



Garments for growth

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Outline

- Importance of the RMG sector and export competitiveness vis-à-vis regional comparators
- Main challenges undermining RMG sector
 - - Supply-side
 - - Demand side & investment climate
- Identifying opportunities for the RMG sector
 - CPEC and the China-Pak FTA Phase II
 - Potential obstacles
- Way forward

RMG sector: Importance and diagnostics

In 2018, garments contributed to

23%

of national
exports

40%


of textile
exports

2.6%

Of labour
force*

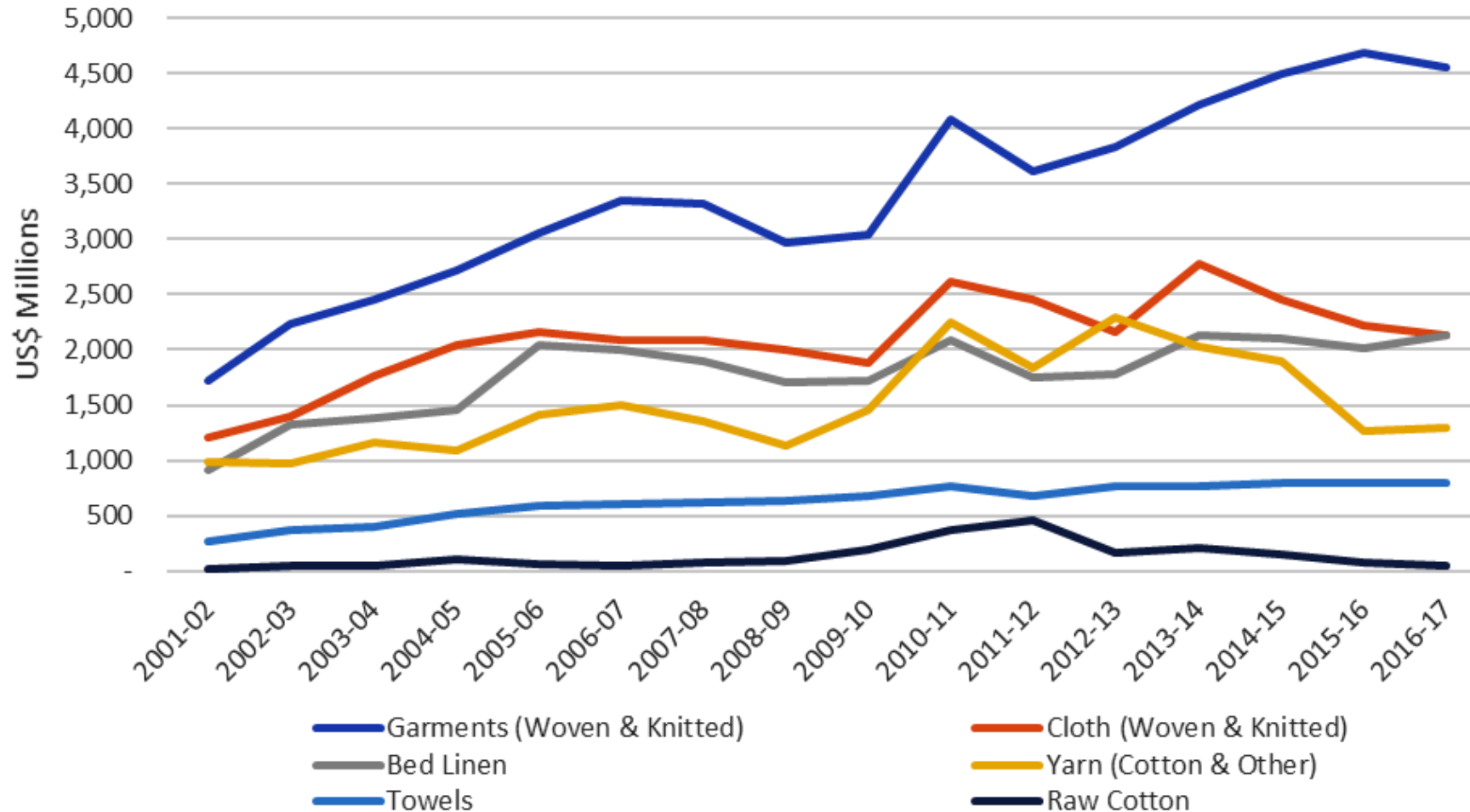
4 times

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

- Even this conservative estimate means 1.7 million employed in garments alone.
- Roughly speaking, 50,000 kg of cotton fibre  400 jobs in spinning, weaving & finishing
1600 jobs if utilized in garments
- So not only is the employment multiplier large, but jobs require less capital and lower investment

