

Webinar on the Implications of LDC graduation for the textiles and clothing sector

7 May 2021, 13.00 – 14.30 - Zoom

Summary

The WTO, in cooperation with ITC, UNCTAD and UNDESA, organized a webinar on 7 May 2021. It kicked off an inter-agency collaboration to undertake an in-depth sectoral study on the implications of LDC graduation for the textiles and clothing (T&C) sector. As a pilot, the study would focus on four LDCs on the path of graduation from LDC category (Bangladesh, Cambodia, Lao PDR and Nepal). Close to 70 participants attended the webinar, including high-level officials from these four LDCs, members of the UN Committee for Development Policy (UN CDP) as well as the representatives from the international organizations and institutions working on LDC graduation: EIF, GIZ, ITC, UNCTAD, UN DESA, UNESCAP, UNIDO, and UNOHRLLS. The webinar had two main segments along with a brief question and answer session for participants.

The webinar was moderated by Taufiqur Rahman, Head of the LDC Unit, Development Division, WTO, who underlined the importance of the T&C sector for graduating LDCs and the need to have a special focus on this sector in examining the impact of graduation. He noted that the objectives of the webinar were twofold: to assess the implication of LDC graduation for the T&C sector and to explore possible options for ensuring smooth transition.

Assessing implications of LDC graduation on the T&C sector

Paul Baker, CEO of the International Economics Ltd presented the findings of the trade-related implications of LDC graduation on the T&C sector, which WTO had commissioned under the aegis of EIF-WTO project on LDC Graduation and which would be integrated into the broader study being undertaken with other UN agencies. Mr. Baker noted that in most of the largest destination markets (Canada, Japan, EU, United States) LDCs enjoyed special concessions, and that graduated countries would face significantly lower preferences if they had not considered preferential trade arrangements with third countries. He noted that none of the analyzed countries had a preferential trade agreement with Canada, and that all analyzed countries, except Bangladesh, would meet the current vulnerability criteria to access the GSP+ scheme of the EU. Mr Baker also noted that graduated countries could face stricter origin requirements in order to be able to use the trade preferences offered under GSP or FTAs, in particular in their exports of clothing to EU and Canada. At the same time rules of origin might have a limited impact in the US and Asian markets.

Mr Baker indicated that LDCs would need to pursue strategies to seize market opportunities for their products even before graduation from the LDC status, including securing grace period for continuation of existing preferences, negotiating preferential trade agreements or joining regional initiatives which could aim at continuing DFQF market access and single transformation origin requirement for T&C products. He also underscored the critical need for improving trade facilitation, attracting foreign direct investment, and exploring other business drivers, including value chain upgrade through brand development and marketing.

Roland Mollerus, Secretary of the UN CDP highlighted the role of the CDP in reviewing the list of LDCs and the importance attached by the CDP Secretariat and UN DESA to partnering with other agencies when conducting analysis or providing support to graduating countries. The impact assessments conducted by UN DESA demonstrated that T&C sector required greater attention as this sector was vital for the economies of a number of LDCs. The CDP has recommended Bangladesh, Lao PDR and Nepal for graduation, while Cambodia met the graduation threshold for the first time in 2021. It was particularly important for Bangladesh, Lao PDR and Nepal to define their smooth transition strategies. He hoped that the evidence-based analysis of this sectoral report would provide useful information for preparing these strategies. In addition to the trade-related findings, the report would include an analysis of the global value chains led by UNCTAD, an assessment of the business perspective led by ITC and UN DESA and including firm-level surveys. He noted that the report was being prepared as part of greater efforts led by UN-OHRLLS to better coordinate activities on graduation.

Rolf Traeger, Chief of the LDC Section, Division for Africa, LDCs and Special Programmes, UNCTAD stressed the importance of adopting a more granular approach to diversification with an emphasis on domestic market and product diversification. As part of its diversification methodology for the vulnerability profiles, UNCTAD identified that high concentration in low value products resulted in very few linkages to other products which could have paved the way for diversification. He noted the importance of designing policies that could support diversification of production and exports. He underlined that FDI policy should be integrated with industrial policy which in turn should be integrated with the trade policy with a view to a smooth transition into the post-graduation phase. He also invited attention to the past quantitative assessments on LDC graduation, including UNCTAD's [LDC report 2016](#), UN DESA's impact assessments, and WTO's Trade impacts of LDC graduation.

Matthias Knappe, Programme Manager for Cotton, Textiles and Clothing, ITC noted the importance of a detailed product analysis at 6-digit level and unit price developments to see whether the value addition had taken place and where opportunities existed for graduating LDCs. He noted that as part of the inter-agency report, ITC was looking into the international aspects of business, including the plans for overcoming the challenges of graduation. It was important to ascertain views from LDCs importing partners on the imminent loss of preferential access, and also how loss of preferences might impact foreign direct investment. He also underscored the importance of looking at GSP utilization rates to see the extent of the utilization of LDC preferences.

Remarks by representatives of graduating LDCs

Hafizur Rahman, Director General, WTO Cell, Ministry of Commerce of Bangladesh provided a comprehensive account of the situation of the T&C sector in Bangladesh. T&C exports of Bangladesh were highly concentrated in two main markets (EU and US), which accounted for 90% of the total exports. He also noted that the sector provided jobs for over 4 million people, with women accounting for 80% of this employment. He noted that according to WTO estimates, upon graduation, Bangladesh might lose nearly 14% of its exports amounting close to USD 6 billion and that every billion of export losses could result in one hundred thousand of job losses, mostly for women.

