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The Elimination of Textile Quotas and Pakistan-EU Trade

Policy Brief

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This policy brief is a follow-up of the research report titled: The Elimination of Textile Quotas and Pakistan-EU Trade. That report focused on two major areas. First, it developed a detailed profile of Pakistan's textile trade with the European Union (EU) countries during the quota regime in effect until the end of 2004, and compared it to EU's textile trade with Pakistan's major export competitors. Second, it conducted a rigorous empirical analysis of the effects that elimination of quotas beginning January 1, 2005 could be expected to have on different categories of Pakistan's textile exports and on different categories of EU prices of textile imports. Among others, the two major findings of the report were: (1) Pakistan has an advantage only in limited number of textile and clothing items and faces immense competition from China, Turkey and India; (2) after the abolition of quotas exports from Pakistan to the EU-15 would potentially be higher in only a few items.[1]

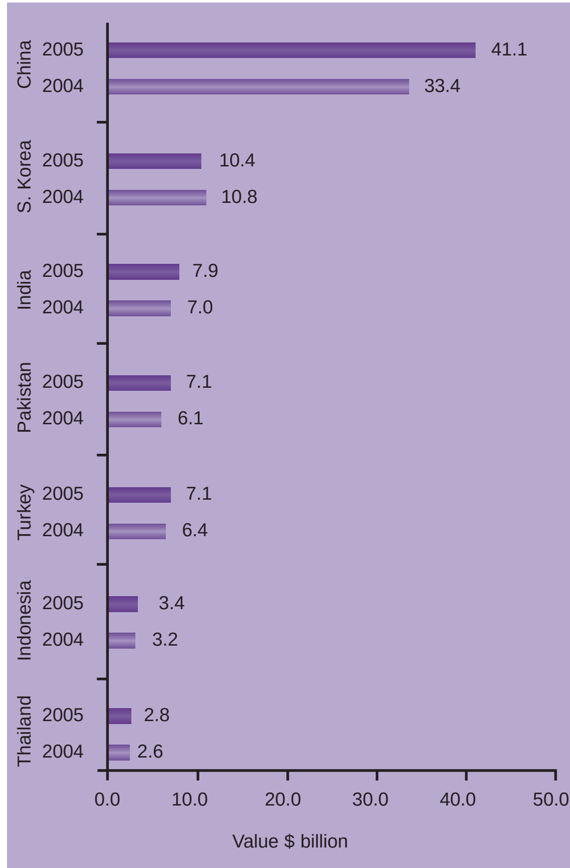
This policy brief begins with an analysis of the actual export performance of Pakistan and its competitors after the removal of quotas. It then goes on to consider the nature of challenges that Pakistan's textile and clothing sector has been facing. The purpose is not to give an account of past policies related to the textile and clothing sector. Rather, the goal is to locate key policy areas where concentration is required to improve and enhance the production and exports of the textile and clothing sector of Pakistan in the future. It should be emphasized that any policy recommendations made here are those of the authors of the Brief and not necessarily those of the European Commission that has funded the project of which this Brief forms a part.

1. Recent Export Performance of Pakistan and its Competitors

The performance of a country regarding any indicator can be judged in two ways: first, by analysing the movement of that variable over the period of time and second, by analysing the evolution of that variable vis-à-vis the values of the variable that competitors have managed to achieve. As to the first, textile and clothing exports of Pakistan have performed well and have increased considerably over time. During the period 1995-2004, a period of quota phase-out, Pakistan's textile and clothing exports to the world increased from \$5.6 billion to \$8 billion. In the subsequent years after the removal of quota these exports increased by \$1 billion and reached to \$10 billion in 2005-06 (Chart 1).

Chart 1
Pakistan's Textile and Clothing Exports

Chart 2
Textile Exports to World



The analysis would remain partial without looking Pakistan's performance relative to its competitors. Chart 2 and 3 give the value of textile and clothing exports of Pakistan and its competitors, respectively, in the world market. This comparison shows that how the exports of Pakistan and its competitors changed in 2005, that is in the year following of the removal of quota.[2] Among Pakistan's competitors, China leads the world textile and clothing market. The value of its textile exports that amounted to $33 billion in 2004 increased to $41 billion in 2005, an increase of 23 percent (Chart 2) and the value of clothing exports worth $62 billion in 2004 increased to $74 billion in 2005, an increase of 20 percent (Chart 3). The value of textile exports of South Korea stood at $10 billon, India at $8 billion, Pakistan and Turkey at $7 billion each in 2005. Compared to 2004, the value of textiles exports of Pakistan and India increased by $1 billion and that of Turkey by $0.7 billion in 2005. The clothing exports of Pakistan compared to those of its competitors are significantly lesser in value. In 2005, the value of clothing exports of Turkey constituted $12 billion, India $8 billion, Bangladesh $6.4 billion, Indonesia $5 billion, Romania $4.6 billion, Thailand $4 billion and Pakistan $3.6 billion. In contrast to 2004, the value of clothing exports of India increased by $1.7 billion in 2005 while those of the remaining countries by $0.6 to $0.7 billion.

