

The background of the entire page is a photograph of numerous rolls of fabric in various colors, including yellow, orange, pink, blue, and green, arranged vertically. The text is overlaid on this image.

*Duty-Free Imports from
Bangladesh Should Be
Subjected To 'Rules of
Origin'*

By:

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In the course of first ever visit by an Indian Prime Minister to Bangladesh in a decade, Prime Minister Dr. Manmohan Singh did need to break new grounds and took the bilateral relationship to the next level, which, indeed he did, by announcing the decision of the Government of India to remove all 46 textile lines which are of interest to Bangladesh from India's Negative List for LDCs under the provisions of SAFTA, thereby reducing the applicable duty rate to zero with immediate effect. This was welcomed by Prime Minister Sheikh Hasina, who conveyed her appreciation for this major step on improved market access extended to Bangladesh aimed at reducing the existing trade imbalance.

This was, however, opposed by a number trade bodies, including CMAI, AEPC and Confederation of Indian Textile Industry (CITI), which spearheaded this voice of dissent. Opposing this move, CITI Chairman, Shishir Jaipuria wrote to the Prime Minister, stating, "In our view, such a policy decision needs an assessment of the likely perilous consequences on the domestic garment manufacturing and loss of employment, which the sector generates especially for unskilled female workers. This would also adversely affect the investment in complete textile value chain, which Government of India intends to promote."

Case against Concessions to Bangladesh

The basis for their opposition were numerous, but more important among them were:

According to the trade bodies, Bangladesh's apparel manufacturing industry is far more competitive than its Indian counterpart. The in-competitiveness of Indian apparel industry against Bangladesh can be gauged from the fact that in the last 6 years (2005-2011), India's apparel exports increased by about 5% CAGR from \$8.63 bn. in 2005-06 to \$12.5 bn in 2010-11, against 18% growth recorded by Bangladesh's garment exports during the same period. Bangladesh garment exports increased from \$7.9 bn. in 2005-06 to \$ 17.92 bn in 2010-11 and is expected cross \$25 bn. target set by Bangladesh within next 3 years.

These organizations have contended that the products for which Bangladesh has sought concessions are also major products for our domestic production as well as consumption. Our garment industry is mostly in the small scale sector and provides employment to over 18 million workers. The upstream segments that supply raw material to the garment industry employ another 17 million workers, mostly in handloom and power loom sectors of Tamil Nadu, Maharashtra and Andhra Pradesh. Thus, the fate of 35 million workers and a large number of SME units engaged in production of textiles and garments in India is at stake on this issue, particularly in the garment clusters in Tirupur, Ludhiana and West Bengal.

What they have highlighted in their presentations to the Government of India is that Indian garment industry would be unable to face Bangladesh imports in the absence of what they call absence of level playing field, caused by structural deficiencies in Indian apparel manufacturing due to Indian labour costing as much as three times that in

Bangladesh, more stringent labour laws in India and high cost of power in India as against cross subsidy against availability of gas based power at economical prices in Bangladesh.

Appointment of Committee of Experts

Pleading with the Government that no policy decision should be taken on allowing of duty-free quota garment exports from Bangladesh to India, in haste, CITI President has suggested that a Committee of Experts (COE) from various textile research associations and experts like SITRA, NITRA, ICRIER and Government and industry's representatives may be formed to examine various consequences of such decision. Based on the reports of COE, the Government may deliberate upon the possibilities of tweaking with the existing policy. Till that time, any policy decision leading to change in current status quo should be kept in abeyance.

Application of Rules of Origin Concept

As a last resort, CITI has suggested that in the event of Government going ahead with its decision of allowing duty-free import of Bangladeshi garments in 46 categories, the minimum that the Government of India can do is imposing a precondition that all the duty-free imported garments from Bangladesh under the new arrangements, must be manufactured out of Indian fabrics alone. Jaipuria said, this is all the more essential in view of the fact that Bangladesh is heavily dependent for fabric supplies on China, which would provide indirectly more access to Chinese textiles in Indian market through Bangladesh.

CMAI for Opening up only 14 out of 46 Products

Rahul Mehta, President, CMAI adds "It is incredible that the Government is not considering the potential impact on the employment scenario of the country by encouraging imports rather than domestic production". He added, "Even by conservative estimates, the likely import of US\$ 2.5 billion per year, could result in a loss of employment in the Indian garment industry of nearly 1.25 million jobs".

