

**Garments as a Driver of
Economic Growth and Job
creation**

Why Garments?

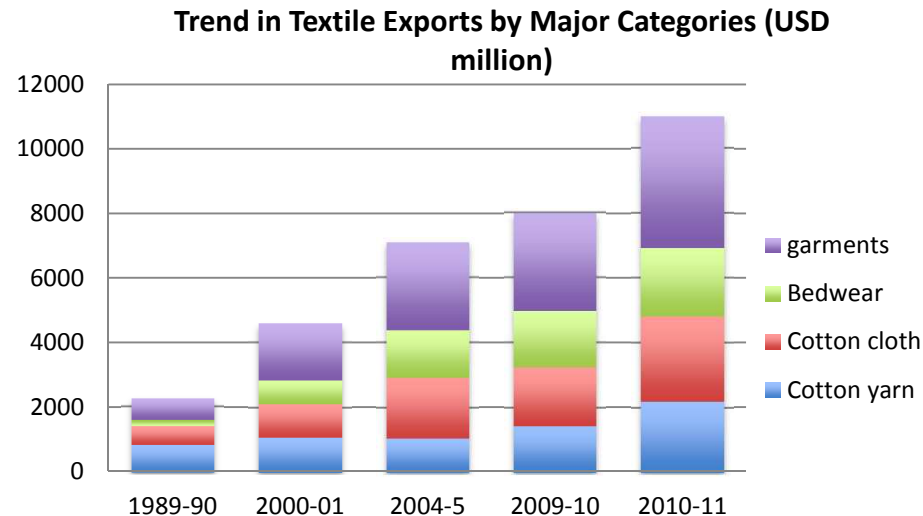
- Overall Textiles central to Pakistan's Economy (GDP growth, employment generation, export performance)

GDP	8.5%
Large Scale Manufacturing (LSM)	32.6%
Employment*	38%
Manufacturing	46%
Exports	54%
Market Capitalization	3.2%
Foreign Direct Investment (FDI)	1.6%
Private Loans	20.2%
Export Finance Scheme	62.7%

*of the manufacturing labor force

Source: Economic Survey 2012; State Bank of Pakistan (Annual Report 2010-11)

- Within Textiles, Garments Manufacturing is a significant and growing component.



Garments responds to our resource endowment

- 50,000 KG of cotton fiber → 400 jobs in spinning, weaving and finishing stages but **1600 jobs** in garments manufacturing
- US \$ 1 million invested in spinning and weaving → US \$ 0.27 million to exports compared to much larger US \$ 3.2 million when invested in garments
- Least capital and energy intensive

The International Opportunity in Garments

- **Global Garments Industry is growing:**
 - **Between 2005 and 2010, world garment exports increased by 5% per annum (2.4% of the world merchandise trade); \$350 billion market**
 - **Due to rising cost of labor in China it may exit from the world garments trade leaving a world trade of US \$ 120 billion wide open →**
Opportunity for all other garment exporters and Pakistan must seize this opportunity

The Economic Impact of growth in Garments

- Currently Garments make up about 30% of Pakistan's textiles exports and utilize less 25% of domestic cotton, yarn or cloth production.
- Expansion in Garments Manufacturing will
 - **Boost export based manufacturing** – help to resolve balance of payments crisis – which is repeated every 3 to 5 years
 - **Create jobs** – most labor intensive and skill intensive particularly compared to spinning and weaving
 - **Maximize Value addition** in the value chain of textiles – so most cost effective

Key Findings of Research

- **Garments is a Modernizing Industry**
 - Most entrepreneurs in garments manufacturing have solid textiles or professional background
 - Most workforce is skilled (such as stitchers) and receives higher pays than non-skilled and much higher (at PKR 15,000 to 20,000) than minimum wage (PKR 9,000)
 - Intensely competitive international value chains → force constant value addition and high standards of quality and delivery → More complex/differentiated a garment, higher the value added
 - Many are Developing own design capabilities to stay competitive: R&D, hire designers from abroad, set up plants closer to western fashion markets

