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What does the evolving trade landscape imply for post-LDC apparel exports from Bangladesh?

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Abstract: While graduation from LDC status poses a threat to competitiveness due to the potential loss of tariff preferences in major markets, the evolving trade landscape could offer avenues for mitigating these challenges and enhancing export competitiveness. There are possibilities that preferences might be extended post-graduation in certain instances. Furthermore, Bangladesh's significant scale as a global apparel exporter, underpinned by its extensive networks with international brands and economies of scale, distinctly positions it among its competitors. The country's current infrastructure and trade logistics present ample room for improvement, thereby offering opportunities to enhance export competitiveness. Moving up the value chain through the production of higher-value-added and man-made fibre-based apparel emerges as a strategic avenue to safeguard Bangladesh's global standing in the apparel market. Importantly, LDC graduation does not necessarily imply the cessation of all trade preferences. Therefore, proactive engagements with trading partners to secure preferential market access remain crucial. This multifaceted approach, incorporating both immediate and strategic measures, is essential for effectively navigating the post-LDC landscape.

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What does the evolving trade landscape imply for post-LDC apparel exports from Bangladesh?

I. Evolving trade landscape for garment exports

The readymade garment (RMG) sector has been the driving force behind Bangladesh's export success. From less than $2 billion in the early 1990s, clothing exports reached $47 billion in FY23, constituting a staggering 85% of the country's total merchandise export revenue. Bangladesh is now the world's second-largest apparel exporter. Along with export earnings, the sector plays a critical role in generating massive employment opportunities. Its remarkable contribution to manufacturing industrial growth, export earnings, and job creation makes it a flagship industry for Bangladesh on the international stage.

The success of Bangladesh's RMG industry can largely be attributed to the preferential market access granted by many countries under their respective Generalized System of Preferences (GSP) schemes for Least-Developed Countries (LDCs). Leveraging this preferential access and buoyed by its low labour costs, Bangladesh has become a highly competitive source of global apparel supplies. In many Western developed countries, the apparel sector has traditionally enjoyed significant tariff protection, and as such, tariff-free market access accompanied by liberal rules of origin provides a significant competitive edge from which Bangladeshi exporters have hugely benefited. Among the LDCs, Bangladesh has been the largest beneficiary of LDC-related trade preferences. The impending LDC graduation of Bangladesh, scheduled for November 2026, would result in the cessation of many LDC-related tariff preferences, potentially leading to tariffs on Bangladesh's apparel and other exports and thereby deteriorating export competitiveness. According to a study by the World Trade Organization (WTO), post-LDC graduation tariff hikes could lead to a 14% decline in Bangladesh's exports (WTO, 2020).

Conventional economic analysis posits that tariff hikes typically result in reduced exports. In real-world settings, there are also many examples of tariffs causing targeted countries' exports to fall. The most recent evidence of this comes from the U.S.-China trade war, in which the imposition of additional tariffs on Chinese exports to the United States resulted in falling Chinese supplies. Textbook theoretical constructs and case studies regularly show how tariffs can affect supplying countries' export competitiveness. The fact that tariffs matter for external competitiveness is also reflected in countries' negotiation of various free trade agreements (FTAs), as they seek to benefit from duty-free and tariff-concessional market access. Therefore, the pressure on export competitiveness due to the loss of trade preferences for Bangladesh is quite genuine.

Nevertheless, it is worth noting that the GSP systems of different countries are dynamic in nature, and the preference-granting countries regularly make periodic changes to their systems.

The European Union, for instance, has typically operated decade-long preference mechanisms, which are then subjected to review to introduce changes and refinements. The current EU GSP regime was supposed to expire in December 2023 and be replaced by a regime, the draft proposals of which were also circulated (EC 2021). However, the EU has now extended its current regime until 2027 to further review the draft proposals. The United Kingdom, on the other hand, having left the EU, introduced its own preference system—known as the Developing Countries Trading Scheme—providing more liberal market access terms for graduating LDCs, among others. There are possibilities that some other countries may also bring changes to their current preferential schemes that could provide some unanticipated benefits to Bangladesh and other graduating LDCs. Furthermore, the WTO's General Council adopted a decision at their senior officials' meeting on 23 and 24 October 2023, for the next Ministerial Council's consideration, regarding the extension of support measures by the preference-granting countries for the graduating LDCs (WTO 2023). If this is upheld by the WTO at their next Ministerial Council, during the conference scheduled to take place in Abu Dhabi in February 2024, graduating LDCs could enjoy an extended period of preferences after their graduation.

