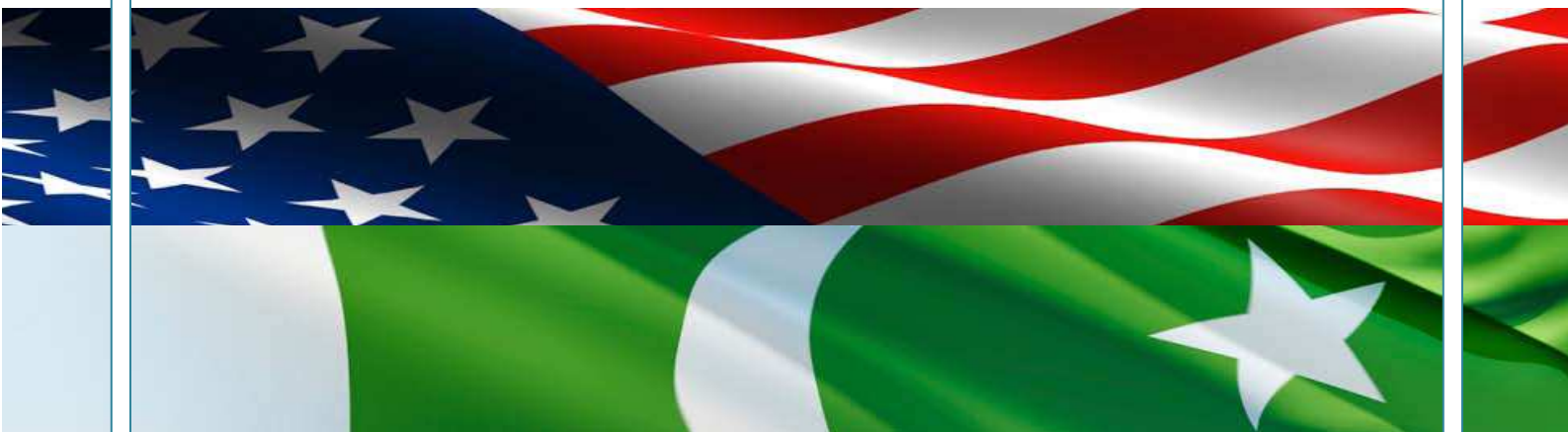


Trade, not aid: **Call for granting market access to Pakistan's textiles in USA**

October 2010

Research Department
**Pakistan Readymade Garments Manufacturers & Exporters
Association (PRGMEA)**



Executive Summary:

- **Pakistan's economy, already hit by terrorism, faces a new challenge due to devastating floods.**
- **While the flood waters have receded, aid agencies are warning that the 'crisis is now entering a critical phase'.**
- **Apparels and textiles is the only sector which can stabilize Pakistan's fragile economy.**
- **Pakistan's total exports to the US represent an insignificant fraction of the total US imports.**
- **Pakistan's textile exports to the US are only aimed towards the bottom-end market.**
- **Pakistan's textile industry is not in competition with US textile producers.**
- **Pakistan's textile goods are not a threat to the job in US.**



