3. How international trade regimes in the T&C sector will change for the Asian graduating LDCs

Graduation from LDC status will intrinsically imply loss of preferential market access through LDC-specific schemes. The likely impact of graduation will depend on the changes in market access provisions in destination countries and any existing exports that are currently benefitting from LDC-specific preferences. Where importing countries do not allow any preferential access a priori, graduation will not have any impact. On the other hand, if LDCs cannot make of use of their existing preference, such as because of a lack of supply-side capacity, graduation will not cause any discernible impact. In between these two situations, graduating LDCs will see their export products faced with less favourable tariff treatment and less liberal rules of origin requirements.

3.1 Changes in GSP regulations and preferential tariffs

Tariff preferences available for T&C exports from non-LDCs or graduated LDCs in most preference-granting countries are significantly lower than those granted through LDC-specific schemes, unless there are bilateral or regional trade arrangements in place, including FTAs. Even in the latter case, market access conditions could be stricter than the LDC-specific preferential treatment. As shown in Table 1, tariff preferences granted through GSP schemes, where available, are significantly lower than those granted through LDC-specific schemes (which mostly offer duty-free market access). Specifically, none of the Asian graduating LDCs have trade agreements with Canada, meaning that once they graduate, all their exports will be subject to the general GSP or most-favoured-nation (MFN) rates. Canada has higher tariffs for clothing products (under Harmonized System (HS) 61, HS 62 and HS 63 categories), where the average post-graduation tariff would be between 14 and 16.5 per cent.

In the specific case of the European Union, graduating countries have the option to apply to the European Union's Special Incentive Arrangement for Sustainable Development and Good Governance, Generalized Scheme of Preferences Plus (GSP+), upon graduation. Attaining GSP+, subject to fulfilling certain conditions, would provide them with duty-free market access to T&C products. Failure to do so would result in clothing exports being levied with tariffs of between 8 and 9.3 per cent through the Standard GSP scheme, or even with higher MFN rates. The current European Union GSP regime expires in 2023 and will be replaced by a new one from the beginning

Table 1: MFN/GSP rates applicable to T&C imports, simple average, 2020

HS Code	Description	Canada		China	European Union			India	Japan		United States	
		MFN	GSP	MFN	MFN	GSP	GSP+	MFN	MFN	GSP	MFN	GSP
50	Silk	0	0	7.3	3.1	2.5	0	26.1	4.0	2.3	0.7	0.4
51	Wool, animal hair	0	0	14.2	3.5	2.8	0.3	22.6	2.3	1.5	6.4	5.9
52	Cotton	0.1	0.1	7.4	6.1	4.9	0	22.4	5.6	4.7	8.3	8.2
53	Other vegetable textile fibres	0	0	6.2	2.8	2.2	0	26.3	3.4	1.5	1.0	0.8
54	Man-made filaments	0.1	0.1	6.4	5.9	4.7	0	20.5	6.0	4.8	10.0	9.9
55	Man-made staple fibres	0.1	0.1	6.6	6.2	4.9	0	21.6	6.3	5.0	10.4	10.4
56	Wadding, felt and nonwovens	3.6	3.6	7.0	6.0	4.7	0	23.3	3.6	0.6	3.9	3.5
57	Carpets	11.1	5.9	5.3	7.3	5.8	0	25.0	6.7	4.3	2.8	1.9
58	Special woven fabrics	0.4	0.4	7.9	7.3	5.8	0	25.0	4.9	1.4	8.6	8.6
59	Impregnated textile fabrics	3.0	1.9	7.8	6.0	4.8	0	25.0	3.7	0	3.2	2.6
60	Knitted or crocheted fabrics	0	0	8.0	7.9	6.3	0	25.0	7.6	6.0	10.3	10.3
61	Apparel and clothing, knitted or crocheted	16.8	16.5	6.8	11.7	9.3	0	25.0	9.0	8.9	12.8	12.7
62	Apparel and clothing, not knitted or crocheted	15.6	15.1	6.8	11.3	9.0	0	25.0	9.1	8.5	10.1	10.0
63	Other made-up textile articles	15.5	14.2	6.0	10.1	8.1	0	25.0	5.7	3.3	6.8	6.7

