What can Bangladesh expect from US buyers in the post-MFA world?

SHAHPAR SELIM

TRADE in textile and clothing (T&C) has always been a highly regulated area of international trade, often politically charged, since it is tipped to favour those with the greatest political clout, who demonstrate it by setting trade policy that is of greatest benefit to themselves. Changes in global economic thinking, forces of trade liberalisation, and world events (such as the second World War, the Cold War, the Asian Economic crises, September 11, etc.) have shaken and formed global trade in T&C in often hard to predict ways. Over time, these policy network actors have changed considerably, reflecting the economic fortunes of each country. Other changes in the policy network come from the formation of international organisations (e.g. WTO) and the OECD, EU groupings. Some actors have remained powerful, although their complexity of demands and actions has increased. A good example of this is the US, which till today remains one of the most important players in the global policy network on T&C trade.

The importance of the American lobby can be seen clearly from the early days of T&C trade negotiations. In 1973, after muscling in to produce the pre-cursors to the MFA, the US proposed to negotiate the MFA under GATT, in order to win the support of their T&C industries for the 1974 Trade Act. The MFA was intended to provide "temporary" protection to the domestic T&C producers in developed countries as well as to give time to the developing exporting countries to make "orderly" arrangements to enter the developed country markets. Under the Uruguay Round, MFA IV was subsumed under the WTO's Agreement on Textiles and Clothing (ATC) and is set to be phased out completely on January 1, 2005.

The key responses of exporting countries have included full quota utilisation, quality upgrading, increased value addition, product diversification, market diversification, foreign direct investment, overseas subcontracting, quota hopping, quota rent manipulation, and the development of backwards linkage industries. Most of these impacts can be identified in Bangladesh, in some degree or the other.

Trade liberalisation under the ATC has been difficult, given the grudging changes made by the importers, who often cited the vulnerability of their domestic T&C industry, as the reason for keeping doors closed. However, whether they want it or not, the MFA phase out is going to happen. The strategy taken by US and EU buyers after the phase-out is crucial for the Bangladeshi RMG sector. The buyers' strategy will be influenced by impacts on their domestic markets. So what can we expect?

The impacts of the phase-out on the US buyers are hard to predict, since so much of the liberalisation has been left until the last minute. According to the US International Trade Commission (ITC 2004), after the MFA is phased out, China is supposed to be the supplier of choice for most US large apparel companies and retailers, however, it is tempered by the uncertainty of the use of the textile specific safeguard provisions contained in China's WTO accession protocol. US importers plan to continue trade relations with other countries, to minimise risks of sourcing from only China. India is the most favoured alternative to China's competitive advantage, which is a very strong position. Pakistan and Bangladesh are expected to offer their competitive advantages in producing basic items such as knitted tops and woven cotton shirts. Countries under the Preferential Trade Agreements (PTAs) such as Caribbean Basic Economic Recovery Act (CBERA) would be a major source of RMG supply, especially if Central American trade agreement is reached, allowing regional (e.g. Mexican) or third country (e.g. Asian) fabrics. Among the ASEAN countries, Vietnam (not subject to WTO rules, since it is a non-member) and Indonesia (although politically risky for the US) are considered alternatives to China and India.

Bangladeshi firms have to overcome their passive marketing strategies and diversify into making higher value added specialised products. The RMG firms must meet non-tariff hurdles such as labour standards, social accountability, and environmental clearance requirements. Suffice to say that the government has a major role to play here.

Longstanding trade relationships between individual firms and US importers will play a major role, as well as the efficiency, flexibility and experience. A large number of countries will become "second tier" suppliers of RMG to the US to meet the needs left out by "first tier" suppliers. For example, Mexico and CBERA countries will remain favoured due to their geographical proximity to the US markets.

At the policy level, not everybody shares enthusiasm for trade liberalisation, and this will affect buyer inclinations. The US Department of Commerce is very active in representing the interests of US industry abroad. In order to ensure that the US RMG industry has the opportunity to adjust to ATC, the US Congressional Textile Caucus has opposed efforts by foreign textile suppliers to accelerate quota integration. They have continued their efforts to gain reciprocal market access into developing country RMG markets and rejected numerous trade concession requests. They have initiated a safeguard mechanism to protect against surge of Chinese products after 2005. They have used the "developing country export competitiveness clause" to eliminate India's export subsidies. Aggressive expansion of RMG exports from the US is being sought through identifying subsidies that may be improperly provided to foreign RMG exporters and provision of Trade Adjustment Assistance to domestic apparel industry.

