



Rules of Origin & LDC Trade in Textiles and Apparel

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Key Takeaway

Implementing the Nairobi Declaration as written may have **unintended, adverse consequences for LDCs**. Each industry has its own nuances, but in T/A trade, in order to achieve goals of generating jobs, building industrial capacity, boosting exports, promoting competitiveness, attracting long-term investment, and encouraging sustainable social, labor and environmental practices, the structure of preferences programs vis-à-vis origin rules **must be flexible and carefully designed and implemented**.

4 Central Questions

- ① Why is the Nairobi Declaration particularly relevant in the context of textiles and apparel (T/A) trade?
- ② How can preference programs help achieve desired long term and short term development goals?
- ③ Are all LDCs created equal? (And should they be treated the same?)
- ④ How can origin rules be structured and implemented to mitigate downsides while still promoting overall near and long term goals?

1

Why is the Nairobi Declaration particularly relevant in the context of T/A trade?

- Development implications of the T/A industry – why it is relevant for LDCs
- Structure and geography of the T/A value chain and why rules of origin are important and influential
- Principal components of the Nairobi Declaration and their particular relevance to T/A trade: *(i) Transformation; (ii) Cumulation; (iii) Documentary Requirements*

1

Why is the Nairobi Declaration particularly relevant in the context of T/A trade?

Development Implications

Apparel

- Apparel manufacturing one of first manufacturing industries to enter an economy when transitioning from agriculture/raw materials based economy
- Provides lots of jobs, requires little specialized training
- Intensive female employment opportunity
- Comparatively higher wages (e.g. relative to agriculture or informal employment) added skills can add to wage potential (higher skilled needle)
- Foreign investment can be mobilized quickly
- Improved trade balances
- First “rung” on the manufacturing ladder (first step in economic upgrading)

But...

- Highly labor intensive
- Little opportunity for knowledge and skills transfer
- Potential for poor working conditions and exploitation
- Investment is highly mobile (read: Easy to move to next low cost destination)

1

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Development Implications

Textiles

- Higher-value, higher wage jobs w advanced technical training
- Opportunities for technical skills building
- Greater potential for positive spillovers (e.g. improved transportation infrastructure, power grids, etc.)
- Improved trade balances
- Requires much longer-term capital investment for ROI

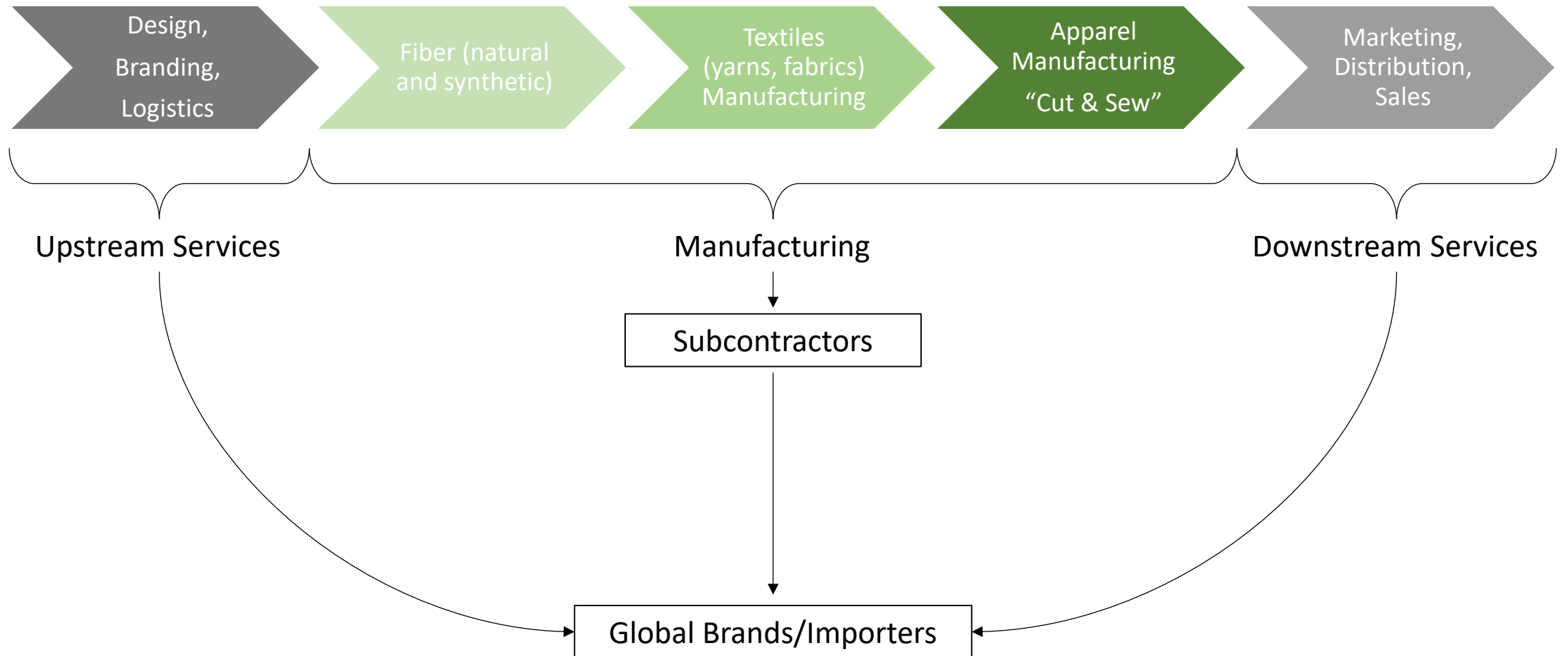
But...

