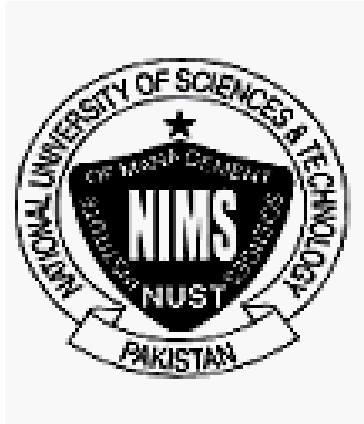


# **NUST INSTITUTE OF MANAGEMENT SCIENCES**



## **IMPACT OF WTO ON TEXTILE EXPORTS PARTICULARLY BEDLINEN FROM PAKISTAN**

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## **ACKNOWLEDGEMENT**

With the grace and guidance of Allah, this research work has come to its conclusion. The compilation of this report has been tedious work, which could not have been possible without the guidance of my thesis advisor Mr Syed Haroon Rashid. I would like to thank him for his continuous support, constant encouragement, and timely inputs. I would also like to express my profound gratitude to Mr Khawaja Shafqat, General Manager (Procurement) Nishat Textile Mills, and Mr Syed Azhar Mehmood, retired director of Export Promotion Bureau and presently employed as Advisor 'Pakistan Garments Exporters Association', for all their help and patience. This report would have been incomplete without their industry knowledge and experience.

I am sincerely and earnestly indebted to my parents, family members, and friends who were understanding and always there with their continuous and unrelenting support whenever the need arose.

**September 2005**

**Muhammad Iqbal**

## **CERTIFICATE**

This is to certify that MBA thesis title “Impact of WTO on Textile Exports Particularly Bedlinen From Pakistan” submitted by Mr Muhammad Iqbal 2003-NUST-MBA-128 has been approved for submission.

Mr Syed Haroon Rashid  
Thesis Advisor

## **Executive Summary**

### **IMPACT OF WTO ON TEXTILE EXPORTS SPECIALLY BEDLINEN FROM PAKISTAN**

MFA(Multi-Fiber Agreement) restricted a particular country to export its textile products beyond a certain level to European and US markets. It was done in order to have a multi-lateral liberal system of trading by terminating quota from textile exports by the end of 2005. One benefit of the extension of the quotas was that, due to the assurance of continued market share, the garment and textile industries were able to develop in some countries where they would not have existed without quotas. The elimination of textile quotas in 2005 has opened trade to fierce competition. The Agreement on Textiles and Clothing (ATC) was established under the WTO in 1995. This lengthy period was designed to lower opposition in the developed countries by providing an adequate adjustment period for domestic industries. Under the current quota regime, Chinese exports account for less than 20 percent of world trade in textiles and apparel – some research has suggested that this could grow rapidly to 50 percent in a new quota-free environment, and much of this would reflect a transfer of production facilities from other countries to China.

**Post-MFA Trade Regime.** The impending phase-out of garment and textile quotas after 40 years of protection has created a great deal of concern among smaller developing countries in Asia. The ATC mandates the elimination of all quotas that limit access to American markets for textiles and apparel, but after January 2005, other mechanisms may be used to address situations in which domestic industries are adversely affected as a result of the liberalized trade environment. The bilateral agreement between the U.S. and China that made China's accession to the WTO possible included a provision that allows the U.S. (and any other country) to establish new China-specific quotas until 2008, and possibly beyond. Whether the non-Chinese trade in textiles represents 50 percent of all trade (with no new quotas on China) or 80 percent of all trade (assuming quotas allow no growth in Chinese exports) or, more likely, somewhere in between, the end of quotas will create an entirely new competitive dynamics among firms in all countries. It is for this competition that countries need to prepare. In the textile sector, Pakistan can benefit from new openings if it could ensure quality and diversification of products, and overcome inefficiencies, bottlenecks, and red tape.

Notwithstanding impressive export performance, Pakistan's exports are still highly concentrated in few items and to a few countries. About one-half of Pakistan's exports went to seven countries only. Pakistan's economy, which grew at 6.4 percent in fiscal year 2003-04, achieved a broad-based growth of 8.35 percent in 2004-05. Textile export, has increased from \$ 5.8 billion in 2001-02 to \$ 8.0 billion in 2003-04. The quantum leap in exports of textiles occurred despite high tariffs and quantitative restrictions imposed particularly by

economically developed countries. The recent survey of World Textiles conducted by Far Eastern Economic Review identifies Pakistan, India and China as the three major players of future in textiles by international analysts. The analysts also project that of these three countries, Pakistan's textile industry has the best competitive advantage and potential.

**Bed linen Exports.** Pakistan is an important exporter of bed wear in the world. The main driver for the development of this industry in Pakistan is the existence of power looms in the informal sector. Bed Linen is among the largest sector in terms of production and exports amongst all the made ups in Pakistan. Bed linen exports from Pakistan have made steady progress since 1994-95 and have arisen from about 6.5% to about 18% of the total textile exports in 2002-2003. Upward trend in bedlinen exports from Pakistan continued inspite of the imposition of anti-dumping duty in 1998. Antidumping measures, while permitted under the WTO, must comply with the procedures set out in the WTO Antidumping Agreement. Developing country members of the WTO have the same rights as industrialized members to use dispute settlement to defend their rights and interests.

As the Indian case shows offence is the best form of defense. Pakistan should seriously consider contesting against the EU antidumping decision under the terms of the Dispute Settlement Understanding (DSU) of the WTO. Improvements in the procedures and the availability of resources at the WTO to help developing countries, have somewhat mitigated concerns like high costs and long litigation battles. Alongside Pakistan also needs to focus on policy changes in the areas of inadequate infrastructure, such as congestion and customs delays at ports, inadequate telecommunications infrastructure, uneven professional office practices, and uncompetitive and unreliable energy supplies to adapt to the new and competitive landscape.

In the WTO environment we need to understand the needs of international buyers when they decide to source from a particular country. Sourcing decisions are made based on the priorities and needs of a particular company, and not all companies will have the same requirements. There are important cost and production differences between textile and garment companies, as well as between buyers from companies that sell clothing under a particular label or brand, and multi-good department store companies that sell many labels (and so have no particular loyalty to or concern over any single brand). If labor standards are poor or there are other risk factors, the department store company must change the vendor (even if only a few of the factories under that vendor are in violation). There is a strong economic rationale for increasing compliance with labor-market regulations that improves human capital, increase their productivity, are consistent with fundamental worker rights, and results in labor costs that are in line with market benchmarks. Because of the stiff competition, cost, efficiency, and speed to market are very important for a brand name company. Export Promotion Bureau could educate major textile exporters of these changing needs.

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**CHAPTER 1**  
**INTRODUCTION**  
**&**  
**LITERATURE REVIEW**

## 1.1 Background

The share of textile sector in the economy along with its contribution to exports, employment, foreign exchange earnings, investment and value added in industry; make it the single largest determinant of growth in the manufacturing sector. Pakistani bedlinen is quite popular in the west (US and Europe). It is not only of high quality and competitive in price but also carries good designs and colours. However, the punitive duty of 13.1 per cent, at a time when free market era has begun, is tantamount to pushing them into an arena with arms tied at the back. The country's annual export of bedlinen to EU member states comes at around \$300 million and with a 15 per cent increase in quota ceiling by the EU and removal of anti-dumping duty the volume is expected to rise manifold. Factors like tariff concessions, cost of utilities, transaction costs, regional cooperation, market access, image building and labour laws are going to be instrumental. Already many countries are negotiating Free Trade Agreements (FTA) with the USA because of its huge share in the textile trade to obtain better market access.

Since the creation of Pakistan this sector has gone through a number of transitions. The quota system covering about 2,400 specific products or two-thirds of all the varieties of clothes, yarns, fabrics and household linen in its current form was introduced in 1974 and called the 'Multi-Fiber Arrangement' (MFA). Operationally it works by dividing textile and clothing products into large groups by basic materials and type of goods. There are 147 such groups, each including anywhere from ten to several dozen products. But developed countries remained out of the ambit of the quota system. Today 130 countries are producing textiles and clothing for export markets comprised of about 30 nations. The MFA guaranteed a market for a wide range of poorer countries even though they were not competitive. These marginal countries are likely to be squeezed out in the post quota world.

Early last year the EU imposed 13.1 per cent definitive anti-dumping duty on bedlinen imports from Pakistan. However, exporters agitated the move on the ground that the duty was imposed on the basis of incomplete investigations. They argued that without completing investigation the EC could not impose punitive duty. It was equally interesting that the commission for the first time officially accepted the fact, though in its own way, that "as part of its investigation, which led to the imposition of the existing measures, the commission had planned to visit the premises of a sample of Pakistani companies of the product concerned. However, during the course of the visits, the commission considered that the necessary security conditions to carry out the planned verifications were not met and the visits had, therefore, to be interrupted. Meanwhile, EC investigation team for on ground verification of six sample companies/exporters is soon visiting Pakistan. The companies selected for verifications include Younus Textile, Al-Abid, Chenab, Gul Ahmed, Lucky and Nishat Textile Mills. Despite a host of factors that have contributed to a positive development include involvement of the President Pervez Musharraf, strong lobbying by the Minister for Commerce

Humayun Akhtar Khan, and hiring of four lawyers for pleading the case in such a situation when the definitive anti-dumping duty was imposed on March 5, 2004, produced good result.

The purpose of the study is to look for the measures taken by Pakistan's textile industry to improve its Enabling Environment and to identify shortfalls. The textile industry at present is passing through a transition phase. It was sailing smoothly under the protected cover of the quota system, however it has to face the rough waters of the open sea when globalization of trade is implemented under WTO agreement. The removal of quota system on exports of textile material is posing a serious threat to the survival of the textile sector. Also the competition from other foreign countries is going to play its part in this sector.

## 1.2 Literature Review

Textile industry is the backbone of Pakistan's economy with a status of the largest industry and with a comparative advantage of resource utilization. Cotton based industries are an integral part of the country's manufacturing sector. Cotton products are especially vital for the economy as they are exported in large quantities, and are a lucrative source of foreign exchange. Cotton textile industries were amongst the first to be set up in the country. Its main sub sectors are spinning, weaving, finishing, knitwear and ready wear garments among which spinning and weaving are considered most important.

## 1.3 Spot Analysis Of Textile Sector

### Total number of units:

Ginning 1221

Spinning 399

Composite Units 54

### Weaving:

Large 140

Small 425

Power Looms 23652 ( shuttleless looms)

### Finishing:

Large 106

Small 625

### Garments:

Large 600

Small 4500

Knitwear 700

Towels 400

. **Total Capacities:** 20 million bales

- Spinning 1818 Million Kgs Yarn

- Weaving 4897 Million Sq. Mtr. Fabric

- Finishing 4600 Million Sq. Mtr.

- Garments 685 Million PCs.

- Knitwear 550 Million PCs.

- Towels 55 Million Kgs.

. **Contribution to total exports** 67% of total exports.

- . **Contribution to GDP** 11% of total GDP.
- . **Sector Employment** 16 million
- . **Skilled & Unskilled Ratio** 70 : 30
- . **Total Sector Investment** 31% of Total manufacturing Investment
- . **Investment in last three years** US\$ 4 billion
- . **Value Addition** (in aggregate) 27 Percent
- . **Technology** Medium to High
- . **Source of Machinery** Japan, Germany, Switzerland,
- . **Impediments to Sustained Growth:**
  - High Cost of Operation.
  - Multiplicity and high rate of taxation.
  - High Cost of Financing.
  - Lack of Project Financing.
  - Inferior Quality.

**Source: Experts Advisory Cell**

The World Trade Organization deals with multinational trade and its stand on free and fair trade has still not been implemented. This scenario demands every country to protect its interests. On the internal (domestic) front, these include imperatives to make adjustments in the domestic production and trade regime to stay active in the international market characterized with tough competition. On the external side, the challenges originate from the issues related to the WTO framework itself, pertaining to implementation of the built-in agenda, and new issues for coverage under the WTO framework. The developing countries are concerned about the implementation of built-in agenda before new issues are taken up. Pakistan's haunting dilemma is the lack of foresight and complete ignorance of ground realities on the part of its policy makers.

The share of textile industry in Pakistan's economy along with its contribution to exports, employment, foreign exchange earnings, investment and value added in the industry; make it the single largest determinant of growth in the manufacturing sector. It has a one-fifth weightage in the quantum index of large-scale manufacturing and a 46 percent share in overall manufacturing activity. Pakistan's economy is a textile based single resource economy.

Pakistan is one of the cotton textile product suppliers in the world market with a share in world yarn trade of about 30 percent and 8 percent in cotton cloth. The share of textiles in export earnings is 68 percent with a value of around US\$7 billion. The value addition in the sector accounts for 9 percent of GDP and its share in overall employment is 38 percent. During the last four years, the government in collaboration with the private sector has embarked upon a plan to combat the challenges of opening up to foreign competition in the year 2005. The question remains that are Government efforts sufficient to combat with future challenges under WTO set up?

TABLE 1.1

## PRDUCTION, EXPORTS &amp; DOMESTIC REQUIREMENT OF CLOTH

Qty. in Million Sq.Mtrs

PERIOD	MILL SECTOR	NON-MILL SECTOR	TOTAL PRODUCTION	EXPORTS	
				QUANTITY	% OF PROD.
1971-72	628.19	722.48	1350.67	409.81	30.34
1972-73	588.61	649.50	1238.11	517.98	41.84
1973-74	592.17	1236.55	1828.72	353.02	19.30
1974-75	555.86	1271.22	1827.08	440.81	24.13
1975-76	520.44	982.92	1503.36	463.84	30.85
1976-77	408.29	1037.01	1445.30	416.84	28.84
1977-78	391.35	1181.72	1573.07	453.47	28.83
1978-79	339.35	1147.75	1487.10	531.53	35.74
1979-80	342.33	1377.69	1720.02	545.77	31.73
1980-81	307.89	1526.11	1834.00	500.90	27.31
1981-82	325.02	1875.42	2200.44	584.35	26.56
1982-83	335.54	1713.23	2048.77	605.33	29.55
1983-84	296.60	1869.38	2165.98	664.38	30.67
1984-85	271.83	1728.17	2000.00	687.62	34.38
1985-86	253.48	1731.92	1985.40	727.35	36.63
1986-87	238.17	1771.68	2009.85	693.42	34.50
1987-88	281.62	1949.20	2230.82	848.61	38.04
1988-89	269.86	1980.14	2250.00	845.33	37.57
1989-90	294.84	2439.93	2734.77	1017.87	37.22
1990-91	292.91	2561.09	2854.00	1056.53	37.02
1991-92	307.93	2931.06	3238.99	1196.12	36.93
1992-93	325.40	3034.60	3360.00	1127.58	33.56
1993-94	314.91	3063.09	3378.00	1046.79	30.99
1994-95	321.84	2778.91	3100.75	1160.66	37.43
1995-96	326.98	3379.02	3706.00	1323.09	35.70
1996-97	333.50	3447.70	3781.20	1257.43	33.25
1997-98	340.28	3573.42	3913.70	1271.27	32.48
1998-99	384.56	4002.23	4386.79	1355.17	30.89
1999-00	437.19	4549.97	4987.16	1574.88	31.58

2000-01	490.16	5101.24	5591.40	1736.00	31.05
2001-02	568.43	5084.66	5653.09	1957.35	34.62
2002-03	582.14	5068.38	5650.52	2005.38	35.49
2003-04	683.39	5051.90	6833.12	2412.87	35.31

Source : TCO/ CSO

It is evident from Table 1.1 that except for the period of 1996-98, after WTO came into being in 1995, export quantity of Pakistani cloth has been gradually increasing. In order to see the challenges faced by country's exports in WTO regime, it is essential to investigate the expected impact of the rules and regulations of WTO on the economy of Pakistan. With the implementation of WTO, we were expecting that world markets will be open for free trade and all quota restrictions will be abolished. As we know in open economy only those products will get their market share which can compete in terms of quality and prices.

The WTO is the only international organization dealing with global rules of trade between nations. Pakistan has joined WTO in 1994 and one of the major benefits of joining was the integration of Textile sector in the General Agreement on Tariff & Trade (GATT). The basic aim of the Agreement on Textiles and Clothing (ATC) was to secure the removal of restrictions currently applied by some developed countries to import textile products and it was only possible if we could have produced all textile products according to WTO compliance. Unluckily we are not successful to do so, implying that Government's efforts and contributions to make the textile sector competitive with our competitors are not sufficient. Our textile industry is in a position to compete internationally. But only if some additional physical infrastructure is provided, and existing rules implemented by the Government.

Let us review the impact of WTO agreements on exports of Pakistan with more specifically emphasis on Textile products. After the implementation of WTO rules, developing countries are in a position to export their products to developed countries without duties. In other industrial sectors we have a direct threat from competing countries. Only future will tell how many millions of workers will lose their jobs and how many millions other will find new work as different sectors of the economy will shrink and expand because of extremely high competition in international market in terms of quality and prices.

It is clear to every one that quantity restrictions are now banned as long as it is fulfilling all the requirement of WTO. This can provide an opportunity for Pakistani exporters to open and explore new markets for textile products. This will result in increased competition among supplying countries, especially those which, under bilateral quota arrangements with certain markets (particularly the European Union, The United States and Canada), will fairly secure access of their products. Exporters who wish to maintain (or increase) their market access under future

conditions of free competition, should reduce their cost of production or increase their efforts to explore new markets.

Note that importing countries can use the following measures (available under the normal instruments of protection provided for in GATT), in the regime of phasing out of Multi-Fibre Arrangement in 2005, to limit imports of textile and clothing products:

- The safeguard clause negotiated under GATT. Unlike the transitional safeguard clauses in the Agreement of Textile & Clothing (ATC), this must normally be applied against imports from all supplying countries.
- Anti- dumping and countervailing duties.
- An increase in tariff protection if the duty rate is bound in WTO, after consultations and negotiations with the main supplying countries and subject to the granting of trade compensation to these countries.

Pakistan will have to face challenges as well as threats of phasing out this MFA. Now there is more competition than before. Cost of production will play a key role in this situation. Unfortunately, we are far behind in this field. Locally manufactured fabrics and garments can not compete with the foreign products on the basis of quality and price. How can we survive and maintain our level of export in coming competitive era? What should be the role of our institutes to tackle this challenging situation?

We can only survive if we will adopt modern techniques of production with modern technology. The amount of existing trained human resource and their quality is not sufficient to run the modern technology with full potential. Therefore, we cannot compete in international market as long as we will not increase our technical efficiency and expand economies of scale. The improvement in technical efficiency and expansion of economies of scale is the only source of reducing cost of production. The fundamental role of the institution is to break the back log of supplying the trained labor which is key input to decrease the cost of production. The second most important point that can play a major role in the reduction of cost is the provision of better physical infrastructure which is currently not available and it is adding to the cost of production. As we know in WTO regime, quality is the focal point. ISO has developed management standards like ISO 9000, Social Compliance and standard regarding environmental issues. Thousands of hectares are getting barren every year and million of Pakistanis are being caught by different kinds of diseases just because of poor land water quality. This is again adding in cost of production. On the other side, our exporters should strictly follow the recommended standards, if they want to make their space in international markets under WTO regime. They should be very careful not only in use of chemicals, dyes and pigments but also in managing of wastage chemical together with polluted waters. Safety of working laborers is another important issue which is not being taking care under existing set up. The strict safety precaution in the use of these deadly chemicals needs to be adopted in order to fulfill one of the necessary conditions for export

under WTO regime. In order to gain access to the markets of the developed countries, the products should be ecologically safe. Importing countries can check our exports if our products don't match the standards which are stated in ISO. Therefore, all industrial units operating in textile sectors should achieve ISO certificate by recognizing themselves from authenticated laboratories.

The owner of each industrial unit should ensure that the requirements of social compliance are being fulfilled in National Environment Quality Standards (NEQS). If they don't fulfill these pre-requisites then there is a possibility that our exports can be checked. Therefore, for survival in this competitive world, we should adopt those rules and regulations which are stated in WTO Agreements. In order to implement these rules our human resource management ministry and department have to play their vital role more effectively. The ministry should work intensively to develop and get approval of different policies and laws required to make the things along the lines. The implementation of existing and new laws is more crucial because main issue in this country is not of development of new laws rather implementation. The ministry should work at the root level to implement the existing laws more effectively. It required group of new expert staff in different areas of textile (spinning, weaving and dyeing etc) who are well aware from technological problems at each stage in their field so that they should be capable to investigate the intensity of any negative externalities generated by these industrial units to penalize them. This will help to provide an ideal working environment to our laborers and to maintain the pollution free atmosphere. The ministry of finance should provide necessary assistance to develop required physical infrastructure to develop human resources. Human resource development is an essential component to compete under WTO regime in textile sector.

