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Addressing non-tariff measures to promote Pakistan's textile sector

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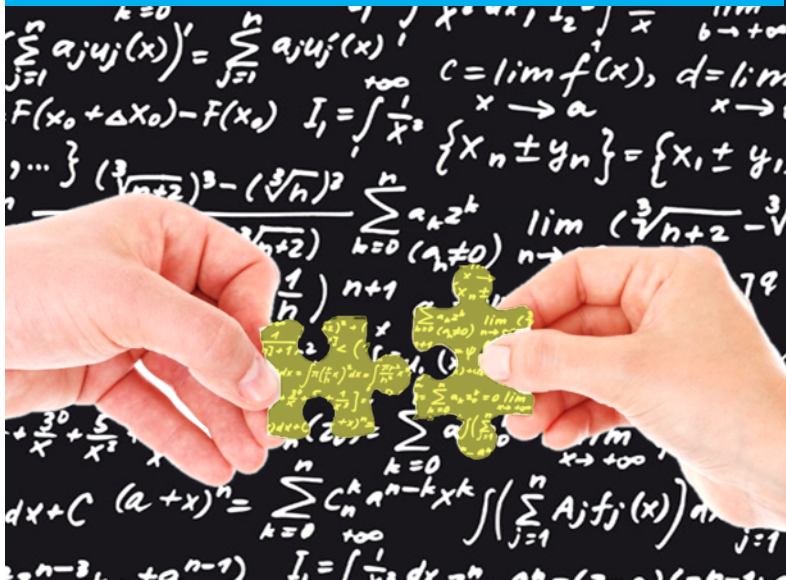
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Addressing non-tariff measures to promote Pakistan's textile sector



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Vaqar Ahmed
Asif Javed

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

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ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

WORKING PAPER

Addressing non-tariff measures to promote Pakistan's textile sector¹

Rabia Manzoor, Vaqar Ahmed and Asif Javed²

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Abstract

The paper aims to identify the various types of non-tariff measures (NTMs) affecting Pakistan's textile sector. The textile industry is of great importance to Pakistan and is a major contributor to its gross domestic product. However, Pakistan's textile exports are facing market access challenges, in part due to trade barriers of some developed countries. An in-depth analysis of Pakistan's textile sector and NTMs country-wise and category-wise for the period of 2010-2017 was conducted. Statistics about the textile industry of Pakistan were obtained from the State Bank of Pakistan, while categorical export data on NTMs was taken from UNCTAD's TRAINS database. Face-to-face informal interviews were also conducted with 15 participants from relevant stakeholder groups, including public and private sector officials.

The authors found that Pakistan's global share in textiles has declined significantly since 2010 and that it relies heavily on a few international markets such as the United States, China and the European Union. Turkey was found to have the highest number of NTMs targeting textile products, followed by the United States. Additionally, not only do countries importing Pakistani goods impose NTMs, Pakistan's own export procedures also hamper the trade. Interviewed exporters mentioned that they face difficulties in the costly and time-consuming acquisition of certification, whereas Government officials claimed the certification process improved competitiveness. Exporters also complained about the high cost of doing business, which results in the shifting of exports to China, Bangladesh and India.

The paper recommends that trade agreements and their implementation be rationalized and simplified, uniform certification requirements for exporters be implemented to save costs and time, cheaper tests be made available in Pakistan rather than abroad, and that business-to-business forums be developed to promote information exchange. It is also suggested that a clear framework to deal with NTMs is needed. The development of Pakistan's textile exports will be difficult to sustain without addressing these challenges.

Keywords: Textile industry, export performance, non-tariff measures, Pakistan

JEL Codes: F1, F13, O24

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1. Introduction

The textile sector of Pakistan represents nearly 60 per cent of the country's exports, provides employment to about 40 per cent of the industrial labour force, and accounts for 8.5 per cent of gross domestic product (Ministry of Finance, 2017). Pakistan remains a major producer of raw cotton. The textile value chain mainly consists of cotton ginning, spinning, weaving, finished fabrics, textile made-ups and garments. Although Pakistan's textile exports have continued to grow over time, Pakistan's share of total exports worldwide has declined (State Bank of Pakistan, 2017; Ahmed, 2017).

The textile product industry generated \$1.27 billion in foreign exchange earnings in 2017, and is expected to boost more, given that Pakistan has been granted the GSP+ status by the European Union, providing the country's exports access to a large consumer market. Despite these efforts, global trade outcomes in the textile sector have been limited due to barriers, particularly non-tariff measures, which persist in this sector. Recently, there have been increasing incidents where different segments of Pakistan's textile exports are facing various non-tariff measures (NTMs) in the major global markets.

Pakistan's textile exports are facing market access challenges due, in part, to some trade barriers imposed by developed countries. For developing countries, NTMs (including SPS and TBT) represent the main hindrance to market access. Liberal trade measures are supposed to provide greater market access by reducing negative market indicators, thus boosting productivity in local markets and encouraging the fair distribution of resources. Pakistan has gradually shifted its overall exports from raw to finished products (Ministry of Finance, 2001). However, in case of textiles, Pakistan cannot appreciably shift its products from primary goods to finished commodities due to low market access because of presence of NTMs.

These NTMs are mainly in the cotton sector, apparel and clothing accessories segment. Major importers such as Turkey and the United States mainly employ non-tariff restrictions such as minimum import price, labour and environment standards, and customs and rules of origin. These several NTMs are critically hindering global trade. The situation can be improved through promoting trade facilitation measures. Hamid et al. (2014) argued that Pakistan should change import policies and customs procedures to facilitate the import of textile materials, including synthetic yarn and fabric which are required by exporters so that a textile value chain can be developed. A study by ITC (2015) on Kenya pointed out that the potential of the textile and clothing sector can be increased by promoting the development of full value chains, which also require

economically productive support services and the development of customs, finance and logistics. Low-cost labour, favourable trade agreements and access towards final markets are significant factors that enable developing countries to involve in textile value chains (Stark et al. 2011). Along with this, the establishment of robust cotton-textile and apparel sector value chains can be helpful in reducing the poverty (Arnell, 2016). A study by COMESA (2009) pointed out that socio-economic cotton to clothing value chain is vital in sustainable environmental development. Unfortunately, no recent study assesses the impact of NTMs on the textile sector, global trade and supply chains. Therefore, the proposed study aims to:

- Identify the various types of NTMs affecting Pakistan's textile exports
- Assess these NTMs countries-wise and category-wise in order to understand their restrictiveness
- Explain how some of the NTMs could be addressed

2. Research approach and methodology

The design of the research consists of a four-pronged approach, as data is derived from various relevant sources. Firstly, the vast body of empirical literature, specifically pertaining to exports of Pakistan's textile sector and NTMs was consulted. Secondly, a comprehensive desk review was carried out to extract data for an overview of textile exports and the various types of NTMs imposed by various countries on Pakistan's textile sector. Regarding the situation analysis of Pakistan's textile sector, data from State Bank and Pakistan Bureau of Statistics was referred to in order to obtain the growth rate of textile sector and the percentage share of the textile sector in Pakistan's gross domestic product (GDP).

Data from the International Trade Centre (ITC) was referred to in order to obtain the top commodities which were exported to various countries from 2010 to 2017, using Harmonized Commodity Description and Coding Systems (HS) at six-digit level. The study has covered the overall textile sector, irrespective of whether a subcategory faces NTMs or not. According to the standard harmonized system of classification these products belong to HS chapters 50-63. Data of NTMs in force to date on Pakistan's textile sector was derived from the UNCTAD's TRAINS dataset and WITS. Through this dataset, we have made an inventory of NTMs which affect Pakistan's textile sector. We have taken those products for which the country has export capacity, but actual global trade is limited or non-existent due to NTMs-related reasons. Moreover, we have

assessed these NTMs country-wise and category-wise in order to understand their restrictiveness.

