

Putting Asian Competitors in the RMG Trade under Fresh Perspectives: Ideas for GVC Ahead of the CSDDD

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1. Introduction

Together, Asian economies account for 70.6% of the global textile and clothing exports in 2022, significantly participated by China, India, Bangladesh, Vietnam, and Indonesia, each exhibiting distinct specializations that appeal to importers. Despite being a major and consistent contributor of approximately 40% of the aggregate value added in global Ready-made Garments (RMG) exports in recent years, China's neoteric emphasis on enhancing the quality and sustainability of its economic growth is prompting a strategic shift away from this sector. This transition entails reallocation of the export prospects for other Asian competitors competing primarily by relying on the low-skill requirements for RMG manufacturing.

However, the newly debated regulatory framework designed by the European Union, known as the Corporate Sustainability Due Diligence Directive (EU-CSDDD), qualifies the trade competition scenario, notably in the RMG sector with additional complexities. This directive emphasizes both environmental sustainability and social responsibility across various industries, including textiles and garments. As a result, compliance with the EU-CSDDD may diminish the cost advantage currently associated with low-skilled RMG manufacturing, posing additional challenges to regaining competitiveness. Geopolitical resistance to such enforceable commitments might delay the process to set in and buy some time for business and production operations to readjust, however, there will be no escape from the eventual erosion of the comparative advantage naturally accrued through stark social inequality, high unemployment rate, and abundance of low skilled labors.

Consequently, while low labor wages were once a key factor in competitiveness, they will now disrepute the operation of even low-skilled manufacturing, rather productivity may take precedence in the RMG market over the next decade. Countries that adapt more quickly to these regulations will gain a first-mover advantage and are likely to dominate the RMG sector compared to those that move more slowly.

2. Objectives

- o The study attempts to evaluate the Domestic Value Added and Foreign Value Added contents of increased RMG exports from the four Asian economies, namely “ India, Bangladesh, Vietnam, and Indonesia, in recent years and examines the driving forces and potential impacts of FVA on trade.

- o The study intends to determine whether growing global value chains participation may be used as an adaptation strategy for Asian RMG firms to win over mandatory social and environmental compliance and remain relevant in the global trade arena.

3. Methodology

The study adopts a Multiregional Input-Output Analysis using the ADB-MRIO table. The extracted MRIO tables comprise China, India, Bangladesh, Vietnam, Indonesia, the European Union, and the Rest of the World for the years 2007 to 2023. The study estimates the Forward and Backward GVC participation rates of the RMG sector by individual Asian economies following Borin and Mancini's framework (2019).

The study employs an extensive multiplier analysis to examine both intra-country and inter-competitor relationships regarding the productivity of primary inputs and their participation in GVC. The results derived from this analysis are utilized to simulate variations in productivity resulting from increased compliance costs and a subsequent decline in trade competitiveness. Ultimately, the study provides a comparative assessment of the adaptive capabilities of various economies in response to new regulations that may disproportionately impact competitiveness,

particularly in nations characterized by low labor costs.

4. Novelty

The trade landscape of the RMG sector is likely to undergo substantial transformations in the coming years, influenced by endogenous mutations in the socio-cultural and political environment across Asian competitors and exogenous fluctuations in international market dynamics. This ambiance presents a notable opportunity for trade practitioners and stakeholders to examine the prospects of the RMG sector and to comprehend the interconnections among the determinants that may shape future Global Value Chains. The study examines the vulnerabilities associated with the major shift in the rule of the game determining competitiveness for RMG exports. Suppose the comparative advantage of low-cost labor is diminished due to compliance with social obligations imposed externally. In that case, Asian competitors may close the productivity gap by increasing GVC participation and seizing early market advantages. The study uniquely intends to investigate the preparedness of Asian RMG competitors regarding productivity differences and their implications for employment. The novelty of this study lies in acting as an academic whistle-blower, alerting these low-wage RMG manufacturers and suppliers to their risky reliance on an unbalanced comparative advantage.