Charts 4 and 5 portray the share of Pakistan and its competitors in world exports of textile and clothing, respectively. In textile exports, China's share in the world market grew from 17 percent in 2004 to 20 percent in 2005 (Chart 4). Among the other countries, South Korea held a 5 percent share in the world textile market in 2005, India 4 percent and Pakistan and Turkey 3.5 percent. With the exception of South Korea, all the countries shown in Figure 3 maintained their share, with a slight increase in them. In clothing exports, China has captured more than one-fourth of the world market. Its share moved up from 24 percent in 2004 to 27 percent in 2005 (Chart 5). Among the other countries, Turkey held a 4.3 percent share, India 3 percent, Bangladesh 2.3 percent, Indonesia 1.9 percent, Romania 1.7 percent and Pakistan 1.3 percent in 2005.

The data from 2005, the first year after the elimination of textile quotas, suggest that although Pakistan has been able to increase its share in world textiles exports a little and

Chart 3
Clothing Exports to World

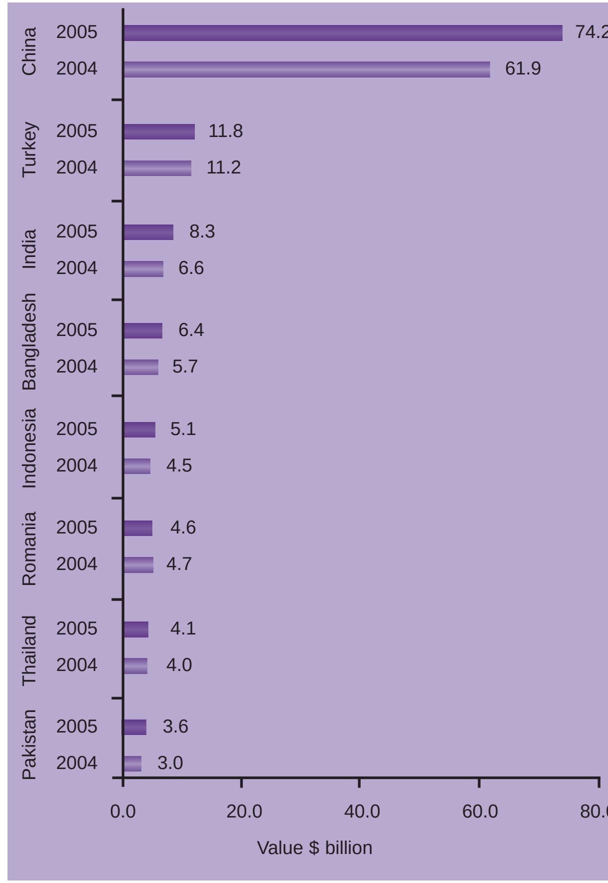
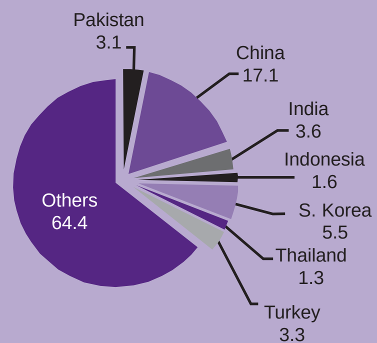


Chart 4
Share of Textile Exports in the World Market

2004



2005

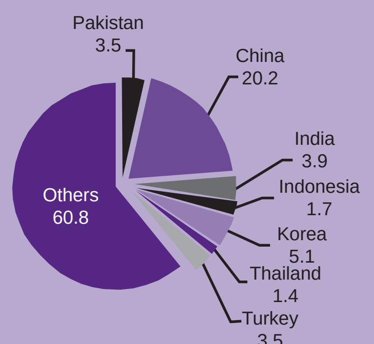
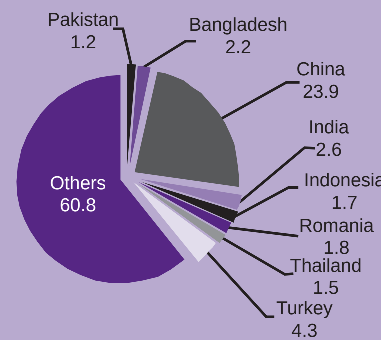
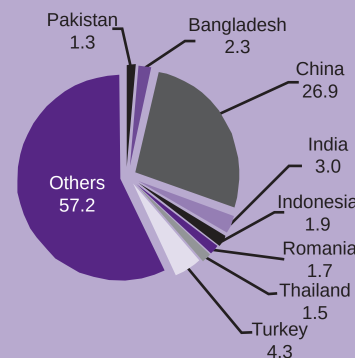


Chart 5
Share of Clothing Exports in the World Market

2004



2005



maintain its modest share in world clothing exports, it hasn't made any significant inroads in capturing markets relative to its main competitors, especially in the higher value-added clothing sector. Given this state of export performance of Pakistan in the world market, the question arises: Will the textile and clothing sector of Pakistan be able to stand not only in the EU market but also in the world market in the medium to long term after the elimination of quotas? Or is it more likely, as many fear, that Pakistan will become a supplier of only raw material and low value added textile products?

In order to evaluate these apprehensions, it is imperative to study the factors that affect export performance and analyse how they are currently functioning. This policy brief examines such factors and other major issues related to the performance of textile and clothing sector of Pakistan. It also seeks to identify the bottlenecks and problems faced by the sector. The analysis in the brief is based on secondary data, earlier research findings, including SPDC's report on the elimination of textile quotas, as well as the views of leading producers and exports of textile and clothing in Pakistan.