Thirdly, in line with the qualitative methodology in Creswell (2003), 15 key informant interviews were conducted for an in-depth understanding of the issue of NTMs and the promotion of trade. The team conducted face-to-face interviews with multiple stakeholders, including public and private sector officials, such as officials from the Ministry of Commerce (MOC), textile associations, officials from the National Tariff Commission (NTC), the Ministry of Foreign Affairs (MOFA), the Ministry of Interior (MOI), the State Bank of Pakistan (SBP), the National Logistic Cell (NLC), the Federal Board of Revenue Pakistan (FBR), and business communities which are engaged in textile exports to global market. For in-depth interviews, a semi-structured questionnaire was developed to gather information on different aspects of textile exports with the view to identify which NTMs exporters face in global markets.

The fourth source of information consisted of an informal interaction with the local business communities. A total of 25 interviews were conducted, consisting of 20 with exporters and 5 with clearing agents. From 20 interviews of exporters consulted for this study, 8 were cotton exporter, 8 exported made-up textile articles and 4 exported carpets and other floor coverings. Initially, a selective number of informed respondents were identified. After interviewing them, they were requested to identify active business communities deemed relevant to our target population. Thereafter, a snowball approach, which involved our past respondents using their personal references¹ to recruit respondents for future interviews, was used in the study.

During the data collection process, problems of accessing official and non-official data were encountered due to limited time and because of prior engagements of senior officials. Consequentially, representatives of these individuals were nominated to provide input on their behalf. Some of the feedback received from stakeholders was also gathered during a public seminar organized by the Sustainable Development Policy Institute.

¹ For further discussion on this methodological approach see Malhotra, 2008

3. Results and findings

3.1. Pakistan's macroeconomic situation

Pakistan's GDP growth has continued to accelerate since 2013, driven mainly by improved performance in the services and agriculture sectors. Although Pakistan has made substantial progress, some critical challenges exist that hamper growth such as a growing fiscal deficit, as well as a balance of payment and current account deficit. A further issue centres around declining export competitiveness, which is reflected in a falling textile and garment export market share. Pakistan's macroeconomic situation can be seen in following table:

Table 1: Macroeconomic Indicators

Indicator	Period	2017-18
GDP growth (%)	Jul-Jun	5.8 (P)
Agriculture (% growth)	Jul-Jun	3.8 (P)
Manufacturing (% growth)	Jul-Jun	6.2 (P)
Large scale manufacturing (% growth)	Jul-Jun	5.4
Services (% growth)	Jul-Jun	6.5
Investment to GDP ratio	Jul-Jun	16.1
Credit to private sector (PKR billion)	Jul-Jun	5,966
Consumer price index (% change) *	Jul-Jun	3.9
Wholesale price index (% change) *	Jul-Jun	3.5
Merchandise exports (USD million)	Jul-Jun	24,772
Merchandise imports (USD million)	Jul-Jun	55,846
Export of services (USD million)	Jul-Jun	5,205
Import of services (USD million)	Jul-Jun	10,376
Current account deficit (USD million)	Jul-Jun	17,994
Remittances (USD million)	Jul-Jun	19,623
Foreign direct investment (USD million)	Jul-Jun	2,768
Foreign exchange reserves (USD million)	Jul-Jun	16,386
Net reserves with SBP (USD million)	Jul-Jun	9,789
FBR tax revenues (PKR billion)	Jul-Jun	3,842

Source: State Bank of Pakistan, * Pakistan Bureau of Statistics, P = provisional

Pakistan had a good growth rate of 5.8 per cent during the 2017-18 fiscal year (Table 1). The growth rate of the services sector was the highest at 6.5 per cent, while agriculture and

manufacturing sector had growth rates of 3.8 and 6.2 per cent, respectively. Inflation remained in control as the CPI index remained at 3.9 per cent, whereas the WPI index was at 3.5 per cent. Pakistan had a current account deficit of \$17,994 million during FY 2017-18 whereas a trade deficit was also observed as exports of goods and services remained lower than imports. During FY 2017-18, tax revenue as percentage of GDP was 11.2 per cent (Ministry of Finance, 2018).

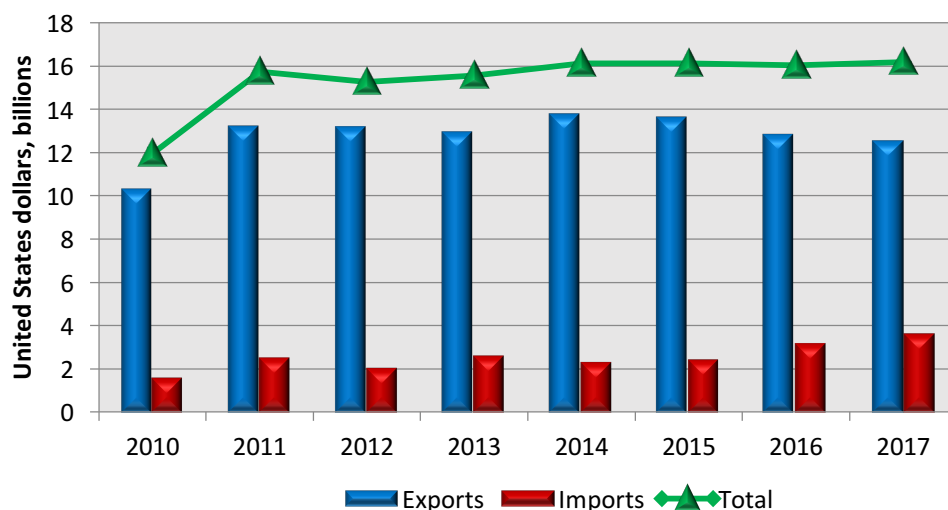
3.2. Situation analysis of Pakistan's textile sector

This section provides a brief analysis of Pakistan's textile sector. We analyse the pattern of trade along with prospects for improving its future scope. The section contains the analysis of imports and exports of Pakistan at the HS six-digit level. Data has been obtained from ITC the Pakistan Economic Survey 2017-18, the State Bank of Pakistan and the World Bank's WITS dataset.

a. Total trade in Pakistan's textile sector

Figure 1 illustrates Pakistan's total textile exports from 2010-2017. Pakistani exports have fluctuated widely over the given time period.

Figure 1: Exports, imports, and total trade in Pakistan's textiles sector, United States dollars, billions



Source: Authors' calculations based on data from the State Bank of Pakistan

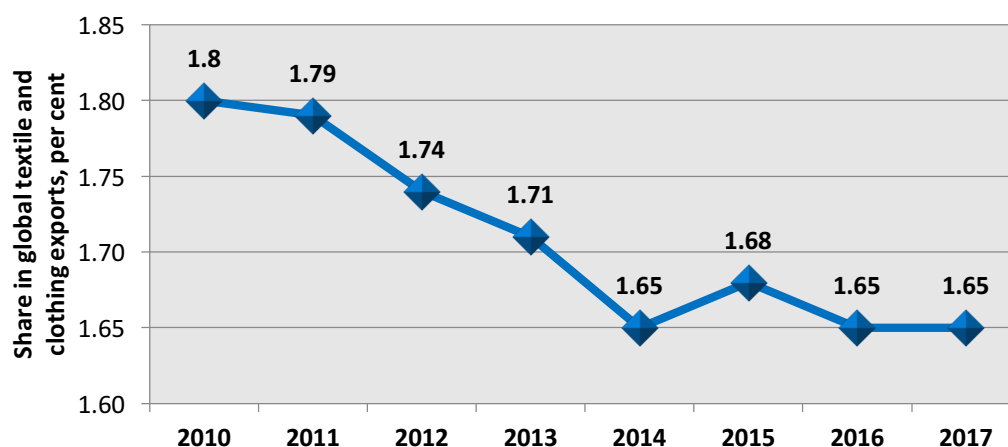
The exports of the textile sector are higher than imports throughout the entire period of 2010-2017. Pakistan's trade gap was highest in 2011 when the exports were at their maximum level,

and Pakistan enjoyed an export surplus in the textile sector. Exports of textiles were \$14 billion in 2011, as compared to imports which were \$2.5 billion. In 2012, exports dropped to \$13 billion whereas imports also declined to \$2.1 billion. A slight increase in exports was observed during 2013 and 2014 after which exports declined once again in 2015 and 2016. After 2010, in 2016 exports were at their lowest level with a volume of \$12 billion. During 2017 total trade volume was at the maximum point due to rise in imports as exports were \$13 billion whereas imports were \$3.8 billion.

