# The end of the MFA: Myths and reality

**In order to survive and flourish in the increasingly competitive global garment trade, reforms need to be undertaken and forces need to be joined among the main actors to build a competitive RMG sector in Bangladesh. It is crucial for the different actors of the sector to hold dialogues amongst themselves with the purpose of identifying the main issues that constrain the industry and reaching agreement on activities that need to be carried out in order to improve the sector's competitiveness.**

DR. NAUSHAD FAIZ

*[This article, the first in a series of three, is the outcome of a series of tripartite meetings among representatives of the government, the workers and the employers, facilitated by The Asia Foundation, and supported by the United States Agency for International Development (USAID). The second article in the series will appear tomorrow.]*

MORE than eighteen months ago, on January 1, 2005, the Multi Fibre Arrangement (MFA), which had governed world trade in textiles and clothing for thirty years, came to an end. With the expiry of MFA, the quota system and trade restrictions, initially meant to protect the industry in developed countries, were lifted, opening the door to free competition for all.

In the post-MFA era, large competitive countries like China and India were expected to take full and unrestricted advantage of their low production costs and impose fierce competition on smaller producing countries that had developed their ready-made garment (RMG) industry based on access to quotas rather than on their international competitiveness.

Many studies conducted during the last years of MFA concluded that Bangladesh would suffer massive job losses and depletion of foreign exchange earnings as a result of enhanced competition in the international market. What has been the impact on Bangladesh of the ending of MFA? What are the challenges facing the industry today? What should Bangladesh do to increase its competitiveness in order to keep its industry alive and thriving and prevent job losses? These are some of the questions this article aims to address.

## The garment industry

The RMG industry occupies a very significant position in the economy of Bangladesh. It accounts for about 5% of the gross domestic product (GDP) and 25% of gross value addition in the manufacturing sector of the country. It is a major source of employment and absorbs about a third of the industrial workforce. Currently, the sector employs approximately 2.2 million workers, of whom almost 80% are females. It is also the most significant item of export, comprising 75% of total exports, and source of foreign exchange earning, with a contribution of more than three times that of foreign aid.

From a modest start in the 1970s, the ready-made garment industry grew phenomenally over the period of MFA during the last two decades and a half. The number of garment factories increased from 50 in 1983 to around 4,000 in 2004. Around 2,800 of these factories are located in and around Dhaka city, while most of the remaining are in the port city of Chittagong. About 65% of the factories produce woven garments, 20% are engaged in knitting, while the remaining 15% are involved in sweater production.

Over the years, RMG exports have increased dramatically, from a meagre $68,000 in 1978 to $4.5 billion in 2002 to $5.7 billion in 2004. More than half of the exports (57%) went to the countries of the European Union (EU) and 20% to the US. During the 1990s alone, garment exports grew at a rate of 15%.

What are the reasons for this phenomenal growth of the garment industry? First, the quota regime under MFA has substantially contributed to the development of the sector. Countries, like China, that had already utilized their quota of exports, turned to countries like Bangladesh that had not fully used theirs.

Second, the industry benefited from a number of advantages such as: (a) very low labour wages (even by regional standards); (b) increasing share of local inputs (particularly in knit fabrics); and (c) comparative advantage in mass-produced basic garments (such as knit cotton and woven cotton products).

Third, the sector has been helped by policy support provided by successive governments. This includes measures like duty drawback facilities, tax holidays, cash assistance, income tax rebate facilities, zero tariff on machinery inputs, rebate on freight and power rate, bonded warehouse facilities, provision of import under back-to-back letter of credit, loans at concessional rate, export credit guarantee scheme, etc.

## Impact of MFA phase-out

Since January 2005, the market is no longer restricted by quotas. It was generally predicted that after the end of the MFA, countries that had been restricted by quotas would be able to take the full advantage of their competitive position, while those that had been less restricted by quotas might face difficulties in maintaining their current market share. In the long run, it is expected that smaller producers like Bangladesh will find it difficult to compete with integrated supply chain, service standards and economy of scale (savings on volumes) that the larger producers like China or India can offer, unless they take serious measures to improve their competitiveness.

Competition among garment exporting countries has indeed increased as the market climate has changed due to the abolition of quotas. The competitive position of China rapidly appeared to be so important that developed countries decided, soon after the official phasing-out of MFA, to use safeguard measures to continue to impose some restrictive quota on their imports from China on selected products until the end of 2008. Still, China, which is the largest exporter, has substantially increased its market share. In 2005, it increased its exports to the US market by $6 billion.

