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ENFORCEMENT OF SAFTA

Experts suggest removal of non-tariff barriers

STAR BUSINESS REPORT

Identifying non-tariff barriers as the main bottleneck in implementing Safta agreement, the country's experts expressed their mixed reaction over the benefit Bangladesh can reap from the deal, which came in effect yesterday.

They, however, underscored the need for participation of all Saarc nations in making the deal properly effective.

"There is no way to avoid any clause of the agreement as Saarc member states altogether signed the deal," a commerce ministry official, who was involved in all negotiations on establishing a free trade zone from the very beginning, said, fearing that non-tariff barriers might be turned into a crucial issue in enforcing the deal.

The official is learnt to have a vast experience about trade problems among the forum member countries.

When asked about how Bangladesh can be a beneficiary of the seven-nation deal, the official said the country can get benefit through export of fish, vegetables, jute, tea, leather, readymade garments, home textiles, medicines, processed food, consumer goods, cosmetics, handicrafts and ceramics to other Saarc countries.

"It will get trade benefits under Safta not from all countries. But as per the deal, it can get some export benefits from India, Bhutan, Sri Lanka and the Maldives," the official added.

He said Bangladesh will have duty-free access of jute and jute goods, fruit, leather products, ceramic, electrical goods to India's big market as the giant member country of the region keeps these products out of its sensitive list.

"A number of Bangladesh's export items including ceramic, melamine products, garments, fruit juice, electrical wire, leather and footwear, edible oil, hilsa fish and traditional jute products have huge demand in the Indian market. But due to non-tariff barriers such export potential is yet to be tapped," said Shishir K Deb, chief executive officer of Bangladesh Foreign Trade Institution (BFTI).

Dwelling on the problems of non-tariff barriers imposed by the Indian customs, he said the Indian authority does not seem to accept certification from Bangladesh organisations, although these products are also exported to the EU and US markets.

In the Safta sensitive list, Pakistan includes potential export items of Bangladesh such as jute, fabrics, woven and knitted garments, special woven fabrics, made-up textiles and footwear.

"Although Bangladesh will not get much benefit from Pakistan under the Safta, it is possible to export some major items to Pakistan through bilateral deal, which is under process," said the commerce ministry official.

He said as per the commitment of high level officials of both Bangladesh and Pakistan are supposed to sign bilateral deal by September this year, which may help Bangladesh get market access of some major export items.

According to Export Promotion Bureau, Bangladesh exported goods worth $46.17 million to Pakistan in July-March period of FY 2005-06, which is 0.61 percent of the total export earnings of the country. The main products that Bangladesh usually exports to Pakistan are raw jute and tea.

Sri Lanka sensitive list includes fish, leather and footwear, while all major export items of Bangladesh except tea are excluded from the sensitive list of Bhutan. So, Bangladesh will get a chance to boost its export to these countries.

Meanwhile, major export items of Bangladesh such as fish, jute fabrics, woven and knitted garments, made-up textiles and footwear are on the sensitive list of Nepal. Only three major items of Bangladesh is on the sensitive list of the Maldives.

Data of the country's promotional agency for export show that the main export items of Bangladesh to the Saarc region are chemical fertilizers, raw jute, frozen fish, leather goods, tea, ceramic, garment and textile products.

As per the Safta, Bangladesh will have to allow for the next six months imports of other than items under its sensitive list from the contracting states by reducing 2.5 percent tariff from the existing rates. The highest rate of customs duty in Bangladesh is 25 percent.

India, Pakistan and Sri Lanka will reduce their tariffs for Bangladesh and other LDC contracting states by 10 percent from their existing rates for next six months as per the negotiation concluded at the maiden SAFTA Ministerial Council meeting in Dhaka on April 20 this year.

Under the Safta roadmap, the developing member-states will bring down their tariffs to 0-5 percent in three years while the Saarc least developed country like Bangladesh will do it in a time span of 10 years.

The member-states had decided to notify the non-tariff measures (NTMs) and para-tariff measures (PTMs) they face with their exports to other states of the regional body by October 1 this year.

A commerce ministry source said the sub-group already held their first meeting in Kathmandu on May 16-17, finalising the terms of reference of the group. They also decided to hold the second meeting in Bhutan on August 1-3.

