

Suspension of GSP: Image Crisis for Bangladesh

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Abstract: The most troubled sector of recent times is Ready-made Garments (RMG) sector of Bangladesh which is the backbone of our economy. This labor intensive industry has accommodated 4.5 million workers 80% of whom are women in the last fiscal year. So there are about 5,000 garments factories scattered across the country. 78% of our foreign earnings come from this sector. This sector keeps our economy moving, but the industry has been facing numerous problems. Poor working conditions, bad industrial relations, low wage, the arrogant and ruthless attitude of the owners or management and lack of solid and positive initiative on behalf of successive governments has made this sector questionable in the world market. It has lost GSP (Generalized System of Preference) advantage in the U.S market which has created an image crisis for the industry. This is fear of loosing GSP advantage in the EU market as well. To save the employment generation and one of the largest foreign currency earning sectors, BGMEA, BKMEA and Government should adopt an integrated approach on the one hand and boost up the image of this industry on the other.

Key words: Ready Made Garment, GSP, Suspension of GSP,

1. Statement of the Problem:

Now the most pertinent question in the economic arena is suspension of GSP program. Why did the USA suspend GSP program from June 27, 2013? Bangladesh had been enjoying GSP into the US market, excluding Ready-made garments. She has to face an export fall of about \$40 million in the US market. However, the direct impact would not be much less than 1% of Bangladesh's \$5 billion of annual export (mostly RMG products) to the US which falls under Washington's GSP program (The Wall Street Journal, 2013). This 40 million export loss goes on the shoulders of some small industries in the country, namely ceramic products, tobacco etc. These industries export a very small amount in comparison to that of RMG sector. So suspension of US GSP will account for a fall in export of about 1.0%. However, due to this suspension the small scale enterprises are affected badly on one hand and the image of Bangladesh is at stake in the world, on the other.

Bangladesh should remember that GSP cut hampered the prestige of the country and she lost the credibility of being a business partner. The image of Bangladesh as a trading partner of the USA is already questioned. These GSP incidents may discourage US and other investors, new and old. This may have a long term effect on the prospect of future export growth of the country. The great anxiety of the country will be to see a similar action adopted by the European Union. The EU gave a stricture previously to remove preferential access to Bangladesh RMG products in the EU market if the government did not take measures to improve the working conditions in Bangladeshi factories. The EU is a great buyer of Bangladeshi garments worth around 11.37 billion dollars as of June 2012; out of the total export of this sector is about 19 billion dollars in the last fiscal year (Fattah, 2013).

2. Objectives of the Study:

The main objective of this paper is to deal with the reputation problem for Bangladesh due to suspension of GSP by United States which has become a headache for Bangladesh and her foreign friends. To refurbish the image, BGMEA, BKMEA and Government should try in a coordinated way. If the working conditions does not change qualitatively and the Government fails to improve the lot of the workers, Europe would consider suspending

GSP privileges. Suspension of GSP facilities by the EU would have a much more colossal impact than the American decision because the effect of US decision would be felt on many things but not on garments (The Financial Express, 2013). In this regard, German Ambassador to Bangladesh Albrecht Conze cautioned that the fear of losing generalized system of preference (GSP) privilege in the EU countries has not yet been over. In his language – “I cannot say that the thunderstorm has gone away from the Bangladesh’s sky, which could erupt would Europe come to a decision to suspend (The Financial Express, 2013)”.

Our objective in this paper is to make both government and the garment owners aware so that they develop working conditions which may help us to restore GSP advantages in the US and avoid cancellation of the same by the European Union.

3. Review of Related Literature:

A number of authors and authorities both Bangladeshi and United States have dealt with the GSP facilities. As a result, we have a rich crop of literature on this issue of supreme importance to Bangladesh.

Vivian C. Jones (2013) wrote an article entitled “Generalized System of Preferences: Background and Renewal Debate”. He found that the U.S. GSP program provides non-reciprocal, duty-free tariff treatment to certain products imported from designated beneficiary i.e. developing countries. The United States, the European Union, and other developed countries have implemented similar programs since the 1970s in order to promote economic growth in developing countries by stimulating their exports. On June 27, 2013, the US President announced the suspension of benefits under the GSP program for Bangladesh on the grounds that “it has not taken or is not taking steps to afford internationally recognized worker rights to workers in the country.” The suspension is effective 60 days after the publication of the proclamation in the Federal Register, or Friday, August 30, 2013.