- Requires greater economic, political and fiscal stability
- Demands stable provision of production inputs and energy (e.g. electricity) at a competitive price
- Often requires large amounts of water
- Requires access to shipping routes and ports
- Less labor intensive, more skills intensive – fewer jobs than apparel (highly automated and continuing to further roboticize)
- Less likely to be suitable for LDCs

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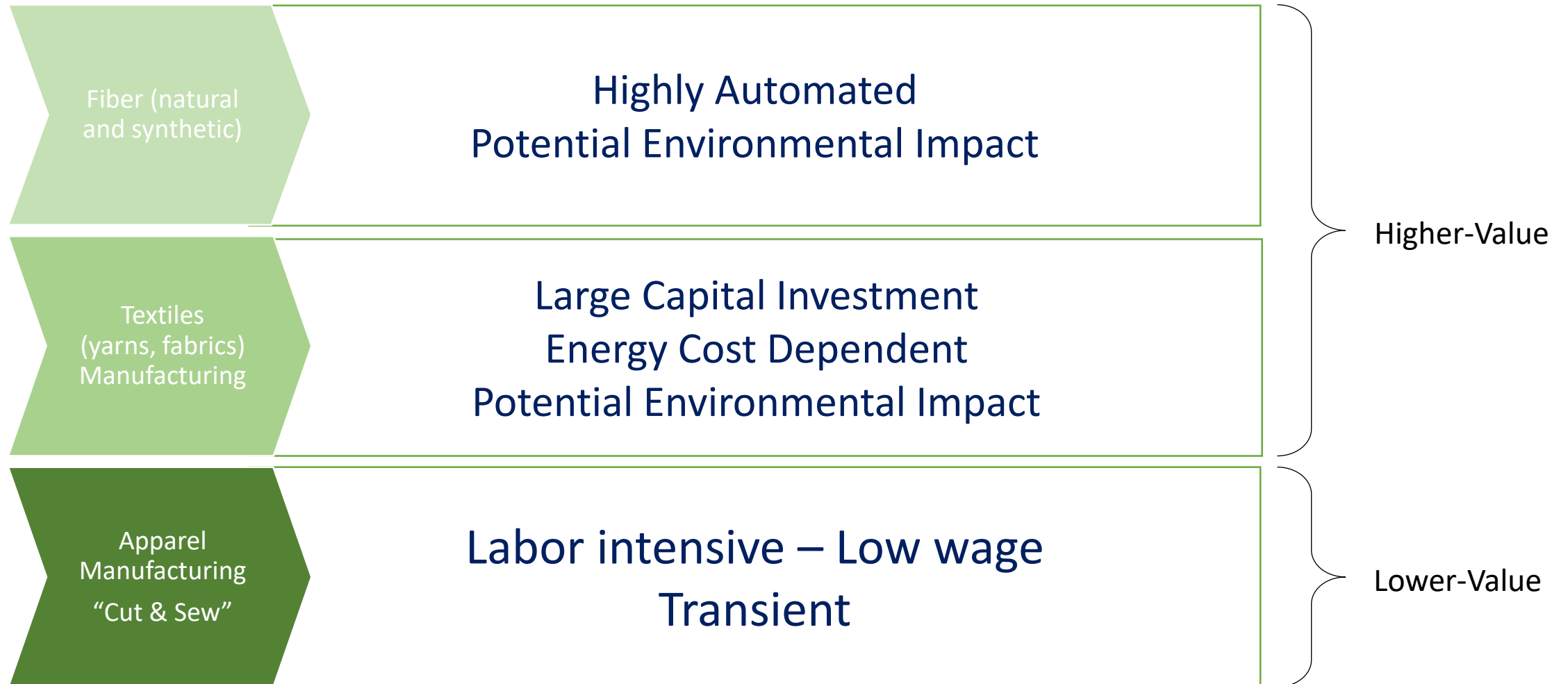
Structure of T/A Value Chain



