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Pakistan – Trade Performance under the GSP+

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- Since 1 January 2014, Pakistan is a beneficiary to the European Union's Generalised Scheme of Preferences Plus (GSP+), which is approaching to its mid-term of ten years in 2018. In this perspective, this work aims to gain an understanding of Pakistan's trade performance under the GSP+. It explores as to how macro-economic variables as well as internal and external factors affect the environment within which the trade takes place. Where does Pakistan stand vs. other Asian countries? What are the challenges facing the textiles industry that is the largest contributor to the exports? What are the implications of the limited diversity in products and concentration in fewer markets? Does low profit margin reflect inefficiency or if there are certain other factors behind this; what is the space available to the industry to reduce cost? The analysis provides answers to these questions, and chalks out recommendations for the industry players.

- Using secondary data and a sample survey, this research helps diagnose specific areas requiring attention to effectively utilising the GSP+. Improving competitiveness is the key challenge. The government needs to ensure uninterrupted supply of energy, and improve law and order. The discussion identifies reforms in the most crucial policies, i.e. textiles, trade, fiscal, monetary, investment and agriculture

- The GSP+ award is concomitant with effective implementation of international conventions on human and labour rights, governance and environment protection ratified by Pakistan. Linkage of trade incentives with the conventions is aimed to promote sustainable development and good governance by utilizing enhanced export opportunities. The increased exports and profits of the industry players substantiate that the GSP+ offers an opportunity to utilize the linkages of the export-oriented industry for inclusive development. Hence, greater transparency and a shared vision for sustainable production is emphasized.

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Acronyms

BMR	Balancing, Modernization and Replacement
BOI	Board of Investment
EBA	Everything But Arms
EOBI	Employees' Old Age Benefits Institution
EODB	Ease of Doing Business
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSP	Generalised Scheme of Preferences Plus
GSTP	Global System of Trade Preferences
INR	Indian Rupee
LTFF	Long Term Financing Facility
PES	Pakistan Economic Survey
PTAs	Preferential Trade Arrangements
PTN	Protocol on Trade Negotiations
RTAs	Regional Trade Agreements
SAFTA	South Asian Free Trade Agreement
SAPTA	South Asian Preferential Trade Agreement
SBP	State Bank of Pakistan
SEZ	Special Economic Zone
SMEs	Small and Medium-sized Enterprises
TOT	Terms of Trade
T&C	Textiles and Clothing
US$	United States Dollar
WTO	World Trade Organization

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I. Introduction

The European Union has remained one of the major trading partners of Pakistan. The main exports to the EU fall in the categories of textile and clothing (T&C), and agricultural products. The T&C sector seems to get benefit from the GSP+ Scheme, as exports to the EU kept on rising annually. The factors challenging the industry included depressed demand in the EU, exchange rate fluctuations and declining terms of trade. The higher cost to meet border compliance for exports, and domestic supply side bottlenecks affected industry's global competitiveness. Government's support in policies and procedures is essential to enhance competitiveness; specific recommendations to this effect are also presented. To improve the situation, Pakistani exporters may proactively use latest research and forecasting to change as per industry/demand dynamics and diversify for products and markets.

The remainder is organized as follows: Section II provides a trend analysis of the key macro-economic variables having implications for business climate in the country. These include, inter alia, public debt, tax revenues and trade situation. Trade agreements, international oil prices and exchange rate movements also influence export competitiveness; therefore, these are also covered. Section III attempts to explore the EU-Pakistan trade linkage and the importance of GSP+ for the country. Focusing on the textiles sector, the position of Pakistan and selected Asian countries has been compared for indicators on exports, internal business and trading across border. This has been followed by financial analysis of ten textile units in Section IV to assess the impact of GSP+. The trend analysis of cost, profit, labour productivity and margins would help exactly locate problem areas and point towards the actions required to utilize opportunities emanating from the GSP+ arrangement.

*Kishwar Khan, Senior Director, Competition Commission of Pakistan. The views presented here are those of the author alone, and do not reflect the views or position of the Competition Commission of Pakistan.

II. Macro-Economic Trends and the External Sector

After the GSP+, i.e. 2014 onwards, Pakistan's GDP growth appears to be encouraging (Table 1).[1] In 2017, the economy witnessed a GDP growth of 5.28 per cent, which is the highest in the last ten years. However, the rising debt to GDP ratio, falling exports, continued trade deficit and the other key variables indicate risks and vulnerability of the economy towards internal and external shocks. The revenue shortfall due to Pakistan's low tax-to-GDP ratio pushed the government towards high borrowings from commercial banks and external sources. In 2016, the debt reached to a peak of 67.6 per cent of the GDP, of this 47 per cent was domestic and about 21 per cent was external debt. The shrinking fiscal space further limited the capacity to finance development expenditures and spending in social sectors, which eventually play a significant role in shaping business environment.

Detiorating indicators

The state of the economy is weakening mainly due to continuously declining exports and the low revenue collection. These indicators demand serious efforts to reduce trade deficit, and widen, rationalize and improve tax collection processes. The unsatisfactory foreign exchange reserves along with strict financial conditions to meet rising external obligations, and rising oil prices in the international markets are generating pressure on the existing resource base.

Exports failed to pick up

The depressed exports situation point towards the significance of efforts to enhance Pakistan's export competitiveness. This needs to be done by reducing cost of doing businesses, making procedures quick and easier along with favourable policies. Presently, Pakistan is ranked, after slipping three places, 147th amongst 190 economies in the 'ease of doing business' estimates of the World Bank.[2] The outcome is a low investment in the manufacturing sector - only 1.6 per cent of the GDP.

Table 1: GDP Growth and Macro Economic Indicators

(In percent of GDP)

	GDP Growth (%)	Debt	Exports	Imports	Trade Deficit	Tax Revenue	Investment
2007/08	4.1	56.8	11.2	23.5	12.3	9.5	22.1
2008/09	2.0	57.8	10.5	20.7	10.2	8.8	18.2
2009/10	2.6	60.6	10.9	19.6	8.7	8.9	15.4
2010/11	3.6	58.9	11.6	18.9	7.3	8.5	14.11
2011/12	3.8	63.3	10.5	20.0	9.5	9.4	15.08
2012/13	3.7	64.0	10.6	19.4	8.9	8.7	14.96
2013/14	4.1	63.5	10.3	18.5	8.2	9.0	14.64
2014/15	4.1	63.2	8.7	16.9	8.2	9.4	15.71
2015/16	4.5	67.6	7.4	16.0	8.6	10.7	15.55
2016/17 P	5.3	--	5.0	12.6	7.7	10.8	15.78

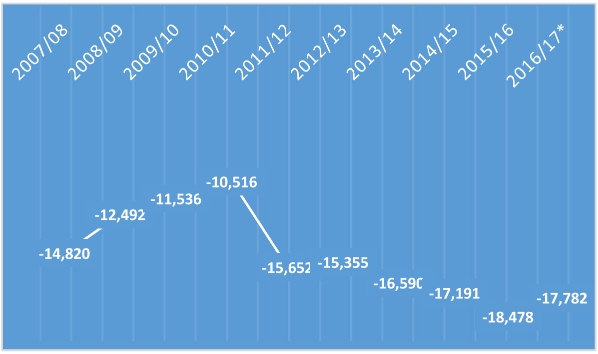
Note: P – Provisional
Source: Pakistan Economic Survey (PES) | (various issues)

1. Government of Pakistan-a
2. World Bank (2017)

Some element of positivity in the rising imports

From 2015 to 2017, Pakistan's current account balance reached from US$-2.8 billion to US$-12.1 billion. In this duration, the exports declined from US$24.1 to US$21.7 and imports increased from US$41.4 billion to US$48.6 billion. The trade deficit was the highest in 2015/16 (Figure 1).

Figure 1: Balance of Trade (US$ Million)



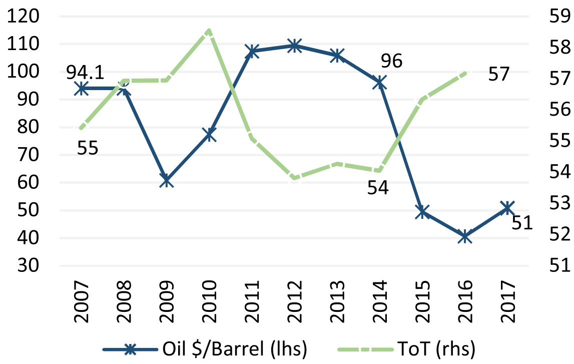
*Note: *Provisional - July-March*
Source: | PES | (various issues)

In 2017, capital goods contributed more than half of the increase in imports.[3] In the first half of 2016/17, the imports increased in the categories of fuel 12 per cent (for more electricity generation and transportation); machinery 41 per cent (capital equipment for power generation 113 per cent, construction machinery 55 per cent, buses and heavy commercial vehicles 19 per cent).[4] These reflect positively to deal with supply-side bottlenecks in energy, infrastructure and logistics. However, their financing was a serious concern.

Mounting pressure on the balance of trade

From 2011 onwards, the balance of trade faced pressure from rising oil prices[5] coupled with unfavorable terms of trade (TOT). Consequently, despite quantum increase in some exports, for instance cotton and textiles, the value fetched was comparatively lower. The TOT only started improving in 2015/16 (Figure 2). However, the pressure on trade balance did not ease as exports fell sharply.

Figure 2: Trend in Terms of Trade and Oil Prices



Source: TOT | PES | (various issues)
OPEC Oil prices | www.statista.com |

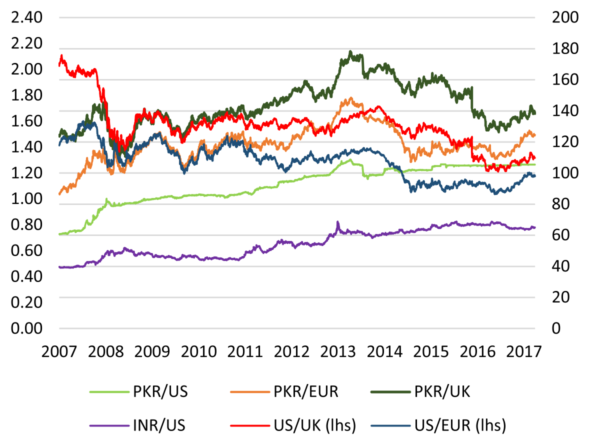
Negative effect of over-valued currency

The overall declining exports reflect a lack of policy implementation to address the underlying causes, for instance the over-valued currency. The movement of various currencies in terms of US$ partly explain the negative effect on exports (Figure 3). During the GSP+ period, Pakistan kept Rupee's exchange rate stable against the US$, which appreciated in real effective terms by 18 per cent cumulatively over the past three years.[6] Whereas, Euro, Sterling and Indian Rupee depreciated. Pakistani Rupee, on the other hand could not maintain its value against Euro and Sterling. The net effect was a difficult situation for Pakistani exporters than would have been in the absence of artificially higher value of Pakistani Rupee. In

3. SBP (2017)
4. Ibid
5. Average annual OPEC crude oil price from 1960 to 2017 (in U.S. dollars per barrel), available at: https://www.statista.com/statistics/262858/change-in-opec-crude-oil-prices-since-1960/. Accessed August 2017
6. IMF (2017a)

sharp contrast, from 2014 to 2017, the currencies of other Asian countries depreciated against the US$: Sri Lanka (14.4%), Philippines (14%), India (9%), Vietnam (7%) and Bangladesh (4%).

