



# The way forward for mitigating consequences for Asian graduating LDCs' T&C sectors

**Although not straightforward, there are several options for these countries to consider while preparing for any upcoming changes in international trade policy regimes and support measures due to their graduation.** Adaptation strategies should include, amongst others: seeking any alternative preferential arrangements after graduation while exploring opportunities for making those more favourable; and initiatives at the national level to support industrial upgrade as well as improve firm-level business and operational practices to boost competitiveness.

**A reinvigorated effort towards making the most of existing trade preferences in the remaining years prior to graduation should greatly help LDCs tackle supply-side bottlenecks to boost competitiveness. This will be critical for mitigating any adverse consequences.** Asian graduating LDCs whose official graduation is scheduled for 2026 – namely, Bangladesh, Lao PDR, and Nepal – will then enjoy an additional three-year grace period, retaining all LDC-related trade preferences granted by the European Union and the United Kingdom in their respective markets. Therefore, graduating LDCs have about five to eight years'

time to vigorously exploit existing preferences and expand their current exports. This should also be considered as a critical transitional phase to revamp their export sector and related trade and industrial development strategies, and thus to prepare for the post-graduation period.

**Graduating LDCs could actively engage with their trading partners to develop arrangements that would allow them to maintain LDC-like treatment after graduation. There are several possible options for pursuing such arrangements.**

In some cases, LDCs' choices would differ depending on their current country-specific circumstances. Without being exhaustive, the following provides a list of potential engagements:

- Currently, only the European Union and United Kingdom provide for an additional three-year transitional period after graduation. For Asian graduating LDCs and the LDC Group, there is thus an opportunity to engage with other important preference-granting countries such as Australia, Canada, China, India, Japan, and the Republic of Korea, and urge them to offer a similarly extended transitional period beyond their official LDC graduation.

- Under the newly proposed European Union's GSP for 2024 to 2034, graduating LDCs will qualify for the GSP+ scheme in practical terms if they ratify and implement various international conventions. This will allow duty-free market access for T&C products. Therefore, Asian LDC exporters of textiles and clothing should prepare for complying with the specified graduation criteria. Only Bangladesh – given its high share in European Union imports – may be subject to European Union safeguard measures as per the proposed European Union GSP. There is however a window of opportunity for Bangladesh to engage with the European Union, seeking for favourable terms before the proposed GSP rules are adopted by the European Parliament.
- For Asian LDC exporters, meeting rules of origin provisions under GSP+ – and especially the “double transformation” requirement for apparel exports – would be a major challenge, potentially restricting their export supply capacities. These countries could therefore request EBA-type liberal RoO terms for a longer transition period.
- Given the significance of the European Union market for Asian graduating countries' T&C exports, graduation-related consequences will be greatly contained if any potential disruptions in this market can be prevented. Therefore, these countries must proactively engage with the European Union immediately on issues such as eligibility criteria and rules of origin as the proposed European Union's GSP for 2024 to 2034 is being reviewed and debated by the European Parliament.
- In some cases, there may be additional opportunities for maintaining the current level of market access through bilateral and regional free trade agreements. Cambodia, Lao PDR, and Myanmar already have access to ASEAN-China, ASEAN-India, ASEAN-Japan and RCEP trade preferences, and Nepal has an FTA with India. Bangladesh and Nepal could also proactively consider joining the RCEP. Under a specific SAFTA provision, India allowed a previously graduated South Asian LDC, the Maldives, to

continue with LDC-specific favourable conditions. Bangladesh could also engage with India to receive similar treatment after its graduation.

- The LDC Group in the WTO has submitted a proposal for extending to graduated countries the existing special and differential treatment measures and exemptions available to least developed countries “for a period appropriate to the development situation of the country”.<sup>16</sup> Asian graduating T&C exporters could consider pursuing this proposal.