1

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Structure of T/A Value Chain





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Why is the Nairobi Declaration particularly relevant in the context of T/A trade?

In textiles and apparel, origin rules have important implications on potential development outcomes. How the rules are structured and applied will deeply influence the level, extent and depth of benefits to a host nation.

The ability to get those inputs that are not locally available quickly, efficiently and without excessive extra costs is essential for this industry e.g.: fabrics, yarns trims, buttons, zippers etc.

1

Why is the Nairobi Declaration particularly relevant in the context of T/A trade?

Nairobi Declaration: 3 Principal Components

Transformation:

When applying a **manufacturing or processing operation criterion to determine substantial transformation**, Preference-granting Members shall, to the extent provided for in their respective non-reciprocal preferential trade arrangements, allow as follows: a) **if applied to clothing of chapters 61 and 62 of the Harmonised System nomenclature, the rule shall allow assembling of fabrics into finished products;**

- *What does this mean for trade in T/A given what we know about the structure of the value chain? What are common alternatives?*

Cumulation:

Encouraged to **expand cumulation** to facilitate compliance with origin requirements by LDC producers using the following possibilities: a) **cumulation with the respective Preference-granting Member;** b) cumulation **with other LDCs;** c) cumulation with **GSP beneficiaries** of the respective Preference-granting Member; and d) cumulation with developing countries forming part of a **regional group to which the LDC is a party**, as defined by the Preference-granting Member.

- *How are cumulation rules already in use in T/A to promote benefits from preference programs?*

Documentary Requirements:

Preference-granting Members shall: a) As a general principle, refrain from requiring a certificate of non-manipulation for products originating in a LDC but shipped across other countries **unless there are concerns regarding transshipment, manipulation, or fraudulent documentation;** b) Consider other measures to further streamline customs procedures, such as minimizing documentation requirements for small consignments or allowing for self-certification.

- *What are the principal documentary concerns vis-à-vis T/A trade?*

2

How can preference programs help achieve desired long term and short term development goals in T/A context?

| Near-Term | Long-Term |
|---|--|
| <ul style="list-style-type: none">• Attract quick investment (e.g. respond to a crisis)• Establish building blocks for manufacturing sector• Create formal sector jobs (particularly for women)• Boost exports | <ul style="list-style-type: none">• Build export competitiveness• Encourage vertical integration (manufacturing and services)• “Graduate” to higher value-add manufacturing• Create good, durable jobs• Develop transferable skills• Attract capital intensive, longer-term (“sticky”) investment |
| Non-Economic | |
| Incentivize and promote higher labor rights standards, environmentally sustainable production, democratic governance, etc. | |

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Are these goals *achievable* through preference programs and are the near-term, long-term and non-economic goals *at odds with one another*?

