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Surviving in a Quota-Free World: Will Bangladesh Make It?

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The Centre for Policy Dialogue (CPD) *was established in 1993 as an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision-making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. CPD has already organised a series of major dialogues at local, regional and national; CPD has also organised a number of South Asian bilateral and regional dialogues, as well as some international dialogues. These dialogues have brought together Ministers, opposition frontbenchers, members of parliament, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of CPD is to help facilitate members of civil society to become more aware of critical policy issues affecting their lives, and to come together in support of particular policy agendas that enhance the well being of the country.*

In support of the dialogue process, CPD is engaged in research programmes that are both serviced by and are intended to serve as inputs for particular dialogues organised by CPD throughout the year. Some of the major research programmes of CPD include ***The Independent Review of Bangladesh's Development (IRBD), Trade Policy Analysis and Multilateral Trading System (TPA), Governance and Policy Reforms, Regional Cooperation and Integration, Investment Promotion and Enterprise Development, Agriculture and Rural Development, Ecosystems, Environmental Studies and Social Sectors and Youth Development Programme.*** *CPD also conducts regular public perception surveys on policy and development issues..*

As part of CPD's publication activities, the CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. This report summarises the dialogue organised by CPD in collaboration with Bangladesh Garments Manufacturing and Export Association (BGMEA) and Citibank N A on ***Surviving in a Quota-Free World: Will Bangladesh Make It?*** The Dialogue was held at ***Hotel Sheraton, Dhaka*** on ***March 18, 2004***.

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Dialogue on

SURVIVING IN A QUOTA-FREE WORLD: WILL BANGLADESH MAKE IT?

The Dialogue

The dialogue ***Surviving in a Quota-Free World: Will Bangladesh Make It***? was organised by the Centre for Policy Dialogue (CPD) in collaboration with the Bangladesh Garments Manufacturing and Export Association (BGMEA) and Citibank N.A.. The dialogue was held at Hotel Sheraton, Dhaka on March 18, 2004.

Mr Amir Khosru Mahmud Chowdhury, MP, the Honourable Minister of Commerce, was present as Chief Guest at the dialogue, and *H.E. Mr Harry K Thomas Jr,* Ambassador for the United States of America, attended as the special guest. *Dr Debapriya Bhattacharya,* Executive Director of CPD, moderated the dialogue. *Dr Mustafizur Rahman*, Research Director of CPD, presented the keynote paper.

Each presentation was followed by an open floor discussion. Participants at the dialogue included high-level policy makers, political leaders, leaders of trade bodies and chambers, academics, development activists, development partners and members of a number of diplomatic missions. This report highlights the keynote presentation and presents important points raised during the open floor discussion.

Welcome Address by the Executive Director of CPD

Dr Debapriya Bhattacharya, Executive Director of CPD, initiated the dialogue by welcoming the guests and participants. He noted that the phase-out of the quota is likely to have particular significance for the export of Bangladesh apparels to the US market, and thus he specially acknowledged the presence of US Ambassador, *H.E. Mr Harry K Thomas Jr.* He hoped the presence of a large number of stakeholders will ensure a thorough discussion of the main issues raised in the keynote presentation.

Dr Bhattacharya stated that the dialogue was a joint venture with three major stakeholders in the garments export sector: a think tank (CPD), a major trade body (BGMEA), and an important financial institution (Citibank N.A.). He observed that it was Citibank N.A. that first put the idea to CPD to organise this particular dialogue. *Dr Bhattacharya* also took the opportunity to congratulate *Mr Annisul Huq* as the newly-elected President of BGMEA.

Introductory Remarks by the CEO of Citibank NA

In his introductory remarks *Mr Mamun Rashid*, CEO of Citibank N.A. stated that the dialogue was organised as a contribution to generate and stimulate an in-depth debate on the issues surrounding Bangladesh's survival in a quota-free world, with the view of creating some concrete and innovative ideas.

Importance of the RMG Export

Qualifying the importance of RMG (Ready-Made Garments) export in Bangladesh, *Mr Rashid* noted that the MFA's impacts are not much related to a question of our $2 billion exports to the USA; nor the $5 billion worth of exports made by Bangladesh globally. Rather, it is a question of how Bangladesh's entire economy will be affected by the issue of quota phase out. RMG exports constitute about 75% of Bangladesh's annual export and provide direct employment to 1.5 million females and indirectly an additional 8 to 10 million people. Mr Rashid emphasised that monitoring trade interests in textiles and clothing and providing a more conducive environment for growth within the export oriented RMG industry should be one of Bangladesh's foremost concerns.

New Initiative to survive in the Quota-Free Market

Mr Rashid noted that the global clothing trade is evolving on a continuous basis and that the phase out of quota restrictions and forming of trade blocs have become a reality. In view of this, Bangladesh needs to prepare for the challenges and opportunities that a quota-free market can offer, *Mr Rashid* stressed. Whilst the industry can demand policy support from the government to address the challenges, initiatives to improve competitiveness can only come from within the industry itself. *Mr Rashid* noted that approximately half of the total production in the apparel industry has shifted from developed to developing countries over the past three decades, as globalisation provides greater room for developing countries to specialise in the labour-intensive stages of manufacturing. In *Mr Rashid's* view, Bangladesh should make every effort to realise these potential opportunities in the global marketplace and make the most of her comparative advantage in lower wage rates.

Mr Rashid noted that 40% of Bangladesh's exports of apparels are targeted towards the USA, of which 70% is under the quota. Consequently, about 28% of Bangladesh's total RMG export is directly influenced by the US quota. Removal of the quota does not necessarily mean that Bangladesh will lose its market share in the US. However *Mr Rashid* cautioned that it does imply greater competition in the global apparels market. This calls for a renewed thrust and dynamism in Bangladesh's approach to confronting the challenges of free market, *Mr Rashid* concluded.

Keynote Presentation by the Research Director of CPD

Professor Mustafizur Rahman, the research director of CPD, began his presentation by reiterating the importance of a quota phase out as a $5 billion question. He observed that the quota phase out needs to be seen both as a challenge and as an opportunity.

The Keynote presentation was divided into four sections:

The first section refers to Bangladesh's Export of Apparels in the US Market: Dynamics and Changes. The second section continues with the Early Signals from the MFA phase-out in US Market. This is followed by an analysis of the Emerging Scenario in Post-MFA US Market: Lessons for Bangladesh. Finally, *Professor Rahman* concludes with an overlook of The Return of the Next Challenges.

Professor Rahman noted that in 1978 Bangladesh made its first apparel export to the US in an effort to take advantage of the quota regime. Under the quota regimes, Bangladesh was able to expand her exports to $5 billion thanks to the role played by the major stakeholders: the government with its policy support in the form of bonded warehouse and back to back L/C facilities, the relevant institutions and the entrepreneurs. What is now needed is the next generation of policies which would sustain the momentum of this sector in a similar fashion, but now under quota free regime.

Bangladesh's Export of Apparels in the US Market: Dynamics and Changes

Three Possible Scenarios following the MFA

Professor Rahman went on to delineate three possible scenarios in the context of MFA phase out and its implications for Bangladesh's apparel sector. First, an optimistic scenario whereby global trade in apparels will continue expanding and business as usual will suffice to sustain the current momentum. Second a widely-believed pessimistic scenario that assumes Bangladesh's apparel sector could survive only because of quotas, and once the quotas are gone, Bangladesh will not be able to withstand the increasing competition. Thirdly, a realistic scenario that concedes there will be formidable challenges in a Post-MFA world, and that notwithstanding the difficulties, with appropriate policy support and initiatives Bangladesh would be able to sustain her market presence in the Post-MFA world. The third realistic scenario is based on a series of assumptions that include:

- there will be significant market openings during post-MFA phase, which Bangladesh's RMG sector would be capable of accessing
- RMG entrepreneurs, GOB, RMG workers and other stakeholders in Bangladesh, will join hands to pursue and implement a proactive strategy to cope with the emerging challenges
- efforts to overcome the existing supply side constraints will be successful
- at the global level, meaningful market access initiatives are undertaken in favour of exports from the LDCs
- there is a consensus across the board and across the political divide that it would be Bangladesh's national goal to retain the major current market share in the US and that all stakeholders will do their part to attain this national objective.

