasing costs of land, water and power will make the pressure even heavier.

Possible RMB appreciation is also prominent factor that will have significant impact on the industry which has already run on the basis of very low profit margin. It is estimated that every 1% appreciation of Chinese currency will result in a 2%-6% reduction in the profit margin of the sector. Although Chinese exporters could still manage to live with the 2.1% rise of the Chinese exchange rate adopted in July 2005, any further appreciation would possibly mean shift of orders and loss of profits.

The growing-up of some competitors is posing challenges to China's exports, India, Pakistan and Bangladeshi industries have already implemented long-term developing strategies to enhance their all-around competitiveness, and their governments also take concrete measures and initiatives to encourage their industrial upgrading.

7.6: Priorities and Tasks for Years to Come

Structural readjustment and industrial upgrading will be further pursued on the basis of maintaining the current scale of trade. Specifically, the industry will focus on transforming from a growth model based on quantitative increase to the one based on quality and efficiency improvement.

Developing China's own brands is a long-term task for the industry. To achieve that goal, the industry will start with manufacturing higher-end products instead of merely concentrating on cheaper end of the market, and move up along the value chain with more customized and integrated service and value-added activities, such as product designing, logistics, material sourcing, & etc. It can be expected that after decades of efforts, a few outstanding companies will be able to penetration to international marketing and distribution networks, and ultimately build up their own brand names in world market.

Dialogues and cooperation with textile and clothing industries of other countries, particularly the developing countries and LDCs, will be strengthened, aiming to generate mutual benefits for both China and its trading partners.

By adopting the strategy of "going global: The industry will take more active moves to invest abroad by setting up overseas production facilities, R &D and distribution centers, to diversify risks as well as obtain maximum benefits from globalization.

Resource- efficient and environment-friendly production and CSR compliance will be further stressed within the sector with a view to building up a harmonious society.

Since China's entry into the WTO, especially the elimination of quotas, Chinese textile and clothing industry has been undergoing remarkable growth, as well as many difficulties, especially in various forms of restriction, such as safeguards and anti-dumping measures. The impact of the change of global textile and clothing trade regime has been far-reaching and extensive. An increasing number of Chinese exporters have come to be aware that they could no longer survive in this complicated trade environment and increasingly intense competition with a business model based merely on quantity. They must focus on quality and efficiency, move up to more value-added parts along the supply chain make quicker reactions to market and policy changes and be more responsive to social and environmental needs. Accordingly, the strategies of technical innovation, industrial restructuring and upgrading, brand promotion, "going global" as well as CSR compliance have been adopted by the industry to better compete in this changing environment, thus helping to maintain the healthy and sustainable development of the sector(China Chamber of Commerce for Import & Export of Textiles, 2006).

7.7: Value and Shares for EU Clothing Imports: Bangladesh Compared with China and Vietnam

EU's imports from Bangladesh slowed down in woven clothing categories in the last year while remaining strong in knit clothing categories By contrast, China took additional shares of the European market. Bangladesh and China are no more on the same price segment of the market, however, while Vietnam further cut its prices to much lower levels, as indicated by our series of tables below.

7.7.1: T-shirt Competition

Knit clothing exports from Bangladesh remained strong in January-September 2007, except for pullovers down 1.1% in euro terms. Shipments of woven clothing were subject to an obvious decline with a double-digit fall in categories like suits and trousers for women and girls (HS number 6204).

By contrast, China's exports to the European Union were very strong in woven clothing categories with a 51% surge in shipments of suits and trousers for men and boys (HS number 6203). EU's imports from Vietnam significantly rose at the same time, but from relatively low levels. Vietnamese prices were sharply reduced in addition, resulting in a surge in volume terms but much less impressive in value terms.

7.7.2: The No-Quota Effect

In terms of market shares, Bangladesh remains strong with its knit shirts and T-shirts compared with China. The removal of European quotas from this year may change the situation; however, Bangladesh may also lose its leading position with pullovers. In woven clothing categories, China already took a strong place. Although Bangladesh may take advantage of a duty-free access on the European market, specific rules of origin are limiting the benefits for woven clothing. By contrast, exports of knit apparel like T-Shirts may generally enjoy the duty-free access. Although a reform of the rules of origin is planned by EU's Commission, a series of member countries are opposing the proposal made by the executive arm of the European Union.

7.7.3: Price Competition

In terms of prices, Bangladesh is no more on the same side of the market than China, however, and could take advantage of its competitiveness. Unit prices of European imports from China are much higher than for shipments from Bangladesh or Vietnam. Compared with Vietnam, however, Bangladeshi unit values look generally higher, after Vietnam repeatedly cut its prices in the past years. Vietnamese exports are more focusing on the U.S. market however, while Bangladesh has stronger relations with the European market (Mangenot,2008).

8.1: Introduction

Demand for outerwear in the market will continue to increase slightly in the coming years. The number of garments purchased per head of the population will continue to rise, but prices will not follow the growth rate. Imports from developing countries have increased considerably in volume but against much lower prices. The comparative data below shows some estimates of the size and scope of the apparel markets of eight of the major apparel-producing countries in Asia**.**

Table 8.1: The comparative data of the size and scope of the apparel markets of eight of the major apparel-producing countries in Asia:

Country	Population million	No. of Apparel Factories	Total Employed in Apparel (Estimate million)	Total Apparel Exports(US $ Billions)	Apparel Sectors of Total Exports (%)
Bangladesh	137	4000	1.90	5.70	82
China	1317	38970	4.60	61.00	10
India	1027	60000	4.00	6.00	8
Indonesia	224	2368	0.38	4.30	6
Pakistan	167	5000	0.70	2.70	22
Sri Lanka	19	830	0.35	2.60	46
Thailand	67	2672	0.85	3.40	5
Vietnam	85	1050	2.00	4.30	13

Source: National Productivity Organization (NPO, Benchmarking Study in Garment Sector, Ministry of Industries, Production & Special Initiatives, Government of Pakistan.

8.2: Market Trends

The changing demand and supply patterns will result in an increase in foreign trade in Garments from US$202 billion in 2002 to US$450 billion in 2015 and US$320-US$550 billion in 2016 on a production substitution basis. The exact value of foreign trade will depend on the economic conditions prevailing globally over the next few years.

Table 8.2: Global Foreign Trade in Garments-Top Exporting Countries (Actual and Projected, US$ bn.)

Country/Area	1990	1995	2000	2002	2005	2016
Total Trade	108.1	158.3	197.0	200.9	*250.0*	*320.0*
EU	40.8	48.5	47.5	50.5	*45.0*	*30.0*
China	9.7	24.1	36.1	41.3	*50.0*	*65.0*
Hong Kong	9.3	9.5	9.9	8.3	*7.5*	*6.0*
South Korea	7.9	5.0	5.0	3.7	*3.0*	*1.8*
Taiwan	4.0	3.3	3.0	2.2	*1.9*	*1.4*
Thailand	2.8	5.0	3.8	3.4	*3.2*	*2.5*
Turkey	3.3	6.1	6.5	8.1	*9.4*	*12.5*
USA	2.6	6.7	8.6	6.0	*5.0*	*3.5*
India	2.5	4.1	6.2	5.9	*6.9*	*8.8*
Bangladesh	0.6	2.0	4.2	4.1	*4.8*	*6.1*
Pakistan	1.1	1.6	2.1	2.2	*2.6*	*4.0*
Indonesia	1.7	3.4	4.7	4.0	*4.6*	*6.0*
Hungry	0.4	1.0	1.2	1.3	*2.5*	*3.0*
Vietnam	0.3	0.5	0.9	1.0	*1.5*	*4.0*
Canada	0.3	1.0	2.1	2.0	*1.8*	*1.1*
Malaysia	1.3	2.3	2.3	2.0	*1.8*	*1.3*
Mexico	0.6	2.7	8.6	7.8	*6.9*	*5.4*
Morocco	0.7	0.8	2.4	2.4	*2.8*	*3.9*
Philippines	1.7	2.4	2.5	2.6	*3.0*	*3.9*
Sri Lanka	0.6	1.8	2.8	2.3	*2.5*	*3.0*
Tunisia	1.1	2.3	2.2	2.7	*3.1*	*5.0*
Cambodia	0.0	0.03	0.9	1.3	*1.76*	*2.6*

Source: WTO

Note: Projections-Italic

Table 8.2 detailing top garment exporting countries shows that until now the major garment exporter has been the EU but that this supplier has been in decline in the past few years. Further declines in EU production and exports are expected. The table also shows that garment exports from high- and medium- cost countries are in decline, e.g. from the US,

Canada, Hong Kong, South Korea and Taiwan. Some newly industrializing countries such as Thailand and Malaysia have moved into electronics that pay higher wages and so their garment industries are no longer cost competitive.

China has ambitious plans for its textile and garment exports, based largely on foreign direct investment and attractive local costs (e.g. power, transport, etc.), and has increased its exports from US$10 billion in 1990 to US$42.3 billion in 2002. Plans are for garment exports of US$1 trillion in 2016 and further growth thereafter.

However, it may be noted that China's garment export plans for 2005 represent only 20% of global foreign trade and China's entry into the US and EU markets may be subject to temporary safeguard measures. This means that 80% (some US$200 billion) remains available for other exporting countries to share. Typically, fiber-producing countries such as India, Indonesia, Morocco, Pakistan, Turkey, etc. are gearing their industries to increase garment exports. Non-textile fiber producing countries are also planning to increase their garment exports, often by building backward linkages to improve their delivery lead time competitiveness, e.g. Bangladesh, Madagascar, Mauritius, Sri Lanka, etc. Viet Nam will become a stronger garment exporter once it meets the requirements for WTO membership Eastern European countries (i.e. Czech Republic, Hungary, Poland, Romania, etc.) have all increased garment exports during the last 15 years on the basis of Outward Processing Trade (OPT) work from Western European garment producers. Italy and Germany in particular have built up more competitive garment operations, especially for tailored garments. However, as the EU expands it is expected that manufacturing costs in Eastern Europe will also increase and that these opportunities will only last for a few years. Egypt and Syria have significant indigenous cotton crops that are mainly sold as lint cotton at present.

Both countries are formulating plans to convert more of the crops into value added products. There are a number of smaller garment producing countries in the region with industry profiles similar to that of Cambodia, such as Lao PDR and the Fiji Islands. They have foreign-owned garment industries dependent on offshore owners supplying production orders, fabrics and accessories to fill their stitching capacities. The host countries offer product quota advantages, competitive wages and preferential market access provided by the importing countries, e.g. the US, EU, Canada, Norway, Australia and New Zealand. The host countries include the AGOA and Caribbean countries, LDCs and other African, Caribbean

and Pacific (ACP) countries not included in the other categories. The value to offshore owners of the garment-manufacturing units in some of these countries will undoubtedly change in coming years and this is of concern, especially when considering the future advantages of the Cambodian industry.

8.3: India

Indian's relationship with textiles began as early as 3000 B.C with the use of organic dyes and block prints. Even today, intricate hand weaving, delicate embroideries and richness of fabric like Indian silk and satin attract people from all over the world. According to the authors estimates India's textile and apparel sector equals USD 54 Billion currently (both domestic and exports). This is expected to grow to USD 158 Billion by 2020. With many trading restrictions being removed, technological advancements, availability of multi-fibre based raw material, well established production bases, design capabilities, knowledgeable and skilled labor and various government initiatives, India is poised for tremendous growth in this sector. The Indian Textile and Apparel industry is also experiencing rapid changes and growth following increased consumption. Apparel, today, has the largest share of the modern organized retail in India. Consumers are now pampered with a wide variety in apparel and modern format stores. Increasingly, international and local brands and attractive discount sales are trying to woo the Indian consumers away from traditional stores, the tailor and the large unorganized market (Research and Markets, 2010).

However, the growth potential of the textile and apparel sectors in India has been severely restricted through domestic regulations and international factors including the Multi-Fib rearrangement (MFA). The textile and apparel sectors in India have traditionally been subject to a number of government regulations through reserving parts of each sector for small-scale industry and maintaining employment even at the expense of sharp decline in productivity.

The cotton spinning and weaving activities have also been protected against competition from man-made fibers through restrictions against their imports. The low efficiency of the processing sectors motivates the government to fix quotas on export of cotton, which further leads to lower returns to cotton growers. Such distortions lead to loss of competitiveness of the clothing industry, perhaps the sector, which has the maximum growth and employment potential in a distortion free economy. Apart from having been subjected to a plethora of

domestic regulations and restrictions, the textile and apparel sectors of India's economy have also faced disabilities imposed by regulations imposed on world trade in textiles and readymade garments through MFA since 1974. Under this Arrangement, the developed countries imposed quotas on exports of yarn, textiles and apparel from developing countries.

The MFA has turned out to be an instrument of forced consensus designed to manage textile and apparel trade to the advantage of countries that were fast losing international competitiveness in these lines of production. The developing countries are supposed to have a quota administration mechanism, which would regulate the exports of yarn, textiles and apparel to the MFA listed developed countries.

One of the most important accomplishments of the Uruguay Round was the Agreement on Textiles and Clothing (ATC), which would bring MFA-restricted goods under GATT disciplines. Under this liberalization process, the MFA quota-regime would be gradually phased out during a 10-year transition period commencing from 1995. . The import tariffs are also being reduced on both textiles and clothing and on a wide range of other goods. However, the rates of tariff reduction on textiles are considerable lower compared to most other goods. The MFA abolition offers great opportunities for exporting countries, particularly in South and Southeast Asia, to expand textile and clothing exports and stimulate demand for fibers (Elbehri*et al.*, 1998). The expansion of these labor-intensive sectors is likely to have a positive impact on employment in exporting countries. Tightly restricted exporters like India, Pakistan and Sri Lanka are more likely to be net beneficiaries under the ATC. The less restricted exporters (Bangladesh) or mature markets like South Korea, Taiwan and Hong Kong have large quotas relative to their export levels (Yang *et al.*, 1997; and Martin 1996). India may also gain more than some other textile and apparel exporters from MFA elimination since it has been shown that these quotas tend to discriminate more strongly against relatively labor-intensive component of MFA controlled goods, viz. cotton based fibers, which dominate India's in India's exports (Martin, 1996). Since India has a natural comparative advantage in cotton and cotton-based fibers, abolition of the MFA has an implicit potential to benefit India's cotton industry as well as cotton based textiles and clothing sectors (Elbehri*et al.*, 1998).The World Trade organization (WTO) stipulates that the MFA shall be phased out by the end of 2004 thus integrating trade in textiles and clothing into the General Agreement on Tariffs and Trade (GATT) rules (Chadha et al, 2010).

8.3.1: Readymade Garments: WTO Implications

- Upton 1995, textile trade regulated by Multi Fiber Agreement (MFA) - enabled importing countries(mainly Western) to impose quota restrictions on exports from developing countries
- Quotas imposed on selective basis - India and Pakistan clubbed together with lower quota, Sri Lanka marginally higher quota, Bangladesh with no quota and so on.
- With the formation of World Trade (WTO) in January 1995, MFA replaced by Agreement on Textiles and clothing (ATC); MFA to be phased out over a 10-year period from 1995
- Scope for increased market access during the transition period of 10 - years for products under quota system.
- Market size of quota-imposing countries large - exports could become more competitive.
- Indian exporters stand to gain with the opening up of markets hitherto restricted (India Markets, 2010).

8 .4: Pakistan

Cotton, cotton-related products, textiles, and apparel are important commodities and comprise critical agricultural and industrial sectors in Pakistan and India. A number of key developments are emerging domestically and globally that potential will have profound effects on the cotton–textile–apparel sectors of the two economies. The industries face the challenge of remaining competitive in the context of the elimination of the Multi-Fiber Agreement (MFA) quotas on textile and apparel trade under the World Trade Organization (WTO), the emergence of China as a huge textile and apparel exporter, and new and potential intraregional trade agreements. Implementation of the final WTO ruling against U.S. cotton subsidies, a new U.S. farm bill in 2008, and a possible agreement to multilaterally reduce cotton subsidies and tariffs across the related textile and apparel sectors in the Doha Round WTO negotiations may also affect the cotton and related processing industries of Pakistan and India.

In 2005, the size of the world market for textiles was $203 billion. It has grown strongly in the past 15 years. In the 1990s, the average annual growth of the market was about 5 percent. In 2003 and 2004, its annual growth was more than 10 percent, slowing in 2005 to 3.9 percent. The European Union (EU-25) captures a third of the total world export of textiles. This is mainly intra-EU trade. Its textile trade with the rest of the world accounts for less than 12 percent of the total. China has a rapidly growing share in the world textile market. In 1990, China accounted for 6.9 percent of the world export of textiles. Its exports surged after 2000. By 2005, China had a share of 20.2 percent of the world market. The shares of the other major producers of textile are generally stable, implying falling shares for several other countries. Hong Kong's share, which is mostly due to re-exporting, is about 7percent, and the United States has about the same level. The share of India was about 4 percent in 2005and Pakistan's was 3.5 percent.

In 2005, the total world exports of clothing amounted to $275.6 billion, somewhat larger than the world market for textiles. It is also growing strongly, with an average growth of 8.3 percent in the 1990s, rising to 17.6 percent in 2003, 11.4percent in 2004, and then slowing to 6.4 percent in 2015.

Similar to the world market structure for textiles, the European Union has the largest share in the world market for clothing, and, again, this is mostly intra-EU trade. There is remarkable growth in China's exports of clothing with its share of the world market increasing from 8.9 percent in 1990 to 26.9percent in 2015. India's share is stable at about 3 percent. The share of Pakistan is also stable at about 1 percent.

Three major shifts in the rules have governed the international trade of textiles and clothing during the past 30 years. From 1974 to 1994, the rules set in the MFA provided the parameters for bilateral negotiations of how quotas on textile and clothing trade were determined. Under the MFA, discriminatory quotas were allowed in areas where the increase in imports had the potential to cause domestic market disruptions. The European Union, Austria, Canada, Finland, Norway, and the United States applied quotas exclusively to developing country exports.

With the advent of the WTO in 1995, the WTO Agreement on Textiles and Clothing (ATC) was designed to provide a transitional phase between the MFA and the full integration of the

textile and clothing industry into the multilateral trading system. Under the ATC, Canada, the European Union, Norway, and the United States retained some quota restrictions until January 1, 2005, when the quotas on textile and clothing trade were lifted and replaced by tariffs only.

Before the lifting of the quotas, a number of studies estimated the potential effects of liberalized international trade of textiles and clothing. Nordias (2004), for example, argued that China and India would come to dominate world trade. The share of China alone was predicted to reach more than 50percent during the post-ATC period.

Although the world share of India has not shown significant enlargement thus far, India's share in the world market will likely improve in the near future with the surge in cotton production because of the implementation of the Bt. cotton program and the ongoing policy reforms in the textiles and apparel sectors in India (Bedi and Cororaton, 2008).

Martin (2004) examined the possible effects of quota elimination on Pakistan and argued that improvement in productivity is the key issue if Pakistan is to gain shares in the world markets. This is because the international markets will be more price responsive after the abolition of the quota. This will present opportunities for suppliers with high productivity, whereas suppliers that lose competitiveness can expect to suffer losses in market shares. Thus, for Pakistan, Martin concludes that "raising productivity—either by improving the efficiency of the production process or the range and the quality of the products produced—is key to reaping the benefit from the abolition of the MFA." The same implication may hold for India as well.

Even with the abolition of the MFA, Pakistan's exports of textile yarn, fabric, etc. that goes to the restricted markets have not declined relative to its overall exports of these items. Data shows that the share of Pakistan's exports of textile fibers that go to markets of the European Union, United States, Canada, and Norway has declined from 34.4 percent in 2002 to 20.7 percent in 2016. This is due to Pakistan's efforts to increase value added by processing fibers into yarn, fabric, garments, and textile made-ups .However, the shares of textile yarn, fabric, etc. and clothing and accessories remain high. The combined ratio increased from 52.9 percent in 1990 to 70percent in 2005 and 68.6 percent in 2016. This indicates that Pakistan remains particularly competitive in some specific textile product lines.

8.5: Sri Lanka

The garment industry in Sri Lanka expanded rapidly after the liberalization of the economy in 1977. During the 1990s, the garment industry grew at 18.5 per cent per annum. The export-led expansion of the industry led to the replacement of tea by garments as the nation's largest foreign exchange earner. Moreover, the industry has been contributing to the livelihood of nearly 1.2 million people. However, the boom period for the industry is gradually coming to an end, with the quota system having ended on 1 January 2005, regional trading blocs and bilateral free trade agreements proliferating and governing nearly 33 per cent of global trade, and China emerging as major supplier of garments at very competitive rates. The Sri Lankan garment industries now gearing itself to face these challenges.

The Sri Lankan garment industry not only needs to become competitive to face the post-2004 quota-free global challenges, but also has to take cognizance of the new trends in the global trading environment. There are new trends in the European Union and United States markets, while the emergence of China as a significant global suppliers also an important issue.

Sri Lanka gained quota-free status entry to the European Union market in March2001, with the expectation of increased garment supply to that market. Sri Lank currently faces competition in the European Union market from (a) least developed countries (LDCs), such as Bangladesh, which has duty- and quota-free access to the European Union under the Everything-But-Arms (EBA) scheme; (b) African, Caribbean and Pacific (ACP) countries, which enjoy preferential market access to the European Union under the Cotton Agreement; and lately, Eastern European countries, some of which have become European Union members and to which some European garment factories have relocated to exploit cheap labor and proximity to their market. A comparison of Sri Lankan export performance with other countries' export performance in that market during 2000-2003 does not provide strong evidence that the quota-free-entry has resulted in significant gains for Sri Lankan garment exports (Kelegama, 2004 ed.). It appears that the window of opportunity for European Union market consolidation has been lost because of the relatively late quota-free entry.

However, Sri Lanka has gained from a reduction by the European Union of GSP rates for Sri Lankan garment exports. Sri Lanka has managed to maintain relatively high labor standards in factories to convince European Union inspectors that working conditions in factories are

relatively satisfactory. There are doubts whether these concessions would be significantly beneficial given the fact that GSP concessions are conditional on fulfilling the SAARC rules of origin (RIS, 1999).

After the enactment of the Trade and Development Act of 2000, the United States adopted the Caribbean Basin Trade Partnership Act (CBTPA), the Andean Trade Preference Act (ATPA) and the African Growth and Opportunity Act (AGOA) in 2001-2002. Under these acts, garment exports from Caribbean, Latin American and sub-Saharan African countries are entitled to quota-free and preferential duty entry to the United States market after fulfilling certain conditions. These conditions are mainly related to selected textile and garment articles and fulfilling the applicable rules of origin(or reverse preferences) involving the use of United States fabrics and other inputs, which the United States demands as a *quid pro quo* and is known as the "yarn-forward rule".

There are mixed views as to the effectiveness of these arrangements. Wholesome critics claim that the built-in reversed preferences governing these agreements have nullified the preferential advantages (Bhagwati, *The Economist*, June 2002), others have argued that, despite the reverse preference conditionality, there are overall gains from these agreements (UNCTAD, 2003; Mattoo et al., 2003). In fact, a number of Sri Lankan garment entrepreneurs have set up businesses in Mauritius, Madagascar and Kenya as well as other African countries to exploit the advantages of AGOA, just as East Asian quota-hopping garment manufacturers did in Sri Lanka in the late 1970s to gain the quota advantage there.

The United States departure from multilateralism is not confined to these arrangements. Of late, the United States has been offering bilateral agreements to various countries on the basis of "WTO-Plus" considerations. Chile, Singapore and Jordan have already completed bilateral free trade agreements (BFTAs) with the United States. These agreements were signed on the basis of initial agreements called trade and investment framework agreements (TIFAs).

Sri Lankan garment companies hold the view that, if a United States-Sri Lank bilateral free trade agreement can be worked out any time soon, Sri Lanka could consolidate its garment export share in the United States market (2.7 per cent of United States garment imports in 2003 were from Sri Lanka, and 63 per cent of Sri Lankan overall garment exports are

destined for the United States market) and thus could face the post-2004 challenges more effectively.

In July 2002, the two countries signed a TIFA and since then substantial groundwork has been done to convert the TIFA to a full-fledged bilateral free trade agreement. Sri Lanka's enthusiasm for a bilateral free trade agreement with the United States was such that, at the Fifth WTO Ministerial Conference, held in Cancun, Mexico, the country departed completely from the position of the developing countries on some issues and supported the position of the United States (Kelegama and Mukherji, 2003). Obviously, it was a *quid pro quo* to expedite the possible United States-Sri Lanka bilateral free trade agreement.

What is clear is that a United States-Sri Lanka FTA has been delayed owing to the fact that 2004 was an election year in the United States with the political establishment under pressure for more protectionist measures by the clothing sector, and it was also an election year in Sri Lanka with considerable political instability. The disaster that resulted from the December 2004 tsunami may lead to further delays as immediate government priorities lay elsewhere. Such delays may lead to the conclusion of an FTA that may be too late to be of significant assistance, similarly to the European Union quota-free status mentioned above.

The Indo-Sri Lanka Bilateral Free Trade Agreement went into effect in March2000, and one objective of this Agreement was to afford Sri Lankan garment export opportunity to diversify and capture a share of the Indian market. However, given the various para-tariffs and specific duties operating in that market and the rules of origin governing the Agreement, Sri Lankan garments have not been very competitive, to the extent that only a small number of garments have been exported to India and the quota under the ILBFTA remains significantly unmet (Kelegama, 2004, ed.).

China's threat to garment exports from other developing countries is important and cannot be set aside. The World Bank has predicted that China's share of garment exports in the world will rise to 50 per cent by 2016. In other words, Chinese exports are expected to double in six years, mostly at the expense of other developing countries. Already, the rapid rise of China's garment exports in particular categories after earlier quota removals has demonstrated how China could swallow up the share of garment exports of other developing countries.

In addition to possessing a low wage rate per worker, China benefits from a disciplined workforce, economies of scale through large-scale production, and the presence of many transnational corporations (TNCs) in the garment industry. Moreover, upon its accession to WTO in December 2001, China enjoys MFN status for its exports – a privilege that did not exist before. The number of product items under quota in China amounted to 20 per cent of Chinese garment exports before 1 January 2005, which is a large number.

Thus, it is believed that there will be significant dominance by Chinese clothing in the post-2004 period. However, it has also been argued that the threat from China may be exaggerated. First, it is argued that, with WTO entry, China will have to become money-transparent and some of its past practices to maintain low cost of production may have to be abandoned. Consequently, the low cost advantage may become somewhat eroded (RIS, 2002). It is also argued that, although labor wages in the provinces remain low, there has been a significant increase in wages in the eastern coast, where the key garment producers are located. Monthly wages in some of these factories exceed US$90, which is higher than the monthly wages in Indonesia, Bangladesh, Viet Nam, India and Sri Lanka.

Secondly, there is a view that the United States and the European Union will have significant control over the expansion of Chinese garments in their respective markets because of two prevailing legislative regulations: (a) the safeguard regulation from 2005-2008; and (b) the anti-dumping regulation from 2005-2015.

