EIF Enhanced Integrated Framework

Trade for LDC development

Building better apparel value chains in least developed countries

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Apparel is a conventional starter industry for least developed countries (LDCs) that are working toward export-oriented industrialisation. However, LDCs that integrate apparel global value chains often fail to sufficiently develop backward linkages to the textile sector and create local value addition, moves that could spur economic, social and environmental improvements. In addition, the COVID-19-induced health and economic crises have led to one of the most challenging years on record for the global fashion industry and its supply chain, leaving vulnerable garment workers and firms in LDCs highly exposed to shocks. Building on an analysis of industry trends and three country case studies, this brief explores how LDCs can best reap the full and fair benefits from participation in apparel value chains as the global fashion industry recovers and evolves.

KEY POINTS

Government support and a conducive policy environment catalyse industry development

For successful industrial upgrading in the textile and clothing sectors, targeted policies, enabling investment frameworks and government support are essential.

Strengthened relationships between buyers and suppliers will help build a resilient industry

Longer-term buyer-supplier relationships and greater transparency in the supply chain can reduce power imbalances and lead to a better transfer of knowledge, development of skills and distribution of value.

Improved social and environmental industry standards should take centre-stage in the recovery

The COVID-19 crisis has revealed a systemic failure to ensure that workers in garment factories in LDCs earn living wages, and has highlighted the urgent need to transition to sustainable business models.

INTRODUCTION

Apparel is one of the oldest, largest and most fragmented industries in the world. The sector is considered a conventional starter industry for low-income countries engaged in export-oriented industrialisation due to its labour-intensity and low fixed costs (Gereffi 2010). Apparel has been a springboard for development in the 20th century in countries in Asia as diverse as Japan, South Korea, Taiwan, India and China. At different periods of world history, they developed export capabilities in more capital-intensive and higher-value segments like the production of fibres, textiles and machinery. Some LDCs like Bangladesh, Cambodia, Ethiopia, Lesotho, Madagascar and Myanmar are successful garment exporters.[1]

COUNTRY SPECIALISATION IN THE VALUE CHAIN

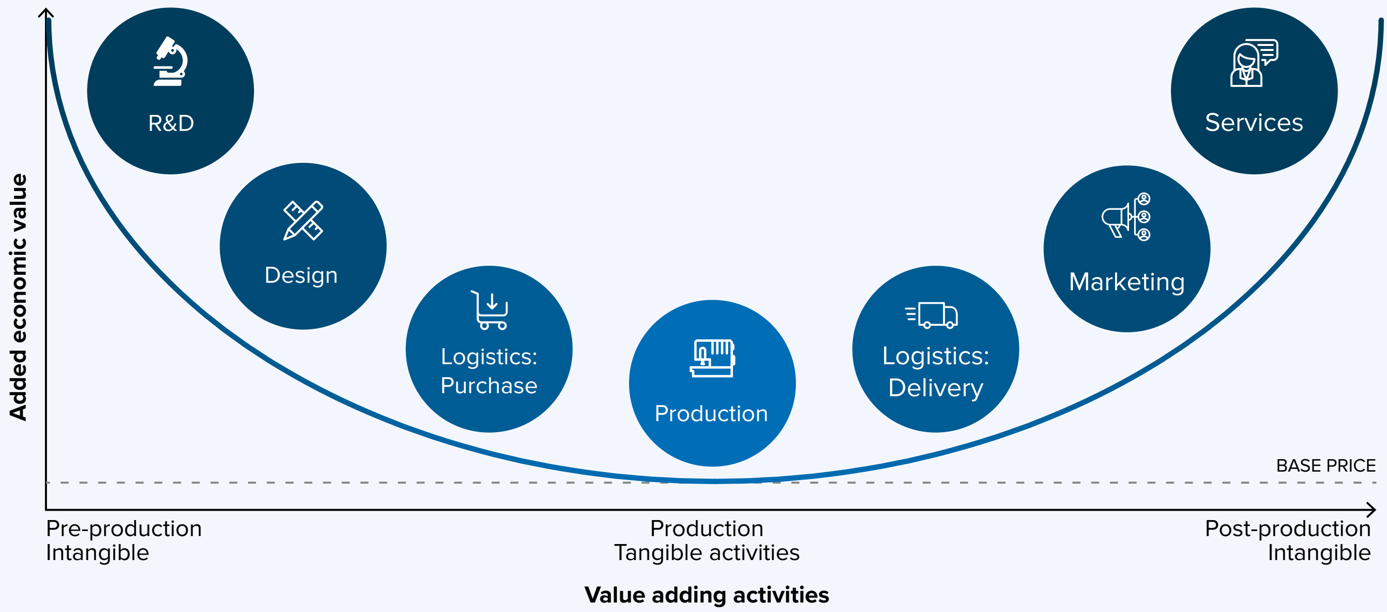
The apparel global value chain is marked by a high degree of country specialisation and mobility. Low-cost countries dominate labour-intensive garment production. As countries develop and wages rise, manufacturing relocates to new regions and industrial output focuses on higher value products and activities. Foreign direct investment (FDI) and preferential arrangements play an important role in shaping the global industry. This international division of labour is further influenced by the organisation of buyer-driven global fashion supply chains. Lead firms (brand owners and retailers in developed and emerging nations) perform high-value functions like research and development (R&D), design, branding, marketing and retailing. Production is sourced from a network of supplier firms predominantly found in low-wage countries (Figure 1).

Suppliers are differentiated according to their functional capabilities (Figure 2). At the lower end, cut, make, trim (CMT) factories focus on low-cost volume production. This is where most LDCs operate.[2] The next stage is original equipment manufacturing (OEM), where suppliers take on a broader range of functions like sourcing or manufacturing knitted or woven textiles. Bangladesh is the only LDC in which this type of firm predominates. Other countries include Indonesia, Mexico, Morocco, Pakistan and Vietnam. Then there is original design

1 In this brief, the words apparel, garment and clothing are used interchangeably.

2 There are often important variations in firm capabilities within countries in all functional categories. For example, LDCs can have a narrow group of firms operating closer to the technological frontier that are producing higher value items through product and process innovation and the absorption of more advanced functions in the chain.

Figure 1. Value adding curve in the apparel global value chain



Source: Adapted from Fernandez-Stark et al. (2011).

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manufacturing (ODM), where suppliers carry out some pre-production functions like design and product development. China, India, South Africa and Turkey are in this category. Other actors who play a pivotal role are transnational manufacturers, traders and agents who coordinate and organise global supply chains and OEM and ODM activities. The head offices of these intermediaries are mainly found in Asia, notably China, Hong Kong, South Korea and Taiwan. (Lopez-Acevedo and Robertson 2012 ; Fernandez-Stark et al. 2011; Cattaneo et al. 2010; and Farole and Winkler 2014).

ONE OF THE MOST CHALLENGING YEARS ON RECORD

The textile and clothing sectors have been confronted with the full brunt of the economic and health crises provoked by the coronavirus pandemic. McKinsey (2021) notes that "the past year will go down in history as one of the most challenging for the fashion industry on record, marked by declining sales, shifting customer behaviour and disrupted supply chains."

BOX 1. PREFERENCE PROGRAMMES AND RULES OF ORIGIN IN THE APPAREL GLOBAL VALUE CHAIN

For three decades (1974-2005) the Multifibre Arrangement (MFA) governed world trade in textiles and clothing. The MFA was designed as a system of quotas on large Asian suppliers aimed to protect developed country producers. The industry was brought under the jurisdiction of the World Trade Organization (WTO) in 1995 and a ten-year transitional period for bilaterally negotiated quota removals was ratified – the Agreement on Textiles and Clothing (ATC). By 2005, quotas that regulated the industry were phased out.[3]

The phase-out of MFA quotas under the ATC induced a profound reorganisation of textile and clothing value chains and international sourcing networks. It altered the competitive dynamics of producing nations, caused a redirection of investment and led to the migration of garment production towards competitive low-cost Asian suppliers. China was the overwhelming beneficiary in terms of market penetration in both textile and clothing sectors.[4]

In the post-ATC world, apparel imports still face tariff peaks in almost all major markets. Preferential arrangements, which partly shield LDCs from open competition, thus play an important role in influencing investment and trade patterns.