2

How can preference programs help achieve desired long term and short term development goals in T/A context?

Preference programs and T/A trade can help countries achieve these goals, depending on how they are structured/implemented; example: Haiti



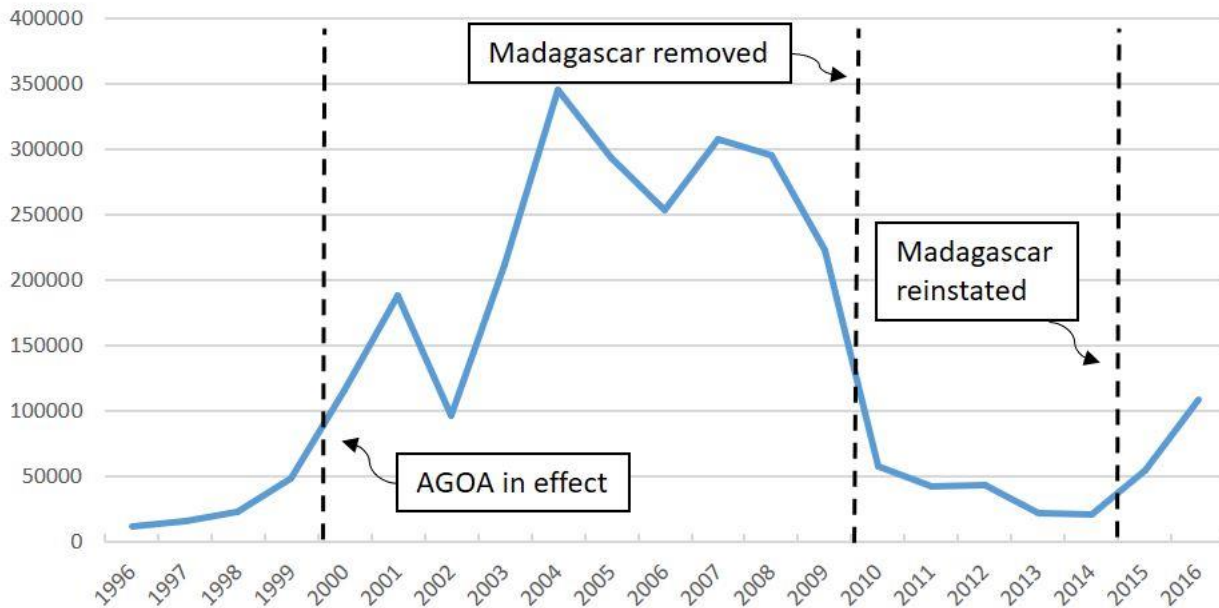
- Haiti HELP and HOPE programs include special provisions specific to the apparel industry
- Factory by factory labor compliance rather than country-level
- Backed by the ILO Better Work program
- Led to dramatic increases in exports and employment

2

How can preference programs help achieve desired long term and short term development goals in T/A context?

Madagascar

Madagascar Textiles and Apparel Exports to the US (1000 US\$)



- 2000: AGOA signed, providing significant new preferential market access for T&A, but with strict labor, democracy, and other conditions
- 2010: Madagascar removed from AGOA following military coup; garment industry highly dependent on AGOA benefits
- 2015: Madagascar reinstated after US recognizes return to democratic rule

2 How can preference programs help achieve desired long term and short term development goals in T/A context?

HOWEVER... depending on the terms of market access/preference, these goals may be at odds with one another: Unrestricted market access may attract quick investment, create jobs, boost exports, etc. but may undermine efforts to develop higher value-add manufacturing, attract quality FDI, and incentivize social/environmental/democratic sustainability.

Need to balance **preference utilization** (not overly restrictive) with desired **development outcomes**, which requires a flexible, context-specific approach.

3

Are all LDCs created equal? (And should they be treated the same?)