It is argued that both of these regulations will give the United States and the European Union significant power to guard against a sudden influx of Chinese garments and thus preserve the existing foothold of other developing countries in the United States and European Union markets. It is also argued that the United States may exert pressure on China to revalue its currency – the yuan – as in the case of Japan in 1971. Are valuation of the Chinese currency would further erode the competitive price advantage of Chinese garments.

It is difficult to exactly say what threat China will pose to a garment exporter in Sri Lanka. At least from the Sri Lankan experience thus far, the threat seems to be real. Three items – bag and luggage (670), W/G [Women's or Girls'] Coats (835), W/G Suits (844) – that were removed from the quotas in January 2002 went completely out of production by mid–2003

owing to competition from China. Two leading producers of some of the above-mentioned items, which employed a large number of people, had to close down consequently.

The prevailing uncertainty has been aggravated by the WTO Agreement on Textiles and Clothing (ATC), which stipulates the phasing out of the MFA. Developed countries did not strictly adhere to the phase-out mechanism of the MFA, however. For instance, by 1 January 1998, compared with the target of 33 per cent of product integration, the United States and the European Union had integrated only 1 per cent and 7 per cent, respectively (ESCAP, 2000, p. 71).

Moreover, developed countries have exploited a loophole in the MFA, where the ATC does not impose any obligation on countries to limit their integration to particular products subject to restrictions. Therefore, Sri Lanka will not feel the full impact of the final phasing out of the MFA until early 2005.

It has been estimated that the items for which restrictions were relaxed in 2002constituted only about 4 per cent of all restricted products exported by Sri Lanka to the United States. The remaining 96 per cent were under restraint until end-2004 (Weerakoon and Wijayasiri, 2004). Thus, a sense of complacency crept in among garment companies towards making the required adjustments, although this changed somewhat after the social engineering process that started after mid-2001 and may change altogether in the course of 2005.

An earlier study highlighted the fact that nearly 40 per cent of Sri Lankan garment producers will go out of production after 2004 (Kelegama and Epaarachchi,2002). The study argues that a number of new mergers and acquisitions will take place in the industry. Some large producers may resort to subcontracting through small units, while small units that fail to obtain orders will have to close down. To support small and medium-sized units in the garment industry, the Government has launched a credit guarantee scheme, as proposed in the 2004 Budget. Under this scheme, loans could be obtained without collateral.

In its Five-Year Strategy, it is argued that Sri Lanka should now shift from the low end of the market to the middle and upper levels. Currently, only 10 percent of local manufactures end up in specialty brands, while 50 per cent is taken by foreign department stores and the balance by foreign discount stores. During the five year period ending in 2007, the industry

plans to increase penetration into specialty stores by 20 per cent and department stores by 60-70 per cent and reduce the dependence on discount stores by 10-30 per cent.

The plan outlines a format for achieving these objectives with a detailed discussion on: (a) a strategic framework for implementation; (b) a strategic initiative and relevant action plans for the industry; (c) an additional strategic initiative in support of small and medium-scale enterprises; (d) implementation plans; and (e) cost estimates for the strategic plan. The industry has formed eight committees to look into various aspects of the industry: (1) bilateral and multilateral issues; (2) marketing; (3) logistics and infrastructure; (4) backward integration; (5) small and medium-scale enterprises; (6) human resources, technology and productivity; (7) labor; and (8) finance. The government has allocated Rs.100 million to increase productivity in the garment industry through the Five-Year Strategy.

The Sri Lanka Joint Apparel Association Forum coordinates the strategy management. The Association has hired a number of experts to coordinate and support its work. Although strategies have been implemented to face the post-2004 challenges effectively, the debate goes on for the post-2004 scenario – both optimistic and pessimistic views have been voiced. Optimists, such as the Central Bank of Sri Lanka, have put forward the following viewpoints: first, it is stated that, since 12 per cent of the garment manufacturers control 72 per cent of exports, there are reasons to believe that these top-end factory units are well established; commanding market niches and thus well placed to meet the post-2004 challenges.

Thus, it is argued that these top-end manufacturing units can absorb some of the smaller factories and expand their production to be competitive in the market. Secondly, it is argued that the non-quota exports at present amount to 47 per cent of garment exports; thus, a quota phase-out will not create a serious problem. Thirdly, it is argued that, if the high end of the market could be captured by producing value-added garment products – which larger units have done– Sri Lanka need not worry about competing in the world market.

While one can agree with the first point, there are serious reservations about the others. First, it is inappropriate to form a judgment based on increasing non-quota exports because what is a non-quota product for Sri Lanka may be under quota for another country, such as China. The performance of such a non-quota product when the same product comes out of quota in China – at least if one goes by past experience –may not be positive. Second, the top end of

the market is equally competitive; other countries that see their quotas in this segment removed will also be aiming at this segment and competition would therefore intensify at this end of the market as well. Sri Lanka will face an uphill battle to be competitive at the top end of the market (Fonseka, 2004).

The pessimists, on the other hand, argue that whatever the percentage of exports that is controlled by the top 12 per cent firms, the garment industry as a whole is not competitive enough to show a solid performance in the post-2004 period (Fonseka, 2004, and others). From the global demand front, it is said that the threat from China will be overwhelming. Moreover, it is argued that the share controlled by other Asian countries is expected to shrink from the current 32 to 20 per cent by 2016.

Consequently, there will be competition among Asian countries to capture part of this shrinking share and in that process Sri Lanka may not necessarily be a winner. Furthermore, inadequate preparation for the post-2004 period due to the back loading factor of the MFA phase-out is also highlighted by the pessimists. From the domestic supply side, the inadequate development of backward linkages, weak forward integration, low labor productivity and increasing production costs, inter alia, are pointed out by the pessimists to highlight the lack of competitiveness. Those who argue along these lines assert that at least 100,000 workers will lose their jobs and various new mechanisms will have to be devised to look after those displaced from the garment industry.

A mixed picture emerges from current trends in the garment industry. On the negative side, it is observed that, out of the 859 firms operating in 2001, about 150 had closed down by mid-2002.20 Garment factories are experiencing a shortage of labor due to the poor working conditions and accommodations prevailing in some of the factories.

In 2003 and 2004, garment exports have shown a decline in performance compared with the year 2000. On the positive side, the top 12 per cent of factories are performing well, there has been an increase in the number of international orders, and a number of foreign garment companies, such as Levis, are opening factories in Sri Lanka. Given the strong foundations of the garment industry, Sri Lanka still has a chance of being a supplier of choice in the major international markets; however, to retain such a position, substantial restructuring is essential. Thus, irrespective of the current mixed picture, there is an urgent need to restructure the

industry to face thepost-2004 period without complacency about a possible United States – Sri Lanka FTA that will come to Sri Lanka's rescue, or that the ATC will not be implemented properly after 2004, owing to concerns in the European Union and United States markets (Kelegama, 2005).

8.6: Cambodia

The Cambodian garment industry has developed extremely rapidly within the last 10 years, from a very minor presence in 1995, to become the major manufacturing activity in the country by the late 1990s and early 21st century. In 2003, the garment industry's estimated value added of almost US$500 million accounted for around 12% of national GDP. The garment industry has an estimated 230,000 employees of which 85-90% is female and in the age group 18-25 years. This accounts for around 65% of total manufacturing sector employment. The estimate of 230,000 persons employed directly in the industry can only be an approximate figure since numbers vary considerably during the course of each year as much trade is seasonal. For a number of companies, for example, if the high season requirement were for a 100% workforce, then the low season requirement is only 60% of that number. The work patterns during the low season are met by arranging for some workers to return to their villages for an extended stay, at retainer wages, by releasing contracted workers at the end of their contracted periods, or by letting permanent employees leave the companies. In addition, there are many indirect jobs associated with the garment industry – perhaps as many as 150,000 related jobs.

The garment industry is estimated to have 196 companies in early 2004, located mostly in Phnom Penh and its suburbs with a few in Sihanoukville, near to the main port, and in Kompong Cham. Fifty-six companies are reported to have closed down since the mid- 1990s, so the total number of companies entering the garment industry has been 242. In addition, there are estimated to be a large number of small cottage industry sub-contracting companies that provide extra sewing capacities during peak demand periods. The industry is virtually 100% foreign owned, with most of the decision takers based in East Asia from where production orders are received, together with the fabric, accessory supplies, and delivery instructions. The foreign owners usually have similar stitching units in other Asian countries and decide in which of their units to have garment orders made-up according to quota availability, product quality, manufacturing costs, and delivery lead time.

The attractiveness of Cambodia for foreign direct investment in the mid-1990s was due to the competitive wage cost, no restrictive quotas into major global markets and GSP access to the EU market, with the added advantage that quota premiums that had to be paid in most competing countries were not paid in Cambodia. Consequently, Cambodia had cost competitive advantages over many other countries. As a result, the EU was the main market in the early years. Subsequently, even when some quotas were applied, preferential access to the US market was offered and exports to the US increased significantly.

The garment industry is dependent almost completely on imported yarns (for knitwear); finished woven and circular knitted fabrics (for woven and knitted cut and sew garments); all accessories and almost all packing and presentation materials. The domestic material content is limited to some cardboard cartons and poly bags. As a result, the total average domestic added value content in 2003 was about US$ 442 million, i.e. the difference between the value of exports and imports. Expressed as a percentage of exports, this domestic value added content amounted to 28.6%. The garment industry is considered one of the most compliant in terms of labor practices and Cambodia has been awarded incremental increases in quota allocations by the US government (an additional 14% in 2004 of a possible increase of 18%).

The main challenge that the Cambodian garment industry is likely to face in the changing market environment.

Cost: Cambodian exporters have nothing to gain from the ending of quotas, since they presently do not pay quota premiums. Effectively, those competitors where quota Premiums are now paid will enjoy cost reductions.

Import prices: Until Cambodian companies take responsibility for their own future development, realize the necessity of understanding the global market and of offering more specific products/service to the markets with precise strategies, it is difficult to see how Cambodia's garment industry performance in terms of realized prices in the major markets can be improved.

- Competing countries with integrated textile operations will be better positioned in global markets in terms of lower costs (no transport costs for imported materials);

reduced lead times (better shipping schedules) and greater manufacturing flexibility (domestic supplies).

Lower labor productivity levels in Cambodia increase manufacturing costs through lower production, lower quality, and higher material consumption.

- Shipment delays and additional costs caused by bureaucracy, including corruption, contribute to reducing competitiveness of the garment industry in an increasingly competitive market.

The presumed strengths of Cambodian garment exporters, e.g. lower costs, market access, quality producers, and high levels of labor compliance, will still exist but are of reducing interest in the new global market as other countries develop these same Strengths and also have other advantages.

- The overall impact of the new global market environment on Cambodia's garment Exporters are expected to be a reduction in exports, re-trenched workers with no alternative job opportunities, and a downturn in the national economy. Urgent action is needed now to prevent this from happening.

The global textile and garment industry has expanded continuously to meet the demands ofa growing world population with increases in standards of living worldwide and diversification of end-use applications. In 1950, for example, the consumption of fiber by the world's textile mills was 7 million tons – and that increased to almost 55 million tons in 2003. It is interesting to note that polyester, first discovered by The Calico Printers' Association in Manchester, UK in the early 1950s, now represents about 65% of total fiber consumption, i.e. about 36 million tons.

The principle end-use applications for textiles fifty years ago were in the manufacture of garments (about 84%) and home textiles, e.g. bed linen, furnishings, towels, etc., (about12%) whilst other end uses represented some 4%. Today, one of the key growth areas for textiles is in industrial textiles, e.g. fabric substrates for the production of shoes, airbags for cars, buses, etc., and in technical textiles, e.g. geo-textiles, agro-textiles, and construction textiles.

The Multi-Fiber Arrangement (MFA) was introduced by the major, high cost textile and garment industries in the late 1960s–early 1970s as a means of protecting their declining textile industries by restricting imports from the then established textile and garment exporting countries, e.g. China, Egypt, Hong Kong, India, Republic of Korea, Pakistan, Taiwan, Thailand, Turkey, etc. The quantitative restrictions, known as quotas, were introduced through bilateral negotiations or, if discussions failed to reach agreement, restrictions were imposed unilaterally. The objective of the quotas was to enable the textile and garment industry capacities in the higher cost countries to be reduced at a controlled rate. This reduction has taken place over the last 30 years.

One of the apparently incidental results of the MFA has been the transfer to, and growth of textile and garment industries in, many countries that previously had no significant textile or garment manufacturing traditions and, therefore, also had no restrictions on their exports.

These countries include Bangladesh, Indonesia, Malaysia and Sri Lanka. Cambodia is one of the later entrants to the global export market with garment export sales first recorded in the middle 1990s. Cambodian garment production, while critical to the economy of Cambodia, remains relatively small in global terms with about 0.3% of garment production worldwide and 0.7% of global foreign trade, by value, based on WTO data.

In 1995, the Uruguay Round of negotiations was concluded and the stage set to enable all world trade to return to the General Agreement on Tariffs and Trade (GATT). This involved replacing the Multi-Fiber Agreement (MFA) with the WTO Agreement on Textiles and Clothing (ATC). The ATC is based on a non-extendable 10-year transitional program for the removal of all quotas by 1 January 2005. The critical aspects of the ATC were that the higher cost countries' importers had a further 10 years in which to make the needed commercial, industrial and social adjustments in reducing their production capacities and that the exporting countries had the same 10 years in which to prepare their business strategies to be competitive in the new market situation.

The completion of the Uruguay Round of negotiations resulted in an agreement to integrate trade in textiles and clothing into the GATT/WTO. In 1995, the Multi-Fiber Agreement (MFA) was replaced by the WTO. The Agreement on Textiles and Clothing (ATC) is based on a non-extendable 10-year transitional program for the removal of all quotas by 1 January

2005.Liberalization has proceeded along two paths. One concerns integrating textile and clothing trade into the WTO framework and the other is related to the application of accelerating growth factors for MFA quotas.

The ATC is binding only for WTO member is subject to the same set of rules and a single system of resolving disputes, which is applicable to all WTO Agreements.

The ATC calls for a gradual phase out of the quota restrictions carried over from the MFA regime. Products covered by the ATC have been integrated in three stages and the percentage of products that must be brought under GATT rules are specified for each step. If any of these products come under quotas, then the quotas must be removed at the same time. In these three stages, the quota growth rates increase progressively from their base levels by increasing annual growth rates at each stage. Products brought under GATT rules at each stage were required to cover the four main types of textiles and clothing: tops and yarns; fabrics; made-up textile products; and clothing.

The key date for the garment industry worldwide is 1 January 2005, by which time MFA quotas will be finally phased out. Despite the ending of the quota system, countries that are members of Free Trade Agreements (FTAs) and Regional Trade Pacts (RTPs), e.g. EU, NAFTA, SAARC, and ASEAN, will continue to enjoy market entry advantages through zero rated import duties that may not be available to non-members, and preferential access will still be provided by the major market countries to less-developed countries. In addition, some non-tariff barriers will be applied by buyers when selecting their preferred suppliers, depending on employment conditions, child labor, social compliance, the levels of service provided, delivery reliability, protection of the environment, etc. Safeguard measures can still be applied for some periods of time in the event that free trade would significantly disrupt markets. Additionally, buyers are showing preference for garment suppliers that have either their own or domestic material supplies, through integrated or partially integrated textile value chains, so that lead times may be reduced and delivery times are more likely to be honored. Speculations on the implications of the ending of the quota system have been widespread and any firm conclusions must be treated with care, except that quotas will definitely end on31 December 2004. As pointed out in Van, 2003, “a magma of confusion still reigns supreme” despite many meetings of industry stakeholders and studies.

Nevertheless, by linking the ending of the quota system with the following garment industry trends, some useful insights can be derived:

- Cost competitiveness will continue to be a key factor as garment prices are expected to continue to fall after 2004.

- Buyers are requiring faster deliveries to meet increasing levels of consumer demand and ever decreasing product cycle times. This will place greater emphasis on countries that have more complete supply chains and are able to meet these increasing demands. It is noticeable that many garment supply countries have recently made strategic investments to ensure that their supply chains are 'complete'.

- Buyers want business to be as straightforward and uncomplicated as possible. They will have a greater choice post quota and they will buy from preferred suppliers who offer consistent quality, reliable delivery, competitive prices, and productivity levels at international standards. Buyers will seek greater value-added service requirements.

- ·Foreign investors will have more freedom in where to place their offshore investments and prefer host countries that enable them to operate successfully with minimum complications.

- ·In general, the global garment market has been demanding higher levels of (a) personal service, (b) quality consistency, (c) delivery lead times, (d) product innovation, (e) price competitiveness, (f) reliability, and (g) country image (including compliance with corporate codes of conduct).

Given these general trends and the ending of the quota system, it is highly likely that certain predictable changes in global demand and supply will be observed, and that the resulting major changes in demand and supply will benefit some countries but badly affect others.

In this instance, those that benefit will be garment manufacturing companies in countries that have preferential market access and meet buyer requirements in terms of service reliability, quality, production flexibility, lead times for initial and repeat orders, and can demonstrate

that they understand the market's needs with targeted new designs. In particular, the strong traditional textile and garment exporting countries, e.g. China, India and Turkey, whose exports have been restricted by quotas negotiated with the importing countries, will be able to increase their exports provided they are competitive. Garment exports will increase, but textile exports probably will not increase since the intention will be to convert as much as possible of textile production into exportable garments and home textiles. New textile and garment exporting countries, e.g. Bangladesh, Cambodia and Lao PDR, will be able to further increase exports, mainly of garments, provided they can offer customers high levels of service, quality and consistency, and meet market demands in terms of both prices and lead times. In the case of Cambodia and Lao PDR, it is perhaps the latter point that will be the major challenge since garment companies in countries with primary textile capacities will be in a better position to source materials domestically and supply garments more quickly.

Companies without domestic fabric suppliers will be at a disadvantage. Those most badly affected will be companies in higher cost countries that are no longer cost competitive. As quotas come to an end, more textile and garment production capacities will close down in the higher cost countries and garment imports, together with home textile (bedlinen, towels, furnishings, table linen, etc.) imports, will increase. In addition, textile imports will decline since there will be less manufacturing capacity remaining in these higher-cost locations that use textiles as raw materials. The residual industry in the higher cost countries will produce niche, specialty or technical products that need to be close to the markets.

Also among those badly affected will be companies in lower cost countries that are unable to serve buyers satisfactorily. Some garment companies that have been regular suppliers to the markets under the quota regime will fail in the new market environment, as their strengths until now have been geared to their 'ownership' of annual quota allocations and not to serving their customers(Ministry of Commerce, Kingdom of Cambodia, 2004).

8.7: Vietnam

Textiles and garments is one of Vietnam's most important export sectors. With 2 million workers, a quarter of all industrial employment and 2,500 enterprises, the textiles' and clothing industry represents a key source of industrial employment, especially for women, and is a leading industry for overall growth and industrialization.

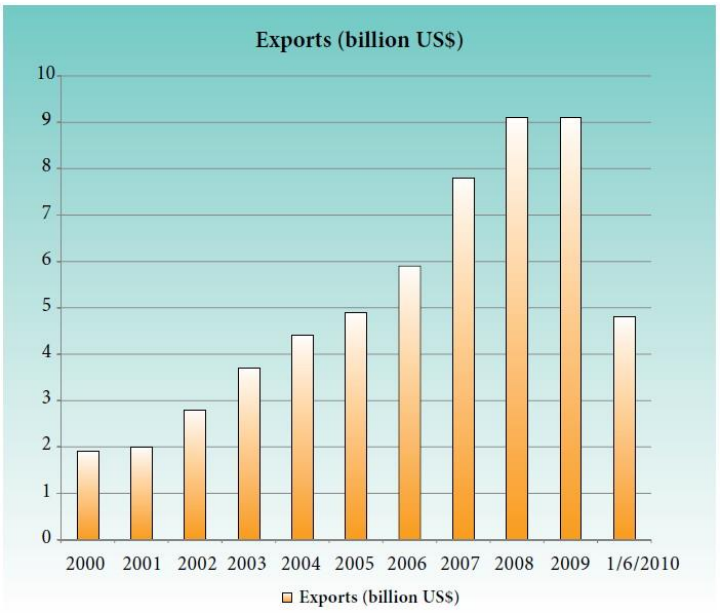
After Vietnam's accession to the World Trade Organization (WTO) in January 2007 and the resultant strongly increasing exports, Vietnam's textile and garment industry, the country's largest foreign currency earner, did struggle in 2009. Vietnam - with export value of 7.8 billion US$ in 2007 (doubling that of 2004) - has accomplished the 9th position among the top world exporters of textiles and garments.

Although 2009 began relatively slowly for Vietnam's garment and textile exporters, the performance for the second half improved to the extent that export volume for 2009 as a whole was the equal of 2008's. Many textile and garment exporters were trying to expand the export markets to Middle East, Eastern Europe, South America and Taiwan. Growth has been staggering over the past 10 years, averaging 20% annually in value terms.

Vietnam's export of textiles and garments achieved 4.8 billion US$ during the first 6 months of the year 2010, up 18% in comparison with the same period in 2008 and expected to reach US$ 10.5 billion for 2010 and US$ 25 billion in 2020.

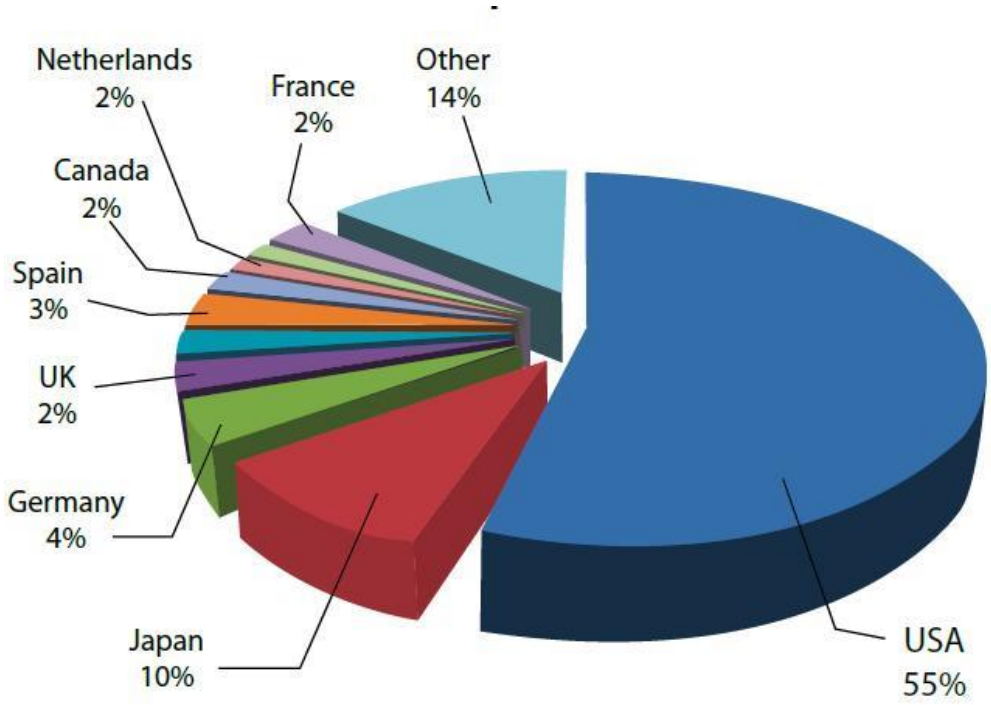
Major importers of Vietnam's textiles & garments are the US with nearly US$ 5.0 billion in 2009, accounting for over 50% of Vietnam's total export value of this product; Japan follows at US$ 954 million, then Germany at US$ 394 million (Vietnam Trade, Govt. of Vietnam, 2011).

Figure- 8.1: Exports of Textiles and Garments (2000-6/10)



(Source: General Department of Vietnam Customs)

Figure- 8.2 : Vietnam's exports of textiles and garments by 10 main Exports markets (2009)



(Source:General Department of Vietnam Customs)

8.8: Mauritius

The starting point for growth of the Mauritian garment industry was the Lomé Convention in the early1980s when 63 African, Caribbean and Pacific (ACP) countries were given quota/ duty free access to West European markets. Mauritius was the first of the countries to take advantage of this, especially with flatbed knitwear garments (sweaters, jumpers). For the last several years garment exports have been around US billion.

The garment industry employs about 80,000 workers of which 15% are expatriates from China, Mongolia, India and other countries, as local females prefer to work in the tourist industry. It is estimated that the 14% of expatriate workers generate 40% of exports by value as they elect to work the maximum hours possible to earn more money. However, shipping lines call at Port St Louis irregularly and this creates problems for shipments and tight delivery schedules. Local and foreign investors united in the beginning to set up joint ventures, based largely on used plant transferred from Europe. A few vertically integrated

cotton spinning, weaving and processing businesses were established, as well as some spinning, circular knitting, knit fabric processing and garment units, but finished fabrics were increasingly imported to feed into additional garment companies. The knitwear companies invested backwards as far as long staple spinning to produce knitwear yarns.

In 1990, labor costs were rising and domestic labor was reluctant to work in the garment industry, so many business people decided that there were better opportunities in Madagascar and Southern Africa, where labor costs were lower. A number of companies transferred plant but found low productivity, combined with apolitical crisis that did not augur well for the future.

When the African Growth Opportunities Act (AGOA) was signed in 2002, Mauritius developed a new textile policy that included incentives to investors setting up spinning and other textile activities, in order to qualify for AGOA country of origin. The Mauritian Government is actively seeking backward linkage investors to ensure that garment companies have materials supplied domestically within short time frames.

Summary and Conclusion

The Multi-fiber Agreement (MFA) was approved by the General agreement on Tariff and trade (GATT) in 1974 to regulate most of the world trade in textile and clothing. The primary objective of GATT was to institute a system of non-discriminatory free trade based on negotiated range of tariff structures. As per decision in the Uruguay Round, MFA was abolished from 1st January, 2005.

Taking advantage of MFA quotas, Bangladesh's export of apparel items, popularly known as readymade garments (RMG) in the country has flourished. Almost an unknown commodity in the 1970s and early 1980's RMG exports rose to its position of prominence within a short span of time. The growth of clothing export of Bangladesh was largely attributed to the reserved market status in North America under the MFA and to a generous Generalized System of preference (GSP) facility that allowed duty-free and quota-free market access for T & C products of LDCS to the European Union.

Till the conclusion of Uruguay Round multilateral trade negotiations, international Trade in Textile and Clothing (T&C) was outside the ambit of the GATT rules. Developed countries were able to obtain special concessions in the various rounds of GATT. It allowed them to significantly restrict entry of T&C from the developing countries in their markets.

More developing countries appeared in the global scenario as producers of T&C. It was of major concern to the industrialized countries also as 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 jurisdiction of restrictions virtually all types of T&C. The main point was that the exporting countries could capture the rents originating from the restricted supplies. Though in return they had to agree to accept the quantitative limits dictated to them under bilateral quota agreements.

