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The textiles and clothing sector in Asian graduating LDCs

2.1. T&C export performance of Asian graduating LDCs

The textiles and clothing sector is a key driver of export growth in the Asian graduating LDCs, which in turn dominate such exports from the overall LDC Group.

The combined T&C exports of Bangladesh, Cambodia, Lao PDR, Myanmar and Nepal reached a peak of US\$ 63.6 billion in 2019, before being hit by COVID-19 the following year, when the corresponding value dropped to US\$ 57.6 billion.³ As much as two-thirds of this total was generated solely by Bangladesh, which during much of the 2010s had been the world's second largest apparel exporter (after China). The Asian graduating LDCs together account for about 8 per cent of world T&C exports and about 14.5 per cent of global apparel (clothing) exports.⁴

While the LDCs as a group participate in world trade at the margins, with their combined share in world merchandise exports stagnating around just 1.1 per cent, their comparable share in global clothing exports more than doubled from 6.9 per cent in 2010 to 15.2 per cent in 2020 (Figure 1), largely because of the extraordinary performance of Asian graduating LDC T&C exporters. More than 90 per cent of LDC T&C exports are from

Asian graduating LDCs, with Bangladesh alone capturing more than 60 per cent of all such exports, followed by Cambodia (20 per cent) and Myanmar (9 per cent) (Figure 2).

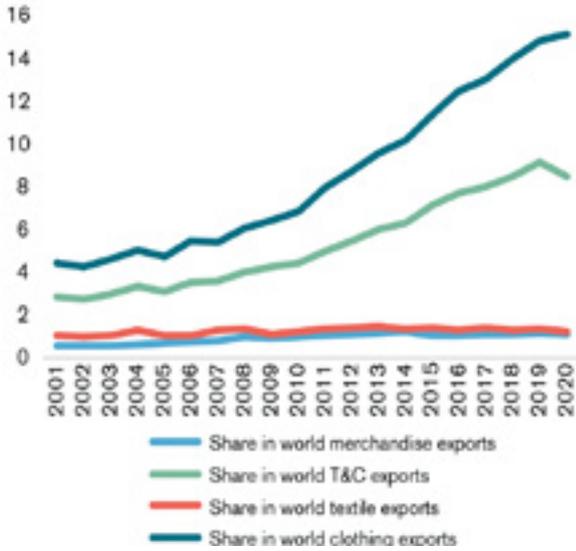
Alongside Bangladesh's large presence in global clothing exports, Cambodia and Myanmar have also managed to grow their respective shares considerably. However, the global market shares of the two landlocked LDCs, Lao PDR and Nepal, remain marginal.

Bangladesh shipped 5.8 per cent of world T&C products in 2019, increasing from just 3.1 per cent in 2010 (Figure 3). Cambodia and Myanmar captured 1.8 per cent and 0.9 per cent of world T&C exports, respectively. On the other hand, Lao PDR and Nepal – relatively small exporters from this region – had a meagre presence in world exports for such products.

2.2 Significance of T&C exports and export market composition by destination

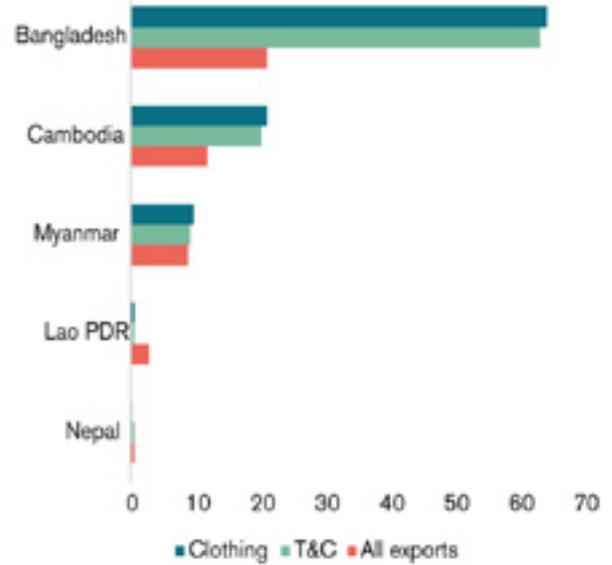
Asian graduating LDCs have varying degrees of export dependence on T&C products, ranging from as high as 90 per cent in the case of Bangladesh to 53 per cent in Cambodia, 34 per cent in Nepal, 31 per cent in

Figure 1: LDCs' share in world exports (%)



Source: Estimations based on data from the ITC Trade Map.