Figure 3: Movement in Exchange Rates

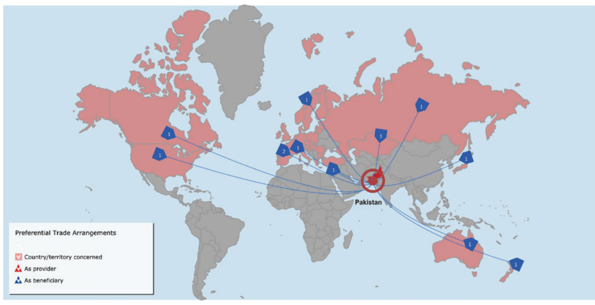


Source: PKR | *SBP* | *www.sbp.org.pk* |
Other currencies | *US Federal Reserve Economic Data* | *fred.stlouisfed.org/*

Trade agreements won't benefit without concerted efforts

Pakistan is participating in several regional trade agreements (RTAs) and a limited number of preferential trading arrangements (PTAs).[7] The PTAs are: GSP with USA, Canada, Russia, Norway, Switzerland, Turkey, Japan, New Zealand Kazakhstan, under Australian System of Tariff Preferences and GSP+ with the EU (Figure 4).[8] In 2016, these PTAs accounted for Pakistan's 73 per cent T&C exports and 15 per cent imports, with a trade surplus of US$9 billion. Excluding the USA and the EU, the share of all others is merely 5 per cent.

Figure 4: Participation in PTAs



Source: WTO PTA Database

For PTAs with Iran, Mauritius and Indonesia, the exports are insignificant. In the D-8 countries,[9] Indonesia has a share of 3.5 per cent in Pakistan's imports with a surplus of US$0.08 billion. Exports are 0.5 per cent and imports are 3 per cent of the total imports under the PTA with MERCOSUR (Argentina, Brazil, Paraguay, Uruguay and Venezuela).

South Asian Free Trade Agreement (SAFTA), 2006 is a Plurilateral RTA (Figure 5).[10] Pakistan has Bilateral RTAs with Sri Lanka, 2005; Malaysia, 2008; and China, 2009; with meager exports to the former two countries. China and SAFTA countries have an export share of 8.4 per cent and 6 per cent, respectively. Pakistan imports massively from China, which is about 47 per cent of the total T&C imports. The share of the SAFTA is about 16 per cent in imports; of this Indian share is 12.5 per cent. Pakistan exports only 0.32 per cent to India. With India and China, Pakistan faces a trade deficit of US$0.4 billion each.

Pakistan has no rules of origin for MFN treatment. However, preferential rules of origin exist under

7. RTAs are reciprocal agreements between two or more partners e.g. free trade agreements and customs unions. PTAs are unilateral trade preferences. See: WTO Database: http://www.wto.org/english/tratop_e/region_e/rta_pta_e.htm

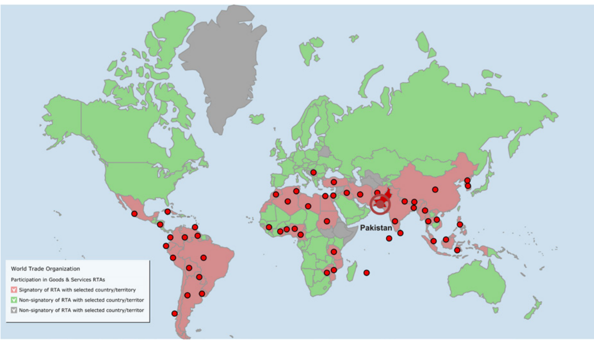
8. WTO (2015)

9. D-8 countries are Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey.

10. Principles and market access formulae are being negotiated for Plurilateral RTA Global System of Trade Preferences among Developing Countries (GSTP). Trade Preferential System among the Member States of the OIC (TPS-OIC) can be operational when 10 Members simultaneously: a) ratify three TPS-OIC Agreements; and b) submit the list of concessions. By December 2017, only seven countries updated their lists. See for details: http://www.comcec.org/en/cooperation-areas/trade/trade-preferential-system-among-the-member-states-of-the-oic/

bilateral/ plurilateral trade agreements and unilateral schemes. Pakistan has product specific rules of origin for certain textile products only for Malaysia.[11]

Figure 5: Participation in Regional Trade Agreements



Source: WTO RTA Database

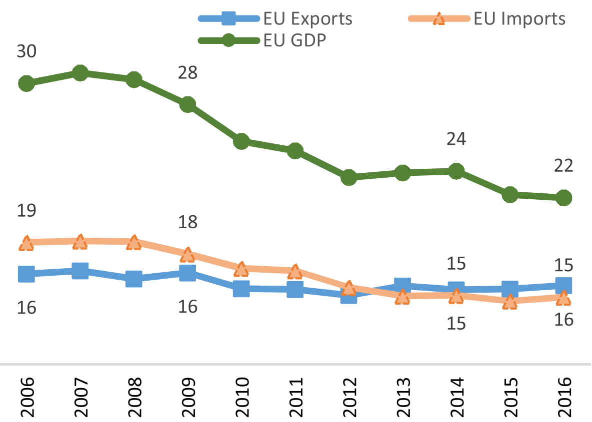
Hence, from several agreements, Pakistan's benefits for T&C exports are negligible. This reflects: a) lack of targeting to diversify markets despite export opportunities; b) supply side bottlenecks limiting capacity; c) political factors in the case of India and Iran; and d) a negative competition effect with the like products of the countries involved. The next Section will explore the EU's GSP+ arrangement that is the most important preferential trade scheme for Pakistan.

11. See Supra Note No. 9.

III. European Union and Pakistan: Exploring the GSP+

The EU is an important player in the world economy while representing over 22 per cent of the global GDP (EUR 16.5 trillion) in 2016.[12] The share of the EU in the world GDP and trade has declined after 2006-2007 but continues to be significant (Figure 6).

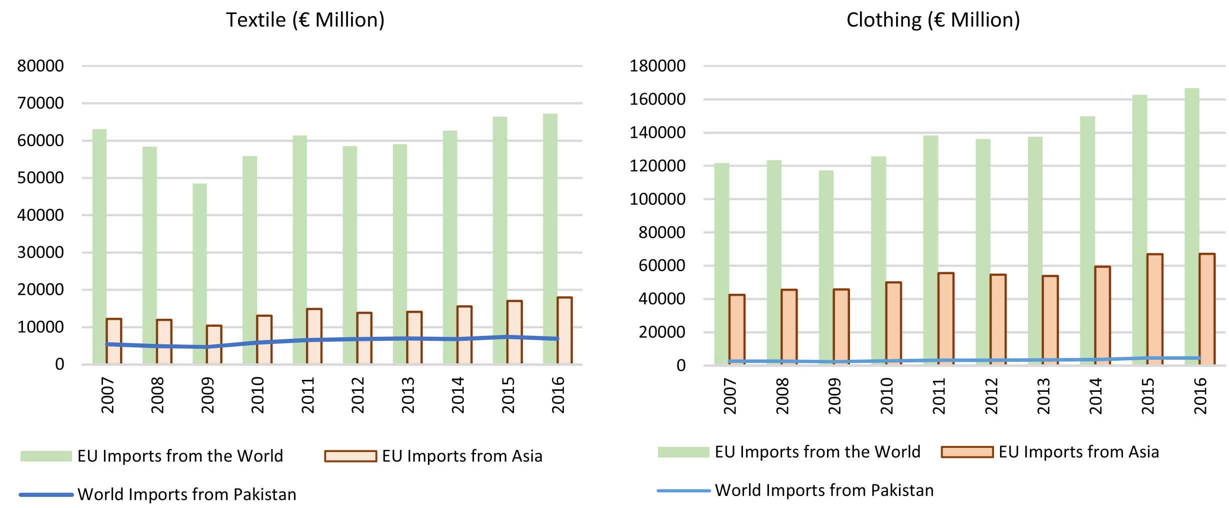
Figure 6: EU's Percentage Share in the World Economy



Source: Author's calculation | EU Directorate-General for Trade |http://trade.ec.europa.eu |

The EU is a major player in the global T&C trade - the largest importer with a share of 22 per cent and the second largest exporter with 25 per cent share in the exports (Figure 7). Pakistan is amongst the top ten exporters of the T&C in the global market. The textiles industry is a key sector for Pakistan's economy.[13] It contributes 25 per cent to industrial value-added and provides employment to about 40 per cent of the industrial labor force.[14] The ancillary textile industry comprises cotton spinning, cotton cloth and made-up sectors. There are different sub-groups in the made-up sector namely towels, tents & canvas, cotton bags, bed-wear, hosiery, knitwear & readymade garments.

Figure 7: Imports of Textiles and Clothing

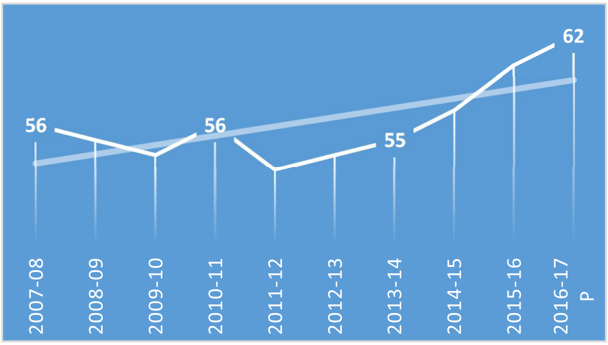


Source: WTO Trade Statistics | http://stat.wto.org/ |

12. IMF (2017b)
13. For details about Pakistan's textiles industry, see: CR-VIS (2016), Stotz L. (2015), and Pakistan Credit Rating Agency (2016)
14. See Supra Note No. 2

The share of the T&C sector in Pakistan's exports is the highest, which on the average, continues to be more than 56 per cent during the last ten years (Figure 8).

