

THE ECONOMIC AND SOCIAL IMPACT OF LIBERALISATION THROUGH PREFERENTIAL TRADE AGREEMENTS – THE CASE OF THE READY-MADE GARMENTS AND THE LEATHER & LEATHERGOODS SECTORS

A Country Study on Bangladesh

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BACKGROUND

Preferential Trade Agreements (PTAs) have increasingly acquired greater significance in international trade;

PTAs provide governments with the **opportunity to expedite domestic reforms** and accelerate the pace of liberalization;

PTAs contribute to **increased trade among members,**

These arrangements promote national welfare through **increased revenue, income, and prosperity** for the industries of all the concerned countries;

It also has positive implications on the labour market;

PTAs **could also have a negative impact on employment** or could cause inequality when domestic producers are either displaced or suffer losses due to increased imports from PTA-partner countries;

Liberalisation resulting from PTAs have both **trade creation and trade diversion effects.**

OBJECTIVE OF THE STUDY

The purpose of this country case study is

- to **explore and understand the economic impact of liberalisation** (such as the sector size and growth, production, export, import, technological development and involvement in global value chains)
- any identified **spillover effect**
- **social impact of such liberalisation** (such as, employment quality and opportunities, gender equality, child labour and change in culture)

To highlight the impact of liberalisation through PTAs, this study will be confined to two sectors:

- Garments sector; and
- Leather and leathersgoods

DATA COLLECTION METHODOLOGY

The country case study was based on two sources of information:

- Secondary resources and
- Primary sources of data.

8 respondents from three groups of stakeholders were consulted.

- Exporters and importers (RMG & leather industry represent both importers and exporters)
- Workers/trade union,
- Trade analysts/experts



THE RMG SECTOR

TRADE AND INVESTMENT IN RMG SECTOR

The country's flagship industry began its journey in the early 1980s;

Bangladesh's **garment exports increased from USD 6.8 billion in 2005 to USD 19.9 billion in 2012;**

As of now, apparel export stands at **USD 24 billion, accounting for about 82% of all exports;**

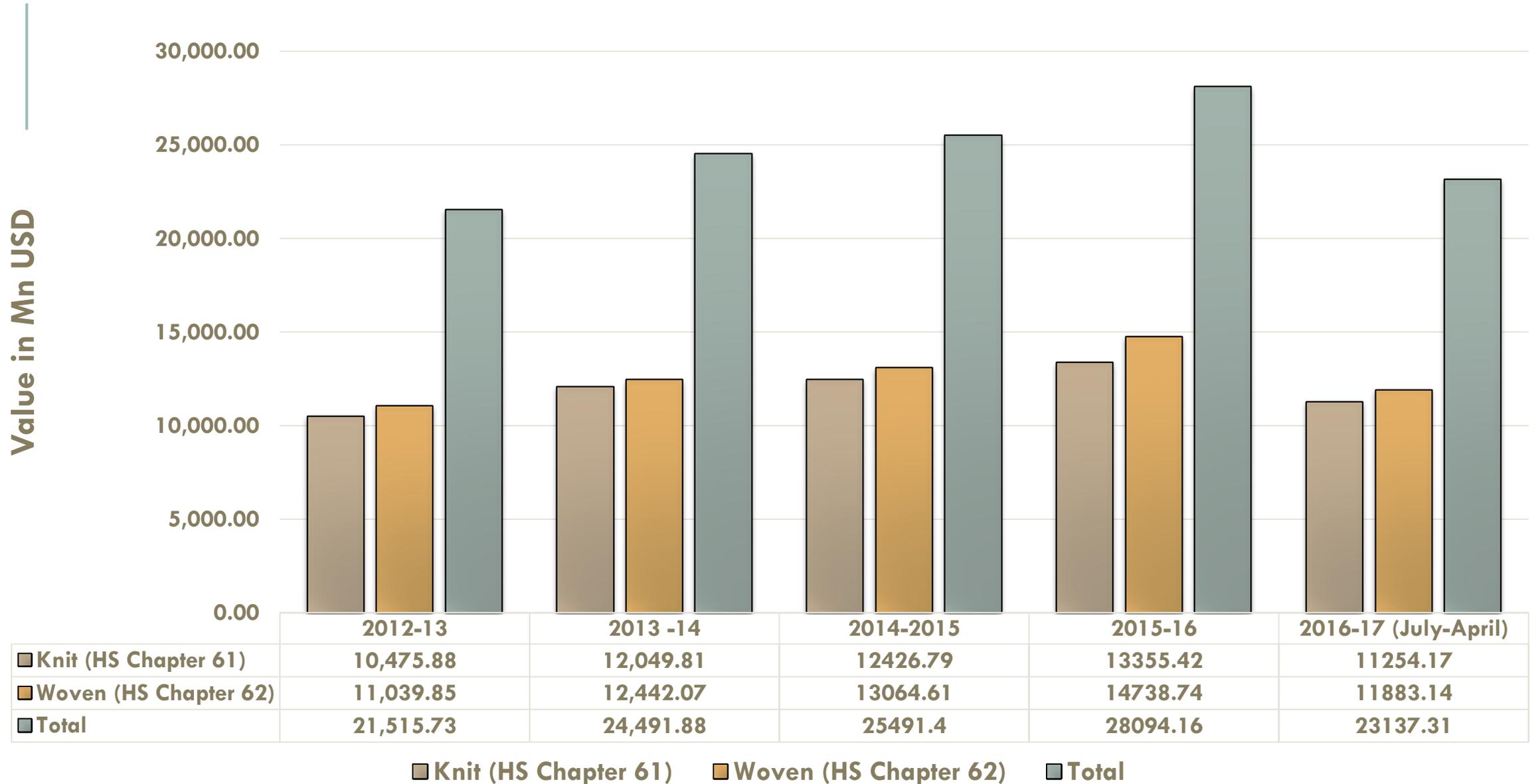
The RMG industry currently **contributes 10% to Bangladesh's GDP;**