Figure 2: Asian graduating countries' share in LDC exports, 2019



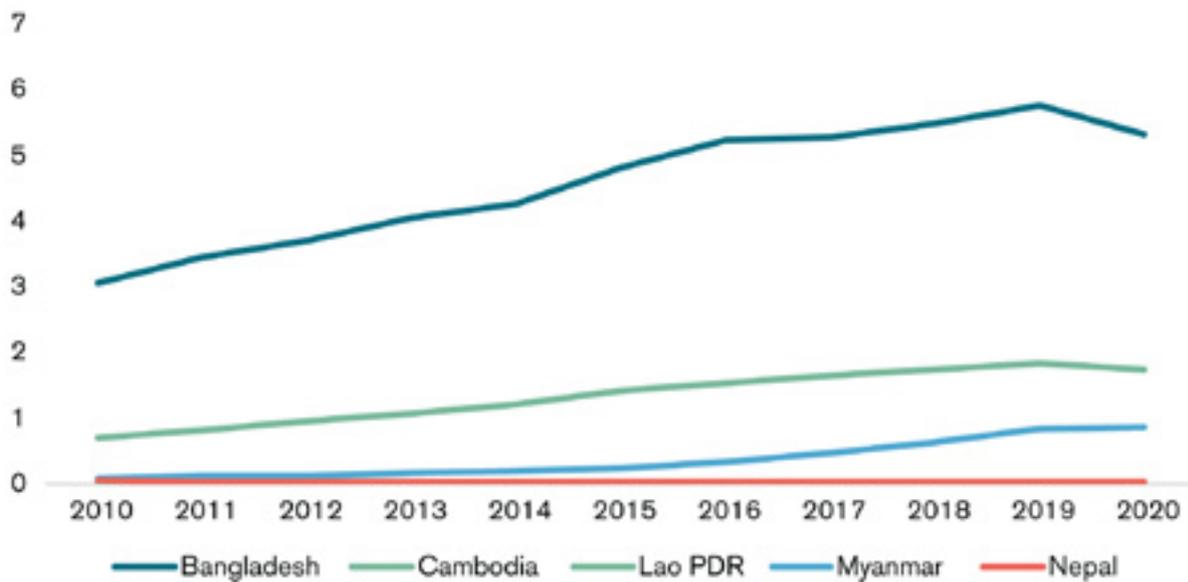
Source: Estimations based on data from the ITC Trade Map.

Myanmar and just 5 per cent in Lao PDR during the years 2018-20 (Figure 4).

For Bangladesh, the significance of the T&C sector cannot be overstated. This sector generates export earnings that amount to more than 11 per cent of GDP, and provides direct

employment to over 4 million workers, more than 60 per cent of whom are women. Most of the country's exports are cotton-based items, such as T-shirts, trousers, sweaters, shirts, and jackets, falling within low- and mid-market price segments, for which competitiveness is largely based on low wage cost. Bangladesh's key markets are also

Figure 3: Asian graduating countries' share in world T&C exports (%)



Source: Calculations using data from the ITC Trade Map.

highly concentrated, with more than two-thirds of its T&C exports going to the European Union (52.7 per cent) and the United States (14.2 per cent) (Figure 5).

