

Globalization vs. Regionalization: Impact of Brexit on Bangladesh

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ABSTRACT

This research has set out to investigate the spillover effect of regionalism on a global level. In that regard, this study has explored the impact of EU agreements that grant preferential market access to developing countries as well as Brexit on Bangladesh, Cambodia, Vietnam, Ethiopia and India. In the process, this research has concluded that EU agreements have not only paved the way for considerable economic growth in these countries but also have had intrusive effects on standards such as environmental and product standards of these countries through regulatory measures. One of the other major findings of this study is that due to its heavy reliance on the EU for its textile trade, out of the five countries studied, Bangladesh stands to lose the most. This is suggestive of the fact that regionalism is not independent of globalization, and that much of 'globalization' is, in fact, construed of regional regulatory regimes and their spillover effects.

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Introduction

Whether regionalization is a local manifestation of economic globalization or the two processes are distinct is a debate that has been there for quite a long time.¹ Globalization can be defined as an economic system of interdependence.² With increase in cross-border flows of trade, investment, and financial capital, it has been argued that national economies are increasingly becoming more integrated.³ Recently the world trading system has experienced a change through proliferation of preferential trade agreements (PTAs) among subsets of countries. This change has been labeled regionalization as many PTAs are based on geographical regions.⁴ Regionalization can be defined as processes of integration that instead of predetermined plans of national or local governments are driven by markets, private trade, investment flows, and the policies and decisions of companies. Formation of regional groups can be traced back to 1950s. For example, it was the treaty of Rome in 1957 that resulted in the inception of the European Community.⁵

However, no consensus has been reached on whether regionalization is a process separate from globalization or whether the former is a part of the latter. Whereas on one hand, it has been contended by Friedman that the global economy is one that is highly integrated where firms can move around freely to find the best investment locations,⁶ on the other hand, according to Rugman, due to their limited ability to draw income from more than one region,

¹ Sangmoon Kim and Eui-Hang Shin, "A Longitudinal Analysis of Globalization and Regionalization in International Trade: A Social Network Approach," *Social Forces* 81, no. 2 (2002): 446.

² *Ibid.*, 445.

³ "One World?," *The Economist*, October 16, 1997.

⁴ Edward D. Mansfield and Etel Solingen, "Regionalism," *Annual Review of Political Science* 13 (2010) : 146-147.

⁵ Sangmoon Kim and Eui-Hang Shin, "A Longitudinal Analysis of Globalization and Regionalization in International Trade" 446.

⁶ Barry Eichengreen, "One Economy, Ready or Not: Thomas Friedman's Jaunt through Globalization," *Foreign Affairs* 78, no. 3 (1999): 119.

only few transnational corporations are truly global.⁷ Exploring whether changes in regional integration can affect globalization processes by having spillover effects on a global scale can contribute significantly to this debate. This inspires the two research questions that this thesis seeks to address. They include 1) If Globalization is separate from Regionalization then why is Bangladesh bearing the brunt of the prospect of Brexit? and 2) How does regionalism and globalism impact regionalization and globalization?

This thesis/dissertation/research seeks to investigate the relationship between regionalization and globalization by using Brexit as a scenario and the impact of the uncertainty caused by Brexit in Bangladesh based on two research questions. The reason why regional decisions can have wide-ranging effects in other regions is because regional integrations by which I mean rule-based regionalism and globalization are interlinked. Agreements that are by-products of regionalism such as Generalized System of Preferences (GSP) or Everything But Arms treaty (EBA) not only enable low economically developed countries eliminate poverty by giving them preferential access to European markets but also Europeanize their systems of production by imposing certain regulatory measures such as intellectual property rights regulations or environmental standards.⁸ This is reflective of the fact that 'globalisation' is much more 'regionalism-dependent' than is often assumed.

Brexit refers to the withdrawal of the United Kingdom (UK) from the European Union (EU), which was scheduled to take place on 29 March 2019 at 11 pm UK time.⁹ The new deadline for Brexit is 31st October.¹⁰ It is predicted that Brexit will affect exports of some Commonwealth countries, especially the least developed/developing countries. Due to fall in

⁷ Alan M. Rugman and Cecilia Brain, "Multinational Enterprises Are Regional, Not Global," *Multinational Business Review* 11, no. 1 (2003): 3-12.

⁸ "Generalised Scheme of Preferences," European Commission, last modified May 24, 2019, <http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/>.

⁹ "Brexit: UK asks EU for further extension until 30 June," *BBC News*, April 5, 2019.

¹⁰ "Brexit: UK and EU agree delay to 31 October," *BBC News*, April 11, 2019.

the British pound, Least Developed/developing Countries could experience a reduction in trade ranging from 15% to 16% of their current export value to the UK in key sectors such as fish, clothes, textiles and footwear since they trade with the UK under EU agreements. Europe and the UK constitute important trading partners of the Asia-Pacific region. Bangladesh, Cambodia, Sri Lanka and the Solomon Islands comprise some of UK's biggest bilateral trading partners.

There is uncertainty over the relationship that the UK will maintain with the EU. What is yet to be determined is whether the UK will adopt the EU's bilateral and multilateral trade agreements or revert back to Most Favored Nation (MFN) status under the World Trade Organization. Political uncertainty alone is predicted to cause slower UK and EU growth in the short-term which will lower imports from trading partners. The UK leaving the EU single market can impact third countries' trade relations with both the UK and the EU. This is because it is not only trade barriers such as quotas and tariffs that affect trade flows, but also a whole set of regulatory issues and standards demanded in the EU single market. Trade may be severely disrupted by new compliance requirements that in turn may increase time and costs in terms of administrative burden and logistics. Since there is a possibility of integrated supply chains within the current EU breaking up due to trade with the UK becoming more complicated, suppliers and traders may need to use different channels to reach the UK or post-Brexit EU markets.¹¹

Since most developing countries have 'better-than-Most Favored Nation (MFN)' access to the EU market under either an Economic Partnership Agreement (EPA) or other type

¹¹ Louis Graham, Arun Jacob, and Anders K. Moller. "Implications of Brexit to the Asia - Pacific Region: With a Focus on Least Developed Countries." *ESCAP Trade Insights*, no. 20 (March 2017): 2.

of Free Trade Agreement (FTA), they are the ones that will be affected the most by Brexit. This is because upon Brexit exit, EU border measures will be replaced by those of the UK.¹²

Given that Brexit is a relatively recent phenomenon, not many sources discuss in depth the contribution that Brexit can make to the Globalization vs. Regionalization debate. It is in this regard that my research aims to contribute.

With the situation of Brexit remaining clouded by uncertainty, the main objective of the thesis is to analyze the extent to which regional decisions can have an impact on a global level. I will do this using the data available on Bangladesh's, Cambodia's, India's, Vietnam's, and Ethiopia's GDP, trade, employment etc.

¹² Christopher, Stevens and Jane Kennan, "Trade Implications of Brexit for Commonwealth Developing Countries," *The Commonwealth*, no. 133 (2016): 2.

Chapter 1: Literature Review

Scholars are yet to reach a consensus on whether regionalization is a process separate from globalization or whether regionalization is a part of globalization. Whereas on one hand, Friedman contends that the global economy is highly integrated with firms moving around freely to find the best investment locations,¹³ on the other hand, according to Rugman, only few transnational corporations are truly global due to their limited ability to draw income from more than one region.¹⁴

Although these authors explain regionalisation and globalisation as bottom-up processes by economic actors such as integration of national economies through trade, Foreign Direct Investment, Multi National Enterprises, they overlook how regionalism and globalism impact regionalization and globalization. They seem to treat them as independent of the regulatory side of integration. But Brexit relates to regionalism and globalism. This is because proponents of Brexit deem Brexit as the UK leaving the regulatory frame of the EU for 'Global Britain'. The premise that the Brexiteers essentially based their argument on is that the EU is somehow constraining Britain from truly taking advantage of globalization by imposing regional rules. According to the proponents of Brexit, more trade and other opportunities in general can be forged from globalization that they think to exist independent of regionalisms. In their opinion, Brexit would enable the UK to establish its own trade agreements. This in turn would free the small and medium-sized firms of the regulatory burden that comes with EU membership enabling them to trade overseas.¹⁵ However, the impact that the prospect of Brexit has already started having on third countries such as

¹³ Barry Eichengreen, "One Economy, Ready or Not: Thomas Friedman's Jaunt through Globalization," *Foreign Affairs* 78, no. 3 (1999): 119.

¹⁴ Alan M. Rugman and Cecilia Brain, "Multinational Enterprises Are Regional, Not Global," *Multinational Business Review* 11, no. 1 (2003): 3-12.

¹⁵ "Brexit: pros and cons of leaving the EU," *The Week*, February 26, 2019.

Bangladesh, Cambodia and Vietnam with regards to GDP, trade, employment, remittance etc. is clearly suggestive of the fact that regionalism is not independent of globalization, and that much of ‘globalization’ is, in fact, construed of regional regulatory regimes and their spillover effects.

Inspired by the claim made by the proponents of Brexit about the possibility of small and medium-sized firms getting freed as a result of UK’s leave from the EU from the regulatory frame to trade overseas, I ask how a change in the regulatory frame impacts the regionalization or globalization of firms. This review seeks to argue that regionalization processes need to be understood within the broader paradigm of globalization and not as a distinct process if we are to understand the reasons why regional decisions can have spillover effect on a global level. Firstly, I will look at Friedman’s and Rugman’s arguments to understand as to why they think the world economy is highly globalized or regionalized. Secondly, I am going to use Omar J. Khan’s argument to gain some insight on how regionalization may lead to globalization. Thirdly, I am going to use Florina Popa’s argument to shed some light on how globalization may lead to regionalization. Finally, I am going to side with Shaun Breslin and Richard Higgott who argue that globalization can both be driven by and result in closer regional economic integration to build my case.

1.1 Regionalization is separate from globalization

According to Thomas Friedman, globalization is inevitable and irreversible because the world economy is truly globalized. He contends that a large proportion of international business is dependent on offshoring - outsourcing across national borders in today’s world. He argues that information exchange and zero barriers to entry in doing business anywhere have made the world very globalized. This is because individuals are now more empowered

to run global businesses by processing information and organizing activities equipped with personal computers and the internet. Governments are also no longer able to control the flow of information with progress of technology. Furthermore, daily economic decisions can no longer be dictated from above by either corporate CEOs or government planning ministers since markets now mutate with frightening speed. In addition to that finance can no longer only be controlled by commercial banks now that it is possible for anyone to be a day trader. In addition to that he mentions that due to globalization world's poorer countries have been availed more opportunities by global markets than ever before. For example, US software companies have ensured India's participation in global markets by outsourcing product development to India.¹⁶

Contrary to Friedman, according to Alan Rugman, globalization is nothing more than a myth. He asserts that most of the multinational enterprises (MNEs) and sectors including manufacturing and services are organized and oriented regionally in their home-triad market of either North America, the E.U. or Asia on the basis of production, sales, marketing and assets upon studying international activities of the 500 largest multinational enterprises. Therefore, he concludes that for any MNE it is the home region that remains the most important.¹⁷

Hideaki Hirata, M. Ayhan Kose and Christopher Otrok have also supported this view. According to them, since the mid-1980s, especially in regions that experienced a sharp growth in intra-regional trade and financial linkages, it is mainly regional factors that have explained business cycles. Similar to Rugman, they also mention that North American, European, Oceanian and Asian regions have shown particularly strong regional patterns over the past twenty-five years. This has been complemented by a decline in the importance of

¹⁶ Eichengreen, "One Economy, Ready or Not: Thomas Friedman's Jaunt through Globalization," 119.

¹⁷ Rugman and Brain, "Multinational Enterprises Are Regional, Not Global," 4.

global factor. Moreover, no significant change has been noticed in the international synchronization cycles as far as fluctuations are concerned as measured by a combination of global and region-specific factors in the past quarter century. These patterns apply to output, consumption and investment fluctuations. In sum, according to these authors, the recent era of globalization is marked by the emergence of regional cycles.¹⁸ Friedman, Rugman, Hirata, Kose and Otrok discuss the extent to which the world economy is globalized or regionalized. However, what they do is view these two processes separately or as processes that are contradictory to each other. What they do not take into consideration is if regionalization could be counted as a first step towards globalization or vice versa.

1.2 Regionalization leading to Globalization

MNEs having regional headquarters is one of the classic examples of how regionalization may act as the initial stage to globalization. According to Omar J. Khan, most large MNEs possess regional headquarters (RHQs). They implement strategic or tactical initiatives from these regional headquarters. This form of corporate governance has been initiated by many MNEs long ago. Many would argue that these RHQs provide clear evidence of regional compartmentalization within MNEs. However, they are nothing but mediums through which integration occurs at a global scale.¹⁹ According to Rugman, MNEs regionalize because it allows them to achieve economies of scale. In addition to that it also enables them to operate within its home-triad market far from their home bases without

¹⁸ Hideaki Hirata, M. Ayhan Kose, and Christopher Otrok, "Regionalization vs. Globalization," *IMF Working Paper* 13, no. 19 (January 2013): 6.

¹⁹ Omar J. Khan, "The Regionalization vs. Globalization Debate on Internationalization: An Analysis and Direction for Future Research," 26.

additional business risks. This usually occurs when the MNEs sell the same product or service in the same manner within the home-triad region.²⁰

Rugman asserts that the enhanced risks of going global cannot be sufficiently compensated by the additional scale, scope or differentiation advantages that these MNEs could gain by doing so. However, headquarters play a significant role when it comes to globalization tendencies of the MNEs. It was found that MNEs usually use RHQs when they wish to enter geographically distant emerging markets but require local responsiveness and simultaneous integration. RHQs of Japanese electronics manufacturers serves as an appropriate example for this. The conflicting demands of globalization and localization are often reconciled by these RHQs. MNE internationalization strategy can very well be explained by the regional tendencies of the MNEs. It will be revealed that local responsiveness is integral to successful global integration if this phenomenon is analyzed using the integration/responsiveness (IR) framework in the implementation of global and regional strategies to gain competitive advantage,²¹ Thus, MNEs often globalize themselves by pursuing regional strategies.

According to Khan, development and rise of regional strategies among MNEs can be explained by other important factors. They include physical distances between host and home markets, differences in the legal-political, socio-cultural, economic and technological environments among various regions of the world as well as the limitation that globalization experiences in pursuing economies of scale. As per Khan, it is the spatial configuration of a firm's assets, resources, and capabilities that determine a firm's global strategy. Needless to say, a firm would be bound to pursue regional strategies, if the spatial configuration of a firm's assets, resources and capabilities does not allow it to go global at the very beginning.

²⁰ Rugman and Brain, "Multinational Enterprises Are Regional, Not Global," 4.

²¹ Omar J. Khan, "The Regionalization vs. Globalization Debate on Internationalization: An Analysis and Direction for Future Research," 27.

