



**Asia-Pacific
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APEC Public-Private Dialogue to Advance Understanding on Non-Tariff Measures (NTMs) in Textile and Garment Industry

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TABLE OF CONTENTS

I. Introduction	2
II. Background	2
III. Key Issues	3
1. Opening remarks	
2. Overview of NTMs and its application in RTAs/FTAs in the region in general, in textile industry in particular.	
3. Stocktaking, challenges and impacts of NTMs in textile industry	
4. NTMs in textile industry – perspectives from the governments	
5. NTMs in textile industry – perspectives from the private sector	
6. NTMs – mitigating its adverse impacts as trade barriers	
7. NTMs in textile industry for the realization of FTAAP	
IV. Recommendations and Conclusions	8
Annex. Stocktaking of Non-Tariff Measures in the Textile and Garment Industry in APEC Member Economies	

APEC PUBLIC – PRIVATE DIALOGUE TO ADVANCE UNDERSTANDING ON NON-TARIFF MEASURES (NTMS) IN TEXTILE AND GARMENT INDUSTRY

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12 – 13 April 2018**

Summary Report

I. Introduction

On 12 and 13 April 2018, the APEC Public-Private Dialogue to Advance Understandings on Non-tariff Measures (NTMs) in Textile and Garment Industry, initiated by Viet Nam and co-sponsored by China; Indonesia; Japan; Korea, Malaysia; Chinese Taipei; and Thailand was held in Ha Noi, Viet Nam. Speakers and participants came from representatives from private sector, business associations; international organizations and research institutions and APEC member economies' relevant Ministries and governments' agencies.

The APEC Public-Private Dialogue to Advance Understandings on Non-tariff Measures (NTMs) in Textile and Garment Industry aims at the following objectives: (i) Exploring and stocktaking the application of NTMs in Textile and Garment in existing RTAs/FTAs in APEC, other regions as well as in the WTO to identify and bridge the gaps among APEC members in the issues in efforts to realize the FTAAP; (ii) Provide capacity building to APEC governmental officials on NTMs in Textile and Garment to deal with NTMs negotiation in their on-going RTAs/FTAs negotiation, as well as to regulate NTMs in Textile and Garment sector in reality; and (iii) Making recommendations to CTI for further consideration and action on this issue.

II. Background

Statistically, APEC has identified that there is an increasing trend in the number of NTMs affecting trade, including trade in textile industry in the region. The Second Term Review of the Bogor Goals has the same notes on NTMs. Although they are designed with legitimate objectives, NTMs somehow still have some bad impacts on trade flow because they create uncertainty, require excessive fees that eliminate margins, cause unreasonable delays, or discriminate against particular types of business or economies. The costs of NTMs accumulate along a supply chain and are ultimately passed to the consumer. NTMs can be particularly debilitating for MSMEs, as they have less capacity to navigate their way through a complexity of regulatory requirements and less scope to mitigate the costs. The findings in the CSS with regard to the cost of NTMs and the burden they place on MSMEs in particular are the same. It even notes a research that has estimated the costs of all NTMs in the APEC region as three times the cost of tariffs.

In addition, NTMs remain an important area in the current RTAs/FTAs as well as the potential FTAAP. However, there might be a big gap in the issue among the APEC member economies that need further sharing and exchanges to bridge the gaps if possible. With a focus on the NTMs in Textile and Garment industry, it would help economies to mitigate the effects of NTMs on Textile and Garment trade; contribute much to promote Textile and Garment trade in particular and trade liberalization and facilitation efforts and improving the business environment in general.

The PPD intends to conduct capacity building of governmental officials of APEC members on NTMs in Textile and Garment sector and strengthen their capacity to deal with NTMs negotiation in their on-going RTAs/FTAs negotiation, as well as to regulate NTMs in Textile and Garment sector in reality, which will benefit a broad range of economies.

In the 2016 APEC Leaders' Statement, it is highlighted that "*We reiterate our commitment to the eventual realization of the FTAAP as a major instrument to further deepen APEC's regional economic integration agenda*". In this line, APEC Leaders also stress the need for the FTAAP to be comprehensive, and cover non-tariff issues. This project will serve as an incubator of issues related to the FTAAP and to the implementation of the Lima Declaration on FTAAP endorsed by Leaders in 2016.