It is to be noted here that the MFA and countries such as Japan governed not all trade in T&C 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.

The key feature of the quotas imposed under the MFA is that they are imposed only by a subset of countries, and only on exports from a subset of exports. For an individual exporter, the impact of these quotas is to restrict access to the MFA importer markets, and to encourage diversion of its from these restricted markets to other, unrestricted, markets. An important feature of this policy regime is that the importers allow the exporters to allocate the quotas, and hence to benefit from the higher prices in the restricted markets. This is perhaps because the original system of quotas from which the MFA evolved was of such doubtful legality under the GATT.

The Multi-Fiber Agreement was set up in 1974 as a set of formal quota agreements and restrictions, governing textiles and the clothing trade between developing countries and the developed world. The MFA replaced the 1964 Agreement in International Trade in Cotton Textiles. There are a number of reasons cited for the introduction of the MFA, although the most widely accepted is that of the developed world using it as a form of protectionism to secure their own textile industries against the threat posed by low-cost competition from less developed countries.

The presence, or the continuing threat, of export quotas reduces the opportunity for developing countries to use the relative ease of adopting new technology in the clothing sector as a first step on the ladder of economic development. At the other end of the product life cycle, it encourages economies like Hong Kong, whose natural comparative advantage in this labor-intensive industry has largely gone, to continue in production because of the quota rents that are available to incumbent exporters.

There is indeed an urgency to act fast in addressing the priority policy and institutional constraints to improving Bangladesh's overall competitiveness and that of the RMG sector. All economically sensible options to further improve competitiveness of the RMG sector. All economically sensible options to further improve competitiveness of the RMG sector need to be pursued. Bangladesh cannot afford to (and should not) let the RMG sector lose its international competitiveness. The fact that RMG exports make up over 80 percent of the

total export basket gives rise to certain vulnerabilities under the post-MFA global regime. Export concentration, in and of it self, presents a diversification challenge. But with the phase out of the MFA, and the consequent competitiveness pressures on the RMG sector, export diversification takes on new meaning for Bangladesh which must count on superior export performance in the medium-to longer term for sustained high growth and reduction of poverty, if the RMG targets on poverty and human development are to be attained.

But domestic policies and the physical environment can be shaped, for positive results. Given Bangladesh's export concentration in RMG, a two-pronged approach is essential to meet the post-MFA challenge: (a) addressing and removing overall constraints to export competitiveness to unleash forces of export diversification; (b) focusing on the key policy and institutional constraints relating specifically to the textile-RMG sector in order to seize opportunities for market expansion abroad and job creation at home. World Bank's (2005a) just completed Growth and export Competitiveness Study was a response to the first challenge.

The present study relates to the second and tries to identify the critical constraints to competitiveness of RMG sector and recommends strategic policy options available with the public and private sectors to ensure competitiveness of RMG exports in order to retain and augment Bangladesh's market share in the global marketplace.

The World Bank (2015) report examined export competitiveness challenges in a broader context, and was able to identify the generic as well as product specific constraints that undermine export competitiveness-due to policy, institutional and infrastructural bottlenecks. The study revealed a number of key cross-cutting "Behind-the-border" constraints to export competitiveness. These include weaknesses in economic governance and transport-telecom-port infrastructure; high cost of finance; cumbersome import regime and dysfunctional duty drawback system; product quality, consistency and standardization problems, poor labor skills and low productivity. The present study takes on board of findings and critical recommendations of that report before charting out a menu of strategic options for the RMG sector under the post-MFA regime.

(a) A globally competitive RMG sector is also key to poverty reduction.

(b) Trade in textile and clothing (T&C) products has been managed under Multi-Fiber Arrangement (MFA) since 1974.

(c) The world export of apparel more than doubled between 1993 and 2015, rising from about $90 billion to $288 billion.

(d) Preferential market access and ATC led to the allocation of important economic and human resources for export production.

(e) Model predictions versus actual performance.

(h) Many of the weaknesses of the RMG sector are due to cross - cutting infrastructure and governance related problems

(j) No doubt unfolding global economy will impose harsh disciplines on the economy; but there will be also opportunities for competitive sectors

(k) The effects of quota abolition will, in the final analysis, depend on the competitive strength of the sector

(l) Most analysis regards Bangladesh as 'vulnerable

(m) The Chinese price reduction reflects the elimination of quota premium.

(n) The final impact of quota abolition on individual countries depends on an array of factors in a complex way.

(o) Bangladesh has achieved a global reputation as a reliable supplier of low-value basic items of apparel.

(p) There is a suggestion that the government should actively pursue policies to quickly increase the capacity of the woven PTS such that they can meet the entire demand for woven garments.

(q) Past experience suggests that trade preference given to the LDCs by the developed world can play an important role in promoting their exports.

(r) Most of the woven RMG exports to EU do not qualify for duty-free entry as they do not meet the rules of origin.

(s) Under the existing rules of origin exports of RMG products made from imported fabric could access duty-free facility under EBA only through regional accumulation.

The above discussions clearly suggest evaluating the initiatives taken by the WTO in order to increase export of RMG from Bangladesh. Generally speaking, this type of evaluative study has not been comprehensively studies up until, in Bangladesh. Such analysis is essential for two reasons; first, in the export list, Bangladesh is heavily depended on single (RMG) commodity. Any adverse impact by the WTO initiatives may here stupendous impact to the Socio-economic condition. Second, assuming that policy makers are concerned with initiatives of the WTO with respect to RMG, but question which needs to answer is that to what extent, these policies will safeguard the industry from any external shocks. This study is a modest attempt to answer these two questions.
Many research studies, articles relating to various aspects of RMG (Ready Made Garments) and WTO have been published home and abroad. A critical review of some of the important research studies/articles have been made in this study.

The main objectives of the study are:

1. To analyze the contribution of the MFA in the growth of the industry and the effects of the termination of the MFA.
2. To study whether the economy of Bangladesh can be able to outweigh the threats of Post MFA era.
3. To get an overview of the current status of RMG in Bangladesh and its contribution in export earnings, employment and GDP.
4. To examine the major WTO policies and issues those are important for RMG sector in Bangladesh.
5. To examine the trade patterns of some selected countries and their implications of its accession to the WTO.

The study basically uses the information available from secondary sources and data and information partially generated from primary survey. Information generated in the study cover all the three relevant and interrelated levels: macro, sectoral and enterprise levels. The

study has tried to capture the distinctive features of ongoing restructuring in two major sub-components in the apparels sector: knit and woven. Information required for the study was generated at different levels: secondary information collected from different sources, debriefing of garment factory owners, focus group discussions with entrepreneurs and employees, and base line survey of both entrepreneurs and employees.

To capture the current state of global apparel market as well as domestic export-oriented apparel manufacturing sector, a thorough review of the available secondary information was made. Secondary information included published reports, monographs, books, websites, articles, data bases, newspaper reports etc.

Based on the secondary information collected through the review process and debriefings of knowledgeable people, we prepare draft questionnaire. Based on draft questionnaire, we went for pilot survey. Based on pilot survey, necessary corrections were made when finalize the questionnaire. Moreover, debriefing of a number of entrepreneurs and focus group discussions (FGDs) with factory workers have provided important insights on the structure of the RMG sector, its dynamics and changes in terms of economic, technological and social aspects which helped to finalize the baseline survey questionnaire.

We conducted in-depth and semi-structured interviews with 30 factory owners (from 30 medium and large factories, sub-contractors for export and direct exporters) and 200 middle managers; as well as with the immediate past president of the BKMEA. Factory owners were selected on the basis of convenience sampling procedure and middle managers were selected on the basis of judgmental sampling procedure. All data were collected from various garments factories located in Dhaka. Most interviews were conducted in English, while some were conducted in both Bangla and English.
An interview was conducted through FGDs. In a number of sample enterprises, entrepreneurs did not allow on the workers to talk with the survey team. In such cases, FGDs were conducted either outside of those units (in their homes) or some other RMG units outside of the sample.

We conducted five focus group discussions with a total of 30 factory workers-men and women-with the idea that workers would feel more comfortable discussing various issues. Factory workers were selected on the basis of purposive sampling procedure from various

garments factories located in Dhaka. The focus groups were conducted in Bangla and then translated to English for analysis.

The collected data were edited for eliminating different type of inconsistencies. For analyzing data, we employ SPSS, Mini Tab and E-Views software. Collected data were analyzed with appropriate statistical and econometric tools.

The Readymade garment (RMG) industry of Bangladesh has expanded from 3% in 1984 to 82% in 2016 (to the export list of Bangladesh) - a dramatic increase over the last three decades. Traditionally, the jute industry dominated the industrial sector of the country until the 1970s. Since the early 1980s, the RMG industry has emerged as an important player in the economy of the country and has gradually replaced the jute industry. The RMG industry is the only multi-billion-dollar manufacturing and export industry in Bangladesh. Whereas the industry contributed only 0.001 percent to the country's total export earnings in 1976, its share increased to about 82 per cent of those earnings in 2016.

The turnover of the RMG sector has reached US$ 22.5 billion in 2014-15 fiscal year which is almost 82% of Bangladesh's total export earnings. Over the two and half decades of journey, the RMG industry has experienced many ups and downs on its way due to liberalization of world trade. 3.6 million people are directly involved in the RMG sector where less-privileged women account for more than 85%.

Garments workers act as an important source of income for families and households that are landless, under-educated and without alternative means of generating wealth. Around 4 million people are depending on this sector directly and indirectly. This substantial growth requires a flawless examination must encompass embrace the changes in world trade, polices of the host country, role playing by the international agencies advocating mainly by the WTO to encourage free trade. The WTO is the international trade agency earlier popularly known by GATT. This organization has recently taken many initiatives to bolster world trade with minimum tariffs and NTBs. Before being the WTO, free trade was initiated different umbrellas, namely, Multi-Fiber Agreement (MFA), Subsequently GSP and finally GATT. After the abolisher of GATT, the WTO came into being in 1995 which rules the international trade. Since its inception, WHO has taken many steps to rule the trade and formulated polices/initiatives to help the resource-poor nations in accelerating their presence into world market. Despite criticisms, fact is that, the WTO now rules world trade but Bangladesh is

unaware the impact its rule on the RMG-the single commodity on which Nation relies. The impact of such initiatives/rules has been the subject matter of the present thesis.

Currently, there are more than 5,400 RMG firms in Bangladesh (BGMEA,2016). More than 95 percent of those firms are locally owned with the exception of a few foreign firms located in export processing zones. The RMG firms are located mainly in three main cities: the capital city Dhaka, the port city Chittagong and the industrial city Narayangonj. Bangladesh RMG firms vary in size.

Based on Bangladesh Garment Manufacturers and Exporters Association (BGMEA) data, Mainuddin (2000) found that in 1997 more than 75 per cent of the firms employed a maximum of 400 employees each. Garment companies in Bangladesh form formal or informal groups. The grouping helps to share manufacturing activities, to diversify risks; horizontal as well as vertical coordination can be easily found in such group activities (Haider, 2007).

Ready-made garments manufactured in Bangladesh are divided mainly into two broad categories: woven and knit products. Shirts, T-shirts and trousers are the main woven products and undergarments, socks, stockings, T-shirts, sweaters and other casual and soft garments are the main knit products. Woven garment products still dominate the garment export earnings of the country. The share of knit garment products has been increasing since the early 1990s; products currently account for more than 52 percent of the country's total RMG export earnings (BGMEA, 2016). Although various types of garments are manufactured in the country, only a few categories, such as shirt, T-shirts, trousers, jackets and sweaters constitute the major production-share (BGMEA 2016). Economies of scale for large-scale production and export-quota holdings in the corresponding categories are the principal reasons for such a narrow product concentration (Haider, 2007).

Though Bangladesh Readymade Garment Industry is not enjoying the quantitative restriction (quota system) benefit under Multi Fiber Agreement (MFA), still has greater market access to USA and EU holding to limit the exporters of many countries like China, India, Pakistan, Indonesia etc. the giants in garment exports. It is needless to say that the ending of quantitative restriction has a chain reaction across the world. Exporters who were under quota

restriction will have freedom to sell unlimited amounts of garments. The buyers of garments also will have freedom to select their preferred supplies. They will demand greater varieties, shorter lead-times and increased product development. As a result the market will be more dynamic with greater competition between suppliers.

Naturally Bangladesh will have to face many challenges posed in terms of total globalization and trade liberalization. The garment industries of Bangladesh will have to face very high competition from China, Pakistan, India, Cambodia, Sri Lanka, Vietnam and other Southeast Asian countries that are much more developed in their textile and fabric sector. The number of low price apparel producing countries will increase due to the fact that the readymade garments industry is to some extent easy, less invested industry and also economic primer for developing economics. Countries with raw cotton origin and self-sufficient backward linkage will be able to efficiently supply apparel products to the US market –now availed of by Bangladesh (Chowdhury et al, 2009).

Emerging under the "quota" regime in the late 1970s, Bangladesh's RMG sector has developed spectacularly over the last three decades and has emerged as a major apparel exporting country in the world market. However, that quota system came to an end in 2004. Therefore, the competitiveness issue needs to be addressed, with special attention given to the long-term sustainability of the industry.

The term "competitiveness" itself is a broad concept. Its meaning, implications, adaptation and achievement vary from firm to firm, industry to industry, or country to country. Michael E. Porter is a pioneer of the "competitiveness theory" (Porter, 1990) at the national or macro level (Cho and Moon, 2000). Firm/industry-level (micro level) competitiveness depends on various parameters. However, the literature provides no universal agreement on the definition of competitiveness. For example, some researchers consider the labor cost, unit cost, exchange rate, interest rate, prices of material inputs and other price or cost-related quantitative factors for measuring the competitiveness of a manufacturing firm/industry (Edwards and Golub, 2004; Fukunishi, 2004; Cockburn and others, 1998; and Edwards and Schoer, 2002).Some other researchers consider product quality, innovativeness, design, distribution networks, after-sales service, transaction costs, institutional factors relating to the bureaucracy of export procedures and other non-price factors for measuring the

competitiveness of a manufacturing firm/industry (Abdel-Latif, 1993; Chen and others, 1999; and Sachwald, 1994). The influences of both price and non-price factors on the competitiveness of a firm/industry are reflected by market share and profit (Toming,2006). This study attempts to incorporate price, non-price and result (for example, market share) factors in order to address the international competitiveness of the Bangladesh RMG industry.

The majority of the competitiveness-related research studies focus on the "competitive performance" or the "factors influencing competitive performance". The studies consider product price, market share and other indicators to measure competitive performance, while considering wages, costs, productivity and other issues as factors influencing competitive performance. However, Fujimoto (2001) puts special emphasis on the "capability" factor that influences the competitive performance of a firm. According to him, improvement in the "capability" of a firm enhances its "competitive performance". This improvement takes time, but it ensures the long-term sustainability of a firm. In contrast, improving only "competitive performance" and not "capability" may not be sufficient to ensure the long-term development of the firm.

This study addresses the competitiveness issue from two broader dimensions: surface-level and deep-level competitiveness. Surface-level competitiveness reflects the "competitive performance" of a firm or industry that is directly observable to consumers. Deep-level competitiveness reflects the "capability" of a firm or industry that is not directly observable to consumers. An improvement in the deep-level performance enhances the performance at the surface level. The severe competition under the quota-free trading environment pressures the RMG industry of Bangladesh to enhance its surface-level competitiveness at the earliest convenient time. However, the long-term sustainability of the industry demands enhancement of deep-level competitiveness. Therefore, the future development of the industry will depend on how much importance will be given to which factors/dimensions, and how the individual firms will respond and how government policies will influence the industry. Hence, the discussion of the competitiveness of the Bangladesh RMG industry requires simultaneous consideration of both the surface and deep dimensions. In particular, this study uses (a) export value, product price, market share and lead time as surface-level indicators, and (b) linkage expansion, factory environment, product/ market composition, and "production and

distribution" time as deep-level indicators for measuring the international competitiveness of the Bangladesh RMG industry.

Compliance is a major issue. Compliance means adherence to certain recognized standards. Social compliance ensures working conditions of the manufacturing unit from social, political and economic points of view. It is a code of conduct that takes into account minimum labor standards, occupational safety measures and environmental concerns. Minimum labor standards cover wages, working hours, over time, safety, job security, right to form trade union, and also social security. It also ensures non-violation of human rights. Social benefits are socially responsible management which includes bonus, cash incentive, working condition, maternity leave, medical facilities, arrangement for food including safe drinking water, prayer place, transportation, festival bonus, etc.

Compliance should be for both labor welfare and occupational safety. For safety, use of aprons, dust masks, eye masks, ear protectors, gum boots smoke detector and early rehearsed fire-fighting arrangement are very important. Social environment related to labor rights, product safety and intellectual property rights are considered to be in increasing importance now-a-days (Khan F.R., 2006). Social compliance and productivity have close relations, because without good working conditions, minimum wage, etc., the workers cannot be expected to improve their skill to produce more or quality products.

Compliance does carry some inherent risks and additional costs for the industry. Experiences with the elimination of child labor from Bangladesh RMG industry reveal that compliance initiatives are not necessarily and properly remunerated by the buyers. There are about one thousand buyers operating in Bangladesh. The compliance requirements among these buyers very widely and most buyer have their own set of codes. These codes are also changing. Many factories have multiple buyer orders running at the same time, making it difficult for producers to always comply with buyer requirements (Iftekar, 2005).

The problems associated with compliance in Bangladesh may be grouped as (a) regulatory inadequacies; (b) non-enforcement of laws; (c) lack of adequate physical facilities and governance, and (d) other problems.

The product and market composition of garments from Bangladesh requires special attention to ensure the long-term sustainability of the Bangladesh RMG industry as a prominent supplier in the global market. The export-quota system diverted the attention of some international garment suppliers from quantitative expansion to qualitative improvement of exportable garment products. China and other competitor countries took that opportunity, but Bangladesh failed to do likewise. The country stands far behind in the race to upgrade products compared with its rivals. Bangladesh is still focused on manufacturing lower-end products, although recently the country has emerged slowly from being a lower-end producer towards becoming a middle/high-end producer, from being a simple male-wear producer to become a producer of fashionable female wear. Strengthening the process of upgrading products is very important for the Bangladesh RMG industry if it is to enhance its competitiveness. As with China and other prominent garment suppliers, Bangladesh needs to address both the qualitative and quantitative expansion of its RMG industry simultaneously in order to sustain the business in the long run. The country needs to be capable of adjusting its manufacturing capacity to frequent changes in customer demand. In addition to upgrading products, the country should try to achieve product and market diversification in order to diversify risks, gain access to new market/buyers and increase export volume.

BGMEA has greatly been contributing to the development of Social Sector of the country which is acclaimed by national and international reputation including the appraisement of the United States Department of labor (USDOL) for the last decade. Such success is deep-rooted at the wholehearted response of BGMEA to the US law (1992) banning importation of goods made by child labor.

BGMEA with the support of ILO, UNICEF and US Embassy in Bangladesh successfully eliminated child labor from the RMG industry in 1995, and rehabilitated them through special schooling and earn-and-learn program. BGMEA is committed to ensure that the labor law of the country is being followed. Sensitive issues such as maternity leave, payment of minimum wages, overtime, appointment card, ID card are being addressed by the BGMEA. BGMEA is also operating a number of projects and programs to ensure improved healthcare, workplace safety and labor rights of the garment workers in consonance with the Labor Standards set by the Govt. and ILO.

BGMEA believes in its corporate social responsibilities, both in the industry and outside the industry. Therefore with its own resources BGMEA has been involved in a number of social welfare activities.

- BGMEA runs 11 health centers with its own resources in Dhaka and Chittagong We have been running 11 health centers at Dhaka and Chittagong to provide free treatment and medicines and advocacy on reproductive health issues and HIV-AIDS for our garment workers. BGMEA is also going to establish two hospitals for the garment workers, one at Dhaka and another in Chittagong.

- BGMEA has made Group Insurance scheme mandatory for the garment workers working in the member factories in May 2002.

- BGMEA started free labor arbitration facilities for garment workers in 1998 under the chairmanship of a retired judge. More than 2800 cases have been resolved and we have paid 33.32 million taka as compensation so far.

- BGMEA made mandatory for all its Member factories to follow the Building Code to set up factories.

- To encourage primary education for the workers' children BGMEA has been providing stipends to the meritorious children of workers. At the same time we provide special awards to the factory staffs for outstanding performance.

- BGMEA is running four free schools for the workers' children and spouse of the RMG sector.

- BGMEA has started food rationing program for workers from the August 27, 2009.

- To mark the World Sight Day-2009 BGMEA is association with Grameenphone, Islamia Eye-Hospital and Sight savers International organized free eye camps for the garment workers in the five garment

industries at Ashulia and Savar area on 8thOct. 2009 and gave free treatment on eye related diseases to the workers. BGMEA also distributed free spectacles to the workers.

- BGMEA has been running skills development programs for the RMG industry in collaboration with Government and Development partners through 33 training centers in different regions of the country. People living in the Monga affected Char areas are given special priority through this program. They are trained on different machine operating courses free of cost including free food and accommodation, and after successful completion of training they are placed in RMG factories.

- So far 12000 people are trained and placed in factories. Shortly two more centers will be launched in Tungipara and Kotalipara, Besides the BGMEA Institute of Fashion and Technology (BIFT) has been working dedicatedly to develop mid-management professional for the RMG industry since in 2000.

- BGMEA & GTZ jointly signed a MoU on Social Compliance Improvement Project. The overall objective of this collaboration is to improve the social compliance status in the SIDR and flood victims.

- Recently BGMEA handed over a cheque of Tk. 2.5 million and winter cloths to the Hon'ble Prime Minister of Bangladesh.

Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA) was formed in 1996 by the all-out efforts of few knitwear manufacturers. Soon after the formation it undertook activities to look after the interest of the knitwear sector of the country. Today it is an association of about 1700 knitwear manufacturers and exporters that represent the largest export earning sector of the country.

BKMEA has grown enormous network in home and abroad. The members are the core strength and primary network of BKMEA. Besides, BKMEA works closely with national and International bodies and maintains close relationships with all stakeholders. On areas of common interest, it also works with similar organizations like, International Apparel

Federation (IAF), Global Alliance for Fair Textile Trade (GAFTT) and American Manufacturing Trade Action Coalition (AMTAC). To boost up trade and to enhance cooperation between countries, BKMEA has signed agreement with concerned associations like China Yunnan Light & Textile Industry Association on June 10, 2005, Botswana Manufacturers & Exporters Association on October 8, 2009 etc.

Presently Bangladesh is the 3rd largest knitwear exporter in the world just after China and Turkey. To lead the world apparel market, BKMEA is putting diligent efforts to diversify export market, and ensure better market access of the country's knitwear products to EU, USA, China, South Africa, Japan and other countries.

BKMEA was formed to address the following agenda.

- Protect the Interest of the Sector
- Promotion & Development of the Market
- Capacity Building of the Sector
- Social Compliance Status Enhancement
- Basic Rights Education and Awareness Raising

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

The result is assurance. Consumers and producers know that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services that they use. Producers and exporters know that foreign markets will remain open to them.

The result is also a more prosperous, peaceful and accountable economic world. Virtually all decisions in the WTO are taken by consensus among all member countries and they are ratified by members' parliaments. Trade friction is channeled into the WTO's dispute settlement process where the focus is on interpreting agreements and commitments, and how to ensure that countries' trade policies conform to them. That way, the risk of disputes spilling over into political or military conflict is reduced. By lowering trade barriers, the WTO’s system also breaks down other barriers between peoples and nations.

At the heart of the system - known as the multilateral trading system — are the WTO's agreements, negotiated and signed by a large majority of the world's trading nations, and ratified in their parliaments. These agreements are the legal ground-rules for international commerce. Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody's benefit.

The agreements were negotiated and signed by governments. But their purpose is to help producers of goods and services, exporters, and importers conduct their business. Thegoal is to improve the welfare of the peoples of the member countries

The system was developed through a series of trade negotiations, or rounds, held under GATT. The first rounds dealt mainly with tariff reductions but later negotiations included other areas such as anti-dumping and non-tariff measures. The last round, the 1986-94 Uruguay Round led to the WTO's creation.

The negotiations did not end there. Some continued after the end of the Uruguay Round. In February 1997 agreement was reached on telecommunications services, with 69 governments agreeing to wide-ranging liberalization measures that went beyond those agreed in the Uruguay Round.

In the same year 40 governments successfully concluded negotiations for tariff-free trade in information technology products, and 70 members concluded a financial services deal covering more than 95% of trade in banking, insurance, securities and financial information.
In 2000, new talks started on agriculture and services. These have now been incorporated into a broader agenda launched at the fourth WTO Ministerial Conference in Doha, Qatar, in November 2001.

The work program, the Doha Development Agenda (DDA), adds negotiations and other work on non-agricultural tariffs, trade and environment, WTO rules such as anti-dumping and subsidies, investment, competition policy, trade facilitation, transparency in government procurement, intellectual property, and a range of issues raised by developing countries as difficulties they face in implementing the present WTO agreements. The deadline for the negotiations is 1 January 2005.

The WTO's overriding objective is to help trade flow smoothly, freely, fairly and predictably. It does this by:

- Administering trade agreements
- Acting as a forum for trade negotiations
- Settling trade disputes
- Reviewing national trade policies
- Assisting developing countries in trade policy issues, through technical assistance and training programs
- Cooperating with other international organizations

The WTO has nearly 150 members, accounting for over 97% of world trade. Around 30 others are negotiating membership. Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the WTO, and was extremely rare under the WTO's predecessor, GATT. The WTO's agreements have been ratified in all members' parliaments. The WTO's top level decision-making body is the **Ministerial Conference** which meets at least once every two years.

Globalization or internationalization, whatever we may call it, left both positive and negative consequences on members of world bodies. In most cases however richer countries have gained more benefits compared to their poorer counterparts. Due to weak position and absence of effective trade legislations, the latter began to suffer. The annual sessions of the 'Contracting Parties to GATT' (such as the Tokyo Round of 1979) afforded an opportunity for multilateral tariff negotiations which produce tariff schedules: these becoming binding contractual commitments when adopted by the meeting of the 'contracting Parties' and, by virtue of the Most Favored Nation Clause, tariff concessions registered with one Party becoming available to all Parties. Quantitative restrictions on imports are in principles forbidden, but exceptions exist for agriculture and for 'Parties' experiencing balance-of – payments difficulties or desiring to protect infant industries in a developing country.

Although it appeared as an inevitable force of the global economy GATT has not been able to fully satisfy the demands of the developing countries like Bangladesh. Hence their insistences on the need for another global forum like that of the United Nations Conference on Trade and Development, UNCTAD. Actually in 1964 a new Part IV on Trade and Development was

added to the GATT, but no system based on reciprocal concessions and bargaining could prove wholly satisfactory to developing countries whose bargaining power is basically weak. .However, they derived considerable benefit from GATT and constituted over one-half of the membership totaling 85 States in 1979.

