

Country Update

Bed, table, toilet and kitchen linens Exports to the US Market: Technical Barriers to Trade faced by exporters in Pakistan

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Context

This study was carried out from the 17th August to 14 September 2016 by PRIME (Policy Research Institute of Market Economy), Islamabad, as part of a CUTS International and Australia Aid Project entitled “Geneva Trade and Business Connexion: South and South East Asia”. The main objective of the project is to enable the private sector in these countries to apprise the relevant governments and their WTO delegations of the ground conditions faced by exporters, and thus have more meaningful negotiation positions.

Methodology

Views of various stakeholders were solicited on the challenges faced by the private sector, particularly small and medium enterprises, in exporting bed, table, toilet and kitchen linens to

the United States. Primary data was collected through personal interviews and telephonic contacts with several individuals and organizations. In addition, a questionnaire (Annex A) was also circulated. Furthermore, data from the previous studies on the subject was also reviewed and incorporated. However, the number of responses to the written questionnaires was not encouraging and what is more, those who did respond to the questionnaires were reluctant to answer follow-up questions. Therefore most of the information was obtained through personal interviews.

Background

The textile industry is the most important and developed sector in Pakistan. It contributes nearly one-fourth of industrial value-addition, provides employment to about 40% of industrial labour force, consumes about 40%

of banking credit to manufacturing sector and has an average share of about 54% in national exports.

Although clusters of textile industry exist around the major cities of Pakistan such as Karachi, Faisalabad and Lahore, there are industrial units all over the country. Its strong base can be seen from the fact that there are about 11.3 million spindles, 350,000 power looms, 18,000 knitting machines and 700,000 industrial and domestic stitching machines. Pakistan is also the fourth largest producer of cotton averaging about 13 million bales of cotton. In addition, it has a substantial capacity for producing man-made fibres that is estimated at 600,000 tons. There are 21 filament yarn units having a total capacity of 100,000 tons. The raw material for filament and yarn industry i.e., Purified Terephthalic Acid (PTA) is also produced locally and the plants has a capacity of 500,000 tons.

Thus a complete textiles value chain exists in the country, which is rare in the world. Despite this edge, Pakistan accounts for less than 3% of world's exports of textiles and clothing.

Pakistan's exports to the United States total over US\$3.661 billion. The overwhelming share, averaging at 85%, comprises textiles and clothing, which is about 24% of Pakistan's exports of these products to the world.

Pakistan Top-3 Exports to the United States

Product Label	Pakistan's exports to United States of America			
	Value in 2015, USD thousand	Annual growth in value between 2011-2015, %, p.a.	Share in Pakistan's exports, %	Equivalent ad valorem tariff applied by United States of America to Pakistan
All products	3,661,588	-1	16.6	
Other made textile articles, sets, worn clothing etc	1,404,847	0	37.4	7.7
Articles of apparel, accessories, knit or crochet	1,026,922	-4	43.5	14.4
Articles of apparel, accessories, not knit or crochet	493,729	1	23.2	10.8

Source: ITC Trade Database

The recent trend is that while the South Asian

countries are seeing an increase in textile and apparel exports to the United States, the ASEAN countries are seeing a decline, according to a report by the U.S. Department of Commerce's Office of Textiles and Apparel (OTEXA). But unlike other regional countries, Pakistan's exports of both apparel and textiles to the US not only made no gains but actually fell. Since technical barriers to trade can be significant, this study focused on whether they had any significant role in Pakistan's poor performance.

Importance of bed, table, toilet and kitchen linens market for the economy and trade

Pakistan has well-established industrial base for producing home textiles and is competitive with exporters from other countries in terms of prices. Their exports are about US\$ one billion. Considering the competitive edge that Pakistan traditionally enjoyed, these exports could have been much higher but two factors had serious adverse impact. While many of Pakistan's competitors are allowed duty free imports under Free Trade Agreements or other trading arrangements, Pakistani exporters have to pay an average duty of 9.8% on its exports.

Now that the prices of exports from China have been on the rise, Pakistan is expected to regain some of its lost share. According to a recent World Bank report, a 10 percent increase in

prices of Chinese exports to the United States would mean a substantial shift of sourcing of these products from Pakistan.