He disclosed that the Industry had in its various interactions with the Government, offered that 14 of the 46 items requested by the Bangladesh Government, could be opened-up for duty-free imports. He said surveys by CMAI amongst Indian retailers confirmed the fact that the larger retailers had already started buying huge quantities of their requirements from Bangladesh after 10 million pieces were permitted to be imported without Duty. This trend will only turn into avalanche if the entire industry is opened up for free imports.

"The Prime Minister has made a major mistake," says Kandasamy Selvaraju, Secretary General, Southern India Mills' Association, in Coimbatore, Tamil Nadu, adding "It is a disaster; our industry will now be ruined." He pointed out that the garment industry in India is already far from using its entire manufacturing capacity, especially with cotton prices continuing to be high: "We have 17m people employed in this sector-what will happen to them?" "The government should at least impose the 'rule of origin' condition, so that it does not become a route to import Chinese goods," he says. "The condition should be that for all the imports, the raw material should be imported from India, which would at least protect our weaving industry"

Ajit Lakra, President of Chamber of Knitwear and Textile Associations of Ludhiana allege that "the decision has been taken under pressure of the lobby of the big garment brands.

We [India] are the big brother and have done a great thing for them [Bangladesh], but the repercussions are going to be very serious [for us]. India's garment exporting units will be affected by the decision."

AKM Salim Osman, President of the Bangladesh Knitwear Manufacturers and Exporters Association, however, told that since most of the raw material used by Bangladesh actually already comes from India; so there is no reason for India to not import the country's goods duty-free. "This has been our long-standing demand and we are happy that the Indian government has now accepted it." He adds that out of the 46 items in the list of duty free imports, 25 belong to the knitwear industry. Osman says that Bangladeshi businessmen already have good business connections with Indian brands, and that new exports will be rolling out soon.

AEPC for Level Playing Field

According to Premal Udani, Chairman of the Apparel Export Promotion Council (AEPC) the items that now qualify for duty-free import "comprise nearly 85% of India's present imports from Bangladesh [and] will severely dent apparel manufacturing activity within the country." He notes that up to 15m of the items already qualify for tariff-free import from Bangladesh, adding that "removal of items from the negative list will open floodgates." The deal will also "translate to significant loss to Indian fabric industry." "It was imperative for the Government to provide a level playing field to Indian apparel manufacturers before granting concessions to a country," adds Udani.

What Prompted PM on Duty-free Imports from Bangladesh?

Prime Minister Dr Manmohan Singh announced that the Government of India was "fully alive" to the issue of trade imbalance between the two countries. He added that India had undertaken a number of measures to facilitate Bangladesh's exports to India, giving it greater access to the market and to other neighbouring countries. The easing of the barriers comes after Bangladesh lobbied for the removal of 61 items from the list of protected goods kept by India under the South Asian Free Trade Agreement (SAFTA), 46 of them were related to textiles and garments. Bangladesh has also complained about difficulties with exporting to India because of testing, delays and bureaucracy at border crossings.

Why India does not have to Fear Duty-free Bangladeshi Imports?

It is our considered opinion that what Prime Minister Man Mohan Singh has offered was not against the interest of Indian industry or economy. The trade bodies have not viewed the whole issue on merit and have gone instead into making fallacious arguments. The impression that they seem to be creating is that once the Bangladeshi garments are allowed duty-free imports, our domestic industry would fall flat and that there would be massive exposure to unemployment for millions of workers, which is not quite the case, if one were to look into the points being made objectively and on merit.

First, it needs to be clearly understood that India has already been allowing duty-free import of Bangladeshi garments every year, which include all the 46 items, now being thrown open to duty-free imports. So this is not a new phenomenon with unknown ramifications.

Second, despite this, Bangladesh has never been able to utilize this quota, year after year. The fear of new quota-free allocation, though an extended facility, is not likely to be used up, as being made by the trade bodies. True, there is likelihood of fall in export of Bangladeshi garments in the US and the EU due to financial problems in both these markets, yet the cutting edge of Bangladeshi garments would continue to surge in those very markets, as has been the case even during the recent global slowdown or recession, when Bangladesh exports to these destinations actually increased. The fact remains that the thrust of Bangladeshi exports to these markets is likely to remain undiminished and any large scale diversion of exports from Bangladesh to both the US and the EU is unlikely to get shifted to India. Where then is any reason for any apprehension for any invasion on Indian market by Bangladesh garments?