So how will buyers behave? A number of factors are determined by the US ITC 2004 report as likely to determine new patterns of trade by the US retailers after the ATC. These factors will also determine locations and sourcing decisions.

US buyers are likely to concentrate on four or five countries that are politically and financially stable. Future sourcing will depend most importantly on which countries offer best facilities and logistical advantages. Subsidies and tax credits that work in favour of the US retailers, free trade zones, real exchange rates, etc. are all important factors. Good human rights records, minimum wages, no child labour, and good working conditions will also be counted. The US buyers are concerned about the safety of their own personnel and their shipment, including compliance with the local laws and with international health and labour issues.

On average it takes about 28 days to ship products from Bangladesh and Sri Lanka to the US, while from Mexico or Canada it takes only 2 days. RMG suppliers who are geographically closer to the US markets enjoy the ability to ship orders quickly and US firms will favour these suppliers. Reliable delivery and short lead times are crucial here. The port facilities in the supplying countries also have to be highly efficient.

RMG suppliers that are not under quota restriction and/or benefit from PTAs are valued over the quota-heavy producers of China and some Asian countries. However, post MFA these preferred suppliers will have more competition from China and Asian countries. The competitiveness of these countries will depend on the "rules of origin" and accompanying customs regulations that enable the implementation of the preferential trade policies.

Low labour costs and industrial upgrading helped the early RMG firms move rapidly from basic product manufacturing to brand name manufacturing. Previously East Asian suppliers fulfilled these criteria. India and China are likely to be the clear favourites in this case. Reputation for quality service and on-time delivery, existing business networks (supply chain linkages, good relationships with US customers), flexibility and variety in products, and lead-time flexibility are important factors. These factors will make or break post-MFA RMG firms. Availability of cheap skilled labour, compensation rates, and the availability of qualified managers and middle management will provide important competitive advantage.

Sourcing high quality and cost competitive raw materials from local or regional sources greatly shortens RMG suppliers' lead times. As US buyers rationalise and consolidate their purchasing behaviour after MFA, the degree of higher value added will be an important factor. Vertical integration of firms will become the desired structure.

On the level of the US retailing firms, the importance that they assign to these factors will depend on its corporate philosophy, import volume, product mix, risk tolerance, and existing relationships with suppliers. At the country levels, these factors include business climate, infrastructure, proximity, preferential access issues, and availability of low cost skilled workers. At the level of the RMG suppliers, these factors include cost and availability of labour, cost and quality of raw materials, and the efficiency and flexibility to meet changing retailer demands.

Given these demands and expectations of US buyers from their RMG suppliers after MFA phase-out, it is not difficult to ascertain what the Bangladeshi RMG industry has to do to take advantage of the capabilities it already has. It is also not difficult to identify the gaps that still need to be addressed, and that is a topic best discussed separately. Bangladeshi firms have to overcome their passive marketing strategies and diversify into making higher value added specialised products. The RMG firms must meet non-tariff hurdles such as labour standards, social accountability, and environmental clearance requirements. Suffice to say that the government has a major role to play here. Together, they must overcome the image of Bangladesh as good for supplying only cheaper items with low profits. Regional trade pacts and foreign trade agreements must be more aggressively pursued by the government on behalf of the RMG industry, since it is not prudent to depend on the US market to this extent, given the prevailing political climate.

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Blame is the name of the game

Could it have been avoided? Yes, it could very well been

PROF MAHBUBUR RAHMAN

WE PREPARED a Bangladesh National Building Code (BNBC) in 1993. It was the outcome of continuous advocacy by civil society and professionals led by the Institute of Architects, Bangladesh in the aftermath of several incidences of fire in garments factories. The pressure intensified after one such fire in Beauty Garments at Mirpur that took away 11 poor lives. Though it hasn't been enacted as a law, yet we are practicing it in good faith, and several bodies also ask for compliance with the code. The code was supposed to be reviewed every 5 years. Accordingly two reviews are already due by now, but which have never been carried out. It was an excellent job, done in a record time with limited local resources and in a very cost-effective way where many of the countries of the world haven't been able to formulate their own code(s). But many of the provisions can now be found to have needed more carefull study and modification.