This follows that when it comes to pursuing globalization, it is by creating regional hubs that MNEs find competitive advantage and greater strategic flexibility. Thus MNEs reach the equilibrium where there is a balance between efficiencies of globalization and responsiveness of localization by pursuing regionalization strategies. Hence it follows that it is within the context of balancing pressures that organizations face when it comes to integration due to the challenges posed by local responsiveness that global strategies should be conceptualized. Thus, by implementing strategic choices, the stage of globalization can be reached even from localization or zero globalization. Thus the conflicting pressures are balanced by Regionalization that acts as the “half-way house”.²²

MNEs also seek consumer markets while attempting to manage the environmental uncertainty associated with global trade, in addition to making sure that they are taking advantage of global efficiencies by reorganizing their production activities. For example, the main competitors of American MNEs tend to be MNEs of other high wage countries in most of the sectors. Same applies to most of the OECD countries as well. This shows that there are configural advantages to becoming regional if MNEs wish to compete against other MNEs from developed countries. It is because of the environmental uncertainty that MNEs often come up with such strategies.²³ This is reflective of the fact that global competitive factors often determine the motivation or decision of MNEs to go regional.

It is not important for MNEs to overcome protectionist measures if the purpose of the MNEs is to enter a market to utilize the market potential of the member nations since investment would have occurred due to market forces like closeness to consumers. According to the phenomenon of responsiveness in IR framework, firms reacting to local consumers are likely to show better performance when it comes to revenue earned from the region than

²² Ibid.,28.

²³ Ibid., 29.

firms that are not locally responsive. MNEs have realized that consumer tastes or preferences vary across the world and often the only way to be able to react to these consumer pressures competitively is to have a firmly entrenched local presence.²⁴ However, what Khan overlooks is whether globalization could lead to regionalization.

1.3 Globalization leading to regionalization

Friedman and Rugman contend that firms are more globalized and regional in nature. However, they do not shed light on the role that processes of globalization may play in enhancing regionalization. Florina Popa addresses this effectively. According to Popa, globalization leads to regionalization. She effectively argues that often regional integration occurs as a response to political and economic circumstances of globalization. Examples of such regional integration could include building of political and institutional framework necessary for world economic liberalization that favors economic cooperation among different countries of the world, encouragement of domestic competition by forming the base for removal of economic barriers, promotion of intraregional economic activities by removing barriers, bringing about internal legislative reforms and increased efficiency of firms.

According to Popa, there are several perspectives through which globalization - regionalization relationship can be viewed from. Gradual changes taking place in the global system that gets reflected in an increase in internationalization accompanied by regionalization is one of the ways in which this relationship can be viewed in terms of. Globalization favors regional economic integration by facilitating transfer of responsibilities from national institutions to supranational ones. Globalization does this by facilitating new roles both for the central government and for the subnational government in the development

²⁴ Ibid.,30.

of regional governance at national level. K. Lahteemaki-Smith demonstrates the relationship between globalization-regionalization-regionalism by using examples of effects of changes taking place in the international system that regionalization and regionalism must respond to. What she essentially means by this is that it is in response to changes taking place at the international level that new developments are taking place at a regional level.²⁵ Although Popa hints at it, she does not explicitly consider if regionalization and globalization could be concurrent processes.

1.4 Regionalization and Globalization as a concurrent process

Shaun Breslin and Richard Higgott argue that the processes responsible for developing regional production networks are not only driven by global processes but also are dependent on global markets. They mention that globalization can both be driven by and result in closer regional economic integration. According to them, whenever regionalization is discussed, it is important to consider the significance of extra-regional relations. Otherwise, there remains the risk of explaining a phenomenon that is both global and regional using only regional level of analysis.

They use the example of the rise of inter-Asian trade. Intra-regional trade such as the inter-Asian trade could mean decreased reliance on the extra-region such as the USA. However, USA serves as a major market for the final goods produced as a result of this inter-regional trade. To a large extent, it is because of the fragmentation of production across national boundaries that inter-Asian trade has grown. There has been a dramatic increase in the trade component in the production of a single commodity as a result of production of components across regions. However, USA remains one of the major destinations when it comes to selling the finished products of inter-Asian trade. This process can be explained

²⁵ Florina Popa, "The Infingence of Globalization from the Regionalization Process," *Economics, Management and Financial Markets*, December 2014, 486-93.

both by regionalization and globalization.²⁶ This shows that globalization is not a process that is distinct from regionalization.

Breslin's and Higgott's argument can also be applied to the situation of EU-Bangladesh or UK-Bangladesh trade that is carried out under the frameworks of GSP or EBA. EU receives approximately half of Bangladesh's exports. A lion's share of Bangladesh's exports to the EU and the UK is dominated by clothing. The devaluation of the pound following the referendum has already resulted in a decline in Bangladesh's garment exports to the EU and the UK. Given its heavy reliance on the textile trade with the EU, Bangladesh, specially the textile industry in Bangladesh stands to lose the most.²⁷ This is reflective of what Breslin and Higgott have mentioned about the importance of giving consideration to the significance of extra-regional relations, whenever regionalization is discussed. The reason why Brexit is having such a negative impact on Bangladesh is because of the extra-regional relations that the EU shares with Bangladesh through its regulatory framework enabling the firms to globalize.

This review initially set out to answer the question how a change in the regulatory frame impacts the ability of the firms to regionalise or globalise. Using this as a guiding question, this paper has sought to argue that regionalization processes need to be understood within the broader paradigm of globalization and not as a distinct process if we are to understand the reasons why regional decisions can have spillover effect on a global level. Firstly, I have looked at Friedman's and Rugman's arguments to understand as to why they think the world economy is highly globalized or regionalized. Identifying their failure to address the impact that processes of regionalization may have on globalization or vice versa,

²⁶ Shaun Breslin and Richard Higgott, 2000, "Studying Regions: Learning from the Old, Constructing the New," *New Political Economy* 5 (3): 345. doi:<http://www.tandfonline.com/loi/cnpe20>.

²⁷ Subramanian Senthilkannan Muthu, *Fast Fashion, Fashion Brands and Sustainable Consumption* (Springer Nature Singapore Pte Ltd. 2019), 25.

I have used Khan's and Popa's arguments to shed some light on the relationship between globalization and regionalization. Finally, siding with Breslin and Higgott, I have argued that attention needs to be paid to extra-regional relations driven by certain regulatory frameworks when discussing regionalization using the example of the idea of Brexit and the negative impact it is already having on Bangladesh.

Chapter 2: Conceptual framework and Methodology

This thesis is going to argue that globalization can be much more regionalism-dependent than is often considered. This is manifested in the impact that regionalism or European regional regulations have had on third countries through various agreements. The economies of countries like Bangladesh, Cambodia and Vietnam have been significantly affected by European regional regulations due to regulatory measures imposed by EU trade agreements. In this sense, Brexit or European regional disintegration can be understood as a test case to the importance of these regulatory measures. The reason why this is important is because Brexit was fought on a premise that the EU is somehow constraining Britain from truly taking advantage of globalization by imposing regional rules. The proponents of Brexit assumed that more trade and other opportunities in general could be forged from globalization that they thought to exist independent of regionalisms. According to Brexiteers, Brexit would enable the UK to establish its own trade agreements. This in turn would free the small and medium-sized firms of the regulatory burden that comes with EU membership enabling them to trade overseas.²⁸ However, the impact that the prospect of Brexit have already started having on third countries such as Bangladesh, Cambodia and Vietnam with regards to GDP, trade, employment, remittance etc. is clearly suggestive of the fact that regionalism is not independent of globalization, and that much of ‘globalization’ is, in fact, construed of regional regulatory regimes and their spillover effects.

In order to gauge the impact of Regional regulatory regimes and Brexit on third/developing countries and ensure the robustness of my results, I am going to explore the actual effect of EU/regional rules and investigate the impact of Brexit on five different countries including Bangladesh, Cambodia, Ethiopia, Vietnam and India to see if regionalism’s

²⁸ “Brexit: pros and cons of leaving the EU,” *The Week*, February 26, 2019.

impact is consistent across these cases. Since they all have trade agreements with the EU and have important trading relationships with the UK, consistency of regionalism's impact across these cases would strongly suggest that the measured impact is of regionalism and not of other factors. I will be looking at the impact that EU agreements and the regulations imposed by them have had on trade, growth, employment as well as standards such as product and environmental standards of the selected economies. Secondly, I will try to gauge as to how much of this impact can be attributed to the UK. Thirdly, I will investigate if Brexit has already had an impact on the selected economies using exchange rate where applicable since the British pound experienced a fall in the immediate aftermath of the referendum. In the fourth step, I will estimate the impact that a WTO scenario might have on the indicators specified of the selected countries. Then, based on these indicators, I will analyze how similarly or differently these countries have been affected by EU agreements or the prospect of Brexit and how their individual contexts, if at all, have affected the intensity of the impact.

Finally, I will conduct an in-depth case study of the impact of Brexit on Bangladesh since among the five countries studied, Bangladesh is likely to be affected the most by Brexit. The way I will do this is first by looking at how deeply intertwined Bangladesh is with Europe in the areas of trade, economic development, human rights, good governance and the environment by EU agreements via laying out the framework of the EU-Bangladesh Cooperation agreement under which the EU works closely with Bangladesh. I will do this by tracing how these agreements and the regulations imposed by these agreements have changed the Bangladeshi economy over time. Starting with the framework of Trade and Commercial cooperation between the European Community and Bangladesh as specified in the agreement, I will gradually address the Economic cooperation between the two parties as well as the regulatory measures and how they have affected Bangladesh.

It is important to establish the relationship between the EU agreements and the five countries if we are to make an inference on the impact of Brexit and the resultant withdrawal of these agreements on Bangladesh. Withdrawal of these agreements following Brexit would not only take away the advantage of duty-free access to the European market from Bangladesh but also result in elimination of regulations that were there on standards, intellectual property rights etc. Secondly, I will discuss the negative effects of Brexit or the prospect of Brexit such as depreciation of the pound on the textile trading relationship between the UK and Bangladesh since it is the textile industry in Bangladesh that has been affected the most by the prospect of Brexit or will be affected the most given Brexit happens. Furthermore, I will also investigate the impact that depreciation of the pound has already had on remittances that Bangladesh used to receive from the UK. Finally, I will bring in other studies to predict the kind of impact that Brexit could have on other aspects such as remittances and UK's immigration policy towards Bangladesh.

I will use empirical data such as graphs, charts, tables and statistics from International Trade Centre database, newspapers, Bangladesh Bureau of Statistics, International Monetary Fund and World Bank to establish the fact that EU agreements have contributed significantly towards the export earnings and GDP growth of these countries. Furthermore, data on regulatory measures adopted by the EU in these countries would show that these agreements by going far beyond their status as Foreign Trade Agreements (FTA), have had intrusive effects on the countries' economy and production systems. Apart from that the data will also show the impact of the prospect of Brexit on these countries that is already being felt or will be felt in case of a hard Brexit.

2.1 Case Selection

I have chosen to study Cambodia, Vietnam, India, Bangladesh and Ethiopia because they all have relatively strong trading relationships with the UK. Since they all benefit from EU agreements such as the GSP or the EBA that grant them preferential access to EU markets and have important trading relationships with the UK, I expect to see consistency with regards to the impact of EU agreements or Brexit on these countries. Consistency of regionalism's impact across these cases would strongly suggest that the measured impact is of regionalism or of regional decisions such as Brexit and not of other factors. Similar outcomes across these cases would also imply that regionalism is capable of having a spillover effect on a global level.

I have chosen to conduct an in depth study of Bangladesh because out of these five countries, Bangladesh or Bangladesh's textile industry stands to lose the most due to its heavy reliance on trade in textile with the EU and the UK, with the EU receiving half of Bangladesh's total exports. Unlike many other developing countries that have diversified the products they trade with the EU, Bangladesh has not. Clothing dominates Bangladesh's total exports to the EU and to the UK. As a result, Bangladesh has been hit the hardest by the referendum and will be affected the most in case of a hard Brexit out of the five countries.²⁹

²⁹Subramanian Senthilkannan Muthu, *Fast Fashion, Fashion Brands and Sustainable Consumption* (Springer Nature Singapore Pte Ltd. 2019), 25.

Chapter 3: Case Studies of Five countries

Vulnerable low economically developed/developing countries have long benefited from the European Generalized Scheme of Preferences (GSP) or the Everything but Arms treaty under it that allow them preferential access to European markets. In this chapter, I will be looking at the trade relations of Bangladesh, Cambodia, Ethiopia, Vietnam and India with the UK and the EU and how they have already been affected and will be affected in the case of a hard Brexit since they are beneficiaries of the Everything but Arms (EBA) treaty under the European Generalized Scheme of Preferences (GSP) or the GSP in general. I have selected these countries based on their relatively strong trading ties with the UK and the EU. Owing to being an EU member, the UK participates in the Everything but Arms (EBA) treaty under the European Generalized Scheme of Preferences (GSP). These treaties decrease or remove duties on exports from developing countries to the EU.³⁰

I will begin with a brief background on these treaties and demonstrate using data of various kinds including that of GDP, trade, employment etc. how the economies of these countries have been affected following the EU agreements. Secondly, I will investigate as to how much of this effect can be attributed to the UK. Thirdly, I will demonstrate the effect of pound devaluation on trade as well as foreign aid. In the fourth step, I will bring in other studies that make estimates about the future of these countries in the case of a no-deal Brexit. Finally, I will be evaluating the overall impact of Brexit on the countries concerned to see how similarly or differently they have been affected or will be affected in case of a hard Brexit and how their individual contexts, if at all, have affected or will affect the intensity or the type of the impact. I will be looking similarities and differences to see if regionalism's

³⁰ "Generalised Scheme of Preferences," European Commission, last modified May 24, 2019, <http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/>.

impact is consistent across these cases. Since all of these countries have trade agreements with the EU and have important trading relationships with the UK, consistency in regionalism's impact across these cases would strongly suggest that the measured impact is of regionalism and not of other factors. By analyzing the spillover effect that regional decisions have already had on these countries or will have in case of a hard Brexit, I will demonstrate the fact that regionalism is not independent of globalization.

3.1 European Union's Generalized Scheme of Preferences (GSP) and Everything but Arms (EBA) treaty

The European Union's GSP removes import duties from products entering the EU market from vulnerable developing countries. The primary objective of this scheme is to enable developing countries alleviate poverty and create employment opportunities based not only on international values and principles but also labour and human rights. Under the scheme, the EU offers Standard GSP, GSP+ as well as Everything But Arms (EBA). Standard GSP aims to partially or completely remove customs duties on two third of tariff lines for low and lower-middle income countries. GSP + brings down tariffs to 0% for low and lower-middle income countries that comply with certain international conventions related to labour rights, human rights, protection of the environment and good governance. Everything But Arms Scheme (EBA) is the special arrangement for least developed countries so as to be able to provide them with duty-free, quota-free access for all products except arms and ammunition.³¹

EBA entered into force in 2001. There are certain conditions that need to be satisfied in order to be incorporated as a beneficiary of EBA. A country is granted EBA status if it is listed as a Least Developed Country (LDC) by the UN committee for Development Policy.

