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Policy Framework for Promotion of Exports of Man-Made Fiber (MMF) Apparel from Pakistan

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The Pakistan Business Council
FOSTERING ECONOMIC GROWTH

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FOR THE PAKISTAN BUSINESS COUNCIL

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Acronyms

ADD	Anti-dumping Duties
AERC	Applied Economics Research Centre
CPEC	China Pakistan Economic Corridor
DTRE	Duty and Tax Remission for Export
EPZ	Export Processing Zone
EU	European Union
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FTA	Free Trade agreements
GATT	General Agreement on Tariffs and Trade
GSP	General System of Preferences
GVC	Global Value Chains
HPO	Hydrogen per Oxide
MFA	Multi Fibre Arrangement
MMF	Man Made Fibres
NTC	National Tariff Commission
PFY	Polyester Filament Yarn
PSF	Polyester Staple Fibre
RD	Regulatory Duty
SEZ	Special Economic Zone
SPS	WTO Agreement on Sanitary and Phytosanitary Standards
SRO	Statutory Rules and Orders
TBT	WTO Agreement on Technical Barriers to Trade
T&A	Textile and Apparel
TR	Tariff Reforms
WTO	World Trade Organization

Introduction

01 The Pakistan Business Council assigned a succinct study on **"Policy Framework for Promotion of Exports of Man-Made Fiber (MMF) Apparel from Pakistan"** to develop a policy framework which covers the near, medium and long-term timeframe for the promotion of a manufacture in, and exports of MMF apparel and articles from Pakistan with the following TOR and scope:

- Current state of the global trade in MMF apparel and made-ups, including products, values, trends, major import and export markets, major suppliers especially the major emerging suppliers,
- Brief history of the MMF apparel & made-up industry in Pakistan with special emphasis on the domestic ancillary industry and protection if any provided to them under special policies and SROs,
- Policies followed by governments in major exporting countries to establish, promote and help maintain their industry's position in global markets,
- Impact of the policy measures affecting exports, import substitution, domestic synthetic fibre & other industries which are currently protected under government policy. An in-depth SWOT analysis of the MMF apparel and made-ups industry in Pakistan, and
- A Policy framework for promoting the development of Pakistan's MMF apparel and made-ups industry in the near, medium and long-term.

02 Since the implications of pandemic "COVD-19" will change the entire dynamics and mechanism of the global trade and industry, the regulation and conduct of global textile and apparel sector will also be transformed in consideration of various measures taken by respective textile economies. These measures will, inter alia, be for ensuring economic stability in their own countries through tariff settings both for inputs and outputs to accord enhanced protection to their domestic industries, sustained export growth, to ensure employment, revenue purposes and foreign exchange earnings etc. Moreover, the textile sector in various countries, apart from a reduction in the bank interest rates and extension of soft loans is requesting for a moratorium for repayment of principal and interest amount for at least four quarters and lowering of tariffs on inputs etc.

03 As such the global trade in the textile and apparel sector will now be based on new dynamics and mechanics based on how competitors will regulate and incentivize the sector. The data, trends and growth of various players in the trade will though be of some relevance but soon be chapters of the past and **any conventional analyses and traditional policy tools will soon become redundant.** The emphasis will now have to be placed on a constant and vigilant watch on the trade policies, fiscal and tariff interventions by the governments of the textile and apparel economies. Consequently, Pakistan's trade, tariff and textile policies will have to be carefully formulated considering the global developments and the requirements of trade and industrial competitiveness.

04 In an opinion published in the Wall Street Journal[1] on April 3, 2020 the former Secretary of State, Henry Kissinger called for a **New Post-COVID-19 World Order,** stating that "**The reality is the world will never be the same after the coronavirus,"** Kissinger in the editorial in The Wall Street Journal further stated that "The U.S. must protect its citizens from disease while starting the urgent work of planning for a new epoch." And that "Nations cohere and flourish on the belief that their institutions can foresee calamity, arrest its impact and restore stability. When the COVID-19 pandemic is over, many countries' institutions will be perceived as having failed," The WSJ further reports that according to Kissinger "While the assault on human health will - hopefully - be temporary, the political and economic upheaval it has unleashed could last for generations," he elaborated, adding that the liberal world order can be put at risk. "The pandemic has prompted an anachronism, a revival of the walled city in an age when prosperity depends on global trade and movement of people."

05 The new world order as being proposed in the USA if adopted along with other developed countries will have devastating and far reaching adverse effects on the trade and industry of developing countries. On the economic front the first to be hit would be the World Trade Organization (WTO). The Multi-Fiber Arrangement was done away with by the WTO Agreement on Textiles and Clothing[2], removing the quota regime. Besides in that case the Special and Differential Treatment available to the developing countries under the WTO regime will also be hampered. This could be followed by the reconsideration of the Generalized System of Preferences and many Free Trade Agreements.

06 WTO's Director-General, Mr. Roberto Azevedo[3], in his remarks as of April 8, 2020 has stated that "the pandemic is first and foremost a health crisis, it is however, a major social and economic crisis. Millions of people around the world have already lost their jobs and income". "Our forecast reflects the enormous ongoing shocks to supply and demand. We project that trade in 2020 will fall steeply in every region of the world and across all sectors of the economy. In light of the uncertainty about the pandemic's precise duration and economic impact, forecasts are inevitably based on strong assumptions. As a result, our economists have developed two plausible scenarios instead of their usual single set of numbers. In an optimistic scenario, our economists see the volume of global merchandise trade falling by 13% this year compared to 2019. If the pandemic is not brought under control, and governments fail to implement and coordinate effective policy responses, the decline could be 32% - or more".

07 The World Bank's recent report on the Economic Impact of COVID 19 on South Asia[4] has cautioned the respective economies. It stated that COVID-19 pandemic related disruptions have further strained economic activity. Output is expected to contract sharply in Q4-FY20, bringing overall FY20 growth to -1.3 percent. These developments have put pressure on Pakistan's fiscal position, as tax collection is being adversely impacted while spending needs are increasing. The country's main industrial sector – textiles and apparel – is highly exposed to COVID-19 related disruptions due to its labor-intensity. According to the Bank if the novel coronavirus (COVID-19) lasts longer than expected, Pakistan's exports could plunge by 19.7pc in the current fiscal year (FY20) as compared to the previous one. It further adds that if the negative impact of global lockdown persists due to coronavirus longer and goes beyond FY20 the growth rate of exports of Pakistan is likely to contract by 5.3 per cent during the year 2020-21.

08 The Director Asia and Pacific Department[5] of the IMF on April 16, 2020 stated that "these are highly uncertain and challenging times for the global economy. The Asia-Pacific region is no exception. The impact of the coronavirus on the region will be severe, across the board, and unprecedented," and that "this is not a time for business as usual. Asian countries need to use all policy instruments in their toolkits." He further stated that Asia's economic growth this year will grind to a halt for the first time in 60 years, as the coronavirus crisis takes an "unprecedented" toll on the region's service sector and major export destinations.

Overview

The textile industry is the most important manufacturing and export sector of Pakistan. It has the longest production chain with great potential for value addition at respective stages of processing and production from cotton ginning, spinning, fabric dyeing and finishing, made-ups and apparel. The sector provides about one fourth of industrial value addition and provides employment to about 40 percent of the direct and indirect labour force. On average, till 2018, the sector has maintained a share of about 59 per cent in the national exports. The total textile exports through 2013-14 to 2018-19 (July-March) is given hereunder in table-I:

TABLE-I

Total Textile Exports of Pakistan

(US$ Millions)

Sr. No.	Description	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 (Jul-Mar)
1.	Cotton & Cotton Textile	133,49	131,39	121,68	122,05	132,20	977,1
2.	Synthetic Textiles	383.47	330.743	287.793	187.587	309.681	220
3.	Sub-Total Textiles	137,31	134,69	124,55	124,50	135,30	999,1
4.	Wool & Woolen Textiles	125	119.448	97.68	78.506	75.852	50.688
5.	Total Textiles	138,57	135,89	125,53	125,29	136,06	100,42
6.	Pakistan's Total Exports	251,31	238,85	208,02	204,78	232,22	170,83
7.	Textile as %age of Exports	55.14	56.90	60.34	61.35	58.59	58.78

Source: Economic Survey of Pakistan 2018-19

Polyester is now the most dominant man-made fabric across the globe. Its demand surpassed the demand of cotton in 2002 and it has continued to grow ever since at a significantly faster rate than all other types of fabrics. MMF are cheaper, environment friendly and more durable, their quality does not deteriorate with washing. Technological advances in synthetic material have offered textiles that can meet global mandatory standards for safety and protection, are softer, hang better and even have better moister absorbency than cotton.

The demand for MMF such as polyester staple and viscose etc. is increasing as a substitute for cotton, amid changes in the global fashion trend. But the policy situation remains the opposite in Pakistan, its exports are still primarily cotton based. Pakistan's major export destination of textiles and apparel is the US and Europe. The US imports of synthetic apparel overtook cotton-based from 36% in 2006 to 54 % in 2016. Pakistan's share in the total textile and apparel imports of the US in 2016 declined to a mere 3.0 % owing to its narrow export basket which basically comprises natural fiber. This means that if we do not keep up with the new world preferences, our market share will continue to shrink.

The fibre / yarn industry has not witnessed modernization and expansion to match and cater for the requirements of the domestic apparel industry engaged in exports, despite (i) excessive effective tariff protection, (ii) application of higher slab of customs duty rates than prescribed for economic category of goods under the principles of value addition and cascading, (iii) arbitrary levy of anti-dumping duties even on the yarns not manufactured locally and (iv) increase in unintended tariff protection resulting from Rupee depreciation. The country still imports man-made fibers and yarns in large quantities. Whereas, in the recent years, capacity enhancement has globally been made in various textile producing countries.