Is it not shocking that presently there is only one Textile University (recently established) in Pakistan working on textile related issues but our expectations are too high from this sector, implying that it is just a dream? If we are seriously interested to convert our dreams into reality then we need not only to increase the number of Textile Universities but also the number of specialization in each University because Universities are the only source and hope of new technology generation. Just by constructing a building of a University and appointing few teachers is not sufficient. As long as Government will not continuously supply a huge amount of research budget to these Universities, the fruitful objectives can not be achieved. Internationally it is well proven evidence that the investment on research generates enormously higher return compared to any other investment. Government should provide more favorable environment to import and locally produce latest technology that will further help to expand the textile sector. Unfortunately, Presently Pakistan has no capacity to produce modern technology in home and we are completely depending on import. This heavy dependency on import will increase the cost of production and in the long-run this could make our textile sector uncompetitive in international market. Therefore, Government should realize the seriousness of the issue and increase the allocation of resources in this sector.



Once again we are emphasizing that Government should fasten the process of human resource development because our existing labor force (including managerial capacity) is not yet ready for the challenges of WTO. Majority of them are illiterate and cannot produce according to the WTO requirement. Hence, Government should take immediate steps along the lines to save this most important sector of the economy. It is a good sign that Government of Pakistan opened a separate Ministry for Textile and definitely it will help to improve the situation. Beside, directly concentrating on Textile sector Government should also focus on those sectors of the economy that are providing inputs to Textile sector. For example, if the prices of energy will remain high which is one of the prime inputs for Textile industry and then it will again make us uncompetitive in international Textile market. Therefore, the Government also needs to work for the improvement of supporting sectors in order to keep the Textile industry most competitive.

Though a lot of research and study has gone into WTO and its effects on foreign trade in different goods and services, but the rapid pace with which new developments are taking place in this field, the studies become outdated before being implemented. There is therefore, a need for continued research in contemporary developments to remain current and in-step with the rest of the world. This research is aimed at collecting the information about the effects of WTO on the textile sector of Pakistan. After analyzing the data collected, recommendations will be made to reduce the negative effects of WTO on Pakistan's textile exports specially bedlinen.

( Refer to Annex A for Newspaper articles on the subject to understand the issue)

#### **1.4 Research Methodology**

Visits to the textile mills/ export firms during the course of the study, were made as deemed necessary from time to time. Data for the study has been collected using the following resources:

- Visits to textile mills
- Visits to textile export firms
- Internet
- Newspapers
- Periodicals
- Journals
- Face to face interviews with various government and non-government officials

## **FINDINGS AND ANALYSIS**

## **CHAPTER 2**

### **WTO & TEXTILES**

#### **2.1 Introduction**

WTO charter commits its members to a policy of opening their markets progressively to goods from all over the world by lowering tariffs and eliminating import restrictions. The quota regime that has governed much of the global market for textiles and apparel for more than 40 years came to a rather quiet end on January 1, 2005. The 10-year quota phase-out described in the Agreement on Textiles and Clothing (ATC) did its job well – by spreading the transition cost over a long period and by locking the advanced economies into a multilateral agreement, the final elimination of non-tariff barriers proceeded without much conflict or debate. Indeed, in the advanced economies, most of the players involved have used the past decade to prepare themselves for (or resign themselves to) a competitive market governed only by normal tariffs (which now average roughly 12 percent in the U.S.) and so invested little effort in trying to derail implementation of the final phase-out. We know that GATT ran out of steam in the 1970s because of growing inequalities between rich and poor which are increasing at a phenomenal pace. Disparity between rich and poor countries in terms of per capita income was estimated to be 1 to 3 at the start of 20<sup>th</sup> century, which rose to 1 to 300 at the close of 20<sup>th</sup> century ( lowest per capita income being \$ 100, while the highest one was \$ 30,000). Negotiations which started in 1986 at Uruguay to restructure GATT, resulted in establishment of WTO in 1995. Globalization is now emerging as the most advanced form of capitalism, and WTO is one of the tools being used to maintain supremacy of the dollar.

Unfortunately, many exporting countries have not used the phase-out period in the same way, and now are relatively unprepared to compete in a quota-free market. Firms located in a few regions will continue to have preferential access to the U.S. market, including Free Trade Agreement (FTA) partners, the Caribbean nations, and Africa, while a few others expect to prosper and thrive in the more competitive environment. In Asia, the countries that have been looking forward to unrestricted access include China, India, and Vietnam. But that short list excludes a large number of other countries in the region where textile and garment industries represent a major component of trade with the global market. Exports of textiles and apparel account for more than one-quarter of all exports from Bangladesh, Nepal, and Sri Lanka, more than one-third of exports from Mongolia, and more than three-fourths of all exports from Cambodia. While it is unlikely that the loss of quota-determined access will lead to the loss of all textile and garment industry jobs in any country, many small exporters fear that they may lose a significant share of their jobs as the pattern of production responds to the new market incentives. But probably the worst affected will be 3 billion farmers from the developing and under-developed countries who farm at subsistence level, because of a complex subsidy structure put in place by rich

countries like EU and US to support their farmers. As per a conservative estimate \$ 1 billion a day farm subsidies are dished out through Amber , Blue, and Green box subsidies which are decided as a result of “Green Room discussions”. According to a World Bank report \$ 1.5 trillion could be added to the incomes of developing countries through complete liberalization of international trade as envisioned in the WTO charter.

Many countries have hundreds of thousands of jobs at stake, and those with the largest industries – including Bangladesh, Pakistan, and Indonesia – have more than one million wage-paying jobs on the line. Many workers in these industries toil in unhealthy conditions for long hours and low pay – but they have provided a way out of poverty for countless families. Moreover, the working conditions found in these factories, especially those with export-oriented production, are often much better than those found in other sectors in the same countries.

## **2.2 Reforms So Far Initiated**

The textile segment has been governed by many agreements since last 45 years. To name a few, the Short Term Cotton Arrangement in the year 1961, the Long Term Cotton Arrangement from 1962 to 1973, and the Multi-fiber Agreement from 1974 to 1994. It is clear, efforts to liberalise trade and textiles has been tough. The key players from the developed countries took protective measures and made heavy investments in textile, and the result, the developed countries became the most capital-intensive nations within the textile manufacturing segment.

MFA(Multi-Fiber Agreement) is an agreement through which a particular country is restricted to export its textile products beyond a certain level to European and US markets. So, a specific quota is fixed for each country, and no country can exceed the quantity assigned. Thus, the motive behind this agreement was to provide a window of opportunity for the under developed and developing economies, or simply to save the interest of the domestic textile industries in the European Union (EU) and the US.

At the same time, developing countries were subject to quantitative restrictions, thus keeping a strong hold on textile exports, keeping the edge by optimum textile production. The MFA was terminated on 31 December 1994, with entry into force of the WTO and its Agreement on Textiles and Clothing (ATC) on 1 January 1995. It was done in order to have a multi-lateral liberal system of trading by terminating quota from textile exports by the end of 2005.

The elimination of textile quotas in 2005 has opened trade to fierce competition. It has also opened window of opportunities for the countries who rely heavily on this particular sector. However, the benefits for the developing countries may not be spread evenly.

Countries who are more competitive will be able to exploit better opportunities. It would mean having an endemic textile industry. Value added products, and raw material available at home would play a crucial role for exports from developing

countries. It also means that in-house productivity will need to be improved with emphasis shifting to quality & to meet timely delivery requirements of the buyers.

While many countries have undertaken initial or piecemeal efforts at reform to prepare for the quota-free future, the 10-year phase-out has generally not been used to prepare domestic economies for global competition. Throughout the region, a combination of onerous regulation, poor physical infrastructure, and poor governance create prohibitive disincentives to investment. But even as specific quotas have been eliminated over the past decade, both exporting firms and country governments have found the remaining arrangements lucrative enough to mitigate any need for immediate and fundamental change.

During 2004, however, the reality of the final implementation of the ATC finally started to sink in, and discussion of the post-ATC future took on a far more frantic nature. But rather than focusing on what they can do at home to make their economies more attractive to investors, vulnerable exporting countries have sought the silver bullet that will save their industries and make domestic reform unnecessary. Until recently, some countries placed hope for relief from the Istanbul Declaration, a petition signed by producers' associations and other groups supporting domestic industries from 47 countries and submitted to the World Trade Organization (WTO), which requested a three-year postponement in implementing the final phase-out mandated by the ATC. This proposal ran directly counter to the ATC, which concludes with these words – "There shall be no extension of this Agreement."

The Istanbul Declaration never stood much of a chance for approval, as it would have required an agreement by the full body of the WTO that would clearly disadvantage (and, hence, be opposed by) some members. Moreover, practically speaking, there is little reason to believe that these countries would be in any different position three years from now.

In the final months of 2004, with the elimination of the quota system looming ever closer, countries grasped at two other unlikely strategies to rescue their industries and their jobs. The preferred silver bullet probably would have been preferential access to American and European markets for the least developed countries, and some countries continue to hold out hope that this form of competitive advantage will provide reason enough for investors to stay. In the past year, a number of countries have sent delegations to Washington and Brussels to try to negotiate lower tariff rates for their garment and textile exports with no success. In any event, this is an unlikely remedy for a number of reasons. Providing discriminatory access for garments and textiles to some WTO members but not others would be contrary to the central notion of providing most-favored nation access to all member countries. Even if the logic were compelling and the pursuant disputes could be postponed or discouraged, this preferential access would probably be provided to most, if not all, exporting countries in the region. Compared to FTA partners, tariff-free access to the U.S. market would level the playing field; but the bottom line is that many of these countries will not be able to compete on a level playing field. Many firms that have thrived under the quota regime need less competition to survive, not more.

The second hope for remedy also involves willingness on the part of the U.S. government, as exporting countries have been pleading for the United States to limit the rapid growth of Chinese garment and textile exports. The bilateral agreement between the U.S. and China that made China's accession to the WTO possible actually included a provision that allows the U.S. (and any other country) to establish new China-specific quotas until 2008, and possibly beyond. Under the current quota regime, Chinese exports account for less than 20 percent of world trade in textiles and apparel – some research has suggested that this could grow rapidly to 50 percent in a new quota-free environment, and much of this would reflect a transfer of production facilities from other countries to China.

Here, chances are better that their wishes will be met, but new U.S. quotas on Chinese exports will not be implemented to protect other Asia producers, they will be a response to domestic pressure. Already in late 2004, the U.S. textile industry petitioned the Commerce Department to invoke safeguard measures to protect domestic producers from the damage they anticipate would be caused by an unregulated surge of imports from China. Given the current administration's track record on trade, some form of positive response is likely should imports from China surge. But in an effort to head off these new trade restrictions, the Chinese Ministry of Commerce announced on December 31, 2004, that it would levy a new export tax on textile products in 2005. This move suggests that both China and the U.S. are prepared to act to prevent a rapid growth in China's market share, either by increasing the cost of exports or by setting new market restrictions.

But neither new export tariffs nor quotas that fix China's exports at their current levels will fix the problems facing quota-dependent exporters. Now that quotas have been eliminated, these smaller countries are competing, not just with China, but primarily with each other, for the rest of world trade. And it is for this competition that countries are woefully unprepared.

### **2.3 Reforms Agenda**

While the quota system guaranteed the creation of a profitable domestic textile and garment sector, it effectively stifled competition among firms – success in one year was no guarantee of larger quota allocations in the next, so why invest in technology upgrading or human resources? The quota regime also undermined the potential role of the private sector as an advocate for improvements in the business environment – if profits are based more on access to quotas than well functioning ports and customs arrangements, what profitable quota-based business would criticize corruption or incompetence? Not surprisingly, in many countries, the quota-driven sectors grew as quotas were raised (sometimes used by the U.S. as a sop to friendly regimes), but in most countries these businesses have not been a source of domestic dynamism leading to up- and down-stream investments. Everyone knew the party would end in 2005, but there has been no reason for investors and governments around the region to change the arrangements that provided profitable opportunities. As a result, things have not changed in the past 10 years, at least not very much,

and most countries in the region have not taken the necessary steps to encourage investors and buyers to stay. It is not surprising that these countries would prefer a continuation of the quotas that sustain (rather than constrain) their industries.

But since these quotas now have been eliminated, what can be done? The harsh reality is that some companies will not survive and some jobs will be lost in almost every country in the Asian region. This process has already begun, but pessimism should not lead to inaction. Textile and garment exporting countries in Asia need to forget about things they cannot control – including production practices, fair or not, in China and preferential market access to the U.S. – and focus on the things they can. Potential domestic remedies represent the best hope they have of retaining some of the jobs in the quota-free textile and apparel industries.

The critical domestic remedies vary by country, but in most countries they are rather straightforward. The physical infrastructure that supports export-oriented activity, including power, roads, and ports, must, at the very least, not represent special additional costs of production. The governance of export-related activities, including port and customs management, must facilitate rather than impede trade.

These considerations may sound mundane, but in most countries in Asia they represent significant additional costs, and it is likely that the worst performing countries will see their factories and jobs move elsewhere. Given the changing market environment, it may be necessary for countries to reconsider their array of labor laws, from wage policies to overtime to hiring and firing flexibility; labor laws designed to provide a better distribution of profits to labor that were possible in a quota-sustained industry may no longer make sense in the new quota-free environment. Any country with provisions too far out of line with others in the region must be prepared to accept the possibility that they have priced themselves out of this market. Some may see this process as a race to the bottom, but the reality is that these quotas probably sustained jobs in uncompetitive countries and firms for a long time (which is why these jobs, even while low-paying, were still considered well-paying by local standards in almost every country); this transitional period is not a race to the bottom, but rather a race to the market, and countries that do not recognize and adapt to the new rules are destined to lose that race and the textile and apparel jobs that go with it. The “winners” of this race may still see some loss of jobs, but with the right policy environment, efficient producers should be able to survive and grow. The “losers” may see most or all of their jobs move to China, but their inability to compete will be as much a result of the poor economic governance as of unfair competition elsewhere.

While the recommended policy changes are straightforward, they may be politically difficult. Any public policy implies trade-offs between different interest groups and so change is likely to generate some domestic opposition. In this case, however, the domestic imperatives are clear. Countries that witness a large-scale exodus of capital invested in garments and textiles will face

enormous social dislocation costs, growing unemployment and poverty, and possibly social unrest. The stakes are high, but the tools of reform are available, and the need to act now is compelling.

#### **2.4 The Post-MFA Trade Regime**

The impending phase-out of garment and textile quotas after 40 years of protection has created a great deal of concern among smaller developing countries in Asia. During the quota regime, many of these countries were able to establish their apparel and textile industries, which allowed them to reap the benefits of foreign exchange and provided employment opportunities for many low-skilled workers, especially women. During this time, these countries had little incentive to make their industries more efficient or to reduce unfriendly business policies because, with the security of guaranteed market share, they were not forced to fight for their piece of the pie. Now, countries are uncertain how their industries will fare as they face new competition from their Asian neighbors in the global market for garments and textiles.

The fear across the region is that once quotas are lifted, imports from China will flood the developed country markets, leaving the other exporting countries lagging far behind. Although there has been much speculation and anticipation about what might happen post-January 2005, countries also realize that it is impossible to predict exactly what will take place. Many countries have, in fact, focused mainly on the landscape in the external environment. That is, the emphasis has been on examining the rules and policies of the large importing countries in the post-MFA world. Countries are asking questions like: What will the post-quota world look like in the United States and the European Union (EU)? What will be the new set of rules governing the textile and apparel trade? What mechanisms are in place to safeguard against a surge of exports from China? Clearly these are important questions that will define the rules that will govern international trade after the phase-out of quotas is completed.

#### **2.5 The MFA and ATC**

The Multi-Fiber Arrangement (MFA) came into force in 1974. What was supposed to be a temporary measure was renegotiated four times, leading to the final expiration in 1994. The Agreement on Textiles and Clothing (ATC) was established under the WTO in 1995. The ATC was not designed as an extension of the MFA, but rather was seen as a transitional agreement that would help to integrate textiles and clothing into the multilateral trade regime (Nordas 2004).

The ATC mandated a phase-out of all quotas over a 10-year period. This lengthy period was designed to lower opposition in the developed countries by providing an adequate adjustment period for domestic industries. The 10-year period was back loaded, such that only half of the quotas would be eliminated over the first eight years of the ATC (i.e., by the end of 2002); the remaining quotas are to be eliminated by the end of 2004. This phase-out of quotas under the ATC applies only to WTO members, and so did not include China when it was finalized. Even now, while the ATC will affect much of Asia, a few countries, including Vietnam,



Burma, and Laos, will be subject to access restrictions until they accede to the WTO. 49 percent of quotas are to be eliminated in 2005. In fact, since the importing countries have a great deal of discretion over which quotas to eliminate, removal of quotas on the most restrictive categories has been deferred until the very end (Appelbaum, 2004).

## 2.6 The World Under Quotas

While the goal of the ATC was to serve as a transitional mechanism, the lengthy phase-out had both positive and negative effects in the global marketplace. One benefit of the extension of the quotas was that, due to the assurance of continued market share, the garment and textile industries were able to develop in some countries where they would not have existed without quotas:

Shielded from competition by quotas, many of the poorer and smaller developing countries have built substantial export sectors, realized foreign exchange income, and created substantial numbers of jobs in sectors in which they might not otherwise have been competitive (Minor 2002).

Countries in South and Southeast Asia have seen these sectors flourish (see Table 2.1), as the combined exports of apparel and textiles constitute a very large percentage of total merchandise exports in the region, especially in Bangladesh, Cambodia, Pakistan, Sri Lanka, and Nepal. These industries provide employment to millions of low-skilled workers, a large percentage of them women, and the quotas had the effect of distributing the jobs across many countries. The textiles and apparel industries helped to improve the livelihood of millions of women and their families who depend on these women for remittances.

**Table 2.1: Apparel and Textiles as Percent of Total Merchandise Exports, 2001**

**(Selected Asian Countries)**

Country	Apparel	Textiles	Total
Bangladesh	78.3	7.6	85.8
Cambodia	72.5	-	72.5
Sri Lanka	49.8	4.5	54.3
Nepal	26.0	22.7	48.7
Pakistan	23.1	49.0	72.1
India	14.2	13.9	28.1
China	13.8	6.3	20.1
Hong Kong, China	12.3	6.4	18.7
Indonesia	8.0	5.7	13.7

**Source:** Appelbaum 2004

At the same time, without the incentive of competition, industries in many of these countries have had only limited incentives to invest in their physical or human capital resources and, consequently, are not as efficient as they could be. The revenue stream guaranteed by quotas has allowed companies to keep ineffective or even negligent workers on their payrolls (Minor 2002).

Poor domestic policies governing the allocation of quotas often exacerbated the uncompetitive arrangements in domestic industries, and it has neither been in the interest of the private sector to demand local improvements from their relevant public sector agencies as long as they received access to the quotas. Similarly, in many countries, governments have not had any incentive to change a system in which they receive “rents” from exporters who gain domestic allotments from the national quota. This system has constrained private firms that might otherwise have been competitive, but were unable to buy access to the quotas.

## **2.7 The Post-ATC World: The External Environment**

Countries in Asia will need to adjust to the new environment starting January 1, 2005. The question is: What will this new environment look like? Across the region, many inefficient firms will not be able to compete without the guaranteed (and limited) access provided by quotas, and the closure of these firms should produce job losses (and these job losses will be duly noted in the regional and international presses). Further, it is possible that some countries may see their entire garment and/or textiles industries collapse, with domestic capital shifting into other sectors that are more in line with their comparative advantage. However, an aspect of the post-ATC environment that is rarely discussed is the potential emergence of new investors and the significant expansion of existing firms that are competitive. In many countries, both these types of firms have been constrained by the quota system that favored politically connected firms (that gained access to quota allocations) over competitive firms. In many countries, this form of expansion may take place simultaneously with the market contraction described earlier, and some countries will experience net growth in employment in the garment and textile industries. It is unlikely that the creation of new capacity will receive the same media attention as will be devoted to factory closings.