The remarkable success of the sector can be attributed to factors like

- **tariff liberalisation,**
- **special bonded warehouse facilities,**
- **drawback facilities, cash incentives,**
- **export processing zones,**
- **back-to-back letter of credit facility,**
- **low labour cost,**
- **Preferential Market Access etc.;**

There has been a significant **cut in the tariff rates** for cotton and wool fabrics during the last 2 decades through autonomous liberalisation;

EXPORT OF RMG (VALUE IN MN US\$)



PREFERENTIAL RATES UNDER SAFTA & APTA

There has been significant tariff **reduction under SAFTA** for RMG inputs, such as yarns and fabrics;

SAFTA, import tariff for Woven Fabrics (H.S Code 5112.19) **came down to 5%** in 2014 from 25% in 2006;

For Raw Cotton it **came down to 3.6%** in 2014 from 6% in 2006;

Bangladesh receives significant duty preferences at **varying rates under APTA** members' Special List of Concessions;

Women's or girls' jackets of silk or silk waste enjoys **100% margin of preference (MoP)** under China's Special List of Concessions for LDCs;

Women's or girls' jackets of silk or silk waste enjoys **50% MoP** under RoK's Special List of Concessions for LDCs.

INVESTMENT IN RMG SECTOR

Liberalised trade policies including participation in PTAs, have been **able to attract foreign investments** in the RMG sector;

Total foreign investment in the RMG sector (textile and wearing) now stands at **US\$ \$529.89 million** (gross inflow) and \$366.44 million (net inflow);

However, FDI in the RMG sector is not always welcome by domestic RMG firms;

Local RMG entrepreneurs are fearful that increased FDI into the sector will hurt local factories through wage inflation and the use of limited infrastructure.

SECTOR SIZE, GROWTH & TECHNOLOGICAL DEVELOPMENT

The country's RMG industry grew by more than **15 per cent per annum on average during the last 15 years;**

There are more than **4,000 RMG firms in Bangladesh of which around 95 per cent** of the firms are locally owned;

The sector adopted **the latest technologies and a considerable number** of factories have moved from semi-automatic to automatic production system;

Another technological up-gradation is the use of lasers by denim factories to make 'greener' denim;

RMG sector has a significant level of participation in Global Apparel Value Chain, especially in knit garments (with about 75-80% fabrics supplied from local sources).

Production of RMG products (Quantity in Million Dozen PCs)

Fiscal Year	Total RMG	Knitwear		Woven wear		Compound annual Growth rate (GAGR %)		
		Quantity	%Share RMG	Quantity	%Share of RMG			
09-10	465.5	292.7	63	172.8	37			
10-11	688.31	441.03	64	247.28	36	RMG	Knitwear	Woven wear
11-12	722.85	444.23	61	281.62	39	13	14	19
12-13	784.81	478.19	61	306.27	39			
13-14	852.88	512.23	60	340.65	40			
14-15	950.57	550.40	58	400.17	42			

SPILOVER EFFECTS

Employment opportunities led to a decline in the incidence of poverty from **just below 50 percent in 2000 to around 31.5 percent in 2010** to an estimated 24.5% in 2015;

