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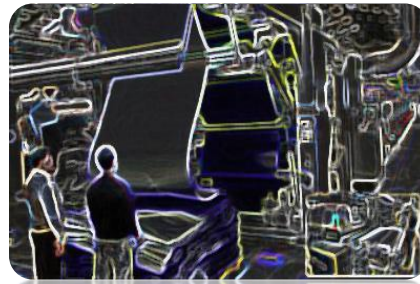
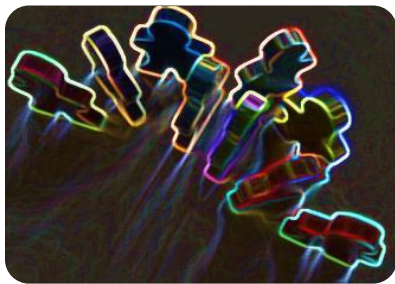
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LUNDS UNIVERSITET

DEVELOPMENT-FRIENDLY OR IMPORT-FRIENDLY?

THE NEW EUROPEAN UNION RULES OF ORIGIN AND THE APPAREL SECTOR IN BANGLADESH



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“If it looks like a duck, swims like a duck, and quacks like a duck, then it probably is a duck.”

- * -

James Whitcomb Riley

(1849-1916)

ABSTRACT

As of 2011 the European Union's Rules of Origin ((RoO)) no longer require textiles to be sourced in the domestic economies of Least Developed Countries ((LDCs)) if they want to export their apparel under the zero-tariff, zero-quota preference scheme. Now, apparel manufacturers are free to use imported textiles.

Informed by Normative Power Europe theory, this thesis identifies two core motives of EU decision making: a development-friendly historical motivation and an import-friendly motivation based on internal industry interests, which mesh together and make it difficult to determine whether the EU is a normative actor.

The thesis further argues that outcomes of the RoO relaxation can be investigated by using the global value chain analysis, where the EU features as an external actor regulating the EU-Bangladesh apparel value chain. In Bangladesh, the matured knit sector seems unaffected by the relaxed RoO whereas the woven apparel sector seems to reap real benefits and the already troubled woven textile sector experiences negative externalities from the new criteria.

Given LDCs' minor EU market share and EU's continued regressive policies towards developing countries, this new EU regulation contributes only a little to bridge the gap between EU's narrative and its policies, yet serves well to uphold its normative image.

Keywords:

[Normative EU] [GSP] [Global Value Chain analysis] [Governance] [Regulation].

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ABBREVIATIONS

ACP	African Caribbean and Pacific group of states
AVC	Apparel Value Chain
BGMEA	Bangladesh Garment Manufacturers Exporters Association
BTMA	Bangladesh Textile Manufacturing Association
EBA	Everything but Arms Agreement
EPA	Economic Partnership Agreements
GSP	General System of Preferences
GVC	Global Value Chain
LDCs	Least Developed Countries
MS	(European) Member States
NPE	Normative Power Europe
RoO	Rules of Origin
T & A	Textiles and Apparel
ZTZQ	Zero Tariff Zero Quota

CHAPTER 1: INTRODUCTION

On January 1, 2011 the changed Rules of Origin ((RoO)) came into effect¹ in the Everything but Arms agreement² ((EBA)); the unilateral preference scheme between the EU and 48 Least Developed Countries ((LDCs)). RoO exist to define origin for (components of) goods entering a given country's market. All goods in the international trading system have to state their origin for administrative purposes. However, Rules of Origin in preferential trading schemes relate to certain origin criteria in order for the imported goods to be eligible for preferential treatment. Before, EU RoO made it mandatory for LDC apparel makers to use domestic textiles (*double transformation criteria*) if they wanted to enjoy the benefits from the preference regime, i.e. zero-quota, zero-tariff ((ZQZT)). Now, these RoO have been changed³, no-longer requiring for textiles to be sourced locally (*single transformation criteria*). Unilateral, bilateral and multilateral preference schemes have made rich markets increasingly accessible for apparel makers in developing economies. The Multi-Fiber Arrangement is widely accredited for allowing developing countries like Bangladesh to integrate into the global apparel value chain and develop their textile and apparel⁴((T&A)) industries (Gereffi 1999; Kaplinsky & Morris 2001; Rahman, Bhattacharaya & Moazzem 2007). Changes in the way these preference schemes tick are therefore likely to have profound impacts on actors, especially in developing nations.

1 The EC legislated the new resolution on the 18th of October 2010, under Commission Regulation No 1063/2010, which came into force on 01-01-2011.

2 Formally known as the General System of Preferences for LDCs. Almost all products are exempted from paying EU custom tariffs except arms (and some agricultural products).

3 Single transformation criterion for textiles is only one part of changes in the EU GSP RoO. Other changes include a reduction in the value-added threshold to 30% for most products, introduction of extended regional cumulation, simplification of the nationality requirements for fishing vessels and the introduction of the Registered Export Procedure, intended to simplify and reduce the costs of compliance. The GSP system itself is currently under revisal, although this is related to the RoO change, the two subjects are still quite different (see also discussion).

4 Apparel, clothing and Ready Made Garments (RMGs) are synonymous terms, which are dominantly used in the United States, Europe and South Asia respectively. For sake of consistency this paper uses the term 'apparel' but this term can be replaced by clothing, garments or RMGs at all times. Fabrics and textiles can also be used interchangeably, but here 'textiles' is consistently used.

There is often debate about the EU's motivations for providing development assistance and offering preferential market access. This thesis investigates why the EU relaxed its origin criteria for LDC apparel, and is informed by the normative EU discourse: it shows that historical factors as well as domestic interests within the EU had a large role to play. The thesis also identifies some of the consequences this legislation has had for Bangladesh by utilizing the Global Value Chain ((GVC)) approach. This is done by conceptualizing the state or regional power as an external actor who regulates the value chain. By changing the Rules of Origin, the EU has directly intervened in its apparel value chains ((AVCs)) with LDCs. Yet, surprisingly, the GVC analysis gives little attention to the state or regional power as an actor who influences the structure of the chain. Although the seminal work of Kaplinsky & Morris "A handbook for GVC analysis" (2001) does recognize the state as an external actor, only a few words are spend on explaining the reasons how and why states regulate value chains.

Bangladesh serves as an important *case study* since it is one of the main beneficiaries of the General System of Preferences ((GSP)) and was benefiting significantly from the double transformation rules. Strict RoO, such as the double transformation rule, have the negative effect of restricting preferential market access but the positive effect of protecting local producers in beneficiary countries from foreign competition. Bangladesh is the only LDC that has captured a significant market share of the EU apparel market and was expected to feel the influence of the new EU legislation directly. What is more, the EU took the Bangladeshi case explicitly into consideration during the RoO decision making process. The EU's GSP for LDC is accredited for being one of the main factors behind the development of the strong Bangladeshi textile and apparel industry. Being able to comply with quite stringent RoO, which often prevent developing countries to utilize ZQZT schemes, makes Bangladesh a special case⁵. Indeed, some actors in Bangladesh were against relaxing the EU RoO for LDCs. Therefore, although RoO relaxation is usually considered a good move since it reduces import requirements and gives more freedom to

⁵ With 6.2 % of the total EU preferential imports, Bangladesh ranked 4th amongst the users of the EU's GSP in 2007 (DEVCO/EEAS 2010). In fact the CARIS report (2010) finds that among all LDCs, Bangladesh and Cambodia benefit most from the existence of the GSP system (see appendix 2 for more info).

existing and prospective entrepreneurs in developing countries, the EU-Bangladesh case can be considered unique and requires special attention.

1.1 RESEARCH JUSTIFICATION AND PURPOSE

“There is a simple temptation to attempt to analyze EU policy and influence in world politics empirically without ever asking why the EU is or is not acting.” – Manners 2002:65

Manners complains that many studies concerning EU affairs only look at the EU policies and their impacts and advocates that more attention should be given to the motivations, which lie at the base of EU decision making. This is what this thesis aims to do; within its delineations it, analyses both the intentions and preliminary outcomes of EU decision making.

This thesis has three purposes:

- The first is to create more insight into what drove the EU to change its RoO with LDCs concerning textiles and apparel and to what extent normative considerations were at the base of its intentions.
- The second purpose is to look at preliminary implications of this decision for Bangladesh.
- The third purpose is to contribute to GVC analysis literature. The recent EU RoO change provides a valuable opportunity to study an example of external legislative governance by a regional power, which regulates the value chains in which it is involved, thereby impinging upon industrial sourcing and production. By identifying the regional power as a strong actor in the chain, and investigating what effects it has willingly and unwillingly brought about, this thesis adds to the central project of GVC theory building (Sturgeon 2008:21). This analysis is unique since it combines political economy, which studies the behavior of states, with insights from the GVC analysis, which studies the way in which actors, in and outside the chain, govern and regulate the rest of the chain.

1.2 RESEARCH QUESTIONS

This thesis revolves around the EU’s decision to relax its RoO. There are two dimensions of this legislation which this thesis focuses on: first, the reasons behind opting for single transformation

and second, the preliminary outcomes for Bangladesh. The study takes a critical stance towards the way the EU talks vis-à-vis the way it walks. In the literature surrounding the EU as a normative actor a *gap* exists between the EU's narrative and its regressive policies involving its development partners. In order to assess the impacts (or rather at this preliminary stage: 'outcomes') the GVC analysis is used where the EU regulation is conceptualized as external governance on the EU-LDC value chain. The case of Bangladesh will show whether the EU regulation has actually been positive or detrimental for selected sectors of industry within the EU-BD AVC.

This translates into *two research questions*:

- To what extent was the EU guided by normative concerns when drafting the new RoO for LDC apparel?
- What effects did the EU regulation have on the Bangladeshi textile and apparel industry?

1.3 THESIS OUTLINE

First the study's methodology will be explained, including the limitations of this thesis. In the third chapter, the theoretical frameworks of the normative EU and the GVC are presented. The fourth chapter looks at the EU decision making process, which led to the RoO relaxation for LDC apparel; here the first research question will be answered. The fifth chapter answers the second research question by looking at the preliminary outcomes of this change in Bangladesh where three main textile and apparel sectors are analyzed: the knit sector, the woven apparel sector, and the woven textile sector. The discussion picks up relevant issues that go beyond the delineations of the thesis. The conclusion summarizes the answers to the research questions and reflects on the studies contribution to research. The thesis rounds up by providing future outlooks and suggestions for further research.

CHAPTER 2: METHODOLOGY

This chapter gives a detailed overview of the methodological considerations which have guided this research and serves to inform the reader how the thesis is constructed. It first explains the

philosophical assumptions behind this qualitative study. After the sampling methods, the interview methods are explained. Then the validity, reliability and ethical considerations are discussed. The chapter finishes by giving an overview of the limitations of this thesis.

The writing process spans a period of 10 months (September 2011 until May 2012). 25 interviews were conducted, both in Brussels and in Dhaka, Bangladesh.

2.1 QUALITATIVE RESEARCH SETUP

Whether the EU had normative concerns at the base of its decision making and what outcomes were brought about by its legislation are both social realities under constant change. Therefore this thesis takes the ontological position of constructivism where reality is relevant to the participant, which is furthermore in constant flux (Bryman 2008:549). Observing reality from the participant perspective allows qualitative research to interact with our research subjects (Silverman 2005), which is also known as interpretivism in which the reality is always relative to the social frame of the researcher.

Considering the ontological and epistemological positions I opted for mainly qualitative research methods. Creswell comments that qualitative research “honors an inductive style, a focus on individual meaning, and the importance of rendering the complexity of a situation” (Creswell 2007 in Creswell 2009:4). This research is, however, both inductive and deductive; it seeks to expand and verify the theoretical frameworks of the normative EU and GVC. Due to the qualitative nature of this study semi-structured interviews are chosen as the primary source of data.

2.2 SAMPLING

In determining what drove the EU to change its RoO for LDCs apparel it made sense to interview actors who were directly involved in the negotiation process as well as trade and policy experts who had watched the negotiations closely. In addition, in order to find out where benefits and negative externalities from the new EU RoO would end up in Bangladesh I decided to interview actors along the EU-BD AVC. This translates to purposive sampling in which “those sampled are relevant to the research question being posed” (Bryman 2008:415). It would be

more appropriate to call the sampling technique ‘theoretical sampling’, which is a particular form of purposive sampling: The process of “data collection for generating theory whereby the analyst jointly collects, codes, and analyses his data and decides what data to collect next and where to find them in order to develop his theory as it emerges” (Glaser & Strauss 1967:45 in Bryman 2008:415). This description fits the actual sampling process quite closely. In the beginning, I had an exclusive focus on textile and apparel producers but as I got more deeply immersed in GVC literature, it became evident that I had to interview importers and retailers of apparel as well. In Bangladesh, I have quite often resorted to snowball sampling. This approach was sometimes necessary as I often required a reference in order to speak to senior executives. Naturally internal validity is at stake here since snowball sampling can imply that interviewees only represent a certain group of stakeholders or have special group interests. By talking to stakeholders with opposing interests (for example apparel makers versus textile makers in the woven sector) this deficiency was partially accounted for.

Similarly, the normative EU literature showed that talking to trade and policy experts and reading EU policy documents was not enough. It was essential that I interviewed at least one EU policy maker who had been part of the RoO negotiations.

During my stay in Bangladesh I interned with the Center for Policy Dialogue ((CPD)), a civil society think tank advising private and public actors on macro socio-political issues. The Director of Research, Dr. Khondaker Golam Moazzem was my supervisor for writing an Occasional Paper on whether the RoO had already had some impact on the backward linkage on the Bangladeshi apparel sector. Dr. Moazzem was kind enough to provide access to his wide network of textile and apparel manufacturers. Brussel-based interviewees were contacted without the help of gatekeepers.

2.3 INTERVIEWS

This thesis employs two theoretical frameworks: the normative EU and the GVC. These largely correlate with interviews done in Brussels and Dhaka. The interviews were semi-structured with a prepared set of questions, which still left room for interaction and follow up questions.

