



From Berlin with hope

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By *Dr. Zaidi Sattar*

In Berlin you come to realise that walls, no matter how high

and impregnable they might be, cannot divide people. It is people who divide people — if you see what I mean! Unification of Berlin and of Germany is a glaring example of how a people can rise above all forms of repression and achieve their desire for unity which, in the German case, has also meant significantly higher economic prosperity for all Germans, particularly those who lived in the former East Germany.

'Prosperity in unity' has also been the driving force behind the evolution of the European Union — a conglomeration of diverse sovereign nations — which has led to the creation of the world's largest economic bloc where movement of goods and people take place without let or hindrance, in a Europe virtually without borders. Surprising it is to think that this was a region where monarchs and autocrats had fought countless wars throughout history to shape and reshape the map of Europe. All that seems to be buried in the distant past with the blossoming of a unifying concept of the European community.

Last week, I had the privilege of visiting Berlin, Potsdam and Aachen in Germany, and Maastricht in the Netherlands, along with leaders of the business community for a series of meetings with several chambers of business and industry, including the apex body, Federation of German Chambers of Industry and Commerce, and the Berlin Chamber of Industry and Commerce. Also included was a briefing on Bangladesh-German trade at the German Ministry of Economic Cooperation and Development. The visit was intended to help promote German-Bangladesh and EU-Bangladesh trade by identifying and removing obstacles to such trade. The visit was sponsored by the Friedrich Naumann Foundation (FNF), a foundation of the German political party called Free Democratic Party (FDP), which espouses free trade and free markets not only in Germany but around the world. It is interesting how Germans try to ensure that their political parties conduct their activities in a transparent manner. Political parties which have representation in the German Parliament (Bundestag) — with at least 5% of votes — are provided with public funding to promote ideas that they stand for. Thus each of the six political parties represented in Parliament have a Foundation of their own to promote ideas such as freedom, democracy, human rights, and free trade.

Not surprisingly, while there was a lot of discussion on what could be done to expand EU and German trade with Bangladesh, there was as much exchange of views on how best to address the challenges emerging from the recent Rana Plaza (RP) episode that could potentially dent the rising imports of readymade garments (RMG) from Bangladesh. It is worth noting that, as a single trading bloc, EU27 (the 27 member countries of EU) is the largest trading partner of Bangladesh, with trade of \$9.4 billion accounting for 19% of Bangladesh's global trade in calendar year 2012, followed by China, India, and USA. EU was also the top importer from Bangladesh (mainly clothing) with \$7.8 billion which was 42% of Bangladesh's total exports. EU exports to Bangladesh were \$1.5 billion or a mere 5% of

Bangladesh's total imports, made up of mainly machinery and transport equipment. Thus EU-Bangladesh trade was concentrated on clothing on the one side and machinery and transport equipment on the other, with EU running a trade deficit of \$6.3 billion, which has been rising steadily, thanks to the Everything But Arms (EBA) facility that Bangladesh enjoys as one of the 49 least developed countries (LDCs). The same year, Germany alone ran a trade deficit of \$2.5 billion with Bangladesh, largely due to clothing imports of about \$3 billion. It became clear from the discussions that diversification of this trade was clearly a mutually beneficial goal for all to pursue. Europeans would like to sell more than machinery and expect Bangladesh to look beyond RMG.

EU and German trade policy from which Bangladesh benefited so much was one of the highlights of our discussions. For many years, Germany has been the export powerhouse and leading exporter of the world, only to be caught up by China recently. As one German Member of Parliament explained to us with confidence, Germany stood for open economies and free trade around the world, not just in EU. Within Germany, though all parties but The Left believe in the unfettered functioning of the free market (see Table for their ideologies) they have come to terms with a system described as the Social Market Economy, which is a free market economy with social responsibilities — an idea promoted by Chancellor Konrad Adenauer and his political party, Christian Democratic Union (CDU). Chancellor Angela Merkel, who grew up in East Germany, now heads this conservative party which won a sweeping majority in the September 27 federal elections of Germany.



That brings us to the centerpiece of our exchanges with German counterparts. Quite naturally, the state of Bangladesh clothing industry and imports into Germany/EU was on everyone's mind and we from Bangladesh had to face some probing questions. Following the RP tragedy, the German and EU media were agog with largely sensational and negative reporting on the Bangladeshi RMG industry with long stories on what was reprehensible about working conditions there. I was a bit surprised to hear a German lawmaker's critique of his country's media for not reporting on some of the compliant clothing factories in Bangladesh since that would not have made news. He even recounted the early days of German industrialisation in the late 19th and early 20th centuries when industrial wages were rock bottom and working conditions were pitiful. We did get the message that a couple

of MPs did make moves in Parliament to seek a review of the EBA facility to Bangladesh though the moves failed to get much traction for the time being.

In general, the Germans and EU appear to have taken a constructive approach following the RP tragedy. Rather than penalising the country and industry, which would have hurt the Bangladeshi workers more, they are making concerted efforts to address the challenge in cooperation with all concerned parties — European buyers, ILO, Bangladesh government, RMG entrepreneurs. There is a tacit recognition that there is a long and arduous road ahead and the problem is not one that can be resolved through any quick fixes. The Bangladesh industry will have to take credible and serious steps to avert disasters of the RP and Tazreen kind.

That does not mean Bangladesh RMG is out of the woods yet. We got the clear message that European consumers want to buy clothes that have been produced under ethical working conditions — i.e. workers receive living wage, factories meet fire safety and other compliance standards. If European consumers start moving away from Bangladeshi clothes because of regular media reports on compliance failures, it could be tough to regain their confidence. European buyers will monitor our factories in accordance with their standardised Code of Conduct (like the one drawn up by Confederation of German Textile and Fashion Industry) keeping consumer consciousness in mind. This message ought to be taken very seriously.

The good news is that some 40% of the EU clothing market is now made up of low-priced garments in which Bangladesh products reign supreme. European consumers who have gotten used to buying €2-3 T-shirts will have difficulty finding such bargains by sourcing elsewhere. Second, textile is a dying industry in Germany and elsewhere in EU, so there is no textile lobby clamouring for tariff protection, as in USA. But the bad news is that Turkey is emerging as a close competitor of Bangladesh in the EU market having exported US\$11 billion of clothing in 2011. Though not yet a member of EU, Turkey is part of the EU Customs Union that entitles it to export clothing duty-free to all EU members, at par with Bangladesh. Bangladesh's labour cost advantage could be trounced by Turkey's transport cost advantage. That competition ought to be taken seriously as well.

To conclude, the two largest export markets of Bangladesh RMG present very different perspectives on the challenge emerging out of the RP/Spectrum/Tazreen tragedies. While

protectionist pressures prompted the suspension of generalised system of preferences (GSP) in USA thus extinguishing any chance of getting duty-free access for RMG into that market, a more constructive approach is discernible in the EU where leading buyers, more concerned about consumer sentiments regarding ethical working conditions in supplying factories, are prepared to take the long road to ensuring compliance through cooperative ventures. Meanwhile, the assessment of McKinsey & Co., published recently in the Wall Street Journal, once again signals that Bangladesh will remain the sourcing destination of choice for some time to come, thanks to its vast production capacities and relatively cheap labour.

That gives much reason for hope. Yet, there is no room for complacency but to get serious in becoming a compliant RMG supplier in order to retain the loyalty of our global consumers.