Employment in the RMG sector has become a **source of power for women** in Bangladesh;

Growth of the garment industry in Bangladesh has **increased schooling for younger girls**;

Development in the sector has led to a silent **revolution in the accessories industry**;

Made **indirect contribution to the growth of other sectors** that cater to the needs of garments workers like low-priced sandal shoes, low-priced soaps, shampoos and cosmetics;

Rendered large **positive externalities by contributing to other economic activities** in such areas as banking, insurance, real estate, packaging, hotels and tourism

EMPLOYMENT QUALITY AND OPPORTUNITIES

There are **5,400 factories in the country and over four million workers;**

The employment quality is not very satisfactory as there are existence of poor health and safety conditions;

Production in many factories are not up to the mark in terms of **fire safety and building integrity;**

The minimum **wage is still low** compared to what the International Labour Organisation (ILO) terms 'Decent Work;

Workers still **live in slums and messes** with no or minimum ventilation and inadequate sanitation and toilet facilities;

The growth of the RMG sector **has not necessarily led to satisfactory wage and standard of living of workers;**

Workers cannot work in the garment industry for a long tenure because of **occupational hazards;**

Factionalism of workers' unions is one of the major obstacles to workers' voice.

MEASURES TO IMPROVE WORKPLACE SAFETY

After the unfortunate accidents of Rana Plaza and Tazrin Fashions, several initiatives have been taken to improve the workplace environment;

In 2003, **Accord and Alliance** was formed;

Alliance has so far inspected **870 factories** while **Accord** inspected more than **1,600 RMG** factories;

The GoB in cooperation with the ILO formed a platform called **National Initiative (NI)** to inspect the factories not covered by Accord and Alliance;

Some of the actions taken by Accord and Alliance **have created burdens on the RMG sector**;

The Accord and Alliance often **arbitrarily decide safety and security standards from a Western point of view** ignoring local specificities.

GENDER EQUALITY & CULTURAL OUTLOOK

The growth in the RMG sector has contributed considerably to **break down the social mores that determine how women see themselves**, both in their families and at work;

The scope for **employment and income earnings** in the RMG sector have significantly improved gender equality in Bangladesh;

Inequalities in wages are gradually changing with more and more women getting employment and having access to, and control of, resources;

People with disabilities are now getting jobs in the RMG sector;

Due to the nature of jobs in the export-oriented RMG sector, **social norms and cultural traditions** are gradually being transformed in Bangladesh;

The **cultural outlook** is also being transformed.



THE LEATHER SECTOR

TRENDS IN TRADE AND INVESTMENT FLOWS AND PATTERNS OVER TIME

The leather sector in Bangladesh essentially consists of four sub-sectors. (**Tanning & Finishing, Footwear & Footwear Components, Leather Accessories, and Leathergoods**);

The leather and leathergoods sub-sectors are the second **main contributors in the export arena**;

Locally available **raw hides provide 95 per cent of the raw materials** required for the leather industry;

Import tariffs on raw hides brought in from overseas were **gradually reduced** over the years;

In FY 1992-93, the **effective import duty** on two leather sector raw materials was **60 per cent which now have come down to 25 per cent**.

GOVERNMENT INCENTIVES AND PREFERENTIAL TREATMENTS

The expansion and flourishing of this sector were due to factors like **availability of raw materials from local sources, liberalisation of trade, low labour costs, and GoB incentives** (*bonded warehouse facilities, duty drawbacks, cash incentives*);

Market access, through **duty-free or preferential duty rates** available under the PTAs, such as SAFTA and APTA, also helped the Bangladesh leather sector enhance its volume of exports;

Footwear made of leather or composition leather uppers (HS Code 6405.10.00) gets **50 per cent MoP** under China's General List of Concessions under APTA;

As an LDC, Bangladesh also enjoys **DFQF facility in EU, Japan, Australia, China, Korea** and some other markets.

INVESTMENT FLOWS

The leather sector has also been able to attract a significant amount of FDI;

In 2016, FDI in the leather and leathergoods **industry amounted to US\$ 35.86 million;**

Current investment in the tannery industry is estimated at **Taka 2.5 billion;**

In recent times, many globally-renowned companies, such as Timberland, Germany-PICARD, Youngone and Pou Chen Group have **shifted their production into Bangladesh.**

SECTOR SIZE, GROWTH, PRODUCTION, EXPORT AND IMPORT

There are **205 tanneries and 450 commercial exporters** of leather in Hazaribagh;

About **35,000 workers** are engaged in the sector;

The leather sector, including its allied sectors, employs nearly 8 lakh people directly or indirectly;

Fifty-three (53%) percent of the workforce are women in the leather products industries;

leather sector was the only industry in which trade openness had a positive and significant impact on the labour demand;

Bangladesh accounts for 3% of the global leather & leathergoods market.