In the United States With implementation of the final provisions of the ATC at the end of 2004, trade in garments and textiles with the United States will be governed by the United States' WTO commitments. Tariffs in this sector will remain, and these range from zero to 32 percent, with the average tariff at 12 percent. These tariffs are “bound,” which means that the U.S. government cannot raise tariffs without facing potential demands for compensation by trading partners under WTO guidelines. “The U.S. is the largest importer of textiles and apparel in the world, surpassing the EU by 50% and Japan by 300%.” (Appelbaum 2004)

The ATC mandates the elimination of all quotas that limit access to American markets for textiles and apparel, but after January 2005, other mechanisms may be used to address situations in which domestic industries are adversely affected

as a result of the liberalized trade environment. The WTO provides three trade remedy mechanisms that could be used in the post-ATC context:

1) Under **Article XIX**, if imports cause threat or serious injury to the domestic industry (without an unfair trade practice being employed), import relief is available in the form of a quota or additional tariff.

2) Under the **Anti-Dumping Agreement**, when goods are being sold abroad at a price that is lower than the cost of production in the home country and these imports cause threat or injury to the domestic industry, an additional duty (equal to the difference between the cost of production and the selling price) can be applied.

3) Under the **Agreement on Subsidies and Countervailing Measures**, if imports of goods benefiting from prohibited forms of government support are causing or threatening injury to the domestic industry, an additional duty equal to the cost difference may be applied.

These remedies may be used not only when there is a violation of a WTO rule, but also when domestic industries are struggling as a part of the regular course of the trade relationship. When one of these remedies is invoked, the link between trade and the injury to domestic industry needs to be clearly established by providing concrete evidence to support the claim. In the past, however, the United States has employed similar protection mechanisms without WTO approval. Such actions shift the responsibility of using WTO dispute settlement mechanisms to prove that U.S. actions are contrary to WTO rules and guidelines, an often lengthy process.

In the EU The European Union has less restrictive quotas on textiles and apparels than the U.S. and Canada. However, after the phase-out, exporters will still need to compete for access to the EU market. The EU has implemented remedies that will, according to EU Trade Commissioner Pascal Lamy, "...ensure that there is a smooth transition to a quota-free trade in textiles on 1 January 2005. And we will not leave developing countries, in particular the poorest and more vulnerable, out in the cold. We will re-focus our trade preferences so that they can continue to benefit from an open and fair access to the EU." As Pascal Lamy has been selected to lead WTO this year, it would be interesting to see how his priorities about developing countries emerge?

1) The European Commission proposes to maintain preferential access for the most vulnerable countries (LDCs and small exporting countries), and this will be done in three ways:

2) The EU will promote common duty levels that are as low as possible (as agreed upon by WTO members).

3) The Generalized System of Preferences (GSP) is given in textiles and clothing to all developing countries in the form of a 20 percent cut in tariffs, and to LDCs in the form of duty-free treatment.

The EU plans to change the current preferential rules of origin. Countries without a domestic textile industry (and use imported textiles in the domestic garment

industry) currently are often subject to full duties on the value of the final product. Changes in the rules of origin will ensure that the most vulnerable countries receive preferential access to the EU market by excluding some imported content from the final duties paid.

## **2.8 China Factor**

The consensus among researchers, academics, and policy makers in the region, is that China will gain a much larger market share after the phase-out of quotas, and that this expansion will come at the expense of smaller suppliers. Some people even blame China of “internal colonialism” which it practices on the huge semi-skilled and unskilled labor force to motor its export processing zones. “China is the world’s largest exporter of textiles and apparel, accounting for 16 percent of the total in 2001, and likely will become the ‘supplier of choice’ for many U.S. importers following quota elimination in 2005 because of its ability to produce almost any type of textile and apparel article at any quality level at competitive prices.” (U.S. International Trade Commission, 2004)

What makes China the supplier of choice for many importing countries? China has the following advantages:

- 1) China has the world’s largest production capacities for cotton, man-made fibers, and silk;
- 2) China ranks among the lowest-cost suppliers;
- 3) China has increased productivity in the clothing sector;
- 4) it has access to high quality imported fabrics from South Korea, Taiwan and Japan; and
- 5) China’s textile and apparel industries benefit from managerial and financial expertise from Hong Kong and Taiwanese investors.

In addition, a number of international buyers have suggested that the post-quota era will be characterized by the increasing importance of “full package” production. Also, there is a substantial emphasis on the importance of firms being able to deliver “full package” production, meaning delivering everything from design to logistics to fabric procurement to financing and transportation. The expectation of this type of production by buyers, combined with increased competition, will require a fundamental re-orientation by firms in the way they do business; no longer will buyers come to them; it will be necessary for firms to seek out buyers in the international marketplace. (Miller, 2004)

China (and even India with its similar size advantage), is likely to benefit from this trend with its ability to provide everything from engineers to fashion designers to unskilled labor. But maybe not all firms will move to China. China does appear to offer substantial advantages over many of the other countries, and so it is likely that China will gain market share once the quotas are removed, just as it did following the ATC-mandated adjustments in 2002. However, there are several reasons why the extent of China’s domination in the market place is probably overstated.

First, it is likely that the U.S. and other WTO countries will act to prevent (or retaliate against) a surge of imports from China. While the ATC calls for the elimination of quotas, the agreement that governed China's accession to the WTO included language that allows the use of a variety of safeguards by other WTO members, and this language supercedes the ATC. To implement these safeguards, as with the general remedies, governments must present specific data to China to show market disruption to their domestic industry, and these measures are subject to scrutiny by WTO panels. Already, business groups in the U.S. have filed a request with the Department of Commerce for protection from the threat posed by textile and apparel imports from China.

Second, the U.S. is engaged in several free trade agreements (FTAs), and these relationships often involve commitments to reciprocal market access, customs cooperation, a textile safeguard import relief mechanism, and rules of origin that require substantial manufacturing in one of the countries that is party to the agreement. The U.S. already has FTAs with Canada, Mexico, Israel, Jordan, Singapore, Chile, Morocco, Australia, and Bahrain, and new pacts were just completed with Central America and the Dominican Republic. Countries that participate in these agreements may have duty-free access to U.S. markets, providing relief from the average 12 percent tariff. But this advantage should not be exaggerated. Due to rules of origin, the relief often applies only to locally added value, and in an industry with significant levels of imported inputs (and low average wage bills), the effective relief is usually far less than 12 percent. Nonetheless, this advantage will increase, at the margin, the volume of goods sourced from FTA partner countries and will slow the concentration of production in China.

Third, economic theory suggests that companies will not concentrate all of their production in a single low-cost country. Rather, as a risk-diversification effort, countries will continue to source from a number of places, even after the quotas are eliminated. The number of textile- and garment-producing countries may well be smaller after the quotas are gone, but there will continue to be a number of important second- and third-tier producers that will be able to meet industry needs for diversity in sourcing at a reasonable cost.

Finally, "...China is also disadvantaged in terms of turn-around. There is growing competition among retailers on lead time for as much as 30% of their total imports; this favors sourcing closer to home..." Due to the emphasis on quick turn-around, producing high fashion apparel in Europe and Latin America might be more desirable for retailers who need to receive their merchandise in a timely fashion in order to showcase them during the different product seasons throughout the year. Two caveats are necessary here. First, some Chinese textile exports represent 'round tripping': indirect exporters find it more difficult to obtain China's tax rebates for exporters, so they export their fabrics to Hong Kong to get the rebate, and then these fabrics are re-exported back to China. Second, some fabrics are sent to Hong Kong for finishing, and then re-exported back to China.

With all these caveats in place, the reality is that China will gain market share, probably even in the face of new safeguard mechanisms, but the pace of this growth will be slower than the most alarming scenarios (alarming, that is, to other Asian countries) have suggested. Regardless of what happens with China, the U.S., Canada, and Europe will continue to buy from other countries. Ultimately, when quotas are eliminated, these smaller countries will be competing, not with China, but with each other for the rest of world trade. Whether the non-Chinese trade in textiles represents 50 percent of all trade (with no new quotas on China) or 80 percent of all trade (assuming quotas allow no growth in Chinese exports) or, more likely, somewhere in between, the end of quotas will create an entirely new competitive dynamic among firms in all countries for the non-Chinese remainder of trade in textiles and apparel. It is for this competition that countries need to prepare.

WTO presents both challenges and opportunities for Pakistan, depending on the level of our preparedness, or lack of it, and our ability to perceive the merging new world along with our negotiating skills. With the quota-free regime and emergence of new international trading system, the need for our preparedness and homework has become manifest. We should study our strong points as well as weaknesses, negotiate skillfully to safeguard our commerce, industry and economy. In the textile sector, Pakistan can benefit from new openings if it could ensure quality and diversification of products.

The European Union has come up with GSP schemes and has levied conditions for other countries to join them. WTO should be viewed as a culmination of a process that began after the Second World War to revive economies of what are now the developed countries, and to “suck in” all other countries into the system. On the challenge before Pakistan, the cause of our major failures lies not only in our lack of perception of the challenges, but also in lack, even total absence, of coordination both within the different government departments and with international organizations. The examples of South Korea, Malaysia, and even that of Vietnam should give us reason to hope and boost our determination to devise and implement our policies wisely, intelligently, without coming under pressure from various power houses. We have good plans, which have been emulated by South Korea and others, but we slack in their implementation.

## **2.9 Conclusions**

This chapter has laid out the external environment – the policies of the main importing countries and the realities associated with China’s new role. But government officials and business leaders in Pakistan need to recognize that these external factors are not under their control. Countries cannot significantly change this external environment, nor should that be their goal; they must work within this setting. Inefficiencies, bottlenecks, and red tape remain in many countries. These issues were swept to the side during the last several decades, and given a certain degree of complacency by the private sector and governments alike. These can be generalized to most countries in Asia: “...an inadequate infrastructure, such as congestion and customs delays at Chittagong port, inadequate telecommunications infrastructure, uneven ‘professional office

practices,' and uncompetitive and unreliable energy supplies – all of which contribute to high costs.” Come January 1, 2005, in the absence of quota-determined access, small exporting countries need to focus on policy changes in the areas mentioned above to adapt to the new and competitive landscape. Appelbaum (2004)

## CHAPTER 3

### TEXTILE INDUSTRY OF PAKISTAN

The Textile Sector is by far the most important sector of the economy contributing 67 percent to export earnings and engaging 35 percent of labour force. The entire value-chain represents production of cotton, ginning, spinning, weaving, dying, printing and finally garment manufacturing. Pakistan has emerged as one of the major cotton textile product suppliers in the world with a market share of about 30 percent in world yarn trade and 8 percent in cotton cloth. The value addition in the sector accounts for over 9 percent of GDP and its weightage in the quantum index of large-scale manufacturing is estimated at one-fifth. During the last five years, the Government in collaboration with private sector has been planning to address the challenges of the post-quota regime beginning in the calendar year 2005. In fact, Pakistan has been seeking the removal of these quota barriers for some time and its vertically integrated textile sector was all set to seize the moments in the post-quota regime. Pakistan is one of the major producers of cotton and its textile sector is highly labour intensive, which confers price advantage upon its exports. This will certainly improve the productivity, quality of products and capital efficiency but equal attention needs to be given to the training and up-gradation of skills in textile industry at all levels. The recent shift to value added goods within textile sector requires developing capability in design, processing, inventory management, marketing and keeping track of the fashions and changing demand and adapting products to meet this demand on time while maintaining its quality. The investors have to also take advantage of high growth in the volume of trade in synthetic textiles. As the US and European firms become uncompetitive in textile and apparel business, Pakistani firms should enter into joint venture agreements with them for technology transfer and marketing. This combination of natural comparative advantages, renewal of capital equipment, investment in training and skill upgradation, and joint ventures with the Western firms should enable Pakistan to move from its existing rank to become the 5<sup>th</sup> largest exporter of textiles and apparels as envisaged in the Textile Vision 2005.

The government's Textile Vision 2005 study has provided much of the thinking behind future development. The aim is to make Pakistan one of Asia's top five textile and clothing exporting nations. At present it ranks eighth. Pakistan's role as one of the world's leading cotton producers has provided the basis for the textile and clothing industry's development, although there has been a move towards the use of man-made fibres in line with evolving consumer preferences in world markets. Much of the sector has serious weaknesses—including outdated technology, poor quality and low productivity—although significant gains in output have been made over the last ten years. A high proportion of operations are in small and medium sized companies which tend to be inefficient and lack the resources to effect an improvement. Foreign investment is rising,



but from a very low level. However, the biggest challenge over the short to medium term stems from the ending of the global quota system. This has presented new opportunities but the threat of Chinese competition and dominance looms large.

Textile manufacturers, accounting for 58.5 percent of total exports registered a modest growth of 2.1 percent. However, within textile manufactures, knitwear, towels and made-up articles have registered an impressive growth of over 20 percent each. Their exports in quantity term also registered a sharp increase, ranging between 10–32 percent. Notwithstanding impressive export performance, Pakistan's exports are still highly concentrated in few items. Five categories of exports namely, cotton, leather, rice, synthetic textiles and sports goods account for over 79 percent of total exports. Such a high degree of concentration of exports in a few items can serve as a major cause for instability in export earnings. Similarly Pakistan's exports are highly concentrated in few countries. About one-half of Pakistan's exports went to seven countries only. Such concentration in few markets can also become a source for instability in export earnings.

Pakistan's economy, which grew at 6.4 percent in fiscal year 2003-04, achieved a broad-based growth of 8.35 percent in 2004-05, ably supported by an impressive growth in manufacturing sector. Overall manufacturing is growing at a much faster pace than agriculture and services and if this pace is sustained, its share in GDP is likely to rise even further in the medium term. The main contributors to this impressive growth of 15.4 percent in July-March, 2004-05 over last year are the textile and apparel group (24.5 %), chemicals (14.4%), petroleum group (11.8 %), tyres and tubes group (10.1%), nonmetallic mineral products (15.1%), engineering goods group (11.3%), electrical items group (54.9%), and automobile group (30.1%). The items that registered positive growth are cotton yarn (18.2 %), cotton cloth (28.5 %), nitrogenous fertilizer (3.2 %), phosphatic fertilizer (59.7 %), cooking oil (27.8%), cement (15.3 %), cigarettes (10.5 %), jeeps and cars (26.1%), tractors (24.5 %), L.C.V's (62.3 %), motorcycles/scooters (47.6 %), paper and paper board (4.3 %), T.V sets (5.7 %), motor tyres (18.9 %), refrigerators (19.8 %) and caustic soda (11.1 %). The individual items exhibiting negative growth includes: sugar (21.0 %), vegetable ghee (1.9 %), bicycles (14.8 %) and billets (20.5 %).

### **3.1 Investment in Textile Sector**

Pakistan's textile industry has been investing for the last five years in modernization and the improvement of the production base, and at the same time skill development has increased at a greater pace. The textile industry has taken post-quota regime as an opportunity and has been preparing themselves to face the challenges. Accordingly, over the last five years this sector has invested \$ 5.0 billion in modernization and higher value addition.

As shown in Table 3.1, the bulk of investment has gone to the spinning sector accounting for 46 percent of total investment followed by weaving (24%), textile processing (12%), made-ups (8%) and knitwear & garments and synthetic textile

(5% each). Higher investment in improving production, quality, and value addition is evident from \$ 2.8 billion worth of import of textile machinery during the last five years. Massive investment in this sector has also enhanced their capacity to consume about 14 million bales of cotton, up from 9.0-9.5 million bales in the late 1990s. Enhancement of capacity also resulted in approximately 450,000 job creation, rise in production and exports. Major textile items of import in the current fiscal year (2004-05) include textile winding machines, cone winding machines, looms, dyeing machines, machinery for preparing fabrics and bleaching and processing machines. Increased investment in textile sector has resulted in substantial increase in production of yarn (18.2%), cloth (28.5%) and synthetic fibers (26%) in 2004-05. Textile exports, on the other hand has increased from \$ 5.8 billion in 2001-02 to \$ 8.0 billion in 2003-04. Addressing the structural weaknesses of the Pakistani textile and clothing industry may take time. The government and industry have, however, recognized the challenges that they face, and have started to implement reforms. Furthermore, Pakistan has the real potential to become competitive due principally to its cheap labour, vast source of cotton and long established presence in EU and US markets.

Source: Economic Survey 2004-05

**Table-3.1: Sectoral Shares in Total Investment in the Sector  
(5.0 Billion \$) (1999-2004)**

1.	Spinning	46.0%
2.	Weaving	24%
3.	Textile Processing	12%
4.	Knitwear & Garments	5%
5.	Made-Ups	8%
6.	Synthetic Textile	5%

Source: Textile Commissioner Organization

### 3.2 Reforms in the Textile Sector

The government is providing support for the local production of textile machinery. A wide ranging campaign to produce contamination free cotton in the country to promote value addition has also been started. As a result, the cotton prices are now being quoted on a PSCI grade standard basis. To ensure an abundant supply within the country, cotton is allowed to be imported and exported freely. To stabilize prices in the domestic market, the Trading Corporation of Pakistan (TCP) has been intervening as and when required. These policies have led to the

level of contamination declining from 26gm to 6 gm on average. The profiles of various components of the textile industry are given in the Table-3.2.

**Table 3.2: Installed Capacity of Textile Industry**

	July-March		% Change
	2003-04	2004-05	
Number of Mills	399.0	426.0	6.7
<b>Installed Capacity (000 Nos)</b>			
- Spindles	9286.8	9815.5	5.6
- Rotors	145.6	151.6	4.1
- Looms	10.2	10.2	0
<b>Working Capacity (000 Nos)</b>			
- Spindles	7710.0	8531.0	10.6
- Rotors	67.3	75.1	11.5
- Looms	4.3	4.9	13.9

Source: Textile Commissioner Organization

Over the last five years, textile industry of Pakistan has been the single largest contributor to the country's economy. There has been a substantial increase in the capacities, production and consumption of raw materials. The exports of textiles, especially those of value added goods have increased substantially. This industry is by far the largest contributor to the GDP, national exchequer; export led growth, and generation of employment in the country. We have seen over the five years, large new investments in the present capacities as well as Greenfield projects. The major areas of this investment which amounts to nearly 3.2 billion dollars has been capacity expansion, product diversification and new product ranges of higher value addition in Greenfield projects.

### 3.3 Textile City – Garment Cities

Recognizing the importance of textile and to meet the challenges of the post-quota regime the government has formed a company, namely the Pakistan Textile City Limited (PTCL) with a mandate to establish three textile cities, one each in Karachi, Lahore and Faisalabad. The company has already been listed with the Security and Exchange Commission of Pakistan (SECP) as a limited company to make textile cities a reality. The first such city is being established near Port-Qasim, Karachi. Some 700 acres of land has been acquired in Port Qasim. The total cost of the project is Rs 1.1 billion with Rs 0.5 billion as overnment equity. The rules and regulations of the Export Processing Zones (EPZs) would also be applicable to the Textile City. This City will have a number of supporting and ancillary industrial units in the area including knitting, bleaching and dying units, adequate infrastructure facilities like water supply, a better sewerage system and uninterrupted electricity supply etc.

### 3.4 Performance of the Ancillary Textile Industry

Textile production is comprised of cotton ginning, cotton yarn, cotton fabric, fabric processing (grey-dyed-printed), home textiles, towels, hosiery & knitwear and readymade garments. These components are being produced both in the large-scale organized sector as well as in unorganized cottage / small & medium units. The performance of these various ancillary textile industries is evaluated below:-

#### i) Cotton Ginning Sector

There are 1221 ginning factories in Pakistan, of which, 1075 are in the Punjab and the remaining 146 are in Sindh. The total capacity is approximately 20 million bales per year (assuming a 100 day ginning season). Against capacity, the total production of ginned cotton is 14.6 million bales suggesting an excess capacity of ginning in the country. Ginning is the sector, which is first in the process of value addition leading to readymade garments or other textile products. Unfortunately, the ginning sector is out-dated and needs modernization.

#### ii) Cotton Spinning Sector

The spinning sector is the most important segment in the hierarchy of textile production. At present, it is comprised of 458 textile units (50 composite units and 408 spinning units) with 8.5 million spindles and 75 thousand rotors in operation with capacity utilization of 87 percent and 49 percent respectively, during July-March 2004-05. This year production of cotton yarn has increased to 1710.4 thousand tones from last year's production of 1446.8 thousand tones showing an increase of over 18.2 percent.

**Table 3.3: Installed and Capacity Worked in Weaving Sector (Nos.)**

Category	Installed Capacity	Effective/ Capacity Worked
a) Integrated Textile Units	10249	4947
b) Independent Weaving Units	26034	25500
c) Power Loom Sector	225258	190000
Total	261541	220447

Source: Textile Commissioner Organization.