In 2001, the EU enacted Everything But Arms (EBA), which provides duty-free and quota-free market access to all LDCs. In 2000, the US enacted the African Growth and Opportunity Act (AGOA), which covers duty-free access for sub-Saharan Africa apparel exports. AGOA is complemented by a key provision, Third Country Fabric (TCF) derogation, which grants duty-free access to African LDCs under flexible rules of origin.[5] LDCs benefit from many other preferential schemes, including in major markets like Australia, Canada, China, India, Japan, Switzerland and Turkey, as well as in regional trade agreements of which they are members.

Preferential agreements specify rules of origin that can be more or less restrictive. In apparel, the rules of origin that apply to beneficiary countries are differentiated by minimum percentages of domestic value added or different stages of processing – for example sewing of apparel, weaving or knitting of fabric and spinning of yarn. Rules of origin can have a very significant impact on the utilisation rate of preferential schemes, the sourcing patterns of intermediate goods (cotton, fibres, yarn and textiles) and the development of backward linkages.

The rationale behind rules of origin that require multi-stage transformation is that they can stimulate industrial development in the upstream textile sector. As the effectiveness of this approach in low-income economies has been questioned, there has been a shift towards the simplification of rules. The EBA (since 2010) and AGOA TCF schemes apply single transformation (manufacture from fabric) for LDCs. This has boosted the competitiveness of garment factories in LDCs by allowing them to source cheap intermediate goods anywhere in the world (largely to the benefit of China). However, it has also rendered the process of developing backward linkages more complex and even eroded national textile bases in a number of countries.

Source: Adapted from Lehmann and Primo Braga (2015).

3 The EU and US imposed some safeguards on Chinese imports until 2009.

4 By 2010, China's share in world clothing exports had surged to 36.6%, and reached 30% in textiles. Rising wages and domestic demand have since seen its world share in clothing exports come down to 30.8% in 2019, mostly to the benefit of regional competitors. The share in world textiles exports, however, has continued to rise, reaching 39.2% in 2019, largely due to huge efficiency gains and economies of scale, as well as state subsidies, in the different stages of capital- and energy-intensive fabric production from spinning to knitting and weaving.

5 The US trade preference programme for developing countries, the Generalized System of Preferences, does not cover garments, which means that Asian LDC suppliers like Bangladesh and Cambodia do not benefit from preferential access to the US market.

BOX 2. UPGRADING IN THE APPAREL GLOBAL VALUE CHAIN

Economic upgrading is a fundamental aspect of value chain integration. It is defined as moving to higher value activities in order to increase the benefits from participating in transnational production. Capturing value and stimulating backward linkages in textiles are two essential conditions for the apparel export sector to act as a springboard for industrial development and economic diversification. There are four types of economic upgrading:

- Product upgrading – the ability to produce higher value goods;
- Process upgrading – improvements in efficiency and productivity;
- Functional upgrading – moving into higher value tasks of greater knowledge intensity; and
- Chain upgrading – diversifying into higher value economic sectors.

Value chain participation does not necessarily stimulate a virtuous process of economic upgrading. Nor does economic upgrading automatically correlate with positive social outcomes. Social upgrading refers to improvements in the rights and entitlements of workers, of which there are two facets:

- Measurable standards – wages, working hours, health and safety, contractual terms and social protection; and
- Enabling rights – collective bargaining, freedom of association and non-discrimination (most notably gender).

The third concept is environmental upgrading. This is the process by which firms move towards a production system that avoids or reduces environmental damage from their products, processes or managerial systems.

Beyond regulation, voluntary sustainability standards play a significant role in influencing social and environmental outcomes in apparel global value chains. These private standards – rules that brand owners and retailers ask their suppliers to adhere to and can freely audit – can cover worker health and safety, human rights and the environmental impacts of production.

Source: Adapted from Lehmann and Primo Braga (2015); Barrientos et al. (2010).

Industry profits are expected to collapse by a staggering 93% in 2020. The latest scenarios do not anticipate activity to return to 2019 levels before 2022 or 2023.

Lead firms initially responded to the crisis by transferring the sudden demand shock on to their suppliers in developing countries that had no power to resist and were least equipped to buffer the impacts – thereby demonstrating the well-recognised power asymmetries between producers and buyers that characterise the fashion supply chain. The estimated 40-60 million global garment workers were left exposed, with no margin of economic security, as brand owners and retailers cancelled, deferred and renegotiated contracts for clothing orders they had placed before the coronavirus outbreak.

Garment workers in LDCs earn some of the world's lowest wages in countries where social safety nets are weak. They are mostly women, especially in lower-tiered positions, and often trapped in a cycle of vulnerability and poverty.[6] The Worker Rights Consortium (2020) has calculated that suppliers across the world lost $16.2 billion in revenues between April and June 2020, generating "hunger in the apparel supply chain."[7]

THE ACCELERATION OF INDUSTRY TRENDS

Experience from previous shocks tends to suggest that the global apparel value chain will undergo disruption in the recovery. Businesses and analysts point to the following themes, all of which will have implications for LDCs participating in transnational production networks.

Resilience – Out of 23 value chains analysed by McKinsey Global Institute (2020), apparel emerged with the second highest level of exposure to shocks, which are happening with greater frequency. The global apparel industry is particularly exposed to risks like natural disasters and pandemics due to its geographic footprint. McKinsey reaches the striking conclusion that "anywhere from one-third to one-half of global apparel exports could shift to different countries in the next five years as companies alter their sourcing strategies in an attempt to increase supply chain resilience."

Multiple and proximity sourcing – These dual sourcing strategies could emerge as long-term trends as lead firms hardwire resilience and agility into their supply chains. Multiple sourcing refers to diversification of the supply base in order to reduce vulnerabilities associated with single-source dependencies and excess concentration in a region or supplier. Proximity sourcing denotes reshoring and nearshoring as supply chains become shorter and more regional.[8]

Consolidation – Global fashion retail has experienced a remarkable degree of consolidation. The trend began in earnest with the phase-out of the MFA and intensified with the 2008 financial crisis. In 2019, 97% of profits in the $2.5 trillion fashion industry were generated by just 20 companies. This process of consolidation could intensify as retailers and manufacturers go bankrupt and merger and acquisition activities amplify.[9]

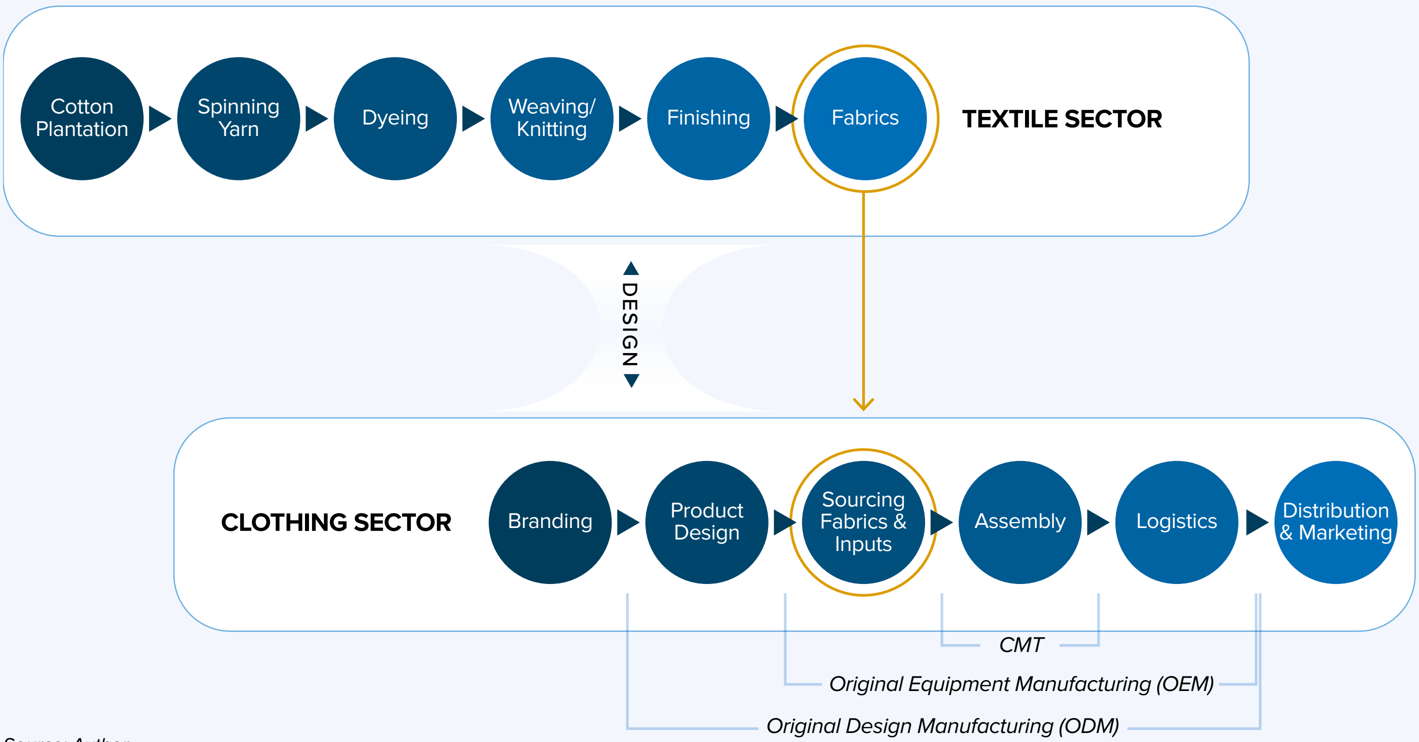
6 In LDCs, the average (as opposed to minimum) wage of low-skilled workers like sewing operators range from $25 per month in Ethiopia to $70 in Madagascar, $86 in Lesotho and $93 in Bangladesh. This income is generally insufficient to accumulate household savings. Worldwide, women constitute 80% of workers in the apparel manufacturing industry (ILO 2020c).