Warid Telecom opts for Ericsson's charging, value added services solutions

Warid Telecom has chosen Ericsson's (NASDAQ: ERICY) real-time charging and value added services (VAS) solutions to be deployed in its Bangladesh network project.

Covering 61 districts in the country, the project is expected to be completed within this year, says a press release.

Under an agreement signed recently, Ericsson will supply Warid with its charging system and provide the mobile phone operator with functionalities such as real-time costs and spending control, and real-time bonus and balance notifications.

The agreement also includes the provisioning of VAS solutions such as MMS, SMS, WAP, voice mail services (VMS) and missed call notification (MCN), enabling Warid to offer new and diversified services to its customers.

Muneer Farooqui, chief executive officer of Warid Telecom International LLC (Bangladesh Operations), stressed the significance of Ericsson's proven track-record of being a very strong and committed partner.

Arun Bansal, managing director of Ericsson Bangladesh, says: "We are proud that Warid has selected Ericsson as its partner."

Ericsson is providing innovative solutions in more than 140 countries and helping create powerful communications companies in the world, according to the release.

DUTY-FREE ACCESS TO US

Dhaka calls for immediate enactment of TRADE Act

UNB, *Dhaka*

Bangladesh made a strong plea that the US Congress would enact the TRADE Act at the earliest to help the least developed countries (LDCs) of the Asia-Pacific region adjust to the emerging new trading regime.

"Such action is consistent with US WTO obligations, the spirit of the Doha Development Round, as well as Congressional and Administration policy," Bangladesh Ambassador to the United States Shamsher M Chowdhury said Thursday in support of the country's demand.

TRADE (Tariff Relief Assistance for the Developing Economies) Act seeks duty-free access of goods from Asia-Pacific LDCs to the US.

The US Congress has previously acted generously towards the LDCs in the Sub-Saharan Africa and the Caribbean region, allowing them preferential market access.

Unfortunately, the least developed countries of the Asia-Pacific region are the only group that has been left out of US preferential programme, the envoy said at a discussion at Capitol Hill in Washington, DC.

He pointed out Bangladesh, which has a meagre share of only 1.7 percent of the US apparel imports, does not pose any threat to the American textile industry.

In this context, the ambassador referred to the generous preferential treatment extended by the OECD countries to all the LDCs of the world.

The Association on Third World Affairs Inc., an advocacy group that creates awareness among US policymakers and promotes the trade and economic interests of the low-income developing countries, organised the panel discussion. The Bangladesh ambassador delivered the keynote speech on 'Helping the Least Developed Countries Through Trade', said a message received in Dhaka.

Congressman Jim Kolbe, chairman of the House Subcommittee on Foreign Operations and the main sponsor of the TRADE Act 2005, among others, participated in the discussion.

Cambodian Ambassador to the US Ek Sereywath and representative from the Embassy of Kyrgyztan also spoke. The seminar was widely participated by academics, trade journalists, congressional staff and US administration officials.

Katalyst signed a memorandum of understanding (MoU) with Faridpur, Rangpur, Bogra and Rajshahi chambers at a function on Thursday. The MoU is mainly aimed at improving public services for business growth.

Oil prices near $74

AFP, *New York*

World oil prices climbed towards 74 dollars per barrel on Friday due to jitters over motor fuel supplies before a long holiday weekend in the United States, dealers said.

New York's main contract, light sweet crude for delivery in August, climbed 41 cents to close at 73.93 dollars per barrel. The contract earlier hit 74.15 dollars -- the highest point since May 3.

In London on Friday, Brent North Sea crude for August delivery surged 64 cents to 73.51 dollars per barrel in electronic deals after earlier touching 73.35, which was last seen May 12.

The New York Stock Exchange closed early and will remain closed Monday and Tuesday, making a long weekend of Tuesday's Fourth of July celebrations, a key event in Americans' vacation and driving plans.

"The Independence Day holiday weekend in the US starts (on Saturday) and demand for gasoline should be very high, much higher in fact than last year according to some sources," Sucden analyst Sam Tilley said.

Some 35 million Americans are expected to take to the roadways over the weekend, putting severe strain on the country's stocks of gasoline or petrol.

US gasoline stocks are under pressure amid the ongoing peak-demand driving season.

"Oil prices are continuing to gain support (on Friday) from strong underlying US demand for gasoline where consumption levels are continuing to rise despite prices that are up over 20 percent year-on-year," added Barclays Capital analyst Kevin Norrish.