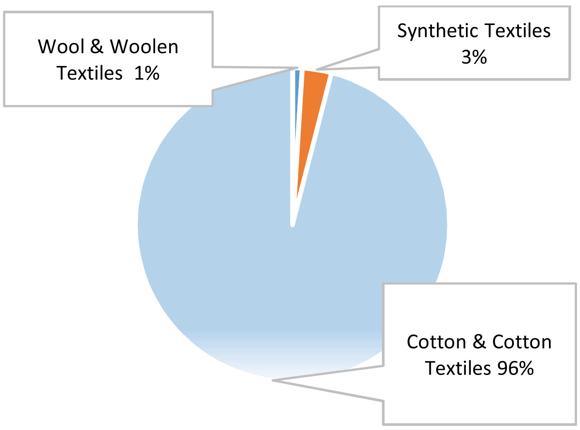
Figure 8: Pakistan's Exports T&C



Note: 'P' stands for Provisional – July to March
Source: Author's Calculation | PES | (various issues)

Since 1 January 2014, Pakistan's exports to the EU are benefiting from the GSP+ arrangement. This implies full removal of tariffs on more than 66 per cent of all tariff lines. Pakistan's T&C exports have grown significantly from 2014 onwards (Figure 8). However, since long, Pakistan's exports are highly concentrated in the broad category of 'cotton & cotton textiles' (Figure 9).

Figure 9: Concentration of Pakistan's Exports in Cotton 2007-2017



Source: Author's Calculation | PES | (various issues)

Pakistan continues to be a 'vulnerable' country

Through various means, the GSP+ supports sustainable development and good governance in 'vulnerable' countries. Based on the EU's import-share ratio, vulnerability means that the country is not competitive enough in the EU market and lacks diversity in exports.[15] To be precise, a vulnerable country is the one (a) of which the value of seven largest GSP sections of imports into the Union of products listed in Annex IX of EC Regulation 978, represent more than the threshold of 75 per cent in value of its total imports of products in the annex, as an average of the last three years. And (b) of which the imports of products listed in Annex IX into the Union represent less than the threshold of 6.5 per cent in value of the total imports into the Union of products listed in that Annex originating in countries listed in Annex II, as an average of the last three years. Based on the above, from 2009 onwards, Pakistan's vulnerability percentage remains in the range of 4 to 5.50.[16]

Export diversification reveals the changes in the export structure occurring over a span. The level of diversification is calculated using the range of goods or the number of tariff lines under which the country has exported. Pakistan's diversification fluctuates around 95 per cent, reflecting a high concentration from the same sector. Pakistan's 70 per cent exports to the EU fall under three Chapters of Harmonized System (HS): Chapter 61 consists of articles of apparel and clothing accessories-knitted or crocheted; Chapter 62 covers not knitted or crocheted articles; and Chapter 63 comprises made-up textiles. Therefore, it is expected that Pakistan will keep on meeting the vulnerability criteria for entitlement to the GSP+ status,[17] subject to other conditionalities, i.e. ratification and compliance of 27 core international conventions on human and labour rights, good

15. Annex VII of the GSP Regulation provides vulnerability thresholds. For details about the GSP+ see: Factsheet on the European Union's GSP+ scheme. Available at: http://trade.ec.europa.eu/doclib/docs/2017/january/tradoc_155235.pdf

16. Based on calculation at: http://epp.eurostat.ec.europa.eu/newxtweb/

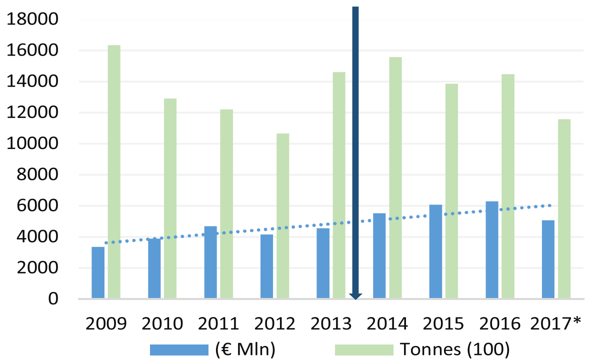
17. European Commission, http://trade.ec.europa.eu/doclib/press/index.cfm?id=1006, Brussels, 30 December 2013

governance, and environment protection. These conditionalities promote sustainable development and good governance besides providing export opportunities. Thus, GSP+ arrangements go a long way in national prosperity and income generation.

Trend in exports to the EU

Since the beginning of the GSP+ Award in 2014, Pakistan's exports to the EU increased by 39 per cent in value - by 12 per cent till Sept 2017 (Figure 10).[18]

Figure 10: Pakistan's Exports to the EU in Value and Volume



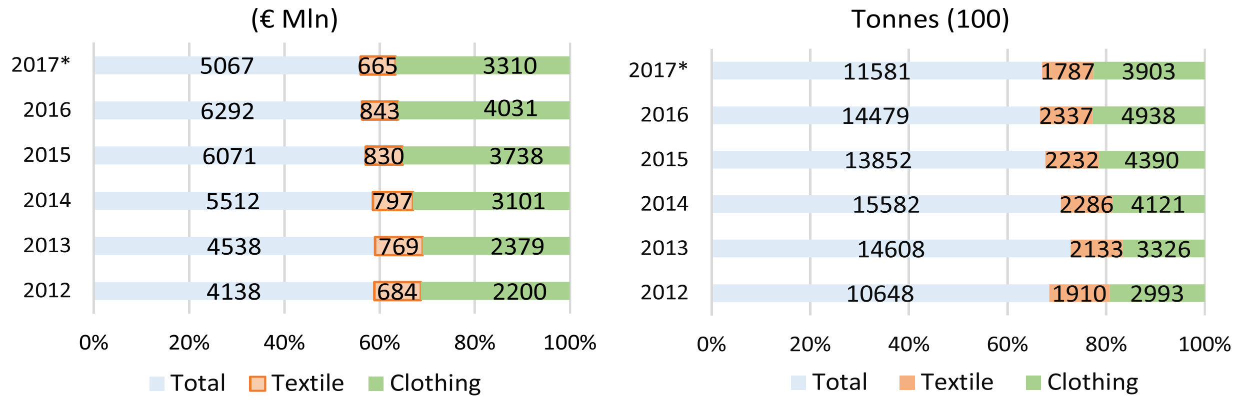
*Note: * Jan.- Sept.*
Source: Author's calculations | EU |Eurostat

15 to 20 per cent of exports comprise agricultural items, leather, sports goods, footwear, articles of plastic, etc. (Annex-I). However, Pakistan was able to utilize the GSP+ mainly for the T&C exports. The share of textile and garments touched the height of 78 per cent by September 2017 as compared to 69 per cent in 2013. The Clothing contributed the most in the exports, growing by 69 per cent in value and 48 per cent in volume (Figure 11).

The T&C exports could not maintain the pace achieved in 2014 - the first GSP+ year, when exports increased by 24 per cent. The YoY growth was 17 per cent and 7 per cent in 2015 and 2016, respectively.

Textiles are covered under HS Chapters 50-60, and Chapters 61-63 consist of Clothing. Pakistan's exports are concentrated in five chapters: a) Chapters 52 and 55 comprising cotton and man-made fibers, respectively; and b) Chapters 61-63, respectively covering the articles of apparel and clothing accessories-knitted or crocheted; apparel and clothing articles not knitted or crocheted articles; and made-up textiles. Though, full potential of 2017 has yet to be attained, still in the post GSP+ period, the exports under these five

Figure 11: Share of Textiles & Clothing in Pakistan's Exports to the EU



	Change in Value (%)				Change in Volume (%)			
	Total Exports	Textile	Clothing	Textile & Clothing	Total Exports	Textile	Clothing	Textile & Clothing
2013-16	39	10	69	55	-1	10	48	33
2013-17*	12	-13	39	26	-21	-16	17	4

*Note: * Jan.- Sept.*
Source: Author's calculations | EU |Eurostat

18. European Commission (2017a)

chapters grew by 28 per cent in value terms from 2013. From 2013 to 2016, the growth was 56 per cent. Men's and women's trousers, and bed-linen account for about one third of exports under these chapters.[19] Annex-II provides information about T&C exports by various HS chapters.

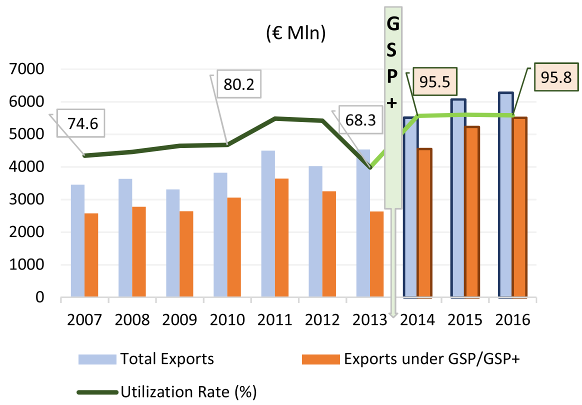
The share of the EU in Pakistan's imports hovers around 12%; more than half consists of chemicals, transport and machinery. Pakistan's trade surplus with the EU was 699 million in 2013, which increased by more than hundred per cent in 2014 to 1427 million. The rising trend continued until 2015, when surplus grew to 1643 million. Afterwards, there was a decline of 40% in 2016. Thus, Pakistan has a declining trade surplus with the EU. Despite GSP+ being a unilateral scheme, the imports from the EU have increased by 30 per cent from 2014.

The 'utilization rate' increased post GSP+

Prior to GSP+ Award, Pakistan was exporting to the EU under the standard GSP preferences. The average utilization rate was 81 per cent during 2007 to 2013. From 2011-13, this improved to 85 per cent. However, after GSP+ benefits of duty free entry into the EU market, the average rate further increased to about 96 per cent (Figure 12). This trend implies that Pakistan was able to export more on preferential basis as a percentage of its eligible preferential exports under the GSP+ scheme.

It appears from category-wise export data that for the most T&C products, the preferences are already being fully utilized.[20] This fact has a serious implication for Pakistan's textile exporters, who are investing in capacity expansion. They will need to compete on quality and prices to increase trade volume. Further export opportunities exist for products other than T&C, whose HS lines are not

Figure 12: Utilization Rate under GSP and GSP+



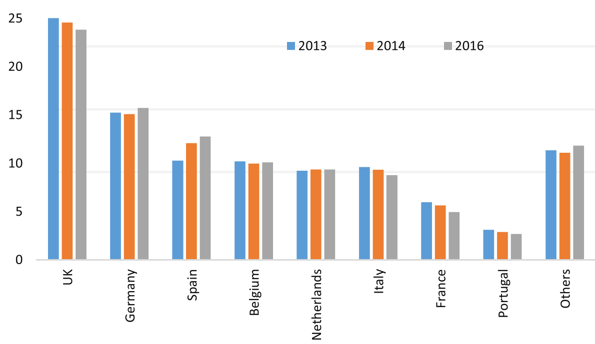
Source: Author's calculation | EU Directorate-General for Trade |http://trade.ec.europa.eu |

being utilized for GSP+ preferences. For instance, HS Chapters 10 mentions various grains produced in Pakistan, which require necessary processing to meet the EU standards.