Less-Obvious Effects and Trends in the RMG Sector

Professor Rahman noted that presently the apparels sector has an average local value retention near 45%, whereas the value retention in the knit sector is much greater at approximately 75-80%. In this connection, *Professor Rahman* also mentioned that the textile and garments sector in Bangladesh holds a total of $1.8 billion worth of outstanding loans to the banking sector of the country, of which $650 million is owed to the private banks. During the second phase of the quota, unrestricted between 1997 and 2001, global exports of apparels increased by 7% while Bangladesh's exports of apparel increased by about 47%. During this period, Bangladesh's apparel export sector was one of the fastest-growing export sectors in the world. Drawing attention to this fact, *Professor Rahman* noted that the challenge now is to sustain this momentum despite the complete phasing out of the quota.

MFA Phase-Out and Why We Need to Focus on the US

Professor Rahman pointed out that the quota phase out was back-loaded, as most of Bangladesh's export items will be operating under a quota free regime only following the final phase out in December 31, 2004.

Professor Rahman cautioned that the Agreement on Textiles and Clothing (ATC) will not be revisited, and the US has already submitted its quota integration plan for the fourth phase, with the EU and other countries expected to follow suit shortly. Bangladesh has a near 100% quota-fill rate in 20 of her 21 most highly exported categories in the US market, said *Professor Rahman*. Other countries that are held back across the board by quota rates are China, India, Pakistan and Sri Lanka.

Professor Rahman argued that the quotas are volume-driven and not value-driven, and that until now Bangladesh has mainly concentrated on the lower-end basic apparel items in the US market. Conversely, some of Bangladesh's competitors, such as China and India have concentrated on the mid to upper end of the demand curve. Once the quotas are phased out, these countries will have the opportunity to target lower end products in many key categories, increasing competitive pressures on Bangladesh.

Currently, two-fifths of Bangladesh's exports of apparel are destined for the US market. About 26% of our exports to US are knitwear, whereas knitwear comprises 38% of the US's total global imports of apparels. The US market structure reveals a scope for expansion in knitwear imports, and Bangladesh has a relatively strong competitive advantage in knit sector. Further, 70% of Bangladesh's export to the US is carried out under quota regime, whilst 30% is carried out under non quota regime. Therefore, Bangladesh has demonstrated its competitiveness in the US non quota market, and the competitive environment in this segment of the market is unlikely to be radically changed once the quota is phased out.

Professor Rahman noted that the tariffs on apparels in the US market are relatively high between 10-20% for many categories, and these are going to remain even when the MFA is phased out on December 31, 2004. *Professor Rahman* informed the audience that Bangladesh paid $310 million in tariffs to the US in 2001. Therefore, because of these high tariffs in the US market, a zero-tariff access to the US market would provide Bangladesh with substantial competitive edge over other countries and would play a crucial role in preventing any possible adverse impacts of the quota phase out.

Salient Features in the US Market for Apparels

Professor Rahman listed several important features of the US Market for apparels.

- US apparel market is worth $120 billion (2002), 65% of which are imports.
- 72 African/Caribbean countries were getting zero-tariff, zero-quota access (albeit under stringent RoO) in the US market, which gave them substantive price advantages over countries such as Bangladesh, which were not favoured with such treatment.
- As a member of the WTO, China since 2001 has been enjoying the Most Favoured Nation (MFN) market access facilities in the US market, whilst other WTO members operate under some safeguard measures, including a 7.5% cap on import growth till 2008.
- Mexico, a major supplier to the US market, enjoys duty-free, quota-free access under NAFTA.
- Pakistan was provided with a 15% quota increase in 2002, and special swings ranging between 8% and 25%
- A number of other countries such as Vietnam, Jordan and Israel benefit from varying degrees of market access facilities in USA under the Regional Trade Arrangements (RTAs).
- Vietnam's quota on apparels is likely to continue beyond 2005 as Vietnam is not a member of WTO, which is likely to give her an edge in the US market. Bangladesh will need to factor in these features of the US apparel market when strategically planning for the post-MFA period.

Early Signals from the MFA Phase-Out in US Market

Bangladesh's Relative Performance in the US T&C Market

Professor Rahman informed the audience that when the quota phase-out began in 1995, Bangladesh's share of the US market stood at 2.4%. After the second phase-out in December, 1997, the share rose to 3.08%. However, by 2003 the share had decreased to 2.5%. *Professor Rahman* noted that China, India, Pakistan and Vietnam had increased their market shares after the ATC started to be implemented in 1995, of which China experienced the greatest increase. In contrast, market shares of Mexico, Sri Lanka and Bangladesh had experienced some reductions.

Analysis of the Integrated Categories

Of the 41 categories that have been integrated in the second phase under the ATC, Bangladesh exports within 19 of the categories. Export earnings over the integrated categories increased from $64.5 million to $91.7 million between 1997 and 2001. However, this decreased to $73.1 million in 2003, as China entered into the US market in 2001 under MFN treatment.

Professor Rahman provided an analysis of babies' garments (category 239) to illustrate what had happened to relative export performances of Bangladesh and China in recent years. Bangladesh saw her export earnings decreased from $96.8 million to $66.5 million from 2001 to 2003, whilst China experienced an increase from $120 million to $867 million over the corresponding period. Other countries that were major players in the US market previously also saw their shares decreased because of China's entry into US market.

However, at a further disaggregated level, Bangladesh was able to increase exports in categories 654 and 349 by 9.6% and 4% respectively, *Professor Rahman* informed. Some of the categories, such as 632 and 665, are those that Bangladesh has started to export after the quotas were phased out, he added.

From categories that were phased-out during the third phase, Bangladesh exported 25 of the integrated categories. One distinctive feature of this phase was China's entry in the WTO in 2001, which corresponds with quite a substantial decrease of Bangladesh exports from $200 million to $153 million. However, a disaggregated analysis shows that despite the overall decrease, there are some items of ten digit disaggregated level where Bangladesh continues to demonstrate robust performance even after the quota for those categories were phased out.

Summary of Phase-Out Experience

Noteworthily, *Professor Rahman* concluded that Bangladesh has indeed lost some ground in the US market, both in terms of value of exports and market share. However, Bangladesh continues to remain a major player in the mass-produced apparel segment of the US market. As quotas were phased out, it was observed that prices in most categories have tended to come down. Simultaneously, the US market size of those quota categories have also tended to expanded substantially. *Professor Rahman* drew attention to the fact that a $39 billion US apparel import market has now become a $78 billion import market. Bangladesh had earlier demonstrated a capacity to enhance her supply volume as quotas were increased under the ATC, and continued when subsequently the quotas were eliminated. In most cases, however, increased volume has not matched the fall in price level, leading to a decline in export earnings. Producers were able to adjust to falling prices either through profit reduction and or productivity improvement. Bangladesh has also demonstrated some capacity to enter into market segments that have earlier been restricted by quotas.

Emerging Scenario in the Context of Post-MFA US Market: Lessons for Bangladesh

Bangladesh and Her Competitors' Key Competitive Factors

Professor Rahman cited a report published by the US International Trade Commission that projected Bangladesh to remain one of the major apparel suppliers along with China, India and Vietnam, even after the phase-out is completed. Some of the major advantages for Bangladesh that the report mentions were very low labour wages (even by regional standards), increasing share of local inputs particularly in knit fabrics, duty-free access to EU, Canada and other important apparel markets, and a comparative advantage in mass-produced basic garments such as knit cotton and woven cotton products. The report compares the relative advantages of Bangladesh and China, and notes that China also has a low per-unit labour cost and that China's advantage lies in their ability to produce the whole spectrum of products within the quota categories. However, Bangladesh also has a comparative advantage in terms of labour and supply side capacity, when compared with countries such as India and Mexico.