7 As the plight of garment workers in poor countries became visible to consumers, international rights groups effectively coordinated an advocacy campaign to pressure big brands and retailers to meet their contractual and financial obligations towards their suppliers.

8 Proximity sourcing could also increase as a strategy as firms seek to reduce their carbon footprint and countries impose more stringent regulations on emissions.

9 McKinsey (2020) suggests that fashion retailers and suppliers should anticipate a "Darwinian shakeout" with "massive waves" of consolidation, merger and acquisitions and insolvencies.

Figure 2. The cotton-to-clothing value chain



Source: Author

Digitalisation – Fashion retail has made a marked shift towards e-commerce during the pandemic. This change in consumer behaviour is expected to last. The share of online fashion sales in 2020 reached 40% in China, 37% in the US and 26% in Europe. In addition, manufacturing technologies are evolving fast. The textile and clothing sectors have significant scope to digitalise in production and supply chain management. Governance of the value chain could become more platform based with a high propensity to regulate through private standards (UNCTAD 2020). Digital technologies are also giving rise to new risk management and monitoring tools that will enhance traceability among suppliers and across multi-tiered sourcing networks.

Sourcing criteria – The evolving organisation of the fashion industry (for example lean retailing and fast fashion) are leading to more elaborate buyer-supplier relations governed by sourcing criteria like lead times (speed to market) and production flexibility, as well as the capacity to perform non-manufacturing support services (Staritz 2011). These relationships require greater capacities and skills at the level of the firm and are also strongly influenced by country-specific conditions like infrastructure, trade facilitation, access to inputs and the policy environment.

Social and environmental standards – The need to make apparel value chains more transparent and socially and environmentally responsible has been discussed for decades. Although there have been improvements in recent years, the COVID-19 crisis has yet again demonstrated systemic failures.[10] It has also increased public awareness of social justice in the global fashion value chain. Changes in consumer attitudes could translate into pressure on brands to become more transparent about their practices and improve industry standards.

Buyer-supplier relationships – The above trends could lead to improved relationships between buyers and suppliers and enable a better distribution of value and responsibilities. A shift towards greater transparency and accountability should entail enhanced cooperation and more balanced relations. And, the quest to build resilience in supply chains might induce lead firms to seek stronger relations with trusted suppliers. This would include improved contractual terms, longer-term volume commitments, closer collaboration on strategy and product development, greater knowledge transfer and support programmes in skills development.

AID FOR TRADE CAN TARGET LDC NEEDS AND HELP BUILD BETTER VALUE CHAINS

Global value chains create strong interdependencies across countries. International economic cooperation is thus of critical importance to help LDCs build sustainable and resilient apparel and textile sectors that seize the opportunities and adapt to the many challenges that will arise in the recovery and beyond. The industry trends identified above offer pointers for policymakers and businesses in LDCs seeking to maximise the benefits from participation in apparel global value chains. An upshot of the crisis is that it could finally lead to the organisation of apparel global value chains that are more equitable and sustainable. Trade-related technical assistance and capacity building can accompany this transformation.

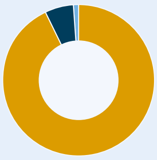
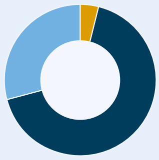
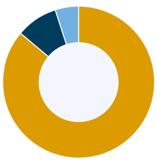
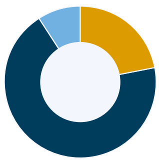
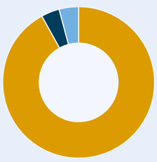
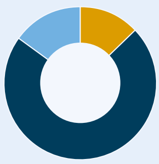
10 The Rana Plaza tragedy (see Box 3) spurred the industry towards more active supply chain management of working conditions. However, much remains to be done.

CASE STUDIES

Bangladesh, Lesotho and Madagascar are LDCs that have developed successful export-oriented garment sectors. Although they have taken different approaches, inward investment, trade preferences, government support and policy frameworks have played an important role in shaping the manner in which these economies have integrated apparel global value chains, enabled backward linkages, created local value addition and promoted economic and social upgrading. The case studies provide an overview of the dynamics behind the export-focused garment industry, the impact of the COVID-19 shock and a set of considerations for the recovery and improved benefits from participation in apparel global value chains.

Table 1. Summary overview of the cotton-to-clothing value chain in case countries

Apparel and clothing accessories · Textile yarn · Textile fibres and their wastes

	Select domestic production statistics	Export value of textile fibres, yarn, fabrics and clothing in 2017 *(US$ mln)*	Import value of textile fibres, yarn, fabrics and clothing in 2017 *(US$ mln)*	Estimated number of jobs in the formal textile and apparel sector *(2019)*	Growth phase and functions
BANGLADESH	**Cotton lint:** 18,600 tonnes (2014) **Yarn:** 730,000 tons (2016/17) **Fabric:** 4.4 billion metres (2016/17) **Textiles (gross output):** $8.59 billion (2012) **Wearing apparel (gross output):** $21.85 billion (2012)	**31,576.2** 	**13,463.1** 	**4.2 million**	Established Mostly OEM sourcing and OEM textile production and some CMT
LESOTHO	**Yarn:** 18,000 tons **Fabric:** 15.6 million linear metres **Denim jeans (woven bottoms):** 23,304,000 pieces **Woven garments (non–denim, non-workwear):** 6,360,000 pieces **Industrial workwear:** 11,003,800 pieces **Knit garments:** 115,143,600 pieces	**536.6** 	**308.2** 	**40,000–50,000**	Established (export segment) CMT and one woven textile producer
MADAGASCAR	**Cotton lint:** 5,000 (2014) **Textiles and clothing (% of value added in manufacturing:** 30.2% (2009)	**561.5** 	**583.6** 	**100,000–120,000**	Recovering CMT and cluster of OEM sourcing and textile production (woven and knitted)

Source: Adapted from ODI (2019).

BANGLADESH

Bangladesh's garment sector has exhibited very strong growth over the past four decades. The South Asian nation's share of world clothing exports rose from 2.6% in 2000 to 6.8% in 2019 to become the world's third largest exporter.[11] There are six factors attributed to this performance: MFA quotas (and later EBA), a large pool of low-cost labour, an established domestic garment industry, East Asian FDI, local entrepreneurship and government support (ODI 2019; Fernandez-Stark et al. 2011; Adhikari 2007).

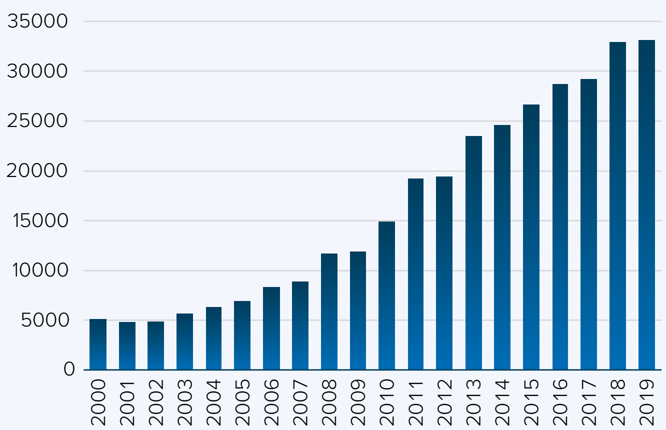


Figure 3. Bangladesh clothing exports (2000-2019)

US$ (millions)

Source: WTO (n.d.)