Economic models that provide quantitative estimates of potential consequences of forgone trade preferences simplify complex matters of the real world, and the derived results also depend on certain assumptions to make the analytical constructs operational (Razzaque and Rahman, 2019). However, models cannot capture everything. They help us understand the implications of the issue of interest (i.e., changes in tariffs after LDC graduation on this occasion) while assuming all other factors remain unchanged. Therefore, the quantitative exercises related to the implications arising from the loss of LDC preferences may be relevant if the provisions of market access do not change. However, we are now witnessing developments that can significantly change preferential schemes. There are also certain other inherent features of global garment trade trends that can determine the future export prospects of Bangladesh. It is therefore important to understand these dynamics to consider any policy implications.

II. Changes in preference regimes due to LDC graduation

After graduation and the extension granted by the preference-granting countries, the current GSP preferences in some major importing countries will either be revoked or replaced by a less generous scheme compared to the existing one. As things stand, the changes in LDC graduation provisions related to trade preferences are summarized in Table 1.

- In Canada, Bangladesh has been benefiting from duty-free, quota-free (DFQF) access under its Least Developed Country Tariff (LDCT) regime. After LDC graduation, Bangladesh will qualify for the General Preferential Tariff (GPT) benefits designed for non-LDC developing nations; however, its benefits are limited due to the scheme's restricted coverage of apparel (RMG) products. For instance, only 28 apparel items are included in the GPT. To be eligible for GPT rates, Bangladesh must meet the rules of origin (RoO) criteria, which specify at least a 60% value addition locally. Apart from these products, all other apparel items will face Most Favoured Nation (MFN) tariff rates (when the RoO provisions are not relevant).

Table 1: The changes in the respective countries' GSP preferences for apparel products

Markets	Post graduation preference	Post-graduation tariff rate		Remarks/Rules of Origin
		MFN Tariff	Post GSP Schemes	
Canada	Generalised Preferential Tariff (GPT) for developing countries	16.2%	11.2% (For 28 pre-specified RMG products only)	To receive duty benefits in the 28 pre-specified products, the minimum value addition requirement is 60%. Apart from these products, MFN rates will be applied to non-LDC suppliers.
China	Asia Pacific Trade Preference (APTA)	6.7%	4.4% (for 403 products from APTA beneficiaries)	The minimum value addition criteria are 45% and the regional value addition criteria 60%.
European Union	GSP+ or Standard GSP	11.5%	Under GSP+, 0% (subject to safeguard measures when exports from a recipient country is above 6% of the EU imports)	Apparel exports from Bangladesh will not get any preference due to safeguard measures and such exports will face MFN rates. Thus, no value-addition criteria are applicable.
			Standard GSP, 9.2%	
India	South Asian Free Trade Area (SAFTA)	20.0%	6.0% (for 144 RMG products only)	SAFTA covers only 144 RMG products. To obtain tariff preference, Bangladesh must fulfil a value addition of 40%.
Japan	GSP for developing country	9.0%	2.2% (for only 38 products)	Japan's GSP schemes for developing countries only includes 38 apparel products. For these products, the value addition requirement is sufficient transformation, resulting in different products under the HS4-digit tariff headings. MFN tariff rates will apply to all other products.
United Kingdom	Enhanced Preference under UK DCTS	11.5%	0.0%	UK's DCTS covers all the RMG products of their line. But, to get tariff preference, the double-stage transformation criteria must be fulfilled. That is yarn must be locally products for knitwear, and fabrics must be produced domestically for woven apparels.
United States	No preference	11.2%	-	Bangladesh's apparel products do not get any preference. Thus, value-addition requirements are not applicable.

Source: UNDP (2022) and author's compilation from various sources.

- As one of the signatories of the Asia-Pacific Trade Agreement (APTA), Bangladesh is likely to get tariff preference under this agreement for accessing the Chinese market. A total of 403 apparel products are included in this agreement, whose average tariff rate is 4.4%. In APTA, the local value-addition requirement is 45%, while the same for regionwide is 60%.