Flexibility in Pricing and Volume

China's price and supply side flexibility to meet market demand gives her a critical advantage, noted *Professor Rahman*. Only through productivity gains will Bangladesh be able to match China's performance. *Professor Rahman* observed that productivity improvements will allow Bangladesh to transform her comparative advantage in terms of wages, into a competitive advantage in terms of product prices. Thus, *Professor Rahman* argued that the productivity improvements should be focussed on technology and skill upgrades in the RMG sector.

Supplier of choice:

Professor Rahman stated that US importers are not likely to be over dependent on one supplier (such as China) because of long-standing relationships with other countries and the importance that is placed by buyers on diversification of sourcing. The US market for apparels and textiles is also likely to expand quite significantly after MFA phase-out with new opportunities for many international player, as many US domestic producers currently protected under the quota regime are not likely to survive the phase-out. Some estimates show that US apparel imports are likely to increase by 10-14% per year providing room for both Bangladesh and China. *Professor Rahman* also pointed out that under China's WTO accession provisions, there is a 7.5 % cap on export of apparels from China to the US until 2008. This has already been invoked, and thus Bangladesh continues to be the supplier of choice in many categories. However, a *race to the bottom* is increasingly likely in terms of offers made for cutting and making (C+M). The abolition of quota-rents will drive prices down, and furthermore the elimination of costs associated with management of quota distribution and speculation in quota-market will also lead to reduced costs. The cost of fabrics, however, may increase with demand once the MFA phase-out is completed. The net price effect is ambiguous, but most likely the overall average price of basic apparels will come down. Furthermore, it is likely that sourcing of apparels will be streamlined from 40-50 to 10-15 countries, quoted *Professor Rahman* from the USITC report. However, not all buyers will concentrate on the same group of countries and thus the negative effect of quota phase-out is likely to be distributed widely.

Being Vigilant of China

By all standards China will be the country to watch out for, cautioned *Professor Rahman*. China will be the 'supplier of choice' for many large buyers because of her ability to make almost any type of textile and apparel product at a competitive price. China has a fully-integrated cotton, textile and garment industry, a deep labour force, and a system that allows manipulations with regard to absolute and relative costs of yarn. However, most large buyers are reluctant to become dependent on a single source, noted *Dr Rahman*. Experiences with East Asia's Financial crisis, SARS and Bird Flu have made buyers cautious about over-concentration in terms of sourcing of apparels. Labour costs in China are already showing signs of increase. Apparel firms are moving inland, raising transport costs and showing declines in productivity. Rising domestic demand for textile/apparels in China may also divert attention to domestic market.

There are safeguards, however, against an overzealous China attempting an export upsurge in the US Market, *Professor Rahman* reiterated. In joining the WTO, China has agreed to a provision that "allows any importing WTO country to unilaterally impose a new quota on any Chinese [textile] product for one year if export of that item by China is causing market disruption". That provision lasts through till 2008. Further, a provision that lasts until 2013 allows the US to impose two to three years of new quota or tariffs on specific products in which there is an export surge from China that has already been implemented. Chinese imports are also subject to existing rules governing trade, such as anti-dumping laws. The US is likely to increasingly resort to Anti Dumping Duties (ADDs) and Counter Veiling Duties (CVDs) on Chinese imports whilst applying pressure on China to realign its currency and address the issue of hidden subsidies. All these factors will add tension to China's emerging strength in the US market. *Professor Rahman* believes that Bangladesh will need to carefully monitor these developments.

Other Major Players in the US Market

Mexico's labour costs are already at high levels relative to other developing nations, and are likely to increase, leading to an erosion of her advantages over other major competitors, observed *Professor Rahman*. If the Rules of Origin under the Caribbean Basin Initiative and African Growth and Opportunity Act change after 2004 and subsequently become more stringent, then the advantage that these countries are currently enjoying will be severely curtailed. Vietnam's early gains from quota-enhancement will suffer the same erosion once its accession process is completed

The Return of the Next Challenges

Bringing Buyers to Bangladesh

Contrary to widespread belief, major buyers have not abandoned Bangladesh, *Professor Rahman* noted. Although there has been a reduction in the number of favoured exporting countries, Bangladesh is still very much included. Buyers such as JC Penny, Wal Mart, GAP, and K-Mart are coming to Bangladesh to set up offices, and continue to show interest with their long-term relationship even beyond the phase-out of the MFA on December 31, 2004. Similar to the early 1980s, policy makers, entrepreneurs and workers need to join forces to create a more conducive environment in Bangladesh for foreign buyers so that they are able to access the new opportunities of the MFA phase-out regime.

According to *Professor Rahman,* a number of factors will be critical in terms of facing post-MFA challenges. The current lead time of 90-120 days will need to be reduced to 30-45 days, as buyers will now be able to source apparels within a shorter period from countries with strong backward linkages. Ethical sourcing and compliance assurance will be another key factor (e.g SA-8000, minimum wage, freedom of associations, working environment). Ability to service the full spectrum of supply chain management (vertical capabilities) is also a major concern for Bangladesh. Buyers are at present showing a growing tendency to have producers take more responsibility including design and quality assurance, and Bangladesh's entrepreneurs will be expected to take up these responsibilities. Improving price competitiveness, through increased productivity and reducing transaction costs, were perceived to be important by *Professor Rahman*.

To meet the challenges of raising Bangladesh's competitiveness in the global market, it is important that Bangladesh's RMG entrepreneurs try to exploit the advantages from economies of scale. According to *Professor Rahman*, for the RMG sector it would be advisable to vertically integrate upstream, whereas for the textiles sector it would be advisable to go downstream. Furthermore, horizontal investment by way of upgrading the product and process by modifying the apparels and textiles factories is also perceived as important. Technology upgrading and productivity growth are twin magic words that will enable Bangladesh to survive and thrive, opined *Professor Rahman*.

Continuing, *Professor Rahman* informed the audience that at present both the RMG and the backward linkage textile sector are undergoing major changes. The so called *smart* factories are consolidating production processes through technological upgrades, and product modification. He noted that including machineries for knitting and weaving sub sectors e.g. imports under categories 8445, 8446, 8447 and 8448, there was more than $800 million worth of RMG and textile related machineries imported. Analyses of the types of machineries at disaggregated level confirm that the technological changes were contributing to productivity growth, noted *Professor Rahman*.

Professor Rahman then cited estimates of a CPD study carried out in 2001 that showed the required investment in spinning to be $2.8 billion, weaving $1.2 billion, and dyeing/finishing a further $1.0 billion. He quoted the findings of the report on "Post-MFA Development Strategy and Technical Assistance for the RMG Sector" prepared by Gherzi Textil Organisation, Switzerland, which was commissioned by the Ministry of Commerce. The report concluded that to meet post-MFA challenges, Bangladesh will need to set-up 45 spinning mills, 82 weaving mills, 81 knitting and knit processing mills, and 51 woven processing mills requiring an investment of Tk. 132 billion ($ 2.3 billion). *Professor Rahman* was unaware as to any follow-up actions and policies that have been implemented as part of the 14 strategic recommendations of this particular study.

What We Have to Do

To prepare for the post-MFA regime, *Professor Rahman* suggested that we must undertake the following actions:

- Identify and focus on items that are demonstrating competitive strengths in the global market *vis-à-vis* major competitors.
- Create a textile-RMG technology upgrade fund in line with India.
- Invest in skill development specifically preventing public-private partnership. This could be achieved linking vocational training institutes with trade bodies to re-orientate some of the needs of the RMG Sector.
- Under an improved administration system, continue the cash compensation scheme (CCS) at the existing 10% value, or delay the phase-out. As an LDC, Bangladesh can provide this type of subsidy under WTO rules.