Source: Baker (2021).

of 2024. In September 2021, the European Commission presented its newly proposed GSP for the period 2024-34, which will be considered by the European Parliament and European Council before taking effect. Proposed changes to the system include basing admissibility into GSP+ on the following two main criteria:

- Vulnerability: A non-diversified economy, defined as the country's seven largest sections of GSP-covered imports representing more than 75 per cent in value of its total GSP-covered imports to the European Union as an average during the past three consecutive years.[7]

- Sustainable development: A beneficiary country must ratify and effectively implement 32 international agreements and conventions on human rights, labour rights, environmental protection and climate change, and good governance.[8]

All Asian graduating LDCs are found to fulfil the vulnerability criterion for GSP+ (Baker, 2021) and thus their inclusion to GSP+ will depend on their complying with the sustainable development criterion by the time they graduate.

As per the proposed European Union GSP 2024-34, Bangladesh is found to be the only Asian graduating LDC whose T&C exports could potentially be subject to the European Union's safeguard measures, resulting in their removal from GSP+ preferences (Razzaque, 2021). According to the European Union's provisions on "Safeguards in the Textile, Agriculture and Fisheries Sectors" (Article 29 of

the proposed European Union GSP), clothing products (comprising HS sections 61, 62 and 63 and defined as product group S-11b) from a GSP+ beneficiary will not qualify for preferential access if the share of the relevant products exceeds 6 per cent of total European Union imports of the same products and exceeds the product graduation threshold during a calendar year.[9] Bangladesh's current level of clothing exports exceeds the thresholds for safeguard provision and product graduation. Therefore, if the proposed GSP provisions remain unchanged, Bangladesh could find itself in a unique situation to qualify for GSP+, while its clothing products will not be eligible for duty-free access.

Post-Brexit, the United Kingdom has applied its own GSP scheme since the beginning of 2021, maintaining LDC preferences comparable to those in the European Union. The United Kingdom GSP incorporates three schemes: the Least Developed Countries Framework (similar to the European Union's Everything But Arms programme), the Enhanced Framework (similar to GSP+), and the General Framework (equivalent to Standard GSP). The United Kingdom currently covers the same countries and matches the market access benefits granted by the European Union. It also provides an additional three-year grace period for graduated LDCs, during which time they can retain the same LDC benefits. The United Kingdom is considering changes and improvements to its trade policy frameworks, but details are not available yet. It is also not clear at this stage what changes will be made to the United Kingdom's GSP scheme once the European Union adopts its new GSP 2024-34.

Preferential access to the Japanese market for duty-free treatment of T&C products for the targeted LDCs largely depends on their membership to the Association of South-East Asian Nations (ASEAN). Bangladesh and Nepal will be subject to the GSP or MFN rate in their exports to Japan, as they are not part of ASEAN and therefore do not benefit from the ASEAN-Japan Comprehensive Economic Partnership Agreement (CEPA). In this context, Bangladesh and Nepal will face tariffs on their clothing exports ranging from 8.5 to 9 per cent. On the other hand, Cambodia, Lao PDR and Myanmar will continue enjoying duty-free market access to Japan through the ASEAN-Japan Comprehensive Economic Partnership Agreement (CEPA), which applies to customs duties on T&C imports into Japan.

In the Chinese market, T&C exporters from Cambodia, Lao PDR and Myanmar will continue enjoying significant trade preferences through the ASEAN-China FTA and the Regional Comprehensive Economic Partnership (RCEP) and to the Indian market through the ASEAN-India FTA.[10] In China, duty-free market access will be nearly across the board, while India provides significant tariff reductions, including duty-free access in many items. Nepal's exports to India will unlikely be affected by LDC graduation, because of a bilateral trade agreement that enables duty-free access for Nepalese products into the Indian market. China and India do not provide any preferences to non-LDCs. As such, Nepal may have to pay MFN tariffs for its exports to China after graduation.