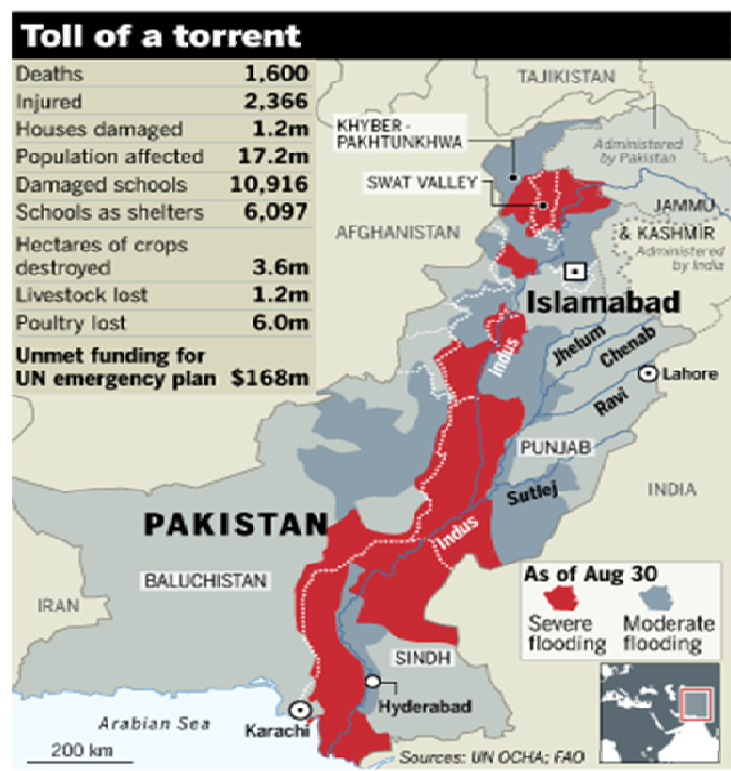
Executive Summary (cont.):

- **The ROZ program is neither practical nor effective.**
- **There is indication of discrimination against Pakistan's exports to the US as tariff revenue from Pakistan's products is more than that of France.**
- **Employment in US textile and apparel sector was declining well ahead of Pakistan becoming a major player in textile business.**
- **Pakistan's reliance on textile trade is critical while US reliance on its domestic textile sector is not substantial.**



The Devastation:

- Floods of 2010 are dubbed as Pakistan's gravest natural disaster submerging an area as large as Florida.
- 1,600 people dead. More than 2,000 injured.
- More than 17 million people affected.
- About 1.2 million houses destroyed.
- 10,000 schools destroyed / damaged.
- More than 6,000 schools turned into shelters.
- 35 bridges and 9% of the national highway system damaged or destroyed.



Impact on Farm Sector:

- Agriculture, Pakistan's second largest sector, accounts for over 21 percent of GDP with nearly 62% of population depends on for their livelihoods.
- As much as 20 percent of farmland inundated or 1.3 million hectares destroyed.
- 2-3 million bales of cotton destroyed, entire crop of sugarcane lost, 200,000 livestock killed.
- The agriculture industry could take up to two years to start recovering from devastating summer floods; Asian Development Bank (ADB).



Pakistan floods three months on

It is around three months since heavy flooding devastated Pakistan.

Aid agencies are warning that the crisis is now entering a critical new phase.

Seven million people are still without shelter, disease is spreading and winter is approaching.

Orla Guerin reports from the southern Province of Sindh.

October 28, 2010
BBC News



Textiles and Pakistan's economy:

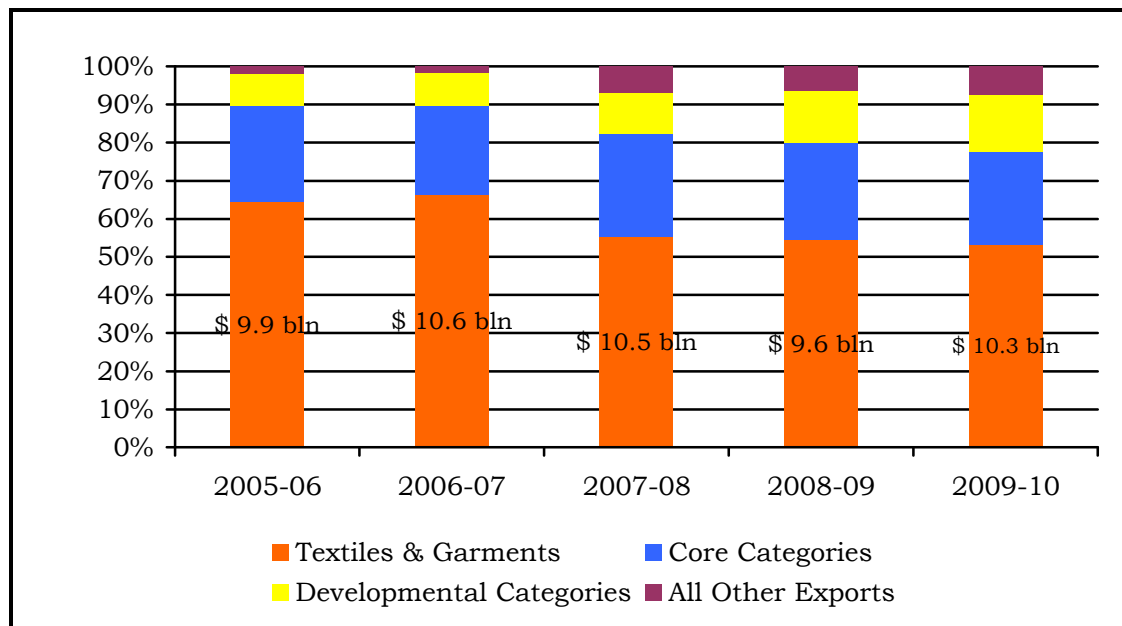
Textile is the premier industry & backbone of Pakistan's economy:

Generates	54 % of exports
Constitutes	46 % of Manufacturing Industry
Employs	38 % of country's working force
Contributes	8.5% to the total GDP
Drives	Banking, Shipping, Transport ,Insurance, Machinery, Dyes / Chemicals, Printing / Packaging & Other allied sectors.

Source: Textile Commissioners' Organization



Pakistan's Textile Exports:



Source: Trade Development Authority of Pakistan

The above graph shows the significance of textile and apparel industry in the overall performance of Pakistan's exports.

While the dependence on textile and apparel has declined since the past three years but due to lack of alternate competitive industry, the textile sector of Pakistan contributes approximately 55% of total export proceeds.

Why Garment sector?

Employment:

Garment sector is the largest employment creating sector in Pakistan with around 2 million people directly employed.

An additional million dollars invested creates:

	<u>Garment Sector</u>	<u>Spinning/Weaving</u>
Additional Jobs	460	34
Additional exports	\$ 3.2 million	\$ 0.27 million

Value Addition:

A bale of cotton exported earns US\$ 266

Clothing made & exported of one bale earns US\$ 1,790



Trade between Pakistan & USA:

Bilateral trade between Pakistan and United States of America

Total all products in \$ '000

Product code	Product label	2005	2006	2007	2008	2009
Total	All products	3,979,485	4,343,424	3,853,467	3,653,923	3,220,948
63	Home Textiles	1,488,959	1,694,602	1,499,192	1,340,580	1,217,884
61	Knitted Apparel	1,032,577	1,216,315	1,154,008	1,166,899	1,038,702
62	Woven Apparel	529,653	524,391	518,322	470,904	386,189
52	Cotton	421,928	360,109	201,666	152,863	101,185
USA's total Imports from the world		1.73 tln.	1.92 tln.	2.02 tln.	2.16 tln.	1.60 tln.
Pakistan's Share		0.23%	0.23%	0.19%	0.17%	0.20%

Source: Trademap

The above chart shows that Pakistan's total exports to the US are only an insignificant fraction of total imports of US, ranging between 0.23 - 0.17%.

USA: Major Shippers Report

Category 347 / 348 : Men & Women Cotton Trousers

Country	Value in USD Million		Quantity in Million Dozens (14.90 M2 per Doz)		Average Price per Dozen	
	2009	07/2010	2009	07/2010	2009	07/2010
World	11,041.66	7,185.63	175.52	120.20	62.91	59.78
China	3,048.76	2,235.23	47.12	38.06	64.70	58.73
Mexico	1,436.00	833.00	16.47	10.04	87.19	82.93
Vietnam	845.67	577.66	14.63	10.39	57.82	55.59
Bangladesh	1,397.27	951.31	26.50	18.25	52.73	52.12
India	397.07	238.16	6.00	3.56	66.16	66.82
Cambodia	496.43	342.91	8.52	6.01	58.29	57.07
Sri Lanka	344.92	196.88	4.23	2.39	81.62	82.38
Pakistan	307.62	195.29	5.52	3.47	55.73	56.36
Pakistan's Share	2.79%	2.72%	3.14%	2.88%	2nd	2nd
CBI	615.13	348.19	13.35	7.55	46.06	46.12
CAFTA	561.58	327.34	12.55	7.23	44.75	45.26