- In India, after LDC graduation, market access—as per the current provisions—will shrink significantly, as the next best preferential scheme for Bangladesh, the South Asian Free Trade Agreement (SAFA), covers only 144 apparel products for non-LDC SAFA developing countries with an average tariff of 6% as against of the corresponding MFN rate of 23%.

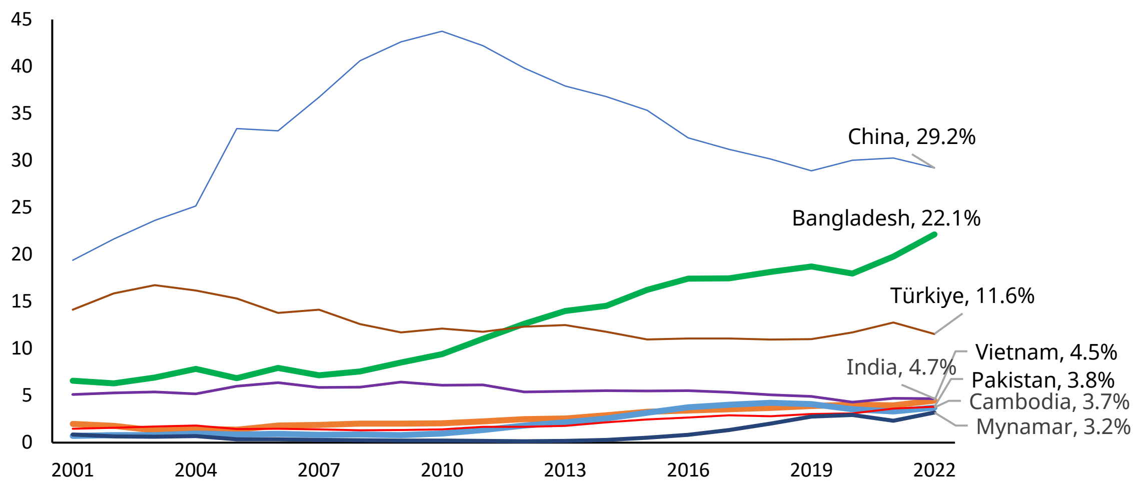
- Japan offers some GSP preference for developing countries, but Bangladesh may get minimal benefit from this scheme as the scheme for non-LDC developing countries includes 38 products only, and for these products, the average tariff rate is around 2%.

- Under the UK's Developing Countries Trading Schemes (DCTS), Bangladesh will continue getting duty-free benefits. However, RoO for apparel will change from single-stage transformation to double-stage transformation (Razzaque 2023). In the USA, Bangladesh's apparel exports don't get any preference; thus, there won't be any LDC graduation-related policy changes. Excluding the UK and the USA, Bangladesh is expected to encounter tariff increases in major export destinations.

The EU is the most important market for Bangladesh when it comes to LDC-specific preferences. After LDC graduation, Bangladesh will be able to retain all LDC-specific preferences in the EU for an additional three-year period (until November 2029). Post-graduation, it can apply for the next most liberal scheme, known as GSP+ that offers duty-free access for 66% of the EU tariff lines including apparel. To qualify for GSP+ preference graduating Bangladesh will have to meet two criteria. The vulnerability criteria stipulate that the eligible country must have a non-diversified economy defined as the country's seven largest sections of GSP-covered imports representing more than 75% in value of its total GSP-covered imports to the European Union. The sustainable development criteria, on the other hand, imply that a beneficiary country must ratify and effectively implement 32 international agreements and conventions on human rights, labour rights, environmental protection and climate change, and good governance. Bangladesh meets the vulnerability criteria and thus inclusion in GSP+ depends on complying with the pre-specified international conventions. Bangladesh has ratified most of the conventions although their effective implementation can be a subject matter of discussion.

Even if the graduating Bangladesh is included in GSP+ upon complying with the international conventions, apparel exports will likely be subject to EU safeguard measures (Article 29 of the proposed EU GSP), resulting in exclusion from any preferential treatment. Bangladesh's current apparel exports are way above the eligibility threshold as mentioned in the safeguard measures. According to the stipulated provisions, if the combined share of HS Sections 61, 62, and 63 (comprising knitwear, woven and home textile items, and defined as "product group S-11b") from a country exceeds 6% of the total EU imports of the same products, safeguard measures would be triggered to remove duty-free market access for these products. It is estimated that the combined share of Bangladesh's exports of HS Sections 61, 62, and 63 (S-11b) in total Extra-EU imports is more than 20% and is thus already above the threshold value of 6% (Figure 1).