* A very conservative estimate, based on industrial employment growth between LFS 2014-15 and 2017-18

...and its significance is growing



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

HS 61 (Knitwear) and HS 62 (Woven) apparel are the 3rd and 4th top export of Pakistan

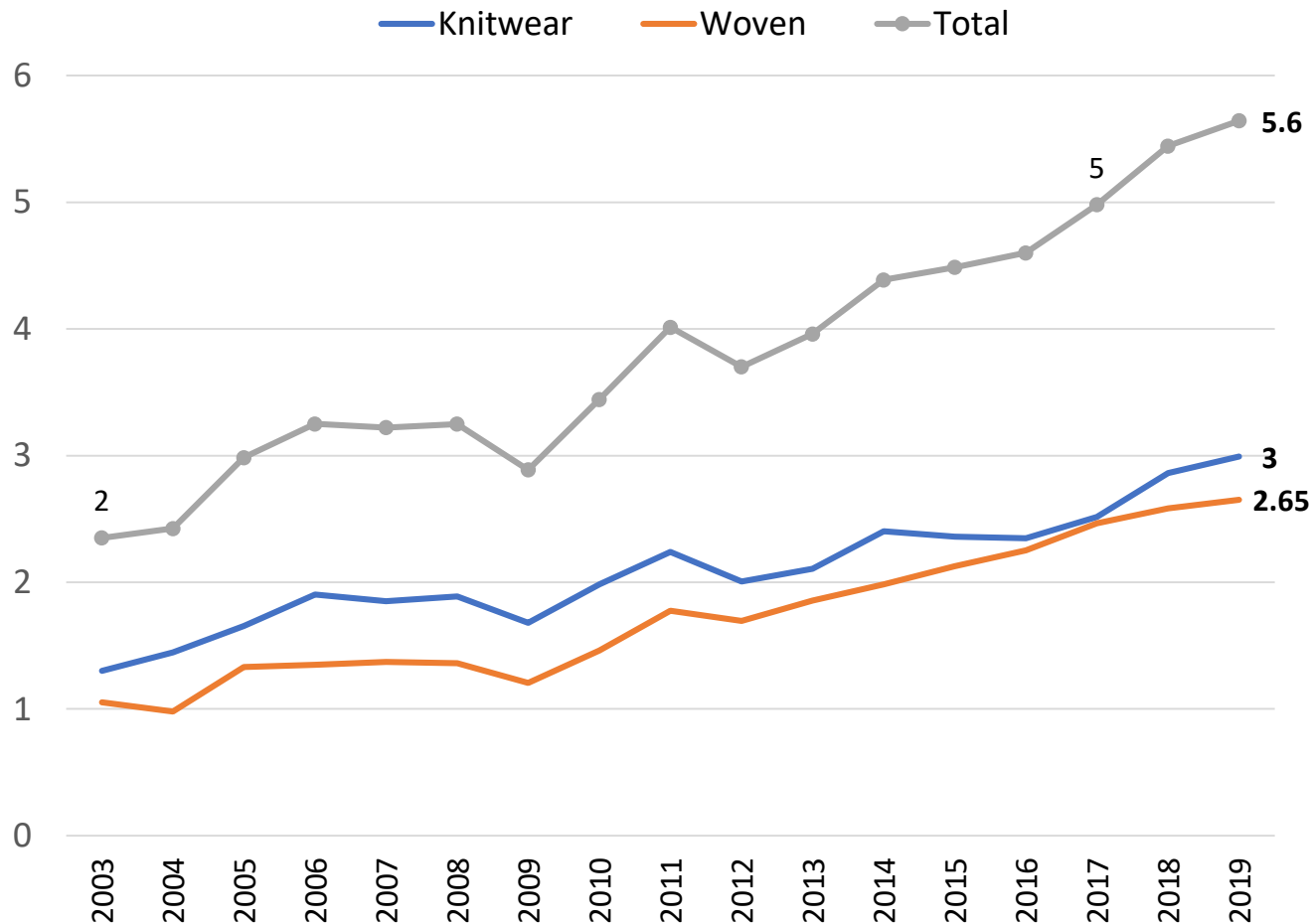
	HS 61	HS 62
Exports 2018 (USD bn)	2.86	2.58
Annual growth value 2014-2018 (% p.a.)	4	7
Share in world exports (%)	1.2	1.1
Ranking world exports	19	19
Top export	Shirts of textile materials	Ensembles of cotton
Share world export (%)	43.6	88.4