An article entitled “GSP suspension, a wrong move: US think tank” is written by **Diplomatic Correspondent** published in The Independent (2013b). According to the article the, suspensions of GSP benefits for Bangladesh’s poor would damage the trade relations between Dhaka and Washington. In response to poor labor conditions in Bangladesh, the Obama Administration has moved to unilaterally impose trade sanctions by removing the country’s privileges under the GSP. The article opines that if the President truly wants to improve the lives and well-being of the workers, he should encourage free trade, work to lower barriers and increase economic dialogue with Bangladeshi authorities.

Omar Faruque (2013) authored an article on “GSP cancellation to destroy the economy of Bangladesh”. He advocates for the reinstatement of the GSP facilities in Bangladesh. His advocacy is based on the policy position taken by the Heritage Foundation, a conservative think-tank that the cancellation of the GSP facilities in Bangladesh was not wise on the part of the Obama Administration since it was not wise for the workers of Bangladesh. Instead, the Heritage Foundation strongly advocated for the removal of any tariff on the garment products of Bangladesh even after the Rana Plaza tragedy. Taking a cue from the Heritage Foundation, the author also argues that removal of tariff from garment products as well as reinstatements of GSP were the best ways to help the workers of Bangladesh.

Chowdhury Golam Hossan et al. (2012) authored an article entitled “Recent Unrest in the RMG Sector of Bangladesh: Is this an Outcome of Poor Labor Practices?” This study depicts very nicely the reasons for recent unrest in the garment sector. Since the management people are solely responsible for applying human resource practices, this paper has given more much attention to their views on the changing attitude of workers. The study shows that there is no healthy industrial relation prevailing in the RMG sector. This study also states that high work load, ruthless attitude of line managers, low skills and poor wage rates are the major reasons for the high labor turnover and social unrest. Unhealthy relationship between workers and supervisors and uncontrolled labor without trade union are the main cause of conflict. Moreover, poor working conditions aggravate more conflict in the RMG sector.

Mohammad Ismail Bhuiyan (2013) wrote an article entitled “Reasonable Wages for Workers to Eliminate Unrest in Bangladesh’s Ready-made Garments (RMG) sector”. The study was conducted to represent the conflict scenario in the garment sector and conflicts between workers and management. He has tried to highlight the main causes of unrest in the ready-made garment sector of Bangladesh. He has given some suggestions to resolve them. The author furnished some background on the degree of unrest in RMG sector, focusing on six major unrests from December 2010 to June 2012 and provided some information on conflict resolution processes. This is an empirical study. To prepare this article the author introduced RMG workers, management, and factory owners. The study attempts to depict that poor and discriminating wages are the underlying factor of unrest in the RMG sector. Along with wage issue labor rights should be implemented.

Md. Zafar Alam Bhuiyan (2012) wrote an article entitled “Present Status of Garment Workers in Bangladesh: An Analysis”. Garment sector of Bangladesh deserves careful attention as seventy eight percent of our foreign earnings come from this sector. The study attempts to explore the present socio-economic status of garment workers in Bangladesh. The study is based mainly on economic and social status of 100 garments workers in Badda areas of Dhaka City. So this is an empirical study. The study observes that the socio-economic condition of the garment workers is not in a satisfactory stage. About 70% workers are women in this sector who work dawn to dusk, even up to late night where as their wages are in a below subsistence level. Their income cannot keep pace with the expenditure. So they and their family suffer from malnutrition and unhygienic complexities. They live in slums and they have no recreation in their life. Overall, workers’ life is ludicrous when they are earning a lion share for the country. Moreover, some workers are losing their jobs.

In this study the author has pointed out some reasons which may affect our garment industry. Due to the world recession, buyers have already cut off their orders from Bangladesh for which many small factories and buying offices have been shut down. But our Government is completely silent. If the Government does not take any measure, then unemployment will crop up. If the people of government sector loose their job, then purchasing power of some people who are dependent on the RMG sector will decrease which will result in more unemployment in the country.

To save the sector, the author has given some suggestions to get read of this problem. Government should try to enhance and ensure their timely wages on a regular basis reflecting prices of essentials in life. The prevailing irregularities in the factories, such as physical torture, abuse etc. should be checked by the integrated efforts both government and the owners. Holidays and national holidays should be ensured without randomly cutting their salary. BGMEA and BKMEA should be careful regarding the compliance issues for the workers. Moreover, they should be careful regarding child care and schooling system. Bangladesh government should take the responsibility to ensure the education for the garments workers’ children up to the mark.