Interviews lasted for about 45-90 minutes. The list of interviewees and questions can be found in Appendix 1.

- *Brussels based interviews*

In September, 2011 I interviewed Isabelle Ramdoo, senior trade policy officer with the European Center for Development Policy Management and Luisa Santos, head of international trade with EURATEX: the EU textile and apparel manufacturing's union. These interviews were conducted at their respective offices in Maastricht and Brussels. After returning from Bangladesh in April 2012, I interviewed Åke Weyler, (consultant in international textile and apparel trade) and EU policy maker who has participated in the RoO negotiations, as a part of the liberally minded member states ((MSs)), and wished to remain anonymous. These last two interviews were conducted through phone. Finally, lecturer in International Politics at the University of Stirling, Dr. Marc Langan and Marc Maes of the Belgian North-South movement were contacted through email.

- *Dhaka based interviews*

Between December 2011 and February 2012, I was in Bangladesh where I spoke to several actors along the BD-EU AVC. Since I was interested in the extent to which the new RoO had had an influence on the companies, I could only interview senior executives who dealt with international relations because staff in less senior positions were only vaguely aware of the RoO. I also visited several textile and apparel trade fairs, where I met many other actors in the chain and inquired about their views of the new RoO on an informal basis. Some interviewees faced some trouble in expressing themselves fully in English but since they were talking about their professional occupation they knew much jargon and were thus able to confer their thoughts and views to me.

Interviewees included manufacturers of woven textile (3), woven apparel (3), knit textile & apparel (2), buyers (3), industry unions (2), worker union (1), EU Delegate to Bangladesh (1) and academics (2). See appendix 1 for more details.

In order to guard against my own assumptions and expectations I have practiced what Kvale calls 'deliberate naiveté' (1996:30). At some occasions, frowns were raised by interviewees

when my questions were formulated in such a way that they did not presume likely trends, which are taken for granted by most. For example: whether increased cotton prices had led to different sourcing patterns. By explicitly confirming such assumptions, I could get some insights on whether basic trends were actually felt by individual firms.

2.4 TRANSCRIBING INTERVIEWS

Almost all interviews were (with permission) recorded. This allowed me to focus less on note taking and more on the interview itself. After conducting the interview, I aimed to transcribe the recordings as fast as possible, to be able to also capture any observations or interpretations that I made during the interview. The discrepancy between the interviewees' literal words and my interpretation was included in the transcriptions within brackets.

The process of 'emerging methods' is one of the main characteristics of qualitative methods according to Creswell (2009:15, 175-176) where questions may change and forms of data collection may shift. In Bangladesh there was sometimes too little time between interviews to properly digest information from the preceding interview. After each interview, however, I revised my questions in order to verify information received in earlier interviews and go deeper into the issues as my understanding of the subject matter increased.

2.5 OTHER PRIMARY AND SECONDARY DATA SOURCES

Apart from the interview material, *EU policy documents* also constitute primary data for this thesis. They have been reviewed in order to confirm the official motivations for relaxing the RoO and whether the EU employed a normative narrative. The following documents were reviewed: the Green Paper of 2003, Consultation 2004, Communication 2005, Impact Assessment 2007, Regulations about RoO in 2007, 2008, and (final) 2010. These are the core documents, which were produced during the RoO formulation/negotiation.

Secondary data was collected for two reasons: to be more prepared in the field and pick out the right respondents beforehand, and to serve to confirm macroeconomic trends in EU-BD AVC.

BD-EU trade statistics: The statistical database of the European Union (EUROSTAT) was used to look at trade figures between Bangladesh and the 27 EU MSs. Current trade figures (up until

January 2012) were gathered to see whether overall trade has improved or declined. Furthermore, this involved looking at utilization rates on a product by product basis (on a CN-8 digit level). In general, low EBA utilization rates would indicate the existence of a fragile backward linkage, which may suffer if apparel manufacturers no longer see the need to source domestically. In the end, it proved too difficult to focus this study on one specific product category because targeting firms based on the specific manufactured products is nearly impossible since they tend to alter their production based on the orders they get. It was, however, possible to select manufacturers on broader categories such as woven versus knitwear or apparel versus textile makers. Frequently, however, larger firms were involved in several of these activities.

BD newspapers: Bangladeshi newspapers frequently reported on the influence of new EU RoO. Reporters usually contact large companies and industry unions to comment on the recent developments. In some cases reporters were also able to talk to many small scale manufacturers in which case the articles were important to this study because it is hard to get in touch with them (see limitations).

2.6 RELIABILITY AND VALIDITY

Qualitative reliability is assured when the researcher employs a consistent approach across different projects while checking for accuracy by means of different procedures generating qualitative validity (Gibbs 2007 in: Creswell 2009:190).

An important ingredient for qualitative reliability for Creswell (2009:190) is the consistent definition of codes during the research project. When coding interview data for this thesis it became apparent that interviewees had different concepts of terms like: ‘governance’ and ‘conditions’. Indirect conditions by buyers (which are termed by Ponte and Gibbon as ‘hands-off governance’) are easily overlooked by interviewees as they simply see these conditions as the existing rules of the game. When coding the data this difference of interpretation of the different concepts was accounted for whenever possible.

Several strategies have been used to guarantee maximum validity in this research. Most importantly, data was *triangulated* by gathering different sorts of data, and from different

sources. Throughout the research process *peer debriefing* was practiced to enhance the accuracy of the account (Creswell 2009:192-193, 199-200). Creswell notes that being clear about the bias of the researcher himself also improves the validity of the research as well as presenting negative or discrepant information that runs counter to the theme (ibid.).

2.7 ETHICAL CONSIDERATIONS

The researcher has an obligation “to respect the rights, needs, values, and desires of the informants” (Creswell 2009). While this goes without saying, it is essential for the researcher to consider how s/he portrays the views of its informants and how that might reflect back on them. The identities of some interviewees are kept confidential since they preferred to remain anonymous. This made them more at ease and more ready to share sensitive information.

Ideally, conducting an interview is not only beneficial for the researcher but also for the interviewee. Especially towards the end of my stay in Bangladesh, interviews became more advantageous for interviewees since I was increasingly becoming an expert in the field of EU-BD AVC. By sharing this thesis with my interviewees, I hope they will find the information presented here helpful for their causes.

2.8 LIMITATIONS

The limitations can be presented under two different headings; the normative EU and the EU-BD AVC case study.

Normative EU limitations

- Researching the normative EU, a multitude of complex factors come into play: first of all, the RoO for LDCs apparel were part of a larger discussion about the RoO in the GSP and secondly, the RoO discussion of the GSP was part of a larger discussions between the EU and developing countries. This complexity made it difficult to understand why EU decision makers opted for single transformation criteria for LDC apparel.

- Only one decision maker was interviewed and there was insufficient time to talk to any of the ClubMed⁶ representatives. I did talk to a representative for EURATEX whose interests are closely aligned with the ClubMed MSs. Interviews with experts and academics (who were more or less impartial) gave insight into the actual decision making process.
- Getting insight into the core motivations of these negotiators was challenging by talking to so few.

EU-BD AVC case study limitations

- The case study is conducted too soon after the RoO change; this is the main limitation of the thesis. It opens the door for attribution problems. Basically, section 5.1 serves to outline some of these contextual factors, which may play an equally large or even larger role than the RoO change. Appendix 3 also looks at some important developments in the EU market, which may have explanatory power in clarifying developments in the Bangladeshi T&A industry.
- While my affiliation with CPD proved an invaluable way to get in contact with many manufactures and policy makers in Bangladesh, it also increased the interviewees perception that I was part of CPD, which is – although impartial – a powerful actor at the highest regions of policy making.
- Interviewees were often high level executives and/or bureaucrats who are quite able to only share part of the reality they observe in order to advance their own interests. I have on several occasions noted the interviewees’ tendency to forward their own agenda: highlighting the problems faced in their own occupational sector and downplaying the difficulties faced by others; in which other sectors were indirectly competing for government support. This tendency of interviewees may have been exacerbated by my affiliation with CPD. I have tried to account for this by a) being aware of this tendency of

⁶ Southern EU MSs, see section 4.1

interviewees, b) by asking questions that go deeper into the subject matter and require the interviewee to give more elaborate explanation to his/her statements c) by cross checking information with other stakeholders and other (secondary) data sources.

- There is a bias towards big manufacturers since only few small producers were interviewed (who actually constitute the majority of textile and apparel manufacturers in BD) due to the fact that they were hard to contact and due to language barrier. In addition there is an increased focus on actual T&A producers and less on those actors only involved in spinning, dyeing, printing and transporting; although I spoke to some of these actors at T&A trade fairs. Also, larger companies often own spinning, dyeing, printing and other facilities.

CHAPTER 3: THEORETICAL FRAMEWORKS

This chapter introduces the theoretical framework of the normative EU and the external governance in the GVC analysis. These theories will be used to analyze the motivations and implications of the relaxed RoO in the subsequent two chapters.

The core message of all the literature surrounding the ‘normative EU’ is that the EU often employs a normative narrative but does not always back this up by action on the ground, i.e. in trade negotiations with ‘developing partners’. The extent to which this discrepancy takes place is contested. In the second part of this chapter the EU becomes an external actor in the LDC-EU AVC who regulates the chain, driven by its unique motivations.

3.1 NORMATIVE EU

People sometimes wonder why a regional power like the EU provides development assistance, gives preferential market access through its GSP and for example strives to abolish the death penalty in international forums. The concept of Normative Power Europe has become popular since Ian Manners coined and defined the term in 2002. The normative EU literature has evolved significantly since Manners introduced the NPE framework. This section goes into the concept of NPE itself, followed by its main critiques. Not only is the NPE framework too optimistic about

EU's intentions, critics also show that the normative discourse of policy makers works as make-belief, even for themselves.

According to Manners the EU obtains 'power' by being able to forge conceptions of what is 'normal' in international relations (2002:239). In this way, Europe (re)forges internationally accepted norms, and forwards the assertion that Europe *ought* to influence foreign partners' understanding of 'normal' behavior in the quest of a just global order. Logically, then, the EU should act in a normative way in world politics. However, there is a policy inconsistency: the EU employs a normative narrative yet practices regressive and undermining policies. Examples range from restrictive migration policies to upholding import bans ('anti-dumping' in the language of the EU) on products from developing countries, which compete with EU's domestic industries. Establishing strict sets of RoOs in sensitive sectors would also fall in this category of not 'walking the talk', since they are used to protect EU industries from developing countries' competition, thus undermining the development objectives of the GSP itself.

This apprehension of EU's inconsistency within normative power EU literature is what this thesis will focus upon in relation to the RoO change for LDC apparel. It will not focus on the power dimension within the NPE discourse.

Since Manners launched the NPE concept in 2002, the origin of EU normative behavior has been subject to intense debate. According to Manners himself, EU's *historic relationship* with the former colonies of its MSs has cultivated a sense of responsibility within the EU (Manners 2002). The former colonies of the EU MSs are often referred to as the African-Caribbean and Pacific ((ACP)) Group of States. France is a telling example because setting up a development scheme for its former colonies was one of the main prerequisites for joining the European Union.

When looking at how and why the EU advocates environmental standards in the international arena, Falkner (2007) finds that this is not so much because the EU has a natural disposition to normatively (as claimed by Manners 2002:252), but because this behavior fits EU strategic interest in harmonizing regulations and is thus able to avoid trade disadvantages. Using a political economy perspective and looking at the (often praised) EU's foreign environmental policy, Falkner argues that Manners exaggerates the altruistic identity of the EU by lacking historical depth, thus "failing to capture competing principles and conflict among domestic

interest groups in Europe” (2007:507). Falkner argues that the NPE framework is liable to overlook EU’s *domestic interest structure*, which drives its decision making process and thus understates the “potential dissonance between different values and norms at the heart of Europe’s identity” (2007:511). This internal division was also captured by Hill (1993) who established that EU lacked three ingredients for unity: the ability to agree, resource availability and instruments available at EU’s disposal. Garibay and Adriaesen (2011) note that the EU has made significant progress on resources and instruments available, but is still to overcome limitations in achieving internal consensus.

Instead, Storey (2006) disagrees with the binary analysis, which only recognizes altruism and egocentrism. Enlightened self-interests allow these dichotomous entities to *mesh together*. Thus, Storey teaches us not to set up a bogus ‘binary opposition’ between norms and interests. Instead, the observer should be sensitive to the nuanced dialectic between ethical objectives and policy interventions (Langan 2011). Going one level further, Storey (2006:334) observes how the normative narrative of EU policy makers works like a *double-edged sword*: It does not only make the outside world think that the EU has normative concerns at the heart of its decision making process; it also makes EU policy makers themselves paternalistically believe normative concerns to be their core motives.

Even though the EU might not act as normatively as it talks, Manners (2008) thinks that the EU is trying hard and is at least heading towards the right direction, perhaps even motivating other nations/regional powers to follow its normative path. Therefore, he applauds the EU’s ‘ability to normalize a more just, cosmopolitical world’ and regrets that those with a ‘cynical viewpoint’ might dismiss Europe’s norm-laden agendas as either unimportant or ‘at worst’ may claim that EU norms merely provide ‘cover for more covert commercial interests’ (Manners 2008:68, in: Langan 2011).

Marc Langan, adds to the discussion by going deeper still into the subject matter by critically studying the assumptions and notions of ‘development’ that the EU employs. Langan (2011) is far more harsh than Manners, who Langan accuses of being not critical enough. This has a literal meaning since both scholars employ the critical theory approach developed by Cox (1981). First of all, the divide between EU’s narrative (helping developing partners) and, according to Langan,

its actual behavior, is far greater than Manners suggests⁷. Secondly, according to Langan the direction of the EU (whether the EU is actually implementing them or not) is misguided towards a neoliberal growth agenda, which relies too much on the amoral forces of the market. Langan (2011) draws heavily on the moral economy approach as conceptualized by Sayer (2007). Basically, this approach is based in the radical political economy, which "aims to be critical not merely of rival economic theories, but of economic practice itself" (Langan 2011:2). Langan summarizes that a "critical assessment of how norms can work to rationalize policy agendas, which tangibly fall well short of their nominal ethical objectives" (2011:6). While Langan's analysis goes too deep into the normative EU discourse for the purposes of this thesis, it is informed of this critical assessment of EU policy making.

