ENHANCING GLOBAL MARKET COMPETITIVENESS OF TEXTILE AND GARMENT EXPORTS OF SOUTH ASIA

Mustafizur Rahman
Khondaker Golam Moazzem

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For any further details, please contact:

Mr. Adnan Aliani, Officer-in-Charge
South and South-West Asia Office (SSWA)
Economic and Social Commission for Asia and the Pacific (ESCAP)
C-2, Qutab Institutional Area, New Delhi-110016, India
Email: sswa.escap@un.org

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Foreword

The Development Papers Series of the UNESCAP South and South-West Asia Office (UNESCAP SSWA) promotes and disseminates policy-relevant research on the development challenges facing South and South-West Asia. It features policy research conducted at UNESCAP SSWA as well as by outside experts from within the subregion and beyond. The objective is to foster an informed debate on development policy challenges facing the subregion and sharing of development experiences and best practices.

This paper by Mustafizur Rahman and Khondaker Golam Moazzem is one of the two studies commission by UNESCAP SSWA in the context of ever-increasing challenges faced by the heavily trade dependent textile and garment (T&G) sector of South Asia. The sector is one of the core constituents of South Asia's economy, currently estimated to be providing for about 40% of employment in manufacturing. Some of the key market sustainability issues faced by the sector include; (1) rising market competition due to fast growth in textile sectors in other developing regions such as Southeast Asia, (2) product diversification and deepening of value chains in competing regions and correspondingly shifting global sourcing patters, (3) emergence of new sources of productive competencies in the industry and advancements in technology leading to automation and shifts away from labor-intensive production processes, and (4) erosion of trade preferences, particularly for graduating LDCs of South Asia – Bangladesh, Bhutan and Nepal – which are expected to lose LDC specific duty-free quota-free (DFQF) market access enjoyed in various markets and (5) disruptions to the global supply chains due to COVID-19 pandemic.

With the objective of assisting the subregion in making informed decisions for preparing its T&G sector for meeting the challenges ahead, the study explores reform requirements for addressing both domestic and external constraints. At the domestic level, the study examines the changes that the industry would need to undergo to enhance cost efficiency, improve investment climate, nurture entrepreneurship, enhance productivity, promote product diversification and facilitate greater value addition. The study further considers how these measures should be complemented with efforts to expand external market access through engagements in trade negotiations with key trading partners.

Against a comprehensive assessment of the multifaceted reform imperatives for the industry, covering aspects of labor, price competency, investment, technology and improving value addition, the paper put forwards certain key policy proposals for product and process upgradation, infrastructure development, promotion of e-commerce, engagement in FTAs, and other related measures for achieving productivity and efficiency-based competitiveness.

The paper also lays out various strategies to adapt to changing business environment, shifting demand patterns, new global sourcing trends, emergence of e-commerce and digital revolution etc. We hope that the policy prescriptions offered by this paper will assist policy makers and stakeholders in adopting measures for recovery and sustained growth of the T&G sector of South Asia.

Adnan Aliani
Officer-in-Charge
UNESCAP South and South-West Asia Office

Enhancing Global Market Competitiveness of Textile and Garment Exports of South Asia

Mustafizur Rahman and Khondaker Golam Moazzem[1]

Abstract

The textile and garment sector (T&G) is one of the major industries in most of the South Asian countries, contributing significantly to their economic growth, employment generation and export earnings. In recent times, South Asia's competitiveness in T&G exports has been increasingly challenged by a multitude of factors including erosion of trade preferences enjoyed by the subregional countries in their major markets, emergence and consolidation of a number of new competitors, rising e-commerce and digital platform-based marketing, and disruption to global supply chains caused the COVID-19 outbreak. Graduating LDCs of the subregion with substantial stakes in T&G exports, such as Bangladesh and Nepal, are particularly threatened by impending loss of preferential market access and their inherent vulnerabilities and resource constraints. Against this backdrop, this paper dives deep to uncover the underlying drivers of change and attempts to assess the impact and implications of the emerging challenges for the T&G sector of South Asian countries. It analyses the pressures on competitiveness of the sector due to factors such as rising market competition, weaknesses in product diversification, emerge of e-commerce and digital transformation and LDC graduation. Based on this assessment, the paper puts forward a set of recommendations to address both domestic and external challenges facing the sector, including measures to enhance cost efficiency, improve investment climate, nurture entrepreneurship, raise productivity, promote product diversification and facilitate greater value addition. The paper calls for shift in focus from preferential market access-based competitiveness towards productivity and efficiency-based competitiveness in the T&G sector of South Asia.

JEL Codes(s): F10, F13, L10, L50, L67, O30

Key words: Textile and garment exports, trade and development, regional value chains

[1] Mustafizur Rahman is Distinguished Fellow, and Khondaker Golam Moazzem is Research Director, at the Centre for Policy Dialogue (CPD), Bangladesh, a leading think tank in South Asia. The authors thankfully acknowledge valuable research support provided by Ms Ratia Rehnuma, Intern, CPD and S.M. Muhit Chowdhury, former Intern, CPD. Rajan Sudesh Ratna (Deputy Head) and Joseph George (Research Associate) of UNESCAP SSWA reviewed drafts and provided comments at various stages of the preparation of this paper. It also benefitted from comments and inputs by participants of the Expert Group Meeting on 'Exploring New Value Chains in Textile and Garments in South Asia: Building Back better from COVID-19', organized by UNESCAP SSWA on 31 August 2021. The views expressed in this paper are those of the authors and do not necessarily reflect the views of the United Nations Secretariat.

1. Introduction

Textiles and garments (T&G) sector is one of the major industries in majority of countries in South Asia, most notably Bangladesh, India, Pakistan, Nepal and Sri Lanka. The sector contributes significantly to the economies of these countries in the form of economic growth, employment generation and export earnings which consequently contributes significantly to poverty alleviation and gender empowerment (K. M. Faridul Hasan, 2016) . Over the last four decades, the T&G sector of the region has transformed into a globally competitive export-oriented industry from a primarily domestic market–oriented industry, depending on various context, on domestic supplies of cotton, yarn, fabric and clothing. The multifbre arrangement (MFA) which introduced the 'quota' system in 1974, has enabled a number of developing countries including from South Asia to strengthen their manufacturing bases and develop work forces, logistics and financing system for the export market. The sector has gained from the liberal global trading regime following introduction of Agreement on Textiles and Clothing (ATC) in 1995 (which was fully enforced in 2005). As a result, the 'quota' based competitiveness of many developing countries was confronted with manifold challenges and had to undergo major restructuring in supply chains. It was no different for the South Asian countries (Mlachila, 2004). In the following decade (2005-2015) South Asian countries had to deal with common as well as country-specific challenges relating to technological, social, gender and environmental areas (Lopez-Acevedo & Robertson, 2016)). Despite the challenges, the region has been able to maintain its competitiveness based on several factors including preferential market access facility for LDCs in major developed countries, availability of raw materials within the region (e.g. cotton in case of Pakistan & India),production of intermediate inputs (India, Bangladesh and Pakistan), low cost labour and capacity of bulk scale production (Kabir, 2019). Over the years, South Asia has also been able to consolidate its advantages through economic upgrading, particularly by way of process upgrading in the T&G value chain (Takahiro Fukunishi, Kenta Goto, Tatsufumi Yamagata, 2013)(Moazzem and Sehrin, 2016).

In recent years, South Asia's competitiveness has been increasingly challenged by a number of external factors. *First*, the duty-free market access which was once a major source of competitiveness, has been gradually weakening due to erosion of trade preferences in major markets (Dixit, 2019). *Second*, the graduation of a number of South Asian countries including Bangladesh and Nepal from the LDC group was expected to lead significant preference erosion in major market; (UNESCAP, 2020). *Third*, consolidation of a number of competitors including Vietnam, based on process and product upgrading and thanks to various bilateral and regional trade agreements (Kiron, 2020). *Fourth*, rising e-commerce and digital platform-based marketing where South Asia is lagging behind its competitor countries (Kathuria, 2018). *Fifth*, disruption in sourcing of textiles and clothing during the COVID-19 period and reshoring of supplies and sourcing from other markets etc. have had disproportionately adverse impact on South Asia's

textiles and apparels sector (Moazzem et al., 2021). Overall, these new challenges and new threats had put pressure on the competitiveness of South Asian countries in the global textiles and apparels sector value chain.

In this backdrop the study dives deep to discover the underlying drivers of change and makes an attempt to assess the impact and implications of the emerging challenges for the T&G sector of South Asian countries. Based on the analysis, a set of recommendations has been put forward to address both domestic and the external challenges facing the T&G sector of South Asia. More specifically, the study examines what needs to be done at the domestic level to enhance cost efficiency, improve investment climate, nurture entrepreneurship, raise productivity, promote product diversification and facilitate greater value addition in the sector. As part of examining market access, the study has also examined opportunities of how regional value chains could be developed and deepened.

The study has been carried out with the help of thorough analysis of primarily secondary data collected from different web-based sources. Market access related analysis has been carried out by analysing product-wise data for textiles and clothing under the HS code of 50-62 (both at 2 digit and 6 digit levels). The data have been compiled from ITC trade map, OTEXA, Eurostat and other national and international sources. Analysis on emerging issues such as labour related issues, technologies, trade rules, rules of origin, standards and compliances, conditionality related to graduating LDCs and prospect of accessing EU GSP+ issues have been carried out based on data and information available from different web-based sources. It is to be noted that the analysis presented in the paper focuses on South Asian countries for which data and information are readily available: India, Pakistan, Bangladesh, Sri Lanka and partly Nepal. The analysis does not focus on Afghanistan, Bhutan and Maldives due to lack of data. However as is known, the countries which have been covered are also the ones where T&G, particularly export-oriented T&G is an important industry in the economy.

2. Structure, Composition and Governance of T&G Value Chains in South Asia

2.1 Country specific structure of T&G sector in South Asia

South Asia is one of the major suppliers of textiles and apparels in the world market – about 7.71 per cent of the world textile exports and 13.5 per cent of world apparels exports originates in South Asia. The structure of T&G industry in South Asia varies from country to country – the textiles sector is well-developed in India and Pakistan while garments sector is developed in Bangladesh, India, Pakistan and Sri Lanka and to some extent in Nepal (Table 1), and to some extent in Nepal. The industry is not a major player in other South Asian countries such as Bhutan, Maldives and Afghanistan.

T&G industry is the dominating economic activity in the Bangladesh economy – 51% of total manufacturing value added comes from this sector, followed by Pakistan (28.9%), Sri Lanka (18.0%) and India (8.4%) (Table 1). The contribution to employment is also much high in case of India, Bangladesh, Pakistan and Sri Lanka (Table 1). In Bangladesh about 7% of the labor force is

engaged in the T&G sector. A part of the employment in major South Asian countries is related to domestic market.

Table 1: Structure of T&G Sector of South Asia

Country Name	Textile and clothing (% of value added in manufacturing)	Share of garments sector jobs in total employment (%)*	Number of garments sector jobs (million)*	Estimated number of garment exporting factories (2014/2016)**
Bangladesh	51.0 (2012)	7.0	5.0	5000
India	8.4 (2018)	4.9	15.0	1200
Pakistan	28.9 (2006)	7.0	4.0	5000
Sri Lanka	18.0 (2019)	6.0	0.8	800
Nepal	5.4 (2011)	-	-	-
Afghanistan	235.9 (2018)	-	-	-
Maldives	21.1 (2015)	-	-	-

Source: Based on WTO, UNCTAD, IMF and World Bank Databases
Note: *ILO, 2016; ** ILO, 2017

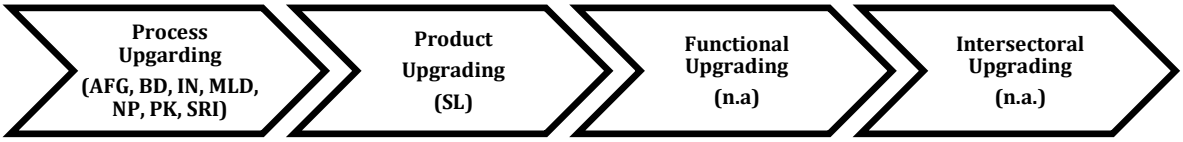
The T&G industry in South Asia is a predominately private sector driven economic activity, mainly driven by domestic private investment. The majority of enterprises are family-based private limited companies (first- and second-generation entrepreneurs) with insignificant presence of public limited companies (Moazzem, et al., 2018). Unlike South East Asia, indigenous entrepreneurs have played a major role in the development of the sector. However public policies have made significant contribution to the emergence and growth of South Asia's T&G sector. Although most South Asian countries allow 100 per cent FDI in the textiles and apparels sector, foreign direct investment (FDI) in this sector has been rather limited. (Saswata Chaudhury, 2020). Indeed this is a major difference with South East Asian countries including those of Vietnam, Cambodia, Myanmar and Indonesia. The FDI coming from outside the region are those from Hong Kong, United Kingdom, United States, South Korea, India, and China.

2.2 Stages of development of T&G related value chains in South Asian countries

In the buyer-driven value chain, South Asia's T&G sector has developed as a tier 3 player in the value chain (Gary Gereffi, 2003). Brands and buyers of major markets including USA, EU, Canada, Japan and Australia plays an important role in design, quality, standards and compliance related areas in South Asia's T&G sector. In the course of its development, South Asian suppliers in the T&G sector has tended to be guided by an active role of brands and buyers, passed on directly through local intermediaries which helped development of skills and specialisation in process upgrading in low-end, mass-scale basic products. However, there are variations across countries - Bangladesh is a major source of low-end mass scale products while Sri Lanka has emerged as a source for low-medium-end branded products. Within the broad categories, a group of enterprises have been gradually investing in process and product upgrading and moving from

lower end of the demand curve to the mid-segment of the curve. However, overall suppliers have a limited capacity in product and functional upgrading (Figure 1).

Figure 1: Development of Apparels Value Chain in South Asia



Source: Authors' elaboration

The textiles sector, on the other hand had more diversities in development, underwritten by ability to produce the key inputs, cotton. India and Pakistan are two major producers of cotton in the region and also of yarn and fabric; Bangladesh has a limited capacity of producing cotton yarn from imported cotton and based on this producing fabric domestically. South Asian countries are partially dependent on regional value chain for import of raw materials (Park, 2020). Majority of the regional countries are dependent on non-South Asian countries such as China, Hong Kong, USA and Uzbekistan for raw materials and intermediate products (Table 2). Against the diverse nature of demand for raw materials, major suppliers of South Asia, India and Pakistan, have only a limited capacity to supply raw materials as per demand and at a competitive price(Fashion F. t., 2014). Regional transport network is also not well-developed to service the movement of raw materials and intermediates at competitive cost. India alone has transport network which is used to supply raw materials to other apparel supplying countries including Bangladesh, Sri Lanka, Pakistan and Nepal.