Top 5 destinations of Pak exports	Share in Pakistan's exports (%)	Growth in exported value between 2014-2018 (% p.a.)	Average tariff faced by Pak (%)	Top 5 destinations of Pak exports	Share in Pakistan's exports (%)	Growth in exported value between 2014-2018 (% p.a.)	Average tariff faced by Pak (%)
HS 61: Knitwear				HS 62: Woven			
USA	36.3	-2	14.3	USA	23.1	6	10.7
UK	15.4	5	0	Spain	12.7	5	0
Netherlands	7.7	15	0	UK	11.9	4	0
Spain	7.7	12	0	Germany	10.7	8	0
Germany	7.6	13	0	Netherlands	6.9	6	0

China is the 12th and 14th largest destination for HS 61 and HS 62 respectively (1.1% and 0.8% export share of Pak). Pak currently faces average tariffs of 4.5% and 6.6% in China

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

Garment exports 2003-19 (US\$ billion)



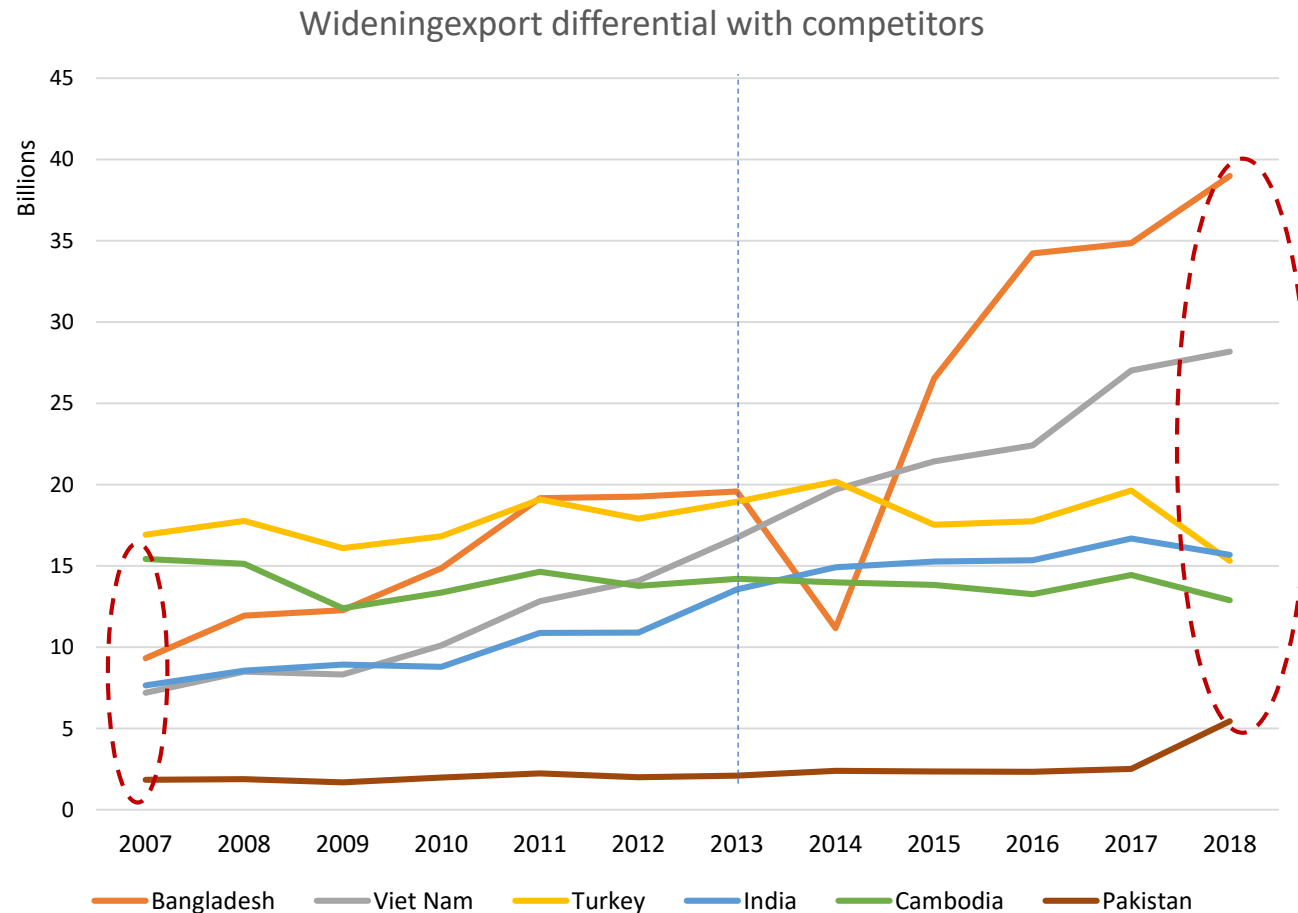
Country	Exports 2018 (\$bn)	Rank
China	145	1
Bangladesh	39	2
Viet Nam	28.2	3
Italy	23.2	4
Germany	23	5
India	15.7	6
Turkey	15.3	7
Spain	14.4	8
Hong Kong, China	13.1	9
Cambodia	12.9	10
Pakistan	5.4	17
World	479	