Has the BNBC stopped incidences of fire in so many garments factories in Mirpur, Banani, Malibag, or elsehwhere? Or collapses of buildings? The answer is no!

We prepared a Structure Plan for Dhaka in 1995, adopted in 1997. Half of its life is almost over. Yet many of its provisions cannot be enforced, as there is no "Detail Area Plan" -- an integral part of the plan. It is still referred to as the "Master Plan" -- an obsolete concept, as nobody bothered to re-enact the half-century old law that says we should have master plan(s). Can you imagine that the mega-city existed without any official plan in the 1980s and most of the 1990s, as the first 1959 Master Plan period expired in 1979? Indeed, all the projections of that plan were outdone by the city's growth as the plan was based on several questionable assumptions and in no way envisaged independence and its aftermath. Even many of the provisions of the current (structure) plan are violated -- for example the development of Eusufganj instead of consolidating the existing conurbation. This is because Rajuk has turned itself into a real-estate developer instead of being a planning control authority, and in the process has become one of the most corrupt organisations, and everybody has turned a blind eye to it.

Has the 1995 "plan" stopped the uncontrolled and unplanned growth of the city? The answer is no!

We have a "Building Construction Rule" formulated and modified several times (last in 1996) under another half-century old law. A fresh revision is underway due to a long advocacy and concerted efforts of IAB, REHAB, and BAPA, in association with the Rajuk. However, the old laws and refusals of some quarters to accepts the benefits of modern techniques currently practiced world-wide often made impossible the preparation of a modern development control tool that could lead our urban areas in to this new millennium. Many of the provisions of the existing rules are absurd and often without basis, for example the limits of six stories.

We put nice words and current jargon in the policies, but our strategies and implementation are not good enough to enforce good practices. We are continuing what we have been doing year after year. We do not have any accountability. There are no custodians with independent authority to curb any anomaly.

Could the "Building Construction Rules" stop the unsafe and unhealthy practices in the construction sector or in planning permissions, which could avoid the disasters if implemented properly and impartially? The answer is no!

We prepared a "National Housing Policy" in 1993 after another long advocacy by the housing experts and insistence of the international bodies. But its provisions were seldom followed. Because of lack of implementation and gross violations, it became a list of unfulfilled wishes. We are now about to update this, the official reason being need of the time. However, the housing scenario has not changed in last one decade, neither did emerge any new concepts or solutions. The changes began in the wake of large-scale forced evictions of the 1997-98, which the government wanted to justify by re-writing the policy. No law has been enacted based on the policy and hence except for the spirit, there is no legal protection for the poor struggling to survive.

Has the 1993 "Housing Policy" stopped the evictions, growth of slums in the city, or the housing problems of the majority? The answer is no!

We had several "Long Term National Plans" starting from 1973. These included a section on "Physical Planning and Housing" that were full of contradictions between stated policy (no staff colony) and declared programmes (staff colony). Thus they turned out to be another list of wishful thinking and pet projects. Among the wishes were introduction of industrial system building, encouragement of co-operative living, procurement of modern equipment, strengthening of research in materials and techniques, etc. None of these ever materialised as no effective strategy were undertaken.

Have the "National Plans" taken us to a path of uniform and sustainable settlement development? The answer again is no!

So what went wrong?

Almost everything!

We put nice words and current jargon in the policies, but our strategies and implementation are not good enough to enforce good practices. We are continuing what we have been doing year after year, irrespective of what might the Policies, Plans or Rules say. We do not have any accountability. There are no custodians with independent authority to curb any anomaly regarding compliance to any of the Plans, Policies, etc. The formation of any such authority has always been resisted by the vested quarters. And this has unleashed a campaign of institutional corruption and greed, violation of human rights and plunder of scarce resources, loss of lives, and damage of property.

And we are still muddling with finding whose responsibilities it was by pointing the finger of blame at one other.