³¹ "Generalised Scheme of Preferences"

Application is not necessary to benefit from EBA. Countries are added or removed from the relevant list through a delegated regulation. Since the EU values fair, multilateral and rules-based order in trade arrangements, beneficiary countries are expected to put into practice key UN human rights and International Labour Organization conventions. Under exceptional circumstances such as in cases of serious and systematic violation of principles laid down in fundamental human rights and labour rights conventions, EBA preferences can be withdrawn. Furthermore, countries do not lose EBA status by entering into a Free Trade Agreement with the EU. A ‘graduation mechanism’ for products also does not apply.³²

The EU has enhanced engagement with certain EBA beneficiaries. For example, the EU has stepped up their discussions with three EBA countries including Bangladesh, Cambodia and Myanmar about their human rights and labour rights standards. Engagement is primarily based on reports from the ILO and other UN bodies monitoring international human rights and labour rights conventions.³³ The Bangladesh Compact that consists of the EU, ILO, United States and Canada engages with Bangladesh to solve labour, occupational health and safety problems. The compact further encourages responsible business conduct in the ready-made garments and knitwear industry.³⁴ As a last resort, the EU can withdraw EBA preferences if talks fail to produce results. Such a decision is usually taken after having given due consideration to any possible negative economic and social consequences.³⁵

The institutional frame of these agreements have increased the impact of European regional regulations on all the five countries. By decreasing or removing duties on exports from the developing countries to the EU, these agreements have significantly enhanced the

³² “Everything But Arms,” European Commission, <https://trade.ec.europa.eu/tradehelp/everything-arms>.

³³ “Generalised Scheme of Preferences.”

³⁴ “Support the Implementation of the Sustainability Compact,” International Labour Organization, last modified December 31, 2018, https://www.ilo.org/dhaka/Whatwedo/Projects/WCMS_396191/lang--en/index.htm.

³⁵ “Generalised Scheme of Preferences.”

GDP growth or GDP per capita of the countries concerned by contributing towards their export earnings. For each of the five countries, I will be tracing how these agreements have contributed towards their economies by increasing their export earnings. I will do this by looking at their GDP growth, change in GDP per capita since the agreements were signed, as well as the impact of the regulatory measures imposed by these agreements on their economies. Furthermore, I will also be analyzing and speculating the impact of Brexit on these countries.

3.2 Case studies: Cambodia, Ethiopia, Vietnam, India and Bangladesh

3.2.1 Cambodia

3.2.1.1 Macroeconomic impact

Since 2001 when the EBA agreement was signed, Cambodia and its people have enjoyed a close relationship with the EU. The EU has supported Cambodia not only in building a brighter future for its population but also to play an active role on an international and regional level. EU-Cambodia Cooperation Agreement lies at the heart of the relationship between Cambodia and the EU. Cambodia benefits from the EBA treaty under the GSP as a Least Developed Country. EBA by giving Cambodia duty-free access to the EU for exports of all products except arms, weapons and ammunition has been one of the main drivers of economic and job growth in the country. EU continued to be the first export market for Cambodian products in 2016.³⁶

Cambodia's economy largely relies on its agriculture and textile exports. Cambodia's textile industry is a major supplier to the UK fashion industry. Cambodian exports to the UK amounted to over € 4 billion, of which almost 80% comprised apparel and footwear.

³⁶ "Cambodia and the EU," Delegation of the European Union to Cambodia, last modified May 11, 2016, https://eeas.europa.eu/delegations/cambodia/1006/cambodia-and-eu_en.

Cambodia is also the biggest exporter of fragrant rice to the EU. Cambodia is supported by the EU in maximizing the opportunities offered by international trade through diversification of markets and products. The EU and EU countries contributed € 151.87 million (\$185.60 million) in support of Cambodia’s development. The EU also encourages Cambodia to further its economic integration within ASEAN drawing on the EU single market experience.³⁷ Figure 1 that has data available from 2008 shows that imports of the EU from Cambodia have only increased over the years.

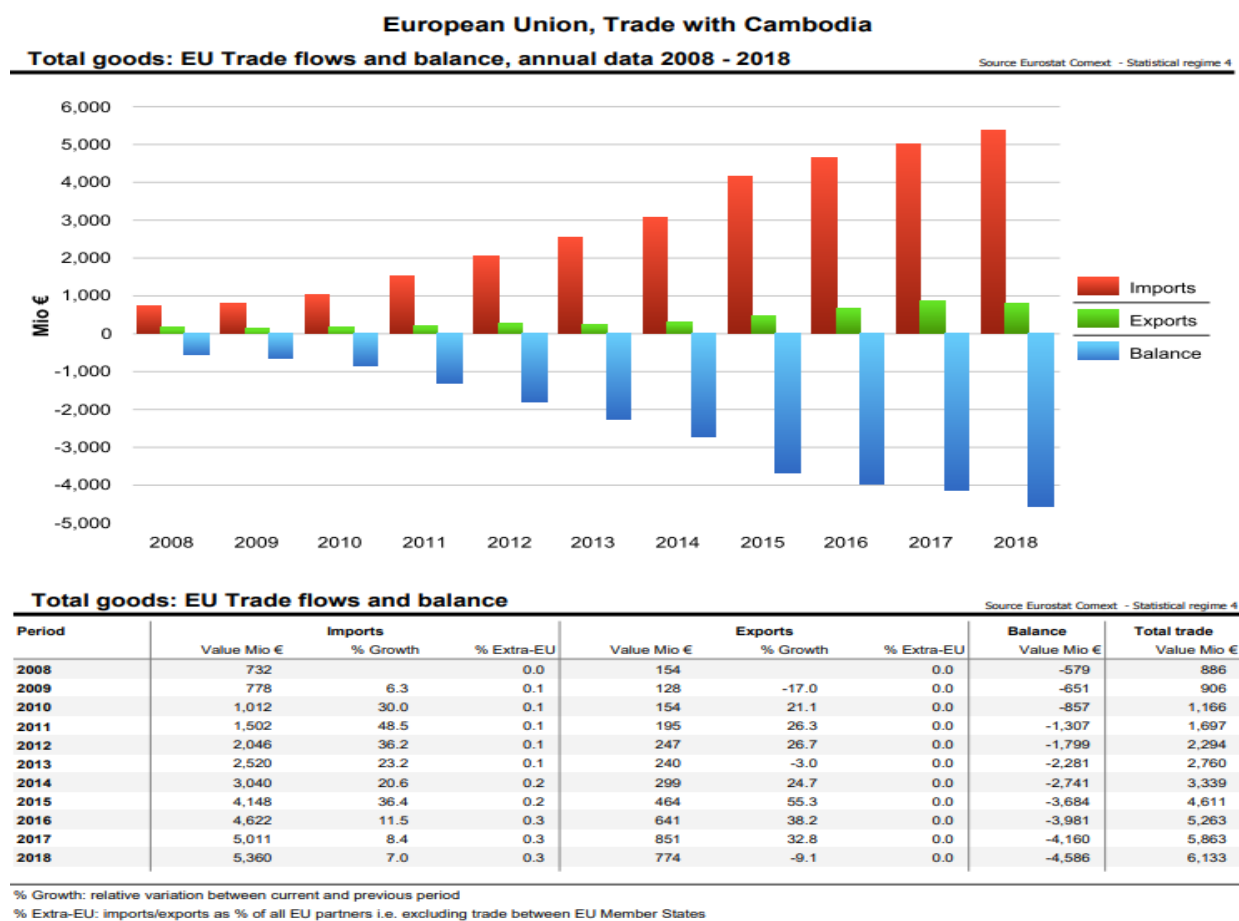


Figure 1. Total goods: EU Trade flows and balance, annual data 2008 - 2018. Data adapted from Eurostat Comext - Statistical regime 4,

“European Union: Trade in goods with Cambodia,” European Commission, Directorate-General for trade, Eurostat, accessed May 29, 2019,

https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_cambodia_en.pdf.

³⁷ “Cambodia and the EU”

Moreover, the country's GDP per capita has also increased since 2005 as has been demonstrated by Figure 2. EU agreements have arguably contributed to these increases as trade with the EU is now entirely dependent on the regulatory frame of these treaties.

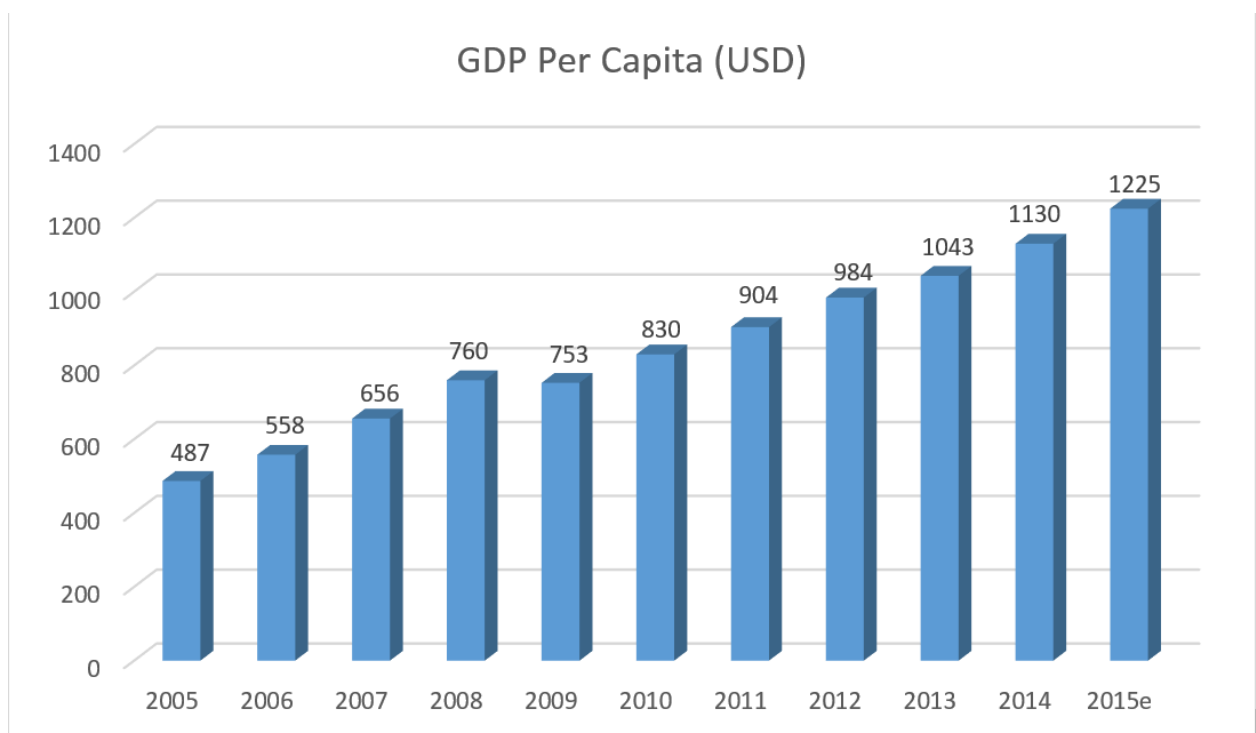


Figure 2. GDP per capita of Cambodia 2005-2015.

“Economic Trend,” Ministry of Economy and Finance in Cambodia (MEF), accessed May 29, 2019,

<http://www.cambodiainvestment.gov.kh/why-invest-in-cambodia/investment-environment/economic-trend.html>

3.2.1.2 Regulatory Impact

Under the EU-Cambodia cooperation Agreement, there are a number of regulatory measures that Cambodia has to abide by. They include protection of intellectual property rights in conformity with highest international standards, cooperation on sustainable and non-polluting energy sources etc.³⁸ When it comes to agricultural products, Cambodia till date faces challenges in complying with stringent non-tariff measures (NTMs) such as sanitary, phytosanitary (SPS) and technical barriers to trade (TBT) imposed by importing countries including the EU.³⁹ The EU has imposed the largest number of NTMs on Cambodia followed by Vietnam and US as has been shown by Table 1.

Table 1. Prevalent non-tariff measures (NTMs) including sanitary, phytosanitary (SPS) measures, technical barriers to trade (TBT) and non-tariff barriers (NTB) on agricultural export of Cambodia.

Prevalent NTMs on agricultural export

Countries	SPS	TBT	NTB	Total
EU	486	122	30	638
Vietnam	327	95	57	479
US	244	173	56	473
Thailand	255	65	72	392
China	141	87	52	280
Malaysia	154	82	28	264
Singapore	118	76	36	230

Source: Data adapted from Ven Seyhah's presentation, "The Effects of Non-Tariff Measures (NTMs) on Cambodia Agricultural Export: a Gravity Model," Cambodia Development Resource Institute (CDRI), April 27, 2017, accessed May 29, 2019,

<https://www.unescap.org/sites/default/files/The%20Effects%20of%20Non-Tariff%20Measures%20on%20agricultural%20export.pdf>

³⁸ "Cooperation Agreement between the European Community and the Kingdom of Cambodia," conclusion date: October 19, 1999, *Official Journal of the European Communities*, registration no. L 269/18, http://www.eas.europa.eu/archives/delegations/cambodia/documents/eu_cambodia/ec_cam_cooperation_agreement_en.pdf.

³⁹ Ven Seyhah, "The Effects of Non-Tariff Measures (NTMs) on Cambodia Agricultural Export: a Gravity Model," Power Point Presentation, Cambodia Development Resource Institute (CDRI), April 27, 2017.

The proportion of export companies affected by NTMs in 2014 was 82.0 percent which was the highest rate in ASEAN. Even with the duty free access, the average tariff equivalent of NTMs was 7.7 percent on Cambodia's export to the EU.⁴⁰

Moreover, as a result of severe human and labor rights violations, the EU has begun to withdraw its preferential EBA from Cambodia in order to coerce the government into meeting core human rights standards, knowing the country's economy could be severely paralyzed without EU's assistance. For example, the garment workers in Cambodia have been suffering from poor pay for quite a long time despite a strong emphasis placed on human rights by EBA agreement.⁴¹ This shows that the impact of EBA goes much beyond that of a Foreign Trade Agreement (FTA). These rules and regulations have intrusive effects on these countries' economies, production, etc. In other words, EU regulations become almost extra-territorial. The impact of the EU's EBA on Cambodia's economy and export industry in itself is reflective of the fact that globalization is not separate from regionalization since regionalism is capable of having a 'spillover' effect on a global level.

⁴⁰ Paul Brenton, "Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preferences under Everything but Arms," Policy Research Working Papers, The World Bank.

⁴¹ Joseph Curtin, "EU starts EBA withdrawal," *The Phnom Penh Post*, February 12, 2019.