This thesis raises *two further critiques* on the existing normative literature; the assumption of EU homogeneity and the volatile nature of decision making:

But we can ask ourselves to what extent the 'EU' as an actor *actually exists*. It presupposes a homogenous entity, which thinks and acts in a unitary and harmonious way. In reality, however, the EU is governed by the EC and EP whose interests sometimes differ so much you would have to diagnose this strange creature with schizophrenia. In addition, there are thought to be 15.000 lobbyists active in Brussels, where 2.600⁸ interest groups have their permanent office, all of them influence policymakers and to an extent help govern the EU. One must be cautious, therefore, to use terms like the "EU thinks like this" or "the EU motivations were like that". Then again, nation states are also internally divided with coalitions forming governments and with the opposition criticizing the government. Still, we say "France thinks like this" or "the United States motivations were like that". It is with this realization that this thesis sometimes generalizes EU motivations and interests. In general, however, this thesis tries to account for the EU internal differences, which are given due attention in chapter four where EU's motivations are analyzed.

⁷ Langan talks here primarily about the relation between the EU and the ACP states.

⁸ Estimate by Administration and Anti-Fraud Commissioner Siim Kallas in 2005: <http://www.euractiv.com/pa/eu-lobbyists-scramble-exact-numbers/article-173152>

When analyzing EU's motivations it is important to heed the warning made by Lomas (2000) who urges researchers to avoid looking at decision making as an event, which would presume that policies were made by "a defined small group of actors clustered in a room at a specified time, perhaps until a puff of white smoke is emitted". According to Lomas, policy processes are far more complex and he calls the decision making a process that has an "ethereal nature of that diffuse, haphazard, and somewhat volatile" (2000:140). Considering the long and complex process which led to the final RoO formulation this is valuable advice, indeed.

3.2 EU REGULATION: EXTERNAL GOVERNANCE IN THE EU-LDC APPAREL VALUE CHAIN

Now that a framework has been presented for looking at the way in which the EU decided to change its RoO, it is time to look at the consequences these new RoO will have. The following section presents the global value chain analysis where the EU becomes one of the main actors regulating the chain. This is a novel exercise and there is a reason why it is the first: the two frameworks of the normative EU and the GVC appear at first sight to be totally different and any union would appear forced and unnatural. This thesis shows, however, that the two can be combined. The GVC literature explains how internal and external actors regulate and govern the value chain and also gives insight into the motivations of these different actors. Yet, when it comes to states or regional powers regulating the value chain, the literature is silent and a dearth of knowledge appears. The normative EU discourse brings new knowledge to the table and explains why the EU tries to regulate its value chains with developing nations.

First, the notions of governance and regulation are explained and presented in a model. Then it moves on to discuss the motivations of core GVC actors, including the EU.

3.2.1 EXTERNAL (LEGISLATIVE) GOVERNANCE

The dynamic flow of economic, organizational and coercive activities between producers within different sectors, even on a global scale, can be uncovered by the GVC focus on inter-linkages (Kaplinsky and Morris 2001). The GVC is no longer just a heuristic device, which charts the flow of goods and services up and down the value chain, and between value chains. According to Kaplinsky and Morris the GVC literature has started to provide an 'analytical structure', which "provides important insights into our twin concerns with the determinants of global income

distribution and the identification of effective policy levers to ameliorate trends towards unequalization” (2001:25).

According to Morris and Kaplinsky (2001:25), the single most important determinant for accruing primary returns or rent is being able to protect yourself from *competition*. This means operating in an environment with high barriers of entry and having control over scarce resources has high potentials for generating profit. Morris and Kaplinsky signal a key shift which is taking place in an increasingly globalized and competitive world in which rents accruing from tangible activities have transgressed to those arising from intangible activities in the value chain (2001:34). These intangible activities are not only found in marketing and design activities but are found in all links in the value chain. Control of logistics in the production link is an example here. Yet certain links are particularly rich in intangible activities such as R&D, marketing, designing and controlling the value chain itself (ibid. 2001:35). Buyers, the lead firms, in the apparel chain are involved in both marketing and designing. Thus, they have capitalized upon higher value addition activities in the value chain where barriers of entry are higher.

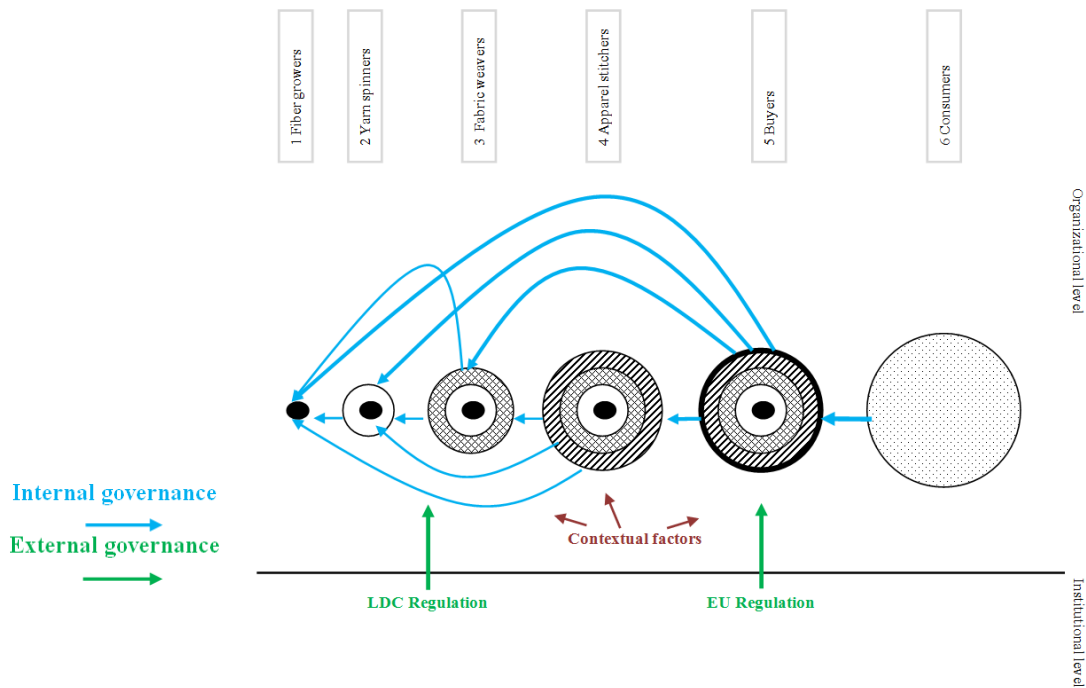
The way in which the chain is *governed* or regulated is a pivotal aspect of the GVC analysis. Kaplinsky and Morris (2001:30) differentiate between three kinds of governance: legislative, juridical and executive⁹. Here parameters in the value chain are respectively determined, audited and assisted. Powerful buyers can, for example, exercise all three by specifying supplier standards, monitoring supplier performance and assisting individual suppliers to meet performance requirements by, for example, training or capital investments. The willingness to exercise executive governance is related to the *level of trust* in the value chain. High trust chains are characterized by long lived relationships and high levels of legitimacy of lead firms by other actors in the chain. This is the reverse in low trust chains.

Governance can also come from outside the chain. Examples of external governance include intangible concepts such as language (which may facilitate market access) and interconnectiveness. Examples of more tangible external governance in the EU-LDC AVC are

⁹ These terms should be interpreted as abstract concepts devoid of their formal legal connotations.

quality and safety requirements of European buyers and domestic LDC policies aimed at regulating and developing the economy such as subsidies, import legislation, infrastructure development and control of energy prices. Thus, governments and NGOs also regulate the chain and play an important role in determining where and how activities take place. In this light, the Rules of Origin for LDC apparel can be conceptualized as a form of external regulation exercised by the EU on the EU-LDC AVC. Because they require textiles and yarns (not) to be sourced in the domestic economy, they are setting the parameters in this particular value chain. In figure 1, the internal and external legislative governance in the LDC-EU apparel value chain has been abstractly depicted.

Figure 1: Legislative governance in the EU-LDC AVC



Source: Author

In the figure, internal governance arrows coming from the buyer (importers and retailers) are particularly strong since they are the lead firms who manage activities in its supply chain (Gereffi 1999; Kaplinsky & Morris 2001; Humprey & Smith 2001; Staritz 2011). The main external actors regulating the chain in the case of the LDC-EU AVC are the LDC governments and the EU.

The actors in the chain are not only governed by themselves and by external actors but also by *contextual factors*. These processes regulate the value chain but are exogenous to the activities of the chain and are part of larger trends in the economy. These processes are subject to change and thus translate into different rents. *Resource rents* accrue from the bounty of nature and are characterized by the access to scarce natural resources. *Financial rents* are brought forth by access to finance on better terms than competitors. *Infrastructural rents* give access to high quality infrastructural inputs such as telecommunications, roads, etc¹⁰.

By investigating how the RoO change has influenced the BD T&A industry, this study is located in the nexus between organizational and institutional levels of analysis. At the one hand, the EU and legislative bodies together with the BD government are the unit of analysis thus implying an institutional approach where countries are the main analytical unit, which compete in the global economy in different product markets (Gereffi 2005:160). On the other hand suppliers and retailers are looked at through an organizational perspective where firms and interfirm networks feature as the central units of analysis, who compete in a global industry or sectoral framework (in this case the EU-LDC AVC).

3.2.2 MOTIVATIONS OF DOMINANT GVC ACTORS

Now that it has been discussed how different actors feature in the global value chain and how they operate in the GVC it is time to discuss the motivations of dominant GVC actors. Considering the complexity of the subject matter, this subsection runs the risk of generalizing the motives of actors given their vast diversity on the ground throughout countries, cultures and industries. Still, some patterns can and have been identified. Numerous studies have already looked into key motivations for buyers and suppliers, but what drives states and regional powers in regulating value chains has so far been sidelined in the GVC discourse.

In GVC literature there is usually a dichotomy between buyer-driven and producer-driven value chains to indicate the dominant powers in particular value chains; they decide what is to be

¹⁰ This distinction of rents is based on Morris and Kaplinsky (2001:28) who place them under different headings: Exogenous rents (deriving from factors outside the chain) and rents provided by external actors. They also identify policy rents but this thesis perceives these rents to be *tool* of external actors in a bid to regulate the chain.

produced, how, and by whom (Gereffi, Humphry & Kaplinsky 2001). The incentives of these dominant players are obviously directly related to profits, although usually entrepreneurs also care about their employees and clients, which can be epitomized by adhering to corporate social responsibility schemes.

Ponte and Gibbon (2005) are a little bit suspicious when it comes to the incentives of very large buyers and retailers such as supermarket chains and hypermarkets. According to them, the shareholders value doctrine has gained in prominence as the global GDP growth rate has decreased consecutively over the last five decades, resulting in a “squeezing out more for less” attitude, which they also call the ‘milking cow strategy’ (2005:16). This might be an overly negative way of looking at the behavior of large retailers as we see an increasing number of supermarkets and hypermarkets such as C&A, Tesco, H&M making concerted efforts towards ethical sourcing, although we still have to wait and see whether this contemporary trend will continue and gain more traction. Still, labor unionist Nazma Akter thinks the corporate social responsibility schemes are largely for show: at the end of the day, workers remain to be paid far too little in order to sustain themselves and their families (interview 16).

At the supply side it is probably fair to say that manufacturers want to integrate themselves further into the chain. Going from original equipment assembly, to original design manufacturing and finally to original brand manufacturing. This entails first, process, then product and finally functional upgrading. At the end of this ideal type trajectory is chain upgrading where a woven shirt manufacturer for example starts to produce firefighter jackets or industrial textiles like building membranes. Each time an upgrade takes place the disembodied content of value added increases progressively (Kaplinsky & Morris 2001:40).

More complex are the incentives of states or regional powers like the European Union, to regulate parameters in the chain. To a certain extent the question of how and why states regulate value chains goes back to old debates about liberalism and dirigisme. But that is not the goal of this thesis. Instead it tries to open the discussion on how the motivation differs between buyers and producers versus regional powers like the European Union.

This is where the normative EU discussion comes back in perspective and where the GVC analysis meets the normative EU literature. Especially considering the GSP+ scheme, where

beneficiaries need to sign 27 conventions and treaties, one could think that the EU is a truly normative actor who is the opposite from the stereotypical profit-driven buyer. Being informed by the normative EU literature, however, makes one realize that the EU has its own interests at heart too, perhaps even without realizing it. It is interesting to observe how the dual nature of motivations behind CSR schemes resembles those of the EU's norms, but this controversial subject is outside the scope of this thesis.

CHAPTER 4: EU MOTIVATIONS

The Rules of Origin revision process started with the publication of the EU Green Paper in 2003¹¹. In 2004, this was followed by a consultation¹² in which the Commission invited over a 100 actors (from different industries and from both the EU as beneficiary countries) to give their opinion about the proposals in the EU Green Paper. After this consultation, the Commission published a Communication in 2005 giving the main arguments for changing the RoO and outlining the main features of the future (now current) RoO. In 2007, the Commission published an impact assessment (performed by TAXUD) where the 2005 proposals were assessed for their feasibility and impacts¹³. In 2007 and 2008, the Commission made two draft regulations¹⁴ which are presently hard to find. The final regulation came in October 2010.

