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

<table>
<thead>
<tr>
<th>Top Exports</th>
<th>Pakistan</th>
<th>Turkey</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>US $6.8/Kg* (630231)</td>
<td>US $4/piece (610910)</td>
<td>US $10.5/piece (610910)</td>
</tr>
<tr>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>US $4.02/Kg* (630260)</td>
<td>US $14.5/piece (620462)</td>
<td>US $11.5/piece (620342)</td>
</tr>
<tr>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>US $5.29/piece (620342)</td>
<td>US $14.5/piece (620342)</td>
<td>US $13.3/piece (611090)</td>
</tr>
</tbody>
</table>
Macro comparative analysis
Data Source: UN Comtrade,

Positioning of Country’s Top Product Export for 2003-05 and 2006-11
## Macro comparative analysis

*Data Source: Literature survey on textiles and garments industry*

### Comparison of Key Dimensions between Pakistan, Turkey and Bangladesh

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

Different types of global value chains
Global Value Chain


Key determinants of the global value chain

- Complexity of transaction
- Codification and transmission of information
- Firm capabilities
- Global value chain
Global Value Chain


Global value chain in clothing/apparel industry

<table>
<thead>
<tr>
<th>Type of governance structure</th>
<th>Complexity of transaction</th>
<th>Ability to codify transaction</th>
<th>Capabilities in the supply base</th>
<th>Degree of explicit coordination and power asymmetry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Modular</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Relational</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Hierarchy</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>
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 (%)

Source: LUMS and IGC Survey 2012-2013
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 OBM, 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.