3.2.1.3 Impact of Brexit on Cambodia

Over the past two decades, Cambodia has been one of the best performing economies in the world. With an average of 7.6 percent per annum from 1993 to 2003, the Cambodian economy has enjoyed rapid growth reaching to 10 percent per annum between 2004 and 2007.⁴² However, given UK's impending exit from the European Union, there are threats on the horizon. Although no substantial impact of the prospect of Brexit or depreciation of the pound sterling on Cambodian export to the UK has yet been recorded, according to the German Development Institute, if the country's garment producers lose access to UK markets, Cambodians living on the brink of poverty will be affected the most.⁴³ At around a time when the EU has already begun the process of withdrawing EBA preferences from Cambodia due to human rights concerns, the country could face higher export tariffs into the UK upon Brexit for similar reasons.⁴⁴ Since Cambodia sends 7.7% of its exports to the UK, Cambodia will especially be left vulnerable since a hard Brexit would result in the UK returning to World Trade Organization rules. Cambodia's real GDP could fall by 1.08% and household consumption could drop by 1.4% as a result of Brexit.⁴⁵

3.2.2 Ethiopia

3.2.2.1 Macroeconomic impact

At the heart of the relations between the EU and Ethiopia, lies the Cotonou Agreement. In addition to various other issues, this agreement together with the EBA commit both sides to Environmental Cooperation, Climate Change, Social & Economic Development and Investment & Trade. Ethiopia is supported by the European Union in its efforts to eradicate poverty, to foster economic, social and environmental development and to promote

⁴² "Economic Trend," Ministry of Economy and Finance in Cambodia (MEF), accessed May 29, 2019.

⁴³ "Will Brexit push Cambodia into economic crisis?," *Al Jazeera*, February 23, 2019.

⁴⁴ George Wright, "Brexit and EU sanctions threaten to push Cambodia into economic crisis," *Asian Review*, February 11, 2019.

⁴⁵ Emily Dixon, "The developing countries with the most to fear from Brexit," *CNN*, February 4, 2019.

human rights, democracy, and other elements of good governance. Attending particularly to situations of extreme poverty and social exclusion, the EU and Ethiopia collaborate to promote employment. They also promote economic and social integration of vulnerable populations.⁴⁶

The two sides also cooperate to maximize the social and economic impact of development cooperation. One of the ways in which they do it is by improving alignment of EU donors with the Growth and Transformation Plan II and Ethiopia's Climate-Resilient Green Economy Strategy. Issues that the EU works with Ethiopia on include exchanging information and practices related to education, vocational training and capacity building. The EU, together with Ethiopia, strives to create a strong economy in the country that hinges upon its structural and functional diversification, the improvement of competitiveness and productivity, the promotion of Micro, Small and Medium-sized enterprises (MSMEs), and an enhanced qualification of the human capital required on the labor market. The EU and Ethiopia also collaborate on development of the private sector and the improvement of the business climate.⁴⁷

EU has been the main export destination for Ethiopian exports. Among the products that are mainly exported to the EU from Ethiopia, the top three include flowers, coffee and apparel.⁴⁸ Ethiopia has a long history of textile manufacturing. The sector has experienced rapid growth in recent years with a number of new players establishing production facilities with the aim of supplying to foreign markets.⁴⁹ United Kingdom is one of the top ten destinations for Ethiopian apparel and accessories with an export value of \$1860,226 which

⁴⁶ "Ethiopia and the EU," Delegation of the European Union to Ethiopia, May 11, 2016.

⁴⁷ Ibid.

⁴⁸ Stakeholder Outreach Workshop, "Preliminary findings and introduction to the case study of Ethiopia," Power Point Presentation, Mid-term evaluation of the EU GSP, April 27, 2017.

⁴⁹ Esther de Haan and Martje Theuws, "Quick scan of the linkages between the Ethiopian garment industry and the dutch market," 4.

accounts for 10% of Ethiopia’s textile and garment exports.⁵⁰ Figure 3 shows that Ethiopia’s export under the EBA has experienced a consistent increase from 2001 till 2011. However, starting 2012 until 2016, it has experienced a declining trend. Nevertheless, the position at which Ethiopia’s export to the EU currently stands is much better than it used to be back in 2001 when the EBA was signed or prior to that.

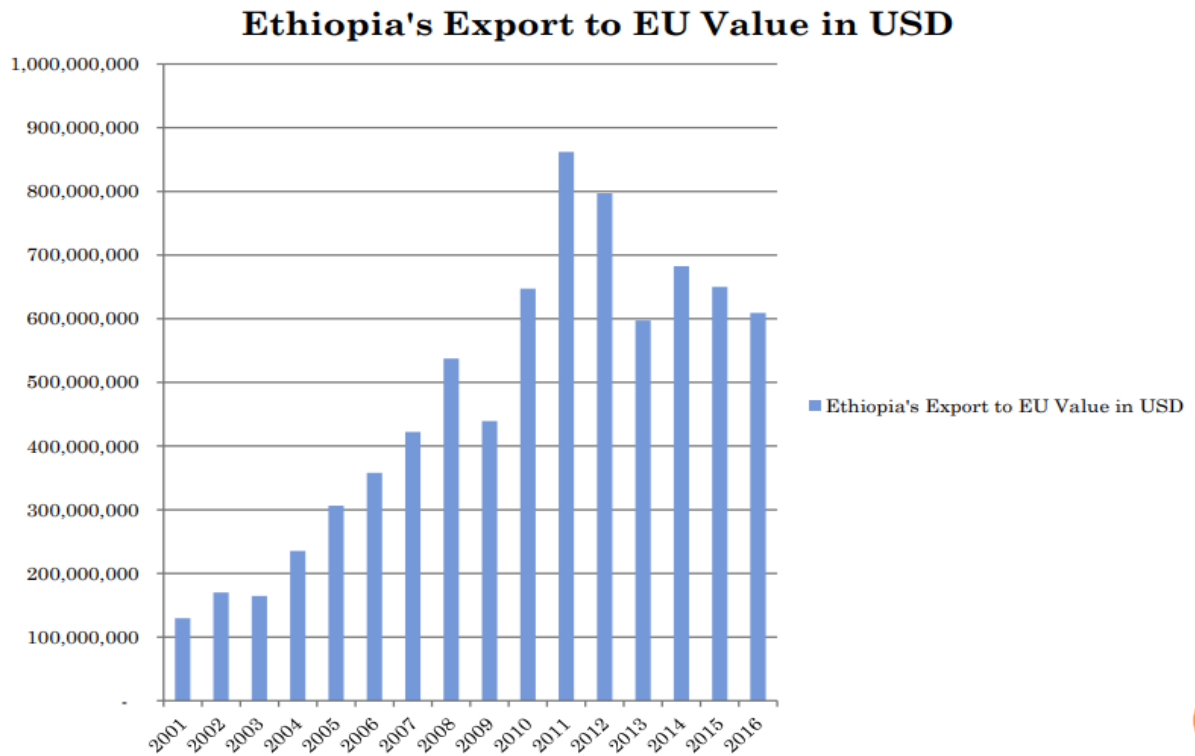


Figure 3: Ethiopia's Export to EU value in USD. Graph by Yishak Tekaligne,

“Ethiopia’s Perspective on EBA,” March 7, 2017, accessed May 29, 2019,

<http://www.gspevaluation.com/wp-content/uploads/2016/12/Ethiopias-Perpective-on-EBA.pdf>.

⁵⁰ Ibid., 12.

EBA's contribution to Ethiopia's total exports is quite evident in Figure 4 that shows an increase in EBA exports from Ethiopia to the EU not only in terms of value but also as a percentage of total exports to the EU.

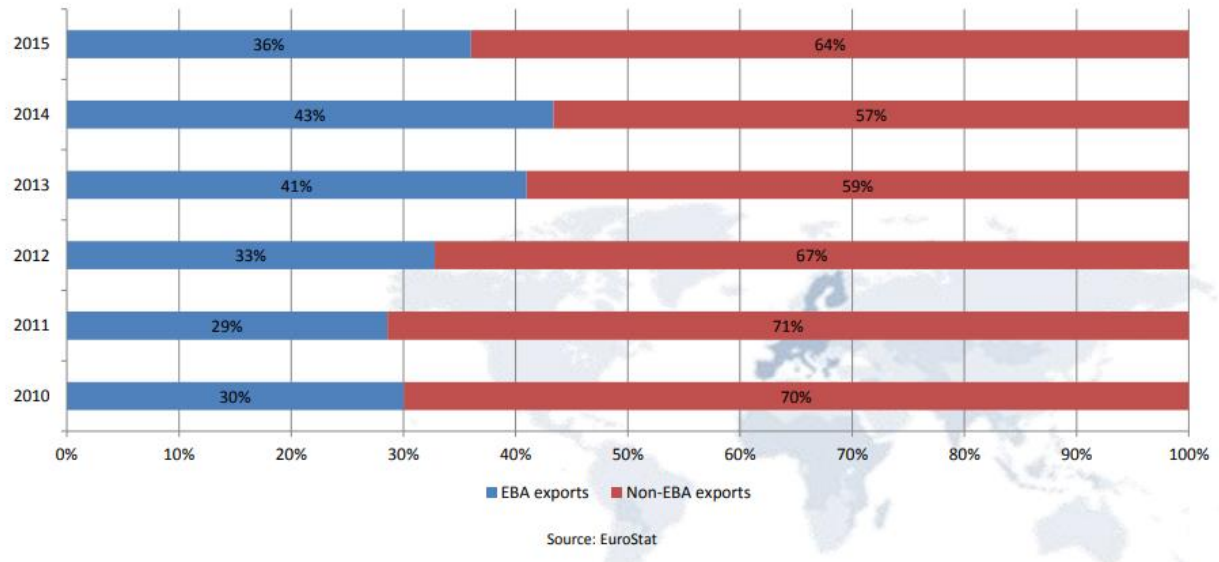


Figure 4: Increase in EBA exports to the EU in terms of value and as percentage of total exports to the EU. Graph from EuroStat,

“Preliminary findings and introduction to the case study of Ethiopia,” March 7, 2017, accessed May 29, 2019,

<http://www.gspevaluation.com/wp-content/uploads/2016/12/Preliminary-findings-and-introduction-to-case-study-Ethiopia.pdf>.

Added to that Ethiopia has also experienced rapid economic growth over the past decade with an average GDP growth of 10.6% per year as shown by Figure 5.



Figure 5: Ethiopia's economic growth over the past decade. Graph from World Bank,

"Preliminary findings and introduction to the case study of Ethiopia," March 7, 2017, accessed May 29, 2019,

<http://www.gspevaluation.com/wp-content/uploads/2016/12/Preliminary-findings-and-introduction-to-case-study-Ethiopia.pdf>.

High export growth has been one of the many factors that has contributed to Ethiopia's growth take-off since 2003 as shown by Figure 6. Two of the goals of Ethiopia's Growth and Transformation Plan (GTP) II include becoming a lower middle-income country by 2025 and increasing the real GDP growth at 11% per year.⁵¹ Similar to Cambodia, the impact of EU's EBA on Ethiopia's economy, export industry and environment again demonstrates that regionalism is capable of having a 'spillover' effect on a global level.

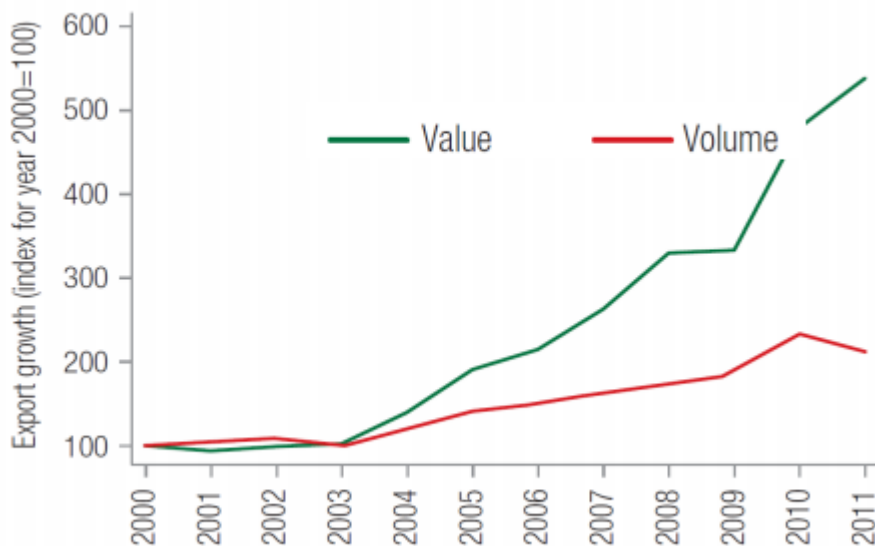


Figure 6: Ethiopia's export performance between 2000 and 2011. Graph by James Wakiaga, "Development impact of GSP/EBA: The Ethiopia Case," March 7, 2017, accessed May 29, 2019, <http://www.gspevaluation.com/wp-content/uploads/2016/12/Development-impact-of-EBA.pdf>.

⁵¹ "Preliminary findings and introduction to the case study of Ethiopia"

3.2.2.2 Regulatory impact

Ethiopia's environment is affected by a range of economic activities conducted both by agriculture and the light manufacturing industries. Detrimental environmental effects such as deforestation, soil erosion and degradation can be attributed to intensive agricultural use of land and overgrazing by livestock.⁵² In order to counter the negative impacts of the rapid economic growth on the country's environment, the government has made a strong commitment to natural resource management and environmental protection influenced by EBA environmental standards. In an effort to regulate industrial and commercial pollution, the government has not only adopted strategies and programmes, but also introduced environmental management policies and instruments. Moreover, industry and agriculture sectors are also increasingly becoming proactive in reducing their impact on the environment. For example, the coffee industry has not only begun to use more widespread drip irrigation to reduce its water use, but also banned the use of hard chemicals and pesticides in compliance with international conventions.⁵³ This again shows that the EBA going much beyond being just a FTA has had an intrusive impact on Ethiopian economy by compelling the Ethiopian government to commit to certain environmental measures.

3.2.2.3 Impact of Brexit on Ethiopia

With an impending Brexit, Ethiopia fears a decline in foreign aid from the UK to the country. 2.54 billion pounds that the UK allocated for the continent in 2015 benefited the region of Africa significantly. Among the countries that have benefited from this aid, Ethiopia occupies the topmost position receiving 334 million pounds in 2015. The 10 percent decline in the value of the pound that has already happened following the referendum has

⁵² Development Solutions, "Mid-Term Evaluation of the EU's Generalised Scheme of Preferences," European Commission, Final Interim Report, 186.