Awareness of the WTO TBT Agreement or any TBT discussions/negotiations on this issue

The Towel Manufacturers Association of Pakistan claimed that their members were conversant with the WTO TBT Agreement. The Association referred to a WTO workshop on the "Role of International Standard in Economic Development and use of standard in the Textile Sector and the challenges of the small and medium enterprises (SMEs)" held at Geneva in 2009 which some of its members attended. However, a vast majority of exporters were not aware of the WTO TBT Agreement or any TBT discussions/negotiations on this issue when interviewed under this initiative.

In response to a follow-up question as to whether they ever raised any TBT issue with the government for a resolution, none of the SMEs or Associations could cite any such instance. The only issue raised by a number of exporters with the government was the ban imposed by Walt Disney in early 2014 on account of "poor governance" indicators but this was not considered as a TBT issue.

Main issues in exporting bed linen and home textiles to the United States

Many SMEs were interviewed but they mostly blamed local problems such as high-energy costs, expensive inputs, government's inability to timely clear their refunds, and such other problems for their being uncompetitive in the export markets.

As far as technical barriers are concerned, an overwhelming majority of SMEs reported that they did not export any of their products directly

to the United States, as it was difficult for them to meet standards-related and other conditions of the buyers. If they try to meet all the technical regulations and conformity assessment procedures, it requires extensive upfront financial resources, which are beyond their means. Where possible, they become a part of supply chain by selling their products to the bigger manufacturers who are able to meet technical standards.

Considering the nature of trading, it was not easy to pinpoint where exactly or what technical standards hampered their trade. Many claimed that before they can export any products, they have to satisfy the buyers of their ability to meet their standards. Often buyers depute their representatives to check all the aspects before placing orders.

Mr. Masood Naqi of Rajby Textiles listed the following specific issues, which SMEs as well as the larger units face while exporting their products to developed countries, including the United States:

- With increasing competition, the buyers' rights are getting tougher with each passing day. Before purchasing any product, foreign buyers verify that the product as well as the production facility complies with their standards. It was not just compliance with the government standards but the private standards as well. The latter are often more stringent than the government standards.
- He cited the example where a buyer, after visiting his production facility, decided not to place any export order because the unit had no fire hydrant system. In order to avoid such a situation in future, the company spent a hefty sum of Rs 7 million to install such a system.
- Similarly, another buyer objected to the absence of a water treatment plant in the washing area of the factory. In order to meet this precondition, the industrial unit had to spend a huge amount.

- In addition to the safety and security at work and production places, the buyers also demand facilities for the treatment and disposal of solid and liquid waste, security during the transportation and the shipment phases. It is not economically feasible to individually meet such requirements as these can only be done on a community basis or at the government level.
- In many competing countries, it is not an industrial unit but the government that is responsible for community issues, which are outside the walls of the manufacturing unit. Even if the government in Pakistan ever made an effort, it was not sustained. A few years ago, a combined effluent treatment plant was set up at Korangi Industrial Estate but this project failed due to lack of interest by the monitoring bodies.

Mr Ghaffar Essa of Essatex Industries echoed similar views. The major barriers they face are the high environmental standards imposed by the buyers. It is not feasible to achieve high technical conformity or standards without any support from the government. He cited the example of the industrial estate where their industry is located and where there was supposed to be a government-sponsored water-treatment plant. In reality, however, there is no such plant. It is beyond any small or medium enterprise to put up such a plant in its units because of costs and space limitation. Another technical barrier they face is the insistence of the importers on high purity of cotton used in the manufacture of bed linen and other home textiles. Mr Essa did not blame the buyers but asked that the government of Pakistan put in place better cotton-picking procedures. This would considerably reduce problem they face is that of cotton contamination leading to rejection of exported consignment and would also fetch better prices or a substantial reduction in the price. Mr Essa also suggested that for The other barrier they face is that even if their consignments consist of low-cost goods, bar of technical standards

and conformity assessment should not be too high as should be the case for high quality and thus highly priced goods. They are expected to meet the same standards as high-priced material.

