



Garments for growth

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Key Questions

- Why is the garments sector so important?
- Why hasn't it been able to reach its potential?
 - Export competitiveness vis-à-vis regional comparators
- What are the main impediments for export competitiveness?
 - - Supply-side
 - - Demand side & investment climate
- Can CPEC revive the garments sector?
- What does the sector need?

In 2017, garments contributed to

23%

of national
exports

40%

of textile
exports

2.4%

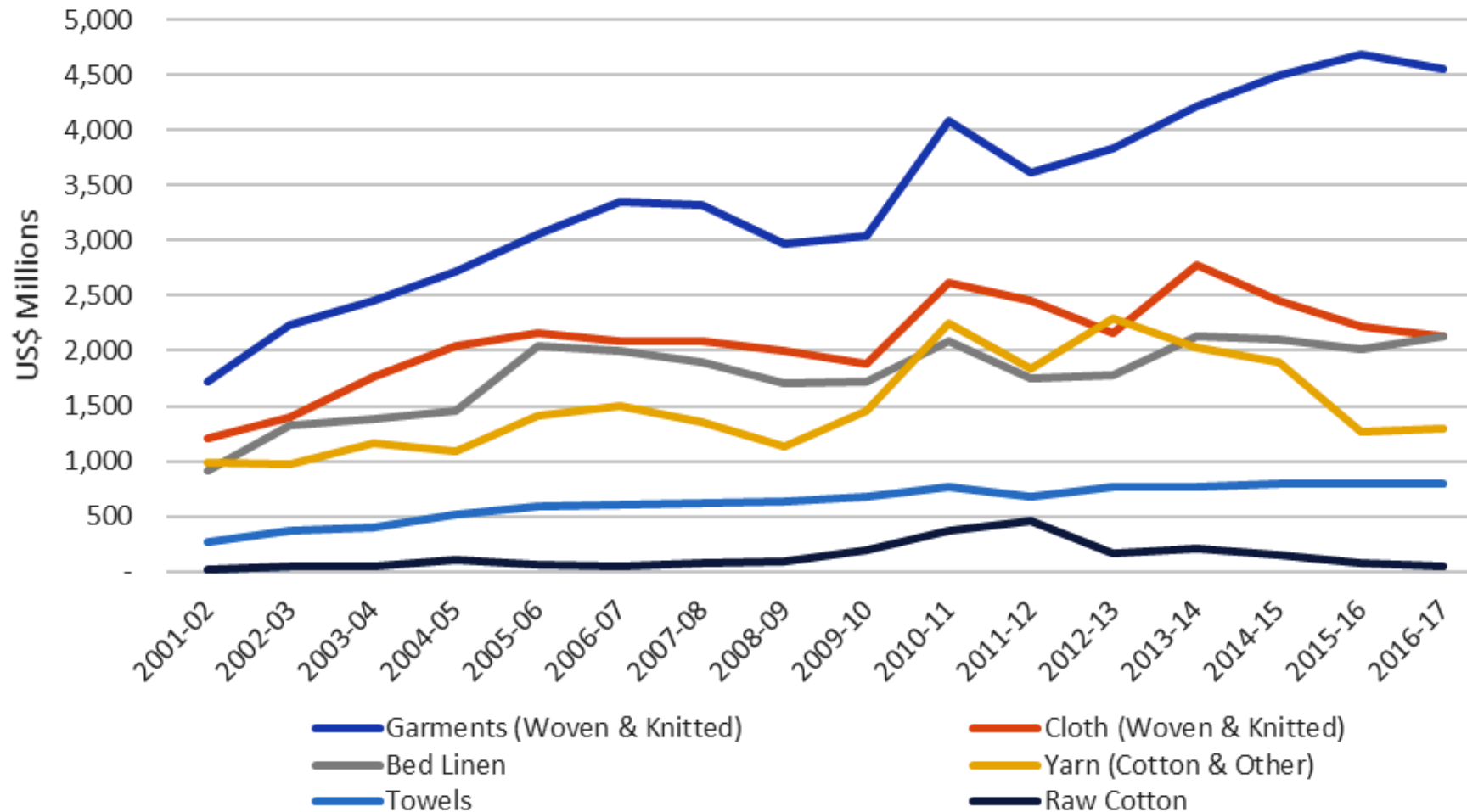
Of labour
force*

4 times

More value addition
at manufacturing
stage than previous
stages in value chain

* A very conservative estimate, as data is from LFS 2014-15

...and its significance is growing



Source: Pakistan Readymade Garments Manufacturers & Exporters Association and Trade Development Authority of Pakistan