Regional importers dependent on major global sources of inputs and fabrics because of the advantage of capacity to supply bulk quantity, scope for price negotiation with a large number of suppliers and easy logistic facility (Kabir M. S., 2019). Moreover, this dependence is also underpinned by ability to supply better quality inputs, maintaining specification provided by brands and buyers and timely delivery of products (Lechner, 2020). As exporter, raw materials including cotton, non-cotton fibre, yarn and fabric are exported in small quantity mainly to different apparels supplying countries in Asia including China, India, Bangladesh, Vietnam, Turkey, Hong Kong, Indonesia, Cambodia and Afghanistan. Major markets for South Asian T&G items include developed and developing countries across all regions (Table 2). Being T&G producing countries themselves, South Asia's exporters of these products depend heavily on non-regional countries primarily USA, EU, Canada and Japan but also on East Asia and China. Competitive edge owes to large size, better price and relatively easy logistic facilities. In other words, South Asian countries are part of an apparel value chain which goes beyond the region.

It is to be taken into cognizance that the nature of T&G market scenario is undergoing a fast pace change. The emerging concerns in the global textiles and apparel market (preference erosion, e-commerce, new regional cooperation etc.) is likely to change the traditional competitive advantages of different sources and markets. Particularly services (financial, logistics and e-

commerce) are being increasingly embedded in trade in goods and comparative advantages are shifting because of the entwining of trade in goods and services.

Table 2: Major Importers of South Asian T&G Products

Product Code	Major Market/ importer
50	Italy, **India**, Japan, Romania, France
51	China, Italy, Germany, Japan, United Kingdom
52	China, **Bangladesh**, Viet Nam, Turkey, Indonesia
53	China **India Afghanistan** Turkey **Bangladesh**
54	Viet Nam China Turkey USA Indonesia
55	Viet Nam China Turkey **Bangladesh** USA
56	USA Germany China Japan Viet Nam
57	USA Germany United Kingdom Canada Japan
58	Viet Nam USA Hong Kong, China **Bangladesh** China
59	USA China Viet Nam Germany Mexico
60	Viet Nam Cambodia Indonesia Hong Kong, China **Bangladesh**
61	USA Germany Japan United Kingdom France
62	USA Germany Japan France United Kingdom

Source: Based on ITC Trade map database, 2021

Table 3: Intra-regional Trade of South Asian Countries for Selected T&G Products

Exporting Countries	Importing Countries									
	Bangladesh		Bhutan		India		Nepal		Sri Lanka	
	HS code	%	HS code	%	HS code	%	HS code	%	HS code	%
Bangladesh	***51***		**51**		***51***		***51***		***51***	
	52		**52**		***52***	2	***52***		***52***	2
	61		**61**		***61***	1	***61***	1	***61***	2
	62		**62**		***62***	2	***62***	.01	***62***	1
Bhutan	***51***		**51**		***51***		***51***		***51***	
	52		**52**		***52***		***52***		***52***	
	61		**61**		***61***		***61***		***61***	
	62		**62**		***62***		***62***		***62***	
Pakistan	***51***		**51**		**51**		***51***		***51***	
	52		**52**		**52**		***52***		***52***	1
	61		**61**		**61**		***61***		***61***	1
	62		**62**		**62**		***62***		***62***	
India	***51***		**51**	98	**51**		***51***		***51***	
	52	26	**52**	100	**52**		***52***	11	***52***	4
	61	1	**61**	2	**61**		***61***		***61***	2
	62	1	**62**	2	**62**		***62***	1	***62***	2

	51		**51**		***51***		***51***		***51***	
	52		**52**		***52***		***52***		***52***	
	61		**61**		***61***		***61***		***61***	
Afghanistan	***62***		**62**		***62***		***62***		***62***	
	51		**51**		***51***		***51***		**51**	
	52	66	**52**		***52***		***52***		**52**	
	61		**61**		***61***	1	***61***		**61**	
Sri Lanka	***62***		**62**		***62***	2	***62***		**62**	

Source: Based on ITC Trademap Database, 2021
Note: *Data for 2015

The Value Chain in T&G products in South Asia has been rather limited in scope (Table 3). Major traded products include cotton (51), yarn and woven fabric (52), knit products (61) and woven products. India is the main regional source for cotton, yarn and woven fabrics. Bangladesh imported as high as 26 per cent of its total import from India of yarn and fabric. Intra-regional trade is very important for Nepal and Bhutan as both the countries are largely dependent on India for their raw materials. Bangladesh is increasingly becoming an important source for woven and knit products particularly for India and Nepal. However, none of the top four apparel manufacturing countries such as Bangladesh, India, Pakistan and Sri Lanka are partly dependent on India; however, a large part of their materials are imported from different sources from Asian and other countries outside Asia.

Apparels continues to remain a key export item of South Asia and key markets for apparels are the same. USA, EU (27), Canada, Japan and Australia are the major export destinations. Within the region, India is a major destination of export of apparel items originating mainly from Bangladesh, Sri Lanka and Nepal. Overall, in the inputs part of value chain, countries in South Asia has a significant presence, but in the finished part it is non- South Asian region that predominates. The competition is fiercer as a number of non-South Asian countries including include China, Vietnam, Italy, Germany, Cambodia and Turkey with similar product baskets, target the same export markets. In view of the changing global competitive environment, it is highly likely that comparative advantage will be shifting, compelling participating countries including from South Asia to change their strategies. Ability to ensure proper compliance in likely to emerge as an important element of market access.

2.3 Level of compliance in T&G sector of South Asia

South Asian T&G sector, in general, is lagging behind in maintaining social and environmental compliances (Sara Andersson, 2019). Weak state of social compliance is underpinned by employment pressure, lack of decent wage, varying levels of workplace safety and security, poor state of workers' rights and absence of weak social dialogue. Alongside this, poor state of environmental compliance relate to such areas as ensuring proper waste management, energy efficiency, lower carbon emission and adaptation of green technologies. South Asian countries rank low both in terms of labour standards (as shown in Table 5) and environmental performance

index (EPI) (as shown in Table 4) among their cohorts. South Asia's T&G sector has been characterized by poor workplace safety and security due to frequent incidences of fire in factories.

As may be recalled in 2013 about 1200 workers were killed in a tragic accident in Rana Plaza in Bangladesh; fire incidence in a garment factory in Pakistan in 2013 caused death of over 100 workers. Consequently, a number of country-specific initiatives were undertaken in Bangladesh and Pakistan. For example, the 'Sustainability Compact' initiated in 2013 in Bangladesh was undertaken to improve compliance in export-oriented the apparels sector through legal, institutional and operational reforms. Similar country-specific initiatives have been undertaken in Pakistan, India and Sri Lanka as well (ILO, 2019). Poor environmental standard in the backward linkage textiles sector is a major concern for Bangladesh, Pakistan and Nepal. Under the changing scenario, South Asian countries particularly Bangladesh and Nepal, which are in line to graduate from the LDC group, will need to put more emphasis on social and environmental compliances as future developing countries.

Table 4: Level of Labour Standards in South Asian Countries

Issues	Bangladesh	Sri Lanka	India	Pakistan	China	Vietnam
Flexibility	121	132	77	96	64	82
Redundancy costs	127	137	69	114	116	110
Hiring and firing practices	76	77	42	39	26	36
Cooperation in labour-employer relations	99	62	65	103	55	82
Flexibility of wage determination	89	86	88	122	100	74
Active labor market policies	104	62	66	54	32	79
Workers' Rights Index	109	77	112	89	93	93
Ease of hiring foreign labor	79	101	107	78	39	73
Internal labor mobility	102	101	57	66	73	22

Source: Compiled from Global Competitiveness Index Report 2019

Table 5: Environmental Performance Index, 2020

Countries	Rank	EPI score	10-year change
Bhutan	107	39.3	-9.6
Sri Lanka	109	39	-0.6
Maldives	127	35.6	6.7
Pakistan	142	33.1	6.1
Nepal	145	32.7	-8.1
Bangladesh	162	29	-0.1

India	168	27.6	-
Afghanistan	178	25.5	5

Source**:** Extracted from Environmental Performance index 2020 (https://epi.yale.edu/epi-results/2020/component/epi, Accessed on: 18.07.2021

2.4 Plans and strategies for the development of T&G sector

The T&G sector has been a major area of focus of South Asia's national and sectoral development policies and strategies over the years (Table 6). This focus is likely to continue in the coming years with a view to ensuring individual country's long term economic development. Bangladesh in its 8th Five Year Plan (2021-25) has targeted promotion of labour-intensive, export-oriented manufacturing-led growth as a key strategy (Khatun, 2021). Based on impressive export growth of the apparels sector during pre-COVID period, the plan has projected to achieve export of US$56.3 billion by 2025. Sri Lanka has set strategies for 2025 that highlight the development of the T&G sector as an important target (Textile Today, 2019). A key focus of Sri Lanka's strategy is to invest in product upgrading. With training institutes focusing on textile and apparel technology and merchandising etc, Sri Lanka was able to launch its own international brands like Avirate and Amante. India has taken specific initiatives for the textiles and apparels sector which targets key textiles and apparels clusters by allocating special funds for technological upgradation in the T&G sector (Goutam, 2020). Pakistan has taken decision to introduce a comprehensive package for textiles and apparels value chain focusing on cotton man-made fibres (MMF) natural fibres, ginning, spinning, knitting, weaving and processing, apparels and made-ups/home textiles etc. India has long been supporting the textiles sector through 'Technology Upgradation Fund' which provide low-cost finance for technological upgradation and promotion of marketing of products in international markets. Overall, a key strategic focus of all T&G producing South Asia's economies is to further expand the export base of textiles and apparels products through diversification of products and markets (Md Faiz, 2020). However, these strategies do not put adequate emphasis on emerging concerns and their consequent impacts on long term growth of the T&G sector.

Table 6: Plans and Strategies for the Development of Textiles and Apparels Sector

Countries	Plans and Strategies
Bangladesh	• 8th Five-year plan (2021-25) put emphasis on labor intensive and export oriented manufacturing-led growth
Sri Lanka	• Strategy 2025 highlights the development of textile and apparel sector
Pakistan	• Introduction of a comprehensive package for textiles and apparels value chain focusing on specific products
India	• Supporting T&G sector through a specialized fund called 'technology upgradation fund' for introduction of new technologies and promotion of new products

Source: Prepared by authors based on different web-based information

3. Review of Emerging Challenges for South Asia's T&G Sector

This section discusses five key emerging challenges and threats confronting the T&G sector of South Asia. These include: (a) rising market competition; (b) challenges of product diversification; (c) emergence of new sources because of e-commerce and digital platform based business; (d) erosion of trade preference (DFQF); and (e) impact of COVID-19 pandemic on the apparels sector.

3.1 Rising market competition

South Asian countries have continued to remain far behind China in terms of market share in global export of apparels (6.8% and 3.5% respectively against 30.8% of China in 2019). However, as distinct from China, many South Asian countries enjoy advantage in form of preferential market access in major markets, abundant supply of low-cost labour which help them remain cost competitive and allow them to provide products with attractive price tag (D'Souza, 2016). But rapidly rising living costs in apparel manufacturing hubs, coupled with international scrutiny, reduction in import tariffs in major destination countries are putting increasing pressure on producers, with consequent pressure on production costs (D'Souza, 2016). Because of erosion of trade preferences, countries including those in South Asia, which have relied on preferential market access in major markets, has been facing new challenges and competitive pressure. (UNCTAD, 2001). China has been able to maintain competitiveness to a large extent thanks to the support of public investment in the textile industries for process, product and functional upgrading (Textile World Asia, 2013). With the US-China trade conflict, resulting in imposition of higher tariff on Chinese textiles and apparels products in US market, Chinese suppliers were compelled to cut their prices in order to remain competitive in the US market.

Under these circumstances, a section of brands/buyers based in the US market has shifted their orders to other supplying countries (Style, 2021). While South Asian countries were benefitted, this was on a limited scale only owing to their narrow product-base. A major beneficiary is likely to be Vietnam which have a more diversified product-base, to a significant extent thanks to its FDI-driven T&G industry (Mckenzie, 2021). Vietnam's competitive strength has likely to rise further following the full operation of Vietnam-EU Free Trade Agreement (FTA) which was signed in June 2020. Many European buyers are strategically repositioning to Vietnam in view of this. The challenge is more troubling for South Asian graduating LDCs which are likely to lose preference in EU on graduation (plus three years) while Vietnam will enjoy preferential treatment. Vietnam has been offering high end apparel items supported by strong backward linkage industry and an educated workforce. Indeed, it has grabbed the attention of the textile buyers around the world as a sourcing country. (Jashimuddid, 2021). In order to protect the textile industry from the rising competition from Vietnam and others South Asian countries will need to focus on investing more in areas that raise their competitive strength including fashion and design segment and research and development concerning the development of apparel industry.

3.2 Challenges of product diversification

A diversified composition of products helps suppliers against frequent price fluctuations and market shocks (Bertinelli, 2006). From a macroeconomic perspective, such volatilities also undermine stability of export earnings. Textile and apparel exports of South Asian countries to U.S.A and EU include mostly cotton and other vegetable textile fibres, yarn and woven fabrics (Fashion F. T., 2014). The product basket of South Asia is highly confined to a limited number of products. (Table 7). For example, the share of top ten 61 and 62 products of major South Asian T&G exporting countries such as Bangladesh, India and Sri Lanka accounts for over 70% of export earnings; indeed, the share has been on the rise over the years. An intra-RMG diversification has been taking place in South Asia but at a slow pace.

Table 7: Export-concentration of South Asian Countries (under 61& 62 categories)

	Bangladesh			India			Sri Lanka		
	2001	2010	2020	2001	2010	2020	2001	2010	2020
Top 10 products under 61	68.3	70.22	79.5	70.9	66.94	75.36	45.8	57.59	69.6
Top 10 products under 62	43.73	71.15	75.39	57.54	57.37	57.3	50.65	75.12	75.03

Source: Based on ITC Trademap Database, 2021

In contrast, major competing countries such as China, Vietnam and Germany are offering a wide variety of option ranging from chemical fabrics, medical textile, synthetic fibre and products made of man-made fibres which account for a significant share of T&G market.(Textile World Asia, 2013). In order to gain greater market share and reduce earnings volatility, the market there is no alternative to a diversified export basket.

South Asian countries have mostly depended on labor intensive lower-end segment of RMG market, leading to a narrow base and lack of intra-RMG diversification. Lack of skilled labour force due to weak education and skill formation among a large section of workforce have undermined the cause of diversification and had an adverse effect on creativity and innovation (Kashif Munir, 2018). Yet another challenge related to lack of infrastructural development along with lack of research and development in terms of technological advancements. (Abdur Rakib, 2015). Unlike other apparel producing Asian countries, lack of FDI has caused constraints in diversification of product base in South Asia's apparels sector (Saswata Chaudhury, 2020).In this backdrop, South Asian countries failed to attract brands and buyers of non-traditional and diversified apparels products.

3.3 Rise of e-commerce and digital platform

South Asian countries are lagging behind in developing necessary infrastructural facilities which is required to integrate with the global e-commerce platforms (Chowdhury, 2019). Major global online platforms prefer working with suppliers of those countries where e-commerce infrastructure

is well-developed. In a welcome development, online platforms in South Asia are getting popular in recent times. India is a leader in this context, with some others such as Bangladesh, Pakistan and Sri Lanka trying to catch up. However, they need to make more extensive use of opportunity of the new e commerce platforms (Kathuria, 2018).[2] The creation of regional online retail platforms could present an opportunity for more effective integration of regional apparel market.