Basically, before 2011, RoO were outdated in terms of substance and procedures. Substance relates to the content of ROO: value addition criteria and (sub) chapter heading transformations for example, whereas procedures relate to the administrative process required for getting preference treatment. In the 2004 consultations, the negative and outdated features of the old RoO are summarized as follows:

¹¹ COM (2003/787) Green Paper on the Future of Rules of Origin in preferential trade arrangements.

¹² COM (2005/100) The rules of origin in preferential trade arrangements: Orientations for the future.

¹³ TAXUD/GSP-RO/IA/1/07: Impact assessment on rules of origin for the Generalised System of Preferences.

¹⁴ Council Regulation (EC) No 964/2007 and Council Regulation (EC) No 732/2008

“The present origin rules do not fit current economic reality for the following reasons:

- *they do not correspond to the global production model of the market, reflect past defensive policy aims, do not correspond to the new manufacturing and processing operations, which are currently taking place, do not reflect technological advances, and they should take more into consideration actual market, trade, industry and agriculture conditions.*
- *The current origin rules are seen as too complex, restrictive and they lack transparency.*
- *There is a clear call for rationalization and simplification of the origin rules”* (2004:4).

Randoo, Wyler and the EU policymaker all commented that although the RoO change has greatly improved the simplification of the RoO, the *original proposals* by the Commission in 2005 were more ambitious still (read: ‘more development-friendly’) on, for example, general tolerance rules and cumulation criteria (Interview 22, 23 & 25). The 2010 update of the impact assessment shares the reasons behind this moderation:

“The choice to move away from an approach strictly based on a single method was made after an in-depth reflection and intense consultations with stakeholders who urged the Commission services to consider the absolute need to respect the differing needs of distinct industrial sectors and advocated in favor of the maintaining, where considered indispensable, of a sector-based approach” (TAXUD 2010:3).

The big debate was around setting a single value added criteria for all products. This limits the tendency to use stricter RoOs for some sectors but does not take into account sector specific requirements. DG TAXUD dropped the idea in the end, not least because some MSs wanted to keep the ability to use RoOs for protectionist purposes (Interview 22, Weyler). It is important to keep in mind, however, that restrictive market access policies make sense for East European countries and other ClubMed MSs whose economies are still fragile although perhaps less so compared to LDC’s.

The first part of this chapter introduces the two camps within the EU who were on opposing sides concerning the RoO relaxation for LDC apparel. Being informed by the normative EU literature, the second and third subsections of this analysis identify two core motives of EU decision making: A development-friendly historical motivation and an import-friendly motivation based on internal industry interests. The conclusion of this section gives the final answer to the first research question. “To what extent was the EU guided by normative concerns when drafting the new RoO for LDC apparel?”

4.1 TWO MAIN CAMPS: THE LIBERALS AND CLUBMED

From interviews with Weyler, Ramdoo, and the EU policymaker it appears that there were two main camps within EU MSs reflecting opposing views during the RoO negotiation (Interview 22, 23 & 25). The ‘Liberals’ wanted more simple rules which were to be transparent, easy to use and broad in scope. The so-called ‘ClubMed’ countries were in favor of maintaining the status quo, i.e. double transformation.

The big importers of apparel are Germany, United Kingdom, France, Netherlands and Sweden and are also part of the so-called liberally minded states in Europe¹⁵, at least when it comes to the textile sector. They stand to gain the most from the RoO relaxation since they have a big retail industry as well. The liberals will benefit from single transformation and are interested in increasing their trade flows and decrease consumer prices. Apparel made by LDCs are cheaper than those originating from other countries. Decreasing consumer prices and increased levels of trade are therefore likely outcomes of the RoO relaxation (Gasiorek, González & Parra 2011). Unsurprisingly, there is a large and powerful lobby of EU importers and retailers. They have insisted that more jobs can be generated by retailing compared to manufacturing textiles and apparel (Interview 21, email communication with Maes).

¹⁵ Although France was part of the ‘Liberal team’ for the single transformation rules, it is normally not automatically associated with the Liberals.

ClubMed countries on the other hand see their industries threatened by relaxed RoO and perceive themselves as competing with developing countries. They are the Southern EU MSs and are the ones where the EU textile industry is concentrated. Romania, Italy, Portugal, Ireland, Greece, Cyprus are some key members with large textile and apparel industries. ClubMed countries have built up a track record for resisting neoliberal agendas of the EU and are the ‘usual suspects’ on resisting the bringing down of EU tariffs and such (Interview 22, Wyler).

4.2 HISTORICAL MOTIVATION AND DEVELOPMENT FRIENDLINESS

Developing countries have build up a track record of always complaining about complicated RoO. The official reason for using RoO has always been to avoid trade deflection where third party countries reap the benefits from the preference schemes rather than intended beneficiaries (Gibbon 2008). Without rules of origins, goods could be shipped from non-LDCs through for example Bangladesh, and qualify from GSP treatment, defeating the original purpose of the scheme.

However, this first basic function of RoOs can be abused for protectionist purposes: in the case of textiles, producing both textile and shirt locally insures that countries will not be able to source their textiles from the most competitive suppliers. Instead, apparel producers will have to source their textiles from presumably less competitive local producers. Thus, RoOs can be used as a non-tariff barrier to most of the LDC countries’ products. African countries, rather than Asian countries, were foremost on the mind of the EU when considering single transformation criteria. According to the EU policymaker and Wyler, who were insiders in the RoO negotiations, the idea of single transformation RoO for LDC apparel came up originally (within the EU that is) during negotiations on free trade agreements with ACP states (Interview 22, 25).

Some would argue that strict RoO also benefit developing countries because they effectively act as industrializing instruments for these economies, forcing these countries to develop significant productive capacity along the value chain. In the case of the double transformation criteria for apparel, the domestic textile, producers experienced an advantage over their, more mature and competitive, foreign counterparts, because their textiles had to be used in order to qualify for GSP treatment in Europe. Of course, the problem is that there was almost no domestic capability

to produce (high quality) textiles at a competitive price in most LDCs (De Vylder 2007). Bangladesh is the major exception because it was able to source a significant proportion of its textiles domestically, especially knit apparel (appendix 2). So, apart from the case of Bangladesh, which requires more in depth study (see the next chapter), we can say that most LDCs are likely to substantially benefit from the simplified RoO.

According to the EU policy maker, vis-à-vis other EU MS, the new benchmark makes it easier for liberal MSs like Sweden to argue single transformation in trade agreements between the EU and other developing countries in for example Asia (Interview 25).

In the 2010 regulation as well as the policy documents leading up to that regulation it is made clear that the EU is foremost concerned with development friendliness of the new RoO and only an afterthought is given to the EU own domestic industry:

“In the context of the Doha Development Agenda, the need to ensure a better integration of developing countries into the world economy has been recognized, in particular through improved access to the markets of developed countries.

For that purpose, the rules of preferential origin should be simplified and, where appropriate, made less stringent, so that products originating in beneficiary countries can actually benefit from the preferences granted” (Commission Regulation No. 1063/2010:L.307/1).

Yet if the EU has had such a heavy internal compass as Manners sometimes seems to think, why did the EU not *realize before* that single transformation rules were ‘development-friendly’? Instead, it took them over forty years to get the RoO changed. Inama (2011) notes how the pre-2011 RoO are developed for protecting the industry of the EU and assuming that GSP beneficiaries should be encouraged to setup their domestic industries. The European Commission agrees to this and acknowledges failure in its impact assessment:

“The present rules [of origin] were never designed with development in mind. Insofar as it could be argued that they could nevertheless encourage development, because countries would have to develop their industries in order to comply with them, this has failed” (TAXUD 2007:59).

4.3 INTERNAL INDUSTRY DYNAMICS AND IMPORT-FRIENDLINESS

Importers no longer have to pay custom duties for apparel not made out of domestic LDC textiles. In the case of Bangladesh, for example around 60% of woven apparel coming into the EU had to pay tariffs in 2010 (see appendix 2). This gives negative opportunity costs (-12% of exporting value¹⁶) and saves a considerable amount of money from being spend by the importers. Importers also benefit from being able to source more sophisticated and higher quality apparel through the preference scheme. LDCs can now produce this apparel since they can just stitch the imported textiles together. From a business perspective, the new RoO may therefore yield substantial rents. EU consumers will also benefit, since LDC made apparel will be cheaper than almost all competitors.

According to the EU policy maker, it was because of the *special identity* of LDCs that ClubMed countries were quite accommodating to relaxing LDC apparel RoO (Interview 25). It would be a very different scenario if all GSP beneficiaries were allowed single transformation for apparel. Indeed, the *small size of the LDC market share*¹⁷ in the EU made it possible for ClubMed countries to give consideration to the LDC pleas. In appreciation of this concession, liberal states agreed to be more accommodating of ClubMed demands in areas of cumulation and general tolerance rules in the wider RoO negotiations.

“The more we source from Bangladesh, the cheaper our end product will be. [...] we are very happy with the new RoO” - Interview 12, major importer and retailer (supermarket)

The 2007 impact assessment by the Commission assessed that the impact on local EU industries would be minimal. The actual impact of RoO relaxation is likely to be small because the big apparel exporting countries (like China, India, Turkey and also Bangladesh) never had problems with the double transformation criteria (especially for knit products). The small countries

¹⁶ The standard tariff on most apparel is 12% (Most Favored Nation rate).

¹⁷ In 2009 the GSP only represented 4 percent of EU's total imports, i.e less than 1.5 percent of EU's market. The GSP was worth €60 billion of trade: €48 billion (80 percent) was traded through the standard GSP, €5 billion (10 percent) through GSP Plus and €6 billion (10 percent) under the Everything But Arms (EBA) scheme (Ramdoo 2011).

(without huge industries) are the ones who will benefit from new legislation. The Bangladeshi woven apparel sector is the exception to this. Whereas other big apparel exporting countries have no problem meeting any origin criteria (having a domestic supply of cotton), Bangladesh had difficulty producing its own woven textiles at competitive prices. That is actually why the ClubMed countries had a case when they complained that giving LDC's relaxed RoO rules would hurt their industry. Yet it could be argued whether the RoO change would affect the already high growth of Bangladeshi woven exports. This matter will be taken up in the following chapter.

4.4 SUBCONCLUSION: THE NORMATIVE EU AND THE DRAFTING OF THE NEW ROO FOR LDC APPAREL

This section aims to answer the first research question: “To what extent was the EU guided by normative concerns when drafting the new RoO for LDC apparel?” First of all, it must be acknowledged that by relaxing the RoO, the EU actually did come a step closer to *acting* in a normative way and bridging some part of the gap between its development-friendly narrative and its actions on the ground. Yet, development-friendly concerns were mixed with importer-friendly concerns in the case of liberal MS. ClubMed countries were offered a concession in the form of cumulation and least tolerance rules, and agreed to relaxing the RoO mainly due to the small market size of LDCs. Thus we see altruistic and egoistic motives intertwine and merge, and it becomes difficult to differentiate between the two.

Giving preference to LDCs was relatively easy, but it also served to mask other EU activities at the same time. Contentious issues in the EU during the RoO negotiations included its migration policies (hotly debated during the Arab Spring for example), anti-dumping policies, and forcing ACP countries to sign Economic Partnership Agreements¹⁸. It is in this light that the thesis also

¹⁸ Few EU policies have been as widely criticized as its desire to sign Economic Partnership Agreements with the ACP countries whom formerly enjoyed an autonomous preference scheme under the Lome Convention agreement of 1975. In 2000 however the Cotonou Agreement was signed where the EU and ACP countries agreed to negotiate agreements that would, due to their incongruity with World Trade Organization directives, lead to the elimination of non-reciprocal preferences granted by the EU. Although the negotiations should have been finished by 2007, many states have refused to sign the EPA agreements. In what is sometimes called a ‘normalization’ or ‘rationalization’ of the relations between the EU and ACP countries, EPAs are based in the concept of reciprocity; where both ‘partners’ provide free market access to each other’s economies. Of course this holds many

appreciates and agrees with Marc Langan’s apprehension of the strategic function of embedded norms, which serve to “rationalize policy shifts within the EC itself i.e. to guard against moral dissonance as to impact of policies upon ‘the poor’” (Interview 20, email communication with Dr. Langan).

Reflection on theoretical framework:

The NPE theoretical framework as developed by Manners is thus lacking explanatory power. Instead, Falkner’s concept of EU’s domestic interests structure, and especially Storey’s critique on the false binary opposition between norms and interests, help analyze the EU’s motivations to opt for single transformation. Finally, this strengthens Langan’s case for advocating a more critical lens in studying EU’s motivations.

CHAPTER 5: PRELIMINARY OUTCOMES OF EU REGULATION: THE CASE STUDY OF BANGLADESH

The thesis has discussed why the EU decided to relax its RoO and to what extent ‘normative’ concerns were at the base of its decision making. A core reason of the EU to relax its RoO was a development-friendly and historic one: the EU recognized that double transformation RoO were too strict for African LDCs to comply with and wanted to rectify this situation. Another core reason was an import-friendly one: LDCs can now serve EU markets better. Finally, LDCs did not pose a significant threat to the EU industry. This chapter will discuss how Bangladesh, one of the very few countries which was, to a significant extend, able to adhere to the double transformation criteria, fares under the new rules.

This chapter answers the second research question: “In the case of Bangladesh, did the EU regulation generate the positive effects it had envisioned?” It does so by using the GVC analysis, where the EU features as an external actor regulating the BD-EU AVC. To avoid attribution

dangers for the fragile economies of these developing states. It has done so what many observers have perceived as ‘forcing’ its former development partners to sign the EPAs which they thought were not benefiting their economy or constituents and the EU has sustained major damage to its international image as a normative actor.

problems as much as possible, it is paramount to have a good understanding of the contextual factors governing the EU-BD AVC. After mapping these¹⁹, three core sectors of the EU-BD AVC are analyzed. During the interviews and desk study a number of relevant internal governance trends were also identified and are discussed in appendix 3.

