A Comparative Analysis of the Garments Sector of Pakistan

LUMS and IGC

Report

**IGC Growth week, 2013**

Introduction

- Macro-analysis based on disaggregated trade statistics to compare the performance and position of Pakistan's garment exports in comparison to Turkey and Bangladesh.

- Micro- analysis using a Global Value Chain (GVC) approach based on a survey of 234 firms across major garments (woven and knitwear) clusters in four cities of Pakistan (Karachi, Sialkot, Lahore and Faisalabad).

Macro comparative analysis
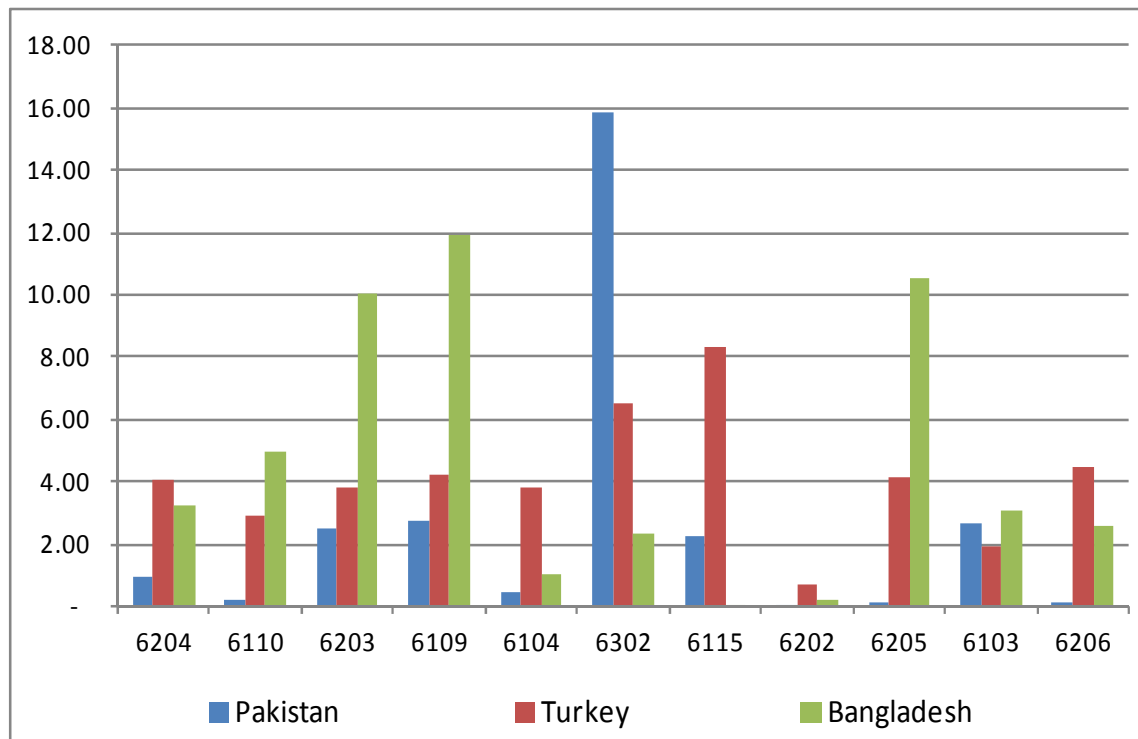
Data sources: UN Comtrade, APTMA, country surveys.

