The Consequences of the GATT Uruguay Round for the Textile and Garments Sector in Bangladesh

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I. Introduction

Few sectors in Bangladesh promise greater potential than the textile and clothing sector in terms of import-substitution, export-promotion intra-industry linkage, employment generation and economic growth. The ready-made garments (RMG) industry — a prime component of the textile sector and the flagship of Bangladesh — now earns more than 70% of the country's total export income and directly employs about 1.4 million (mostly female) workers. Besides, it helps in generation of several million jobs in linkage industries, such as garment accessories, spinning, weaving, dyeing, printing, finishing, shipping, stevedoring, road transports and real estate development. Thanks to a burgeoning but highly promising entrepreneur class and an abundance of cheap labor, the RMG industry demonstrates the capability to emerge as the prime engine of economic growth, as happened in the newly industrialized economies (NIEs) in the seventies and eighties. But the fullest realization of the possibilities of the garments sector on a sustained basis would depend on how skillfully Bangladesh can equip itself to operate in the restriction free international trading regime in textile and clothing scheduled to be in place by the year 2005 under the Uruguay Round. The challenge is enormous, multi-dimensional, wide-ranging and far-reaching, but this is one that this country can hardly overemphasize.

This paper attempts to determine the challenges and prospects of the textile and clothing sector -- especially the export-oriented RMG industry – of Bangladesh under the Uruguay Round Agreements. The analysis encompasses the effects of the Agreement on Textiles and Clothing (ATC) of the Uruguay Round on this sector during the transition period of the MF A as well as in the liberalized trade regime under GATT 1994. The paper is organized as follows: the next section examines the current state of the ready-made garments industry in Bangladesh. Section 3 examines the backward linkages in textiles sector, and Section 4 analyzes the major challenges for the textile and clothing sector of Bangladesh under the freer

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trade regime as envisaged by the Uruguay Round agreements. Section 5 concludes.

II. Current state of RMG industry

Nature and growth pattern

The export-oriented RMG industry of Bangladesh began its historic journey with a humble step in the late 1970s when it contributed less than US$1 million to the country's fledgling export income. By fiscal year 1996-97, within a matter of two decades, export income of this industry jumped, to more than US$3 billion, registering an astronomical 27% or higher annual growth rate. No other industry has experienced such a phenomenal growth in this country. In fact, this is an exceptional growth rate for any industry anywhere in the world. Thanks to quota-restricted entry to the market of the United States under the Multi Fibre Agreement (MFA) and completely unrestricted entry into the markets of the European Union countries under the Generalized System of Preference (GSP),[1] the RMG industry now contributes about 40% to the manufacturing value addition in the country and earns a lion share of the nation's total exports income (Table 2.1).

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1 Major features of the MFA has been discussed before. A note on GSP is in order here. The GSP schemes are designed by the developed part of the world with the aim to encourage trade-related backward linkage in the recipient countries. To enhance manufacturing activities in the recipient countries, the GSP schemes envisaged what is called *Rule of Origin,* which ensures that benefits are accrued to goods which are actually manufactured by the recipient developing countries and do not originate in the developed world. For GSP eligibility exported goods have to be either of 100% value addition in the recipient country or/and value addition may be less than 100% through either manufacturing of whole or part of the product from materials and parts imported into the country. In case of manufacturing on the basis of imported raw materials or parts, the exporting GSP recipient countries must satisfy *Process Criterion* which states that commodities will be eligible for GSP facilities if they were sufficiently transformed in the exporting country. A commodity will be considered to have transformed sufficiently if it is classified in a different four digit HS code than the category of the product when it was originally imported. Some GSP schemes also emphasize *Value addition Criterion,* which refers to the extent of value addition due to the transformation of the imported commodity. The EU and Japan, for example, insist on the process criterion, while the United States, Canada and East European countries insist on value addition criterion.

Table-2.1
Share of RMG industry in total exports, 1.985-1997 (in million US$)

	1985	1990	1995	1996	1997	1995*
Total Exports	934.4	1923.7	3472.6	3882.4	4418.0	3764.7
RMG's share in exports	116.2	624.1	2232.1	2547.1	3001.2	2748.7
% of total exports	12.44	40.96	64.2	65.6	67.9	73%

*up to March 1998. Source: Bangladesh Export Promotion Bureau.

Marketing trend

Most RMG products of Bangladesh now end up in the United States and the European Union. In fact, in 1996-97, Bangladesh was the 7th largest and 5th largest apparel exporter to the USA and European Union respectively. As Table 2.2 indicates, the United States and the European Union imported between 90 to 96 of the export-oriented RMG products of Bangladesh in the 1990s. Another significant aspect of the exports is that over the years the USA had been the largest importer of Bangladeshi apparels followed by the EU. The trend has been reversed since fiscal year 1992-93. For the last four fiscal years, the EU has emerged as the principal importer of Bangladesh garments and the USA has been receded to the second position. In 1996-97, for example, EU's share in RMG was 54.11%, wh1le US had a share of 41.49%. Among the EU countries, Germany topped the list with imports of US$13.06 million followed by UK (US$11.57), France (US$ 9.72 million), the Netherlands (US$5.77 million) and Italy (U5$5.63 million)[2]

[2] According to David Aspinall of the Brussels-based monitoring agency for the EU Textile and Clothing Industry, total EU consumption of textiles and clothing amounted to US$180bn in 1996, with clothing accounting for 67% of the total and home textiles for another 11%. EU's consumption of clothing would rise by an annual rate of 1.2% till 2005 and with an optimistic scenario that rate may go up to 1.8% annually. Given such a robust growth of this sector, Bangladesh can expect even larger share in their apparel markets of the EU countries.