b. Pakistan's share in global textiles and clothing exports

Pakistan's export share in the global textiles and clothing market has steadily decreased over time. In 2010, the share of Pakistani textile in the global market was 1.80 per cent which decreased to 1.79 per cent in next year and was falling consistently until 2014. Pakistan mainly has lost its share of textile exports in the global market due to the high cost of doing business in the region. The high cost of production was due to increases in energy costs. The exchange rate volatility has also affected the overall volume of Pakistan's exports including the textile exports as the exchange rate volatility negatively affects the export volume (Ahmed et al. 2017). In 2014, Pakistan's share of the global textile export market was 1.65 per cent which hiked to 1.68 per cent in next fiscal year, but then remained stagnant at 1.65 per cent in 2016 and 2017 as seen in the figure below:

Figure 2: Pakistan's share of textile exports in global market

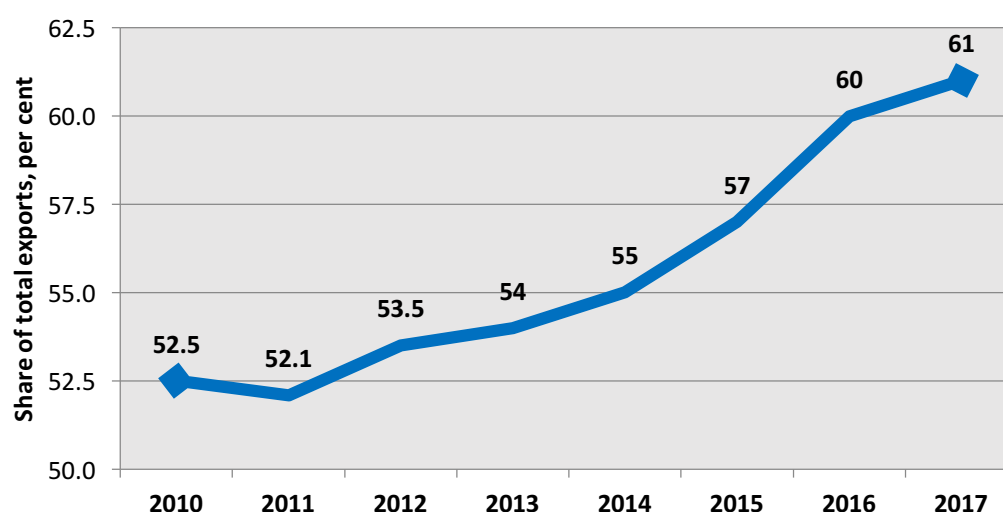


Source: Authors' calculations based on data from ITC

c. Share of Pakistan's textile in total exports

The country's share of textile exports of total exports has kept on increasing with the passage of time. In 2010, the share of textiles in total exports was 52.5 per cent which decreased to 52.1 per cent in the next fiscal year. After this dip however, the share continuously increased as during 2016 textile's share of total exports was 60 per cent, which further increased to 61 per cent in 2017. Thus, Pakistan's overall dependence on the textile sector increased considerably between 2010-17 as see in below figure:

Figure 3: Textile as percentage of total exports



Source: Authors' calculations based on data from *Economic Survey of Pakistan*

d. Pakistan's textile exports by product

The export of cotton dominates the textile sector, representing 34 per cent of sectoral exports (HS 52). During 2010-17 total exports for cotton were \$35.4 billion. In 2010, cotton exports were \$4.0 billion which increased to \$5.3 billion in 2013. However, cotton exports continually decreased and in 2017 cotton exports were at \$3.5 billion. A decline of \$1.8 billion in exports over 5 years was observed. The second major share is of worn clothing and worn textile articles (HS 63) whose exports were \$29.2 billion. Apart from that, major exports in textile sector were based on articles of apparel and clothing accessories, knitted and not knitted (HS 61 and HS 62 respectively). The

lowest export volume in textile sector is of silk (HS 50) which contributes only \$9.6 million during 2010-17.²

Table 2: Exports by product during 2010-17 (\$ Million)

HS Heading	2010	2011	2012	2013	2014	2015	2016	2017	Total
50	0.8	0.4	0.7	1.8	1.4	1.8	1.6	1.1	9.6
51	12	11	12	16	14	9.3	6.8	4.6	86
52	4,012	5,097	5,225	5,334	4,731	4,040	3,497	3,498	35,433
53	4.5	4.2	5.6	2.1	1.3	3.0	3.1	2.9	27
54	64	38	34	30	33	26	30	24	280
55	511	606	449	418	418	302	220	256	3,181
56	30	29	11	27	88	114	89	151	539
57	129	131	121	128	123	105	89	75	901
58	25	18	26	22	22	19	23	20	174
59	9.8	11	13	13	10	8.9	6.4	4.8	77
60	83	54	36	33	36	42	36	27	346
61	1,982	2,239	2,006	2,101	2,403	2,359	2,347	2,516	17,954
62	1,461	1,775	1,694	1,855	1,985	2,127	2,253	2,465	15,616
63	3,284	3,570	3,285	3,685	3,905	3,760	3,804	3,955	29,248
Total	11,606	13,581	12,920	13,666	13,771	12,917	12,407	13,001	103,869

Source: Authors' calculations based on World Bank WITS database

e. Major export markets of Pakistan's textile sector

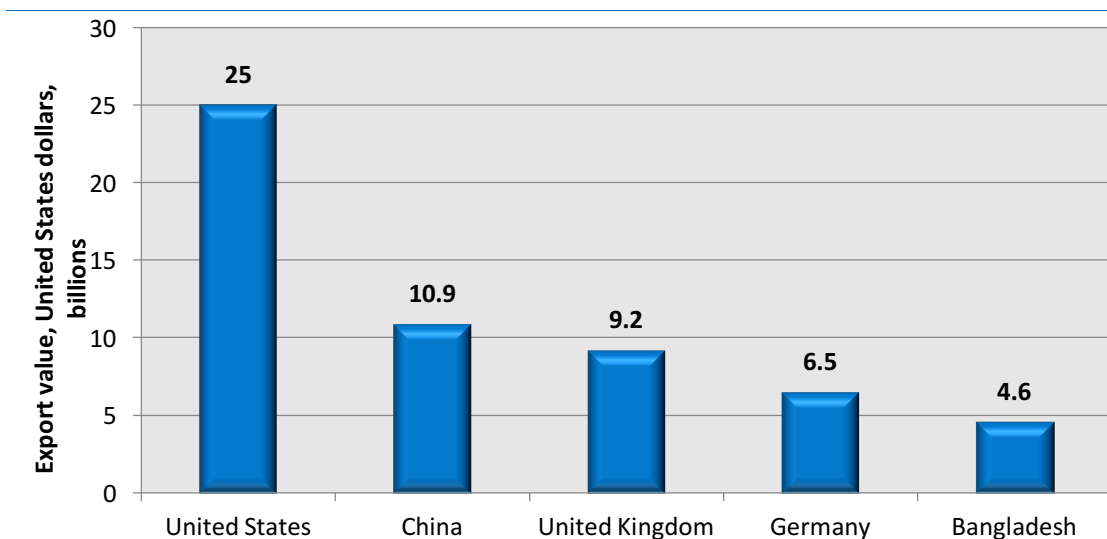
Pakistan's textile export markets are highly concentrated, as the top five markets represented more than 50 per cent in total textile exports during 2010-17 (figure 4).³ If we look at the year wise data (not presented), the share of Pakistan's textile exports towards top five export markets, including United States, China, Germany, United Kingdom and Bangladesh, was 53.7 per cent in

² Pakistan's cotton sector also faced several supply issues which will require both public and private investment discussed in Ahmed and Javed, 2016.