Source: Data accessed from ITC Trade Maps in Jan 2020

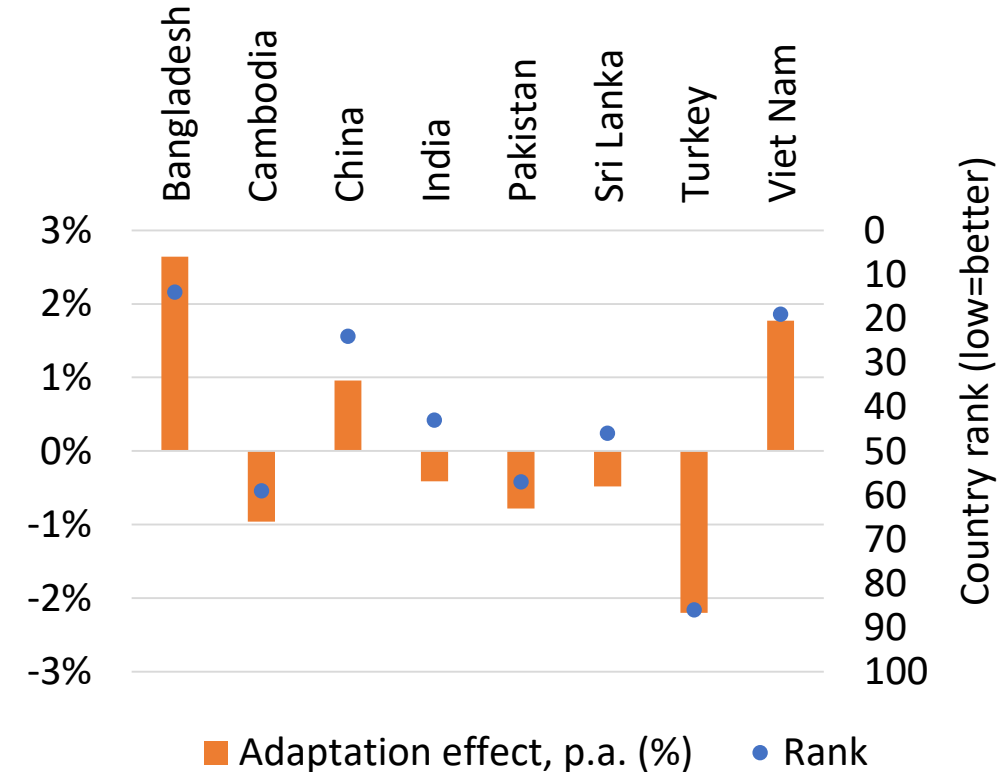
*Note: 2019 figures estimated from monthly trade statistics from SBP. Accessed Jan 2020

