

Pakistani Textiles: A Case for Moving up the Value Chain

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Outline

- A. Introduction
- B. Problems and weaknesses
- C. Pakistani Manufacturers' Response
- D. Government as a Champion

INTRODUCTION

Importance of Textiles Sector

Oldest and largest component of the manufacturing sector

Variable	Value
Share in National Exports	52%
Share in Manufacturing	30%
Contribution to GDP	8.5%
Share in (Manufacturing) Employment	40%
Market Capitalization share	8.3%

Source: Pakistan Economic Survey, SBP, TDAP
taken from www.aptma.org.pk

Composition of Textiles Exports

Share of Individual Segments in Total Textiles' Exports of Pakistan (%)

HS Code	Description	2000	2005	2008	2012
63	Made-up Textiles	19.5	25.6	29.3	25.4
61	Knitted apparel	16.2	17.6	18.3	16.3
62	Woven apparel	12.4	12.6	15	16.6
5204-07	Cotton yarn	19.2	15.4	12.1	17.2
5208-12	Cotton fabric	14.2	14.1	13.1	13.4
54-55	MMF yarn, fabric	10.4	8.5	7.2	5.3
60	Knitted fabric	0.5	0.4	0.5	0.3

Share of Pakistan in World Exports of Textiles and Apparels (%)

2000	2005	2008	2012
1.7	1.8	1.8	1.9

Source: UN Comtrade

Value and Employment in Textiles

Jobs created and price fetched by a bale as it moves from raw cotton to woven garments

Product	Jobs	US \$
Raw Cotton		119
Cotton Yarn	1.44	253
Towels		434
Cotton Fabric (Grey)		579
Finished Fabric	1.44	603
Garments	5.76	1481

Source: IGC (2013)

Garments Employment Potential

- Exports about \$4 billion and employs about 800,000 workers
- Woven garments (primarily denim jeans) have been growing at about 25% p.a since 2005
- Not only does the garment industry generate the most employment and value in textiles, it also provides better jobs
- Requires skilled labor
 - Ratio of skilled to unskilled is 80 : 20
- Skilled workers are paid higher wages
 - Average wage is 15,000 PKR (much higher than minimum wage)
- Provides opportunities for female workers

PROBLEMS AND WEAKNESSES

Problems and Weaknesses

Lack of investment in Human Resource

- Low level of general education
- Skill gap and lack of formal training

Poor Industrial Policies

- Ad hoc policies - R&D rebates
- Fabric and accessories import policies (customs procedures)

Energy shortages

- Delays in meeting orders
- High energy cost

Security Problem

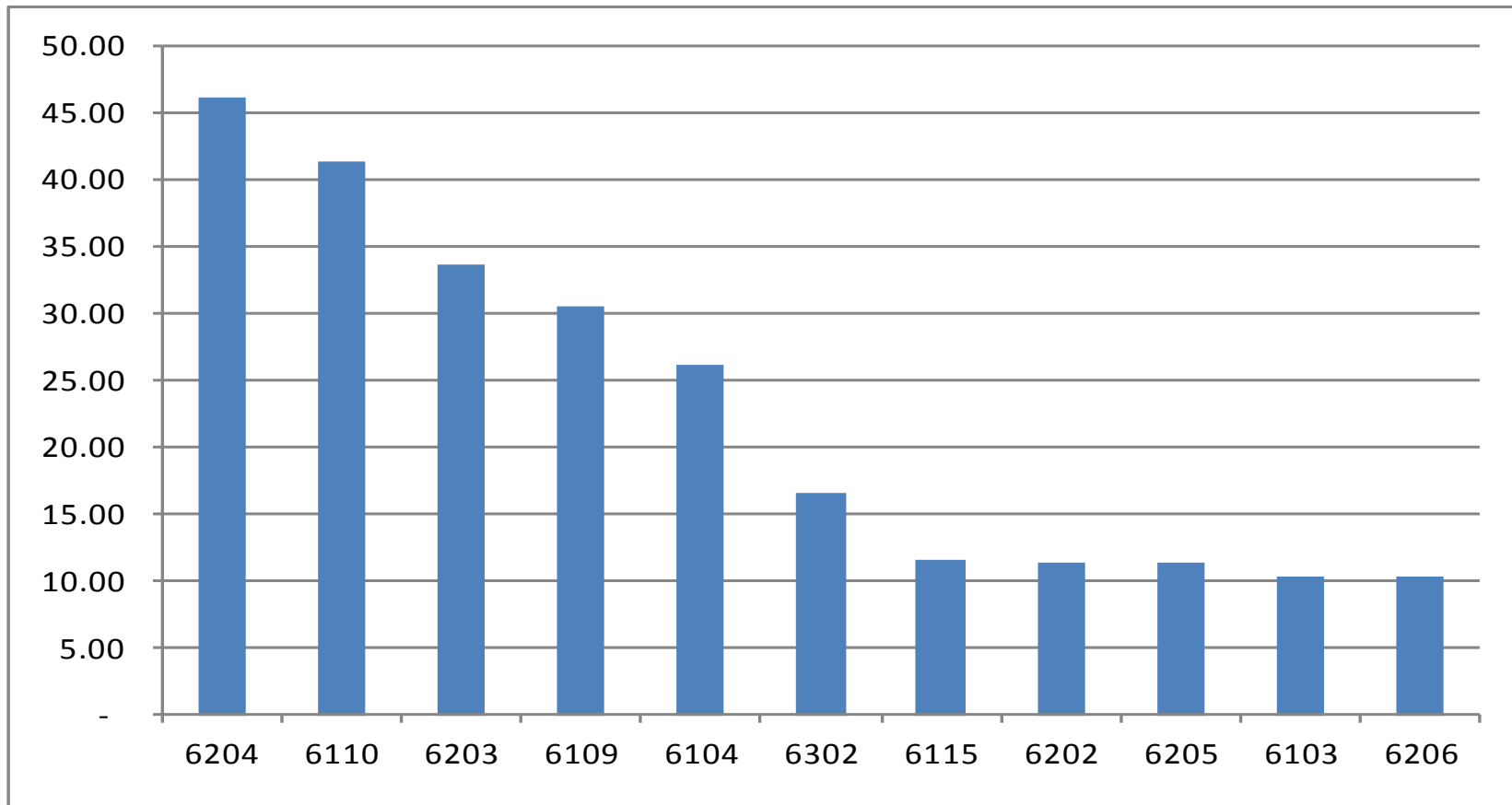
- Buyers not willing to come to Pakistan
- Problems with sourcing hubs (India)