Regrettably, South Asian countries are way behind in terms of their preparedness for adoption of ICT, internet and mobile-based technologies (Table 8). Most of the suppliers of South Asia were traditionally not well-linked with E-commerce and digital platforms (Foster, 2017). This has not changed much in recent times. Most countries are ranked over 100 out of 141 countries in 2019 in terms of ICT adoption. Similar state is observed in case of mobile telephone subscriptions, fixed-internet broadband subscriptions, number of internet users etc. In contrast, South Asia's competing countries such as China and Vietnam are ranked among the top 50 countries according to most of the indicators. Differences in performance on ICT and digital technologies make it difficult for the South Asian countries to be at par with non-South. Asian countries in this digital age.

In fact, the buyers, brands, and retailers with which they do business used to do work through bricks and mortar shops and very recently has started expanding their businesses through online and digital platforms. Most importantly, the buyers/brands/retailers who are specializing in online business have different sets of requirement in terms of products, quality and delivery lead time. These emerging and unique requirements are difficult to be met by the traditional suppliers to comply with given their existing infrastructure. Most importantly, suppliers need to invest significantly in order to comply with the demands of the online buyers, which majority of suppliers in South Asian countries are not ready to do (Whitfield, 2020). At present, however, in a section of supplier are trying to break the ground by getting involve in e-commerce although they remain in the minority.

Table 8: Ranking of Selected Asian Countries on Preparedness in ICT Adoption

Issues	Bangladesh	Sri Lanka	India	Pakistan	China	Vietnam
ICT adoption	108	107	120	131	18	41
Mobile-cellular telephone subscriptions	106	77	120	126	78	14
Mobile-broadband subscriptions	115	93	116	126	36	76
Fixed-broadband Internet subscriptions	88	86	110	112	32	63

[2] For example Myntra, an Indian e-commerce retail platform, provides a 30-day exchange window for some of its items, such as apparel and accessories, while HomeShop18 requires notification of defects within 48 hours from the time of delivery. Giants like Flipkart and Amazon also have very consumer-friendly policies, providing conflict resolution facilities between buyer and seller and granting returns and refunds even when an agreement with the seller has not been reached. In Sri Lanka, the marketplace Daraz goes as far as pushing onward a refund-only model, knowing that many of its sellers would not have sufficient capacity to efficiently deal with high volumes of returns during peak sales times (Sanjay Kathuria, 2020).

Fibre internet subscriptions	49	110	102	104	6	26
Internet users	132	108	107	131	93	66

Source: Extracted from Global Competitiveness Index Report 2019

3.4 Enhanced pressure on graduating LDCs

South Asian LDCs including Bangladesh, Nepal, Bhutan and Afghanistan have been enjoying preferential market access in major markets belongs to both developed and developing country groups. LDCs which are now in the process of graduation from the group would lose their preferential market access which they are currently enjoying as LDCs. These concern major markets of South Asian countries. Among the South Asian countries, Bhutan would graduate by 2023 and Bangladesh and Nepal are expected to graduate in 2026 (Table 9). South Asian LDCs have made good use of preferential access. For example 70% of Bangladesh's export enter with preferences, Excepting exports to USA[3], almost all apparel exports from South Asia enjoy duty free market access: EU, Canada, Japan and other developed country markets and India, China and some other developing countries under the LDC scheme on bilateral FTA (for Bhutan and Nepal) in Indian market. EU will grant the market access facility for an additional three years after countries have graduated from the LDC group, Indeed, Bangladesh's export loss owing to graduation will be the highest, accounting for 85 per cent of the projected loss of 12 graduating LDCs (WTO, 2020) . The Committee for Development Policy (CDP) of the UNECOSOC which is responsible for recommending countries' graduation status, has in its review meeting in February, 2021, proposed among others that Bangladesh go for export diversification as a tool for sustainable graduation.

Table 9: Overview of 2021 Triennial Review for South Asian LDCs

Countries	**Graduation indicators and threshold**			**Latest Status**
	Gross national income (GNI) per capita[1]	Human assets index (HAI)	Economic and environmental vulnerability index (EVI)	
	$1,222 or above[1]	*66 or above*	*32 or below*	
Afghanistan	513	42	44.8	LDC Enlisted
Bangladesh	1827	75.3	27.2	Recommended for graduation by the CDP and ECOSOC, under consideration by GA
Bhutan	2982	79.5	25.7	Scheduled to graduate in 2023
Nepal	1027	74.9	24.7	Recommended for graduation by the CDP and ECOSOC, under consideration by GA

Source: UNCTAD (2021)
Note: [1] Income-only: $2,444 or above

[3] US preferential scheme does not cover most RMG items. As a matter of fact, Bangladesh has been excluded from the GSP scheme anyway following the 2013 Rana Plaza Tragedy.

The structural impediments facing LDCs will not go away with graduation. But loss of preference erosion will be real and significant. While some graduating LDCs can apply for EU's 'GSP plus' scheme, Bangladesh will not be eligible for this under current rules (market share). The rules of origin for GSP eligibility is also very stringent. (Rahman, 2021). EU is going to enact new GSP rules in July, 2023 and apparel exporting South Asian LDCs should remain engaged with the changing process of review and revision of the rules, Moreover, Bangladesh need to comply with GSP plus criteria by enacting and enforcing international human and labour rights related ILO conventions if it is to be eligible for GSP plus scheme. BD will have to do more to ensure ILO's human and labour rights related compliances (Moazzem, 2021). The same is true for Nepal and Bhutan. Hence, South Asian graduating LDCs need to comply with international conventions on human and labour rights conventions and with obligations as developing countries.

3.5 Impact of COVID-19 Pandemic on the Textiles and Apparels Sector of South Asia

In the first quarter of 2020, the coronavirus pandemic resulted in a 3% drop in global trade values (UNCTAD, 2020). There is a significant uncertainty as regards how the economic situation will evolve as regards the duration and the gravity of the pandemic (Table 10). Recent forecasts suggest that trade volumes have decreased between 13% and 32% in 2020. (WTO, 2020). Industries whose operations are more globalized and particularly rely on China for inputs were most exposed to initial supply chain disruptions due to the pandemic (UNCTAD, 2020). The coronavirus outbreak led to production stoppage at first in China followed by elsewhere in the world. As for the South Asian countries, European and American retailers, the two big destination for the apparel sector, had cancelling orders, which had a major impact on sector, profitability and business and on the workers (ILO, 2020). By invoking the 'force majeure' clauses' they had halted payments; in many instances they asked for significant discounts.

On 8th April, 2020 the sustainable Textiles of Asian region (STAR) which includes representatives from Bangladesh, Cambodia, China, Myanmar, Pakistan and Vietnam released a joint statement urging the brands and retailers to consider the impact that the purchasing decisions had on the workers and the small business in the supply chain. One of the major concerns in respect to such epidemiological situation is that the production of some items, particularly upper-end and fashion goods could move to other competing countries. If the pandemic persists this could affect lower-end items as well. Where most developed countries have been able to address the crisis and ease the impacts by implementing unprecedented actions, developing countries especially the countries of South Asia were not able to pursue similar policies given their weak financial capacity, and absence of adequate health facilities and necessary social safety nets to respond to the pandemic. (Antonella Teodoro, 2020) At a time when the apparels sector was on the verge of coming out of the crisis, it has now been hard hit due to the second wave of pandemic.

Table 10: Impact of the pandemic on South Asia's GDP Growth, Export Growth and Employment

Countries	GDP growth in 2020	Export Growth in 2020	Unemployment rate in 2020
Afghanistan	-0.5%	-10.0%	11.2%
Bangladesh	5.2%	-14.6%	5.3%
Bhutan	-0.8%	-46.2%	8.3%
India	-7.9	-7.4%	7.1%
Maldives	-32.2%	--	6.3%
Nepal	-2.7%	-62.7	4.4%
Pakistan	-0.5%	8.3%	4.5%
Sri Lanka	1.3%	-64.6%	6.0 %

Source: Compiled Different web-based sources

3.6 Identifying the strategies to address the emerging challenges

Given the emerging challenges, South Asia needs to work on multiple traits in order to maintain its competitiveness in the global apparel value chain and take advantage of the market opportunities that were likely to appear in future. Addressing the growing market competition demands identifying strategies on product diversification, enhancing productivity and efficiency and reducing trade barriers. Diversifying product base requires strategies to identify potential opportunities in non-traditional products and attracting foreign direct investment. Facing the challenges of rising e-commerce will need to identify strategies for online-based marketing and skilled labour force for adopting digital technologies at the enterprise level. To ensure smooth graduation from the LDC category, South Asia's graduating LDCs need to focus on productivity gaining and export and market diversification. Use of clean energy could be an advantage. Indeed, the knit-RMG sector of Bangladesh has been a pioneer in areas of green production[4]. Integrating T&G sector with growth strategy could give South Asia an advantage as countries prepared for the post-Covid world, by building back better. Ensuring post-covid recovery will require strategies for sustaining the businesses of enterprises. It is important to analyse the current state of progress of South Asia's T&G sector in handling the challenges, opportunities and risks and their capacities in meeting the emerging needs.

4. Export Competitiveness of the T&G Sector of South Asia

4.1 Global trends in exports of T&G

The global market for textiles and apparels has almost doubled over the last two decades (Table 11) – from US$342 billion in 2001 to US$662 billion in 2019, with an annual average growth of 4.9 per cent per year. Markets of raw materials and intermediate markets have increased by 51.4

[4] 7 out of 10 knit-RMG factories globally which have received highest category in terms of green production, are in Bangladesh.

per cent during this period while the market for finished products rose by 129 per cent. However, the market has reduced in 2020 in the backdrop of the ongoing COVID pandemic period.

In the pre-pandemic period, markets of raw materials and intermediate products have experienced various types and levels of changes – the highest level of rise was observed in case of nonwoven special yarns (11%), knitted fabrics (5.9%) and impregnated/croached fabric (4.2%). On the other hand, negative and low level of growth was experienced in case of silk (-2.4%), wool (-1.3%), cotton (1.3%), manmade special fibres (1.5%), special woven fabrics (1.7%). In recent years (2010-2019) the markets for different products have experienced major compositional changes in terms of raw materials and intermediate products. During this period, global export of cotton-based raw materials (silk and wool) has declined (2.4 and 1.3 per cent in 2020) while global export of non-cotton raw materials (MMF, man-made staple fibres, non-woven special yarns and laminated textiles fabrics) has increased (1.5 and 11.4 per cent in 2020). Cotton-based/natural raw materials including cotton, silk and wool have experienced negative growth while non-cotton based raw materials including MMF, man-made staple fibres, non-woven special yarns, and laminated textiles fabrics have experienced positive growth during the same period (1.5 and 11.4 in 2020).Besides, the export of knitted fabrics has increased. In other words, global demand for non-cotton apparels is likely to increase during this period. The changing export demand scenario for T&G items will mean that countries which have the capacity of manufacturing non-cotton textiles and apparels will be in an advantageous position.

Table 11: Global Market for T&G Products (HS code 50-62) during 2001-2019

Product code	Product label	Exported value in 2001, (US Dollar Million)	Exported value in 2020,[5] (US Dollar Million)	Average yearly export growth rate (2001-2020)
Raw materials and intermediate products (cotton, natural fibres, yarn and fabric)				
50	Silk	2246	1230	-2.4
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	11601	8676	-1.3
52	Cotton	36828	46143	1.3
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	2739	4263	2.9
54	Man-made filaments; strip and the like of man-made textile materials	29247	40778	2.1
55	Man-made staple fibres	22640	29194	1.5
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	9327	29510	11.4
57	Carpets and other textile floor coverings	8054	14713	4.4

[5] Mirror data have been used for calculating the exported value for the year 2020

58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	7609	10003	1.7
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable **…**	12505	22572	4.2
60	Knitted or crocheted fabrics	14782	31485	5.9
	Sub-total (50+51+52+53+54+55+56+57+58+59+60)	**157579**	**238569**	**2.7**
	Finished products (knit and woven products)			
61	Articles of apparel and clothing accessories, knitted or crocheted	82030	214207	8.5
62	Articles of apparel and clothing accessories, not knitted or crocheted	102703	208786	5.4
	Sub-total (61+62)	**184734**	**422992**	**6.8**
	Total	**342312**	**661561**	**4.9**

Source: Compiled from ITC Trade map Database (accessed in March, 2021)

4.2 Trends in export and import of T&G Items from South Asia

South Asia is not a major source of raw materials for manufacturing textiles and apparels; however, it is a major source for manufacturing apparels (Table 12). Market share of South Asia for selected textiles and apparels products is impressive –it accounts for 8.6% of knit and 8.2% of woven products exported globally. It also has a 2% share in world cotton export. The region's share in other natural fibre and man-made fibre-based yarn and fabric is rather negligible.

India alone is the source of export of cotton and other raw materials; however, it has experienced a negative growth in export of those products over the last one decade. Although the share of other raw materials are negligible in the global context, a number of items have shown considerable growth during the last one decade: these include special yarns (7.1 per cent), laminated textiles fabrics (7.9 per cent) and knitted and crochet fabrics (11.9 per cent). In other words, India's growing capacity in non-cotton yarn and fabric items could be a potential source for other South Asian countries to source from within the region and diversify (UNCTAD, 2016).

As was noted above, South Asia is a major source of export of apparels with a global share of over 8 per cent. More importantly, the region has maintained an impressive double-digit growth over the last one decade. Even in the pandemic year of 2020, it has been able to maintain its share, although the absolute value had come down because of the pandemic. This high growth reflected the combined performance of four countries, Bangladesh, India, Sri Lanka and Pakistan and to a minor extent Nepal. However, it is important to examine whether the region has been able to export non-cotton apparels where global market is on the rise.

Table 12: Trends in Export of T&G Products by South Asian Countries

Product code	Export in 2020						
	South Asia's export		Bangladesh	India	Pakistan	Nepal	Sri Lanka
	Percentage (%) of share	Average growth rate					
50	0.02	-8.29	0.007	82	0.357	0.037	0.074
51	0.05	1.51	0.077	101	2.3	0.6	0.048
52	2.29	-1.68	63	5809	2643	1	4
53	0.32	0.19	729	478	6.1	34	103
54	0.59	0.44	2.32	1635	39	0.019	10
55	0.54	-0.25	12	1277	302	61	32
56	0.14	7.08	51.4	447	19	5	26
57	0.47	2.10	39	1689	54	66	6
58	0.12	0.85	4	322	25	0.1	17
59	0.07	7.94	5.4	332	13	0.038	4
60	0.14	11.93	23	439	36	0.041	27
61	8.65	13.38	18706	612	3063	23	2889
62	8.17	11.75	16621	6105	2625	27	1782

Source: Based on ITC Trade map Database

4.3 Export performance of selected South Asian countries

This sub-section analyses the top 10 textiles and apparels products (HS code 50-62 at 6 digit levels) of each of the South Asian countries with a view to assess the major competitive strengths of South Asian countries. At the same time, the analysis captures South Asian countries' specialisation in producing different products (Table 12).