Key Findings (Continued)

Find niche markets: Make uniforms for baseball, rugby football players, primarily clubs and schools, during the peak seasons, heavy protected garments for bikers, uniforms for the school & army uniforms and hoodies to for Ivy League schools

Information Technology: CCTVs to monitor production enables quality control and improve efficiency of internal value chain; in accounting system improves costing and efficiency; in logistics used by several firms to provide complete solutions to buyer, i.e., product delivered at the store shelf

Compliance to Global Standards: Many medium to large firms are Worldwide Responsible Accredited Production (WRAP) certified → social compliance, of which Affluent water treatment plants is a condition. As result many have developed an understanding and a culture of corporate/social responsibility

Main Challenges Identified by Research

Market Access

- Market Access for the Garment Industry in Pakistan poor since 2005
 - For security reasons very few buyers come to Pakistan
 - In many cases import duties on Pakistani garment exports to the US and in some cases to the EU are higher than on competitors (Bangladesh, Viet Nam, Mexico)
- For the garment industry in Pakistan to expand rapidly market access needs to improve
- Fortuitously two likely events on the horizon, namely granting by EU of GSP Plus status to Pakistan in 2014 and slackening of labor intensive garment exports by China, could do exactly that

Main Challenges Identified by Research — Market Access

GSP PLUS DUTY-FREE TRADE WITH EU

- Total textile exports to EU approx. US \$5.1bn; garments exports to EU (excluding home textile) US \$2.5bn.
- Maximum expected increase per year for garments US \$400m. (capped by the GSP+ scheme)
- GSP+ scheme to be reviewed every three years for further extension.
- Maximum market share allowed per category is 6%.
- Total potential in our current categories approximately US \$12bn.
- 25,000 jobs per year

Main Challenges Identified by Research – Market Access

WHY CHINA IS IMPORTANT

- Rising income and rising labor cost means that China will not move out of labor intensive garment exports but also become an important export destination
- Pakistan has a FTA with China, and it push to include a liberalized import regime for garments under it
- Pakistan should leverage it's close political relations with China to promote more joint ventures to take advantage of China's garments expertise (Masood textiles "bra" manufacturing joint venture)

Main Challenges Identified by Research – Others

- To effectively respond to improved Market access it is necessary to address the constraints identified in the IGC study:
 - Energy
 - Skills
 - Informal Garments clusters
 - Import policy
 - Logistics
 - Knowledge exchange
- In response to the IGC work on garments, the CM has set up working groups in each of these area to make recommendations on how to address these challenges – next few slides discuss the findings of the study and the preliminary suggestions of the working groups in these areas

Process

Sub-Committees

IMPORT POLICY

GSP+ STATUS

ENERGY

SKILLS

INDUSTRY LINKAGE

IMPORT/EXPORT POLICY

Prepare Action Plan
of Interventions

CORE COMMITTEE

Main Challenges Identified by Research – Energy

ENERGY – A PREREQUISITE TO INDUSTRIAL GROWTH

- Industry needs reliable and affordable power, which it is not getting in Pakistan
- Many Garment manufacturers in Pakistan currently have in house generation, mostly run on diesel which is very expensive – until recently they had gas generator, but because of gas shortages most firms are unable to run these
- There are many suggestions on how to address the power shortages, but the bottom line is:

~~Captive Power Generation~~

- ~~• Offer Extremely Low Interest rate loans to Major users in Garment sector to help set up captive power plants~~
- ~~• 5 MW Bio-mass EU technology \$10mn~~
- ~~• 5MW Bio-mass Chinese Technology \$6mn~~

**I DON'T THINK IS RELEVANT FOR THIS
AUDIENCE**

~~OR~~

~~Un-interrupted Power Supply from Grid~~

- ~~• 95% Industry of scale that cannot afford to setup up captive power generation~~
- ~~• Take energy saved from large units from grid and offer these un-interrupted to smaller garment units for job creation~~