- Reduce import duties/taxes on textile/RMG spares, dyes, chemicals and sizing materials.
- Investigate the viability of creating a Central Bonded Warehouse under private ownership with appropriate measures to safeguard interests of revenue collection and domestic backward linkage industries.
- Ensure compliance with workers' rights, health and safety concerns
- Promote introduction of a 'Compliance Sticker' (ISO-9000, ISO-14000)
- Help develop clusters and provide common facilities to RMG factories through policy support (water affluent facilities, training, R&D, fashion and design), and promote the idea of garment Pallis.
- Make funds available to the RMG textile entrepreneurs at globally competitive rates. This is of particular importance as the producers are increasingly being asked to manage their own financing for sourcing of raw materials.
- Put more emphasis on establishing forward linkage activities. Such as B to B Web Portals and direct marketing channels. Bangladesh will have to reach out to buyers rather then waiting for them to show up at her doors.
- Set up and make effective the use of Matching Grant Fund (MGF) facilities.

Preparing a Contingency Plan in expectation of Firms Exiting

In sharing some of the findings from his field survey, *Professor Rahman* observed that it was highly likely that even if Bangladesh was able to sustain its market share in US by undertaking adequate actions, many of the smaller factories will be unable to continue to supply to the US. This is likely to lead to closures of factories and lay-offs. Factories that survive the competitive pressure of the post-MFA trading regime are likely to draw their strength from capital-intensive, labour saving technology. In view of this, *Professor Rahman* underscored the need for drawing a contingency plan that would provide support to the retrenched employees. This support mechanism could be designed through GOB-BGMEA partnership.

Recommendations at the Global Level

To safeguard the interests of the export orientated RMG sector, *Professor Rahman* recommended the following measures to be pursued at the global level:

- Bangladesh should continue to energetically press for zero tariff access to the US market. This would substantially improve Bangladesh's competitive strength.
- *Professor Rahman* pointed out that a CPD modeling exercise illustrated that zero-tariff access is likely to increase exports to the US by approximately $1.0 billion.
- He recalled that zero tariff access to the Canadian market in 2001 has helped Bangladesh to increase her apparel export from $105.6 million in 2002 to $162.8 million in 2003, a growth of about 54%.

Final Words

Professor Rahman ended his presentation by explaining, "What we want to say is that optimists see opportunities in challenges whilst pessimists see only challenges in the opportunities. Pessimists beget pessimism, and Bangladesh look out for opportunities in the context of MFA phase out. With the MFA phase-out, the US apparel market is going to expand substantively; of the $120 billion US apparel market, $79 billion are imports. In the near future, most of this market will become import orientated. The pie is getting continuously bigger. If we can retain our current market share in the US at 2.5% for three years after the phase out, and enhance the market share to 3% and above thereafter, then Bangladesh's objective can be achieved. Our final message is one of cautious optimism. It is possible for Bangladesh to survive, consolidate, sustain and expand in the US apparel market".

Remarks by the President of BGMEA

Mr Annisul Huq, President of BGMEA, thanked CPD and the Citibank for their effort in organising the dialogue. He appreciated the keynote presentation and, based on information presented by *Professor Rahman*, he went on to say that the total contribution of the export sector is about five times more than the total contribution of foreign aid donors. He also noted that garments sector alone contributed 3.4 times more than aid in terms of foreign exchange earnings. The irony is that when donors such as the World Bank talk, the whole country listens, but when a sector that contributes three times more than the donors talks, hardly anyone cares.

Mr Huq said that he wanted to share his perspective on the important question of where is China today and where is China going to be tomorrow?

Mr Huq continued by citing data of various export categories for which quotas have been withdrawn already. His data showed quite a dramatic surge in China's export of apparel to the US market in recent years. He stated that on average, China's apparel growth in 2003 was 544% with an average price reduction of 46%.

Concerning the future of Bangladesh's apparel sector, *Mr Huq* said that today's presentation was informed by a lot of hope, and that he would like everyone to leave the dialogue with some hope.

Drawing attention to *Professor Rahman's* statement regarding cash compensation, *Mr Huq* noted that it was not the RMG sector, but rather the textile sector that had received the cash support from the government.

Mr Huq listed some of the advantages that Bangladesh holds as an exporter of apparels to the US market. He felt that the actual value added was greater than that stated by *Professor Rahman*, 52.15% according to his estimates as opposed to 45%. He noted that as the garments sector is a $5.2 billion industry, and 52.15% is value adding, it had the single largest capacity amongst the industrial sectors in any of the LDCs.

Bangladesh's advantage lies in mass-produced items, *Mr Huq* informed the audience. In this connection he observed that the reality of the situation was that Bangladesh's strength in exporting apparel items does not make significant money for the RMG entrepreneurs. Earnings growth will have to come mainly from the expansion of volume in the face of falling prices. Transition to niche markets, such as more fashionable items, where both price and profits are higher is one alternative to address this situation. But this is easier said than done.

At present, the global demand for garments is about $200 billion, with the US, EU, Japan, Canada, and Australia accounting for approximately 90% of this market. "Where is the rest of the market?" asked *Mr Huq* rhetorically. Russia's and Bangladesh's exporters are not focused on this market, he lamented. However, focusing on a volatile market such as Russia and trying to diversify the RMG market is not so easy, and Bangladesh can not be expect to do so with only a few months left before the MFA is phased out.

Observing that Bangladesh is the seventh largest exporter of garments in the world, buyers will not come to Bangladesh merely because it is a big supplier. Appropriate incentives must be offered. One critical problem was lead time, but Bangladesh can not make a very significant improvement in this area because of its geographical location and inadequate backward linkages.

If Bangladesh does not do what is required, she will not be able to survive the competitive onslaught, warned *Mr Huq*. Factories will close in large numbers, unless we implement some clear, focused policies. RMG entrepreneurs do not want cash subsidies from the government. *Mr Huq* noted that presently the interest rate is 12%, and that we need to reduce it to about 7%. He proposed a formula to do this: the banks retain 20% of their deposits with the Central Bank as part of their Statutory Liquidity Ratio (SLE). Out of the total 120,000 crore taka total amount of money deposited in this manner, 16% is in bonds for which there is 5-6% interest rate. Mr Huq proposes giving the garments sector 15% of this sum, and whichever banks finance the loan, can use this 15% as their collateral. They will take 7% interest and earn 2% as profit, and at least 1000 crore taka will be in the market immediately.

Mr Huq's second proposal was regarding over draft payments. The banks are buying dollars at TK. 57.70 and selling at TK. 58.80 in five minutes. There should only be a 10 paisa variance in the buying and selling rates; the RMG sector needs uniform bank charges. Banks pay TK. 250 as DHL charges but charge TK. 1500 to RMG entrepreneurs. "Please make your profit but let us live too", urged *Mr Huq*.

Mr Huq also underscored the need to reduce shipping costs. Shippers, without adhering to the laws of the country, are taking away hundreds of crores of taka from the country, he claimed. One or two major policy decisions could change all this. Furthermore, a central bonded warehouse is also badly needed. Only one policy decision favouring this is required, and 500 factories will survive. According to statistics from the Export Promotion Bureau, only 24.15% of GSP is issued, and because of that, 80% of growth is being hindered in order to protect our textile base. Protection is not the problem, but rather the sector needs support to become cost effective. Give them the money, but give the garments sector a central bonded warehouse and implement SAARC *Rules of Origin*.

Mr Huq thought that duty free market access under a 25% value added criterion will double Bangladesh's export in five years.

Floor Discussion

Workers of the Garment Sector

Ms Shirin Akhter, President of Kormojibi Nari, concurred with *Mr Huq* regarding the problems he had identified in his presentation. However, she noted that to address the challenges of open market and open competition, Bangladesh needs skilled workers. How can we increase productivity, improve the infrastructure and working environment for the workers? These are the critical issues, she pointed out. Ethical sourcing and worker's rights are also very important, since buyers do think about these matters.

Continuing, *Ms Shirin Akhter* stated that a transparent and accountable government policy is required to help retrenched workers by way of training and creating new employment opportunities, and a fund should be created for this purpose. *Ms Shirin Akhter* called for the establishment of trade union rights, particularly for issues of recognition of trade union rights in the EPZs.

Mr Jonathon Rose of Oxfam International, maintained that if things are going to turn bad, there should be a contingency plan to deal with factory closures and attendant unemployment.