The main concern expressed by the Towel Manufacturers Association of Pakistan was that different buyers in the United States use varying private standards. There is a need to harmonize all private standards and base them on international standards. Furthermore, SMEs should be involved in setting such standards. They were also not happy with the fact that, although provisions exist in the TBT agreement for special and differential (S&D) treatment, in practice no such allowance was made. For example, if there were any changes to the technical standards for any product, longer time periods should be given to developing countries for implementing the new standards. Further, as a part of S&D, developed countries need to take measures to increase trading opportunities for developing countries. However, there have been no instances to show any efforts to practically do so. Developed countries are also required to help developing countries build the capacity to implement technical standards but there have not been any major initiatives from the United States in Pakistan to achieve this objective. It has been observed that if a negligible number of exporters have not been able to meet certain standards, export consignments of all exporters are subjected to enhanced checking. In order to ensure that TBT do not adversely impact all consignments from a particular country or in other words there is no collective punishment, there is a need to establish a mechanism to ensure that those who had a long-standing clean record should not be made to suffer.

Many exporters complained that border agencies often exercised more checks than necessary and also that the enforcement was often stricter than required. In case of bed-linen and other home textiles, enforcements in relations to safety standards and certain

chemicals was taken to extremes. For instance, even if an insignificant amount of azo dyes was detected in any one piece, the whole consignment was confiscated and destroyed.

The most perturbing aspect was that some importers take into account the country's overall governance indicators which have nothing to do with the manufacturers or the quality of goods. For instance, many exporters are suffering huge losses as Walt Disney which was a major importer of textiles from Pakistan banned all imports from Pakistan and a few other countries because of how it perceived the overall law and order situation.

A few exporters also mentioned that in those countries, with which the United States has special trading relationship such as preferential or bilateral or regional trading arrangements, technical barriers are often overlooked. In some cases these trading partners have mutually agreed acceptance of each other's technical standards. As against this, with the high tariffs and the non-tariff barriers such as higher technical standards, Pakistani exporters were hit with a double whammy. While the application of different tariffs was understandable, application of different technical standards was not fair as standards were meant to meet health and safety requirements.

All in all, meeting is extremely difficult for SMEs as they cannot afford the upfront cost of putting up water-treatment or other such environmental standards on their own. Such measures are not related to quality or safety standards and SMEs should not be required to meet these requirements.

The Way Forward

There is a need to familiarize the exporters as well as the importers with the WTO Agreement on TBT. Many exporters particularly the small and medium were of the view that while they are made to meet all the safety and other

conditions set by buyers, the buyers themselves do not follow the fundamental principles of the TBT agreement such as non-discrimination, promoting predictability of access to markets, technical assistance, and special and differential treatment for developing countries in the implementation of the Agreement. Furthermore, while the TBT Agreement strongly encourages the use of international standards, and it emphasizes the need to avoid unnecessary barriers to trade, buyers insist on their own standards. Moreover, the provisions of the TBT Agreement to clarify the entire process of preparing, adopting and applying TBT measures (the regulatory life-cycle) are often ignored. There is a need to familiarize developing countries and more specifically exporters to the United States with any new technical regulations and also give them more time to comply with any such standards.

There is a need to stress upon the US administration to ensure that the standards are not used to restrict imports. In particular, there should be some relaxation for small and medium enterprises, and if a country is lagging in some respect such as governance or law and order, exporters should not be made to pay for it.

The Government of Pakistan and its agencies should try to establish equivalence of technical regulations in order to save the exporters from repeated expensive testing and delays.

Similarly the government should ask its counterpart not to insist on multiple conformity assessment procedures for the same product from different manufacturers.

Several SMEs suggested greater interaction between the exporters and the Pakistan Standards and Quality Control Authority. They also proposed greater liaison between the local standards authority and its counterpart in the United States.

Most of the exporters said that they were not aware as to how the WTO TBT Agreement could assist them in smoother flow of goods to the United States. They were therefore of the view that if periodic technical assistance or capacity building workshops were held, they would be in a better position to judge when the TBT standards were being used as a protective measure of for legitimate reasons.

Some exporters were of the view that the WTO Mission should periodically meet with the exporters association to learn about their problems and also to inform them of the discussions in the TBT Committee on issues relating to textiles and clothing.



CUTS International, Geneva

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