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Fashion brands and retailers' sourcing strategy in response to LDC graduation

Major brands and retailers believe LDC graduation may only modestly affect their sourcing. Bangladesh, Cambodia, Lao PDR, and Nepal are included in such firms' diverse procurement strategies, while China and Viet Nam are regarded as critical sourcing bases. They consider the Asian graduating countries to be price-competitive, but as lagging behind in terms of speed to market and innovation.

Fashion brands and retailers adopt a diverse sourcing base to balance a variety of sourcing considerations, including cost, speed to market, flexibility, agility, and compliance risks. More than 70 per cent of surveyed respondents currently source from more than six different countries, while nearly 40 per cent source from more than 10 different countries. Larger companies, in general, adopt a more diversified sourcing base than smaller ones.

The surveyed fashion brands and retailers reported much higher utilization rates of Bangladesh and Cambodia as sourcing bases than Nepal and Lao PDR. However, they mostly see these LDC countries as being part of their diverse sourcing base. Overall, China and Viet

Nam are regarded as more critical sourcing bases. For European Union-based fashion companies, Turkey is another major sourcing destination. The surveyed fashion brands and retailers confirmed sourcing fewer complex products (such as dresses and outerwear) from these LDC countries due to their limited production capacity.

Brands and retailers find T&C manufacturers in Bangladesh, Cambodia, Lao PDR, and Nepal offer competitive prices, mainly due to these countries' relatively low wage levels and LDC-specific trade preferences in major importing countries. However, these LDC countries are not regarded as competitive in terms of speed to market, flexibility of order quantity, or innovation and ability to develop products, etc. There are also concerns about the relatively high social and environmental compliance risks when sourcing from such significant suppliers as Bangladesh and Cambodia.

Brands and retailers also said LDC graduation might only modestly affect their sourcing from Bangladesh, Cambodia, Lao PDR, and Nepal. Many actually plan to expand their sourcing from Bangladesh and Cambodia over the next

Table 3: Surveyed brands and retailers' assessment of competitiveness by selected suppliers

Criteria/Country	Bangladesh	Cambodia	Lao PDR	Nepal	China	Viet Nam
Production quality	3.5	3.5	3.5	2	4.5	4.5
Ability to create value-added products	3	3	2.5	2	4.5	4
Vertical integration/ability to source raw materials	2	2	2.5	3	5	3
Innovation and ability to develop products with buyers	3	2	2.5	2.5	4.5	4
Efficiency	3	3	2	3	4.5	4
Lead time	3.5	3	2	2	4	4.5
Price	4.5	4.5	3	3	3	4
Tariff advantages	3.5	2	3	3	2	3
Flexibility of order quantity	3	2.5	2.5	2.5	4	4
Financial stability	2	1.5	2	2	3	3
Political stability	2.5	3.5	3	3	2.5	4.5
Compliance/sustainability	2	2.5	2	2	2	3.5

Note: The results were based on respondents' average rating for each country on a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average).

three to five years (i.e. through 2025). They also intend to diversify their sourcing away from China and Viet Nam. Thanks to other FTAs or trade preference programmes, fashion brands and retailers may still find it attractive to source from Bangladesh, Cambodia, Lao PDR, and Nepal after those countries' LDC graduation. However, most FTAs and other preferential schemes adopt more restrictive RoO, which could be difficult to comply with.

The high cost of meeting additional documentation requirements associated with more restrictive rules of origin could discourage sourcing from Bangladesh, Cambodia, Lao PDR, and Nepal. However, some industry insiders argue that, as long as apparel sourcing volumes become large enough, more demanding rules of origin could help these LDC countries – particularly Bangladesh and Cambodia – attract more foreign investments to develop their local textile industries. Booming investment in Viet

Nam's textile industry during Trans-Pacific Partnership (TPP) negotiations was also driven by the agreement's restrictive apparel-specific rules of origin (Platzer, 2016).