Figure 1: Bangladesh's share in extra-EU apparel imports



Source: Author’s estimates from the EU-Comext database.

When the threshold condition is not met, it would be possible to obtain GSP preferences if Bangladesh's share of S-11b products (under GSP) as percentage of all EU GSP-covered imports of the same products were less than 37%. However, currently the corresponding Bangladesh share is estimated to be almost 50% (Razzaque 2021). All this implies that Bangladesh will benefit from GSP+ preferential access, however, its apparel items will face MFN tariff rates in the EU. That is, if the proposed rules remain unchanged, the average tariff rate on apparel exports from Bangladesh to the EU will rise from the currently zero to on average close to 12%. As a result, if the proposed GSP rules are not amended, Bangladesh would be in a unique position to qualify for GSP+ but its clothing items will be ineligible for any preference and end up paying MFN duty of around 12% against the current zero duty facilities under EBA.

Graduation would imply stricter rules of origin to benefit from any preferential access. The minimum value addition requirements for all exports, apart from apparel, will increase from the current 30% for LDCs to 50%. With a week supply side capacity, a higher domestic value-added content for non-apparel exports would pose a major challenge for Bangladesh. However, if Bangladesh’s apparel items attract safeguard measures and do not benefit from tariff preferences, there is no need to comply with RoO conditions.

III. Evolving developments that can help with improved market access prospects after LDC graduation

The GSP preference has been instrumental in ensuring economic growth and development for LDCs. A sudden withdrawal of these preferences could lead to abrupt shocks. Although major changes in international trade are usually undertaken in a phased manner, allowing affected countries to shield from drastic implications overnight and to implement adjustment measures. For example, the abolition of the Multifibre Arrangement (MFA) quotas was phased over a period of 10 years. However, for the withdrawal of LDC-specific preferences, such consideration was generally overlooked. Only the EU and UK explicitly allow for an additional transition period. In addition, there are precedents of LDC-specific preferences being granted even after LDC graduation. As LDC graduation gains momentum, with the scheduling for several countries (Bangladesh, Nepal, Lao PDR and Cambodia) over the next few years with Bhutan exiting the group in December 2023, the issue of an extended transition period to facilitate a smooth transition is also gaining traction.

Bangladesh along with other LDC members of the WTO pursued an extended transition period for the special and differential treatments that they enjoy. A comprehensive submission was tabled by WTO LDC Group (WT/GC/W/807/Rev.2) on 06 December 2022. The submission contained a comprehensive set of smooth transition measures covering unilateral DFQF schemes and extension of LDC-specific special provisions in the WTO and technical assistance and capacity building to support members when they leave the LDC category. In response to this, the WTO General Council adopted a decision (WT/L/1172) on 23 October 2023, "[T]o encourage those Members that graduate or remove countries from unilateral tariff or duty-free and quota free (DFQF) preference programmes reserved for least developed countries (LDCs) based on their being graduated from the UN list of LDCs, to provide a smooth and sustainable transition period for withdrawal of such preferences after the entry into force of a decision of the UN General Assembly to graduate a country from the LDC category".

The 13th WTO Ministerial Conference (MC13), held in February 2024, did not provide any further firm commitment on the extension of the duty-free market access as a follow-up on the General Council decision mentioned above. However, it has allowed graduated LDC to continue benefit from the application of the Special Procedures Involving LDCs set out in Article 24 (Due Restraint Provision) of Dispute Settlement Understanding for a period of three after the date of on which the member graduate from the LDC group. Furthermore, "A Member that graduates from the LDC category shall continue to be eligible for LDC-specific technical assistance and capacity building provided under WTO's Technical Assistance and Training Plan for a period of three years after the date on which the decision of the UN General Assembly to graduate that Member from the LDC category becomes effective.

Overall, the WTO General Council decision of 23 October 2023 stands as a non-binding commitment to consider an extended period of preferences beyond LDC graduation.

