India-Pakistan Trade Newsletter

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Textile and Clothing Industry in Pakistan

Textile and clothing are the most important manufacturing sectors in Pakistan's economy. These sectors contribute nearly one fourth of industrial value addition; consume more than 40 per cent of banking credit to the manufacturing sectors; and account for 8 per cent of the nation's GDP. The contribution of the textile industry in total export earnings of Pakistan is approx 54 per cent. The indigenous availability of raw cotton, which is the basic raw material for the textile industry, has played a key role in the growth of the industry. Pakistan is the 4th largest producer of raw cotton in the world and is the 3rd largest consumer of raw cotton in the world.

In this context of the importance of the Textile and Clothing (T&C) sector for Pakistan's economy, this article briefly discusses trends in Pakistan's T&C trade with the world and with India; the strengths and weaknesses of Pakistan's T&C sector; and the role of the textile policy in the growth of this sector.

Pakistan's Textiles and Clothing Trade

Textiles and Clothing are the two major sub-segments of the global T&C trade. As per the available international trade statistics global exports in the Clothing sector (HS Chapters 61 & 62) comprised of 59 per cent of the global T&C trade in 2011 while the remaining 41 per cent comprised of Textile products (HS Chapters 50-60 & 63).

On the other hand, the share of Textiles and Clothing in Pakistan's exports has been opposite to the global trend. As per the State Bank of Pakistan's External Trade statistics the share of Clothing in Pakistan's T&C exports was 28 per cent in 2011 while the share of textiles stood at 72 per cent. The concentration of Pakistan's T&C trade on textile products instead of Clothing has limited its ability to move into more value-added segments and therefore restricted its increase in global T&C trade. Rather, Pakistan's share of 2.23 per cent that was the highest world market share in Textile and Clothing in 2005 has declined to 1.88 per cent in 2011.

Pakistan's Exports of Textiles and Clothing in World Trade

USD billion

	2000	2005	2009	2011
World Textiles	157	202	210	294
World Clothing	198	277	315	431
Total	355	479	525	725
Pakistan Textiles	4.5	7.1	6.5	9.1
Pakistan Clothing	2.1	3.6	3.4	4.6
Total	6.6	10.7	9.9	13.65
Per cent of World Trade	1.88	2.23	1.88	1.88

Table 1: Pakistan's Exports of Textiles and Clothing in World Trade
Source: Pakistan Economic Survey 2011-12

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Khalid Mahmood

Pakistan's Textile and Clothing industry in the post quota era sustained its position and demonstrated growth from 2005-2007. This growth trend declined in 2008-09 due to financial and economic meltdown globally, but it witnessed a rebound in 2010 & 2011 as highlighted in Table 1.

Pakistan's T&C trade with India is a miniscule proportion of its total trade with the world with total T&C exports to India at about US$ 58 million and T&C imports from India at US$ 369 million in 2010. The major articles traded are cotton yarn and woven fabrics of cotton.

Pakistan's Strengths and Weaknesses

The textile and clothing industry consists of various sub-sectors which include cotton yarn, cotton fabric, fabric processing, home textiles, towels, knitwear and readymade garments. These sub-sectors consist of large and medium scale organized units as well as unorganized cottage/small units.

The spinning sector is the most important segment in the hierarchy of the textile value chain. According to the *All Pakistan Textile Mills Association* about 11 million spindles were in operation in Pakistan during 2010-11. However, despite having the third largest spinning capacity in Asia, the spinning industry in Pakistan is facing numerous problems which have hampered its competitiveness. These include relatively high interest rates, weakening currency, rising inflation and labour wages. The industry has also been hit hard by severe gas and electricity shortages in the last three years.

Within the cloth sector, the export of woven fabrics has registered robust growth during the last two decades. The production of woven cotton cloth has increased substantially and serves as the main strength for downstream sectors such as bed wear, made-ups and garments (Pakistan Economic Survey, 2011-12). The performance would perhaps have been even better, but Pakistan's weaving sector has not been able to develop strength in shirting fabrics even though it is fairly strong in the production of sheeting fabrics.