Mr Abdul Hossain, President of Bangladesh Garment Workers and Employees Federation (BGWEF), felt that the presentations were very good, however workers' concerns were not emphasized sufficiently. If factories in the RMG sector were to suffer closure, where two million workers are being employed, then we cannot shy away from our responsibility of caring for their livelihoods. *Mr Hossain* felt that the policymakers and the minister present in this dialogue should give due prominance to this issue and discuss the matter. They should consider creating some comprehensive programs in view of this looming predicament. The Asian Development Bank (ADB) has taken some initiative for retrenched workers, *Mr Hossain* informed the audience. However, the priority should be to retain the workers, not compensate the retrenched worker.

Dr Bhattacharya contributed by noting that CPD's presentation focused mainly on Bangladesh's price competitiveness in the context of MFA phase-out, and that livelihood issues have been treated separately in other CPD studies.

Backward Linkage and Price Competitiveness

Mr Manjurul Hoque, President of BKMEA, noted that the cost of raw material is 25-30% lower in neighbouring countries than in comparison with Bangladesh. In order to face the challenges of the open market, we need to ensure that our yarn can be accessed at a comparable price to that of our neighbours. Backward linkage would in turn enhance forward linkage, he felt.

Mr Fazlul Azim, former Member of Parliament, emphasised that value was key for Bangladesh's success in the future. Value is speed, trust and price, he observed. The previous length of delivery of 120 – 180 days must be decreased to 30 – 45 days. Delivery speed is not only dependent on backward linkage capacities in terms of sourcing of raw materials locally, it also depends on effective transportation, he claimed. Bangladesh is losing time at the ports and at customs because of inefficient local transportation. We have to improve logistics and infrastructure support, and this is where we need the government's support.

Compliance (Machineries)

Mr Manjurul Hoque said that before we begin to export more, there is a need to raise the level of technology and capacity utilization rates. There is a need to invest more capital in order to import machineries with higher productivity. He also suggested the need for central bonded warehouse facilities. Spare parts are also important, and we should be able to import those items duty free, he argued.

Bangladesh in Relation to China

Mr Anisul Islam Mahmud, Managing Director of Shasha Denims Ltd, felt that with regard to the issue of under valuing yarns, the Chinese currency valuation should have been highlighted in the presentation. Chinese currency is now undervalued by more than 40%, he observed. A 40% revaluation of Chinese currency would have removed most of her price advantage, and Bangladesh would benefit from this. He felt that China will be forced to correct this anomaly in its exchange rate.

Responding to this, *Professor Rahman* stated that this was an important issue that needs attention. He mentioned that he had not included the currency valuation issue in his presentation because of time constraint, although the issue has figured in the main papers.

Mr Anwar-Ul-Alam Chowdhury, Vice-President (Finance) of BGMEA, and Managing Director of Evince Group, stated that, realistically, post MFA China is the biggest threat to Bangladesh. “Are we really studying what China is thinking and how they will react to the phase out?”, he asked. Customers are saying that globalisation is good for an active country and bad for a passive country. With the growing importance of customer-supplier relationships in the post-MFA period, Bangladesh will need to prove herself as an active country similar to China. Adequate policy and infrastructure support is necessary to prove that Bangladesh is an active trader. According to *Mr Chowdhury,* lead time problem are directly related to the problem of infrastructure. Political disturbance and interference also add to costs.

Mr Max Samuelson, Chief Representative of H&M in Bangladesh, said that according to H&M, when prices are compared between Bangladesh and China, Bangladesh remains very competitive. The main problem was the lead time, as four to five weeks are lost when buyers have to import fabrics.

Interest Rates and Bank Charges

Referring to proposals put forward in *Mr Annisul Huq's* remarks, *Mr Taher Uddin,* Managing Director of Mercantile Bank, observed that *Mr Huq* did not fully appreciate the lowering of interest rates that has already been achieved. Bankers can decrease the interest rates provided interest rates on deposits decrease simultaneously. However, Bangladesh is different. Unlike the developed countries where most of the savers are corporate entities, in Bangladesh it is individuals who primarily are the savers. Reducing the rate of interest on savings would be inequitable, and hence limits the capacity of banks to reduce interest rates, he argued.

Following, *Mr Taheruddin* claimed that bank charges are fairly uniform, and are constantly reviewed. The Bangladesh Bank recently asked banks to review the situation, he informed the audience.

Dr Bhattacharya asked *Mr Taheruddin* if Bangladeshi banks were charging higher interest rates than what is charged by Indian and Pakistani banks.

Mr Taheruddin replied that the Taka is a floating currency, thus the central bank can not control the exchange rate as it needs to. Even considering this, banks are constantly being persuaded to give better interest rates to exporters.

Mr Fazlul Azim, former Member of Parliament, noted that one serious problem with banks related to letters of credit (LC). Customers do not want to open letters of credit anymore; they would rather do business against contract. Banks are asking for back to back LC, but there was hardly any concept of "back to back" any more, observed *Mr Azim*. We have to be able to open letters of credit at sight and without any letter of credit from the customer.

Mr G M Quader, Member of Parliament, felt that the reasons for having such high interest rates in Bangladesh is contradictory. One banker has said that lessening interest rates will lessen the incentive for depositors. However, the government imposes taxes on savings accounts already, so money is still being lost. Bangladesh has to compete with countries that have interest rates between 2% - 4%. Decreasing from a high rate of 16% to 10%, which is also considered high, is not enough when the international money market offer much lower rates.

EU and Canada

Mr Jonathan Rose of Oxfam International thought that the analysis presented by *Professor Rahman* was only half the analysis, as it does not include an analysis of European or Canadian market. *Mr Rose* pointed out that it is clear that Bangladesh will have difficulties in the European markets. Previously, only Bangladesh and other LDCs had quota-free access. After the phase-out, everyone will have quota-free access and Bangladesh is sure to lose, claimed *Mr Rose*. He then cited statistics which show that, not only had Bangladesh's textile exports to Europe decreased by 3%, but the woven sector had also decreased by 10%.

Mr Lutfe M Ayub, Managing Director of Sunman Group, supported the views of *Mr Rose*. He thought that even if Bangladesh takes the advantage of the SAARC cumulation, there is a possibility it could have a negative implication for the country's backward linkage. He urged Bangladeshi policy makers to explore opportunities of co-operation with the EU and the US to take advantage in these markets.

Mr Golam Faruk, Vice President of BGMEA, similarly agreed with *Mr Rose*, stating that he was surprised to see that the EU market was not being considered. The rules of origin have not been addressed adequately, despite the fact that this is a crucial issue in the EU market. A change in the rules of origin could provide a major advantage to the country's RMG sector. Intervening, *Dr Bhattacharya* reminded the audience that the focus of the CPD's presentation was the US market.

Barriers to the US Market

Mr Jonathan Rose noted that one of the worrying trends about US trade policy is that it often resorts to the use of non-tariff barriers to trade. *Mr Rose* pointed out that the US has already made use of the transitional safeguard mechanisms provided in the ATC a staggering 27 times. The Biyrd Amendment passed in 2001 allows for the distribution of funds raised from safeguards to be apportioned directly to the American producers, providing producers with a direct incentive to bring spurious cases against foreign exporters, *Mr Rose* pointed out.

Duty-free Access to the US Market

Mr Rose observed that as *Professor Rahman's* estimates for US tariffs on Bangladeshi apparels exports totalled $310 million, while his own estimates totalled $321 million. In comparison, the net Overseas Development Assistance (ODA) from the US for the same year was just $72 million. Since the net ODA is much lower than the tariff revenue, it makes a very good case for quota and duty-free access for Bangladesh's apparel products to the US.

Worker's Rights

Mr Fazlul Azim, former Member of Parliament, said that corporate social responsibility has become a major issue. With respect to China, the WTO allows for anti-dumping provisions to safeguard against Chinese exports sold at lower than cost price. However, there are no sanction against China on the basis of human rights compliance record. There should be more emphasis on this aspect, *Mr Azim* argued. This was important, not because China was a competitor, but because the rules of the game need to be followed.