Percentage Composition of Pakistan's Textile Exports along with Average $ Price (2011)
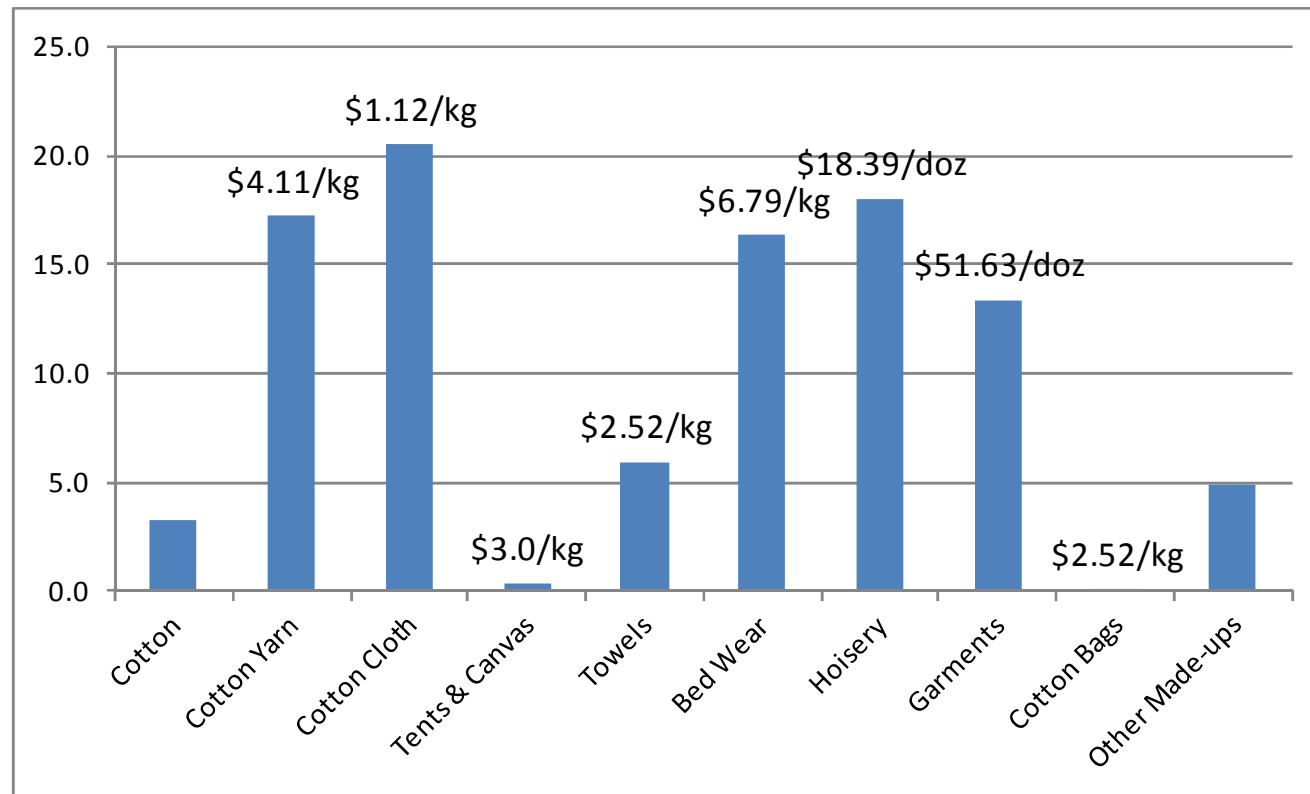
Macro comparative analysis