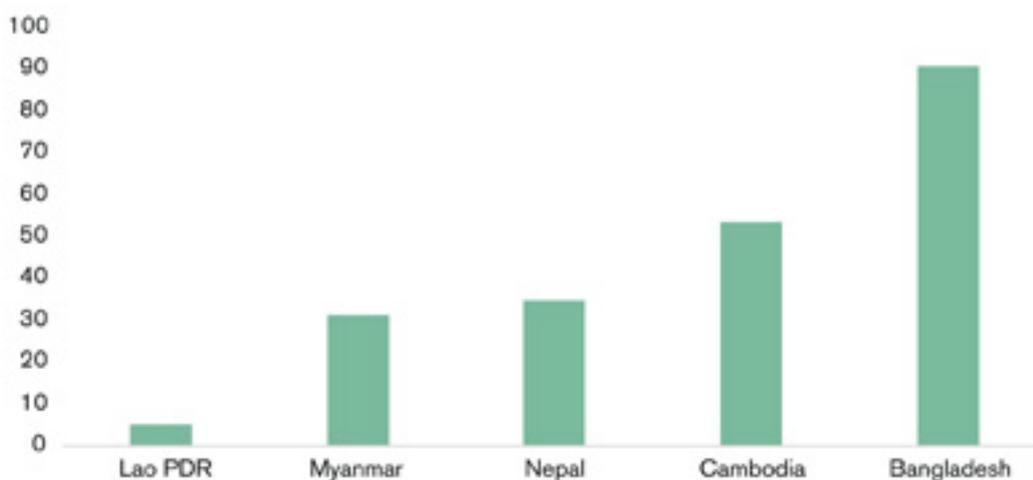
Bangladesh is making gradual progress in diversifying and upgrading its product offerings with increased capacity to produce garments made from synthetic fibres and manufacture more complex products, such as outerwear, tailored items, and lingerie (McKinsey, 2021). It has developed considerable backward linkage in the production of yarn and other accessories, including buttons, zippers, cartons, packaging, and printing materials, etc. In knitwear manufacturing, there is now a strong domestic backward linkage to spinning factories, and thus the domestic value-added content for this export is high. Woven items, on the other hand, remain largely dependent on imported fabrics.

Cambodia's T&C exports are equivalent to more than 30 per cent of its GDP. The clothing sector employed 0.85 million people in 2017, accounting for 86 per cent of employment in the industrial sector (Kosal, 2019). Approximately 60 per cent of garment factories are foreign affiliates (ASEAN, 2019). There are also numerous "cottage factories" that are usually subcontracted during peak seasons (ASEAN, 2020; Balchin and Calabrese, 2019).

Cambodia is chiefly specialized in cut, make and trim (CMT) activities, with its clothing export items being jerseys, T-shirts, women's and girls' suits, and men's and boys' suits. For Cambodia, the top export destinations are the European Union, which absorbs more than one-third of the country's T&C exports, followed by the United States (21.9 per cent), Japan (8.5 per cent), Canada (7.4 per cent), and the United Kingdom (6.9 per cent) (Figure 5). It almost entirely relies on international sourcing networks for inputs and materials, which are mostly imported from China (57.8 per cent in 2019) and Viet Nam (16.8 per cent). Knitted and crocheted fabrics, as well as woven fabrics of synthetic fibre, are among the country's top imported products.

Myanmar, a latecomer into the export-oriented T&C sector, recorded a staggering yearly average clothing export growth of 40 per cent during the past decade. The reinstatement of the European Union's trade preferences in 2013 and the United States' easing of the ban on imports in 2012 significantly increased Myanmar's exports to these two markets. The share of T&C exports as a proportion of the country's total manufacturing exports increased rapidly, to reach 69 per cent from just 27 per cent in 2011. It is estimated that the sector employed more than 1.1 million workers in 2019, 87 per cent of whom were women (Lu, 2021).

Figure 4: Exports of T&C as percentage of total goods exports, average of 2018-20



Source: Calculations based on data from the ITC Trade Map.