Source: OTEXA

According to the above chart, one of Pakistan's major clothing category, men's / ladies cotton trousers represents only 3% of the overall US imports in this category in terms of value.

In terms of quantity, this category also represents only 3%.

In terms of average unit price, Pakistan ranks second cheapest with Bangladesh's exports being cheapest.

USA: Major Shippers Report (cont.)

Category 338 / 339 : Cotton Knit Shirts

Country	Value in USD Million		Quantity in Million Dozens (6.00 M2 per Doz)		Average Price per Dozen	
	2009	07/2010	2009	07/2010	2009	07/2010
World	12,492.28	7,711.70	383.06	251.22	32.61	30.70
China	2,786.40	1,792.45	57.41	42.01	48.54	42.67
Indonesia	1,054.58	716.35	29.24	21.61	36.07	33.14
Vietnam	1,357.42	851.94	37.55	22.12	36.15	38.52
Bangladesh	348.35	212.51	17.32	10.20	20.11	20.83
India	727.43	488.22	19.54	13.60	37.24	35.90
Cambodia	583.84	338.66	18.62	11.98	31.36	28.27
Guatemala	678.27	386.35	23.44	14.83	28.94	26.06
Pakistan	511.79	340.95	17.65	12.13	29.00	28.10
Pakistan's Share	4.10%	4.42%	4.61%	4.83%	3rd	3rd
CBI	2,639.58	1,596.05	120.45	76.64	21.91	20.82
CAFTA	2,362.46	1,460.76	102.05	67.98	23.15	21.49

Source: OTEXA

In another major category, cotton T-shirts, Pakistan has managed to capture only 4% of the total import market, in terms of value. While in terms of quantity, this figure is little more than 4.5% and growing.

Average prices indicate that Pakistan comes third after Bangladesh and Guatemala.

US Domestic Textile Industry:

- In general, U.S. textile and apparel production has declined substantially over the past five years.....
- Although in many subsectors U.S. textile and apparel production is shrinking and relatively unhealthy, the industries as a whole appear to be increasingly competitive in the global market vis-à-vis foreign competitors.....
- The foregoing suggests...that U.S. textile and apparel firms are increasingly focusing on “niche,” higher value-added product markets, which may be less labor intensive, more profitable, and more competitive in the international markets. This trend is being supplemented by new marketing and production techniques.....

Excerpt from:
The U.S. Textile and Apparel Industries:
An Industrial Base Assessment
Report to Congress, October 2003

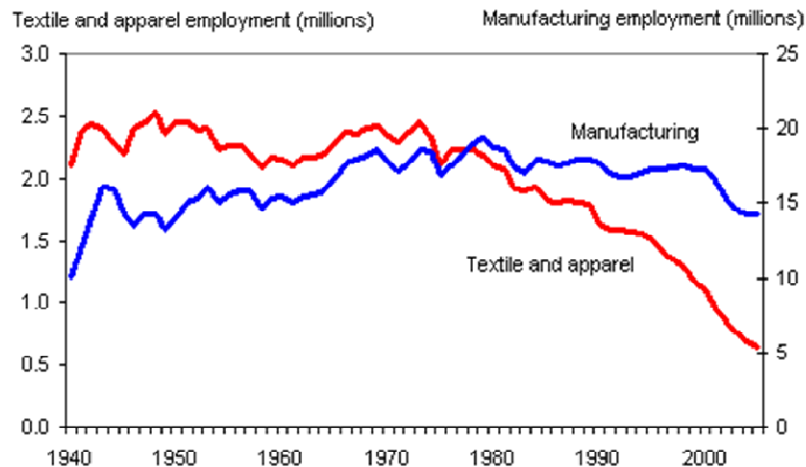
The above excerpt from the report to Congress indicates that domestic production of US textile and apparel showing a downward trend while Pakistan’s exports to the US does not show any sizeable gains.