4. Methodology of the study

The study has been conducted to evaluate the effect of GSP cancellation on the garments sector in Bangladesh. Research area has been selected on the basis of previous research work. Secondary data have been collected to conduct the study. The sources of data are relevant journals, news papers, reports and so on. The study will be helpful for the readers and researchers.

5. Findings

GSP is a WTO (World Trade organization) program that gives poor countries special tariff treatment on select imports. The GSP program was first adopted internationally by the UNCTAD (United Nations Conference on Trade and Development) at the UNCTAD-II conference in 1968. It was first adopted by the US with the passing of Trade Act of 1974. In course of time the US GSP program is referred to as a program for providing non-reciprocal, duty free tariff treatment to certain products imported from developing and least developing countries. Through this program, United States actually wanted to help developing and least developing countries (LDC) that are having no industrial experience or tradition to achieve competitiveness in international trade, particularly in exports, and thus develop and improve their economics. Since its launch, 128 beneficiary countries and territories have received GSP facilities in exporting up to 500 products in the US market (Hossan, 2014).

Under GSP scheme over 500 goods are allowed duty free entry to the US market from least developed countries. Hence Bangladesh, as a LDC, is entitled to be a beneficiary of the US GSP program. In 2011, Bangladesh exports to the USA under the GSP scheme were worth \$ 26.33 million. Accordingly the GSP covered only 118 products and \$ 34.7 million in imports from Bangladesh in 2012 (The Independent, 2013a). But Bangladesh has lost GSP advantage after getting six years time. A petition for withdrawal of GSP was filed by the American Federation of labor and congress of industrial organization (AFL-C 10) in 2007 when it called for improving workers’ rights (Tasin, 2013).

Bangladesh faced another blow in 2005. But she faced that challenge very successfully. Ambition of quota system in 2005 has introduced new competition for Bangladesh from the rest of the world, especially from India and China. India and China have an added competitive advantage over Bangladesh since they have skilled labor forces, advanced technology and more importantly backward linkage support. But Bangladesh had only plus point that is cheap labor. Labor cost is a big factor to the cost of production. In the United States of America more than 50 per cent of the total cost of production goes for wage and salary (Shahriar, 2014). However Bangladesh has low wage rate in comparison to the rest of the world. Few days earlier, commerce minister

Tofael Ahmed told a group of businessmen recently that 13 of the 16 conditions for restoration of GSP facility has been met and the other three will be fulfilled soon (Dunn & Rachel, 1972). Commerce minister Tofael Ahmed on Wednesday, February the 12th 2014, said- “Bangladesh would get back duty free trade benefits in the US market under the GSP scheme if politics does not enter the revival process”(Dhaka Courier Report, 2014).

But US view is different. An influential senator, Mendez was instrumental in getting Bangladesh’s generalized system of preferences status suspended last year. Mr. Mendez urged the United States Trade Representative to suspend GSP benefits to Bangladesh because of the state of workers’ rights and safety. This influential senator Robert Mendez has called for an immediate end to the harassment and intimidation that trade union organizers and members face in the hands of the factory owners, for reinstatement of trade benefits to the US. Mendez, who chairs the Senate Foreign Relations Committee, went on to cite the four union organizers including two women who were reportedly and severely injured by two dozen attacks last month as they tried to organize workers in a large garment factory. They took the incidents very seriously. In this situation he wrote letter to Mr. Atiqul Islam, President of the BGMEA on Monday 24th march 2014, where he expressed deep dissatisfaction. In his message, “I cannot support the renewal or expansion of Bangladesh’s GSP benefit as long as union organizer’s and members are subject to harassment, intimidation and violence from BGME factory owners and managers” (The Daily Star, 2014). US senator Mendez urges BGMEA chief, to end union harassment.

Inspite of all the signals, Bangladesh could not get workers rights improved, rather it went down. Our arrogant entrepreneurs (i.e. owners) and ruthless administrations did not pay any proper attention to improve workers rights as they are mostly first generation businessmen. They are lacking entrepreneurial competencies and experiences. Their main motto is to earn profit. But the owners attach little importance to workers rights and grievances. Moreover, our government is also not that much assertive or concerned regarding this matter. They could not ensure workers’ rights and safety standard by persuading factory management or owners. But owners forget that the golden goose should survive, if they kill the golden goose, then who will give them golden egg.