The success of Bangladesh's export-oriented garment sector has been a significant driver of socioeconomic development and has contributed to the country's expected graduation from LDC status in 2024. In 2020, the industry accounted for 83% of exports and 11% of GDP. The industry is the country's most important provider of formal employment, estimated before the COVID-19 crisis at 4.2 million, and indirectly supports as much as 25% of the Bangladeshi population (ILO 2020d). In 2019, Bangladesh exported $33 billion in clothing, up from $5 billion in 2000 (Figure 3). Destination markets in 2015 were dominated by the EU (over 60%), Germany (15.7%), the UK (11.63%), Spain (6.2%), France (6%) and Italy (4.4%), followed by the US (20.6%), Canada (3.6%) and Japan (2.5%) (World Bank n.d.).[12] The growth of the garment industry has made Bangladesh unique among LDCs in terms of its high share of manufactures in total exports, which reached 90.5% in 2013 compared with 26.2% for the group as a whole (World Bank 2016).

The trigger behind the garment industry's take-off in Bangladesh dates to the early 1970s when South Korean manufacturers (Daewoo) that had reached their limit for garment exports under the MFA established a collaboration agreement with a domestic firm (Desh Garments) to produce garments for the US market.[13] Over the ensuing years, the

11 China followed by the EU were the two largest exporters ahead of Bangladesh. In 2019, Bangladesh was also the world's fifth largest importer of textiles with a 3.1% share (WTO n.d.).

12 These trade partner shares underline the importance of preferential schemes in shaping export patterns in the global apparel value chain, as Bangladesh benefits from duty-free and quota-free access to the EU but not to the US.

13 This partnership is seen as catalytic in supporting the development of domestic production for three main reasons. First, it built capacity with 130 Bangladeshi workers brought to South Korea to be exposed to the operations of a large and efficient manufacturer in the garment sector and receive first-class training, from production skills to management and marketing. Second, skills were transferred as many of this first generation of trainees went on to manage or establish new businesses in Bangladesh. Third, the partnership with a South Korean conglomerate was critical in transforming Bangladeshi firms into trusted suppliers, gradually leading other domestic firms to access the international market. The garment industry in

Bangladeshi government supported the industry. Key policies included lifting limits on FDI and establishing an export processing zone (EPZ) authority, as well as incentives like credit schemes for private entrepreneurs. In addition, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) was founded in the early 1980s and would become an important voice in the policy process (ODI 2019). A particularity of the garment sector in Bangladesh, especially as an LDC, is that while FDI played a catalytic role in its emergence on international markets, the industry is now primarily owned by domestic firms.[14]

Although many factories in Bangladesh still operate in the CMT category, the majority of suppliers are either OEM sourcing (factories import or locally source fabrics) or OEM production (factories produce fabrics), predominantly in knitwear.[15] This industry set-up demonstrates that Bangladesh has achieved a degree of economic upgrading in the apparel value chain and has succeeded in establishing backward linkages in textile production. Key dynamics ascribed to this comparative success include double transformation rules of origin for preferential access to the EU,[16] government policies such as financial incentives for the import of raw materials (cotton) and machinery, EPZ regulations that require backward linkages for eligibility and public investment in hard and soft trade infrastructure (ODI 2019). However, this economic upgrading has not always led to social upgrading.

COVID-19 IMPACT AND RESPONSE

The predicament of millions of garment factory workers in Bangladesh became one of the early symbols of the devastating economic contagion effects of the coronavirus pandemic.

By April 2020, brands and retailers had cancelled $3.18 billion in orders from 1,150 Bangladeshi suppliers, impacting the livelihoods of an estimated 2.28 million workers (BRAC Institute of Governance and Development 2020). The Worker Rights Consortium (2020) estimates that over a million workers have been fired or furloughed. Over 300 factories have been forced to shut down permanently since the pandemic broke out and BGMEA has estimated industry losses for the 2019-2020 fiscal year at $6 billion.[17] The third and fourth quarters of 2020 saw a bounce in apparel exports.

In response to the crisis, the Government of Bangladesh has made available a loan of $1.2 billion to the garment industry to help support salaries and allowances. An emergency stimulus package of $8.5 billion has also been prepared in consultation with BGMEA and trade unions.[18]

BOX 3. THE RANA PLAZA TRAGEDY AND ITS AFTERMATH

In April 2013, Bangladesh experienced its worst industrial accident in history when the Rana Plaza Building, which hosted several factories producing garments for major brands, collapsed and killed over 1,000 workers and injured more than 2,500. The accident brought to world attention the issue of labour conditions, accountability and transparency in the global fashion supply chain.

The tragedy led to the Accord on Fire and Safety, consisting of nearly 200 global brands (mostly from Europe) agreeing to a legally binding plan to inspect all Bangladeshi garment factories, as well as the non-binding Alliance for Bangladesh Worker Safety, whose members represent a group of America retailers. It also gave rise to the Rana Plaza Arrangement, created to coordinate compensation for the affected families.

While global brands initially refused to contribute to the trust fund, eventually, after pressure from advocacy groups, the arrangement distributed $30 million to victims and their families. The arrangement was a groundbreaking approach to improving transparency and prevention and remedy in the supply chain.

The Government of Bangladesh also made progress in improving working conditions by amending the labour law, revising the minimum wage (from $38 to $68) and strengthening the labour inspection system (World Bank 2016).

Rana Plaza Building, Dhaka, Bangladesh

Bangladesh “grew through a ‘demonstration effect’ generated by the success of Desh and through the ‘labour circulation’ of former Desh employees” (ODI 2019).

14 This local ownership is attributed to the transfer of knowledge on which a domestic entrepreneurial class seized the opportunity to hire managers and invest in the sector.

15 The supply chains of knitted and woven apparel are quite distinct – they use different types of yarn, fabric, machinery and manufacturing technology, and they differ with regards to vertical integration due to different capital intensities in the fabric production stage. Developing countries often move into knitted fabric production prior to woven fabric due to lower fixed costs and higher labour-intensity (Staritz 2011). The investment required for minimum efficient scale production of knitted fabric in Bangladesh was about $3.5 million in the early 2000s whereas for woven products, it could be 10 times more. As a result, Bangladesh developed an integrated value chain in knitwear, producing 80% of garment exporters’ needs (World Bank 2016). This vertical integration helped Bangladesh’s garment manufacturers fulfil EBA double transformation rules of origin.

16 EBA rules were reformed in 2010 to allow single transformation – i.e. single-stage processing (manufacture from fabric) instead of the two stages of processing (manufacture from yarn) as was the case from 2001-2010.

17 Information based on industry association responses to a questionnaire for this policy brief. BGMEA further estimates that the sector lost 4.85% of unit value on a year-on-year basis due to high discounts and delayed payments to clear goods that had been cancelled by global buyers, affecting the long-term financial sustainability of many suppliers.

18 Policy measures that are part of this package include import and credit refinancing schemes, increased size of the Export Development Fund (EDF) from $3.5 billion to $5 billion to facilitate the import of raw materials, reduced interest rates on borrowing from the EDF, working capital facilities and extensions on loans and credit at subsidised rates.

CONSIDERATIONS FOR THE RECOVERY AND IMPROVED BENEFITS

- The implications of Bangladesh's graduation from LDC status in 2024 will be acutely felt by the textile and garment sectors. Bangladesh's exports will face an additional tariff of 6.7%, on average, once duty-free and quota-free access is no longer available.[19] Beyond preference erosion, rules of origin will become more stringent. Both will impact the competitiveness of the country's apparels exports and require the sector to confront new challenges for which targeted policies will be needed at the enterprise, sectoral and macro levels (Rahman 2019). Product and market diversification will be a priority.
- Inward investment and the transfer of knowledge will remain critical for sector development to ensure product diversification and enhanced backward linkages. The absorption of capacities in design, product development, digital technologies and marketing, and the ability to enforce global standards, will also be key to sustained value chain upgrading and strengthened buyer relations. Targeting new growth markets in Asia could be an important plank of the strategy.
- As noted, a crucial factor behind the growth of Bangladesh's garment sector was to build trust as a supplier in order to access international markets and networks. Future consumer and buyer confidence in the Bangladesh brand (with buyers wary of reputational risks), will be contingent on improved enforcement of workers' rights. Skills and training will be an important part of this process so that all stakeholders can benefit from the sector's growth. Environmental upgrading will also be critical.[20]
- A study conducted by the BRAC Centre for Entrepreneurship Development (2020) among garment workers during the crisis found that 92% had to cut back expenses to afford essential items and 77% were finding it difficult to feed everyone in their household. When asked about preferred forms of support from the government, those surveyed mentioned cash support (70%), quality healthcare facilities (58%), job security (53%) and food support (45%). These results underline the fact that there will be pressure to move towards living wage systems of compensation in the recovery.[21]
- The garment sector has benefited from technical assistance and capacity building received by Bangladesh as an LDC, including through the Enhanced Integrated Framework (EIF). In due course, this support will no longer be available because of graduation. Bangladesh could lead an effort to design a package of support for the sustainable graduation of LDCs, which, among other objectives, could provide breathing space to the garment sector (Rahman 2019).