However, there are instances beyond WTO undertakings that offer an encouraging trend, suggesting that some LDC-related preferences may continue after LDC graduation.

- Canada is considering introducing a transition period for graduating LDCs to mitigate supply shocks, along with the potential inclusion of enhanced GPT+ benefits. These could extend to additional products like apparel and footwear, which currently fall outside the scope of the standard GPT. Canada has initiated a general consultation on extending preferences to apparel products for non-LDC developing countries. Indications suggest that the preconditions for accessing such preferences will depend on various factors, potentially akin to those of the EU's GSP+ scheme.
- Some countries did undertake measures to extend LDC-specific market access facilities. For example, the Maldives, which graduated from the LDC group in 2011, still enjoys LDC-specific benefits in India under a special SAFTA provision. Similarly, following Samoa's graduation from the LDC category, China extended its preferential treatment to the country.
- Preferential market access is set to continue in the Australian market.[1]
- In a significant development, the EU has deferred the adoption of its proposed GSP regulations for 2024-34. The reasons for this delay are not entirely clear. It may be due to the impending LDC graduations of several countries, prompting the EU to reconsider and potentially enhance the impact of its upcoming GSP regime. Regardless of the reasons, this deferment presents a valuable opportunity for Bangladesh to actively engage with the EU and seek improved market access. If the EU is open to relaxing its safeguard measures, allowing Bangladesh's apparel sector continued duty-free market access under GSP+, the benefits could be substantial. In fact, mitigating any negative impacts in the EU market would significantly ease Bangladesh's transition through LDC graduation.

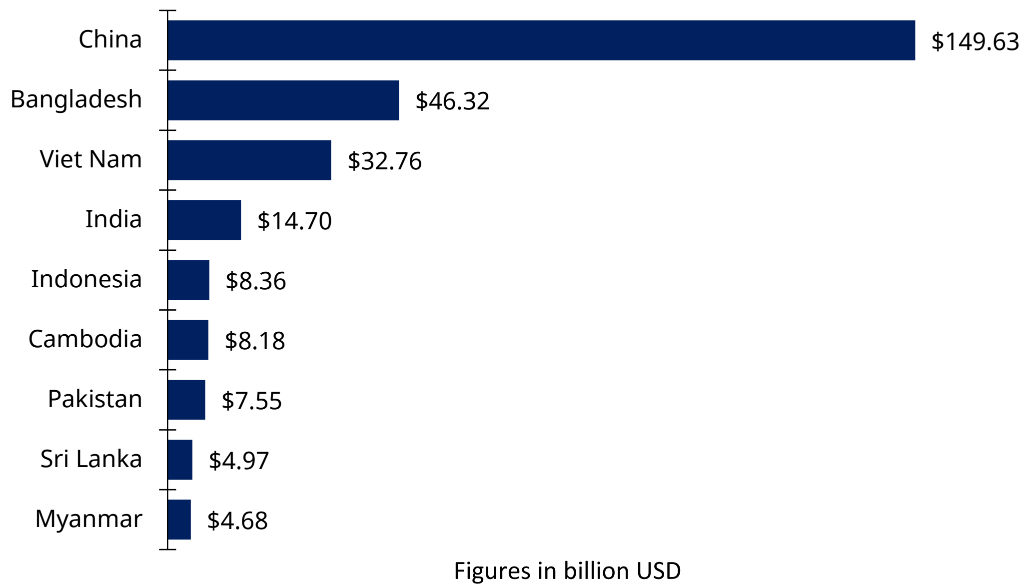
IV. Other factors to consider in assessing export prospects

There are other factors that should also be taken into consideration in examining the export prospect in post-graduation era.

(a) Replacing a large supply source is not easy: Bangladesh ranks as the second-largest apparel exporter globally, trailing only China (Figure 2). Among other countries benefiting from LDC-specific preferences, none can match Bangladesh's extensive capacity in apparel production. While nations like Vietnam, India, Indonesia, and Pakistan might offer alternative supply sources, substituting Bangladesh to a significant extent would be exceedingly challenging due to the robust supply chain network centred around Bangladesh. Furthermore, with some of the lowest prices in the industry, Bangladesh is likely to maintain its position as a stable supplier offering competitive pricing even after LDC graduation.