Export baskets of India, Pakistan and Nepal comprises both T&G products; on the other hand, Bangladesh and Sri Lanka's export basket comprises mainly of garments products.[6] However, each country possesses specialisation in different sets of products. Although Bangladesh and Sri Lanka both specialises in manufacturing and exporting apparels, Bangladesh's export comprises of different types of basic items such as T-shirts, trousers, jerseys, shirts and baby garments. Most of these items are cotton-made. On the other hand, Sri Lanka's exports include medium-end products including different types of undergarments and briefs and T-shirts and trousers. Those are also cotton made. Thus, Bangladesh and Sri Lanka have a set of competing products although not in same product range. Most importantly, Bangladesh has been able to maintain a considerable growth in all its top-10 products and has been able to attain a market share between 1.8 per cent and 12.8 per cent depending on the particular item. On the other hand, Sri Lanka has been maintaining intensive growth in specialised undergarments and briefs products. The biggest importers of Bangladeshi products are Germany, UK, USA, Spain, Italy and France while those

[6] One has to keep in mind that while the finished RMG is Bangladesh's key export, Bangladesh has a backward linkage textile sector that feeds intermediate inputs to the front-end RMG production. This is particularly true for knit-wear segment of RMG where almost all production is cotton-up.

of Sri Lanka are UK, USA, Germany, China and Italy. Both the countries are competing with each other in same destinations with both similar and diversified products.

India, on the other hand, specialises in export of both raw materials and finished products. Major T&G raw materials exported by India include cotton, cotton yarn and textured filament yarn while major finished products produced in India include T shirts, shirts, women dresses and babies garments. These items are largely cotton-based products. India's finished products are similar to what are export by Bangladesh and partly by Sri Lanka. During 2015-2020, exports of most of the cotton-based raw materials have experienced negative growth. As is the case for most South Asian countries, the biggest export destination for India is UK, USA, Germany, Spain and Italy. Although cotton was once considered to be India's biggest export product, the declining growth rate suggests either lack of competitiveness or growing demand for domestic and export markets. India is producing more finished items with its own cotton, for domestic and export markets. India will also need to diversify its export base, particularly by shifting to non-cotton yarn and fabrics.

Pakistan is specilaised in cotton-based yarn, denim and fabrics and in various types of finished products including T-shirts, trousers, shirts and pull over etc. Pakistan's export of yarn and fabric are different from those exported by India. However, Pakistan produces almost similar apparels products as Bangladesh, India and Sri Lanka, making Pakistani products compete with products of other South Asian countries. However, the pace of growth is not the same for similar products originating in these countries. The biggest buyers for Pakistani apparels are UK, USA, Germany, Spain, Italy and France as is the case for other South Asian countries.

Table 13: Matching Products of South Asian Countries (million USD)

Product code	Bangladesh	India	Pakistan	Sri Lanka	Nepal	China	Vietnam
610910	6078	1957	199	199	199	3737	264610
611120	851	709				1643	
621210			690	690		3494	
570110					65	17	
520100		1075				89	
560290					16	61	
611610			373	373			
611020	2881					6632	1922
611030	2622					10464	1656
620520	1999	830				1308	721
610510	1048					532	300
620342	5941		293	293		4493	764
610711			239	237		116	2599
550932					17	183	
520523		792				78	
520524		598				272	
550921					21	41	

540233		734				52446	
610990	858	658	241	241		3678	
610821			260	260		920	
610822			220	220	220		293
620443		665				2664	301
621143		586				9666	370
620462	3612		237	237		6136	
610462	1257					220	555
540720					30	6808	
550951					32	81	

Source: Compiled from ITC Trade map Database, 2021

Note: The product codes are elaborated in Annex 1

Unlike other South Asian countries, Sri Lanka has developed specialization in finished products mainly those in undergarments and briefs. Major global brands produce their branded products in Sri Lanka. These are medium and high-end products. However, Sri Lanka is also exporting mass-scale basic products which are similar to those of the other South Asian countries. The biggest market for Sri Lankan apparels are UK, USA, Germany, China and Italy. Nepal, on the other hand, export a number of non-traditional raw materials which include mixed yarn, mono-filament woven fabric, single yarn, folded yarn, laminated yarn etc. Similarly, it exports non-traditional garments including shawls, scarves and jerseys made of cashmere fabric etc. In terms of destination, the biggest market for Nepalese T&G include India, Italy, UK, USA and UAE.

Overall, South Asia is a major source of garments but a minor source in textiles. However, its product base in garments is more diversified compared to that of textiles. South Asia, in general, specializes in cotton-based yarn, fabric and apparels. However, the performance of each South Asian countries is not the same – Bangladesh is performing better in case of products which are produced also by Pakistan and India. Its market share is growing vis-à-vis other countries. Due to lack of product and market diversification, South Asian countries are competing with each other in the same markets of developed and developing countries. South Asian countries have not been able to specialize in non-cotton based apparel products in any significant way and this is a major disadvantage from which the countries in the region suffer. Cotton-based specialization both in textiles and apparels, was likely to have a declining comparative advantage in the coming years for major South Asian T&G countries (D'Souza, 2016). The countries in the region were likely to experience greater challenge given the competitive pressure of newly emerging exporters (e.g. Myanmar, Cambodia etc.) not to speak of traditional apparel exporting countries of South East Asia and East Asia. Competitive pressure will involve both traditional items as well as new diversified items. Technological upgradation and productivity will be key to sustaining the current performance record of South Asian countries.

4.4 Import performance of textiles and apparel products of South Asian countries

The import basket of T&G of South Asian countries comprises different types of cotton, non-cotton fibre, yarn, fabric and partly finished garments (Table 14). However, these imported raw materials and finished products do not necessarily cater to the export-oriented apparel sector only; rather a part of the imported raw materials are used for manufacturing products intended for domestic market. Large domestic markets of India and Pakistan demand raw materials which are imported from different sources mainly outside of South Asia. Bangladesh's import of raw materials, mainly cotton, fibre and fabric, has experienced a significant rise thanks to the growth of its apparel export. It is important to note in this connection that most of the raw materials for Bangladesh's T&G sector are imported from China, Hong Kong, South Korea and India. Ability to supply the needed items, in terms of quantity and quality and according to buyers' specification and shorter lead time, not to speak of competitive price, are the key reasons for sourcing.

Table 14: Matching Imported Products of South Asian Countries (Million USD)

Code	Bangladesh	India	Pakistan	Nepal	Sri Lanka	China	Viet Nam
520100	1828	1321	710			3567	
600632	264	202			113	314	
590210		184				50	
500200		159				3	
510119		159				.740	
550320		139	95	35		242	360
620342		126		23		378	10
540244		135	46			204	52
590320		138				231	585
590390		13				487	389

Source: Compiled from ITC Trade map database (accessed on March, 2021)

Note: The product codes are elaborated in Annex 2

India imports different types of raw materials – both cotton and non-cotton fibres and fabric. Given India's large domestic market, a part of the imported raw materials are used for domestic market. India is increasingly importing more finished products and apparel items from different sources, particularly from Bangladesh in the region. India's major sources of import of raw materials and finished products include China, Vietnam, Pakistan, Egypt and Bangladesh,

The type of textiles and apparels imported by Pakistan is somewhat different. Import of cotton by Pakistan has been decreasing over the years; on the other hand, import of some other items has experienced a rise. These are pile fabrics of MMF and yarn of viscos rayon etc. These raw materials are imported mostly from China, India, USA, Vietnam and Malaysia.

Sri Lanka imports different types of cotton fabrics which are used for manufacturing export-oriented apparels. Given the product composition, Sri Lanka's imported raw materials are different compared to those imported by Bangladesh. Sri Lanka imports a significant amount of knitted or

crocheted fabrics growth rate of which has been very high. Among other imported items, considerable growth is observed in case of woven fabrics and single cotton yarn. Majority of these raw materials are cotton-based; import of non-cotton based raw materials and related apparel products is rather limited. Major import sources for Sri Lanka are China, Vietnam, India, Afghanistan and Pakistan.

Nepal's import basket is comprised mostly of items from the apparel category. Import of some of these items are significantly high such as men's or boys' garments of textile fabrics, men's or boys' trousers, bib and brace overalls, breeches and shorts and T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton). The biggest import source for Nepal are China, India, Vietnam, South Korea and UAE. On the other hand, Maldives and Afghanistan have only a small manufacturing base for apparels based on imported raw materials.

Overall, the structure of import of textiles and apparels of South Asian countries indicates that imports are primarily based on cotton related raw materials mainly to cater to the demands of the export-oriented cotton-based apparel products. Majority of the South Asian countries import these raw materials both from South Asian region and outside of the region. The biggest sources of import are China, India, Vietnam and Pakistan. On the other hand, South Asian countries are primarily dependent on their domestic textiles and apparels sector for the supply of apparels – except India, none of the countries have imported apparels in large quantities. However, from vantage point of view textiles and apparel value chain, regional countries have yet to develop an integrated regional value chain, except India. T&G value chain of South Asia is highly dependent on countries outside the region, for supply of raw materials and for export of apparels. The potentials of developing regional value chain remained underutilised because of limited supply capacity, poor logistics facility, weak presence of global brands in the regional markets and lack of diversity of raw materials and products. However, specification needs of brands and buyers on sourcing and using of raw materials should not be ignored (Takahiro Fukunishi, 2013). In other words, given the lack of presence of a 'full-packaged' supply chain within the region and from considerations of competitive strengths, South Asian countries have opted to integrate their value-chains with countries outside the region.

4.5 Performance of major competing countries of South Asia: China and Vietnam

South Asian countries compete with a range of countries in the same product market and destination markets. Of these the two most important competitors from the Asian region are China and Vietnam. China is the largest textiles and apparel supplier in the world. It drives its advantages from a number of factors including (a) large supply of raw materials, intermediate products and manufactured finished products; (b) availability of raw materials as per specification and requirements of the buyers; and (c) well-developed logistics and production network both within the country and outside (Uddin, 2019). Its export basket indicates that it is an important supplier of South Asian apparels exporting countries and at the same time it is a major competitor of South Asian countries in the global market of finished apparel items. The other country which is a major competitor of South Asian countries in the global market is Vietnam. Table 14 shows the matching

products of import and export of South Asian countries vis-a-vis China and Vietnam which provides an idea of the competition scenario in the global T&G-market.

Unlike the South Asian countries, majority of China's top 40 export products have experienced either very slow or negative growth in recent years (e.g. 2019). Some of the products which experienced negative growth include jersey, pullover, women trousers, T-shirts, women's/girls trousers and jackets, men/boys trousers, baby's garments and mens/boys' garments etc. In other words, the exports of key apparel products of China has been on the decline, being replaced by other countries since the global market size has been on the rise. The rise in share of export of similar products from some of the South Asian countries would indicate that these countries are likely to have benefitted in this process (Table 15). On the other hand, a number of products exported by China has experienced considerable positive growth, mainly those made of non-cotton raw materials and intermediate products. These include woven fabrics (non-cotton), pile fabrics (MMF), woven fabrics (polyester) and denim. Given the rising demand of non-cotton apparels, China has also been supplying the non-cotton yarn and fabrics to different countries. South Asia, given its limited capacity in non-cotton apparel making t have not been able to avail of this emerging opportunity.

Vietnam, on the other hand, has a large manufacturing base for non-cotton apparels. Its top 40 products include a considerable number of non-cotton apparels made of MMF, synthetic and polyester fabrics. Majority of these products have posted double-digit growth in recent years. Vietnam is also a major supplier of cotton-based products which are produced by South Asian countries (e.g., T-shirts, mens/boys' trousers, mens/boys' cotton shirts, womens/girls' trousers) implying that it is a competitor for South Asian countries in these items. Overall, Vietnam has the benefit of a significantly diversified manufacturing base with production of both cotton and non-cotton based apparels. It has also benefitted from the shift in apparels sourcing away from China. Vietnam's FDI based apparels sector also gives it an added advantage through better linkages.

Table 15: Matching Products of South Asian countries vis-a-vis China and Vietnam (mil. USD)

Product	Bangladesh	India	Pakistan	Sri Lanka	Nepal	China	Vietnam
610910	6080	1957	323	199		3737	264610
611120	851	709				1643	
621210				689632		3494	
570110					65	17	
520100		1075				89	
560290					16	61	
611610				373283			
611020	2880					6632	1922
611030	2623					10464	1656
620520	1999	830				1308	721
610510	1048					532	300
620342	5941		498	294		4493	764
610711			239	237		116	2599

550932					17	184	
520523		792				78	
520524		598				272	
550921					21	410	
540233		734				52446	
610990	858	658		241		3678	
610821				260		920	
610822				220241			293
620443		665				2664	301
621143		586197				9666	370
620462	3612		237			6136	
610462	1257					220	555
540720					31	6808	
550951					32	81	
550951					32		

Source: Based on ITC Trademap, 2021
Note: The product codes are elaborated in Annex 1

5. Trade rules, NTMs and Bilateral and Regional Trade Agreements

South Asia's competitiveness in the global textiles and apparels market hinges on its preferential market access in major apparels importing countries. The MFN tariff structure of South Asian countries remains rather restrictive when compared to those of South East Asia and East. Despite the operationalization of South Asia Free Trade Area (SAFTA), the member countries have in place a relatively protective tariff regime. Many apparel items are in the sensitive list of partner countries. However, Bangladesh and Nepal benefits from India's LDC scheme under the SAFTA that allows duty free access to virtually all items.[7] On the other hand, competing countries have relatively more liberalized tariff regime in place. More importantly, major competing countries are part of a number of regional and bilateral trade agreements as part of which the suppliers of textiles and apparels enjoy the benefit of easy access to large market at a relatively low tariff rate. In this backdrop, trade policy of South Asian countries need to take advantage of greater trade integration with East and South-East Asia as strategy to enhance competitiveness.

[7] For example, as part of this scheme, Bangladesh enjoys duty-free quota-free market access in India for virtually all products includes apparels (only 25 items- arms, liquor and drugs are excluded).

5.1 Structure of tariff related to T&G in South Asian countries

While South Asian countries have gradually liberalized their trade regimes over the last decades, it is still restrictive compared to those of non-South Asian countries (Table 16). By and large, South Asian countries have followed similar tariff structure as far as textiles and apparels related products were concerned. The average duties are within the range of 0-30 per cent. The import duties are lower in case of raw materials and are high for finished products. Since majority of countries are dependent of imported yarn and fabric, the tariff rates are kept low to reduce import cost of raw materials for producers of finished goods. However, countries having domestic supply of cotton and yarn such as India and Pakistan, have kept the import duties at relatively high levels. As these countries manufacture apparels also for domestic markets, along with export markets, the import duties of these products are found to be higher than other products. A number of South Asian countries such as Bangladesh, extends facilities of duty free import of raw materials for the export-oriented industries, but keeps duties on finished products at high levels.