Low productivity and product quality

- Limited product range (primarily men garments)
- Neglect of non-cotton based apparels
- Concentration in the lower end of value chain

Distribution of World Garment Exports by Product

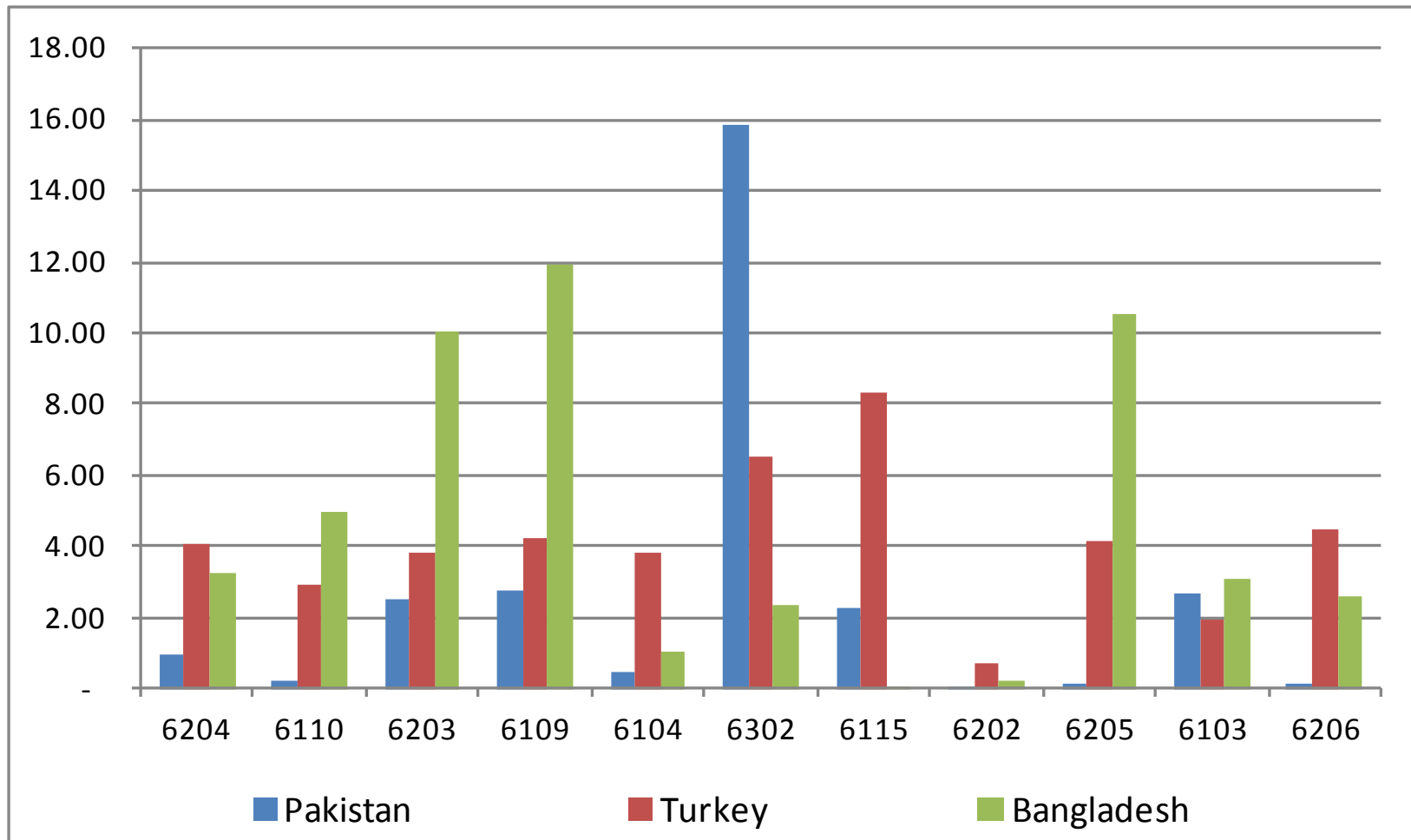
Export of Leading Garment Products over 2009-2011 (US\$ Billions)