[1] This has been widely reported. For example, The Dhaka Tribune (1 March 2022, online version) makes the headline that "Bangladesh secures duty-free export access to Australia after LDC graduation", see https://www.dhakatribune.com/business/264718/bangladesh-secures-duty-free-export-access-to

Figure 2: Largest RMG suppliers from developing and least developed countries (US$ billion) (average of 2020-22)



Source: Author estimation using ITC trade map data.

(b) Economies of scale advantage of Bangladesh: Bangladesh's garment industry, renowned for its massive production scale, exemplifies the principle of economies of scale in action. This advantage stems from the country's ability to produce clothing in bulk, which significantly reduces the cost per unit of output. Due to the large-scale operations, manufacturers can negotiate better prices for raw materials and distribute fixed costs over a larger number of units, thereby lowering the overall production cost. Furthermore, the concentration of numerous garment factories in specific regions leads to a clustering effect, where shared resources, labour, and logistics further drive down expenses. This bulk production capability not only maximizes efficiency but also allows Bangladeshi manufacturers to offer highly competitive prices in the global market, making them a preferred choice for large international orders. The sheer volume of production reinforces the industry’s ability to maintain lower costs, ultimately benefiting from substantial economies of scale that few competitors can match.

A recent ITC study highlights that Bangladesh's top exporting products fetch lower prices compared to the global average. This pricing advantage is largely attributable to substantial bulk production, exemplified by the $8.7 billion in export earnings from cotton T-shirts in FY23. The top five products, including T-shirts, men's trousers, jerseys, girl's trousers, and non-cotton jerseys, contribute approximately 50% of RMG's export earnings, and the top 20 products account for 78% of total RMG exports. While this level of product concentration may suggest vulnerability, it also highlights Bangladesh's extensive bulk production for these items, indicating a significant competitiveness that is challenging for many other countries to replicate. Large-scale economies and bulk production also bring associated supply-side linkages and advantages.

(c) Bangladesh's dominance in cotton apparel: Bangladesh has emerged as the largest cotton apparel exporter in major importing countries such as Canada, the EU, India, and the UK. Strong backward linkages and specialisation in the cotton segment have made Bangladesh highly specialised in cotton apparel. It will be very difficult for other countries to compete with Bangladesh on these products.

(d) Potential rise in global prices due to Bangladesh's facing post-LDC tariff hikes: As a major player in the global garment industry, Bangladesh holds a pivotal position as a large supplier, significantly influencing the market dynamics. If tariffs were imposed and Bangladeshi exporters, along with their international buyers, found themselves unable to absorb these tariff hikes, the repercussions would likely reverberate across the global apparel market. The scale of Bangladesh's garment production is so extensive that any increase in costs due to tariffs could lead to a rise in global apparel prices. This scenario could inadvertently benefit Bangladesh, as the increased global prices might offset some of the financial burdens imposed by the tariffs. In essence, the country's substantial contribution to the worldwide supply of garments positions it uniquely: the cost increase caused by tariffs, instead of being solely a disadvantage, could paradoxically create a cushioning effect against the very shocks induced by these tariffs. This situation underscores the interlinked nature of global trade and highlights how the market influence of a major supplier like Bangladesh can alter pricing dynamics on a global scale.

(e) Buyers' China Plus One strategy: The adoption of the "China Plus One" strategy by many Western developed countries and their businesses, aimed at reducing dependence on China and diversifying import sources, is reshaping global supply chains (Madden, 2023). This strategic shift is driven by a desire to mitigate risks associated with over-reliance on a single country, particularly in light of recent geopolitical tensions and supply chain disruptions. As a result, China's once-dominant share in the global market is gradually declining, creating a vacuum in global apparel supplies. This evolving landscape presents a significant opportunity for Bangladesh. With its established garment industry and competitive pricing, Bangladesh is well-positioned to fill the gap created by the "China Plus One" strategy. This scenario could substantially benefit Bangladesh in retaining its critical role as a major apparel supplier, despite the potential loss of preferences associated with LDC graduation. The diversification efforts of Western companies provide a window for Bangladesh to capitalize on its existing strengths and expand its market share, thereby offsetting the challenges posed by the transition out of LDC status. In essence, the global shift towards supply chain diversification could be a silver lining for Bangladesh, enabling it to maintain and even enhance its position in the global apparel market.