The report also suggests that US textile and apparel sector is going through a phase of consolidation and focusing on niche marketing, while Pakistan’s exports to the US are focused on the bottom end.

USA: Domestic Textile Industry and employment

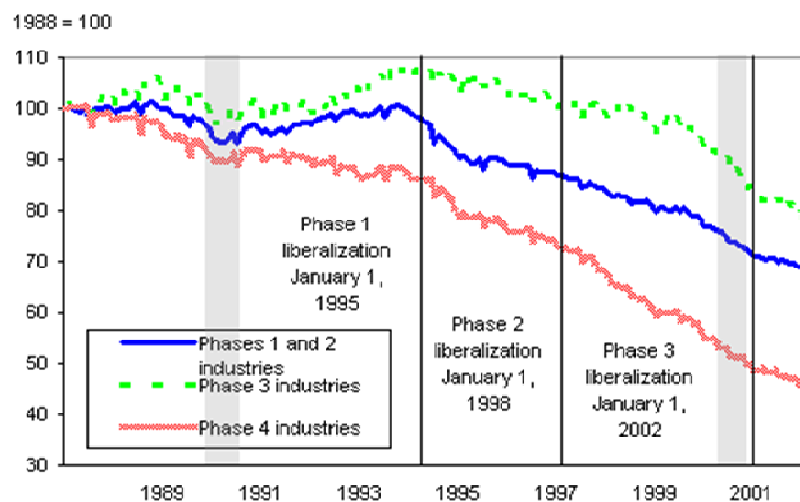
Textile and apparel jobs, 1940-2005

The decline in textile and apparel jobs has been greater than for all manufacturing jobs



Source: ERS estimates using U.S. Department of Labor, Bureau of Labor Statistics, *Current Employment Statistics* survey.

Index of U.S. textile and apparel employment by trade liberalization phase, 1987-2003



Gray shaded areas represent U.S. recessions.

Source: ERS estimates using U.S. Department of Labor, Bureau of Labor Statistics, *Current Employment Statistics* survey.

Source:

U.S. Bureau of Labor Statistics
Career Guide to Industries, 2010-11 Edition

The above charts on employment in textile and apparel sector shows US employment showing a downward trend starting from 1970's with steeper declines in the era of trade liberalization.

Comparison of Pakistan's exports v/s US Domestic Production:

Item	Retail Price – Pakistan's Exports	Retail Price - "Made in USA"
14.7 oz. 100% heavyweight washed cotton denim jeans	\$ 46.00/pc	\$ 34.99/pc
Khakis, 100% combed Original Twills weighing 8.5 ounces per square yard	\$ 42.00/pc	\$ 115/pc
Khakis, 5.6 ounce 100% cotton poplin	\$ 19.99/pc	\$ 115/pc
Short sleeve Tee Shirt no Pocket 5.4 oz. 100% cotton jersey fabric	\$ 20.00/pc	\$ 7.99/pc
Short sleeve heavyweight Tee Shirt with Pocket 6.2 oz. 100% cotton jersey fabric	28.00/pc	\$ 9.99/pc

The above chart shows stark difference in the retail price of Pakistan's trousers in comparison to the trouser made in USA. While the prices of Pakistan's denim jeans and T-shirts are more in comparison to the US made products.

Due to the limited amount of data taken into consideration for the sake of this study, retail prices may vary considerably. Separate and in-depth research is required to justify that Pakistan's T-shirts and denim jeans are also cheaper than US made products.