On the other hand, in the knit wear industry exports have been stagnant since 2006 due to increased international competition in the post Multi Fibre Arrangement (MFA) period. This is despite the fact that a strong spinning industry and abundant home grown cotton in Pakistan lend support to the sector. Product diversification has also been a constraint in the knit wear sector since the bulk of knit wear production is comprised of cotton products due to domestic cotton availability advantage.

The garment industry comprises of the highest value addition in the textile sector. The industry consists of small, medium and large scale units, most of them having 50 machines and below. The bulk of the readymade garments exports are in the bottom wear category which includes denim and other trouser product categories. But, Pakistan's share in tops is dismal. One basic factor is the lack of good quality shirting manufacturing in Pakistan. The lack of economies of scale is another important issue in marketing of shirting products to leading brands in the world. The other factor contributing to slow growth and low value addition in readymade garments are lack of trained and disciplined workforce. In fact, despite having technically strong spinning, weaving and processing sectors the readymade garments sector in Pakistan has not registered growth at par with the other regional competitors.

The home textile sector is a major part of the value chain within the processing industry. Pakistan is among the top three exporting countries for home textiles in the world and is the largest exporting country in the South Asian region in home textiles and other textile made ups. Pakistan's exports in home textiles and other textiles made ups (including towels) registered a growth of 33 per cent from 2003-08.

Pakistan's towel sector was mired with poor technology in weaving and dyeing in the past. However, the situation has gradually improved due to massive investments to upgrade weaving and dyeing machinery by leading exporters to face competition in the post quota period. Technological up-gradation has been the key factor that has helped in the growth of this product segment.

Implications of T&C Sector Policies

The Annual Trade Policy in Pakistan was the main policy document offering policy guidelines, incentives and proposed measures for T&C sector development until 2009. A separate Textile Ministry was created a few years back for exclusive focus on the textile and clothing sector. A Textile Vision 2005 was developed in 2000, in preparation of the phasing out of the Multi Fibre Agreement to bolster the growth of T&C sector. However, even though this was later not adopted as an official document, it remained a major co-ordinated effort of sector development.

The government announced the first ever five-year Textile Policy 2009-2014 that aimed at increasing Pakistan's textile exports from the existing US$ 10 billion to US$ 25 billion by the year 2015. However, despite allocation of large funds to the tune of PKR 123 billion, the implementation of the Textile Policy 2009-14 has continuously faced shortage of funds; only PKR 24 billion i.e. 20 per cent of the allocation was released for textile exports initiatives.

There has, therefore, been a vast gap between policies and measures announced and actual steps taken. Bureaucratic hurdles, slow decision making and late release of funds have rendered many policies ineffective.

Way Forward

The success in maintaining the export volume and managing growth in some categories of textiles and clothing since 2006, despite adverse internal and external conditions, reflects the strong resilience of Pakistan's T&C industry.

However, Pakistan's over reliance on raw cotton as the main fibre has held back the potential of the country to penetrate into other valuable product categories where synthetic fibre dominates as raw material. Moreover, the failure to achieve a quantum increase in raw cotton production has also adversely affected the competitiveness of the Textiles and Clothing sectors in Pakistan.

Product diversification into value added segments is imperative to further develop Pakistan's textile and readymade garment sector. For instance, within textiles, Pakistan needs to develop its strength in shirting fabrics. Production has been concentrated in basic greige fabrics without much progress into more value added jacquard and yarn dyed fabrics which would cater to the higher end of the shirting markets. Similarly, for readymade garments, the product mix is dominated by bottom wear and the share of top wear has to be increased in order to develop new segments in the readymade garment sector.