In the ever-increasing competitive world Pakistan's textile industry has to keep pace with modern trends by constantly creating new effects, finishes and designs to supply internationally competitive textiles to the world.

Pakistan's exports of apparel increased to US$9.889 B in 2019 from US$4.750 B in 2004. The sector, however, could not make much headway in other products. On the other hand, countries like Vietnam, Cambodia and Bangladesh showed more success in export growth, both in material and product categories. Unlike Pakistan these countries have integrated man-made fibers, yarn and fabric material into their apparel value chain. In the world market, consumption of man-made synthetic fibres against natural fibres has shifted to a ratio of 70:30, with synthetic fibres having major share, a decade ago it was 30:70.

Factors that have allowed businesses integration of these material to value chain and achieve higher competitiveness in the global markets, inter alia, include higher value addition, quality, lead time and compliance to social and environmental standards in addition to price, qualitative and technical competitiveness. Pakistan's potential of up-grading in global value chain has been constrained by multiple factors. In the upstream there are supply chain gaps in basic inputs and raw materials, synthetic fibers and yarns that are either not available in the local market or are not being produced in enough quantities and categories and are subjected to higher rate of customs duties, regulatory duties and anti-dumping duties resulting in increased costs. The materials even include cotton, where production has stagnated in the recent years and yarns that are produced locally are of low quality.

Global Trends in Textile and Apparels

According to the World Trade Statistical Review[6] 2019 of the World Trade Organization (WTO), the value of world textile (SITC 65) and apparel (SITC 84) exports totaled $315.0 bn and $505.0 bn in 2018 - a rise of 6.4% and 11.1% respectively. However, within this textiles and apparel accounted for around 4.2% of world exports in 2018, down from 5.0% in 2016.

The top ten textile and apparel exporters registered exports as given in table-II below:

TABLE-II

Top Ten World Textile Exporters in 2018

Rank	Exporters	Value of Exports ($/Bn)	Growth Rate (2018 vs 2017)
1.	China	$118.5	7.9%
2.	EU	$74.0	6.9%
3.	India	$18.1	4.3%
4.	United States	$13.8	1.1%
5.	Turkey	$11.9	3.8%
6.	South Korea	$9.8	-0.4%
7.	Taiwan	$9.2	-0.1%
8.	Vietnam	$8.3	12.5%
9.	Pakistan	$8.0	1.7%
10.	Hong Kong	$7.4	-2.9%

Source: World Trade Organization (WTO)

As evident from the above table, China, the European Union and India remained the world's top three exporters of textiles in 2018. Together, they accounted for 66.9% of world textile exports in 2018. The United States remained the world's fourth largest textile exporter in 2018. Moreover, Vietnam ranked as the world's eighth-largest textile exporter, climbing 12.5% from a year earlier to reach $8.3bn.

As regards apparels, table-III below, shows the top ten world apparel exporters, in 2018 China, the EU, Bangladesh and Vietnam remained the world's top four exporters, accounting for 72.3% of world market share. However, Pakistan could not find a place in the top ten apparel exporters.

TABLE-III

Top Ten World Apparel Exporters in 2018

Rank	Exporters	Value of Exports ($/Bn)	Growth Rate (2018 vs 2017)
1.	China	$157.8	0.4%
2.	EU	$143.5	10.6%
3.	Bangladesh	$32.5	11.1%
4.	Vietnam	$31.5	13.4%
5.	India	$16.6	-10.8%
6.	Turkey	$15.7	3.8%
7.	Hong Kong	$13.9	4.4%
8.	Indonesia	$8.9	8.7%
9.	Cambodia	$8.2	14.0%
10.	US	$6.0	4.9%

Source: World Trade Organization (2019)

A perusal of top ten world textile and apparel importers in 2018, as given in the table-IV below, reveals that the European Union (EU), the United States, and China were the top three importers of textiles by value in 2018.

TABLE-IV

Top Ten World Textile Importers in 2018

Rank	Importers	Value of Imports ($/Bn)	Growth Rate (2018 vs 2017)
1.	EU	77.2	-2.2%
2.	US	30.5	2.4%
3.	China	17.9	1.4%
4.	Vietnam	17.8	9.8%
5.	Bangladesh	11.0	17.0%
6.	Japan	8.9	6.0%
7.	Hong Kong	6.9	-3.1%
8.	Indonesia	6.9	21.0%
9.	Mexico	6.6	4.4%
10.	Turkey	6.2	-10.0%

Source: World Trade Organization (2019)

The European Union, the United States, and Japan remained the world's top three importers of apparel in 2018, as shown in table-V below:

TABLE-V

Top Ten World Apparel Importers in 2018

Rank	Importers	Value of Imports ($/Bn)	Growth Rate (2018 vs 2017)
1.	EU	203.7	2.8%
2.	US	92.0	0.7%
3.	Japan	30.3	7.8%
4.	Hong Kong	12.7	2.0%
5.	South Korea	10.8	15.9%
6.	Canada	10.6	4.9%
7.	China	8.3	13.7%
8.	Russia	7.8	7.3%
9.	Switzerland	7.5	12.6%
10.	Australia	7.1	2.7%

Source: World Trade Organization (2019)

Pakistan's global exports during 2017 to 2019 of articles classified under HS codes 61, 62 and 63 have been US$ 8.937 Billion, US$ 9.496 Billion and US$ 9.890 Billion respectively. Its exports for the said HS codes to the top ten world importers during the period have been as given in table-VI below:

TABLE-VI

Pakistan's Global Exports and to top Ten World Importers During Last Three Years of Articles Classified Under HS Codes 61, 62 and 63

(US$ Millions)

Sr. No.	Region / Country	2017	2018	2019
1.	Global	893,7	949,6	988,9
2.	EU	356,0	376,6	393,5
3.	US	281,3	302,2	315,4
4.	Japan	44	50	57
5.	Hong Kong	10	10	10
6.	South Korea	16	21	21
7.	Canada	129	144	147
8.	China	68	72	68
9.	Russia	27	26	32
10.	Switzerland	6	7	6
11.	Australia	97	110	125

Source: UN Comtrade

India's global exports during 2017 and 2018 have been US$ 22.305 Billion and US$ 20.860 Billion with a decline of about US$ 1.445 Billion. Its exports to the top ten importers are given in table-VII below:

TABLE-VII

India's Global Exports and to top Ten World Importers During Last Three Years of Articles Classified Under HS Codes 61, 62 and 63

(US$ Millions)

Sr. No.	Region / Country	2017	2018	2019
1.	World	223,06	208,61	N.A. on Comtrade
2.	EU	718,2	719,1	N.A. on Comtrade
3.	US	632,1	648,0	N.A. on Comtrade
4.	Japan	226	252	N.A. on Comtrade
5.	Hong Kong	78	64	N.A. on Comtrade
6.	South Korea	50	65	N.A. on Comtrade
7.	Canada	348	358	N.A. on Comtrade
8.	China	107	123	N.A. on Comtrade
9.	Russia	97	89	N.A. on Comtrade
10.	Switzerland	69	64	N.A. on Comtrade
11.	Australia	312	317	N.A. on Comtrade

Source: UN Comtrade

Vietnam's exports of the said products, the most talked about amongst the developing countries, have grown at 13.40% during 2018 over 2017. It is now widely known for being the prime location for investors operating in the textile industry. One of the major factors being the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU – Vietnam FTA. Besides in terms of regulatory and financial incentives Vietnam has become increasingly investor friendly in recent years. The government has taken steps for reforming its financial sector, streamlining business regulations and improving workmanship. Within ASEAN, Vietnam is the strongest competitor for inheriting low value-added textile and apparel manufacturing from China, which is now focusing on high value-added products.

Vietnam's global exports of the said products and its exports to the top ten importing countries has been as per table-VIII below:

TABLE-VIII

Vietnam's Global Exports and to top Ten World Importers During Last Two Years of Articles Classified Under HS Codes 61, 62 and 63

(US$ Millions)

Sr. No.	Region / Country	2017	2018	2019
1.	Global	258,45	297,31	N.A. on Comtrade
2.	US	125,74	140,20	N.A. on Comtrade
3.	EU	385,0	421,4	N.A. on Comtrade
4.	Japan	320,1	392,6	N.A. on Comtrade
5.	Hong Kong	195	251	N.A. on Comtrade
6.	South Korea	273,6	342,1	N.A. on Comtrade
7.	Canada	573	680	N.A. on Comtrade
8.	China	873	121,8	N.A. on Comtrade
9.	Russia	175	194	N.A. on Comtrade
10.	Switzerland	11	12	N.A. on Comtrade
11.	Australia	178	233	N.A. on Comtrade

Source: UN Comtrade

Sri Lanka's global exports and to the top ten importers are given in table-IX below:

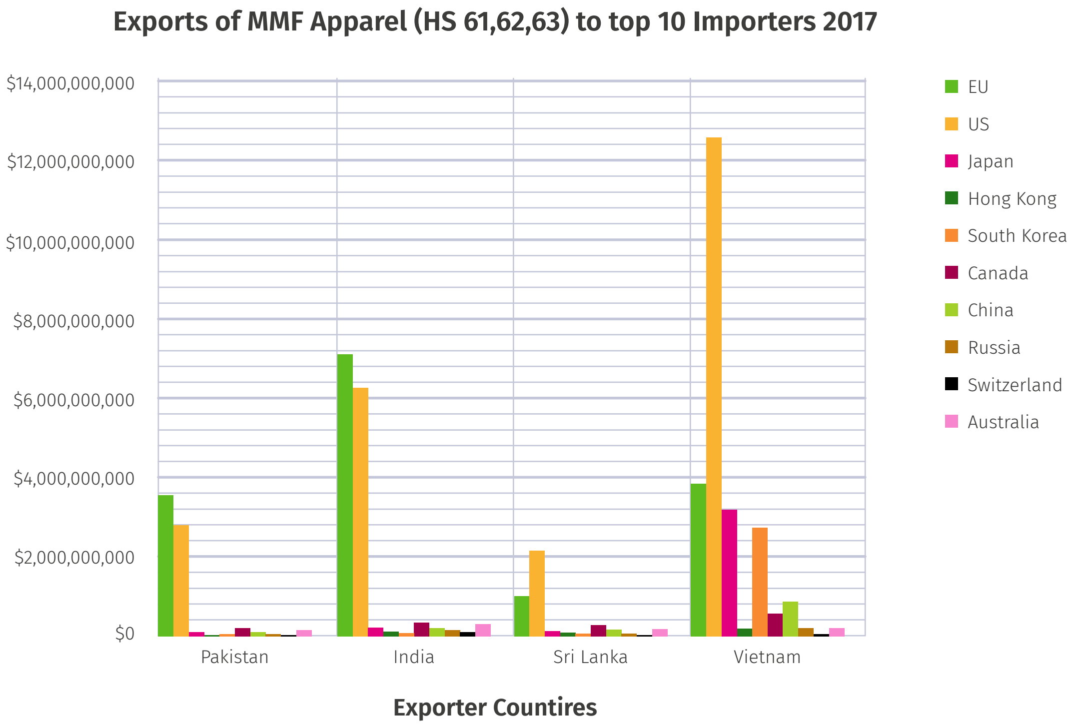
TABLE-IX

Sri Lanka's Global Exports and to top Ten World Importers During 2017 of Articles Classified Under HS Codes 61, 62 and 63

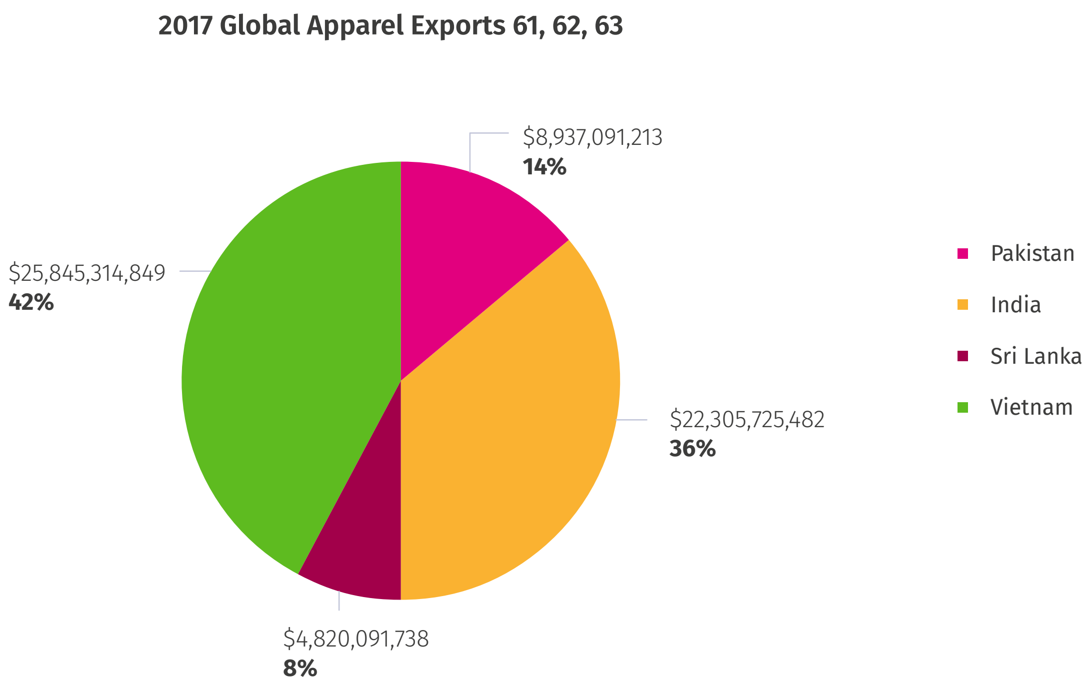
Sr. No.	Region / Country	2017	2018	2019
1.	Global	482,0	N.A. on Comtrade	N.A. on Comtrade
2.	US	216,0	N.A. on Comtrade	N.A. on Comtrade
3.	EU	101,8	N.A. on Comtrade	N.A. on Comtrade
4.	Japan	42	N.A. on Comtrade	N.A. on Comtrade
5.	Hong Kong	39	N.A. on Comtrade	N.A. on Comtrade
6.	South Korea	25	N.A. on Comtrade	N.A. on Comtrade
7.	Canada	105	N.A. on Comtrade	N.A. on Comtrade
8.	China	60	N.A. on Comtrade	N.A. on Comtrade
9.	Russia	15	N.A. on Comtrade	N.A. on Comtrade
10.	Switzerland	6	N.A. on Comtrade	N.A. on Comtrade
11.	Australia	66	N.A. on Comtrade	N.A. on Comtrade

Source: UN Comtrade

Vietnam's global exports of the said products and its exports to the top ten importing countries has been as per table-VIII below:



Graphic representation of global exports of MMF apparel and respective percentage share of Pakistan, India, Vietnam and Sri Lanka:



Data on Bangladesh is not available on UN Comtrade hence is not being discussed here, however, it does not appear on the list of top ten exporters as per the WTO data.

It may be noted that most developing countries rely heavily on imported textile inputs due to the lack of local manufacturing capacity, which explains why the import demand for textiles from these developing apparel-exporting countries, such as Bangladesh (up 17%), Vietnam (up 9.8%), and Indonesia (up 21%) has been growing particularly fast. The increasing diversification of textile imports is closely associated with the shifting pattern of world apparel manufacturing and exports. Notably, over the past decade, apparel production has seen a substantial shift from developed to developing countries.

As a result of large-scale world-wide unemployment, economic and financial constraints due to COVID 19 consumers' buying power is going to be adversely affected and reduced, one can expect major changes in buying patterns upsetting all the statistical data. However, as consumers' purchasing power in the emerging economies improve, a more diversified world apparel import market in the years ahead can be expected once the COVID 19 dust settles.

The apparel industry has often played a catalytic role in economic development. With low barriers to entry in terms of capital, technology and labor skills, many countries have targeted the sector as a means for providing significant employment opportunities and export earnings. The benefits associated with the industry ensure the competitive environment is fierce. For markets to upgrade within the chain, domestic apparel manufacturers must find a way to embed themselves within well-established international networks of production and distribution, notably organized by South Korean, Taiwanese, and Chinese or Hong Kong first-tier suppliers and US and European buyers.

The depth and breadth of these networks is highlighted by the size of international trade in the industry. In 2018 the world value of apparel trade covered under HS chapters 61, 62 and 63 was approximately US$505 billion[7]. However, how the global trade volumes emerge after the COVID 19 will only appear once the world gets back to normalcy, which could take quite some time.

Despite the fact that Multi-Fibre Arrangement (MFA) that prescribed quota regime for apparel industry for decades and was completely phased out in 2005 by the WTO Agreement on Textiles and Clothing, there are still trade and tariff barriers in the developed countries that presently vary from 9.0% to 13.0% depending upon products. While broader trade agreements sometimes eliminate or reduce these levies, textile and apparel products are often subject to restrictions. The barriers could get more stringent once the dynamics change as a result of COVID 19.

Developed countries have provided tariff preferences to over 100 beneficiary countries through the General System of Preferences (GSP). However, tariffs for apparel products are only marginally reduced in the standard EU and USA GSP schemes. Within the GSP, some countries have negotiated preferential access for lower-income countries such as the GSP+ initiatives by the EU. However, as discussed in the following paragraphs the future of GSP initiatives due to COVID 19 is also not very clear.

The Global Value Chain

The Global Value Chain (GVC) in the apparel sector includes the sourcing of materials such as fabrics, yarn, trim and accessories. The inputs must align with the design needs and product characteristics associated with the final product. Factors that are prioritized include price, quality, reliability and lead times.

The global apparel industry can be divided into fourteen product subsectors: trousers; sweaters and sweatshirts; knit shirts; coats, woven shirts; dresses and shirts; underwear and pajamas; suits and formal wear; miscellaneous apparel; accessories; athletic apparel; hosiery & socks; bras; and baby apparel. Trousers have historically been the largest export category, with a 20.0% share of the world market in 2016. Sweaters and sweatshirts were the second largest at 13.0%. Dresses/skirts, coats and miscellaneous apparel are all important growth areas for global markets, with growth rates of more than 5.0% in the period from 2006 to 2016[8].

Pakistan and the Apparel Global Value Chain

Pakistan registered a growth rate of 6.3% from 2006 -2016, however, its position in the GVC is concentrated in a few products. Trousers is the largest export category, accounting for 50.0% of the value of the country's exports in 2016. The product's recent growth has been around 11.6%. But expansion in other categories is not very encouraging.

The undercurrents that shaped the global competitiveness of the industry after the expiration of the MFA have influenced Pakistan, but they have not been felt in the same way as in countries such as the Vietnam, Sri Lanka and Bangladesh, where the growth of the sector has often been driven by foreign investment.