Bangladesh has emerged as an important supplier of quality apparel in the global market (Nuruzzaman & Haque 2009; McKinsey 2011). The recent impressive growth of the textile and apparel sector of Bangladesh has significantly altered its export composition. Although it was at first largely reliant on exports of primary products such as jute, the economy of Bangladesh is now benefiting an 81% export contribution from textiles and textile related products. The textile and apparel industry of Bangladesh now contributes 13% to its GDP and employs 5 million workers, 80% of which are women (BTMA 2010). With ever increasing and strengthening backward and forward linkages, the performance of this sector influences the livelihoods of millions of people.

In the RoO change impact assessment of European Commission Bangladesh features prominently. Upon questioning whether local industries had been developed by more restrictive RoO, it writes:

“Bangladesh has succeeded to some extent, but still cannot produce enough textiles domestically to meet demand. The derogations granted under GSP were supposed to allow the countries concerned time to develop their industries to the point where they could comply with the normal rules, but in practice this has never happened and the derogations have just been continually prolonged. It is hard to see how the present rules could encourage development in the future, when they have failed to do so before” (TAXUD 2007:59).

¹⁹ Another contextual factor is the EU debt crisis and EU retail prices, which have negatively influenced sourcing prices. In appendix 3 some attention is paid to this contemporary trend. Importantly, EU retail prices are expected to rise in the near future as the downward pressure on sourcing prices demanded by buyers will ease because of dynamics in China and the EU.

This would imply that cancelling the restrictive RoO would not matter much for the Bangladeshi domestic textile industry. In appendix 2 it can be seen that EBA utilization rates have increased substantially between 2007-2010, especially for woven items (from 37% to 41% for woven apparel and from 87% to 95% in 2010 for knitted apparel). So the backward linkage is present and could therefore be affected by the new regulation.

Box 1: Lobbying and domestic interests in Bangladesh

It should be noted that the union of garment manufacturers (the BGMEA) made concerted efforts towards influencing European policymakers (and Bangladeshi policy makers to lobby for them as well) towards relaxing the RoO for several years. Indeed, they long anticipated the positive consequences the relaxed RoO would have for the apparel industry of Bangladesh. On the other hand, it is unsurprising that the union of textile producers (the BTMA) has been directly opposed to changing the RoO and tried to influence Bangladeshi policymakers to lobby with EU policymakers against relaxing the RoO. According to insiders the government finally chose the apparel makers' side (although the government's official position was neutral). In this process the lobbying capacity of the apparel manufacturers has gradually improved. Nonetheless, the old capitalists from the textile industry are still very powerful in the political arena of Bangladesh (Interview 19, Professor Rahman).

"Without government support we cannot survive" – Interview 3, small woven textile manufacturer

5.1 CONTEXTUAL FACTORS FOR THE BD-EU AVC

Before analyzing the outcomes of the relaxed RoO, this subsection charts some of the major contextual factors which play an important role in explaining trends in the Bangladeshi economy, and which have had a significant influence on the EU-BD AVC. These factors are captured here in the rents they generate.

5.1.1 INFRASTRUCTURE RENTS

The transport infrastructure for Bangladesh has improved over the last few years and interviewed textile and apparel manufacturers (Interviews 1 to 7) are happy to report improved lead times. Nevertheless, although improvements are visible; road and sea infrastructure is still at a low

international standard. This problem is aggravated by high fuel (diesel) prices, which have significantly increased transportation costs for the RMG sector. Because competitors like China and India have deep-sea port facilities they have an inherent lead time advantage of about 10 days compared to Bangladesh. Experts believe it may take 10 years before a deep sea port facility is there (Interview 15, freight forwarder).

When asking about the number one restraint on production, all textile and apparel manufacturers mentioned the same factor: *gas availability*. Although gas is abundantly present under Bangladeshi soil, it has not yet been able to fully exploit this natural resource and use it to power its growing economy. Gas connections are hard to obtain and gas pressure is low, leading many companies to be increasingly dependent on generator supplied power, leading to high fuel expenditures. Again, increased oil prices have aggravated this crisis. Especially woven textile manufacturers report heavy losses because of this situation.

5.1.2 FINANCIAL RENTS

Since Bangladesh is a LDC one can expect high interest rates from banks. Yet, recently, interest rates on financial loans have increased more. According to the Bangladeshi Garment Manufacturing Exporting Association ((BGMEA)) president Shafiul Islam Mohiuddin, in the first eight months of FY2010-2011 banks charged 15-17% on industrial loans, which has decreased profit margins from apparel export by 30-35%. While the last figure might be slightly dramatized, it is an important concern, which also many interviewed textile and apparel manufacturers cited as one of the core reasons for facing declining profit margins.

As can be seen in appendix 3, the EU market has slowed down, which has also had its implications on consumer apparel spending. Also an interviewed small buyer brought up the problem of not having enough liquid funds to pay for new orders as prior deliveries were still lying on the shelves at the EU retail stores (Interview 13, EU buying agent). According to them, 30-40% of apparel is simply not being sold, which leads to financial liquidity problems. Bangladesh is a developing country so practically all financial transactions are made by bank to bank Letters of Credit which need the money up front. Therefore, this has prevented some deals from taking place

On the more positive side, the dollar rate has risen substantially in 2011, which has made the apparel cheaper, since almost all transactions are paid in Dollars, not Euros.

5.1.3 RESOURCE RENTS

Bangladesh not having its own cotton is one of the main factors why especially woven textile entrepreneurs have had a tough time these last few years. Not only is it always more expensive to import the raw material rather than producing it domestically, the Bangladesh Textile Mills Association ((BTMA)) (2011) also blames frequent delays of cotton supply as one of the main reasons for the textile industry of Bangladesh to be uncompetitive with foreign countries. According to the BTMA (2011), the price difference in textiles is about 15-20%, which is comparable to what interviewees for this study have reported. The beginning of 2011 saw cotton prices skyrocketing, which spurred yarn and textile producers to increase their production. When cotton prices came down, however, yarn and textile producers were having a hard time selling their expensive produce²⁰.

The greatest natural resource of Bangladesh is its abundant human resources. This is the main reason why so many buyers come to Bangladesh to source their apparel (McKinsey 2011; Gereffi & Frederik 2010). Since many of the workers are uneducated and unskilled, they receive a very low wage for doing uncomplicated jobs. And because there seems to be an indefinite supply of these workers, their wages are likely to be very low compared to competing countries. Yet, because of increasing food prices and inflation, their (minimum) wage was increased substantially in October 2010 (it had not been increased for three years). Their wage is likely to increase with about 30% over the next three years (McKinsey 2011). It should be mentioned that these salaries are still insufficient for workers to survive on and feed their families (Interview 16, Akter).

Sourcing from China is finally becoming more expensive and major buyers are starting to feel uneasy with their heavy reliance on China (Gereffi & Frederik 2010; McKinsey 2011). Bangladesh comes out as a top contender for this relocation. Not only does it have abundant

²⁰ Daily Star (2011) Global turmoil hits local spinners, 29 November 2011

cheap labor for a long time to come, it is also well integrated into the GAVC and has relatively good (physical and institutional) infrastructure.

5.2 OUTCOMES OF EU REGULATION ON THREE CORE T&A SECTORS IN BANGLADESH

Now that insight has been generated in contemporary contextual factors concerning the EU-BD AVC, the scene has been set to discuss what outcomes have been brought about by the EU regulation in three different T&A sectors in Bangladesh: the integrated knit sector, the woven apparel sector and the woven textile sector. Based on this analysis the subconclusion of this chapter will reflect on whether the EU regulation engendered the positive results it had envisioned.

Because of the new RoO, apparel manufacturers are no longer required to work with domestically fabricated textiles. Instead, they are free to import the textiles from China, India and Pakistan, etc. These countries are usually better at making textiles since they have economies of scale and/or have a domestic supply of cotton. In general more value addition takes place when transforming yarn to textile (knitting/weaving) than transforming textiles into apparel (stitching) but, especially in the case of woven textile, the latter process is far more *labor intensive* than the former process. The textile industry employs hundreds of thousands of workers and the apparel industry employs several millions. The uninitiated reader is advised to consult appendix 2, which gives an overview of recent BD-EU trade and elaborates on some of the key concepts.

5.2.1 KNIT AND SWEATER MANUFACTURING SECTOR

In general, the Rules of Origin probably had little effect on this sector since both light and heavy knit apparel are usually made in a composite production method where the spinning, knitting and stitching is done by one company, which owns multiple integrated factories²¹. Of course it is likely that this company will remain using its own textile under the new RoO. In addition, it

²¹ The integrated / composite nature of the knit sector is confirmed by all interviewees.

should be said that the knit sector is a highly developed one and is competitive in the international market. These observations are substantiated by high EBA utilization rates for the knit sector (see appendix 2), which means that Bangladeshi apparel were already made out of domestically produced textiles.

5.2.2 WOVEN APPAREL MANUFACTURING SECTOR

“*With the new RoO Bangladesh has become an even more interesting apparel sourcing country*” – Interview 14, major importer and global retailer (hypermarket)

In general, it is safe to say that the Bangladeshi woven apparel sector is one of the big beneficiaries of the new RoO. With the new RoO, woven apparel manufacturers are able to import their textiles cheaply from especially India, China and Pakistan. These countries all have a domestic supply of cotton and are able to deliver many sorts of yarns and textiles. In addition to these ‘natural competitive advantages’ are government support policies²². India for example has favorable interest rates on bank loans for Primary Textile Industry and China provides export subsidies to its textile exporters of about 12%. All this makes the textiles from especially India, China and Pakistan (the top sources of textiles) significantly cheaper than domestic Bangladeshi textiles. Interviewed apparel manufacturers (Interview 4 to 6) also reported lower sourcing levels of domestic textile. While these changes in sourcing were not large, they were substantial enough to amount to tangible demand changes at the domestic manufacturing level. This issue will be dealt with in the next paragraph.

The increased capacity of apparel manufacturers to source more competitively may improve the *diversification* of woven (and knit) products. This is mainly because Bangladesh produces little

²² The Bangladeshi government has also been known to help its textile and apparel sector extensively (Ahmed 2006). Examples include giving entrepreneurs a tax holiday on capital investments, cash incentives on produced goods and of course keeping energy prices artificially low. However interviewed textile and apparel manufacturers complain that their preferential treatment is getting less with cash incentives being 10% (formerly 25%) and they are seeing their operational costs increase rapidly with the recent price hikes of fuel, electricity and gas in a bid of the government to ease its spending. The Bangladeshi government also has value addition requirements. The government made the smart move to demand importers of yarn and textiles to add at least 25% value to the product before it can be shipped of external markets. If importers comply with this rule they can get a Utilization Declaration (UD). Yet, if no UD is shown to port authorities, importers are required to pay import tariffs.

synthetic or man-made-textiles. These textiles are composed of non-natural fibers/yarn such as viscose, polyester and rayon (often mixed with cotton). Apparel produced from these more sophisticated textiles have generally higher profit margins. Now, Bangladesh has become more attractive to stitch man-made textiles. This will lead to increased product diversity, but this trend was already there before the RoO change²³ (interviews with woven apparel manufacturers, 4,5,6). Combined with rising sourcing prices in China, some believe Bangladesh will become a ‘Chinese Stitch-up’ where (higher quality, low priced) textiles are sourced from China and stitched together in Bangladesh. According to McKinsey (2011:5) Bangladesh has become the ‘preferred next stop for the [apparel] sourcing caravan’.

“If not for the EU RoO change a large proportion of our apparel would have been sourced in China” – Interview 14, major importer and global retailer (hypermarket)

5.2.3 WOVEN TEXTILE MANUFACTURING SECTOR

The woven textile manufacturing sector in Bangladesh has been facing a hard time. Their position in the BD-EU apparel value chain has been under increasing pressure. Because of a multitude of different pressures, it is difficult to identify the exact role played by the new RoO. All of the interviewed woven textile manufacturers report failing profit margins and declining number of orders (Interviews 1 to 3). The difficult circumstances created by the gas crisis, increasing interest rates and the difficulty of getting cotton in time from foreign countries, are making the price of domestic textile about 15 to 20% more expensive than foreign textiles according to BTMA (2011).

Interviewed woven textile producers believe the changed RoO acted as a catalyzer in an already difficult environment. They say the main reason for falling profit margins is that apparel manufacturers are demanding prices more competitive with China. Some of them say they would have opted for more serious measures such as plant closure if it was not for the workers who

²³ Right now Bangladeshi apparel are still predominantly cotton-based and most industry experts interviewed for this study thought it was likely that in the foreseeable future this would not change.

derived their livelihoods from its operation. Of course, these comments should be taken with a grain of salt. Sure enough, significant capital investments have been made and workers issues might not be the only concern entrepreneurs have when they decide to file for bankruptcy. Still, these concerns need to be taken seriously as the livelihoods of hundreds of thousands workers depend on the factories operation.

Unable to compete with the increased foreign competition some entrepreneurs have started to look at the domestic market (Interview 3, small woven textile manufacturer). However, this is a less lucrative market, which has moreover become highly competitive as many formerly export-targeting textile producers are opting for supplying the domestic apparel market. However, historic examples of China and India show that developing domestic markets may prove a sustainable direction in the long run (Interview 19, Professor Rahman). In addition, apparel makers have recently begun exploring export markets in Russia and Japan. Also India recently waived away tariffs on 46 apparel items. This means that although Europe may be the biggest market for apparel it is by no means the only one. As South-South trade is strengthening, it is likely that woven textile makers will again find demand for their products.

Indeed, both interviewed buyers and apparel manufacturers (Interview 4, 5, 6, 12, 13 & 14) are confident that within a couple of years the woven textile would benefit substantially as the growth in the apparel sector will gain in size. Apparel manufacturers will have to source more textiles domestically as this will lead to significant lead time reductions and allows for more control/less risks in their value chain. Indeed, Gereffi (2005) argues that textile supply is the most important input in the AVC. In case of man-made-fibers, however, China (and to a lesser extend India) will probably remain the unchallenged number one supplier with its huge economies of scale, expertise and export subsidies.