⁵³ *Ibid.*, 188.

already reduced the amount of official development assistance (ODA) coming to Ethiopia. According to Alemayehu Gedda (Prof.), a macroeconomist and lecturer at the Addis Ababa University (AAU) School of Business and Economics, any impact on the UK's economy is bound to have significant consequences on the ODA recipient nations, Ethiopia being one of them. This is because it is the national economy from which the resource for ODA is apportioned from. Since UK's national economy is likely to experience a contraction following Brexit, Ethiopia is definitely going to bear the brunt of the leave being a country that benefits the most from UK's assistance.⁵⁴

3.2.3 Vietnam

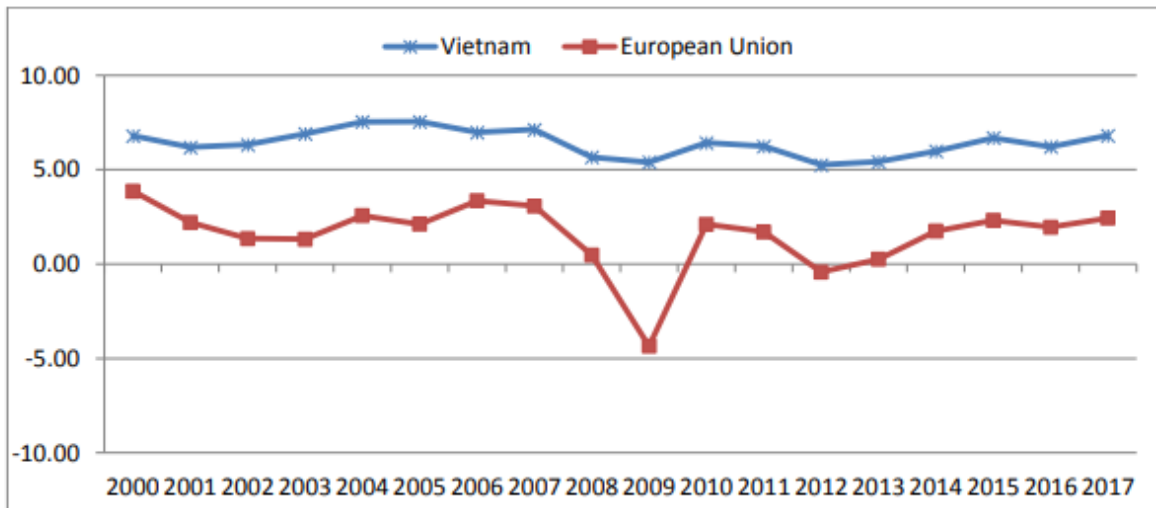
3.2.3.1 Macroeconomic impact

Vietnam has become one of EU's main partners in Southeast Asia following establishment of diplomatic ties in October 1990. EU-Vietnam Framework Cooperation Agreement (FCA) together with GSP define the terms of the relationship between the EU and Vietnam. Vietnam's integration into the global economy has been vastly supported by the European Union over the last decades. Vietnam's successful implementation of the market-oriented reform policies known as Doi Moi that has led to the country's remarkable economic progress was complemented by continuous assistance from the EU.⁵⁵

⁵⁴ Asrat Seyoum, "The Brexit quagmire: Could it reach Ethiopian shores?," *The Reporter*, July 2, 2016.

⁵⁵ "Vietnam and the EU," Delegation of the European Union to Vietnam, last modified May 16, 2016, https://eeas.europa.eu/delegations/vietnam/1897/vietnam-and-eu_en.

One of the reasons why Vietnam has been able to graduate from a least developed country to a lower middle-income country with an average per capita income of \$2342 is because of EU assistance.⁵⁶ As shown in Figure 7, Vietnam has experienced a remarkable growth rate in the 2000-2017 period with an average growth rate of 6.4% per year.⁵⁷



Source: World Bank

Figure 7: Evolution Growth rate GDP for Vietnam and the EU (in %). Graph from World Bank,

“The Economic Impact of the EU-Vietnam free trade agreement,” accessed May 29, 2019, http://trade.ec.europa.eu/doclib/docs/2019/february/tradoc_157686.pdf.

⁵⁶ Ibid.

⁵⁷ “The Economic Impact of the EU-Vietnam free trade agreement,” European Commission, Luxembourg: Publication office of the European Union (2018): 5.

The expansion of Vietnamese exports to the EU market benefit considerably from the GSP. Just second to the US, EU was one of the most important overseas markets for Vietnam in 2018. As shown in Figure 9, in the same year, approximately 17% of the country’s global exports was purchased by the EU.

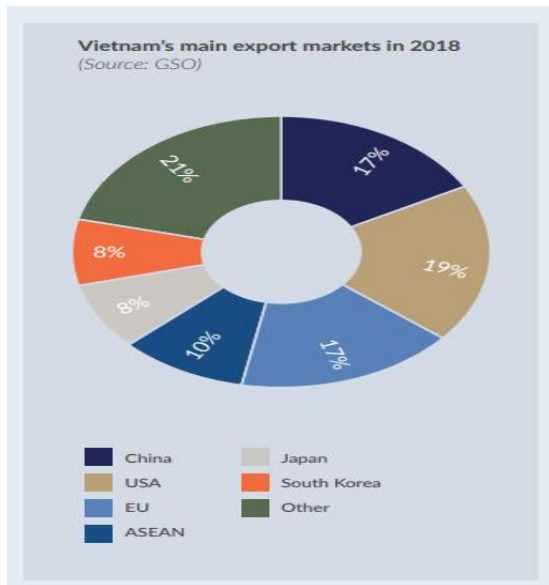


Figure 8: Vietnam's main export markets in 2018. Graph from Vietnam's General Statistics Office (GSO),

“Guide to the EU-Vietnam Trade and Investment Agreements,” accessed May 29, 2019,

http://trade.ec.europa.eu/doclib/docs/2016/june/tradoc_154622.pdf.

Over the past decade, this figure has only experienced double-digit growth with an annual rate of 13-15% sometimes reaching 25%. As shown in Figure 9, EU imports from Vietnam have only increased over the years starting 2007. According to Vietnam's General Statistics Office, commodities exports grew by 11% year-on-year to \$42.5 billion in 2018.⁵⁸ It is mainly labour intensive products including electronic items/telephone sets, footwear, garments and textiles, coffee, seafood and furniture that Vietnam exports to the EU.⁵⁹ Approximately 19-20 per cent of Vietnam's national revenue came from textile and garment exports to the European Union in 2015 with the UK contributing approximately 4 per cent.⁶⁰

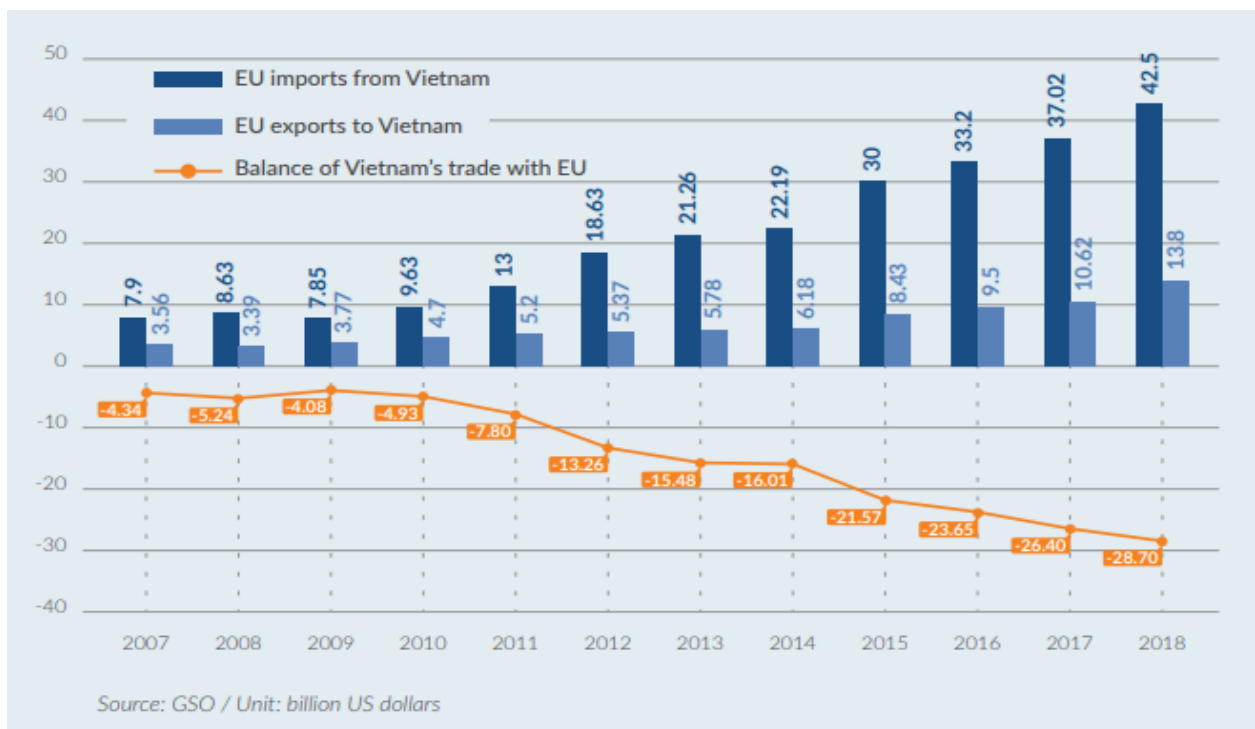


Figure 9: EU's imports and exports from and to Vietnam respectively. Graph from GSO,

"Guide to the EU-Vietnam Trade and Investment Agreements," accessed May 29, 2019,

http://trade.ec.europa.eu/doclib/docs/2016/june/tradoc_154622.pdf.

⁵⁸ "Guide to the EU-Vietnam Trade and Investment Agreements," Delegation of the European Union to Vietnam, 12.

⁵⁹ *Ibid.*, 14.

⁶⁰ "Brexit to impact local garment industry," *Viet Nam News*, June 30, 2016.

In addition to having positive effects on Vietnam’s domestic real consumption, Vietnam's real GDP is increased by 0.48% by Vietnam’s net exports to the EU.⁶¹ As can be seen from Figure 10, Vietnam’s GDP per capita has only experienced an increase starting 2007. These increases can be arguably attributed to the agreements that Vietnam has signed with the EU since trade with the EU is solely dependent on these agreements.

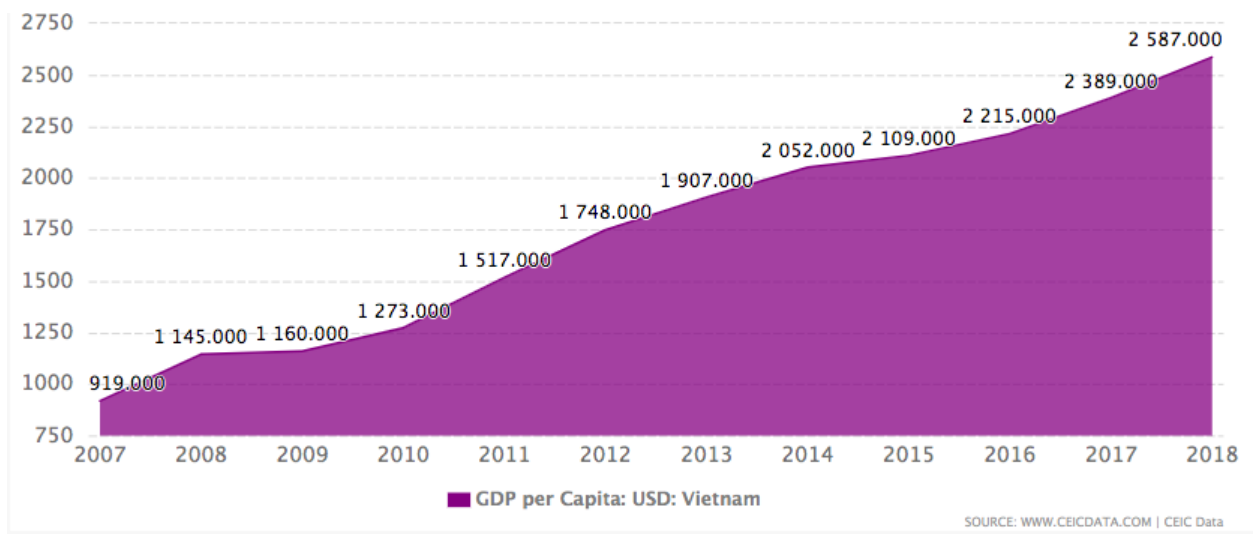


Figure 10: Vietnam’s GDP per Capita. Graph from CEIC Data, “Vietnam GDP per Capita,” accessed May 29, 2019, <https://www.ceicdata.com/en/indicator/vietnam/gdp-per-capita>.

3.2.3.2 Regulatory impact

Vietnam and the EU have agreed to use the framework provided by the WTO SPS agreement with regards to adopting Sanitary and phytosanitary measures. This has offered solutions to problems that have long affected the bilateral relationship. For example, the lack of agreement on establishing the health status for certain animal diseases is an issue that has

⁶¹ Jan Grumiller, Werner Raza, Cornelia Staritz, Bernhard Troster, Rudi Von Arnim and Hannes Grohs, “The economic and social effects of the EU Free Trade Agreement with Vietnam,” Final Report, Vienna: Austrian Foundation for Development Research (2018):8.

impacted the bilateral relationship for a long time. In that regard, they have reached an agreement on adopting the international health status as formulated by the World Organization for Animal Health (OIE). Vietnam has also agreed to bring about far-reaching changes to its domestic legal framework in order to strengthen the protection of intellectual property rights. For example, Vietnam has agreed to address issues such as protection of copyrights of material shared across digital networks such as the internet.⁶² This again shows that the impact of GSP goes much beyond that of a Foreign Trade Agreement (FTA). The rules and regulations imposed by EU-Vietnam FTA have had far-reaching effects on Vietnam's Sanitary and phytosanitary measures as well as intellectual property rights. The intrusive impact of the EU's GSP on Vietnam's economy and export industry in itself is reflective of the fact that globalization is not separate from regionalization since regionalism is capable of having a 'spillover' effect on a global level.