After commencement of the WTO in mid-1990, this international trade body began to heavily regulate global affairs. Many developing countries joined WTO with long-felt suspicion overseeing its inherent nature of prioritizing commodity to labor. Countries like Bangladesh and India had prolonged debate in their national houses before formally joining the WTO. Even the admission of China to the WTO was uncertain until late 2001, when it was finally accepted as a member to the global body at its Doha Summit of trade ministers.

One general difference, however, between the industrialized and the pre-industrial societies is in the size of the segment of the population that lives in conditions of dire poverty. In a pre-industrial society a small elite perhaps 5-10 percent, generally lives either comfortably or extravagantly by twentieth century standards. The remainder of the population lives far below the standard of minimum essentials that befit human dignity. In the industrial societies, on the other hand, the amenities of social and economic wellbeing are widely distributed among a large segment of the population.

In the world as a whole the discrepancies between rich and poor are similar to the contrasts of wealth and poverty within a pre-industrial nation. If all states are divided into two classes, developed and developing, the developed one-fourth of the world population enjoys the benefits of possessing about 78 per cent of the gross world product, while in the developing world three times as many people must survive on the remaining 22 per cent of the world's wealth.

It is worth mentioning here that most garment industry manufacturer countries are located in the South, while the consumer or the buyer countries are in the North. With Japan and USA also being garment producers and buyers simultaneously, their control over the international apparel market and its relevant things have also been tightened (Firoze and Haque, 2002).

Based on an econometric assessment of actual preferences utilization the estimates of preference erosion in the EU market for the LDCs and low income countries by Francois *et at*

(2005) suggest an income gain of US$ 222.5 million in total. Bangladesh accounts for also a loss of US$ 101million and African LDCs suffer for a loss of US$ 458.3 million. For low income countries like India, there is a positive income effect of US$ 174 million. The magnitude of loss is show ever reduced substantially if all OECD countries reduce MFN tariff rates. This is because EU has been the most aggressive in giving preferential facilities as a development initiative.

All the study findings so far, conclude the possibility of preference erosion for the LDCs. Therefore, as a part of the NAMA negotiation, various proposals have surfaced to address the issue of preference erosion, including:

- The formation of a "competitiveness fund" or other development assistance so that countries affected by preference erosion can undertake adjustment programs; and this is considered as one of the basis for 'Aid for Trade' facilitation.
- To add a "correction coefficient" which is expected to improve margins of preference for products that enjoy nonreciprocal preferential access at present, along with longer staging for these products to preserve the margin of preference.
- There can be delayed or gradual reduction of tariffs on products that have significant export activity and margins of preference.
- An 'index of vulnerability' is proposed to be developed in order to identify products of special concern to particular countries especially LDCs.
- Among the 'trade solutions' to preference erosion, there can be multilateral trade concession schemes designed to protect the preference dependent countries, and
- Compensation of preference erosion through preferences in other countries (Raihan et al, 2007).

At its inception in 1995, the World Trade Organization, a multilateral institution governing international trade in goods and services, enlisted 76 countries as member out of a potential total of 170 which fulfilled the preconditions for accession to the WTO. Although China is the world's eighth largest trading economy, (according to WTO statistics, excluding Hong Kong, China ranks eighth for world trade, after US, Germany, Japan, UK, France, Canada, Italy), it remained outside the WTO.

China's accession to the WTO entailed a complex and lengthy process. The process of accession to the WTO is made is up of two components: (1) multilateral negotiations between the acceding country and a WTO working group on accession, which first reviews is the differences between the acceding country's trade regime and WTO rules, and then sets out the general terms of accession; and (2) bilateral negotiations between the acceding country and WTO members that establish the specific market access conditions for goods and services. These bilateral accords are then multi-lateralized in the *Protocol of Accession.*

Under the WTO's *Most Favored Nation* principle, any agreement between two members applies to all members. Initially, China agreed to apply WTO rules throughout its territorial boundaries, to make its trading regime transparent, and to maintain independent tribunals for review of administrative trade actions. Secondly, China agreed that it would hold several bilateral negotiations with other parties and would take the necessary steps in order to accede to the WTO. The absence of Permanent Normal Trade Relations (PNTR) (requires footnote explaining PNTR) agreements with the USA acted as a major barrier to China's accession. The US-China WTO bilateral agreement was signed on Nov.15, 1999, which, in effect, paved the way for the US to vote in favor of China's accession to the WTO. Earlier, China had already concluded bilateral negotiations with its other major trading partners: the EU, Brazil and India, Bilateral negotiations were also completed with other small trade partners such as Costa Rica, Ecuador, Guatemala, and Mexico. Over the last 15 years all critical milestones were achieved, and important agreements were signed by China, to ensure that it could accede to the WTO.

China's long march to the WTO has been closely followed by other member countries with great interest, and in some cases, great concern. On the one hand, many countries are optimistic that China's entry into a rule-based system will be beneficial to the global trading system and there will be important positive externalities as a result. On the other hand,

China's accession to the WTO is a source of concern for many countries, which perceive China as a threat to their presence in the global market. At first, many nations were worried that such a large, highly regulated economy would disrupt the WTO's rule-based economy, which is committed to the principles of free trade. Others believe that a global rule-based trading regime cannot truly evolve without the active involvement of China- Specialists who look at China's accession from an optimistic perspective, tend to agree that the expected changes in trading patterns arising out of China's accession may result in short-term economic losses for certain sectors in some countries. However, they stress that the dynamic benefits of China's WTO accession will outweigh these economic dislocation costs, particularly over the long-term (Groombridge 2000). Nevertheless, developed and developing countries and the least developed countries (LDCs) tend to have different perspectives on the short and medium to long-term impacts of China's accession to the WTO. It should be noted that in order to satisfy the WTO rules and obligations, China agreed to undertake a number of liberalizing and market-opining reforms. For example, US firms will subsequently enjoy unprecedented access to China's burgeoning market economy as a result of the ongoing reforms. According to the Goldman Sachs' estimate, China's accession to the WTO could lead to additional exports worth US $13 billion by 2005 (Groobridge 2000). Other economic are looking forward to finding their own niches in the Chinese market for their own goods and services.

A key feature of the period after 2001 concerns the effects of removing the quotas on apparel and textiles imposed on China and other developing economy exporters by major industrial country importers. These quotas are scheduled for abolition in January 2005 for all WTO members. Abolition gives a significant boost to the textile and apparel sectors in China, which had been one of the country's most rightly restricted by the quotas.

Accession will make China a much bigger player in world markets through three channels- the rapid growth and structural change of its economy, the liberalization undertaken in preparation for WTO accession, and the liberalization undertaken after accession in 2001. The liberalization undertaken after 2001 contributes to an increase in China's share in world exports from 4.4 percent to 7.8 percent on completion of accession. Similarly, China's share in world import markets rises from 5.8 percent in 2001 to 6.4 percent in 2007. With the removal of textile and apparel quotas, apparel exports lead export expansion with an increase in export volume of about 106 percent, followed by textiles and automobiles. The dramatic

fall in protection of beverages and tobacco results imports more than doubling, followed by increases in imports of food products, textiles, agricultural products, automobile parts, and commercial services.

Among China's trading partners the largest absolute gains accrue to North America and the Western Europe, with close to half of the gains coming from elimination of the quotas they impose on China's exports of textiles and clothing- and thus elimination of the efficiency and rent transfers to China. North America, Western Europe, and Japan also gain from China's cuts in protection, which increase China's efficiency as an export supplier and its demand for their exports.

Taiwan's welfare gain from its and China's accession to the WTO is estimated at $3.0 billion per year – the second largest gain relative to the size of the economy after China's. About half of the gain ($1.6 billion) was realized as a result of the liberalization in China and in Taiwan during 1997-2001.

The world as a whole and key developing economies that trade directly with China benefit from China's accession, but developing economies in Southeast Asia, South Asia, and Latin America that compete with China in third markets may lose from the removal of textile and apparel quotas after 2001. The losses will be largest for Vietnam- an economy that is following in China's footsteps and has a similar pattern of comparative advantage in labor-intensive products. The welfare loss for Vietnam is estimated as a 1.4 percent drop in per capita income .The loss to India is estimated to be considerably smaller as a share of per capita income, at 0.4 percent, whereas the percentage losses to other countries are very small. Being one of the fastest growing economics in the world, China's entry in the global market both as an exporter and an importer, is going to have multidimensional implications for the Chinese economy and other economies. The implications may be better understood through an examination of the rationale for joining the WTO, as perceived by China itself, as well as examining the interests of developed countries in this undertaking.

Although the overall impacts of WTO accession on China's economy are generally positive, there are some concerns that decline in real returns to farm labor may exacerbate poverty in rural areas. Approaches that deal directly with these down China's trade policy reforms. Two policy tools that lend themselves to analysis within the model framework used here are

relaxation of the barriers to labor migration from rural to urban areas and skills upgrading for workers in rural areas.

Abolishing policy barriers to labor mobility from rural to urban areas-such as residence permits, differences in social insurance, and the inability to sell agricultural land-in conjunction with accession leads to a nearly 17 percent increase in real returns to rural to workers.

This contrasts sharply with the 0.7 percent reduction in real farm wages for accession without labor market reform. Rents to farmland would decline, with higher farm wages leaving a smaller residual return to farmland. Real urban unskilled wages would decline by an estimated 3.8 percent. Clearly, there would be scope for partial reform of these arrangements that could leave both farm and nonfarm unskilled workers better off than in the absence of labor market reform. Rents to farmland would decline, with higher farm wages leaving a smaller residual return to farmland. Real urban unskilled wages would decline by an estimated 3.4 percent. Clearly, there would be scope for partial reform of these arrangements that could leave both farm and non-farm unskilled workers better off than in the absence of labor market reform.

These results suggest that this reform would have significant impacts on the number of people leaving their farm jobs for jobs in the non-farm sectors and on the industry composition of China's economy.

This would allow not only apparel production to expand more but also metals, automobiles, electronics, machinery, other manufactures, and construction, all at the expense of reductions in some agricultural sectors.

A key problem facing most rural workers is their low levels of education. One way to get a sense of the likely impacts of improving access to education is to consider the impact of resultant increases in the skill levels of rural workers on the performance of the Chinese economy. This experiment looks only at the impact of improvements in education on the skills of rural workers. It ignores any potential benefits to rural households from improvements in access to education for their children-such as reductions in school fees- and any changes in the government budget associated with increases in government spending on education.

Although output in some sectors expands, the real wages of skilled workers fall as the supply of skilled workers increases and world prices of the outputs they produce decline. This contrasts with the case of accession alone, which results in an increase in the real wages of skilled workers. However, the real wages of generally much poorer unskilled workers rise with increased education, with the wages of unskilled non-farm workers rising more than those of unskilled farm workers. Of course, those who are able to transfer from agricultural to nonagricultural employment as a result of increase educational opportunities are likely to be substantially better off.

Overall, it is clear that increased education spending will generally induce proper growth and decrease poverty. It certainly has the opportunity to substantially offset the adverse impacts on rural labor of the trade reforms associated with accession. Finally, increased education boosts the need for migration as demand for unskilled workers increases in large urban areas. An estimated 10 million farm workers are expected to exchange farm jobs for non-farm ones. The impact on consumer prices **is** small-with falling prices for farm products and rising prices for manufactured commodities.

The combination of removing labor market barriers and increasing education spending creates the most favorable scenario for unskilled farm labor, leading to the largest increase in real farm wages (19.4 percent).Farm output contracts more than in the case of labor market reform alone, whereas skilled labor-intensive industries such as metals, automobiles, electronics, other manufactures, and services expand more than in the case of labor market reform alone or increased education spending alone. Under this scenario, an estimated 32 million farm workers would leave their farm jobs in urban areas.

These results suggest that to generate pro-poor growth over the next decade, the government should consider both removing policy barriers to labor movement and changing the composition of spending to favor education. Not only would these policies facilitate the transformation of China's economy toward services and high-tech manufacturing sectors, but they also have the potential to more than offset any negative impacts of accession on rural wages and incomes.

The analysis suggests that the reforming economics and their close trading partners will be the biggest beneficiaries of accession to the WTO. China is undertaking the greatest reform

and will gain the most. The North American and Western European economics that abolish their export quotas on textiles and clothing and increase their direct trade with China will gain the most in absolute terms. Taiwan will benefit substantially, both as a consequence of its own liberalization and through strengthened trade links with China. Japan will gain substantially because of increased export opportunities in China and China's increased competitiveness as a supplier. Other industrializing and industrialized economies that are China's largest trading partners will also be substantial gainers (Ianchovichina and Martin, 2004).

Bangladesh has high quota fill rates, where China's QUR is low; similarly China has high QUR in 6 categories where Bangladesh has low QUR. It is to be noted that countries have discretion in fulfilling quotas from various items belonging to the same category. China, with its strong backward linkage, and relatively strong capacity in the production of high quality items tends to choose its quotas from higher (price-wise) product items in the categories. Thus, for example, though both China and Bangladesh post high QUR in certain categories, Bangladesh tends to utilize the quota from the lower end of the market while China does the same from the higher end of the market. This is evident from the average price of the products in the same category accrued to China and Bangladesh.

As a matter of fact, the average price of products exported to the US by China is found to be 50% higher than that of Bangladesh in most cases. Once quotas are phased out, China's current restrictions will be eliminated and it will then be allowed to export low priced items in the same category in addition to the current higher end items.

This is an important change which Bangladesh may expect once quota restrictions are withdrawn in the US market. On the other hand, both countries have high QUR which they share with some other countries.

In addition, the tariff rates applied to important export categories of Bangladesh are also considerably high in the US market. If Bangladesh fails to achieve any preferential treatment in the US market under a revised Generalized System of Preferences (GSP), in the context of the prevailing market access conditions, China's higher productivity will definitely give it a competitive edge in the US market.

It has already been mentioned that Bangladesh's exports to China have been rather insignificant- only 10.61 million USD. The trend has been erratic. Bangladesh has already liberalized its impacts dramatically. Consequently, China's accession is not likely to have serious implications in terms of Bangladesh's import sourcing. However, in accordance with commitments undertaken as part of the accession agreement, China will need to reduce tariff and non-tariff barriers significantly. As a result access to Chinese markets will be eased. As part of the accession deal, China will cut average tariffs from 16.8 percent to 9.4 percent. The Tariff on agricultural products will be reduced to an average of 17 percent by the year 2014. This tariff reduction may potentially create scope for enhancing the export of shrimp, frozen food and raw jute from Bangladesh.

Although there is a general concern regarding Bangladesh's competitiveness over China, price competitiveness data computed for Bangladesh (US market unit price multiplied by the price deviation of major Bangladeshi products from average world price) leaves some scope for optimism, at least for some particular products at the Harmonized Tariff Schedule (HTS) 10-digit level, in the short-run.

According to the estimates, Bangladesh has significant price advantage in some products (at the HTS 10-digit level) over other countries, except Pakistan. Bangladesh was able to increase its competitiveness situation with China in some of the apparel items. In these selected items, Bangladesh's prices are below world market prices, whereas China's prices are above the world average level. In a very few non-quota items, Bangladesh also enjoys price competitiveness over China. In the previously stated context, it is expected that Bangladesh will be able to continue to retain market share in the US at least in the case of the abovementioned apparel items.

The US plan to phase out quotas on Chinese exports of textiles and garments is a significant issue in this context. The data would suggest that quota withdrawal does not make Bangladeshi exports automatically price uncompetitive vis-à-vis China. However, from a dynamic perspective, the economies of scale accrued to China in the context of a quota-free regime may create a situation where Bangladesh's price advantage in those selected items may be eroded. It is important for Bangladesh to negotiate with the major trade partners under the ATC integration mechanism to accelerate the quota expansion facility for LDCs,

which may provide Bangladesh with some added advantage during the run-up to the MFA phase out.

International competitive advantage in product group is ultimately maintained and improved through continuous improvement in productivity. Though Bangladesh has an advantage in terms of cheap labor, the low productivity actually erodes the competitive strength in the product market.

Low productivity driven by a low level of technology also prevents movement up along the demand curve. Data show that the hourly wage rate in Bangladesh's garments sector was low compared to some selected countries; however, the country's productivity was significantly low compared to other countries.

As a result, Bangladesh was unable to translate its comparative advantage in cheap labor into competitive advantage in cheap products. Compared to China, the wage rate is 56% lower in Bangladesh. It is difficult to comment on the current extent of wage/cost advantage enjoyed by Bangladesh over China since adequate data is not available. There is a possibility that the advantage may have narrowed down, partly because of a higher rate of devaluation in some of the competing countries.

It is evident from available projections that China's apparel market will expand at a more rapid pace after its integration into the WTO. The advantage of scale economies will increase productivity of Chinese labor further, which might threaten the market share of products even at the lower end of the demand curve for apparel products.

With China's production costs now rapidly rising in yarn and US$ terms, there are strong reasons to compare labor costs in apparel manufacturing countries. The study released by U.S consulting from Jassin O'Rourke and published by Emerging Textiles.com reveals that seven Asian countries are now offers a labor cost comparison within each region of the planet from Latin America to Eastern European and Africa-Middle East, as reflected by our series of statistical tables. For the first time this year, U.S consulting firm Jassin 0'Rourke publishes its comparison of labor costs in apparel manufacturing countries. With China's costs so rapidly increasing, there are strong reasons to assess and compare labor costs in a large number of countries.

China-US and China-EU textile agreements have ensured a smooth transition to post-quota era and created a foreseeable and stable trading environment for Chinese textile and clothing industry in the 2-3 years to come. The agreements are helping recover the normal trade flows between China and the US and the EU which were disrupted by the uncertainty and chaos that safeguards measures had aroused, while allowing a steady growing market share of Chinese textile and clothing in the US and EU. Apart from that, the voices of some of the developing countries that had been complaining about China's exports could go lower, since the agreements also provided these countries with an extra period for adjustment and adaptation.

Global economic grow this forecasted to be around 3% in 2016, indicating that there will be a stable market demand for Chinese textile and clothing. China's major markets show positive signs of growth: Japan remains on its way to recovery; the US maintains fast growth: and the EU keeps steady increase, although at a lower level.

The economic globalization will continue to bring about more opportunities and possibilities for Chinese textile and clothing companies to develop international cooperation in the fields of sourcing, manufacturing, innovation, brands, marketing &etc.

The continuous and robust economic growth in Chinese generates huge domestic market potentials for China's textile and clothing industry, the ultimate momentum for the industry to thrive. It is projected that China's economic growth rate in 2006 will be well above 9%, and will remain over 8% for the next five years. With its 1.3 billion populations, China has now become world's biggest fiber consumption market, with its fiber consumption per capita rising from 4.1 kg in 1980 to 14 kg in 2005.

China's market opening moves in the implementation of its WTO commitments have provided remarkable opportunities for world's textile and clothing companies, In 2006, China's overall commodity tariff rate is 9.9%. Specifically, the average tariff for textile and clothing is 11.4%, 9.6% for textile and 16% for clothing respectively. Apart from significant tariff cuts, China had also opened up its foreign trade and distribution sectors in 2004, allowing foreign companies to conduct international trade and distribution activities in China. These measures have attracted an increasing number of international fashion brands who moved quickly to set up their stores and distribution channels in China.

The comprehensive competitiveness of Chinese textile and clothing industry, including capacity, quality, price, delivery time, labor cost, service, availability of raw materials, efficiency, management, infrastructure &etc. , although facing the danger of losing edge to some competitors, remains to be quite attractive to foreign buyers for the time being.

Trade protectionism in various forms continues to be a major threat to the industry, such as anti-dumping and safeguard measure, especially after 2007/08. After China reached the textile agreements with the US and EU, trade fractions with developing countries have become more prominent. In addition, the emerging tendency to put the issue into Doha round talks needs to be warned against.

Lack of brands and less value added production are severe problems that the industry has to tackle with internally. Although the industry is big in its size of exports, its growth could be mainly attributed to quantitative growth of low-end products, the price of which is a major means of competition. Due to lack of branding and designing capabilities, the sector can only make money from manufacturing, which accounts for a merely 10% of the total value that is added throughout the supply chain. This has been regarded as a major problem that could curb the industry from further upgrading in longer term.

Rising costs in labor, raw materials and energy are adding extra burden on exporters. For example, China is now 20-30% higher than Vietnam, Sri Lanka and Cambodia in labor costs, which undoubtedly make it less competitive. Parallel with the improvement of the living standard of farmers in rural areas where most of the textile workers come from, previously abundant supply of labor became to show signs of shortage. Soaring oil prices, as well as increasing costs of land, water and power will make the pressure even heavier.

Possible RMB appreciations also prominent factor that will have significant impact on the industry which has already run on the basis of very low profit margin. It is estimated that every 1% appreciation of Chinese currency will result in a 2%-6% reduction in the profit margin of the sector. Although Chinese exporters could still manage to live with the 2.1% rise of the Chinese exchange rate adopted in July 2005, any further appreciation would possibly mean shift of orders and loss of profits.

The growing-up of some competitors is posing challenges to China's exports, India, Pakistan and Bangladeshi industries have already implemented long-term developing strategies to enhance their all-around competitiveness, and their governments also take concrete measures and initiatives to encourage their industrial upgrading.

Structural readjustment and industrial upgrading will be further pursued on the basis of maintaining the current scale of trade. Specifically, the industry will focus on transforming from a growth model based on quantitative increase to the one based on quality and efficiency improvement.

Developing China's own brands is a long-term task for the industry. To achieve that goal, the industry will start with manufacturing higher-end products instead of merely concentrating on cheaper end of the market, and move up along the value chain with more customized and integrated service and value-added activities, such as product designing, logistics, material sourcing, & etc. It can be expected that after decades of efforts, a few outstanding companies will be able to penetration to international marketing and distribution networks, and ultimately build up their own brand names in world market.

Dialogues and cooperation with textile and clothing industries of other countries, particularly the developing countries and LDCs, will be strengthened, aiming to generate mutual benefits for both China and its trading partners.

By adopting the strategy of "going global: The industry will take more active moves to invest abroad by setting up overseas production facilities, R &D and distribution centers, to diversify risks as well as obtain maximum benefits from globalization.

Resource- efficient and environment-friendly production and CSR compliance will be further stressed within the sector with a view to building up a harmonious society.

Since China's entry into the WTO, especially the elimination of quotas, Chinese textile and clothing industry has been undergoing remarkable growth, as well as many difficulties, especially in various forms of restriction, such as safeguards and anti-dumping measures. The impact of the change of global textile and clothing trade regime has been far-reaching and extensive. An increasing number of Chinese exporters have come to be aware that they could no longer survive in this complicated trade environment and increasingly intense competition

with a business model based merely on quantity. They must focus on quality and efficiency, move up to more value-added parts along the supply chain make quicker reactions to market and policy changes and be more responsive to social and environmental needs. Accordingly, the strategies of technical innovation, industrial restructuring and upgrading, brand promotion, "going global" as well as CSR compliance have been adopted by the industry to better compete in this changing environment, thus helping to maintain the healthy and sustainable development of the sector(China Chamber of Commerce for Import & Export of Textiles, 2006).

Demand for outerwear in the market will continue to increase slightly in the coming years. The number of garments purchased per head of the population will continue to rise, but prices will not follow the growth rate. Imports from developing countries have increased considerably in volume but against much lower prices.

However, it may be noted that China's garment export plans for 2005 represent only 20% of global foreign trade and China's entry into the US and EU markets may be subject to temporary safeguard measures. This means that 80% (some US$200 billion) remains available for other exporting countries to share. Typically, fiber-producing countries such as India, Indonesia, Morocco, Pakistan, Turkey, etc. are gearing their industries to increase garment exports.

Non-textile fiber producing countries are also planning to increase their garment exports, often by building backward linkages to improve their delivery lead time competitiveness, e.g. Bangladesh, Madagascar, Mauritius, Sri Lanka, etc. Viet Nam will become a stronger garment exporter once it meets the requirements for WTO membership Eastern European countries (i.e. CzechRepublic, Hungary, Poland, Romania, etc.) have all increased garment exports during the last 15 years on the basis of Outward Processing Trade (OPT) work from Western European garment producers. Italy and Germany in particular have built up more competitive garment operations, especially for tailored garments.

However, as the EU expands it is expected that manufacturing costs in Eastern Europe will also increase and that these opportunities will only last for a few years. Egypt and Syria have significant indigenous cotton crops that are mainly sold as lint cotton at present.

Both countries are formulating plans to convert more of the crops into value added products. There are a number of smaller garment producing countries in the region with industry profiles similar to that of Cambodia, such as Lao PDR and the Fiji Islands. They have foreign-owned garment industries dependent on offshore owners supplying production orders, fabrics and accessories to fill their stitching capacities.

The host countries offer product quota advantages, competitive wages and preferential market access provided by the importing countries, e.g. the US, EU, Canada, Norway, Australia and New Zealand. The host countries include the AGOA and Caribbean countries, LDCs and other African, Caribbean and Pacific (ACP) countries not included in the other categories. The value to offshore owners of the garment-manufacturing units in some of these countries will undoubtedly change in coming years and this is of concern, especially when considering the future advantages of the Cambodian industry.

Indian's relationship with textiles began as early as 3000 B.C with the use of organic dyes and block prints. Even today, intricate hand weaving, delicate embroideries and richness of fabric like Indian silk and satin attract people from all over the world. According to the authors estimates India's textile and apparel sector equals USD 54 Billion currently (both domestic and exports). This is expected to grow to USD 158 Billion by 2020. With many trading restrictions being removed, technological advancements, availability of multi-fiber based raw material, well established production bases, design capabilities, knowledgeable and skilled labor and various government initiatives, India is poised for tremendous growth in this sector. The Indian Textile and Apparel industry is also experiencing rapid changes and growth following increased consumption. Apparel, today, has the largest share of the modern organized retail in India. Consumers are now pampered with a wide variety in apparel and modern format stores. Increasingly, international and local brands and attractive discount sales are trying to woo the Indian consumers away from traditional stores, the tailor and the large unorganized market (Research and Markets, 2010).

However, the growth potential of the textile and apparel sectors in India has been severely restricted through domestic regulations and international factors including the Multi-Fiber Arrangement (MFA). The textile and apparel sectors in India have traditionally been subject

to a number of government regulations through reserving parts of each sector for small-scale industry and maintaining employment even at the expense of sharp decline in productivity.

The cotton spinning and weaving activities have also been protected against competition from man-made fibers through restrictions against their imports. The low efficiency of the processing sectors motivates the government to fix quotas on export of cotton, which further leads to lower returns to cotton growers. Such distortions lead to loss of competitiveness of the clothing industry, perhaps the sector, which has the maximum growth and employment potential in a distortion free economy.

Apart from having been subjected to a plethora of domestic regulations and restrictions, the textile and apparel sectors of India's economy have also faced disabilities imposed by regulations imposed on world trade in textiles and readymade garments through MFA since 1974. Under this Arrangement, the developed countries imposed quotas on exports of yarn, textiles and apparel from developing countries.