U.S. Chamber of Commerce Calling for Lower Pakistani Tariffs:

Amid Flooding in Pakistan, Chamber Renews Push for ROZ Legislation

Pakistan is experiencing its deadliest floods in decades, with the loss of more than 1,500 lives and devastating infrastructure losses across the country. As government officials meet with the International Monetary Fund (IMF) to assess the impact of the floods on the economy, the U.S. Chamber renewed its strong support for legislation to create Reconstruction Opportunity Zones (ROZs) in Afghanistan and Pakistan that is pending on Capitol Hill.

In a letter sent to Secretary of State Hillary Clinton and USTR Ambassador Ron Kirk, from Chamber President and CEO Tom Donohue stated: "In light of the devastating floods that recently struck Pakistan, we need to work together to secure Congressional approval of this legislation on an urgent basis."

The Chamber and its affiliate the U.S.-Pakistan Business Council are committed to promoting economic development in Afghanistan and Pakistan. We believe a properly structured ROZs program, S. 496 sponsored by Senator Maria Cantwell (D-WA) and Senator Orrin Hatch (R-UT), can help achieve these objectives. The Administration should strongly back this proposal when Congress returns from recess next month.

by **Esperanza Gomez Jelalian**

Pakistan flooding by the numbers

1,897,525
houses damaged

20,251,550
people affected

\$1,782,762,901
funds needed

as of September 27, 2010

The ROZ Program:

The legislation for the establishment of Reconstruction Opportunity Zones (ROZs) is currently with the US congress. Two pieces of legislation - a House of Representatives and a Senate Version – are currently in process.

The House version of the legislation is contained in H.R. 2410 and was passed on 11 June 2009. The related section is Title IV “Duty-Free Treatment for Certain Goods from Reconstruction Opportunity Zones (ROZs) in Afghanistan and Pakistan” or “Afghanistan-Pakistan Security and Prosperity Enhancement Act”. The Senate version is S. 496 the “Afghanistan and Pakistan Reconstruction Opportunity Zones Act of 2009” is currently in committee.

Sec. 402 of H.R. 2410 defines a ROZ as any area that solely encompasses portions of one or more of the following areas of Pakistan:

- Federally Administered Tribal Areas (FATA)
- Earthquake Affected Areas of Pakistan administered Kashmir
- Baluchistan – Areas within 100 miles of Pakistan’s border with Afghanistan
- North West Frontier Province



Figure: Proposed Areas of Pakistan Eligible for Designation as Reconstruction Opportunity Zones (ROZs) as Provided for in H.R. 1318 and S. 496

Courtesy: Pakistan Trade Project, USAID

The ROZ Program:



Source:

Afghanistan & Pakistan Reconstruction Opportunity Zones (ROZ's) : Issues & Arguments,
Mary Jane Bolle, Congressional Research Service, October 15, 2009

- ROZ's require high level of investments and due to the current recession Pakistan is not in a position to invest heavily in infrastructure in least developed areas, same is the position of USA.
- ROZ's would require heavy deployment of skilled labor and management in the initial phase as there is no skilled labor in least developed areas. Because ROZ's are proposed in the least developed areas which are under serious law and order situation, the skilled labor and management would not want to relocate there.
- Strict labor conditions have been imposed on exports from ROZ's. Both the US and Pakistan government need to see the population demographics of these areas as most of the population would be of young age but these youngsters urgently need to be put to work otherwise unemployment amongst these youngsters would only create more terrorism.

Why is Pakistan being penalized?

“....The disparities are stark. We raise the same tariff revenue from Pakistan’s \$3.7 billion in exports to the U.S. as from France’s \$37 billion in textile exports to the U.S. The average U.S. tariff rate on Chinese exports to the U.S. is 3 percent, compared to 10 percent on Pakistani exports”.

*Excerpt from:
The Next Chapter: The United States & Pakistan,
Pakistan Policy Working Group, September 2008*

The Pakistan Policy Working Group is an independent, bipartisan group of American experts on U.S.–Pakistan relations. The group was formed in January 2008 to assess the state of U.S.–Pakistan relations and to offer ideas to the next U.S. President and his Administration on managing this critical partnership. The group’s efforts were guided by the understanding that Pakistan is and will remain one of the United States’ foremost foreign policy and national security challenges, deserving of heightened attention in the new Administration.

