Bangladesh's LDC graduation and its repercussions for RMG

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BANGLADESH'S LDC graduation, to take effect from 2024, needs to be celebrated as a recognition of the country's remarkable progress on many fronts over the past years. At the same time, there is no denying the fact that graduation will entail a number of new challenges as Bangladesh moves forwards on its post-graduation journey. Important questions that merit attention, and deserve to be closely examined, relate to the possible impacts of graduation on the country's flagship sector, the export-oriented readymade garments industry: what will LDC graduation mean for the future of the RMG sector in terms of its competitiveness and performance; how will the implications be felt at the enterprise level; in which ways LDC graduation will impact on how RMG entrepreneurs conduct their business and marketing; what initiatives will need to be undertaken towards technological upgrading, social compliance, labour standards and rights compliance, to address the post-graduation challenges.

Given the importance of the sector for Bangladesh's macroeconomic performance, employment, export earnings and balance of payments, not to speak of the positive implications in terms of social parameters, and overall, in projecting the *brand Bangladesh* to the world, answers to the aforementioned questions are of heightened interest from the perspective of future development of not only the RMG sector, but also the overall performance of the Bangladesh economy.

Implications of LDC graduation

As is well known, LDC graduation will result in Bangladesh losing the preferential market access facilities enjoyed by the LDCs thanks to the various unilateral, and bilateral, regional and global initiatives. While the EU has offered to extend the preferential market access for an additional three years following graduation (i.e. till 2027 in case of Bangladesh), there is no denying that future market access scenario for Bangladesh will undergo profound changes in the coming years.

In no sector will the implications of Bangladesh's LDC graduation be felt more acutely, and in such impactful ways, as the RMG sector of the country. Not only because the sector accounts for more than four-fifths of Bangladesh's total global export earnings, but also because apparels face tariff peaks in almost all key markets of Bangladesh. For example, tariffs facing Bangladesh's apparels are, on average, about 12 percent in the EU and 16-18 percent in Canada. Accordingly, the depth of preference erosion will be significantly high in case of exports of RMG items from Bangladesh.

It is also to be noted that the rules of origin (RoO) for preferential access of apparels exported by the LDCs tend to be highly LDC-friendly (e.g. only a single stage conversion requirement in the EU and a flat 25 percent domestic value addition requirement in Canada). Graduation to non-LDC developing country status will also mean that the RoO are going to be more stringent. Thus, on both counts, LDC graduation will require the apparels sector to face new challenges. There will also be implications in the form of preference erosion currently enjoyed by Bangladesh as a member of regional trading arrangements such as the South Asia Free Trade Area (SAFTA), where India, for example, offers DF-QF market access to the four LDC members for all products including the apparels or the LDC scheme run by China. Indeed, apparels feature prominently in all the 40-odd preferential schemes from which Bangladesh currently benefits (excepting the US GSP scheme which does not include most of the apparels items exported by Bangladesh; however, in any case, US had withdrawn the GSP facility for Bangladesh following the Rana Plaza tragedy in 2013).

Estimates carried out at the Centre for Policy Dialogue (CPD) indicate that Bangladesh's exports will face an additional tariff of about 6.7 percent, on average, once the current DF-QF market access is no longer available. The corresponding figures for the EU, non-EU and Canadian markets are 8.7 percent, 3.9 percent and 7.3 percent respectively. Thus, preference erosion and more stringent rules of origin will adversely, and significantly, impact the competitiveness of Bangladesh's apparels exports to the global market. The market signals are quite clear: *business as usual* scenario is going to fundamentally change and business as usual mind-set will also have to change profoundly.

Some of the competitors of Bangladesh are going for aggressive regional trading arrangements (RTAs), with serious implications for our RMG sector. Mention may be made in this connection of the Vietnam-EU FTA which will allow a major competitor of Bangladesh (Vietnam) to access the European market on duty-free terms. This will eliminate the preferential margin that Bangladesh currently enjoys vis-à-vis Vietnam, a non-LDC developing country, in the EU market. Indeed, there may be a time, beyond 2027, when Vietnam's apparels would have duty-free access to the EU market while apparels exported by Bangladesh would need to enter duty-paid (if the current scenario prevails). Aggressive foreign exchange policies pursued by competitors could bring new challenges for the RMG industry of Bangladesh.