The MFA has turned out to be an instrument of forced consensus designed to manage textile and apparel trade to the advantage of countries that were fast losing international competitiveness in these lines of production. The developing countries are supposed to have a quota administration mechanism, which would regulate the exports of yarn, textiles and apparel to the MFA listed developed countries.

One of the most important accomplishments of the Uruguay Round was the Agreement on Textiles and Clothing (ATC), which would bring MFA-restricted goods under GATT disciplines. Under this liberalization process, the MFA quota-regime would be gradually phased out during a 10-year transition period commencing from 1995. The import tariffs are also being reduced on both textiles and clothing and on a wide range of other goods. However, the rates of tariff reduction on textiles are considerable lower compared to most other goods. The MFA abolition offers great opportunities for exporting countries, particularly in South and Southeast Asia, to expand textile and clothing exports and stimulate demand for fibers (Elbehri*et al.*, 1998). The expansion of these labor-intensive sectors is likely to have a positive impact on employment in exporting countries. Tightly restricted exporters like India, Pakistan and Sri Lanka are more likely to be net beneficiaries under the

ATC. The less restricted exporters (Bangladesh) or mature markets like South Korea, Taiwan and Hong Kong have large quotas relative to their export levels (Yang *et al.*, 1997; and Martin 1996).

India may also gain more than some other textile and apparel exporters from MFA elimination since it has been shown that these quotas tend to discriminate more strongly against relatively labor-intensive component of MFA controlled goods, viz. cotton based fibers, which dominate India's in India's exports (Martin, 1996). Since India has a natural comparative advantage in cotton and cotton-based fibers, abolition of the MFA has an implicit potential to benefit India's cotton industry as well as cotton based textiles and clothing sectors (Elbehri*et al.,* 1998).The World Trade organization (WTO) stipulates that the MFA shall be phased out by the end of 2004 thus integrating trade in textiles and clothing into the General Agreement on Tariffs and Trade (GATT) rules (Chadha et al, 2010).

Ready Made Garments: WTO Implications

- Upto 1995, textile trade regulated by Multi Fiber Agreement (MFA) - enabled importing countries(mainly Western) to impose quota restrictions on exports from developing countries
- Quotas imposed on selective basis - India and Pakistan clubbed together with lower quota, Sri Lanka marginally higher quota, Bangladesh with no quota and so on
- With the formation of World Trade (WTO) in January 1995, MFA replaced by Agreement on Textiles and clothing (ATC); MFA to be phased out over a 10-year period from 1995
- Scope for increased market access during the transition period of 10 - years for products under quota system.
- Market size of quota-imposing countries large - exports could become more competitive.
- Indian exporters stand to gain with the opening up of markets hitherto restricted (India Markets, 2010).

Cotton, cotton-related products, textiles, and apparel are important commodities and comprise critical agricultural and industrial sectors in Pakistan and India. A number of key developments are emerging domestically and globally that potential will have profound effects on the cotton–textile–apparel sectors of the two economies.

The industries face the challenge of remaining competitive in the context of the elimination of the Multi-Fiber Agreement (MFA) quotas on textile and apparel trade under the World Trade Organization (WTO), the emergence of China as a huge textile and apparel exporter, and new and potential intraregional trade agreements. Implementation of the final WTO ruling against U.S. cotton subsidies, a new U.S. farm bill in 2008, and a possible agreement to multilaterally reduce cotton subsidies and tariffs across the related textile and apparel sectors in the Doha Round WTO negotiations may also affect the cotton and related processing industries of Pakistan and India. .

In 2005, the size of the world market for textiles was $203 billion. It has grown strongly in the past 15 years. In the 1990s, the average annual growth of the market was about 5 percent. In 2003 and 2004, its annual growth was more than 10 percent, slowing in 2005 to 3.9 percent. The European Union (EU-25) captures a third of the total world export of textiles. This is mainly intra-EU trade. Its textile trade with the rest of the world accounts for less than 12 percent of the total. China has a rapidly growing share in the world textile market.

In 1990, China accounted for 6.9 percent of the world export of textiles. Its exports surged after 2000. By 2005, China had a share of 20.2 percent of the world market. The shares of the other major producers of textile are generally stable, implying falling shares for several other countries. Hong Kong's share, which is mostly due to re-exporting, is about 7percent, and the United States has about the same level. The share of India was about 4 percent in 2005and Pakistan's was 3.5 percent.

In 2005, the total world exports of clothing amounted to $275.6 billion, somewhat larger than the world market for textiles. It is also growing strongly, with an average growth of 8.3 percent in the 1990s, rising to 17.6 percent in 2003, 11.4percent in 2004, and then slowing to 6.4 percent in 2015.

Similar to the world market structure for textiles, the European Union has the largest share in the world market for clothing, and, again, this is mostly intra-EU trade. There is remarkable growth in China's exports of clothing with its share of the world market increasing from 8.9 percent in 1990 to 26.9percent in 2015. India's share is stable at about 3 percent. The share of Pakistan is also stable at about 1 percent.

Three major shifts in the rules have governed the international trade of textiles and clothing during the past 30 years. From 1974 to 1994, the rules set in the MFA provided the parameters for bilateral negotiations of how quotas on textile and clothing trade were determined. Under the MFA, discriminatory quotas were allowed in areas where the increase in imports had the potential to cause domestic market disruptions. The European Union, Austria, Canada, Finland, Norway, and the United States applied quotas exclusively to developing country exports.

With the advent of the WTO in 1995, the WTO Agreement on Textiles and Clothing (ATC) was designed to provide a transitional phase between the MFA and the full integration of the textile and clothing industry into the multilateral trading system. Under the ATC, Canada, the European Union, Norway, and the United States retained some quota restrictions until January 1, 2005, when the quotas on textile and clothing trade were lifted and replaced by tariffs only.

Before the lifting of the quotas, a number of studies estimated the potential effects of liberalized international trade of textiles and clothing. Nordics (2004), for example, argued that China and India would come to dominate world trade. The share of China alone was predicted to reach more than 50percent during the post-ATC period.

Although the world share of India has not shown significant enlargement thus far, India's share in the world market will likely improve in the near future with the surge in cotton production because of the implementation of the But cotton program and the ongoing policy reforms in the textiles and apparel sectors in India (BediandCororaton, 2008).

Martin (2004) examined the possible effects of quota elimination on Pakistan and argued that improvement in productivity is the key issue if Pakistan is to gain shares in the world

markets. This is because the international markets will be more price responsive after the abolition of the quota.

This will present opportunities for suppliers with high productivity, whereas suppliers that lose competitiveness can expect to suffer losses in market shares. Thus, for Pakistan, Martin concludes that "raising productivity—either by improving the efficiency of the production process or the range and the quality of the products produced—is key to reaping the benefit from the abolition of the MFA." The same implication may hold for India as well.

Even with the abolition of the MFA, Pakistan's exports of textile yarn, fabric, etc. that goes to the restricted markets have not declined relative to its overall exports of these items. Data shows that the share of Pakistan's exports of textile fibers that go to markets of the European Union, United States, Canada, and Norway has declined from 34.4 percent in 2002 to 20.7 percent in 2016. Thesis due to Pakistan's efforts to increase value added by processing fibers into yarn, fabric, garments, and textile made-ups .However, the shares of textile yarn, fabric, etc. and clothing and accessories remain high. The combined ratio increased from 52.9 percent in 1990 to 70percent in 2005 and 68.6 percent in 2016. This indicates that Pakistan remains particularly competitive in some specific textile product lines.

The garment industry in Sri Lanka expanded rapidly after the liberalization of the economy in 1977. During the 1990s, the garment industry grew at 18.5 per cent perineum. The export-led expansion of the industry led to the replacement of tea by garments as the nation's largest foreign exchange earner. Moreover, the industry has been contributing to the livelihood of nearly 1.2 million people. However, the boom period for the industry is gradually coming to an end, with the quota system having ended on 1 January 2005, regional trading blocs and bilateral free trade agreements proliferating and governing nearly 33 per cent of global trade, and China emerging as major supplier of garments at very competitive rates. The Sri Lankan garment industry is now gearing itself to face these challenges.

The Sri Lankan garment industry not only needs to become competitive to face the post-2004 quota-free global challenges, but also has to take cognizance of the new trends in the global trading environment. There are new trends in the European Union and United States markets, while the emergence of China as a significant global suppliers also an important issue.

Sri Lanka gained quota-free status entry to the European Union market in March2001, with the expectation of increased garment supply to that market. Sri Lank currently faces competition in the European Union market from (a) least developed countries (LDCs), such as Bangladesh, which has duty- and quota-free access to the European Union under the Everything-But-Arms (EBA) scheme; (b) African, Caribbean and Pacific (ACP) countries, which enjoy preferential market access to the European Union under the Continuo Agreement; and lately, Eastern European countries, some of which have become European Union members and to which some European garment factories have relocated to exploit cheap labor and proximity to their market.

A comparison of Sri Lankan export performance with other countries' export performance in that market during 2000-2003 does not provide strong evidence that the quota-free-entry has resulted in significant gains for Sri Lankan garment exports (Kelegama, 2004 ed.). It appears that the window of opportunity for European Union market consolidation has been lost because of the relatively late quota-free entry.

However, Sri Lanka has gained from a reduction by the European Union of GSP rates for Sri Lankan garment exports. Sri Lanka has managed to maintain relatively high labor standards in factories to convince European Union inspectors that working conditions in factories are relatively satisfactory. There are doubts whether these concessions would be significantly beneficial given the fact that GSP concessions are conditional on fulfilling the SAARC rules of origin (RIS, 1999).

After the enactment of the Trade and Development Act of 2000, the United States adopted the Caribbean Basin Trade Partnership Act (CBTPA), the Andean Trade Preference Act (ATPA) and the African Growth and Opportunity Act (AGOA) in 2001-2002. Under these acts, garment exports from Caribbean, Latin American and sub-Saharan African countries are entitled to quota-free and preferential duty entry to the United States market after fulfilling certain conditions. These conditions are mainly related to selected textile and garment articles and fulfilling the applicable rules of origin(or reverse preferences) involving the use of United States fabrics and other inputs, which the United States demands as a *quid pro quo* and is known as the "yarn-forward rule".

There are mixed views as to the effectiveness of these arrangements. While some critics claim that the built-in reversed preferences governing these agreements have nullified the preferential advantages (Bhagwati, *The Economist*, June 2002), others have argued that, despite the reverse preference conditionality, there are overall gains from these agreements (UNCTAD, 2003; Mattoo et al., 2003). In fact, a number of Sri Lankan garment entrepreneurs have set up businesses in Mauritius, Madagascar and Kenya as well as other African countries to exploit the advantages of AGOA, just as East Asian quota-hopping garment manufacturers did in Sri Lanka in the late 1970s to gain the quota advantage there.

The United States departure from multilateralism is not confined to these arrangements. Of late, the United States has been offering bilateral agreements to various countries on the basis of "WTO-Plus" considerations. Chile, Singapore and Jordan have already completed bilateral free trade agreements (BFTAs) with the United States. These agreements were signed on the basis of initial agreements called trade and investment framework agreements (TIFAs).

Sri Lankan garment companies hold the view that, if a United States-Sri Lank bilateral free trade agreement can be worked out any time soon, Sri Lanka could consolidate its garment export share in the United States market (2.7 per cent of United States garment imports in 2003 were from Sri Lanka, and 63 per cent of Sri Lankan overall garment exports are destined for the United States market) and thus could face the post-2004 challenges more effectively.

In July 2002, the two countries signed a TIFA and since then substantial groundwork has been done to convert the TIFA to a full-fledged bilateral free trade agreement. Sri Lanka's enthusiasm for a bilateral free trade agreement with the United States was such that, at the Fifth WTO Ministerial Conference, held in Cancun, Mexico, the country departed completely from the position of the developing countries on some issues and supported the position of the United States (Kelegama and Mukherji, 2003). Obviously, it was a *quid pro quo* to expedite the possible United States-Sri Lanka bilateral free trade agreement.

What is clear is that a United States-Sri Lanka FTA has been delayed owing to the fact that 2004 was an election year in the United States with the political establishment under pressure for more protectionist measures by the clothing sector, and it was also an election year in Sri

Lanka with considerable political instability. The disaster that resulted from the December 2004 tsunami may lead to further delays as immediate government priorities lay elsewhere. Such delays may lead to the conclusion of an FTA that may be too late to be of significant assistance, similarly to the European Union quota-free status mentioned above.

The Indo-Sri Lanka Bilateral Free Trade Agreement went into effect in March2000, and one objective of this Agreement was to afford Sri Lankan garment export opportunity to diversify and capture a share of the Indian market. However, given the various para-tariffs and specific duties operating in that market and the rules of origin governing the Agreement, Sri Lankan garments have not been very competitive, to the extent that only a small number of garments have been exported to India and the quota under the ILBFTA remains significantly unmet (Kelegama, 2004, ed.).

China's threat to garment exports from other developing countries is important and cannot be set aside. The World Bank has predicted that China's share of garment exports in the world will rise to 50 per cent by 2016. In other words, Chinese exports are expected to double in six years, mostly at the expense of other developing countries. Already, the rapid rise of China's garment exports in particular categories after earlier quota removals has demonstrated how China could swallow up the share of garment exports of other developing countries.

In addition to possessing a low wage rate per worker, China benefits from a disciplined workforce, economies of scale through large-scale production, and the presence of many transnational corporations (TNCs) in the garment industry. Moreover, upon its accession to WTO in December 2001, China enjoys MFN status for its exports – a privilege that did not exist before. The number of product items under quota in China amounted to 20 per cent of Chinese garment exports before 1 January 2005, which is a large number.

Thus, it is believed that there will be significant dominance by Chinese clothing in the post-2004 period. However, it has also been argued that the threat from China may be exaggerated. First, it is argued that, with WTO entry, China will have to become money-transparent and some of its past practices to maintain low cost of production may have to be abandoned. Consequently, the low cost advantage may become somewhat eroded (RIS, 2002). It is also argued that, although labor wages in the provinces remain low, there has

been a significant increase in wages in the eastern coast, where the key garment producers are located. Monthly wages in some of these factories exceed US$90, which is higher than the monthly wages in Indonesia, Bangladesh, Viet Nam, India and Sri Lanka.

Secondly, there is a view that the United States and the European Union will have significant control over the expansion of Chinese garments in their respective markets because of two prevailing legislative regulations: (a) the safeguard regulation from 2005-2008; and (b) the anti-dumping regulation from 2005-2015.

It is argued that both of these regulations will give the United States and the European Union significant power to guard against a sudden influx of Chinese garments and thus preserve the existing foothold of other developing countries in the United States and European Union markets. It is also argued that the United States may exert pressure on China to revalue its currency – the yuan as in the case of Japan in 1971. Are valuation of the Chinese currency would further erode the competitive price advantage of Chinese garments.

It is difficult to exactly say what threat China will pose to a garment exporter in Sri Lanka. At least from the Sri Lankan experience thus far, the threat seems to be real. Three items – bag and luggage (670), W/G [Women's or Girls'] Coats (835), W/G Suits (844) – that were removed from the quotas in January 2002 went completely out of production by mid–2003 owing to competition from China. Two leading producers of some of the above-mentioned items, which employed a large number of people, had to close down consequently.

The prevailing uncertainty has been aggravated by the WTO Agreement on Textiles and Clothing (ATC), which stipulates the phasing out of the MFA. Developed countries did not strictly adhere to the phase-out mechanism of the MFA, however. For instance, by 1 January 1998, compared with the target of 33 per cent of product integration, the United States and the European Union had integrated only 1 per cent and 7 per cent, respectively (ESCAP, 2000, p. 71).

Moreover, developed countries have exploited a loophole in the MFA, where the ATC does not impose any obligation on countries to limit their integration to particular products subject

to restrictions. Therefore, Sri Lanka will not feel the full impact of the final phasing out of the MFA until early 2005.

It has been estimated that the items for which restrictions were relaxed in 2002constituted only about 4 per cent of all restricted products exported by Sri Lanka to the United States. The remaining 96 per cent were under restraint until end-2004(Weerakoon and Wijayasiri, 2004). Thus, a sense of complacency crept in among garment companies towards making the required adjustments, although this changed somewhat after the social engineering process that started after mid-2001 and may change altogether in the course of 2005.

An earlier study highlighted the fact that nearly 40 per cent of Sri Lankan garment producers will go out of production after 2004 (Kelegama and Epaarachchi,2002). The study argues that a number of new mergers and acquisitions will take place in the industry. Some large producers may resort to subcontracting through small units, while small units that fail to obtain orders will have to close down. To support small and medium-sized units in the garment industry, the Government has launched a credit guarantee scheme, as proposed in the 2004 Budget. Under this scheme, loans could be obtained without collateral.

In its Five-Year Strategy, it is argued that Sri Lanka should now shift from the low end of the market to the middle and upper levels. Currently, only 10 percent of local manufactures end up in specialty brands, while 50 per cent is taken by foreign department stores and the balance by foreign discount stores. During the five year period ending in 2007, the industry plans to increase penetration into specialty stores by 20 per cent and department stores by 60-70 per cent and reduce the dependence on discount stores by 10-30 per cent.

The plan outlines a format for achieving these objectives with a detailed discussion on: (a) a strategic framework for implementation; (b) a strategic initiative and relevant action plans for the industry; (c) an additional strategic initiative in support of small and medium-scale enterprises; (d) implementation plans; and (e) cost estimates for the strategic plan. The industry has formed eight committees to look into various aspects of the industry: (1) bilateral and multilateral issues; (2) marketing; (3) logistics and infrastructure; (4) backward integration; (5) small and medium-scale enterprises; (6) human resources, technology and

productivity; (7) labor; and (8) finance. The government has allocated Rs.100 million to increase productivity in the garment industry through the Five-Year Strategy.

The Sri Lanka Joint Apparel Association Forum coordinates the strategy management. The Association has hired a number of experts to coordinate and support its work. Although strategies have been implemented to face the post-2004 challenges effectively, the debate goes on for the post-2004 scenario – both optimistic and pessimistic views have been voiced. Optimists, such as the Central Bank of Sri Lanka, have put forward the following viewpoints: first, it is stated that, since 12 per cent of the garment manufacturers control 72 per cent of exports, there are reasons to believe that these top-end factory units are well established; commanding market niches and thus well placed to meet the post-2004 challenges.

Thus, it is argued that these top-end manufacturing units can absorb some of the smaller factories and expand their production to be competitive in the market. Secondly, it is argued that the non-quota export sat present amount to 47 per cent of garment exports; thus, a quota phase-out will not create a serious problem. Thirdly, it is argued that, if the high end of the market could be captured by producing value-added garment products – which larger units have done– Sri Lanka need not worry about competing in the world market.

While one can agree with the first point, there are serious reservations about the others. First, it is inappropriate to form a judgment based on increasing non-quota exports because what is a non-quota product for Sri Lanka may be under quota for another country, such as China. The performance of such a non-quota product when the same product comes out of quota in China – at least if one goes by past experience –may not be positive. Second, the top end of the market is equally competitive; other countries that see their quotas in this segment removed will also be aiming at this segment and competition would therefore intensify at this end of the market as well. Sri Lanka will face an uphill battle to be competitive at the top end of the market (Fonseka, 2004).

The pessimists, on the other hand, argue that whatever the percentage of exports that is controlled by the top 12 per cent firms, the garment industry as a wholes not competitive enough to show a solid performance in the post-2004 period (Forsake, 2004, and others). From the global demand front, it is said that the threat from China will be overwhelming.

Moreover, it is argued that the share controlled bother Asian countries is expected to shrink from the current 32 to 20 per cent by 2016.

Consequently, there will be competition among Asian countries to capture part of this shrinking share and in that process Sri Lanka may not necessarily be a winner. Furthermore, inadequate preparation for the post-2004 period due to the back loading factor of the MFA phase-out is also highlighted by the pessimists. From the domestic supply side, the inadequate development of backward linkages, weak forward integration, low labor productivity and increasing production costs, inter alia, are pointed out by the pessimists to highlight the lack of competitiveness. Those who argue along these lines assert that at least 100,000 workers will lose their jobs and various new mechanisms will have to be devised to look after those displaced from the garment industry.

A mixed picture emerges from current trends in the garment industry. On the negative side, it is observed that, out of the 859 firms operating in 2001, about 150 had closed down by mid-2002.20 Garment factories are experiencing a shortage of labor due to the poor working conditions and accommodations prevailing in some of the factories. In 2003 and 2004, garment exports have shown a decline in performance compared with the year 2000.

On the positive side, the top 12 per cent of factories are performing well, there has been an increase in the number of international orders, and a number of foreign garment companies, such as Levis, are opening factories in Sri Lanka. Given the strong foundations of the garment industry, Sri Lanka still has a chance of being a supplier of choice in the major international markets; however, to retain such a position, substantial restructuring is essential. Thus, irrespective of the current mixed picture, there is an urgent need to restructure the industry to face thepost-2004 period without complacency about a possible United States – Sri Lanka FTA that will come to Sri Lanka's rescue, or that the ATC will not be implemented properly after 2004, owing to concerns in the European Union and United States markets (Kelegama, 2005).

The Cambodian garment industry has developed extremely rapidly within the last 10 years, from a very minor presence in 1995, to become the major manufacturing activity in the country by the late 1990s and early 21st century. In 2003, the garment industry's estimated

value added of almost US$500 million accounted for around 12% of national GDP. The garment industry has an estimated 230,000 employees of which 85-90% is female and in the age group 18-25 years. This accounts for around 65% of total manufacturing sector employment. The estimate of 230,000 persons employed directly in the industry can only be an approximate figure since numbers vary considerably during the course of each year as much trade is seasonal. For a number of companies, for example, if the high season requirement were for a 100% workforce, then the low season requirement is only 60% of that number. The work patterns during the low season are met by arranging for some workers to return to their villages for an extended stay, at retainer wages, by releasing contracted workers at the end of their contracted periods, or by letting permanent employees leave the companies. In addition, there are many indirect jobs associated with the garment industry – perhaps as many as 150,000 related jobs.

The garment industry is estimated to have 196 companies in early 2004, located mostly in Phnom Penh and its suburbs with a few in Sihanoukville, near to the main port, and in Kompong Cham. Fifty-six companies are reported to have closed down since the mid- 1990s, so the total number of companies entering the garment industry has been 242. In addition, there are estimated to be a large number of small cottage industry sub-contracting companies that provide extra sewing capacities during peak demand periods. The industry is virtually 100% foreign owned, with most of the decision takers based in East Asia from where production orders are received, together with the fabric, accessory supplies, and delivery instructions. The foreign owners usually have similar stitching units in other Asian countries and decide in which of their units to have garment orders made-up according to quota availability, product quality, manufacturing costs, and delivery lead time.

The attractiveness of Cambodia for foreign direct investment in the mid-1990s was due to the competitive wage cost, no restrictive quotas into major global markets and GSP access to the EU market, with the added advantage that quota premiums that had to be paid in most competing countries were not paid in Cambodia. Consequently, Cambodia had cost competitive advantages over many other countries. As a result, the EU was the main market in the early years. Subsequently, even when some quotas were applied, preferential access to the US market was offered and exports to the US increased significantly.

The garment industry is dependent almost completely on imported yarns (for knitwear); finished woven and circular knitted fabrics (for woven and knitted cut and sew garments); all

accessories and almost all packing and presentation materials. The domestic material content is limited to some cardboard cartons and poly bags. As a result, the total average domestic added value content in 2003 was about US$ 442 million, i.e. the difference between the value of exports and imports. Expressed as a percentage of exports, this domestic value added content amounted to 28.6%. The garment industry is considered one of the most compliant in terms of labor practices and Cambodia has been awarded incremental increases in quota allocations by the US government (an additional 14% in 2004 of a possible increase of 18%). These countries include Bangladesh, Indonesia, Malaysia and Sri Lanka. Cambodia is one of the later entrants to the global export market with garment export sales first recorded in the middle 1990s. Cambodian garment production, while critical to the economy of Cambodia, remains relatively small in global terms with about 0.3% of garment production worldwide and 0.7% of global foreign trade, by value, based on WTO data. Thus, initiatives have generated many hopes and equally frustrations within the exporting countries including Bangladesh.

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Interview Guide: International Buyers

Principal Investigator: **Md. MoshiulAzam**
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Department of Marketing
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Date of Survey:

I. Profile

a) Name of Company
b) Type of products bought from Bangladesh
c) How long has your company been buying from BD?

II. Pre-2005

a) What was the attitude in your company prior to the MFA phase-out in 2005? Worry? Panic? In-difference?
b) Was there a conscious effort to change sourcing strategy prior to 2005?
c) Which group makes the sourcing decisions in your company?

III. Sourcing model

a) Please describe your sourcing model (work through agents, wholly owned buying office, directly with factory, etc.)

IV. Changes in sourcing model post-2005

a) Which scenario best describes your strategy with respect to number/type of factories post-2005?
    1) Consolidate work in larger factories.

2) Reduce the overall number of suppliers.
3) Shift production within the same country, but reduce the number of producers through consolidation.
4) Shift production from one country to another, but not necessarily reduce the number of producers.
5) No change.

b) When do you foresee these changes taking place?
1) They took place immediately after 2005.
2) They are taking place in 2007.
3) They will take place after 2008.

C) What changes in the roster of sourcing countries do you anticipate?

1) Company will expand its roster of sourcing countries (which countries will be added?)

2) Company will maintain existing sourcing countries.

3) Company will reduce the number of sourcing countries (which countries will you leave?

4) Country will shift the mix of countries, but basically continue to source in the same number of countries.

Business in top 5 sourcing countries

a) What are top 5 countries where you sourced your business pre-2005?

Top 5 Countries pre-2005	**Biggest advantage of this country?**	**Still in top 5 post-2005?**

b) If there are significant changes, what are the primary reasons for the change?

V. Competitiveness factors (have respondent complete this exercise)

a) How important are these factors in making a country competitive? (1=no important at all. 5 = extremely important)

Factor	Rating
1. Politics and stability in country	
2. Quality of transportation infrastructure	
3. Quality of telecom infrastructure	
4. International trade policies	
5. Labor costs	
6. Lack of restrictions on capital	
7. Potential for new customers/new markets	
8. Geographic proximity	
9. Trade agreements	
10. Strong prior relationships with factories within the country	
11. Education training of workers	
12. Policies affecting labor force (health, wages, safety, etc.)	
13. Ability to carry out "full package" production	
14. Time to market	
15. Productivity	
16. Quality to garments produced	
17. Country's tax policies and incentives	
18. Loans at lower rates	
19. Export credit schemes	
20. Existence of EPZs and bonded warehouse facilities	
21. Technology upgrades in factories	
22. Labor compliance	
23. Industrial or labor relations	
24. Low risk of strike	
25. Other costs	
26. Quality of Labor	

27. Presence of raw materials in the country	
28. Other (please specify)	

b) Of all the factors scoring 5, rank those factors in order of importance:

c) How would you rate the following countries as competitive, and what factors make it so? (1= not competitive at all. 5 = extremely competitive.)