5.3 SUBCONCLUSION: EU REGULATION IN THE EU-BD AVC

The EU regulation comes at a time when the Bangladeshi economy faces many challenges such as energy crisis, increased interest rates and difficulties with importing cotton. The combination of these contextual factors together with the EU RoO relaxation has dealt a heavy blow to the woven textile sector of Bangladesh; apparel makers are now less interested to source

domestically, prompting some textile makers to target the less profitable local market instead. In this case the EU regulation did amount to negative outcomes in Bangladesh. Yet, the extent to which the RoO regulation caused their predicament is highly debatable. On the other hand, for the woven apparel sector, the outcomes deriving from the EU regulation seem to be very positive; now that manufacturers are free to import their textiles with a better quality/price ratio, apparel makers can offer their EU clients higher quality apparel and/or lower priced apparel. Finally, due to the integrated and highly developed nature of the knit sector, the EU regulation seems to have had little impact on this business thus far.

As a major beneficiary of the old double transformation RoO it appears that Bangladesh will also be able to benefit from the new RoO. Hopefully the woven textile sector will be able to benefit from the thriving woven apparel sector, which needs a backward linkage industry, especially in the medium and long term.

Reflection on theoretical framework:

It is questionable whether the EU (and LDCs for that matter) can still be defined as an ‘external actor’ in the AVC. It gives the false impression that states are not really involved in the value chain and only casually regulate it without too many interests, while they in fact actively intervene and regulate in a bid to shape the (apparel) value chain.

CHAPTER 6: DISCUSSION

This chapter takes up issues that are highly relevant in the discussion surrounding the new EU RoO for LDC apparel and looks beyond the delineations of this thesis.

BANGLADESH IS UNREPRESENTATIVE OF THE LDCS IN THIS PARTICULAR CONTEXT

The new EU RoO may well open up new possibilities for other LDCs to take up this industry, which is known as an important catalyzer of developing country economies (Gereffi 1999; Gereffi & Memodovic 1993). Some actors in Bangladesh fear the potential of the other LDCs since they will also be able to offer entrepreneurs low wages and other conditions similar to those in Bangladesh. Yet, they should be reminded that Bangladesh is on a whole different level than other LDCs, where one export product of Bangladesh is greater than the entire export of

their competitors in the apparel sector. Also, Schmitz (2005:6) reminds us that “even when developed countries dismantle trade barriers, developing country producers do not automatically gain access to developed country markets because the chains, which producers feed into are often controlled by a limited number of buyers”. Even though the low priced apparel products are part of a low trust value chain where buyers can shift quickly to other suppliers, it will take time before other LDCs will generate the same economies of scale and gain the trust of buyers. So, there is high hope that other LDCs will soon reap benefits from the new RoO, but it will be some time before Bangladesh will feel their competition.

WHERE DO OPPORTUNITY COSTS OF NEW EU ROO END UP?

“EU Rules of Origin have increased my profit margins and the volume of export has increased” – Interview 5, large woven apparel manufacturer

In 2010, importers had to pay 12% import duties on almost 60% of all woven apparel. In 2011 importers no longer had these expenses. So where did these opportunity costs end up? Of course, at first, these unspent costs stay in importers’ pockets. Whether they stay there or get distributed (equally) over the value chain is the real question. The 12% tariff could go to the benefit of consumers in terms of price cuts, or it could go to the producers involved in different stages of the production process if they demand a higher price. Although it is hard to say for certain, from interviews with entrepreneurs and EU buyers it would appear likely that most of the opportunity costs go to buyers, retailers and consumers. Although, some actors did account that the extra funds were indeed transferred to the production linkage. Still, considering the fact that Bangladesh is characterized by producing low priced apparel, which is a highly buyer driven chain in which little trust exists between producer and buyer, it would seem likely that buyers would only share a tiny amount of the new RoO bounty. While some apparel manufacturers indeed reported to have received some of these opportunity costs, it is likely that most manufactures will just see increased orders from EU buyers but little more than that. What is more, Bangladesh has become more attractive for EU buyers to source their apparel, probably motivating new and existing entrepreneurs to setup their business in Bangladesh and generating jobs. Understanding where these opportunity costs have ended up would be an interesting subject of further study.

CHAPTER 7: CONCLUSION

In chapter 4, it was recognized that the single transformation rules are likely to be quite beneficial for most LDCs and that there is an improvement of the EU's record of not only talking but also acting in a normative way. Then again, it was questioned why it took this normative actor so long to realize that single transformation RoO would be development-friendly. The analysis argued that although historic development concerns seem genuine, it is hard to distinguish between the liberal MSs' development-friendly interests and import-friendly interests as cheaper and higher quality apparel can now be sourced from LDCs by EU importers. ClubMed countries were willing to make a concession for the LDCs pleas by getting in return strict cumulation and least tolerance rules. Thus, the overarching image of the EU as a 'normative' power is, in this case, found to be an oversimplification of a complex issue where tradeoffs and political coalitions were an integral part of a more 'normative' turn in EU trade policy. Moreover, the EU's efforts to become a more normative actor through relaxing its RoO for LDCs are seriously undermined by its continued regressive policies in other more important EU sectors and markets. These findings are aligned with some of the arguments of Manners' critics such as Falkner (2007), Storey (2006) and Langan (2011).

By relaxing the RoO for LDC apparel, the EU has regulated its apparel value chains with its LDC trading partners. This thesis has contributed to GVC theory building by conceptualizing the EU as an (external) actor in apparel value chain and by establishing the extent of its regulatory influence on the Bangladeshi T&A sector. The knit sector seems little affected by the new changes since it had already sufficiently matured to be able to do without the EU GSP scheme. Also, the woven apparel industry is likely to profit significantly now that it is free to from source abroad, where the price-quality ratio is more competitive than in Bangladesh, making it in turn more appealing for EU buyers to source from Bangladesh. Especially in combination with some contextual factors in the BD-EU apparel value chain such as the energy crisis, it is the woven textile sector, which seems to have taken the hit from the EU regulation. In the long term, however, (depending on the gas crisis developments) the entire textile and apparel industry is likely to gain from the new RoO since apparel manufacturers prefer to have the backward linkage close by their manufacturing base. Nevertheless, it seems too soon to give the final verdict whether the RoO have surmounted to net positive or net negative effects as they have

only been in effect for one year. For now, one can only say that the EU regulation did not and will not necessarily lead to exclusively development-friendly results.

In the so-called duck-test experiment a person identifies an unknown subject by observing that subject's habits. We can use this form of inductive reasoning on the EU when asking whether it is in fact a normative actor. In the case of the new RoO for LDC apparel it appears the EU starts behaving more like a normative actor. However, it seems that (for the liberal EU states especially) the motivations for 'development-friendly' policies blend with 'import-friendly' concerns. Still, giving space to LDC interest was a relatively painless exercise for the EU since it only concerns a very small market share. At the same time, the EU continues to exercise regressive policies towards its developing partners. So if the normative EU was to be symbolically depicted as a duck, it would be a duck that sounded like one but it would not necessarily look or swim like one.

FUTURE OUTLOOKS AND SUGGESTIONS FOR FURTHER RESEARCH:

EU GSP 2014: PREFERENCE CONSOLIDATION

Although the exact setup of the new EU 2014-2017 GSP is still under discussion, it is becoming evident that the scheme will undergo a significant revision compared to its current setup. Under a 'needs first' slogan, the number of GSP beneficiaries will be slashed from a current 176 nations to about 80, and the EU textile industry will probably be protected by stiffer safeguards²⁴. Many upper middle and higher income countries will no longer be beneficiaries of the regular GSP facility and will 'graduate' from the GSP scheme, which will lead to preference consolidation for beneficiaries. Paying the full 12% duty²⁵ (instead of the current 9,6%) may not be a big

²⁴ Committee on International Trade (2011) Trade preferences: boost help for poorest countries, but safeguard EU textiles, 02 March 2012, Press release, reference number 20120227IPR39357

²⁵ The high standard tariffs give relatively high preference margins for this sector in the EU (Naumann 2011). Regular GSP beneficiaries (developing countries such as India, China and Pakistan) get a 20% discount on the standard tariff so their apparel will still face 9,6% tariff upon entering the EU market. GSP+ beneficiaries also enjoy duty free quota free access to EU market but still have to comply with double transformation RoOs. Then there are the ACP countries who also have duty free and quota free access to the EU market, and, importantly, their RoO changed to single transformation since January 2011.

difference for most but it will give yet another small comparative advantage to Bangladesh compared to former beneficiaries. Because the EU GSP has ‘product graduation’ where countries ‘graduate’ from GSP if they become too competitive, some of Bangladesh’s main competitors like China and India have long ceased to benefit from the GSP scheme.

FUTURE DOHA ROUNDS: PREFERENCE EROSION?

Some international trade experts are becoming increasingly positive that uni-, bi- and multilateral initiatives aimed at scaling down tariff levels are starting to gain traction in light of the Doha negotiations. BD currently enjoys a competitive advantage over non-LDCs in terms of market access as it gets preference treatment in UNCTAD member states’ GSP-schemes. This implies that T&A makers should prepare for a future where they can’t rely anymore on preferential market access. This also brings about the paradoxical situation where LDC’s should be advocating the maintenance of tariff barriers by rich nations and custom unions.

RACE TOWARDS THE BOTTOM

The Bangladeshi T&A sector involved in making woven apparel for the lower price segment for the EU market is showing some characteristics of immiserizing growth. This, according to Kaplinsky and Morris (2001:21) can occur when operating in a narrow function within a particular link in the value chain where prices for goods follow a downward trend. With the relaxed EU RoO, Bangladesh could become more reliant on a single production function in the EU-BD AVC, namely stitching. As retail prices in Europe continue to go down²⁶ and with EU importers bargaining hard with their suppliers to scale down sourcing prices the scenario, which Kaplinsky and Morris sketch seems uncomfortably close. By inserting themselves inappropriately into GVCs, firms, sectors, countries and even regions can face immiserizing growth, which can bring major damage to these entities. This is another reason why it is so important for Bangladesh to maintain and develop its backward linkage. Some positive developments are also there. Bangladesh should continue to strive towards further developing its textile sector; it has more value addition than sewing imported textiles together and will make it

²⁶ The EU retail prices are expected to rise again in the foreseeable future with a more expensive China and a less economically-troubled Europe (see appendix 3).

more interesting for foreign and domestic entrepreneurs to invest in the T&A industry of Bangladesh.

Word count: 14,877

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APPENDIX 1: LIST OF INTERVIEWEES AND QUESTIONS

LIST OF INTERVIEWEES

Dhaka based	<u>Organization</u>	<u>date</u>
<i>Woven textile manufacturers</i>		
1 Anonymous	Large denim manufacturer	28-12-2011
2 Anonymous	Large composite manufacturer (in knit and woven)	28-12-2011
3 Anonymous	Small woven textile manufacturer	31-12-2011
<i>Woven apparel manufacturers</i>		
4 Anonymous	Large apparel manufacturer	8-12-2011
5 Anonymous	Large apparel manufacturer	15-12-2011
6 Anonymous	Medium apparel manufacturer	22-12-2011
<i>Knitted apparel manufacturers</i>		
7 Anonymous	Large knit manufacturer	22-12-2011
8 Anonymous	Major knit manufacturer	21-12-2011
<i>BD industry unions</i>		
9 Md. Jamal Dipu	BGMEA*	18-12-2011
10 Md. Fazlul Hoque	BKMEA*	20-12-2011
11 Md. Siddiqur Rahman	BGMEA*	21-12-2011
	<i>* Unionists are also managing directors of large enterprises</i>	
<i>Buyers</i>		
12 Anonymous	Major importer and global retailer (supermarket)	6-1-2012
13 Anonymous	EU buying agent, member of importers association	26-1-2012
14 Anonymous	Major importer and global retailer (hypermarket)	1-2-2012
<i>Freight Forwarder</i>		
15 Anonymous	Small freight forwarder	17-12-2011
<i>Worker Union</i>		
16 Nazma Akter	Sommilito Garments' Sramik Federation	20-12-2011
<i>Trade experts</i>		
17 Zilul Razi	EU Delegation to Bangladesh	19-12-2011
<i>Academics</i>		
18 Dr. GH Moazzem	Center for Policy Dialogue	14-2-2012
19 Prof. M. Rahman	Center for Policy Dialogue	14-2-2012
Brussels based		
<i>Academics</i>		
20 Marc Langan	University of Stirling	22-4-2012
<i>EU trade experts</i>		
21 Marc Maes	Flemish North-South Movement	8-2-2012
22 Åke Weyler	Swedish Textile Importers Association	11-4-2012

23	Isabelle Ramdoo	European Centre for Development Policy Management	8-5-2012
	<i>EU industry unions</i>		
24	Luisa Santos	EURATEX	20-9-2011
	<i>EU Policy makers</i>		
25	Anonymous	Part of liberally minded EU member states	7-5-2012
	<i>Tradefairs attended</i>		
	BATexpo in Dhaka	International T&A fair	10-12-2011
	Garmentech in Dhaka	Machinery exposition	15-1-2012

QUESTIONS – BRUSSELS BASED

Sample questions for trade and policy experts:

1. Apart from relaxing RoO to single transformation, which alternatives were at the table
2. Who actually made the decision: Commission, Council, Parliament, how did that work?
3. The EU GSP for LDCs is supposed to be good for LDC and not necessarily for Europe itself, but what ARE the costs for Europe?
4. Who in the EU benefits from relaxation?
5. Does this mean there is actually a net benefit from the new legislation?
6. Do what extend do you think that EU's reputation was at stake in deciding the new RoO?
7. Did EU become more normative in its actions with single transformation RoO?