**Asian graduating LDCs that export T&C products should adopt industrial upgrade strategies for moving up the global value chain and thus reduce vulnerabilities associated with competitiveness based on the low wage cost only.** This refers to two tasks that could be done in parallel. One is to develop textile manufacturing and, wherever possible, fibre production, moving into backwards integration of the industry. The second is to capture additional value by developing the services required to move into the pre-production and post-production stages of apparel development, as shown in the ‘smiley-curve’. This is important not only because losing LDC-related preferences will put pressure on competitiveness and more stringent RoO criteria will require higher domestic value addition, but because such upgrades will be vital for sustained growth and development. Sector strategies can include policies and activities aimed to support technological development; capacity building and skills development; production of yarns and textiles to support backward and forward linkages in the sector; diversification and production of higher complexity items; and design, branding and marketing of products.

**The process of industrial upgrade must also take environmental, social, and governance (ESG) considerations into account.** As consumers become more aware of workers' rights and climate change, ESG factors are gaining prominence in international trade and business activities associated with T&C, and are being taken more seriously in supply chain management

decisions. Asian graduating LDCs may have an opportunity to increase their attractiveness as sourcing destinations, and therefore play a more critical role in global value chains, by reinvigorating their efforts to protect the environment and comply with labour standards.

**Asian graduating T&C LDC exporters should aim to exploit the link between better working conditions and productivity increases.** There is evidence that improving working conditions can reduce worker turnover, which is high in all the graduating Asian LDCs under consideration (ILO, 2017) and can discourage entrepreneurs and contractors from investing in training and skill upgrading. Therefore, ensuring better working environments could unleash important competitive gains.

**Increasing compliance with environmental standards, improving resource efficiency and moving towards more circular production methods, should be an important consideration in establishing a country as a credible and responsible sourcing destination.** Many global clothing brands and retailers are now committing to ambitious greenhouse gas (GHG) emission reduction targets, aiming to implement them throughout their supply chains. There has been a strong focus on adopting renewable energy and phasing out fossil fuel-based electricity use; increasing the use of recycled or other sustainably sourced material; and reducing water usage. Asian graduating LDCs need to adopt relevant environmental protection standards to remain a part of global supply chains. Bangladesh has made some solid progress in this respect. It already has 150 green garment factories – which have been granted Leadership in Environmental and Energy in Design (LEED) certification by the United States Green Building Council (USGBC) – and several hundred more are waiting for the same certification.<sup>17</sup>

**Asian graduating LDCs should vigorously seek opportunities for more extensive use of LDC-related development financing mechanisms that could support firm-level**

**preparedness (i.e. industrial upgrade) as well as overall economic competitiveness (e.g. through infrastructural development) to benefit T&C exporters.** These include the Enhanced Integrated Framework (EIF) for institutional and capacity building support in the field of trade; the United Nations Capital Development Fund (UNCDF) for supplementing capital assistance through grants and loans; the Least Developed Countries Fund (LDCF) for supporting climate change adaptation; and the United Nations Technology Bank for LDCs for, amongst others, helping nations identify and use appropriate technologies to transform their economies. In the case of the EIF and the Technology Bank, any graduating LDC will remain eligible for EIF support for a period of up to five years after graduation.<sup>18</sup>

During the transition period towards and after graduation, graduating Asian countries also have the option of turning to official development assistance (ODA) resources, including Aid for Trade. Given the significance of the T&C sectors, development partners will likely be keen to provide extended support with the objective of improving the sector's competitiveness. In collaboration with the private sector, graduating LDC governments can determine what type of support is needed in view of their respective country contexts and approach development partners. The trade-related adjustment support mechanism under Aid for Trade could also be an important avenue through which LDCs could seek external resources to promote their supply-side capacities.

**Finally, tackling the high cost of doing business and investing in connectivity and trade facilitation measures will be important to boost competitiveness.** Asian graduating LDCs suffer from weak and inadequate infrastructure in conjunction with inefficient inland road transport, customs procedures, and trade logistics. These factors lead to longer lead times and a high cost of doing business. Such challenges should be translated into opportunities as any improvements in these areas will contribute to the improved competitiveness of exporting firms.