1 MW POWER & 6 Tons Steam will generate...

- US\$ 30mn of EXPORTS
- EMPLOYMENT for 2,500 people
- SS/EOBI CONTRIBUTION Rs. 2.9mn/month

Main Challenges Identified by Research – Labor Skills

- A skilled workforce is the principal driver of productivity in garments
- Also critical is middle management that supervises the workforce to ensure quality and timely delivery
- PSDF will tie up with garments clusters as it scales up and becomes a growth supporting skills development fund
- PSDF will launch surveys to assess the skills needs of garments manufacturers and will design appropriate training programs and their cost effective delivery.
- Knowledge exchange is taken up later in the presentation

Main Challenges Identified by Research – GARMENT CLUSTERS

- EU's GSP-Plus regime will give Pakistan the potential to increase Export of Ch 61 (clothing, knitted), Ch 62 (clothing, woven) and Ch 63 (textile made-ups) to EU by US\$ 280 Million.
- Textile made-ups sector will require an investment of US\$ 100 Million in Working Capital, Machinery, Land and Building per year to avail this opportunity.
- This is a great **opportunity** for SME sector, but SME sector doesn't have the potential to invest at this pace.
- SME sector can invest in Working Capital and Machinery, but it needs Govt. Support for Land and Building.
- Since garment Industry requires a great deal of labour and land near where worker colonies exist is very expensive, so govt. should
 - launch Garment Industrial Estates and Labour Colonies side by side.
 - **Government should regularize existing garment clusters, which are located near labour colonies, and provide them the same facilities as existing/new industrial estates**
- SME sector should be given Land and Buildings with deferred payment facility.
- SME Sector needs to grow, but without Government support such opportunities will be captured by a few

Main Challenges Identified by Research – IMPORT POLICY

- **Current Import Policy for Exporters : Govt. allows duty exemption on re-exported items but the process is lengthy and cumbersome:**
 - Reduces our response time and speed.
 - Limits the number of product lines
- **Re-Export Items should be totally duty free but it is not done because:**
 - Government fears duty will be avoided on all such imported items and goods will be sold in local market.
- **How can it be allowed:**
 - All Items which have limited use in local market or low import volume/ duty collections and can boost export should be allowed to be imported duty free.
 - For other items, process for duty exemption at import should be simplified.

Main Challenges Identified by Research – Logistics

- On route safety and security For Exports moving by road needs improvement
- Speed to market:
 - Faster movement of Goods via trucks through Iran ,Turkey to European markets should be explored.
 - Non Tariff Barriers (poor infrastructure) i.e:
 - Road connections and connectivity should be improved for industrial clusters.
 - Organized and secure Tucking parks with the necessary support structure should be established:
 - Near Industrial Clusters.
 - Near major cities of Punjab.
 - Tariff and procedural issues:
 - Simplification of law and procedures for Garment industry
 - Fast track clearance for products and materials imported temporarily for garments.
 - 24x7 Fast track services for Garments exports and imports at ports.
- Regional connectivity:
 - BXP (border crossing points) should be improved in participation with the stakeholders.
 - NLC role should redefined and greater role for private sector – the status of NLC as regulator / custodian/terminal operator should be withdrawn.
 - Investment friendly environment in close proximity to BXP's to encourage private sector participation.
- To improve competitiveness:
 - Corruption identification and eradication platform.
 - Strict implementation of NHA regulation on quality, carriage load restrictions and safety should be ensured
 - Local manufacturing of quality trucks of LTL & HTL.
 - Training and development of manpower.