³ The lack of respect for copyright-based industry and intellectual property also poses challenges to textile sector's diversification. See Khalid, 2010.

2010, which increased to 60.8 per cent in 2011. During 2013, the export share of these combined five markets was 65.8 per cent, however as of 2017, this share stood at 58.9 per cent

Figure 4: Export markets during 2010-2017, United States dollars, billions



Source: Authors' illustration based on WITS

Between 2010-2017, Pakistan exported a total of \$25 billion worth of textile products to the United States. China was the second major destination for textile exports with \$10.9 billion. The export volume towards the United Kingdom was \$9.2 billion whereas textile exports towards Germany and Bangladesh were \$6.5 billion and \$4.6 billion, respectively. This demonstrates that Pakistan is heavily reliant on a few markets for its textile exports. African markets are still not approached effectively as none of the African countries fall in the top ten lists of export destinations for the industry.

In 2010, Pakistan's share in total world exports of textile and clothing was 0.5 per cent, whereas the United States was top exporter with a 14.4 per cent market share. Germany was second, with 6.9 per cent share in world exports of textile and clothing while China stood at third with 4.8 per cent share. In 2016 Pakistan's share in world textile and clothing exports increased to 0.7 per cent whereas the top export share was still of US with 14 per cent. Germany was second which had a 6.6 per cent share in total world textile and clothing exports while United Kingdom was third on the list, with 5.1 per cent share.

3.3. NTMs and Pakistan's textile sector

NTMs are defined as policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both (UNCTAD, 2012). NTMs cover a broad range of policies including traditional trade policy instruments, such as quotas and price controls. They also include technical regulatory measures that pursue important non-trade objectives that relate to health and environmental protection, such as Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT). Some NTMs prove to be a major hindrance to market access for developing countries in certain sectors. Several studies have investigated Pakistan's textile sector and determined that it has been facing market access challenges due to discriminating trade barriers. Developed economies, particularly the United States and the European Union, are developing more protectionist policies by amending anti-dumping provisions on several products. The summary information about the NTMs faced by Pakistan's across products and country is provided in the annexure I and II. Table 3 shows that several NTM cases are reported in the textile sector (HS chapter 50-63).

Table 3: NTMs in textile sector

HS Chapter	Product Description	Cases of NTMs
50	Silk	26
51	Wool, Fine or Coarse Animal Hair, Horsehair Yarn and Woven Fabrics	50
52	Cotton	37
53	Other Vegetables Textile Fibers, Paper Yarn and Woven, Fabrics of Paper Yarn	48
54	Man-Made Filaments, Strips and the Lake of Man-Made Textile Materials	17
55	Man-Made Staple Fibers	31
56	Wadding, Felt and Nonwovens, Special Yarns, Twine, Cordage, Ropes, Cables and Article Thereof	18
57	Carpets and Other Textile Floor Coverings	22
58	Special Woven Fabrics, Tufted Textile, Fabrics, Lace, Tapestries, Trimmings and Embroidery	18
59	Impregnated, Coated, Covered or Laminated, Textile Fabrics, Textile Articles of A Kind Suitable for Industrial Use	20
60	Knitted or Crocheted Fabrics	16
61	Articles of Apparel and Clothing Accessories, Knitted Crocheted	19
62	Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted	20

63	Other Made-Up Textile Articles, Sets, Worn Clothing and Worn textile Articles and Rags	61
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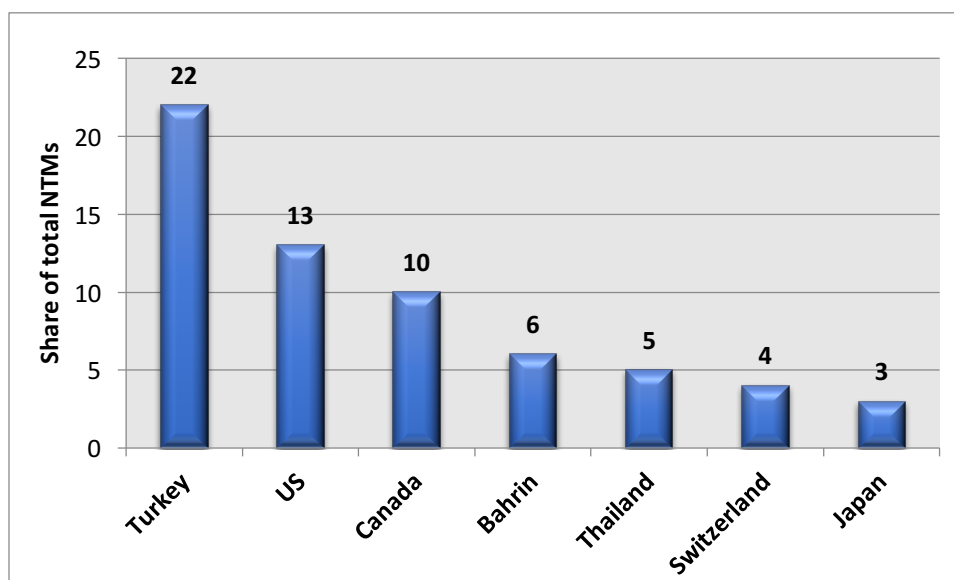
Source: Authors' compilation based on UNCTAD-TRAINS dataset

Though the textile sector makes a significant contribution to Pakistan's exports, it faces various NTMs in the major markets. In this sector, as data derived from the TRAINS dataset on NTMs suggests, other Made-Up Textile Articles, Sets, Worn Clothing and Worn textile Articles and Rags (HS-63) face the highest number of NTMs at 61 followed by Wool, Fine or Coarse Animal Hair, Horsehair Yarn and Woven Fabrics (HS-51) faced 50 NTMs. In the third-highest number of cases (HS-53) at 48 are imposed on the other Vegetables Textile Fibers, Paper Yarn and Woven, Fabrics of Paper Yarn. Cotton sector (HS-52) faced 37 NTMs and Man-Made Staple Fibers (HS-55) faced 31 NTMs.

a. Country-wise NTMs

While the majority of Pakistan's textile export are concentrated in a few markets, the weighting of NTMs imposed on Pakistan textiles can be traced to a more diverse set of nations, which includes the United States, the United Arab Emirates, Turkey, Thailand, Japan, Viet Nam, Canada, the Russian Federation, Australia, Bahamas etc (see Annex-I for details). Turkey contributed 25 per cent of the total NTMs entries followed by the United States (15 per cent), Canada (12 per cent), Bahrain (7 per cent), Thailand (5.4 per cent), and Switzerland (4 per cent each). Other countries which have NTMs entries that represent less than a one per cent share of the total are Japan and China. Based on this data, it can be concluded that the highest incidence of NTMs are reported in Turkey, United States and Canada respectively.