## Abbreviations

<b>APTA</b>	Asia-Pacific Trade Agreement	<b>LDC</b>	Least Developed Country
<b>ASEAN</b>	Association of South-East Asian Nations	<b>LDCF</b>	The Least Developed Countries Fund
<b>CEPA</b>	Comprehensive Economic Partnership Agreement	<b>MFA</b>	Multifibre Arrangement
<b>CMT</b>	Cut, Make and Trim	<b>MFN</b>	Most-Favoured Nation
<b>EBA</b>	Everything But Arms Initiative of the European Union	<b>ODA</b>	Official Development Assistance
<b>EIF</b>	Enhanced Integrated Framework	<b>RCEP</b>	Regional Comprehensive Economic Partnership
<b>ESG</b>	Environmental, Social and Governance Factors	<b>RoO</b>	Rules of Origin
<b>FDI</b>	Foreign Direct Investment	<b>SAFTA</b>	South Asian Free Trade Area
<b>FTA</b>	Free Trade Agreements	<b>T&amp;C</b>	Textiles and Clothing
<b>GSP</b>	Generalized System of Preferences	<b>UNCDF</b>	The United Nations Capital Development Fund
<b>GSP+</b>	GSP Plus	<b>UNCTAD</b>	The United Nations Conference on Trade and Development
<b>GVC</b>	Global Value Chain	<b>UN-OHRLS</b>	The United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
<b>HS</b>	Harmonized System	<b>WTO</b>	World Trade Organization
<b>ISM</b>	International Support Measures		
<b>ITC</b>	International Trade Centre		
<b>LDBC</b>	Least Developed Beneficiary Countries		

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## Endnotes

- 1 LDC graduation requires a country to meet development thresholds under at least two of three pre-defined criteria (related to per capita income, human assets and economic and environmental vulnerability) in two consecutive triennial reviews. There is also an 'income-only' provision, under which an LDC becomes eligible for graduation if, regardless of the other two criteria, its three-year average per capita GNI rises to a level that is at least double the graduation threshold. Countries' inclusion in and graduation from the LDC Group are assessed at triennial reviews conducted by the Committee for Development Policy (CDP) of the United Nations Economic and Social Council (ECOSOC). For further details, see <https://www.un.org/development/desa/dpad/publication/handbook-on-the-least-developed-country-category-inclusion-graduation-and-special-support-measures-fourth-edition/> <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/LDC-Handbook-2021.pdf>
- 2 The full studies can be found at [www.un.org/development/desa/dpad/2021/un-joint-study-on-the-textile-and-clothing-sector-in-asian-graduating-least-developed-countries-challenges-and-ways-forward](http://www.un.org/development/desa/dpad/2021/un-joint-study-on-the-textile-and-clothing-sector-in-asian-graduating-least-developed-countries-challenges-and-ways-forward)
- 3 This is based on mirror data as reported in the ITC Trade Map database. According to this database, Bangladesh exported US\$ 38.3 billion worth of textile and clothing items in 2020. The corresponding figures are US\$ 12.5 billion for Cambodia, US\$ 6.2 billion for Myanmar, US\$ 303 million for Lao PDR, and US\$ 260 million for Nepal. The mirror data could be different from those reported by official sources in individual countries. To be consistent with export data across all countries, the mirror data is used here.
- 4 That is, Asian graduating T&C exporters overwhelmingly specialize in clothing or apparel production with very limited exports of textile items. Their share in world textile exports, excluding clothing items, is a miniscule 0.8 per cent.
- 5 <https://data.wto.org/> as of 14 May 2021.
- 6 The market shares in the European Union are calculated as the share in total extra-European Union's imports of the Union.
- 7 The European Union's newly proposed GSP 2024-34 has removed the so-called 'import-share' criterion as part of GSP+ qualification.
- 8 The European Union's new GSP proposal updates the sustainable development criterion by expanding the list of international conventions from the current 27 to 32. The international conventions and agreements added to the GSP list include: the Paris Agreement on Climate Change, 2015 (replacing the Kyoto Protocol); the Convention on the Rights of Persons with Disabilities (CRPD); the Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict (OP-CRC-AC); ILO Convention No 81 on Labour Inspection; ILO Convention No 144 on Tripartite Consultation; and the UN Convention against Transnational Organized Crime.
- 9 The safeguard mechanism will not apply for the LDC-specific Everything But Arms (EBA) beneficiaries, nor shall it apply to other GSP+ recipient countries with a share for the relevant products not exceeding 6 per cent of the total European Union's imports of the same products (Article 29, paragraph 2). As Bangladesh's export share