Fimat analysts agreed, saying "demand looks quite resilient with American drivers expected to take to the road in record numbers during the July 4th weekend."

Prices also were underpinned by the continued closure of a key shipping channel in Louisiana, which has limited output at three refineries, Fimat said.

Bill O'Grady of AG Edwards also noted that a spate of refinery problems and supply disruptions were "adding to the bullish tone of the market."

Oil prices extended gains following a report Wednesday by the US Department of Energy showing steep falls in both gasoline and crude stockpiles.

Russia makes currency fully convertible

AFP, *Moscow*

Russia lifted currency controls Saturday in a sign of new-found economic confidence less than eight years after defaulting on its massive domestic debt, devaluing its currency and wiping out its people's savings.

The controls were lifted in accordance with a government decision taken Thursday.

"Now it will be more attractive to invest in Russia -- this will increase investors' interest in Russia," Finance Minister Alexei Kudrin said on national television, adding that he expected no capital flight from Russia to result from the reforms.

"Russian businesses can freely, without worry, without any special permit or burden, participate in investments" in other countries of the former Soviet Union or elsewhere, Kudrin said.

Kudrin added that he hoped the ruble would come into common use in transactions between companies in neighbouring ex-Soviet states -- effectively a challenge to the omnipresence of the dollar.

"When the ruble starts to be used among our trading partners, Belarussian enterprises for example will settle their accounts with Ukrainian enterprises in Russian rubles," Kudrin told the state-run RIA-Novosti news agency.

Russian President Vladimir Putin had personally pushed for the reforms to be approved this year instead of 2007 as previously planned.

Deputy Prime Minister Alexander Zhukov said that recent moves to begin trading oil and gas in rubles would help build confidence and increase demand for the Russian currency.

Early implementation of the reforms had been made possible he said by a stable macroeconomic situation, the large gold reserves Russia had built up (worth 247 billion dollars by June 23), the ruble's stability, the balancing of the budget and increased foreign investment flows.

"Foreigners will gladly put funds into the Russian economy," Zhukov told RIA-Novosti.

Katalyst signs MoU with four district chambers

Katalyst, a project that works in the field of SME (small and medium enterprise) promotion, has signed a one year MoU with four district chambers in a bid to improve public services for business growth.

The memorandum of understanding (MoU) was signed with Faridpur, Rangpur, Bogra and Rajshahi chambers on Thursday, says a press release.

The MoU highlighted the need for participation of the chambers to play an effective role in ensuring transparency and accountability in regulatory implementation and increased private sector participation in decisions on infrastructure projects and registration policies.

Besides, the MoU focused on licensing and updating the provision of basic services, especially improving the utility facilities in a recognised marketplace.

Mir Nasir Hossain, president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), Md Ghulam Hussain, joint secretary of commerce ministry and national project director of Katalyst, and presidents of the district chambers, among others, were present at the signing ceremony.

Global markets fail to bridge rich-poor divide: UN

AFP, *Geneva*

The United Nations said in a report on Friday that globalisation has failed to narrow the glaring inequalities between rich and poor nations and called for developing countries to be given more space to build up their national economies.

The UN's "2006 World Economic and Social Survey" said that -- once China and India were excluded from the calculation -- inequalities between countries around the world had grown sharply in recent decades. Fast-growing China and India account between them for one third of the world's population.

The report said this development was "at odds with the conventional economic wisdom regarding how income differentials among countries change over time in a more integrated world economy".

Only a small number of nations had been able to narrow the chasm that separated them from wealthy economies despite a belief in the 1980s and 1990s that "giving more space to the global market would lead to a closing of the income gap", it added.

"This did not happen ... despite the fact that countries across the globe had opened up their trade and financial systems to the global market," observed the report by the UN's department of economic and social affairs.

It argued that poorer countries needed to be given more opportunity to diversify their commodity-based economies to make them less vulnerable to fluctuations in world prices and shocks in international financial markets.

They should be able to follow the example set by dynamic Asian economies by shifting towards high-tech industrial production and services, it argued.

"Success in exports is basically associated with what you export, not how much you export," UN Under Secretary General Jose Antonio Ocampo told journalists in Geneva.

"To stave off collapses such as those felt in the developing world in 1996-98 and 2000-02, countries should adopt policies adopted to their national situations, breaking free of lockstep approaches to policy-making," he said.