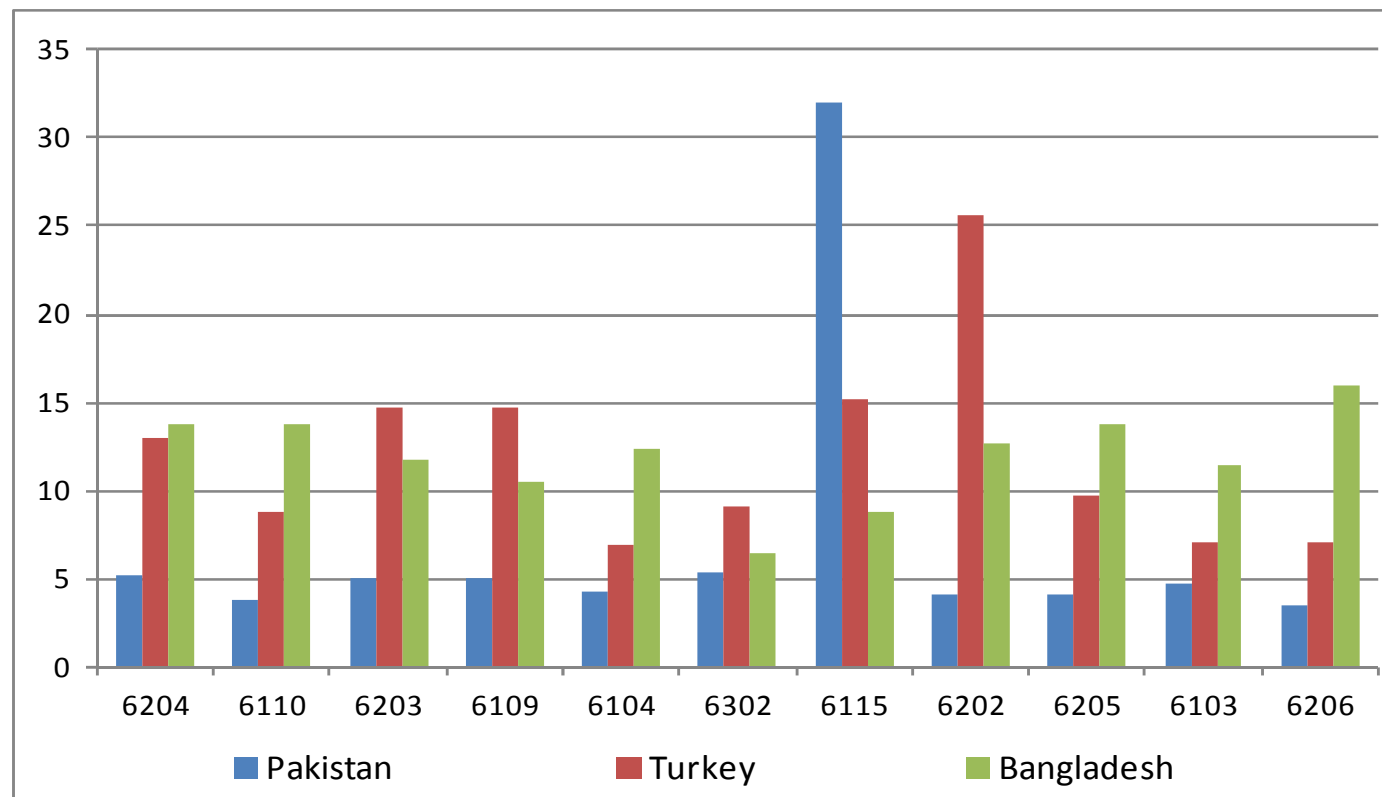Data sources: UN Comtrade, APTMA, country surveys.

: Country's Share in World Export of the Product Category (% - Average over 2009-2011)

Macro comparative analysis

Data sources: UN Comtrade, APTMA, country surveys.

Average Price per Unit Fetched by Products over 2009-2011 (US$/unit)

Macro comparative analysis
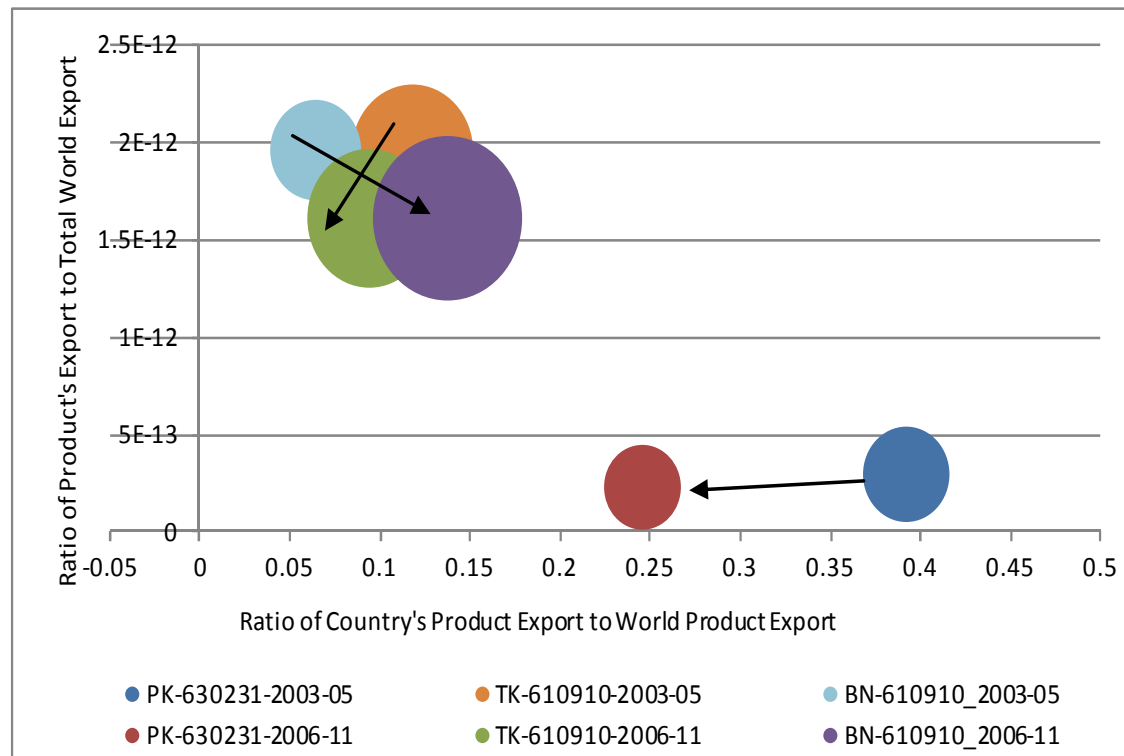
Data sources: UN Comtrade, APTMA, country surveys.