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The Political Economy of Pakistan's Trade with India

T.C.A. Srinivasa-Raghavan

In 2012, Pakistan's government took the decision to grant most favoured nation (MFN) status to India. This is a significant a milestone in India-Pakistan trade relations. With this initiative, Pakistan shifted to a 'negative list' in March 2012. Other important measures taken by the two governments in recent months include opening up of bilateral foreign direct investment (FDI) flows, signing of trade facilitation agreements and signing of a visa agreement. The seventh round of talks on Commercial and Economic Co-operation held in Islamabad laid down the timeline for final implementation of MFN by Pakistan as December 2012. However, Pakistan did not meet this deadline. In fact, it is still pending and the delay has created uncertainties on both sides.

One possible reason for the delay is Pakistan's vulnerable balance of payments situation. At present, Pakistan is in no position economically to run up huge trade deficits with India. Pakistan's external account position remains weak with declining foreign exchange reserves. Therefore, any additional strain brought on by a high trade deficit with India will be economically and politically challenging for the government in Pakistan. In the total bilateral trade of approx US$ 1.9 billion in 2011, Pakistan's exports to India were approx US$ 0.27 billion while imports from India stood at approx US$ 1.61 billion. With more bilateral trade, this trade deficit will only become greater.

It may be noted however that Pakistan already has a large trade deficit with China. In 2011-12, Pakistan's trade with China was US$ 8.1 billion and Pakistan's trade deficit with China was US$ 4.8 billion. This trade deficit with China was 3.6 times its trade deficit with India at US$ 1.3 billion in the same year.

Another important factor is the current state of Pakistan's industry after having suffered years of declining competitiveness and productivity. The industry, especially the small and medium enterprise sector, fears that trade with India on MFN lines will hurt it further. In particular, the apprehension is that the manufacturing industries of Indian Punjab – Ludhiana, Jalandhar and Amritsar – will inundate the industries of Pakistani Punjab.

Further, the most vocal opposition to the granting of MFN status to India has emerged in the agricultural sector. Here the fear is that allowing import of agricultural products from India would jeopardise the livelihood of farmers in Pakistan. The critics also claim that in the context of subsidies given to farmers in India allowing trading in agricultural goods would render Pakistan's products uncompetitive.

The point to be noted is that, to a significant extent, the opposition to MFN in Pakistan is linked to the domestic electoral politics. The dominant position of the state of Punjab in Pakistan's polity means that governments have to be receptive to the concerns of the businessmen and agricultural producers based here. Indeed, the pressure on political parties from the small and medium enterprises in West Punjab is strong and is therefore an obstacle in the way of normal trade between India and Pakistan where comparative advantage determines volumes of exports and imports.

Moreover, farmers constitute approx 65 per cent of the population of West Punjab. According to agriculture and soil specialists in Pakistan over the years productivity has been affected because of heavy siltation in the canals in the area leading to issues of availability of water for irrigation, and increasing salinity of the soil. In this situation, it is difficult for political parties to ignore the concerns vis-à-vis MFN and agricultural trade with India. Moreover, a large number of politicians from West Punjab are themselves large land owners.

Finally, one cannot ignore the fact that there are vested interests that prefer informal trade. Various studies have shown that there is a huge difference between the revenues from formal trade and informal trade. According to estimates, the informal trade is to the tune of approx US$ 4 billion. Analysts suggest that the beneficiaries of this trade are politically influential and not favourably disposed towards the trade normalization process between India and Pakistan.

India-Pakistan trade relations have begun to show signs of change in the last year or so. Already, as the upward trend in recent trade figures indicates, traders in both countries are starting to benefit. However, Pakistan's domestic political compulsions and a challenging domestic economic situation may not allow it to take long strides swiftly. Therefore India would benefit from patience and persistence in pursuing mutually beneficial trade relations with Pakistan.

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Project Activities

February 5, 2013, Distinguished Lecture Series: Inaugural Lecture by Dr Ishrat Husain in New Delhi

Dr Ishrat Husain, former governor of the State Bank of Pakistan, delivered the inaugural lecture in the Distinguished Lecture Series in New Delhi on February 5, 2013.