Figure 5: Share of total NTMs imposed by various countries on Pakistan's textile exports



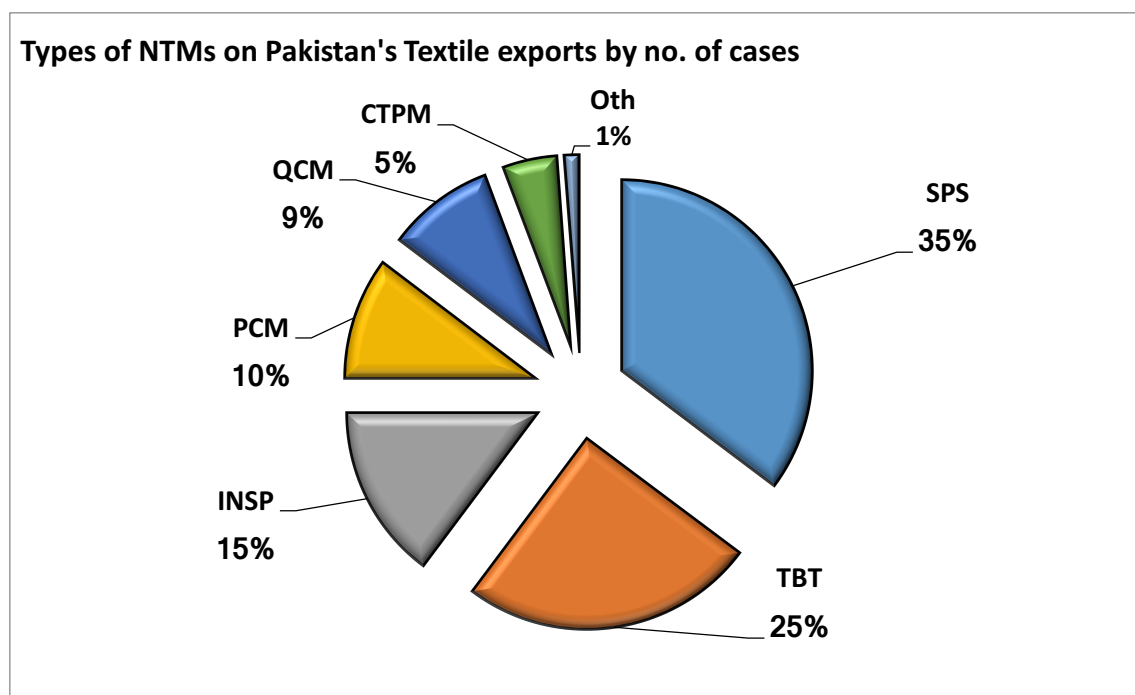
Source: Authors' illustration based on UNCTAD-TRAINS dataset

These countries imposed 7 types of NTMs (though types vary across countries) such as Sanitary and Phytosanitary (SPS), technical barriers to trade (TBT), quantity control (QC), price control (PC), pre shipment inspection (INSP), contingent trade protective measures (CTPM) and other measures (OTH) (see table b in Annex).

b. Types of NTMs on Pakistan's textile exports by number of cases

The graph depicts the information about the various types of NTMs on Pakistan's textile exports. At aggregate level, around 35 per cent of 88 NTM cases are related to SPS followed by TBT related measures with 25 per cent cases. Restrictions related to pre-shipment inspection measures are 15 per cent, price control are 10 per cent, quantity control are 9 per cent, contingent trade protective measures are 5 per cent and others are 1%. For further details, see figure 6.

Figure 6: Types of NTMs on Pakistan's textile exports by no. of cases



Source: Authors' illustration based on UNCTAD-TRAINS dataset

3.4. Key issues about NTMs: Key findings from primary data

The information gathered from the interviews reveals that the textile sector has significantly contributed to the Pakistan's exports, however it is facing different NTMs in the major markets. Some Government officials and major exporters feel that NTMs in the form of quality and standard requirements are good for firms because firms increase their competitiveness during the process of meeting standards. More consistently, though, textile exporters claimed they faced difficulties in satisfying the international standards because they have less technical know-how and lack assessing and standardizing laboratories. As a result, they are unable to meet market access requirements. The experience of Pakistan's textile exporters involved in the trade with developed countries indicates that textile exports suffer due to certain constraints. The most potent concerns are discussed below.

a. Strict compliance requirements of testing and certifications

A strict compliance requirement of testing and certification is a major constraint to increasing Pakistan's textile exports to world. Most manufacturers and exporters are facing numerous

challenges in the textile sector. One of these is meeting strict quality and compliance requirements. An exporter said that they are not only facing challenges regarding product and technical requirements, but also social (labour, facility and work environment), regulatory (labelling, origin), environmental and customer specific requirements (physical, chemical and others). In addition, buyers ask them to get certification from their nominated agencies which are usually outside Pakistan, which can be very time consuming and costly. Some buyers nominate institutions and agencies such as International Organization for Standardization (ISO), Social Accountability International (SA) and Worldwide Responsible Accredited Production (WRAP), for various types of testing and certifications. Exporters have to get certification from different agencies on various standards separately in different countries.

In addition, exporters stated that they do not have any bargaining power when getting certificates from specific testing agencies which often increases the cost of production, making them less competitive due to higher prices.

However, some bigger textile firms and exporters see multiple certifications as marketing and promotional tools. While they recognize that the certifications are costly, they also see them as bringing other business opportunities, and thus the benefits outweigh the costs, especially in the long run. Some exporters are not worried about certification as they feel that some certifications are desirable and help them to differentiate their products from the competitors.

b. Less competitive due to NTMs

Pakistan textile exports are less competitive price-wise relative to those from Bangladesh, Sri Lanka and India. The prices of many exports items from these countries are lower than those from Pakistan due to cheap labour and easily accessible raw materials. Interviewed textile exporters mostly stated that they are unable to offer low prices due to comparatively high cost of doing business (Manzoor et al. 2019). It is one of the major factors which made Pakistani exports uncompetitive in global markets and resulted in the shift in business from Pakistan to India, Bangladesh and China. According to industry sources, Pakistani textile exports have dropped after losing competitiveness on the regional level. On the regional competitiveness matrix, the electricity tariff for Pakistani textile industry is 11 cents/kilowatt hour against 7 cents in Bangladesh, 8.5 cents in China and 9 cents in Sri Lanka and India (Khawar et al, 2018). Moreover,

in Pakistan the impact of taxes, duties and surcharges on exports is around 5 per cent⁴ while 1 per cent in Sri Lanka, Bangladesh and China. The road infrastructure in Pakistan is not yet developed as according to World Economic Forum report, Pakistan ranks at 75 out of 136 economies in terms of quality of roads. Poor roads network causes delays in shipments and also damages the vehicle which puts additional transportation cost to traders (National Tariff Commission, 2015) Primarily, the cost of Pakistani exports is higher due to high transit costs due to inadequate port infrastructure, high turnaround time of shipments, non-harmonization of working days, high credit interest rates, unrest in labourers and higher wages (Manzoor, 2018). Due to this constant rise in the cost of production, the major exporters are worried as their clients are increasingly turning towards Bangladesh, Thailand and China.

c. Export-related NTMs

Exporters show their concerns upon pre-shipment inspection as there is lack of confidence over the quality inspection institutes in Pakistan (and their processes). International quality service providers are preferred for inspection, certification and testing as compared to domestic ones. There is a general lack of information regarding country specific certification requirements among exporters. This particularly acts as a barrier to entry for new and potential exporters. Besides this there are some infrastructure-related constraints that also act as a NTM. For example, the multiple layers of local taxes on electricity and gas forces the exporters to cut margins and compromise on product quality. Traders have demanded a review of current trade regulations related to environment, labour, transportation and municipal permits. Furthermore, there is a demand to improve laws related to land acquisition and plant expansion which could take several months of legal processing at various Government departments operating at federal, provincial, and local levels.