Mr Badruddoza Nizam, General Secretary of Garments, Tailors and Workers League, argued for the creation of a national worker's compensation commission. The new labour law, which is under consideration, should be suitably amended such that a compensation commission can be established to ensure the interests of workers.

Trade Unions

Regarding trade unions, *Mr Azim* noted that almost 60% of the garments industries have trade unions. In the remaining 40%, non-membership is the choice of the workers. You can not force workers to form trade unions if they do not want to have one, said *Mr Azim*. Trade Union rights in the EPZ was an issue the government was trying to address, and hopefully, there will be a solution soon enough, he said.

Mr G M Quader, Member of Parliament, said that he could not fathom why the government does not support trade unionism in the EPZ and in the garment industries. Trade unions are necessary to ensure better work environments, and can be beneficial to both the workers and entrepreneurs. *Mr Quader* also noted an imbalance in the trade unions that already exist, maintaining that workers in private organisations are not being given their due rights, while workers in government organizations are being given relatively more rights than they deserve. "We should amend our current laws to allow the fair trade unions in the RMG sectors," *Mr Quader* said.

Mr Max Samuelson, chief representative of H&M, Bangladesh, noted that with demand growing at such a fast pace, the main problem was the creation of adequate capacity. It is important to establish codes of conduct for all, including the trade unions. H&M refuses to work in locations where trade unions are not allowed.

Preparing for Unemployment

Ms Mashuda Khatun Shefali, Executive Director of Nari Uddog Kendra and Convener of the Bangladesh Garment Workers Protection Alliance, pointed out that there is consensus in the dialogue that not all RMG industries will survive. Everyone agreed that we should do our best for the retention of workers. With this in mind, we should also begin to focus on the workers who have already been retrenched. *Ms Shefali* expressed her frustration with regard to her experience in raising this issue over the last two years. She thought that nothing had come out of its. During a workshop in April 2002, a proposal was made to form a national steering committee, which would include the government, entrepreneurs and other stakeholders. This is yet to happen, and currently no sincere steps have been taken to address the consequences of the post-MFA regime. There was a post-MFA strategy following a technical study conducted by the Ministry of Commerce, but its recommendations have not been implemented. In this connection, *Ms Shefali* requested the Minister and the Commerce Secretary to inform the audience about the status of the implementation of the 14 strategic recommendations put forward by the study. She urged the government to share with the audience what they really thought about the proposals, and what they planned to do for all the retrenched and soon to be retrenched workers, particularly women workers. She also noted that the Bangladesh Garment Workers Protection Alliance has submitted a memorandum to the Prime Minister's office, and it was recently forwarded to the Ministry of Commerce and Labour.

Dr Bhattacharya responded to *Ms Shefali's* statement by saying that the problem is not finding solutions, because many potential solutions exist. In most cases, the real problem is one of implementation.

Government Policy

Mr Lutfe M Ayub, Managing Director of Sunman Group, said that we should move with caution. Specific interventions would need to be designed, and government policy is the main vehicle to move the RMG industry in the context of emerging challenges. Amendments to labour laws have been proposed, whilst social compliance issues also need to be closely examined. To be competitive, Bangladesh needs to improve her logistic facilities and infrastructure. This should be one of the foremost concerns of the government. The most important issue, however, was the socio-political stability of the country. It is of utmost importance to enhance confidence in trade and entrepreneurship possibilities in Bangladesh, he argued.

Mr G M Quader, Member of Parliament, said that a central bonded warehouse is a necessity and that the government should help facilitate its creation.

Mr Max Samuelson observed that one of the major problems faced by expatriates like himself living in Bangladesh, was that there were unnecessary difficulties in getting appropriate work permit and visas. The government needs to do more to make it easier for buyers to come, stay and work in Bangladesh.

Rules of Origin

Mr Badrudoza Nizam, the General Secretary of Garments, Tailors and Workers League, claimed that if we follow the current rules of origin, it won't be possible for entrepreneurs to survive in a quota-free world. *The Rules of Origin* should be amended to make it easier for Bangladeshi entrepreneurs to follow.

Focus on Mass-Market and Basic Items

Mr Golum Faruk, Vice President of BGMEA, recalled the Gerzi Report commissioned by the Ministry of Commerce, which recommended that Bangladesh should opt for higher priced and more complex apparels items. The BGMEA strongly contested the assertion that Bangladesh's strengths lie in the higher priced and more complex apparel items. Instead, Bangladesh's competitive advantage lay more with the mass-market and basic items. *Professor Rahman's* findings also lends support to the BGMEA's position.

14 Strategic Recommendations

Mr Golam Faruk noted that the BGMEA had written to the Ministry of Commerce six months earlier rejecting the 14 strategic recommendations on the grounds that they are soft, very general, and that there was no concrete policy suggestions. From the role of EPB, to the creation of a central bonded warehouses, to HRD in the apparels sector and beyond, what real changes will those 14 strategic recommendations bring, *Mr Faruk* enquired.

Remarks by the US Ambassador

H.E. Mr Harry K Thomas Jr, the US Ambassador, believes that Bangladesh has the capacity and brain power to achieve and survive in the era of MFA phase-out. However, policy implementation capacities and related infrastructure needs much more improvement. Corruption needs to be eliminated, and Bangladesh needs to modernize her airports and ports. These tasks need to be carried out by Bangladesh herself as no one else will do it for her. However, it is encouraging to know that stakeholders in Bangladesh are aware of these challenges.

The post-MFA world is going to be difficult, the Ambassador said. There will not be any Third World solidarity or NAM solidarity in facing these difficulties, he cautioned. Everybody will be acting for their own self-benefit, and Bangladesh needs to be more competitive in order to survive.

Remarks by the German Ambassador

H. E. Mr Dietrich Andrews, the German ambassador, noted that Germany is the second largest customer for Bangladesh's global exports, and more than 90% of those exports relate to textiles and RMGs. Thus, Germany is quite concerned with what may happen after the MFA phase-out. Currently, Bangladesh looks very competitive in the global market, however things still need to be improved. There are problems relating to work permits and infrastructure, such as Chittagong port. However, Germany is optimistic about this country. Bangladesh has the ability to rise up to the challenge of the post-MFA, but the task requires significant work and must be given due attention, the ambassador said.

Remarks by the immediate past President of the BGMEA

Mr Kazi Maniruzzaman, immediate past president of the BGMEA, observed that after the presentation and the subsequent discussion, it is clear that Bangladesh has the capacity to successfully cope with the post-MFA challenges. However, a more accommodating environment is needed to help stimulate this coping process. Disruptions, such as hartals, need to be reduced. *Mr Zaman* cautioned that buyers are not ready to give us 120 days LCs to cover the shipment time. If Bangladesh had a deep sea port, goods could be received about ten days earlier, significantly reducing lead times, he mentioned. It will not be easy to compete with China, which is capable of offering much lower prices in the US market. Bangladeshi entrepreneurs will need to match those prices, whilst still making a profit in the process. This is easier said than done, he warned.

Remarks by the Secretary of the Ministry of Commerce

Mr Suhel Ahmed Choudhury, Secretary of the Ministry of Commerce, initiated his deliberations by noting that the Government has accepted many of the Gerzi study recommendations. Significant amounts of work has already been done to implement some of these 14 strategic recommendations mentioned by some of the participants. There has been a restructuring of the Export Promotion Bureau, and an initiative called the Post-MFA Action Plan has been put in place incorporating a skill development program. This programme has been designed with the help of the BGMEA to promote skill development for those workers who will stay in the garments industry after the MFA phase out. There is also an alternate skill development programme for those workers who may perhaps lose their jobs after the phase-out. Estimates regarding the number of people who may lose their jobs range from 100,000 to 800,000. Most of them are women, and even the lower range of the estimates involve a significant number of jobs.

It is believed that a considerable amount of small companies and producers will not survive beyond 2004, then adequate responsive acts must be called for, the Secretary argued. Capacity building is the key, and that can happen either through mergers or acquisitions. One possible option would be the formation of groups so that they could at least present a unified front when negotiating with buyers.