19 The corresponding figure for its major export market, the EU, is 8.7%. The EU has, however, offered to extend EBA until 2027. Market access conditions in the US will not be affected.

20 Although much remains to be done, Bangladesh's garment sector has been active in voluntary initiatives such as the USGBC Leadership in Energy and Environmental Design (LEED) certified green building and should be promoting this type of engagement.

21 On the issue of COVID-19-related health and safety, preventive measures have been introduced by factories but there is still a high level of fear about the risk of contagion. The BRAC survey found that 59% of workers felt that they were likely to get infected by the virus in their factory, whereas 29% thought they could get infected in their homes.

BOX 4. EIF'S EXPORT DIVERSIFICATION AND COMPETITIVENESS DEVELOPMENT PROJECT

An important conclusion in Bangladesh's 2016 Diagnostic Trade Integration Study (DTIS) Update is that Bangladesh's garment sector should go upmarket and improve its quality and positioning (World Bank 2016).[22] This responds to the need for product, process and functional upgrading in order to move up the value chain, raise productivity and increase wages. Building on this recommendation, EIF is coordinating a three-year (2018-2021) technical assistance and training project, a component of which is targeted at the garment sector. The objective is to support export diversification and the creation of skilled jobs, and help boost competitiveness and the move into high-end fashion segments. To achieve this, the project is facilitating the engagement of international fashion designers with the sector, and developed a curriculum for the country's fashion institute. As noted in the section on industry trends, developing design skills enables closer collaboration between buyers and suppliers on strategy and product development, thereby strengthening relationships and facilitating economic and social upgrading in the value chain.

22 DTIS are coordinated by EIF and examine the constraints and opportunities for LDCs to integrate into the world economy. The studies include an action matrix, validated by national stakeholders, devised to integrate trade priorities in development planning and help coordinate trade-related technical assistance with donors and development partners.

LESOTHO

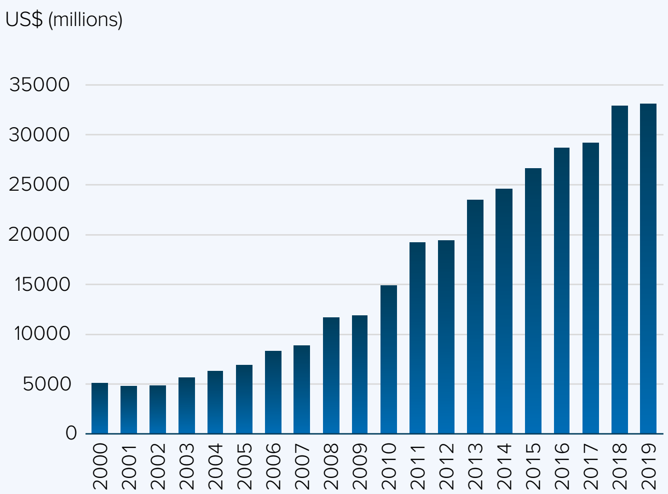
Lesotho is regarded as an African success story in export-oriented garment manufacturing. The country provides a classic example of how preferential trade arrangements and FDI can help kick-start industrialisation in LDCs in labour-intensive production for export markets. The sector emerged under the Lomé Convention and MFA, driven by FDI from quota-hopping Taiwanese firms, and then took-off with AGOA and the TCF derogation, which opened the US market. At the same time, regional value chains reorganised, with South African investors taking advantage of duty-free and quota-free access provided by the Southern African Customs Union (SACU). The Government of Lesotho played an active role in attracting FDI by providing industrial zones and serviced factory shells.[23] The Lesotho National Development Corporation (LNDC) is proactive in garment investment promotion.

The textiles and apparel sector accounts for one-third of the landlocked developing country's GDP and 60% of total exports. It is also the largest source of private employment with 40,000 to 50,000 workers prior to COVID-19. In 2017, Lesotho exported $476 million in clothing, up from $161 million in 2000 (Figure 4). This performance suffered twin shocks with the phase-out of MFA quotas under the ATC and the 2008 financial crisis, but was on a solid path to full recovery before the coronavirus outbreak. Destination markets are not diversified as they are dominated by two countries: US (58%) and South Africa (36%) in 2017 (World Bank n.d.). Exports to the US are mostly produced by Taiwanese-owned firms specialising in high-volume, low-unit-value products, while exports to South Africa are predominantly manufactured by South Africa-owned firms feeding their domestic market. Fabric is imported from Asia and South Africa, the latter by a few vertically integrated firms that have outsourced their clothing operations to take advantage of lower labour costs in the mountain kingdom.[24]

23 Shells are closed premises that are rented by investors during the operation of the factory and remain the property of the state.

24 Lesotho has a single integrated woven textile mill (spin-dye-weave) that specialises in the manufacture of denim fabrics. Between 70-80% of this production is sold to three

Figure 4. Lesotho clothing exports (2000-2019)



Source: WTO (n.d.)

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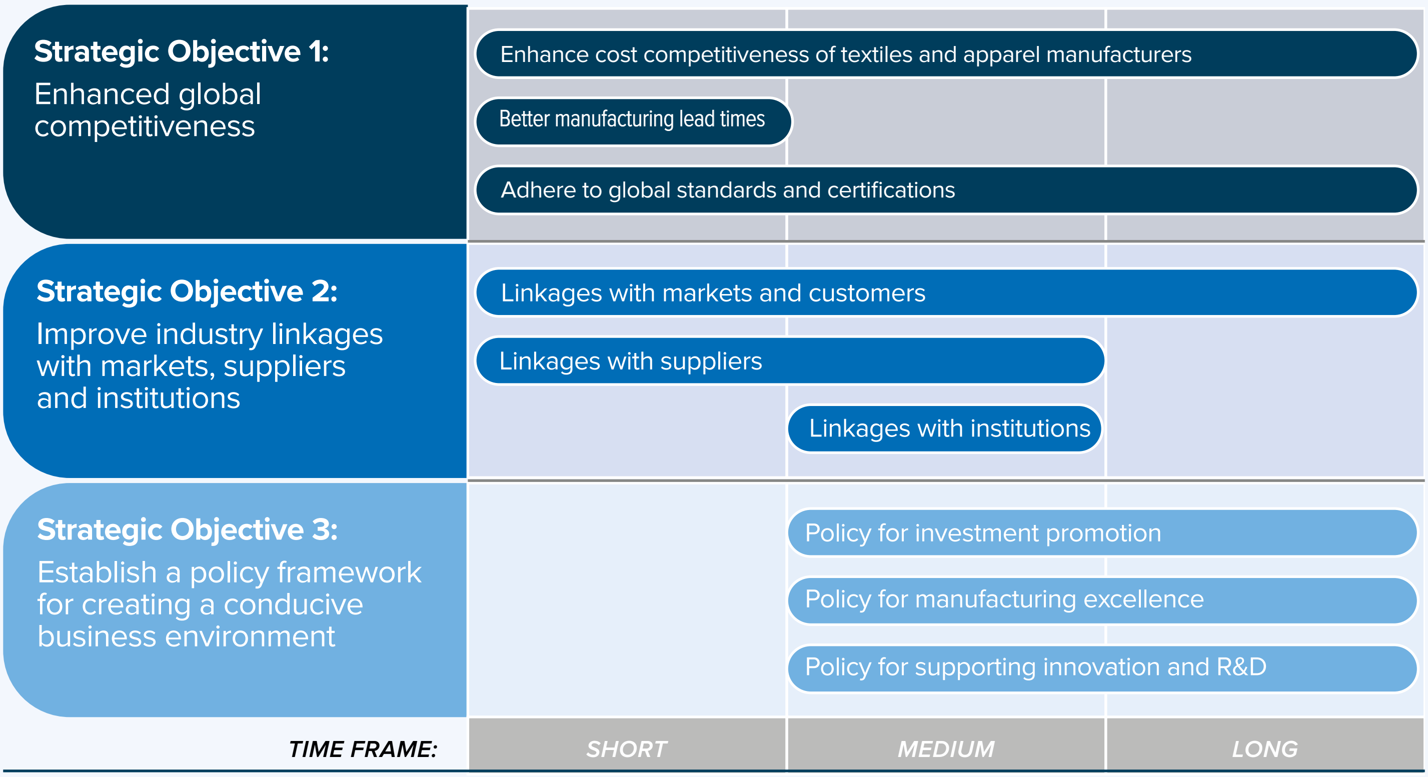
Figure 5. Strategic objectives for Lesotho's textile and apparel industry in the National Trade Strategy