V. Way forward: Preparing for LDC graduation

Despite the potential benefits from an extended transition period of preferences and other emerging factors bolstering Bangladesh's position in the global apparel market, there is no room for complacency. The forthcoming LDC graduation presents a pivotal juncture that demands concerted efforts at both the national and firm levels. National strategies should focus on enhancing infrastructure and fostering an enabling business environment, while firms must adapt and innovate to stay competitive. In navigating this transition, five issues that are highlighted below warrant utmost priority. These areas are not just important, they are crucial for ensuring that Bangladesh not only maintains its current standing in the apparel market post-LDC graduation but also leverages new opportunities for growth and resilience.

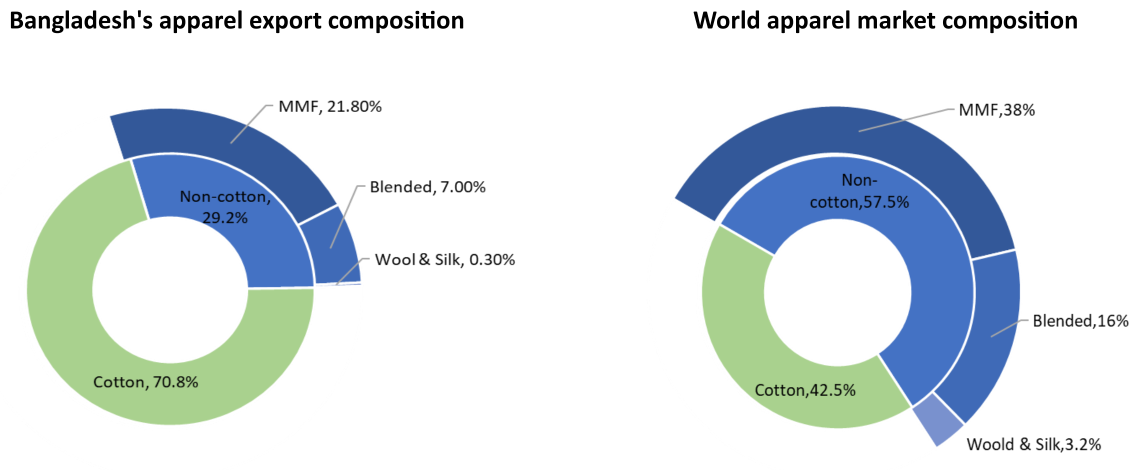
(1) LDC graduation does not mean end in preferences: Graduating from the LDC group does not imply the cessation of preferential treatment altogether. The UK's Developing Countries Trading Scheme (DCTS) will continue to provide improved market access, and proactive engagement with the EU is critical to secure similar preferences. Securing unilateral trade preferences in the post-graduation period will be essential for Bangladesh, as many competitor countries have taken advantage of FTAs in obtaining preferential market access. For instance, Vietnam has secured FTA arrangements with Canada, the EU, and the UK; Cambodia, Myanmar, and Vietnam benefit from duty-free access in India due to the ASEAN free trade agreement, and in China and Japan under the Regional Comprehensive Economic Partnership (RCEP), among others. For Bangladesh, striking FTAs within a short period of time will not be feasible. Thus, a renewed focus on retaining trade preferences will be an utmost policy priority.

(2) There is vast room for improvement in competitiveness: Unlocking Potential for Enhanced Competitiveness: A key strategy for sustaining Bangladesh's competitive edge post-LDC graduation lies in significantly improving cost efficiency. The country's logistics infrastructure and customs processes present considerable scope for enhancement. As highlighted by World Bank research, exporters in Bangladesh often grapple with excess inventory costs due to unreliable logistics, underscoring the need for a more efficient and dependable logistics framework. Prioritizing improvements in this sector, including the modernization of customs clearance procedures and digitization of duty drawback systems, can substantially reduce operational bottlenecks and costs. Moreover, by embracing technological advancements and automation, firms can achieve higher productivity and efficiency. Such steps towards improving operational efficiency not only address current inefficiencies but also position Bangladesh's firms to compete more effectively on the global stage, even in the absence of LDC-specific advantages.