Cotton has been the most significant import for companies active in Pakistan's apparel value chain, despite the fact the country is one of the world's largest five producers. Three of the largest 10 product categories for imports for firms that specialize in textile and apparel exports from 2014-18 are different cotton varieties or classifications, other categories include artificial fibers / yarns.
With the local production at least serving as a backstop, cotton is not the most significant gap in the chain. Instead, the largest demand is for MMFs that are not widely produced in the domestic market. The inputs for apparel viz-a-viz fibre, yarn and fabric contributed roughly 65.0% of Pakistan's aggregated material imports. During 2017 to 2019 the total imports were as given in table – X below

TABLE-X

Fibre, Yarn and Fabric Imports by Pakistan During 2017 to 2019

HS Code / Year	2017	2018	2019
54	$743,573,927	$723,896,127	$649,528,983
55	$744,292,777	$714,283,419	$601,997,572
56	$136,483,733	$144,336,847	$162,154,470
58	$44,068,559	$59,407,857	$46,584,696
59	$135,128,957	$140,333,640	$101,713,341
60	$219,885,029	$187,224,135	$94,468,734
Total	**$2,023,432,982.00**	**$1,969,482,025.00**	**$1,656,447,796.00**

Source: UN Comtrade

Pakistan's apparel products are largely exported to the EU and the US. One of the more prominent developments in Pakistan apparel industry in recent years is its increased access to European markets. The US had been Pakistan's top trading partner throughout the early 2000s before the EU took over that position in 2009. One reason that Pakistan's exports to the EU have surged in recent years is the country's participation in the GSP+ program[9] since 2014. As part of the initiative, the EU provides preferential market access to developing countries in exchange for that country committing to improve both human capital and labor rights. Although Pakistani exports to the EU have been on an upward trajectory for some time, the growth rate has increased in more recent years.

At the same time, exports to the US have declined significantly because of political and security considerations. The US State Department has regularly issued travel advisories against visiting the country since the September 11 terrorist attacks. With travel restrictions, Pakistani suppliers must travel to the US or nearby countries (Bangladesh, Sri Lanka, the UAE) to meet global buyers or work via intermediaries. The limited access hinders opportunities to engage in product development and design with US buyers and facilitate economic upgrading.

Constituents of the Policy Frame Work

A policy framework for promotion of exports can be broadly classified into two broad categories. First on the part of industry itself pertaining to design, pre-production logistics, apparel production, distribution, marketing and sales etc., and secondly the government's policy interventions. The main constituents of an effective Policy Framework for the promotion of exports of man-made fiber (MMF) apparel, on the part of the government of Pakistan, inter alia, include the following:

- Tariffs,
- Quotas and tariff-rate quotas,
- Rules of origin,
- Trade-remedy laws,
- Preferential tariff treatment,
- Trade facilitation,
- Duty drawbacks,
- Export-processing or free zones,
- Measures to improve the competitiveness of the indigenous industry,
- Removal of anti-export bias,
- Sanitary and phytosanitary measures, and
- Technical barriers to trade etc.

Pakistan has been formulating trade and textile policies with great zeal and high export targets. However, targets and objectives were seldom achieved. One of the basic reasons being that policies announced were without statutory / legal force and just remained policies with wishful targets and tariff policy measures and other steps could never be implemented in true letter and spirit. Critical succinct analysis of Pakistan's existing tariff and textile policies and measures taken thereunder is necessary before proposing any logical and effective policy framework.

Textile Policy 2014-19

Textile Industry Division, had earlier announced the Textiles Policy 2014-19[10] in February 2015. While reviewing the previous Textiles Policy 2009-14 it envisaged that the country would become a leading country in the export of value-added textile products. While setting, inter alia, the following goals it set a mission for itself to develop and implement a textiles policy which ensures consistency, predictability and transparency in Government actions and programmes:

- To double value-addition from $1 billion per million bales to $2 billion per million bales in five years.
- To double textiles exports from $13 billion per annum to $26 billion per annum in the next five years.
- To facilitate additional investment of $5 billion in machinery and technology.
- To improve fibres mix in favour of non-cotton i.e. 14% to 30%.
- To improve product mix especially in the garment sector from 28% to 45%.
- The textiles sector would be made domestically and internationally compliant especially with respect to labour and environment rules and conventions.
- Textiles units would be encouraged to use modern management practices for improving efficiency and reducing wastages.

For implementation of the Policy a Strategic Framework and budgetary support measures were also announced in the Policy. On account of Policy Interventions, tariff rationalization to review and prescribe the tariff structure for the entire supply chain was to be reviewed in line with effective protection rates, as higher tariffs provide excessive protection and increased margin for domestic sales. This situation did not provide any encouragement for exports. Another factor for reviewing tariff structure was to increase the competitiveness of the domestic industry while ensuring increased exports and reduce smuggling of finished products such as manmade finished fabrics and garments.

Tariff Rationalization Study

A study, under the USAID Trade Project[11] in this regard, was conducted by the consultants on the tariff rationalization for the M/o Commerce, prescribing tariff rates. The National Tariff Commission was requested to:

- Examine the Tariff Rationalization (TR) study and conduct a detailed analysis; and
- Initiate discussion / consultation with the stake holders on tariffs proposed in TR study.

The NTC, accordingly analyzed the TR Study and initiated the exercise to provide a predictable tariff regime for the foreseeable future in March 2015, inter alia, for textile value chain based on the following consideration:

- To improve competitiveness of the domestic industries
- Removal of tariff / fiscal anomalies
- To devise a cascaded tariff, based on economic categorization of the goods
- Allocation of resources to the efficient industries
- Elimination of distortions
- Determination of competitiveness of domestic industry on the basis of cost of doing business, financial cost, availability of energy, law and order situation, war against terror
- Compliance of IMF/World Bank's commitments
- Impact analysis of the proposed tariffs on the Protection/competitiveness of domestic industry

For devising a cascaded tariff, based on economic categorization of the goods, the NTC based its recommendations on the earlier exercise jointly conducted by the experts from the NTC, FBR and the Applied Economic Research Center (AERC) Karachi, held in the NTC in 1997 and subsequently updated by the NTC in 2015. The concept of economic categorization of the tariff, was duly approved by the Ministry of Commerce in the meeting held on March 11, 2015 to classify the goods based on cascading principle, which divided the goods into following economic categories. Each economic category of the product to be further divided into two groups, table-XI below, i.e. (a) not locally produced and (b) locally produced with necessary tariff differential:

TABLE-XI

Economic Categorization of Goods

Sr. No.	Description	Proposed Duty Rates	
		Not Locally Produced	Locally Produced
1.	Primary raw material	0%	5%
2.	Secondary raw material	5%	10%
3.	Intermediate goods	10%	20%
4.	Semi-finished goods	20%	25%
5.	Finished goods	25%	25%

Source: World Trade Organization (2019)

However, the recommendations of the NTC were not adhered to and the government during the period imposed regulatory duties on inputs like synthetic filament yarns (of polyesters) in the budget for 2017-18. Surprisingly, according to the budget speech for 2017-18 the Finance Minister stated that the 5% R.D. was being imposed on the synthetic filament yarn to protect the domestic industry on the recommendations of the SBP. It may be worth mentioning here that the only body mandated to determine the levels of protection and which is also equipped with the required technical expertise in the country under the Rules of Business, 1973 is the National Tariff Commission. Protection analysis and determination is neither the function of SBP nor does it possess the technical expertise to do so.

Proposed Draft Textile Policy

The draft Textile Policy for 2020-25[12] targets textile exports by 2025 to US$ 25 billion and to US$ 50 billion by 2230. It was US$ 13.33 billion in 2018. The policy envisages this growth by utilizing the potential of home-grown cotton augmented by man-made fibre and filament boosting value added exports.

Although the draft policy has now become irrelevant due to COVID 19 it spells out the following objectives:

- Restoring profitability of cotton farmers by increasing cotton yield, improving quality of cotton and decreasing cost of production for the farmers;
- Strengthening manmade fiber/filament sector to make this chain internationally competitive and export oriented;
- Regionally competitive energy pricing fixed for five years;
- Prompt Sales Tax Refund System;
- Abolition of Zero- Rating has created serious liquidity crisis for exporting sectors as the current refund system is soaking up market liquidity and is not working;
- Long Term Financing Facility for the entire textile value chain
- Revival of impaired textile capacity and introduction of a bankruptcy law
- Establishment of Textile clusters and Export Processing Zones with plug and play facilities.

The Tariff Policy 2019-24

Earlier the Tariff Policy 2019-24[13] was announced with objectives to improve competitiveness, increase employment opportunities, improve consumer welfare, and to remove anomalies in the tariff structure.

The Tariff Policy envisaged to invoke the Federal Government Rules of Business, 1973 which states that the “Tariff policy and protection regime” is the function of the Commerce Division. This aspect has been raised many times in the past also but no tangible action could be taken. So, tariff setting remained with the FBR, except in cases where individual references were made to the NTC involving the issues pertaining to tariff protection / removal of tariff and fiscal anomalies.

Since the tariff and textile policies both envisage measures which would involve tax measures to the extent of customs duties and other indirect taxes for grant of tariff protection and removal of tariff and fiscal anomalies it would require approval of the National Assembly as the function once invoked would fall under the purview of a money bill as per the Article 73(2)(a) of the Constitution.

Moreover, modification in taxes and duties by the M/o Commerce / Textile would require an enabling act without which the role of both ministries will be confined to advisory and not mandatory. Policies without legal and statutory strength only remain guidelines and cannot be implemented as such to achieve the desired objectives. Same is evident from the outcomes of the Strategic Trade Policy Frameworks announced by the Ministry of Commerce and the Textile Policy 2014-19 announced by the Ministry of Textiles. Only those measures are operationalized which are implemented through the trade policy orders. The Tariff and Textile Policies need to be enacted under some legal frame work / statute to make them effective and implementable. Without that they will continue to be mere wishful policies with no enabling legal force.