2. Addressing Shortcomings of the Textile and Clothing Sector Resulting from Pakistan's Domestic Policies

It should be stated at the outset that improvement and development of textile and clothing sector requires an overhauling of the weaknesses of the entire value chain. Things can only be moved in a positive direction if support and incentives are provided across the board and not to just a few components of the industry. Major policy decisions that are required to make the sector competitive are discussed in this section.

Investment

The Government of Pakistan (GoP) made an unprecedented investment of more than $5 billion in the textile and clothing sector in 2002 and in January 2005 for Balancing Modernisation and Replacement (BMR) and for introducing new products in order to push up exports. But, at the same time (i.e. in the phase out period of 1995-2004) other exporters of textile and clothing were also investing and preparing to make inroads into the world market after the abolition of quotas. And, so after January 2005 things did not come out as bright as they were predicted; this was stated by the leading producers and exporters in Pakistan.

One of the weaknesses of textile and clothing industry in Pakistan is that so far the industry largely consists of family businesses and has not turned up a system which is run by professional managers. In contrast, the Indian government, for example, has classified this sector as an engine of employment generation and foreign exchange earner. And, for this purpose it has provided a fund of nearly $13 billion to strengthen the sector and to increase exports up to the tune of $105 billion by 2014. According to leading textile producers and exporters of Pakistan, in India the Technological Upgradation Fund (TUF) provides an adequate amount of funds for the technological advancement of the textile and clothing sector; the government of Bangladesh also give incentives on exporting clothing items. The textile producers of Pakistan feel that it is difficult to compete in such an environment?

The textile and clothing sector is comprised of different components or sub-sectors, including cotton crop, cotton picking, ginning, spinning, weaving, processing, dyeing and printing, garments and other value added sectors. Investment is required by giving due consideration to each component. On the basis of the performance of the sector and the complaints made by the producers, it can be stated that there has been a lack of strategic planning as far as setting investment priorities for sector is concerned. For example, huge amount of investment is required to control contamination in cotton, improve the method of cotton picking, replace the old technology with advanced and sophisticated technology in ginning, install capacity and provide training in spinning (to produce finer or higher count yarn), weaving, processing and in the value added sector. Strengthening of synthetic yarn manufacturing is imperative to move not only towards value added yarns but also towards value added fabrics and garments. For this, it is required to support synthetic yarn manufacturing, synthetic textile weaving and other auxiliary industry by investing in plant, machinery and processes. Investment is also needed in developing a strong multi-fiber base with vigour of product upgradation and diversification. Besides physical capital, investment in human capital is also a key priority, without which the physical capital investment will not pay high returns and which so far has largely been neglected.

Efficiency: Cost of Production

Efficiency is the increase in the value of output relative to the cost of inputs used. A change in the price of inputs might lead a firm to change the mix of inputs used, in order to reduce the cost of inputs used and improve efficiency actually, with increasing the quantity of output. This implies that reduction in the value of cost of inputs or cost of production and producing a greater quantity of output makes a firm efficient. And, the more efficient the firm is, the more likely that it will be competitive in the international market.

The leading textile and clothing producers complain that the cost of production in Pakistan relative to that of its regional competitors is very high. Bangladesh China, India and Pakistan are the major suppliers of cotton textiles to the world. One of the main secrets of taking over the EU market by China, India and Bangladesh lies in the fact that they have brought down their production cost in real terms. Prior to 2005, an exporter had to find who was holding the quota and where he could buy from. Today, opening of the letter of credit (LC) does not matter for gaining an offshore market. The rules of business have changed after 2005 from quota to price, quantity and quality. Pakistan was not ready as far as prices were concerned because it did not succeed in controlling the high and increasing manufacturing cost, according to the textile producers and exporters.

The producers demand a level playing filed with their competitors. According to them, in some areas of garments, there is not much difference between Pakistani products and those of its competitors - it is no more than 5 to 7 percent. Pakistan is a supplier to buyers like Maci, Addidas, Nike and so on. And in home textiles, it is actually considered to be among the best. The problem lies in the fact that only a few producers have the capability to produce such quality products and thus the volume of these exports is very small. Significant increase in export earnings can occur when such quality products appear as the bulk of exports. And there the cost of production is a prime factor that makes the difference.

The major factors that influence cost of production are discussed below.

Cotton Price

The basic raw material in textile and clothing is cotton. Pakistan is the fourth largest producer of cotton in the world and produces 18 percent of the world cotton. There is an issue of stability of the domestic cotton price. Fluctuations in cotton price are created by changes in production and carryover of cotton and total market demand, weaknesses in the estimation of crop size, variation in transport charges between markets, non-availability of alternate buyer. The other issues are access to forward trading and hedging market, high inventory cost for ginners, limited capacity for ginners to hold cotton (about 1.5 million bales) as carryover or buffer stock.

It is recommended that a system should be established that assures stability in the cotton price as its instability effect the production and prices of the entire value chain.