Following its LDC graduation, Bangladesh will have to forgo both India's and China's LDC schemes, which currently cover more than 97 per cent of tariff lines, including those of textile and clothing items. It may be entitled to Asia-Pacific Trade Agreement (APTA) tariff concessions, which, however, are not necessarily comprehensive. Although Bangladesh and India are both members of the South Asian Free Trade Area (SAFTA), most clothing items are not covered by India's tariff liberalization schedule for non-LDC SAFTA members.

Graduating LDC exporters are not expected to be impacted in the United States by their change of LDC status. This is because the United States' preferential treatment is based on the country's own list of GSP-eligible beneficiaries and T&C items from Asian LDCs

are excluded from GSP facilities. It is worth mentioning that the United States provides duty-free preferential treatment for 66 products (at the HTS 8-digit level) originating in Nepal under the United States' "Nepal Trade Preferences Act". Of these items, 24 are T&C related (Razzaque, 2020). This will be phased out in 2025, which might have some implications on Nepal's export receipts without being related to its graduation.

To sum up, while graduation will cause preferential regimes to change, most Asian graduating T&C exporting LDCs seem to have alternative preferential arrangements in place, including free trade agreements, to avoid any major tariff hikes on their exports to the most important market destinations. Bangladesh's T&C exports to the European Union could be subject to safeguard measures, thereby admissibility to GSP+ may not allow preferences for T&C products. The European Union aside, Bangladesh has sizeable clothing exports to, amongst others, Canada, China, India, and Japan, and for these markets it may have to negotiate trade arrangements to maintain the duty-free status quo.

3.2 Changes in rules of origin (RoO)

Graduation from LDC status will also mean graduating countries face stricter RoO to qualify for trade preferences under the GSP or regional trading arrangements, particularly for their clothing exports. Since the graduating Asian LDCs mostly operate at the CMT level, adding higher domestic value-added content in meeting stricter RoO post-graduation will be a major challenge.

Reversing the European Union's RoO provisions for graduating LDCs could result in limited preference utilization. LDCs' clothing exports have been the main beneficiaries of RoO simplification, particularly in trade with the European Union and Canada. The derogation of the European Union's RoO for T&C in 2011 from "double" to "single" transformation reinvigorated the supply response from LDCs. On graduation from LDC status, clothing producers will need to comply with the double transformation requirement, irrespective of their access to the GSP or GSP+ schemes. Whilst countries like Bangladesh have domestic capacity to produce yarn, this is not the case for other graduating LDCs. Woven garment manufacturing is expected to face a more severe challenge as graduating LDCs' local fabric production capacity is extremely limited. Therefore, even if graduating Asian LDCs qualify for GSP+, it is not guaranteed that they will meet RoO conditions. This could result in limited preference utilization.

As most clothing items are not included in Canadian GSP for non-LDC developing countries, graduating LDCs will be subject to MFN tariffs, in which case complying with RoO should not be a major concern. Upon graduation, goods destined for Canada will be subject to the GSP RoO, which reduces the allowance for non-originating material from 75 per cent to 40 per cent of the ex-factory price of the goods as packed for shipment to Canada. For carpets (HS 57) and impregnated textile fabrics (HS 59), for which Canada offers concessional tariff rates for developing countries, the stringent RoO might be an issue.

In the United States, RoO are the same for the standard GSP scheme as well as the GSP sub-scheme for least-developed beneficiary countries (LDBC). Since most textiles and clothing products are excluded from the United States' GSP programme, it is expected that graduation will impact tariffs neither nor RoO on T&C products in the United States.

