

# Unexpected hit

India-EU FTA may have a collateral victim



Singh and Hasina: India's gain, Dhaka's loss?

India's proposed free trade agreement (FTA) with the European Union is causing unrest in an unlikely quarter. Bangladesh is worried that its exports to the EU could be hit if apparel items are included in the trade deal which its western neighbour is about to ink. The EU is Bangladesh's largest trading partner. In FY11, Bangladesh's total exports to the EU were more than \$10.51 billion, of which 90 per cent came from garments.

Bangladesh's manufacturing prowess is led by the garment sector, which has grown into a multi-billion dollar industry that employs 3.6 million people and accounts for 78 per cent of the country's exports. It has seen particularly strong growth in the last few years, partly because of rising labour costs in China, where manufacturing is moving into higher-margin activities like product design. According to a McKinsey forecast, Bangladesh's garment industry will grow by almost 9 per cent annually in the next decade.

New Delhi is worried at this development, particularly since it has tried hard to accommodate the demands of the Sheikh Hasina government. If Bangladesh's apparel exports were to suffer, political elements there could

raise the anti-India bogey.

India and the EU are hopeful of closing the deal by the year-end, with negotiations reaching the final stage. Both hope to reach a bilateral trade of \$200 billion by 2013, up from \$107 billion currently. The EU accounts for 14 per cent of India's foreign trade. The FTA aims at cutting tariffs by up to 90 per cent on goods and services and will cover investments as well. The EU, as an economic bloc, is India's largest trade partner

Although there is little that Dhaka can do in a matter that is purely bilateral, the commerce ministry in Bangladesh has asked its mission in Brussels to track the FTA talks. India's major destination for apparel exports are west Europe and North America.

"We will face stiff competition in the EU if the proposed deal includes the apparel items. India is also strong in apparel items. Moreover, India will also enjoy the benefit of lead-time because India has a strong textile sector," says Shafiqul Islam Mohiuddin, president of Bangladesh Garment Manufacturers and Exporters Association. Mustafizur Rahman, executive director of Centre for Policy Dialogue, said there is

every possibility of the apparel sector in Bangladesh being affected if the FTA is signed because India also produces similar kinds of garments and the country will enjoy preferential duty. Currently, Bangladesh enjoys zero duty benefit in the EU under the 'Everything but Arms' scheme. In fact, this concession has helped Bangladesh ramp up its market share.

If the FTA is signed, India will also enjoy zero duty, creating a level playing field.

## Catching up

In the high-margin global export market for apparels, India was being creamed by competitors such as Vietnam, Indonesia and Bangladesh. It could not capitalise upon China's losing market share, and was in danger of being relegated to the position of a supplier of intermediate products to other successful garment exporting countries.

In both the US and EU, which account for over 80 per cent of the textile and clothing exports from the country, India's main growth comes from textile supplies, which include intermediates such as yarn, fabric and made-ups. In the high-value clothing and apparel segment, India's growth clearly trails all of its other Asian rivals.

This is evident from the fact that Vietnam, Bangladesh and Indonesia grew much faster than India in terms of supplies to the US market. Vietnam has already overtaken India in terms of supplies to the US (at \$5.9 billion in value terms). Indonesia, which was not present in the top-five list just three years back, is now snapping at India's heels while Bangladesh is not too far behind.

In the EU market, India was a distant fourth in terms of supplies (at €7.3 billion in value terms), and clocked lower growth than Bangladesh and Pakistan, both of which have concessional duty access to EU. The loss of competitiveness in the apparel and clothing segment was bad news for domestic exporters, as these products entail much higher margins for exporters than do home textile products.

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