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US economy: Outsourcing of jobs overseas is now a reality

ZAHID HOSSAIN *writes from Atlanta, Georgia*

"NINE companies including the Kellogg Company and Dawn Foods will expand MI operations, creating about 2,800 jobs and spinning off a projected 5,800 job opportunities," "Gateway will cut another 1,500 jobs after recently closing 188 retail stores and eliminating 2,500 positions," and "MCI Inc., which recently completed a bankruptcy reorganization in April will cut 10,000 jobs over the next year."

These are some of the recruitment briefings published in the June 2004 issue of Tribune magazine. Thus, we see that the art of shipping jobs overseas has become the rage of American business practice, and the closing down of a manufacturing or service industry, or part of it by firing the bulk of its employees, has become almost a common feature of the US economy.

Levi's, an internationally known manufacturing company of jeans closed down its last manufacturing unit in the United States a few weeks back. If it had kept the plant going, paying its American workers $15 an hour and other benefits, it would be selling its jeans at $80. And would any American buy them? Probably not. The typical American will go to any chain-store, like Wal-Mart, for $12 a pair jeans, made in anywhere but the USA, where they pay the locals -- Bangladeshis, Chinese, Indians, or Thais -- at least several times lower than the American wages.

In the name of stock prices, corporate profiteering and bonuses, the backbone of American business is no longer performed in the United States alone. India, China, Indonesia, Egypt, Korea, and other countries have virtually become the homes for manufacturing and service sector jobs. Workers are no longer considered a valuable asset to corporate America and have become an expendable commodity, who, some say, are sacrificed on the altar of corporate greed at the expense of American families and communities.

Interestingly, many US companies are now doing their best to stay out of the spotlight on this issue -- even as they rely increasingly on overseas workers. Rather than loudly proclaiming the benefits, or alternatively opting not to shift those jobs overseas -- many are simply continuing their outsourcing as quietly as possible.

Convansys, a company based in Farmington Hills, Michigan, was one of the first companies in the US to specialise in helping American businesses move parts of their operations offshore, setting up an Indian facility in 1992. Today, about half of its employees are based in the US and the other half overseas.

The outsourcing process began with the information technology (IT) industry. The roots of the successful development of an IT industry in India go back to the late 1970s when the Indian government put in place a policy requiring majority ownership of all foreign ventures. Fearing nationalisation, companies such as IBM pulled out, leaving the country with a small technology infrastructure with no one to maintain it .Thus, India was forced to build an industry to maintain the existing base, and the government actually caused the education system to turn on a dime to produce IT experts.

The next major event that eventually led to the growth of outsourcing was the Y2K phenomenon. Fearing the collapse of major computer systems as the new millennium dawned, there was a huge demand for technologists to help update systems quickly. And it was some enterprising people who took the risk and real initiative, and the whole industry took off.

Almost simultaneously came the explosion of the Internet, along with a boom in telecommunications capacity that made doing technology work remotely infinitely cheaper for everyone, and communications between the US and offshore locations much more efficient. At the same time, some of India's universities updated and changed their curricula, graduating students with a much wider and deeper array of technology skills.

The American supporters of outsourcing of jobs overseas argue that these practices help the overall global economy and, therefore, new and supposedly better jobs will replace the old. They are of the view that "if you can get work done somewhere else with the same quality for one third of the cost, why would you not do that."

In an August 2003 report entitled "Off-shoring: Is it a Win-Win Game?" the McKinsey Global Institute concluded with great specificity that every dollar of off-shoring results in 58 cents of savings to the American economy. But that report acknowledged that 31 percent of workers who lost their jobs in earlier waves were never fully reemployed, with 80 percent taking pay cuts.

For many multinationals, like Dell and Lehman Brothers , they face two big fears. First, they fear being associated with the loss of US jobs. Second, and worse still, they have also the worry about offending huge markets if they pull back from employing workers in places such as India, China, Korea, and Indonesia.

The irony is that outsourcing of jobs overseas is not an American-only concern. In manufacturing, the jobs have jumped like on a trampoline from country to country. In a world where people are treated as any other factor of production, making a scapegoat of one country is pointless. Already jobs that just five years ago went to Ireland are now done in India, as Irish wages rise. New and cheaper sources of well-trained workers are springing up in such places like the Philippines and China. And the people of these countries are naturally happy to do the job.