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

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



Source: Data accessed from ITC Trade Maps in Jan 2020



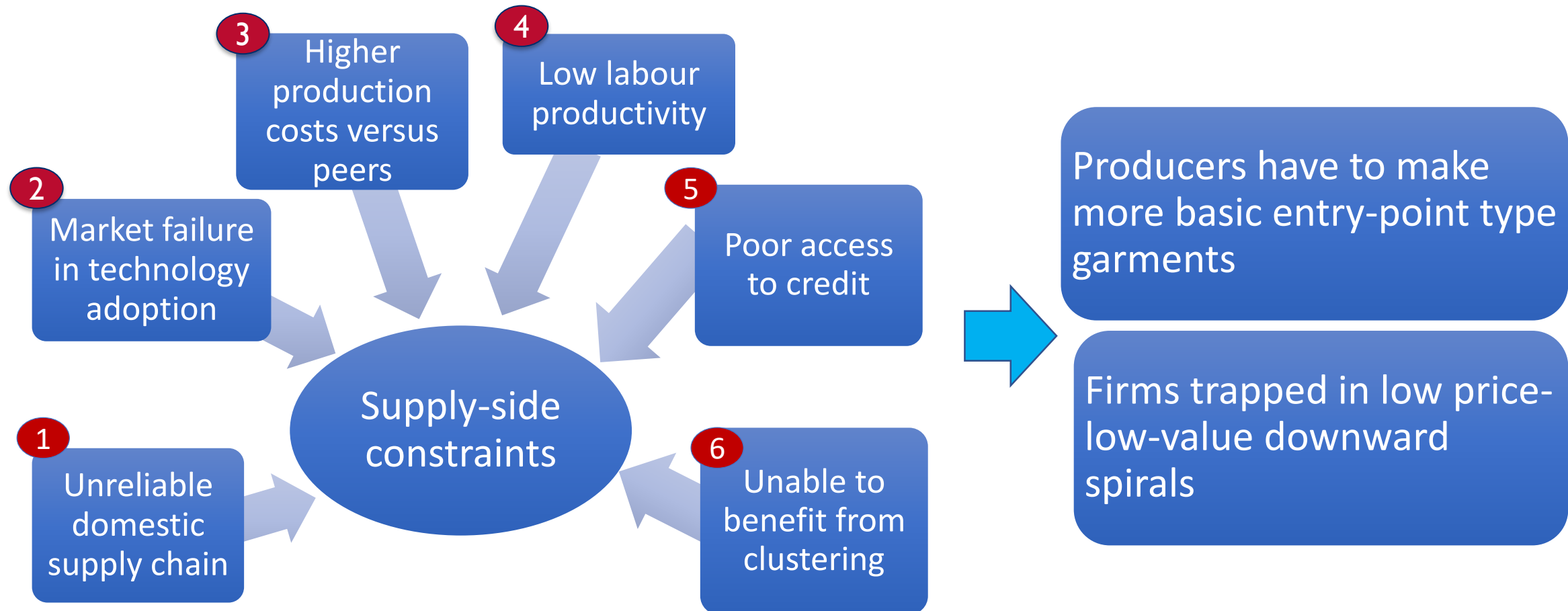
Over 2013-17, 2/3 of Pakistan's top exported product lines moved opposite to world demand