Nearly half of garment firms in Myanmar are foreign owned. Myanmar specializes in CMT activities, shows a high degree of product concentration, and is heavily dependent on imported raw materials, mostly sourced from China. Along with basic products, it has developed a niche in outerwear items such as jackets and coats that require rather sophisticated craftsmanship skills. The European Union accounts for 52.8 per cent of the total share of exports in the sector, followed by Japan (17 per cent), the United Kingdom (5.7 per cent), and the United States (5 per cent) (Figure 5).

The success of Myanmar's T&C industry seems to have been set back by renewed political instability, triggered by the military coup of early 2021. There is some evidence of export growth stalling and fashion companies expressing concerns about changes in the political environment as well as rising labour and social compliance risks when sourcing from the country (Lu, 2021).

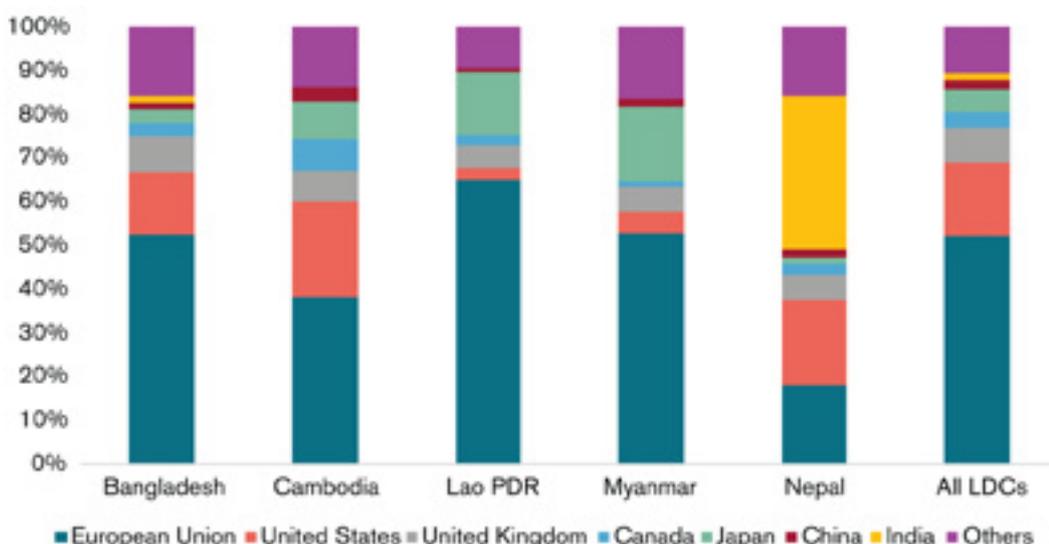
As a landlocked LDC, Nepal's export performance is severely restrained by its limited connectivity to markets. Its

competitiveness was further compromised by the impact of the devastating 2015 earthquake, which saw Nepal's merchandise exports decline by 27 per cent. In the 1980s and 1990s,

the country's T&C exports experienced rapid growth, largely because of Indian investors taking advantage of trade preferences available to Nepal. But its growth lost momentum and Nepal's T&C exports eventually suffered a decline following the expiration in the 2000s of the Multifibre Arrangement (MFA) regime in global textiles and clothing trade. The share of T&C exports in Nepal's GDP is thus just 0.9 per cent. As of 2018, the sector directly employed just over 0.1 million people. The main market destinations for Nepal's T&C exports are India (35 per cent), the United States (19.5 per cent), the European Union (18 per cent), and the United Kingdom (6 per cent).

Unlike other Asian graduating LDCs, Nepal's T&C exports are rather concentrated, with almost 80 per cent in textile products. Its main textile export items include yarn of synthetic staple fibres, carpets and other textile floor coverings, woven fabrics of synthetic filament yarn, woven fabric of jute, and sacks and bags. Although Nepal could hardly keep up with price-based competition, it managed to leverage its reputation for good quality in higher-value and higher-end products. Thus, while exports declined mainly with respect to cotton items, the segment related to woollen and silk shawls, scarves, veils, and woollen carpets was relatively less affected.