## How is Bangladesh doing in the Post-MFA era?

The abolition of quotas, contrary to earlier predictions, has not as yet adversely affected the Bangladesh industry, thanks to the restrictions that still apply to China and Bangladesh's duty-free access to the EU market. Today, Bangladesh continues to be one of the leading exporters to the US and EU markets. The knitwear industry has done particularly well and there has been a shift from producing woven garment to manufacturing knitwear. The full impact of quota abolition will probably not be felt before 2008, when restrictions on China are scheduled to end. Moreover, expected growth in the global market for garments could mitigate the negative impacts on the garment industry in Bangladesh.

In the post-MFA period, Bangladesh has actually been able to increase its exports. In 2005 (January-December), it exported $6.9 billion worth of RMG products compared to $6.2 billion in 2004 (January-December), thereby registering a growth of almost 11%. This was mainly due to the knitwear industry, exports of which increased by about 27% during the same period, while that of woven garments slightly decreased. According to some estimates, 400 new factories have been registered and 65,000 new workers recruited after the ending of MFA. Even if these factories are not all effectively operational, this growth in investment and employment is real.

In 2004, Bangladesh was the tenth largest garment supplier to the US and its share of the market was 2.8% compared to China's 16% (the largest supplier) and India's 3.4% (seventh largest supplier). In 2005, Bangladesh increased its exports to the US market by around 21% both in terms of volume and value. As a result of increased exports, Bangladesh was able to raise its share of the US market by almost 14% in terms of volume and 12% in terms of value in 2005. The performance of Bangladesh compares quite favourably with other Asian countries (apart from China and India).

## Post-2008 scenario

What will happen after restrictions on China are lifted at the end of 2008? For one thing, the market share of China will in all probability increase drastically (and for some products this has already happened). China's position as the major producer is likely to become even more important. However, this does not mean that there is no room for smaller exporters like Bangladesh. What it certainly means is that Bangladesh will have to improve its competitiveness to remain on the map of buyers, since it is also expected that buyers will consolidate sourcing and concentrate on fewer countries than during the quota period. They may buy more from fewer countries and deal primarily with larger factories in those countries.

In terms of labour costs, Bangladesh is well positioned and compares favourably with other Asian countries. The per hour cost of labour in Bangladesh is $0.25, compared to $0.27 in Indonesia, $0.34 in Pakistan, $0.46 in Sri Lanka, $0.48 in China, and $0.57 in India. However, wages are currently being revised to bring them more in line with the escalating cost of living and expectations of workers, as a result of which labour costs will increase. But there is much more to productivity than the cost of labour.

Bangladesh is less well positioned when it comes to the average unit price of selected apparel products. In the post-MFA period, the unit price of Bangladeshi garments improved by only 0.24% while other countries like Sri Lanka and India have recorded more impressive increases of 15% and 26% respectively. This may be an indication of the difficulties faced by Bangladesh's producers to position on high-end garment products.

What are the challenges facing the Bangladesh garment industry today? In order to thrive, the industry will need to ensure regular orders from international buyers. These buyers are primarily interested in three factors: price, lead time, and quality. But other factors are also important, such as financial capacity of manufacturers, labour compliance standards, customer base, vertical setup, design and product development capability, advanced production facilities, dependability, and long-term business relationship.

In order to survive and flourish in the increasingly competitive global garment trade, reforms need to be undertaken and forces need to be joined among the main actors to build a competitive RMG sector in Bangladesh. It is crucial for the different actors of the sector to hold dialogues amongst themselves with the purpose of identifying the main issues that constrain the industry and reaching agreement on activities that need to be carried out in order to improve the sector's competitiveness.

While no Asian countries, including Bangladesh, to date have experienced the mass exodus of jobs that was previously feared as a result of MFA phase-out, some countries have noted early signs of weakness in their export volume. All stakeholders in the region recognize the need to develop competitive domestic economic environments that will encourage investment and preserve employment in the post-quota era.

Bringing the main actors of the sector to discuss the major issues faced by the sector and agree on necessary measures to be undertaken. The Asia Foundation launched, at the end of last year, a regional project on *Building Competitiveness through Economic Reforms in Garment-Exporting Countries*, in Bangladesh, Cambodia and Sri Lanka, with financial support from the United States Agency for International Development (USAID).