Average Export price 2009-2012 top three products

Top Exports	Pakistan	Turkey	Bangladesh
1st	US $6.8/Kg* (630231)	US $4/piece (610910)	US $10.5/piece (610910)
2nd	US $4.02/Kg* (630260)	US $14.5/piece (620462)	US $11.5/piece (620342)
3rd	US $5.29/piece (620342)	US $14.5/piece (620342)	US $13.3/piece (611090)

Macro comparative analysis

Data Source: UN Comtrade,

Positioning of Country's Top Product Export for 2003-05 and 2006-11

- PK-630231-2003-05
- TK-610910-2003-05
- BN-610910_2003-05
- PK-630231-2006-11
- TK-610910-2006-11
- BN-610910_2006-11

Macro comparative analysis

Data Source: Literature survey on textiles and garments industry

Comparison of Key Dimensions between Pakistan, Turkey and Bangladesh

Parameter	Pakistan	Bangladesh	Turkey
Product Mix	**Not Diverse** • *Low-value addition*	**Moderately Diverse** • *Low and high value added*	**Highly diverse** • *High-Value Added*
Export Destinations	**Limited Market Base** *EU and US*	**Limited Market Base** *EU and US*	**Limited Market Base but effective** *81.6% to EU*
Expertise of the Workforce	**Low-skilled**	**Moderately skilled**	**Highly skilled**
Government Policies and Incentive Regimes	**Not Effective** • *Ad-hoc policies*	**Effective**	**Effective**
Regional Clusters and firm size	**Moderately Effective** *97% SME*	**Moderately Effective**	**Effective**
Production Cost	**Moderately low** • *Labour cost is $114 per month, High energy cost of $0.071 kw/hr*	**Very low** • *Very Energy ($0.053 kw/hr) and low labour($66 per month) costs of around*	**Relatively High** • *High labour cost of $2.75 per hour, Higher energy costs which form 10% of input costs*