Source: Data sourced from Trade Competitiveness Map

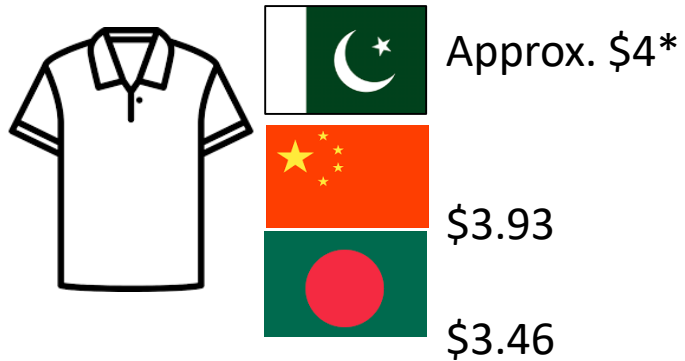
Global RMG growth (till 2020) has been forecast at 5-6% p.a. Yet Pakistan's RMG sector faces many challenges

Constraints: Supply- and demand-side

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 as of 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 investment attractiveness, Pakistan cannot insert itself into regional and extra-regional value chains

A US\$ 145+ billion worth world market wide is on offer due to the slow withdrawal of China from apparel

Opportunities to revive the RMG sector:
CPEC AND Phase II of the CPFTA

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 and can help relieve some of the impediments identified

- 1 Alleviate energy shortages: 5320 MW of electricity have been added to grid by 2019
 - 2 Technical cooperation for supply chain development, especially in PSF and MMF
 - 3 China invested USD 2.7 billion in Xinjiang (2017) to use imported cotton from Pak
 - 4 The SEZs and industrial parks under planning could provide “islands of excellence”
- Benefits hinge on improving garments sector attractiveness in Pakistan, to encourage export-driven FDI, and for Chinese firms to engage with local labour & firms and not just turn RMG sector into assemblers for China

Pak-China FTA Phase II (2020-2030)

- The RMG sector stands out as a clear winner: Pakistan now has better market access than its top 5 competitors in China for **52 RMG product lines** (at the HS 6-digit level)



- 1 Pakistan now has duty-free access to China like its developing country competitors such as Bangladesh, Vietnam, Cambodia, Thailand or Indonesia
- 2 Better access than developed country competitors like Italy, Japan, Portugal, USA or South Korea.
- 3 If RMG sector can diversify its product mix, it can capture additional Chinese demand of USD 1.23 billion: a LR opportunity as Pak currently does not export at all

- CPFTA II offsets the tariff disadvantage of the ASEAN-China FTA in 2010 that adversely affected Pak's RMG sector during CPFTA I (2007-12)

CPEC and CPFTA II could be the push

- Relatively complete cotton supply chain and lower wages
- GSP Plus access to European markets
- Alternative to South China Sea suppliers amid US-China trade wars

What Pakistan offers



- Realising “Made in China 2025” vision
- JVs in production due to difficulty in operating fully owned firms without local partners

What China wants



- Pak: import of synthetic and blended fabrics from China
- Pak: JVs in distribution
- China: JVs in production
- China: use Pak raw material and process garments in SEZs

What they both get



- ▷ Exporters estimate that RMG demand could rise by 15-20% for Pakistan in 5-8 years
 - Global buyers will source from Pakistan due to its equivalent/better market access in China due to both CPFTA II and CPEC compared to its competitors
- ▷ Exporters believe that to maximise its gains, China will also re-locate its fabric production to Pakistan.

Way forward: Looking beyond Chinese market access and CPEC



Information about new (esp. Chinese) markets, partners, distributors and standards



Trade Facilitation: Need FTAs with Turkey, Japan and South Korea to secure better export opportunities and import options



Domestic supply chain (especially synthetic) is weak: incentivise imports of blended/MMF fabric from cheapest supplier, improve DTRE mechanism



Non-tariff barriers: Create awareness, brand Pakistani products aggressively, mutual recognition of standards, help firms meet standards by connecting successful exporters



Conclusion

- 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
- Two new opportunities on offer: CPFTA Phase II and CPEC
- But market access does not guarantee export success
- Sector and GoP must resolve internal supply-side constraints, facilitate trade and provide information to connect B2B
- Policy objective must be facilitation of the sector to make RMG an attractive opportunity for all countries, not just China