Improving Competitiveness of the Textile Industry

Earlier the Section 4(b) of the National Tariff Commission Act, 1990 and later the Section 8(a)(ii) of the National Tariff Commission Act, 2015 assigns the function of improving the competitiveness of the indigenous industry. The function was invoked for the first time in twenty-five years in 2015[14]. Competitiveness has emerged as the prerequisite for an economy to meet the global economic challenges posed to the world today. Competitiveness is the ability and performance of a firm, sub-sector or a country to sell goods in a given market. The World Economic Forum (2005) and the Asian Development Bank in its report “Industrial Competitiveness, the Challenges for Pakistan” (ADB Institute, October 2004) adequately defined the concept of “Competitiveness”. For reference to competitiveness indices the Global Competitiveness Index (world Economic Forum), World Competitiveness Scoreboard (International Institute for Management Development), Competitiveness Industrial Performance Index (UNIDO) and Manufactured Export Competitiveness Index are most referred to. As per 2018-19 ranking, Pakistan is at 110 position among 141 countries on the global Competitive Index.

The Prime Minister in his address to the China Council for Promotion of International Trade on 8 October, 2019[15] stated that “we will make it easier for investors to come into Pakistan and we will want them to make profits and encourage profitability”. According to the Prime Minister the areas of attraction, inter alia, include textiles. The concerned government departments have already initiated work on various proposals in this regard. Some proposals pertain to grant of hundred percent exemption on import of plant and machinery from taxes and duties for ten years and similar tax and duties exemption on the locally produced raw materials used for export / import substitution.

The proposals also include income tax exemptions and hundred percent ownership for foreign companies investing in the Special Economic Zones (SEZ) under the CPEC. Indeed, no investor would invest unless there is a profitable rate of return on the investment. But how and at what cost the profitability will be ensured by the government is a big question. Profitability under business norms is determined by industrial competitiveness and market forces. Assuring profitability by other means would raise many questions under GATT / WTO regimes by the trading partners. Besides if such congenial investment atmosphere can be offered to Chinese manufacturers then in the order of priority and the need of the hour the same treatment should be accorded to the indigenous industry also.

On one side Chinese investors are being invited, inter alia, in the textile sector, assuring more profitability, whereas in Pakistan the GOP has levied arbitrary and irrational anti-dumping and regulatory duties on the imported inputs for the textile industry. Pakistan's major imports of cotton yarn of 55.5 and above counts was from India which are suspended now. Moreover, the budget for 2019-20 withdrew the zero-rating sales tax facility on local / imported raw materials of five export-oriented sectors including textiles. Likewise, the facility of zero rating of utilities viz. gas, electricity and fuels were also withdrawn. Moreover, the Government by way of Section 15 of the Finance Act 2019 amended section 51 of the Anti-Dumping Duties Act, 2015 deleting clause (e) which allowed imports that were to be used as inputs in products destined solely for export and were covered under any scheme exempting customs duties for exports under the Customs Act, 1969 from the levy of Anti-dumping duties. All this has adversely affected the competitiveness of the indigenous textile exports. How will the indigenous textile industry compete with the Chinese manufacturers exporting from Pakistan is a big dilemma.

While addressing the Lahore Chamber of Commerce and Industries, Ambassador Androulla Kaminara[16] to the EU in Pakistan on October 22, 2019 stated that Pakistan needs to produce products which are competitive to the products in EU markets and that "we are ready to help Pakistan to expand its exports to the EU and would like to be its partner in this regard". She also emphasized that the increase in Pakistan's exports is because of the duty-free access of Pakistani products under GSP Plus. Where will Pakistan's own textile exports viz a viz Chinese textiles produced in Pakistan stand, will be a matter of concern as Rules of Origin would apply to Chinese textiles produced in Pakistan affecting its share in GSP. In any case Pakistan's competitiveness in the sector will be adversely affected.

Chinese investment and industrial zones to be set up under CPEC industrial zones, if not governed by well-planned industrial, trade and monetary policies will be counterproductive for the country. One of the major issues that would arise while fixing (i) tariff protection levels, (ii) tariff rates for common raw materials, (iii) local taxes and duties, and (iv) other matters under the Trade Related Investment Measures under the GATT / WTO for the two activities i.e. Pakistani and Chinese manufacturing.

Under the Finance Act 2019 customs duty on various raw materials / industrial inputs has been reduced from 3% to 0% in an attempt to incentivize local industry whereas depreciation of Pak Rupee and increased financial cost which has completely distorted the levels of tariff protection making windfall profits for the sectors in the textile value chain.

A careful analysis of Pakistan Customs Tariff reveals that there are certain raw materials and inputs that are used in manufacturing of competitive and sophisticated / high value added products, however, they are still subject to statutory customs duty rates, as they have never been used in the production of sophisticated / high value added products, so far in the country. Neither the industrial nor the trade policy has prioritized such industrial sectors / products. In other words, there exists an anti-export bias in the tariffs for such sophisticated / high value added and internationally competitive products.

Anti-Export Bias in Tariffs for High Value-Added Products

The NTC in its study on Anti-Export Bias in Tariffs for High Value-Added Products[17] observes that in theory and applied framework, the anti-export bias from import tariffs arises from, inter-alia, the following factors:

- Import tariffs indirectly alter and affect the prices of exports relative to the prices of goods produced solely for the domestic market (nontraded or home goods). Since a tariff raises the price of imports, consumers and industrial users have an incentive to shift consumption away from expensive imports toward locally produced goods, thus relocating resources towards import substitution industries, where profits are high. Therefore, the tariff on imports will reduce the price of exports relative to import substitution goods thereby creating an anti-export bias. High tariffs restrict imports, which reduces the demand for foreign exchange and appreciates the real exchange rate that would shift production away from exports and toward production of goods for home /domestic market only.
- Tariffs on imported inputs discourage exports by raising the cost of production of export goods. For a given price of exports, tariffs on imported inputs increase the cost of producing goods for export and therefore, will reduce output of exportable products. First, tariffs directly raise the price of imported inputs: raw materials, intermediate inputs and capital goods. They also increase the profitability of the protected import competing (import substitution) industry, which is then able to increase the prices of other inputs, such as land, labour (wage rates) and services. This has a negative effect on exporters who have to meet those prices or bids for their inputs. Second, as an alternative way of thinking about the issue, tariffs will likely reduce imports, with a positive impact on the balance of payments, and a consequential appreciation of the local currency. This means that exports become more expensive for foreigners and the exports are negatively affected.
- For example, if the government imposes 20% customs duty on finished cloth, the landed cost /price of imported finished cloth would increase by at least 20% (net of sales tax) and make imported cloth more expensive. The domestic industry manufacturing cloth for domestic market would also increase their price of finished cloth near to the landed cost/ price and thus the exporters of clothing (who use finished cloth as intermediate input) would also purchase local or imported finished cloth at higher prices, which would increase their cost of production and reduce their profitability from exports. Since higher tariff on finished cloth would discourage imports, the local currency (Rupee) would appreciate which makes exports more expensive for foreigners and negatively affect exports of clothing / readymade garments.
- The Federal Government in order to enhance the traditional exports with the exception of fire retardant fabric for kids wear has provided various concessions in duty rates / incentives, under different schemes / arrangements, including re-payment of customs duty, DTRE scheme and Manufacturing bond scheme, to the exporters to keep them competitive in the global market. However, there are no incentives for non-traditional garment and apparel exports.
- The Pakistan Customs Tariff has been reformed a number of times. The reforms and provision of inputs to the export industries at concessionary rate of duty have removed the anti-export bias in tariffs in case of traditional exports to a large extent. Besides, the tariff reforms and rationalization of tariffs, the Federal Government in order to enhance the exports has provided various concessions in duty rates / incentives, under different schemes / arrangements to the exporters to keep them competitive in the global market. Under these incentives, Federal Government under SRO 209(I)/2009 has authorized repayment of customs duties, in order to provide raw materials / inputs to export industries at lower prices.

- The raw materials / inputs of sophisticated / high value-added products have, so far, not been identified as these products are not being exported, nor their inputs are subject to concessionary regime / treatment. Thus, there is an obvious anti-export bias in the tariffs of sophisticated / high value-added products.
- Duty-drawback schemes, which provide rebate to exporters for the tariff duties paid on imported inputs, often do not remove the bias against exports completely. The reasons for this are (a) these schemes can be costly to administer; (b) a drawback reduces government revenue when it is introduced, so other distorting taxes would have to be increased, which themselves, might unintentionally increase the cost of production of exporters thus discouraging exports; and (c) drawbacks do not reverse the decline in the relative price of exports or the higher price of domestic inputs as a result of a higher tariff. Besides, there are complaints of delay in payment of duty drawbacks by the FBR, which in some cases takes more than a year to get back the duty drawback and has a financial cost.
- In addition, the Federal Government has also introduced Manufacturing Bond Scheme to give incentive to Export Oriented Unit(s) (EOU) to import plant, machinery, equipment and raw materials tax free, for exclusive use in the manufacture of goods for export. It is meant to encourage manufacturers, to manufacture for export within the country. In Pakistan SRO 327(I)/2008 operates this scheme, according to which industries exporting 80 to 100 percent of its production can benefit from the scheme.
- It may be reiterated, thus as a result of tariff reforms 40% of total tariff lines mainly pertaining to inputs / raw materials are subject to less than 5 percent customs duty and by providing incentives in import duties under different schemes, i.e. zero rate of duty on inputs under Schedule V to the Customs Act, 1969, repayment of customs duty under SRO 209(I)/2009, DTRE scheme and Manufacturing Bond Scheme, the anti-export bias in tariff for the traditional export products has been either eliminated or reduced to a large extent. However, the anti-export in tariffs relating to sophisticated / high value-added products still exists.