Country	Rating	Factors
Bangladesh		
Sri Lanka		
India		
Cambodia		
Pakistan		
Vietnam		
Philippines		
Mexico		
Indonesia		
Honduras		
China		
El Salvador		

VII. Labor Compliance

a) Are you aware of the SA8000 Standards on labor compliance?

b) If yes, is it part of your selection criteria when selecting a factory?

VIII. Doing business in Bangladesh

a) What percentage of business do you currently have in Bangladesh?

b) For which markets?

- E.U.
- U.S.

- Asia
- Other
- All

c) Of the top 5 factors that you ranked above as being very important, where does Bangladesh rate on these factors?

Highly ranked factor	Rating of Bangladesh on this factor

d) What are top three reasons for sourcing in Bangladesh?
e) What are the top three barriers/difficulties to doing business in Bangladesh?
f) Do you intend to increase, decrease or stabilize your current sourcing from BG in the 2-3 years? (We can cross-check with earlier questions for reliability.)
g) What single factor would prevent you from continuing sourcing from BG

IX. Factories

a) How important are these qualities of factories (in any country) when deciding which factory you will work with? (I=not important al all. 5=extremely important.)
   a. Longstanding prior relationship
   b. Cost
   c. Productivity of workers
   d. Quality of work Speed to market
   e. Pre-production assistance
   f. Ability to deal with sophisticated designs/materials
   g. Labor standards
   h. Reliability /consistency

Are there any others not listed here that are important? Please specify.

X. Concluding general questions

a) How do you see your company's involvement in Bangladesh in the next three years:
    1) Decreasing
    2) Stable
    3) Increasing

Thanks for your cooperation and sympathy

Abstract

The Multi-fiber Agreement (MFA) was approved by the General agreement on Tariff and trade (GATT) in 1974 to regulate most of the world trade in textile and clothing. The primary objective of GATT was to institute a system of non-discriminatory free trade based on negotiated range of tariff structures. As per decision in the Uruguay Round, MFA was abolished from 1st January, 2005.

Taking advantage of MFA quotas, Bangladesh's export of apparel items, popularly known as readymade garments (RMG) in the country has flourished. Almost an unknown commodity in the 1970s and early 1980's RMG exports rose to its position of prominence within a short span of time. The growth of clothing export of Bangladesh was largely attributed to the reserved market status in North America under the MFA and to a generous Generalized System of preference (GSP) facility that allowed duty-free and quota-free market access for T & C products of LDCS to the European Union.

Till the conclusion of Uruguay Round multilateral trade negotiations, international Trade in Textile and Clothing (T&C) was outside the ambit of the GATT rules. Developed countries were able to obtain special concessions in the various rounds of GATT. It allowed them to significantly restrict entry of T&C from the developing countries in their markets.

More developing countries appeared in the global scenario as producers of T&C. It was of major concern to the industrialized countries also as 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 jurisdiction of restrictions virtually all types of T&C. The main point was that the exporting countries could capture the rents originating from the restricted supplies. Though in return they had to agree to accept the quantitative limits dictated to them under bilateral quota agreements.

It is to be noted here that the MFA and countries such as Japan governed not all trade in T&C 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.

The key feature of the quotas imposed under the MFA is that they are imposed only by a subset of countries, and only on exports from a subset of exports. For an individual exporter, the impact of these quotas is to restrict access to the MFA importer markets, and to encourage diversion of its from these restricted markets to other, unrestricted, markets. An important feature of this policy regime is that the importers allow the exporters to allocate the quotas, and hence to benefit from the higher prices in the restricted markets. This is perhaps because the original system of quotas from which the MFA evolved was of such doubtful legality under the GATT.

The Multi-Fiber Agreement was set up in 1974 as a set of formal quota agreements and restrictions, governing textiles and the clothing trade between developing countries and the developed world. The MFA replaced the 1964 Agreement in International Trade in Cotton Textiles. There are a number of reasons cited for the introduction of the MFA, although the most widely accepted is that of the developed world using it as a form of protectionism to secure their own textile industries against the threat posed by low-cost competition from less developed countries.

The presence, or the continuing threat, of export quotas reduces the opportunity for developing countries to use the relative ease of adopting new technology in the clothing sector as a first step on the ladder of economic development. At the other end of the product life cycle, it encourages economies like Hong Kong, whose natural comparative advantage in this labor-intensive industry has largely gone, to continue in production because of the quota rents that are available to incumbent exporters.

There is indeed an urgency to act fast in addressing the priority policy and institutional constraints to improving Bangladesh's overall competitiveness and that of the RMG sector. All economically sensible options to further improve competitiveness of the RMG sector. All economically sensible options to further improve competitiveness of the RMG sector need to be pursued. Bangladesh cannot afford to (and should not) let the RMG sector lose its

international competitiveness. The fact that RMG exports make up over 80 percent of the total export basket gives rise to certain vulnerabilities under the post-MFA global regime. Export concentration, in and of it self, presents a diversification challenge. But with the phase out of the MFA, and the consequent competitiveness pressures on the RMG sector, export diversification takes on new meaning for Bangladesh which must count on superior export performance in the medium-to longer term for sustained high growth and reduction of poverty, if the RMG targets on poverty and human development are to be attained.

But domestic policies and the physical environment can be shaped, for positive results. Given Bangladesh's export concentration in RMG, a two-pronged approach is essential to meet the post-MFA challenge: (a) addressing and removing overall constraints to export competitiveness to unleash forces of export diversification; (b) focusing on the key policy and institutional constraints relating specifically to the textile-RMG sector in order to seize opportunities for market expansion abroad and job creation at home. World Bank's (2005a) just completed Growth and export Competitiveness Study was a response to the first challenge.

The present study relates to the second and tries to identify the critical constraints to competitiveness of RMG sector and recommends strategic policy options available with the public and private sectors to ensure competitiveness of RMG exports in order to retain and augment Bangladesh's market share in the global marketplace.

The World Bank (2015) report examined export competitiveness challenges in a broader context, and was able to identify the generic as well as product specific constraints that undermine export competitiveness-due to policy, institutional and infrastructural bottlenecks. The study revealed a number of key cross-cutting "Behind-the-border" constraints to export competitiveness. These include weaknesses in economic governance and transport-telecom-port infrastructure; high cost of finance; cumbersome import regime and dysfunctional duty drawback system; product quality, consistency and standardization problems, poor labor skills and low productivity. The present study takes on board of findings and critical recommendations of that report before charting out a menu of strategic options for the RMG sector under the post-MFA regime.

(a) A globally competitive RMG sector is also key to poverty reduction.

(b) Trade in textile and clothing (T&C) products has been managed under Multi-Fiber Arrangement (MFA) since 1974.

(c) The world export of apparel more than doubled between 1993 and 2015, rising from about $90 billion to $288 billion.

(d) Preferential market access and ATC led to the allocation of important economic and human resources for export production.

(e) Model predictions versus actual performance.

(h) Many of the weaknesses of the RMG sector are due to cross - cutting infrastructure and governance related problems

(j) No doubt unfolding global economy will impose harsh disciplines on the economy; but there will be also opportunities for competitive sectors

(k) The effects of quota abolition will, in the final analysis, depend on the competitive strength of the sector

(l) Most analysis regards Bangladesh as 'vulnerable

(m) The Chinese price reduction reflects the elimination of quota premium.

(n) The final impact of quota abolition on individual countries depends on an array of factors in a complex way.

(o) Bangladesh has achieved a global reputation as a reliable supplier of low-value basic items of apparel.

(p) There is a suggestion that the government should actively pursue policies to quickly increase the capacity of the woven PTS such that they can meet the entire demand for woven garments.

(q) Past experience suggests that trade preference given to the LDCs by the developed world can play an important role in promoting their exports.

(r) Most of the woven RMG exports to EU do not qualify for duty-free entry as they do not meet the rules of origin.

(s) Under the existing rules of origin exports of RMG products made from imported fabric could access duty-free facility under EBA only through regional accumulation.

The above discussions clearly suggest evaluating the initiatives taken by the WTO in order to increase export of RMG from Bangladesh. Generally speaking, this type of evaluative study has not been comprehensively studies up until, in Bangladesh. Such analysis is essential for two reasons; first, in the export list, Bangladesh is heavily depended on single (RMG) commodity. Any adverse impact by the WTO initiatives may here stupendous impact to the Socio-economic condition. Second, assuming that policy makers are concerned with initiatives of the WTO with respect to RMG, but question which needs to answer is that to what extent, these policies will safeguard the industry from any external shocks. This study is a modest attempt to answer these two questions. Many research studies, articles relating to various aspects of RMG (Ready Made Garments) and WTO have been published home and abroad. A critical review of some of the important research studies/articles have been made in this study.

The main objectives of the study are:

1. To analyze the contribution of the MFA in the growth of the industry and the effects of the termination of the MFA.
2. To study whether the economy of Bangladesh can be able to outweigh the threats of Post MFA era.
3. To get an overview of the current status of RMG in Bangladesh and its contribution in export earnings, employment and GDP.
4. To examine the major WTO policies and issues those are important for RMG sector in Bangladesh.
5. To examine the trade patterns of some selected countries and their implications of its accession to the WTO.

The study basically uses the information available from secondary sources and data and information partially generated from primary survey. Information generated in the study cover all the three relevant and interrelated levels: macro, sectoral and enterprise levels. The study

has tried to capture the distinctive features of ongoing restructuring in two major sub-components in the apparels sector: knit and woven. Information required for the study was generated at different levels: secondary information collected from different sources, debriefing of garment factory owners, focus group discussions with entrepreneurs and employees, and base line survey of both entrepreneurs and employees.

To capture the current state of global apparel market as well as domestic export-oriented apparel manufacturing sector, a thorough review of the available secondary information was made. Secondary information included published reports, monographs, books, websites, articles, data bases, newspaper reports etc.

Based on the secondary information collected through the review process and debriefings of knowledgeable people, we prepare draft questionnaire. Based on draft questionnaire, we went for pilot survey. Based on pilot survey, necessary corrections were made when finalize the questionnaire. Moreover, debriefing of a number of entrepreneurs and focus group discussions (FGDs) with factory workers have provided important insights on the structure of the RMG sector, its dynamics and changes in terms of economic, technological and social aspects which helped to finalize the baseline survey questionnaire.

We conducted in-depth and semi-structured interviews with 30 factory owners (from 30 medium and large factories, sub-contractors for export and direct exporters) and 200 middle managers; as well as with the immediate past president of the BKMEA. Factory owners were selected on the basis of convenience sampling procedure and middle managers were selected on the basis of judgmental sampling procedure. All data were collected from various garments factories located in Dhaka. Most interviews were conducted in English, while some were conducted in both Bangla and English.
An interview was conducted through FGDs. In a number of sample enterprises, entrepreneurs did not allow on the workers to talk with the survey team. In such cases, FGDs were conducted either outside of those units (in their homes) or some other RMG units outside of the sample.

We conducted five focus group discussions with a total of 30 factory workers-men and women-with the idea that workers would feel more comfortable discussing various issues. Factory workers were selected on the basis of purposive sampling procedure from various garments factories located in Dhaka. The focus groups were conducted in Bangla and then translated to English for analysis.

The collected data were edited for eliminating different type of inconsistencies. For analyzing data, we employ SPSS, Mini Tab and E-Views software. Collected data were analyzed with appropriate statistical and econometric tools.

The Readymade garment (RMG) industry of Bangladesh has expanded from 3% in 1984 to 82% in 2016 (to the export list of Bangladesh) - a dramatic increase over the last three decades. Traditionally, the jute industry dominated the industrial sector of the country until the 1970s. Since the early 1980s, the RMG industry has emerged as an important player in the economy of the country and has gradually replaced the jute industry. The RMG industry is the only multi-billion-dollar manufacturing and export industry in Bangladesh. Whereas the industry contributed only 0.001 percent to the country's total export earnings in 1976, its share increased to about 82 per cent of those earnings in 2016.

The turnover of the RMG sector has reached US$ 22.5 billion in 2014-15 fiscal year which is almost 82% of Bangladesh's total export earnings. Over the two and half decades of journey, the RMG industry has experienced many ups and downs on its way due to liberalization of world trade. 3.6 million people are directly involved in the RMG sector where less-privileged women account for more than 85%.

Garments workers act as an important source of income for families and households that are landless, under-educated and without alternative means of generating wealth. Around 4 million people are depending on this sector directly and indirectly. This substantial growth requires a flawless examination must encompass embrace the changes in world trade, polices of the host country, role playing by the international agencies advocating mainly by the WTO to encourage free trade. The WTO is the international trade agency earlier popularly known by GATT. This organization has recently taken many initiatives to bolster world trade with minimum tariffs and NTBs. Before being the WTO, free trade was initiated different umbrellas, namely, Multi-Fiber Agreement (MFA), Subsequently GSP and finally GATT. After the abolisher of GATT, the WTO came into being in 1995 which rules the international trade. Since its inception, WHO has taken many steps to rule the trade and formulated polices/initiatives to help the resource-poor nations in accelerating their presence into world market. Despite criticisms, fact is that, the WTO now rules world trade but Bangladesh is unaware the impact its rule on the RMG-the single commodity on which Nation relies. The impact of such initiatives/rules has been the subject matter of the present thesis.

Currently, there are more than 5,400 RMG firms in Bangladesh (BGMEA,2016). More than 95 percent of those firms are locally owned with the exception of a few foreign firms located in export processing zones. The RMG firms are located mainly in three main cities: the capital city Dhaka, the port city Chittagong and the industrial city Narayangonj. Bangladesh RMG firms vary in size.

Based on Bangladesh Garment Manufacturers and Exporters Association (BGMEA) data, Mainuddin (2000) found that in 1997 more than 75 per cent of the firms employed a maximum of 400 employees each. Garment companies in Bangladesh form formal or informal groups. The grouping helps to share manufacturing activities, to diversify risks; horizontal as well as vertical coordination can be easily found in such group activities (Haider, 2007).

Ready-made garments manufactured in Bangladesh are divided mainly into two broad categories: woven and knit products. Shirts, T-shirts and trousers are the main woven products and undergarments, socks, stockings, T-shirts, sweaters and other casual and soft garments are the main knit products. Woven garment products still dominate the garment export earnings of the country. The share of knit garment products has been increasing since the early 1990s; products currently account for more than 52 percent of the country's total RMG export earnings (BGMEA, 2016). Although various types of garments are manufactured in the country, only a few categories, such as shirt, T-shirts, trousers, jackets and sweaters constitute the major production-share (BGMEA 2016). Economies of scale for large-scale production and export-quota holdings in the corresponding categories are the principal reasons for such a narrow product concentration (Haider, 2007).

Though Bangladesh Readymade Garment Industry is not enjoying the quantitative restriction (quota system) benefit under Multi Fiber Agreement (MFA), still has greater market access to USA and EU holding to limit the exporters of many countries like China, India, Pakistan, Indonesia etc. the giants in garment exports. It is needless to say that the ending of quantitative restriction has a chain reaction across the world. Exporters who were under quota restriction will have freedom to sell unlimited amounts of garments. The buyers of garments also will have freedom to select their preferred supplies. They will demand greater varieties, shorter

lead-times and increased product development. As a result the market will be more dynamic with greater competition between suppliers.

Naturally Bangladesh will have to face many challenges posed in terms of total globalization and trade liberalization. The garment industries of Bangladesh will have to face very high competition from China, Pakistan, India, Cambodia, Sri Lanka, Vietnam and other Southeast Asian countries that are much more developed in their textile and fabric sector. The number of low price apparel producing countries will increase due to the fact that the readymade garments industry is to some extent easy, less invested industry and also economic primer for developing economics. Countries with raw cotton origin and self-sufficient backward linkage will be able to efficiently supply apparel products to the US market –now availed of by Bangladesh (Chowdhury et al, 2009).

Emerging under the "quota" regime in the late 1970s, Bangladesh's RMG sector has developed spectacularly over the last three decades and has emerged as a major apparel exporting country in the world market. However, that quota system came to an end in 2004. Therefore, the competitiveness issue needs to be addressed, with special attention given to the long-term sustainability of the industry.

The term "competitiveness" itself is a broad concept. Its meaning, implications, adaptation and achievement vary from firm to firm, industry to industry, or country to country. Michael E. Porter is a pioneer of the "competitiveness theory" (Porter, 1990) at the national or macro level (Cho and Moon, 2000). Firm/industry-level (micro level) competitiveness depends on various parameters. However, the literature provides no universal agreement on the definition of competitiveness. For example, some researchers consider the labor cost, unit cost, exchange rate, interest rate, prices of material inputs and other price or cost-related quantitative factors for measuring the competitiveness of a manufacturing firm/industry (Edwards and Golub, 2004; Fukunishi, 2004; Cockburn and others, 1998; and Edwards and Schoer, 2002).Some other researchers consider product quality, innovativeness, design, distribution networks, after-sales service, transaction costs, institutional factors relating to the bureaucracy of export procedures and other non-price factors for measuring the competitiveness of a manufacturing firm/industry (Abdel-Latif, 1993; Chen and others, 1999; and Sachwald, 1994). The influences of both price and non-price factors on the competitiveness of a firm/industry are reflected by

market share and profit (Toming,2006). This study attempts to incorporate price, non-price and result (for example, market share) factors in order to address the international competitiveness of the Bangladesh RMG industry.

The majority of the competitiveness-related research studies focus on the "competitive performance" or the "factors influencing competitive performance". The studies consider product price, market share and other indicators to measure competitive performance, while considering wages, costs, productivity and other issues as factors influencing competitive performance. However, Fujimoto (2001) puts special emphasis on the "capability" factor that influences the competitive performance of a firm. According to him, improvement in the "capability" of a firm enhances its "competitive performance". This improvement takes time, but it ensures the long-term sustainability of a firm. In contrast, improving only "competitive performance" and not "capability" may not be sufficient to ensure the long-term development of the firm.

This study addresses the competitiveness issue from two broader dimensions: surface-level and deep-level competitiveness. Surface-level competitiveness reflects the "competitive performance" of a firm or industry that is directly observable to consumers. Deep-level competitiveness reflects the "capability" of a firm or industry that is not directly observable to consumers. An improvement in the deep-level performance enhances the performance at the surface level. The severe competition under the quota-free trading environment pressures the RMG industry of Bangladesh to enhance its surface-level competitiveness at the earliest convenient time. However, the long-term sustainability of the industry demands enhancement of deep-level competitiveness. Therefore, the future development of the industry will depend on how much importance will be given to which factors/dimensions, and how the individual firms will respond and how government policies will influence the industry. Hence, the discussion of the competitiveness of the Bangladesh RMG industry requires simultaneous consideration of both the surface and deep dimensions. In particular, this study uses (a) export value, product price, market share and lead time as surface-level indicators, and (b) linkage expansion, factory environment, product/ market composition, and "production and distribution" time as deep-level indicators for measuring the international competitiveness of the Bangladesh RMG industry.

Compliance is a major issue. Compliance means adherence to certain recognized standards. Social compliance ensures working conditions of the manufacturing unit from social, political and economic points of view. It is a code of conduct that takes into account minimum labor standards, occupational safety measures and environmental concerns. Minimum labor standards cover wages, working hours, over time, safety, job security, right to form trade union, and also social security. It also ensures non-violation of human rights. Social benefits are socially responsible management which includes bonus, cash incentive, working condition, maternity leave, medical facilities, arrangement for food including safe drinking water, prayer place, transportation, festival bonus, etc.

Compliance should be for both labor welfare and occupational safety. For safety, use of aprons, dust masks, eye masks, ear protectors, gum boots smoke detector and early rehearsed fire-fighting arrangement are very important. Social environment related to labor rights, product safety and intellectual property rights are considered to be in increasing importance now-a-days (Khan F.R., 2006). Social compliance and productivity have close relations, because without good working conditions, minimum wage, etc., the workers cannot be expected to improve their skill to produce more or quality products.

Compliance does carry some inherent risks and additional costs for the industry. Experiences with the elimination of child labor from Bangladesh RMG industry reveal that compliance initiatives are not necessarily and properly remunerated by the buyers. There are about one thousand buyers operating in Bangladesh. The compliance requirements among these buyers very widely and most buyer have their own set of codes. These codes are also changing. Many factories have multiple buyer orders running at the same time, making it difficult for producers to always comply with buyer requirements (Iftekar, 2005).

The problems associated with compliance in Bangladesh may be grouped as (a) regulatory inadequacies; (b) non-enforcement of laws; (c) lack of adequate physical facilities and governance, and (d) other problems.

The product and market composition of garments from Bangladesh requires special attention to ensure the long-term sustainability of the Bangladesh RMG industry as a prominent supplier in the global market. The export-quota system diverted the attention of some international garment suppliers from quantitative expansion to qualitative improvement of exportable

garment products. China and other competitor countries took that opportunity, but Bangladesh failed to do likewise. The country stands far behind in the race to upgrade products compared with its rivals. Bangladesh is still focused on manufacturing lower-end products, although recently the country has emerged slowly from being a lower-end producer towards becoming a middle/high-end producer, from being a simple male-wear producer to become a producer of fashionable female wear. Strengthening the process of upgrading products is very important for the Bangladesh RMG industry if it is to enhance its competitiveness. As with China and other prominent garment suppliers, Bangladesh needs to address both the qualitative and quantitative expansion of its RMG industry simultaneously in order to sustain the business in the long run. The country needs to be capable of adjusting its manufacturing capacity to frequent changes in customer demand. In addition to upgrading products, the country should try to achieve product and market diversification in order to diversify risks, gain access to new market/buyers and increase export volume.

BGMEA has greatly been contributing to the development of Social Sector of the country which is acclaimed by national and international reputation including the appraisement of the United States Department of labor (USDOL) for the last decade. Such success is deep-rooted at the wholehearted response of BGMEA to the US law (1992) banning importation of goods made by child labor.

BGMEA with the support of ILO, UNICEF and US Embassy in Bangladesh successfully eliminated child labor from the RMG industry in 1995, and rehabilitated them through special schooling and earn-and-learn program. BGMEA is committed to ensure that the labor law of the country is being followed. Sensitive issues such as maternity leave, payment of minimum wages, overtime, appointment card, ID card are being addressed by the BGMEA. BGMEA is also operating a number of projects and programs to ensure improved healthcare, workplace safety and labor rights of the garment workers in consonance with the Labor Standards set by the Govt. and ILO.

BGMEA believes in its corporate social responsibilities, both in the industry and outside the industry. Therefore with its own resources BGMEA has been involved in a number of social welfare activities.

- BGMEA runs 11 health centers with its own resources in Dhaka and Chittagong We have been running 11 health centers at Dhaka and

Chittagong to provide free treatment and medicines and advocacy on reproductive health issues and HIV-AIDS for our garment workers. BGMEA is also going to establish two hospitals for the garment workers, one at Dhaka and another in Chittagong.

- BGMEA has made Group Insurance scheme mandatory for the garment workers working in the member factories in May 2002.

- BGMEA started free labor arbitration facilities for garment workers in 1998 under the chairmanship of a retired judge. More than 2800 cases have been resolved and we have paid 33.32 million taka as compensation so far.

- BGMEA made mandatory for all its Member factories to follow the Building Code to set up factories.

- To encourage primary education for the workers' children BGMEA has been providing stipends to the meritorious children of workers. At the same time we provide special awards to the factory staffs for outstanding performance.

- BGMEA is running four free schools for the workers' children and spouse of the RMG sector.

- BGMEA has started food rationing program for workers from the August 27, 2009.

- To mark the World Sight Day-2009 BGMEA is association with Grameenphone, Islamia Eye-Hospital and Sight savers International organized free eye camps for the garment workers in the five garment industries at Ashulia and Savar area on 8thOct. 2009 and gave free treatment on eye related diseases to the workers. BGMEA also distributed free spectacles to the workers.

- BGMEA has been running skills development programs for the RMG industry in collaboration with Government and Development partners through 33 training centers in different regions of the country. People living

in the Monga affected Char areas are given special priority through this program. They are trained on different machine operating courses free of cost including free food and accommodation, and after successful completion of training they are placed in RMG factories.

- So far 12000 people are trained and placed in factories. Shortly two more centers will be launched in Tungipara and Kotalipara, Besides the BGMEA Institute of Fashion and Technology (BIFT) has been working dedicatedly to develop mid-management professional for the RMG industry since in 2000.

- BGMEA & GTZ jointly signed a MoU on Social Compliance Improvement Project. The overall objective of this collaboration is to improve the social compliance status in the SIDR and flood victims.

- Recently BGMEA handed over a cheque of Tk. 2.5 million and winter cloths to the Hon'ble Prime Minister of Bangladesh.

Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA) was formed in 1996 by the all-out efforts of few knitwear manufacturers. Soon after the formation it undertook activities to look after the interest of the knitwear sector of the country. Today it is an association of about 1700 knitwear manufacturers and exporters that represent the largest export earning sector of the country.

BKMEA has grown enormous network in home and abroad. The members are the core strength and primary network of BKMEA. Besides, BKMEA works closely with national and International bodies and maintains close relationships with all stakeholders. On areas of common interest, it also works with similar organizations like, International Apparel Federation (IAF), Global Alliance for Fair Textile Trade (GAFTT) and American Manufacturing Trade Action Coalition (AMTAC). To boost up trade and to enhance cooperation between countries, BKMEA has signed agreement with concerned associations like China Yunnan Light & Textile Industry Association on June 10, 2005, Botswana Manufacturers & Exporters Association on October 8, 2009 etc.

Presently Bangladesh is the 3rd largest knitwear exporter in the world just after China and Turkey. To lead the world apparel market, BKMEA is putting diligent efforts to diversify export market, and ensure better market access of the country's knitwear products to EU, USA, China, South Africa, Japan and other countries.

BKMEA was formed to address the following agenda.

- Protect the Interest of the Sector
- Promotion & Development of the Market
- Capacity Building of the Sector
- Social Compliance Status Enhancement
- Basic Rights Education and Awareness Raising

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

The result is assurance. Consumers and producers know that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services that they use. Producers and exporters know that foreign markets will remain open to them.

The result is also a more prosperous, peaceful and accountable economic world. Virtually all decisions in the WTO are taken by consensus among all member countries and they are ratified by members' parliaments. Trade friction is channeled into the WTO's dispute settlement process where the focus is on interpreting agreements and commitments, and how to ensure that countries' trade policies conform to them. That way, the risk of disputes spilling over into political or military conflict is reduced. By lowering trade barriers, the WTO's system also breaks down other barriers between peoples and nations.

At the heart of the system - known as the multilateral trading system — are the WTO's agreements, negotiated and signed by a large majority of the world's trading nations, and ratified in their parliaments. These agreements are the legal ground-rules for international commerce. Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody's benefit.

The agreements were negotiated and signed by governments. But their purpose is to help producers of goods and services, exporters, and importers conduct their business. Thegoal is to improve the welfare of the peoples of the member countries

The system was developed through a series of trade negotiations, or rounds, held under GATT. The first rounds dealt mainly with tariff reductions but later negotiations included other areas such as anti-dumping and non-tariff measures. The last round, the 1986-94 Uruguay Round led to the WTO's creation.