Market shares during GSP+ period

Within the EU, Pakistan has eight major export destinations (Figure 13).

Figure 13: Pakistani T&C Exports' Market Shares (%)



Source: Author's calculations | World Bank | https://wits.worldbank.org/CountryProfile/en/PAK

Since 2013, their market shares remained above 88 per cent of the total T&C exports to the EU. Pakistan's exporters are known to have better

19. The full nomenclatures are: 620342 - Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excl. Knitted or crocheted, underpants and swimwear); 630231 - bed-linen of cotton (excl. Printed, knitted or crocheted); and 620462 - women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excl. Knitted or crocheted, panties and swimwear)

20. European Commission (2017b)

trade ties in the UK and the German markets, which received 40 per cent of exports from 2013. In this duration, the share of Spain increased by 24 per cent and that of 'others' by 4 per cent (Annex-III). The positive prognoses for EU's GDP and private consumption growth provide opportunities to the T&C suppliers.[21] Pakistani exporters need to study and work on potential markets such as Poland, Denmark and Sweden to increase their market shares.

Pakistan vs. other Asian exporters to the EU

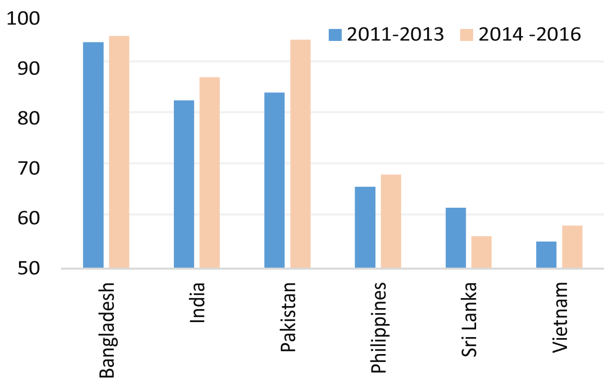
The EU's growth improved from 1.8 per cent in 2016 to 1.9 per cent in 2017; the consumption also increased. In 2017, T&C imports increased by 3.5 per cent, including those from the Asian countries (Figure 14).[22] Growth rate of exports from Pakistan was the highest in clothing, increasing from 2.9 per cent in 2016 to 3.2 per cent in 2017.

Figure 14: Asian Countries' Exports to EU (%)

Source: SBP | Annual Report | 2016-17

Apart from the GSP+, the T&C suppliers to the EU benefit from certain other arrangements, which are Everything But Arms (EBA), the standard GSP arrangement and various trade agreements. The EBA allows duty-free entry to all goods except arms and ammunitions. The GSP+ though provides a duty-free entry to a very large number of items but places growth ceilings on certain sectors.[23] Similarly, under the GSP, the duty-free entry list covers only 'non-sensitive' items.[24] Hence, facing a variety of trading conditions (including differentiated Rules of Origin), in the absence of detailed competition analysis, the T&C suppliers cannot be termed exactly as competitors. However, a comparison of notable Asian countries would be of interest here, covering Bangladesh, India, Vietnam, Pakistan, Philippines and Sri Lanka.[25] Of these, Pakistan and Philippines both are exporting under the GSP+, Pakistan's share is huge with about 97.7 per cent of the EU's imports under the GSP+ whereas the Philippines supplies about 1.8 per cent. Pakistan has a level playing field, in terms of duties, with Bangladesh supplying under EBA. While India is the largest supplier under the standard GSP; Vietnam is a relatively minor player in the same group. The pre and post GSP+ average utilization rate shows that Pakistan and Bangladesh were able to better utilize their respective arrangements (Figure 15).[26]

Figure 15: Utilization Rates with the EU's Arrangements



Source: European Commission (2017)

21. CBI Market Intelligence (2015)

22. State Bank of Pakistan

23. For low-income vulnerable developing countries, items as per specified list in Annex IX of Regulations 978 are allowed duty free. Safeguard measures are applied after reaching quantitative ceilings.

24. For eligible developing countries, 'Non-Sensitive items' are allowed duty free as per Annex-V of Regulation 978, whereas 'Sensitive items' face quantitative restrictions.

25. See for details World Bank (2017) and WTO (2016)

26. See Supra Note No. 21

From 2013 to 2016, T&C was a significant part of the exports of Bangladesh, Pakistan and Sri Lanka (Table 2).[27]

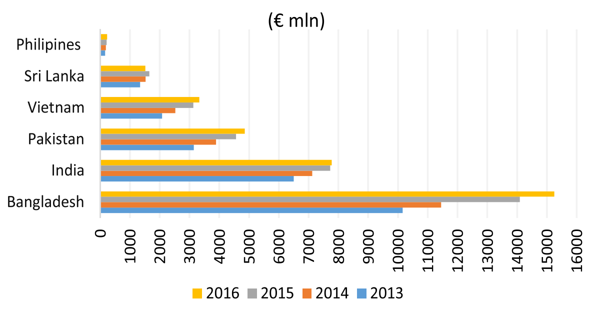
Table 2: Exports to the EU under HS Section XI

	Textiles and textile articles (€ million)				Textiles as a percentage of total exports to EU			
	2013	2014	2015	2016	2013	2014	2015	2016
Bangladesh	10,162	11,455	14,093	15,253	93.25	92.58	93.04	93.60
India	6,506	7,124	7,733	7,780	17.66	19.18	19.60	19.81
Pakistan	3,148	3,898	4,567	4,863	69.37	70.68	75.23	77.46
Philippines	176	195	227	241	3.44	3.40	3.25	3.64
Sri Lanka	1,344	1,531	1,657	1,524	57.78	60.56	63.00	59.62
Vietnam	2,083	2,526	3,131	3,336	9.80	11.37	10.44	10.09

Source: European Commission Directorate-General for Trade| country-specific factsheets | http://trade.ec.europa.eu/

For these countries, the EU is the first export destination, except for Philippines (3) and Vietnam (2). The EU has 18 per cent share of India and Vietnam's exports and 12 per cent of the Philippines. About 43 per cent of Bangladesh's exports are destined to the EU; of these 94 per cent are textiles. Followed by Sri Lanka with 31 per cent and Pakistan 29 per cent. The share of textiles is about 78 per cent for Pakistan that is the second highest after Bangladesh. During 2016, the exports of Bangladesh surpassed others with an increase of more than 8 per cent (Figure 16).

Figure 16: T&C Exports to the EU



Source: European Commission Directorate-General for Trade| country-specific factsheets | http://trade.ec.europa.eu/

Pakistan, Vietnam and Philippines achieved growth of about 6.5 per cent and India by 0.6 per cent whereas Sri Lanka's exports declined by -8 per cent. Subsequent to the suspension of GSP+ and revision of tariffs at standard GSP rates, Sri Lanka's usage of apparel trade preferences declined.[28]

The competition conditions vary across different segments of the T&C. Nevertheless, Bangladesh is competing with Pakistan in several T&C categories, specifically in the top five HS chapters covering clothing and home textiles. For products under Chapter 61 – 63, Bangladesh got benefit of EU's favorable arrangements under the EBA and the reformed LDC friendly Rules of Origin.[29] To circumvent any negative effect of competitive pressure from other suppliers of home textiles, woven and knit garments, Pakistan needs to systematically work on product diversification (see Annex-IV for Pakistan's export performance of textile made-ups).

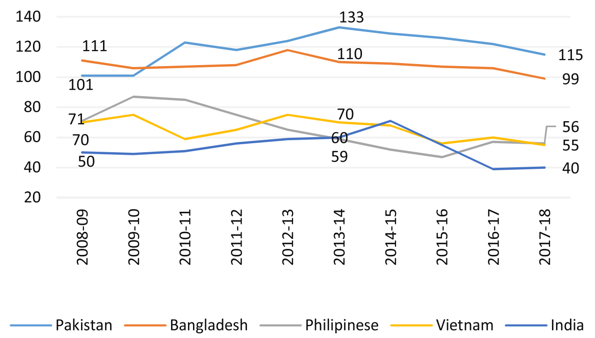
Pakistan ranks lowest in competitiveness

The competitive environment of an economy depends on a number of factors including the macroeconomic environment, institutions, infrastructure, labour market efficiency, health, education, business sophistication and

27. European Union (2017c)
28. Democracy Reporting International (2016)
29. Bangladesh Foreign Trade Institute (2015)

innovation. These factors are measured by the Global Competitiveness Index comprising three categories: a) the basic requirements; b) efficiency enhancers; and c) factors reflecting innovations and sophistication.[30]

Figure 17: Trend in Global Competitiveness Rank

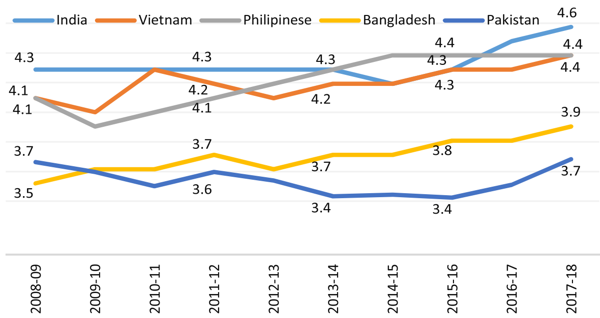


Source: | *Global Competitiveness Report* | *(various issues)* | *www.weforum.org* |

The evolution of Pakistan's competitive environment shows a lack of coherence and balance. While Pakistan ranks 60 out of 137 in innovation and 81 in business sophistication. It scores low in the most basic requirements necessary for businesses to operate effectively. Therefore, the potential of some relatively high rankings cannot be utilized. This reflects an inability to make long-term investment in governance and a self-sustaining system, which encourages competition. In the global competitiveness rank (Figure 17), Pakistan remained at the lowest except from 2008 to 2010.

Pakistan's average score was 3.4 out of 7 during 2013 to 2016 (Figure 18).[31] However, in 2017-18, the performance improved with a score of 3.7 but remained low in key areas for competitiveness covering health and education; public institutions; structural inefficiencies; and inadequate property rights protection. Pakistan's infrastructure, especially for electricity was found to be underdeveloped. For these Asian countries, corruption was observed to be one of the top three obstacles facing the businesses; others included limitations to access credit and inadequate infrastructure.

Figure 18: Trend in Global Competitiveness Index Score



Source: | *Global Competitiveness Report* | *(various issues)* | *www.weforum.org* |

Trade-related cost to export

Pakistan ranks 4th in both the categories i.e. border and documentary compliance (Table 3). Pakistan has less time consuming procedures than Bangladesh and India. The monetary costs relating to logistics, freight and customs administration are significantly higher in Pakistan as compared to the other selected countries. Pakistani exporters have to pay US$116/- more than the Vietnam (the lowest cost) for border compliance, and US$ 204/- in excess of the Philippines (the lowest cost) for documentary compliance.