The proposed PDD will be held under the 3rd CBNI which outlined in the Beijing Roadmap as attributes to the realization of the FTAAP.

It also directly contributes to the implementation of Osaka Action Agenda with focus on Section C.

The project directly contributes to CTI's work of promoting free and open trade and investment with focus on implementing the Bogor Goals and reducing impediments including NTMs as outlined in the Osaka Action Agenda.

III. Key Issues

1. Opening remarks

Mr Luong Hoang Thai, Viet Nam Senior Official to APEC, Director General, Multilateral Trade Policy Department, Ministry of Industry and Trade, stresses that textile and garment industry plays important roles to the global economic growth. It is currently worth nearly US \$3 trillion and accounts for approximately 2% of global Gross Domestic Product (GDP). It is estimated that between 20 million and 60 million people are employed in the textile industry worldwide. There is no doubt that the industry has created jobs and incomes for millions of workers across the economies, which contributes to social and economic stability and growth.

It is a fact that NTMs are creating more challenges to the economies since it is estimated that the costs of all non-tariffs measures (NTMs) in the APEC region are as three times as the cost of tariff, costing the region's exporters 790 billion U.S. dollars a year. Addressing NTMs properly in textile and garment industry, therefore, is of great concerns of many economies, especially developing ones since it plays important roles in promoting international trade. The APEC Public – Private Dialogue to Advance Understanding on NTMs in Textile and Garment Industry aims of promoting understanding on NTMs, sharing experiences in addressing NTMs issues to promote international trade, as well as exploring the gaps between economies in realization of a future potential FTAAP.

2. Overview of NTMs and its application in RTAs/FTAs in the region in general, in textile industry in particular.

UNCTAD has been actively involved in research and programmatic activities on issues related to Non-Tariff Measures (NTMs) since the early 1980s. In 1994, UNCTAD began to collect and classify NTMs according to a customized Coding System of Trade Control Measures (TCMCS). In the process of strengthen the work of NTMs, a Multi-Agency Support Team (MAST) was also set up to: (i) Provide a clear and concise definition of NTMs; (ii) Develop a classification system of NTMs to facilitate data collection process and analysis; and (iii) Provide guidelines for the use of data, including their quantification methodology. The work of MAST and the subsequent revision to the NTMs Classification have been very widely accepted as the standard classification for NTMs by the international trade community, including regional and international organizations. Under the MAST Classification of NTMs, NTMs are classified as (i) Import-related measures, which include technical and non-technical measures; and (ii) Export-related measures. It is undeniably trendy that thanks to the GATT/WTO rounds, tariffs have significantly lowered over the past decades, meanwhile NTMs have risen in their place.

Non-tariff barriers (NTBs) are a subset of NTMs. They can go beyond what other economies deemed as necessary to protect local producers in international competition by increasing the import price or limiting the quantity imported. By average, technical barriers (TBT) (one of NTMs measures) increase the cost for textile and clothing by about 8%, while all NTMs increase that by about 14%.

NTMs applied in textile and garment industries in the APEC region vary, depending on their scales of development. The regional RTAs/FTAs that cover textile industry, focus on reducing tariffs, while NTMs are mainly ROOs and trade remedies.

3. Stocktaking, challenges and impacts of NTMs in textile industry

The role of tariffs as trade policy tools has been replaced by Non Tariffs Measures (NTMs). It is worth noting that in the APEC region, NTMs increased from 3,139 in 2000 to 23,258 in 2015.

Textile and clothing industries are the major source of employment, foreign exchange, exports and GDP for a number of economies. They are subject to be highly affected by NTMs.

NTMs in textile and garment industries might include but not limited to requirements/measures related to labelling, labor, customs, documentation, standards, subsidies, anti-dumping action, certifications, minimum import price, rules of origin, import restrictions, etc.

NTMs play a crucial role in determining textile and clothing trade. Poor connectivity such as the lack of border infrastructure, inadequate traffic planning, improper cross-border transportation agreements and poor port storages grossly affect the textile trade potential of an economy.

The most prevalent NTMs in textile & clothing industries are custom clearance, administrative procedures, technical barriers to trade, certifications, legal barriers and rules of origin, which affect textile & clothing trade. Labeling requirements are quite exacting and cumbersome for some economies. Some of these impositions discourage exporters to export textile commodities.

