

## New Standards And Prospects of Asian LDCs in TPP Value Chains



## Knowledge Partnership Programme

Trade and Investment

### Background

The core objective of the upcoming mega FTA Trans Pacific Partnership (TPP) is to integrate producers and businesses within its geographical turf to various domain value chains by harmonizing rules influencing market access. Non-TPP member countries figuring in these chains at various upstream and downstream ends would be impacted with their degrees of participation becoming functional determinants of the new standards. The effects of upcoming standards in the TPP's member markets will be significant for Asian least developed countries (LDCs) with strong links with the US and other TPP markets. Empirical research on restrictive standards likely to be implemented by mega-RTAs like the TTIP points to their substantive impact for exports of several low-income countries. This policy brief provides the linkages of the Asian LDCs to major TPP economies through GVCs and examines the implications of new quality standards and rules of origin (ROOs) in Afghanistan, Bangladesh, Bhutan, Cambodia, Myanmar and Nepal.

**Trade links of the Asian LDCs with TPP economies** The TPP comprises 12 countries from Asia, North and South America. The US and some other TPP countries are major export markets for Asian LDCs. The US is the second largest export market for Bangladesh and Cambodia and the third largest for Nepal. Japan and Singapore are also major export markets for the Asian LDCs. Japan is a major destination for exports from Bangladesh and Bhutan, while Singapore is so for Cambodia and Myanmar. Both are 'hubs' for several

value chains connecting businesses and enterprises across the Asia-Pacific. They are also important regional centers for ongoing research on standards in various industries. The US, Canada, Japan and Singapore have institutionalized similar quality standards for several agricultural and manufacturing exports. They are expected to work together in shaping the standards among TPP economies. Textile products dominate the export baskets of Asian LDCs. Bangladesh and Cambodia are among the top ten apparel exporters to the US.

In terms of imports of TPP economies from Asian LDCs, apparels and clothing dominate imports by the US, Canada, Australia and Japan. Singapore, apart from apparels, also imports considerable cereals, oilseeds, mineral products and wooden articles from Asian LDCs. Other major imports by the TPP economies include carpets & textile floorings, footwear & headgear, fish and dairy products, fruits & nuts and vegetables and toys & artwork.

### The importance of Asian LDCs in Global Value Chains

Import of intermediate goods is reflected in GVCs. Higher imports of intermediates imply greater backward participation in GVCs, where backward participation measures use imported inputs in exports. Bangladesh is the largest importer of intermediates among all LDCs (mainly in apparel) and accounts for almost a quarter of total LDC imports of intermediates (WTO 2013).

### DID YOU KNOW?

#### TPP standards and regulations

The core objective of the TPP is to integrate producers and businesses within its geographical turf to various domain value chains by harmonizing rules influencing market access. The growth of new standards and regulations in the TPP would impact value chains and the effects would extend to producers outside the TPP

#### Trade Links of Asian LDCs with TPP

TPP is one of main export destinations for Asian LDCs. The US is the second largest export market for Bangladesh and Cambodia and the third largest for Nepal. Japan and Singapore are also major export markets for the Asian LDCs.

#### The importance of Asian LDCs in Global Value Chains

Cambodia, Myanmar and Nepal are also significant importers of intermediates with identical presences in apparel GVCs like Bangladesh. Garment manufacturers in these Asian LDCs are important parts of apparel GVC managed by large apparel retailers.

#### Road Map for LDCs and Way Forward

The road map for LDCs is consist of both long-term and short-term measures. Asian LDCs can seek a 'phase-in' period and simpler and liberal ROOs for adjusting to the new quality standards in the TPP member markets.

Cambodia, Myanmar and Nepal are also significant importers of intermediates with identical presences in apparel GVCs like Bangladesh. Garment manufacturers in these Asian LDCs are important parts of apparel GVC managed by large apparel retailers. Asian LDCs source most of their intermediates from the Asia-Pacific region and OECD an EU. These imports have contributed significantly to export of 'transformed' products from the LDCs.