(3) Moving up the value chain will be an important transformation for garment sector: The Ready-Made Garment (RMG) manufacturing value chain is multifaceted, encompassing both upstream activities like research and development (R&D), product design, branding, sales, and after-sales services, as well as downstream operations including manufacturing, cutting, making, and trimming. Currently, Bangladesh's exporters are predominantly focused on these downstream processes, which are characterized by relatively lower profit margins. To significantly boost value addition and profitability, there is a pressing need for these exporters to venture into more complex and higher-value product segments. This transition from basic to advanced manufacturing is crucial for enhancing their competitive edge. Moreover, strengthening backward linkages by developing capacities in textiles and accessories and delving into areas of product design and development is vital. Such expansion not only diversifies their capabilities but also ensures a greater portion of the value chain remains within the country, thereby increasing domestic value and reinforcing Bangladesh's position in the global apparel market.

(4) Capitalizing on the shift in global demand towards manmade fibre-based apparel products is an important priority: The global apparel market is witnessing a significant shift, with the demand for non-cotton, particularly man-made fibre (MMF) based apparel, consistently rising. This trend contrasts with Bangladesh's current export focus, which is heavily skewed towards cotton apparel. Despite non-cotton apparel constituting approximately 60% of the global trade, over 70% of Bangladesh's exports are in cotton apparel. The increasing consumer preference for MMF and blended fabrics, driven by their cost-effectiveness, sustainability, and functional attributes like water and wrinkle resistance, presents a substantial opportunity for Bangladesh. This shift is further underscored by the projected decline in China's apparel export share, opening avenues for Bangladesh to augment its market footprint in the MMF segment. Furthermore, the country's over-reliance on cotton apparel exposes it to risks associated with fluctuations in cotton production, such as environmental impacts or market volatilities. Therefore, diversifying into the burgeoning MMF and blended apparel market is not just a lucrative move but also a critical strategic decision to ensure long-term stability and growth in the global RMG sector.

Figure 3: Apparel export composition: World vis-à-vis Bangladesh



Source: Author’s estimation using the ITC Trade Map database.

(5) Enhancing market position through ESG Compliance is an important determinant of continued export success: Compliance with labour and environmental standards has become a cornerstone for the global reputation and sustainability of Bangladesh's apparel industry. As the world increasingly prioritizes ethical and responsible production, adhering to international labour laws is crucial for maintaining market access and consumer trust. This involves ensuring fair wages, safe working conditions, and the rights of workers, all of which are critical in attracting socially conscious buyers and investors. Moreover, compliance in these areas helps in mitigating risks associated with global scrutiny, as seen in past incidents that have significantly impacted Bangladesh's apparel sector. By upholding labour standards, Bangladesh not only enhances its appeal as a responsible sourcing destination but also contributes to the social welfare of its vast workforce, thereby reinforcing a more positive image on the global stage.

In tandem with labour standards, environmental compliance plays a vital role, aligning with the broader global shift towards sustainability. This aspect is encapsulated within the ESG framework, which has gained prominence among investors and consumers alike. Environmental sustainability, ranging from efficient resource use to reducing carbon footprint and waste management, is essential for Bangladesh to remain competitive in the international market. As more global brands commit to sustainable sourcing, Bangladesh's adherence to environmental regulations becomes a key determinant in securing and expanding business relationships. Embracing ESG principles not only meets the growing global demand for sustainable products but also positions Bangladesh to leverage green financing and investment opportunities. Ultimately, a strong commitment to ESG can drive long-term growth and resilience for Bangladesh's apparel sector, ensuring it remains a leading player in the face of evolving global trade dynamics.

In fine, as Bangladesh approaches its transition from a Least Developed Country (LDC) status, the apparel industry faces a pivotal moment of change and opportunity. Preparing for this graduation involves a multi-faceted strategy aimed at enhancing competitiveness, diversifying markets, and upgrading value chains. Key initiatives must include investing in technology and sustainable practices to meet global standards, fostering innovation to move up the value ladder, and exploring new markets beyond traditional destinations. Strengthening compliance with international labour and environmental standards will be crucial to maintain appeal to global buyers. Additionally, the government and industry stakeholders need to collaborate on effective policy measures to support the industry's smooth transition, such as facilitating access to finance, improving infrastructure, and fostering skill development. These efforts will not only help cushion the impact of losing preferential market access but also position Bangladesh's apparel sector for sustainable growth in the increasingly competitive global market.

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