Cambodia, Lao PDR and Myanmar have FTAs with Japan, China and India through ASEAN. Therefore, LDC graduation might have a limited impact, both in terms of tariff rates and RoO requirements, given that bilateral trade between those two sets of countries is governed by their respective agreements. This is also true for Nepal in its bilateral trade with India. India's LDC-specific RoO for clothing require a change in tariff sub-

heading and 30 per cent value added, while the same under the ASEAN-India FTA require a change in tariff sub-heading and 35 per cent value added. Under SAFTA provisions, the local value addition content for Bangladesh to access the Indian market will increase from 30 per cent for LDCs to 40 per cent for non-LDCs. This should not be a major cause for concern as most clothing items are excluded for SAFTA trade liberalization.

China applies the same RoO to ASEAN-China FTA and LDC-specific preferences, with products considered originated if one of the following conditions is met: single transformation – manufacturing through the processes of cutting and assembly of parts into a complete article (for clothing and tents) and incorporating embroidery, embellishment or printing (for made-up articles) from raw or unbleached fabric or finished fabric; regional value content of at least 40 per cent; or change in tariff classification at the 4-digit level (Baker, 2021). Thus, ASEAN member LDCs will not see any changes in their rules of access.[11] Bangladesh will see a rise in local content to benefit from APTA tariff concessions in China, where RoO will require a change in tariff sub-heading and 40 per cent value addition, and 60 per cent value addition for regional cumulation, against the 30 per cent value added for LDCs. However, most of the T&C items of Bangladesh's export interest are not included in APTA concessions.

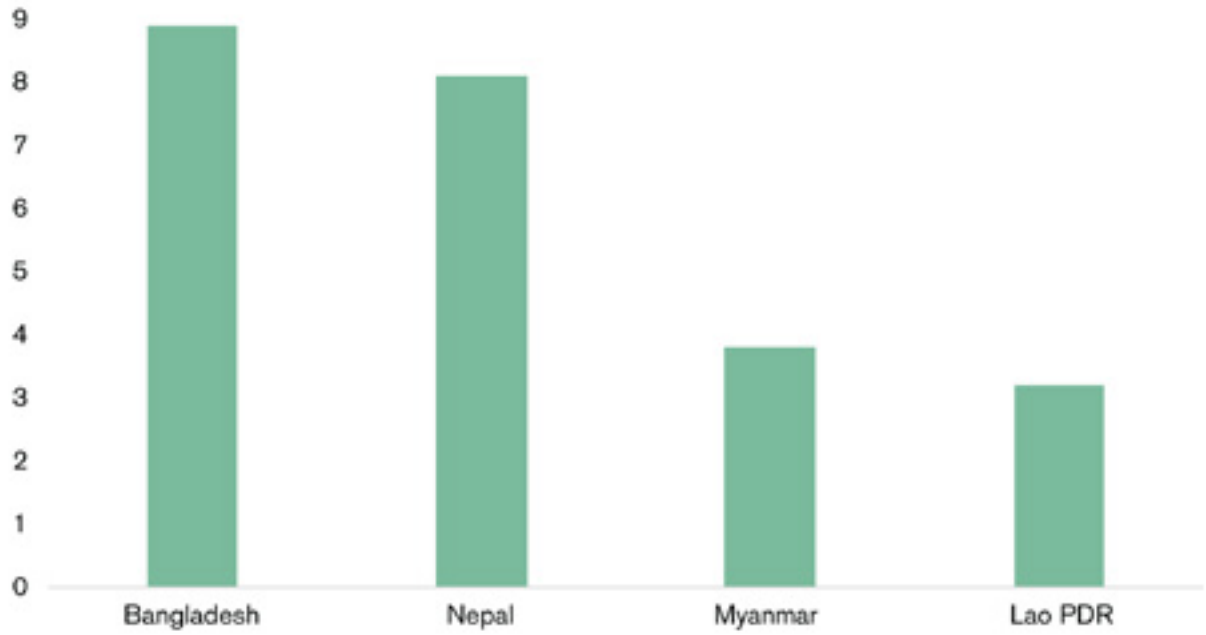
3.3. Potential implications from the loss of LDC-specific preferential market access