LEAST DEVELOPED COUNTRIES (48)

Africa 34, Asia 9, Caribbean 1, Pacific 4



Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

3

Are all LDCs created equal? (And should they be treated the same?)

| |
|---------------------------------------|
| Afghanistan (1971) |
| Angola ¹ (1994) |
| Bangladesh (1975) |
| Benin (1971) |
| Bhutan (1971) |
| Burkina Faso (1971) |
| Burundi (1971) |
| Cambodia (1991) |
| Central African Republic (1975) |
| Chad (1971) |
| Comoros (1977) |
| Dem. Rep Of The Congo (1991) |
| Djibouti (1982) |
| Equatorial Guinea ² (1982) |
| Eritrea (1994) |
| Ethiopia (1971) |
| Gambia (1975) |
| Guinea (1971) |
| Guinea-Bissau (1981) |
| Haiti (1971) |
| Kiribati (1986) |
| Lao People's Dem. Republic (1971) |
| Lesotho (1971) |
| Liberia (1990) |

| |
|--------------------------------|
| Madagascar (1991) |
| Malawi (1971) |
| Mali (1971) |
| Mauritania (1986) |
| Mozambique (1988) |
| Myanmar (1987) |
| Nepal (1971) |
| Niger (1971) |
| Rwanda (1971) |
| Sao Tome And Principe (1982) |
| Senegal (2000) |
| Sierra Leone (1982) |
| Solomon Islands (1991) |
| Somalia (1971) |
| South Sudan (2012) |
| Sudan (1971) |
| Timor-Leste (2003) |
| Togo (1982) |
| Tuvalu (1986) |
| Uganda (1971) |
| United Rep. Of Tanzania (1971) |
| Vanuatu ³ (1985) |
| Yemen (1971) |
| Zambia (1991) |

- Despite LDC status, countries on this list are quite diverse in terms of size, geography and economic capacity
- Market access/trade preferences in textiles and apparel will have different effects depending on country context

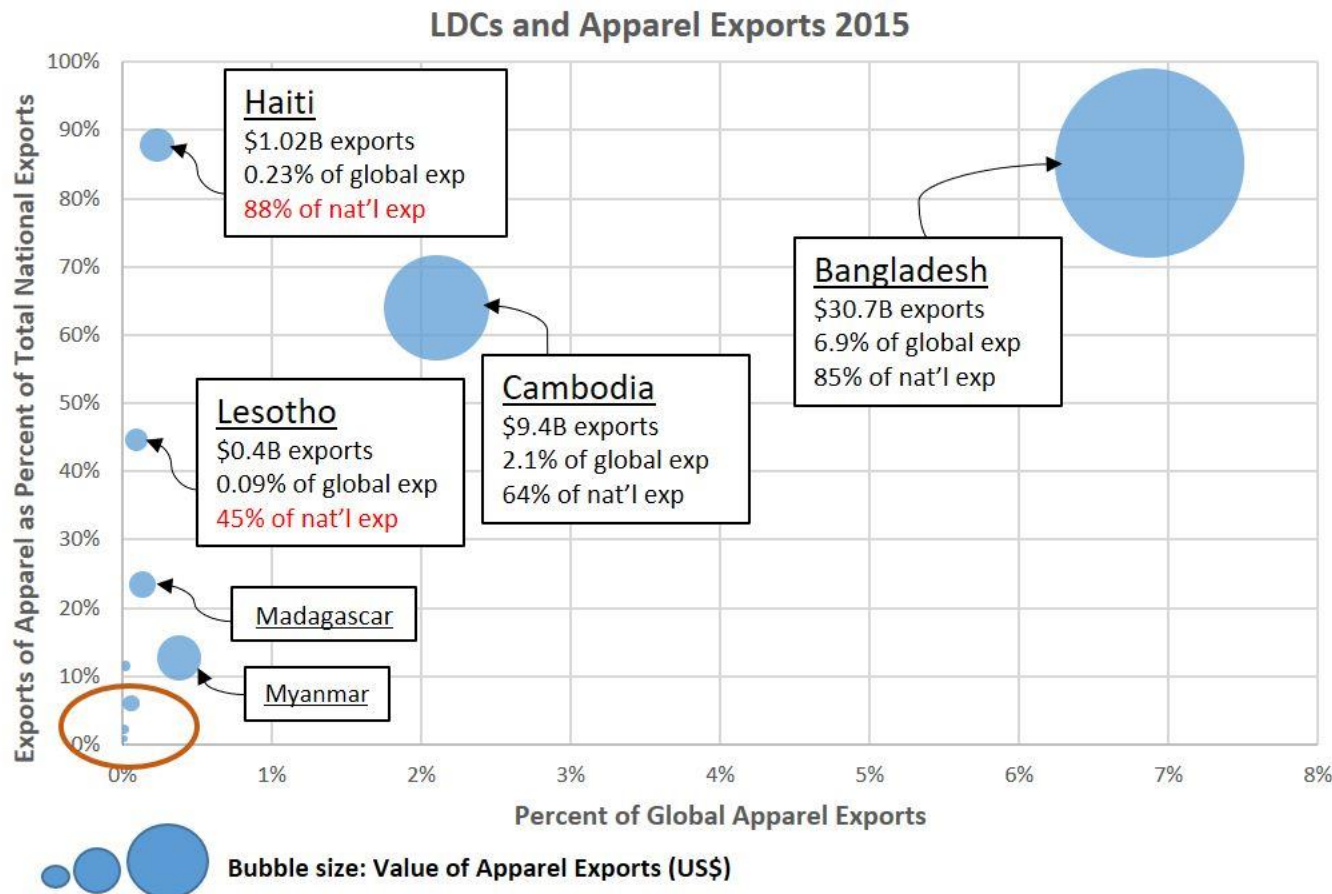
Does it make sense to treat all LDCs equally in terms of trade preferences in T/A?