d. Fluctuating quality standards and procedural steps

The institutions which are responsible for determining the quality standards and procedural steps of importing countries regularly keep updating their rules and regulations. It was observed from

⁴ 'Multiple taxes on export industry' Published in The Dawn dated 26th February, 2019 <https://www.dawn.com/news/1195352>

the field responses that the standards and procedural steps followed by Pakistan are often subject to rapid changes. Big and small textile exporters have different views on this issue. Some feel that quality-related NTMs are one of the ways to maintain the confidence of their end customers. They suggest that quality related NTMs promote internal competition among domestic exporters. However, most of the respondents mentioned certain conditions which are in place on the buyer's side. It was pointed out that buyers stipulated certain measures, such as the packaging of certain chemicals under certain prescribed terms and conditions. Once the packaging is done, the product is sent to a testing facility in another city. The introduction of these conditions by buyers has increased the time to market and monetary cost for Pakistani exporters. As far as the requisite standards are concerned, there are a lot of disparities between the measures taken by Pakistan and major importing countries.

e. Technical Barriers to Trade and SPS Restrictions

Trade flows to and from Pakistan (see section d in Annexures) are often obstructed by many non-tariff measures, especially those of a technical nature. Technical barriers often include manual inspection of commodities. Various losses such as damage to the quality and quantity of goods are incurred due to such checks, exacerbating trade losses. Traders who face such issues frequently use alternate routes through a third country to bypass these inspections.

Technical measures constitute sanitary and phytosanitary (SPS) and Technical Barriers to Trade (TBT) mandatory standards. After the implementation of these measures (SPS and TBT) by buyers, there was widespread confusion among Pakistani exporters due to ambiguity around what the actual standards were, the certifying agencies as well as the relevant laws/regulations. Pakistani traders who export goods to other countries often complain about the stringency of the conditions imposed on them. Not only are products certified by Pakistani agencies often rejected, but even those approved according to the relatively strict European standards often face rejection by some authorities. As per the report published by the Rawalpindi Chamber of Commerce and Industry (RCCI), there is a widely held perception in Pakistan that the country's top export products especially textiles and agricultural goods suffer due to relatively strictly applied non-tariff measures.

Whereas SPS measures generally pertain to human, animal, and plant health, TBT measures relate to products belonging to machinery, industrial chemicals, and processed food, household and consumer categories. Textile exporters in Pakistan have raised concerns regarding the requirement of a pre-shipment certificate, to be obtained from an accredited textile testing

laboratory in Pakistan, to certify the non-use of hazardous dyes. Such concerns are aggravated in light of incidents where even the results by the European Union accredited labs are rejected by the customs authorities in Turkey and China.

4. Conclusion

This study examined the various types of NTMs affecting Pakistan's textile exports. The textile sector contributes nearly 60 per cent of the country's exports. Although, Pakistan's textile exports have increased over time, the proportion of exports share has been declining in world exports.

There are currently several NTMs imposed on Pakistan's textile sector, of which 61 NTMs are on the other Made-Up Textile Articles, Sets, Worn Clothing and Worn textile Articles and Rags (HS-63), 50 are on wool sector (HS-51) 48 are on (HS-53) and 37 are on the cotton sector (HS-52). At aggregate level, around 35 per cent of NTM cases are related to SPS followed by TBT related measures with 25 per cent. Restrictions related to pre-shipment inspection represents at 15 per cent, price control are 10 per cent, quantity control are 9 per cent, contingent trade protective measures are 5 per cent and others are 1 per cent.

The product export destinations are quite diverse spanning to countries such as the United States, the United Arab Emirates, Turkey, Thailand, Japan, Canada, Viet Nam, Australia and Bangladesh. The analysis finds that Turkey contributed nearly 25 per cent of the total NTMs entries followed by US (15 per cent), Canada (12 per cent), Bahrain (7 per cent) and Thailand (5 per cent). The highest numbers of these NTMs are imposed by Turkey, the United States and Canada. Therefore, the business community proposed that Pakistan's Ministry of Commerce should initiate a bilateral dialogue with each of these countries to reduce the cost of NTMs on Pakistan's exports.

Pakistan's textile exports are facing various types of NTMs in the major global markets. Thus the promotion of Pakistan's textile exports is difficult to sustain without addressing these challenges. In response, as espoused in the study, numerous strategies can be employed to tap into the huge export potential by strengthening agreements on sanitary and technical measures. To further complement the textile exports, the linkages between Pakistani businesspersons and buyers should be strengthened. Businesspersons should develop and fortify their liaison with the buyer's firms. Under free trade agreements, Pakistani Government should create frameworks for dealing with these NTMs through bilateral SPS and TBT, especially focusing on the use of international

standards, reliance on Pakistan test results, appeal mechanism for rejected consignments, prescribed timelines to resolve the SPS/TBT issues, etc.

Think tanks should encourage governments and development partners to initiate track-II and track-1.5 dialogue for bringing down the cost associated with NTMs in South Asia, as several of them are grounded in geopolitical dynamics between countries (e.g. the political relations of India and Pakistan have a bearing on trade relations).

Some of the key recommendations, obtained through the survey are as follows:

- To supplement trade facilitation measures, agreements on SPS measures and other technical barriers need to be rationalized and simplified. Currently, there is a huge disparity between the standards of importing countries. Moreover, Pakistani exporters would be greatly facilitated if buyers provided assurances regarding the acceptance of products certified by Pakistani agencies, given that Pakistan adheres to international standards. Furthermore, SPS measures should be applied to the extent that they are mandatory and should be rooted in sound scientific evidence.
- The imposition of uniform certification requirements from all importing countries would save cost and time. Exporters demanded that the Pakistani government intervene with major importing countries to implement basic uniform standards and product quality requirements. It would be better if the buyers minimize the number of audit agencies to avoid the duplication to become cost efficient. Therefore, effective government interventions are needed in testing, certification mechanisms and shipment inspections.
- To further complement textile exports, the linkages between Pakistani businesspersons and buyers should be strengthened. To this end, Pakistani businesspersons should activate, develop and fortify their liaison with the buyers firms. Exclusive business-to-business (B2B) forums can serve as platforms to exchange information, experience and opportunities. The nature of such forums can range from roundtable discussions, trade fairs, business presentations, one-to-one meetings, exhibitions and visits to the local businesses. Such endeavours will not only enable business persons to be directly in contact with each other but could also provide an entre for larger orders.
- There is need to harmonize the social, quality, ethical and environmental requirements from major importing countries.
- In terms of high cost of doing business, the exporters should concentrate on cost-saving measures and the skill development of manpower to improve product quality and productivity. Government may ensure effective and modern quality control measures and

in this regard learn from peer economies in the region. Apart from this, technology uplift fund can be provided for technology upgradation in textile sector. Globally recognized accreditation by national and local testing and inspection facilities can help improving the quality standards of the sector. Furthermore, Competition Commission of Pakistan may conduct a regulatory impact analysis, based on which it could automate, rationalize, or eliminate NTMs which are leading to higher cost of trading across borders, or act as a barrier to entry. The newly established special economic zones could ensure that a one-window facility related to acquisition of land, utilities, tax and other regulatory approvals is effectively working.