On the other hand, average tariff rates in China and Vietnam are relatively low compared to those of South Asian countries for the range of T&G products-for raw materials, intermediate products and finished products. Countries such as Bangladesh has dealt with these by allowing import of intermediates under bond for export-oriented industry.[8]

Table 16: MFN Tariff Rates of South Asian Countries

Countries	Year	HS-code level	Number of subheadings	Number of TL	Number of AV duties	Average of AV Duties	Minimum AV Duty	Maximum AV Duty	Number of Non-AV Duty
Bangladesh	2018	50-62	9-125	10.8-25.0	0-25	25	0.0-2.2	0	83.47
India	2019	50-62	29-277	21.6-26.1	15-25	25-30	0.0	0-157	70.42
Maldives	2019	50-62	9-159	15.0	15	15	0.0	0	15.38
Nepal	2018	50-62	9-124	7.0-19.9	0-15	15-30	0.0-13.2	0	108.93
Pakistan	2018	50-62	9-144	7.3-19.6	3-20	16-20	0.0	0	121.82
Sri Lanka	2017	50-62	8-127	0.0-10.0	0-10	0-30	62.3-100.0	0-22	152.45
China	2020	50-62	28-167	5.3-14.2	4-6	8-40	0.0	0.0	6.9
Vietnam	2018	50-62	15-220	5.5-19.9	0-12	12-20	0.0-41.7	0.0	22602.1

Source: Compiled from ITC Trade map database, 2021

5.2 Non-tariff measures in place in South Asian countries

South Asian countries have a diverse range of NTMs which have been put in place with a view to protect their domestic industries (OECD, 2005). Table 17 presents a list of NTMs in South Asia. These NTMs include a variety of trade measures and regulations, such as Technical Barriers to

[8] It is, however, to be kept in mind that MFN rates presented in Table 15 do not capture various other duties (e.g. regulatory duties, Advance VAT, Advance Income Tax etc) which are often added to MFN duties at import stage.

Trade (TBT), Sanitary and Phyto-sanitary (SPS) standards, administrative measures, custom procedures, arbitrary export bans, licensing, mandatory trading through state agencies, stringent labeling and packaging, infrastructural barriers, and export and price-based measures (quotas and voluntary export restraints, state level taxes, antidumping and countervailing duties), among others.

Table 17: Different Types of Non-tariff Barriers Applied by South Asian Countries

Countries	Pre-shipment inspection	Other measures	Price control measures	Quantity control measures	Sanitary and Phytosanitary	Technical Barriers to Trade
Afghanistan	2	2	1	51	17	20
Bangladesh	4		22	27	79	82
India	47	23	43	212	2311	1483
Nepal		6	21	10	118	122
Pakistan	10	1	1	30	50	26
Sri Lanka	4	1	7	27	57	40
Grand Total	67	33	95	357	2632	1773

Source: Compiled from UNESCAP (2019)

Various South Asian countries have put in place different types of NTMs taking into account the interests for the domestic industry and economy (UNCTAD, 2013). These trade barriers include high customs duties, non-tariff barriers such as technical and health certifications and standards and also quantitative restrictions. The highest number of restrictions concern sanitary and phytosanitary (SPS) measures which is the highest in India – about 88 per cent of SPS measures are on account of India. Similarly, India has many technical barriers to trade (TBT) – about 83.6 per cent of total measures are applied by India alone. Quality control measures are the third highest category of NTMs which are largely applied by India. Other than India, Bangladesh has in the place more NTMs in case of SPS and TBT measures; Pakistan has NTMs such as SPS and TBT measures in place. Nepal has a large number of SPS and TBT measures. Although a large part of these NTMs are related to agricultural products, a number of these are applied to various chemicals and raw materials used in processing various T&G products. Generally speaking, the NTMs work as a constrain to develop regional textiles and apparels value chains – first by distorting trade and second by affecting supply chain efficiency (UNCTAD, 2013). The NTMs make the regional value chains less attractive to South Asian exporters. Such a trade regime is not supportive of realising the emerging market potentials and tackling the challenges facing the T&G sector of South Asia.

5.3 Logistics performance of South Asian countries

South Asian countries, except India, tend to perform rather poorly in terms of the World Bank's Logistics Performance Index (Md. Tuhin Ahmed, 2020). The logistics performance index ranks countries on six dimensions of trade including custom performance, infrastructure quality and timeliness of shipments. The average Logistics Performance Index score of South Asian countries in 2018 was a very low 2.51, compared with 3.15 for East Asia and Pacific, and 2.78 for

Middle East and North Africa. The overall poor state of logistics in South Asia hinders the development of value chains and also does not allow taking advantage of e-commerce. However, improvements have promises significant benefits through logistics-related innovations particularly by making use of e-commerce platforms (World Bank, 2018).

Table 18 presents the logistics performance index (LPI) of selected countries of Asia. As the table reveals, most South Asian countries are doing poorly in LPI when compared to China and Vietnam. Given the rising demand for reduces lead time and on-time delivery of products, LPI ranking indicates that most of the South Asian countries lag behind in competing with front-runners as far as products that are time-sensitive in nature and seasonally sensitive are concerned. Overall poor logistics are a major barrier to the development of T&G value chain of South Asia.

Table 18: Logistics Performance Index of Selected Countries (ranking out of 167 countries)

Country Name	2007	2010	2012	2014	2016	2018
Afghanistan	150	143	135	158	150	160
Bangladesh	87	79		108	87	100
Bhutan	128	128	107	143	135	149
China	30	27	26	28	27	26
India	39	47	46	54	35	44
Maldives		125	104	82	104	86
Nepal	130	147	151	105	124	114
Pakistan	68	110	71	72	68	122
Sri Lanka	92	137	81	89		94
Vietnam	53	53	53	48	64	39

Source: Compiled from World Bank, 2018

5.4 Bilateral, sub-regional and regional co-operation of South Asian countries

South Asia is one of the least integrated regions in the world - intraregional trade accounts for less than 5 per cent of global total trade (Kathuria, 2018). Although a number of regional, sub-regional and bilateral agreements are currently in existence, their impact in terms of harnessing the intra-regional trade has been rather limited. (ADB, 2013). Regional trade and connectivity arrangements involving South Asian countries include SAFTA, BIMSTEC FTA (under negotiation), BBIN Economic Cooperation (under discussion) and BCIM Economic Corridor (under consultation). On the other hand, bilateral trade agreements include Indo-Sri Lanka Agreement and Economic and Technical Cooperation Agreement (ETCA), India-Nepal Treaty of Trade, India-Bhutan Trade and Transit Agreement and Bangladesh-Bhutan Preferential Trade Agreement etc. India has bilateral agreements with a number of non-South Asian countries which include ASEAN-India Free Trade Area (AIFTA), EU-India FTA (negotiation has been relaunched recently) and India - MERCUSOR Preferential Trade Agreement etc.

The most important among the above is the South Asia Free Trade Area (SAFTA). However, the agreement could not reach its potentials due to the long negative list and NTMs in place in partner

countries and lack of development of intra-regional value chains. Other than India, intra-regional trade between South Asian member countries continues to remain at a very low level. NTMs in the form of documentation requirements, imposition of anti-dumping duties (ADDs) and Countervailing Duties (CVDs), certification and SPS requirements etc. are some of the oft-cited barriers. The logistic performance index prepared by World Bank indicates that South Asia's logistic performance is very poor compared to those of its member countries. Since a large part of trade takes place through land customs stations (LCS), under development of these and lack of integrated customs stations, single windows, interoperability of systems, absence of electronic data exchange and absence of Mutual Recognition Agreements (MRAs) concerning standards were against deepening of regional and sub-regional trade agreements and value chains. A welcome development is in recent times a number of initiatives are being taken to deepen sub-regional connectivity and to put in place integrated LCSs

A number of bilateral trade agreements are currently in operation between pairs of South Asian countries. These include Indo-Sri Lanka Free Trade Agreement signed in 1998 (later graduated to ETCA), Pakistan-Sri Lanka free trade agreement signed in 2002, Bhutan-India free trade agreement signed in 2006, India- Afghanistan preferential trade agreement signed in 2003, India–Bangladesh bilateral trade agreement signed in 2006, India - Nepal treaty of trade signed in 1991. A major objective of these initiatives is to enhance bilateral trade mostly between India and its neighboring countries. However, effectiveness of these initiatives, in absence of supportive actions in area of deepening investment cooperation and dismantling NTMs, have proved to be rather limited.

Five South Asian countries are also part of BIMSTEC FTA. However, the negotiations are dragging on for many years. The draft regional connectivity of BIMSTEC countries has long been waiting for approval. BBIN Motor Vehicle, an important initiative is yet to be fully operationalized although the standard operating procedure (SOPs) have been finalized in recent times

Given the poor state physical connectivity, South Asian countries have not been able to realise the potential advantages of low logistic costs. Indeed, South Asia is lagging far behind the needs of developing regional and sub-regional value chains in T&G through triangulation of trade, transport and investment connectivity.

A number of South Asian countries are part of various bilateral and regional agreements that include countries outside of the region. These include Asia Pacific Trade Agreements (APTA), India-ASEAN FTA and India- EU FTA (negotiations have been relaunched). However APTA and India-ASEAN FTA has limited implications for the T&G sector of South Asia. For example, APTA is a preferential market arrangement which include Bangladesh, China, India, Republic of Korea Lao PDR and Sri Lanka as members. The rules of origin followed by APTA is 35 per cent domestic value addition for LDCs. and 45 per cent for non-LDCs. The high ROO requirement discourages taking advantage of preferential tariffs. Similarly, India-ASEAN FTA is constrained by the absence of T&G items in the preferential product list. Bajaj and Sharma (2016) have argued that there is a strong prospect of rising bilateral trade of T&G items between India and ASEAN

countries such as with Cambodia, Philippines, Vietnam and Myanmar if the items of the FTA is suitably amended.

However, India could make significant gains from the proposed EU-India FTA which will include T&G products in the preferential product list. However agreement could have adverse implications for other South Asian countries which are largely dependent on EU market. EU is a key market of these items for Bangladesh, Sri Lanka Pakistan and Nepal. This is particularly so in view of the prospects of graduating LDCs losing preferential market access in the EU. India which was initially party to the RCEP negotiations decided to withdraw from the negotiation; however, the door has been kept open for India to join the agreement. In other words, a number of ongoing bilateral trade negotiations, particularly with participation of India could potentially confront other T&G exporting South Asian countries with new challenges.

As was noted in the previous section, China and Vietnam are two major textiles and apparel exporters of Asia which compete with South Asian countries. Both are members of a number regional and bilateral agreements with consequences for South Asian countries. Vietnam and China have been members of ASEAN and ASEAN-plus-three members of FTA agreements. They have enjoyed preferential market access as also reaped benefits of low cost supply of raw materials within the region. The recently-signed of Regional Comprehensive Economic Partnership Agreement (RCEP), which is a common market, will provide these countries the opportunity to enjoy duty-free access in markets of rest of the countries of this 15 economy grouping. RCEP members are Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. This is a huge market. RCEP will allow preferential access not only to traditional competitors such as China and Vietnam but also to other T&G exporting countries such as Cambodia, Indonesia and Myanmar. Beside EU-Vietnam bilateral trade which was signed in 2019 would provide an added advantage to Vietnam over competing countries, particularly in T&G products, when these are included in the preferential product list in next five to seven years. Besides, Vietnam has signed FTA with UK which also gives it advantage over its South Asian counterparts. As is known, Vietnam is also a member of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) Agreement. Similarly, Vietnam's FTA with Mercosur countries was also likely to have implications for South Asia's prospective export to the region.

In view of the emerging scenario of regional groupings, South Asian countries are likely to be confronting increasing competitive pressure originally from both within the region as also beyond. While India, with its moves to forge closer cooperation with RTAs beyond region (e.g. EU, ASEAN) will be in an advantageous position, other countries of South Asian region will be facing major challenges in the form of reduced FDI and high tariffs. In view of this, they will need to pursue aggressive trade cooperation policies that promote FTAs and CEPAs, in partnership with countries both within the South Asian region and those outside the region, particularly in South East Asia and East Asia.

6. Issues of South Asia's T&G Sector with respect to Labor, Competitiveness, Investment, Technology and Value Addition

6.1 State of technology and skills development of South Asian countries

South Asian countries are still at the low levels in terms of technological readiness (Table 19). According to the Global Competitiveness Report 2017 and 2019, majority of the South Asian countries are below the average level in terms of technological readiness. Among these, Sri Lanka is ahead of other South Asian countries with respect of critical indicators, including ICT adoption, skills of current work force and skills of future work force. The other country which is at moderate level is India. In terms of technology and ICT related indicators, Bangladesh is the weakest performer. Among South Asia's competing countries China is way ahead of South Asian countries in all technology and ICT related indicators. The performance of Vietnam is, on the other hand, at the moderate level. China's better readiness will enable it to reap benefits in the form of innovative practices and T&G products that have high embedded technology endowment. As is known there is currently a trend of increasing technology-intensive production processes in T&G industry; many of these are based on 4IR and labour-displacing practices. Barring India and Sri Lanka, other T&G exporting countries of the region may be at a disadvantageous state if appropriate actions are not pursued, keeping the changing scenario in the perspective.

Table 19: Technological Readiness and ICT Preparedness of South Asian Countries

Country	Technological readiness, 2017 (out of 7)	ICT adoption, 2019 (out of 100)	Skill of current work force, 2019 (out of 100)	Skill of future work force, 2019 (out of 100)	Entrepreneurial culture, 2019 (out of 100)
Bangladesh	2.8	39.1	41.0	40.7	43.1
India	3.1	32.1	52.9	40.3	55.5
Pakistan	3.0	25.2	52.2	29.8	51.5
Nepal	2.8	38.6	43.9	54.3	44.7
Sri Lanka	3.2	40.3	54.3	58.0	50.8
China	4.2	78.5	59.4	69.8	57.0
Vietnam	4.0	69.0	46.0	54.4	50.4

Source: Compiled from the World Economic Forum, 2019

True, to address the weaknesses in terms of ICT readiness, South Asian countries are at present taking various initiatives, both at the level of public and private sectors. The initiatives are aimed at reducing the skills gap and availing business opportunities by taking advantage of the 4IR and new technologies. Gains in terms of competitiveness in T&G sector will hinge on skills upgradation, efficiency gains and capacity to raise quality and design of the apparel items. A number of country-specific programme is worth mentioning in this context. India has launched a programme which aims at providing skills training to more than 400 million Indians over the next

seven years (Agence France Presse, 2015)[9]. Bangladesh is pursuing multi-pronged skill building approaches involving various government agencies, private institutions and enterprises. Some of the major initiatives in this connection include setting up of the Centre of Excellence for Bangladesh Apparel Industries (CEBAI) and launching of the Bangladesh Skills for Employment and Productivity (B-SEP) project etc. (Sabbir Rahman, 2020) Sri Lanka has established training institutes which are operating under different ministries and also being implemented by several private institutions.

Major competing countries such as China and Vietnam have been focusing on skills development of labour force by taking a diverse range of measures. For example VET system undertaken by China aims to strengthen its manufacturing sector is geared to relocating workers from other sectors, primarily agricultural sector to the manufacturing sector, by imparting training. Many training centers have been set up near the RMG clusters. Vietnam is providing Bilateral Government Training as part of the goal to developing a modernized industrial set-up and is imparting training and skills in collaboration with brands/retailers (Rahman S. , 2019). As part of implementing its 13th five-year plan, (2016 to 2020). China has strategically moved towards more value adding and tech-intensive production. The plan envisages maintaining market share for traditional products and at the same time raise the share of the high value added products. Thanks to high foreign investment and joint ventures, which bring along technical know-how and expertise, Vietnam has been able to grow and diversify its T&G exports significantly. Supportive government policies have provided added advantage for the development of friendly textile ecosystem and infrastructure in the country. These have helped Vietnam to reposition itself as a major global T&G powerhouse in recent years, with implications and signal for South Asian exporters of T&G.