Despite recent growth, Pakistan's world export ranking remains low



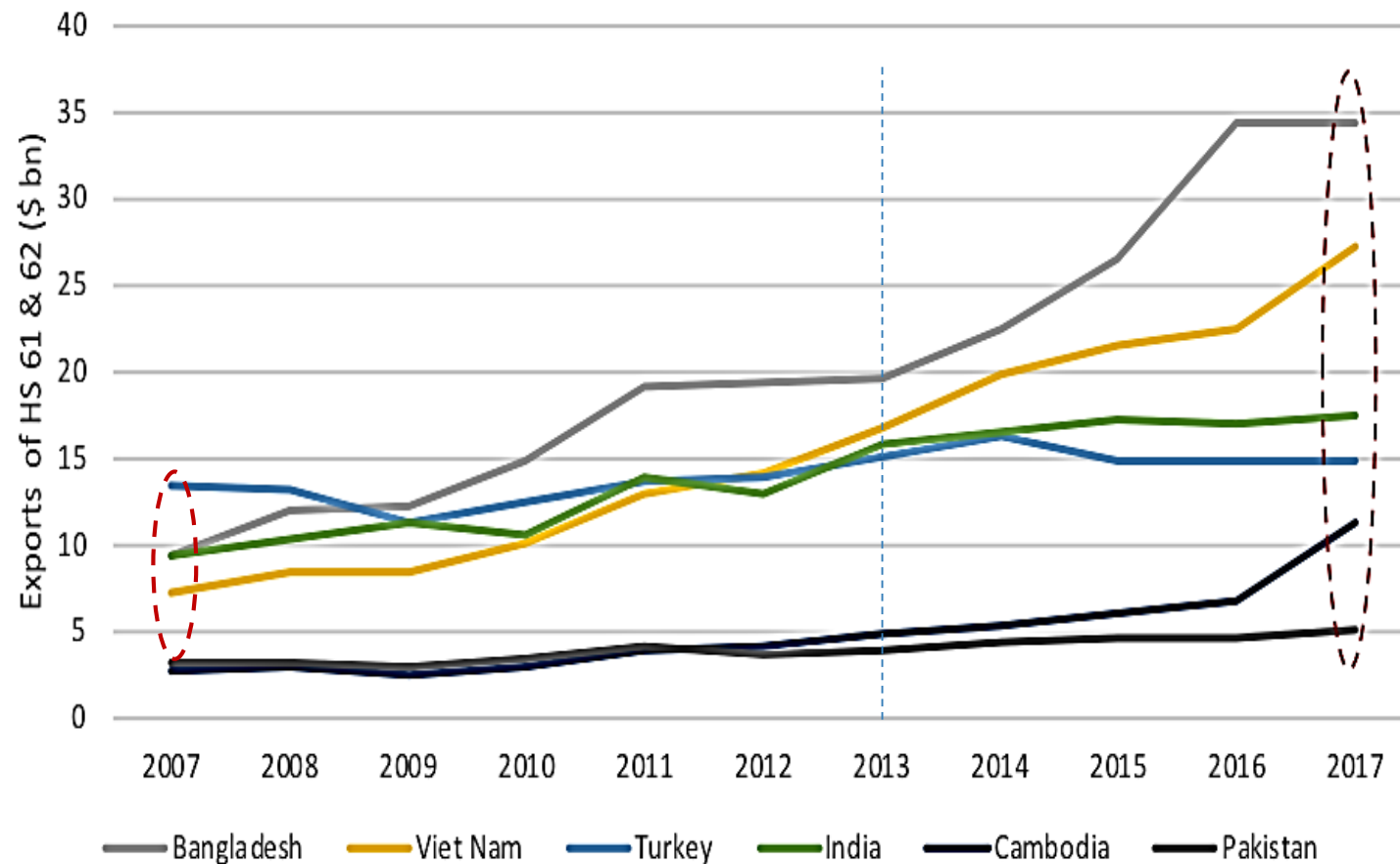
Country	Exports 2017 (\$bn)	Rank
China	145.6	1
Bangladesh	34.8	2
Viet Nam	27.0	3
Italy	21.3	4
Germany	20.8	5
India	17.3	6
Turkey	14.8	7
Spain	13.8	8
Hong Kong, China	13.7	9
Cambodia	11.3	10
Pakistan	5.0	17
World	454.2	