Table 3: Cost to Export - 2017

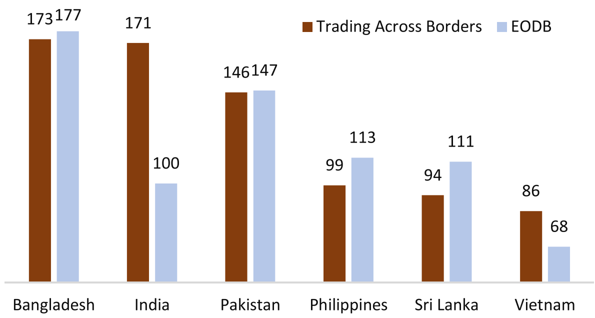
	Border Compliance		Documentary Compliance	
Countries	Hours	USD	Hours	USD
Bangladesh	99.7	408.2	147	225
Pakistan	75	406	55	257
India	106.1	382.4	38.4	91.9
Philippines	42	456	72	53
Vietnam	55	290	50	139
Sri Lanka	43	366	48	58

Source: The World Bank (2017)

30. World Economic Forum
31. From 2012-13 to 2016-17, the ranks were out of 144, 148, 144, 140 and 138 countries.

The World Bank's rankings of Trading Across Border and the Ease of Doing Business cover indicators that relate to both the internal environment facing the businesses and the one they face when they engage in export activity.[32]

Figure 19: Rank in Trading Across Border & Ease of Doing Business (EODB)



Note: Rank out of 190
Source: The World Bank (2017)

As compared to Bangladesh, Pakistan has better Ranks for Trading Across Border and Ease of Doing Business. Pakistan left India behind by 25 places in across the border rank (Figure 19).[33] Vietnam outperformed the other countries in both the comparisons.

Pakistan stands lowest in labour market efficiency

Labour market efficiency plays an important role in the determination of overall competitiveness. Amongst the Asian countries, Pakistan's labour market is the most inefficient for various indicators such as labour-employer relations, pay and productivity, and female participation (Table 4).

Table 4: Labour Market Efficiency 2017-18

	Bangladesh	India	Pakistan	Philippines	Vietnam
Rank out of 137	118	75	128	84	57
Cooperation in labor-employer relations	76	56	125	33	85
Pay and productivity	80	33	82	43	66
Female participation in the labor force	118	129	132	102	24

Source: | Global Competitiveness Report | (various issues) | www.weforum.org |2017/18

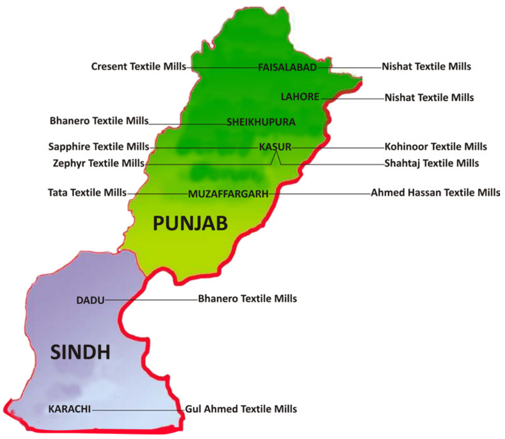
32. World Bank

33. Border indicators may have relevance with the trade volume that is to be processed by the relevant administration, for instance Pakistan's exports are only 1/8th of the Indian exports.

IV. Textiles Industry: Performance Overview

This Section is based on the findings of a survey of ten textile companies comprising composite, weaving and spinning units in the formal sector, quoted on Pakistan Stock Exchange (Figure 20). These units were selected so as to get information about each vertical segment of production. The major objective of the survey was to gauge the impact of GSP+ regime and to ascertain the nature of constraints in the utilization of GSP+ opportunities. The sample covered the largest exporters of the country as well as relatively smaller players – all exporting to the EU market. However, in view of the very small group surveyed, the results are indicative only.

Figure 20: Location Map of Selected Units

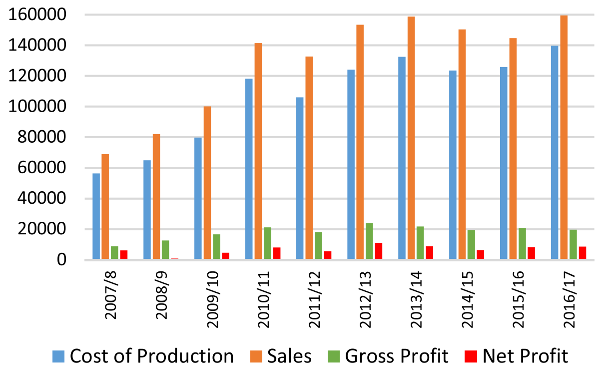


Source: Websites of the companies

Trend in cost, sales and profit

Much in line with the overall T&C exports, the sales by the units covered in the sample increased in 2014 and declined in the two subsequent years. In 2017, the sales improved by 10 per cent, which included domestic sales as well as exports.

Figure 21: Trend in Cost of Production, Sales and Profit (PKR Mln)



Source: Author's calculations based on audited accounts

Healthier profits in the post GSP+ period

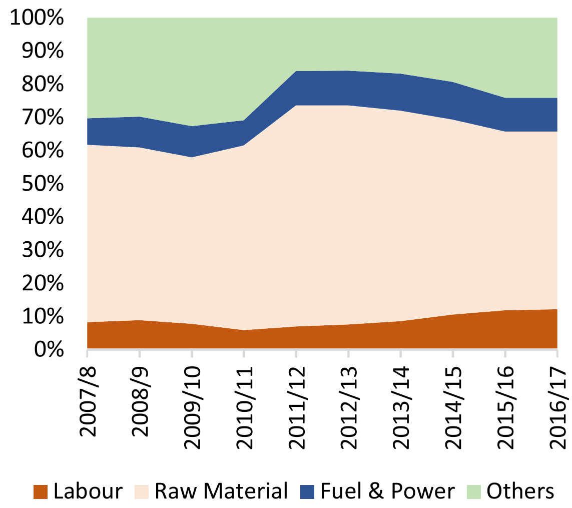
The profits improved after the GSP+ arrangement, as compared to the previous years (Figure 21). In four years before and after the GSP+, i.e. from 2009-13 to 2013-17, net profit increased by Rs 2769 million in absolute terms (Table 5). The heterogeneity of the group reflects that initially the profits of bigger units improved as compared to the relatively smaller units, who showed better results in the later period (Annex-V). The industry is sustaining on low margins. Does it reflect inefficiency or if there are certain other factors behind this; also what is the space available to the industry to reduce cost? Detailed cost analysis provides answers to these questions.

Table 5: Profit Before and After the GSP+

	Profit Total		Profit Average		Absolute Increase		Change
Period	2009-13 a	2013-17 b	2009-13 c	2013-17 d	Total (b-a)	Average (d-c)	(%)
Gross Profit (PKR Mln)	79591	81526	19898	20382	1935	484	2.43
Net Profit (PKR Mln)	29021	31790	7255	7948	2769	692	9.54

Source: Author's calculations based on audited accounts

Figure 22: Components of Production Cost

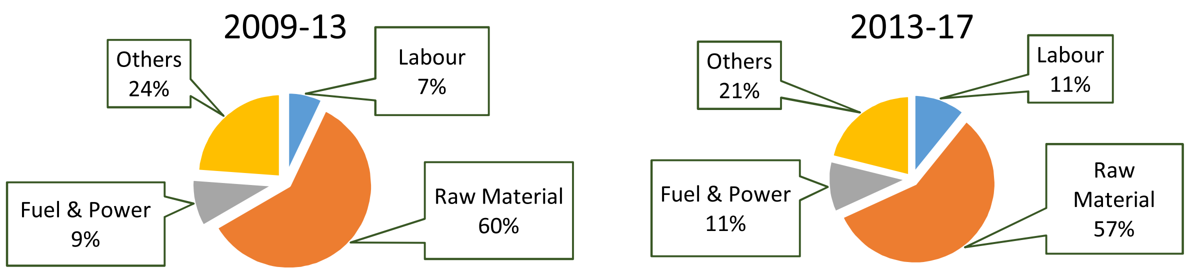


Source: Author's calculations based on audited accounts

Results of detailed cost analysis

The trend in the cost of production by major components shows that the raw materials contribute the most (Figure 22). In 2013, the raw materials contributed 66 per cent in the total production cost but this share declined in 2017 to 54 per cent. The share of the labour cost increased from 8 per cent of the total production cost in 2013 to 12 per cent in 2017. Fuel and power remained 10 per cent. The 'other costs' increased from 16 to 24 per cent.[34]

Figure 23: Changes in Cost Components before and after the GSP+



Source: Author's calculations based on audited accounts of the companies

The production cost components changed before and after the GSP+ (Figure 23). During the four years' period, covering 2013-2017, i.e. after the GSP+, the average raw material cost declined from 60 per cent to 57 per cent. Also, the share of 'other costs' decreased from 24 per cent in 2009-2013 to 21 per cent in the later period. The units surveyed attributed this to enhanced efficiency and cost reduction measures. Timely decision of Balancing, Modernization and Replacement (BMR), and expansion in production capacity of spinning and weaving units. Over the years, the labour and energy costs increased.

Margin analysis calls for certain measures

A deeper analysis into the operations of the units reveals that the gross margins are fair enough except in few cases (Table 6). The 'gross margin' is calculated as a company's total sales revenue minus its cost of goods sold (i.e. gross profit), divided by the total sales revenue, expressed as a percentage. It indicates the per cent of total sales revenue that the company retains after incurring the direct costs associated with producing the goods and services it sold. Generally in particular years, for the selected units, the volatility in raw material prices and sales cause variation in margins.

34. Other cost covers all cost other than the raw materials, energy and labour, such as distribution, storage, insurance and other factory overheads.

Table 6: Gross Margins										
	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Nishat	14	18	19	16	15	17	14	12	13	11
Gul Ahmed	15	17	16	18	14	16	18	18	23	18
Sapphire	12	15	19	15	13	17	11	11	11	10
Crescent	10	15	13	9	12	11	11	12	13	9
Kohinoor	13	9	5	2	15	16	13	16	16	14
Bhanero	12	13	18	20	13	16	12	9	10	11
Tata	18	16	25	15	12	18	12	9	5	7
Zephyr	9	11	9	12	10	9	10	9	10	11
Ahmed Hassan	8	12	12	15	13	11	9	6	7	6
Shahtaj	7	11	12	11	8	10	7	9	10	9
All units	**13**	**15**	**16**	**15**	**14**	**16**	**14**	**13**	**14**	**12**

Source: Author's calculations based on audited accounts of the companies

Net margin is the percentage of revenue, which the company retains after meeting all operating expenses and payment of interest and taxes. An examination of the financials shows that Nishat and Sapphire are the best performers. All the other units are sustaining on relatively low margins (Table 7).

