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Punitive Trade Sanctions on Bangladesh Not the Way to Improve Labor Conditions

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In response to poor labor conditions in Bangladesh, the Obama Administration has moved to unilaterally impose trade sanctions by removing the country's privileges under the Generalized System of Preferences (GSP). These actions follow two prominent workplace tragedies that have killed over 1,200 Bangladeshi workers in the past year.

While these tragedies are horrific, the Administration's policies will be ineffective in promoting improvements in working conditions. Instead, imposing trade sanctions will only hurt Bangladesh's poor and damage burgeoning trade relations.

Generalized System of Punishments. The GSP is a World Trade Organization scheme that gives beneficiary developing countries access to preferential tariffs rates outside the most-favored-nation framework. The GSP was created to encourage export-driven growth in developing countries by increasing market access to developed economies through lower tariff rates. In the U.S. the GSP program provides duty-free access for 171 countries in 5,000 product categories.

Under U.S. law, GSP participants' duty-free access is contingent on country practices, including

adherence to international standards for workers' rights. Questions began to be raised about conditions in Bangladesh after two tragic accidents in the past year. First, a fire broke out in the Tazreen Garment Factory in Dhaka, killing over 100 workers who were trapped inside. More recently, a second garment factory, the Rana Plaza, collapsed, killing over 1,000 workers. Subsequently, on June 28, the Obama Administration announced that it is removing Bangladesh privileges under the GSP regime. Unless Congress intervenes, the policy will take effect 60 days after the announcement.

Wrong Move by the Administration. This move is punitive and off-target. In reality, the GSP covered only 118 products and \$34.7 million in imports from Bangladesh in 2012.¹ This is less than 1 percent of the \$5 billion in total imports that Bangladesh ships to the U.S. each year.² In particular, it will have little effect on the garment industry, which is largely exempt from GSP duty-free status.

Instead of specifically targeting the garment industry, removing GSP privileges arbitrarily punishes industries that are unrelated to the recent tragedies. Over 30 percent of covered products in 2012 are agricultural goods and inputs.³ Over 50 percent of those who live in rural areas are considered poor, and rural workers make only about half as much per year as their urban counterparts.⁴ Yet it is these workers—not the garment industry—who will bear the burden of new tariffs. These punitive actions will only hurt the poorest Bangladeshis and are bound to further depress employment in a country that is already suffering.

Simply increasing regulations on the industry is not the solution. While there is a need to improve

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building safety, the real problem in Bangladesh is that there are too many burdensome regulations that discourage business owners from registering new construction projects and obtaining proper permits. According to the World Bank's *Doing Business* report, Bangladesh ranks 83rd in the world for obtaining a construction permit. On average, it takes 100 days and costs \$375 to obtain a building permit from the Business Development Authority.⁵ That is nearly three months' income for the average Bangladeshi.

Increased regulation may have contributed to the accident at Rana Plaza, whose collapse is connected to the construction of two illegal floors on top of a six-story building. Had regulations been more reasonable, perhaps the owner of the Rana Plaza would have registered the additions to the facility and obtained the proper permits, preventing violations to the building code that led to the collapse.

The Obama Administration's actions will also not tackle the high levels of corruption that could have played a role as well. According to Transparency International's *Corruption Perception Index*, Bangladesh ranks as one of the most corrupt countries in the world.⁶ High levels of corruption undermine the existing regulatory framework meant to oversee workers' rights, labor conditions, and construction, allowing businesses to skirt rules by paying off bureaucrats.

Repeal Bangladesh Trade Sanctions Now. If the Obama Administration does not act to repeal these unilateral sanctions, Congress should act. The TAA Extension Act of 2011 renewed duty-free privileges under the GSP until July 31, 2013. In

light of the GSP's upcoming expiration, Congress should:

- **Renew duty-free treatment under the GSP.** Duty-free treatment for developing countries under the GSP promotes nearly \$20 billion in trade with the U.S. and saves importers nearly \$750 million in tariff duties. The GSP promotes growth and employment in developing countries and provides low-cost, duty-free goods for U.S. consumers.⁷
- **Reinstate Bangladesh's qualification for duty-free treatment in the GSP renewal.** The Administration's punitive move is ineffective and cruel. Not only does it hurt the poor and do little for workers' rights, but it also damages vital trade relations with a key ally and a large, friendly Muslim country.
- **Expand the GSP product categories to cover textiles.** If the Administration and Congress really want to help workers in Bangladesh, Congress should act to cut tariffs on textile imports into the U.S. In 2012, Bangladesh exported over \$4 billion in textile and apparel products to the U.S., paying an average duty of nearly 16 percent on those products.⁸ Reducing or eliminating this duty would directly benefit workers in Bangladesh by increasing employment and encouraging economic growth.

Punitive Sanctions Not Helpful. The recent workplace tragedies that have befallen Bangladesh

1. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," <http://dataweb.usitc.gov/> (accessed July 2, 2013).
2. U.S. Department of Commerce, U.S. Census Bureau, "U.S. International Trade Statistics," http://censtats.census.gov/naics3_6/naics3_6.shtml (accessed July 2, 2013).
3. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," All Import Commodities, Customs Value by Customs Value by GSP (excluding GSP for LDBC only) for Bangladesh, 2012, <http://dataweb.usitc.gov/> (accessed July 8, 2013); and U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," All Import Commodities, Customs Value by Customs Value by GSP LDBC countries only for Bangladesh, 2012, <http://dataweb.usitc.gov/> (accessed July 8, 2013).
4. Bangladesh Bureau of Statistics, *Detailed Tables of HIES 2010*, <http://www.bbs.gov.bd/WebTestApplication/userfiles/Image/HIES-10/Final%20All%20table.pdf> (accessed July 2, 2013).
5. World Bank Group, *Ease of Doing Business in Bangladesh*, 2013, <http://www.doingbusiness.org/data/exploreeconomies/bangladesh/#dealing-with-construction-permits> (accessed July 2, 2013).
6. Transparency International, "Bangladesh—Corruption," http://www.transparency.org/country#BGD_DataResearch_SurveysIndices (accessed July 2, 2013).
7. The Trade Partnership, "The U.S. Generalized System of Preferences Program," February 2013, http://tradepartnership.com/pdf_files/GSP%20Annual%20Report-February%202013.pdf (accessed July 2, 2013).
8. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb."

are horrific and highlight concerning workplace conditions. However, the President's move to punish Bangladesh by imposing trade sanctions is misplaced. Instead, if the President truly wants to improve the lives and well-being of workers, he should encourage free trade, work to lower barriers, and increase economic dialogue with Bangladeshi authorities.

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