#### iii) Weaving & Made-up Sector

The problems of the power loom sector revolve round access to credit facilities to modernize their equipment as well as purchase of yarn specially when the prices of yarn increase but the prices of cloth increase with time lag [See table 3.6]. There is need for training facilities & guidance to diversify their products, especially to cater to the needs of the garment industry. However the performance of cloth sector remained better than last year.

#### iv) Cotton Cloth

The production of cotton cloth had increased substantially. This sector has registered a double-digit growth of 28.5 percent this year while the non-mill sector has registered a modest growth of 16.8 percent in the same period. The export of cotton cloth has witnessed an increase of 9.2 percent during July-March 2004-05 in value terms and 4.72 percent in quantitative terms. Furthermore, the unit value of cotton cloth has increased by 4.3 percent this year. Thus, this sub-sector serves as the main engine for down stream sectors like Bedwear, Made-ups and Garments.

#### **v) Textile Down-Stream Industry**

This is the most dynamic segment of textile industry. The major product groups are towels, tents & canvas, cotton bags, bed-wear, hosiery & knitwear and readymade garments including fashion apparels.

##### **a) Hosiery Industry**

There are about 10,000 knitting machines spread all over the country. The capacity utilization is approximately 60%. There is greater reliance on the development of this industry as there is substantial value addition in the form of knitwear. Besides locally manufactured machinery, liberal import of machinery under different modes is also being made and the capacity based on exports is being developed. This sector has tremendous export potential. This subsector has recorded positive exports growth of 22.8 percent over the last fiscal year.

##### **b) Readymade Garment Industry**

The garment industry provides highest value addition in textile sector. It has exported readymade garments worth \$ 1265 million this year. The industry is distributed in small, medium and large-scale units, most of them having 50 machines and below; large units are now coming up in the organized sector of the industry.

##### **c) Towel Industry**

There are about 6500 towel looms in the country in both organized and unorganized sectors. This industry is dominantly export based and its growth depends on export outlets. Substantial increase in export of towels in the past indicate that tremendous possibilities exist for further expansion provided the existing towels manufacturing factories are geared to produce higher value towels. This sub-sector's exports increased by 31.6 percent in quantity terms, and 22.4 percent in value terms, during July-March 2004-05.

##### **d) Tarpaulin & Canvas**

This is the highest raw cotton-consuming sector. The production capacity is more than 100 million sq. meters. This value added sector also has great potential for export. About 90 percent of its production is exported while 5-10 percent is consumed locally by Armed Forces Food Department. Exports of this sector have declined as compared to last year but are likely to pick up in the coming year as Pakistan is the cheapest source of supply of tents and canvas.

### **vi) Synthetic Fiber Manufacturing Sector**

This sector has made progress in line with demand of the textile industry. Presently there are seven polyester fiber units with production capacity of 625,000 tons per annum, two acrylic fiber units of which one unit has started its commercial production in December 1999 with rated capacity of 25,000 tons per annum while other unit of crescent group is under installation. One unit of viscose fiber with a capacity of 10,000 tons has also gone into production. Besides, import of fibers is also permissible to supplement the local production.

### **vii) Filament Yarn Manufacturing Industry**

There are 25 units engaged in the manufacturing of three kinds of filament yarn, namely, acetate rayon yarn (one unit with a capacity to manufacture 3 thousand tonnes), nylon filament yarn (3 units with an installed capacity of 2 thousand tonnes) and polyester filament yarn (21 units with an installed capacity of 95 thousand tonnes). The total installed capacity of all these units is 100 thousand tonnes, against which it produced approximately 78 thousand tonnes per annum. Recently, the hosiery sector has started consuming synthetic yarn for the export of knitted garments, which are contributing to a high value addition, as well as, diversification in exportable products.

### **viii) Art Silk and Synthetic Weaving Industry**

The art silk and synthetic weaving industry is mostly concentrated in the informal sector and is generally operated in the form of family owned power loom units, comprising of 8 to 10 looms. There are approximately 90,000 looms in operation of which 30,000 looms are working on blended cloth while 60,000 looms produce filament yarn. Besides, there are some mobile looms which become operational on market demand. The production of this sub-industry has been registered at 900 million Sq. meters during July-March 2004-05.

Pakistan is experiencing rapid growth in large-scale manufacturing for three years in a row. Going forward in a highly competitive global environment Pakistan needs to diversify its industrial base. Other countries in Asian regions have undertaken diversification exercise. Pakistan needs to do the same. It is in this context that Pakistan needs to take effective measures to reinvigorate and diversify its ossified industrial sector. Not only does it need to provide generalized support to its industrial sector in terms of a good macroeconomic environment and infrastructure, but also needs to attend to the specific needs of industries with higher growth and export potential. It also needs to take a closer look at its present industrial structure and see which industries have reached their saturation point and which newer industries need to be encouraged and developed with some selective state support. By prioritizing and deploying support in favour of dynamic industries in terms of access to resources available, the country can achieve a higher industrial growth trajectory. To do all this, the government will have to make full use of the opportunities available to implement an intelligent industrial strategy in a competitive global economy. There is considerable inter-country statistical evidence to suggest that countries, which diversify their industries, grow richer than those, which don't. Achieving

specialization at too early a stage and ossifying the country's comparative advantage in a few industries is detrimental to its growth. The acquisition of mastery over a broad range of products, rather than concentrating on a few products which it has become accustomed to exporting, seems to be the proper strategy for long-term growth. Such diversification does not have to be random, but should result from a systematic study of world demand for new goods and the country's ability to produce them at competitive prices. This is where industrial policy can play a critical role.

TABLE 3.4

### PAKISTAN PRINCIPAL EXPORTS (July-June)

(Value in Million\$)

Commodities	2003-04		2002-03		2001-02		2000-01		1999-2000	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Val	% Share
Cotton Fabrics	1711	15.33	1345	12.05	1132	13.79	1032	12.04	1,096	12.79
Made-Ups (Incl. Towels)	831	7.45	733	6.57	621	7.56	572	6.68	1,213	14.16
Cotton Yarn	1141	10.22	928	8.32	1073	13.07	942	10.99	1,072	12.51
Hosiery	1471	13.18	1146	10.27	911	11.09	841	9.81	887	10.35
Ready-Made Garments	1003	8.99	1092	9.78	882	10.74	826	9.64	772	9.01
Rice	627	5.62	555	4.97	441	5.37	525	6.13	540	6.30
Synthetic Textiles	467	4.18	574	5.14	409	4.98	544	6.35	458	5.34
Leather Garments	403	3.61	386	3.46	310	3.78	375	4.38	339	3.96
Sports Goods	309	2.77	335	3.00	295	3.59	270	3.15	279	3.26
Carpets & Rugs	220	1.97	220	1.97	233	2.84	288	3.36	264	3.08
Leather	242	2.17	234	2.10	238	2.90	232	2.71	175	2.04
Fish & Fish Preparations	156	1.40	134	1.20	125	1.52	137	1.60	139	1.62
Surgical Instruments	124	1.11	149	1.34	137	1.67	124	1.45	120	1.40
Fruits & Vegetables & Juice	127	1.14	109	0.98	103	1.25	101	1.18	122	1.42
Engineering Goods	96	0.86	74	0.66	48	0.58	43	0.50	27	0.32
Chemical &	263	2.36	260	2.33	152	1.85	164	1.91	100	1.17

Pharm. Prod.											
Petroleum & Products	256	2.29	205	1.84	183	2.23	183	2.14	82	0.96	
Tents & Canvas	73	0.65	73	0.65	47	0.57	49	0.57	53	0.62	
Molasses	47	0.42	45	0.40	67	0.82	41	0.48	43	0.50	
Footwear	87	0.78	85	0.76	53	0.65	40	0.47	37	0.43	
Cotton Waste	50	0.45	47	0.42	46	0.56	46	0.54	36	0.42	
Raw Cotton	47	0.42	49	0.44	24	0.29	139	1.62	72	0.84	
<b>Sub Total:</b>	9751	79.45	8778	78.66	7,530	91.71	7,514	87.69	7,926	92.50	
Other Commodities	2522	20.55	23.82	21.34	681	8.29	611	7.13	643	7.50	
<b>G. TOTAL</b>	12,273	100.00	11,160	100.00	8,211	100.00	8125	94.82	8,569	100.00	

Source: [www.aptma.org.pk](http://www.aptma.org.pk)

### 3.5 Trends in Exports

The export of textile manufactures, covering 58.5 percent of total exports, registered a modest growth of 2.1 percent and stood at \$ 5972.2 million. The more value added items in this group such as knitwear, towels and made-up articles registered an impressive growth of 22.8 percent, 24.5 percent and 19.2 percent, respectively. In quantity terms, the exports of knitwear and towels were also up by 10.1 percent and 31.6 percent, respectively. Exports of cotton yarn and bedwear on the other hand registered a decline on account of a decline in quantity and unit values. Other manufactures exports with 19.0 percent share in total exports posted a healthy growth of 22.3 percent to \$ 1943.8 million. It is important to note that the increase in the value of exports was driven mainly by substantial rise in volume. Thus, with firming up of prices in the international market, exports are likely to rise further.

Pakistan lost \$ 245.3 million on the export of major items during July-March 2004-05 due to lower export prices prevailing in the international market. Had the unit values of these exports remained at the last year's level, the export growth would have been 17.4 percent instead of 14.6 percent as recorded in the first nine months of the current fiscal year.



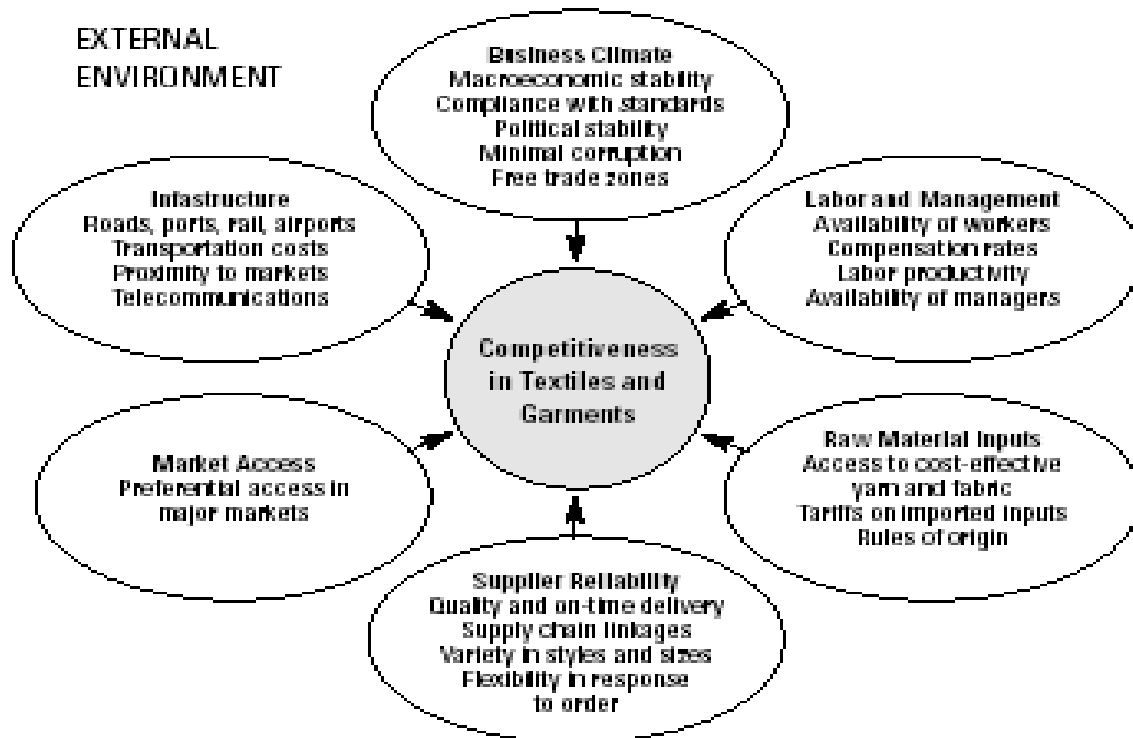
**Table 3.5: Structure of Exports (\$ Million)**

Particulars	JULY-MARCH		% Change
	2004-05*	2003-04	
<b>A. Primary Commodities</b>	<b>919.3</b>	<b>744.7</b>	<b>23.4</b>
Rice	601.7	461.4	30.4
Raw Cotton	93.9	34.6	171.4
Fish & Fish Preparation	97.6	115.4	-15.4
Fruits	71.0	77.1	-7.9
<b>B. Textile Manufactures</b>	<b>5972.2</b>	<b>5850.2</b>	<b>2.1</b>
Cotton Yarn	729.4	847.6	-13.9
Cotton Cloth	1333.0	1220.7	9.2
Knitwear	1265.0	1030.5	22.8
Towels	344.5	276.8	24.5
Bedwear	909.9	1007.5	-9.7
Readymade Garments	754.2	733.0	2.9
Made-up Articles	366.2	307.2	19.2
<b>C. Other Manufactures</b>	<b>1943.8</b>	<b>1589.7</b>	<b>22.3</b>
Carpets, Rugs & Mats	187.8	164.3	14.3
Petroleum Products	316.0	166.1	90.2
Sports Goods	211.8	229.2	-7.6
Leather Tanned	202.4	176.5	14.7
Leather Manufactures	347.2	311.2	11.6
Surgical Goods & Instruments	118.0	100.1	17.9
Chemicals & Pham. Products	256.0	196.1	30.5
Engineering Goods	114.8	68.8	66.9
<b>D. Others</b>	<b>1371.3</b>	<b>720.6</b>	<b>90.3</b>
<b>Total</b>	<b>10206.6</b>	<b>8905.2</b>	<b>14.6</b>
* Provisional	Source: Federal Bureau of Statistics.		

The recent survey of World Textiles conducted by Far Eastern Economic Review identifies Pakistan, India and China as the three major players of future in textiles by international analysts. The analysts also project that of these three countries, Pakistan's textile industry has the best competitive advantage and potential.

Today we stand at a critical crossroad in the future roadmap for Pakistan's textile industry. We can either take a quantum leap and soon become a major player in global textile trade or become part of a group of averages. The industry is poised and ready to take advantages of all the opportunities that become available in the new global economic scenario and the post 2005 era for textiles. The industry today has the technological edge over its competitors, it has the advantage of indigenous raw material availability and it has a balanced "basic" textiles capacity. The industry is self reliant, competitive and not sheltered by high tariff barriers. Neither does it get any subsidies or grants from the exchequer. The governance is transparent, social responsibilities are better understood by highly professional management.

**Figure 3.1: Factors Influencing Competitiveness in Textiles and Garments**



*Source: Study on Policy Options and Opportunities for Asia 2005 by The Asia Foundation*

### 3.6 Current industry Structure

Textile industry is the dominant-manufacturing sector in Pakistan. It is based on locally available raw cotton, employs 38% of total industrial labor force and contributes 27% of industrial value addition with 67% share in total exports of the country. Textile production comprises of cotton, cotton yarn, cotton fabric, fabric processing (Grey-dyed-printed), home textiles, towels, hosiery & knitwear and readymade garments. For better comprehension, understanding various types of linkages that exist in textile industry would be helpful.

#### (i) Vertical Linkages

- Manufacture of garments (tailoring)
- Manufacture of cloth (weaving/finishing)
- Manufacture of yarn (spinning)
- Production of raw cotton (ginning)

## (ii) Horizontal Linkages

- Manufacture of Garments
- Manufacture of thread , buttons, zips, colouring, and cloth

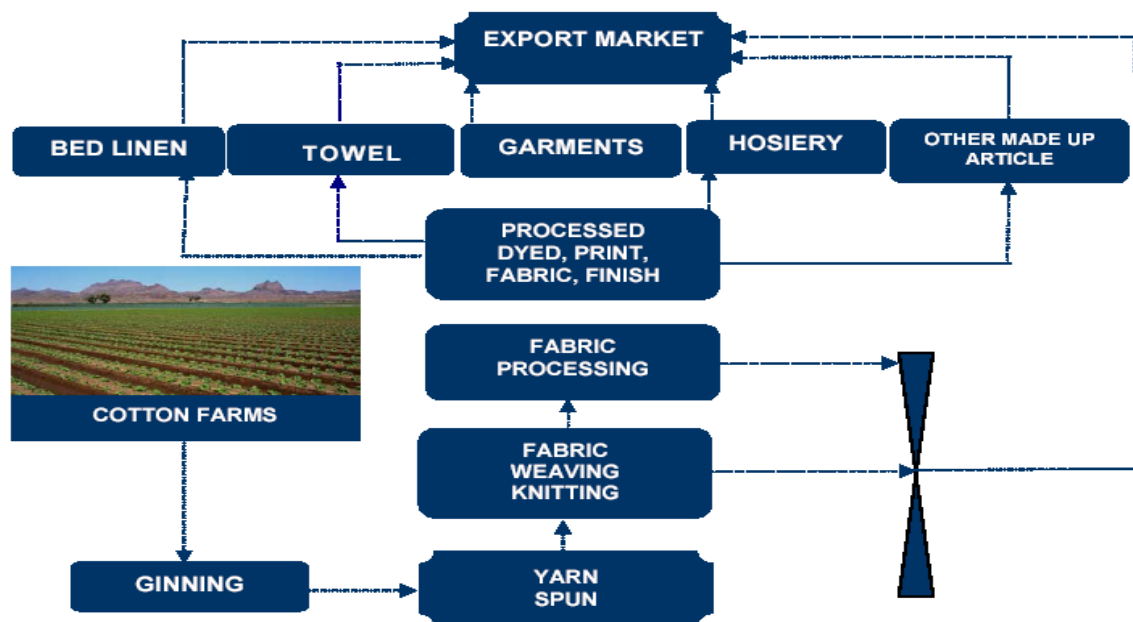
## (iii) Diagonal Linkages

- Manufacture of bags,
- Repair Shops
- Manufacture of clothes,
- Needs of Retailers
- Manufacture of cushions, zips
- Domestic Needs

## (iv) Technological linkages (Manufacture of Cloth)

- Associated Manufactures, Sheets, Pillow cases, Shirts, Table cloth etc

**Figure 3.2: Linkages between sub-sectors and the value addition process**



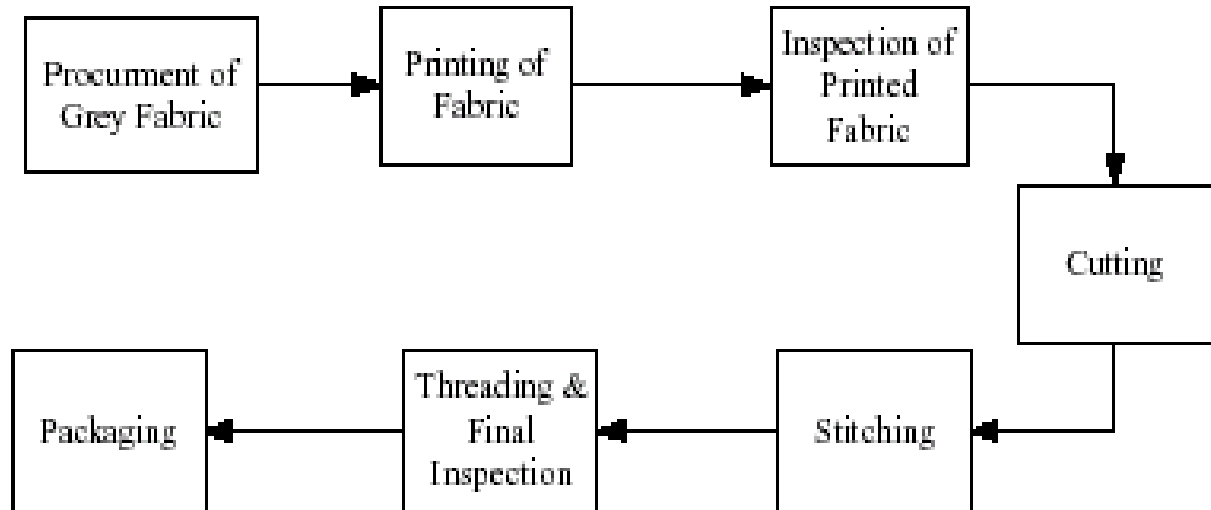
Source: Textile Sector Profile by Expert Advisory Cell

### 3.7 Production Process Flow

The major raw material used in the Bed Linen is printed woven fabric, which is manufactured on Power/Auto Looms or Shuttle-less Looms. Majority of the Bed

Linen manufacturers procure yarn and converts it into woven grey fabric by paying conversion charges to the looms units.