Third, Bangladesh exports are confined to very low end of the value chain with average per unit realization of \$1 for Indian market. This would only mean that Bangladesh exports to India would be catering only to lower ends of market of which there has large potential, waiting to be exploited. In fact, the export quality material being manufactured in India, which even in the event of any economic slowdown is sold in Indian market, relates to higher ends of Indian consumers and would therefore not be in competition with Bangladesh garments. **Fourth**, in fact, the fast growing Indian apparel market is too huge to be threatened by Bangladesh duty-free garments even with the proposed augmentation of duty-free imports by another 10 million pieces a year.

Fifth, Bangladesh is importing huge quantities of fabric from India. This quantity is likely to go up with the increased manufacturing and exports by Bangladesh to India. **Sixth**, already a number of Indian companies have set up manufacturing operations in Bangladesh to take advantage of the low costs. This can further go up to take advantage of the low manufacturing costs in Bangladesh, as has been discussed above. **Seventh**, this will get further impetus with the exchange of Instruments of Ratification of the Bilateral Investment Promotion and Protection Agreement. The two Prime Ministers had also reiterated their call for increasing investments including joint ventures in each other's country. They underscored the role of the private sector as very important in bringing qualitative and quantitative change in the development process. The Indian Prime Minister had also appreciated the announcement of the Bangladesh Prime Minister regarding the establishment of a Special Economic Zone for Indian investments. Can one under-estimate the importance of twin action of commitment on the part of both the Prime Ministers for Joint Ventures as also for setting up of Special Economic Zone for Indian entrepreneurs?

Eight, it needs to be noted that cross-border trade between the two countries is just \$4 billion with the trade balance heavily in favour of India. That is precisely the reason as to why India needs to genuinely improve trade access for Bangladesh and the obvious choice falls on garments, which accounts for nearly three-fourths of manufactures in Bangladesh and has been the major export of Bangladesh all along. **Ninth**, we should not forget the inevitable advantage that the Indian consumers at the low end, would benefit because of the garments being cheaper by no less than 20%, according to an estimate.

No Unfettered Duty-free Imports

Application of "Rules of Origin"

All this, however, does not mean that these concessions should be totally unconditional and unfettered, as any attempt to free it from the precautions that need to be taken, could

really turn them against India. There is a strong merit in what has been apprehended by CITI, which has insisted on application of "Rules of Origin" in the proposed set of concessions. The Stitch Times feels that any concessions being extended to Bangladesh for duty-free exports of garments to India could only help China, which is a major supplier of fabrics to Bangladesh, leading to promoting sales of Chinese fabrics in the garb of Bangladesh garment imports on duty-free basis.

"Committee of Experts"

There is also a strong merit in the suggestion of CITI to form a Committee of Experts (CoE) from various stake-holders to look into this trade concession with due diligence, so that whatever concession we, as big brother, propose to provide to Bangladesh as a gesture cannot be faulted later on, just because we were in undue haste to complete this exercise.

Phasing up of Duty-free Imports

We feel that the proposed opening up of duty-free imports from Bangladesh may have to be phased over a period of time to be strategically acceptable and also for practical reasons such as the need to harmonize customs norms and nomenclature. We feel that phase-out could go a long way to cause minimum "dislocation", if ever there would be one. However, in any case, since duty-free imports of Bangladesh garment has already been on the ground for quite sometime, under an earlier agreement, the whole process should not present any difficulties.

Streamlining Transport and Logistics

Though Indo-Bangladesh trade has been going on for quite sometime, there has also been a felt need to streamline transport and logistics linkages between the two countries. The proposed linking of Indian and Bangladesh railways by completing just 13-km stretch between Agartala in Tripura and Akhaura across the border, the key to connecting the north-east with the rest of India, brooks no further delay. The train link would also provide connectivity from the north-west to the Chittagong port. End-to-end rail and truck connectivity will boost trade. This is what has been attempted and agreed to. This should help both the countries.

To sum up, while the basis on which some of the trade bodies have been criticizing the concession of duty-free import of Bangladeshi garments, have been more fallacious than genuine and there are a number of valid reasons for India to extend the concessions, it has extended to Bangladesh, as has been discussed above, the fact remains that any unfettered and unregulated duty-free imports from Bangladesh could work to the disadvantage of India. We necessarily need to introduce "Rules of Origin" concept, as is being extensively used by even the Super Powers like the US in all of their bilateral or multilateral trade agreements with the countries, it has chosen to partner with.

Here 'T' refers to the author of the article