MAIN CHALLENGES IDENTIFIED BY RESEARCH – KNOWLEDGE EXCHANGE

INDUSTRY FORUM

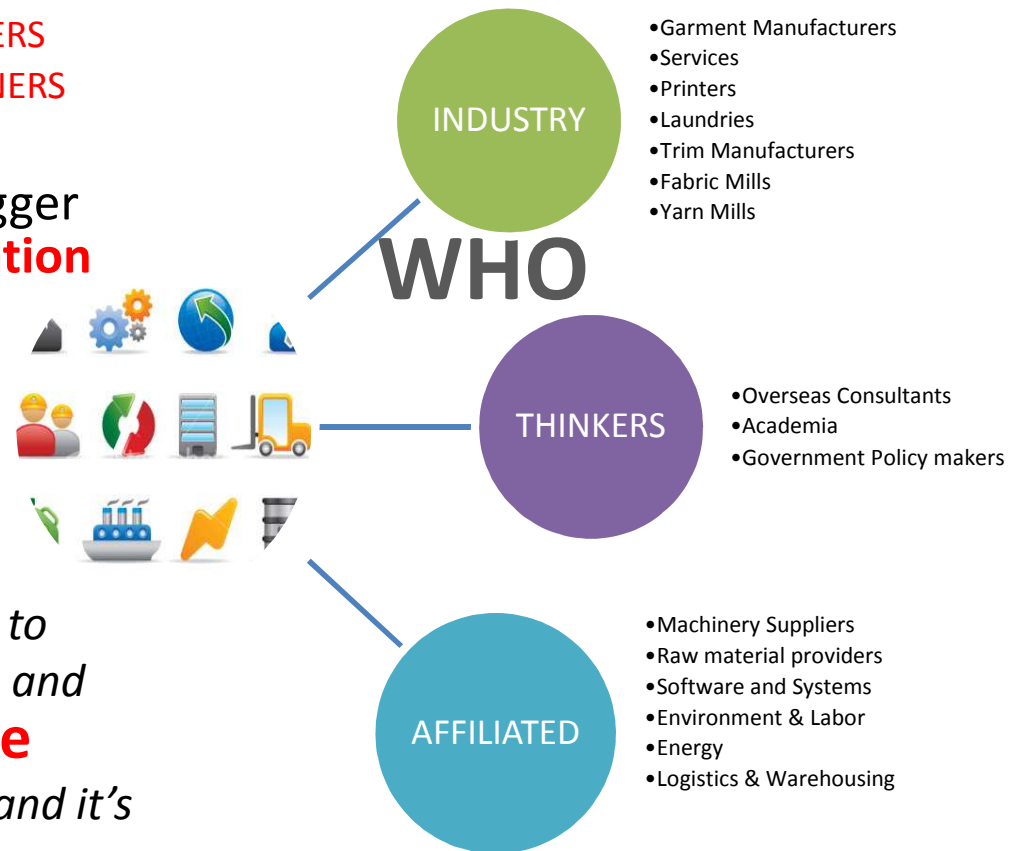
OBJECTIVE: To collect **INDUSTRY LEADERS** and their affiliated **SUPPLY CHAIN PARTNERS** for an **exchange** that leads to closer/new **relationships** that trigger improved **performance** and **innovation** in process and products for the garment sector in Punjab.

ALSO

Such a forum may additionally be used to define **goals**, to **celebrate** success, and to refine and align industry to a **future vision** that is optimized for Pakistan and its markets.

Key elements.....

- 3 Day Conference
- Foreign Consultants/Visitors



- Use to extract Policy
- Seminar/Lecture Format

A comprehensive garments development strategy

- The strategy, along the contours discussed in this presentation, will be developed in consultation with stakeholders.
- A series of roundtables will be held after Eid by way of public hearings on the strategy.
- The approved strategy will be presented at the Punjab Development Forum in November.
- The implementation time line (including for elements of the strategy under federal control) will be announced along with institutional accountability for adhering to the time line.
- PBIT will be the lead institution in rolling out the strategy.
- Chief Minister will chair monthly meeting on progress.

Keeping the focus on garments

- Making garments the good news coming out of Pakistan
- Several rounds of meetings with garments stakeholders
- Presentation of a garments strategy at the Punjab Development Forum
- Contributing articles to internet forums visited by the global garments trackers
- Engaging with domestic and international media