6.2 Labour Productivity in South Asia

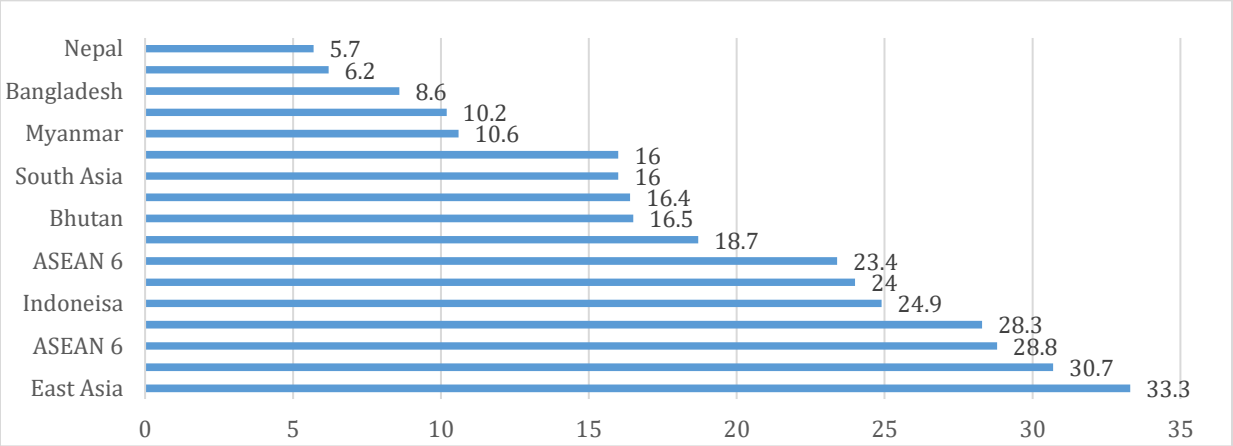
South Asia is one of the least productive regions as far as manufacturing was concerned (Matthias Helble, 2019). Except Sri Lanka, none of the South Asian countries have productivity similar to the level of the competing countries in Asia (Figure 2).[10] Relatively high levels of labour productivity is observed in case of Pakistan followed by India. In contrast, Bangladesh ranks lowest in terms of labour productivity when compared to South Asian and Asian apparels exporting countries. The significant difference in labour productivity among South Asian countries are mainly attributable to differences in skills and technology endowment and the resultant efficiency. Higher quality of products is reflected in better export price, that products can fetch thanks to capital-intensiveness of different production process and higher skills of workers. These have important implications for cost of production (Magdalena Kapelko, 2014). Bangladesh which is overwhelmingly dependent on low-end and bulk scale export of apparels, use more labour-intensive production processes and technologies; the labour productivity is, as a result relatively,

[9] The scheme is said to utilize the existing network of around 12,000 industrial training institutes along with decommissioned railway carriages, containers as mobile-makeshift classrooms for remote areas.

[10] Labour productivity measured in terms of output per unit of labour in the manufacturing sector indicates that However, the data period is not same and data of some countries are dated.

low. On the other hand, countries such as Sri Lanka, Pakistan and India export textiles items along with garments. These are relatively high-value products and require capital-intensive technologies and the productivity level tends to be higher. (OECD, 2013).

Figure 2: Per Worker Labor Productivity (Thousand US Dollar)



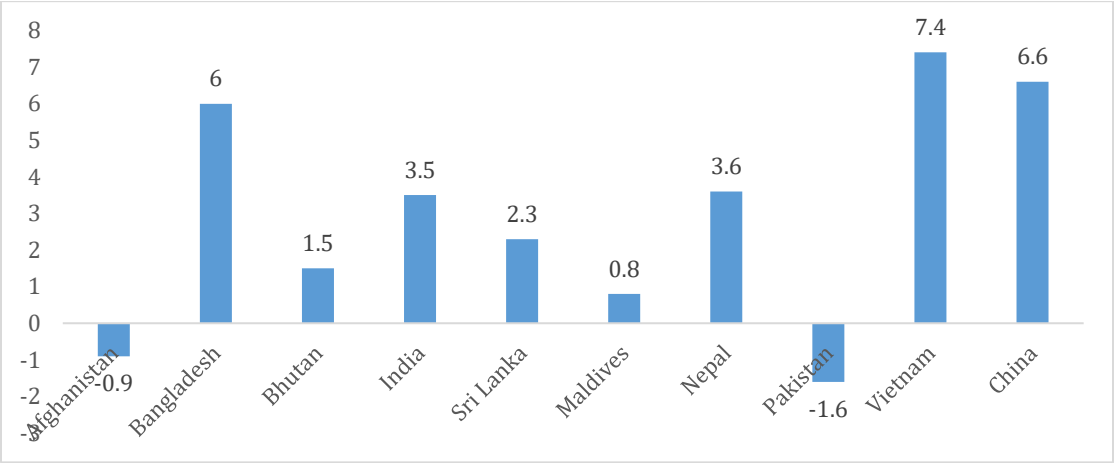
Source: ILO, 2015

South Asia, however, is lagging behind in terms of labour productivity when compared to non-South Asian T&G exporting countries (Takahiro Fukunishi, 2013). The labour productivity of China is higher than most of the South Asian countries except Sri Lanka. Similarly productivity of Vietnam is higher than Bangladesh but lower than other countries. Labour Productivity in China is much higher compared to those of South Asian countries. According to Asian Productivity Organisation (APO), which has reported average output per worker as labour productivity for 2016, the productivity in Sri Lanka is the highest among the T&G exporting countries of Asia (US$30700 in 2016) followed by China (US$24000), Pakistan (US$16400), India (US$16000), Vietnam (US$10200), Bangladesh (US$8600), Cambodia (US$6200) and Nepal (US$5700). In recent years, the scenario may have changed for better for East and South-East Asian countries. A major reason behind higher productivity of countries in these regions is that they were able to diversify product composition which is a mix of high, medium, and low-end products. Availability of modern technologies and higher skill of workers have been the underlying factors driving this preference. With the revealed differences in labour productivity, it will be difficult for South Asian countries to compete with countries in South East and East Asia particularly in similar product basket.

Growth of labour productivity of South Asian countries tend to vary across countries (Figure 3). According to the ILO (2019), the highest level of productivity growth is observed in Bangladesh (6.0% p.a.) followed by India (3.5 p.a.) Sri Lanka (2.3 p.a.). Some South Asian countries have even experienced a negative growth. Pakistan (-1.6 p.a.) and Afghanistan (-0.6 p.a.). In other words, Bangladesh has been trying to catch up with other South Asian Countries by enhancing productivity through introduction of more capital-intensive machineries in production of value-added products. But till now this has only been as a limited scale. In contrast, China and Vietnam

have maintained a higher rate of growth (6.6 and 7.4 p.a. respectively) which has further widened the productivity gap with South Asian countries, with consequent implications for competitive strengths.

Figure 3: Annual Growth Rate of Output Per Worker, 2019



Source ILO Data Explorer

Given the technological changes expected as part of the fourth industrial revolution, South Asian countries are likely to be confronted with major challenge. Since most workers are low-skilled, without imparting necessary skills and withstand expanding the technological base, the shift in product-base to medium and high tech products will be highly difficult. Sri Lanka, as was pointed out, has some advantages and Pakistan and India are likely to take advantage of capital-intensive textiles sector. However, as far as competitors such as China and Vietnam were concerned, T&G exporting South Asian countries have a lot to catch up. A forward-looking strategy will be required to reduce the already emergent gaps in this connection.

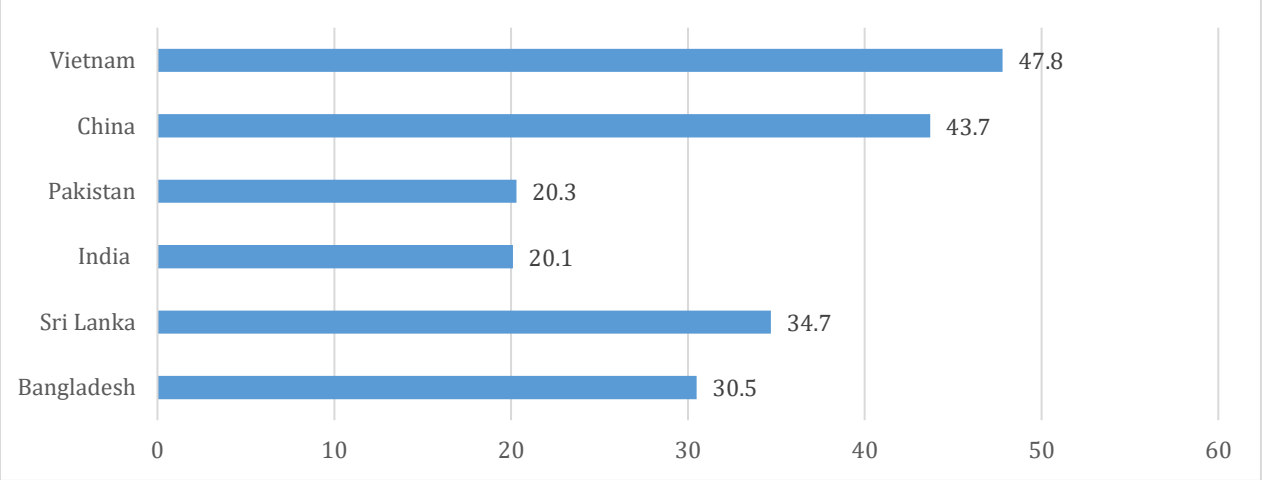
6.3 Female employment in T&G sector of South Asia

T&G sector has made significant contribution in generating employment in labour-abundant economies of South Asia. Female empowerment in South Asia has made special significant progress thanks to enhancing employment opportunities for woman (Lopez Acevedo, 2016). Female employment dominates the employment distribution in South Asia's labor-intensive T&G sector. According to the Reuters, 2016; the female participation in the T&G sector is relatively high in Sri Lanka (71%) followed by India (35%) and Bangladesh (34%). However, various studies also show that female workers in general receive only limited opportunity to gain from basic and specialised training. Indeed, they fall behind their male cohorts significantly (Moazzem, 2018). Female workers are found to work in production process that require limited specialsed skill such as garments sector. Social structure and workplace environment in South Asia are often not supportive of female labour force participation – social stigma, family responsibilities, lack of female friendly working environment and incidences of sexual and occupational harassment work against greater participation of women. No wonder, female labour force participation in South Asia is the lowest in the world (about 32 per cent) and is about half of that in East Asia (62 per

cent) (Chandran, 2016) (Figure 4). While in T&G sector's record is better than other sectors in this regard, lack of opportunities in the form of skills and technological endowments may reduce woman's labor force participation in the T&G sector in future.

The structure and composition of workforce in the garments sector of South Asia have experienced gradual changes due to economic upgrading as also technological changes in different operations and activities. Production processes involving different activities are becoming more capital-intensive, these demand a better-skilled work force in the production processes. Because of limited technological knowledge (owing to lack of adequate opportunities), female labour force participation has been on the decline in a number of South Asian countries. The share of female workers in the Bangladesh garments sector has declined from erstwhile 80-90 percent to 65 per cent in 2015 (Moazzem, 2017) and further in recent years to 53.4 per cent in 2018 (Newage, 2020). In India as well female labour force participation in the T&G sector has been on a declining (LSE blogs, 2017). Given the rise in labour productivity which is induced by technological upgradation, female employment is likely to decline further in the coming years. Moreover, technological upgradation based on fourth industrial revolution is likely to have even more stuck and adverse impact on female employment in the T&G sector in the future. In other words, female employment and female empowerment could both suffer as a result of technological changes, unless targeted effects are made to open up opportunities for women in the backdrop of the evolving technological scenario in the T&G sector.

Figure 4: Female Labour Force Participation (Percentage)



Source: laborrightsindex.org

6.4 Workplace safety

Compliance with the international standards to ensure work place safety and security has emerged as a concern in the T&G sectors of South Asia (Abdur Rakib, 2015). Industrial accidents in the T&G sector which caused deaths of many workers, every year, has become a major concern for many South Asian countries. Female workers working in the garments factories are the main victims of these accidents (Humayun Kabir, 2018). For example, the Rana Plaza tragedy of

Bangladesh in 2013, causing death of over 1100 workers, is a reflection of weak workplace safety in South Asian countries. Rapid expansion of the industry within a short period of time had led establishing factories without maintaining proper building standards and compliances in case of equipment, building facilities and building materials etc. as also fire and electrical safety. Early warnings were given as regards to weak logistics and monitoring capacity of public monitoring agencies. These, are also responsible for weak workplace safety and security in South Asia (Al-Wreidat, 2012). As a matter of fact, better monitoring by brands and buyers under their code of conduct (CoC) could have lowered the risks. However, traditionally brands and buyers have not given the importance to compliance assurance issues. While Bangladesh has taken many measures following the Rana Plaza tragedy as part of National Initiative under an agreement with the European Union, USA, Canada and the ILO which is called 'Sustainability Compact'; much more will need to be done in this respect. Indeed, South Asian countries should look at compliance assurance as an ongoing process. Workplace safety is better maintained in the competing countries of South Asia – Vietnam and China. However, workers' rights issues remain a concern across all these countries. South Asian countries weak record in terms of these factors will undermine its ability to attract brands and buyers who work for high value consumers (ILO, 2016).