**Figure 3.3- Process flow Diagram**



Source: [www.smeda.org.pk](http://www.smeda.org.pk)

The grey fabric is provided to printing & processing unit and printing charges are paid to get printing according to the given designs and colors. The other possible option used in the market is to directly buy printed fabric from the market and convert it into Bed Linen. Once the bed sheet is stitched, final inspection is done. All the sheets are checked for any defective stitching or loose threads and then they are packed in polyethylene bags along with insert, which is the printed material with brand name etc and card called stiffener.

**3.8 Trade Policy 2005-06.** As per Trade Policy 2005-06 announced by the Minister of Commerce & Trade in July 2005 export target for current fiscal year has been fixed at \$ 17 billion against \$ 14.4 achieved during FY-2005. Exports increased by 17 per cent during the FY-05 over the exports during FY-04. Compared to exports during FY99-00, they have increased by 68.2 per cent. Trade Policy focuses on three important points. One, to give boost to exports and do all that is necessary in this regard. Two, it caters for maintaining a healthy current account balance, to keep currency stable, contain inflation and imports. And three, it puts emphasis on exploring new markets and exportable items with focus on value addition and diversification. The policy identifies three factors which have inhibited growth of exports thus far; textile-centric exports, cost of manufacturing and governance of import-export regime. It enunciates rapid export growth strategy (REGS) based on market access through diplomacy and competitive exports, exploring markets in Africa, Latin America, Eastern Europe and the Far East, strengthening trade promotion infrastructure to attract domestic

investment and FDI. According to the Minister of Commerce Pakistan is joining EU's new GSP scheme with effect from 1 January 2006, which will open EU market to most of Pakistani exports, and should result in exports growth. This new GSP scheme would again allow all of Pakistan's exports to enter the EU market on concessionary rates of tariff. The Trade Policy envisages a number of steps to facilitate exports such as training manpower, long-term fixed rate financing scheme, development of a reservoir of knowledge and expertise on WTO issues, regional trading systems and free trading agreements. To encourage the creation of expertise in international trade and WTO on a sustainable basis, to get research studies conducted and to enable to take well informed positions, the Ministry has decided to enter into partnership arrangements with reputed universities and think tanks in the country. If implemented, this policy is likely to become an important step in bringing compatibility with the WTO regime.

## Chapter 4

### BEDLINEN INDUSTRY

Bedlinen has been defined in the Fairchild's Dictionary of Textiles as a collective term for various articles used on bed especially sheets and pillow cases but not including blankets. Formerly, it was made of linen but now may be made of pure cotton, blends of cotton and man-made fibres or nylon. The term used in the textile industry of Pakistan for items used on bed is bedwear. Thus, Bedwear is synonymous with bedlinen. Bedwear is an important value-added category of Pakistan's textile exports. The statistics pertaining to bedwear exports for the last decade are reported in Table 4.1.

A major chunk of the Pakistani bed linen industry is in the informal sector. According to industry sources, there are 150 units producing bed linen in the organized sector and the rest of the units are in the unorganized sector. There is no data available on these units. The bed linen industry may be large or small depending upon the number of operations carried out by a unit itself. It involves weaving / knitting, processing and stitching. A bed linen manufacturer may be buying fabric from outside and converting it into final product after processing it in-house. Or the processing may be subcontracted and manufacturers just cutting, stitching and packing in their own premises. Vertically integrated units are smaller in number and they operate in relatively upper market segments since it is easy to control the quality in a vertically integrated operation.

Another reason for non-availability of data about Bed Linen industry is the nature of data reporting. The classification of the industry is based on the operations rather than the products. Moreover, manufacturers also keep on changing products. Major clusters of Bed Linen are in Karachi, Faisalabad, Lahore, Multan and Hyderabad. Pakistan is an important exporter of bed wear in the world. The main driver for the development of this industry in Pakistan is the existence of power looms sector. Most of the products in this sub-sector are made from low-density fabrics of wider widths. This fabric can be easily manufactured on power looms, which forms the major chunk of weaving industry of Pakistan. The cost of a low-density fabric is low compared to a fabric meant for garments. Processing of the fabric meant for bed wear is done through printing rather than dyeing. Printing is an easier and cheaper technology compared to dyeing. And it is also easy to control the quality of a print fabric compared to a dyed fabric.

Bed Linen is among the largest sector in terms of production and exports amongst all the made ups in Pakistan. Pakistan is a major exporter of Bed Linen in the world and the basic reason for the development of this industry in Pakistan is the existence of a huge infrastructure of weaving in formal & informal sectors.

The informal sector is also known as Power Loom sector. Most of the products in Bed Linen are made from low-density fabrics of wider widths. This fabric can be easily manufactured on Power & Auto Looms, which forms the major chunk of weaving industry of Pakistan. The competitive edge in cotton has also played an important role in development of Power Loom industry, as the staple length of cotton produced in Pakistan is suitable for medium count yarn, which is used to produce low-density fabrics. The cost of a low-density fabric is low compared to a fabric meant for garments. Processing of the fabric meant for Bed Linen is done through printing and dyeing, and Pakistan has an exceptional infrastructure of such printing and dyeing in Faisalabad, Karachi and Lahore.

All these factors have led to a competitive advantage for Pakistan over other countries in the Bed Linen industry, resulting in extra-ordinary growth during the past few years. The projected growth rates in the said sector are also very high and promise good growth opportunities to new entrants in the industry.

The data presented in Table 4.1 below shows that bedwear or bedlinen exports from Pakistan have made steady progress since 1994-95 and have arisen from about 6.5% to about 18% of the total textile exports in 2002-2003. The bedlinen exports crossed the US\$ 1.0 billion mark for the first time in the history of Pakistan in 2002-2003. Credit for this commendable performance goes to all bedlinen exporters. Export Promotion Bureau (EPB) announced the names of ten top bedlinen exporters for the period January 1997 to November 1999 on the basis of record of quota utilization as follows.

- Gul Ahmed Textile Mills Ltd.
- Fateh Textile Mills Ltd.
- Chenab Fabrics and Processing Mills Ltd.
- Al-Karam Textile Mills Ltd.
- Hussain Industries Ltd.
- Arzoo Textile Mills Ltd.
- Al-Abid Silk Mills Ltd.
- Liberty Mills Ltd.
- Afroze Textile Industries Ltd.
- Nadia Textile International Ltd.

**Table 4.1: Textile & Bedwear Exports Trend**

Year	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Bedwear exports (000 US\$)	285,600	340,235	422,208	456,300	508,700	611,000	710,000	745,000	919,000	1,320,000
Total textile exports (000 US\$)	3,795,817	5,239,600	5,493,900	5,554,800	5,521,900	5,142,000	5,858,000	6,114,000	6,016,000	7,341,954
Bedwear exports as % of total	7.52	6.49	7.69	8.22	9.21	11.88	12.12	12.19	15.28	17.98

Source: Export Promotion Bureau

Upward trend in bedlinen exports from Pakistan continued in spite of the imposition of 6.4% anti-dumping duty in 1998. However, following three major exporters were excluded from this dumping margin.

- Gul Ahmed Textile Ltd.
- Al Karam Textile Ltd.
- Muhammad Farooq Textile Mills Ltd.

Textile exports from Pakistan in general and value-added textile exports in particular suffered a drastic set back in consequence of the tragic events on September 11, 2001 in USA. The decision of the Government of Pakistan to join the International coalition in the fight against terrorism was based on principles, irrespective of its immediate consequence for the economy of the country.

The European Union has offered a tariff rate quota on Pakistan's bedlinen exports to its member countries in order to reduce the impact of anti-dumping duty on the export of the commodity. The EU had initially offered around 35,000 tons yearly quota for the export of bedlinen to the EU states. Pakistan's export of bedlinen to the EU-member countries was in the range of around 60,000 tons prior to the imposition of these duties. With the definitive 13.1 per cent anti-dumping duty, Pakistani bedlinen attracted customs duty at the rate of 25.1 per cent (13.1 per cent anti-dumping duty and 12 per cent normal duty earlier exempted under the GSP scheme) from January 1, 2005 in the EU markets. This high duty has not only affected the export of bedlinen to the EU, but also increased the prices of Pakistani bedlinen in the EU market. The offer of tariff quota was a new turn in the EU policy to provide a protection to its manufacturers by restricting import of bedlinen from Pakistan. The EU had earlier given an assurance to Pakistan that it had the power to suspend the anti-dumping duty on Pakistani bedlinen until the review process was completed by end of 2004. But later it linked the suspension of anti-dumping duty of 13.1 per cent with the signing of a readmission agreement with Pakistan. During this period, the EU



states also agreed to reduce the anti-dumping duty to 1.1 per cent from 13.1 per cent so that following the graduation of clothing and made-ups from the drug-related generalized system of preferences (GSP) scheme of zero duty from January 1, 2005, the actual levy of duty on Pakistani bedlinen would remain at 13.1 per cent. Pakistani exporters are losing around \$ 100 million annually because of its removal from GSP list and because of the anti-dumping duties imposed by the EU. Some exporters have already asked the government to challenge the EU decision in the Dispute Settlement Body (DSB) of the WTO. The offer of tariff rate quota on bed linen showed that the anti-dumping duty was not levied on actual basis of dumping margin. The EU has rather admitted that the case did not exist.

## **CHAPTER 5**

### **ANTIDUMPING**

Simply put antidumping is an instrument that one competitor can use against another when beneficiary interest is domestic and the victim is foreign. (Annex B). The EC had imposed anti-dumping duty on exports of bedlinen during the last financial year and its investigative team also postponed its scheduled visit on account of security threat. Pakistan rejected the European Commission (EC) offer to accept 35,000 tons bedlinen exports without imposition of anti-dumping duty for resolving the lingering row over this issue against the total exports of 65,000 tons. There is consensus in the industry that this step is likely to enhance distortions and would bring back quota regime.

We need to review the Indian textile industry scene to draw lessons for Pakistan's textile industry. If we correctly analyse the issue of handling of antidumping duties by India, we can draw important lessons to deal with the case appropriately. Source: [www.commin.nic.in/doc/dgad/contents.ht](http://www.commin.nic.in/doc/dgad/contents.ht)

#### **5.1 The EU initiates a dumping investigation against cotton-type bed linen from India, Pakistan, and Egypt**

The story begins in August 1996 with a complaint from European producers of cotton-type bed linen that imports of these products from India, Pakistan, and Egypt were being imported into the markets of the European Union at dumped prices, causing material injury to domestic production. The complaining industry, European producers of cotton textile products, represented by Eurocoton, had already pursued a number of earlier dumping complaints and had bitterly contested before the European Court of Justice decisions reached by the Commission. Three complex and unresolved cases against importers of 'grey' i.e., unbleached or unfinished, cotton textiles from Turkey, India, Egypt, China, Indonesia, and Pakistan over the period 1993-98 were already straining relations between foreign suppliers and the European industry. Global excess capacity and declining prices and profits had put the industry in a combative mood, and placed European politicians and officials in a defensive position.

That defensive mood was evident in the foot-dragging approach of the Commission to implementing the WTO Agreement on Textiles and Clothing

(ATC). The ATC required importing countries to remove quotas on at least 16 percent of their textile and clothing imports in the first three years. In its draft schedule, however, the Commission included items such as hats, umbrellas, car seat belts, and parachutes (mostly exempt from earlier MFA quotas), but no mass-market products such as cotton garments or household linens. Some critics of the EU charged that this amounted to lifting restrictions on only 0.1 percent of the products subject to quotas. Quotas on cotton products, in particular, were not significantly enlarged in the first phase.

The EU (and particularly its Southern member states) worried about the consequences of removing protective barriers without reciprocal concessions from developing countries. India, Egypt, Thailand, Pakistan, Argentina, Turkey, Indonesia, China, and South Korea, to name but a few, all maintained various restrictions including prohibitive tariffs, import licenses, standards, foreign exchange restrictions, and certificates of origin. To increase pressure on developing countries, Sir Leon Brittan, then the Commission's vice-president and commissioner for external affairs, announced in 1996 that the EU would speed up its timetable only if its trade partners agreed to liberalize their own markets, and proposed opening negotiations on reciprocal market access with textile-exporting countries. But they declined even to open talks, accusing the EU of trying to wrangle concessions from them as the price for fulfilling its own obligations under the ATC.

The EU's approach, while politically attractive was, of course, little more than a diversionary tactic. None of the developing countries owed the EU better market access for EU textile and clothing products, whereas the EU had made commitments to phase out the MFA quota regime and had 'bound' its tariffs on textile and clothing products at sufficiently low levels to make the ordinary tariff little more than a nuisance factor in conditioning exports to the EU market. High tariffs and other barriers to EU exports to these countries, while perhaps economically unwise and one of the reasons dumping from these countries is easier to find, are not illegal under WTO terms.

The Commission was also prepared to use antidumping investigations to send positive signals to the European industry, even if this required some questionable analysis and decisions. The bed linen case offered a clear example of this tactic. On 13 September 1996, the European Commission, satisfied that the complainants had established that they represented the major part of the industry in the EU as required by the ADA — and that they had provided *prima facie* evidence of dumping, material injury, and a causal link between the dumping and the injury — again, as required by the ADA — formally initiated an antidumping investigation of the subject goods.

It is against this embattled background that, over the course of the next nine months, Commission officials investigated both the allegations of dumping and material injury on the basis of well-established patterns, including: sending detailed questionnaires to the EU importers and the principal Indian, Pakistani,

and Egyptian exporters in order to establish the necessary data to compare export and domestic prices; making visits to the offices of these firms to verify the information provided; sending detailed questionnaires to EU producers in order to gather the information needed to determine material injury; again, making visits to the offices of these firms to verify the information provided; holding hearings to provide representatives of the competing parties opportunities to advance their cases; analyzing the information in order to reach conclusions about the margins, if any, of dumping, the existence of material injury, and a causal link between the dumping and the material injury; and holding disclosure meetings with the parties to inform them of preliminary and final determinations.

Dumping is established by comparing export and domestic prices. The ADA requires that the authorities make a fair comparison, for example, by comparing weighted average export prices and weighted average domestic prices (or normal value), of the same goods over the same representative time period. If there are insufficient domestic sales to establish normal value, the authorities may construct such a price, again based on clearly established guidelines. Material injury is determined by examining the economic health of the domestic industry by looking at such factors as changes in levels of employment, shipments, prices, profits, and similar facts. The ADA requires that authorities examine the full list of factors and make a determination that takes them all into account.

While the basic concepts involved are relatively straightforward, the information gathered is usually sufficiently voluminous and complex to allow for a wide range of interpretations of the data and the use of various methodologies to arrive at the required conclusions. There is also sufficient scope for discretion and judgment to allow for contested conclusions. The breadth of discretion also adds to the scope for using antidumping investigations as an effective tool for harassing foreign competitors. The need to satisfy detailed requests for information and to engage expert assistance can pose a major burden for foreign suppliers, particularly those located in developing countries. The process clearly favours the domestic complaining industry.

Over the years, as a result of both the volume of cases and the increasingly detailed requirements of the ADA, procedures have become more and more complex and legalistic, requiring the involvement of lawyers, accountants, and economists. Both complaining and responding parties are now well-advised to avail themselves of expert assistance to ensure that their interests are protected. In Brussels, as in other major capitals, the trade bar has grown exponentially over the years, with most firms earning their bread and butter from antidumping and antisubsidy cases. India made extensive use of one such firm in pursuing its interests, Vermulst Waer & Verhaeghe. Other private parties to the dispute, such as the complainant, Eurocoton, used other firms. The European Commission relies on the expertise of hundreds of officials in its Antidumping and other Directorates to pursue and defend its interests. (Refer to Annex C for details)

In the case of cotton-type bed linen, in June of 1997 Commission officials made a preliminary affirmative determination of dumping. In December 1997 they made a final determination of dumping and of material injury and calculated margins of dumping for imports. A critical element in realizing these margins was the EU practice of 'zeroing.' US law professor Joel Trachtman describes the issue as follows:

The practice of zeroing involves establishing a set of categories of the product under investigation. Within each category, a weighted average normal value is calculated by reference to home-country sales, third-country sales or a constructed value. This normal value is then compared with a weighted-average export price for that category. Then the normal value is compared with the export price. If the normal value is higher, the difference is a positive dumping margin: the goods are being exported at less than their normal value. If the normal value is lower than the export price, a negative dumping margin would exist. Under EC practice, in calculating a total weighted average for all categories of the product under investigation, the negative dumping margins are changed to zero. This is "zeroing."

The EU had come to rely on this practice after the changes made in the ADA during the Uruguay Round of GATT negotiations (1986-1993) had made some earlier methodologies favoured by the EU, such as comparing weighted averages to individual transactions and vice versa, no longer acceptable.

Similarly, since there were a large number of individual exporters from India, the EU had based its analysis on a sample. For purposes of establishing 'normal value', it selected one Indian exporter (Bombay Dyeing) as representative of domestic sales of such linen. There were five types of products comparable to those exported to the EU sold on the domestic market, which the EU 'found' to be not sold in the ordinary course of trade. It calculated constructed value for all types of bed linen sold by Bombay Dyeing; for others, administrative, selling and general (SG&A) costs and profits used in the 'constructed normal value' of Bombay Dyeing was applied. The export price, on the other hand, was established by reference to the prices actually paid or payable on the EU market. On this basis, the weighted average normal constructed value by type was then compared with weighted average export price by type for the investigated Indian producers, and a dumping margin was calculated for each producer.

Zeroing, constructed value, and other borderline practices gave rise to legitimate questions about the fairness of the EU proceedings and the basis upon which EU officials had reached their decisions about dumping and material injury.

Indian suppliers shared this view and were even more familiar with the weak state of the European industry and the artificial nature of the dumping investigation. European distributors, including manufacturers, wholesalers, and retailers, were among their best customers, eager to buy lower priced goods from India to remain competitive. Even manufacturers bought from their Indian competitors to fill out their lines and compete at all price points. Indian suppliers

regarded the dumping suits as pure harassment, part of a long line of efforts by the European industry to maintain market share in the face of declining competitiveness.

While understandable, both Indian officials and Indian firms had to accept that under the rules of the WTO, EU firms are entitled to complain about dumping and EU officials are entitled to investigate, make determinations, and impose penalty duties. If India wanted to reverse the case or reduce the margins of dumping, it had to address issues within the rules of the WTO's ADA or within the rules of the EU. On this point, Indian officials and their legal counsel in Brussels were confident that EU officials were vulnerable to a legal challenge because they were convinced that EU officials had played fast and loose with the rules in order to arrive at a politically acceptable result.

A number of options were available to the Indian side:

During the course of the investigation, Indian firms were entitled to request that they be allowed to enter into an 'undertaking', i.e., negotiate an arrangement with EU officials, subject to consent by the EU industry, to raise prices or limit quantities for a specified period. Given the extent to which Indian exports of textile products are already subject to various constraints under the succession of special arrangements negotiated to govern international trade in textiles, Indian exporters were well-experienced in working within such constraints. The Cotton Textiles Export Promotion Council of India (Texprocil), acting on behalf of Indian producers and exporters, did at one point indicate to EU officials its desire, and that of its members, to offer price undertakings. The offer was not taken up and became an issue in the subsequent dispute settlement case.

Indian firms, with or without the help of their government, could appeal any errors in law or procedure to the European Court; EU experience, however, indicates that the grounds for appeal are very narrow and the chances of success slim. Neither the Indian government nor Indian firms chose to pursue this option. Eurocoton, on the other hand, was well-experienced in pursuing such cases, a fact EU officials may well have had in mind in their conduct of this case.

At the end of a year, Indian firms could seek an administrative review with a view to reducing the margin of dumping or even vacating the order. Experience had demonstrated, however, that such reviews could as easily increase duties; meanwhile, the punitive duties in place would continue.

The Indian government could contest various aspects of the procedures, methodologies, and determinations used by EU officials under the terms of the Dispute Settlement Understanding (DSU) of the WTO. This is what India chose to do. At the same time, Indian officials were aware that this was not an option without costs and consequences. Quality legal advice is expensive, dispute settlement cases require significant resources to prosecute successfully, and dispute settlement cases take time, time during which the duties stay in place.

## **5.2 India takes its complaint to the WTO (Refer to Annex C for timeline)**

Under the terms of the DSU, any member is entitled to request consultations with any other member with a view to rectifying or removing a measure, practice, or policy of the second member that the complaining member believes to be inconsistent with the rules of the WTO and that 'nullifies or impairs' (i.e., harms) benefits that it would gain but for that measure, practice, or policy. In rare instances, it is even possible to complain about practices that may not be inconsistent with the rules but still cause nullification and impairment. This was not the case here. India was confident that the EU had engaged in numerous illegal practices. The responding member must honour the request for consultations, enter into them on a timely basis, and give 'sympathetic' consideration to the complaint. Both parties are required to make their best effort to resolve the issue on a bilateral, and amicable, basis.