Future of clothing exports from Bangladesh: Disaggregated scenario

ZILLUL HYE RAZI

The year 2005 witnessed a restructuring of the global supply sources of clothing following the withdrawal of all quantitative restrictions (quota system) imposed under the Multi Fibre Arrangements (MFA). As predicted, China continues to be the biggest gainer with a quantum jump in its exports of textiles and clothing to USA and EU.

The inevitable safeguard clause (quota) invoked to the Chinese exports by the USA and EU on certain so-called sensitive textile and clothing items can remain effective only up to the end of 2008. Some South Asian countries like Bangladesh performed very well in maintaining market share and even increasing it significantly in some specific items during 2005 and the first half of 2006. It is generally agreed that the safeguard measures on imports from China gave these countries some breathing space, before Chinese exports take a huge share of the market. There is, accordingly, a nervous feeling here in Bangladesh about the post-2008 trade regime. Is it going to be winner takes it all?

Early indications

The export of clothing or readymade garments (RMG) in the post-MFA period from Bangladesh experienced a steady growth dispelling fear of a negative impact of the quota withdrawal in USA and EU.

In the first 9 months (July 2005 to March 2006) of Bangladesh Fiscal Year 2005-06, the export of RMG accounts for 5.6 billion US dollar. It is 19.4% higher compared to the same period of the previous year. The growth is, however, more in the export of knit garments (30%), than that of woven garments (10%). Interestingly, the USA scenario is very straight forward; both woven and knit garments had a steady growth in 2005 and the first quarter of 2006.

But in EU, the knit export is doing far better than the woven export. However, even in EU, exports of some woven items have picked up momentum after first few months of 2005.

Impact of textile safeguard clause imposed on China

EU put quota restrictions on certain textile products imported from China in July 2005, effective until 2008. Among these, T-shirts, pullovers/sweaters and men's trousers are of interest to Bangladesh as these are her main export items. Import of shirts from China is not yet under quota restriction.

But export of shirts to EU from Bangladesh has already been declining since 2004. Nevertheless, there is a great surge of export of woven shirts to USA in 2005 and in the first quarter of 2006. Historically USA has been the main destination (more than 50% of the total) of the woven garments and EU the destination (about 70%) of knit garments. The quota free USA market opened new opportunities for export of knit garments and particularly for some of the very popular woven garments from Bangladesh. Presumably the loss of market in EU has been compensated by the new business in USA. Exports from Bangladesh, both knit and woven, increased substantially in the US market in the first few months of 2005, after the withdrawal of quota.

In USA the quota restrictions on Chinese imports include T-shirts, sweaters, cotton trousers and also woven shirts. These restrictions were imposed in the later part of 2005. The US - China Textile Agreement, effective from January 1, 2006 to December 2008 and the EU-China Textile Agreement of June 2005 certainly provided some opportunities to increase exports from Bangladesh to these two destinations, which take about 90% of the total RMG exports.

The present trend

Similar to the ominous predictions on post-MFA period, there is a growing concern that China will quickly eliminate all competition and Bangladesh will face a major export setback in 2008 onwards. The reality may not be entirely so simple. As mentioned earlier, some of the export items from Bangladesh have been doing good business even before quota restrictions were imposed on China.

Main export items like T-shirts, sweaters, trousers and shirts continued to do good business in EU and USA even before quota was imposed on China after 2005 and the trend prevails. But export of woven shirts in EU is declining. Nevertheless, after the end of the first year (2005) of quota free business, Bangladesh was no.2 in T-shirts, no. 4 in men's shirts of cotton, no. 4 in men's trouser of cotton, number 2 in sweaters and no. 3 in cotton denim exporter in EU. This shows Bangladesh has a very strong position in these items, which covers more than 80% of total Bangladesh RMG exports to EU.

Among the items mentioned above, no country other than China in Asia was ahead of Bangladesh except for men's cotton shirt. A Trade Policy Brief of Centre for Policy Dialogue (September 2005) also concluded that for export of items where Bangladesh has revealed comparative advantage in the EU, the threat of market displacement by China is not immediate.

Issue of preferential margin

Many eyes are now on the outcome of the WTO negotiations on reduction in tariffs under the Non-Agricultural Market Access (NAMA). If it succeeds, there may be substantial reduction in the tariff for textile and clothing products among other items. LDCs like Bangladesh had been struggling hard to get duty free access for all products into the market of developed countries.