Source: Data accessed from ITC Trade Maps in August 2018

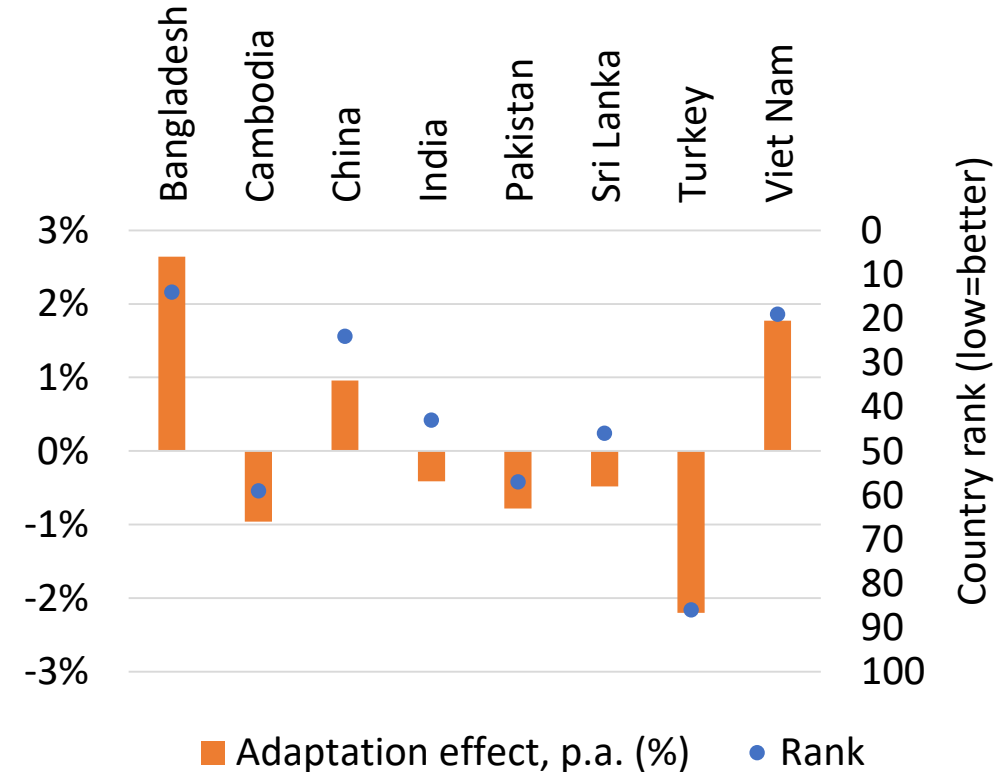
Moreover, Pakistan's export gap widened regionally over 2007-17

..as Pak exported products with stagnant demand (2012-16)