- of apparel products exceeds the threshold value of 6 per cent (of all European Union's imports of HS 61, HS 62 and HS 63 grouped together as S-11b), the next determining factor will be Bangladesh's share of S-11b as a percentage of all European Union GSP-covered imports of the same products. As per the newly proposed regulations, if this share (product graduation threshold) exceeds 37 per cent, no preferences will be accorded to the relevant products (as specified in Annex IV of the new proposals). Bangladesh's share in total European Union GSP-covered imports of the product group S-11b is found to be almost 50 per cent (Razzaque, 2021).
- 10 Under RCEP, the Asian graduating countries that are members of ASEAN will get duty-free access for textiles and clothing items in Australia, China, Japan, New Zealand, and the Republic of Korea. The duty-free access will be applicable after the phase-out period.
  - 11 Post-graduation, Asian graduating LDCs that are also ASEAN members will also benefit from relaxed RoO through the RCEP, which, after the phase-out period, will grant duty-free market access to Australia, China, Japan, New Zealand, and the Republic of Korea. The RCEP RoO require a change in tariff classification at the HS 2-digit level for all non-originating materials used in the production of the good.
  - 12 Cambodia was not included in the group of prospective graduating countries for which the analysis was undertaken.
  - 13 <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1620>
  - 14 Lu, Sheng (2021). "2021 Fashion industry benchmarking study". United States Fashion Industry Association, Washington, DC. Retrieved from [https://www.usfashionindustry.com/pdf\\_files/20210715-fashion-industry-benchmarking-survey.pdf](https://www.usfashionindustry.com/pdf_files/20210715-fashion-industry-benchmarking-survey.pdf)
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  - 16 WTO official documents numbers WT/GC/W/807 and WT/GC/W/829. WTO official documents can be sourced from <https://docs.wto.org/>.
  - 17 <https://www.thedailystar.net/business/news/bangladesh-now-has-150-green-garment-factories-highest-the-globe-2200791>
  - 18 In the case of UNCDF, LDC programmes can continue to be funded for a period of three years after graduation. Funding for another two years can be provided on a 50/50 cost-sharing basis with either the government or a third party. There are also provisions for developing additional modalities for individual graduated countries.

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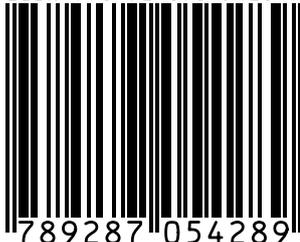
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The textiles and clothing sector has been a key driver of export growth in least developed countries (LDCs) that are on the path of graduation, especially from Asia. Graduation from LDC status would imply loss of LDC trade preferences. This report, a product of inter-agency collaboration, examines impacts of graduation for Asian graduating LDCs; it looks at market access scenario after graduation, the nature of their participation in global value chains and business insights, including at the firm level.

The report also offers a forward-looking perspective to ensure a smooth transition from LDC status. It sheds light on possible strategies to maintain market access after graduation and to support industrial upgrade and economic diversification. In addition, the report points to other factors affecting export potential of textiles and clothing, including increased attention to environmental and social standards. LDC-focused development assistance could play an important role in supporting these countries with bolstering the overall competitiveness of their textiles and clothing sector.

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