3.2.3.3 Impact of Brexit on Vietnam

The prospect of Brexit's impact is already being felt in Vietnam. Reporters were told by the Chairman of Vietnam and Textile and Apparel Association (VITAS) Vu Duc Giang that export firms that received big export orders to UK were already facing difficulties. According to him, as a result of the referendum and sharp devaluation of the GBP currency, many British firms in Vietnam are already scaling down. UK is the biggest importer of Vietnam's textile garment products. During the first five months of 2016, Vietnam earned over \$257 million from exporting textiles to the UK compared to annual exports of some \$400 million to this market. This could be attributed to the depreciation of the pound that has already affected the purchasing power of customers in the European Union and the United Kingdom having a direct impact on textile and garment enterprises in Vietnam. This is

⁶² "The Economic Impact of the EU-Vietnam free trade agreement."

mainly because material prices needed to be re-negotiated due to changes in the exchange rate which had a direct influence on the input prices of textile products.⁶³

3.2.4 India

3.2.4.1 India: Macroeconomic impact

India being one of the growing economies and Europe being the world's largest trading power are cooperating with each other to boost trade and investment at the World Trade Organization and bilaterally through a Free Trade Agreement. The bilateral trade between India and the European Union has more than doubled in the last decade. This has made the European Union India's number one trade and investment partner. India has greatly benefited from the EU's GSP since 1971. In 2015, two-way trade between India and the EU reached EUR 77.3 billion. The EU is India's main destination for outward Foreign Direct Investment (FDI). In addition to that the EU is also India's most important source of inward FDI after Mauritius with almost EUR 5 billion of EU outward investment to India in 2014. At the end of 2014, the total stock of Indian FDI in the EU was EUR 6.7 billion and the total stock of EU FDI in India was EUR 38.5 billion. India and the EU also hope to increase their trade in both goods and services as well as investment through the negotiation of a free trade agreement.⁶⁴

18% of the total Indian exports is destined for the EU. In the last decade, trade in goods between the EU and India increased by 72%. Furthermore, between 2010 and 2016, trade in services between the EU and India increased from €23 billion to €29 billion. With approximately 6000 EU companies present in India, EU is playing an important role in

⁶³ "Brexit Blues – Apparel Export and Supply – Chain Impact Perceptions," Anjuli Gopalakrishna, accessed May 29, 2019, <https://www.anjulg.com/brexit-blues-apparel-industry-impact-perceptions/>.

⁶⁴ "India and the EU," Delegation of the European Union to India and Bhutan, last modified October 17, 2016, https://eeas.europa.eu/delegations/india/670/india-and-eu_en.

eliminating unemployment in India by providing 1.7 million jobs directly and 5 million jobs indirectly in a broad range of sectors.⁶⁵ Figure 11 shows an overall increase in EU imports from India over the years. The UK is one of India’s main trading partners from the EU bloc. In 2018, trade with the UK totalled €13.6 billion. This accounted for 17% of India’s overall trade with the EU. Added to that between 2002 and 2018, trade between India and the UK increased at an average rate of 8.8% a year. Approximately a third of India’s apparel exports to the EU is destined for the UK. Britain alone enjoys 37% share of the apparel exports to the EU from India out of the 28 nation block. This is mainly due to the fact that India enjoys a 20% tariff preference in the EU under its GSP program.⁶⁶

EU trade with India



Figure 11: EU trade with India. Graph from European Parliamentary Research Service (EPRS) and European University Institute,

“EU Trade With India,” accessed May 29, 2019,

<https://epthinktank.eu/2016/07/05/india-economic-indicators-and-trade-with-eu/fig-4-eu-trade-with-india/>.

⁶⁵ “Countries and regions: India,” European Commission, last modified May 17, 2019, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>.

⁶⁶ “Is Brexit an opportunity to revive the EU-India trade deal?,” The Conversation, last modified March 26, 2019, <http://theconversation.com/is-brex-it-an-opportunity-to-revive-the-eu-india-trade-deal-113780>.

India has also experienced an upward trend in overall GDP growth over the years since 1971 as is shown in Figure 12. Between 1960 and 2017, GDP in India averaged \$545.87 billion reaching an all time high of \$2600.82 billion.⁶⁷ These increases can be arguably attributed to the agreements that Vietnam has signed with the EU since trade with the EU is solely dependent on these agreements.

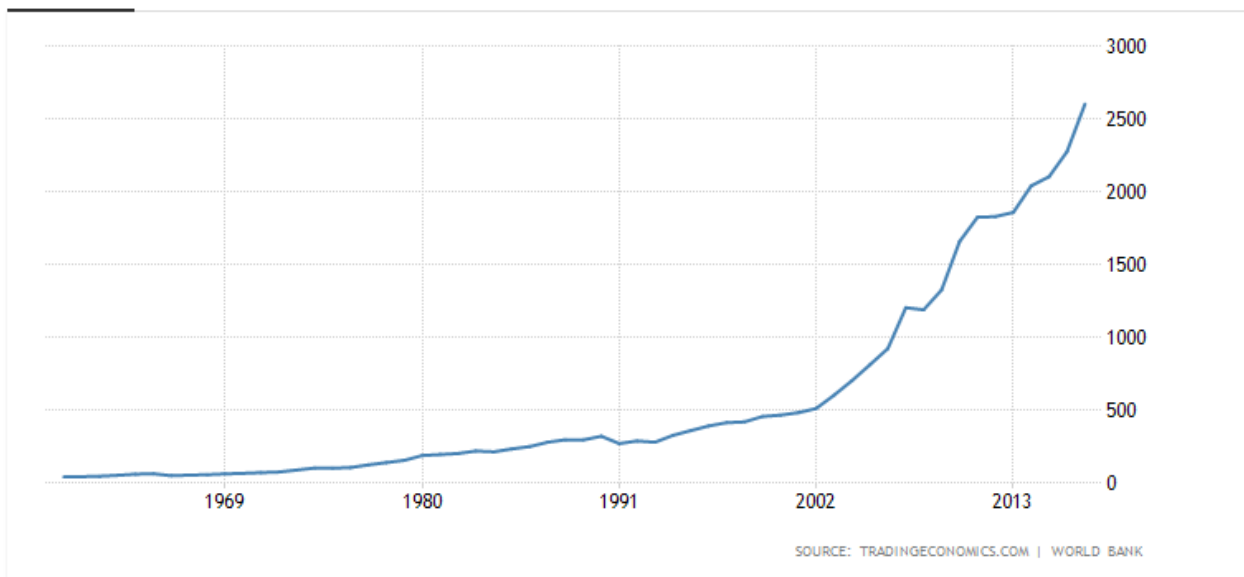


Figure 12: India's GDP growth. Graph from Trading Economics and World Bank,

"India GDP," accessed May 29, 2019,

<https://tradingeconomics.com/india/gdp>.

3.2.4.2 India: Regulatory Impact

The environment plays an important role in EU-India partnership. India constitutes the fourth-largest economy and the sixth largest energy consumer in the world, with 1.2 billion people. In 2017, the demand for power increased by 6.5%. It is estimated that in order to meet the future need, India's energy supply will need to double by 2020 and increase by three to four times by 2031-32. As part of the EU-India cooperation framework, India-EU

⁶⁷ "India GDP," Trading Economics, accessed May 29, 2019, <https://tradingeconomics.com/india/gdp>.

Clean Energy and Climate Partnership was announced during the EU-India summit in 2016. This was done in order to strengthen joint activities for deployment of climate friendly energy sources. The EU supports a wide range of initiatives for low carbon energy production in India under the Clean Energy and Climate Partnership.⁶⁸ This again shows that the impact of GSP has gone much beyond that of a FTA in India. The EU-India FTA has had far-reaching effects on India's environment. The intrusive impact of the EU's GSP on India's economy, export industry and the environment in itself is reflective of the fact that globalization is not separate from regionalization since regionalism is capable of having a 'spillover' effect on a global level.

3.2.4.3 Impact of Brexit on India

India currently faces two concerns with regards to Brexit. Due to currency fluctuations and decline of the GBP by 12% from the levels prevailing at the time of vote for Brexit, the money that the British buyers are supposed to pay to honour their USD contracts with their suppliers of textiles in India are being impacted. This has resulted in a downward pressure on prices. Furthermore, with impending Brexit, the terms of the EU FTA that was being negotiated between India and the EU may need to be re-evaluated and renegotiated. What remains to be seen is how exports to the UK get impacted following Brexit.⁶⁹

3.2.5 Bangladesh

3.2.5.1 Macroeconomic impact

The EU supports the Bangladesh government's reform agenda and emphasizes the need for the government to act on it and ensure compliance with its human rights obligations. It is under the framework of the EU-Bangladesh Co-operation Agreement concluded in 2001,

⁶⁸ "India and the EU."

⁶⁹ "Brexit Blues – Apparel Export and Supply – Chain Impact Perceptions."

the EU works closely with Bangladesh. Areas where Bangladesh receives assistance from the EU include economic development, human rights, good governance and the environment.⁷⁰

Half of Bangladesh's exports go to the EU. 90% of the country's total exports to the EU comprises textiles and clothing. This is mainly because of the highly advantageous trade terms granted by the EU under the EBA scheme. Bangladeshi exports to the EU increased from €10.8 billion to €17.6 billion from 2011 to 2015.⁷¹ Figure 13 shows this trend.

Furthermore, Bangladesh's exports accounted for 66.2 per cent of all EBA exports to the EU in 2016, making it the largest beneficiary of the EBA arrangement.⁷²

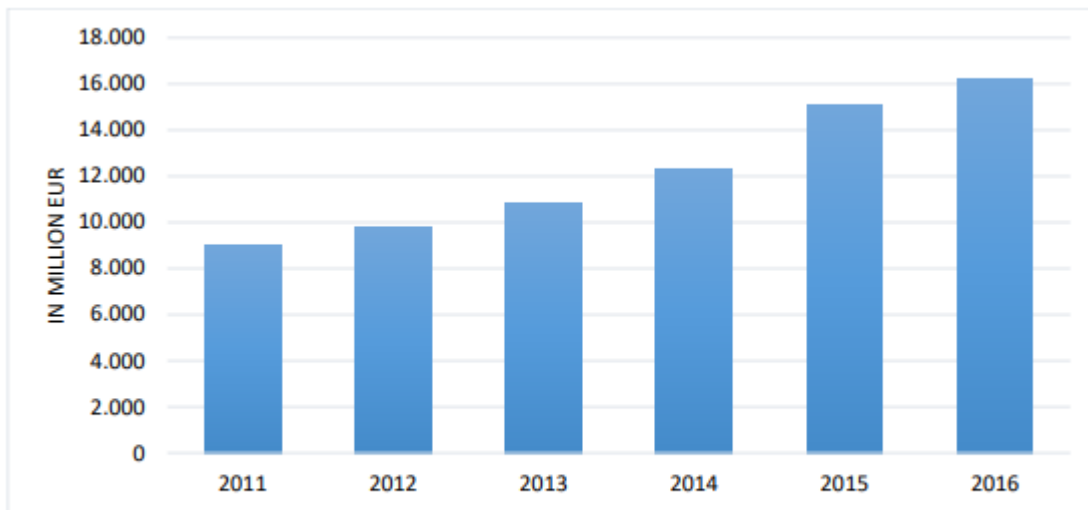


Figure 39: Bangladesh's total exports to the EU (2011-2016)²⁹⁹

Figure 13: Bangladesh' total exports to the EU (2011-2016). Graph from European Commission,

"Mid-term Evaluation of the EU's Generalised Scheme of Preferences (GSP)," accessed May 29, 2019,

http://trade.ec.europa.eu/doclib/docs/2018/october/tradoc_157434.pdf.

Since the incorporation of Bangladesh in EBA and the signing of the cooperation agreement in 2001, Bangladesh has experienced a steady economic growth, with an average

⁷⁰ "Bangladesh and the EU," Delegation of the European Union to Bangladesh, last modified May 11, 2016, https://eeas.europa.eu/delegations/bangladesh/926/bangladesh-and-eu_en.

⁷¹ Ibid.

⁷² Development Solutions, "Mid-Term Evaluation of the EU's Generalised Scheme of Preferences," 163.

GDP growth of 6.2 per cent per year. Between 2011 and 2015, the country’s GDP increased from USD 128.6 billion (EUR 118.2 billion) to USD 195 billion (EUR 179.2 billion). The per capita GDP increased from USD 838.55 (EUR 770.66) to USD 1211.70 (EUR 1113.59) between 2011 and 2015 with an average increase of 5.05 per cent per year.⁷³ Figure 14 shows that Bangladesh’s GDP growth has only increased over the years. It can also be seen that the growth has drastically picked up the pace starting 2002. It can be argued that it is because of the EBA that this growth has picked up.

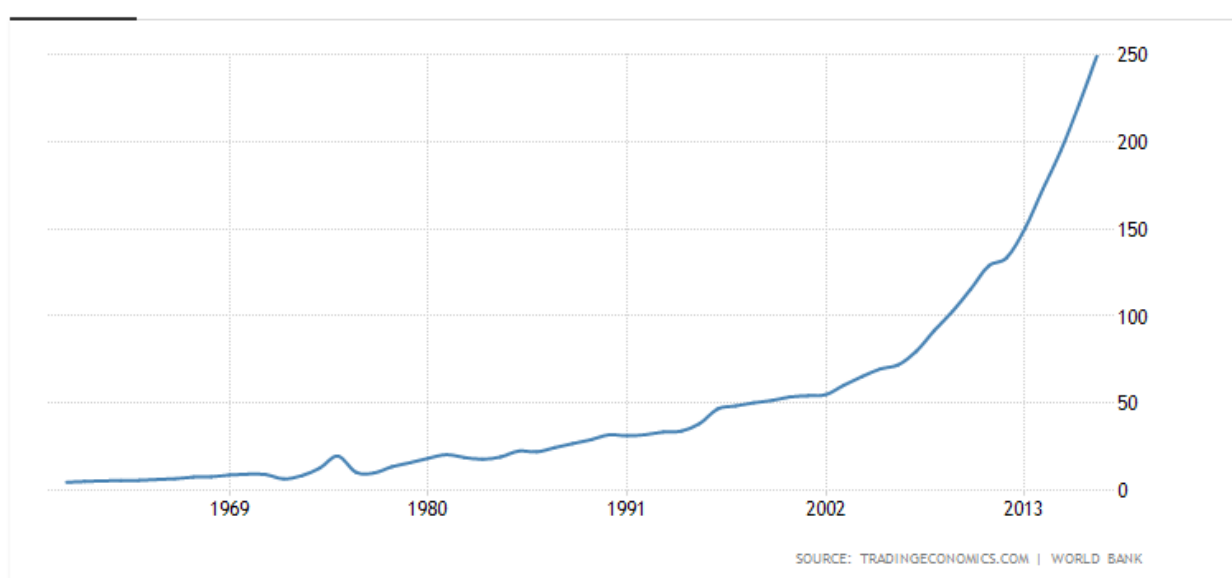


Figure 14: Bangladesh GDP. Graph from Trading Economics and World Bank,

“Bangladesh GDP,” accessed May 29, 2019,

<https://tradingeconomics.com/bangladesh/gdp>.

Historically, Bangladesh has maintained positive trade balance with the UK. Under the EBA of the Generalized System of Preferences (GSP), the country enjoys duty-free market access for all products to UK. During the fiscal year 2017-2018, a total of \$3,989.12 million worth of goods were exported to the UK. This comprises 9.74% of the country’s total

⁷³ Ibid., 166.

export. 80% of the goods that are exported to the UK comprises knitwear and woven garments.⁷⁴

Furthermore, investment by European companies in Bangladesh has created new jobs, improved the local skill base, improved working conditions, brought about advanced technologies, raised the standard of Bangladeshi production helping it compete internationally and diversified Bangladeshi economy strengthening it against shocks.⁷⁵ These improvements can be attributed to the agreements that Bangladesh has signed with the EU since trade and partnership with the EU is solely dependent on these agreements.