EU has already given that access in 2001 under Everything But Arms (EBA). Even before that Bangladesh has been enjoying duty and quota free access for its RMG exports to EU. But the GSP utilization, possible only through adhering to the rules of origin, had been very low in RMG exports.

The situation started improving tremendously in the knit exports in the last few years owing to the growth of strong backward linkage in that sector. But GSP utilization remained very low in the woven items, especially for shirts. The utilization showed a steady growth in the exports of trousers, albeit not yet reaching half of the total trouser exports. The EU duty for the RMG items of interest to Bangladesh is 12 percent. This means, European buyers do not pay any duty for more than 80 percent of knit items bought from Bangladesh, but they pay full duty for about 75 percent of woven imports from Bangladesh. However, for some items like cotton trousers, the rate of GSP utilization (duty free entry) is much higher than the average utilization rate in woven items.

About 35 percent of total exports of woven items (shorts and trousers of cotton) have a utilization rate of 40 percent in 2004. This asymmetrical position of preferential treatment of Bangladeshi RMG exports to EU makes it difficult to assess the impact of tariff reduction under NAMA. One has to keep in mind that European buyers pay 9.6 percent duty for a shirt or a trouser (under GSP) when buying from India, Pakistan, Morocco, Tunisia or other GSP beneficiary countries. After withdrawal of GSP, products from China enter with full duty from 1 January 2006.

But, European buyers continued, even after 2004 (when Bangladesh lost its position being the only major exporter with quota free status in EU), to import most of the woven items paying the full duty. It is also very difficult to ascertain if the great knit business in EU is caused by better preferential access or duty free entry or is it due to buyers' satisfaction on other factors including sourcing all inputs from one country. Another CPD paper (September 2005) expressed concern over possible preference erosion under NAMA and concluded that tariff reductions under NAMA will have diverse impact for Bangladesh's export to the EU and the USA. One may wonder if competitiveness of Bangladesh RMG is overwhelmingly dependent on duty free access.

Obviously a positive answer would indicate negative impact on Bangladeshi exports to EU, at least for knitted items. However, it is difficult to reach a conclusive position for such an apprehension, if not looked at the issue on item by item basis.

Improved market access

Many people expressed frustration on not getting duty free access of RMG in the US market. Bangladesh Garments Manufacturer and Exporters Association (BGMEA) had, following the Hong Kong Ministerial, made a calculation on the possible quantum jump of exports to USA, if duty free access is allowed there. However, this will clearly be dependent on the rules of origin set by USA for RMG and, of course, also for other non-textile products.

Any projection of future exports under preferential access should be based on the possible application of rules like the Canadian 25% value addition, processing criteria of EU (use of locally produced fabric) and existing rules for countries where USA has already allowed duty free access. A high expectation has also been placed on the revision of GSP rules of EU. The European Commission is still working on the issue and it is unlikely to be applied before 2007.

While the debate is going on between the warring sub-sectors (BGMEA and BTMA) about the prudence of relaxing the rules, the GSP utilization rate for RMG in EU has reached 66 percent is 2005 from a mere 20 percent in 1997. Assuming duty free access with easier rule gives a boost to the RMG exports, especially for some specific woven items, it would only act as a short term advantage, if tariff on textile products go down radically in near future.

Labour standards: Achilles' heel?

The recent violent incidents and the labour agitation in the RMG industries in Bangladesh show that the RMG sector has serious problems in its flanks. Problems related to possible negative impact of post-MFA trade regime, market access, infrastructure, backward linkage and certain government policies had for some time clouded the ever present issue of the labour standards. The thunderous exposure of that issue has come as a surprise to many and perhaps offered an opportunity to resolve problems by all stakeholders together.

The problem is not unique for Bangladesh. Few months ago Vietnam's export processing zones and industrial parks witnessed wildcat strikes protesting low pay and poor conditions. According to ILO, only 10 percent of workers in the export sector are represented by a trade union there. The Vietnamese government is trying its best to improve the situation. The message is loud and clear, without enforcing core labour standards, no country can expect to have a sustainable growth in the export sector. This is truer for a world where voices of grievance do not remain confined to their national boundary.

The writer works for Delegation of the European Commission to Bangladesh. Opinions expressed are personal and do not necessarily reflect the views of the European Commission.