Micro analysis – using GVC

Source: Gereffi *et al*, Review of International Political Economy, 2005.
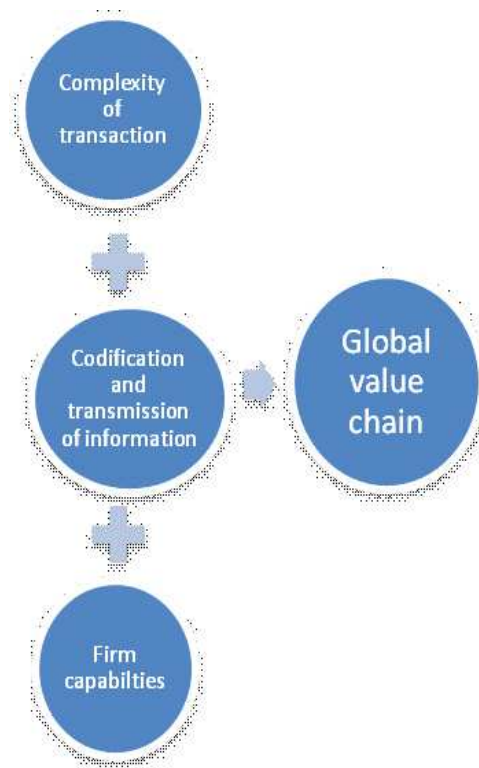
Different types of global value chains
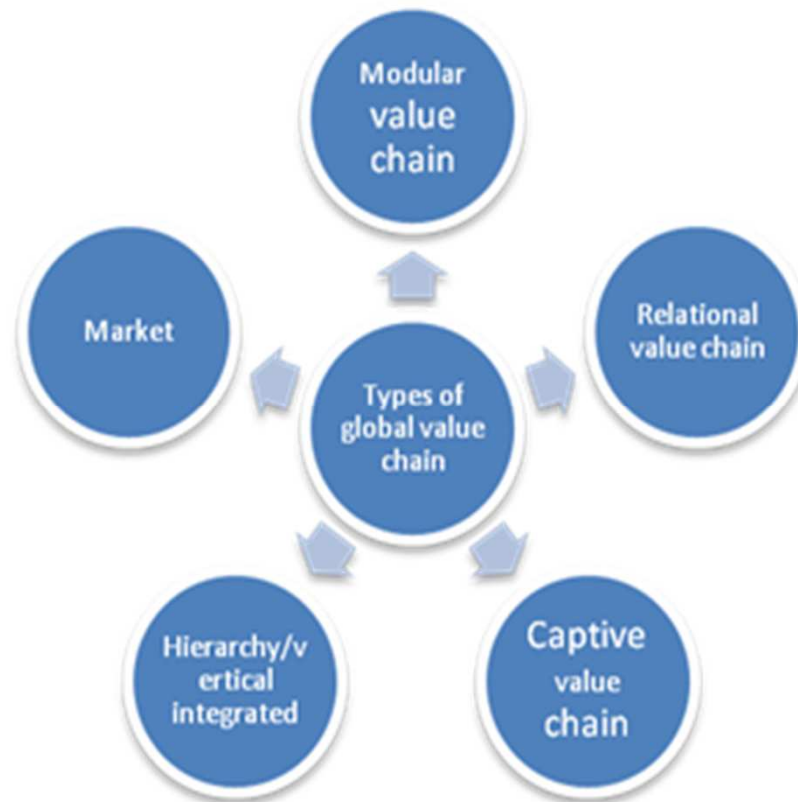
Global Value Chain

Source: Gereffi et al, Review of International Political Economy, 2005.

Key determinants of the global value chain

Global Value Chain

Global value chain in clothing/apparel industry

Type of governance structure	Complexity of transaction	Ability to codify transaction	Capabilities in the supply base	Degree of explicit coordination and power asymmetry
Market	Low	High	High	Low
Modular	High	High	High	
Relational	High	Low	High	
Captive	High	High	Low	
Hierarchy	High	Low	Low	High

Global Value Chain and Pakistan Positioning
Source: LUMS-IGC Survey

- Where does Pakistan stand in the GVC?
  - Most of the firms are Original Equipment Manufacturing (OEMs) or Package Contractors.
  - Almost 90 percent of the firms do not produce branded products
  - More than 90 percent firms act as contracting firms with local or international buyers (buying houses).
  - Export prices of the firms both in woven and knitwear supply lie between $1-$10.
  - Relational – Modular!

Global Value Chain and Firm Capabilities

Source: LUMS-IGC Survey

- Why does Pakistan stand here?