Mr. Rahman stressed that the ongoing pandemic had resulted in the cancellation of orders and deferred payments, with the industry experiencing a slowdown in order placements from buyers with great deal of uncertainty that loomed large on the prospects of this industry. He concurred with the policy recommendations outlined in the study, and that Bangladesh had been pursuing PTAs and FTAs with its trading partners. At the same time, diversification to high value-added products and expanding export sectors remained a key priority. Other priority reforms aimed at improving doing business index, cutting trade costs, and building trade capacity by working together with private and public sector to address post-graduation challenges with additional support measures from the international community.

H.E. Pich Rithi, Secretary of State, Ministry of Commerce of Cambodia shared Cambodia's perspective on graduation. He noted that the T&C sector was important for Cambodia which continued to attract foreign direct investment that was generating incomes for workers. The garment sector in Cambodia accounted for nearly 40% of the total exports in 2019. Cambodia's top export destinations included Canada, EU, Japan, UK and the US. He expressed some concerns about possible impacts of graduation from LDC status: i) losing tariff preferences; ii) facing stricter origin requirements; iii) losing FDI; iv) losing competitiveness; v) losing aid-for-trade opportunities.

He underlined that in order to prepare a smooth transition plan, Cambodia would need technical and financial support from the international organizations and development partners: i) to assess economic impacts and to prepare a plan for graduation; ii) to build structural and transformational capacity in graduating LDCs. He stressed that in order to prepare for graduation, Cambodia and graduating LDCs needed a medium-term grace period during which graduating LDCs should prepare a transition plan to diversify markets. He noted that the Ministry of Commerce was preparing an FTA utilization strategy to gain maximum benefit of the existing FTAs that Cambodia concluded with its trading partners. With assistance from the EIF, Cambodia had formulated its Trade Integration Strategy (CTIS, 2019-2023) and e-commerce strategy and support was sought in the implementation of these strategies.

Santisouk Phounesavath, Deputy Director General, Ministry of Industry and Commerce of Lao PDR noted that preparation for graduation from LDC status was one of the priorities for his country. During its accession, Lao PDR sought to benefit from the special and differential treatment provisions and the flexibilities granted to LDCs. It was important to analyze the loss of preferences as well as options available to Lao PDR to smoothly integrate into the multilateral trading system.

He highlighted that the EU was an important trading partner for Lao PDR, and that Lao PDR was working on the GSP+ scheme, though it had some conditionalities, including ratification of 27 international conventions. Strengthening Lao's compliance with different standards in export markets was highlighted. Awareness of government officials and the private sector on the impact of graduation was key, including national capacity to assess trade impact of LDC graduation. He also recommended including country-specific policy options, so that each graduating LDC could review and adapt those policy recommendations. He noted that an important objective of ASEAN or RCEP agreements was to build regional value chains and that the rules of origin under these agreements were trade-facilitating and business friendly, which was especially important in the context of the T&C regional value chains.

Ganesh Prasad Pandeya, Joint Secretary, Ministry of Industry, Commerce and Supplies of Nepal noted that Nepal was recommended for graduation in 2021 based on economic vulnerability and human assets criteria. However, Nepal's income per capita remained below the graduation threshold. Mr Pandeya highlighted that carpets, textiles and related items remained Nepal's main exports products, representing nearly one third of the country's exports. India was Nepal's largest trading partner, with whom it had a bilateral trade agreement. The EU was Nepal's second largest trading partner, with 90% of its exports entering under EBA. As a result of graduation, Nepal was expected to face 5% increase in tariffs for carpets, 10% for jerseys and pullovers, and 12% for footwears in the EU market. In addition to higher tariffs, there would be stricter origin requirements, including double transformation requirement.

Mr Pandeya pointed to several government measures taken to support Nepal's T&C sector, including export subsidies for selected products under its Cash Incentive Schemes for Exports and promoting exports through branding Chyangra Pashmina trademark had been registered in nearly 50 countries which had given a global recognition to the exporters in Nepal. He also highlighted Nepal's efforts in implementing its e-commerce strategy to promote digital trade. Nepal had recently drafted e-commerce legislation for creating institutional and legal structure that would contribute to overcoming connectivity challenges for a landlocked Nepal and the constraints posed by the COVID-19.

The discussion covered the historical perspective of the T&C sector, utilization of LDC-specific preferences, the use of non-agricultural export subsidies by LDCs, and the importance of smooth transition mechanisms to enable graduation with momentum.

In closing, Mr Taufiqur Rahman (WTO) indicated that it would be important for the LDCs and the international community to work together, to ensure that graduating LDCs could receive the support they needed to ensure smooth transition. He indicated that the WTO LDC group was currently pursuing a proposal on LDC graduation in the WTO which also included the call for preference granting Members to phase out LDC preferences over a period of 12 years following graduation. He noted that the sectoral study could serve as a useful evidence-based tool for informing future smooth transition strategies. The study may be completed towards the latter half of this year and may also serve as an input to the preparatory process for the Fifth United Nations Conference on the LDCs (LDC5).