3.2.5.2 Regulatory Impact

The safety conditions in the Ready-Made Garment factories across Bangladesh are below par. In 2013, the collapse of the Rana Plaza garment factory resulted in the loss of 1,136 lives. This incident directed the authorities' attention towards the devastating impact that neglected safety standards can have on people's lives. Furthermore, this disaster emphasized the need to revise the safety standards as well as bring about fundamental changes to compliance and monitoring. In order to promote labour rights and factory safety in Bangladesh's RMG industry, the EU has initiated the sustainability compact which is basically a coordinated effort by the EU, Bangladesh, the US, Canada and the International Labour Organisation. Such international pressure has compelled the government to undertake actions to facilitate trade union registration as well as occupational safety.⁷⁶ This shows that going much beyond being just FTAs, EU agreements are having intrusive effects on the

⁷⁴ Md Harunur Rashid, "Impact of Brexit on Bangladesh's RMG," *The Independent*, July 30, 2016.

⁷⁵ "Bangladesh and the EU."

⁷⁶ Development Solutions, "Mid-Term Evaluation of the EU's Generalised Scheme of Preferences," 169.

country's RMG sector. This is reflective of the fact that globalization is not separate from regionalization since regionalism is capable of having a 'spillover' effect on a global level.

3.2.5.3 Impact of Brexit on Bangladesh

Following the referendum in 2016, the British pound (GBP) experienced a dramatic fall in its value against both the dollar and Bangladeshi taka (BDT).⁷⁷ This appreciation of Bangladeshi Taka (BDT) against the GBP made Bangladeshi products/textiles more expensive for UK importers decreasing demand for Bangladeshi products in turn. Due to the volatility that the GBP has been facing, Bangladeshi exports to the UK has already experienced a 7.1 per cent fall in July 2016 in the immediate aftermath of the EU-referendum affecting the textile industry drastically. Furthermore, in comparison to FY2015-16, Bangladeshi exports to the UK experienced negative growth all through FY2016-17. This volatility that is subject to the state of UK-EU negotiations can only worsen the difficulties Bangladeshi exports to the UK are currently facing due to the price-sensitivity of most of the Bangladeshi exports to the UK.⁷⁸

3.3 Similarities and differences

The EU incorporated the afore-mentioned countries either in GSP in 1971 or both GSP and EBA in 2001 and began to work in partnership with these countries under the framework of some kind of FTA. Going beyond simple tariff removals, these FTAs have had intrusive impact on these countries' economies and production systems. These FTAs have significantly enhanced the economic growth of these countries by contributing towards their

⁷⁷ Md. Thuaid Noor, Md. Shafiul Islam, Khandaker Jahangir Alam, Md. Morshed Hossain & Shahjahan Ali, "Brexit and the Impact on Bangladesh," *Imperial Journal of Interdisciplinary Research* 2 (2016): 71.

⁷⁸ Mustafizur Rahman, Towfiqul Islam Khan, Sherajum Monira Farin, "Brexit and Bangladesh: An Exploratory Study on Likely Economic Implications," *CPD Working Paper* 121 (2018): 10.

export earnings through giving them preferential access to European markets. Moreover, by improving environmental standards or introducing better working conditions through regulatory measures, these FTAs have had intrusive effects on these countries' production systems. Furthermore, all five countries share relatively strong textile trading relationship with the UK since the UK serves as an attractive market for apparels.

In addition to that all five countries stand to lose from the devaluation of the pound. However, they stand to lose differently. While Cambodia, Vietnam, India and Bangladesh have already experienced or fear a decline in exports as a result of the referendum or in case of a hard Brexit respectively, Ethiopia fears a decline in foreign aid. The reason why Cambodia, Vietnam, India and Bangladesh have already experienced or fear a decline in their exports is because depreciation of the pound has made their exports more expensive to UK buyers. This in turn has decreased consumer demand for the exports of these countries. However, since Ethiopia is one of the topmost recipients of foreign aid from the UK in the region of Africa, instead of its export of textiles to the UK, Ethiopia relies heavily on the foreign aid coming from the UK. The decline in value of the pound following the referendum has already reduced the amount of foreign aid coming to Ethiopia. This difference in the impact of Brexit on Ethiopia shows that context matters.

Out of these five countries, Bangladesh's textile industry stands to lose the most due to its heavy reliance on trade in textile with the EU and the UK, with the EU receiving half of Bangladesh's total exports. Unlike Cambodia, Vietnam and Ethiopia that have diversified the products they trade with the EU, Bangladesh has not. Clothing dominates Bangladesh's total exports to the EU. As a result, Bangladesh has been hit the hardest by the referendum and will be affected the most in case of a hard Brexit out of the five countries.

Not many differences can be observed as regards the impact of the EU agreements or Brexit on these countries. This consistency in regionalism's impact across these cases strongly suggest that the measured impact is of regionalism and not of other factors since they all have trade agreements with the EU and have important trading relationships with the UK. This in turn reinforces the fact that regionalism is not independent of globalization.

I have begun this chapter with a brief background on GSP and EBA and demonstrated using data of various kinds including that of GDP, trade, employment etc. how the economies of these countries have been affected following the EU agreements. Secondly, I have investigated as to how much of this effect can be attributed to the UK. Thirdly, I have demonstrated the effect of pound devaluation on trade as well as foreign aid. In the fourth step, I have brought in other studies that make estimations about the future of these countries in the case of a no-deal Brexit. Finally, I have evaluated the overall impact of Brexit on the countries concerned to see how similarly or differently they have been affected or will be affected in case of a hard Brexit and how their individual contexts, if at all, have affected or will affect the intensity or the type of the impact. I have looked at similarities and differences to see if regionalism's impact is consistent across these cases. One of the major findings of this chapter is that both the GSP and the EBA have significantly enhanced the economic growth of the countries concerned by contributing towards their export earnings through giving them preferential access to European markets. Moreover, by improving environmental standards or introducing better working conditions through regulatory measures, these FTAs have had intrusive effects on these countries' production systems. Furthermore, all five countries share relatively strong textile trading relationship with the UK since the UK serves as an attractive market for apparels. The second major finding of this chapter is that while Cambodia, Vietnam, India and Bangladesh have already experienced or fear a decline in

exports as a result of the depreciation of the pound, Ethiopia fears a decline in foreign aid for the same reason. The third major finding of this chapter is that out of these five countries, Bangladesh stands to lose the most due to its heavy reliance on trade in textile with the EU and the UK, with the EU receiving half of Bangladesh's total exports. The consistency in regionalism's impact across these cases strongly suggest that the measured impact is of regionalism and not of other factors since they all have trade agreements with the EU and have important trading relationships with the UK. This in turn reinforces the fact that regionalism is not independent of globalization.

Chapter 4: Brexit's impact on Bangladesh

Since 1971, Bangladesh has enjoyed preferential access to the EU market under the GSP. This has made the EU a long-term trade and development partner for Bangladesh. Since 2001, Bangladesh has benefited from the EBA arrangement. Bangladesh exports 66.2 per cent of all EBA exports to the EU. This makes Bangladesh the largest beneficiary of the EBA arrangement. Bangladesh's main export destination is the EU. It is under the framework of the EU-Bangladesh Co-operation Agreement concluded in 2001, the EU works closely with Bangladesh. In 2016, approximately 43.3 per cent of Bangladesh's total exports were destined for the EU. This shows that the EU receives nearly half of Bangladesh's total exports. Since clothing dominates Bangladeshi exports to the EU, UK makes the second destination of Bangladesh's textile exports to the EU just after Germany, Brexit can have a detrimental effect on Bangladesh's export earnings specially of the textile industry.⁷⁹

The aim of this chapter is to first trace how the EU agreements have changed the Bangladeshi economy. Starting with a brief background on the EU-Bangladesh bilateral relationship and the cooperation agreement, I will delve deeper into the economic, social and regulatory impacts of these agreements on the country. Secondly, I will discuss the impact of the referendum on the textile industry and UK's immigration policy towards Bangladesh. Thirdly, I will shed some light on the possible effects that Brexit could have on the export of Bangladeshi agricultural products and consumer items to the UK and the EU, product standards of Bangladesh and remittance earnings of the country. By analyzing the spillover effect that European regional decisions have already had on Bangladesh or will have in case of a hard Brexit, I will demonstrate that regionalism is not independent of globalization.

⁷⁹ Development Solutions, "Mid-Term Evaluation of the EU's Generalised Scheme of Preferences," 163.

4.1 Bilateral Relationship between the EU and Bangladesh

It is under the framework of the EU-Bangladesh Co-operation Agreement concluded in 2001, the EU works closely with Bangladesh. This agreement allows for co-operation in the areas of trade, economic development, human rights, good governance and the environment. Bangladesh's main trading partner is the EU. In 2015, Bangladesh was the EU's 35th largest trading partner in goods. Clothing dominates EU imports from Bangladesh accounting for over 90% of the EU's total imports from Bangladesh. EU imports from Bangladesh have trebled from €5,464 million to €15,145 million between 2008 and 2015. This represents nearly half of Bangladesh's total exports.⁸⁰

UK Government officials during their state visits have reassured Bangladesh about their consistent support to the bilateral relationship. However, materialization of this assurance would only take place if Bangladesh as a graduating LDC or as a part of the Commonwealth cohort is prepared to conduct effective negotiations in order to address the details of the new arrangements in the bilateral relationship.⁸¹ Under the EU's Everything But Arms treaty, Bangladesh exports to the EU enjoy duty-free quota-free market access for all exports.⁸²

According to the calculation made by the Centre for Global Development (CGD) based on the European Union's "everything-but-arms" (EBA) trading scheme no longer applying to Britain upon "no-deal" Brexit, Bangladesh stands to become the worst-hit less developed country unless Britain recreates its own LDC trade agreements with LDC

⁸⁰ Subramanian Senthilkannan Muthu, *Fast Fashion, Fashion Brands and Sustainable Consumption* (Springer Nature Singapore Pte Ltd. 2019), 25.

⁸¹ Mustafizur Rahman, Towfiqul Islam Khan, Sherajum Monira Farin, "Brexit and Bangladesh: An Exploratory Study on Likely Economic Implications," CPD Working Paper 121 (2018): 10.

⁸² *Ibid.*, 11.

concessions. However, building these trade agreements involve lengthy negotiations and can be a time-consuming endeavor.⁸³

4.1.1 Cooperation Agreement between the European Community and the People's Republic of Bangladesh on partnership and development

This agreement is based on respect for human rights and democratic principles as predicated by the Universal Declaration on Human Rights. The principal objective of this Agreement is to enhance and develop the various aspects of cooperation between the Parties in the fields that they are competent in. The agreement has four goals. The first goal is to support the sustainable economic and social development of Bangladesh focusing mainly on the poorest section of the population and women. The second goal entails creating a suitable environment for promoting the increase and development of two-way trade between the Parties involved in compliance with World Trade Organization (WTO) rules and regulations, in order to assist Bangladesh in diversifying its productive potential. Thirdly, this Agreement aims to promote investment as well as economic, technical, and cultural links that serve the interests of both the parties. Apart from that the Agreement aims to pursue some kind of equilibrium between policies for sustainable economic growth, social development and protection & conservation of the natural environment.⁸⁴

The article of the Agreement that addresses Trade and Commercial cooperation between the European Community and Bangladesh commits both the parties to conduct trade in line with the Agreement establishing the WTO. In addition, under the same article, the parties also promise to promote the expansion and diversification of trade between them. The main objective of cooperation in this field is to develop and diversify two-way trade by

⁸³ Intiaz A. Hussain, "No-deal Brexit, Europe's EBA & Bangladesh: Hitting home, fighting back," *Financial Express*, February 14, 2019.

⁸⁴ "Cooperation Agreement between the European Community and the People's Republic of Bangladesh on partnership and development," Conclusion date: April 27, 2001, *Official Journal of the European Communities*, registration no. L 118/48, https://eeas.europa.eu/sites/eeas/files/cooperation_agreement_bd_eu_2001_en.pdf.

investigating ways and means to improve market access. In that regard, the parties agree to cooperate to eliminate barriers to trade and implement measures to ensure transparency by timely removing non-tariff barriers. Furthermore, the article also requires the respective authorities to improve cooperation in customs matters especially in professional training by simplifying and harmonizing customs proceedings and preventing, investigating and penalizing customs offences. The article also takes into consideration matters pertaining to transit/re-export matters, exchanging information about mutually beneficial market opportunities, statistical cooperation & competition and ensuring protection of personal data.⁸⁵

Under the same article, Bangladesh also confirms that it will undertake all the measures necessary to improve the conditions for effective and adequate protection and enforcement of intellectual, industrial and commercial property rights. In that regard, Bangladesh is required to abide by all the international conventions on intellectual, industrial and commercial property rights. The article also promises to provide Bangladesh with all the technical assistance in order to enable the country fulfill the above-mentioned undertakings and obligations. Furthermore, the parties have reached a consensus on working to improve exchange of information and access to their respective private procurement markets based on reciprocity. As regards international maritime transport services, the Parties are expected to ensure unrestricted access to the international maritime market and traffic on a commercial basis according to the Agreement. In addition to that the Parties also affirm their commitment to a freely competitive environment as an essential feature of the dry and liquid bulk trade. These measures are interesting because they are signs of Europeanisation and European (regional) rule export.⁸⁶

The article that addresses Economic cooperation between the European Community and Bangladesh commits both the parties to collaborate in developing a creative competitive

⁸⁵ Ibid.

⁸⁶ Ibid.

economic environment in Bangladesh. In that regard, it encourages the facilitation of the use of know-how and technology from the Community in the fields of design, packaging, standards such as consumer and environmental standards, new materials and products. Added to that it promotes facilitation of contacts between economic operators and other measures designed to encourage commercial exchanges and investments. Furthermore, the article promotes facilitation of exchanges of information on policies that relate to small and medium-sized enterprises (SMEs). This is done with the aim of improving the business and investment environment and encouraging closer communication between SMEs, in order to promote trade and increase industrial cooperation opportunities. According to the article, the Parties are encouraged to undertake an increase in mutually beneficial investment within the bounds of their respective competences. As per the article, this could be done by establishing a suitable climate for private investments through ensuring better conditions for the transfer of capital and by supporting conventions on the promotion and protection of investments between the Member States of the Community and Bangladesh.⁸⁷

4.2 Impact of EU agreements on Bangladesh

The depth and breadth of this agreement goes much beyond simple tariff removal and is more akin to deep and comprehensive Foreign Trade Agreements which by making way to European market aids not only SMEs but also improves various other aspects of Bangladesh such as sustainable economic growth, social development and protection & conservation of the natural environment in multiple ways.