RMG performance will also be impacted by indirect factors. For example, LDC graduation will have implications arising from stringent compliance requirements under the trade-related intellectual property rights (TRIPS) of the WTO, as also from changes in the support regime concerning the enhanced integrated framework (EIF) and the various special and differential treatment provisions of the WTO. In the past, the RMG sector has benefited from the technical assistance and capacity building support received by Bangladesh as an LDC; these will no longer be available.

Meanwhile, minimum wages in the RMG sector will, justifiably, continue to rise at a time when the sector will be facing the challenges mentioned above. Cost of borrowing by Bangladesh is rising already because of its recently acquired *middle income status*; competing development demands and prevailing domestic resource mobilisation performance could mean that fiscal space for the type of incentives that the RMG sector has been traditionally enjoying could shrink in future.

The upshot of the discussion is that, targeted policies and actions will need to be undertaken at macro, meso (sectoral) and micro (enterprise) levels to address the emerging challenges facing this flagship sector of the country.

Going forward: Addressing the challenges

Bangladesh will need to pursue negotiations in various fora, jointly with other graduating LDCs, to secure their common interests in view of the emerging challenges. The country's policymakers will have to take a proactive stance in the WTO and lead the effort to design a package of support towards sustainable graduation of the LDCs. Such a package should include targeted initiatives in areas concerning preferences (continuation), aid for trade (additional) and special and differential treatment (in selected areas of interests to these countries), at least for a few additional years. Already the idea of a *package of support for graduating LDCs* has been mooted in various global fora. This idea is very much in line with the UN 2005 resolution which asks members to extend support towards sustainable graduation of the graduating LDCs. Indeed, it was in response to this resolution that the EU offered the graduating LDCs a three-year extension of the preferences under its *everything but arms* (EBA) initiative. The proposed package would have provided the graduating LDCs and their apparels sectors a much-needed breathing space as they embark upon their post-graduation journey. Support for LDC graduation as part of South-South Cooperation is another possible option. Bangladesh should take the lead in exploring the possibility of extending preferential treatment under unilateral LDC schemes, such as those run by India and China, for some years following graduation. Indeed, China extended LDC preferential treatment to Samoa following its graduation in 2014.

At the same time, Bangladesh will also need to keep in the purview its future as a non-LDC developing country, and argue in favour of strengthening market access and other special and differential provisions in the WTO in support of the developing countries.

While *GSP plus* is an option for Bangladesh in the context of the EU, the current eligibility criteria remain a constraint, not to speak of the provision of strict enforcement of the 27 international conventions on human rights, labour rights, environmental protection and good governance. Bangladesh will also have to be prepared to go for bilateral FTAs with key trading partners. Indeed, Bangladesh is one of the very few countries which do not currently have any bilateral FTAs. This would call for significant strengthening of analytical and negotiating capacities on Bangladesh's part. This will also require further strengthening of Bangladesh's ability to ensure compliance and enforce standards (labour, social, technical, intellectual property rights, environmental). In this regard, ability to continue pursuing the compliance initiatives undertaken as part of *Accord* and *Alliance*, on our own, at the enterprise level, will be important. An objective scrutiny of support measures and incentives in place for the RMG sector will also need to be undertaken to ensure WTO compliance, and avoid trade-related disputes once Bangladesh has graduated. Some of the measures may have to be revisited and redesigned to ensure compliance as a non-LDC.

In post-LDC Bangladesh, with the status of a middle-income country, there will be a growing demand for better enforcement of workers' rights and for gradually moving towards *living wage systems of compensation.* These are also aligned with the SDG aspirations of Bangladesh, particularly Goal 8 relating to *decent labour*.

The next few years, in the run-up to graduation in 2024, should allow Bangladesh the scope and space to design appropriate strategies and take the needed preparatory steps towards sustainable LDC graduation and sustainable transition of its RMG sector. Concerned stakeholders must demonstrate that they are both willing and able to address the anticipated post-graduation challenges. For ensuring a sustainable and robust future for the RMG sector, aligned with the aspiration of Bangladesh for graduation with momentum and sustainable LDC graduation, all concerned stakeholders will have to do the needed *homework* and start preparing for the post-2024 future of the RMG sector with the urgency that the attendant tasks demand.