This report was reviewed and endorsed by Richard L. Armitage, former U.S. Deputy Secretary of State, and Lee H. Hamilton, former U.S. Representative and Co-Chair of the 9-11 Commission.



Applicable import duties on Apparel:

Import duties on Cat 6203 (Men's suits, jackets, trousers etc & shorts). Duty rates shown are total ad valorem equivalent tariff (estimated)

	USA	EU	Brazil	Australia	Canada
Pakistan	10.85%	9.6%	35%	*10%	17.46%
China	10.85%	12%	35%	17.5%	17.46%
Bangladesh	10.85%	0%	35%	0%	0%
Vietnam	10.85%	9.6%	35%	17.5%	17.46%
Cambodia	10.85%	0%	35%	0%	0%
India	10.85%	9.6%	35%	17.5%	17.46%
Sri Lanka	10.85%	0%	35%	17.5%	17.46%

Source: International Trade Centre (UNCTAD/WTO)
* applicable duty with effect January 1, 2010

Exports of Selected Economies:

Textile exports of selected economies, 1990-2009

(Million dollars and percentage)

	Value					Share in economy's total merchandise exports	
	1990	2000	2007	2008	2009	2000	2009 ^a
World	104,354	157,400	241,335	253,359	211,054	2.5	1.7
Bangladesh ^{b, c}	343	393	884	1,090	1,071	6.2	7.1
China ^d	7,219	16,135	56,025	65,361	59,821	6.5	5.0
India	2,180	5,570	9,812	10,447	9,105	13.1	5.6
Mexico ^d	713	2,571	2,216	1,993	1,624	1.5	0.7
Pakistan	2,663	4,532	7,371	7,186	6,510	50.2	36.8
Sri Lanka ^c	25	244	162	169	147	4.5	2.0
Turkey	1,440	3,672	8,940	9,396	7,723	13.2	7.6
United States	5,039	10,952	12,426	12,496	9,931	1.4	0.9
Viet Nam ^c	...	299	1,321	1,563	1,815	2.1	3.2

^a Or nearest year.

^b Figures refer to fiscal year.

^c Includes Secretariat estimates.

^d Includes significant exports from processing zones.

^e Mainly re-exports.

Source: WTO

Exports of Selected Economies:

Clothing exports of selected economies, 1990-2009

(Million dollars and percentage)

	Value					Share in economy's total merchandise exports	
	1990	2000	2007	2008	2009	2000	2009 a
World	108,129	197,570	347,059	364,914	315,622	3.1	2.6
Bangladesh b, c	643	5,067	8,855	10,920	10,726	79.3	71.1
Cambodia c	...	970	2,851	2,985	2,974	69.8	70.8
China d	9,669	36,071	115,516	120,399	107,261	14.5	8.9
Guatemala	24	49	1,390	1,230	1,049	1.8	14.5
India	2,530	5,960	9,932	11,495	11,454	14.1	7.0
Indonesia	1,646	4,734	5,870	6,285	5,915	7.2	5.0
Japan	568	534	523	593	483	0.1	0.1
Mexico d	587	8,631	5,139	4,911	4,165	5.2	1.8
Pakistan	1,014	2,144	3,806	3,906	3,357	23.8	19.0
Sri Lanka c	638	2,812	3,272	3,437	2,991	51.8	40.7
Turkey	3,331	6,533	13,886	13,590	11,555	23.5	11.3
United States	2,565	8,629	4,320	4,449	4,186	1.1	0.4
Viet Nam c	...	1,821	7,400	8,724	8,629	12.6	15.1

a Or nearest year.

b Figures refer to fiscal year.

c Includes Secretariat estimates.

d Includes significant exports from processing zones.

e Mainly re-exports.

Source: WTO



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