The panellists at the lecture included: Dr Isher Judge Ahluwalia, Chairperson, ICRIER, Mr Salman Bashir, Pakistan's High Commissioner to India, Dr Surjit Bhalla, Managing Director, Oxus Investments Private Limited, Mr Sunil Munjal, Joint Managing Director, Hero MotoCorp and Dr Rajat Kathuria, Director & CE, ICRIER.

January 10, 2013, Regional Chambers of Commerce Roundtable in Lahore

ICRIER organized a regional Chambers of Commerce Roundtable on January 10, 2013 in Lahore in collaboration with the Lahore Chambers of Commerce and Industry (LCCI) and the Lahore University of Management Sciences (LUMS). The objective of the roundtable was to have a consultation with businessmen, policy-makers and academics from both the countries to discuss the prospects and challenges that the trade normalization process is likely to pose for all stakeholders.

The discussions focussed on trade and investment possibilities, and non-tariff barriers. It was felt that identifying potential products for trade was not a problem, but realization of trade faced several impediments. The major impediments were related to transport and logistics infrastructure at the land borders, lack of testing facilities, banking facilities, recognition of standards, customs and valuation. Even though the visa regime is an improvement over the earlier one, it is only an incremental improvement. An important category that remains missing is the "work visa", which is an essential requirement in this regard.

There was a lot of interest in FDI flows. The sectors identified for Indian investment in Pakistan included energy, fertilizers, agriculture and floriculture, mining and mining equipment, dairy and livestock, tourism and tourism infrastructure, textile machinery, biotechnology, seeds, herbal and herbal extracts, heavy mechanical products, and entertainment. One suggestion that received a lot of support from both sides was the idea of holding road-shows on both sides to bridge the information gap on possible investment opportunities.

The project web portal for India-Pakistan trade information is now functional:

www.indiapakistantrade.org

The website provides regular updates on current policy developments, macroeconomic data and project's research activities.

Forthcoming Events

Annual Conference, New Delhi

The project will host its first Annual Conference on March 14-15, 2013, at Jacaranda Hall-I & II, India Habitat Centre, New Delhi.

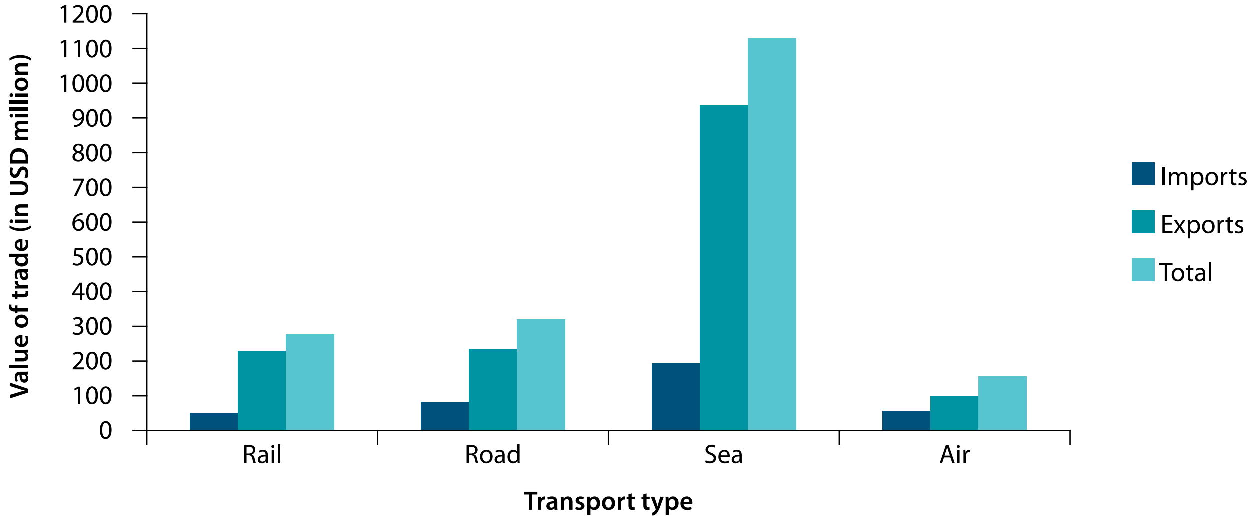
The objective of the annual conference titled Normalizing India-Pakistan Trade is to bring together academics, industry representatives, and policy-makers to reflect on the recent trade normalization measures adopted by India and Pakistan and discuss the opportunities and challenges for enhancing trade between our two countries. The findings of the research studies conducted under the project will also be presented and discussed at the conference.