  - Technology

    - 75 percent firms want to move to higher level of technology.
    - Perceived cost of technology up-gradation between Rs. 30 million to Rs. 50 million.
    - 85 % of SMEs across the five clusters identified access to finance as the biggest constraint in upgradation of technology.
    - The extent of technology development in Pakistan garments sector in terms of utilizing computer-aided design (CAD), computer numerical control (CNC) cutting and computer-aided manufacturing has been limited.
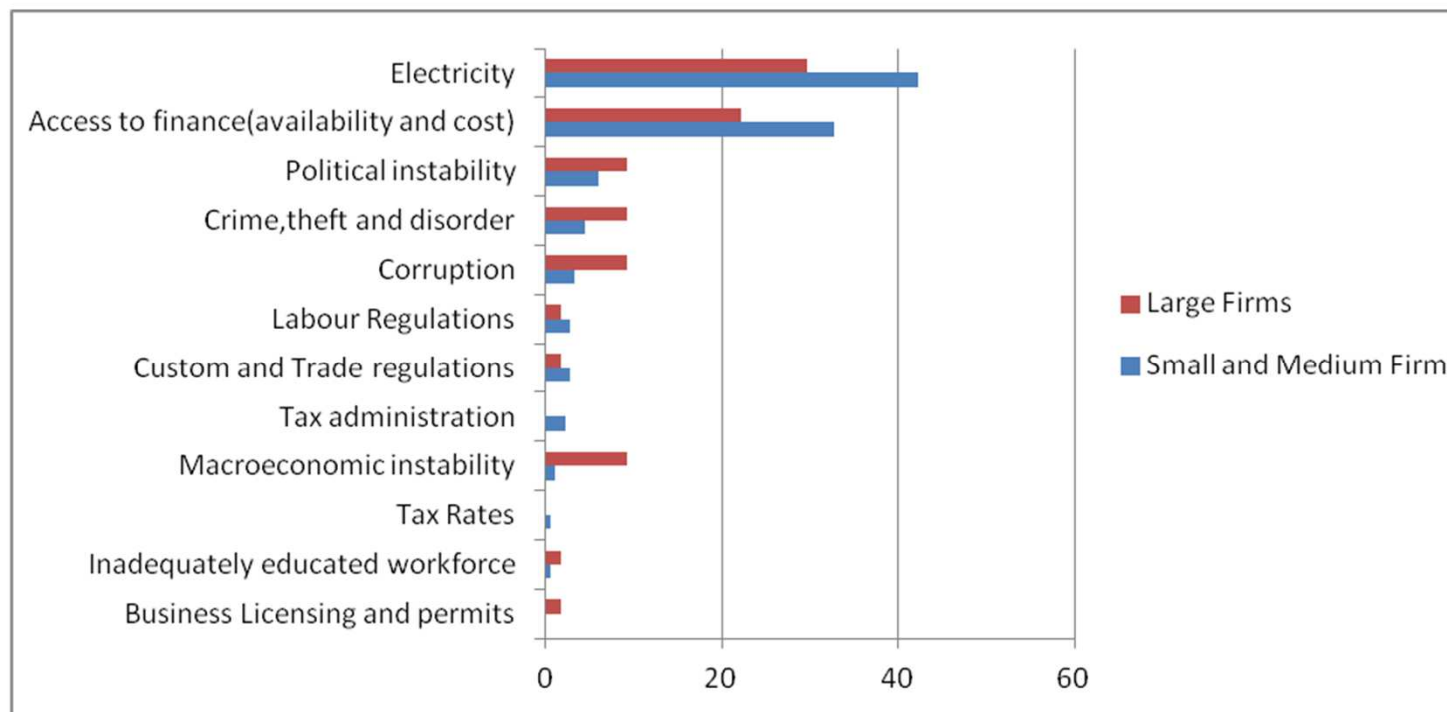
Global Value Chain and Firm Capabilities

Source: LUMS-IGC Survey

- Access to skilled labour

  - The workforce skill level in Pakistan garment industry falls in the low-medium to medium category of the value chain.

  - Availability of low-medium category skilled labour is not a problem in any cluster.

  - A major constraint identified by firms in the survey was the lack of technical and vocational training institutes for the labour force.