The negotiations did not end there. Some continued after the end of the Uruguay Round. In February 1997 agreement was reached on telecommunications services, with 69 governments agreeing to wide-ranging liberalization measures that went beyond those agreed in the Uruguay Round.

In the same year 40 governments successfully concluded negotiations for tariff-free trade in information technology products, and 70 members concluded a financial services deal covering more than 95% of trade in banking, insurance, securities and financial information.
In 2000, new talks started on agriculture and services. These have now been incorporated into a broader agenda launched at the fourth WTO Ministerial Conference in Doha, Qatar, in November 2001.

The work program, the Doha Development Agenda (DDA), adds negotiations and other work on non-agricultural tariffs, trade and environment, WTO rules such as anti-dumping and subsidies, investment, competition policy, trade facilitation, transparency in government procurement, intellectual property, and a range of issues raised by developing countries as difficulties they face in implementing the present WTO agreements. The deadline for the negotiations is 1 January 2005.

The WTO's overriding objective is to help trade flow smoothly, freely, fairly and predictably. It does this by:

- Administering trade agreements
- Acting as a forum for trade negotiations
- Settling trade disputes

- Reviewing national trade policies
- Assisting developing countries in trade policy issues, through technical assistance and training programs
- Cooperating with other international organizations

The WTO has nearly 150 members, accounting for over 97% of world trade. Around 30 others are negotiating membership. Decisions are made by the entire membership. This is typically by consensus. A majority vote is also possible but it has never been used in the WTO, and was extremely rare under the WTO's predecessor, GATT. The WTO's agreements have been ratified in all members' parliaments. The WTO's top level decision-making body is the **Ministerial Conference** which meets at least once every two years.

Globalization or internationalization, whatever we may call it, left both positive and negative consequences on members of world bodies. In most cases however richer countries have gained more benefits compared to their poorer counterparts. Due to weak position and absence of effective trade legislations, the latter began to suffer. The annual sessions of the 'Contracting Parties to GATT' (such as the Tokyo Round of 1979) afforded an opportunity for multilateral tariff negotiations which produce tariff schedules: these becoming binding contractual commitments when adopted by the meeting of the 'contracting Parties' and, by virtue of the Most Favored Nation Clause, tariff concessions registered with one Party becoming available to all Parties. Quantitative restrictions on imports are in principles forbidden, but exceptions exist for agriculture and for 'Parties' experiencing balance-of –payments difficulties or desiring to protect infant industries in a developing country.

Although it appeared as an inevitable force of the global economy GATT has not been able to fully satisfy the demands of the developing countries like Bangladesh. Hence their insistences on the need for another global forum like that of the United Nations Conference on Trade and Development, UNCTAD. Actually in 1964 a new Part IV on Trade and Development was added to the GATT, but no system based on reciprocal concessions and bargaining could prove wholly satisfactory to developing countries whose bargaining power is basically weak. .However, they derived considerable benefit from GATT and constituted over one-half of the membership totaling 85 States in 1979.

After commencement of the WTO in mid-1990, this international trade body began to heavily regulate global affairs. Many developing countries joined WTO with long-felt suspicion overseeing its inherent nature of prioritizing commodity to labor. Countries like Bangladesh and India had prolonged debate in their national houses before formally joining the WTO. Even the admission of China to the WTO was uncertain until late 2001, when it was finally accepted as a member to the global body at its Doha Summit of trade ministers.

One general difference, however, between the industrialized and the pre-industrial societies is in the size of the segment of the population that lives in conditions of dire poverty. In a pre-industrial society a small elite perhaps 5-10 percent, generally lives either comfortably or extravagantly by twentieth century standards. The remainder of the population lives far below the standard of minimum essentials that befit human dignity. In the industrial societies, on the other hand, the amenities of social and economic wellbeing are widely distributed among a large segment of the population.

In the world as a whole the discrepancies between rich and poor are similar to the contrasts of wealth and poverty within a pre-industrial nation. If all states are divided into two classes, developed and developing, the developed one-fourth of the world population enjoys the benefits of possessing about 78 per cent of the gross world product, while in the developing world three times as many people must survive on the remaining 22 per cent of the world's wealth.

It is worth mentioning here that most garment industry manufacturer countries are located in the South, while the consumer or the buyer countries are in the North. With Japan and USA also being garment producers and buyers simultaneously, their control over the international apparel market and its relevant things have also been tightened (Firoze and Haque, 2002).

Based on an econometric assessment of actual preferences utilization the estimates of preference erosion in the EU market for the LDCs and low income countries by Francois *et at* (2005) suggest an income gain of US$ 222.5 million in total. Bangladesh accounts for also a loss of US$ 101million and African LDCs suffer for a loss of US$ 458.3 million. For low income countries like India, there is a positive income effect of US$ 174 million. The magnitude of loss is show ever reduced substantially if all OECD countries reduce MFN tariff

rates. This is because EU has been the most aggressive in giving preferential facilities as a development initiative.

All the study findings so far, conclude the possibility of preference erosion for the LDCs. Therefore, as a part of the NAMA negotiation, various proposals have surfaced to address the issue of preference erosion, including:

- The formation of a "competitiveness fund" or other development assistance so that countries affected by preference erosion can undertake adjustment programs; and this is considered as one of the basis for 'Aid for Trade' facilitation.
- To add a "correction coefficient" which is expected to improve margins of preference for products that enjoy nonreciprocal preferential access at present, along with longer staging for these products to preserve the margin of preference.
- There can be delayed or gradual reduction of tariffs on products that have significant export activity and margins of preference.
- An 'index of vulnerability' is proposed to be developed in order to identify products of special concern to particular countries especially LDCs.
- Among the 'trade solutions' to preference erosion, there can be multilateral trade concession schemes designed to protect the preference dependent countries, and
- Compensation of preference erosion through preferences in other countries (Raihan et al, 2007).

At its inception in 1995, the World Trade Organization, a multilateral institution governing international trade in goods and services, enlisted 76 countries as member out of a potential total of 170 which fulfilled the preconditions for accession to the WTO. Although China is the world's eighth largest trading economy, (according to WTO statistics, excluding Hong Kong,

China ranks eighth for world trade, after US, Germany, Japan, UK, France, Canada, Italy), it remained outside the WTO.

China's accession to the WTO entailed a complex and lengthy process. The process of accession to the WTO is made is up of two components: (1) multilateral negotiations between the acceding country and a WTO working group on accession, which first reviews is the differences between the acceding country's trade regime and WTO rules, and then sets out the general terms of accession; and (2) bilateral negotiations between the acceding country and WTO members that establish the specific market access conditions for goods and services. These bilateral accords are then multi-lateralized in the *Protocol of Accession.*

Under the WTO's *Most Favored Nation* principle, any agreement between two members applies to all members. Initially, China agreed to apply WTO rules throughout its territorial boundaries, to make its trading regime transparent, and to maintain independent tribunals for review of administrative trade actions. Secondly, China agreed that it would hold several bilateral negotiations with other parties and would take the necessary steps in order to accede to the WTO. The absence of Permanent Normal Trade Relations (PNTR) (requires footnote explaining PNTR) agreements with the USA acted as a major barrier to China's accession. The US-China WTO bilateral agreement was signed on Nov.15, 1999, which, in effect, paved the way for the US to vote in favor of China's accession to the WTO. Earlier, China had already concluded bilateral negotiations with its other major trading partners: the EU, Brazil and India, Bilateral negotiations were also completed with other small trade partners such as Costa Rica, Ecuador, Guatemala, and Mexico. Over the last 15 years all critical milestones were achieved, and important agreements were signed by China, to ensure that it could accede to the WTO.

China's long march to the WTO has been closely followed by other member countries with great interest, and in some cases, great concern. On the one hand, many countries are optimistic that China's entry into a rule-based system will be beneficial to the global trading system and there will be important positive externalities as a result. On the other hand, China's accession to the WTO is a source of concern for many countries, which perceive China as a threat to their presence in the global market. At first, many nations were worried that such a large, highly regulated economy would disrupt the WTO's rule-based economy, which is committed to the principles of free trade. Others believe that a global rule-based trading regime cannot truly evolve without the active involvement of China- Specialists who look at China's accession

from an optimistic perspective, tend to agree that the expected changes in trading patterns arising out of China's accession may result in short-term economic losses for certain sectors in some countries. However, they stress that the dynamic benefits of China's WTO accession will outweigh these economic dislocation costs, particularly over the long-term (Groombridge 2000). Nevertheless, developed and developing countries and the least developed countries (LDCs) tend to have different perspectives on the short and medium to long-term impacts of China's accession to the WTO. It should be noted that in order to satisfy the WTO rules and obligations, China agreed to undertake a number of liberalizing and market-opining reforms. For example, US firms will subsequently enjoy unprecedented access to China's burgeoning market economy as a result of the ongoing reforms. According to the Goldman Sachs' estimate, China's accession to the WTO could lead to additional exports worth US $13 billion by 2005 (Groobridge 2000). Other economic are looking forward to finding their own niches in the Chinese market for their own goods and services.

A key feature of the period after 2001 concerns the effects of removing the quotas on apparel and textiles imposed on China and other developing economy exporters by major industrial country importers. These quotas are scheduled for abolition in January 2005 for all WTO members. Abolition gives a significant boost to the textile and apparel sectors in China, which had been one of the country's most rightly restricted by the quotas.

Accession will make China a much bigger player in world markets through three channels-the rapid growth and structural change of its economy, the liberalization undertaken in preparation for WTO accession, and the liberalization undertaken after accession in 2001. The liberalization undertaken after 2001 contributes to an increase in China's share in world exports from 4.4 percent to 7.8 percent on completion of accession. Similarly, China's share in world import markets rises from 5.8 percent in 2001 to 6.4 percent in 2007. With the removal of textile and apparel quotas, apparel exports lead export expansion with an increase in export volume of about 106 percent, followed by textiles and automobiles. The dramatic fall in protection of beverages and tobacco results imports more than doubling, followed by increases in imports of food products, textiles, agricultural products, automobile parts, and commercial services.

Among China's trading partners the largest absolute gains accrue to North America and the Western Europe, with close to half of the gains coming from elimination of the quotas they

impose on China's exports of textiles and clothing- and thus elimination of the efficiency and rent transfers to China. North America, Western Europe, and Japan also gain from China's cuts in protection, which increase China's efficiency as an export supplier and its demand for their exports.

Taiwan's welfare gain from its and China's accession to the WTO is estimated at $3.0 billion per year – the second largest gain relative to the size of the economy after China's. About half of the gain ($1.6 billion) was realized as a result of the liberalization in China and in Taiwan during 1997-2001.

The world as a whole and key developing economies that trade directly with China benefit from China's accession, but developing economies in Southeast Asia, South Asia, and Latin America that compete with China in third markets may lose from the removal of textile and apparel quotas after 2001. The losses will be largest for Vietnam- an economy that is following in China's footsteps and has a similar pattern of comparative advantage in labor-intensive products. The welfare loss for Vietnam is estimated as a 1.4 percent drop in per capita income .The loss to India is estimated to be considerably smaller as a share of per capita income, at 0.4 percent, whereas the percentage losses to other countries are very small.
Being one of the fastest growing economics in the world, China's entry in the global market both as an exporter and an importer, is going to have multidimensional implications for the Chinese economy and other economies. The implications may be better understood through an examination of the rationale for joining the WTO, as perceived by China itself, as well as examining the interests of developed countries in this undertaking.

Although the overall impacts of WTO accession on China's economy are generally positive, there are some concerns that decline in real returns to farm labor may exacerbate poverty in rural areas. Approaches that deal directly with these down China's trade policy reforms. Two policy tools that lend themselves to analysis within the model framework used here are relaxation of the barriers to labor migration from rural to urban areas and skills upgrading for workers in rural areas.

Abolishing policy barriers to labor mobility from rural to urban areas-such as residence permits, differences in social insurance, and the inability to sell agricultural land-in conjunction with accession leads to a nearly 17 percent increase in real returns to rural to workers.

This contrasts sharply with the 0.7 percent reduction in real farm wages for accession without labor market reform. Rents to farmland would decline, with higher farm wages leaving a smaller residual return to farmland. Real urban unskilled wages would decline by an estimated 3.8 percent. Clearly, there would be scope for partial reform of these arrangements that could leave both farm and nonfarm unskilled workers better off than in the absence of labor market reform. Rents to farmland would decline, with higher farm wages leaving a smaller residual return to farmland. Real urban unskilled wages would decline by an estimated 3.4 percent. Clearly, there would be scope for partial reform of these arrangements that could leave both farm and non-farm unskilled workers better off than in the absence of labor market reform.

These results suggest that this reform would have significant impacts on the number of people leaving their farm jobs for jobs in the non-farm sectors and on the industry composition of China's economy.

This would allow not only apparel production to expand more but also metals, automobiles, electronics, machinery, other manufactures, and construction, all at the expense of reductions in some agricultural sectors.

A key problem facing most rural workers is their low levels of education. One way to get a sense of the likely impacts of improving access to education is to consider the impact of resultant increases in the skill levels of rural workers on the performance of the Chinese economy. This experiment looks only at the impact of improvements in education on the skills of rural workers. It ignores any potential benefits to rural households from improvements in access to education for their children-such as reductions in school fees- and any changes in the government budget associated with increases in government spending on education.
Although output in some sectors expands, the real wages of skilled workers fall as the supply of skilled workers increases and world prices of the outputs they produce decline. This contrasts with the case of accession alone, which results in an increase in the real wages of skilled workers. However, the real wages of generally much poorer unskilled workers rise with increased education, with the wages of unskilled non-farm workers rising more than those of unskilled farm workers. Of course, those who are able to transfer from agricultural to nonagricultural employment as a result of increase educational opportunities are likely to be substantially better off.

Overall, it is clear that increased education spending will generally induce proper growth and decrease poverty. It certainly has the opportunity to substantially offset the adverse impacts on rural labor of the trade reforms associated with accession. Finally, increased education boosts the need for migration as demand for unskilled workers increases in large urban areas. An estimated 10 million farm workers are expected to exchange farm jobs for non-farm ones. The impact on consumer prices **is** small-with falling prices for farm products and rising prices for manufactured commodities.

The combination of removing labor market barriers and increasing education spending creates the most favorable scenario for unskilled farm labor, leading to the largest increase in real farm wages (19.4 percent).Farm output contracts more than in the case of labor market reform alone, whereas skilled labor-intensive industries such as metals, automobiles, electronics, other manufactures, and services expand more than in the case of labor market reform alone or increased education spending alone. Under this scenario, an estimated 32 million farm workers would leave their farm jobs in urban areas.

These results suggest that to generate pro-poor growth over the next decade, the government should consider both removing policy barriers to labor movement and changing the composition of spending to favor education. Not only would these policies facilitate the transformation of China's economy toward services and high-tech manufacturing sectors, but they also have the potential to more than offset any negative impacts of accession on rural wages and incomes.

The analysis suggests that the reforming economics and their close trading partners will be the biggest beneficiaries of accession to the WTO. China is undertaking the greatest reform and will gain the most. The North American and Western European economics that abolish their export quotas on textiles and clothing and increase their direct trade with China will gain the most in absolute terms. Taiwan will benefit substantially, both as a consequence of its own liberalization and through strengthened trade links with China. Japan will gain substantially because of increased export opportunities in China and China's increased competitiveness as a supplier. Other industrializing and industrialized economies that are China's largest trading partners will also be substantial gainers (Ianchovichina and Martin, 2004).

Bangladesh has high quota fill rates, where China's QUR is low; similarly China has high QUR in 6 categories where Bangladesh has low QUR. It is to be noted that countries have discretion in fulfilling quotas from various items belonging to the same category. China, with its strong backward linkage, and relatively strong capacity in the production of high quality items tends to choose its quotas from higher (price-wise) product items in the categories. Thus, for example, though both China and Bangladesh post high QUR in certain categories, Bangladesh tends to utilize the quota from the lower end of the market while China does the same from the higher end of the market. This is evident from the average price of the products in the same category accrued to China and Bangladesh.

As a matter of fact, the average price of products exported to the US by China is found to be 50% higher than that of Bangladesh in most cases. Once quotas are phased out, China's current restrictions will be eliminated and it will then be allowed to export low priced items in the same category in addition to the current higher end items.

This is an important change which Bangladesh may expect once quota restrictions are withdrawn in the US market. On the other hand, both countries have high QUR which they share with some other countries.

In addition, the tariff rates applied to important export categories of Bangladesh are also considerably high in the US market. If Bangladesh fails to achieve any preferential treatment in the US market under a revised Generalized System of Preferences (GSP), in the context of the prevailing market access conditions, China's higher productivity will definitely give it a competitive edge in the US market.

It has already been mentioned that Bangladesh's exports to China have been rather insignificant- only 10.61 million USD. The trend has been erratic. Bangladesh has already liberalized its impacts dramatically. Consequently, China's accession is not likely to have serious implications in terms of Bangladesh's import sourcing. However, in accordance with commitments undertaken as part of the accession agreement, China will need to reduce tariff and non-tariff barriers significantly. As a result access to Chinese markets will be eased. As part of the accession deal, China will cut average tariffs from 16.8 percent to 9.4 percent. The Tariff on agricultural products will be reduced to an average of 17 percent by the year 2014.

This tariff reduction may potentially create scope for enhancing the export of shrimp, frozen food and raw jute from Bangladesh.

Although there is a general concern regarding Bangladesh's competitiveness over China, price competitiveness data computed for Bangladesh (US market unit price multiplied by the price deviation of major Bangladeshi products from average world price) leaves some scope for optimism, at least for some particular products at the Harmonized Tariff Schedule (HTS) 10-digit level, in the short-run.

According to the estimates, Bangladesh has significant price advantage in some products (at the HTS 10-digit level) over other countries, except Pakistan. Bangladesh was able to increase its competitiveness situation with China in some of the apparel items. In these selected items, Bangladesh's prices are below world market prices, whereas China's prices are above the world average level. In a very few non-quota items, Bangladesh also enjoys price competitiveness over China. In the previously stated context, it is expected that Bangladesh will be able to continue to retain market share in the US at least in the case of the abovementioned apparel items.

The US plan to phase out quotas on Chinese exports of textiles and garments is a significant issue in this context. The data would suggest that quota withdrawal does not make Bangladeshi exports automatically price uncompetitive vis-à-vis China. However, from a dynamic perspective, the economies of scale accrued to China in the context of a quota-free regime may create a situation where Bangladesh's price advantage in those selected items may be eroded. It is important for Bangladesh to negotiate with the major trade partners under the ATC integration mechanism to accelerate the quota expansion facility for LDCs, which may provide Bangladesh with some added advantage during the run-up to the MFA phase out.

International competitive advantage in product group is ultimately maintained and improved through continuous improvement in productivity. Though Bangladesh has an advantage in terms of cheap labor, the low productivity actually erodes the competitive strength in the product market.

Low productivity driven by a low level of technology also prevents movement up along the demand curve. Data show that the hourly wage rate in Bangladesh's garments sector was low

compared to some selected countries; however, the country's productivity was significantly low compared to other countries.

As a result, Bangladesh was unable to translate its comparative advantage in cheap labor into competitive advantage in cheap products. Compared to China, the wage rate is 56% lower in Bangladesh. It is difficult to comment on the current extent of wage/cost advantage enjoyed by Bangladesh over China since adequate data is not available. There is a possibility that the advantage may have narrowed down, partly because of a higher rate of devaluation in some of the competing countries.

It is evident from available projections that China's apparel market will expand at a more rapid pace after its integration into the WTO. The advantage of scale economies will increase productivity of Chinese labor further, which might threaten the market share of products even at the lower end of the demand curve for apparel products.

With China's production costs now rapidly rising in yarn and US$ terms, there are strong reasons to compare labor costs in apparel manufacturing countries. The study released by U.S consulting from Jassin O'Rourke and published by Emerging Textiles.com reveals that seven Asian countries are now offers a labor cost comparison within each region of the planet from Latin America to Eastern European and Africa-Middle East, as reflected by our series of statistical tables. For the first time this year, U.S consulting firm Jassin 0'Rourke publishes its comparison of labor costs in apparel manufacturing countries. With China's costs so rapidly increasing, there are strong reasons to assess and compare labor costs in a large number of countries.

China-US and China-EU textile agreements have ensured a smooth transition to post-quota era and created a foreseeable and stable trading environment for Chinese textile and clothing industry in the 2-3 years to come. The agreements are helping recover the normal trade flows between China and the US and the EU which were disrupted by the uncertainty and chaos that safeguards measures had aroused, while allowing a steady growing market share of Chinese textile and clothing in the US and EU. Apart from that, the voices of some of the developing countries that had been complaining about China's exports could go lower, since the agreements also provided these countries with an extra period for adjustment and adaptation.

Global economic grow this forecasted to be around 3% in 2016, indicating that there will be a stable market demand for Chinese textile and clothing. China's major markets show positive signs of growth: Japan remains on its way to recovery; the US maintains fast growth: and the EU keeps steady increase, although at a lower level.

The economic globalization will continue to bring about more opportunities and possibilities for Chinese textile and clothing companies to develop international cooperation in the fields of sourcing, manufacturing, innovation, brands, marketing &etc.

The continuous and robust economic growth in Chinese generates huge domestic market potentials for China's textile and clothing industry, the ultimate momentum for the industry to thrive. It is projected that China's economic growth rate in 2006 will be well above 9%, and will remain over 8% for the next five years. With its 1.3 billion populations, China has now become world's biggest fiber consumption market, with its fiber consumption per capita rising from 4.1 kg in 1980 to 14 kg in 2005.

China's market opening moves in the implementation of its WTO commitments have provided remarkable opportunities for world's textile and clothing companies, In 2006, China's overall commodity tariff rate is 9.9%. Specifically, the average tariff for textile and clothing is 11.4%, 9.6% for textile and 16% for clothing respectively. Apart from significant tariff cuts, China had also opened up its foreign trade and distribution sectors in 2004, allowing foreign companies to conduct international trade and distribution activities in China. These measures have attracted an increasing number of international fashion brands who moved quickly to set up their stores and distribution channels in China.
The comprehensive competitiveness of Chinese textile and clothing industry, including capacity, quality, price, delivery time, labor cost, service, availability of raw materials, efficiency, management, infrastructure &etc. , although facing the danger of losing edge to some competitors, remains to be quite attractive to foreign buyers for the time being.

Trade protectionism in various forms continues to be a major threat to the industry, such as anti-dumping and safeguard measure, especially after 2007/08. After China reached the textile agreements with the US and EU, trade fractions with developing countries have become more prominent. In addition, the emerging tendency to put the issue into Doha round talks needs to be warned against.

Lack of brands and less value added production are severe problems that the industry has to tackle with internally. Although the industry is big in its size of exports, its growth could be mainly attributed to quantitative growth of low-end products, the price of which is a major means of competition. Due to lack of branding and designing capabilities, the sector can only make money from manufacturing, which accounts for a merely 10% of the total value that is added throughout the supply chain. This has been regarded as a major problem that could curb the industry from further upgrading in longer term.

Rising costs in labor, raw materials and energy are adding extra burden on exporters. For example, China is now 20-30% higher than Vietnam, Sri Lanka and Cambodia in labor costs, which undoubtedly make it less competitive. Parallel with the improvement of the living standard of farmers in rural areas where most of the textile workers come from, previously abundant supply of labor became to show signs of shortage. Soaring oil prices, as well as increasing costs of land, water and power will make the pressure even heavier.

Possible RMB appreciations also prominent factor that will have significant impact on the industry which has already run on the basis of very low profit margin. It is estimated that every 1% appreciation of Chinese currency will result in a 2%-6% reduction in the profit margin of the sector. Although Chinese exporters could still manage to live with the 2.1% rise of the Chinese exchange rate adopted in July 2005, any further appreciation would possibly mean shift of orders and loss of profits.

The growing-up of some competitors is posing challenges to China's exports, India, Pakistan and Bangladeshi industries have already implemented long-term developing strategies to enhance their all-around competitiveness, and their governments also take concrete measures and initiatives to encourage their industrial upgrading.

Structural readjustment and industrial upgrading will be further pursued on the basis of maintaining the current scale of trade. Specifically, the industry will focus on transforming from a growth model based on quantitative increase to the one based on quality and efficiency improvement.

Developing China's own brands is a long-term task for the industry. To achieve that goal, the industry will start with manufacturing higher-end products instead of merely concentrating on cheaper end of the market, and move up along the value chain with more customized and integrated service and value-added activities, such as product designing, logistics, material sourcing, & etc. It can be expected that after decades of efforts, a few outstanding companies will be able to penetration to international marketing and distribution networks, and ultimately build up their own brand names in world market.

Dialogues and cooperation with textile and clothing industries of other countries, particularly the developing countries and LDCs, will be strengthened, aiming to generate mutual benefits for both China and its trading partners.

By adopting the strategy of "going global: The industry will take more active moves to invest abroad by setting up overseas production facilities, R &D and distribution centers, to diversify risks as well as obtain maximum benefits from globalization.

Resource- efficient and environment-friendly production and CSR compliance will be further stressed within the sector with a view to building up a harmonious society.

Since China's entry into the WTO, especially the elimination of quotas, Chinese textile and clothing industry has been undergoing remarkable growth, as well as many difficulties, especially in various forms of restriction, such as safeguards and anti-dumping measures. The impact of the change of global textile and clothing trade regime has been far-reaching and extensive. An increasing number of Chinese exporters have come to be aware that they could no longer survive in this complicated trade environment and increasingly intense competition with a business model based merely on quantity. They must focus on quality and efficiency, move up to more value-added parts along the supply chain make quicker reactions to market and policy changes and be more responsive to social and environmental needs. Accordingly, the strategies of technical innovation, industrial restructuring and upgrading, brand promotion, "going global" as well as CSR compliance have been adopted by the industry to better compete in this changing environment, thus helping to maintain the healthy and sustainable development of the sector(China Chamber of Commerce for Import & Export of Textiles, 2006).

Demand for outerwear in the market will continue to increase slightly in the coming years. The number of garments purchased per head of the population will continue to rise, but prices will not follow the growth rate. Imports from developing countries have increased considerably in volume but against much lower prices.

However, it may be noted that China's garment export plans for 2005 represent only 20% of global foreign trade and China's entry into the US and EU markets may be subject to temporary safeguard measures. This means that 80% (some US$200 billion) remains available for other exporting countries to share. Typically, fiber-producing countries such as India, Indonesia, Morocco, Pakistan, Turkey, etc. are gearing their industries to increase garment exports.

Non-textile fiber producing countries are also planning to increase their garment exports, often by building backward linkages to improve their delivery lead time competitiveness, e.g. Bangladesh, Madagascar, Mauritius, Sri Lanka, etc. Viet Nam will become a stronger garment exporter once it meets the requirements for WTO membership Eastern European countries (i.e. CzechRepublic, Hungary, Poland, Romania, etc.) have all increased garment exports during the last 15 years on the basis of Outward Processing Trade (OPT) work from Western European garment producers. Italy and Germany in particular have built up more competitive garment operations, especially for tailored garments.