Prices of Utilities

Rising cost of utilities (electricity, gas and oil) is a big problem in Pakistan. Although, energy charges remained at Rs1.29/kwh during 2001-2005, as shown in Table 1, but different types of surcharges enhance the tariff rates paid by the final user (industry in this case). In addition to the surcharges shown in Table 1, there is another surcharge of 10.4 percent levied on supply charges (including: fixed charges, energy charges, F.A.S. and lower power factor penalty). This makes the electricity cost very high in Pakistan compared to that in its regional competitors. Because the high cost is in significant part due to high surcharges, this becomes a policy issue.

Gas is an essential raw material for textile and clothing industry. Its price has increased considerably after 2004, i.e. by 15 percent in 2005 and by 27 percent in 2006. And, compared to 2001, gas price has increased by 68 percent in 2006 (Table 2). Gas rate applicable on textile and clothing sector in Pakistan is $4.4/MMBTU in 2006 while in Bangladesh it is $2.7/MMBTU (39 percent lower) for normal plants and $1.9/MMBTU for captive power plants (57 percent lower).

The producers complain that gas tariffs in Pakistan were high because: (1) increase in gas wellhead prices are linked to international price of oil and furnace oil; (2) the guaranteed return of 17½ percent to Sui Northern Gas Pipelines limited (SNGPL) and of 17 percent to Sui Southern Gas Pipelines Limited (SSGPL) on average net fixed assets; and (3) the Gas Development Surcharge (GDS) is an

Table 1
Electricity Tariffs for Industry
(Rs/kwh)

Years	Energy Chartes	F.A.S.	Additional Surcharge
Apr-1999	0.67	0.75	1.44
Sept-2000	0.67	0.75	1.57
Aug-2001	1.29	0.13	1.65
Aug-2002	1.29	0.20	2.01
Aug-2003	1.29	0.23	2.01
Aug-2004	1.29	0.13	2.01
Aug-2005	1.29	0.13	2.01

Source: Economic Survey, GoP.

Table 2
Prices of Utilities

	Oil Rs/litre	Growth (%)	Gas Rs Million BTU	Growth (%)
2001	32.8	-	157.9	-
2002	33.3	1.5	166.2	5.3
2003	30.8	-7.4	172.3	3.7
2004	36.9	19.8	182.1	5.7
2005	45.5	23.3	208.6	14.5
2006	57.7	26.7	264.9	27.0
Change in 2006 compared to 2001		75.8		67.8

important source of revenue for the government. The subsidy that goes to the feed stock sector is Rs4.5 billion and to domestic consumers is Rs14 billion. GoP is not paying these from budget (i.e. from its own pocket) but through cross-subsidisation. Textile and clothing sector consumes 20 percent of the gas (11 percent from SNGPL and 9 percent from SSGPL) but paying more by providing cross-subsidies to the fertiliser sector and domestic consumers. So again, the high gas tariff in Pakistan is partly reflects suboptimal policies and high surcharges.

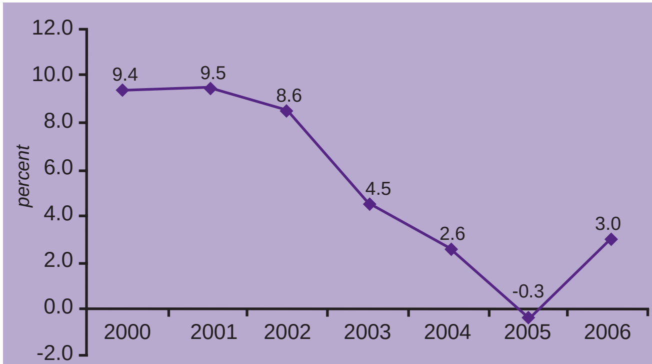
Petroleum (oil) price have also moved up sharply in the last 5 years, particularly, in 2005 by 23 percent and in 2006 by 27 percent. And, compared to 2001, petroleum prices are up by 76 percent in 2006 (see Table 3). Apart from the increase in international oil price, increase in petroleum development levy and general sales tax also affected these prices.

Table 3
Total Factor Productivity (TFP) during 1960-2003/2005

	% of Growth in TFP
Bangladesh	0.57
India	1.30
East Asia and Pacific	1.71
Pakistan	1.08
1981-1990	2.30
1991-2000	0.71
2001-2005	1.04

Source: World Bank (2006).

Chart 6
Real Interest (Lending) Rates



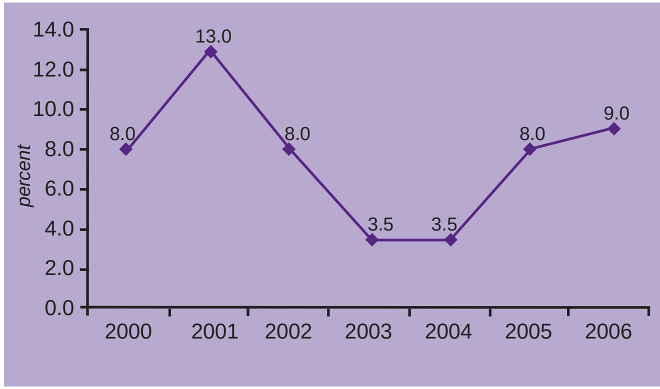
Thus, all this has made the Pakistani products costly in the world market. For this it is required to bring utility rates down to the extent possible through reduction in their tax components so that Pakistan can compete.