Sophisticated / High Value-Added Products

A review of Pakistan Customs Tariff reveals that there are certain raw materials and inputs that are used in manufacturing of sophisticated / high value added products, however, they are still subjected to statutory customs duty rates, as they have neither been used in the production of sophisticated / high value added products so far nor the industrial / trade policy has prioritized such industrial sectors / products. Thus, there exists an anti-export bias in the tariffs of such sophisticated / high value-added products.

In an earlier study on exports of non-traditional products, fire-retardant baby garments / kids wear was identified as there are renowned companies manufacturing baby garments/kid wear on large scale in Pakistan. However, there was no producer of fire-retardant baby garments/kids wear. The duty structure of fire-retardant baby garments/kids wear and its imported inputs is shown in the table-XII below

TABLE-XII

Duty Structure for Fire Retardant Baby Wear

HS Code	Description	Statuary duty rate 2015-16	Current Rate of Duty 2019-20	RD 2019-20
Finished Good				
6111.0000	Baby garments / kids wear	20%	20%	10%
Input/ Raw materials				
5512.9990	Fire-retardant fabric Woven fabrics of synthetic staple fibres, containing 85 % or more by weight of synthetic staple fibres. Other	15%	16%	5%
5516.1200	Woven fabrics of artificial staple fibres. Containing 85 % or more by weight of artificial staple fibres: - - Dyed	15%	16%	5%

Source: World Trade Organization (2019)

However, the FBR only allowed repayment of customs duty on the import of above-mentioned raw materials for flame or fire-retardant woven fabric through SRO 754(I)2014 w.e.f. August 21, 2014. Despite the fact the specialized material is not manufactured locally, customs duty has not been reduced on its import, resultantly there are no exports of fire-retardant baby garments / kids wear from Pakistan.

Likewise, the manufacturers of advanced MMF may develop fibres and fabrics like fire repellent and fire-resistant material which repels viruses and similar diseases, moreover development of fabric used for personal protection equipment for doctors and para medical staff would be need of the hour, thus changing the entire outlook of MMF and allied industry. Moreover, the developed economies may also consider imposition of some conditions on trade of garments and textile products etc. under the TBT and SPS Agreements on this account.

Revisiting International Trade Agreements and WTO Provisions

A historic Perspective

The need for an international trade regime and discipline was felt when the world suffered for fifteen years firstly through the first great depression and secondly the second world war. The great depression of the 1930s had a profound effect on the people who lived through it. They saw friends and neighbors going through terrible hardship. Life time savings were wiped out and family farms lost. Unemployment rose to 30% and there were few social programmes to cushion the blow.

The catastrophe started with the Stock Market Crash of 1929. This brought on a recession which was turned into a Depression by governments making the wrong decisions. At a time when the economy needed a stimulus, governments almost everywhere cut their spending. Just when a boost in world trade would have created growth and jobs, nations erected barriers to trade. For those who experienced the hardships of the 1930s there was a resolve to do something to ensure that it didn't happen again. One of the things they did was set up the General Agreement on Tariffs and Trade (GATT). Till 1994 the GATT, in its final form, emerged as a result of seven rounds of negotiations. Soon after the completion of the Tokyo Round in 1979, some diplomatic leaders had begun to think about the need for another round, as GATT Rules, inter alia, were not being applied in two important trade sectors viz., agriculture and textiles.

The eighth major trade negotiating round at a ministerial meeting in Punta del Este, Uruguay, started in September 1986 and continued for eight years. The results of the Uruguay Round (UR) of negotiation were formally signed in Marrakesh, Morocco, on 15th April, 1994. By the end of 1994, 76 countries had ratified the UR agreements. Today there are 164 members of the WTO.

The World Trade Organization (WTO) came formally into being on 1st January, 1995. The Uruguay Round results are embodied in a document of some twenty-seven thousand pages, most of which are detailed schedules of tariff, services trade and other concessions with the following objectives to create a liberal and open trading system under which business enterprises from its Member countries can trade with one another in a fair and undistorted competitive manner with a view to:

- Raising standards of living,
- Ensuring full employment and a large and steadily growing volume of real income and effective demand, and
- Developing the full use of the resources of the world and expanding the production and exchange of goods.

The WTO provisions required achievement of the above objectives by (i) the optimal use of the world's resources in accordance with the objective of sustainable development and (ii) seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.

Now after about seventy-three years the world almost stands at the same point when GATT 1947 was formed.

Current Situation

The IMF in its World Economic Outlook[18] as of April 6, 2020 states that:

"The COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity. As a result of the pandemic, the global economy is projected to contract sharply by –3 percent in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario--which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound—the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support".

The Outlook further states that:

"It is very likely that this year the global economy will experience its worst recession since the Great Depression, surpassing that seen during the global financial crisis a decade ago. The Great Lockdown, as one might call it, is projected to shrink global growth dramatically. A partial recovery is projected for 2021, with above trend growth rates, but the level of GDP will remain below the pre-virus trend, with considerable uncertainty about the strength of the rebound. Much worse growth outcomes are possible and maybe even likely. This would follow if the pandemic and containment measures last longer, emerging and developing economies are even more severely hit, tight financial conditions persist, or if widespread scarring effects emerge due to firm closures and extended unemployment. This crisis will need to be dealt with in two phases - a phase of containment and stabilization followed by the recovery phase. In both phases public health and economic policies have crucial roles to play".

IMF's statement that the "economic policies have crucial roles to play" may involve reconsideration of the international trade regime governed by the WTO regime, inter alia, including the following:

- Modification of tariff bindings under the Article II – Schedule of Concessions, Article XXVIII – Modification of Schedules, Article XXVIII bis – Tariff Negotiations under the GATT 1994, Article XXIV – Territorial Application – Frontier Traffic – Customs Union and Free Trade Areas, and Article XVIII – Governmental Assistance to Economic Developments, and

- Agreements on (a) Textiles and Clothing under the WTO, (b) Agreement on the Application of Sanitary and Phytosanitary Measures, (c) Agreement on Technical Barriers to Trade.

- Amendments in the WTO's trade remedy and safeguard measures.

Pakistan's Position

While preparing a policy framework for promotion of exports of MMF apparel from Pakistan the policy makers will also have to reconsider, as there exists an opportunity now, in all its bilateral agreements signed with various trading partners under Article XXIV – Territorial Application – Frontier Traffic – Customs Union and Free Trade Areas[19] (Free Trade Agreements) and multilateral commitments made under the Market Access Negotiations held in 1992-93 and placed in its Schedule of Concessions under the Article II of GATT 1994.

Tariff Bindings of Pakistan

Pakistan, according to Consolidated Tariff Schedules Database[20] (CTS) of the WTO has currently bound respective articles of HS Chapters 61, 62 and 63 at 25% under its Schedule of Concessions of the WTO, with the current customs tariff rate of 20% plus 10% regulatory duties under the Customs Act, 1969.

Free Trade Agreements

While the current global economic situation requires review and renegotiation of existing Free Trade Agreements[21] (FTA), negotiating new FTA for acquiring increased market access for enhancing exports has become very tedious and complex. This would require multifarious aspects and application of provisions of negotiation rules under the WTO regime. Pakistan and China signed a Free Trade Agreement in 2006. Under the Pak-China FTA all exportable items of Pakistan including textile etc. were included in the FTA. Apparently, the arrangement seemed to be quite enthusiastic and ambitious. However, the ground realities were much different, Pakistani market is already flooded with Chinese consumer and other goods as Pakistan has extended unwarranted and unintentional clandestine market access to Chinese goods in Pakistan. Pakistan's textile industry is being adversely affected by the Chinese goods with special reference to made ups.

The economic managers of international trade and concerned departments must have taken into account its actual trade balance with China and considered the on-ground situation before signing the trade agreement, as Chinese are known for their negotiation skills throughout the world. Some body very rightly said that there is no free lunch. Pakistan certainly needs to learn lessons from this. The current trade imbalance between Pakistan and China is about US 13.5 B in favour of China. In 2017-18 Pakistan made an attempt to renegotiate the FTA with China under second round of FTA negotiations, the NTC also conducted a detailed exercise to identify products that required to be excluded from the Agreement based on a criterion developed by it, but to no avail, as the same were not excluded in Phase-II of the FTA.

Pakistan, after the COVID-19 phase, would be negotiating Free Trade Agreements with Turkey, Thailand and South Korea. The tariff negotiations if not done appropriately, considering the individual needs of the economy and industry, will not only adversely affect the domestic industry, but would also adversely affect its fiscal and developmental efforts and position.

The National Tariff Commission (NTC) in 2015-16, based on a criterion developed by it, prepared a sensitive list of products which need to be excluded from the proposed FTA with Turkey. A list on similar lines should also be developed in the case of Thailand. It is reliably learnt that Turkey and Thailand are insisting that Pakistan should also include textiles in the FTA.

SWOT Analysis

A SWOT analysis has been conducted to study the status of existing potential and find future directions of Pakistan's exports of MMF based apparel. Though only the authorized management institutions are authorized to devise terms and methods like SWOT. But when the economy that would emerge after unprecedented implications of COVID-19 is analyzed it would be imperative to add the "Hurdles" to the SWOT system making it SWOTH, thus making it Strength, Weaknesses, Opportunities, Threats and Hurdles. Post COVID scenario would require emphasis not only on the SWOT but strict compliance of mandatory technical barriers to trade under the WTO Agreement on Technical Barriers to Trade which would emerge in the post COVID-19 scenario.