The apparel value chains would be influenced by new standards in TPP markets in two ways. First, retailers for these markets would urge assembling firms in Asian LDCs to comply with new technical standards for safeguarding human and environmental health and safety. Second, firms that have become OEMs and are exporting to TPP markets would need to comply with the new standards while sourcing fabric and other textile inputs. Assembling and sourcing functions in the apparel value chains would also be influenced by Rule of origin (ROOs) specifying 'non-imported' content for qualifying as 'originating' products.

#### Quality Standards and Asian LDCs

Based on the trade links of Asian LDCs with the major TPP economies, forty-four 2-digit industries and include 136 products at the 6-digit level of HS classification that are likely to be influenced by the new quality benchmarks in the TPP. These products extend across Textile products would be the most affected by new quality standards. Fifty-four textile products are identified in this regard with most belonging to apparels and clothing. Vegetable products are the next most significant with edible vegetables (7) and fruits & nuts (8) comprising majority tariff lines. Other significant products include wood and wood products, footwear/headgear, miscellaneous items. Selected animal products, mineral and machinery are also significant, though much less compared with textiles and fruits and vegetables.

New TBTs in the TPP markets can result in

apparel retailers passing on the new technical specifications to garment manufacturers in Asian LDCs. This would be natural given that standards adopted by TPP members are expected to become overarching standards for these markets over time and would apply to all exporters. Global retailers sourcing from Bangladesh, Cambodia, or Nepal, would increasingly take these standards as the base. Similarly, higher SPS requirements adopted by TPP countries would require Asian LDCs exporting fish, vegetable, fruits, cereals and oilseed to gradually comply with such requirements.

#### Lessons for India

Like Asian LDCs, India has strong trade links with TPP countries. India's main exports include: mineral fuels, oils and distillation products, pearls, precious stones, metals and coins. India's top imports from TPP countries in 2013 were also mineral fuels, oils and distillation products with a value of US\$ 15bn; followed by machinery, nuclear reactors and electrical and electronic equipment. Similarly, the main intermediate goods exported to the US, EU, and ASEAN are textile, electrical machinery, stone clay, transportation equipment, pulp and paper, household electric appliances, iron and steel, chemicals, foods, general machinery and toys. Exports in intermediate goods in the food industry to Viet Nam and Japan are important and Singapore is a relevant market for exports of intermediate oil and coal products.

These figures indicate the potential impact of mega regional agreements on India's GVC participation which will hinge on the extent of tariff liberalisation and more importantly on non-tariff measures and regulatory standards that India adapts to.

#### Road Map for LDCs and Way Forward

Textile and apparel exports from the Asian LDCs are likely to be most affected by the new quality standards. Therefore, it is important for Asian LDCs to implement a strategic policy roadmap for addressing various challenges

mentioned earlier and minimizing the adverse impacts of the new quality standards. These are: Asian LDCs can seek; 'phase-in' period for adjusting to the new quality standards; participation in the TBT and SPS and standard setting committee meetings of the WTO; working with regional partners like China and India; working with retailers from the US and other major TPP markets; developing national/regional conformity assessment capabilities by having agencies that are able to test, inspect, audit, certify and accredit; and possibility of creating a regional institution having the expertise for pioneering cutting-edge research on developing standards. China and India - large emerging markets with considerable strategic clout in regional forums- can take the lead in pushing the initiative.

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**Contact Us:** Daljeet Kaur, Senior Programme Manager

IPE Global House; B – 84, Defence Colony, 110 024, New Delhi, India

Phone: 0091 11 4075 5974; 91 93122 41635

E-mail: [kpp@ipeglobal.com](mailto:kpp@ipeglobal.com); [dkaur@ipeglobal.com](mailto:dkaur@ipeglobal.com)

[www.ipekpp.com](http://www.ipekpp.com)