India requested consultations with the EU on 3 August 1998 and consultations took place in Geneva on 17 August and again the following 15 April, but without resolving the issues under dispute. Pakistan joined India in the consultations as an interested third party, but chose not to pursue the case any further. The time between the two formal consultations afforded the parties time for informal discussions and for developing their approach to the issues. During the course of the consultations, India set out its arguments that the methodologies used by EU officials to arrive at both their determinations of dumping and material injury were flawed and inconsistent with the requirements of the ADA. The EU, for its part, maintained that there was sufficient scope within the rules of the ADA to justify the methodologies employed and the conclusions reached. The chances of a successful resolution of the issues through consultations were slim, given the stakes and the interest of other parties. Indeed, in its submissions to the subsequent panel, India claimed that the EU had consulted in bad faith, and took the unusual step of providing the panel with verbatim records of the consultation proceedings. Even unsuccessful consultations, however, can prove of value to both members in thinking through the issues and in addressing the concerns of the private parties affected by the issue.

Under the terms of the DSU, if the disputing members fail to reach a mutually acceptable solution, the complaining member is entitled to seek the help of either the Director General of the WTO, the other members as a whole through the Dispute Settlement Body (DSB), or both. The Director General has the authority to appoint an impartial arbitrator to work with the two members with a view to facilitating resolution of the issue(s). Developing countries, in particular, are encouraged to pursue this option because it is less expensive and may prove more timely. Alternatively, the complaining member can seek the establishment of a panel to hear the case and make recommendations to the DSB on the issue under dispute and the necessary steps to resolve it. India chose not to pursue the arbitration option; the issues were too important to be settled on the basis of

an arbitration that would establish no lasting legal standards to discipline future EU conduct.

The WTO dispute settlement procedures represent the nearly fifty-year cumulative experience of GATT members in developing procedures to resolve disputes on a basis that respects not only the rights and obligations of individual member states but also the collective interest of all in the enforcement of the agreed rules. The DSB meets regularly to address complaints from members, to deal with requests for the establishment of panels, to consider reports from panels, and to address issues arising from compliance with DSB decisions. In pressing situations, a member can ask for a special meeting. Any member can request the establishment of a panel and such a request is automatically granted at the second meeting. It can be acted upon at the first meeting if the responding party does not object.

India requested establishment of a panel at the September 1999 meeting of the DSB. The DSB established the panel at its next meeting in October in accordance with India's request, stipulating that the panel 'examine, in the light of the relevant provisions of the covered agreements cited by India in document WT/DS141/3, the matter referred to the DSB by India in document WT/DS141/3, and to make such findings as will assist the DSB in making the recommendations or in giving the rulings provided for in those agreements.'

At this stage, it is important that the complaining party has a good idea of the case it wants to pursue, because the terms of reference basically define a case along the lines of the official complaint lodged by the complaining party. As India learned, elements that it had inadvertently left out of its complaint but which were important to its case could not be added later. The panel ruled that its jurisdiction was limited to the issues set out in its terms of reference. If India wanted to add elements, it would need to start a new process. Even so, India had a long list of issues for the panel to address; in its view, the EU's abuse of the rules was extensive and pervasive.

### **5.3 WTO establishes a panel to hear India's complaint**

Panels are constituted by the Director General in consultation with the parties to the dispute. If such consultations prove difficult, the complaining party can ask the Director General to proceed on the basis of consultations with 'the Chairman of the DSB and the Chairman of the relevant Council or Committee.' India made such a request on 12 January 2000 and the Director General consequently constituted a panel made up of three senior diplomats: Dariusz Rosati, former Foreign Minister of Poland, Marta Lemme (from the Brazilian Permanent Mission to the WTO), and Paul O'Connor (from the Australian Permanent Mission to the WTO). The panel would be assisted in its work by WTO staff, including a legal advisor from the Legal Division and an analyst from the division responsible for the matters at issue, in this case the Trade Remedies Division.



The DSU provides that other members of the WTO, who believe that they have an interest in the issues to be examined by the panel, can reserve their rights to participate in the proceedings and make submissions to the panel. Egypt, the United States, and Japan reserved their rights as third parties to the India-EU proceedings.

Once the panel is constituted, the disputing members are invited to provide the panel with briefs setting out their view of the issues, including the facts at issue, the interpretation of the rules, and rebuttals of the arguments raised by the other member. If third parties submit briefs, the disputing members are also given an opportunity to address the arguments raised in these briefs. Typically, these briefs can run into hundreds of pages.

In its briefs to the panel, the government of India's task was to establish that EU officials had abused the provisions of the WTO's Agreement on Antidumping in making its findings. As is typical in such pleadings, India pursued as many claims as possible — 31 in this case, involving violations of Articles 2.2, 2.2.2, 2.4.2, 3.1, 3.4, 3.5, 6, 6.10, 6.11, 5.3, 5.4, 15, and 12.2.1 and 12.2.2. The most important of these included:

- Claim 4: Inconsistency with Article 2.2, by applying the profit amount determined for Bombay Dyeing in calculating constructed value for other producers, even though that amount was clearly not “reasonable”;
- Claim 7: Inconsistency with Article 2.4.2, by zeroing negative dumping amounts in calculating dumping margins;
- Claim 8: Inconsistency with Article 3.1, by assuming that all imports of the product concerned during the investigation period were dumped;
- Claims 11 and 14: Inconsistency with Article 3.4, by failing to consider all injury factors mentioned in that provision for the determination of the state of the domestic industry; and by failing to disclose or make public findings thereon, which violates the rights of defence contained in Article 6;
- Claims 15 and 16: Inconsistency with Article 3.4, by relying in the injury determination on companies outside the domestic industry, by not consistently basing the injury determination on the chosen sample and by relying on different “levels” of industry for different injury indices; and with Articles 6.10 and 6.11, by selecting a sample of the domestic industry that was not representative;
- Claim 29: Inconsistency with Article 15, by failing to explore possibilities of constructive remedies before imposing anti-dumping duties;

India argued that, as a result of these inconsistencies, the EU had nullified and impaired benefits accruing to India under the WTO Agreement and requested that the Panel recommend that the EU bring its measures into conformity with its WTO obligations by immediately repealing the Regulation imposing definitive anti-dumping duties and refunding anti-dumping duties paid.

The EU, for its part, needed to establish that each of the 31 complaints raised by India was without merit and that EU officials had conducted their investigation and made their findings in a manner fully consistent with the provisions of the ADA. It also argued that many of India's claims were beyond the scope of the panel's terms of reference either because they had not been included in India's original complaint or because they referred to the provisional finding that had since been vacated and replaced by the definitive finding, which was properly the focus of the panel's proceedings.

Once the panel has had an opportunity to absorb the written briefs, it meets with the parties to the dispute. The India-EU panel met with officials from India and the EU on 10-11 May 2000 and again on 7 June. Officials from Egypt, the United States, and Japan joined the hearings on 11 May. These hearings, held at WTO headquarters in Geneva, afford panel members an opportunity to hear oral presentations of the arguments of the parties and to question them on aspects that panel members are not clear on. Unlike domestic court proceedings, there is no opportunity for cross examination, no rules of evidence, and similar procedural safeguards. Rather, the hearings betray their diplomatic origin and the underlying intent of the proceedings: to find a mutually acceptable resolution of the issues in dispute. Given the mass of evidence and argumentation advanced by the parties, three days of hearings can do no more than scratch the surface. In effect, panel proceedings rely largely on paper briefs and argumentation.

Once the panel is satisfied that it understands the arguments of the parties, it sets to work to assess these arguments in light of its own reading of the relevant provisions of the WTO and its constituent agreements. With the help of WTO staff, the panel summarizes the arguments of the parties, prepares its own analysis of the issues, and reaches conclusions. The panel is not required to make findings on all the claims. Indeed, as a result of the oral hearings, India vacated a number of its claims. Additionally, under the principle of judicial economy, the panel needs to make only those determinations it judges necessary to resolve the dispute.

The final result can be summarized as follows:

The original panel and the AB found the practice of 'zeroing' to be inconsistent with ADA article 2.2.4; i.e., they rejected the EU practice of inflating margins of dumping by taking account of the average of 'positive' dumping margins in investigated products, but ignoring the cases where there are 'negative' margins and giving a zero value to them instead.

The AB additionally found the EU methodology in calculating the administrative, selling, and general (SG&A) costs and profits, in which it used a method where data applicable to one other exporter or producer is used to apply to all others, to be inconsistent with article 2.2.2(ii).

The original panel ruled that the EU did not conduct 'an evaluation of all relevant economic factors and indices having a bearing on the state of the industry' and, therefore, failed to act consistently with its obligations under Article 3.4 of the AD Agreement in making a finding of material injury.

The original panel additionally ruled that the EU erred in using all types of bed-linen products: bed sheets, duvet covers and pillow cases, packaged for sale either separately or in sets, and made of cotton-type fibres, pure or mixed with man-made fibres or flax, and bleached, dyed or printed — as a single product competing with 'like' products of the domestic industry, for certain purposes of investigation, but using the various components of the imported product for calculating export price and normal value and averaging them, to establish dumping, again prejudicing the interests of Indian suppliers and favouring the interests of domestic suppliers.

Finally, the original panel ruled that the EU had failed to explore possibilities of constructive alternative remedies before applying anti-dumping duties, as it is required to do in cases involving developing countries consistent with article 15 of the ADA.

The cumulative impact of these rulings was a major vindication of India's complaint, and set a critically important precedent: India had successfully challenged the highly prejudicial approach of both the EU and the United States in prosecuting antidumping cases. The case put the authorities in both of the major users of trade remedies on notice that exporting countries, whether poor or not, were prepared to avail themselves of the procedures of the DSU to hold trade remedy officials to account. Ironically, both the United States and the EU had used dispute settlement proceedings to discipline what they considered to be sloppy applications of antidumping proceedings in, for example, Mexico. With the shoe on the other foot, it appeared that both the original panel and the AB were prepared to hold EU and US officials to the same standard.

(Refer to Annex D for result)

This case, which focuses on what was involved in settling the dispute between India and the EU, sought to explain and achieve the following objectives:

Governments need not only to gain, but also to defend, access to foreign markets for national exporters, using every means at their disposal.

Antidumping measures, while permitted under the WTO, must comply with the procedures set out in the WTO Antidumping Agreement.

International rules — as set out in the WTO and similar agreements — are only as good as the willingness of member governments to enforce them by availing themselves of procedures to settle dispute arising from the implementation and application of the rules.

Developing country members of the WTO have the same rights as industrialized members to use dispute settlement to defend their rights and interests.

Governments need to maintain their focus on the specific issues in dispute from the many extraneous issues, and deploy their arguments strategically and well.

As the case unfolded, it is not difficult to understand why so many commentators conclude that antidumping proceedings are heavily skewed by political considerations. Antidumping exists as a safety valve, providing governments with more scope to liberalize trade than might otherwise be the case. Most economists consider the economic rationale for antidumping procedures to be deeply flawed. Domestic industries, on the other hand, view these procedures as an important tool in addressing inroads by foreign competitors and, with the help of lawyers engaged in pursuing such cases, have developed elaborate rationales to justify them. Politicians in large economies like the procedures because they provide a ‘technical’ response to complaints from domestic constituents about foreign competition. Expecting a wholly fair approach by national officials is thus highly unlikely. Antidumping officials are charged with finding dumping and material injury and, given the wide latitude allowed by the ADA, they usually do find both.

At the same time, antidumping officials must operate within the rules and procedures set out in the ADA. These rules are the product of arduous negotiations and represent compromises between competing export and import interests. Some of the language is ambiguous and the underlying concepts complex. Access to dispute settlement is, therefore, a critically important right for both sides in an antidumping dispute. Maintaining balance between competing exporting and importing interests, therefore, is more than a matter of negotiation; it is also a matter of litigation. Failure to use that right can result in erosion of hard-won access and a skewing of the balance between competing interests.

Developing countries have in the past been reluctant to exercise their rights to dispute settlement, citing expense and the need for a high level of technical competence. Improvements in the procedures and the availability of resources at the WTO to help developing countries have somewhat mitigated this concern. More fundamentally, however, smaller countries are reluctant to exercise their franchise for fear of retaliation on other fronts. Such an attitude, understandable as it may be, is short-sighted and undermines the proper functioning of the regime and the fuller integration of developing countries into the trading system. As this case, and others, demonstrate, developing countries can take on the major members of the WTO and hold them to account, but they need to be patient, insist on their rights, use the best advice available, and follow through.

Note: The panel's 71-page report can be found in WTO document WT/DS141/RW of 29 November 2002, to which are appended five appendices setting out in exhaustive detail the arguments of the two parties and three third parties.

# **CHAPTER 6**

# **RECOMMENDATIONS**

## 6.1 Recommendations (Textiles)

It is useful to envisage textile industry of Pakistan in terms of longer run (say five to ten year) medium term (say five year), and short term (say one year) strategies, and policy suggestions.

### 6.1.1 Long Term

#### **Human Resource Development**

- **Improvement in technical efficiency.** Pakistan's adult literacy rates, by international standards, are very low. The amount of existing trained human resource and their quality is not sufficient to run the modern technology with full potential. We cannot compete in international market as long as we will not increase our technical efficiency and expand economies of scale. The improvement in technical efficiency and expansion of economies of scale is the only source of reducing cost of production. The fundamental role of the institution is to break the back log of supplying the trained labor which is key input to decrease the cost of production. For survival in this competitive world, we should adopt those rules and regulations which are stated in WTO Agreements. In order to implement these rules our human resource management ministry and department have to play their vital role more effectively.
- **Expert staff in spinning, weaving and dyeing.** The implementation of existing and new laws is more crucial because main issue in this country is not of development of new laws rather implementation. The ministry should work at the grass-root level to implement the existing laws more effectively. It requires new expert staff in different areas of textile (spinning, weaving and dyeing etc) who are well aware of technological problems at each stage in their field so that they should be capable to investigate the intensity of any negative externalities. This will help to provide an ideal working environment to our laborers. The ministry of finance should provide necessary assistance to develop required physical infrastructure to develop human resources. Human resource development is an essential component to compete under WTO regime in textile sector. Government should fasten the process of human resource development because our existing labor force (including managerial capacity) is not yet ready for the challenges of WTO. Majority of them are

illiterate and cannot produce according to the WTO requirement. It is a good sign that Government of Pakistan has opened a separate Ministry for Textile and definitely it will help to improve the situation. The physical infrastructure that supports export-oriented activity, including power, roads, and ports, must, at the very least, not represent special additional costs of production. The governance of export-related activities, including port and customs management, must facilitate rather than impede trade. These considerations may sound mundane, but in most countries in Asia they represent significant additional costs, and it is likely that the worst performing countries will see their factories and jobs move elsewhere.

- **Reconsider array of labor laws.** Given the changing market environment, it may be necessary for countries to reconsider their array of labor laws, from wage policies to overtime to hiring and firing flexibility; labor laws designed to provide a better distribution of profits to labor that were possible in a quota-sustained industry may no longer make sense in the new quota-free environment. Any country with provisions too far out of line with others in the region must be prepared to accept the possibility that they have priced themselves out of this market. Some may see this process as a race to the bottom, but the reality is that these quotas probably sustained jobs in uncompetitive countries and firms for a long time (which is why these jobs, even while low-paying, were still considered well-paying by local standards in almost every country); this transitional period is not a race to the bottom, but rather a race to the market, and countries that do not recognize and adapt to the new rules are destined to lose that race and the textile and apparel jobs that go with it. The “winners” of this race may still see some loss of jobs, but with the right policy environment, efficient producers should be able to survive and grow. The “losers” may see most or all of their jobs move to China, but their inability to compete will be as much a result of the poor economic governance as of unfair competition elsewhere.
- **Improve productivity level in textiles.** While the recommended policy changes are straightforward, they may be politically difficult. Any public policy implies trade-offs between different interest groups and so change is likely to generate some domestic opposition. In this case, however, the domestic imperatives are clear. Countries that witness a large-scale exodus of capital invested in garments and textiles will face enormous social dislocation costs, growing unemployment and poverty, and possibly social unrest. The stakes are high, but the tools of reform are available, and the need to act now is compelling. According to a World bank report last year, Pakistan was required to improve its productivity level in textiles and clothing by around 60 per cent to reach China's productivity levels. Improvements in productivity will lead to significant increases in output, employment and exports, as well as welfare gains for the workers.

### **Technological Development and Diversification of Industrial Base**



- **Heavy dependence on imports.** Government should provide more favorable environment to import and locally produce latest technology that will further help to expand the textile sector. Unfortunately, Presently Pakistan has no capacity to produce modern technology in home and we are completely depending on import. This heavy dependency on import will increase the cost of production and in the long-run this could make our textile sector uncompetitive in international market.
- **Improvement of supporting sectors.** Beside, directly concentrating on Textile sector, Government should also focus on those sectors of the economy that are providing inputs to Textile sector. For example, if the prices of energy will remain high which is one of the prime inputs for Textile industry, it will again make us uncompetitive in international Textile market. Therefore, Government also needs to work for the improvement of supporting sectors in order to keep the Textile industry most competitive.
- **Full package production.** There is a substantial emphasis on the importance of firms being able to deliver “full package” production, meaning delivering everything from design to logistics to fabric procurement to financing and transportation. The expectation of this type of production by buyers, combined with increased competition, will require a fundamental re-orientation by firms in the way they do business; no longer will buyers come to them; it will be necessary for firms to seek out buyers in the international marketplace. China (and even India with its similar size advantage), is likely to benefit from this trend with its ability to provide everything from engineers to fashion designers to unskilled labor. No other sector of global economy is beset with uncertainties in scope and intensity as much as the textile and clothing industry in individual countries by the applicability of WTO regime, positively or negatively. The forecast is that 30 millions jobs will be put on hold, mostly in the developing economies, as its consequence - an economic Tsunami for poor countries. In return there would be countries, with right infrastructure and cost-effective and quality-competitive production capacities tailored to the needs of a quota-free international textile and clothing market, that would register substantial increases in employment and capacity utilization in this sector.
- **Diversifying textile and clothing sector.** Pakistan has to convert the present situation into a God-sent opportunity by up-dating, up-scaling and diversifying its textile and clothing sector. Recognizing the importance of textile and to meet the challenges of the post-quota regime the government has formed a company, namely the Pakistan Textile City Limited (PTCL) with a mandate to establish three textile cities, one each in Karachi, Lahore and Faisalabad. The company has already been listed with the Security and Exchange Commission of Pakistan (SECP) as a limited company to make textile cities a reality. The first such city is being established near Port-Qasim, Karachi. Some 700 acres of land has been acquired in Port Qasim. The total cost of the project is Rs 1.1 billion with

Rs 0.5 billion as government equity. The rules and regulations of the Export Processing Zones (EPZs) would also be applicable to the Textile City. This City will have a number of supporting and ancillary industrial units in the area including knitting, bleaching and dyeing units, adequate infrastructure facilities like water supply, a better sewerage system and uninterrupted electricity supply etc. It would be developed as an exclusive textile export zone with a number of processing units to add a quantum jump in value-addition, diversity and productivity of the textile and garment-making industry, so critical to quote competitive prices in the markets abroad. When in full operation, Bin-Qasim Textile City is expected to generate 80,000 job opportunities. It can be served by Textile University spread over an area of 50 acres and located in the Eastern Industrial Zone of Port Qasim, not far away. The university is already functional, imparting advanced education in different facets of textile industry providing a very potent agglomeration effect - when the output of one unit becomes the input of another unit - to the potential textile units. We need not only to increase the number of Textile Universities but also the number of specialization in each University because Universities are the only source and hope of new technology generation. Internationally it is well proven evidence that the investment on research generates enormously higher return compared to any other investment. Karachi Textile City would mark the implementation of the concept and practice of economic zoning in Pakistan in a big way. Export processing zone, free trade industrial zone and free port, all are expression of economic zoning, providing laboratory conditions to test and accomplish policies and measures in economic development and diversity. The Chinese economic miracle accomplished over a quarter of century, owes its initial momentum and dynamic to the success of the first four Special Economic Zones (SEZ ) launched in late 1970s. Pakistan also needs to diversify its industrial base as other countries in Asian regions have undertaken. There is considerable inter-country statistical evidence to suggest that countries, which diversify their industries, grow richer than those, which don't. The acquisition of mastery over a broad range of products, rather than concentrating on a few products which it has become accustomed to exporting, seems to be the proper strategy for long-term growth. Such diversification does not have to be random, but should result from a systematic study of world demand for new goods and the country's ability to produce them at competitive prices. This is where industrial policy can play a critical role. With the quota-free regime and emergence of new international trading system, the need for our preparedness and homework has become manifest. The European Union has come up with GSP schemes and has levied conditions for other countries to join them. The USA, seeing the role of rising China, has taken measures under which it can stop products of other countries and safeguard its own interests.