Source: ITC (2020)

Note: Lesotho's National Trade Strategy (2021-2025) was prepared with EIF support. The country's 2012 DTIS recommended the formulation of a national trade policy as a tool for addressing weaknesses in existing trade policy dispensation. Textile and apparel are identified as a strategic sector alongside horticulture and light industry. The plan of action for the sector emphasises three mutually reinforcing strategic objectives aimed at producing visible results with minimum resources.

As will be seen in the Madagascar case, the development of Lesotho's export-oriented garment industry demonstrates both the power and the limits of trade preferences as well as the varying implications of different types of FDI at two fundamental levels: the development of domestic linkages into textiles manufacturing and local value addition (Staritz and Morris 2013b; ODI 2019). Despite being one of the largest exporters of garments in sub-Saharan Africa for over two decades, manufacturing mostly remains confined to low-value CMT garment assembly of imported fabrics with hardly any upstream integration. Furthermore, the industry remains almost entirely foreign-owned and is highly dependent for its survival on the competitive advantages derived from AGOA and low labour costs. However, foreign investment linked to different types of value chains, and driven by different firm-level incentives, have had varied impacts in terms of local value addition. Broadly speaking, manufacturers that are more locally embedded and producing higher-value, more complex products on small runs for regional production networks have led to greater functional upgrading than the Asian transnational model (Staritz and Morris 2013b).

COVID-19 IMPACT AND RESPONSE

Lesotho has not been spared the socioeconomic impacts of the COVID-19-induced crisis in the garment sector. The drop in demand and cancelled orders in the US and South African markets during the second quarter of 2020 led to a sectoral employment rate in April 2020 that was 24% lower than in April 2019. The crisis has also delayed the construction of industrial infrastructure and factory shells, which will negatively impact anticipated employment creation and inward investment, while putting a break on newly established enterprises that were scaling up their production.

According to the LNDC, companies reported an average 45% loss of revenue. In addition, cross border restrictions have caused difficulties for companies with management staff residing in South Africa and who commuted on a daily basis. As a result, some factories are operating below capacity while others remain closed.[25]

As to policy responses, first, a COVID-19 Private Sector Relief Fund ($1.36 million) was established to provide financial assistance to businesses that were closed during the first lockdown imposed in April to May 2020. Second, LNDC was provided with $8.25 million to assist factory owners to pay the salaries of workers during the lockdown.[26] Third, the government and LNDC signed a memorandum of understanding to establish a Credit Guarantee Scheme ($23.8 million) to assist businesses with collateral for commercial loans. Fourth, waivers of over two months were granted to tenants occupying premises owned by LNDC.[27]

CONSIDERATIONS FOR THE RECOVERY AND IMPROVED BENEFITS

- In contrast to the experience of Bangladesh, and to a lesser extent Madagascar, the garment industry in Lesotho is almost entirely foreign owned. The country has not experienced the same demonstration effect where local investors and entrepreneurs draw on the capacities and international networks built into FDI-established firms. The development of locally owned factories is a challenge with implications for industrial upgrading and the sector's long-term sustainability.
- Workforce development is closely related to the challenge of local ownership. Progress in developing a domestic skill base through training and the transfer of knowledge at managerial and higher technical levels has been limited. This acts as a constraint not only on mobility and social upgrading through higher paid and more rewarding employment opportunities, but also on the circulation of skilled labour on which to move up from CMT assembly and build a competitive and diverse industrial base.
- The LNDC identifies the following priorities for sector recovery:
  - Adopt an active problem-solving approach to support existing companies. This could include the resuscitation of an inter-ministerial task team focused on the garment industry – such as was established in the early 2000s.[28]
  - Pursue a diversification strategy. After having traditionally relied on the South African Bureau of Standards for voluntary standards facilities and quality assurance schemes, Lesotho recently established a national standards body as part of an economic diversification project supported by the African Development Bank.
  - Implement the recommendations of the investment climate reform agenda to improve the country's attractiveness for FDI.
  - Design and deploy a comprehensive sector-specific incentive regime for strategic industries.
- LNDC is engaged in investment promotion to strengthen backward linkages. The strategy prioritises the establishment of knit mills that could support the domestic garment industry and also the local manufacturing of accessories (which are currently all imported) and packaging materials. In relation to aid for trade, LNDC identifies the improvement of productive capacity for local entrepreneurs as an issue of paramount importance in order to reduce dependence on imports.
- In 2016, the ILO closed an eight year "Better Work Lesotho" programme involving factory compliance with local and global standards. The aim was to improve compliance with ILO's fundamental principles on rights at work and domestic law through training and developing capacities in enterprise assessment. A comparative analysis of worker and management perception of the impact of the programme found that there was broad agreement on improvements in health and safety and that there had been a positive impact on productivity (ILO 2015).[29] Work remains to be done, especially in relation to women's rights.

Asian export-oriented garment manufacturers serving the US market.

25 Information based on LNDC responses to a questionnaire for this policy brief.

26 In June 2020, garment workers waged a successful strike for unpaid wages that were part of the package agreed to with the government.

27 Information based on LNDC responses to a questionnaire for this policy brief.

28 The task team comprised individuals from any organisation with an influence on the sector (e.g. electricity, water, industrialists, ministries) and served to mitigate decisions that could hurt the industry.

29 However, only about half of the apparel manufacturers subscribed to the programme, which was funded by the US Department of Labor (few South African-owned manufacturers joined due to a lack of interest from major retailers). This low participation meant that the programme closed with insufficient local capacity for stakeholders to take over the functions of the programme.

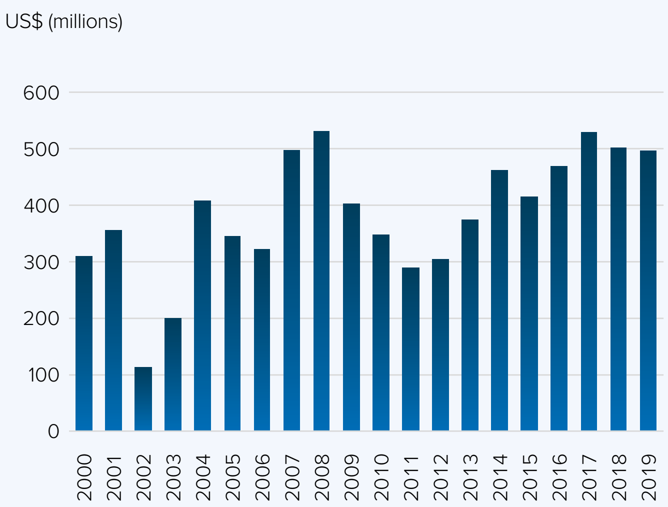
MADAGASCAR

Madagascar is one of sub-Saharan Africa's largest exporters of apparel. The sector's emergence and growth dates back to the 1989 enactment of EPZ legislation. While the Indian Ocean island has a long tradition of producing textiles, the EPZ regime, combined with low labour costs and preferential market access to Europe, the US and South Africa, attracted FDI and enabled apparel exports to take off.[30]

The industry has served as the economy's main driver of manufacturing growth and formal employment creation, contributing to a third of total goods exports and over 100,000 jobs before the COVID-19 crisis. In 2019, Madagascar exported $496 million in clothing, up from $11 million in 1990 (Figure 5). This export performance has been extremely volatile due to recurrent political crises (2002 and 2009-2013) and international shocks (2005 ATC phase-out and 2008 financial crisis). In 2017, destination markets were diversified, with France (28%), the US (26%), Germany (11%), South Africa (10%) and the UK (6.5%) (World Bank n.d.) demonstrating the flexibility to manufacture short-run, higher-unit-value production (EU and South African markets) and high-volume, low-cost production (US market).