NTMs have certain impacts on textile and clothing industry:

- Trade effects are importer-specific and not bilateral in nature. In that line, protection against one exporter might stimulate imports from other origin economies
- Foreseen and predictable liberalization in the wearing apparel sector will result in the highest positive impacts on welfare.
- It is predicted that most economies will gain positive impact due to liberalization in the wearing apparel sector.
- It is expected that high-income economies will benefit the most from the liberalization.

4. NTMs in textile industry – perspectives from the governments

The presentations focus on various issues from the perspective of governments. One of them is the issue of Rules of Origin (ROO). ROO, on the one hand, facilitates economies to enjoy the benefits of preferential tariff treatments in RTAs/FTAs; on the other hand, restrains market access since if ROO is too complicated, it will cost enterprises too much time and money to enjoy those preferential tariff treatments. It is recommended that so as to enjoy full benefits, enterprises should have good knowledge on ROO in textile and garment. On a larger scale, the supply chain of source materials should be adjusted in compliance with ROOs to enjoy the FTAs/RTAs' benefits.

Inspection and supervision of imported textile and garment is also shared as an aspect of NTMs. From the Chinese experience, risk monitoring and evaluation, safety inspection and recall are applied in textile and garment industry as parts of their inspection policies and they have conducted compulsory inspections since 2011 on 301 HS codes and focusing on infants and children clothes. Related to safety inspection, China is applying E-CIQ system; and Spot Check

& Sample testing. Related to Chinese standard system in place, it is worth noting the GB18401 - National General Safety Technical Code for Textile Products. This standard specifies the basic safety requirements that should be met for the apparel, decorative and home-use textile products produced and sold in China; and GB 31701-2015 - Safety Technical Code for Infants and Children's Textile Products. This standard specifies the basic safety requirements for infants and children's textile products sold in China.

5. NTMs in textile industry – perspectives from the private sector

Vietnamese enterprises encounter big challenges related to NTMs, namely: inadequate attentions to technical barriers in importing economies; inadequate capacity to cope with technical barriers; lack of harmonization between national standards and international standards/those of importing economies; dissemination of information on NTMs/technical barriers in importing economies dissatisfactory. It is recommended from the private sector that:

- Building capacity for SMEs to understand and meet technical barriers in T&G in importing economies (*make use of Cooperative and Capacity Building chapters in various FTAs; updates on negotiation/implementation of various issues related to SPS, TBT, regulatory coherence in FTAs; fit in with broader strategy to increase VN's position in T&G supply chain*).
- Better engagement of SMEs in the rulemaking related to T&G industry (*consultation during FTA negotiation is not enough; consultation in developing standards, reviewing standards, and harmonizing standards; range of FTAs presents diverse opportunities for T&G, so should not "force" firms to comply with any specific standards attached to any single market*).
- Reducing unnecessary regulatory burden is a good entry point: (*transparency helps compliance by firms; internalizing higher standards in domestic regulations should be based on rigorous analysis and consultation with firms; example of removing formaldehyde content check requirement*).

In 2017, according to an indepth interview to gather information about NTMs that are faced by Indonesian exporters, it is found out that similar to other sectors, types of NTMs that are commonly found in textiles and apparel sector are P130 (Export Related Measures: Licensing or permit requirements to export) and B140 (TBT: Authorization requirement for TBT reasons).

Indonesian enterprises face with a lot of challenges related to NTMs in textile industry, namely: high standard products for EU, US and Japan markets while their technology capacity is limited and some specific types of colors must be imported; some other markets such as the US, EU or Middle East are subject to import duties or high cost for the legal process; issues with anti-dumping and illegal transshipment; limited understanding of NTMs within the industry; etc.

It is believed that NTMs are no way to be eliminated, as long as they are designed for product safety improvement (SPS and TBT), the focus should be emphasized on technical supports for producers to comply with the regulation – not to eliminate NTMs. In addition, streamlining and harmonization of NTMs should be improved to mitigate incoherence that leads to NTMS bad design.