Lending rates and export refinance scheme

The real interest rates after declining from 9.5 percent in FY2001 to -0.3 percent in FY2005 increased to 3 percent in FY2005 (Chart 6).[3] Similarly, the rate of export refinance scheme declined to 3.5 percent in FY2003 and FY2004 from 13 percent in FY2001 and increased to 9 percent in FY2006 (Chart 7). Although the interest rates are now market driven but such movements not only shakes investors' confidence but also influence future investment decisions. The following recommendations are made in this regard:

- An institutional framework whereby the government is required to assure that a particular policy will remain in practice for a specific period.
- In addition to this, GoP also needs to look at the financial incentives offered by the governments of regional competitors. For example, the provision of financial support for capital investment in textile industry including secondhand machines as TUF in India offers lower interest rates through reimbursement and subsidy on capital investment.

Chart 7
Rates of Export Refinance Scheme



Import duty and taxes

Pakistani importers still have to pay a duty of 5 percent on import of textile machinery; generators for captive power plants are also subjected to 15 percent sales tax. Export Development Surcharge (EDS) is collected at a rate of 0.25% on all textile exports. On the other hand, in India, the government gives 10 percent grant on the import of machinery.

Given this the producers demand that:

- Duty on imports of textile machinery and their spare parts, generator for captive power plants and their spare parts, chemical and dyes and other raw materials that are not available locally needs to be either zero-rated or slashed down. Sales tax, if any, on these items needs to be zero-rated.
- A systematic procedure for timely delivery of duty drawback and tax refunds needs to be established.

- Withholding tax on exports of textile should be at a flat rate of 0.25% instead of the current multiple rates.
- Details of the spending regarding EDS should be provided; otherwise its collection should be discontinued.

The other factors that hurt production and competitiveness include macroeconomic instability, infrastructure bottlenecks (power water transport/trade logistics), inadequate supply of quality education/skill manpower, weak economic governance (including burdensome regulations), pockets of high protection, food deficiency and safety standards, according to a study by the World Bank (WB, 2006).

Productivity

Productivity is the amount of output produced per unit of input used in a specified period of time. It improves when the quantity of output increases for a given amount of the quantity of inputs.[4] Productivity is related to the concept of efficiency. Efficiency in production benefits a business and enables it to improve its productivity, which over time lowers cost and develops ability to compete and make profit.

A study (WB, 2006) points out that over the period 1961-2005, growth in Total Factor Productivity (TFP) in Pakistan averaged 1.1 percent per year and in India at 1.3 percent per year. The study also shows that growth in productivity in Pakistan has declined to 1 percent during the period 2001-2005 compared to 2.3 percent during the period 1981-2000 (Table 3). It states that in the 1980s when TFP growth was high and when there was less political instability, both the microeconomic and macroeconomic dimensions of the business environment showed improvement (like macroeconomic management, regulatory environment, infrastructure, trade policy, financial sector and law and order).

Another study (Ara, 2004) also indicates a declining picture of productivity growth in Pakistan. According to this study, growth in productivity, which averaged 3.2 percent per annum during 1974-88, declined to 2 percent per annum during 1989-93 and then to 1 percent per annum during 1994-98. However, productivity growth rose during 1999-03, but was still slow compared to that during 1974-88. The study further shows that despite the fact that growth in prices of labour and capital and that of in other raw material declined considerably during 1999-03, growth in net productivity also declined; specifically, growth in productivity was not enough to offset the extent to which growth in input prices outpaced the growth in export prices during 1999-03.

Another study (Dollar et al, 2005) has focused on the factors regarding the efficiency of the government in providing services that are essential for creating an investment climate in Bangladesh, China, India and Pakistan. Some key results are reproduced in Table 4. The factors highlighted relate to bureaucratic control, provision of infrastructure and financial services. Compared to other countries, Pakistan's is better in inspections per year and in financial services. The research further illustrates that improvement in the quality of the investment environment significantly affects productivity. The findings of the research indicate that the productivity of Pakistan's textile firms would improve by 81 percent if the quality of investment climate were to match that of China.

Table 4
Investment Climate Indicators

Indicators	Bangladesh	China	India	Pakistan
Inspections per year (number of times)	18.6	28.1	7.9	32.7
Management time dealing with regulations (%)	4.2	7.8	14.4	10.1
Days to clear customs (imports)	11.7	7.9	9.1	17.2
Days to clear customs (exports)	8.8	5.4	6.6	9.7
Power loss (% loss of sales)	3.3	2.0	8.7	5.4
Days for phone line	129.7	15.6	35.5	41.8
Have own generator (%)	71.1	27.3	61.0	42.1
Share with overdraft facility (%)	0.66	0.18	0.57	0.23
Days to clear a check	2.9	4.3	10.9	1.9

Source: Dollar et al (2005).

The research findings discussed above suggest that a concentration on growth in productivity is vital in both the agriculture and manufacturing sectors of Pakistan. The following specific areas need to be targeted in this regard:

- An increase in aggregate investment and an appropriate allocation of it, together with stable macroeconomic policies.
- Adoption of updated advanced technology in units that have old technology and suffer from low technological base.
- Improve management techniques and practices related to performance enhancement like alignment of resources to reflect production priorities more clearly; implementing efficient modes for quality management, quality assurance and quality control; effectiveness in placing well-defined missions, goals,

and objectives; setting sophisticated strategic planning tools; and prioritizing investment decisions towards outcome-oriented processes.