Sample questions for EU decision maker:

1. Were there only two alternatives on the table during the LDC apparel RoO negotiations?
2. What were the main reasons for the CLUBMED and Liberals to agree with single transf.?
3. Did the EU members realize the damage they would do to the BD textile industry?
4. Was improving the lives of people really on the minds of EU policymakers or did domestic industry concerns also have a big role to play, or maybe even a primary role to play?
5. Is the EU becoming more normative in its actions, instead of only in its words? In other words, is single transformation for LDC apparels a big or small step?

6. Do you think that EU policy makers believe in themselves as normative actors who act in a moral way and have 'good' intentions for developing countries?

Sample questions for academics:

1. Did EU's to relax its RoO with LDCs do it out of normative concerns, or was appeasing importers, retailers and consumers foremost on the mind of EU decision makers?
2. Are strict RoO better for LDCs than relaxed ones considering the fact that they also act as a domestic industry protection tool?
3. Has the EU become (intentionally or accidentally) a more normative actor?

QUESTIONS - DHAKA BASED

Sample questions for academics, trade experts:

1. Are large and small factories differently affected?
2. What coping strategies do they have?
3. How do these effects relate to worker situation? – In terms of job availability, job intensity, male/female ratio, salary.
4. Foreign textile producers relocating to Bangladesh to reduce lead time?

Sample questions for workers union:

1. Will the changed RoO alter anything for the workers?
2. Do you think previous RoO with double transformation has benefited workers?
3. Since the apparel industry is getting more into non-cotton based textiles where higher norms on labor and environment exist do you foresee a positive change or will little change?
4. Is the gender ratio changing? And are women workers still coming from rural country side?

Sample questions for buyers

1. Where did opportunity costs go of the new RoO?

2. Do you think the EU market is in/decreasing due to the debt crisis for BD apparel?
3. How is the price calculated?
4. How do you negotiate with producers?
5. What are the conditions?
6. Do you instruct apparel makers where to source the textiles?
7. How do you deal with power inequality between buyer and producer?

Sample questions for the EU Delegation to BD

1. What expectations do you have of the new RoO?
2. What are EU's interests in the BD textile and apparel industry?
3. Did the RoO topic come up in negotiations with the BD government?

INTERVIEW GUIDE FOR TEXTILE AND APPAREL MANUFACTURERS:

Most questions can only be answered by senior executives. The questionnaire is only aimed at products destined for EUROPEAN markets (comprising of 27 nations). Please note that ‘Years’ relate to calendar years, so: January 2010 – December 2010; January 2011 – December 2011. Please be reminded that all information given here will be strictly confidential and will only be used for research purposes.

1. Basic questions:				
What is the largest volume product manufactured in your factory in 2010 and 2011? Please indicate the top 3. <i>Only products for EUROPEAN MARKET.</i>	2010		2011	
	1. Product: [.....] % 2. Product: [.....] % 3. Product: [.....] % <i>% of Total Production</i>		1. Product: [.....] % 2. Product: [.....] % 3. Product: [.....] % <i>% of Total Production</i>	
Within those products, are you noticing a shift towards more synthetic/polyester based products? <i>Only products for EUROPEAN MARKET.</i>				
Please specify type of major product produced <i>Only products for EUROPEAN MARKET.</i>	2010		2011	
	<input type="checkbox"/> Woven [.....] % <input type="checkbox"/> Knit [.....] % <input type="checkbox"/> Cotton [.....] % <input type="checkbox"/> Synthetic [.....] %	<input type="checkbox"/> Yarn <input type="checkbox"/> Textile <input type="checkbox"/> RMG	<input type="checkbox"/> Woven [.....] % <input type="checkbox"/> Knit [.....] % <input type="checkbox"/> Cotton [.....] % <input type="checkbox"/> Synthetic [.....] %	<input type="checkbox"/> Yarn <input type="checkbox"/> Textile <input type="checkbox"/> RMG
In which steps involved in production: <i>Only products for EUROPEAN MARKET.</i>	2010		2011	
	<input type="checkbox"/> Spinning <input type="checkbox"/> Knitting <input type="checkbox"/> Weaving <input type="checkbox"/> Dyeing/Printing	<input type="checkbox"/> Cutting/Making <input type="checkbox"/> Others:	<input type="checkbox"/> Spinning <input type="checkbox"/> Knitting <input type="checkbox"/> Weaving <input type="checkbox"/> Dyeing/Printing	<input type="checkbox"/> Cutting/Making <input type="checkbox"/> Others:
What were the major sources of raw materials/intermediate products in 2010 and 2011? <i>Raw Cotton:</i> <i>Yarn:</i> <i>Textile:</i>	2010		2011	
	Country 1: Quantity 1:		Country 1: Quantity 1:	
	Country 2: Quantity 2:		Country 2: Quantity 2:	
	Country 1: Quantity 1:		Country 1: Quantity 1:	
Country 2: Quantity 2:		Country 2: Quantity 2:		
Destination of finished product: (only indicate top 3)	<input type="checkbox"/> Germany [.....] % <input type="checkbox"/> France [.....] % <input type="checkbox"/> Italy [.....] %	<input type="checkbox"/> Spain [.....] % <input type="checkbox"/> Netherlands [.....] % <input type="checkbox"/> United Kingdom [.....] %	Others: [.....] %	

Please be again reminded that ALL QUESTIONS are concerned with products going to EUROPEAN markets only. The EU Rules of Origin have been altered from Double

Transformation to Single Transformation since January 2011. This means prior to 2011 RMGs exported to the EU had to be made from domestically sourced textiles. If this criteria was not met normal import tariffs (12% for most products) were raised upon the products entry into the EU market. Now textiles do not have to be sourced from Bangladesh and it is therefore expected that more products will enter the EU market without paying any tariff.

2. Key dynamics in 2011 compared to 2010		
Profit dynamics:		
Please indicate your profit of 2010 and 2011. If you regard this information being too sensitive you may indicate the percentage change. If possible, indicate profit increases for goods destined for EU market	2010	2011
 Euro/Taka/Dollar profit Euro/Taka/Dollar profit
	<input type="checkbox"/> Increase/decrease [...] %	
Which factors were the main causes of the increase or decrease in profit in 2011?		
Did absence of EU tariffs directly influence your profit margins this year?		
How do you distinguish between negative impacts from EU debt crisis and Positive/Negative impacts from GSP change		
Sourcing dynamics		
<i>Textile manufacturers:</i>		
❖ Do you notice increased competition from abroad in supplying textiles to domestic firms?		
❖ What are your competitive advantages compared to foreign firms?	Lead time: Quality: Price: Other factors:	
<i>RMG manufacturers:</i>		
❖ Why did you (not) source from domestic market?		
❖ Has this changed compared to 2010?		
❖ Do domestic textiles require different machines, or other capital investments?		
Terms and conditions of buyers		

In 2011, did you have different buyers than 2010? Same or new ones?		
Did terms and conditions of buyers change in 2011 compared to 2010?	Lead time: Quality: (Cut/Making) Price per 1 dozen products: Other factors:	
Change because of RoO?		
Preference tariff	<i>*Preference treatment= ZERO tariff on exported goods @ EU border</i>	
What percentage of your goods was treated with preference tariff* in 2010 and 2011.	2010	2011
 of goods receiving preference % of goods receiving preference
❖ When did you hear about the changed Rules of Origin?		
❖ Who informed you and what was their message?		
❖ What was your first reaction?		
Opportunity costs		
How much money is gained by avoiding tariffs?		
❖ Did the value captured by the RMG producer increase since new GSP		
❖ How much value is captured by the buying house/exporter, versus cut making price?		
Were does new GSP benefit money end up? Please indicate percentages for as far as possible. It can be an educated guess.	<input type="checkbox"/> Fiber [...] % <input type="checkbox"/> Yarn, [...] % <input type="checkbox"/> Textile, [...] % <input type="checkbox"/> RMG [...] % Producer total: [...] %	<input type="checkbox"/> Freight transporter, [...] % <input type="checkbox"/> Buyer [...] % <input type="checkbox"/> Consumer, [...] %
For your firm, what implications of the new RoO in the coming few years?	(<1 year) Short term: (1-2 years) Medium term: (>2 years) Long term:	
If you export to multiple countries/trading blocks with GSP: <ul style="list-style-type: none"> Do their RoO conditions conflict or are they aligned? If conflicting, is this restricting opportunities for economies of scale?		
Labor		
Were new employers were drafted in 2010 and 2011?	2010	2011
 Number new employees Number new employees
How does that compare to the previous years?		

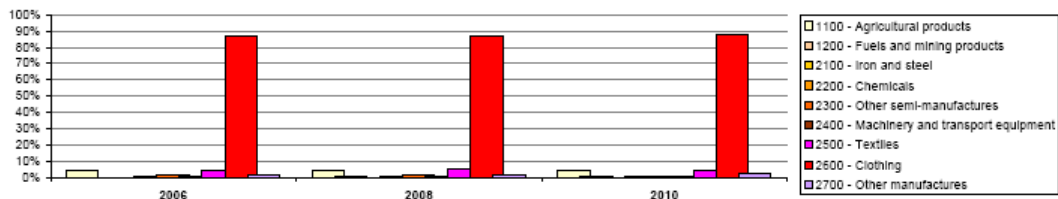
How much did employees earn in 2010 and 2011	2010	2011
 Per hour/per Unit of Production Per hour/per Unit of Production
Male/Female ratio: <ul style="list-style-type: none"> • Changes in gender ratio compared to previous years? • Female workers differ from male workers in terms of 	Ratio 2010: Ratio 2011: <input type="checkbox"/> Skills <input type="checkbox"/> Responsibilities <input type="checkbox"/> Salary <input type="checkbox"/> Working hours <input type="checkbox"/> Others.....	
Round up question		
Did the new RoO significantly change your competitive advantages versus foreign competitors, in terms of:	Lead time: Quality: Price: Other factors:	

APPENDIX 2: CURRENT DEVELOPMENTS IN THE BD-EU APPAREL TRADE

THE BD-EU AVC: THE BROAD PICTURE

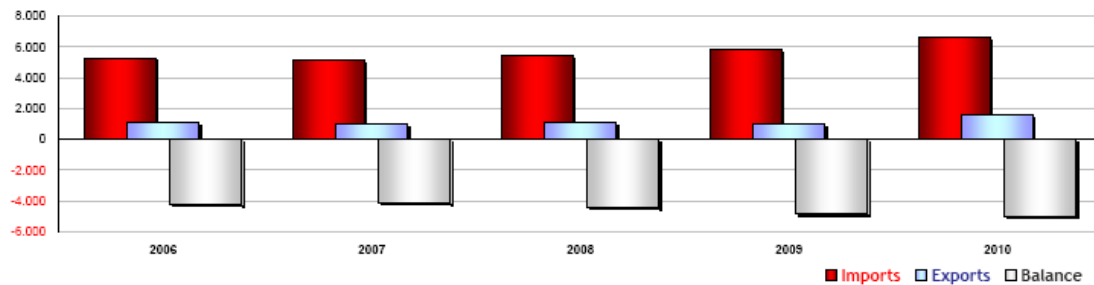
Of all Bangladeshi exports 43,8% (or €5.905,3 mil.) were destined for the EU-27 market in 2010, comprising about 0,4% of EU' total imports (EU Trade DG 2011). This makes the EU the largest export market of Bangladesh. Figure 2 testifies that most Bangladeshi exports to the EU are composed of apparel (87,4% or €5.765 mil. in 2010) and figure 3 shows how trade has been increasing in the last few years (seemingly unaffected by the global credit crunch, see appendix 3 for more details). Both, in 2009 and 2010, Bangladesh was the third largest supplier of apparel to the EU after China and Turkey (see figure 4) and holding the largest market share in T-shirts. Bangladesh ranks number 4 in exporting 'men's shirt of cotton' to the EU and number 2 in 'men's trouser of cotton', number 3 in 'denim cotton trouser' and number 2 in sweaters. In general, four apparel categories dominate which are t-shirt and sweater in knitted items, and shirts and trousers in woven items, taking about 85% to 90% of total BD-EU apparel depending on a particular year, for several years.