Figure 5: Major export destinations for T&C products for selected LDCs, 2018-20 average (%)



Source: Calculations based on data from the ITC Trade Map.

For the landlocked economy of Lao PDR, the clothing sector is the most export-oriented manufacturing activity. Lao PDR's clothing exports were recorded at US\$ 208 million in 2019 and its textile exports were valued at US\$ 11 million in the same year.⁵ The T&C sector accounts for about 16 per cent of the total manufacturing value added in the country and almost 19 per cent of total employment in the manufacturing sector, creating jobs for over 31,000 workers (Baker, 2021). Lao PDR's main T&C export markets are the European Union (65.1 per cent), Japan (14.3 per cent), the United Kingdom (5.1 per cent), the United States (2.7 per cent), and Canada (2.5 per cent).

Most exporting garment factories from Lao PDR provide cut, make and trim services and they are often sub-contractors of larger companies in other countries. Export orders are concentrated in a small number of product categories, including men's and boys' suits, women's and girls' suits, T-shirts, and men's and boys' underpants. Backward linkage activities are limited, and the sector largely depends on imported fibres, yarns and fabrics, mostly from China and Thailand.

2.3 Significance of LDC-specific trade preferences for Asian graduating LDCs

Most of the Asian graduating LDCs have benefitted significantly from a strong export performance that has been fuelled by the high preferential tariff margins and favourable rules of origin available for LDCs under the various unilateral initiatives offered. Several empirical studies show a positive impact of preferences on trade performance. This is most pronounced for the European Union market, especially in the wake of the 2011 reform of GSP rules of origin (Persson and Wilhelmsson, 2013, and Foliano, Cirera and Gasiorek, 2016). Amongst others, an analysis of Japan's unilateral preferences for LDCs has confirmed that Asian LDCs benefit from duty-free, quota-free market access to the Japanese market, particularly on those tariff

lines with higher margins of preferences (Ito and Aoyagi, 2019).

For Asian graduating LDC T&C exporters, the significance of market access preferences cannot be overemphasized. This is reflected in their share in major markets with LDC-specific preferences, such as Canada, the European Union, and Japan, vis-à-vis the United States, where such preferences are limited. In 2003, Bangladesh had an identical clothing market share in Canada and the United States, of 2.4 per cent (Figure 6). Over the next two decades, its share in Canada, which provides duty-free market access, rose to about 9.3 per cent, in contrast to only around 5.1 per cent in the United States, where apparel and clothing items are mostly excluded from its GSP scheme. Similarly, thanks to trade preference, Bangladesh's export market share in the European Union rose from just above 4 per cent to 14 per cent during the same period.⁶ The same share in Australia and Japan – again, taking advantage of duty-free access – rose from virtually nothing to more than 10 per cent and 4 per cent, respectively.

Similar trends are also observed for Cambodia and Myanmar (Figures 7-8). Over the past decade, while Cambodia's market share in the United States hovered around 2 per cent, the same in Canada rose from a negligible level to above 7 per cent; in the European Union and Japan, it rose from less than 0.5 per cent to 3 per cent. Over the past decade, Myanmar's shares in Japan and the European Union have been increasing steadily, but its share has declined in the United States.

Lao PDR's T&C market share in Japan has increased quite significantly (Figure 9). Also, its market shares in Canada and the European Union remain higher than its share in the United States. Nepal's share in most markets has actually declined in line with its overall fall in T&C exports in recent years (Figure 10). Its share fell at a much faster pace in the United States' market than in countries offering duty-free market access.