- **Attract foreign investors.** For technological development and diversification of industrial base we need to attract foreign investors.

Buyers, and investors, appear to operate with a herd instinct. If some leading buyers source from a country, others tend to follow. If garment investors can operate profitably in a country, and not just depend on quota rents, inward investment in other labor-intensive industries tends to follow. In comparison to achieving an investment climate good enough to attract global buyers and foreign investors, most other issues that bother Pakistan's exporters such as high power costs are less important. Many of Pakistan's competitors achieved quantum leaps in their exports while suffering from similar problems of high electricity costs, widespread low-level corruption, and inefficiently operating ports. In growing its exports Pakistan faces the problem that it is not perceived as an acceptable investment environment by most export-oriented foreign investors. Also, though to a lesser extent, global buyers do not see Pakistan as an acceptable place in which to operate. Much has been achieved already in terms of macroeconomic stability and gradual, well-planned import liberalization, but in the medium to long term the investment climate must be improved further. Meanwhile, Pakistan probably will have to manage without the influx of East Asian investors who were so influential in providing market access and production technology in many of Pakistan's main competitors and in other Asian countries such as Malaysia and Thailand who have moved further up the technology ladder. Once the MFA goes, the range of countries from which global buyers source is liable to narrow. However, buyers of garments probably will continue to prefer a mixture of higher cost suppliers who are very close to hand for quick fashion items and lower cost producers for standard items, even if they are more geographically distant. Also, in some of the product areas in textiles and garments of most interest to Pakistan, there is a high degree of similarity between Pakistan's exports and those of China (and India). And Pakistan does not have the preferential access to the US market as enjoyed by Mexico.

### **6.1.2 Medium Term**

**ISO Certification.** As we know in WTO regime, quality is the focal point. ISO has developed management standards like ISO 9000, Social Compliance and standard regarding environmental issues. Our exporters should strictly follow the recommended standards, if they want to make their space in international markets under WTO regime. They should be very careful not only in use of chemicals, dyes and pigments but also in managing of wastage chemical together with polluted waters. Safety of working laborers is another important issue, which is not taken care of, under existing set up. The strict safety precaution in the use of these deadly chemicals needs to be adopted in order to fulfill one of the necessary conditions for export under WTO regime. In order to gain access to the markets of the developed countries, the products should be ecologically safe. Importing countries can check our exports if our products don't match the standards which are stated in ISO. Therefore, all industrial units

operating in textile sectors should achieve ISO certificate by recognizing themselves from authenticated laboratories. Essential requirements which a textile manufacturer must fulfil in order to qualify for the relevant ISO-9000 certification as given by Dr. Richard J. Murphy are as follows:-

- a. Delegation of authority from the chief executive down to the floor level.
- b. Diffusion of decision making, empowering qualified, educated and experienced persons to make decisions within a system.
- c. Basing the management of the company on documented systems which render performance predictable.
- d. Installation of a quality management system with an in-built procedure for taking preventive and corrective action to eliminate manufacture of non-conforming products thereby reducing manufacturing waste.
- e. Correct planning and allocation of resources by operating a documented quality management system.
- f. Verification of the qualifications and experience of each and every employee with reference to the duties assigned to him/her. If these are found inadequate for the task he/she must perform arrangements for training of such employees must exist within the plant.
- g All products being manufactured must be identified by a well documented, labelling/tagging system.
- h Ensuring cleanliness within and around the mill premises which is a pre-requisite for good management.
- i All departmental managers would be provided with a copy of the relevant ISO-9000 i.e ISO-9002 in the case of spinning, weaving or wet processing mills. They should carefully read and understand the requirements of the 20 clauses and how these can be complied with.
- j A qualified and trained technical person preferably a textile graduate should be appointed as a management representative to organise and develop a standard quality management system on behalf of the CEO and maintain it once it is operational. He should also be capable of organising a team for attending to the implementation of the system.
- k The chief executive should be directly involved and fully committed to the aims and objects of the ISO-9000 quality management system. He should hold monthly meetings to review the progress in the implementation of the system. When all the requirements of the relevant ISO-9000 have been fulfilled the

company should apply for certification. Once certified, the company will in fact win an "entry ticket" to participate in world markets.

Out of a total of about 729 textile units in the various sectors of the textile industry, only about 250 units have obtained the relevant ISO-9000 quality system certification. Thus, 479 textile units in the formal sector are operating without ISO-9000 certification at present. With the commencement of the world trade order in 2005, all world markets will be open for free trade. Pakistani manufacturers will be able to export their products only on the basis of quality and competitive price. Thus, the WTO poses a challenge as well offers an opportunity. Pakistani textile manufacturers should move fast and prepare themselves well in time by paying attention to all aspects of their operations such as the requirements of ISO-9000 Certification, BMR programmes, expansion wherever required, value-addition of their products, gaining a competitive edge over competitors, compliance with ISO-9000 and Eco-Labeling of their products etc. Acquisition of competitive ability will be in proportion to how thorough has been the preparation with respect to the operational and managerial aspects mentioned above. Achieving the required standard of competitive ability, calls for input of textile graduates, diploma holders and skilled workers at respective managerial, technical, engineering, supervisory material handling, machine tending, floor jobs etc. The Textile Industry of Pakistan is passing through a critical phase of its history. Foreign buyers are much more quality conscious today than ever before and only accept products of the quality required by them. In order to meet the demands of the foreign buyers in respect of credibility, consistency and continuity of product quality the textile manufacturers must secure the services of the right type of textile graduates, diploma holders for managing their operations. The owner of each industrial unit, at least in the formal sector initially, should ensure that the requirements of social compliance are being fulfilled in National Environment Quality Standards (NEQS). If they don't fulfill these pre-requisites then there is a possibility that our exports can be checked. Therefore, for survival in this competitive world, we should adopt those rules and regulations which are stated in WTO Agreements.

## **6.2 Recommendations (Bedlinen)**

### **6.2.1 Long and Medium Term**

#### **New Markets Development**

- **Free trade agreements.** U.S. is engaged in several free trade agreements (FTAs), and these relationships often involve commitments to reciprocal market access, customs cooperation, a textile safeguard import relief mechanism, and rules of origin that require substantial manufacturing in one of the countries that is party to the agreement. The U.S. already has FTAs with Canada, Mexico, Israel, Jordan, Singapore,

Chile, Morocco, Australia, and Bahrain, and new pacts were just completed with Central America and the Dominican Republic. Countries that participate in these agreements may have duty-free access to U.S. markets, providing relief from the average 12 percent tariff. But this advantage should not be exaggerated. Due to rules of origin, the relief often applies only to locally added value, and in an industry with significant levels of imported inputs (and low average wage bills), the effective relief is usually far less than 12 percent. Nonetheless, this advantage will increase, at the margin, the volume of goods sourced from FTA partner countries and will slow the concentration of production in China. Pakistani exporters should open and explore new markets for textile products in SAARC countries under SAFTA. They must exploit existing trade opportunities with countries such as U.S.A. where quota restrictions on certain textile products from Pakistan have been lifted as a part of 3-year package of trade bonuses. It is also encouraging to note that the Government is seized of the problems being created by the imposition of illegal import duty and anti-dumping duty by the E.U. for Pakistani bedlinen exporters. Sri Lanka's initiative for a Super Regional Cumulation linking SAARC and ASEAN countries as one entity for the purpose of GSP facility of the European Union (EU) should be supported by the Pakistani exporters. The value-added manufacturers would have a wide choice to source their fabrics as a result of this linkage. Moreover, EU would accept the utilisation of fabrics from ASEAN countries for GSP benefits and this would make the products of SAARC countries competitive and affordable. It would also enable EU buyers to procure more value-added products from SAARC. The Super Regional Cumulation (SRC) would also institute the concept of improvement in quality of fabrics and encourage joint ventures, technical collaboration and common market strategies among SAARC countries. There is a possible scenario in which some of the fabric producers in Indonesia and Thailand could undersell their products and affect the SAARC fabric producers. In that case, Pakistan's fabric manufacturers could lose their market share in the SAARC countries. At the same time, Pakistani garment and hosiery manufacturers may also be subject to fierce competition from ASEAN manufacturers in the volatile EU market.

This perception must change because the market share of Pakistani fabrics in Sri Lanka and other SAARC countries is not significant and this initiative would, in fact, boost the sales of Pakistani fabrics not only in SAARC but also in ASEAN countries.

- **Aggressive marketing.** It is high time Pakistani manufacturers map out a long-term strategy to market their fabrics in countries where the exposure is still lacking intensity. The Super Regional Cumulation was a challenge and an opportunity and in the long run it would prove beneficial to all SAARC countries. Communication gap between exporters and government circles, is causing loss to Pakistani exports. Commercial attaches all over the world, representatives of business and trade

organisations and research cells of various organisations could provide valuable information to the proposed channels. Pakistani exporters have to spend huge amount to collect export-related information. What Pakistan needed was to go for merger of small units for expansion of operations to become cost efficient as the economy of scale would be the major factor for the economic survival of businesses under WTO regime. This will result in increased competition among supplying countries, especially those which, under bilateral quota arrangements with certain markets (particularly the European Union, The United States and Canada), will fairly secure access of their products. Exporters who wish to maintain (or increase) their market access under future conditions of free competition should reduce their cost of production or increase their efforts to explore new markets.

### **Additional Policies**

In terms of marketing:

- **Preferential market access.** Negotiate for better (preferential) market access into key markets like the EU and the US, perhaps by trying for treatment of Pakistan as a 'least developed country' without the political problems of Pakistan's being officially designated as such. In garments Pakistan is at a serious disadvantage compared to countries such as Mexico exporting to the US market. In multilateral tariff negotiations, high tariffs imposed by some developing countries need to be addressed, including those on agricultural exports.
- **Identify needs of global buyers.** Focus on the needs of global buyers, and interview such buyers in their main sourcing offices, which often are located in Hong Kong or Singapore rather than London or New York. The Export Promotion Board does not necessarily have to do primary research of its own on major markets. Profiles of leading markets in key export commodities are regularly published by the Hong Kong Trade Development Council, whose outstandingly good website [www.tdctrade.com](http://www.tdctrade.com) could be used as a benchmark of international best practice for the EPB. Pay particular attention to the China market, now that China is greatly and unilaterally reducing its import barriers under the WTO. Buyers should include leading Hong Kong trading firms, for example, Li and Fung and the Japanese sogashosha trading companies. These buyer driven value chains are important in the high value-added products of interest to Pakistan. In garments these buyers provide information both on market requirements and production technology, and offer (to varying degrees) help in achieving those standards.
- **Develop product and branding strategies.** To pull western customers to own products to the extent, that they make their political leaders hesitant to impose any barriers. Japanese automobile and Korean electronics industry have already taken this path.

To help existing exporters:

- Consider seriously further cuts on tariffs on imported inputs for exporters. Tariffs on imported inputs disadvantage exporters. Removing tariffs on imported inputs would free firms from schemes like SRO-410 and DTRE, although sales tax refund problem would not be addressed by such changes. If the duties on imported inputs were cut or removed, then the tariffs on output would need to be cut, otherwise the effective rate of protection (protection on value-added) the final output would be increased. DTRE – the Duty and Tax Remission for Exporters scheme - is intended to replace SRO-410. In principle, under DTRE exporters pay neither duty nor sales tax on their inputs, and commercial exporters can avoid paying sales tax up-front on their purchases of garments from domestic producers. In practice, DTRE works badly for garment exporters, and few have joined it. Unrefunded sales tax on inputs can have a substantial adverse impact on cash flow. Fabrics can be 60 % of the cost of the garment, and margins (according to the knitwear association) are only 3% on turnover. Waiting six months or more for sales tax refunds can take 40% of working capital, as well as unofficial payments required to expedite the process. The problem of sales tax refunds, caused apparently by the CBR withholding refunds in order to meet its own revenue targets, is well known in general outline, and well reported in the press. DTRE is designed to avoid these problems, as well as to provide access to duty and tax free imported inputs, but there are great practical difficulties. Although the problems apply particularly to garments, and particularly to sales tax, other industries are affected too, sometimes badly. There are many teething problems of DTRE in relation to indirect exporters (domestic sellers of inputs to exporters), who themselves require both imported and domestically produced inputs. One issue is whether they should be allowed to buy for stock, or should only buy inputs against specific orders by exporters. Firms in the garment industry want SRO-410 to be continued alongside DTRE so they can make a choice according to their needs. DTRE may work for yarns and fabric exporters, however, as their input structure is more constant than that of garments.
- Try to lessen the burden of bureaucracy on Pakistan's exporters. Reduce direct contact between tax officials and companies, as such contact offers too many opportunities for corrupt transactions.
- Investigate how the Karachi EPZ's operations could be improved and the EPZ expanded.
- Improve the internal transport infrastructure: for example, rail freight connections between Karachi and important centres inland, like Lahore.
- Monitor recent 'cluster' developments to learn lessons for new clusters, and do investment appraisals for clusters for particular exports, such as bedlinen. Clusters are likely to prove important for promoting SME development

Also:



- Do a stock-taking exercise looking at why many past trade policy proposals have been slow to be implemented. Implementation appears to be the most serious weakness of trade policy in Pakistan.
- Consider more fully the financial implications of trade policies.

### **6.2.2 Short Term**

**Prosecuting Antidumping Cases.** Exporters have urged the government to challenge the European Union decision of 13 percent anti-dumping duty on export of bedlinen in Dispute Settlement Body (DSB) of the WTO. Bangladesh and Srilanka were enjoying the duty free exports of bedlinen while Pakistan is still facing 13 percent anti-dumping duty despite being a major ally of America in anti-terrorism war. With the definitive 13.1 percent anti-dumping duty, Pakistani bedlinen attracted customs duty at the rate of 25 per cent (13.1 per cent anti-dumping duty and 12 per cent normal duty earlier exempted under the GSP scheme) from January 1, 2005 in the EU markets. This high duty has not only affected the export of bedlinen to the EU, but also increased the prices of Pakistani bedlinen in the EU market. The offer of tariff quota was a new turn in the EU policy to provide a protection to its manufacturers by restricting import of bedlinen from Pakistan. Developing countries have in the past been reluctant to exercise their rights to dispute settlement, citing expense and the need for a high level of technical competence. Improvements in the procedures and the availability of resources at the WTO to help developing countries have somewhat mitigated this concern. More fundamentally, however, smaller countries are reluctant to exercise their franchise for fear of retaliation on other fronts. Such an attitude, understandable as it may be, is short-sighted and undermines the proper functioning of the regime and the fuller integration of developing countries into the trading system. The case of Pakistan is based on the fact that EU team did not complete its investigations. Neither the dumping margins were established nor the duty levels determined impartially by taking all facts into consideration. As this case, and others, demonstrate, developing countries can take on the major members of the WTO and hold them to account, but they need to be patient, insist on their rights, use the best advice available, and follow through. India had successfully challenged the highly prejudicial approach of both the EU and the United States in prosecuting antidumping cases. The case put the authorities in both of the major users of trade remedies on notice that exporting countries, whether poor or not, were prepared to avail themselves of the procedures of the DSU to hold trade remedy officials to account. Ironically, both the United States and the EU had used dispute settlement proceedings to discipline what they considered to be sloppy applications of antidumping proceedings in, for example, Mexico. With the shoe on the other foot, it appeared that both the original panel and the AB were prepared to hold EU and US officials to the same standard. This case, which focuses on what was involved in settling the dispute between India and the EU, sought to explain and achieve the following objectives:

- Governments need not only to gain, but also to defend, access to foreign markets for national exporters, using every means at their disposal.
- Antidumping measures, while permitted under the WTO, must comply with the procedures set out in the WTO Antidumping Agreement.
- International rules — as set out in the WTO and similar agreements — are only as good as the willingness of member governments to enforce them by availing themselves of procedures to settle dispute arising from the implementation and application of the rules.
- Developing country members of the WTO have the same rights as industrialized members to use dispute settlement to defend their rights and interests.
- Governments need to maintain their focus on the specific issues in dispute from the many extraneous issues, and deploy their arguments strategically and well.

Pakistan should propose a separate classification for institutional bedlinen for hotels and hospitals. Obviously, it would be in the interest of Pakistan's bedlinen manufacturers if such a new category of bedlinen was established and kept out of the preview of anti-dumping measure. Pakistan should try to negotiate a revised textile agreement based on reciprocal tariff concessions between Pakistan and E.U. and linking future bedlinen exports to E.U. with these concessions. Pakistan faces tough competition in textile made-ups from China and India apart from Vietnam and Turkey and in some categories the similarity of products goes up to 90% (towels) with China or in case of shirts and trousers 73% with China and 84% with India.

**Reduce Barriers to Trade.** Many local regulations are often drawn up with no clear objective, or with objectives inconsistent with their title and substance. Ministry of Commerce needs to reduce the distortions that exist in our regulatory environment and to limit the enactment of new policies and rules that lower the competitiveness of our bedlinen in the overseas markets. The key is to assess existing and impending regulation, and only regulate when there is a specific problem that needs addressing. There is a great need to improve the process of how regulations are perceived and drafted, as they often cause more damage than good. Institutionalizing Regulatory Impact Assessments (RIA) will allow our government to understand the merits of regulations before implementation, and to make sure that the benefits of regulations exceed the costs. Whenever possible, it is critical to find alternatives to regulation, since in today's increasingly competitive world uncertainty is the only certainty in forecasting trading trends. Participation by all stakeholders, including an array of business owners, is crucial to the process of evaluating existing and proposed regulations. Often, policymakers have good intentions, but they simply do not realize the negative burden that will be placed on businesses as a result of a particular policy. They need to be educated on the merits and drawbacks of enacting a regulation, as

well as those of important competing alternatives. Instituting mechanisms like one-stop shops to make the business licensing procedure more streamlined and efficient will inherently reduce the number of officials and bureaucrats who can demand payments to maneuver through the system.

### **Additional Measures**

To help existing exporters:

- **Sales tax refund problem.** Deal with the sales tax refund problem in consultation with CBR. (The current budget, including removal of sales tax on cotton lint, has not fully solved the issue). Pakistan is shooting itself in the foot by turning its main competitive strength in garments – the availability of local cotton textiles – into a handicap by the failure of its export facilitation system to deal with sales tax refunds on domestic purchases of inputs. Sales tax refund problems make it more difficult to resist demands to cut sales tax, but cutting sales tax reduces Pakistan's ability to cut imported input tariffs in the future. Cutting tariffs can only be done if lost tariff revenue is replaced, eg by sales tax. It is better to deal with the sales tax refund problem directly.
- **Policy of exporter maintenance.** Institute a policy of 'exporter maintenance'. We should arrange regular meetings between the EPB, MoC officials, and leading exporters from the main export sectors. This will be a channel through which exporters quickly can bring to the attention of policy-makers exporting problems as and when they arise. Do not confine these meetings to trade and industry associations, who may not always be representative, but pick key exporters as well as a sample of small firms. If arranging such meetings is beyond the scope of the MoC or the EPB, then local consultants could be hired to interview such firms and regularly report their findings to the Ministry and the EPB. But direct contact between the EPB/MoC and exporters is much better. Announce that SRO-410 will be retained for several years, and beyond if the documentation problems with the DTRE scheme continue (which especially affect small and medium firms).
- **Implementation of textile city project.** Make serious moves in consultation with the Ministry of Industry to get the proposed textile city at Port Qasim off the ground. Pakistan's textile industry faces serious threats of competition from China, and the textile city idea offers the prospect of increased exports, higher quality finishing, and solving the water supply problem of operating factories in the Karachi area. According to JETRO, the city also could attract significant amounts of new Japanese inward investment. Delay in implementation of the textile city project conveys a negative impression of Pakistan as a place to invest and to get things done.

# **ANNEXES**

***Ready or Not, Here it Comes  
WTO Implementation in Pakistan***

SHAHZADA IRFAN AHMED / **The News International Pakistan 25 may 03**

Pakistan, like all other developing countries, is in the process of implementing the provisions of WTO. As a result, its trade and industrial sectors are undergoing radical changes in compliance with GATT/WTO rules and regulations. Where these rules give industries and business enterprises certain rights, they also place some obligations on them. Unfortunately there has not been enough development in Pakistan to raise awareness and understanding about WTO. With not much time now remaining for the WTO (till January 2005) to be fully effective, there is an urgent need for all the stakeholders, those involved with international trade and industry in particular, to explore WTO's implications.