To stimulate backward linkage activities, subsidies on interest rates could help us move forward, the Secretary noted. The issue of central bonded warehouse, although this has been a controversial issue, is also one that should be pushed forward.

Mr Choudhury maintained that although participants believe that this meeting should have been held two years previously, he was not sure if the same conclusions would have been attained. We are now better informed about our opportunities and challenges. Our negotiating stance in the WTO, BFTAs and RTAs must be geared to strengthen our market access of RMG and other current and potential exportables, the Secretary observed. This is what the government is trying to do, he said.

In response to a question from *Dr Bhattacharya* about what exactly the taskforce was doing regarding the implementation of the 14 strategic points, *Mr Choudhury* responded by saying that theoretically speaking, the task force was there. However, it had not actually held a meeting in months, as the players are reluctant to attend due to conflicts of interest.

Remarks by the Honourable Minister of Commerce

Chief Guest Mr Amir Khosru Mahmud Chowdhury, MP, Honorable Minister of Commerce, initiated his remarks as Chief Guest by saying that, to be frank, there has been little progress in terms of implementing the 14 strategic points, deciding on Rules of Origin, nor the establishment of a central bonded warehouse. However, there has still been significant growth in the RMG and textile sectors – 16% in terms of value and 18% in terms of volume over the last six to seven months. Caution in decision making is the price you have to pay in a democracy, which often slows down the pace of implementation as policy can not just be imposed. However, the good news is that there has been growth and there will be a clear improvement regarding some aspects in the near future.

The Honourable Minister of Commerce agreed with *Professor Rahman*, saying that there is good cause for optimism in Bangladesh's future. Taking advantage of our competitive labour rates, and focussing on lower-end products should be our goal, inspite of what the Gerzi Report has stated. The EPB restructuring was also not a follow up of the Gerzi Report. Rather, it was an initiative taken independently of the report.

To improve professionalism in EPB's operations, the restructuring process envisaged that 25% of the workforce in the EPB will constitute professionals rather than civil servants. The EPB restructuring was in its final stages, the minister informed the audience.

Another reason for optimism is the technological enhancement that has occurred in the textile and clothing industries over the past years. Dhaka has regularly hosted machinery exhibitions with textile/RMG machineries from all over the world. These new machineries have been selling quite well. *Professor Rahman* himself has said that there has been a phenomenal growth importing of machineries for the RMG/textile sector.

The minister noted that some participants mentioned job losses in the RMG sector, but where does the 18% growth in volume come from, he asked? In order to increase volume, one usually must employ more workers, he argued.

Bangladesh has also been successful with compliance issues, the minister maintained. Bangladesh was the first country to phase out child labour despite of the abject poverty in the country. However, a major point of contention is the interest rate, *Mr Chowdhury* conceded. The interest rate must be reduced to about 6%, no more than that. The Bangladesh Bank's Governor, said that the policy is to have a 7% interest rate across the board for all export products. Though the governor has not yet received any complaint in this regard, the fact of the matter is that the banks are not complying. Inspite of the fact that the banks are taking deposits at higher rates, they continue to make good profits. What was the equity of these banks, he enquired? There should be a limit to profit-making, because it is the customer's money, and their assets should be allowed to grow as well. It's myopic just to focus on profit making. There are greater long-term profits that can be achieved by taking the customer's interest into consideration.

In response to a question by *Dr Bhattacharya* about the rates on deposits, the Minister of Commerce replied that all depositors should not necessarily go to the banks. Alternative means of investment, such as capital markets, bond markets, insurance fund, provident funds, and the like, should be revived to provide depositors with a greater portfolio of investment options for their savings.

The Honourable Minister for Commerce said that the government has been attempting to reduce shipping costs, and has already reduced port charges by 20%. Previously, there was no limit to freight forwarding charges, but the Ministry of Commerce has now established a fixed rate of 1250 taka. Paperwork between the port and custom levels has declined sharply. Inspite of these efforts, still the turn around time for ships at the port is not good enough. The Ministry of Commerce is working hard to improve it, but it is tough when some of the components of shipping do not fall under the jurisdiction of the Ministry of commerce.

Lead time is also another major problem. However, there is not much that can be done about it, the Minister maintained. Even with the reduction of turn around times, lead time will only be reduced by approximately two weeks. Therefore, we must make the buyers happy with other things so that they are ready to compromise on the issue of lead time.

Backward linkage is yet another important factor. Industries such as denim and shirts are becoming self-sufficient, but more investment is required and is possible. As banks are flushed with excess liquidity, credit should not be a problem. Moreover, banks are even negotiating interest rates and it is quite possible to negotiate interest rates down to single digit. The goal should be to attain at least 50% backward linkage capacity in the country. With the capacity of factories increasing, this is a very attainable goal.

Alongside this increased capacity within the factories, there should be an increased opportunity for employment in the factories that continue expansion after the phase out. Should unemployment be one of our topmost concern in the post-MFA, the Minister asked. The industry is growing at a rate of 18%, which is a claim not many other countries can make. The idea of creating a retrenchment fund undermines the future prospects of growth in the RMG sector, as this will consume a substantial amount of money. There will not be any significant loss of jobs in the post-MFA, the minister maintained.

As for the trade union issues, relevant laws need to be amended. The Law Ministry has had this issue on their hands for quite some time, and hopefully they will also see that both the labour and industry interests are taken care of. As for the socio-political problems that are hindering the growth of the textile and clothing sector, *Mr Chowdhury* pointed out that the industry has come this far despite such problems and will continue to grow.

Regarding the central bonded warehouse issue, the Minister emphasized that he was in full support of a central bonded warehouse for machineries. If someone were to come up with a proposal quickly, the Ministry of Commerce would help facilitate establishment of a central bonded machineries warehouse, where producers can buy machinery and spare parts over the counter without LC or duties.

Final Remarks by the Executive Director of CPD

In drawing the dialogue to a closure *Dr Bhattacharya* made three final points. *Firstly*, he felt that there had been a lot of discussion about workers rights and the possibility of job losses. Rather than emphasising the prospects of job losses and creation of compensation funds, we should invest the available resources for sustainable growth and improved working conditions in the RMG and textile sectors. Improving working conditions alone should help spur more sustainable growth, as well as fulfilling ethical sourcing requirements.

Secondly, we have to make the necessary adjustments for the ensuing cutthroat competition in the global apparels market. It can be done in two ways by cutting costs, such as wages or transaction costs, or preferably through productivity growth, such as technological upgrades. Between cost cutting mechanisms and productivity growth, it appears that the latter is a more sustainable way to ensure the competitiveness of Bangladesh's apparel sector.

Finally, although in some instances Bangladesh faces discrimination in very large importing countries, domestic factors are more decisive in determining market access. Market access can be facilitated, however the competitiveness will hinge on the price level that can be offered to global buyers. There are issues of transport, finance, infrastructure, human resources and a whole range of issues that relate to implementation. If we become somewhat wiser thanks to today's dialogue, we ought to go back and say that the main issue that determines Bangladesh's capacity to be competitive in the global market is implementation. We should ask policy makers to please put in place a mechanism for monitoring the implementation of policies. Hopefully, this will ensure that the upbeat mood that was transmitted in the keynote presentation, and also deliberation by many of the distinguished dialogue participants will prove to be correct in the course of the coming months and years.