Table 7: Comparative Net Margins										
	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Nishat	30*	5	9	10	8	11	10	8	10	9
Gul Ahmed	1	1	2	5	-1	2	4	2	4	2
Sapphire	6	2	7	7	5	8	4	4	6	11
Crescent	0	2	3	-1	-1	1	2	2	2	1
Kohinoor	-5	-10	-18	-24	10	12	1	2	1	1
Bhanero	2	2	9	11	5	8	5	3	3	4
Tata	0	-9	12	6	1	7	2	0	-4	1
Zephyr	-8	-6	-2	2	0	3	2	5	3	2
Ahmed Hassan	-3	-2	2	4	3	4	2	-1	-1	0
Shahtaj	0	2	4	5	2	3	2	2	3	3
All units	**9**	**1**	**5**	**6**	**4**	**7**	**6**	**4**	**6**	**5**

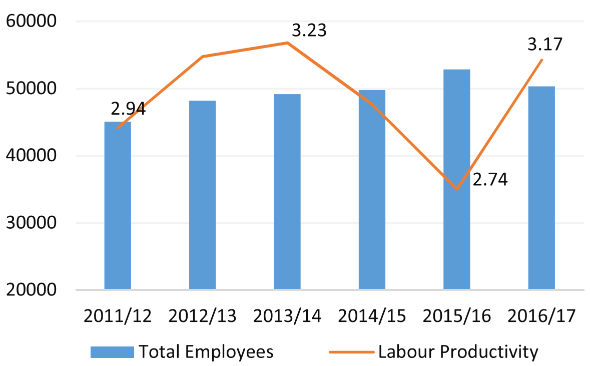
Note: *Investment sales proceeds of about Rs.5 billion lead to exceptionally high margin for the year.
Source: Author's calculations based on audited accounts of the companies

The above results call for efforts to enhance efficiency and achieving cost effectiveness. While companies may not find space to reduce labour cost in the short-run due to minimum wage laws. However, in the long- run, training and skill up gradation programmes may help enhance labour productivity. Some of the units successfully worked on energy efficiency, which in fact requires companies to have adequate strength to invest substantial amount. Having enough funds at the disposal of the company, few units retained cotton stocks for the whole years' operations, when cotton was cheaper. At the policy level, the low net margins indicate that there may be a need to reconsider the present taxation regime.

About labour productivity and benefits to labour

It seems useful to explore the labour dimension of the formal sector units, mainly for two reasons. Firstly, labour standards and rights are an integral part of the GSP+ package. Secondly, labour productivity is a crucial element in the efficiency of production process. In the post GSP+ period, the employment increased in the units surveyed (Figure 24) by 7.5 per cent with a lag in 2015/16. Labour productivity deteriorated – the reason being induction of more workers in anticipation of better business prospects, which could not be realized when sales declined in 2015/16. Moreover, the inducted workers required time to gain necessary skills and training to enhance their productivity, a couple of units opined.

Figure 24: Number of Employees and Labour Productivity 2011-2017



Source: Author's calculations based on audited accounts

To estimates labour productivity, sales were taken as output with respect to the number of employees by end of the respective financial year.[35] According to the companies' financials, about 3-4 per cent of the labour cost are the benefits to employees. These are retirement benefits (provident fund and gratuity), compensated absence, and benefits (not specified).

As per the Employees Old Age Benefit Institution (EOBI) Act (XIV of 1976), employers have to contribute equal to 5 per cent of the minimum wages, whereas employees contribute 1 per cent.[36] This is applicable to permanent workers only. Contract employees do not qualify for this benefit, no matter how long are they associated with the industrial unit. Workers term this practice of keeping them on contract for extended periods as an effort to avoid labour related cost of social compliance.

A major concern of workers and their associations is non-transparency in employees' EOBI benefits.[37] The audited accounts can address the issue with these modifications: a) the already given benefits be specified in a standard format, clearly indicating the type and the amount; and b) the number of employees (which is also there in the accounts) be bifurcated into contractual and regular/permanent workers. This will facilitate estimating EOBI contribution at least for the units publishing audited accounts. The transparency can enhance further if EOBI may consider publishing on its website an easily accessible Directory of Contributors with details about insured/ registered workers. Presently, the EOBI website provides information, among others, about the name, location, registration number, amount contributed and the number of insured persons. However,

35. OECD. The estimates are indicative only because labour productivity is a partial productivity measure showing the combined result of various factors.

36. Government of Pakistan-b. It covers industrial and commercial organizations, where EOBI Act is applicable.

37. Relating to the EOBI, the Supreme Court of Pakistan has taken up a case on overdue and insufficient pension payments, and Rs 44 billion corruption scandal. The Daily Dawn, "Supreme Court holds govt. partially accountable in EOBI's multi-billion rupee scam", April 26, 2017. Viewed at: https://www.dawn.com/news/1329373

retrieving data for a particular company is tricky; for instance, a particular search may give a list of several companies with the same name, without providing crucial information about the insured persons (e.g. CNIC numbers).[38]

Positive developments for the industry

During the GSP+ period, the following developments supported the units surveyed:

1. Government's Textile Package-2017 introduced relief measures such as widening the scope of duty drawbacks,[39] zero rating of sales tax on machinery imports, raw materials and fuels; and start of quick processing of refunds.

2. Government assured supply of Regasified Liquefied Natural Gas.

3. Historically lowest interest rates to remain locked over the loan period; textile industry's credit from banks increased from PKR 91.3b (2016 Quarter II) to PKR 123b (2017 Quarter II).

4. Benefits of tax and duty exemptions, and infrastructure facilities designed for Special Economic Zone (SEZ).

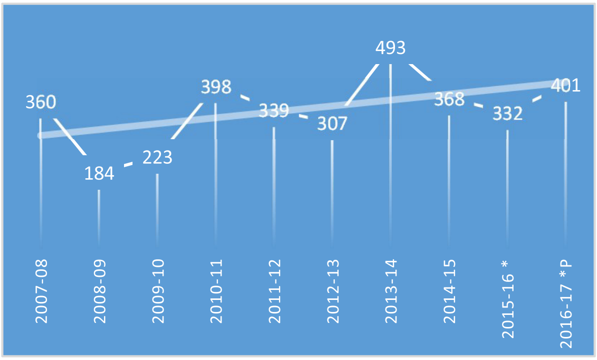
5. Gradual improvement in the performance of value added sector.

6. Initiative for utilization of green energy at some production facilities fulfilling the requirements for environment protection of EU buyers; and installation of own generators by some units to ensure regular power supply.

7. Increased cotton production in 2017-18 by 7.6 per cent.

The most of the steps taken by the government to support the industry will improve the results in the forthcoming accounts of 2017-18. However, the industry players term the future outlook promising.

Figure 25: Import of Textile Machinery (US$ Million)



*Note: * Data for 2015-17 relate to July- March, for others it is for July-April. 'P' stands for provisional data.*
Source: Author's calculations | PES | (various issues)

Constraints facing the industry

The units highlighted multiple constraints to utilize GSP+ opportunities:

a. No indigenous capability to produce textiles machinery (Figure 25): smaller units were unable to make heavy investment on import of equipment, which kept the efficiency low.

b. Heavy taxation, multiple levies, delays in duty drawbacks from government reduced working capital.

c. Slow implementation of export package, announced by the government in January 2017. Issues in the administration and utilization of Export Development Fund, where textiles is a major contributor but not a beneficiary to the same extent.

d. Politically strong lobbies kept cotton price high thus made the exportable goods less competitive.

38. http://employerinfo.eobi.gov.pk/intra/CBA/employer_query.php and http://fs2e.eobi.gov.pk/Reports/Employment_History.iface
39. Government of Pakistan (2017)

e. Higher cost of labour and energy as compared to competitors.

f. Low demand for yarn and fabrics, and depressed prices of cotton yarn, bed-wear and readymade garments put pressure on gross margins.

g. Demand for local production reduced due to smuggling of used/ new clothing, and replicas.

h. Law and order e.g. strikes, abduction and other crimes in major sites prevent visits of overseas buyers, thus making marketing costly.

V. Conclusions and Recommendations

From 2014 onwards, Pakistan is a beneficiary to the European Unions' Generalized System of Preference Plus (GSP+). This preference Scheme is approaching to its mid-term in 2018. In this perspective, this study assesses Pakistan's trade performance using secondary data and a new survey. It focuses on issues relating to key macro-economic indicators and external factors affecting the trade performance. Pakistan's main exports to the EU fall in the categories of textiles and clothing, therefore special emphasis has been placed to identify a wide range of vulnerabilities, and government's actions or inaction impacting the textiles industry. The survey of selected units and the cost analysis diagnoses specific areas requiring attention to utilize the opportunities offered by the GSP+ arrangement.

The Study has found several positive developments taking place during the GSP+ period. From 2014 to 2017, Pakistan's exports to the EU increased by 39 per cent. The share of textile and clothing exports touched the height of 78 per cent by September 2017 as compared to 69 per cent in 2013. The government announced an incentives package for exporters in 2017, and introduced relief measures about duty drawbacks. This is coupled with historically lowest interest rates, making cheaper credit accessible to the industry. However, these measures will reflect their full impact in the forthcoming financial results of 2017-18.

The EU is an important player in the world economy and a top importer of textiles and clothing. Therefore, to continue the benefit, the GSP+ conditionalities relating to human and labour rights, governance and environment protection should be fulfilled. Actions by all the stakeholders are unavoidable.

A survey of textile units was conducted to gauge the impact of GSP+ regime and to find out the constraints in the utilization of GSP+ opportunities. The survey concluded that in 2013, the raw materials contributed 66 per cent in the total production cost but this share declined to 53 per cent in 2017. The share of the labour cost increased from 8 per cent to 12 per cent and that of other costs including distribution and storage reached to 24 per cent. Fuel and power remained 10 per cent. It was found for the selected units that after the GSP+ their net profit increased by Rs 2769 million, in 2013-17 as compared to 2009-13.

A deeper analysis into the operations of the units revealed that the gross margins are fair enough except in few cases. The units are sustaining on relatively low net margins. This point towards efforts to enhance efficiency and achieving cost effectiveness. Training and skill up gradation programmes may help enhance labour productivity. The units highlighted several challenges to utilize opportunities emanating from the GSP+. Workers also voiced their concerns about labour standards, contracts and benefits. Government, employers and workers need to work together to sort out the issues.

The Study has observed that the overall macro-economic governance is not conducive to boost exports. The shrinking fiscal space has limited the capacity of the government to finance development expenditure and spending in social sectors. In a country like Pakistan, the public sector initiative is a pre-requisite for private sector investment through shaping business environment.

