



## Protectionist undercurrents cast shadow on BD's GSP debacle

Thursday, Sep 12, 2013

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On 27th June, 2013, Bangladesh lost its generalised system

of preferences (GSP) facility in the US market. Though much lamented and profusely scrutinized, it is now water under the bridge. The trigger for this event was the Rana Plaza building collapse that took the lives of more than 1100 innocent and hard-working readymade garment (RMG) workers, an event that was preceded a few months earlier by a

fire at Tazreen Fashions that also took many innocent lives. At bottom, analysts believe, these incidents were symptomatic of colossal failure of governance at every critical step.

The question now, among other ones, is how soon can we get back this facility and restore Bangladesh's preferential access to the world's largest single country market. It is only logical to assume that if there was a proximate cause for this unfavourable decision by the US President, the resumption of GSP facility would hinge on the satisfactory mitigation of the causal factors. That, as we can see, could take months if not years to address, though there is increasing evidence of coordinated actions by all the concerned parties. There was also swift action on the part of the Government to amend labour laws, help improve working conditions, and initiate steps to prevent the recurrence of another tragedy stemming from a factory building collapse.

All said and done, it would still be too much to expect that the restoration would occur by end of this year when a hearing is scheduled in Washington to review and determine whether the various coordinated steps taken by Bangladesh and others could be deemed as adequate measures in addressing the issue of worker rights and safety. Needless to say, the restoration of GSP facility in the US market is critical for the goodwill that Bangladesh still enjoys and badly needs in the global marketplace to sustain its stellar export performance. The good news is that buyers have, by and large, not taken flight as many analysts had predicted.

What has become amply clear is that Bangladesh can no longer take lightly the issue of worker rights and safety. Now that Bangladesh is the second largest single-country exporter of RMG items (after China), the Rana Plaza tragedy drew the attention of world media and helped to mobilise empathy for the sad state of Bangladeshi workers while prompting consumers (of clothing) to expect entrepreneurs and factory owners to do much more in terms of working conditions and worker safety if they want made-in-Bangladesh garments to be bought by them instead of clothing made in Vietnam and Cambodia, or Indonesia and Turkey.

If this was the complete story, this column would not have been written. The fact of the matter is that the problem is much more complex and we need to look well beyond the news headlines or analyses to get to the bottom of it. What has not emerged as a plausible factor

in the current discourse is the undercurrent of protectionism that can be discerned in the US decision to suspend GSP facility in favour of Bangladesh. The elephant in the room whose role cannot be ignored is the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO).

The AFL-CIO is a national trade union centre, the largest federation of unions in the United States, made up of fifty-six national and international unions, together representing more than 11 million workers, and hence very powerful. Politically, they have been staunch supporters of the US Democratic Party with their membership regarded as a safe constituency for democrats. It is well known that the Obama administration is deeply indebted to them for their strong political support. It was the AFL-CIO that lodged the complaint to USTR back in 2007, arguing for the suspension of GSP to Bangladesh due to lack of trade unions and other shortcomings in collective bargaining rights of workers in the RMG industry. That complaint eventually carried weight, though the ostensible grounds for suspension were the lack of worker rights and safety, as demonstrated by the Rana Plaza episode.

Though textile is a sunset industry in the USA, labour unions have been lobbying hard to create barriers to the import of cheap clothing from low-wage developing countries. To their advantage, they enjoyed quota restrictions on cheap imports under the Multi-Fibre Arrangement (MFA) until 2005, coupled with high tariffs (known as tariff peaks) on most textiles. This has bought them some time but not complete recourse from the inevitable outcome of possible extinction, at least in the category of basic garments.

While it is difficult, if not impossible, to defend the pitiful state of worker rights and safety in Bangladesh's garment industry and elsewhere, it is nevertheless relevant to reflect on the undercurrents of protectionism that still influences policymaking in developed countries, though it must be pointed out that leading economists in those countries never lose an opportunity to point out the futility of such moves.

What is disconcerting is that protectionism in the rich countries is often targeted at the products of poor countries. Fearful of competition from poor countries like Bangladesh, they often believe — wrongly of course, as evidence has shown — that open trade with these countries will produce paupers in the rich countries.

For Bangladesh, what is striking is the difference in approach taken by the US and the European Union (EU) — the two leading markets for our garment exports. While the EU has gone ahead and taken measures to make it easy for Bangladesh to export to the EU countries (most recently, by allowing one stage processing), quite apart from the zero tariff facility for all imports under the Everything But Arms (EBA) scheme, the US market is less open when it comes to Bangladesh's leading exports, RMG and home textiles. Tariff peaks (i.e. tariff rates of 15%+) apply to these products, paid by US importers/consumers — not Bangladeshi exporters as it is often believed.

The political economy of the divergent approaches is worth reflecting on. Consumers in both markets like lower prices and greater choice. But the power of trade unions in the EU countries has not been enough to deflect the inflow of low-cost clothing from countries like Bangladesh though lately events like Rana Plaza collapse with consequent negative media attention stoked a lot of consumer resentment raising the spectre of punitive action and even suspension of EBA, though that prospect appears unlikely for the time being.

In the US, though GSP (duty-free) covered roughly 97% of all exportable products (a saving of \$2.0 million of duties on exports of \$35 million only in 2012) from Bangladesh, RMG exports of nearly \$5.0 billion last year remained outside the preferential ambit. Note that the objective of high US tariffs on garments is not to raise revenue but to protect US textile industries from cheap clothing imports. In addition to the tariff barrier, if the politically powerful American labour unions have their way, say, by using the tragedy in Bangladesh as a safety outrage to unionize the Bangladeshi workers, thereby raising wages and hence prices, that will have the intended effect of reducing effective competition for themselves in the process. Sadly, that increase in wages and prices in Bangladesh would only reduce foreign demand for Bangladeshi garments, drive buyers like Wal-Mart and Disney to other shores, and hurt the very workers that the US labour lobbies claim to want to help.

In short, the message could not be clearer. The GSP debacle has shown that Bangladesh cannot afford to take such facilities as GSP or EBA for granted. These non-reciprocal facilities are not binding on the giver; they are merely bonuses, which can be withdrawn at the giver's whim, which is exactly what has occurred. There is also no guarantee when this facility will be restored. So what should Bangladesh do?

For the short-term, Bangladesh should seize the momentum of international coordination that is evolving — EU-ILO-GOB Compact in Geneva, Accord on Fire and Building Safety by 80 global brands, Alliance for Worker Safety composed of 17 North-American brands — and take all steps necessary to ensure improvement in safety, labour rights, and overall working conditions.

For the long-term, Bangladesh needs to look ahead when it will no longer be a least developed country (LDC), and must prepare the grounds to compete with others on the basis of its comparative advantage and non-discriminatory treatment under World Trade Organisation (WTO), without recourse to preferential access. It is time to get our act together through skill development, improved management, and application of modern technology, to raise productivity and reduce costs, which are among the options to sustain competitive advantage in the global marketplace.

That might seem like a tall order now. But Bangladeshi entrepreneurs have proven time and again they can face up to the challenge. That is the best bet for Bangladesh over the long haul, not this unseemly quest for crumbs on the table, euphemistically called preferential access.