Figure 2: EU imports from Bangladesh 2006-2010, product group percentages



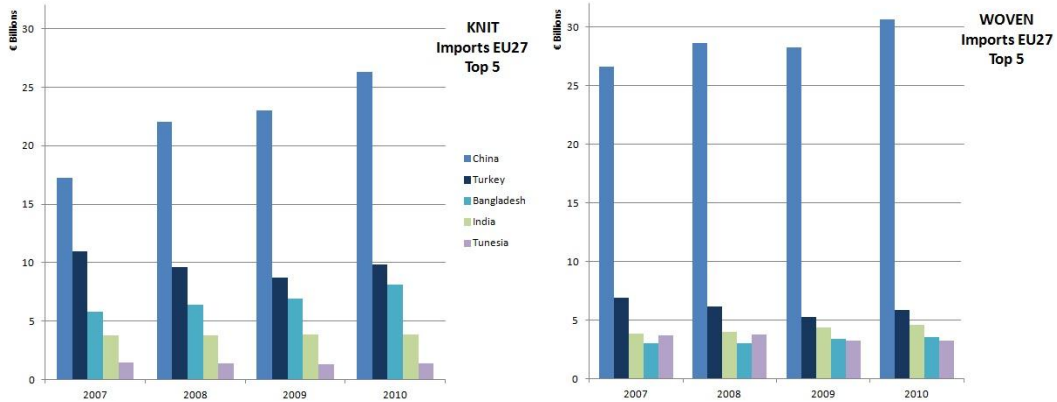
Source: EU Trade DG (2011)

Figure 3: Trade between EU 27 and Bangladesh. 2006-2010 (in millions of Euros)



Source: EU Trade DG (2011)

Figure 4: Top 5 apparel import countries for the EU-27 market (2007-2010)

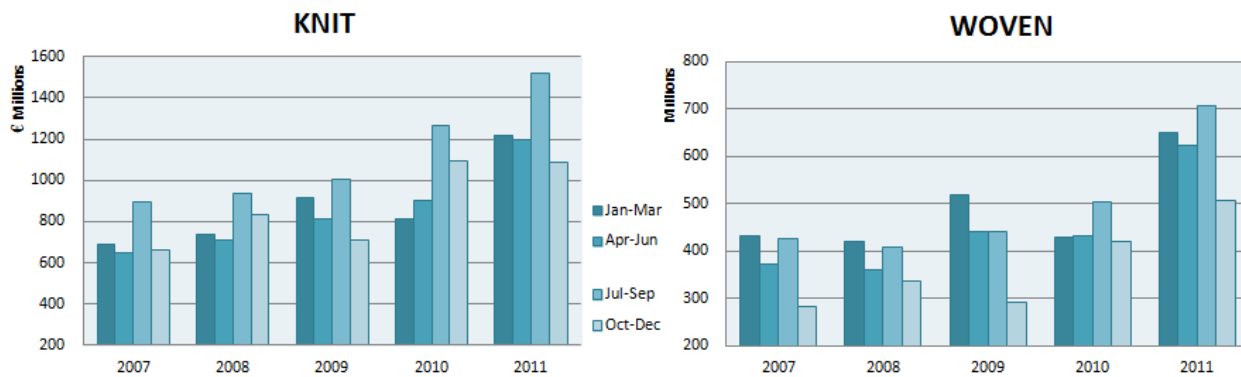


Source: Compiled by author from EUROSTAT (2011) database

THE EU-BD AVC: CURRENT TRENDS AND UTILIZATION RATES

Positive apparel growth figures between the EU and Bangladesh have been reported in 2011 and have often been partially attributed to the relaxed RoO (CPD 2011). In figure 5 we see how recent data from EUROSTAT also indicates sustained growth levels of apparel exports to the EU from Bangladesh.

Figures 5: Quarterly apparel imports of knit and woven EU27-BD (2007-2011)



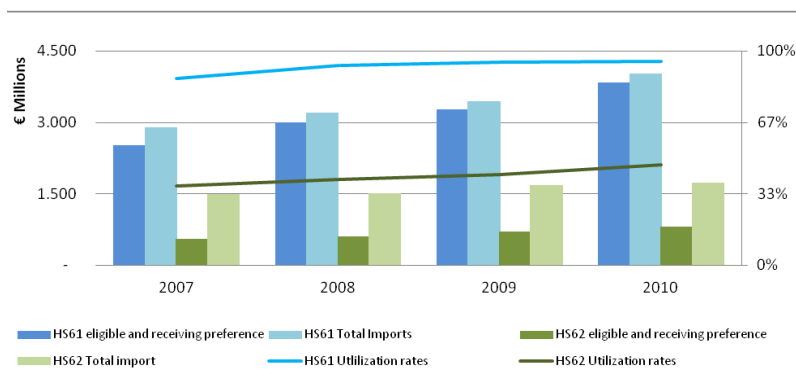
Source: Compiled by author from EUROSTAT (2012) database

The low and even negative growth of the BD-EU apparel trade in 2008, 2009 and the beginning of 2010 can be partially attributed to the global financial crisis when global apparel exports have

slumped, also in Europe (see appendix 3). One factor explaining the high rise in the end of 2010 and beginning of 2011 could be the high price of cotton, yarn and textiles, which skyrocketed at that time. This has since come down. By December 2011 cotton, yarn and textiles were reported²⁷ to be 50-60% lower than they were in January 2011. More recently, however, the recent decision in March 2012 of the Indian government to restrict cotton exports again, signals that cotton prices are on the rise again.

In figure 7, we can see that in terms of value, knit apparel were exported twice as much to the EU than were woven apparel in 2010. Knit apparel have risen with an impressive 39% between 2007 and 2010, whereas woven apparel were able to increase their trade with 16,17% in the same period. Although all apparel products are eligible for the EBA preference scheme, the rather restrictive RoO created a situation where a significant amount of products had to enter the EU via Most Favored Nation rate tariff scheme. It seems that knit apparel were far better in meeting the RoO criteria than woven apparel. The utilization rates of both product categories have seen an increase between 2007 and 2010 year (from 37,04% to 41,60% for woven apparel and from 87,01% to 95,35% in 2010 for knitted apparel). Importantly, low utilization rates are assumed to indicate the existence of a fragile backward linkage, which may suffer if apparel manufacturers no longer see the need to source domestically.

Figure 7: Yearly EU-BD woven and knit apparel imports, EBA utilization (2007-2010)



²⁷ Mahmud Hasan Khan in the Daily Star, 25-12-2011 - Low prices cut into RMG export growth: analysts. Buyers place advance booking for months in a row, available online: <http://www.thedailystar.net/newDesign/news-details.php?nid=215525>

Source: Compiled by author from EUROSTAT (2011) database

Within woven apparel, it is particularly the broad category of trousers, which were able to get significant gains in preference treatment (now about 50%) whereas utilization rates of woven shirts have seen little improvement over the last couple of years. Man-made and synthetic textile based apparel have especially low utilization rates. These are the products that pay most import tariffs upon reaching EU customs so actors in this (sub) value chain should have derived direct benefits from the new RoO in terms of negative opportunity costs.

Box 2: Woven and knit products: some essential differences

Broadly speaking apparel can be divided in woven and knit products, and usually knit apparel are split up in light knit and heavy knit (sweaters) products. There are some good reasons to distinguish between these two or three groups. Esthetically, woven products tend to be more refined since they are produced with more fine and quality yarn. Basically, woven apparel are often more fashionable. But more important for this study is the way in which they are made. Weaving textile simply involves more startup cost since it is more complex than knitting textile. It is also harder to rectify mistakes in the textile making process and it uses finer yarns which require more sophisticated machinery and employ relatively skilled workers. Also woven textile factories require more land. Woven textile manufacturing requires investments that may be ten times higher than knit textile manufacturing. While woven *textile* manufacturing is more capital intensive and employs mostly male workers, woven *apparel* manufacturing (sometimes called stitching) is highly labor intensive and in fact employs many women who have few other sectors in the economy where they can work in the male dominated society of Bangladesh (Ahmed 2006). Larger factories are often involved in both knit and woven apparel and textile production.

Box 3: A short history of the EU GSP for Bangladesh

Some believe that Bangladesh received duty free access to the EU only after the EBA was introduced in 2001. In reality, Bangladesh enjoyed the duty free access to the European Community (now EU) for all its exportable products since 1971 with some restrictions on the export of apparel. Later, the European Commission (EC)-Bangladesh Textile Agreement of 1986 removed the quantitative restrictions on RMG. In the previous rules (from 1971 to 1999) there were two separate rules for knitted product and woven products. For knit there were three stages, woven had two stages. These were not written in any legal document. Legal documents say, for knit those days it says “from fiber” and for woven it was written “from yarn”. Which translates into two stage and three stage because yarn has to be produced locally before a preference eligible knitted product can be fabricated.

According to Razi, former trade adviser with the Delegation of the European Union to Bangladesh, The GSP cannot be held accountable for the phenomenal growth of apparel Bangladeshi exports in the last two decades. Rather the main contributor is the Multi Fiber-Arrangement in which Bangladesh enjoyed a quota free access to the EU as an LDC. On the other hand, competitors of Bangladesh were constrained by quota. The result, for example, was that all the T-shirts exported by China, India and Pakistan in 1993 together had been less than that of Bangladesh (Razi²⁸, interview 17).

²⁸ Opinions were also taken from: Razi, Z. (2010) interview in the Daily Star: The low down on Euro tariffs, 20-12-2010.

Box 4: Value addition in the production node of the BD-EU AVC

According to one insider operating in the low and middle EU price segment, 50% of the sourcing prices of Bangladeshi apparel are comprised out of the raw materials, i.e. cotton and yarn. This translates to 10-15% of the final retail price since apparel is sourced for 20-30% of retail price. Also textile costs are roughly 70-75% of the apparel price. This leaves little value addition for stitching and knitting activities in the value chain. The commission for importers lies between 5 and 13% depending on their contract with the end buyers. Naturally, complex apparel will have higher stitching charges than apparel items, which can be easily assembled. Before being able to put the apparel for sale in the retail outlet the retailer incurs quite a few costs: importing, marketing, designing, stocking etc. In table 1 some additional insight into these costs are given but it is unclear what profit margin importers and retailers have. This would require more market research.

Table 3: Overview margins for knitted and woven apparel in EU market

	Low	Medium	High
CFR Rotterdam/Amsterdam	100	100	100
Import duties	*	*	*
Charges on CFR basis: - handling charges, transport insurance, banking services	7 107	7 107	7 107
Wholesalers' margins (20/30/40%)	21 128	32 139	43 150
Retailers' margins (45/60/80%) - net selling prices	58 186	83 222	120 270
VAT - Value added tax 19% of net selling price **	35	42	51
Gross selling or consumer price	221	265	321
Mark-up Export (CIF) price - Consumer price	2.2	2.7	3.2

*) Import tariffs vary from 0 up to 12.0% of CFR value

**) In this calculation, the VAT tariff valid for The Netherlands is used, but note that this tariff varies per EU country between 15 and 25%.

Source: CBI (2011b)

APPENDIX 3: BD-EU APPAREL VALUE CHAIN: CONTEMPORARY ENDOGENOUS DYNAMICS

In this appendix some endogenous dynamics within EU-BD value chain are discussed. Endogenous dynamics relate to activities which are endogenous to the value chain (Kaplinsky & Morris 2001:28).

Bangladesh is mostly known for producing apparel in the low and (increasingly) middle price category of its export markets, which are often mass produced. In box 4 we can see where value addition takes place along the chain. In this type of buyer driven chain suppliers are relatively easily changed to pursue short-term price advantages and failure to conform with the wishes of the governor leads to the rapid sanction of exclusion from the chain (Kaplinski & Morris 2001:32). However, in what is sometimes called the present ‘era of mass customization’, which need flexible production systems, trust becomes increasingly important, and failure to reach the required level of standards does not automatically result in the sanction of exclusion (ibid.).

This global trend was also observed during interviews with both suppliers and buyers in the EU-BD apparel chain. Indeed, as (low-priced) retailers build up a track-record of sourcing from Bangladesh, and as quality and safety requirements are ever on the increase, these low trust relations are improving and buyers are more inclined to provide external governance and maintain long term relations. The decreasing use (by large entrepreneurs) of bank to bank Letters of Credit is another indication that trust is increasing between BD suppliers and their buyers.

“It’s hard to trust Bangladeshi commitments. You have to check up frequently to see if apparel manufacturers are on track and meeting expectations. But things are improving.” – Interview 13, EU buying agent.

Recent developments in the EU apparel Market

The EU market has been hit by the debt crisis, which has decreased consumer spending and has thus contributed to decreasing apparel retail prices (CBI 2011a). Apparel accounts for between 3-5% of all consumer spending. Nowadays, special price offers have come to be expected by consumers throughout the year (CBI 2011b). Compared to 2005, apparel prices have been

declining in the EU compared to the average prices of all goods: In 2011 ‘all goods’ had a price index²⁹ of 110,5 compared to apparel with a price index of 91,3 (CBI 2011b).

Table 2 Average import prices of knitted and woven apparel 2006-2010, €

	2006 average price per tonne	2010 average price per tonne	Ave annual % change
Total	5,54	5,45	-0,4
Intra-EU	8,11	7,93	-0,6
Total Developing Countries	4,21	4,34	0,7
China	4,69	4,98	1,5
Turkey	5,77	5,72	-0,3
Bangladesh	2,43	2,41	-0,2
India	3,59	3,70	0,7
Vietnam	4,21	5,85	8,5
Indonesia	4,27	5,83	8,1
Pakistan	2,08	2,23	1,8

Source: CBI (2011b)

In table 2, it can be seen that the average import price has decreased from 2006 to 2010. Bangladeshi knitted and woven apparel have also (slightly) decreased import prices. It is not clear why the price has come down; it could be efficiency improvements and more economies of scale production or perhaps higher utilization rates. But this does indicate that EU importers have not yet started considering Bangladesh as a major source for higher value apparel. The high prices increases in Vietnam and Indonesia may imply the opposite EU importers are increasingly sourcing their higher value apparel from these countries. However, high cotton and wool prices, rising wages, currency hikes and higher freight rates have also contributed to these increasing sourcing prices (CBI 2011b). These factors have also contributed to rising apparel prices of China, the largest supplier of EU apparel (McKinsey 2011).

There are signs that the downward pressure on apparel prices is ending. Retailers cannot continue to absorb the rising costs in the near future. Main reasons were the higher cotton prices,

²⁹ The all goods score of 110,5 can be largely attributed to the rising costs of energy, housing and food (CBI 2011b).

foreign exchange movements, higher prices for Chinese apparel and the 2011 VAT increase in some EU countries. It is not expected that this will result in a reversal of the trend of the rise of value retailers and supermarkets, which have been successful by providing very low cost fashion apparel at low prices (CBI 2011a).

Increasing buyer requirements and ethical sourcing

Even though Bangladeshi apparel predominantly target the lower to middle price segment, which have little scope to inflate worker wages, it was encouraging to see large manufacturers putting in place CSR policies. As EU consumers become more aware of their role and responsibility in the value chain (CBI 2011a), these innovative manufacturers are likely to reap substantial future benefits. For now, smaller buying agents are struggling to accommodate these new wishes of EU consumers:

“Nobody likes to see their names in the newspapers saying they used child labor in their apparel manufacturing. But to what degree can I, in my product [low priced] segment audit the sourcing of all inputs? I inform the textile and apparel manufacturer of my preferences but in the end it’s impossible to tell where the cotton was really sourced and whether child labor was used. You can place safeguards but that’s all you can do really” - Interview 13, EU buying agent.