The global textiles and clothing sector registered flows of about US$ 505.0 Billion amounting to almost 4.2% of total world exports, the clothing sector, accounted for about 345.3 Billion $US. This is particularly important to many developing countries where textiles are the main source of export revenue and manufacturing employment. Over the past 25 years, trade liberalization has increased the opportunities for retailers and brands to buy their products from producers worldwide. These retailers and brands have become "global sourcing companies", outsourcing the production of goods they sell to tiers of competing suppliers and producers through complex international networks, or global supply chains. These supply chains are driven by the big brands and retailers that influence price, quality, delivery, and labour conditions for suppliers and producers down the chain.

The article "U.S. Recession Model at 100%"[22] published on October 14, 2019 and updated on April 8, 2020 on Bloomberg states that the "novel corona virus has spurred what will likely be the worst recession in generations as the U.S. economy grinds to halt and millions lose their jobs". According to the article "about 10 million jobless claims were filed in two weeks of the month underscoring a sharp deterioration in the once vibrant labor market" The article further states that "sudden stops in activity has many forecasts predicting the economy will experience its largest ever contraction in the second quarter and some analysists project about 20 million people will have lost their jobs by July – (2020)"

The Outlook for Pakistan given by the World Bank[23] in its report on the Economic Impact of COVID 19 on South Asia, calling it as a new epicenter of COVID 19, paints a bleak picture for the economy in the coming years. The report, inter alia, highlights the following for Pakistan:

- Real GDP growth is projected to contract by 1.3 percent in the fiscal year 2020 as domestic and global economic activity slows down sharply in the last four months of the fiscal year.
- The outbreak of COVID-19 will impact growth beyond fiscal year FY20. Under the baseline scenario, growth will remain muted at 0.9 percent in FY21 before reaching 3.2 percent in FY22. Inflation is expected to average 11.8 percent in FY20 and to gradually decline thereafter.
- The current account deficit is projected to narrow to 1.9 percent in FY20, as imports contract more than exports.
- Export growth is expected to remain negative in FY21 but to rebound thereafter and reach 6.7 percent in FY22.
- Similarly, imports are expected to recover slowly from FY22 onwards, as domestic industrial activities pick up.
- Remittances are expected to contract by 6.5 and -6.0 percent in FY20 and FY21, respectively, due to lower growth in the Gulf Cooperation Council economies. Increased multilateral and bilateral flows are expected to be the main financing sources over the medium-term.
- The fiscal deficit is expected to remain elevated, at 9.5 and 8.7 percent of GDP in FY20 and FY21, respectively.
- Revenue mobilization efforts will be negatively impacted by subdued domestic activity, while expenditures will increase to contain the spread of COVID-19 and to support the economy.

- The fiscal deficit is expected to fall gradually to 6.0 percent of GDP by FY22 as the impact of the crisis tapers-off. However, the public debt-to-GDP ratio is expected to increase and remain elevated over the medium-term, with Pakistan's exposure to debt-related shocks remaining high.
- The poverty outlook for FY21 will depend critically on the ability of the informal off-farm sector to recover from the current crisis.
- The duration of the crisis and the capacity of government interventions to protect investments in physical and human capital of the most vulnerable segments of the population will be important to prevent long lasting consequences.

The IMF in the executive summary of its report on the World Economic Outlook, inter alia, states:

- The COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus.
- The health crisis is therefore having a severe impact on economic activity. As a result of the pandemic, the global economy is projected to contract sharply by - 3 percent in 2020, much worse than during the 2008–09 financial crisis.
- There is extreme uncertainty around the global growth forecast. The economic fallout depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioral changes (such as people avoiding shopping malls and public transportation), confidence effects, and volatile commodity prices.
- Many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals, and a collapse in commodity prices.
- Effective policies are essential to forestall worse outcomes.
- Economic policies will also need to cushion the impact of the decline in activity on people, firms, and the financial system; reduce persistent scarring effects from the unavoidable severe slowdown; and ensure that the economic recovery can begin quickly once the pandemic fades.
- Because the economic fallout reflects particularly acute shocks in specific sectors, policymakers will need to implement substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses.

The future of E.U. is also under discussion in the world, the article published in the Bloomberg[24] in March 2020 states "COVID 19 is especially life-threatening for elderly and those with pre-existing conditions. The description also fits for the E.U., which is a sexagenarian and has for over a decade been reeling from one crisis to the next. Institutionally, if not epidemiologically, the E.U. is more vulnerable to a virus than most nations".

In consideration of the above, likely adverse effects on the indigenous textile industry, besides the conventional SWOT analysis, the following major HURDLES could be, inter alia, faced by textile exporters:

- The COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus.
- The health crisis is therefore having a severe impact on economic activity. As a result of the pandemic, the global economy is projected to contract sharply by - 3 percent in 2020, much worse than during the 2008–09 financial crisis.

- There is extreme uncertainty around the global growth forecast. The economic fallout depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioral changes (such as people avoiding shopping malls and public transportation), confidence effects, and volatile commodity prices.
- Many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals, and a collapse in commodity prices.
- Effective policies are essential to forestall worse outcomes.
- Economic policies will also need to cushion the impact of the decline in activity on people, firms, and the financial system; reduce persistent scarring effects from the unavoidable severe slowdown; and ensure that the economic recovery can begin quickly once the pandemic fades.
- Because the economic fallout reflects particularly acute shocks in specific sectors, policymakers will need to implement substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses.

Strengths

Textile industry in Pakistan is one of the oldest manufacturing sectors of the country. It has roots in cotton fiber production which is the second most important crop of the country as well as man-made fibers like polyester. The value chain of textile in Pakistan includes cotton, man-made fiber production, ginning and yarn manufacturing, fabric manufacturing by Weaving/Knitting, coloring of fabric by Dyeing/Printing, finishing of the fabric by various mechanical and chemical finishes and their conversion into apparel and made-ups.

It is an important industry in Pakistan which captures 46 percent of the entire manufacturing sector and 38 percent of industrial employment. Wages are on the lower side in the world textile industry ($0.39/hour), although Bangladesh and Vietnam have lower wages (of $0.27/hour and $0.29/hour respectively.

Textile manufacturing is capital intensive and is equipped with new technology from Germany, Switzerland, Belgium, UK, Japan, USA and China.

Weaknesses

Although the COVID 19, will entirely change the mechanics of global trade in the sector, the emerging weakness resulting from the repercussions of COVID 19 and the conventional weakness are as under:

- The government policies, due to slackness and poor economic governance, may not be able to swiftly and timely take into account the measures adopted by competitor economies for their respective textile sectors, compromising competitiveness of the indigenous textile industry.
- The domestic industry's lack of ability, adaptability to keep pace with the new international quality and product standards as compared to its competitors may become its one of the biggest weakness.
- Irrational tariffs, arbitrary levy of regulatory duties and imposition of anti-dumping duties on raw materials, without adequate determination of levels of injury when coupled together with the incidence on one hand of according unintended large protection levels to the producer industry and on the other hand reducing the cost competitiveness of the export industry.

- Arbitrarily charged high energy tariffs and POL prices also adversely impacts the export industry and reduces its competitiveness in the international markets.

- Delays in the payment of duty drawbacks, clearance of DTRE claims and delays in other regulatory / procedural affairs put unnecessary constraints on the industry, tightening its liquidity position and cash flows. Surprisingly the government had to wait for COVID 19 to clear the payable refunds to the industry.

- Limited types of man-made fibers are being produced which are less competitive for quality and cost. The yarn sector is producing coarser counts and traditional yarns although it has the potential to produce medium, fine counts and fancy yarns. Improvement in the versatility in yarns can give weaving industry a stronger basis.

- The study conducted by the Duke – Global Value Chains Center and the World Bank[8] reveals the following:

  - The storage conditions of cotton lint in the factories are not very good so quality deterioration takes place. In general, power loom sector is organized as cottage industry in the country which is facing problems of yarn and power supplies, finance and many others. Efficient fabric manufacturing technology can be incorporated to upgrade these sectors as organized industry. In coloring and finishing the use of sophisticated color matching techniques and software are nonexistent which could enhance the responsiveness to customers.

  - The clothing sector is scattered across the country due to nature, size and investment required to set up such a unit. There is a recent move to establish specific hubs of garment manufacturing by providing special zones for the industry. Fashion clothing attracts maximum profits in the international market. The fashion designers lack familiarity with the international fashion styles and market trends. The industry needs to be linked with the international fashion market. The industry has not fully understood the importance of social responsibility and workers welfare.

  - Transportation infrastructure in the country is not up to the mark, the only effective means of freight movement is trucking. These trucks are low capacity and under-power, manufactured within the country. Domestic industries enjoy the lowest freight rates in the world but at par lower services. The average travelling speed in the country is 28-40 km/hr. compared to 80-90 km/hr globally.

  - Rail transport accounts for less than 5 percent of freight traffic in the country. Domestic customers do not find it appropriate for transportation of their goods on time and because of safety concerns. The situation of handling ship-to-shore conditions have improved in domestic ports but the entry and handling charges are 5-9 times higher than other neighboring ports in the region. Upgrading of ports also needs to be expedited.

  - The departments of marketing, planning, storage, production, quality control, packaging, purchasing, finance, and others are not linked through computer networking for fast and less expensive communication.

- Detailed studies were, inter alia, conducted by the Domestic Commerce Wing, Ministry of Commerce during 2008-09 on the aspects of competitiveness, protection, subsidies and incentive regime, warehousing, in Pakistan. Necessary arrangements should be made to update those studies for implementation.

- The electricity and gas shutdowns cause production losses, quality deterioration and cost increase. The usage of energy is inefficient in a majority of the sectors.

- The biggest weakness that the indigenous industry may encounter would be if Chinese investors under the CPEC are accorded more favorable business and profitability terms over and above those available to Pakistani companies.