Annexure A

List of Participants

(*in alphabetical order*)

Mr Faizul Abedin	Director, Alpine Ltd
Mr Mahfuza Afroz	Relationship Manager, Citibank, N A
Professor Abu Ahmed	Chairman, Bangladesh Shilpa Bank
Mr Ishtiaq Ahmed	Director, Burcingtons Ltd
Mr Iqbal U Ahmed	Managing Director, The Trust Bank Ltd.
Dr Monir Ahmed	Statistical Officer, BBS
Ms Nazneen Ahmed	Research Fellow, BIDS
Mr Nasir Uddin Ahmed	Finance Director, COATS Bangladesh Ltd
Dr Rafique Uddin Ahmed	National Project Coordinator, ILO-BGMEA Project
Mr Salahuddin Ahmed	Managing Director, Columbia Garments Ltd.
Ms Shafia Ahmed	Kormojibi Nari
Mr Nasimul Ahsan	INCIDIN Bangladesh
Ms Nazma Akhter	Secretary, Bangladesh Mukto Garments Sromik Union
Ms Shirin Akhter	President, Kormojibi Nari
Mr S M Shah Alam	Director, Rural Development Bangladesh
Mr Ahmed Ali	DMD, SQ Group
Mr M Mohammad Ali	Managing Director, Modern Germants Ltd
H E Dietrich Andreas	***Ambassador, Embassy of the Federal Republic of Germany***
Mr Abrar A Anwar	Head, Corporate Banking, Citibank N A
Ms Ferdous Ara	Secretary, DCCI
Mr Vinay Arora	Country Manager Charming Shoppes Inc.
Mr Lutfe M Ayub	Managing Director, Sunman Group
Mr A K Azad	President, BCI
Mr Alauddin Al- Azad	Executive Vice President, Dhaka Bank Ltd
Mr Md. Shiblee Azam	Senior Manager HR/Admin/IT, Dada (BD) Ltd.
Mr Ehsanul Azim	Trade Product Manager, Citibank, N A
Mr M F Azim	Chairman, Azim Group
Mr A K Barua	Director, Uttara Group
Mr Abul Bashar	President, Jatiya Sramik Federation Bangladesh
Mr Waldo Basilla	APL
Mr Robert Beadle	Head of Development Cooperation, Canadian High Commission
Mr Rayeen Bhatnaya	Credit Head, Citibank, N A

Mr Arup Biswas	Advisor, Royal Norwegian Embassy
Mr Maggie Brigham	Royal Norwegian Embassy
Mr Maggie Bunns	Oxfam Bangladesh
Mr A Matin Chowdhury	Former Chairman, BTMA, MD, Malek Spinning Mills Ltd.
Mr Anwar-Ul-Alam Chowdhury	Vice-President, BGMEA & MD, Evince Group Commission
Mr A T M Harun-ur-Rashid Chowdhury	EVP Islami Bank Bangladesh Ltd.
Mr M A Rouf Chowdhury	Director, FBCCI, Chairman, Marc Group
Mr M A Chowdhury	Development Specialist, Embassy of Japan
Mr M Kamal Uddin Chowdhury	Managing Director, Shahjalal Bank Ltd
Mr Kartick K R Das	Senior Merchandise Manager, Charming Shoppes Inc.
Mr Palash Kanti Das	Coordinator, OXFAM, GB
Mr Amlan Dewan	Commercial Officer French Trade Commission
Mr M Ghulam Faruq	Vice-President, BGMEA & Chairman, SQ, Sweaters Ltd.
Mr Gene V George	Chief of Mission, USAID
Ms Rubana Haq	Managing Director, Mohammadi Group
Mr Syed Monzurul Haq	Chairman, Techno Textile Mills Ltd
Mr Enamul Haque	Executive Officer, The Premier Bank Ltd
Mr Monjurul Hoq	President, BKMEA
Mr Abul Hossain	President, BGWEF
Mr Ishtiaque Hossain	PRO, Ministry of Commerce, GOB
Brig General (Retd) Md Zakir Hossain	Executive Chairman, BEPZA
Mr Shakhawat Hossain	Managing Director, Rishal Group of Industries
Mr S M Hossain	Raj Textile
Mr Tobarak Hossain	BKMEA
Mr Md Shahidul Islam	Director, BGMEA & MD, Rupa Apparels Ltd
Dr Mirza Azizul Islam	Chairman, Security Exchange Commission
Md Nurul Islam	President, Bangladesh Trade Union Kendro
Mr Shafiqul Islam	Director, BGMEA & Chairman, Alliance Garments Ltd.
Mr Abed Islam	Resident Vice President, Corporate Banking, Citibank, N A
Mr Md Humayan Kabir	Basic Bank
Ms Sultana Kamal	Executive Director, Ain-O-Salish Kendra
Mr S A Kasem	BGMEA
Dr Sumaiya Khair	Associate Professor, Department of Law, DU
Dr Mostafa Abid Khan	Deputy Chief, Bangladesh Tariff Commission
Mr Tanvir Nawaz Khan	Director General, World Energy Council
Mr Anisul Islam Mahmud	Managing Director, Shasha Denims Ltd

Ms Farzana Mannan	Customer Relationship Officer, Citibank, N A
Ms Anne Marchal	Second Secretary, European Commission
Mr Dundas McCullough	Counselor, Political and Economic Affairs, Embassy of USA
Mr M Jinnat Ali Mian	Director, BGMEA
Mr Golam Sarwar Milon	Chairman Banking & Finance Standing Committee, BGMEA
Mr Mustafa Mohiuddin	Director General, Export Promotion Bureau
Mr Md Nasiruddin	Chairman, Pacific Jeans Ltd
Mr Badruddoza Nizam	Garments Tailors Workers League
Ms Lutfor S Khan Osmani	Lecturer, Department of Business Management, BRAC University
Mr G M Quader	Member of Parliament
Mr S M Majedur Rahim	Country Director, Dada (BD) Ltd.
Mr A S F Rahman	Chairman, BEXIMCO
Mr Junaid Rahman	Director, Greenland Garments Ltd
Mr M Fasihur Rahman	Secretary, BGMEA
Mr M. Shamsur Rahman	Stylecraft Ltd
Ms Nilufar Rahman	Customer Relation Manager, Citibank, N A
Mr AKM Saifur Rashid	BAPA
Dr M A Razzaque	University of Dhaka
Mr Naser Reza	Director, Meer Ala Hol
Mr Jonathan Rose	Oxfam Bangladesh
Mr Yusuf Saeed	Structured Finance Head, Citibank, N A
Mr Kanti Kumar Saha	RVP, FI Marketing, Citibank N A
Mr Sunil KR Saha	Manager, M R Textile
Mr Kabez M Shahjiar	Assistant Manager, Credit Risk Mgt.
Ms Mashuda Katun Shefali	Executive Director, Nari Uddog Kendra
Ms Kalani Subasinghe	Oxfam Bangladesh
Mr G M Suhrawardy	Young Researcher, INCIDIN Bangladesh
Ms Rehana Sultana	Senior Lawyer, Bangladesh National Women Lawyers Association
Mr M Taheruddin	Managing Director, Mercantile Bank Limited
Mr Osama Taseer	Director, Tiffiny's Wear Ltd
Mr Shafiq Uz Zaman	Managing Director,COATS Bangladesh Ltd
Mr Md Minhaz Zia	General Manager, IDLC
Dr Salma Chaudhuri Zohir	Research Fellow, BIDS
Mr Gowthanan	Oxfam Bangladesh
Mr Palash	Student, University of Chittagong

Annexure B

List of Journalists
(in alphabetical order)

Mr Abul Bashar	The Independent
Mr Masum Billah	The Daily Inqilab
Mr Raihan M Chowdhury	Financial Express
Mr Rafiq Hasan	The Daily Star
Mr Delwar Hassan	The Daily Dinkal
Mr Elias Hossain	NNB
Mr Shakhawat Hossain	The News Today
Ms Rozina Islam	The Daily Sangbad
Mr Amirul Islam	Prothom Alo
Mr Shafiqul Islam Jibon	Daily Janakantha
Mr Shahriar Karim	BBC
Mr Abu Kawser	The Daily Jugantor
Mr Masumur Rahman Khalili	The Daily Inquilab
Mr Asjadul Kibria	New Age
Mr Shujan Mahmud	Ajker Kagoj
Mr Dewan Hanif Muhamad	Daily Prothom Alo
Ms Shahnaz Munni	ATN Bangla
Mr Rahim	Bhorer Kagoj
Mr Mizanur Rahman	Arthakantha
Mr Salim Reza Real	DD-Bangla
Mr Jamal Uddin	The Daily Ittefaq