Summary of Recommendations for Trade Promotion



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Annex

a. Exports of Textile Value Chains

COMMODITY	UNITS		2010-11	2011-12	2012-2013	2013-2014	2014-2015	2015-16	2016-17
COTTON YARN	QUANTITY	TONS	536,128	572,047	735,015	663,895	642,052	423,624	455,345
	VALUE	000 \$.	2,201,405	1,794,575	2,243,594	1,997,338	1,849,389	1,264,922	1,243,515
	UNIT VALUE	\$/KG.	4.11	3.14	3.05	3.01	2.88	2.99	2.73
COTTON CLOTH	QUANTITY	000 SQ.MTRS.	2,337,804	1,971,757	2,078,811	2,520,516	2,074,177	2,152,132	1,961,685
	VALUE	000 \$	2,623,195	2,454,701	2,690,941	2,769,986	2,452,632	2,213,859	2,120,321
	UNIT VALUE	\$/SQ.MTR	1.12	1.24	1.29	1.10	1.18	1.03	1.08
TENTS & CANVAS	QUANTITY	TONS	15,323	28,593	34,690	28,541	45,037	32,354	43,316
	VALUE	000 \$	46,954	98,826	126,459	77,759	126,575	85,083	133,853
	UNIT VALUE	S/KG.	3.06	3.46	3.65	2.72	2.81	2.63	3.09
BAGS	QUANTITY	TONS	5,470	8,360	7,320	6,392	6,676	6,714	7,467
	VALUE	000 \$	14,058	15,356	12,857	14,973	12,239	22,333	15,257
	UNIT VALUE	\$/KG.	2.57	1.84	1.76	2.34	1.83	3.33	2.04
TOWELS	QUANTITY	TONS	173,786	143,922	171,795	166,567	172,156	184,479	182,853
	VALUE	000 \$	762,308	684,183	775,809	767,461	797,155	802,966	786,606
	UNIT VALUE	\$/KG.	4.39	4.75	4.52	4.61	4.63	4.35	4.30
BED WEAR	QUANTITY	TONS	307,734	248,912	264,247	316,735	324,551	328,857	353,108
	VALUE	000 \$	2,088,898	1,748,237	1,783,528	2,137,744	2,103,071	2,019,918	2,133,974
	UNIT VALUE	\$/KG.	6.79	7.02	6.75	6.75	6.48	6.14	6.04
OTHER MADE UPS	VALUE	000 \$	624,955	584,772	584,772	584,772	584,772	584,772	584,772
Garments	QUANTITY	000 Doz.	34,353	25,437	27,743	28,955	30,899	32,775	34,785
	VALUE	000\$	1,773,661	1,634,593	1,814,607	1,909,323	2,095,089	2,195,216	2,316,947
	UNIT VALUE	\$/D0z.	51.63	64.26	65.41	65.94	67.80	66.98	66.61
Hosiery	QUANTITY	000 Doz.	125,351	97,520	104,650	108,135	103,851	112,459	113,200
	VALUE	000\$	2,305,554	1,974,228	2,032,550	2,293,661	2,406,488	2,363,622	2,362,007
	UNIT VALUE	\$/D0z.	18.39	20.24	19.42	21.21	23.17	21.02	20.87

Total Cotton Manufacturers	VALUE	000\$	12,426,930	10,974,115	12,052,260	12,538,044	12,415,171	11,530,358	11,681,995
Raw Cotton	QUANTITY	TONS	144,272	256,547	92,498	114,671	94,074	49,315	24,976
	VALUE	000 \$	364,802	462,037	153,872	205,136	147,060	76,631	42,852
	UNIT VALUE	\$/KG.	2.53	1.80	1.66	1.79	1.56	1.55	1.72
Cotton Waste	QUANTITY	TONS	76,670	56,654	64,236	69,243	44,390	43,500	38,567
	VALUE	000 \$	53,019	71,809	79,342	79,122	51,055	44,148	47,616
	UNIT VALUE	\$/KG.	0.69	1.27	1.24	1.14	1.15	1.01	1.23
Total Cotton	VALUE	000 \$	417,821	533,846	233,214	284,258	198,115	120,779	90,468
Total Export	VALUE	000 \$	24,810,422	23,641,040	23,641,040	25,109,639	23,667,294	20,786,510	20,447,692
Cotton Mfg.% of Total Export			50.09	46.42	50.98	49.93	52.46	55.47	57.13
Yarn % of Total Export			8.87	7.59	9.49	7.95	7.81	6.09	6.08
Cloth % of Total Export			10.57	10.38	11.38	11.03	10.36	10.65	10.37
Cotton + Waste % of Total Export			1.68	2.26	0.99	1.13	0.84	0.58	0.44

b. NTMs on Pakistan's Textile Exports by Countries

		CTPM	INSP	OTH	PC	QC	SPS	TBT
Africa	Burkina Faso				1			
	Guinea				1			
	Liberia, Republic				1			
	Morocco						1	
	Senegal		1					
	The Gambia				1			
	Tunisia							
Africa Total			1		4		1	
Asia	China						1	
	Japan					1		1
	Kazakhstan						1	1
	Kyrgyz Republic						2	1

	Papua New Guinea						1	1
	Thailand							5
Asia Total						1	5	9
Commonwealth of Independent States (CIS)	Kazakhstan						1	1
	Kyrgyz Republic						2	1
	Russian Federation						1	1
Commonwealth of Independent States (CIS) Total							4	3
Europe	Russian Federation						1	1
	Switzerland				2		1	
	Turkey	1	7			1	2	7
Europe Total		1	7		2	1	4	8
Least Developed Countries	Burkina Faso				1			
	Guinea				1			
	Liberia Republic of				1			
	Senegal		1					
	The Gambia				1			
Least Developed Countries Total			1		4			
Middle East	Bahrain, Kingdom of							1
	Palestine		1					
	United Arab Emirates		1	1				1
Middle East Total			2	1				2
North America	Canada		2				5	
	United State of America		1				9	3
North America Total			3				14	3
	Antigua and Barbuda							

South and Central America and the Caribbean	Bahamas					2	2	
	Barbados					1		
	Bolivia					1		
	Chile					1	3	
	Colombia							
	Dominica					1	1	
	Peru							
	Suriname	3			3			
South and Central America and the Caribbean Total		3			3	6	6	
Grand Total (88)		4	13	1	9	8	31	22

c. NTMs on Pakistan's Textile Exports by Products and Country

Commodity	HS Code	Types of NTMs	Country
Silk	50	TBT	US, UAE, Turkey, Russian Federation, Kyrgyz Republic, Kazakhstan
		SPS	
		QC	Japan, Bahamas, Antigua and Barbuda
		PC	Guinea, Liberia Republic of, Suriname, The Gambia
		INSP	US, UAE, Turkey, Palestine
		EXP	Canada, Switzerland, UAE and Kazakhstan
		CTPM	
		OTH	UAE
WOOL, FINE OR COARSE ANIMAL HAIR; HORSEHAIR YARN AND WOVEN FABRIC	51	TBT	US, UAE, Turkey, Thailand, Japan, Kazakhstan, Russian Federation, Bahrain, Kyrgyz Republic
		SPS	Canada, Turkey, Switzerland, Bahamas, Kazakhstan, Russian Federation, Morocco
		QC	Bahamas, Antigua and Barbuda
		PC	Guinea, Liberia Republic of, Switzerland, The Gambia
		INSP	US, UAE, Turkey, Canada