As compared to the other Asian suppliers of T&C to the EU, Pakistan lags in competitiveness and labour market efficiency. Pakistan scores low in the most basic requirements for business. Though, the situation has improved more recently for competitiveness score but low ranks in competitiveness and declining ease of doing business reflect inadequate long-term investment in governance and a self-sustaining system that encourages competition. For Pakistan, there is a room to reduce monetary and time related costs for logistics, freight and customs administration.

Recommendations

Based on the information gathered from a range of stakeholders and the survey findings, the actions required can be divided into two broad categories i.e. actions by the government, and those by the industry.

Actions by the Government

a. Uninterrupted supply of gas, fuels and electricity to the industry.

b. Improvement in law and order situation, addressing of issues without stretching them to the extent of protests/strikes, which discourage overseas buyers' visits, and raise marketing cost.

c. Focusing on policies is essential; this area covers:

Reforming Industrial Policies

The Study observes that the GSP+ offers immense opportunities to utilize the linkages of the export oriented T&C industry for inclusive development through generating profits, creating employment, incomes and prosperity. However, improving the industry's competitiveness is the key challenge. Presently, there is no industrial policy of Pakistan, which could help industry improve and move up the ladder of industrialization. The steps to boost investment, exports or sectoral development cannot be a substitute to a coherent industrial policy, particularly when the steps are not well coordinated. Pakistan needs a holistic industrial policy comprising elements of various other policy areas including, inter alia, infrastructure, trade, investment, labour and human resource development. The need for Industrial policy is evident from the very low investment in the industrial sector, and the growth of a large sub-conracting informal sector, which is known for tax evasion and non-compliance to the standards for labour rights. Thus, getting unfair advantage over the foraml sector units.

Textiles Policy

The Policy for 2014-19[40] covers the following salient areas:

i. Long Term Financing Facility (LTFF) for up gradation of technology at concessional rate for 3-10 years. Duty free import of machinery extended under SRO 809.

ii. Tariff rationalization to: increase competitiveness and exports; reduce smuggling of finished products; and protection to textile sector value chain.

iii. Fiber diversification, product diversification, brand development, SME development, focus on wool, silk and handloom sectors, operational health & safety, joint ventures, provision of electricity, revival of sick units, taxation related matters.

iv. Textiles City, Federal Textile Board, Textile Commissioner, etc. to give a boost to the industry.

After reviewing the policies and experiences of Bangladesh, China, India and Indonesia, the following areas have been identified where more attention is required in the Pakistan's Textiles Policy. The identified areas have been successfully implemented in the above-mentioned countries; hence, lessons can be drawn for Pakistan.

i. <u>Trade facilitation:</u> Pakistan's textiles sector faces unfair competition from smuggling, which hampers future growth prospects. Therefore, costs of any inefficiencies, including cost of inbound and outbound logistics should be worked out, and processes be devised to eradicate weaknesses in trade facilitation procedures as per international

40. Government of Pakistan (2015)

standards. Focusing in the Policy on efforts to make legal trade efficient will help reduce or eliminate smuggling and enhance genuine competition.

ii. Energy: 'Energy Efficiency Schemes' should aim at reducing barriers to energy conservation, including access to credit/ investment overheads needed to re-engineer energy-saving production processes and environment friendly technologies. Such schemes can be connected to the recommendations on technology improvement covered in Pakistan's Textile Policy.

iii. Improving Technology Profile: Effective procedures and enhanced allowance for accelerated depreciation for tax purposes may help replacement of equipment and improvement in technology, particularly for older equipment. The capability of Heavy Mechanical Complex may be explored to produce textiles machinery domestically.

Investment Policy

The Foreign Direct Investment Strategy, 2013-17, specifies facilitation processes about the role of the Board of Investment (BOI) and project-focused FDI in textiles. The policy and the strategy focuses on Special Economic Zones (SEZs) to meet the goals. The SEZ Act permits SEZs by the Federal and provincial governments, private sector, and through public-private partnerships. As main investment incentives, textiles has been exempted from sales tax, and import of raw materials exempt from tariffs and sales tax with duty drawback on exports. However, care must be taken so that the investment in the units situated outside SEZs may not be hurt. To meet GSP+ conditionalities, the labour rights such as right to association and collective bargaining need to be ensured in export processing zones, as elsewhere.

Trade Policy

To support textiles industry's exports, the Government's incentives package includes reduction in cotton import tariff to zero. However, expensive and complicated customs procedures need revision to reduce cost to export. In addition, the Import Policy Order, 2006 curtailed import of used textile machinery and parts. Most of the textile producers do not have the muscle to invest in brand new imported equipment. In some sectors of the textile industry, old equipment can provide the output and quality sufficient to meet the requirements of the upstream industry. The concerns of textiles industry be addressed relating to the administration and utilization of Export Development Fund.

Fiscal and Monetary Policies

The net margins indicate the need to reconsider the present taxes. The monetary policy need to address the issue of over-valued currency, which negatively affected exports.

The Need for an Agricultural Policy

Pakistan is the fourth largest producer of cotton, which provides textiles industry with essential raw material. The cotton consumption has remained the same for over a decade. However, the area under cotton cultivation is decreasing, as farmers shift to sugarcane and corn. In the absence of an agricultural policy, it is feared that Pakistan will face a shortage of domestically grown cotton, thus losing a historical comparative advantage.

Actions by the Industry

a. Efforts to upgrade supply chain, improve productivity and maximize value-addition with product diversification as per changing demand pattern in the EU markets. In its strategic planning to access potential markets, the industry may use the available research and forecasting about the demand, consumption pattern as well as sourcing. [41]

41. For instance: Textiles Intelligence (2017), which provides business and market analysis for the global textile and clothing industries.

b. The declining demand and terms of trade for conventional exports point towards the need to export value added products that fetch better price.

c. Concentration in products and markets make Pakistan's exports vulnerable to volatility in demand and price. Pakistan's benefits from several trade agreements remained limited or negligible due to a lack of targeting to diversify markets. Political factors in the case of India and Iran may be resolved through consistent trade diplomacy. The industry may lobby to access neighbouring markets, and at the same time should be well prepared to face greater competition from trade agreements.

d. For most textiles products, the GSP+ preferences are already being fully utilized. Therefore, the textile exporters will have to compete on quality and prices to increase trade volume. Pakistani exporters should explore export avenues other than textiles, e.g. grains related HS lines for GSP+ preferences.

e. Pakistan's labour market is inefficient for various indicators such as labour-employer relations, pay and productivity, and female participation. The audited accounts of the companies can help estimate Employees Old Age Benefits by introducing modifications in the accounts. This should be considered by the relevant quarters to promote workers' rights.

f. From the workers' perspective, it is imperative to take additional steps that may promote and protect employment and decent work. A shared vision of T&C exporters for sustainable production may benefit the workers, for instance by shifting a part of the cost - covering labour, social and HR compliance - on to the international buyers, particularly the global supply chains.

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VII. Annexes

Annex - I: Pakistan's Exports to the EU by Category

	(Euros Million)				*YoY Percentage Change*		
Categories	**2013**	**2014**	**2015**	**2016**	***2013/14***	***2014/15***	***2015/16***
Footwear	56.29	72.93	77.38	70.86	*30*	*6*	*-8*
Leather	418.54	460.02	470.86	446.49	*10*	*2*	*-5*
Plastics	45.18	76.72	60.72	57.3	*70*	*-21*	*-6*
Carpets and Rugs	30.3	31.57	37.16	37.92	*4*	*18*	*2*
Cotton and Intermediary Goods of Textiles	738.78	765.06	792.37	804.73	*4*	*4*	*2*
Home Textiles	980.03	1,270.86	1,456.29	1,563.05	*30*	*15*	*7*
Textile Garments and Hosiery	1,398.55	1,830.50	2,281.55	2,457.30	31	25	8

Source: | PES | (2016-17)

Annex - II: Pakistan's T&C Exports to the EU by HS Chapters

		(Euros 000)
HS Chapter	Description	Exports in 2016
50	Silk	30
51	Wool & animal hair woven fabric	929
52	Cotton	604857
53	Other vegetable textile fibers	622
54	Man-made filaments	19319
55	Man-made staple fibers	161955
56	Wadding, ropes, cables, etc.	4360
57	Carpets & floor coverings	37915
58	Special woven fabrics, laces, etc.	7972
59	Impregnated, coated, laminated, & industrial fabrics	1112
60	Knitted or crocheted fabrics	3967
61	Articles of apparel and clothing accessories-knitted or crocheted	1081293
62	Apparel and clothing articles not knitted or crocheted articles;	1386009
63	Made-up textiles	1564131

Source: | EU |Eurostat

Annex - III: Pakistan's T&C Exports by Destination in the EU

	2013 US$ Thousands	Share in Export to World (%)	Share in Export to EU (%)	2014 US$ Thousands	Share in Export to World (%)	Share in Export to EU (%)	2016 US$ Thousands	Share in Export to World (%)	Share in Export to EU (%)
Austria	12322	0.09	0.27	9318	0.07	0.18	7191	0.06	0.13
Belgium	464683	3.40	10.19	526578	3.82	9.97	555172	4.47	10.10
Bulgaria	9181	0.07	0.20	13478	0.10	0.26	9295	0.07	0.17
Cyprus	2301	0.02	0.05	4057	0.03	0.08	4192	0.03	0.08
Croatia	6475	0.05	0.14	8766	0.06	0.17	9923	0.08	0.18
Czech R.	24033	0.18	0.53	24432	0.18	0.46	31717	0.26	0.58
Denmark	62572	0.46	1.37	68566	0.50	1.30	108584	0.88	1.98
Estonia	20572	0.15	0.45	14701	0.11	0.28	11347	0.09	0.21
Finland	56467	0.41	1.24	42497	0.31	0.80	17170	0.14	0.31
France	271588	1.99	5.96	297649	2.16	5.64	271893	2.19	4.95
Germany	694878	5.08	15.25	796627	5.78	15.09	864402	6.97	15.73
Greece	41545	0.30	0.91	46891	0.34	0.89	48933	0.39	0.89
Hungary	7918	0.06	0.17	8953	0.07	0.17	7784	0.06	0.14
Ireland	41755	0.31	0.92	46043	0.33	0.87	48760	0.39	0.89
Italy	438132	3.20	9.61	491996	3.57	9.32	481906	3.88	8.77
Latvia	16984	0.12	0.37	22458	0.16	0.43	6811	0.05	0.12
Lithuania	31284	0.23	0.69	28734	0.21	0.54	19436	0.16	0.35
Luxembourg	42	0.00	0.00	48	0.00	0.00	538	0.00	0.01
Malta	4231	0.03	0.09	7178	0.05	0.14	3255	0.03	0.06
Netherlands	420701	3.08	9.23	494115	3.59	9.36	514238	4.14	9.36
Poland	67642	0.49	1.48	96019	0.70	1.82	145889	1.18	2.65
Portugal	141774	1.04	3.11	152052	1.10	2.88	147431	1.19	2.68
Romania	11985	0.09	0.26	13135	0.10	0.25	14465	0.12	0.26
Slovakia	2578	0.02	0.06	2411	0.02	0.05	2038	0.02	0.04
Slovenia	19425	0.14	0.43	36999	0.27	0.70	51990	0.42	0.95
Spain	468373	3.43	10.28	638321	4.63	12.09	701177	5.65	12.76
Sweden	77957	0.57	1.71	91104	0.66	1.73	99829	0.80	1.82
UK	1140664	8.34	25.03	1297240	9.42	24.57	1309525	10.55	23.83
Total EU	4558063	33.34	100.00	5280365	38.34	100.00	5494890	44.29	100.00
Total world	13670882	100.00		13772522	100.00		12407211.8	100.00	