Source: UN Comtrade and Bangladesh Bureau of Statistics. Taken from IGC (2013)

Concentration in Limited Products

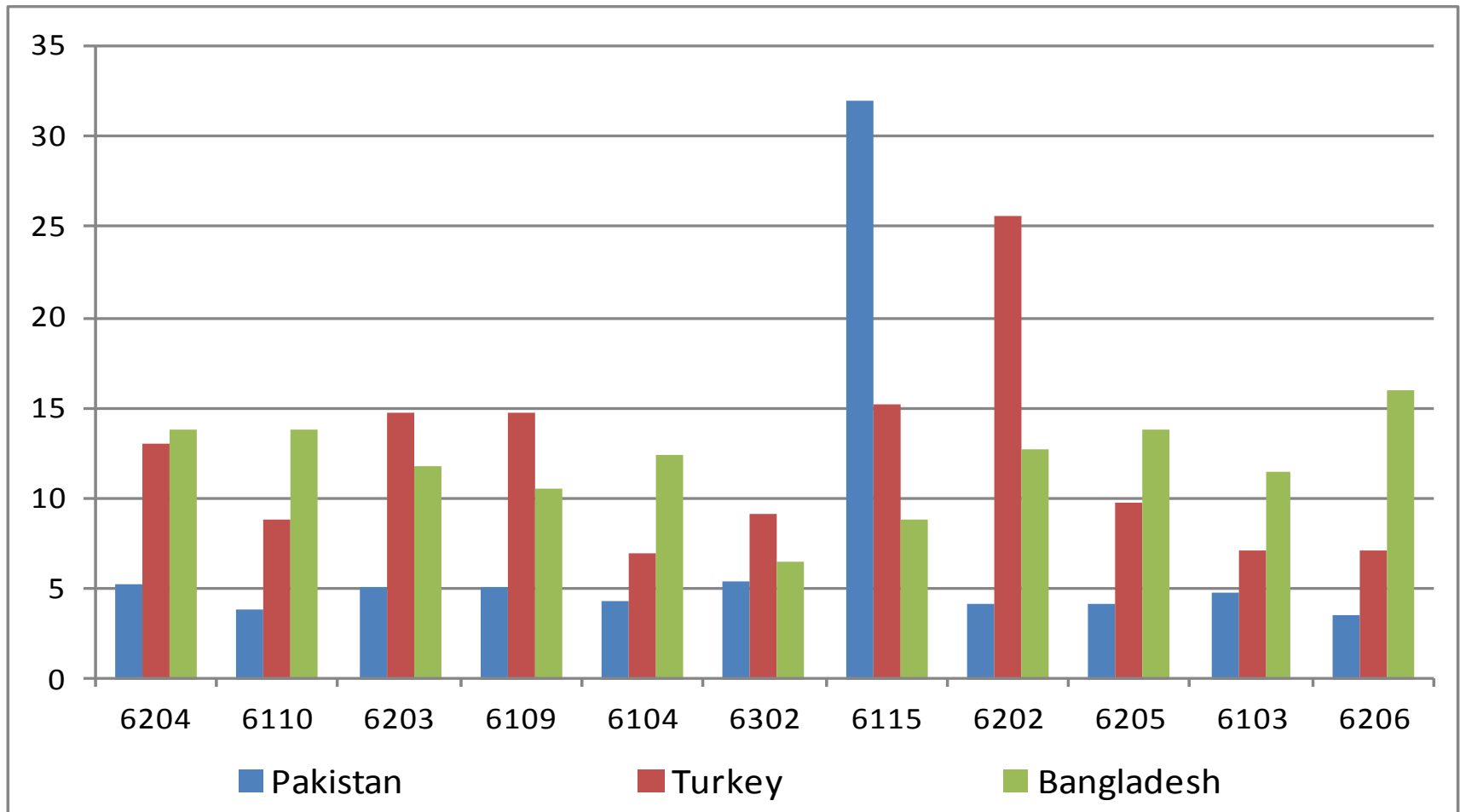
Country's Share in World Export of the Product Category (% - Average over 2009-2011)