Business leaders dealing in international trade believe WTO is the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although WTO became operational on January 1, 1995, its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) have provided the rules for the system. In short, WTO and its agreements now cover trade in services, and in traded inventions, creations and designs popularly known as intellectual property.

Pakistan agreed to join WTO in 1994, one of the benefits of which is the integration of the textile sector into General Agreement on Tariff and Trade (GATT). Looking at 2005, people mostly believe that the major impact of WTO on Pakistan would again be on the textile sector. However, WTO comprises several protocols and agreements focussing on various sectors and have different implications for different sectors and thus the impact might not just be limited to the textile sector. For example, a few subjects or agreements signed by the government mentioned below show which sectors will be the most affected:

- 1) Improved access to foreign markets (reduction/binding of tariffs, abolition of quotas)
- 2) Subsidies, countervailing and anti-dumping measures

- 3) Agreement on Textiles and Clothing
- 4) Trade-related Aspects of Intellectual Property Rights (TRIPS)
- 5) Trade-related Investment Measures (TRIMs)
- 6) Agreement on Agriculture

The year 2005 is crucial for Pakistan as the 5th ministerial conference to be held in Cancun, Mexico in Sept 2003, would be 'a round to end all rounds'. Year 2005 is one of the important deadlines by which all negotiations should be finalised and most waivers granted to developing countries like Pakistan should expire. Thus the implication for Pakistan and other countries will be in several sectors and not just confined to the textile sector.

An APTMA spokesman told TNS that the textiles sector has been the first to feel the heat of WTO's implementation. "Pakistani exports, especially textiles, are being increasingly subjected to initiation of anti-dumping and countervailing investigations which create uncertainty and depresses the business sentiment. Investigation periods are sometimes quite lengthy and the legal costs of defending these cases are tremendous. Similarly, the loosening government control on cotton export under WTO commitments is also being seen as a threat to the local textile sector," he said.

Explaining his point, the APTMA spokesman said the local demand for cotton stood at 10 million bales but WTO's unrestricted export of cotton would deprive the spinning industry of raw material and push up production costs to uneconomic levels. "Since quotas would be removed from other garment and made-up producing countries as well there would be more demand for Pakistani yarn and fabrics and there will be even less cotton left for local producers. This means that Pakistani textile exporters can influence the global trade to the extent of raw material supplies. Due to its commitment, the government will hardly be in a position to intervene either in terms of discouraging exports of cotton, yarn or fabrics or providing subsidies to garments and made-up exporters."

A positive impact of quota free trade on Pakistani textile sector would definitely be an abrupt increase in the demand for Pakistani products for being cheaper in price than they previously were due to no quota charges in the black market. According to textile sector experts, quota is being sold in the black market and constitutes a major part of the exported item's price. After January 2005, experts think that billions of rupees would be liberated from quota trading and will be invested in establishing modern units and improving the efficiency of the established ones.

Pakistan Readymade Garments Manufacturers and Exporters Association (PRGMEA) Chairman Pervez Hanif told TNS that the developed world had also introduced new forms of barriers like the countervailing duty, anti-dumping duties, social, labour, and security issues which will play an important role by the end of 2004. "Pakistani industry is striving hard to reach the required levels of social

compliance and is hopeful of securing a grace period to come up to the mark. Otherwise, Pakistan will lose its hard-earned market share to the developed world."

While all sectors of the economy come under the WTO, it severely hits Pakistan's agriculture and those directly or indirectly involved with it. Studies have revealed that the Agreement on Agriculture signed by Pakistan with WTO and the Trade Related Aspects of Intellectual Property Rights are directly relevant to agriculture. However, the fact that Pakistan government organised the first seminar on the Agreement on Agriculture in 1999 -- four years after joining the organisation -- shows its lack of awareness and interest in this regard.

Mubarak Ahmed, President All Pakistan Vegetables and Fruits Exporters told TNS that a gradual phase out of the subsidies being given by the developed countries was agreed to in the Doha Declaration adopted by 142 countries on November 15, 2001, but there was no commitment of any steep cut in these subsidies. "On the other hand the developing countries like Pakistan, whose forte is agriculture, were asked to effect drastic cuts in farm subsidies and finally remove them altogether. There is no sense in abolishing domestic support for our farmers when the developed world like the US and the EU are not themselves ready to compromise on this issue. They have in fact recently increased their agricultural subsidies to help their farmers difficult times."

However, Sharjeel Hashmi, another exporter of agricultural products disagreed with the phenomenon. "There is a code for relaxation under WTO called the Special and Differential (S&D) treatment provisions for developing countries. This is allowed to developing countries in all agreements and under the same Pakistan can give export subsidies to its businessmen. Pakistan falls under Annexure 7 list, i.e. the country with less than \$1000 per capita income, which makes it eligible to get S&D treatment. Most of the reductions in farm subsidies are on account of commitment to the International Financial Institutions, particularly the IMF and the ADB, rather than the WTO, and the commitments made bilaterally to the US and the EU."

Pakistani pharmaceutical companies are also expected to suffer as WTO has envisaged special safeguards for Western, particularly the US pharmaceutical companies under TRIPS. As most of the research is being carried out in the developed world, the formulae of drugs will be patented and may raise public health-related issues in the developing world. However, Pakistani pharmaceutical industry is constantly raising its voice at various fora to win exemptions in this respect.

The most easily understood effect on the local industry and Pakistan government is that of the WTO's push for an area free of customs duties and tariff protections. Pakistani tax authorities fear a major shortfall in revenue whereas the local industry confronts imminent closures in the face of ever-increasing costs of

production. Another interesting phenomena under TRIPs is that of the Geographical Indications (GIs) related to different products and the idea will grow with the passage of time. Primarily, it is the extension of the trade mark concept to a country level. For example Champagne and Whiskey are associated to France which bars non-French companies from selling wines as Champagne.

Against this backdrop, Pakistan has sought US support to help protect its intellectual property rights and around 100 items that it wants to protect from trade liberalisation on the pretext of national and geographical identification (GI). The matter gains prime importance due to the fact that India and Pakistan jointly share the identification of products like Basmati rice and Alphonso mango and the one who takes the lead in registering the products will enjoy their exclusive selling rights.

Source: <http://www.jang.com.pk/thenews/may2003-weekly/nos-25-05-2003/spr.htm>

### **12pc EU duty on Pakistani products from July**

By Mubarak Zeb Khan,

June 24, 2005

ISLAMABAD, June 23: Pakistan's export of all products to European Union member countries will attract a 12 per cent duty from July 1 following the graduation of all products under the drug related generalized system of preferences (GSP) scheme.

Officials told Dawn on Thursday that the EU had earlier committed to the WTO to replacing the existing drug related GSP scheme with the new GSP scheme to be effective from July 1, 2005. However, the new GSP scheme was now expected to be implemented from January 1, 2006.

Under the new GSP scheme, Pakistan will get a reduction in duty of around 3.5 per cent on export of all products except for textile and clothing to EU member countries. For the clothing sector, the duty reduction will be in the range of 2.5 per cent and for yarn and fabrics, the duty cut will be in the range of 1.2 to 1.4 per cent.

The officials said the implementation of the new GSP scheme was delayed because of differences between EU member countries over the fixing of graduation limit for textile and clothing producing countries under the scheme.

In a draft released by the European Commission in October last year, the graduation limit for textile and clothing for the new GSP scheme was fixed at around 10 per cent.

Since Indian share of textile and clothing in the existing scheme is around 12 per cent it could not get preferences in duty on textile and clothing under the new scheme. Some of the EU member countries wanted to raise the limit to 12.5 per



cent so that Indian could be included in the new scheme. Other textile and clothing countries of EU opposed the move.

The question is whether the violation of WTO ruling on the drug related GSP scheme will be challenged by the Indian government or any member country or it will seek any compensation.

An official announcement issued on Thursday said that EC Director General Trade Peter Carl in a meeting held recently in Brussels with Pakistan's Secretary Commerce Tasneem Noorani expressed the hope that the new GSP scheme would be adopted shortly and implemented from January 1, 2006.

The commission is likely to succeed in obtaining an approval from the Council of Ministers on a compromise solution to the ongoing stalemate over the adoption of new GSP scheme.

The meeting discussed the new GSP scheme, ongoing investigation process relating to the export of bedlinen from Pakistan to the European Union, export of ethyl alcohol and other trade matters. Sharing his concerns about the adverse effects on bedlinen exports from Pakistan due to any further delay, the commerce secretary referred to the inevitable trade diversion currently taking place. Both the sides reiterated the desire to further strengthen and promote trade relations between Pakistan and the European Union.

Source: <http://www.dawn.com/2005/06/24/ebr1.htm>

### **EC asked to expedite anti-dumping probe on bedlinen exports**

**The Nation, June 24, 2005**

ISLAMABAD - Pakistan has demanded of the European Commission to expedite conclusion of the anti-dumping investigation on exports of the bedlinen. Secretary Commerce, Tasneem Noorani who is currently visiting the EU Headquarters, emphasized the need for an expeditious conclusion of the anti dumping investigation relating to the import of bedlinen in to the EU countries.

Tasneem Noorani met the European Commission Director General Trade Peter Carl at the European Commission Headquarters. The meeting discussed the current state of policy regarding the new GSP scheme, ongoing investigation process relating to the export of bedlinen from Pakistan to the European Union member states, export of Ethyl Alcohol and other trade matters.

He provided inputs to the Commission on the global issues relating to the government policies in the context of anti dumping verification. Sharing his concerns about the adverse effects on bedlinen exports from Pakistan due to any further delay, Secretary Commerce, referred to the inevitable trade diversion currently taking place. Both sides reiterated the desire to further strengthen and promote the trade relations between Pakistan and the European Union.

The Director General Trade of the EC expressed the hope that the new GSP scheme would be adopted shortly and implemented with effect from January 1,

2006. The Commission would succeed in obtaining the approval of the Council of Ministers on a compromise solution to the ongoing stalemate regarding adoption of the new GSP scheme.

The agreement between China and the European Commission on the textile and clothing averted a bitter trade war between the two. The agreement caps the quantities of each textile category. This allows some breathing space to the community industry and provides time to the other textile producing countries to adjust to the market dynamics after the phasing out of the textile quotas from January 1, 2005.

Source: <http://nation.com.pk/daily/june-2005/24/bnews5.php>

**Pakistan rejects EC bedlinen export offer**      The Nation, April 30, 2005

From MEHTAB HAIDER

ISLAMABAD - Pakistan has rejected the European Commission (EC) offer to accept 35,000 tons bedlinen exports without imposition of anti-dumping duty for resolving the lingering row over this issue.

“We have indicated our disappointment to the EC about its proposal to accept 35,000 tons bedlinen exports without charging any anti-dumping duty against the total exports of 65,000 tons as it will bring back quota regime.” Secretary Commerce Tasneem Noorani said this in an exclusive interview with The Nation here at the ministry’s office.

Answering a query about anti-dumping duty on exports of bedlinen, Tasneem Noorani said the EC had offered Islamabad to avail 35,000 tons exports without imposition of any duty, but it was not a feasible option. “The ministry has consulted with all stakeholders and it is mutually agreed with the consent of industry that this step will enhance distortions,” he added.

The EC had imposed anti-dumping duty on exports of bedlinen during the last financial year and its investigative team also postponed its scheduled visit on account of security threat. Pakistani authorities say there is no solid ground to postpone the visit on security reasons as all the important dignitaries are constantly visiting the country and government provides them foolproof security.

The secretary commerce said Pakistan had also offered minimum exports price of bedlinen to the EC countries but they refused to accommodate it by saying it was a difficult mechanism to monitor effectively.

About Generalized System of Preference (GSP) plus for Pakistan from the EU, he said this scheme is meant for vulnerable countries and the western world thinks that Pakistan’s economy is out of danger zone. “The world is more sensitive about textile sector and it seems GSP plus as tough thing for us,” he observed.

He said the EC has not yet taken a decision and it will decide the issue by the end of next month. About the criteria for GSP plus, he said, the beneficiary

country should have exports of less than one per cent to the EU and Pakistan's exports are above that limit.

Noorani said the EU also imposed 27 different conditionalities to qualify for GSP plus. He said Pakistan has approached for GSP plus and it is confirmed that it will get favorable results in terms of GSP scheme. "Had Pakistan not approached for GSP plus then there were chances of the EC dealing Pakistan and India's case in the same manner even for entering into GSP scheme," he added.

Answering a question about South Asian Free Trade Area (SAFTA) agreement, he said the Committee of Experts (CoEs) is holding its meeting these days at Katmandu for finalizing sensitive list (negative list), rules of origin and revenue compensation mechanism among the SAARC states. Under the SAFTA, SAARC countries have agreed to operationalise free trade agreement from January 1, 2006.

Asked whether delay in SAARC summit would affect SAFTA becoming operational on its due date, he said the CoE is working constantly and he cannot comment on it.

He said the Joint Study Group of Pakistan and India is likely to meet in Islamabad probably in May 2005 but the dates are not yet been finalised. He said Pakistan has informed the Indian side about its tariff and non-tariff barriers hindering our exports despite New Delhi's MFN status to Islamabad. "All trading partners of India complain that New Delhi possessed most restrictive regime in the world," he maintained.

About Free Trade Area (FTA) between US and Pakistan, the secretary commerce said both countries will hold talks on Bilateral Investment Treaty (BIT) by May this year, which will pave the way for starting negotiations on FTA. He further said that the signing of FTA is very complicated exercise and it will take certain time for achieving the desired results.

Answering another query, he said Pakistan is striving hard to ink bilateral and regional trading agreements with different countries.

"We are at advance stage to finalize bilateral trade agreements with Malaysia and Singapore, and prime minister's upcoming visit to these countries next month will boost trade relations with them," he added.

Source: <http://nation.com.pk/daily/apr-2005/30/index3.php>

**What is Antidumping? Two contrasting views**

Antidumping is not public policy, it is private policy. It is a harnessing of state power to serve a private interest: a means by which one competitor can use the power of the state to gain an edge over another competitor. ... antidumping is an instrument that one competitor can use against another — like advertising, product development, or price discounting. The only constraint is that beneficiary interest must be a domestic one and the apparent victim a foreign one.

A considerable level of expertise is needed even to see which technical alternatives exist, much less to exploit them. The general public and the news media do not possess this expertise; the result is an environment made to order for special-interest power politics.

Antidumping is the fox put in charge of the hen house: trade restrictions certified by GATT: the fox is clever enough not only to eat the hens but also to convince the farmer that this is the way it ought to be. Antidumping is ordinary protection with a grand public relations program.

**World Bank economist J. Michael Finger**

... the perfect world of free trade and fair competition is at best a dim mirage today. In the reality of a global marketplace riddled with market distortions, antidumping laws are a necessary and logical measure for a relatively open, subsidy-free, and trust-free market. Antidumping laws, by insulating US industries from the negative impact of foreign protection, are a necessary safety measure to allow the US economy to remain relatively open to trade. Rather than treating antidumping laws as the unwanted stepchild, advocates of free trade should embrace these laws as a necessary condition for the United States to continue its commitment to free trade.

**US trade lawyer Greg Mastel**

### India's experience with EU antidumping procedures

India has a long experience with EU antidumping investigations. Since 1997, Indian producers have been subject to more EU investigations than producers from any other country. And European complaints account for the lion's share of all such proceedings launched against India.

- Of 69 anti-dumping cases initiated against India since 1980, 26 of them were initiated by the EU. This is approximately 38 percent of all such cases.
- As a percent of the total number of antidumping cases initiated against India since 1980, no other country comes close to matching the European total. The next closest is the United States, with 12 cases.

It does not appear that India is reacting to this trend by targeting European producers with allegations of dumping on a similar scale. Only 23 percent of a smaller number of Indian AD cases involve imports from Europe.

Two industries figure most prominently in European investigations of dumping by Indian producers: natural and synthetic fibers and products derived from these fibres; and the steel industry. Eleven of the 26 European cases (42 percent) involve products from natural and synthetic fibres.

#### Chronology of India-EU Dispute Re: Trade in Cotton-type Bed Linen

Time	Date	Action
(0 = start of case)		
• 2 years	30 July 1996	Eurocoton files a complaint with EU Commission.
• 23 months	13 Sept 1996	EU publishes notice of anti-dumping investigation on cotton-type bed-linen.
• 14 months	14 June 1997	EU imposes provisional anti-dumping duties on cotton-type bed-linen from India, Egypt, and Pakistan.
• 8 months	5 December 1997	EU imposes definitive anti-dumping duties on cotton-type bed-linen from India, Egypt, and Pakistan.
0	3 August 1998	India complains to DSB and requests bilateral consultation.
• 2 weeks/	17 August 1998/	
• 8 months	15 April 1999	Consultations take place, but fail.
+13 months	7 September 1999	India requests a panel.
+14 months	27 October 1999	DSB establishes a panel.

- 21 months 10-11 May 2000/  
6 June 2000 Panel meets with parties.
- 27 months 30 October 2000 Panel report is circulated.
- 28 months 11 December 2000 EU submits request for an appeal.
- 29 months 24 January 2001 Oral hearing of the appellant body.
- 31 months 1 March 2001 Report of the Appellate Body.
- 3 years 14 August 2001 EU claims to be in full compliance with DSU ruling.
- 43 months 8 March 2002 India seeks consultations with EU
- 45 months 7 May 2002 India requests DSU to establish an Article 21.5 panel to determine whether EU has complied with earlier ruling.
- 45 months/  
2 weeks 22 May 2002 DSU refers issue to original panel
- 51 months 10-11 September Panel meets with parties, and third parties.
- 53 months/  
2 weeks 29 November 2002 Panel rules that the EU is now in full compliance, dismisses India's complaint.

Note: **Eurocoton** is the Committee of Cotton and Allied Textile Industries of Europe, is a Brussels-based professional federation. It was established in 1954 in order 'to influence policy decisions to help its industry adapt to market globalization and improve international competitiveness. Eurocoton defends the industrial cotton system textile chain's trade interests of its members before European and international private and public institutions.' Its membership is comprised of 13 national apex bodies from EU member states (two of which are from Spain), as well as one from Turkey.

Source: [www.commin.nic.in/doc/dgad/contents.ht](http://www.commin.nic.in/doc/dgad/contents.ht)

## **An Indian press story**

### **India scores victory after WTO asks EU to lift anti-dumping duty**

New Delhi, Nov 1: India has scored a victory over the European Union in the dispute settlement body (DSB) of the world trade organisation in the anti-dumping duty case relating to cotton bed linen for exports to EU.

Consequently, Indian cotton bed-linen will have an access to the EU market without attracting an unfair anti-dumping duties ranging from 11 per cent to 24 per cent imposed since 1994.

“DSB decision will be a landmark judgement as it will affect other EU cases on anti-dumping”, Union Minister of textiles, Kashiram Rana said.

EU has already been asked to not only implement the DSB decision but also refund the duties collected earlier in the recently concluded meeting of the joint working group on textiles held in Brussels on October 23 and October 24, 2000.

Despite bed-linen being under a quota, EU has been consistently taking up the case to impose anti-dumping duties on imports from countries like India, Pakistan and Egypt. Initially, the anti-dumping proceedings were initiated on January 25, 1994 but on withdrawal of the complaint by the complainant, Eurocoton, these proceedings were terminated in July, 1996.

However, they were soon initiated on a fresh complaint by Eurocoton, just 20 days after the withdrawal of the first complaint. As the EC did not agree to withdraw the anti-dumping duties during the bilateral consultative process, the matter was taken to the WTO.

It has now ruled that the EC acted inconsistently with its obligations under article 2.2, 3.4 and 15 of the anti-dumping agreement in (a) determining the existence of margins of dumping on the basis of a methodology incorporating the practice of zeroing ; (B) failing to evaluate relevant factors having a bearing on the state of the domestic industry; (C) considering information for producers not part of the domestic industry as defined by the investigating authority in analysing the state of the industry , and; (D) Failing to explore possibilities of constructive remedies before applying anti-dumping duties.

The panel concluded that under article 3.8 of the DSU, the action is prima facie a case of nullification or impairment of benefits under that agreement. It has recommended that the EC should bring its rules in conformity with its obligations under the agreement.

Source: <http://www.financialexpress.com/fe/daily/20001102/fco02083.html>

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