		EXP	UAE, Tunisia, Switzerland, Russian Federation, Kazakhstan, Canada, Bahrain, Kingdom of
		CTPM	
		OTH	UAE
Cotton	52	TBT	US, UAE, Turkey, Thailand, Russian Federation, Kazakhstan, Bahrain Kingdom
		SPS	US, Turkey
		QC	Bahamas, Antigua
		PC	Guinea, Liberia, Suriname, The Gambia
		INSP	US, UAE, Turkey, Senegal, Canada
		EXP	UAE, Turkey, Switzerland, Russian Federation, Kazakhstan, Canada, Bahrain Kingdom of
		CTPM	Peru
		OTH	UAE
Other Vegetables Textile Fibers and Paper Yarn	53	TBT	US, UAE, Viet Nam, Turkey, Thailand, Switzerland, Malaysia, Canada, Japan, Russian Federation, Australia, Bahamas
		SPS	US, UAE, Turkey, Japan, Canada, New Zealand, Switzerland, Thailand
		QC	US, Turkey, Thailand, Canada, Japan, Antigua
		PC	UAE, Turkey, Thailand, China, Suriname
		INSP	US, UAE, Turkey, Switzerland, Canada, Benin
		EXP	US, UAE, Turkey, Thailand, Switzerland, Japan, Canada
		CTPM	US, Turkey, Peru, India, Brazil
		OTH	UAE, Turkey
Man-Made Filaments, Strips and the Lake of Man-Made Textile Materials	54	TBT	Turkey, Antigua and Barbuda
		SPS	
		QC	Turkey, Bahamas, Antigua and Barbuda
		PC	The Gambia, Suriname, Guinea, Antigua and Barbuda
		INSP	Canada, Turkey
		EXP	Canada, Japan, Suriname, Russian Federation
		CTPM	Peru, Antigua and Barbuda
		OTH	
Man-Made Staple Fibers		TBT	US, UAE, Turkey, Thailand, Russian Federation
		SPS	
		QC	Bahamas, Antigua and Barbuda
		PC	The Gambia, Suriname

	55	INSP	US, UAE, Turkey and Canada
		EXP	UAE, Russian Federation, Canada, Japan, Bahrain
		CTPM	Turkey, Peru
		OTH	UAE, Antigua
Wadding, Special Yarns, Twine, Cordage, Cables and Article Thereof	56	TBT	Turkey, Russian Federation
		SPS	
		QC	Bahamas, Antigua and Barbuda
		PC	The Gambia, Suriname
		INSP	Turkey, Canada
		EXP	Turkey, Russian Federation, Japan, Canada
		CTPM	
		OTH	
Carpets and other Textile Floor Coverings	57	TBT	UAE, Turkey, Japan
		SPS	Dominica
		QC	Bahamas
		PC	The Gambia, Suriname
		INSP	UAE, Turkey, Canada
		EXP	UAE, Switzerland, Russian Federation, Japan, Canada
		CTPM	
		OTH	UAE
Special Woven Fabrics, Tufted Textile, Fabrics, Lace and Embroidery	58	TBT	Turkey, Japan
		SPS	
		QC	Turkey, Bahamas
		PC	The Gambia, Suriname
		INSP	Turkey, Canada
		EXP	Japan, Canada, Suriname
		CTPM	Peru, Antigua and Barbuda
		OTH	
Impregnated, Coated, Covered, Textile Fabrics, Textile Articles of A Kind Suitable for Industrial use	59	TBT	US, Turkey
		SPS	Bahamas, Antigua and Barbuda
		QC	Antigua And Barbuda
		PC	The Gambia, Suriname
		INSP	US, Turkey, Canada
		EXP	Turkey, Canada, Japan
		CTPM	

		OTH	
Knitted or Crocheted Fabrics	60	TBT	Turkey, Japan
		SPS	
		QC	Bahamas
		PC	The Gambia, Suriname
		INSP	Turkey, Canada
		EXP	Suriname, Canada
		CTPM	
		OTH	
Articles of Apparel and Clothing Ass	61	TBT	Turkey, Japan
		SPS	Bahamas
		QC	Bahamas, Barbados
		PC	The Gambia, Suriname
		INSP	Canada, Palestine, Turkey
		EXP	Turkey, Canada, Japan
		CTPM	
		OTH	
Articles of Apparel and Clothing Accessories, not Knitted or Crocheted	62	TBT	Turkey, Japan
		SPS	China, Bahamas
		QC	The Gambia, Suriname
		PC	Turkey, Canada
		INSP	
		EXP	Turkey, Japan, Canada
		CTPM	
		OTH	
Other Made-Up Textile Articles, Sets and Worn Clothing	63	TBT	US, UAE, Turkey, Japan
		SPS	US, Australia
		QC	Turkey, Colombo
		PC	The Gambia, Suriname
		INSP	US, UAE, turkey, Canada
		EXP	UAE, Japan, Suriname, Canada, Bahrain
		CTPM	
		OTH	UAE, Antigua and Barbuda

d. Exports (Thousand BOP)

Chapter	2010	2011	2012	2013	2014	2015	2016	2017
50---Silk	53891	42619	39487	37956	9398	5191	4336	4715
51---Wool, Fine or Coarse Animal Hair, Horsehair Yarn	22572	24515	17197	20772	17623	12569	9800	6106
52---Cotton	3738305	5132845	5028739	5293585	4702292	4301584	3479113	3455950
53---Other Vegetable Textile Fibres; Paper Yarn etc.	13536	27108	21387	7100	2206	3627	3149	3573
54---Man-Made Filaments	54366	79977	40991	45002	51025	25698	16661	20028
55---Man-Made Staple Fibers	483856	688915	513804	410380	383834	313029	274183	281201
56---Wadding, Felt and Nonwovens, Special Yarn, Twine	27951	30549	7389	22326	95333	110025	89885	131566
57---Carpets and other Textile Floor Coverings	153092	159952	139065	126773	138343	112468	97979	88446
58---Special Woven Fabrics,Tufted Textiles Fabrics,Lace	257141	264389	179012	152578	94700	80831	116817	71010
59---Impregnated, Coated, Covered or Lamented Tex. Fab.	66671	47010	44277	49140	52939	28808	14930	18260
60---Knitted or Crocheted Fabrics	81097	94025	52861	47849	45051	48084	43796	38646
61---Articles of Apparel & Clothing Accessories Knit/Cr	2377555	2720515	2088660	2123745	2334982	2353084	2354947	2553332
62---Articles of Apparel/Clothing Acces not Knited /Cro	944944	1276803	1525038	1695258	1949575	2090686	2201112	2390806
63---Other Made-up Textile Articles; Sets, Worn Clothin	2952923	3369159	3246220	3441864	3850096	3849169	3758273	3954200
11---Textiles and Textile Articles	11227900	13958381	12944126	13474327	13727397	13334852	12464982	13017840

Imports (Thousand BOP)

Chapter	2010	2011	2012	2013	2014	2015	2016	2017
50---Silk	24275	17299	19574	25468	31279	66922	57378	41302
51---Wool, Fine or Coarse Animal Hair, Horsehair Yarn	8474	12602	11366	9418	12225	10679	19640	9764
52---Cotton	811024	932161	694431	1023498	707459	923744	1206305	1481334
53---Other Vegetable Textile Fibres; Paper Yarn etc.	71360	77920	62044	71632	57376	44258	40988	51606
54---Man-Made Filaments	440417	569432	520408	533980	589636	577097	623755	702661

55---Man-Made Staple Fibers	474644	634271	557911	545271	654154	667698	605779	712312
56---Wadding, Felt and Nonwovens, Special Yarn, Twine	19698	22811	26945	35340	52852	69552	102455	101274
57---Carpets and other Textile Floor Coverings	8725	10677	12901	9853	6979	12173	13619	16227
58---Special Woven Fabrics,Tufted Textiles Fabrics,Lace	16789	21688	18750	23619	30557	34680	44684	60337
59---Impregnated, Coated, Covered or Lamented Tex. Fab.	39238	43974	49205	51904	61224	63489	79230	118336
60---Knitted or Crocheted Fabrics	21087	27343	28814	27739	31740	45558	85933	197773
61---Articles of Apparel & Clothing Accessories Knit/Cr	4929	9548	18244	20518	26344	46967	42605	69877
62---Articles of Apparel/Clothing Acces not Knited /Cro	16585	19237	18366	22322	27440	32583	39162	42280
63---Other Made-up Textile Articles; Sets, Worn Clothin	50502	80579	104046	125921	172648	176693	170983	199510
11---Textiles and Textile Articles	2007748	2479539	2143006	2526483	2461913	2772093	3132516	3804592



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