SECTOR SIZE, GROWTH, PRODUCTION, EXPORT AND IMPORT

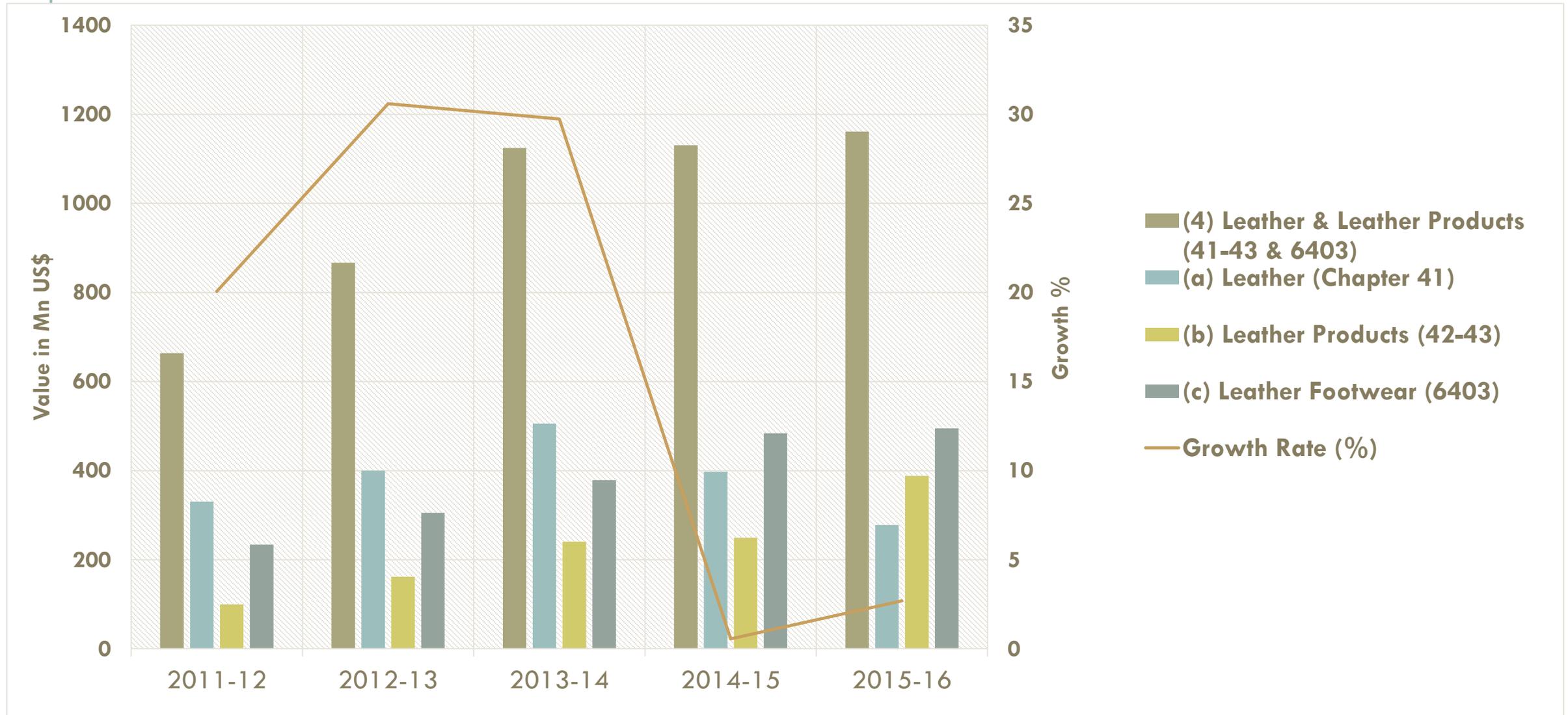
International brands like Adidas, Aldo, Timber Land, Marks & Spencer, Steve Madden, Espirit, ABC Mart, Nike, K-Mart, Sears, etc. **source leather goods and footwear from Bangladesh.**

China is the **largest export destination** for Bangladesh's hides and skins;

Exports of leather and leathergoods were **\$1.16 billion in 2015-16** which was \$1.13 billion in the previous fiscal year;