Threats to the Industry

The industry is facing problems because of the non-competitive behavior of entrepreneurs, short term and inconsistent government policies, rising regional and international competition, increasing energy tariffs and arbitrary POL price fixation and low pace of human resource development.

The World Bank, in its recent report "Trading for Development – In the Age of Global Value Chains" has observed that tariffs and duties in Pakistan on intermediate inputs averages to about eight percent, which is four times as high as in East Asia, including China and Taiwan. The report further states that Pakistani exporters of textile and apparel, a major export sector, have to rely mostly on domestic cotton rather than on imported manmade fibers. It also states that only a small number of textile exporters in the country are availing duty suspension schemes like DTRE (Duty and Tax Remission on Exports) for imported inputs, as remission takes a much longer time. The Bank further observed that "in practice approval for remission take on average sixty days, twice the time specified by law. Over and above clearing customs after the approval takes another five to ten days. For this reason, a mere three percent of textile and apparel exporters use the schemes. In Bangladesh, by contrast, obtaining approval for duty suspension on intermediary inputs on average takes about twenty-four hours and about ninety percent of textile and apparel firms use the schemes.

Various types of chemicals are needed along the textile value chain like HPO and caustic soda, both of which are subjected to higher rates of customs duties against the economic principles of cascading of tariffs. Companies of multinational origin and domestic are engaged in the manufacture and trade of these chemicals. Most chemicals are imported in finished forms or sometimes as basic raw material which causes an increase in import bills. Local industries are working without quality management systems and standards; these are required to be formalized.

Section 15 of the Finance Act 2019[25] dated June 30, 2019 amended the Anti-dumping Duties Act 2015 (XIV of 2015) and omitted Section 51(e) which read as "will not be levied on imports that are to be used as inputs in products destined solely for exports and are covered under any scheme exempting customs duty for exports under the Customs Act, 1969". As a result, all textile inputs e.g. PFY, HPO and cotton yarn, imported free of ADD, now stand subjected to the levy for export manufacturers, increasing the cost component.

Moreover, the Finance Act 2019[25] withdrew the zero-rating sales tax facility on local / imported raw materials of five export-oriented sectors including textiles. Likewise, the facility of zero rating of utilities i.e. gas, electricity and fuels were also withdrawn. All this has adversely affected the competitiveness of the indigenous textile exports. How will the indigenous textile industry compete internationally with the Chinese and other manufacturers exporting from Pakistan is a big dilemma.

Opportunities

There are many related areas to existing manufacturing setups which can be explored and added to the production line, such as clothing and made-ups for health service industry like personal protection equipment, fire and virus repellant and resistant kids ware and technical textiles. Production and usage of petroleum-based fibers can extend the scope of textile industry into new areas of versatile and high value applications. As also stated earlier, medicated fibers / yarns for the production of virus / bacteria repellent can be imported and supplied to Central Asian, African and Gulf countries by getting into new free trade agreements with them.

Denim area is strong and products meet the quality standards of many international brands for their retail chains of lower end markets. There is need to upgrade these products as high value added. There is tough competition ahead from leading suppliers of denim which are considered as high-quality producers.

Pakistan is in a position, given an effective policy, to fill the gap rising out of trade differences between China and USA and declining exports of India.

There is need to focusing towards research and development in the areas of new products and improved processes. The need for studying the international business trends and the role of trade agreements on these are important. This can be achieved by studies of consultants, researchers, government agencies and other available sources.

Conclusions

In consideration of the above the following conclusions are drawn:

- The indigenous textile industry would face unprecedented challenges and threats due to post COVID 19 primarily due to measures taken by the developed and competitor economies to ensure sustained growth in the MMF based apparel industry. These multifarious challenges can be on many accounts, inter alia, including a new world trade order with possible changes in the GATT / WTO trade regime, restoration of quotas like MFA, introduction of new mandatory technical standards and barriers which would require development of garments and apparel based on technical and medical grade MMF etc. and the policy measures the rest of the textile economies would take to make their MMF and textile and apparel sectors competitive.

- Pakistan's MMF and T&A industry will be at stake unless radical measures are taken to make the domestic MMF and apparel industry competitive and keeping pace with global developments, this would, inter alia, require restructuring of the sector with reference to the following:

    - Development and diversification of new products and markets,
    - Use of technical and medical grade fibres and fabrics,
    - Rationalization of the tariff and regulatory regime governing the MMF and apparel sector,
    - Revisiting and renegotiation of regional and other free trade agreements,
    - Bringing the domestic MMF and apparel industry at par with its competitors in all respects and incentives,
    - Critical analysis of fiscal, tariff and other incentives given to Chinese investors for setting up of textile units under CPEC industrial zones to accord similar incentive to Pakistani investors and existing MMF and apparel industrial units to bring them at par.
    - Development of a long-term policy framework for attracting FDI as done in the recent past by Vietnam, Cambodia etc.

Formulation of the Policy Framework

Formulation of a policy framework for the promotion of exports of man-made fiber (MMF) apparel from Pakistan, consequent to COVID 19 implications, has become more complex and tedious. Any framework prepared without proper research and analysis will face the same fate as accomplished by earlier textile policies.

Under the circumstances It has become extremely necessary and expedient that Pakistan, as a first step, forms a committee comprising M/o Commerce and Textile, NTC, FBR, textile experts, professionals with trade policy and tariff expertise, stake holders and professionals having an oversight of the changing global economic scenario to study and evaluate the following aspects based on which the policy for sustaining and enhancing the textile and apparel sector exports in future should be framed:

- Monitor and ascertain fiscal, trade and tariff policy measures being taken by other textile economies to protect their industry and the ones taken by its competitors. The countries to focus on would, inter alia, include the US and the EU to study their protection policies, and China, Vietnam, Bangladesh, Cambodia etc. to keep a watch on competitors.
- Keeping abreast of the import restriction and conditions imposed by the developed countries, especially the EU and the US and other developed economies and trading partners on account of mandatory technical standards prescribed for imports under the TBT and SPS Agreements under the WTO or other health regulations.
- Monitoring of the future of the EU and preparation of a strategy in case it disintegrates.
- It will specially be useful to look depth at specific measures adopted by countries that had success in the apparel GVC with different strategies and the measures their respective governments now adopt to sustain growth in their MMF apparel sectors consequent to COVID 19. Selecting two or three surrogate textile models viz. Vietnam, Sir Lanka, Cambodia and Bangladesh will be useful.
- Consideration and preparation of a strategy in case of changes in the following rules of international trading system i.e. the GATT / WTO, inter alia on account of the following:
    - Restoration of quota regimes like MFA,
    - Increase in global tariffs and non-tariff barriers, and
    - Trimming of the special and differential tariff treatment available to the developing countries.
- Renegotiation of Free and other Preferential Trade Agreements with its trading partners and pursuing more free trade agreements inconsideration the Article XXVIII bis – Tariff Negotiations of the GATT 1994.

Short Term Measures

The following immediate short-term measures are required to be adopted:

- Anti-Dumping Duty (ADD) levied on product / grade / varieties not manufactured locally, like polyester filament yarn etc. should be removed.
- NTC should be advised to determine the realistic levels of effective tariff protection for entire textile value chain including man-made fibres and their inputs in consideration of the following:
    - Depreciation of Pak Rupee.
    - Diminishing POL prices.

- Availability of inputs for the apparel sector.
- Tariff regime of competitor economies prescribed for their respective by textile sectors to bring the indigenous industry globally at par.

- The inputs required for the export industry should be subjected to zero rate of duty and taxes. In case of tariff protection required by the local industry producing similar goods, the concept of tariff rate quota should be applied.
- The concept of tariff rate quota means that if the total national annual demand of the country of a product is 100 units and the domestic industry has an installed capacity to produce 35 units, than the import duty on first 35 units to be imported would attract the protective rate of duty and the rest 65 units would be subjected to zero rate of duties. The concept is well within the legal scope of the GATT / WTO regime and can be implemented jointly by the FBR and M/o Commerce.
- Tariffs for the textile value chain, including MMF, should be fixed according to the economic classification determined by the NTC, AERC and FBR in 1993 and subsequently updated by the NTC and approved by the Ministry of Commerce.
- The textile industry should identify inputs / raw materials required to produce (i) high value added and sophisticated textile products, (ii) fire repellent and resistant fabric based apparel, (iii) technical and medical grade fiber based products so that separate customs sub-classification as per the international HS coding is applied to these inputs to facilitate zero rate of customs duties and taxes.
- The trade and textile policies and measures proposed thereunder should be given legal cover so that they just do not remain mere policies but are implemented as statutory measures.
- All regulatory and procedural delays and irritants should be removed after consultation with the industry and the stake holders.

Medium to Long Term Policy Measure

Following medium to long term policy measures would be required for an effective policy framework for the promotion of exports of man-made fiber (MMF) apparel from Pakistan:

- A long term (fifteen year) tariff policy should be announced to develop the man-made fibre industry in the country with an adequately rationalized duty and tariff structure for inputs and outputs considering the levels of protection granted by similar other countries to attract both foreign and local investment and resource allocation in the country.
- Pakistan needs to formulate long term regulatory policies and financial incentives to attract both FDI and local investment in MMF apparel sector to enhance exports and conclude meaningful FTAs once it improves its production capabilities of producing internationally competitive products.
- An institute for the development of man-made fibre and specialized fabrics should be set up in the country, with budgetary allocation from the Export Development Fund, to be run and managed by industry experts and the stakeholders along with government representation.
- Special textile industrial zones be set up in Karachi, Lahore, Faisalabad and Sialkot with uninterrupted gas and power supplies with bare minimum regulations and labour laws.

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