- Provision of knowledge/know-how regarding capital input i.e. creating skill development and trained man-power to appropriately operate the machinery by establishing textile training institutes.
- Control and then elimination of power supply interruptions/fluctuations.
- Working conditioned need to be overlooked.
- Provision of workers' social security and welfare schemes.
- Implementation of labour laws.
- Improper shift timings should be eliminated and maximum working hours must be introduced.

Quality of Products

The notion of quality of products means two things. First, good quality products are those which do not have any manufacturing fault and buyers do not make complaints about them. Second, good quality products are those which are produced by using finer or refined input material and are related to the texture of the products. For example, garments produced from finer fabrics or fabric produced from finer count yarn. At present, Pakistan needs to concentrate on both fronts.

There are two main problems that the industry is facing at the lowest end which curtail quality of the final products. The first is the poor quality of cotton largely resulting from the practice of picking cotton from the bud and from a high degree of contamination. The procedure employed is to one whereby the workers pick cotton by their hands. The second is the problem of using very old (25 to 50 years) technology in the ginning process. All these problems often destroy the delicate fibres of cotton and thus not only affect its quality but also do not allow producing cotton of higher staple length and strength, which is a prerequisite to produce finer count yarn.[5]

The major complaints made by the European and other international buyers about Pakistani textile and clothing products is the weak and fading colours of fabrics and garments. In addition, unfinished stitching, rough and non-durable material (like buttons and zippers) used in the manufacturing of readymade garments, lack of knowledge about standard measurement and sizes are among the other complaints. Thus, the sector appears to suffer from low standard of quality throughout the output range.[6]

It is therefore necessary to:

- Adopt advanced and scientific techniques at the very initial stage of cotton picking and minimize contamination in order to preserve the quality of cotton to permit producing higher counts yarns and hence fine quality of fabrics.
- Urgently replace the old technology in ginning with advanced and sophisticated technology.
- Create and increase the awareness about the meaning of the term quality among producers and workers and why production of quality products is the key to success.
- Identify or define quality in relation to respective markets.
- Set up minimum quality standard for local markets.
- Provide appropriate training to the employers and the employees (administrative and production workers) regarding production of quality products. This training needs to include, for example, the use of acceptable and proper raw materials as well as cutting and stitching techniques according to the standard measurement and sizes.
- Monitor quality standards (an independent monitoring authority to be established by the GoP having representatives from all stakeholders).
- Sort out a policy framework regarding moving towards the production of fabrics and value-added products made from finer count yarn. For example, to determine whether to use improved variety of seeds to produce cotton required for producing finer count yarn, as India has done by using BT-seeds, or to import finer count yarn instead of producing locally.

Infrastructure

Provision of appropriate and well-organized infrastructure (roads, transportation and communications, water, electricity, gas) facilities is also a prerequisite for enhancing production. The following problems must be addressed:

- Inappropriate warehouse capacity for storing cotton according to the international quality standards. (Also, maintaining particular moisture of cotton and preventing it from contamination and sunlight is necessary).

- Concentration of industrial areas into mega cities (like Karachi) has increased the price of land (for both industrial and residential) in these cities. In order to restrict the land prices, it is required to break this concentration by establishing specialized industrial zones in the suburbs of the mega cities. And this requires the provision of adequate infrastructure in the suburb areas of mega cities.
- Shortage of water and electricity (particularly in Karachi).
- Inadequate and poor quality of roads and transportation system, which often cause delays in the delivery of consignments.
- Lack of mass transit system which increases the time and cost of commuting within cities.

Product and Market Concentration

Textile and clothing exports of Pakistan are concentrated in similar items (most of which are low value-added items) and to a few markets. Pakistan's total textile and clothing exports were xx percent of the country's total exports in FY2005-06 and of the textile and clothing exports, high value-added items constituted 39 percent of the total; this included bed sheets at 20 percent, readymade garments at 13 percent and towels at 6 percent. Similarly, of the total textiles and clothing exports, 40 percent were destined to the United States market and 32 percent to the EU market in 2005-06.

Commodity concentration hurts exports by making a country more vulnerable to industry-specific shocks. If the industrial base of exports is well-diversified, then fluctuations in exports occurring due to a negative shock in a particular industry could be offset by counter fluctuations in exports of other industries. And, if exports are concentrated in low value-added items, another disadvantage is that they fetch lower price in the international market. In the same way, if exports go to a few markets, demand shifts in some markets may not be compensated for by counter shifts in demand in other markets and thus cause instability in exports earnings.

Product and market diversification should be fostered by focusing the following aspects.

- Acquiring of product knowledge regarding consumer demand and choice in the new markets where Pakistan's existing exports can go.
- Acquiring of product knowledge regarding consumer demand and choice that Pakistan can produce for the new markets.