6. NTMs – mitigating its adverse impacts as trade barriers

The NTMs that have adverse impacts as trade barriers are wide ranging, so there is no single solution. Each and every one will have to be tackled respectively. It is pointed out that the test methods used in textile industry are specified by ISO and other organizations, but are not always conducted in accordance with the international standards in some economies. There are also many unclear points regarding the methods for certification of the functionality finishing on textile products and labeling, which is disadvantageous to consumers. The speaker focuses on the following four functionality test method standards, namely: (i) ISO 20743: 2013 (Determination of antibacterial activity of textile products); (ii) ISO 17299-1~5: 2014 (Determination of deodorant property of textile products); (iii) ISO 13629-1: 2012 (Determination of antifungal activity of textile products); and (iv) ISO 18184: 2014 (Determination of antiviral activity of textile products).

In reality, most of the NTMs are applied for public policy responsibilities (e.g: protect human, animal and plant health, or the environment, or to address market failures). It is impossible to eliminate NTMs. However, for some NTMs intentionally applied for protectionism intent, it should be considered whether the benefits are larger than the costs. Efficient NTMs frameworks maximize benefits at the lowest social costs. Here are some recommendations to identify and mitigate NTMs' adverse impacts:

- Transparency: comprehensiveness, comparability and accessibility
- Analysis: AVEs of NTMs, cost vs. benefits
- Regional integration: accessing regulatory coherence and divergence to eliminate uneven costs of trading and bad implementation of NTMs
- Adopt international standards: information, coordination and traceability
- Address procedural obstacles associated with NTMs, esp. conformity assessment

7. NTMs in textile industry for the realization of FTAAP

In 2014, APEC Leaders instructed the preparation of Feasibility Study for the FTAAP. In 2016, APEC Leaders endorsed the Lima Declaration on FTAAP, in which leaders reaffirmed that “*eventual FTAAP should do more than achieve liberalization in its narrow sense; it should be high quality and comprehensive, and incorporate and address ‘next generation’ trade and investment issues*”.

At the moment, despite strong growth, T&G exports still encounter various NTMs in APEC member economies. Most common examples against HS61-63 include restricted use of certain

substances; labelling requirements; packaging requirement; transport & storage requirements; prohibition/restrictions of imports objectives set out in TBT agreement.

It is a fact that compliance with NTMs in T&G sector can be hard because NTMs may change over time; they may be implemented at relatively short notice; they may be inconsistent along supply chains; they may not be harmonized across member economies; and/or Implications may be larger for SMEs.

Hence, it is meaningful to streamline NTMs on T&G products since it can benefit member economies by reducing compliance costs with NTMs, which can boost export competitiveness of firms, especially SMEs; by fostering international regulatory cooperation within APEC; and firms may then have available resources for investment in technology/human capital for more sustainable engagement in T&G value chains in APEC

For the realization of FTAAP, it is recommended that serious consideration should not be directed to SPS and TBT issues only. In addition, designing and fostering regulatory coherence should play a more crucial role; the roles of and support to SMEs should be taken into account; cooperation and capacity building should be promoted to ensure that the FTAAP will be beneficial and conducive to the member economies.

IV. Recommendations and Conclusions

Through the sharing of information and experiences among APEC member economies at the Dialogue, speakers and participants have shared views on what individual government and APEC should do to promote textile industry growth and development and roles of NTMs as well as envisaging an FTAAP. Recommendations are as follows:

Overall objectives:

- Enable business environment.
- Encourage openness of economy.
- Improve governments' management capacity.
- Establish predictable and transparent policies related to NTMs to facilitate business.

Concrete activities:

- Reduce costs by increasing transparency, recognition, creditation.
- Develop and harmonize standards and certificates.
- Promote capacity building for enterprises, especially SMEs in various aspects, including but not limited to improving legal understanding, relevant skills (IT, language, industry understanding and skills, etc.)
- Promote G to G dialogues based on practical recommendations from business community.

Look forward to the potential realization of FTAAP:

- Collect related agreements and database to facilitate exporters.

- Single windows as sources of policies for reference.
- APEC working groups can serve as focal points.
- Conduct surveys to gather feedbacks as well as promote involvement of associations to explain policies/NTMs.
- Promote public – private dialogues to disseminate information, increase awareness and understanding, raise issues/cases

Here are some recommendations for further thoughts and discussion at the upcoming CTI Meetings.