This is an employment generating and foreign currency earning sector. There are about 5,000 garment factories in Bangladesh. 78 per cent foreign currency comes from this garments sector (Bhuiyan, 2012). This garment industry has accommodated 4.5 million workers, 80 per cent of whom are women in last fiscal year (Fattah, 2013). Total export earning of garment sector was 1144946 million dollars in 2010-11. Out of total foreign currency earning is 1629733 million dollars (Faruque, 2013). Out of Bangladesh’s total exports fifty seven percent go to EU. The entire garment sector is dependent on workers. So the workers’ rights should be the first priority. Capital only cannot produce a single product without labor. Out of four factors of production labor cannot be negligible factor.

From the following table we can assess the number of garment factory, employment, and garment export position of Bangladesh. Moreover, it is clear from the following table that the industry has a checkered (consistent) development. So the owners or management should be careful regarding the healthy industrial relations. They should mind that the workers are the backbone of the industry. Capital alone can do nothing. So the overall working conditions must improve.

6. Conclusion

Despite restoration and improvement of workers’ rights and better working conditions, there is no way of restoration of GSP advantage suspended by the US. Rather, there is a fear of losing GSP advantage in the EU. Last year’s fire at Tazeen Fashion limited wherein over 110 workers were killed mercilessly and the April, 2013 collapse of the Rana Plaza near Dhaka leaving over 1100 dead expedited withdrawal of GSP benefit. From the above two incidents, victims were mostly from RMG workers. Management or owners were almost directly responsible for these miserable incidents. They were trying to escape responsibility, but could not due to electronic and print media. These types of indifferent attitude of management/owners jeopardized our prestige all over the world. Moreover, Government’s attitude was not also sufficient to get hold of these miscreants who should be dealt with in a strong hand. Lastly, we should remember that development of the garment industry of our country is directly related to the development of the economy and the development of women folk as well, especially in the rural areas. More than 80% garment workers are female who are mostly having a village background. So this industry is playing a vital role in poverty alleviation and women’s employment and empowerment in rural Bangladesh (Tasin, 2013). In this backdrop USA should reconsider its decision regarding the cancellation of GSP in Bangladesh.

Table 1: Growth of RMG in Bangladesh during 1986-87 to 2011-12

Year	Number of Garment factories	Employment in Million Workers	Export of RMG in Million US\$	Total Export of Bangladesh in MN US\$	% of RMG's to National Export
1986-87	629	0.283	298.67	1076.61	27.82
1987-88	685	0.306	433.92	1231.20	35.24
1988-89	725	0.317	471.09	1291.56	36.47
1989-90	759	0.335	624.16	1923.70	40.96
1990-91	834	0.402	866.82	1717.55	50.47
1991-92	1163	0.582	1182.57	1993.90	59.31
1992-93	1537	0.804	1445.03	2382.89	60.64
1993-94	1839	0.827	1555.78	2533.90	61.40
1994-95	2182	1.200	2228.35	3472.56	64.17
1995-96	2353	1.290	2547.13	3882.42	65.61
1996-97	2503	1.300	3001.24	4418.28	67.93
1997-98	2726	1.500	3783.63	5161.20	73.31
1998-99	2963	1.500	4020.23	5312.86	75.67
1999-00	3200	1.600	4352.39	5752.20	75.66
2000-01	3480	1.800	4860.12	6467.30	75.15
2001-02	3618	1.800	4583.80	5986.09	76.57
2002-03	3760	2.000	4912.10	6548.44	75.01
2003-04	3957	2.000	5686.09	7602.99	74.79
2004-05	4107	2.100	6417.67	8654.52	74.15
2005-06	4220	2.200	7900.80	10526.16	75.06
2006-07	4490	2.400	9211.23	12177.86	75.64
2007-08	4743	2.800	10699.80	14110.80	75.83
2008-09	4925	3.500	12347.77	15565.19	79.33
2009-10	5063	3.600	12496.72	16204.65	77.12
2010-11	5150	3.600	17914.46	22924.38	78.15
2011-12	5400	4.00	19089.69	24287.66	78.60

Source: GOB, 2012

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