- Increasing production capabilities to produce more of the existing mixture of products as well as new products in order to supply to the new markets as supply to the new markets should not be at the expense of existing markets.
- Learning of marketing strategies.
- Selecting markets given the size of their GDP and proximity with Pakistan; like China, India and Iran.[7]

Research and Development

An important element of achieving progress and success in production and exports is development through research. The textile and clothing sector in Pakistan could benefit from a multi-dimensional research agenda, whose focus would include the following areas:

- Establishing coordination between universities/research institutes and industry so that the latest research can be used in practice in industry to bring some concrete results.
- Adoption of advanced technology and technology transfer requires an understanding of and training in the latest technological advances.
- Examining the ways of mechanization, seed variety, insecticide research and the like.
- Knowledge about consumer demand in different markets and ability to discern and react appropriately to changing patterns, including in style and design.
- Product-wise analysis of cost structures, trade patterns and marketing strategies (which requires specific and appropriate comparative data for Pakistan and its competitors).
- Study of the practices used by other countries (for warehouse and other quality concerns).

Security Concerns in Pakistan

Travel advisories in the EU and the US issue warn potential visitors from these countries against travel to Pakistan mainly because of the disturbing law and order situation in the country. If buyers do not come, Pakistani exporters have to travel more frequently to their export market countries to obtain orders. Thus, the non-arrival of foreign buyers causes Pakistani exporters to bear higher cost of samples, presentations, dispatch of samples for approval, and so forth. This is one important reason why Pakistani exports have trouble developing fresh markets.

Given this scenario, the following recommendations are made:

- Improving the law and order situation will obviously help in easing security concerns that are the source of the adverse travel advisories.

- More education and marketing to emphasize that the perception is worse than the reality with respect to the travel situation in Pakistan. The authorities need to make a convincing case that despite pockets where the law and order situation is brittle; Pakistan is overall a safer place to travel and for buyers to visit the country than appears to be case.

- Meanwhile, given the extra challenge that exporters face due to the perceived law and order situation, textile producers suggested that it would be helpful to introduce a travel relief support package for the promotion and marketing of exports internationally. The travel relief package could be targeted particularly toward efforts to promote relatively high value-added exports, such as processed fabric, garments, knitting, home textiles and made-ups. This facility should probably be restricted to exporters who are also manufacturers.[8]

Coordination and Partnership between Public and Private Sectors

Increasing global economic competition and a potent threat from competitors necessitates developing trust and coordination between public (government) and private (industrialist/exporter/importer) sectors to tackle the problems arising in the process of production and exports in Pakistan. There are examples of developing countries like China, Malaysia, South Korea and others where a relationship was established between public and the private sector entities to enhance production and exports in different sectors of the economy. And, those associations took many forms depending on the nature of the requirements. Below are some considerations that roughly define the appropriate roles for the public and private sectors with respect to different areas:

- Policy framework: both public and private sectors need to cooperate in developing a policy framework that would support strong export growth and minimize the adverse effects on long-term development.

- Investment: public sector in understanding the requirements of different technologies in the development of products and thus providing appropriate incentives; private sector in implementing the incentive process.
- Infrastructure: public sector in providing facilities like water, waste disposal, electricity/gas, roads, transportation and so on.
- Human resource development: both public and private sector in providing on-the-job-training.
- Quality standards: both public and private sector in developing appropriate regulatory processes
- Environment: public sector in creating awareness about environmental degradation; private sector in implementing the required standards.
- Research and development: both public and private sector in helping to understand and implement advanced and more modern techniques and ideas.

3. Addressing Problems Textile and Clothing Sector of Pakistan Faces as a Result of the EU Policies and Requirements of International Institutions

There exist some apprehensions among the producers and exporters that after the elimination of quantitative restrictions on textiles and clothing, imposition of several other types of limitations by buyers of the EU has increased, which are negatively affecting the exports of Pakistan to the EU market. The exporters feel that these limitations could create a new era of trade barriers and thus demand that these limitations should be addressed.

Travelling Abroad for Pakistani Exporters

Pakistani exporters face many problems when intending to travel to the EU and the US. Obtaining visas is a major obstacle; many applications get refused on the grounds that the applicant has not travelled before. Both sides should attempt to improve the situation in this respect through the following:

- The EU and the US side need to addressing the issue of discriminatory attitude in issuing visas to Pakistan
- GoP needs to make much greater effort to improve the image building of Pakistan in the world.

Scheme of Generalised System of Preferences (GSP)[9]

The new GSP Plus scheme granted zero duty access to 7200 products. GoP has asked for relaxation of two conditionalities necessary for gaining access to this scheme: (1) a grace period of three years up to 2008 for ratifications and implementations of all the 27 conventions (related to UN/ILO human and labour rights and to environment and governance principles) attached with this scheme (2) increase in the limit of share from 1 percent to 2 percent in the total GSP trade with the EU.[10]

Agreements/Regulations under the World Trade Organisation (WTO)

Pakistani exporters face problems/challenges because of the requirements of the following regulations enforced by the EU as they hinder exports from Pakistan, particularly of value added items.