By ignoring LDC heterogeneity, are we undermining the potential benefits of preferences? (read: what is the effect of treating Bangladesh the same as Haiti or Lesotho?)

3

Are all LDCs created equal? (And should they be treated the same?)

LDC heterogeneity in the Apparel sector



- Bangladesh and Cambodia are major global apparel exporters; competitive, mature industries
- Haiti and Lesotho – apparel exports are very important to economy, but relatively small contribution to global apparel trade
- Most LDCs have minimal apparel exports (clustered in bottom left)

What is the effect of giving Bangladesh and Cambodia same preferences as other LDCs?

3

Are all LDCs created equal? (And should they be treated the same?)

Does it make sense to use the “LDC” label as single determining factor in preference inclusion?

If a primary goal of the ND is to provide the incentive and impetus for LDCs to build industry and basic manufacturing capacity, then treating all the same would be counterproductive.

Are there ways to tailor origin and other preferential access rules to countries to maximize efficacy – encourage preference utilization and promote near-term, long-term, and sustainability goals? Yes 😊

4

How can origin rules be structured and implemented to mitigate downsides while still promoting overall near and long term goals?

| Tool | Use | Rationale |
|-------------------------------------|---|--|
| Transformation Rules | <p>Adjust depending on country/regional circumstances (e.g. single transformation in AGOA vs yarn-forward in TPP, CAFTA-DR, etc.)</p> <p>Countries with nascent industries able to access inputs globally (assembly only)</p> <p>Leverage Regional Value Content - as industry matures, more must come domestically or regionally (increased RVC) to encourage investment, increase value-add, promote regional integration, etc.</p> | <p>Meets near-term goals of attracting initial investment, building basic capacity, creating jobs, etc.</p> <p>Can be adjusted so as not to undermine long term investment, value-enhancement, local/regional vertical integration, etc.</p> |
| Cumulation & Short Supply | <p>Selective (rather than blanket) cumulation with existing trade agreements</p> <p>Short supply lists can provide a flexible mechanism for selectively allowing inputs unavailable in given trade region</p> | <p>Encourage preference utilization and integration across agreements; improved access to inputs without undermining previous agreements</p> |
| Conditionality and “Revocability” | <p>Establish base standards for labor rights, environmental production practices, and other non-economic/social outcomes – support attainment of standards, but maintain right to revoke or scale back benefits if conditions are not being met</p> | <p>For non-economic goals, must maintain the carrot (preferences, assistance) and stick (credible threat of revocation)</p> |
| Competitive Need Limitations (CNLs) | <p>Using CNL’s to eliminate globally competitive LDC’s with significant market share in a sector .</p> | <p>Provides a mechanism for adjusting preference levels/rules based on industry competitiveness</p> |