For graduating LDCs, loss of LDC-specific tariff preferences is of concern, although there is evidence that the impact on market access for many LDCs would be limited (WTO and EIF, 2020). The actual impact of losing preferences after graduation on an LDC will be determined by the country's export structure (i.e. the type of products exported), export market composition, the varying trade preference arrangements under which such exports are conducted, and the extent to which the preferences are utilized, etc. These factors are different for different countries and thus the impact on graduating LDCs will vary widely.

Analysis undertaken in a WTO-EIF study in 2020 for a set of 12 prospective graduating countries showed that graduation could lead to an average weighted tariff increment of 4.2 percentage points for this group. However, at the individual level, two Asian graduating LDC T&C exporters, Bangladesh and Nepal, were found to experience much higher tariff increases, of 8.9 and 8.1 percentage points, respectively (Figure 11). This was due to the high preference erosion associated with T&C items and their proportionately larger share in the two countries' exports. For the two other Asian graduating countries that were included in the analysis, Myanmar and Lao PDR, the estimated weighted average tariff rise would be lower, at 3.8 and 3.2 percentage points, respectively.[12]

Bangladesh's overwhelming dependence on T&C exports bound for markets with high preferential tariff margins means the potential impact of its LDC graduation is likely to be much greater than that of other graduating LDCs. As tariff hikes reduce its competitiveness, an ex-ante analysis using a partial equilibrium model, employed in the same WTO-EIF study, suggests graduating Asian LDCs could experience loss of exports ranging from as much as 14.3 per cent for Bangladesh to just 1.45 per cent for Lao PDR (Table 2). Given Bangladesh's export structure, it is almost certain that any potential loss of export earnings will be driven by T&C products. Another earlier study also showed that graduation could lead to an overall export decline for Bangladesh and Myanmar of around 7 per cent each (UNCTAD, 2016) while Cambodia could experience an export shock of around 11 per cent. For Bangladesh, other studies taking different methodological approaches predict an impact ranging from 8 to 12 per cent of its exports (Rahman and Bari, 2019; Razzaque et al., 2020).

Figure 11: Average tariff increase faced by Asian graduating LDCs (percentage points)



Note: The analysis considers the best alternative tariff rates in the destination markets after graduation. Cambodia first qualified for graduation at the 2021 review, hence it was not included in the 2020 analysis.

Source: WTO (2020).

The potential impacts for Nepal and Lao PDR have also been borne out in other studies. According to one such analysis, moving to the next best alternative preference schemes after LDC graduation, including the European Union's Standard GSP, could result in a 1.2 per cent fall in Lao PDR's exports (Decreux and Spies, 2020). For Nepal, a 2021 study by the International Trade Centre (ITC) and the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) shows that export losses could be 3 per cent of total exports if Nepal qualified for GSP+ in the European Union along with other best possible market access opportunities after graduation. As much as 70 per cent of the export shock would be due to the T&C sector alone. It may be noted that any assessment of quantitative graduation impact will be associated with certain limitations and thus the results should be used with caution.

Table 2: Potential export shocks (considering all merchandise exports) arising from LDC graduation

Exporter	Initial exports (US$ ',000)	Estimated changes in exports after LDC graduation (US$ ',000)	Loss of exports as % of initial exports
Bangladesh	37,633,733	-5,372,278	-14.28%
Lao PDR	4,581,917	-66,313	-1.45%
Myanmar	13,028,355	-499,133	-3.83%
Nepal	812,796	-20,139	-2.48%

Note: The study considers the best alternative tariff rates in the destination markets after graduation. The provisions in the proposed GSP regime 2024-34 are not considered in this exercise. Cambodia first qualified for graduation at the 2021 review, hence it was not included in the 2020 analysis.

Source: WTO (2020).