Denouncing "exaggerated alarmism," Daniel Drezner, Assistant Professor of Political Science at the University of Chicago downplayed the economic effects of outsourcing of positions to other countries, in the May/June issue of Foreign Affairs. "The creation of new jobs overseas," he predicts, "will eventually lead to more jobs and higher incomes in the United States."

A common fallacy often expressed when discussing outsourcing is that more jobs for foreign workers mean fewer jobs for American workers. But off-shoring is basically a two-way street. A study by Global Insight, a Massa-chusettsbased consulting firm published a report in March, "In 2003, global sourcing contributed to a $33.6 billion increase in real gross domestic product in the United States. What's more, by 2008, the firm expects GDP to increase by $124.2 billion." This is in large part due to off-shoring and the chain reaction it creates.

The opponents of outsourcing of jobs overseas, particularly some US economists, have some strong arguments as well, saying that American experiences of displaced workers reflect a totally dismal story of economic sufferings. They are of the view that a closer examination of the profiles of the jobs lost versus the new jobs created demonstrates that the average new job pays almost $2 an hour less than the job that it is meant to replace. A pay cut of $2 an hour turns out to be more than $4,000 less earned per year. It certainly is not better for workers or their families trying to feed their children or make home mortgage payments.

They argue that jobs lost in the United States reduce the purchasing power of the American people as a whole. By preserving purchasing power strength through lower unemployment, the nation gets more spending and eventually the comfort and stability that create a healthy economic cycle. Stability plays an important role in how the economy operates and this is reflected in how significant fluctuations in stock prices are driven by news of instability or strength. They also think that with outsourcing looming, many employees will hold their money close at hand and neither spend nor invest it. The result is further depression in the economy.

While the Congress and the White House have nothing new to add regarding the policy of outsourcing, Tennessee became the first state to enact legislation last month to penalise corporate employers for outsourcing. The law allots preferences in bidding for government contracts to firms that agree to keep the jobs in the US. According to a newspaper report, more than 30 other states are now debating similar bills.

Finally the issue of outsourcing of jobs overseas is one of the hottest topics around and it seems that the US media has leaped onto the subject. This year is hardly the first time that politicians have generated mass hysteria over job losses. It is also interesting to note here that the Republican Party and the Bush administration generally applaud the present trend of outsourcing of jobs overseas. N. Gregory Mankiw, chairman of President Bush's Council of Economic Advisors, is on record favouring outsourcing saying, "Shipping jobs overseas is the latest manifestation of the gains from trade that economists have talked about."

The Democratic Party Presidential nominee John Kerry, in a write-up published on June 18 in The Atlanta Journal-Constitution, expressed his firm opinion on the issue of outsourcing. He said, "Americans need a president who will fight for Americans' jobs as hard as he fights for his own. As part of my Jobs First economic plan, I will end laws that encourage companies to export jobs while plowing back every dollar we save into new incentives to help companies create and keep jobs in America."

Generally supportive of increased international trade as a Massachusetts senator, Mr. Kerry recently sponsored legislation that would require call centre employees to disclose to customers where they are located. He also was a co-sponsor of an amendment to the Worker Adjustment and Re-training Notification Act to provide protections for workers whose jobs are lost to the outsourcing of jobs abroad.

Interestingly, many US companies are now doing their best to stay out of the spotlight on this issue -- even as they rely increasingly on overseas workers. Rather than loudly proclaiming the benefits, or alternatively opting not to shift those jobs overseas -- many are simply continuing their outsourcing as quietly as possible. Even McKinsey, which extols the benefits of outsourcing, has publicly started to downplay its outsourcing efforts lately.

Outsourcing of jobs overseas has, however, re-energised an ugly strain of xenophobia in the United States, with anti-immigration groups using it to argue against foreign worker visas. Other groups, often company sponsored, use the word "protectionist" against opponents. Blogs and web sites such as http://YourjobisgoingtoIndia.com have sprung up to rail against evil corporate interests. Even some anti-foreigner groups have seized this issue as a way to promote their beliefs.

In any case, outsourcing is here to stay as long as the cost savings are real. Particularly for the American economy, it is now a reality and a hard fact. The various measures intended to blunt off-shoring appear to have been designed to ensure only one job: the politician's.

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