  - Only 20 % SMEs indicated access to training institutes. Problem more acute in Lahore and Faisalabad.
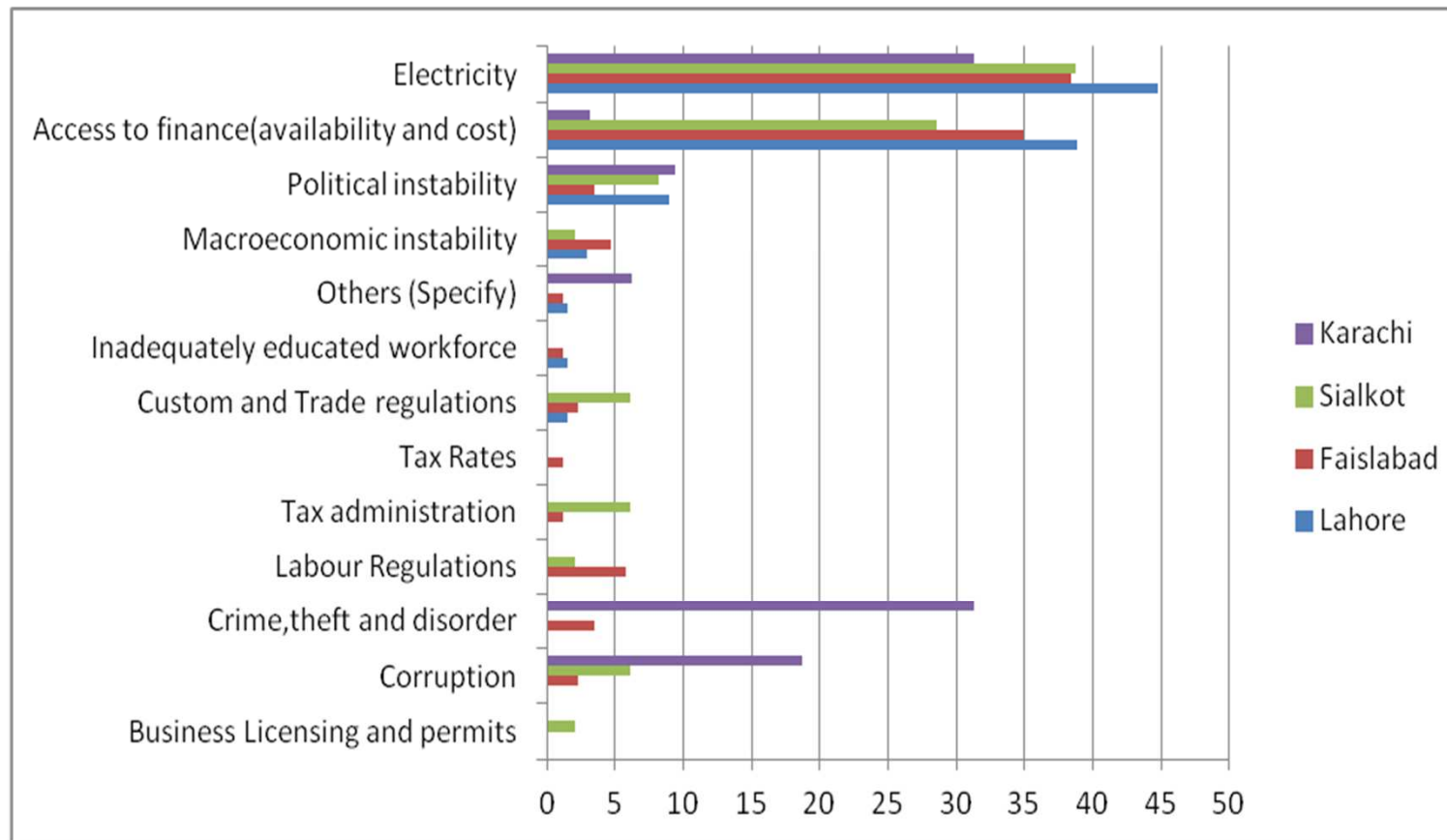
Global Value Chain and Firm Capabilities

Business environment constraints across firm size (%)

Source: LUMS and IGC Survey 2012-2013

Global Value Chain and Firm Capabilities

Business environment constraints across clusters (%)

Conclusion

- Macro analysis corroborated by Micro data

- Garment sector stands at a relatively lower rung of the GVC where most of the manufacturers are OEMs supplying low-price items to retailers, brand marketers, and brand manufactures.

- Technology and labour skills key factors effecting firm capability.

- Business environment constraints impact firm capability and competitiveness

- Garment manufacturers need to climb up the value chain to become ODMs, and eventually OBMs, by both acquiring the capabilities required to raise productivity, and, by producing a wider range of fashion garment and technical garments which offer much higher profit margins.