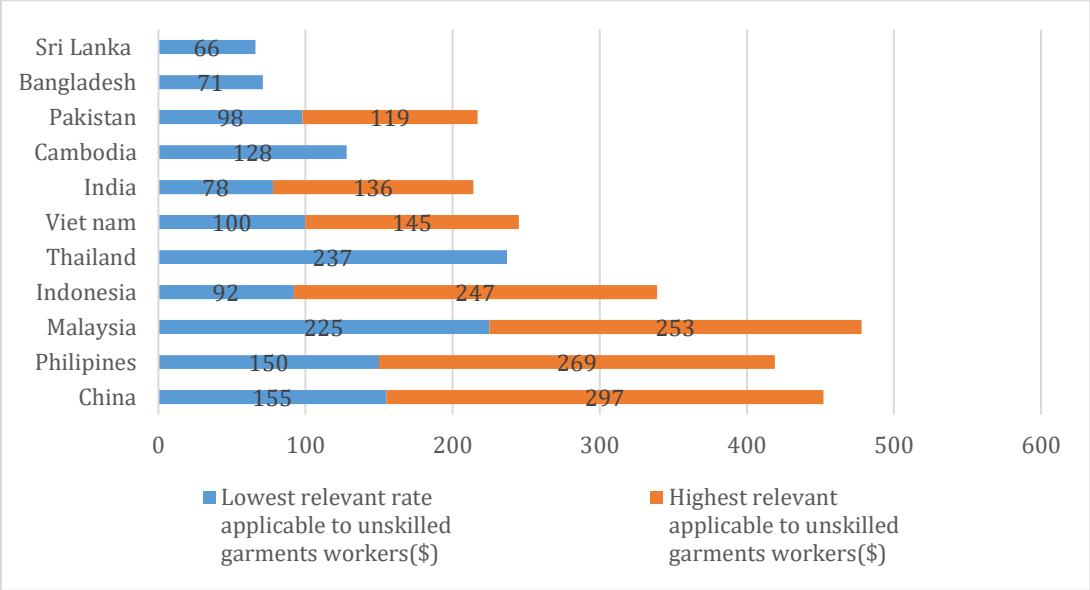
During the COVID pandemic, ensuring workers health and safety was confronted with major challenges. Given the weak compliance of many garments enterprises, workers were vulnerable and highly affected by the pandemic and the corona virus. A disproportionate impact was observed in this backdrop. Workers in Sri Lanka were better protected because of following strict compliance in factories and better awareness among workers. Workers in Bangladesh were adversely affected more due to weak enforcement of compliance in factories. However, official records provide only scant information about workers' covid-related illness. Since China and Vietnam are the countries which were able to contain the spread of virus much early and number of contamination is much less, both the counties reaped the advantage of higher work orders from the major brands and buyers supplying to key markets. Unless South Asian countries are able to successfully contain the virus, competing countries such as China and Vietnam are likely to be at advantageous position and will be able to further consolidate their market power.

6.5 Minimum wage in South Asian countries

South Asian countries are paying lower minimum wage compared to that of their competing Asian countries (Figure 5). The minimum wages in the garments sector of South Asian countries tend to vary widely, between as low as US$95 in Bangladesh to as high as US$136 in India. In contrast, the minimum wage in non-South Asian countries are higher: US$297 in China, US$247 in Indonesia and US$145 in Vietnam. Varying minimum wages in T&G sector of exporting countries is associated with a number of factors including – (a) institutional setting to fix minimum wages; (b) differences in labour productivity; (c) product composition; (d) level of economic development and standard of living; (e) wage structure in other comparable sectors within the country etc. (Grimshaw, 2016). With the needed technological changes and rise in productivity, the sector will require more skilled workers. This is likely to push wages up. Suppliers of South Asian countries are part of different buyer-led platforms which aim at providing better wage and better

facilities to workers in the garment factories particularly under the initiative of 'living wage' initiative for RMG workers. However, despite the many discussions, at different levels, living wage and decent wage discourse is yet to attract traction, let alone to be enforced. However, it is conceivable that market forces and government policies will induce raising of minimum wages in the T&G sector. The rise in wages will need to be accommodated through enhancement of productivity. Although the minimum wages in China and Vietnam are higher than most of the South Asian countries, those have been adjusted through higher productivity and better technological orientation in manufacturing activities. South Asia will likely be compelled to follow similar pattern in the coming days.

Figure 5: Monthly minimum wage in garments industry (as of 1 January 2015)



Source: Compiled from ILO (2015)

6.6 Ensuring workers' rights in South Asian countries

Ensuring worker rights at the enterprise level could play an important role in ensuring labour related compliances in the workplace. The labour right index (LRI) developed by Wage Indicator Foundation (WIF) measures the performance of factories in ensuring workers' rights and their wellbeing (Table 20). The index comprises of indicators related to fair wages, decent working hours, employment security, safe work, social security, fair treatment, child labour, trade union, family responsibilities and maternity facilities at work. According to the LRI, South Asian countries are at a different levels as regards ensuring workers' rights – India performs better in this regard, followed by Sri Lanka and Bangladesh. In contrast, competing countries such as Vietnam and China are well ahead in maintaining workers' rights perhaps because of better monitoring and governance. Since consumers are becoming more sensitive about workers' rights and workplace

safety, better record is this area is likely to become a factor of competitive strength in future as far as T&G market is concerned.

Table 20: LRI (Labour Rights Index) of Selected Asian Countries

Country	LRI (labor rights index)	Remarks
Bangladesh	0-50	Total lack of decent work
Sri Lanka	0-50	Total lack of decent work
India	60.5-70	Limited access to decent work
Pakistan	50.5-60	Basic access to decent work
China	70.5-80	Reasonable access to decent work
Vietnam	60.5-70	Limited access to decent work

Source: Based on the Wage Indicator Foundation, 2020

Labour rights issues will be more important in the coming years when South Asian LDCs including Bangladesh, Bhutan and Nepal will be graduated from the LDC group. As a developing country, the pressure to comply with related issues will become more demanding. EU is already pushing pressure in these areas. Preferential market access under GSP plus facility will call for upgradation of legal, institutional and operational status concerning human and labour rights. This is more relevant for Bangladesh and Nepal. These countries need to ratify a number of ILO conventions such as minimum age convention by Bangladesh and workers' rights to form trade union in the export processing zones (EPZs) in Bangladesh. A study on South Asian textile and value chain have shown that Trade unions are often suppressed, and union organisers intimidated, including subjecting them to physical abuse (ILO, 2014). Workers also claim that some managers mistreat employees who are engaged in setting up unions; some have indeed been forced to resign. Some also claim they have been beaten up, sometimes by local hoodlums who attack workers outside the workplace, and even at their homes, at the behest of some owners (Pauline Overeem, 2013). The number of trade unions in T&G sector is very low in number of South Asian countries. In the coming years, workers' right to organise and collective bargaining will be very important as brands and buyers come under increasing pressure from active consumer groups and also governments of buying countries.

7. Competitive Pressure Facing South Asia's T&G Sector owing to Emerging Challenges

The analysis in the preceding section has focused on the advantages and disadvantages facing South Asian countries in the global T&G sector value chain. Several factors are likely to accentuate the challenges in the coming years. These relate to changing trade regime, changing status of LDCs in South Asia, technological changes, changing marketing practices, compliance pressure and post-COVID emerging pressure. South Asian countries do enjoy comparative advantage in a specific segment of the T&G market – cotton-based, low-end, mass-scale products that are relatively less diversified, with limited opening in mid to high value product market. South East and East Asian apparel producing countries, particularly China and Vietnam, have specialised in

the upper segment of the value chain in low-medium-high value products, cotton and non-cotton-based products based on networking strength with high-end brands and retailers. South Asia's LDCs have been able to take advantages of the preferential market access in major markets. On the other hand, South East and East Asian countries have enjoyed the benefit of preferential market access as part of regional and bilateral FTAs. As the analysis has revealed, the countries of the two regions compete in common set of items as also in differentiated market segments. However, the largely differentiated product baskets of South Asia vis-a-vis South East Asia has helped South Asian countries to remain competitive although they tend to lag behind in a number of areas of competitiveness. As the analysis shows, these include low productivity, low level of social compliances, low technological base, poor logistics, limited level of development in product upgrading and limited exposure to digital/online based marketing etc. Most importantly, these weaknesses would be further aggravated. What is important, is to keep in mind that these gaps would become binding constraints in the development of T&G sector in future in view of the changing competitiveness scenario.

As was pointed out, South Asian countries have been confronting challenges in number of areas. These include – (a) rising market competition; (b) challenges of product diversification; (c) rising e-commerce and digital platform; (d) Pressure on South Asian LDCs for graduation from the LDCs; (e) Impact of COVID-19 pandemic. Each of the above-mentioned issues have multi-dimensional impact and implications for the status of the competitive strength of the T&G sector of South Asia. Given variation in the structure, composition and legal and institutional settings, the impacts are not likely to be the same for each of the regional countries. Hence, the policy intervention and policy instruments to address the emerging challenges will have to be calibrated accordingly, based on country-specific policy space, institutional arrangement with membership in RTA's, perspectives on future development of the sector and level of engagement with other players of the global value chain including with trade unions, brands/buyers, international organisations and sourcing countries. While some of the challenges are exclusively to be dealt with at the domestic level, others will need to be dealt with at the global value chain level and others still need to be dealt with at the regional level. The emerging challenges will need to be addressed through medium to long term policy strategies, keeping the interests of competitiveness and the stakeholders involved at the center of such strategies.

7.1 Pressure on competitive strength owing to rising market competition

A major strength of South Asia's competitiveness in T&G originates from preferential market access. This is particularly so for LDCs (Bangladesh, Nepal, Bhutan and Afghanistan) and also developing countries such as Pakistan and partially for Sri Lanka (in the European market thanks to GSP plus). With gradual preference erosion in major markets in the face of declining of MFN tariffs in major developed countries, signing of bilateral FTAs with competing countries (Vietnam's FTA with EU), the margin of traditional advantage have been on the decline. LDC graduation and the consequent lack of preferences will further accentuate the challenges facing T&G exporting LDCs of the region. Cost of production in South Asia has been rising in tandem

with rising wages, with pressure on profitability. Moreover, a number of Asian and African countries have been developing their production base, mention may be made of Myanmar, Ethiopia, on the low-end segment of the value chain. South Asian countries are likely to face increasing competitive pressure in their traditional market segment. South Asian countries will need to make a crucial transition from preferential market access based competiveness to productivity and efficiency based competitiveness in the coming years.

High tariff and non-tariff barriers, weak logistics, lack of technological readiness and weak labour and social compliances will put further pressure on the South Asian countries. True, South Asia exporters do have the advantage of low labour cost and capacity to produce bulk-scale and differentiated products low and medium end products. They have also developed strong networking with brands and buyers of related products. However, the nature of competitiveness scenario are changing and South Asian countries will need to gradually adjust to the emerging scenario. Fairly this, not only will it have adverse impacts in the form of job losses and export earnings, but also the implications for female labour force will be disproportionately high.

7.2 Pressure on competitiveness owing to weaknesses in product diversification

South Asia is by and large competitive in manufacturing cotton-based textiles and apparels products. There are two categories of countries - (a) countries exporting both T&G (i.e. India and Pakistan); (b) countries exporting primarily garments (Nepal, Bangladesh[11] and Sri Lanka); and (c) countries that exclusively exports garments. This advantage is likely to be reduced in the coming years as there is a rising demand for non-cotton-based apparels across the world as against cotton-based ones. The region is not ready to cater to the emerging global demand for non-cotton textiles and apparels products. . As a result, even if South Asian countries remain competitive it will be in a declining market with shrinking export value. The limited exposure to non-cotton-based apparel market that South Asian countries have is primarily based on imported yarn and man-made fabric. Lack of needed infrastructure along with lack of logistics, trade facilitation and dismally low investment in research and development that hinders product upgrading are main challenges for product diversification (Abdur Rakib, 2015). Another challenge facing for the South Asian countries is lack of skilled labour force as education and skill formation is essential prerequisites for creativity and innovation. (Kashif Munir, 2018). In contrast, a number of major competing counties including China and Vietnam have a strong base for the growing non-cotton T&G segment of the market. These countries are better positioned to take advantage of emerging market opportunities in the non-cotton products.

Limited product basket and product-complementarities compel the South Asian countries, to compete with each other. There is strong similarity in the product composition of countries of South Asia where majority of products are low-value mass-scale products. There are few exceptions where Sri Lanka is producing partly medium to high end products. Additionally, the export destinations of South Asia are also almost the same- primarily EU, USA, Canada with other

[11] Bangladesh has also exports about a billion dollar of home textiles.

markets of developed and developing countries accounting for small share of export. Given the changing product composition (towards rising market share of non-cotton based apparels), such semblance in product and market would further intensify the competition among existing suppliers of South Asia.

At present South Asia is not ready to cater to the emerging needs of the non-cotton fibres, yarn and fabric on a large scale. Within South Asia, India and Pakistan are major sources for cotton, cotton-yarn and cotton-fabric for South Asian apparel producers. A large part of the cotton-based raw materials are imported from non-South Asian countries including China, USA, Uzbekistan and Vietnam. In fact, China and Vietnam are major sources for non-based raw materials as well. Thus, the competitiveness of South Asian countries will hinge on developing networks which go beyond the region and across Asia and other parts of the world. In the future, linkages with countries outside the region will need to be enhanced in order to develop competitiveness in non-cotton based product market.

From a medium term perspective, regional countries need to develop niches in the value chains of products where they have comparative advantages. Market forces could induce such partnerships, but smart and strategic trade policies could facilitate this process. From the value of chain point of view, South Asian countries need to develop a sectoral cooperation framework with countries both within and outside the region supported by FTAs and CEPAs.

While South Asia's entrepreneurs have been able to make some inroads in terms of product upgrading they have lacked behind in product upgrading. Entrepreneurs will need to make substantive investment for R&D and to develop human resources for getting into, fashion and design segments of the global market, which are essential for product and functional upgrading.

7.3 Pressure on competitiveness owing to rising e-commerce and digital platform

South Asia's low level of preparedness in technological upgradation, except to some extent Sri Lanka, has been a constraining factor in integrating with digital and online based platforms in the T&G value chains. Lack of adequate infrastructure facilities has not allowed entrepreneurs to integrate with global e-commerce platforms (Chowdhury, 2019) In fact, major global online platforms prefer working with suppliers of those countries where e-commerce infrastructure are well-developed. Moreover, skill compositions for existing technologies and adaptation of future technologies are not up to the mark in most of the South Asian countries.

Given the current technological base, South Asian countries will be severely constrained in further enhancing their product and market share in view of the 4IR landscape where technology will dominate. Currently only India and Sri Lanka have a modicum of preparedness in this connection. Competing countries such as Vietnam and China are likely to take advantage of the 4IR in enhancing their productivity further. This could further widen the productivity gap with South Asian countries. Under such a situation, the cost advantage that South Asian countries currently

enjoying was likely to suffer significant erosion. It may so happen that among the South Asian countries only Sri Lanka and India will be able to take the advantage of the 4IR technology if other countries do not prepare adequately.

The brands/buyers working in the online platform are different from those of traditional market leading brands/buyers. These online buyers require fast delivery, capacity to produce diversified products of limited quantity and ask for better quality and standards etc. Without having the capacity to integrate with the online markets, South Asian suppliers will find it difficult to build strong networks with the brands/buyers who are likely to dominate future T&G market.

There is a strong apprehension that 4IR based production and online platform based marketing would further squeeze the employment opportunities in the RMG sector particularly for the low-skilled ones. Given the fact that the garments sector in South Asia is largely female worker-dominated, this changing market demand and skill requirement was likely to reduce the share of female employment in the sector.

Worker level of productivity varies across the South Asian countries – higher productivity is observed for workers in Sri Lanka, followed by India and Pakistan. A gradual rise in productivity by using of more multi-tasking machineries in the production process, could further squeeze female employment opportunities. Such a changing worker composition would affect gender equality and female empowerment in South Asian countries. On the other hand, if skills upgradation and technological innovation activities also target women, this will have a positive impact on the labour market scenario.