Source: Author's calculations | World Bank | World Integrated Trade Solution | wits.worldbank.org/ |

Annex - IV: Sector-wise Export Performance of Textile Made-ups

(Rs. in Million)

Sectors	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2015-16*	2016-17*
Hosiery Knitwear	114,481	135,998	147,866	196,110	176,682	196,408	235,565	243,719	246,267	181,732	181,599
Readymade Garments	93,703	96,483	106,446	152,858	144,269	175,662	196,198	212,833	228,861	167,487	178,417
Towels	38,453	50,387	56,012	64,978	61,326	75,060	78,889	80,778	83,681	62,127	61,190
Bed Wears	119,030	136,105	146,195	178,290	155,108	172,538	219,962	213,018	210,543	157,036	166,639
Art silk and Synthetic textiles	25,494	21,740	37,422	57,103	48,817	39,369	39,508	33,485	30,005	23,122	14,001
Total Made-ups	391,161	440,713	493,941	649,339	586,202	659,037	770,122	783,833	799,357	591,504	601,846
% of Total Exports	32.69	31.85	30.54	30.62	27.77	27.79	29.81	32.69	36.89	36.43	38.08
Total Exports	1,196,638	1,383,718	1,617,458	2,120,847	2,110,605	2,371,879	2,583,463	2,397,513	2,166,846	1,623,827	1,580,363

Source: Author’s calculations | Pakistan Bureau of Statistics | http://www.pbs.gov.pk |

Annex - V: Textile Companies' Financials

(Rupees in Million)

	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Total Sales	***68912***	***82078***	***100055***	***141257***	***132527***	***153331***	***158622***	***150247***	***144604***	***159421***
Nishat	19590	23870	31536	48565	44924	52426	54444	51178	47999	49248
Gul Ahmed	11726	13907	19689	25436	25064	30242	33013	33355	32275	39904
Sapphire	9769	11744	14428	22937	21491	25283	25411	23315	23111	25584
Crescent	8712	10751	10863	14759	12729	13262	12412	11779	10579	10873
Kohinoor	6071	7579	6214	5210	6262	8452	7772	7906	8551	10657
Bhanero	3477	3782	4737	7546	6373	6997	8061	7350	6637	6837
Tata	2415	2683	3784	5198	5186	4616	5297	5066	4907	5014
Zephyr	2621	2602	2664	3574	3136	3841	4199	3757	3933	3749
Ahmed Hassan	2556	2736	3311	3992	3377	4016	3977	3249	3456	4056
Shahtaj	1975	2424	2829	4040	3985	4196	4036	3292	3156	3499
Cost of Sales	***60156***	***69630***	***83607***	***120398***	***114394***	***129295***	***136884***	***130824***	***123880***	***139801***
Cost of Production	***56308***	***64942***	***79721***	***118045***	***105937***	***124118***	***132411***	***123488***	***125800***	***139615***
Nishat	17267	19850	27329	44487	37862	43758	47060	44646	41942	44535
Gul Ahmed	7627	10159	13452	18064	18191	21775	22977	21783	27277	31328
Sapphire	8737	9704	11577	19363	18445	21369	22502	20519	20663	23239
Crescent	5723	6338	7285	9819	7820	9916	10589	9654	8740	10094
Kohinoor	5489	6650	5866	4957	5267	6973	6829	6619	7161	9260
Bhanero	3009	3228	3649	6152	5153	5618	6459	6152	5784	6091
Tata	1868	2224	2656	4972	3840	3909	4701	4692	4536	4612
Zephyr	2406	2236	2376	3254	2851	3440	3877	3431	3588	3458
Ahmed Hassan	2344	2402	3044	3210	2976	3577	3688	2977	3296	3795
Shahtaj	1838	2151	2487	3767	3532	3783	3729	3015	2813	3203
Raw Material	***30096***	***33796***	***40036***	***65604***	***70509***	***81975***	***83891***	***72513***	***67768***	***74636***
Nishat	5518	5920	7208	13801	25162	28786	29788	27137	24640	24886
Gul Ahmed	3509	4696	7297	10734	10226	12898	11762	9425	7671	9674
Sapphire	6230	6911	8424	15794	14091	16044	16706	13493	13420	14902
Crescent	2249	2619	2848	4692	3507	4186	4570	3863	3220	3562
Kohinoor	3912	4620	3455	3190	3354	4730	4548	4325	4783	6600
Bhanero	2184	2242	2584	4889	3721	3927	4448	4054	3790	4075
Tata	1383	1656	2028	4082	3053	2961	3602	3506	3339	3442
Zephyr	1825	1563	1747	2494	2042	2500	2627	2228	2244	2134
Ahmed Hassan	1735	1775	2306	2550	2317	2741	2792	2030	2373	2728
Shahtaj	1551	1794	2139	3378	3036	3202	3048	2452	2288	2633
Total	30096	33796	40036	65604	70509	81975	83891	72513	67768	74636

Contd….

(Rupees in Million)

	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Fuel & Energy	***4480***	***6040***	***7481***	***8956***	***11033***	***12958***	***14772***	***13956***	***12809***	***14284***
Nishat	1450	2149	2325	3119	4059	4711	5401	4938	4214	4,921
Gul Ahmed	752	1111	1265	1489	1752	1739	2062	2005	2530	2638
Sapphire	555	679	809	1006	1424	1573	1899	2257	1913	2061
Crescent	715	860	977	1135	1195	1852	1631	1422	1112	1280
Kohinoor	63	103	726	613	750	907	842	709	650	780
Bhanero	310	386	454	632	720	831	1174	1060	919	952
Tata	162	201	233	274	319	378	504	490	469	474
Zephyr	98	126	156	192	221	265	422	388	381	390
Ahmed Hassan	228	247	351	292	340	404	450	440	371	519
Shahtaj	147	178	185	204	253	298	387	247	250	269
Labour Cost	***4653***	***5761***	***6210***	***6997***	***7434***	***9389***	***11378***	***13089***	***14932***	***17046***
Nishat	1359	1730	1928	2302	2438	3068	3592	3949	4467	5284
Gul Ahmed	1274	1611	1782	2127	2281	2876	3925	4646	5155	5994
Sapphire	645	750	824	974	1072	1351	1583	1851	2414	2661
Crescent	449	557	624	607	561	745	766	880	918	964
Kohinoor	323	401	290	190	217	248	297	338	372	424
Bhanero	180	241	264	277	323	417	444	526	588	638
Tata	124	134	147	164	176	221	244	287	318	315
Zephyr	100	125	115	127	140	170	214	260	297	316
Ahmed Hassan	133	133	156	135	115	161	165	184	234	268
Shahtaj	66	79	80	94	111	132	148	168	169	182
Other Costs	***17079***	***19345***	***25994***	***36488***	***16961***	***19796***	***22370***	***23930***	***30291***	***33649***
Nishat	8940	10051	15868	25265	6203	7193	8279	8622	8621	9444
Gul Ahmed	2092	2741	3108	3714	3932	4262	5228	5707	11921	13022
Sapphire	1307	1364	1520	1589	1858	2401	2314	2918	2916	3615
Crescent	2310	2302	2836	3385	2557	3133	3622	3489	3490	4288
Kohinoor	1191	1526	1395	964	946	1088	1142	1247	1356	1456
Bhanero	335	359	347	354	389	443	393	512	487	426
Tata	199	233	248	452	292	349	351	409	410	381
Zephyr	383	422	358	441	448	505	614	555	666	618
Ahmed Hassan	248	247	231	233	204	271	281	323	318	280
Shahtaj	74	100	83	91	132	151	146	148	106	119

Contd….

										(Rupees in Million)
	2007/8	**2008/9**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Gross profit	***8758***	***12467***	***16450***	***21049***	***18045***	***24047***	***21737***	***19422***	***20748***	***19619***
Nishat	2812	4352	5980	7846	6789	9044	7864	6024	6264	5380
Gul Ahmed	1775	2359	3173	4627	3544	4751	5976	6094	7306	7046
Sapphire	1128	1731	2736	3418	2773	4205	2788	2608	2563	2678
Crescent	834	1575	1457	1365	1514	1492	1375	1457	1340	972
Kohinoor	794	659	325	95	919	1378	1045	1299	1393	1445
Bhanero	409	496	838	1478	810	1100	966	642	684	754
Tata	425	417	948	770	622	851	654	452	228	340
Zephyr	246	275	248	424	316	359	405	328	397	430
Ahmed Hassan	206	332	411	583	425	447	372	209	248	246
Shahtaj	129	271	334	443	333	420	292	309	325	328
Profit after tax	***6021***	***658***	***4584***	***7907***	***5421***	***11109***	***8812***	***6343***	***8096***	***8539***
Nishat	5858	1268	2915	4844	3529	5847	5513	3912	4923	4262
Gul Ahmed	103	80	478	1196	-240	711	1235	605	1141	818
Sapphire	618	180	1016	1607	1074	2136	983	1034	1448	2722
Crescent	-31	179	345	-114	-117	112	235	220	251	113
Kohinoor	-315	-723	-1137	-1259	629	1009	107	123	119	134
Bhanero	64	81	422	863	307	594	408	207	220	276
Tata	9	-231	441	304	41	329	101	1	-194	42
Zephyr	-198	-151	-63	89	15	114	63	203	107	69
Ahmed Hassan	-87	-64	59	172	96	144	96	-20	-18	-3
Shahtaj	-0.4	39	108	205	87	113	71	58	99	106

Source: Annual Audited Accounts of the Companies

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Ms. Kishwar Khan, Senior Director, Competition Commission of Pakistan (CCP). She has served the Commission in Competition Policy, Research, Advocacy, Policy Planning & International Affairs Departments. The views presented here are those of the author alone, and do not reflect the views or position of the Competition Commission of Pakistan.

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