Market Access, Rules of Origin and TFA

MARKET ACCESS // TRANSPORT COSTS

Must think beyond just *access* to the world's largest markets!

Attracting T/A investments to LDCs and building sustainable industry is about more than just preferential market access – Supply chain reliability and transport costs can hold back critical regional integration and LDC global value chain linkages far more than policy measures.

Improved cross-border/regional trade and less-expensive, more efficient inbound and outbound transportation are crucial. If LDCs can import the inputs needed to make their products and export their finished products to their customers, in the fastest, most efficient way, they can compete more effectively and also lift their neighbors along with them.

Market Access, Rules of Origin and TFA

MARKET ACCESS // TRANSPORT COSTS

Must think beyond just *access* to the world's largest markets!

Attracting T/A investments to LDCs and building sustainable industry is about more than just preferential market access. Crucially, high relative transport costs can hold back critical regional integration and LDC global value chain linkages far more than policy measures.

Average MFN for apparel products in major markets:
US (11.5%), EU (11.5%), Japan (9.1%)

High relative to average MFN across all products, but can be easily superseded by transport costs (direct and delay/inefficiency related) inbound and outbound transportation are crucial. If LDCs can import the inputs needed to make their products and export their finished products to their customers, in the fastest, most efficient way, they can compete more effectively and also lift their neighbors along with them.

Market Access, Rules of Origin and TFA

Logistics Performance Index (LPI) 2016 - Bottom 15

| Country | LPI Rank | LPI Score |
|----------------------|----------|-----------|
| Syrian Arab Republic | 160 | 1.60 |
| Haiti** | 159 | 1.72 |
| Somalia** | 158 | 1.75 |
| Mauritania** | 157 | 1.87 |
| Equatorial Guinea** | 156 | 1.88 |
| Sierra Leone** | 155 | 2.03 |
| Lesotho** | 154 | 2.03 |
| Tajikistan | 153 | 2.06 |
| Lao PDR** | 152 | 2.07 |
| Zimbabwe | 151 | 2.08 |
| Afghanistan** | 150 | 2.14 |
| Iraq | 149 | 2.15 |
| Cameroon | 148 | 2.15 |
| Madagascar** | 147 | 2.15 |
| Kyrgyz Republic | 146 | 2.16 |

- 9 of bottom 15 in LPI ranking are LDC
- Best performing LDC is Uganda at #58 of 160 – But Uganda is land-locked, requires strong performance across central and northern corridors to Mombasa and Dar es Salaam ports
- Trade costs are major hindrance to development of regional value chains – congestion along major corridors and at maritime ports, restrictive cross-border measures, delays, “unofficial” costs, etc. can all add up to making it less expensive to import inputs from across an ocean than next door
- Examples: Ethiopia/Djibouti, Lesotho/South Africa, West Africa, [Nepal??]

Market Access, Rules of Origin and TFA

Policy is not a Panacea

Trade preferences, market access and the measures laid out in the Nairobi Decision will not have the desired effects if not coupled with strong trade and transport facilitation improvements – only one part of the equation

TFA + Policy

Concluding thoughts

If we do not draw distinctions between LDCs, if we provide blanket access and tie everyone's hands to one policy, do we actually undermine the potency of the policies to achieve desired development goals and do we remove an important lever for responding to world events (e.g. earthquakes in Haiti and Nepal, coup in Madagascar, Rana Plaza tragedy in Bangladesh)?



Thank you!

Please feel free to contact me with questions

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