7.4 Pressure on competitiveness owing to graduation from the LDC group

As was noted earlier, following graduation from the LDC group over the coming years, South Asian LDCs such as Bangladesh, Bhutan and Nepal will lose their preferential market access in major developed and developing countries. The market access in the EU for the graduated LDCs will, however, continue for an additional three years. EU has a GSP plus scheme in place which graduated LDCs could apply for. However, product coverage is limited (66% of the products).[12] The ROO are also more stringent (two stage convention for RMG items).[13] However, the countries need to comply with three criteria (under the new GSP rules to be operational in July, 2023) which include, most importantly, compliance with international labour and human rights related conventions. Given the poor state of social compliances, a major overhauling will be required if the graduating LDCs are to comply with the conditionality. Both Bangladesh and Nepal need to ratify all the international conventions related to human and labour rights, Bangladesh is yet to ratify the convention of minimum age for entry in the labour market. On the other hand, Nepal has yet to ratify the convention on right to organize and collective bargaining. Bangladesh and Nepal need to focus on effective functioning of trade union related activities. Moreover, countries need

[12] The Everything but Arms (EBA) initiative for LDCs cover virtually all products.
[13] Under the EBA the ROO for RMG items require only "one stage conversion".

to report to the EU about the progress made on the labour and human rights issues every two years. Thus, both the countries need to make significant improvements in legal and institutional issues related to labour and human rights.[14]

Thus, graduating LDCs of South Asia will face major challenges both from competing countries within South Asia and outside the region in the areas of social compliance issues. Given the better social compliance states of competing countries for example Sri Lanka in the region, and China and Vietnam outside the region, graduating LDCs could lose out if energetic steps are not taken starting from now.

7.5 Pressure on competitiveness owing to growing integration of apparel exporting countries of Asia

South Asian countries are part of global T&G value chain which is linked to a number of regional and sub-regional integrated countries. The regional integration of South Asian countries under the SAFTA has not resulted in proper functioning and development of regional value chains. However, it has facilitate sourcing of raw materials and export of finished apparels but only at a limited scale. The T&G value chain of South Asian countries embraces countries outside the region including China, Vietnam and Japan in Asia and EU, USA, and Canada outside the Asian region. This involves both sourcing of raw materials and exporting of finished items. Since majority of South Asian countries are not part of the regional integration initiatives that include these countries, except India, they are not at par with the non-South Asian countries which enjoyed preferences by virtue of regional integration membership. Competing countries are getting the benefit of various regional trade agreements such as ASEAN and ASEAN plus 3; where Vietnam and China are members along with Cambodia and Myanmar. Besides, these countries will be benefitted more in the coming years through membership of a number of new bilateral and regional agreements such as EU-Vietnam FTA. A major challenge for South Asian countries is likely to originate from the recently signed regional initiative Regional Comprehensive Economic Partnership (RCEP) where Asia and Australia's major apparel exporting and importing countries are members. The RCEP include China, Japan, Australia, Vietnam, Cambodia, Myanmar and Indonesia are members providing China and Vietnam major advantages through preferential market access. Except India, none of the South Asian countries are part of any effective bilateral and regional trade agreements outside of the region. India has been enjoying limited level of benefits on account of its membership of ASEAN-India PTA and Mercosur-India PTA etc. The rise in new trade agreements with broader markets would help competing countries to get the market access on easy terms and would make the raw materials available at lower costs. Majority of South Asian countries would be deprived of such benefits undermining their competitive strength. At the same time, regional countries was likely to face more competition from countries within the region such as India after the ongoing agreements are signed. The India-EU FTA negotiations have been relaunched

[14]https://reliefweb.int/sites/reliefweb.int/files/resources/CS77%20CSN%20Report_CS4_draft%2010.pdf

recently, after several years. India at some point of time could decide to join RCEP. The disadvantages arising from all these for the left out T&G exporting countries will be very high.

7.6 Pressure on competitiveness owing to the pandemic

The covid pandemic had important implications for major redistribution of the market share in the global T&G value chain. Due to squeezed global demand, the activities across the value chain had shrunk. Covid had major adverse impacts on suppliers, their production bases and the world of work. Brands and buyers were compelled to close down many outlets, albeit temporarily and some even permanently. A section of retailers/brands went bankrupt and faced closure. As for the South Asian countries, European and American retailers, the two major buyers of apparels had cancelled orders and asked for significant discounts. These had a major impact on profitability. Some enterprises closed production, others laid off workers. Suppliers were adversely affected due to sudden cancellation of orders by the buyers by applying 'force majeure' clause. Suppliers of the Asian countries under the Sustainable Textiles of Asian Region (STAR) which includes representatives from Bangladesh, Cambodia, China, Myanmar, Pakistan and Vietnam released a joint statement urging the brands and retailers to reinstate the orders as well as to provide predictability about future possibilities of production orders. Under the changing circumstances, brands/buyers have changed their sourcing pattern through reshoring and alternate sourcing including sourcing from nearby areas etc. These developments have impacted South Asian T&G exporting countries negatively. Bangladesh and Sri Lanka are examples of this (Moazzem et al., 2021). Majority of South Asian countries have lost their market share during the pandemic period as compared to the pre-pandemic period. It is still unclear whether the changing pattern of sourcing from alternate/reshoring would continue during the post-pandemic period, although orders appears to have returned in recent times. However, suppliers are having to struggle with reduced price offered by brand and buyers. It is expected that the price scenario will improve once the consumers return back to normal economic activities.

Given the weak social safety net and social protection system in major South Asian apparel producing countries including India, Bangladesh, Sri Lanka and Pakistan, both entrepreneurs and workers were confronted with major challenges to get back to normal regime. Respective governments did come up with working capital support to help entrepreneurs and workers. EU and Germany had set up a fund to support workers who have been laid off or could be laid-off. However, the footprint of Covid is still visible. The ongoing second wave of the pandemic, with closure of factories for two weeks (in Bangladesh) is also not helping, while necessary to contain the pandemic. In contrast, suppliers and workers of China and Vietnam got the benefit of having strong social protection system in their respective countries. As the global T&G sector strives to get on to the path of recovery, these negative footprints, if not adequately addressed as part of the restructuring process, could severely undermine the competitive strengths of South Asia's T&G exporting countries.

8. Policy Recommendations

The preceding analysis clearly bear out that the competitiveness of South Asia's T&G sector will be significantly undermined consequent to the emerging challenges. South Asia's existing level of competitiveness hinges on cotton-based T&G which are low-cost and bulk-scale basic products, primarily drawing on preferential market access as for countries other than India was concerned. The analysis show that a number of factors will drive this: (a) rising market competition; (b) challenges of product diversification; (c) predominance of e-commerce and digital platform; (d) lack of regional integration (RTAs) (e) pressure on South Asian LDCs for graduation from the LDC groups; and (f) impact of COVID-19 pandemic. In view of addressing the challenges, South Asian countries will need to undertake a number of measures which concern actions at domestic, regional and global levels.

8.1 Shifting the focus of T&G sector from preferential market access-based competitiveness towards productivity and efficiency-based competitiveness

South Asian countries will need to adjust to the transition from the preferential market access-based competitiveness towards productivity and efficiency based competitiveness (Rahman, 2021). Countries need to make substantive investment in enhancing productivity both of capital and labour. This will involve significant restructuring towards process upgradation, product upgradation, technological upgradation, skills imparting and product diversification. Skills will need to be developed to deal with multi-tasking machineries which could also be labor-displacing. Since women are a major part of the workers who mostly lack the skills needed for the new technologies, both on-the-job training as well as outside the job training including pre-job training, will be required. Factories will also need to upgrade the management and efficiency of the mid-level management of the factories in order to improve total-factory level productivity. In this context, the educational qualifications and skill requirement including training requirement for workers and management staffs will need to be standardized as per international standard (Moazzem et al., 2018).

South Asian countries need to put emphasis on product diversification particularly those of non-cotton based product development. This will call for adaptation of new technology and how technological practices. In this context, foreign companies specialised on non-cotton based T&G need to be invited to invest in the T&G sector in South Asia.

8.2 Investment in product upgrading Along with process upgrading in the value chain

South Asian countries need to invest in product upgrading targeting the value added upmarket segment of the global T&G market. Along with taking advantages of the traditional cotton-based production base, countries will need to undertake significant restructuring to build the non-cotton based product base. Given the limited exposure to the upmarket, South Asian countries will need to establish network with foreign companies experienced in producing and marketing these new product categories. Investors specialising in manufacturing yarn and fabric need to be incentivized to bring FDI to South Asia. Majority of South Asian countries have been offering specific fiscal

and non-fiscal benefits to attract investment. In case of Bangladesh for example, clusters can be developed in Special Economic Zones (SEZs). To encourage local entrepreneurs to invest in diversified products, governments may consider setting up technology upgradation fund (such as in India and Bangladesh) for specific financial support for technological adaptation and innovation, particularly geared to non-cotton based T&G segments. New institutional and fiscal financial incentives will need to be designed to attract FDI, as also to promote markets of the new products. Government will need to play a proactive role in this regard.

8.3 Institutional and operational measures required towards social upgradation in graduating LDCs

Graduating LDCs of South Asia such as Bangladesh and Nepal need to undertake major initiatives to address the compliance requirements – labour and social and rights, structural, fire and electric safety. This is necessary not only to comply with requirements of buyers to avail the market access facility in the EU countries, but also as a part of good governance in managing T&G sector. This is necessary to comply with requirements of buyers. Bangladesh will need to ratify ILO core convention on worker's minimum age for entry in the labour market and Nepal will need to ratify the convention on the right to organize and collective bargaining.

As is known, consumers are becoming increasingly aware about the state of compliance along all segments of the value chain, particularly relating to the T&G sector. In absence of this South Asian exporting countries will be at a serious disadvantage. Also, to note that, governments of the buying countries are also keeping these issues under continuous monitoring. Labor rights standards are being reviewed for economic activities across all the sectors not just T&G. So the state of compliances across all sectors will need to be ensured. In this connection, suppliers will need to follow global standardised and best practices such as compliance with United Nations Guiding Principles (UNGPs) and responsible business conduct (RBC) etc. Brands, buyers and governments of sourcing countries need to cooperate in achieving the required standards. Initiative towards fair price, minimum floor price and decent and living wages should also be supported by South Asian countries.

8.4 Investment in infrastructure development digital platform for promoting e-commerce related activities

South Asian countries will need to make substantive investment in technologies, equipment and skill developing keeping in the preview of the demand of the newly emerging business practices using e-commerce and digital platforms. Managing digital based marketing will call for the new sets of skills. Government should extend credit facility and incentivize investment to promote these activities. Countries will need to upgrade their internet infrastructure (e.g. upgrade 4G to 5G) for providing better and more efficient services to the customers. Since online-based marketing call for on-time and faster delivery of products, South Asian countries will need to improve logistics significantly. Suppliers will need develop networks and buyers through various online based platforms and will need to invest significantly in developing their ICT infrastructure.

8.5 Graduating LDCs need to focus on signing FTAs and CEPAs with countries having trade potential

Graduating LDCs of South Asia including Bangladesh, Bhutan and Nepal will need to take adequate preparation during the transition period to ensure smooth graduation, with consequent implications for competitiveness, As part of this, in view of the significance these countries will need to undertake major drive to sign FTAs and CEPAs at, bilateral and regional level, particularly with countries which have potentials for enhanced preferential market access and development of value chains through FDIs. At present India in particularly advanced in this regard, but other South Asian countries will need to seriously pursue this cause as important strategy to promote that interests of T&G sector.

Within South Asia, sub-regional integration, especially by taking advantage of the ongoing initiatives will need to develop and deepen transport networks, to build T&G value chains. Indeed, improvement of connectivity both within South Asia and outside South Asia, as part of Asian highway and Belt and Road Initiative (BRI) should be leveraged to attract investment in T&G and also to harness advantage of closer cooperation initiatives such as BIMSTEC MVA, operationalization of the BBIN MVA and signing of SAARC MVA could allow South Asian countries to reduce costs of trade significantly. South Asian countries should build capacities to negotiate RTAs in a way that promotes the interests of the T&G exports. South Asian countries should take measures to reduce NTMs and go for signing mutual recognition agreements to promote hassle-free intra-regional trade in T&G inputs, intermediate products and finished outputs.

8.6 Regional suppliers should take a collective effort in addressing the post-Covid challenges

Both suppliers and the buyers had to work under significant challenges in view of the ongoing Covid pandemics. While at the beginning there was lot of tension between supplying countries and brands and buyers, it appears that an understanding has emerged that both sides will need to work in collaboration rather than confrontation. As a result, both parties have made a number of compromises in order to continue their business, to mutual benefits. With the economic recovery in key markets, South Asian supplying countries should jointly monitor the trends in pricing and sourcing pattern, by the major buyers from different countries, and try not to undercut each other. In this connection, apparel suppliers of the Asia (which formed an alliance ‘STAR’) should take joint initiatives for discussion with major alliances of brands and buyers regarding the state of orders, upcoming order situation and pricing strategies to ensure that their collective interest are safeguarded and secured.

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Annexes

Annex 1: Product Codes

610910: T-shirts, singlets and other vests of cotton, knitted or crocheted; **611120**:Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats); **621210**: Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or **…; 570110**: Carpets and other textile floor coverings, of wool or fine animal hair, knotted, whether or **…;** 520100: Cotton, neither carded nor combed; '**560290**:Felt, impregnated, coated, covered or laminated (excluding needleloom felt and stitch-bonded **…; 611610**; Gloves, mittens and mitts, impregnated, coated or covered with plastics or rubber, knitted **…; 611020**: Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted **…; 611030**: Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted **…; 620520**: Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and **…; 610510**: Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets **…; 620342**: Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding **…; 610711**: Men's or boys' underpants and briefs of cotton, knitted or crocheted; **550932**: Multiple "folded" or cabled yarn containing >= 85% acrylic or modacrylic staple fibres by weight **…; 520523**: Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear **……..; 520524**: Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear **…; 550921**: Single yarn containing >= 85% polyester staple fibres by weight (excluding sewing thread and **…; 540233**: Textured filament yarn of polyester (excluding that put up for retail sale); **610990**: T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton); **610821**:Women's or girls' briefs and panties of cotton, knitted or crocheted; **610822**: Women's or girls' briefs and panties of man-made fibres, knitted or crocheted; **620443**: Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats); **621143**: Women's or girls' tracksuits and other garments, n.e.s. of man-made fibres (excluding knitted **…; 620462**: Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding **…; 610462**: Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted **…; 540720**: Woven fabrics of strip or the like, of synthetic filament, incl. monofilament of >= 67 decitex **…; 550951**: Yarn containing predominantly, but < 85% polyester staple fibres by weight, mixed principally.

Annex 2: Product Codes

520100: Cotton, neither carded nor combed; **600632**: Dyed fabrics, knitted or crocheted, of synthetic fibres, of a width of > 30 cm (excluding warp **…; 590210**: Tyre cord fabric of high-tenacity yarn of nylon or other polyamides, whether or not dipped **…; 500200:** Raw silk (non-thrown); **510119**: Greasy wool, incl. fleece-washed wool, neither carded nor combed (excluding shorn wool); **550320**: Staple fibres of polyesters, not carded, combed or otherwise processed for spinning; **620342:** Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding **…; 540244**: Synthetic filament elastomeric yarn, single, untwisted or with a twist of <= 50 turns per metre **…; 590320**: Textile fabrics impregnated, coated, covered or laminated with polyurethane (excluding wallcoverings **…; 590390**: Textile fabrics impregnated, coated, covered or laminated with plastics other than poly"vinyl)