Inward investment has been central to the development of Madagascar's export-oriented clothing industry. Investors from Asia, the European diaspora and Mauritius have brought

Figure 6. Madagascar clothing exports (2000-2019)



Source: WTO (n.d.)

30 Market access to Europe was initially governed by the Lomé Convention (1975-2000), with double transformation rules of origin, and, since 2001, EBA. Madagascar benefits from AGOA and the TCF derogation, however the country was expelled from 2009-2014 following a coup. Madagascar is a member of the South African Development Community (SADC) free trade agreement since 2008.

capital and knowledge, with varying impacts in terms of industrial development depending on the rationale for, and nature of, their investments. Local embeddedness seems to be correlated with longer-term commitment and positive value chain dynamics (Staritz and Morris 2013a; Staritz and Frederick 2016).

With notable exceptions, the majority of EPZ garment factories operate in the CMT category. The sector's emergence has coincided with a decline in cotton and textile production, and a rise in textile imports, mainly from Mauritius and Asia. Madagascar has nevertheless maintained some capacity in woven and knitted fabrics. Upstream linkages to the domestic textile sector, and other inputs like accessories, have thus decreased with the growth of the EPZ clothing industry.[31] Nevertheless, garment production in Madagascar has demonstrated resilience in adapting to shocks and there have been instances of firm-level upgrading from which to learn.

BOX 5. THE CRISIS FROM A MANUFACTURER'S PERSPECTIVE

SOCOTA was established in Madagascar in 1930 and is embedded in the country's development history. It is one of the largest garment manufacturers on the island and operates the sole textile mill specialising in the production of woven cotton fabrics. This enables the firm to pursue an export-led strategy based on vertical integration, and also feed other EPZ firms. Before the crisis, SOCOTA employed over 7,000 workers and indirectly supported as many as 70,000 people.

"We are under unprecedented financial pressure due to the impact on our revenues. Our cash flow is managed at the cost of a drastic austerity plan in which all non-essential expenses are reduced, investment plans are on hold and lay-offs concerning 1,000 workers have been unavoidable.

Weekly rotation shifts have been reorganised and we have put in place measures like paid leave and loans to maintain social cohesion and ensure workers have sufficient earnings and households immediate funds for basic needs. To keep the factory running at sufficient capacity we have turned to manufacturing personal protective equipment for the European market, which has provided temporary reprieve.

The resurgence of the virus in our main markets [the EU and South Africa] means that a return to normal may take 2-3 years. The accumulated losses will require some form of recapitalisation, but we are not surrendering."

Source: Author interview of Salim Ismail, President of Groupe SOCOTA.

COVID-19 IMPACT AND RESPONSE

Producers have seen a huge demand drop-off in major markets and the deferment or cancellation of contracts with global and regional buyers. There have also been supply disruptions, leading to difficulties in importing inputs and production delays as air and maritime links have been interrupted.

This slowdown in activity has led to very significant revenue losses, estimated for the entire sector at 60% by the EPZ industry association (Groupement des Entreprise Franches et Partenaires – GEFP). There are conflicting accounts of the total number of redundancies since the pandemic-related shutdowns started in March 2020.[32]

The crisis has also led to a freeze on foreign and domestic investment plans. This is damaging as the Madagascar garment sector is in the process of regaining investor confidence and recovering from the political uncertainty of 2009-2013 that saw an exodus of capital and clients. At the time of writing, no sectoral mitigation or recovery plan was in place other than a three-month postponement of social security contributions and corporate tax.[33]

CONSIDERATIONS FOR THE RECOVERY AND IMPROVED BENEFITS

- The export-oriented garment sector can help reduce poverty in Madagascar and stimulate diversification away from primary commodities. There will be opportunities in the recovery to attract investors in global and proximity sourcing networks and for the country to benefit from the relocation of Asian manufacturing activities. Good governance and an enabling policy environment will be important to gain investor trust.
- The EPZ garment industry in Madagascar needs to strengthen linkages with the domestic economy. Factors to consider include:
    - Trade preferences with flexible rules of origin tend to work against domestic sourcing, particularly when combined with an EPZ model that grants duty exemptions on all imported inputs;[34]
    - Workforce development and mobility in managerial and technical roles is necessary for the effective participation of workers in growth and to gain knowledge on international standards;
    - Investment in trade infrastructure and energy, which have been neglected in recent years, is essential to enhance competitiveness; and
    - It will be important to attract the right type of investor for investment-related spillovers.[35]

31 This decline is due to a combination of factors. Local textile mills could not compete with imported fabrics when the EPZ law facilitated duty-free imports of intermediate goods and rules of origin were simplified. In addition, poor energy infrastructure had a damaging effect on yarn and textile production. This collapse led to a decrease in demand for local cotton.

32 Information based on GEFP and industry responses to a questionnaire for this policy brief.

33 Information based on GEFP and industry responses to a questionnaire for this policy brief.

34 There is no obligation in Madagascar's EPZ regime to set up factories in a specific geographic location nor is there any limit on foreign ownership. To be eligible, companies must export at least 95% of production. Incentives (i.e. benefits to EPZ firms relative to common law firms) include exemptions from all duties and taxes on exports and on imports, grace periods and reduced rates on corporate tax and free capital transfers and repatriation of net profits.

35 Experience in Madagascar shows that production that stems from rent-seeking global sourcing networks will have less of an impact on economic and social

- EIF's 2015 DTIS update emphasises that the EPZ strategy in Madagascar overly relies on tax incentives instead of providing much needed infrastructure. A priority recommendation is to amend the existing regime to a more modern and integrated model while phasing out distortionary tax preferences over a transition period (World Bank 2015). In addition, the effectiveness of the national investment promotion authority, the Economic Development Board of Madagascar, must be improved
- The GEFP stresses the importance of an improved partnership between the private sector and the state in the recovery. The industry association identifies productive capacity building, market research and implementation of the Trade Facilitation Agreement as priorities for trade-related assistance.
- Madagascar is a low-wage producer, with varying degrees of compliance and social responsibility among firms regarding working conditions and environmental norms. The country is currently engaged in a two-year ILO programme on improving safety and health in the textile supply chain that seeks to provide a framework for dialogue among national and sectoral stakeholders, including multinationals, domestic institutions (inspectorates and labour courts), industrialists and social partners (ILO 2020b).[36] Investment in a "Made in Madagascar" label associated with high social and environmental standards will be a factor of differentiation in global markets.

upgrading than longer-term commitments from investors and producers that are more locally embedded.

36 The long-term objective of the programme is to create a culture of prevention in the supply chain. The project covers the entire chain, from cotton cultivation to garment manufacturing, and, according to the ILO, the knowledge and tools learned from this intervention in Madagascar will be used for the implementation of projects in the textile sector in other countries.

POLICY IMPLICATIONS

Building on the introductory analysis and case studies, this section puts forward a set of policy action areas for LDCs and the international community to consider. The actions are not mutually exclusive and are grouped in two timeframes: short-term crisis-response and mid- to long-term actions to build equitable and sustainable apparel global value chains. The actions may not be relevant to all LDCs, which are a diverse group at different stages of industrialisation and with widely varying circumstances. The underlying challenge the actions seek to address is how LDCs that are on the path to export-led industrialisation can reap the full and fair benefits from participation in apparel value chains as the global fashion industry evolves. The actions are areas of possible intervention in trade-related development assistance.

SHORT-TERM ACTIONS

Action 1. Support factories and workers during the crisis

Garment factories and workers have suffered greatly from the global demand shock. The ILO has facilitated a Call to Action that aims to "spur industry-wide action to protect workers' incomes, health and employment and support employers to survive during the COVID-19 crisis," and to establish sustainable systems of social protection (Better Work 2020). The initiative is an industry-wide collaboration that requires commitment and coordination to be effective. Bangladesh, Cambodia and Ethiopia, among LDCs, have set up national working groups and advanced plans for bilateral donors and international financial institutions to support cash transfers and provide income protection (ILO 2020a).[37] Brands and retailers that endorse the initiative commit to paying suppliers and maintaining open lines of communication with supply chain partners.[38] All LDCs that participate in the apparel value chain could be included in the initiative as priority countries.