In 2014, Bangladesh **imported about US\$ 130.33 million** worth of leather which was **decreased by US\$ 15.10 million in 2015.**

EXPORT OF LEATHER & LEATHERGOODS



TECHNOLOGICAL DEVELOPMENT

Bangladeshi leather industry started its journey with a limited scale but **grew due to increased demand;**

From early 1990s the leather industry moved to the industrial scale production and **new software, machines and technology were introduced** to increase the quality of products with modern designs, production efficiency and reduced costs;

The leather sector also took necessary quality improvement measures to implement ISO 14001: 2015 (EMS);

Eco-labelling has also been introduced for the leather sector in Bangladesh;

Waste water pollution from liming was also minimised through the introduction of **hair-save liming process technologies.**

SPILLOVER EFFECTS

The country's bovine and ovine **livestock satisfy** approximately **75 per cent** of the leather industry's demand;

The leather and leathergoods sector is considered as a **significant polluter of environment**;

Bangladesh, is one of the top **10 polluted places** in the world;

Thousands of Bangladeshi lives are blighted by the millions of litres of waste that pour, untreated, from the tannery district gutters, and *Buriganga*;

Chromium, lead, organohalogens and other toxins with more than the statutory maximum levels had been **poisoning Hazaribagh's well**;

SOCIAL IMPACTS OF LIBERALISATION OF THE LEATHER SECTOR

Foreign buyers warned leather producers that if they do not improve working conditions and environmental issues, they will stop buying leathers goods from Bangladesh;

However, things have **dramatically improved in 2017** with the closure of all leather and tannery industries at Hazaribagh;

The GoB has established the **Savar Industrial Park** in 2017 with a **central ETP**;

The new Park will **house more than 250 tannery** and leather industries and thus remove the nagging environment problem caused by the leather sector;

According to the World Health Organisation, **90% of Hazaribagh's tanning factory workers would die before they are 50 due to many diseases** resulting from the serious pollution caused by the tanneries;

Initiatives are underway to **improve the health and safety conditions** in leather and leather goods sector;

Working condition in leather goods and footwear factories is **getting more compliant**, following all national standards.

CHILD LABOUR

The question of **child-labour was a vexing problem** for the RMG sector;

However, it is no longer there in the RMG sector, and both the buyers and the ILO appear satisfied with the above-noted stand of both the manufacturers and the government;

Leathergoods manufacturing sector, including the footwear factories are now free from child labour, some of the tanners may still employ some child labourer;

The government and the Industry people appear determined to get rid of this curse.

POTENTIAL FUTURE DEVELOPMENT IN RMG SECTOR AND ITS IMPLICATIONS

The RMG sector in Bangladesh is going through a **transition from a low compliant sector to a possibly fully compliant one;**

RMG industry owners and the GoB are taking necessary **measures to ensure building and fire safety** and improve overall occupational health and safety in Bangladesh;

Owners in the RMG sector **invested over US\$ 1 billion to renovate and retrofit** their factories as per the demand of buyers, retailers and brands;

The RMG sector has immense prospects of **achieving the seemingly ambitious target of export earnings** of US\$ 50 billion from the sector by 2021;

The cost of sourcing of RMG from Bangladesh is still the lowest in the world because of comparatively low prices and low wages of workers;

The **rising labour costs in China** and the **relocation of production facilities** to Bangladesh also offer a significant growth potential for the sector.

POTENTIAL FUTURE DEVELOPMENT IN LEATHER SECTOR AND ITS IMPLICATIONS

The leather and leathergoods sector **also has very bright prospects** in Bangladesh;

Raw materials for the sector can easily be procured from local sources, and as there is an **abundant pool of labour, the sector has a comparative advantage to grow;**

Policy supports from the GoB in the form of reduced tariff on import items of leather sector coupled with bonded warehouse facilities and cash incentives offers **competitive advantage** to this labour- intensive sector;

This sector needs to improve its **compliance records** with environmental standards in order to remain relevant in global markets;

Immediate **relocation at the newly-established Savar Leather Industrial Park** is required.

CHALLENGES FOR THE SECTORS TO GROW AND ACHIEVE THE EXPORT TARGET

Few challenges for the development of selected sectors:

- Ensuring constant supply of necessary gas and electricity,
- Gas connection still not available in tannery palli (Savar)
- Labour rights-
 - The European Union has called on Bangladesh (in June 2017) to show tangible progress on labour rights to avoid temporarily losing the generalised system of preferences (GSP) benefit

Improvement in compliance with environmental standards

Development of trade infrastructure and

Skilled manpower