The aim of the project is to facilitate tripartite dialogues among representatives of employers and employees of the RMG industry and public authorities to foster a constructive dialogue on country-specific agendas for domestic reforms that will enhance the ability of exporting countries to compete with other nations in maintaining a share of the global garment trade.

The contents are the responsibility of the tripartite meetings and do not necessarily reflect the views of USAID or the United States Government.

# The unpleasant arithmetic of corruption

**Economists estimate that a country with a CPI score of 7 is 10 times more likely to attract a dollar of FDI per capita than a country with a CPI score of 6. For example, India with a CPI score of 2.8 is nearly 12 times more likely to succeed in attracting a dollar of FDI per capita than Bangladesh (with a CPI score of 1.7); Malaysia or Tunisia with a CPI score of 5.1, are nearly 34 times more likely than Bangladesh to attract a dollar of FDI per capita.**

DR. ABDULLAH DEWAN, DR. AMINUR RAHMAN, AND DR M BADRUDDOJA

THE repudiation of the accusations of corruption against the TIB Chief Professor Muzzafer Ahmed by three prominent BNP higher-ups (Dr. Oli Ahmed, Dr Fasihuddin Mahtab, and Obaidur Rahman) is probably a first in our democracy (Daily Star, July 15). "Are you kidding?" we would have quipped if someone had told us that the ruling party's standing committee members refuted the statements of party stalwarts in a public discourse. It's a good portent that the country still has "a few good people" who have the fortitude to stand against the tide of lies and fabrications.

The LGRD minister's *ris de coeur* against the TIB ranking of his ministry at the top is a healthy sign. He should raise the issue with the TIB, and he did, but in an unprofessional and raucous manner with rabble-rousing accusations. The perception of some politicians that TIB is out to denigrate the image of the country is utterly nonsensical. Inadvertent inaccuracies may remain in the report, and the TIB must re-examine the analyses when questioned by the aggrieved parties.

However, Bhuiyan's roaring attack on the TIB is seen as a flash-back of communication minister Nazmul Huda's flare-up in 2004 although Nazmul was tranquillised and subdued by a subsequent parliamentary standing committee's charges of corruption (January 7, 2004) against him on import of CNG-run auto-rickshaws and allocation of land for CNG filling stations.

Unfortunately, the parliamentary committee report never surfaced to see daylight. Why would it? Otherwise, the proverbial saying: "birds of a feather flock together" would cease to exist. Would it make a difference whether GOB scored number one or number ten in the ranking? Countries with a ranking in this range are all corrupt to the same degree. It is a perception and that is why the measure is called corruption perception index (CPI). But the magnitude of the CPI number has far reaching economic implications for attracting foreign direct investment (FDI), and for the national image.

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Being already so corrupt, the corrupt politicians of Bangladesh and their victims, the people, would probably wonder how corrupt do we have to be to score the number one ranking if the CPI score and implied ranking were lower than number one. Now that the country has been stigmatised for five years, Bangladesh has only two recourses: (a) keep changing ministers and lawmakers as frequently as possible until they all become millionaires, or (b) develop anti-corruption measures to score higher CPI number.

But who would develop those measures? The answer is: the parliament, the media, TIB, and the ACC. All these institutions must work in concert to catch the corrupt and hang them high.

Make no mistake; it will be a prickly route to escape from the corruption trap the country has been locked into. Whenever the CPI numbers are published, governments everywhere, except the GOB, examine the report with a positive outlook, however unpleasant they may feel. If the GOB resolves to rectify things in some areas, given that other governments are not sitting idle, the relative ranking of Bangladesh won't change much.

The GOB may still be ranked number one in corruption, although with an improved CPI number. Because there will always be a first and a last. For example, from 2004 to 2005, GOB's CPI score increased from 1.5 to 1.7 yet neither the ranking, nor the stemming of corruption, showed improvement. However, a larger CPI number, such as 3.5 or 4.5, would reflect a vast improvement and would attract more FDI, as economists predict, and restore national honour and image.

But it is highly improbable that the corruption-addicted politicians would do what it takes to cleanse their sullied souls. This is evident from the ineptitude, or unwillingness, of the parliamentary committee on the communication ministry to probe TIB's 2004 corruption ranking of the country's communication sector. The inaction against Nazmul Huda, and company, is the reason the ministry has been netted in another corruption scandal as reported by The Daily Star (July 20).