Source: UN Comtrade and Bangladesh Bureau of Statistics. Taken from IGC (2013)

Concentration in Lower Volume Items

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



Source: UN Comtrade and Bangladesh Bureau of Statistics. Taken from IGC (2013)

Description of Top Exporting Garment Products

HS-Code	Product Category Description
6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear).
6110	Jerseys, pullovers, cardigans, waist-coats and similar articles, knitted or crocheted.
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear).
6109	T-shirts, singlets and other vests, knitted or crocheted.
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear),
6115	Panty hose, tights, stockings, socks and other hosiery, including stockings for varicose veins and footwear without applied soles, knitted or crocheted.
6202	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, other than those of heading
6205	Men's or boys' shirts.
6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear), knitted or crocheted.
6206	Women's or girls' blouses, shirts and shirt-blouses.

PAKISTANI MANUFACTURERS' RESPONSE

Enhancing Competitiveness

Incorporating IT

- ORACLE based accounting
- Electronic work tracking system
- CCTV cameras access for buyers (compliance assurance)
- Online product tracking system for buyers
- Just-in-Time inventory system for buyers
- Automated cutting, stitching and dyeing technologies

Meeting global standards

- Worldwide Responsible Accredited Production (WRAP)
- Global Organic Textiles (GOTS)
- Other requirements of buyers, such as water disposal treatment plants, reverse osmosis plants etc

Investing in specialized skill training

- Training programs for women

Moving Up the Value Chain

Product Design and Market Access

- Establishing design and R&D operations in Turkey/UK
- Developing market infrastructure in EU/US
- Building flexibility for small batch production
- Investing in advanced washing systems
- Developing own design capabilities

Developing new products

- Complex garments
- Using/developing new materials
- Building capacity in specialized treatments (water repellent, water proofing on the outside and odor resistant)

Developing Niche Markets

- Uniforms for American soccer ball and baseball teams
- Sports uniforms for schools in UK/EU
- Heavy garments for bikers
- Hoodies for IVY league universities in United States

GOVERNMENT AS A CHAMPION

Main Challenges Identified

- Because of the employment generation and export potential the Punjab Government , in July 2013, set up seven reform implementation committees
- Committees presented their recommendations to the CM in August 2013 and they report progress to the CM in regular meetings with heads of all concerned departments and garment manufactures' CEO's (Korean Blue House Model)
- The seven areas identified for reform:
 - 1) Market access- EU GSP Plus access
 - 2) Energy
 - 3) Skills development
 - 4) Import Policy
 - 5) Logistics support
 - 6) Forum for knowledge sharing
 - 7) Developing Garments clusters

Market Access and Skills Development

Access

- GSP Plus status was secured in December, 2013

Skill Development

- Following a demand assessment for skilled workers in the garment industry, the Punjab Skills Development Fund has launched a skill training initiative
- Training will be provided by the private sector (particularly garment manufactures') and funded by the government

Customs, Logistics and Knowledge Sharing

Import Policy

Regular meetings with FBR and Garments' firms have been held on customs procedures and import policy.

Following recommendations have been implemented:

- 24/7 custom clearance of imports for garment industry
- Full staffing of Input Output Coefficient Organization (IOCO) office at Lahore for quick approval of import of materials for exporters of garments under Duty and Tax Remission for Exports (DTRE) scheme

Logistics Support

Priority approval of road upgrade projects at choke points along the main transport corridor to Karachi

Knowledge Sharing

PBIT organized the first international conference on textiles and garments industry in Lahore in December, 2013

Developing Garments Clusters

- Punjab government is establishing a Garment City Industrial Estate in Sheikhpura, on over 1200 acres
- Some features of the Garment City are:
 - A private sector management board
 - Over 100 garment manufacturers and accessories suppliers
 - Common facilities such as effluent waste treatment plants, clean drinking water, solid waste disposal
 - Dedicated power plants for uninterrupted power to the estate
 - A Garment Center of Excellence for skill development of labor