However, as the EU expands it is expected that manufacturing costs in Eastern Europe will also increase and that these opportunities will only last for a few years. Egypt and Syria have significant indigenous cotton crops that are mainly sold as lint cotton at present.
Both countries are formulating plans to convert more of the crops into value added products. There are a number of smaller garment producing countries in the region with industry profiles similar to that of Cambodia, such as Lao PDR and the Fiji Islands. They have foreign-owned garment industries dependent on offshore owners supplying production orders, fabrics and accessories to fill their stitching capacities.

The host countries offer product quota advantages, competitive wages and preferential market access provided by the importing countries, e.g. the US, EU, Canada, Norway, Australia and New Zealand. The host countries include the AGOA and Caribbean countries, LDCs and other African, Caribbean and Pacific (ACP) countries not included in the other categories. The value

to offshore owners of the garment-manufacturing units in some of these countries will undoubtedly change in coming years and this is of concern, especially when considering the future advantages of the Cambodian industry.

Indian's relationship with textiles began as early as 3000 B.C with the use of organic dyes and block prints. Even today, intricate hand weaving, delicate embroideries and richness of fabric like Indian silk and satin attract people from all over the world. According to the authors estimates India's textile and apparel sector equals USD 54 Billion currently (both domestic and exports). This is expected to grow to USD 158 Billion by 2020. With many trading restrictions being removed, technological advancements, availability of multi-fiber based raw material, well established production bases, design capabilities, knowledgeable and skilled labor and various government initiatives, India is poised for tremendous growth in this sector. The Indian Textile and Apparel industry is also experiencing rapid changes and growth following increased consumption. Apparel, today, has the largest share of the modern organized retail in India. Consumers are now pampered with a wide variety in apparel and modern format stores. Increasingly, international and local brands and attractive discount sales are trying to woo the Indian consumers away from traditional stores, the tailor and the large unorganized market (Research and Markets, 2010).

However, the growth potential of the textile and apparel sectors in India has been severely restricted through domestic regulations and international factors including the Multi-Fiber Arrangement (MFA). The textile and apparel sectors in India have traditionally been subject to a number of government regulations through reserving parts of each sector for small-scale industry and maintaining employment even at the expense of sharp decline in productivity.

The cotton spinning and weaving activities have also been protected against competition from man-made fibers through restrictions against their imports. The low efficiency of the processing sectors motivates the government to fix quotas on export of cotton, which further leads to lower returns to cotton growers. Such distortions lead to loss of competitiveness of the clothing industry, perhaps the sector, which has the maximum growth and employment potential in a distortion free economy.

Apart from having been subjected to a plethora of domestic regulations and restrictions, the textile and apparel sectors of India's economy have also faced disabilities imposed by regulations imposed on world trade in textiles and readymade garments through MFA since 1974. Under this Arrangement, the developed countries imposed quotas on exports of yarn, textiles and apparel from developing countries.

The MFA has turned out to be an instrument of forced consensus designed to manage textile and apparel trade to the advantage of countries that were fast losing international competitiveness in these lines of production. The developing countries are supposed to have a quota administration mechanism, which would regulate the exports of yarn, textiles and apparel to the MFA listed developed countries.

One of the most important accomplishments of the Uruguay Round was the Agreement on Textiles and Clothing (ATC), which would bring MFA-restricted goods under GATT disciplines. Under this liberalization process, the MFA quota-regime would be gradually phased out during a 10-year transition period commencing from 1995. The import tariffs are also being reduced on both textiles and clothing and on a wide range of other goods. However, the rates of tariff reduction on textiles are considerable lower compared to most other goods. The MFA abolition offers great opportunities for exporting countries, particularly in South and Southeast Asia, to expand textile and clothing exports and stimulate demand for fibers (Elbehri*et al.*, 1998). The expansion of these labor-intensive sectors is likely to have a positive impact on employment in exporting countries. Tightly restricted exporters like India, Pakistan and Sri Lanka are more likely to be net beneficiaries under the ATC. The less restricted exporters (Bangladesh) or mature markets like South Korea, Taiwan and Hong Kong have large quotas relative to their export levels (Yang *et al.*, 1997; and Martin 1996).

India may also gain more than some other textile and apparel exporters from MFA elimination since it has been shown that these quotas tend to discriminate more strongly against relatively labor-intensive component of MFA controlled goods, viz. cotton based fibers, which dominate India's in India's exports (Martin, 1996). Since India has a natural comparative advantage in cotton and cotton-based fibers, abolition of the MFA has an implicit potential to benefit India's cotton industry as well as cotton based textiles and clothing sectors (Elbehri*et al.*, 1998).The World Trade organization (WTO) stipulates that the MFA shall be phased out by the end of

2004 thus integrating trade in textiles and clothing into the General Agreement on Tariffs and Trade (GATT) rules (Chadha et al, 2010).

Ready Made Garments: WTO Implications

- Upto 1995, textile trade regulated by Multi Fiber Agreement (MFA) - enabled importing countries(mainly Western) to impose quota restrictions on exports from developing countries
- Quotas imposed on selective basis - India and Pakistan clubbed together with lower quota, Sri Lanka marginally higher quota, Bangladesh with no quota and so on
- With the formation of World Trade (WTO) in January 1995, MFA replaced by Agreement on Textiles and clothing (ATC); MFA to be phased out over a 10-year period from 1995
- Scope for increased market access during the transition period of 10 - years for products under quota system.
- Market size of quota-imposing countries large - exports could become more competitive.
- Indian exporters stand to gain with the opening up of markets hitherto restricted (India Markets, 2010).

Cotton, cotton-related products, textiles, and apparel are important commodities and comprise critical agricultural and industrial sectors in Pakistan and India. A number of key developments are emerging domestically and globally that potential will have profound effects on the cotton–textile–apparel sectors of the two economies.

The industries face the challenge of remaining competitive in the context of the elimination of the Multi-Fiber Agreement (MFA) quotas on textile and apparel trade under the World Trade Organization (WTO), the emergence of China as a huge textile and apparel exporter, and new and potential intraregional trade agreements. Implementation of the final WTO ruling against U.S. cotton subsidies, a new U.S. farm bill in 2008, and a possible agreement to multilaterally reduce cotton subsidies and tariffs across the related textile and apparel sectors in the Doha

Round WTO negotiations may also affect the cotton and related processing industries of Pakistan and India. .

In 2005, the size of the world market for textiles was $203 billion. It has grown strongly in the past 15 years. In the 1990s, the average annual growth of the market was about 5 percent. In 2003 and 2004, its annual growth was more than 10 percent, slowing in 2005 to 3.9 percent. The European Union (EU-25) captures a third of the total world export of textiles. This is mainly intra-EU trade. Its textile trade with the rest of the world accounts for less than 12 percent of the total. China has a rapidly growing share in the world textile market.

In 1990, China accounted for 6.9 percent of the world export of textiles. Its exports surged after 2000. By 2005, China had a share of 20.2 percent of the world market. The shares of the other major producers of textile are generally stable, implying falling shares for several other countries. Hong Kong's share, which is mostly due to re-exporting, is about 7percent, and the United States has about the same level. The share of India was about 4 percent in 2005and Pakistan's was 3.5 percent.

In 2005, the total world exports of clothing amounted to $275.6 billion, somewhat larger than the world market for textiles. It is also growing strongly, with an average growth of 8.3 percent in the 1990s, rising to 17.6 percent in 2003, 11.4percent in 2004, and then slowing to 6.4 percent in 2015.

Similar to the world market structure for textiles, the European Union has the largest share in the world market for clothing, and, again, this is mostly intra-EU trade. There is remarkable growth in China's exports of clothing with its share of the world market increasing from 8.9 percent in 1990 to 26.9percent in 2015. India's share is stable at about 3 percent. The share of Pakistan is also stable at about 1 percent.

Three major shifts in the rules have governed the international trade of textiles and clothing during the past 30 years. From 1974 to 1994, the rules set in the MFA provided the parameters for bilateral negotiations of how quotas on textile and clothing trade were determined. Under the MFA, discriminatory quotas were allowed in areas where the increase in imports had the

potential to cause domestic market disruptions. The European Union, Austria, Canada, Finland, Norway, and the United States applied quotas exclusively to developing country exports.

With the advent of the WTO in 1995, the WTO Agreement on Textiles and Clothing (ATC) was designed to provide a transitional phase between the MFA and the full integration of the textile and clothing industry into the multilateral trading system. Under the ATC, Canada, the European Union, Norway, and the United States retained some quota restrictions until January 1, 2005, when the quotas on textile and clothing trade were lifted and replaced by tariffs only.

Before the lifting of the quotas, a number of studies estimated the potential effects of liberalized international trade of textiles and clothing. Nordics (2004), for example, argued that China and India would come to dominate world trade. The share of China alone was predicted to reach more than 50percent during the post-ATC period.

Although the world share of India has not shown significant enlargement thus far, India's share in the world market will likely improve in the near future with the surge in cotton production because of the implementation of the But cotton program and the ongoing policy reforms in the textiles and apparel sectors in India (BediandCororaton, 2008).

Martin (2004) examined the possible effects of quota elimination on Pakistan and argued that improvement in productivity is the key issue if Pakistan is to gain shares in the world markets. This is because the international markets will be more price responsive after the abolition of the quota.

This will present opportunities for suppliers with high productivity, whereas suppliers that lose competitiveness can expect to suffer losses in market shares. Thus, for Pakistan, Martin concludes that "raising productivity—either by improving the efficiency of the production process or the range and the quality of the products produced—is key to reaping the benefit from the abolition of the MFA." The same implication may hold for India as well.

Even with the abolition of the MFA, Pakistan's exports of textile yarn, fabric, etc. that goes to the restricted markets have not declined relative to its overall exports of these items. Data shows that the share of Pakistan's exports of textile fibers that go to markets of the European Union,

United States, Canada, and Norway has declined from 34.4 percent in 2002 to 20.7 percent in 2016. Thesis due to Pakistan's efforts to increase value added by processing fibers into yarn, fabric, garments, and textile made-ups .However, the shares of textile yarn, fabric, etc. and clothing and accessories remain high. The combined ratio increased from 52.9 percent in 1990 to 70percent in 2005 and 68.6 percent in 2016. This indicates that Pakistan remains particularly competitive in some specific textile product lines.

The garment industry in Sri Lanka expanded rapidly after the liberalization of the economy in 1977. During the 1990s, the garment industry grew at 18.5 per cent perineum. The export-led expansion of the industry led to the replacement of tea by garments as the nation's largest foreign exchange earner. Moreover, the industry has been contributing to the livelihood of nearly 1.2 million people. However, the boom period for the industry is gradually coming to an end, with the quota system having ended on 1 January 2005, regional trading blocs and bilateral free trade agreements proliferating and governing nearly 33 per cent of global trade, and China emerging as major supplier of garments at very competitive rates. The Sri Lankan garment industry is now gearing itself to face these challenges.

The Sri Lankan garment industry not only needs to become competitive to face the post-2004 quota-free global challenges, but also has to take cognizance of the new trends in the global trading environment. There are new trends in the European Union and United States markets, while the emergence of China as a significant global suppliers also an important issue.
Sri Lanka gained quota-free status entry to the European Union market in March2001, with the expectation of increased garment supply to that market. Sri Lank currently faces competition in the European Union market from (a) least developed countries (LDCs), such as Bangladesh, which has duty- and quota-free access to the European Union under the Everything-But-Arms (EBA) scheme; (b) African, Caribbean and Pacific (ACP) countries, which enjoy preferential market access to the European Union under the Continuo Agreement; and lately, Eastern European countries, some of which have become European Union members and to which some European garment factories have relocated to exploit cheap labor and proximity to their market.

A comparison of Sri Lankan export performance with other countries' export performance in that market during 2000-2003 does not provide strong evidence that the quota-free-entry has resulted in significant gains for Sri Lankan garment exports (Kelegama, 2004 ed.). It appears

that the window of opportunity for European Union market consolidation has been lost because of the relatively late quota-free entry.

However, Sri Lanka has gained from a reduction by the European Union of GSP rates for Sri Lankan garment exports. Sri Lanka has managed to maintain relatively high labor standards in factories to convince European Union inspectors that working conditions in factories are relatively satisfactory. There are doubts whether these concessions would be significantly beneficial given the fact that GSP concessions are conditional on fulfilling the SAARC rules of origin (RIS, 1999).

After the enactment of the Trade and Development Act of 2000, the United States adopted the Caribbean Basin Trade Partnership Act (CBTPA), the Andean Trade Preference Act (ATPA) and the African Growth and Opportunity Act (AGOA) in 2001-2002. Under these acts, garment exports from Caribbean, Latin American and sub-Saharan African countries are entitled to quota-free and preferential duty entry to the United States market after fulfilling certain conditions. These conditions are mainly related to selected textile and garment articles and fulfilling the applicable rules of origin(or reverse preferences) involving the use of United States fabrics and other inputs, which the United States demands as a *quid pro quo* and is known as the "yarn-forward rule".

There are mixed views as to the effectiveness of these arrangements. While some critics claim that the built-in reversed preferences governing these agreements have nullified the preferential advantages (Bhagwati, *The Economist*, June 2002), others have argued that, despite the reverse preference conditionality, there are overall gains from these agreements (UNCTAD, 2003; Mattoo et al., 2003). In fact, a number of Sri Lankan garment entrepreneurs have set up businesses in Mauritius, Madagascar and Kenya as well as other African countries to exploit the advantages of AGOA, just as East Asian quota-hopping garment manufacturers did in Sri Lanka in the late 1970s to gain the quota advantage there.

The United States departure from multilateralism is not confined to these arrangements. Of late, the United States has been offering bilateral agreements to various countries on the basis of "WTO-Plus" considerations. Chile, Singapore and Jordan have already completed bilateral

free trade agreements (BFTAs) with the United States. These agreements were signed on the basis of initial agreements called trade and investment framework agreements (TIFAs).

Sri Lankan garment companies hold the view that, if a United States-Sri Lank bilateral free trade agreement can be worked out any time soon, Sri Lanka could consolidate its garment export share in the United States market (2.7 per cent of United States garment imports in 2003 were from Sri Lanka, and 63 per cent of Sri Lankan overall garment exports are destined for the United States market) and thus could face the post-2004 challenges more effectively.

In July 2002, the two countries signed a TIFA and since then substantial groundwork has been done to convert the TIFA to a full-fledged bilateral free trade agreement. Sri Lanka's enthusiasm for a bilateral free trade agreement with the United States was such that, at the Fifth WTO Ministerial Conference, held in Cancun, Mexico, the country departed completely from the position of the developing countries on some issues and supported the position of the United States (Kelegama and Mukherji, 2003). Obviously, it was a *quid pro quo* to expedite the possible United States-Sri Lanka bilateral free trade agreement.

What is clear is that a United States-Sri Lanka FTA has been delayed owing to the fact that 2004 was an election year in the United States with the political establishment under pressure for more protectionist measures by the clothing sector, and it was also an election year in Sri Lanka with considerable political instability. The disaster that resulted from the December 2004 tsunami may lead to further delays as immediate government priorities lay elsewhere. Such delays may lead to the conclusion of an FTA that may be too late to be of significant assistance, similarly to the European Union quota-free status mentioned above.

The Indo-Sri Lanka Bilateral Free Trade Agreement went into effect in March2000, and one objective of this Agreement was to afford Sri Lankan garment export opportunity to diversify and capture a share of the Indian market. However, given the various para-tariffs and specific duties operating in that market and the rules of origin governing the Agreement, Sri Lankan garments have not been very competitive, to the extent that only a small number of garments have been exported to India and the quota under the ILBFTA remains significantly unmet (Kelegama, 2004, ed.).

China's threat to garment exports from other developing countries is important and cannot be set aside. The World Bank has predicted that China's share of garment exports in the world will rise to 50 per cent by 2016. In other words, Chinese exports are expected to double in six years, mostly at the expense of other developing countries. Already, the rapid rise of China's garment exports in particular categories after earlier quota removals has demonstrated how China could swallow up the share of garment exports of other developing countries.

In addition to possessing a low wage rate per worker, China benefits from a disciplined workforce, economies of scale through large-scale production, and the presence of many transnational corporations (TNCs) in the garment industry. Moreover, upon its accession to WTO in December 2001, China enjoys MFN status for its exports – a privilege that did not exist before. The number of product items under quota in China amounted to 20 per cent of Chinese garment exports before 1 January 2005, which is a large number.

Thus, it is believed that there will be significant dominance by Chinese clothing in the post-2004 period. However, it has also been argued that the threat from China may be exaggerated. First, it is argued that, with WTO entry, China will have to become money-transparent and some of its past practices to maintain low cost of production may have to be abandoned. Consequently, the low cost advantage may become somewhat eroded (RIS, 2002). It is also argued that, although labor wages in the provinces remain low, there has been a significant increase in wages in the eastern coast, where the key garment producers are located. Monthly wages in some of these factories exceed US$90, which is higher than the monthly wages in Indonesia, Bangladesh, Viet Nam, India and Sri Lanka.

Secondly, there is a view that the United States and the European Union will have significant control over the expansion of Chinese garments in their respective markets because of two prevailing legislative regulations: (a) the safeguard regulation from 2005-2008; and (b) the anti-dumping regulation from 2005-2015.

It is argued that both of these regulations will give the United States and the European Union significant power to guard against a sudden influx of Chinese garments and thus preserve the existing foothold of other developing countries in the United States and European Union markets. It is also argued that the United States may exert pressure on China to revalue its

currency – the yuan as in the case of Japan in 1971. Are valuation of the Chinese currency would further erode the competitive price advantage of Chinese garments.

It is difficult to exactly say what threat China will pose to a garment exporter in Sri Lanka. At least from the Sri Lankan experience thus far, the threat seems to be real. Three items – bag and luggage (670), W/G [Women's or Girls'] Coats (835), W/G Suits (844) – that were removed from the quotas in January 2002 went completely out of production by mid–2003 owing to competition from China. Two leading producers of some of the above-mentioned items, which employed a large number of people, had to close down consequently.

The prevailing uncertainty has been aggravated by the WTO Agreement on Textiles and Clothing (ATC), which stipulates the phasing out of the MFA. Developed countries did not strictly adhere to the phase-out mechanism of the MFA, however. For instance, by 1 January 1998, compared with the target of 33 per cent of product integration, the United States and the European Union had integrated only 1 per cent and 7 per cent, respectively (ESCAP, 2000, p. 71).

Moreover, developed countries have exploited a loophole in the MFA, where the ATC does not impose any obligation on countries to limit their integration to particular products subject to restrictions. Therefore, Sri Lanka will not feel the full impact of the final phasing out of the MFA until early 2005.

It has been estimated that the items for which restrictions were relaxed in 2002constituted only about 4 per cent of all restricted products exported by Sri Lanka to the United States. The remaining 96 per cent were under restraint until end-2004(Weerakoon and Wijayasiri, 2004). Thus, a sense of complacency crept in among garment companies towards making the required adjustments, although this changed somewhat after the social engineering process that started after mid-2001 and may change altogether in the course of 2005.

An earlier study highlighted the fact that nearly 40 per cent of Sri Lankan garment producers will go out of production after 2004 (Kelegama and Epaarachchi,2002). The study argues that a number of new mergers and acquisitions will take place in the industry. Some large producers may resort to subcontracting through small units, while small units that fail to obtain orders

will have to close down. To support small and medium-sized units in the garment industry, the Government has launched a credit guarantee scheme, as proposed in the 2004 Budget. Under this scheme, loans could be obtained without collateral.

In its Five-Year Strategy, it is argued that Sri Lanka should now shift from the low end of the market to the middle and upper levels. Currently, only 10 percent of local manufactures end up in specialty brands, while 50 per cent is taken by foreign department stores and the balance by foreign discount stores. During the five year period ending in 2007, the industry plans to increase penetration into specialty stores by 20 per cent and department stores by 60-70 per cent and reduce the dependence on discount stores by 10-30 per cent.

The plan outlines a format for achieving these objectives with a detailed discussion on: (a) a strategic framework for implementation; (b) a strategic initiative and relevant action plans for the industry; (c) an additional strategic initiative in support of small and medium-scale enterprises; (d) implementation plans; and (e) cost estimates for the strategic plan. The industry has formed eight committees to look into various aspects of the industry: (1) bilateral and multilateral issues; (2) marketing; (3) logistics and infrastructure; (4) backward integration; (5) small and medium-scale enterprises; (6) human resources, technology and productivity; (7) labor; and (8) finance. The government has allocated Rs.100 million to increase productivity in the garment industry through the Five-Year Strategy.

The Sri Lanka Joint Apparel Association Forum coordinates the strategy management. The Association has hired a number of experts to coordinate and support its work. Although strategies have been implemented to face the post-2004 challenges effectively, the debate goes on for the post-2004 scenario – both optimistic and pessimistic views have been voiced. Optimists, such as the Central Bank of Sri Lanka, have put forward the following viewpoints: first, it is stated that, since 12 per cent of the garment manufacturers control 72 per cent of exports, there are reasons to believe that these top-end factory units are well established; commanding market niches and thus well placed to meet the post-2004 challenges.

Thus, it is argued that these top-end manufacturing units can absorb some of the smaller factories and expand their production to be competitive in the market. Secondly, it is argued that the non-quota export sat present amount to 47 per cent of garment exports; thus, a quota

phase-out will not create a serious problem. Thirdly, it is argued that, if the high end of the market could be captured by producing value-added garment products – which larger units have done– Sri Lanka need not worry about competing in the world market.

While one can agree with the first point, there are serious reservations about the others. First, it is inappropriate to form a judgment based on increasing non-quota exports because what is a non-quota product for Sri Lanka may be under quota for another country, such as China. The performance of such a non-quota product when the same product comes out of quota in China – at least if one goes by past experience –may not be positive. Second, the top end of the market is equally competitive; other countries that see their quotas in this segment removed will also be aiming at this segment and competition would therefore intensify at this end of the market as well. Sri Lanka will face an uphill battle to be competitive at the top end of the market (Fonseka, 2004).

The pessimists, on the other hand, argue that whatever the percentage of exports that is controlled by the top 12 per cent firms, the garment industry as a wholes not competitive enough to show a solid performance in the post-2004 period (Forsake, 2004, and others). From the global demand front, it is said that the threat from China will be overwhelming. Moreover, it is argued that the share controlled bother Asian countries is expected to shrink from the current 32 to 20 per cent by 2016.

Consequently, there will be competition among Asian countries to capture part of this shrinking share and in that process Sri Lanka may not necessarily be a winner. Furthermore, inadequate preparation for the post-2004 period due to the back loading factor of the MFA phase-out is also highlighted by the pessimists. From the domestic supply side, the inadequate development of backward linkages, weak forward integration, low labor productivity and increasing production costs, inter alia, are pointed out by the pessimists to highlight the lack of competitiveness. Those who argue along these lines assert that at least 100,000 workers will lose their jobs and various new mechanisms will have to be devised to look after those displaced from the garment industry.

A mixed picture emerges from current trends in the garment industry. On the negative side, it is observed that, out of the 859 firms operating in 2001, about 150 had closed down by mid-

2002.20 Garment factories are experiencing a shortage of labor due to the poor working conditions and accommodations prevailing in some of the factories. In 2003 and 2004, garment exports have shown a decline in performance compared with the year 2000.

On the positive side, the top 12 per cent of factories are performing well, there has been an increase in the number of international orders, and a number of foreign garment companies, such as Levis, are opening factories in Sri Lanka. Given the strong foundations of the garment industry, Sri Lanka still has a chance of being a supplier of choice in the major international markets; however, to retain such a position, substantial restructuring is essential. Thus, irrespective of the current mixed picture, there is an urgent need to restructure the industry to face thepost-2004 period without complacency about a possible United States – Sri Lanka FTA that will come to Sri Lanka's rescue, or that the ATC will not be implemented properly after 2004, owing to concerns in the European Union and United States markets (Kelegama, 2005).

The Cambodian garment industry has developed extremely rapidly within the last 10 years, from a very minor presence in 1995, to become the major manufacturing activity in the country by the late 1990s and early 21st century. In 2003, the garment industry's estimated value added of almost US$500 million accounted for around 12% of national GDP. The garment industry has an estimated 230,000 employees of which 85-90% is female and in the age group 18-25 years. This accounts for around 65% of total manufacturing sector employment. The estimate of 230,000 persons employed directly in the industry can only be an approximate figure since numbers vary considerably during the course of each year as much trade is seasonal. For a number of companies, for example, if the high season requirement were for a 100% workforce, then the low season requirement is only 60% of that number. The work patterns during the low season are met by arranging for some workers to return to their villages for an extended stay, at retainer wages, by releasing contracted workers at the end of their contracted periods, or by letting permanent employees leave the companies. In addition, there are many indirect jobs associated with the garment industry – perhaps as many as 150,000 related jobs.

The garment industry is estimated to have 196 companies in early 2004, located mostly in Phnom Penh and its suburbs with a few in Sihanoukville, near to the main port, and in Kompong Cham. Fifty-six companies are reported to have closed down since the mid- 1990s, so the total number of companies entering the garment industry has been 242. In addition, there

are estimated to be a large number of small cottage industry sub-contracting companies that provide extra sewing capacities during peak demand periods. The industry is virtually 100% foreign owned, with most of the decision takers based in East Asia from where production orders are received, together with the fabric, accessory supplies, and delivery instructions. The foreign owners usually have similar stitching units in other Asian countries and decide in which of their units to have garment orders made-up according to quota availability, product quality, manufacturing costs, and delivery lead time.

The attractiveness of Cambodia for foreign direct investment in the mid-1990s was due to the competitive wage cost, no restrictive quotas into major global markets and GSP access to the EU market, with the added advantage that quota premiums that had to be paid in most competing countries were not paid in Cambodia. Consequently, Cambodia had cost competitive advantages over many other countries. As a result, the EU was the main market in the early years. Subsequently, even when some quotas were applied, preferential access to the US market was offered and exports to the US increased significantly.

The garment industry is dependent almost completely on imported yarns (for knitwear); finished woven and circular knitted fabrics (for woven and knitted cut and sew garments); all accessories and almost all packing and presentation materials. The domestic material content is limited to some cardboard cartons and poly bags. As a result, the total average domestic added value content in 2003 was about US$ 442 million, i.e. the difference between the value of exports and imports. Expressed as a percentage of exports, this domestic value added content amounted to 28.6%. The garment industry is considered one of the most compliant in terms of labor practices and Cambodia has been awarded incremental increases in quota allocations by the US government (an additional 14% in 2004 of a possible increase of 18%).
These countries include Bangladesh, Indonesia, Malaysia and Sri Lanka. Cambodia is one of the later entrants to the global export market with garment export sales first recorded in the middle 1990s. Cambodian garment production, while critical to the economy of Cambodia, remains relatively small in global terms with about 0.3% of garment production worldwide and 0.7% of global foreign trade, by value, based on WTO data. Thus, initiatives have generated many hopes and equally frustrations within the exporting countries including Bangladesh.