Widening export differential with key competitors



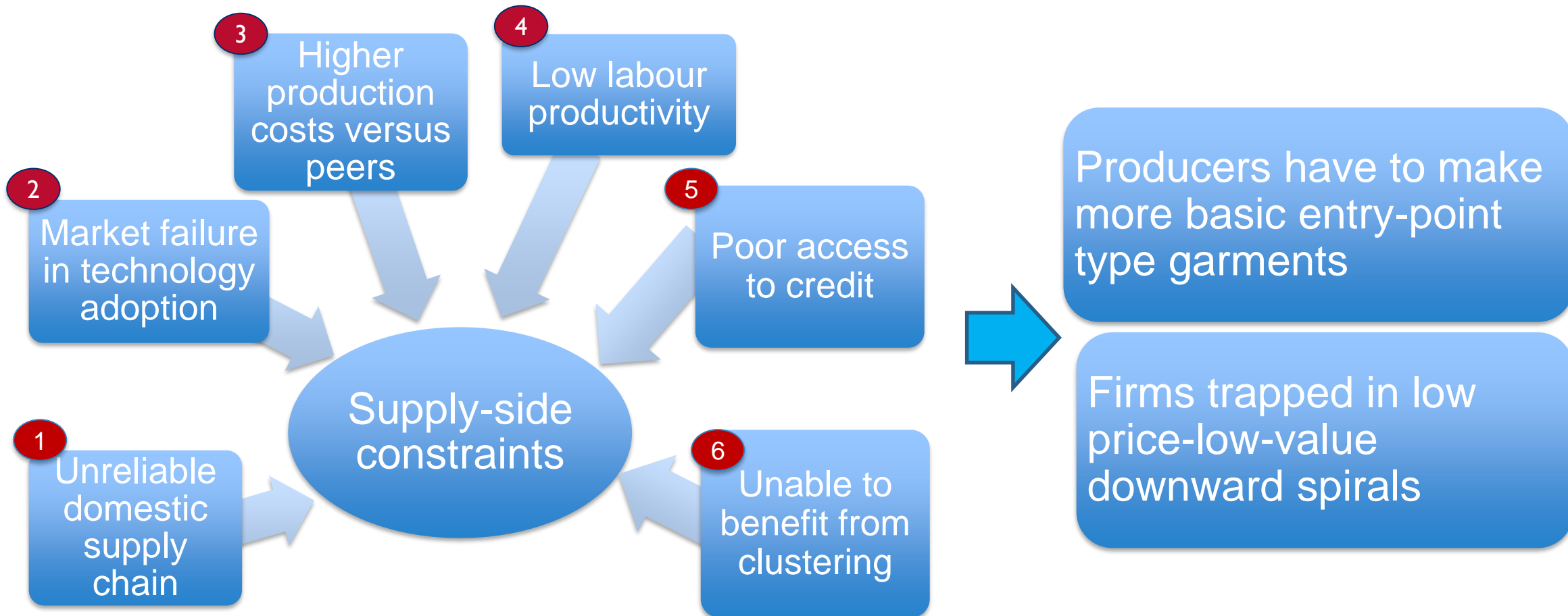
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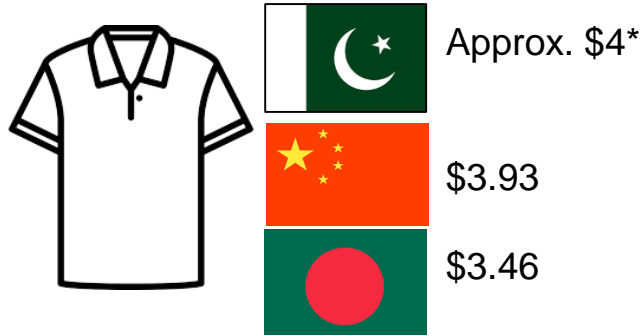
Over 2013-17, 2/3 of Pakistan's top exported product lines moved opposite to world demand

Source: Data sourced from Trade Competitiveness Map

Impediments: Supply-side constraints



Impediments: Demand-side and investment



*Without adding margins and port transport costs

- Asia new garment factory of the world—producing 2 out of every 3 garments in world markets by 2017
- Challenge for Pakistan: fierce competition from low-wage competitors in labor-intensive, low-technology garments
- Difficult to attain scale necessary for cost effective production and modernisation of technology

•Investment in textile machinery (spinning and weaving) has fallen: 44% decline since 2005-06 peak investment of \$1 billion (<\$0.56 billion in 2016-17)

Without improving attractiveness, Pakistan cannot insert itself into regional and extra-regional value chains, despite 5-6% p.a. global RMG growth (till 2020)

Can CPEC revive the garments sector?