Date: March 14-15, 2013

Venue: Jacaranda Hall-I & II, India Habitat Centre, New Delhi

India-Pakistan Trade: Mode-wise Distribution

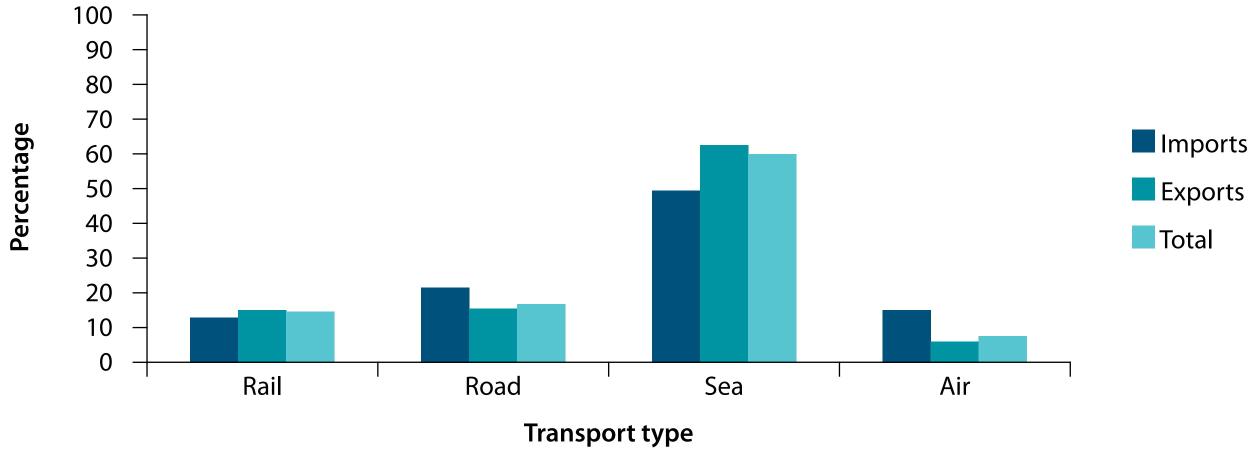
Mode-wise distribution of India's Trade with Pakistan



Mode-wise India's Trade with Pakistan (Values in US$ million) Exchange Rate 48.21/$					
	Rail	**Road**	**Sea**	**Air**	**Total**
Imports	50.2	84.2	191.2	59.3	**384.9**
Exports	228.1	235.5	935.3	95.5	**1494.4**
Total	**278.3**	**319.7**	**1126.5**	**154.8**	**1879.4**

Source: Government of India, DGCI&S, Ministry of Commerce and Industry
Note: Shares relate to data for Non-EPZ ICD clubbed into Sea

Share of Modes in India's Trade with Pakistan



Share of Modes in India's Trade with Pakistan					
	Rail	**Road**	**Sea**	**Air**	**Total**
Imports	13%	22%	50%	15%	**100%**
Exports	15%	16%	63%	6%	**100%**
Total	**15%**	**17%**	**60%**	**8%**	**100%**

Source: Government of India, DGCI&S, Ministry of Commerce and Industry
Note: Shares relate to data for Non-EPZ ICD clubbed into Sea

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