- Imposition of anti-dumping duties
- Subsidies and countervailing duties[11]
- Issue of social compliance

  The following are the major social compliance issues the textile and clothing industry in Pakistan is faced with:

  - Technical Barriers to Trade (TBT)[12]
  - Sanitary and Phytosanitary Standards (SPS)[13]
  - Environment and health standards
  - Labour laws

Pakistan being a member is bound to respect the WTO regulations and owes the ratification of the ILO conventions related to labour laws. However, it needs to be mentioned that the information propagated through print and electronic media by taking some specific cases of not following the WTO regulations do not represent the entire industry but create problems for the entire industry. It is recommended that actions taken against these kind of cases should be based on empirical evidences drawn from public data set like Labour Force Survey and

Pakistan Social and Living standard Measurement Survey. Pakistan is a country where masses have low economic empowerment and development and thus it can not afford its exports to be restricted by perceptions that its textile and clothing industry does not measure up to fulfilling these regulations and laws.

According to the textile and clothing producers in Pakistan, explanation of these areas has enough ambiguity and there exist a lot of grey areas. The performance of Pakistan's textile and clothing exports has made objected somehow or the other. The EU buyers provide their code of conduct (policies and standards) regarding these areas and Pakistani producers have to fulfil it. According to our understanding, most of the units of the industry in Pakistan are small and medium-sized in scale and find difficulties in complying with these standards. The foremost difficulty is the lack of financial resources of these units; in addition to factors like, lack of awareness, lack of fulfilment of capacity due to limited managerial capabilities and lack of technical know-how.[14]

4. Conclusion

This policy brief has attempted to look at the issues that production and exports of textile and clothing sector of Pakistan is being faced with as a result of domestic policies, the policies of importing countries such as the EU countries and obligations levied by certain international institutions, particularly WTO and ILO. The major areas of concern the Brief touched upon and emphasized with respect to domestic policy framework include: investment requirements, efficiency of production, productivity of factors, quality of products, infrastructure bottlenecks, product and market diversification, research and development, security concerns and public and private co-ordination. The issues the Brief emphasized in the context of the EU policies towards imports from Pakistan include the perception in Pakistan of a discriminatory attitude, the WTO regulations and labour laws under ILO conventions in case of Pakistan. It is recommended that decisions based on information regarding not obliging of the WTO rules and regulations be dealt on the basis of comprehensive evidences and may not be generalized for the industry as whole.

Notes:

[1] For detail see, "The Elimination of Textile Quotas and Pakistan-EU Trade" research report prepared by SPDC and co-financed by the EU under its Small Project Facility (SPF) Programme in Pakistan.

[2] The data for the year 2006 were not available for competitor countries therefore comparison for this year was not possible. It should be emphasized that any changes in trends in the data cannot be assessed in just one or two years and conclusions based on 2005 data and whatever anecdotal evidence that is available for 2006 should be regarded as suggestive only.

[3] They were brought down as low as 7.2 percent in FY2004 from 14 percent in FY2001 and increased to 11 percent in FY2006, without prior announcement.

[4] For instance, labour productivity is output per worker or output per labour-hour; capital productivity is output per unit of capital goods employed and land productivity is equivalent to the yield. Total factor productivity is output produced per unit of combined inputs. It includes labour, capital goods and land weighted by their shares used in the production of output.

[5] These are experts' opinion from leading spinning mills. See also SMEDA, Textile Vision 2005.

[6] See, SMEDA, Textile Vision 2005.

[7] SPDC (2004) in an analysis predicted potential trade of Pakistan based on 2003 data by using the Gravity Model. The findings indicate that potential exists for Pakistan in doubling trade with Iran, increasing trade by four-fold with China and twelve-fold with India.

[8] This opinion came out during a discussion with the producers-cum-exporters.

[9] This scheme was recommended by the United Nations Conference on Trade and Development (UNCTAD) in 1968. Its objective was to help developing countries build a strong and diversified manufacturing base with the help of the trade preferences granted by the industrialized countries. The EU was the first to implement this scheme in 1971. Source: http://ec.europa.eu/trade/issues/global/gsp/gspguide.htm

[10] Source: Second Quarterly Report, 2004-05, State Bank of Pakistan.

[11] Agreement on subsidies and countervailing regulates the actions countries can take to counter the effects of subsidies. Under this agreement, a country can use the WTO's dispute-settlement procedure to seek the withdrawal of the subsidy or the removal of its adverse effects or can launch its own investigation and ultimately charge extra duty (countervailing duty) on

subsidized imports that are found to be hurting domestic producers. Source: www.wto.org

[12] As defined by the WTO, "TBT regulations and standards set out specific characteristics of a product - such as its size, shape, design, functions and performance, or the way it is labeled or packaged before it is put on sale. In certain cases, the way a product is produced can affect these characteristics, and it may then prove more appropriate to draft technical regulations and standards in terms of a product's process and production methods rather than its characteristics per se. The TBT Agreement makes allowance for both approaches in the way it defines technical regulations and standards." Source: www.wto.org

[13] SPS sets out the basic rules on food safety and animal and plant health standards. It ensures that the consumers of importing country are being supplied with food that is safe to eat by their standards. And at the same time, it concerns that strict health and safety regulations are not being used as an excuse for protecting domestic producers in importing country. Source: www.wto.org

[14] Source: Textiles Commissioner's Organisation (TCO), Ministry of Industries and Production, GoP.

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The views expressed herein are those of the authors of the study and should not be seen to reflect the official opinion of the European Commission.

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