Action 2. Implement gender-responsive measures

Globally, women account for 80% of the garment sector workforce. Many crisis impacts disproportionately affect women and could exacerbate pre-existing inequalities – notably discrimination, violence and harassment, underrepresentation of voice and in leadership, wage gaps and unevenly shared unpaid care and family obligations. A sustainable recovery requires gender-responsive measures and dedicated policies designed and implemented based on women's needs (ILO 2020c). LDCs, with the support of

37 By October 2020, the German Federal Ministry of Economic Cooperation and Development (BMZ) had funded "income protection for the workers in the RMG sector" in all three countries.

38 The list of organisations, including major global brands, endorsing the Call to Action in the garment industry is available here.

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development partners, could identify the specific risks women are confronted with and consider how gender gaps can be addressed. Organisations like UNCTAD, ITC and EIF have done valuable work on gender-aware trade policies and gender mainstreaming in aid for trade from which to draw.

Action 3. Ensure safety and health in textile and clothing supply chains

Factory workers in LDCs are exposed to the health risks of COVID-19. This comes on top of existing challenges related to workplace health and safety in apparel value chains. As noted in the Bangladesh case, preventive measures have been introduced, but there is still fear among workers about the risk of contracting the virus at work. Development assistance could support LDCs in implementing these measures and help factories establish contingency plans for workers who become sick. Lead firms could also be encouraged to voluntarily take on some of the responsibility for the additional costs their suppliers are having to bear to institute COVID-19 health and safety measures.

MID-TERM AND LONG-TERM ACTIONS

Action 4. Stimulate backward linkages and industrial upgrading

The experiences of Lesotho and Madagascar show that success in establishing an upstream garment sector does not automatically lead to the development of backward linkages nor to upgrading in the value chain.[39] Targeted policies and government support as described in the Bangladesh case are necessary for success. LDC industrial strategies designed to help disseminate the gains from participation in apparel global value chains could emphasise domestic productive integration through active engagement and learning between governments, global buyers, investors, producers and the workforce. Strategies could include capacity building to develop technical and managerial skills; the provision of support infrastructure and services to enhance the competitiveness of downstream activities; and coherent trade, investment and industrial policy regimes that attract investors while stimulating local sourcing.[40]

Action 5. Target the right investors

Different types of FDI can have contrasting impacts on sector development in terms of accessing end markets, transferring knowledge and supporting backward linkages. LDCs should focus on attracting investors willing to commit long-term and ready to help build the local industry.[41] The local embeddedness of investors appears to correlate with better outcomes in terms of economic upgrading and the creation of local value.[42] Investment frameworks could encourage strategic collaboration between investors and

39 There is an intimate link between the development of backward linkages and upgrading. Vertical integration between textile and clothing production enables domestic firms to shorten lead times and produce higher value goods with a greater degree of flexibility.

40 Bangladesh and Madagascar have both successfully used EPZs to attract investors and participate in global garment production networks. In the former, EPZ regulations were designed with incentives to develop backward linkages and vertical integration in textile manufacturing. In the latter, the EPZ regime fully liberalised the import of fabrics against which local production could not compete.

41 As discussed, the strong partnership between Daewoo and Desh in Bangladesh helped domestic production develop capabilities that were previously missing. This created a demonstration effect through which a domestically owned garment industry grew. In Madagascar, there have been similar examples of collaboration between Sri Lankan and Mauritian investors with locally embedded firms that have opened access to markets and led to product, process and functional upgrading. The demonstration effect has been less powerful due to factors related to governance, infrastructure and the policy environment.

42 From Lesotho's experience, Morris and Staritz (2016) note that "the functional upgrading challenge is hence much more complicated than simply creating broader capabilities. It requires fundamentally challenging the raison d'être for the establishment of production facilities in Lesotho, which is marketing and extracting rents from disembedded production units based on preferential market access."

domestic firms. Aid for trade can assist, for example, by strengthening investment promotion capacities in LDCs.[43]

Action 6. Build competitiveness beyond preferences

Preferential market access schemes have and will continue to be powerful instruments to develop export-oriented apparel manufacturing in LDCs. Yet they create vulnerabilities. They can attract rent-seeking investors with less impact in terms of generating spillovers and who disinvest when cost advantages are reduced through preference erosion.[44] They also lead to dependence on changes in regulation, including rules of origin, and uncertainties around the duration of schemes, which can disincentivise investments in upgrading and workforce development. As Bangladesh demonstrates in relation to the challenges raised by graduation from LDC status, countries must look beyond preferences and focus on other factors of competitiveness. Key aspects at the firm level that respond to the sourcing criteria of buyers include productivity, reliability, adherence to quality and technical standards, labour and environmental compliance, flexibility, lead times, digital readiness and services in logistics and product development. Country conditions like the quality of support infrastructure and services, connectivity, trade facilitation, access to inputs (including finance, technology and raw materials), human capital and the policy environment also matter.

Action 7. Strengthen buyer-supplier relationships

Although this action area is partly aspirational, a shift towards improved buyer-supplier relationships could emerge from the COVID-19 crisis. Brand owners and retailers too often take advantage of power imbalances in the supply chain to secure an uneven distribution of wealth and implement unsustainable sourcing practices: procuring goods below production costs, paying suppliers discount prices that do not enable investment in improved working conditions or plant upgrade and enforcing weak and short-term contracts. By moving away from transactional and predatory behaviour, lead firms can enter strategic and long-term partnerships with trusted suppliers in Bangladesh, Lesotho, Madagascar and other LDCs. The benefits of greater accountability and longer-term contractual and volume commitments are mutual. Suppliers increase productivity through knowledge transfer, collaborate on strategy and product development leading to efficiency gains, strengthen their ability to adhere to socio-environmental standards and compliance initiatives and invest in technology and skills.[45] There is room for trade-related development assistance to intervene in this space and help forge, or create the conditions for, these types of partnerships.[46]

Action 8. Pay living wages

Along with preferential market access, labour arbitrage is a prime driver of investment in labour-intensive garment production in LDCs. This source of competitiveness creates incentives for a race to the bottom and has led to systemic and chronic failure to ensure that workers in clothing factories earn living wages. The severity of the COVID-19 crisis on garment workers in LDCs would have been mitigated if decent salaries had been paid and minimum standards for social protection implemented. Trade-related development assistance in LDCs could, for example, provide mechanisms for consultation between industry stakeholders on measurable standards.

Action 9. Design environmentally sustainable value chains

Apparel global value chains have huge environmental footprints.[47] In LDCs, challenges include polluted water systems, exposure to toxic chemicals, waste management and inefficient and dirty energy use. A commitment to sustainability has vast implications for LDCs as sustainable garments and environmental upgrading call for a thorough rethink of production and managerial models. Whether voluntary, legally enforced or through the dissemination of private standards, LDC suppliers should be supported so that they can participate in the design of sustainable apparel value chains.

43 EIF is currently implementing, with the World Association of Investment Promotion Agencies, a pilot capacity building project to support 20 LDCs, including Bangladesh and Lesotho, in this area. The project's objectives are twofold: to improve the capacities and skills of investment promotion agencies (IPAs) and government officials to leverage sustainable FDI in trade priority sectors; and to improve the coordination of IPAs in LDCs. Activities include a tailor-made FDI training module and facilitating networking opportunities.

44 Investors in Lesotho serving the US market could leave should AGOA benefits be withdrawn. The suspension of Madagascar from AGOA in 2009 immediately led to investor flight and a collapse in production from which the sector is still recovering.

45 Training, particularly targeted at women, has the added benefit of providing opportunities for mobility and moving towards better paid and more secure jobs.

46 See for example Box 4 on EIF's export diversification project in Bangladesh.

47 Looking at waste for instance, 12% of fibres are discarded on the factory floor, 25% of garments remain unsold and less than 1% of products are recycled into new garments (McKinsey 2021).

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The Enhanced Integrated Framework brings together partners and resources to support the Least Developed Countries in using trade for poverty reduction, inclusive growth and sustainable development.

EIF Enhanced Integrated Framework
Trade for LDC development

EIF Partner Agencies

International Monetary Fund (IMF)

International Trade Centre (ITC)

United Nations Conference on Trade and Development (UNCTAD)

United Nations Development Programme (UNDP)

World Bank Group (WB)

World Trade Organization (WTO)

United Nations Industrial Development Organization (UNIDO)

World Tourism Organization (UNWTO)

EIF Trust Fund Manager

United Nations Office for Project Services (UNOPS)

EIF Trust Fund Donors