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Attacks on Saudi oil facilities could trigger more conflicts

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THE drone attacks on two Saudi Arabian oil facilities last Saturday could have serious regional and global consequences. The Saudi Arabian Oil Company (or Saudi Aramco) that was targeted is a global energy giant and perhaps the world's most valuable company.

The damage to its two facilities, the world's largest oil processing plant and a major oilfield, has reduced Saudi Arabia's oil output by half and compelled Riyadh and Washington to draw on their oil reserves, while sending shockwaves across the global oil markets and increasing oil prices.

The attacks have also dealt another serious blow to the already floundering world economy, prompting many to wonder what could be the real motive behind the attacks.

The recent resignation of John Bolton as US national security adviser had somewhat eased the tensions in the Persian Gulf. But the attacks have once again raised temperatures in the Middle East.

Not surprisingly, the United States has blamed Iran for the attacks, albeit without proof, instead of the Houthi rebels in Yemen who have claimed responsibility for the strikes. The US has also vowed to support any action Saudi Arabia takes in self-defence and denied there is any plan of the US president meeting with Iranian President Hassan Rouhani on the sidelines of the ongoing UN General Assembly.

Israel has recently launched air strikes on Iranian "military facilities" in Syria and Iraq. Given that the Israeli legislative elections began on Tuesday, the possibility of Likud-National Liberal Movement leaders convincing Prime Minister Benjamin Netanyahu to launch such attacks to increase their chances of re-election cannot be ruled out.

Besides, as Iran expedites its uranium enrichment programme, the situation in the Middle East continues to become more volatile, with the attacks on the Saudi oil facilities further worsening Riyadh-Teheran relations. In short, the situation in the Persian Gulf is grave.

Fires burn in the distance after a drone strike by Yemen's Iran-aligned Houthi group on Saudi company Aramco's oil processing facilities, in Buqayq, Saudi Arabia on September 14, 2019. PHOTO: AFP

At the same time, the attacks show that the Houthis now have the capability to hit Saudi targets and cause heavy losses, which should prompt Saudi Arabia to review its decision concerning Yemen, especially whether it should continue to lead the alliance against the Houthis or hold talks to end the civil war in the neighbouring country.

The attacks will also intensify the contradictions within the anti-Houthi military alliance led by Saudi Arabia. Since its inception, the alliance has suffered from internal divisions, for instance, because Egypt has shown little interest in sending forces to fight the Houthis.

In terms of economic shocks, the attacks on the Saudi facilities have pushed up oil prices and affected the interests of oil producing as well as oil importing countries. Whether such countries and international organisations will be compelled to work together to facilitate a peaceful settlement to the Yemen conflict remains to be seen.

Yet the US administration and the opposition Democratic Party have serious differences over the civil war in Yemen, with the latter demanding that the White House stop supporting Riyadh's military actions. And the attacks on the Saudi oil facilities could increase the pressure on the US administration to consider the Democrats' demand and pay heed to the international community's call to end the civil war in Yemen.

Riyadh has deployed multiple Patriot anti-missile air defence systems it bought from Washington to neutralise any air strikes launched by the Houthis. Yet the Patriot systems could not prevent the attacks on its oil facilities, leaving Saudi Arabia vulnerable to more such attacks. Which raises a very important question: Should countries purchase more advanced weapons and military equipment to protect themselves from enemy attacks or should they avoid making enemies in the first place to completely rule out such attacks?

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ON THIS DAY IN HISTORY

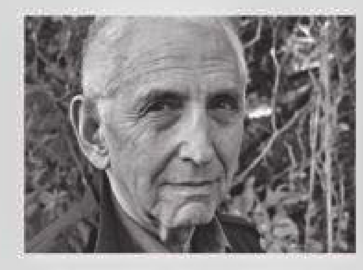
September 20, 1870
ROME INCORPORATED INTO ITALY

On this day in 1870, Italian troops occupied Rome, leading to the eventual incorporation of Rome into the Kingdom of Italy and the limiting of papal governing authority to the Vatican itself and a small district around it.

BEETLE BAILEY by Mort Walker

BABY BLUES by Kirkman & Scott

QUOTABLE Quote



DANIEL ELLSBERG
(Born: April 7, 1931)
Former United States military analyst who released the Pentagon Papers

"We need the courage to face the truth about what we are doing in the world and act responsibly to change it."