By creating significant export opportunities to the EU market, the EBA has supported the country's economic growth. This has incentivized the Government of Bangladesh to not

⁸⁷ Ibid.

only engage but also commit in dialogues with the EU on matters related to social, human rights, environmental and good governance. Acting as an useful instrument for EU conditionality, the EBA has, in effect, made the role of EU's role in the country stronger.⁸⁸

4.2.1 Economic impact

Since the signing of the EBA agreement in 2001, with an average GDP growth of 6.2 per cent per year, Bangladesh has experienced a steady economic growth. The country's GDP increased from USD 128.6 billion (EUR 118.2 billion) to USD 195 billion (EUR 179.2 billion) between 2011 and 2015. The per capita GDP increased from USD 838.55 (EUR 770.66) in 2011 to USD 1211.70 (EUR 1113.59) in 2015 with an average increase of 5.05 per cent per year. It is the growing industrial sector in the country that has supported Bangladesh's steady growth in GDP the most. Through increased commercial opportunities and investment in the industry sector of the country, the trade facilitation by the EU agreements has contributed towards the country's economic development and poverty reduction by generating growth. Therefore, it can be arguably stated that the GDP growth is highly correlated with the country's export-led strategy.⁸⁹

4.2.2 Social impact

Bangladesh has experienced a steady development in its Human Development Index (HDI) value mainly due to the country's sustained GDP growth rate of roughly 6 per cent leading to its remarkable achievements in poverty and hunger eradication. According to the UN Human Development Index (HDI), Bangladesh ranked 139th out of the 188 countries in 2015 reflecting the country's performance in life expectancy, education and Gross National

⁸⁸ Development Solutions, "Mid-Term evaluation of the EU's Generalised Scheme of Preferences (GSP)," 166.

⁸⁹ Ibid., 156-157.

Income (GNI) per capita. Bangladesh's HDI improved from 0.557 to 0.579 by 3.95 per cent. Furthermore, Bangladesh has shown improvement in various social indicators. These improvements include increased life expectancy, decrease in infant mortality and lower fertility rate.⁹⁰ This shows that the EU agreements by contributing immensely to the country's growth by facilitating trade have in turn brought about improvements in the country's social indicators as well.

4.2.3 Environmental impact

EU agreements are increasingly compelling RMG factories in Bangladesh to meet certain environmental standards. Since RMG products comprise a lion's share of Bangladesh's exports, they need to be produced in large quantities. Production of RMG goods results in high waste water generation severely impacting the environmental conditions of the country. Bangladesh' rivers, coastal and marine environment are affected by chemical pollutants from the RMG industry that generates waste water full of chemicals. In addition to affecting the air and the atmosphere, the chemical pollutants further affect the soil through land filling. This detrimental effect on the environment can be attributed to improper waste management and lack of regulation enforcement.⁹¹

Since EU producers ask for sustainable production practices from their trading partners in Bangladesh, Bangladeshi companies are applying for green certifications. In the process, they are making an effort to minimize the environmental damage caused by increased production. Consumer criticism of environmentally degrading production is one of the main reasons why large EU garment brands have become so stringent about sustainable production practices. In order to improve the water filtration mechanisms and eliminate other

⁹⁰ Ibid., 158.

⁹¹ Ibid.,162-163.

environmentally degrading practices, many of these EU companies have also invested in production sites in Bangladesh.⁹² This shows that in addition to contributing towards the country's economic growth and social improvement, EU agreements have also had intrusive effects on the country's production system.

4.3 Impact of the prospect of Brexit on Bangladesh

Since the United Kingdom is the second largest importer of Bangladeshi goods just after Germany in Europe, Brexit can have a detrimental effect on Bangladesh's export earnings. In the Financial Year (FY) 2017-18, UK accounted for 10.9 per cent of Bangladesh's total global exports and 18.7 per cent of Bangladesh's total EU exports. \$3.53 billion out of \$3.81 billion worth of exports to the UK in FY2017-18 comprised readymade garments (RMG) goods. This means 92.5 per cent of the goods exported to the UK in FY2017-18 consisted of textiles and apparels.⁹³

Following the referendum in 2016, the British pound (GBP) experienced a dramatic fall in its value against both the dollar and Bangladeshi taka (BDT).⁹⁴ This appreciation of Bangladeshi Taka (BDT) against the GBP made Bangladeshi products/textiles more expensive for UK importers decreasing demand for Bangladeshi products in turn. Due to the volatility that the GBP has been facing, Bangladeshi exports to the UK has already experienced a 7.1 per cent fall in July 2016 in the immediate aftermath of the EU-referendum affecting the textile industry drastically. Furthermore, in comparison to FY2015-16, Bangladeshi exports to the UK experienced negative growth all through FY2016-17. This volatility that is subject to the state of UK-EU negotiations can only worsen the difficulties

⁹² Ibid., 163.

⁹³ Rahman, Khan & Farin, "Brexit and Bangladesh: An Exploratory Study on Likely Economic Implications," 11.

⁹⁴ Md. Thuhid Noor, Md. Shafiul Islam, Khandaker Jahangir Alam, Md. Morshed Hossain & Shahjahan Ali, "Brexit and the Impact on Bangladesh," *Imperial Journal of Interdisciplinary Research* 2 (2016): 71.

Bangladeshi exports to the UK are currently facing due to the price-sensitivity of most of the Bangladeshi exports to the UK.⁹⁵

Since a lion's share of Bangladeshi exports to the UK comprises textiles, this uncertainty already has and is bound to have a detrimental effect on Bangladesh's textile industry given Brexit happens. UK buyers of Bangladeshi garment products have already started pressurizing manufacturers to cut prices due to the depreciation of the pound. It has also been predicted that the UK buyers may even cancel the orders going forward. Such a pressure will further squeeze the exporter's margins that due to the rise in operational and compliance costs have already been squeezed. Given this trend continues for a long time, inflation may go up resulting in the British consumers buying less. This in turn will affect Bangladeshi exports.⁹⁶ Moreover, in case of a hard Brexit, MFN tariff rates under WTO may apply to Bangladesh. It has been estimated that if Bangladeshi exports to the UK had to face MFN tariffs or if there was no preferential market access under the EBA, UK importers would have to pay USD 366.2 million as duties.⁹⁷ This implies that if following Brexit, MFN tariff rates apply to Bangladeshi exports to the UK, it would significantly decrease the quantity exported to the UK.

According to Faruque Hassan, the vice-president of Bangladesh Garment Manufacturers and Exporters Association:

we have a target to grow apparel exports to the UK by 12 percent to 15 percent year-on-year. It is expected that it will cross the \$5 billion mark in the next five years in UK. Still, if the 12.5 percent duty benefit is cut, Bangladeshi exporters will lose competitiveness. So, UK market is very significant for RMG exporters of Bangladesh. But it needs to be pointed out here that the country needs to achieve about 12% of total RMG export growth to reach \$50bn export target by 2021. In recent times, the short-term visible impact of the Brexit is devaluation of currency that has already witnessed an about 10% fall. Bangladesh will bear the brunt of the exit as it is the third largest single export destination for our products. This fall will also slim down remittance and foreign direct investment in Bangladesh.⁹⁸

⁹⁵ Rahman, Khan & Farin, "Brexit and Bangladesh: An Exploratory Study on Likely Economic Implications," 12.

⁹⁶ Noor et al, "Brexit and the Impact on Bangladesh," 73.

⁹⁷ Rahman, Khan & Farin, "Brexit and Bangladesh: An Exploratory Study on Likely Economic Implications," 11.

⁹⁸ Md Harunur Rashid, "Impact of Brexit on Bangladesh's RMG," *the independent*, July 30, 2016.

His apprehension about a possible decline in export earnings from the UK as a result of Brexit highlights the spillover effect that regional regulatory decision can have on a global level.

Apart from that the prospect of Brexit has already resulted in implementation of stricter immigration rules. Since Bangladeshis have migrated to the UK for years, there is now a large Bangladeshi community in the UK. The UK had imposed a bar on non-EU immigrants as part of the policy reducing the number of immigrants while simultaneously complying with the EU policy of free movement. Bangladeshi businesses found it very difficult to hire skilled workers from Bangladesh due to stringent visa requirements and binding employment rules. The reason why it was mainly the non-EU migrants who were affected by the policy of curbing migration is because the UK government had little or no power to contain the inflow of migrants from the EU countries. For example, Bangladeshis who were running curry business were compelled to close down their businesses due to shortage of skilled chef.⁹⁹

UK is strategically important to Bangladesh because in addition to the UK being one of the prime destinations for Bangladeshi exports, the headquarters of many international companies are situated there. In addition to apparel, the UK is also a good destination for fresh vegetables and agro-products given the large number of Bangladeshis residing in the UK. Every year, Bangladesh exports fruits and vegetables worth more than \$47 million to the UK. Hence the UK receives nearly 40 per cent of the country's total export of vegetables, fruits and agro products. While export of jackfruits and mangoes has risen, demand for other items including carrot, tomato, eggplant, spinach, cauliflower, papaya, pumpkin, bottle gourd, cabbage, coriander leaf, okra, cucumber, bitter gourd, bean, jute leaf, drumstick, radish, fish

⁹⁹Rahman, Khan & Farin, "Brexit and Bangladesh: An Exploratory Study on Likely Economic Implications," 17.

and meat are also high. Agro-processed food are also exported by local companies to the UK. When it comes to expansion of the export basket in terms of value and volume, the UK matters significantly to Bangladesh.¹⁰⁰ This means that upon Brexit, in addition to textiles, export of fruits and vegetables will also be affected.

Since a lion's share of Bangladesh's export to the UK consists of consumer items, duty-free access increases both the demand and competitive strength of the Bangladeshi exports to the UK since the demand for consumer items tends to be price elastic. A return to MFN status under the WTO can significantly reduce both the demand and competitive strength of the Bangladeshi exports to the UK. Apart from that, taking advantage of the EU-wide free trade area (duty-free market access under the EU Customs Union), many EU importers of Bangladeshi products have the tendency to use the UK as a transit for onward shipment to the other EU countries. Depending on the terms of Brexit to be negotiated, these exports are also likely to be affected, in varying degrees.¹⁰¹

Brexit could impose stricter product standards upon Bangladeshi companies applicable under the trading specifications of the UK. Certain product standards are maintained, and certification procedures are followed when producing and marketing exports from Bangladesh to the EU and the UK specified in the current trading arrangements with the EU.¹⁰² Bangladeshi industries already find EU environmental regulations too demanding from an economic standpoint.¹⁰³ If following Brexit, more stringent standards are imposed by UK, Bangladesh might be negatively affected. For example, Bangladesh's export to the UK might be negatively affected with regard to environmental standards, Intellectual Property

¹⁰⁰ Noor et al, "Brexit and the Impact on Bangladesh," 72.

¹⁰¹ Rahman, Khan & Farin, "Brexit and Bangladesh: An Exploratory Study on Likely Economic Implications," 11.

¹⁰² Ibid., 11.

¹⁰³ Development Solutions, "Mid-Term evaluation of the EU's Generalised Scheme of Preferences (GSP)," 163.

Rights (IPR) or Sanitary and Phytosanitary (SPS) measures applicable under the trading specifications of the UK.¹⁰⁴

Furthermore, Brexit could lead to a decline in the amount of remittance sent from Britain to Bangladesh. The UK is the second biggest source of remittance for Bangladesh after the US. Every year, migrant workers living in the UK send \$1 billion in remittance contributing significantly to Bangladesh's remittance income of more than \$15 billion.¹⁰⁵ When in 2016, following the Brexit referendum, there was a 7.0 per cent overall decline from the \$4.0 billion Bangladeshi exports to Britain, remittance from Britain to Bangladesh also fell by an equivalent proportion. This could be because of migrant workers and non-resident Bangladeshis postponing sending money back home due to a plunge in the pound.¹⁰⁶

In this chapter I have traced how the EU agreements have changed the Bangladeshi economy. Starting with a brief background on the EU-Bangladesh bilateral relationship and the cooperation agreement, I have delved deeper into the economic, social and regulatory impacts of these agreements on the country. Secondly, I have discussed the impact of the referendum on the textile industry and UK's immigration policy towards Bangladesh. Thirdly, I have shed some light on the possible effects that a hard Brexit could have on the export of Bangladeshi agricultural products and consumer items to the UK and the EU, product standards of Bangladesh and remittance earnings of the country. One of the major findings of this chapter was that the EU agreements have not only led to the economic growth of the country by contributing towards its export earnings, but also have had significant positive environmental impacts by compelling the RMG factories to meet certain environmental standards. Moreover, Bangladesh has already experienced a significant fall in its export earnings as a result of the devaluation of the pound. In addition to that UK's

¹⁰⁴ Rahman, Khan & Farin, "Brexit and Bangladesh: An Exploratory Study on Likely Economic Implications," 11.

¹⁰⁵ Noor et al, "Brexit and the Impact on Bangladesh," 72.

¹⁰⁶ Imtiaz A. Hussain, "No-deal Brexit, Europe's EBA & Bangladesh: Hitting home, fighting back," *Financial Express*, February 14, 2019.

immigration policies towards Bangladeshis have become stricter. Furthermore, there is a possibility of Bangladesh experiencing a further decline in export of agricultural products and consumer items to the UK and the EU. Added to that Brexit could impose stricter product standards upon Bangladeshi companies applicable under the trading specifications of the UK. Apart from that, Brexit could lead to a decline in the amount of remittance sent from Britain to Bangladesh. The impact of the EU agreements and the Brexit referendum on Bangladesh's economy is reflective of the spillover effect that regional decisions can have on a global level. Furthermore, it reinforces that argument that regionalization and globalization are concurrent processes.

Conclusion

This thesis set out with the questions 1) If Globalization is separate from Regionalization, then why is Bangladesh bearing the brunt of the prospect of Brexit? and 2) How do regionalism and globalism impact regionalization and globalization? Regional decisions can have wide-ranging effects in other regions. The reason why this is the case is because regional integrations by which I mean rule-based regionalism and globalization are interlinked. Agreements that are by-products of regionalism such as Generalized System of Preferences or Everything But Arms Agreement not only enable low economically developed countries eliminate poverty by giving them preferential access to European markets but also europeanize their systems of production by imposing certain regulatory measures such as intellectual property rights regulations or environmental standards. This is reflective of the fact that 'globalisation' is much more 'regionalism-dependent' than is often thought of.

Both the GSP and the EBA along with other FTAs have significantly enhanced the economic growth of the five countries by contributing towards their export earnings through giving them preferential access to European markets. Moreover, by improving environmental standards or introducing better working conditions through regulatory measures, these FTAs have had intrusive effects on these countries' production systems. Moreover, the impact that the prospect of Brexit has already started having on third countries such as Bangladesh, Cambodia, Vietnam, Ethiopia and India with regards to GDP, trade, employment, remittance etc. is clearly suggestive of the fact that regionalism is not independent of globalization, and that much of 'globalization' is, in fact, construed of regional regulatory regimes and their spillover effects. Out of the five countries studied, with no trade diversification, Bangladesh's textile industry has been affected the most so far and stands to lose the most in case of a hard Brexit due to its heavy reliance on textile trade with both the UK and the EU. Given that Brexit

is a relatively recent phenomenon, not many sources discuss in depth the contribution that Brexit can make to the Globalization vs. Regionalization debate. It is in this regard that my research has contributed.

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