"To siphon off huge development funds, the communications ministry inflated a Taka 192cr road construction project to Taka 349cr by manipulating all components of the scheme," revealed a government investigation. It is incredible that the ministry would hire 429 contractors for the earth-filling work of the 61 km road construction project, allocating only 140 meters land to each contractor to fill.

After reviewing the report at a meeting of the National Economic Council, Finance Minister Saifur Rahman recommended that the case should be forwarded to the ACC for action. Unfortunately, the scandal will, in all likelihood, be shelved, like all other grand thefts committed under this ruling cartel.

If the new government, after the ensuing national election, is other than the Khaleda-Nizami cartel, we would like to see some reforms along the following lines:

-- A powerful parliament committee on corruption (not for any individual ministry) should be formed with lawmakers of unblemished record. Lawmakers from any party who were accused, or suspected, of corruption, like Nazmul Huda, Salah Uddin Ahmed and the like, must be barred from the committee if they get re-elected.

-- Reform the ACC to be a truly constitutionally independent institution with the power to charge anyone, at any time, with proper evidence. The current ACC is a "farce." The World Bank Vice-President Praful C Patel has discredited it recently because of its impotency.

-- The media should be rewarded for investigative reports on corruption, and must be allowed access to official records relating to development and procurements projects, if they so request.

-- TIB must be protected from harm so that it does not become the prey of corrupt politicians. The officials must be encouraged and honoured for their unblemished data collection, analysis and reporting.

-- Politicians, and bureaucrats, convicted of corruption must be given wide publicity so as to expose them to maximum humiliation and dishonour. All illegally amassed wealth must be confiscated.

-- All corruption cases must be tried as high crimes expeditiously.

In order to achieve these reforms the leadership of the two major parties may have to be replaced with new visionaries.

A country where the parliamentary committee on corruption evades responsibilities, the anti-corruption commission is created only to appease the donor institutions, the prime minister, the cabinet, and the politicians are perceived as "corrupt millionaires" who reward mediocrity through politicisation of bureaucracy, may remain assured of the number one corruption ranking for another five years if the current cartel is voted to power again. Given our history, however, there is no guarantee that Awami League would change the environment if it comes back to power in the ensuing national election.

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# Blood in Beirut: $75.05 a barrel

**Why haven't what we laughably call "leaders" of the US, Iran and Saudi Arabia called back their delinquent spawn, cut off their allowances, and grounded them for six months? Maybe because mayhem and murder in the Middle East are very, very profitable to the sponsors of these characters with bombs and rockets. America, Iran and Saudi Arabia share one thing in common: they are run by oil regimes. The higher the price of crude, the higher the profits and the happier the presidents and princelings of these petroleum republics.**

GREG PALAST

I can't tell you how it started -- this is a war that's been fought since the Levites clashed with the Philistines -- but I can tell you why the current mayhem has not been stopped. It's the oil.

I'm not an expert on Palestine nor Lebanon and I'd rather not pretend to be one. If you want to know what's going on, read Robert Fisk. He lives there. He speaks Arabic. Stay away from pundits whose only connection to the Middle East is the local falafel stand.

So why am I writing now? The answer is that, while I don't speak Arabic or Hebrew, I am completely fluent in the language of petroleum.

What? You don't need a degree in geology to know there's no oil in Israel, Palestine or Lebanon. (A few weeks ago, I was joking around with Afif Safieh, the Palestinian Authority's Ambassador to the US, asking him why he was fighting to have a piece of the only place in the Middle East without oil. Well, there's no joking now.)

Let's begin with the facts we can agree on: the berserkers are winning. Crazies discredited only a month ago are now in charge, guys with guns bigger than brains and souls smaller still. Here's a list:

-- Israel's Prime Minister Ehud Olmert's approval rating in June was down to a Bush-level of 35%. But today, Olmert's poll numbers among Israeli voters have more than doubled to 78% as he does his bloody John Wayne "cleanin' out the varmints" routine. But let's not forget: Olmert can't do squat without George Bush's approval. Bush can stop Olmert tomorrow. He hasn't.

-- Hezbollah, a political party rejected overwhelmingly by Lebanese voters sickened by their support of Syrian occupation, holds a mere 14 seats out of 128 in the nation's parliament. Hezbollah was facing demands by both Lebanon's non-Shia majority and the United Nations to lay down arms. Now, few Lebanese would suggest taking away their rockets. But let's not forget: Without Iran, Hezbollah is just a fundamentalist street gang. Iran's President Mahmoud Ahmadinejad can stop Hezbollah's rockets tomorrow. He hasn't.