Figure 6: Bangladesh's T&C market share in major partner countries (%)

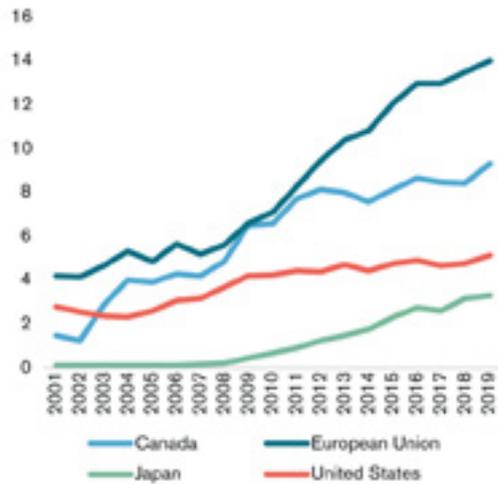


Figure 7: Cambodia's T&C market share in major partner countries (%)

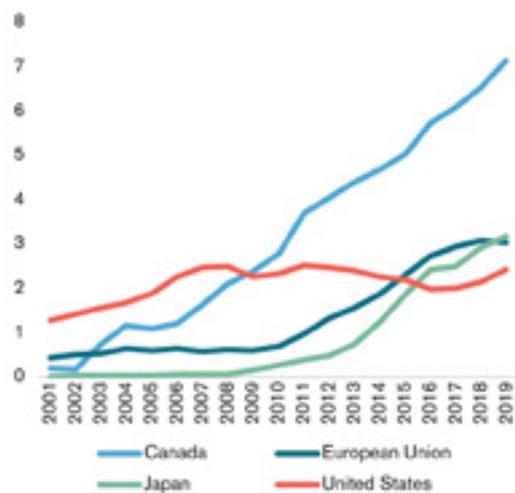


Figure 8: Myanmar's T&C market share in major partner countries (%)

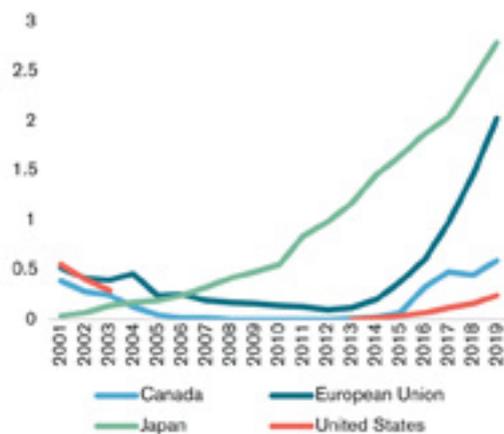


Figure 9: Lao PDR's T&C market share in major partner countries (%)

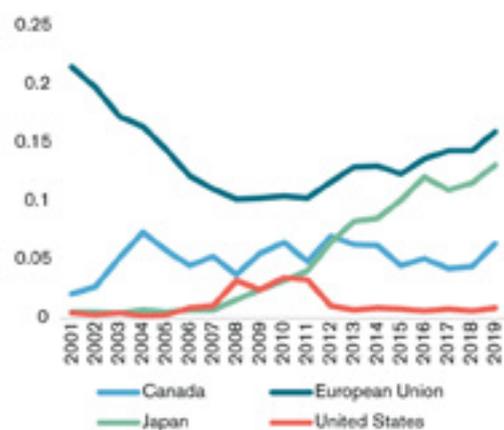
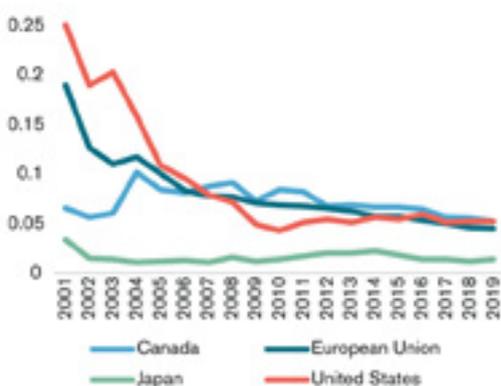


Figure 10: Nepal's T&C market share in major partner countries (%)



Source: Calculations using data from ITC Trade Map.
The share in the European Union market is computed from European Union Comext data.