Textiles is one of the areas of focus in industrial cooperation in Long Term Plan (LTP)

CPEC comes at an opportune time for Pakistan garments sector

- 1 Rising production costs in China: labor costs rose by 6.8%, raw material prices by 7.8% and rents by 9.7% in 2016 alone
- 2 Appreciation of currency
- 3 Shortages of water and electricity
- 4 Inflation
- 5 Labor protection laws & activism

- Benefits hinge on improving garments sector attractiveness in Pakistan

What is on offer?

- China is withdrawing from international market leaving behind US\$ 145 billion worth of world market wide open (plus more due to rising Chinese garments imports from world)

But if the Pak-China FTA is an indicator...

- Pakistan has only been able to utilize only 39/272 garment tariff lines
- Over 15% of garment products given preferential tariffs in FTA by China are not even imported by China from the world

HS Code	Product Label	Tariff faced by Pakistan (%)	Tariff faced by ASEAN (%)
61	Articles of apparel and clothing accessories, knitted or crocheted	7	0
62	Articles of apparel and clothing accessories, not knitted or crocheted	9	0

What does RMG sector want from CPEC?

- ▷ Increase productive capacity through technical cooperation and supply chain development
- ▷ Raise value of RMG exports to move Pakistan out of low-value fiercely competitive segment

This can lead to...

- ▷ Best-case scenario: product diversification to higher value-added with rise in firm productivity
- ▷ Likely: cheaper production of low-value added goods, with some degree of diversification towards intermediate value addition

How to capitalize on CPEC in the SR?

1. Firm focus on right product mix
2. Gvt. helps move up the value chain
3. Gvt. resolves problem of pending refunds
4. Gvt. enhances role of industry associations

More broadly (1)

- Use CPEC to leapfrog the technology ladder in garments sector
 - Joint ventures
 - Outward investment
 - Technology partnerships
 - Incentive to hire local labor & engage local firms
- Renegotiate better terms in Pak-China FTA



More broadly (2)



Enhanced cost competitiveness and availability of energy

Remove extra taxes on utilities, price energy at lower cost than consumers, promote energy efficiency through incentives & tax credits (use TUF)



Better access to raw materials

Improve Central Bonded Warehouse Facility; Renegotiate removal of synthetic knitted fibers from India's Negative List for Pakistan; Reduce customs duty on import of PSF & MMF



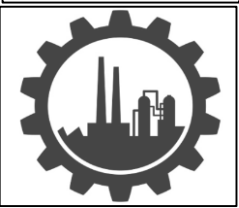
Increased labor productivity

Scale up initiatives undertaken by PSDF, i.e. certification and prequalification of training institutes & industry training to women



Incentives for technology adoption

Lower tariffs, give tax exemptions on innovation and R&D expenses, e.g. Turkey (exemptions on salaries of R&D personnel and revenues) and China (tax rebates up to 50%)



Appropriate and targeted industrial policy

Govt. should pitch its SME-based garment sector globally as a cost-effective way to produce customizable lots; Ensure reliable supply of inputs and competitive credit; Provide assistance in acquiring internationally recognized quality and safety certifications



Improved access to credit

Strengthen back-to-back L/Cs financing; Provide corporate loan guarantees and export credit insurance; Assist through export project performance security & investment credit guarantees, and smallest L/C commission for export credit

Realising garments sector potential

- RMG will pave way for economic development: many low-income countries that have/are transitioning to middle-income status have grown due to RMG sector
- Already know the problems AND the solutions
- Policy objective must be facilitation of the sector
 - Currently sector argues that policies “irritate” much more than they “facilitate”



Thank you