-- Hamas, just days before it kidnapped and killed Israeli soldiers, was facing certain political defeat at the hands of the Palestinian majority ready to accept the existence of Israel as proposed in a manifesto for peace talks penned by influential Palestinian prisoners. Now the Hamas rocket brigade is back in charge. But let's not forget: Hamas is broke and a joke without the loot and authority of Saudi Arabia. King Abdullah can stop these guys tomorrow. He hasn't.

Why not? Why haven't what we laughably call "leaders" of the US, Iran and Saudi Arabia called back their delinquent spawn, cut off their allowances, and grounded them for six months?

Maybe because mayhem and murder in the Middle East are very, very profitable to the sponsors of these characters with bombs and rockets. America, Iran and Saudi Arabia share one thing in common: they are run by oil regimes. The higher the price of crude, the higher the profits and the happier the presidents and princelings of these petroleum republics.

This Thursday, Exxon is expected to report the highest second-quarter earnings of any corporation since the days of the Pharaoh, $9.9 billion in pure profit collected in just three months -- courtesy of an oil shortage caused by pipelines on fire in Iraq, warlord attacks in Nigeria, the lingering effects of the sabotage of Venezuela's oil system by a 2002 strike ... the list could go on.

Exxon's brobdingnagian profits simply reflect the cold axiom that oil companies and oil states don't make their loot by finding oil but by finding trouble. Finding oil increases supply. Increased supply means decreased price. Whereas finding trouble -- wars, coup d'etats, hurricanes, whatever can disrupt supply -- raises the price of oil.

A couple of examples from today's Bloomberg newswire are:

"Crude oil traded above $75 a barrel in New York as fighting between Israeli and Iranian-backed Hezbollah forces in Lebanon entered its 14th day ... Oil prices rose last month on concern for supplies from Iran, the world's fourth largest producer, may be disrupted in its dispute with the United Nations over its uranium enrichment ... [And, said a trader,] 'I still think $85 is likely this summer. I'm really surprised we haven't seen any hurricanes.'"

In Tehran, President Ahmadinejad may or may not have a plan to make a nuclear bomb, but he sure as heck knows that hinting at it raises the price of the one thing he certainly does have -- oil. Every time he barks, "Mad Mahmoud" knows that he's pumping up the price of crude. Just a $10 a barrel "blow-up-in-the-Mideast" premium brings his regime nearly a quarter of a billion dollars each week (including the little kick to the value of Iran's natural gas). Not a bad pay-off for making a bit of trouble.

Saudi Arabia's rake-in from The Troubles? Assuming just a $10 a barrel boost for Middle Eastern mayhem and you can calculate that the blood in the sand puts an extra $658 million a week in Abdullah's hand.

And in Houston, you can hear the cash registers jing-a-ling as explosions in Kirkuk, Beirut and the Niger River Delta sound like the sleigh-bells on Santa's sled. At $75.05 a barrel, they don't call it "sweet" crude for nothing. That's up 27% from a year ago. The big difference between then and now: the rockets' red glare.

Exxon's second-quarter profits may bust records, but next quarter's should put it to shame, as the "Lebanon premium" and Iraq's insurgency have puffed up prices, up by an average of 11% in the last three months.

So there's not much incentive for the guys who supply the weaponry to tell their wards to put away their murderous toys. This war's just too darn profitable.

We are trained to think of Middle Eastern conflicts as just modern flare-ups of ancient tribal animosities. But to uncover why the flames won't die, the usual rule applies: follow the money.

Am I saying that Tehran, Riyadh and Houston oil chieftains conspired to ignite a war to boost their petroleum profits? I can't imagine it. But I do wonder if Bush would let Olmert have an extra week of bombings, or if the potentates of the Persian Gulf would allow Hamas and Hezbollah to continue their deadly fireworks if it caused the price of crude to crash. You know and I know that if this war took a bite out of Exxon or the House of Saud, a ceasefire would be imposed quicker than you can say, "Let's drill in the Arctic."

Eventually, there will be another ceasefire. But Exxon shareholders need not worry. Global warming has heated the seas sufficiently to make certain that they can look forward to a hellacious -- and profitable -- season of hurricanes.

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